# Notes

--this supplements the existing stimulus bad work / privatization CP but does not replace it. It includes a few cards from files previously turned out. The purpose of the file was to turn the stimulus arguments into net benefits to these CPs and do some supplemental work on the mechanisms.

--you will have to combine this file with the existing stimulus good/bad and privatization CPs to use it effectively.

--the 1nc in this file for stimulus bad is (mostly) infrastructure spending-specific cards. There are frequently better (generic) cards in Rishee’s file.

--inflation and the debt turn are very similar arguments (bond markets will stop financing US debt in response to greater spending because of the expectation of inflation). Most of the inflation work from Rishee’s earlier file is all extension work for the debt turn.

--the congestion pricing and VMT CPs are probably not comprehensive enough to read as stand alone strategies right now; but the evidence in these sections is important because they refer to potential mechanisms that private entities could turn to as financing mechanisms for infrastructure.

# Stimulus bad

## Infrastructure investment bad

### 1nc stimulus bad

**1. Infrastructure spending multipliers will be negative – delay, lack of targeting, and permanence of infrastructure spending**

**de Rugy and Mitchell, 11 –** both are senior research fellows at the Mercatus Center at George Mason University (Veronique and Matthew, “Would More Infrastructure Spending Stimulate the Economy?” September, <http://mercatus.org/sites/default/files/publication/infrastructure_deRugy_WP_9-12-11.pdf)//DH>

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.

**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.

**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.”

Implementation

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.”‖ 40

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.

**2. Crowd-out effects mean the multiplier is zero and infrastructure spending won’t increase GDP**

**Tatom, 9** – Director of Research of the Networks Financial Institute at Indiana State University, former vice president of the Federal Reserve Bank of St. Louis, former professor of economics at DePaul (John, “The Limits of Fiscal Policy,” CESifo Forum 2/2009, <http://www.cesifo-group.de/portal/pls/portal/docs/1/1191492.PDF)//DH>

Tatom (1991) uses a private sector production function to assess whether government infrastructure capital formation (non-defense) boosts private sector productivity and output and finds that there is no effect. Straub (2009) as well as Ford and Poret (1991) have also found that there is no effect of public infrastructure on private sector output in cross country studies. This might suggest that public sector infrastructure spending has a multiplier of one, or that real GDP rises only by the amount of the government spending, as suggested by Woodward and Hall. However, David Alan Aschauer (1989) shows that private sector investment spending declines dollar-for-dollar with an increase in public sector spending. Two implications of this are that private sector output is reduced due to the decline in the private sector capital that occurs when public sector capital increases, so that real GDP is unaffected by public infrastructure spending or the spending multiplier is zero. The former effect is referred to as “direct crowding out” as the rate of return to private sector capital formation is diminished by an increase in public sector capital formation. The implications of this research are that government spending usually is not effective in stimulating aggregate demand and boosting total employment.4 Output and employment are simply moved around from the private to the public sector, with no effect, or perhaps negative effects, on the overall productivity of the nation’s resources. Gramlich (1994) provides a summary of the debate over infrastructure spending, though he is more sanguine, like Aschauer, about the productivity enhancing effects of infrastructure spending.

**3. Crowdout decreases net productivity and causes economic decline in the short term**

**Leeper et al, 2009** professor of Economics at Indiana University and is also affiliated with Monash University and the National Bureau of Economic Research (Eric M., “GOVERNMENT INVESTMENT AND FISCAL STIMULUS IN THE SHORT AND LONG RUNS,” July 2009, http://www.nber.org/papers/w15153.pdf?new\_window=1)//AM

So long as public capital is productive, the expectation of higher infrastructure spending generates a positive wealth eﬀect, which discourages work and encourages consumption. Because private investment projects typically do not entail the substantial delays associated with public projects, it takes less time to build private capital. Private investment and employment, therefore, may be delayed until the public capital is on line and raises the productivity of private inputs. Compared with the situation without implementation delays, in the short run private investment is lower and labor impacts may be small or even negative.

Output can fall in the short run in response to an increase in government investment. This result is analogous to the phased-in tax cuts enacted in 2001 and 2003, where expectations of future tax cuts may have induced workers and ﬁrms to delay work and production, retarding the recovery from the 2001 recession [House and Shapiro (2006)].

To examine the second issue—the consequences of alternative methods of ﬁnancing the government spending—we consider adjustments in various ﬁscal instruments to stabilize the government debt-to-output ratio, including reductions in transfers or government consumption, or increases in capital or labor income taxes.

Accounting for future ﬁscal adjustments is essential to evaluate the impact of government investment over longer horizons. Under lump-sum ﬁnancing, if public capital raises productivity of private production inputs, productive government investment promotes economic growth. **This** result, however, **overlooks the possible contractionary eﬀects introduced** by distorting ﬁscal adjustments to stabilize government debt. We ﬁnd that if public capital is not suﬃciently productive, then **government investment can be contractionary** in the long run as **the disincentive to invest and work due to expected ﬁscal adjustments** can dominate the higher productivity of private inputs from expansion of public capital. 4

In addition, we ﬁnd that the speed of ﬁscal adjustment is a signiﬁcant factor in determining the ability of government spending to oﬀset cyclical movements in macro aggregates. The impact of a deﬁcit-ﬁnanced increase in government spending will be severely mitigated if the deﬁcit is retired quickly through distortionary ﬁscal instruments.

**4.Additional stimulus spending causes a bond market backlash that collapses the US economy**

**Samuelson, 11** - Washington Post columnist specializing in economic affairs (Robert, “Bye-bye, Keynes?,” Washington Post, 12/18, <http://www.washingtonpost.com/opinions/bye-bye-keynes/2011/12/16/gIQAS2oD3O_story.html>)//DH

The eclipse of Keynesian economics proceeds. When Keynes wrote “The General Theory of Employment, Interest and Money” in the mid-1930s, governments in most wealthy nations were relatively small and their debts modest. Deficit spending and pump priming were plausible responses to economic slumps. Now, huge governments are often saddled with massive debts. Standard Keynesian remedies for downturns — spend more and tax less — presume the willingness of bond markets to finance the resulting deficits at reasonable interest rates. If markets refuse, Keynesian policies won’t work.

Countries then lose control over their economies. They default on maturing debts or must be rescued with loans from friendly countries, the International Monetary Fund (IMF), government central banks (the Federal Reserve, the European Central Bank) or someone. There are other reasons why Keynesian policies might fail or be weakened. But they pale by comparison with the potential veto now posed by bond markets. Ironically, the past overuse of deficits compromises their present utility to fight high unemployment.

There is no automatic tipping point beyond which a country’s debt — the sum of past annual deficits — causes bond markets to shut down. But Greece, Portugal and Ireland have already reached that point, with gross debt in 2011 equal to 166 percent, 106 percent and 109 percent of their national incomes (gross domestic product), [according to IMF figures](http://www.imf.org/external/pubs/ft/fm/2011/02/pdf/fm1102.pdf). Heavily indebted Italy and Spain could lose access to bond markets.

Thankfully, the United States is not now in this position. Interest rates on 10-year Treasury bonds hover around 2 percent; investors seem willing to lend against massive U.S. deficits. Just why is unclear. It’s not that U.S. budget discipline is noticeably superior. Economists Pedro Amaral and Margaret Jacobson of the Cleveland Federal Reserve recently compared U.S. budget performance [against that of the weak European nations](http://www.clevelandfed.org/research/trends/2011/1211/01gropro.cfm).

In 2012, the American budget deficit is projected at 7.9 percent of GDP; Greece’s is 6.9 percent; Italy’s 2.4 percent. In 2012, U.S. government borrowing — the deficit plus renewing maturing debt — is estimated to be 27 percent of GDP; Greece’s is 24 percent; Ireland’s 19 percent. On the plus side, the U.S. debt-to-GDP ratio is smaller than Europe’s worst. Also, a “safe haven” effect — reflecting the size of the U.S. economy and past political stability — contributes to America’s good fortune.

Considering this, some economists urge more “stimulus.” In a paper, Christina Romer — former head of President Obama’s Council of Economic Advisers — argued that [scholarly studies support the administration’s view](http://elsa.berkeley.edu/~cromer/Written%20Version%20of%20Effects%20of%20Fiscal%20Policy.pdf) that its $787 billion stimulus in 2009 cushioned the recession. Another big stimulus “would be very helpful . . . to really create a lot of jobs.”

I am less sure. For the record, I supported Obama’s stimulus — though disliking some details — and, under similar circumstances, would again. The economy was in a tailspin; the stimulus provided a psychological and spending boost. But how much is less clear. As Romer notes, estimating the effect is “incredibly hard.” For example, the [Congressional Budget Office’s estimate](http://www.cbo.gov/ftpdocs/125xx/doc12564/11-22-ARRA.pdf) of added jobs from the stimulus ranged from 700,000 to 3.3 million for 2010.

Suppose a new stimulus — beyond renewal of the payroll tax cut — did succeed at significant job creation. By piling up more debt, it would still risk aggravating a larger crisis later. There is no long-term plan to curb deficits. Americans seem to think they’re invulnerable to a bond market backlash. [Economist Barry Eichengreen](http://www.theglobalist.com/printStoryId.aspx?StoryId=9461), a leading scholar of the Great Depression, is dubious:

“Given low interest rates and the still-weak U.S. economy, it will be tempting for the U.S. government to continue running deficits and issuing additional debt. At some point, however, investors will recognize this behavior for the Ponzi scheme it is. ... If history is any guide, this scenario will develop not gradually but abruptly. Previously gullible investors will wake up one morning and conclude that the situation is beyond salvation. They will scramble to get out. Interest rates in the United States will shoot up. The dollar will fall. The United States will suffer the kind of crisis that Europe experienced in 2010, but magnified.”

Governments have ceded power to bond markets by decades of shortsighted behavior. The political bias is to favor short-term stimulus (by lowering taxes and raising spending), which is popular, and to ignore long-term deficits (by cutting spending and raising taxes), which is unpopular. Debt has risen to hazardous levels, undermining Keynesian economics as taught in standard texts.

Were Keynes alive now, he would almost certainly acknowledge the limits of Keynesian policies. High debt complicates the analysis and subverts the solutions. What might have worked in the 1930s offers no panacea today.

**5. Investor sell-off will collapse hegemony and risks great power wars**

**Khalilzad, ’11** – Bush’s ambassador to Afghanistan, Iraq, and the UN and former director policy planning at the DOD (Zalmay, “The Economy and National Security”, National Review, 2-8-11, <http://www.nationalreview.com/articles/259024/economy-and-national-security-zalmay-khalilzad>)

The current recession is the result of a deep [financial crisis](http://www.nationalreview.com/articles/259024/economy-and-national-security-zalmay-khalilzad), not a mere fluctuation in the business cycle. Recovery is likely to be protracted. The crisis was preceded by the buildup over two decades of enormous amounts of debt throughout the U.S. economy — ultimately totaling almost 350 percent of GDP — and the development of credit-fueled asset bubbles, particularly in the housing sector. When the bubbles burst, huge amounts of wealth were destroyed, and unemployment rose to over 10 percent. The decline of tax revenues and massive countercyclical spending put the U.S. government on an unsustainable fiscal path. Publicly held national debt rose from 38 to over 60 percent of GDP in three years.

Without faster economic growth and actions to reduce deficits, publicly held national debt is projected to reach dangerous proportions. If interest rates were to rise significantly, annual [interest payments](http://www.nationalreview.com/articles/259024/economy-and-national-security-zalmay-khalilzad) — which already are larger than the defense budget — would crowd out other spending or require substantial [tax increases](http://www.nationalreview.com/articles/259024/economy-and-national-security-zalmay-khalilzad) that would undercut economic growth. Even worse, if unanticipated events trigger what economists call a “sudden stop” in credit markets for U.S. debt, the United States would be unable to roll over its outstanding obligations, precipitating a sovereign-debt crisis that would almost certainly compel a radical retrenchment of the United States internationally.

Such scenarios would reshape the international order. It was the economic devastation of Britain and France during World War II, as well as the rise of other powers, that led both countries to relinquish their empires. In the late 1960s, British leaders concluded that they lacked the economic capacity to maintain a presence “east of Suez.” Soviet economic weakness, which crystallized under Gorbachev, contributed to their decisions to withdraw from Afghanistan, abandon Communist regimes in Eastern Europe, and allow the Soviet Union to fragment. If the U.S. [debt problem](http://www.nationalreview.com/articles/259024/economy-and-national-security-zalmay-khalilzad) goes critical, the United States would be compelled to retrench, reducing its military spending and shedding international commitments.

We face this domestic challenge while other major powers are experiencing rapid economic growth. Even though countries such as China, India, and Brazil have profound political, social, demographic, and economic problems, their economies are growing faster than ours, and this could alter the global distribution of power. These trends could in the long term produce a multi-polar world. If U.S. policymakers fail to act and other powers continue to grow, it is not a question of whether but when a new international order will emerge. The closing of the gap between the United States and its rivals could intensify geopolitical competition among major powers, increase incentives for local powers to play major powers against one another, and undercut our will to preclude or respond to international crises because of the higher risk of escalation.

The stakes are high. In modern history, the longest period of peace among the great powers has been the era of U.S. leadership. By contrast, multi-polar systems have been unstable, with their competitive dynamics resulting in frequent crises and major wars among the great powers. Failures of multi-polar international systems produced both world wars.

American retrenchment could have devastating consequences. Without an American security blanket, regional powers could rearm in an attempt to balance against emerging threats. Under this scenario, there would be a heightened possibility of arms races, miscalculation, or other crises spiraling into all-out conflict. Alternatively, in seeking to accommodate the stronger powers, weaker powers may shift their geopolitical posture away from the United States. Either way, hostile states would be emboldened to make aggressive moves in their regions.

As rival powers rise, Asia in particular is likely to emerge as a zone of great-power competition. Beijing’s economic rise has enabled a dramatic military buildup focused on acquisitions of naval, cruise, and ballistic missiles, long-range stealth aircraft, and anti-satellite capabilities. China’s strategic modernization is aimed, ultimately, at denying the United States access to the seas around China. Even as cooperative economic ties in the region have grown, China’s expansive territorial claims — and provocative statements and actions following crises in Korea and incidents at sea — have roiled its relations with South Korea, Japan, India, and Southeast Asian states. Still, the United States is the most significant barrier facing Chinese hegemony and aggression.

Given the risks, the United States must focus on restoring its economic and fiscal condition while checking and managing the rise of potential adversarial regional powers such as China. While we face significant challenges, the U.S. economy still accounts for over 20 percent of the world’s GDP. American institutions — particularly those providing enforceable rule of law — set it apart from all the rising powers. Social cohesion underwrites political stability. U.S. demographic trends are healthier than those of any other developed country. A culture of innovation, excellent institutions of higher education, and a vital sector of small and medium-sized enterprises propel the U.S. economy in ways difficult to quantify. Historically, Americans have responded pragmatically, and sometimes through trial and error, to work our way through the kind of crisis that we face today.

The policy question is how to enhance [economic growth](http://www.nationalreview.com/articles/259024/economy-and-national-security-zalmay-khalilzad?pg=2) and employment while cutting discretionary spending in the near term and curbing the growth of entitlement spending in the out years. Republican members of Congress have outlined a plan. Several think tanks and commissions, including President Obama’s debt commission, have done so as well. Some consensus exists on measures to pare back the recent increases in domestic spending, restrain future growth in defense spending, and reform the tax code (by reducing tax expenditures while lowering individual and corporate rates). These are promising options.

### 1nc maintenance turn

**Maintenance turn –**

**a. public ownership guts it**

**Bratland, 10 –** economist from the US Department of the Interior (John, The Independent Review, v. 15, n. 1, Summer 2010, ISSN 1086–1653, Copyright © 2010, pp. 35–51, <http://www.independent.org/pdf/tir/tir_15_01_3_bratland.pdf>)//DH

One prevailing but misleading concept of capital is the presumption that public infrastructure may be viewed as “public capital.” Is this label apt? In an economic sense, the legitimate concept of capital is premised on an entrepreneur’s ability to manage a combination of resources with the intent of earning an income for an enterprise as whole. Private property and monetary exchange afford the entrepreneur this ability. Hence, the aptness of the label public capital hinges directly on the extent to which public infrastructure can be managed in a way that is functionally analogous to the management of private capital. Capital maintenance ultimately pertains to the entrepreneur’s ability to maintain or enhance an enterprise’s expected income. What would the counterpart of enterprise income be for a government in attempting to reckon requisite maintenance of public infrastructure? 1 Metaphorically, the income counterpart would be the total benefits yielded by all components of infrastructure as a totality. The maintenance problem arises from the absence of ownership of public infrastructure and the fact that the infrastructure’s benefits yield no appropriable sales revenue that can serve as a guide to maintenance. 2 Hence, neglect appears to be inherent in the fact of government provision. Labeling components of infrastructure as public capital is simply a metaphor that misleads the electorate into thinking public infrastructure can be successfully maintained.

A second concept of capital accounting for neglect manifests itself in the actions of public officials seeking to enhance the “political and bureaucratic capital” represented by their own personal career objectives. We may expect that various forms of self-defined, time-structured strategies used by elected and appointed public officials will thwart what some may view as a more rational maintenance of infrastructure facilities. Career, whether focused on selfish or humanitarian aspirations, becomes the metaphorical capital that public officials maintain as they deploy the means (metaphorical capital goods) at their disposal. Action undertaken to maintain political and bureaucratic capital may entail, in some instances, that neglect of public infrastructure is a rational course of action for officials who bear direct or indirect responsibility for maintenance. In other words, infrastructure maintenance’s time stream of public benefits is not the principal motivational consideration for officials responsible for budget formulation and the allocation of outlays.

Capital concepts point to a sharp distinction between the processes by which private and public infrastructure are maintained. Although the facilities that constitute public infrastructure are commonly viewed as a form of public capital, evidence suggests that government cannot maintain this infrastructure in a manner analogous to the maintenance of private infrastructure. 3 The nature of governmental institutions necessarily entails neglect of public infrastructure and implies that private ownership and market incentives are critical to the maintenance of all infrastructure.

**b. privatization creates economic incentives for maintenance**

**Norcross and Sautet, 9** – both are senior research fellows at the Mercatus Center at George Mason University (Eileen and Frederic, “THE AMERICAN RECOVERY AND REINVESTMENT ACT: Will More Public Spending Pave the Way to a Better Infrastructure?” SSRN)//DH

Market mechanisms are far more likely to reveal consumer’s infrastructure needs, and preferences. If infrastructure needs are dire, the market will reveal this to investors, who will commit capital to providing it in a way that satisfies users. Investors have the incentives to monitor performance, and shift capital to where it is most needed

Consider two examples where the federal government is currently most involved.

Highways and roads

In 2004, government provided $66.7 billion in highway funds. The federal government contributed $30.2 billion of that total, and states and localities provided the remaining $36.5 billion. Highways are financed via the Highway Trust Fund—a “pay-as-you-go” system that relies on excise taxes on motor fuels and trucking related goods.17

Excise taxation, however, veils the true costs of road-use to consumers and does not gauge individual use accurately. Advances in tolling technology, however, such as the EZ pass and GPS systems, make it possible to charge for individual road use.18 Moreover, there’s evidence that people are willing to pay for roads and adjust their consumption based on price.19 By revealing what people are willing to pay to drive at peak hours, congestion pricing, if done right, might lead some to travel in off-peak hours, thereby lessening congestion’s effects.

The FHWA estimates widespread implementation of congestion pricing would reduce the investment needed to maintain highways by more than one-fourth.20 Coupled with private motorway maintenance, congestion pricing would lead to better allocation of public roads funds and might even reduce environmental impacts.

Airports and seaports

After highways, aviation is the largest recipient of U.S. federal infrastructure funding. Yet, there is no economic justification for publicly funded airports. Over the last twenty years, countries throughout the world have privatized countless airports, alleviating taxpayer burdens and improving systems.

Seaports can also be privatized. In New Zealand, the privatization of seaports led to increases in cargo-handling productivity. Privatized in 1989, Port of Napier Ltd. for example constantly aims to improve operations— integrating rail, road, and sea transport systems and investing in state-of-the-art cranes and wharves to better handle cargo— so it can compete with other seaports— all at no cost to taxpayers.21

2. Where privatization is not possible, introduce market incentives and competition to improve resource allocation.

In cases where outright privatization may be politically impossible, contracting out management would lead to savings and improved services.22 In 2006, rather than raise taxes or debt to address a gap in its roads budget, Indiana leased its toll road to a private consortium for $3.8 billion.23

As in New Zealand, government procurement should be designed around the “value for money criterion,” which stipulates that government contracting should be based on economic rather than political criteria. This would enable the selection of companies to manage roads or wastewater treatment plants with greater benefits to consumers.

Conclusion

Congress is poised to pass a massive stimulus plan that will include a big push for infrastructure spending. There is ample reason to doubt that such spending will achieve its aims.

Many parts of the U.S. are in need of infrastructure investment and maintenance. Poorly maintained infrastructure leads to catastrophes—such as the collapse of the I-35 Bridge in Minneapolis and levee failure in New Orleans. But decades of reliance on government planning has put infrastructure in its current state and left many needs under-addressed. If Congress wants to establish effective, economically viable long-term infrastructure, it needs to enable people rather than policy makers to make the resource allocation decisions to build it.

### --XT – public ownership kills maintenance

**Public ownership guts maintenance**

**O’Toole, 7/8**/12 - Cato Institute Senior Fellow working on urban growth, public land, and transportation issues (Randal, “Message to Debaters on the Economics of the 2012- 2013 Debate Topic,” <http://debate-central.ncpa.org/files/Infrastructure-Economics.pdf>)

The political distribution of funds creates another problem. Elected officials like to be seen “cutting ribbons” for major new projects that are highly visible, such as new highways or rail transit lines. Maintenance is not as visible, so elected officials are likely 5 to underfund maintenance. While state highways, which are funded mainly out of gas taxes and other user fees, are in fairly good condition, local roads and transit systems, that are funded mainly out of taxes, are often in very poor condition.

Incentives are thus key to both parts of the debate question. How much is to be invested depends on incentives: given the right incentives, producers will build and maintain the right amount of infrastructure. But given the wrong incentives, they could build too much of some kinds of infrastructure, or fail to maintain the infrastructure that has been built. Who should build infrastructure also depends on incentives: government can build it, but it is more likely than private industry to get the incentives wrong, so it should be used only if private industry can’t do it for one reason or another.

### --XT – no maintenance turns case

**Lack of maintenance turns the case**

**ASCE, 9 –** American Society of Civil Engineers (“Failure to Act: The economic impact of current investment trends in surface transportation infrastructure”

<http://www.asce.org/uploadedFiles/Infrastructure/Report_Card/ASCE-FailureToActFinal.pdf)//DH>

When infrastructure maintenance, repairs, and improvements are not fully funded, short-term “band-aid” solutions are often implemented to enable the infrastructure to continue functioning at less than minimum tolerable conditions. When these short-term solutions are implemented, in addition to the user cost of operating the deficient infrastructure, the cost of operating and maintaining the infrastructure is greater than it would be if the infrastructure were in proper condition. Table 13 gives an estimate of how maintenance needs may develop over time, and how unmet needs may increase if today’s funding levels do not change.

Maintenance needs are a critical aspect of highway investment requirements, and are expected to increase over time. Unmet maintenance needs speed up the deterioration of infrastructure and may bring about the costs and adverse economic impacts given in this report on a faster timetable, and with magnitudes exacerbated beyond what is included in the formal economic analysis of unmet capital improvement needs. Unmet maintenance needs also often present themselves as urgent needs, and divert investment from more long-term investments of the type that would ultimately be required to overcome many of the costs and adverse impacts explored in this report.

### 2nc prefer our evidence

**Consensus of studies concludes neg**

**Utt, 8** – Phd, Herbert and Joyce Morgan Senior Research Fellow in the Thomas A. Roe Institute for Economic Policy Studies at The Heritage Foundation (Ronald, “More Transportation Spending: False Promises of Prosperity and JobCreation,” 4/2, <http://www.heritage.org/research/reports/2008/04/more-transportation-spending-false-promises-of-prosperity-and-job-creation>)//DH

As this paper demonstrates, most of the alleged economic benefits are based on grossly exaggerated claims made by a U.S. Department of Transportation (USDOT) computer simulation conducted in 2000 and 2002. In fact, the vast majority of independent academic and federal government studies on the rela­tionship between infrastructure spending and eco­nomic activity have found that the impact is very modest and long in coming.

### 2nc delay turn

**Delays turn the case – increases the rate of private crowdout, decreases economic output and worsens the downturn**

**Leeper et al, 10** – professor of economics at Indiana University, also written by Todd Walker, a professor economics at Indiana Universtiy and Shu-Chun Yang, from the Congressional Budget Office (Eric, “Government Investment and Fiscal Stimulus,” IMF Working Paper, <http://www.imf.org/external/pubs/ft/wp/2010/wp10229.pdf)//DH>

This paper contributes to the on-going policy debate by conducting a positive analysis of government investment in an estimated neoclassical growth model ﬁt to U.S. postwar data. The analysis shows that implementation delays and expected ﬁscal adjustments can hinder the beneﬁcial effects of government investment at both short and long horizons. Implementation delays determine the rate of spending outlays for government investment, and the speed at which spending occurs is crucial for short-run stimulative effects. Many projects, especially infrastructure, require coordination among federal, state, and local governments and have to go through a long process of planning, bidding, contracting, construction, and evaluation. To model these delays, a time-to-build setup is used to characterize the formation of public capital, as in Kydland and Prescott (1982).

Compared to a scenario with little delay, implementation delays for government investment can lead private investment to fall more and labor and output to rise less (or even decline slightly) in the short run. So long as public capital is productive, the expectation of higher government investment spending generates a positive wealth effect, which discourages current work effort. Depending on the implementation speed, this positive wealth effect could dominate the usual negative wealth effects from increasing government purchases, resulting in small or even negative effects on labor and output in the short run. In addition, because private investment projects typically do not entail the substantial delays associated with public projects, private investment falls initially and does not rebound until later, when the public capital is on line and raises the productivity of private inputs. Implementation delays can postpone the intended economic stimulus and may even worsen the downturn in the short run.

**Implementation delays eliminate the positive multiplier from the plan**

**Leeper et al, 10** – professor of economics at Indiana University, also written by Todd Walker, a professor economics at Indiana Universtiy and Shu-Chun Yang, from the Congressional Budget Office (Eric, “Government Investment and Fiscal Stimulus,” IMF Working Paper, <http://www.imf.org/external/pubs/ft/wp/2010/wp10229.pdf)//DH>

Government investment is often argued to boost employment and promote economic growth, making it an ideal candidate to counteract business cycles. The argument is supported by conventional neoclassical growth models with productive public capital. Implementation delays and distortionary ﬁscal ﬁnancing of debt can alter this sanguine view of the the short-run stimulative effects and long-run growth effects of government investment.

A. Implementation Delays

Figure 1 plots responses to an exogenous government investment shock of one standard deviation for α G = 0.05 using the mean estimates of the posterior distribution for parameters. 14 Solid lines are responses for a three-year delay (N = 12), dotted-dashed lines are those for a one-year delay (N = 4), and dashed lines are those for a one-quarter delay (N = 1). All responses are in percentage deviations from steady state.

When government spending is unproductive, as is government consumption in the model, the dominant effect of increasing government spending is a negative wealth effect, which raises labor and decreases consumption—the “neoclassical view” (Barro (1989)). When government spending is productive, as is government investment when α G > 0, two additional effects follow. First, a higher stock of public capital generates expectations that more goods will be produced in the future, generating a positive wealth effect. This wealth effect dampens the labor increase from the negative wealth effect in the neoclassical view, and consumption falls less. 15 Second, as public capital gradually builds up, it increases the marginal product of private inputs and eventually induces agents to work and accumulate capital in response to higher expected returns.

As shown in Figure 1, implementation delays alter short-run dynamics substantially, especially for consumption, labor, and output. Under the typical assumption of one-quarter delay (dashed lines), the short-run responses are consistent with the neoclassical view: consumption and investment fall but output and labor rise immediately. When implementation delays are longer, however, the immediate jump in output and labor is replaced by slightly negative responses on impact and muted responses during initial periods. With longer implementation delays, the government absorbs fewer goods each period. With less competition for goods from the government, consumption falls less and labor rises less. At the same time, since the total increase in government investment is the same regardless of delay lengths, the positive wealth effect from higher future public capital is identical across the three scenarios. Taken together, these two factors imply a general ﬁnding: the longer the implementation delays, the smaller the positive responses in output and labor in the short run.

One caveat is worth noting regarding the positive wealth effect on labor. Our results are derived assuming that the economy is in the steady state before increasing government investment. If labor market imperfections imply an excess labor supply at going wage rates when government investment is implemented, the negative impact on labor from the positive wealth effect could be dampened, and the output response in turn may be more positive than what is shown in Figure 1 in the short run.

Implementation delays also matter for the response pattern of private investment. Under a three-year delay, it takes two years longer for investment to begin to rise. And the longer the delay, the more negative the investment response in the short run. Longer implementation delays imply a slower build-up of public capital, and therefore, a slower increase in the marginal product of private capital. Because it takes less time to build private capital, agents postpone investment until public capital signiﬁcantly raises the productivity of private production inputs.

**Improper timing will collapse the economy – when the aff infrastructure is completed, demand will fall again**

**Hassett, 11** - Mr. Hassett is director of economic policy studies at the American Enterprise Institute (Kevin, “Stimulus Optimists vs. Economic Reality,” Wall Street Journal, 8/3,

<http://online.wsj.com/article/SB10001424053111903520204576484071534800318.html>)//DH

With the economy once again teetering on the edge of recession, policy makers will inevitably propose another round of stimulus spending. You can bet on it—just as you can bet that any such spending won't help the economy. From the beginning, the Obama administration has misdiagnosed the problem and implemented policies that are indefensible.

Consider the problem of economic stabilization. In the old days, U.S. recessions were short and recoveries sharp: Between World War II and 1990, the average rate of growth in gross domestic product (GDP) in the five quarters after a recession was 6.8%.

For the stimulus optimist, the temptation of moving some of that blockbuster growth into the recession is certainly overwhelming. But getting the timing right is a daunting—or even impossible—task.

It's hard enough to call the onset of the recession correctly and arrange the spending so that it happens at precisely the right moment. But the successful policy maker must also remove the stimulus at a moment of unusually high growth. If not, the drag from disappearing stimulus could easily push the economy back into recession.

Keynesians tend to assume that government spending has a big positive effect on economic growth. Others disagree. But if the impact of increasing government spending is large, then the impact of removing it is also. So policy makers better be sure that the boom is around the corner.

And all these are just short-run considerations. Here's the real dirty secret of Keynesian policies: They are sure to have a negative effect in the fullness of time.

Every stimulus effort has not two but three stages. When the stimulus is imposed, there is some positive short-run increase in GDP. When the stimulus is removed, there is an approximately equal and opposite reduction in GDP. But after that, the stimulus must be paid for with higher taxes or ongoing borrowing—causing a further reduction in GDP. Thus the total impact of the Keynesian policy is negative over its life. This fact is visible even in the fine print of Congressional Budget Office analyses so often cited by stimulus apologists, such as its 2009 finding that the Obama stimulus would reduce output in the long run.

Obama administration officials should have known all this as they set out in 2009. Financial crises inevitably create lengthy periods of slow economic growth, as research by economists Carmen Reinhart and Kenneth Rogoff has shown. The typical duration of the employment downturn after a financial crisis is 4.8 years. Another study by Ms. Reinhart and her husband Vincent Reinhart found that economic growth rates tend to be lower for as much as a decade after financial crises.

Given this lengthy period of slow growth, it was a mistake for the Obama administration to pursue short-term Keynesian stimulus. Such a policy might be wise if the economy were in a typical recession, which can be expected to last a bit less than a year and be followed by a recovery with sharply higher growth. In such a case, adding a percent or two of growth during the recession might be worth having a slower recovery.

But in the lengthy, slow‐slog out of a financial crisis, the stimulus hangover arrives before the recovery has taken off. Temporary stimulus therefore hurts the economy when it is removed and again when it is paid for. The hangover is virtually guaranteed to arrive at a moment when it can push us back into recession.

### --AT: Fiat solves delay

**The claim that fiat solves delay actually makes things worse and magnifies all of our turns**

**de Rugy and Mitchell, 11** – both are senior research fellows at the Mercatus Center at George Mason University (Veronique and Matthew, “WOULD MORE INFRASTRUCTURE SPENDING STIMULATE THE ECONOMY?,” September, <http://mercatus.org/sites/default/files/publication/infrastructure_deRugy_WP_9-12-11.pdf)//DH>

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.”‖ 40

**Substantial delays are inevitable and fiat can’t solve**

**Utt, 11** - HERBERT AND JOYCE MORGAN SENIOR RESEARCH FELLOW at the Heritage Foundation (Ronald, CQ Congressional Testimony, “National Infrastructure Bank”, 10/12, lexis)//DH

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 2013 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.

### --AT: Project backlogs

**The 2009 stimulus proves creating timely projects is impossible – their claim of backlogs that can be immediately implemented isn’t supported by data**

**Mitchell, 11** - a senior research fellow at the Mercatus Center at George Mason University. His primary research interests include economic freedom and economic growth, government spending, state and local Is Infrastructure Spending Stimulative?, 9/8, <http://neighborhoodeffects.mercatus.org/2011/09/08/is-infrastructure-spending-stimulative/)//DH>

Wyatt Andrews of CBS News [writes](http://www.cbsnews.com/stories/2011/08/27/eveningnews/main20098307.shtml):

When Moody’s studied the 2009 stimulus package, infrastructure spending rated high. For every dollar spent, $1.44 was returned to the economy.

The problem with this is that it assumes that infrastructure projects will be executed in exactly the way that Keynesian theorists say that they ought to be (“timely, targeted, and temporary” in Lawrence Summers’s words).

That might work on a blackboard or in an (incomplete) computer model, but not in the real world. In the real world, infrastructure projects involve planning, bidding, contracting, construction, and evaluation. All of this takes time, especially if you want to make sure the money is spent wisely (remember, it also must be properly “targeted” or else it won’t work).

And, indeed, as an emperical fact of life, it does seem to take time. [According to the CBO](http://www.cbo.gov/ftpdocs/89xx/doc8916/01-15-Econ_Stimulus.pdf):

[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.

When macroeconomists account for the delays that are inherent in these types of projects, they arrive at exactly the opposite conclusion of Moody’s. For example, a recent International Monetary Fund [paper](http://www.imf.org/external/pubs/ft/wp/2010/wp10229.pdf) by Eric Leeper, Todd Walker and Shu-Chun Yang found: Implementation delays can produce small or even negative labor and output responses.” Moreover, these “Implementation delays can postpone the intended economic stimulus and may even worsen the downturn in the short run.”

### --AT: Plan is targeted

**Even if they could target the plan towards the hardest hit areas of the economy, infrastructure spending does nothing to raise demand – and targeting diverts resources away from more productive sectors of the economy**

**deRugy, 11** – senior fellow at the Mercatus Center at George Mason University specializing in tax and budget issues (Veronique, “FEDERAL INFRASTRUCTURE SPENDING: NEITHER A GOOD STIMULUS NOR A GOOD INVESTMENT”, 11/16, <http://mercatus.org/sites/default/files/publication/Federal%20Infrastructure%20Spending%20-%20Neither%20a%20Good%20Stimulus%20Nor%20a%20Good%20Investment.pdf)//DH>

However, even properly aimed infrastructure spending might have failed to stimulate the economy. Many of the areas hardest hit by the recession are in decline because they have been producing goods and services that are not, and may 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 greater demand for more roads, schools, and other types of long-term infrastructure. 13

### --delay link – NIB

**An infrastructure bank will double the delay**

**Utt, 11** - HERBERT AND JOYCE MORGAN SENIOR RESEARCH FELLOW at the Heritage Foundation (Ronald, CQ Congressional Testimony, “National Infrastructure Bank”, 10/12, lexis)//DH

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 hi 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.

### 2nc crowdout turn

**Stimulus crowdout effects are more likely to exacerbate recessions and destroy productivity**

**MIRON 10**-Department of Economics, Harvard University.( JEFFREY,”THE CASE AGAINST THE FISCAL STIMULUS”, 33 Harv. J. L. & Pub. Pol'y page521-522

(2010), Heinonline)//EL

Beyond these problems, the standard Keynesian defense of fiscal stimulus fails to recognize that attempts to stimulate might exacerbate recessions or have negative long-term implications, even if the Keynesian model is essentially correct. The lower taxes and higher spending required by the Keynesian approach mean increased taxes at some future date, assuming¶ the government balances its budget on average." This higher taxation implies more distortions from taxation and therefore lower productivity.12 The stimulus approach generates uncertainty about which programs the government will support, and this uncertainty can impede private productive activity. The realization that government is handing out pots of money generates rent seeking and other unproductive behavior, leading to crony capitalism (for example, a semi-nationalized auto industry). Finally, a belief that government can moderate or eliminate recessions can encourage excessive risk taking and thereby generate instability.

Before adopting a fiscal stimulus, therefore, it is imperative to consider the evidence for the Keynesian model's validity. As it turns out, the empirical support for the Keynesian view is far from compelling.'3 The model implies that the impact of increased spending should be greater than the impact of tax cuts, but the existing evidence suggests the opposite.14 Indeed, some empirical evidence finds minimal impacts of spending, but most research finds a robust impact of tax cuts.15 Plausibly, the tax cuts are effective because cuts in the marginal tax rates operate to increase efficiency regardless of their effect within a Keynesian framework.

**Every dollar of spending comes from somewhere else in the economy – no economic expansion or productivity gains**

**Riedl, 10** - Grover M. Hermann Fellow in Federal Budgetary Affairs in the Thomas A. Roe Institute for Economic Policy Studies at The Heritage Foundation (Brian, “Why Government Spending Does Not Stimulate Economic Growth: Answering the Critics,” 1/8, Wall Street Journal, <http://online.wsj.com/article/SB10001424052748703481004574646551469288292.html)//DH>

Why Government Spending Does Not End Recessions

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

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

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

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

University of Chicago economist John Cochrane adds that:

First, if money is not going to be printed, it has to come from somewhere. If the government borrows a dollar from you, that is a dollar that you do not spend, or that you do not lend to a company to spend on new investment. Every dollar of increased government spending must correspond to one less dollar of private spending. Jobs created by stimulus spending are offset by jobs lost from the decline in private spending. We can build roads instead of factories, but fiscal stimulus can't help us to build more of both. This form of "crowding out" is just accounting, and doesn't rest on any perceptions or behavioral assumptions.

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

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

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

**Stimulus crowds out the private sector – net economic contraction**

**de Rugy 11**-- a professor and a senior research fellow at the Mercatus Center at George Mason University. She was previously a resident fellow at the American Enterprise Institute, a policy analyst at the Cato Institute, and a research fellow at the Atlas Economic Research Foundation. (Veronique, 11/4, “Government Spending Shrinks the Private Sector”, US News, <http://www.usnews.com/debate-club/does-stimulus-spending-work/government-spending-shrinks-the-private-sector>) EL

Both George Bush and Barack Obama implemented stimulus to bolster economic activity. So let's look at the latest attempt to use government spending to jump start the economy: the American Recovery and Reinvestment Act. Three years after Congress passed that law, unemployment lingers over 9 percent, far above the promised 7.25 percent, and the economy remains weak. Clearly, the stimulus didn't work as advertised. There are two main reasons why not. First, contrary to claims of stimulus proponents, economists are far from having reached a consensus about the actual return of government spending. Some respected economists find every dollar in government spending means more than a dollar of economic growth (a large positive multiplier in economist speak), but others find every dollar in government spending results in less than a dollar of economic growth (a negative multiplier). After reviewing the academic literature, my colleague Matt Mitchell found that the median multiplier in relevant studies is 0.87, far lower than the administration's claim that every stimulus dollar would produce $1.57 worth of activity. [See an opinion slide show of 10 wasteful stimulus projects.] Second, even if one believes that government spending could trigger sustainable economic growth, the design of the stimulus bill was such that it could not have stimulated anything: During the law's tenure, economists explained that instead of using the money to increase government purchases, states chose to use the money to close their budget gaps. This choice meant that the money went to keeping school teachers in their jobs and paying public sector workers, rather than to creating jobs in the private sector. Furthermore, the spending wasn't timely: Three years after the law was adopted, some programs still have managed to spend only 60 percent of the appropriated funds. Not only was the spending poorly timed, it also wasn't targeted. The data show that stimulus money wasn't targeted to those areas with the highest rate of unemployment. In fact, a majority of the spending was used to poach workers from existing jobs in firms where they might not be replaced. Finally, a review of historical stimulus efforts shows that temporary stimulus spending tends to linger. Two years after the initial stimulus, 95 percent of the new spending becomes permanent. [Check out a roundup of editorial cartoons on the economy.] The law may not have worked, but could other stimulus spending work? One could say that under the best case scenario, the existence of large multiplier, a perfect implementation, and an absence of massive debt accumulation, there is a chance that stimulus may deliver some results. That level of optimism requires a heavy dose of wishful thinking, however, and should be taken with a grain of salt. Research from Harvard Business School shows that federal spending in states causes local businesses to cut back rather than to grow. In other words, more government spending causes the private sector to shrink, the exact opposite of the intended result.

**Contraction effects are empirically proven over 15 years**

**Engen and Skinner, 1997** Senior Economist at the Federal Reserve Board \*\*\*AND John Sloan Dickey Third Century Professor in Economics at Dartmouth College (Eric and Jonathan, “FISCAL POLICY AND ECONOMIC GROWTH,” National Bureau of Economic Research, 1997, http://econ.tu.ac.th/archan/sakon/%E0%B9%80%E0%B8%AD%E0%B8%81%E0%B8%AA%E0%B8%B2%E0%B8%A3%20ec%20449/%E0%B8%99%E0%B9%82%E0%B8%A2%E0%B8%9A%E0%B8%B2%E0%B8%A2%E0%B8%81%E0%B8%B2%E0%B8%A3%E0%B8%84%E0%B8%A5%E0%B8%B1%E0%B8%87%E0%B8%81%E0%B8%B1%E0%B8%9A%E0%B8%81%E0%B8%B2%E0%B8%A3%E0%B8%9E%E0%B8%B1%E0%B8%92%E0%B8%99%E0%B8%B2%E0%B9%80%E0%B8%A8%E0%B8%A3%E0%B8%A9%E0%B8%90%E0%B8%81%E0%B8%B4%E0%B8%88/FP%20and%20Economic%20Growth%20NBER%20Paper.pdf)//AM

**Empirical results using data on growth rates** over the period 1970-85 **suggest a significant and negative impact of government fiscal activity on output growth rates in both the short-term and the long-term.** There is a pronounced negative medium terril (1 5 year) impact of tax increases on output growth; a 10 percentage point tax increase is predicted to reduce output growth by 3.2 percentage points per annum. The long-term effects are large as well; a 10 percent balanced budget increase in government spending ~nd taxation is predicted to reduce output growth by 1.4 percentage points per annum, a number comparable in magnitude to results from the one-sector theoretical models in King and Robello (1990). Our results are in contrast to many of the "new growth" models, however, in finding **that government spending, rather than tax rates, have the greatest long-term negative impact on private sector productivity**. Finally, we show that endogeneity in fiscal behavior is a potentially important problem in cross-country regressions; the Ram (1986) finding that government spending spurs economic growth is not supported in the instrumental variables estimation approach.

**Aff arguments are based on Keynesian models – not actually empirical data or studies which prove the opposite**

**Blanchard and Perotti 01**-chief economist at the International Monetary Fund, he earned his [Bachelor](http://en.wikipedia.org/wiki/Bachelor) at [Paris Dauphine University](http://en.wikipedia.org/wiki/Paris_Dauphine_University), and [Ph.D.](http://en.wikipedia.org/wiki/Ph.D.) in Economics at MIT AND\*\* a Full Professor of Economics at Università Bocconi. He received his PhD in Economics from MIT (Olivier and Roberto, “An empirical characterization of the dynamic eﬀects of changes in government spending and taxes on output”, November, <http://econ.ucdenver.edu/beckman/Econ%206053/blanchard-taxes.pdf>)//EL

The predominant, Keynesian, view of the eﬀects of ﬁscal policy that was embedded in the large scale macroeconometric models of the seventies and eighties has come under attack. Theoretically, in the neoclassical approach that has developed in the last twenty years, government spending can have drastically diﬀerent eﬀects than in Keynesian models, particularly on private consumption. Empirically, the response of the economy to several episodes of ﬁscal retrenchment in the last ﬁfteen years has been at odds with conventional Keynesian wisdom: on several occasions, private consumption and GDP increased signiﬁcantly while government spending was severely cut. Finally, the evidence from large scale econometric models has been largely dismissed on the grounds that, because of their Keynesian structure, these models assume rather than document a positive eﬀect of ﬁscal expansions on output.

In view of these challenges, our purpose in this paper is to characterize¶ the dynamic eﬀects of shocks in government spending and taxes on economic¶ activity in the United States during the postwar period. We do so using¶ a structural VAR approach. To achieve identiﬁcation, we rely on institutional information about the tax and transfer systems and the timing of tax¶ collections to construct the automatic response of ﬁscal policy to economic¶ activity, and, by implication, to identify the shocks to ﬁscal policy. A related¶ structural VAR approach has been used in a number of studies to assess the¶ eﬀects of monetary policy (see in particular Bernanke and Mihov [1998]).¶ We believe that such an approach is actually better suited for the study¶ of ﬁscal policy, for two reasons. First, in contrast to monetary policy, ﬁscal variables move for many reasons, of which output stabilization is rarely¶ predominant; in other words, there are exogenous (with respect to output)¶ ﬁscal shocks. Second, again in contrast to monetary policy, decision and implementation lags in ﬁscal policy imply that, at high enough frequency–say, within a quarter–there is little or no discretionary response of ﬁscal policy to¶ unexpected contemporaneous movements in activity. Thus, with enough institutional information about the tax and transfer systems, one can construct¶ estimates of the automatic eﬀects of unexpected movements in activity on¶ ﬁscal variables, and, by implication, obtain estimates of ﬁscal policy shocks.¶ Having identiﬁed these shocks, one can then trace their dynamic eﬀects on¶ GDP and it components. This is what we do in this paper.

In a methodological twist that was imposed on us by the data but is likely¶ to be useful in other contexts, we combine this structural VAR approach with¶ one akin to an event-study approach: A few episodes of large discretionary¶ changes in taxation or in expenditures are simply too large to be treated as¶ realizations from the same underlying stochastic process and must be treated¶ separately. We trace the eﬀects of these large, one-time, changes by studying¶ the dynamic response of output to an associated dummy variable that we¶ include in the VAR speciﬁcation. As we show when we look at the 1950s,¶ not all such large ﬁscal events can be used so cleanly; when they can, as in¶ the case of the 1975 temporary tax cut, we ﬁnd a high degree of similarity¶ between the impulse responses obtained by tracing the eﬀects of estimated¶ VAR shocks, and by tracing the eﬀects of these special events.

Our results consistently show positive government spending shocks as¶ having a positive eﬀect on output, and positive tax shocks as having a negative eﬀect. The size and persistence of these eﬀects vary across speciﬁcations¶ (for instance, whether we treat time trends as deterministic or stochastic)¶ and subperiods; yet, the degree of variation is not such as to cloud the basic¶ conclusion.

We also consistently ﬁnd a positive eﬀect of government spending on private consumption, a straightforward implication of virtually all Keynesian models but a result that is diﬃcult to reconcile with the neoclassical approach, except under counterfactual assumptions about the path of taxation over time. In contrast, we ﬁnd that both increases in taxes and increases in government spending have a strong negative eﬀect on private investment spending. This eﬀect is consistent with a neoclassical model with distortionary taxation, but more diﬃcult to reconcile with Keynesian theory: while agnostic about the sign, Keynesian theory predicts opposite eﬀects of tax and spending increases on private investment. This does not appear to be the case.

### --XT – stimulus causes crowdout

**Government spending crowds out private investment – no net stimulus**

**Foster, 9** - [J. D. Foster, Ph.D.](http://www.heritage.org/About/Staff/jdfoster.cfm), is Norman B. Ture Senior Fellow in the Economics of Fiscal Policy in the Thomas A. Roe Institute for Economic Policy Studies at The Heritage Foundation (J.D., “Keynesian Fiscal Stimulus Policies Stimulate Debt -- Not the Economy,” 7/27

<http://www.heritage.org/research/reports/2009/07/keynesian-fiscal-stimulus-policies-stimulate-debt-not-the-economy>)//DH

Simple observation has its place, but how does the Keynesian stimulus approach break down in theory? Keynesian stimulus theory ignores the second half of the story: Deficit spending must still be financed, and financing carries budgetary consequences and economic costs. Proponents generally acknowledge the long-term budgetary costs, but ignore the offsetting near-term consequences that render Keynesian stimulus useless.

In a closed economy, government borrowing reduces the pool of saving available for private spending, either investment or consumption. Government lacks a wand to create real purchasing power out of thin air (with the fleeting exception of monetary expansions, discussed below). Government spending or deficit-increasing tax cuts increase demand as advertised; and government borrowing reduces demand by the same amount, for no net change.

**Private sector investment crowd out effects are substantial – this is true even if there is a positive consumption multiplier from the plan**

**Blanchard and Perotti, 99 –** \*professor of economics at MIT AND \*\*professor of economics at Columbia (Olivier Blanchard and Roberto Perotti,” An Empirical Characterization of the Dynamic Effects of Changes in Government Spending and Taxes on Output,” NBER Working Papers database)//DH

Thus, we find that private consumption is consistently crowded out by taxation, and crowded in by government spending. Perhaps more surprisingly, we consistently find a considerable crowding out of investment both by government spending and to a lesser degree by taxation; this implies a strong negative effect on investment of a balanced-budget fiscal expansion.

The effects of fiscal policy on investment are clearly inconsistent with a standard Keynesian approach. In the standard Keynesian model, an increase in spending may increase or decrease investment depending on the relative strength of the effects of the increase in output and the increase in the interest rate; but, in either case, increases in spending and taxes have opposite effects on investment. This is not the case empirically. Interestingly, using a yearly panel VAR on 20 OECD countries over the same period, Alesina et al. [1999] reach the same conclusion on the effects of fiscal policy on investment. Note also the decline in imports (after a brief initial surge), which is also rather surprising in light of the considerable increase in GDP.

10 Conclusions

Our main goal in this paper was to characterize as carefully as possible the response of output to the tax and spending shocks in the post-war period in the United States. From the several specifications we have estimated and the different exercises we have performed, we reach the following conclusions: The first is consistent with standard wisdom: When spending increases, output increases; when taxes increase, output falls. The others are perhaps more surprising:

In most cases the multipliers are small, often close to one. In the case of spending shocks, the proximate explanation is in the opposite effects they have on the different components of output: While private consumption increases following spending shocks, private investment is crowded out to a considerable extent. Both exports and imports also fall.

**Public capital investment substitutes for private sector investment – no net gain in productivity**

**Tatom, 93** - assistant vice president at the Federal Reserve Bank of St. Louis (John, “Is an Infrastructure Crisis Lowering the Nation’s Productivity?” Federal Reserve Bank of St. Louis, Nov/Dec, <http://research.stlouisfed.org/publications/review/93/11/Infrastructure_Nov_Dec1993.pdf)//DH>

Proponents of the link between private productivity and public capital tend to ignore substitutability in public and private capital services. 22 Increased highway stocks, for example, could raise the rate of return to trucking firms, but these gains come, in part, at the expense of lower social and business returns to public and private capital in water, rail and air transport. Public projects involving locks and dams, airports or roads produce services that are likely to be substitutes for each other and for private capital services as well. The presence of such a substitutability relation reduces the expected returns from public capital formation and leads to offsetting reductions in the other components of the public capital stock and in the private stock. More importantly, these substitutions offset, in part, any gain in private output directly associated with a rise in one component of public capital.

**Stimulus doesn’t result in net economic increase—trades off with other sectors**

**Mulligan 11**-- an economics professor at the University of Chicago (Casey B., “Local and National Stimulus”, 8/24, The New York Times, <http://economix.blogs.nytimes.com/2011/08/24/a-fallacy-of-spending/>) EL

Yet ignoring the displacement effects is exactly what Paul Krugman and Dean Baker have done in their praise of recent studies that use “cross-state variation in stimulus spending per capita to estimate the employment effects of the stimulus,” studies comparing states that received more stimulus to states that received less.

Spending from the American Recovery and Reinvestment Act (a.k.a., the “stimulus”) could be very much like the stadium spending — a locality that received more stimulus spending merely enjoyed a displacement of activity into its area from localities that received less spending, and that nationally little or no additional spending occurred as a result of the legislation.

If you want to know about the national effects of the stimulus, at least part of the analysis has to look at the nation as a whole. The same is true of the national effects of changes in labor supply. If one group suddenly becomes more willing to work, it is possible that the group solely takes jobs from the rest of the population, with no new jobs being created for the nation as a whole.

That is why, in addition to looking at the experiences of specific groups and specific regions, I have examined the effects of supply and demand on national employment. (Professor Krugman and Dr. Baker assert in so many words that I ignore national employment, though my papers on the subject look very much at national aggregates. For example, see Figure 3 and Figure 6 of this paper and Table 2, Table 3, Figure 2, Figure 3, Figure 4 or Figure 5 of this paper).

I found, for example, that national employment increases during the summer precisely because young people are more willing to work. Not surprisingly, the summer surge of young job seekers does seem to reduce employment of the rest of the population, but the net national effect is still almost a million more jobs in the summer.

For now, it appears that government spending reduces private spending, even while it may benefit specific regions or groups.

### --AT: Boosts productivity

**Aff studies misread causality – public sector investment doesn’t cause private productivity gains – only the reverse is true. Granger causality demonstrates a statistically significant relationship through time**

**Tatom, 93** - assistant vice president at the Federal Reserve Bank of St. Louis (John, “Is an Infrastructure Crisis Lowering the Nation’s Productivity?” Federal Reserve Bank of St. Louis, Nov/Dec, <http://research.stlouisfed.org/publications/review/93/11/Infrastructure_Nov_Dec1993.pdf)//DH>

There is an alternative view that suggests a positive link between private productivity and the stock of public capital per worker. Eisner (1991) suggests the fact that regions with relatively high productivity have relatively higher infrastructure, and simply may reflect an effect of income on the demand for and quantity of public capital.

A statistical test of whether higher productivity causes more public sector capital formation, or the reverse is true, employs “Granger causality.” In these tests, causality means a statistically significant temporal relation in which changes in one measure temporally are followed by statistically significant movements in the other measure. It is possible, in principle, for each measure to “cause” the other, for neither to cause the others, or for only one measure to cause the other.

Tatom (1993) provides a test of Granger causality for the productivity-public capital formation link.32 The test uses annual data (1949 to 1991) for the public capital stock or public sector investment and for the private sector’s total factor productivity, the latter being output per unit of a weighted-average bundle of both private capital and labor resources. The results indicate that neither the growth rate of the public capital stock nor the level of public sector investment cause total factor productivity growth. On the contrary, the growth of private sector productivity causes both measures of public capital formation.

One of the advantages of this approach is that it explicitly looks for statistically significant relationships between public capital formation and subsequent private sector productivity growth, and the reverse, between productivity growth and subsequent changes in public capital formation. The use of longer periods for observing expected effects allows for lags in the effect of one measure on the other. Nonetheless, this approach finds only the reverse relationship to be statistically significant.

CONCLUSIONS

The role of public capital formation and of the federal government in its provision have been the subject of widespread discussion and concern in recent years. This concern has been prompted by the infrastructure deficit hypothesis, which argues that there has been a sharp - decline in public capital formation and that this decline lowered U.S. private sector productivity growth.

This article questions the infrastructure hypothesis. Trends in U.S. public capital formation indicate that the federal government’s role in public capital formation has been quite limited; only a small fraction of the nation’s public, nonmilitary capital stock is held by the federal government and the per capita federal capital stock has been roughly constant throughout the post-World War 11 period.

There was a slowing in the growth of state and local government highways, roads and educational buildings relative to population growth in the 1970s and early 1980s. The demographic and energy-price changes that gave rise to reductions in the growth of demand for’ these goods, however, began to reverse in the early 1980s. Thus, if there was a deficit indicated by the trend in public capital formation, it seems to have begun to disappear almost a decade ago.

The purported link between public capital and private sector productivity has been widely criticized for distorting the role of public capital, yielding implausible estimates of the private sector productivity gains that could arise from public capital formation, and reversing the connection between the two. The fundamental problem with earlier estimates is that they result from spurious or unrelated movements in the quantity of public capital and business sector output and productivity. While both private sector productivity and the public capital stock per hour have risen over time, their movements have not been closely related. Indeed, in the 1980s the two measures generally moved inversely with one another. Of special note is the rebound in private sector productivity growth until 1988, which was accompanied by an accelerated decline in the stock of public capital per hour. The bottom line here is that no one has produced evidence that an increase in the nation’s public capital stock will boost private sector output or productivity, within the year or even some future period. Quite simply, when the hypothesis has been explicitly tested this way, the evidence strongly rejects it.

**Productivity estimates from infrastructure spending are because of spurious regression – they are based upon correlations that aren’t consistent through time**

**Tatom, 93** - assistant vice president at the Federal Reserve Bank of St. Louis (John, “Is an Infrastructure Crisis Lowering the Nation’s Productivity?” Federal Reserve Bank of St. Louis, Nov/Dec, <http://research.stlouisfed.org/publications/review/93/11/Infrastructure_Nov_Dec1993.pdf)//DH>

The time-series estimates that show a positive and statistically significant effect of the public capital stock on private sector output do so because of a statistical fallacy called “spurious regression.” For example, if two wholly unrelated measures have similar time trends, then they can exhibit an apparent, statistically significant relationship between them when no economic relationship, in fact, exists. In the infrastructure case, the spurious regression problem can be observed in the relationship of private productivity—business output per hour—and the stock of infrastructure per hour. Both showed relatively strong upward trends from the late 1940s to the early 1970s and then each trend declined sharply (see Figure 5).

Since the early 1980s, the evidence on the levels of private output and public capital per hour is considerably weaker. In particular, private productivity accelerated sharply, rising at a 1.7 percent annual rate from 1982 to 1988; meanwhile, the growth of the stock of public capital per hour actually slowed further, falling at a 1.5 percent annual rate from 1982 to 1988, down from a 0.5 percent rate of increase from 1971 to 1982.26 The public capital stock per hour then began to rise, growing at a 1.7 percent rate to 1991, while private productivity growth slowed to a 0.3 percent rate. Thus, the two measures were negatively related from 1982 to 1991. ln 1992 both measures accelerated.

The spurious regression problem in Figure 5 is easily illustrated using simple correlations. The level of business output ‘per hour and of public capital per hour are strongly and positively correlated from 1947 to 1992; the correlation coefficient is 0.95, consistent with a strong, but potentially spurious, relationship. The correlation between the growth rates of the two series, however, is not statistically significant. The correlation coefficient for the growth rates (1948 to 1992) of 0.15 is well below the critical value of 0.29 at a 95 percent confidence level. Thus, simple correlation analysis rejects the hypothesis that a contemporaneous rise or fall in the amount of public capital per hour raises or- lowers business sector productivity.

**Infrastructure’s impact on productivity is negligible**

**Holtz-Eakin and Schwartz, 1994** president of the American Action Forum. He was the director of the Congressional Budget Office and a chief economist of President George W. Bush’s Council of Economic Advisers \*\*\*AND Professor of Public Policy, Education, and. Economics and Director of the NYU Institute for Education and Social Policy (Douglas and Amy Ellen, “INFRASTRUCTURE IN A STRUCIURAL MODEL OF ECONOMIC GROWTH,” August 1994, http://www.nber.org/papers/w4824.pdf?new\_window=1)//AM

To anticipate the major results, we find that even in those specifications in which infrastructure enters the estimated production process significantly, there is little support for claims of a dramatic productivity boost from increased infrastructure outlays. For example, in the specification designed to provide an upper bound for the influence of infrastructure capital, we estimate an output elasticity of 0.10. However, even this estimate implies that raising the rate of infrastructure investment by 10 percent would have had a negligible impact on annual productivity growth between 1971 and 1986. The final section is a summary, with suggestions for further work in this area.

**Infrastructure investment fails—decreases over times and low multiplier**

**Spilimbergo, et al 08**-- studied economics at the University Bocconi of Milan where he worked for a year. He received his Ph.D. in economics from M.I.T. in 1994. He worked at the Inter-American Development Bank between 1994 and 1997. Since July 1997, he has worked in the fiscal and research departments at the I.M.F (Antonio, Steve Symansky, Olivier Blanchard, and Carlo Cottarelli, “Fiscal Policy for the Crisis”, IMF Staff Position Note, 12/29, SSRN, ELi)

A structural VAR on quarterly data for five countries (Australia, Canada, Germany, the U.K., and the U.S.) can yield one-year cumulative government spending multipliers that range from around one half to more than twice as large, depending on the country (Perotti, 2006). The corresponding multipliers for public investment range from potentially less than zero to larger than four. As such, although public investment, including core infrastructure investment, can have large productivity effects through positive spillover effects on private investment, there is not clear evidence that the associated multipliers in general are larger than those for government spending. 54. A few countries are often found to have relatively high multipliers. Comparing results for five European countries, using the National Institute Global Model (NiGEM), shows that Germany tends to have larger multipliers from one-year shocks to indirect and direct taxes as well as to transfers than France, Italy, Spain, and the U.K. (Al-Eyd and Barrell, 2005). Similarly, Henry and others (2004) compare results from econometric central bank models and find short-run government purchases multipliers after unanticipated shocks that tend to be higher for the U.S., compared to models for the U.K., France, and Belgium.16 Estimates from the OECD INTERLINK model (Dalsgaard and others, 2001) leads to one-year responses of 1.1 percent or larger for the U.S., Japan, and Germany, while responses in France, Italy, the U.K., and Canada are in the range from 0.2 to 0.9 percent.17 55. Recent studies have found that not only do multipliers differ across countries but they have also decreased over time. For infrastructure, the associated multipliers may be decreasing over time as the marginal productivity of infrastructure falls with its expansion. As such, although public investment multipliers in the past may have been substantially larger than those associated with government consumption, this may not continue to be the case. Furthermore, investment projects are associated with potentially long implementation lags, leading to uncertain short-run effects. Accurate fiscal multipliers estimated from macro studies are difficult to obtain given the identification problems associated with isolating exogenous fiscal shocks. However, micro studies do not provide the full extent of the output effects from fiscal policy as these primarily focus only on first-round effects. A review of the literature suggests that there is a lot of heterogeneity across fiscal multiplier estimates, depending on the identifying assumptions, the type of fiscal policy, and the country of interest.

### --AT: Congestion

**Reducing congestion has almost no positive effect on productivity**

**Tatom, 93** - assistant vice president at the Federal Reserve Bank of St. Louis (John, “Is an Infrastructure Crisis Lowering the Nation’s Productivity?” Federal Reserve Bank of St. Louis, Nov/Dec, <http://research.stlouisfed.org/publications/review/93/11/Infrastructure_Nov_Dec1993.pdf)//DH>

Both Aaron (1990) and Musgrave (1990) criticize the Aschauer (1990) discussion for ignoring the fact that most of the services of public capital have no effect on measured national output, not to mention measured business sector output or, even more to the point, business sector productivity. Similarly, Aaron insists that “the argument that public sector investments contribute massively to measured national output is not strengthened by arguing that such investments contribute to items that do not appear in measured output” (p. 59). Even in the case of investments in airports or highways to reduce congestion costs, there are other benefits to the public besides increased efficiency of work and, therefore, greater business output. Time savings due to reduced congestion could result in increased work time and business output, but this would not necessarily boost their ratio, or business sector productivity.21

### --Crowdout link – NIB

**An infrastructure bank will crowd out private sector lending**

**Roth, 11** - Gabriel Roth is a transport and privatization consultant and a research fellow at the Independent Institute (Testimony on Financing Infrastructure, The United States Senate Committee on Finance, 5/17,

<http://www.independent.org/issues/article.asp?id=3092>)//DH

Government financing—which would be subsidized by taxpayers—could well discourage private financing. The offer of cheap finance could lead to slower spending on infrastructure, because potential borrowers would line up for the bank’s loans and put their own decisions on hold while waiting for the bank’s action. Borrowers are likely to be public institutions that would face criticism from their political supervisors if they do not seek loans at lower rates from the government’s infrastructure bank. Once they apply, a government-managed bank would worry about whether its decisions satisfy the politicians: Government rules will invoke “fairness” as a criterion and loans will have to be distributed “properly” among political jurisdictions. The regulations governing the proposed bank already require that 5 percent of the funds be spent in rural areas, and disputes about what is “rural” would be a small foretaste of what could follow.

### 2nc debt turn

**The status quo is the best option – the economy will recover on its own, new stimulus actions will crush it**

**Foster, 11** – PhD, Norman B. Ture Senior Fellow in the Economics of Fiscal Policy in the Thomas A. Roe Institute for Economic Policy Studies at The Heritage Foundation (J.D., “Promoting Job Creation and Reducing Unemployment in the U.S.,” Congressional Testimony, 9/21,

<http://www.heritage.org/research/testimony/2011/09/promoting-job-creation-in-the-us>)//DH

The federal government should adopt a very simple guiding principle for deciding what to do next. That principle is to do less harm. There is very little in terms of concrete actions government can do at this stage that would help, and a great deal of intended help that would harm, either by raising the deficit to no good effect or by creating more uncertainty and slowing the economy’s natural healing process.

Do less harm means getting spending under control and thereby cutting the budget deficit. Americans are worried about spending and the deficit. That worry by itself is holding us back.

Do less harm means policymakers should stop threatening higher taxes. We can have debates about who should pay what when we’re at full employment. In the meantime, this threat is debilitating.

Do less harm means stop the onslaught of new regulations. The recent pullback of the EPA’s ozone regulation was a good example. Even the threat of new regulations creates bad uncertainty for those affected, freezing them in place. Again, we can work through these regulations when Americans are back to work.

Do less harm means policymakers should stop meddling with the economy. There is almost no limit to the harm Washington can do to the economy in its efforts to do something for the economy. The patient is in recovery, slowed by the incessant proddings and procedures of Washington’s policy doctors. The patient doesn’t need another procedure or a new nostrum. Let it heal. Do less harm.

**The economy can recover because it is fundamentally resilient – the only thing that can collapse it is new spending**

**Scissors and Foster, 11 –** AND \*\* Norman B. Ture Senior Fellow in the Economics of Fiscal Policy in the Thomas A. Roe Institute for Economic Policy Studies at The Heritage Foundation (Derek and JD, “Avoiding America’s Lost Decades,” 10/18, <http://www.heritage.org/research/reports/2011/10/avoiding-americas-lost-decades)//DH>

The American and Japanese situations are certainly not identical. But there is no reason to think that the U.S. is magically immune from this scenario if it mimics Japan’s mistakes. America’s economic demise is by no means certain, but neither is its continued prosperity or its leading role in global affairs.

In 2030, if current trends continue, it could be that the U.S. will have been passed by China in economic size. Worse, if the U.S. repeats Japan’s mistakes, then America may be at risk of being rendered an afterthought on the world stage, much as Japan is now. At home, a decline in comparative American wealth equivalent to Japan’s would take the average American from over 30 percent richer than the average Spaniard in 2010 to no richer in 2030—equivalent to a $14,000 drop.

Why It Happened

What are (or were) Japan’s mistakes? One could point to the Japanese government’s decision to prop up “zombie banks” after the asset bubble popped in 1990, a decision that greatly impeded the healing of the financial sector and thus the economy.

However, the most glaring of Japan’s mistakes has been its fiscal policy. Japan is arguably the world’s most indebted major economy, with public debt close to twice the level of GDP. This is a problem created during the lost decades, not before. Nominal debt soared 170 percent from June 1996 to June 2010 even while GDP declined slightly.[[3]](http://www.heritage.org/research/reports/2011/10/avoiding-americas-lost-decades" \l "_edn3) Japanese fiscal stimulus has been an utter failure.

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

Even now, deficit spending is considered by some to be necessary if only it is done right this time. Meanwhile, the hard work of shrinking deficits and debt is being conveniently put off until later because economic growth is supposedly too weak now to survive the loss of fiscal stimulus.[[4]](http://www.heritage.org/research/reports/2011/10/avoiding-americas-lost-decades" \l "_edn4)

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

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

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

But the more serious financial failing is the loss of the Bank of Japan’s credibility.[[5]](http://www.heritage.org/research/reports/2011/10/avoiding-americas-lost-decades" \l "_edn5) Rather than quietly holding to a consistent policy, the central bank has announced so many different strategies for stimulus that its initiatives are now immediately dismissed.

Lessons for the United States

The Congressional Budget Office estimates that the federal budget deficit in 2011 was $1.3 trillion, matching the 2010 deficit and down just slightly from the all-time record of $1.4 trillion in 2009.[[6]](http://www.heritage.org/research/reports/2011/10/avoiding-americas-lost-decades" \l "_edn6) Under President Obama, the federal government has run deficits in three years totaling twice what occurred under President George W. Bush in eight years. The pattern of U.S. government deficits has taken a decidedly Japanese appearance.

Part of the explanation for these deficits is the recession itself, which cut deeply into tax receipts and increased government spending through automatic programs such as food stamps and unemployment insurance benefits.[[7]](http://www.heritage.org/research/reports/2011/10/avoiding-americas-lost-decades" \l "_edn7) But repeated bouts of Keynesian-style stimulus have also contributed substantially, beginning with President Obama’s huge stimulus legislation in 2009. As is now abundantly clear, this approach to recession and recovery has failed as miserably in the U.S. as it did in Japan.

There are other notable similarities between the Japanese experience and American policy. For example, the Japanese government has repeatedly raised taxes and is considering doing so again. In the U.S., President Obama repeatedly urges higher individual income tax rates on savers, investors, and small businesses, as though taxing producers will somehow increase production.

The Japanese economy is rigidly structured, inhibiting its ability to adjust to changing conditions. In the U.S., President Obama is advancing a wave of regulatory changes that are inhibiting flexibility and dampening the recovery. From inauguration day until March 2011, regulatory agencies imposed 75 major new regulations (defined as those costing $100 million or more), imposing some $38 billion in new costs annually.[[8]](http://www.heritage.org/research/reports/2011/10/avoiding-americas-lost-decades" \l "_edn8)

Those are just the regulations through the bureaucratic pipeline. They do not include the ongoing regulatory freeze on economic activity from the passage of President Obama’s health care legislation or the Dodd–Frank regulatory wave falling on financial services.

Do Less Harm

Though much damage has already been done, the American economy is still fundamentally flexible and resilient. What is needed is to jettison the convenient fantasy that deficit spending stimulates the economy and instead adopt a more benign attitude that, for the sake of recovery, Washington should “first, do less harm,” which means:

The federal government should rein in spending to restore a degree of confidence in America’s future,

The President should stop threatening higher taxes, and

The Administration should end the regulatory attack on America’s businesses.

The U.S. is still well-positioned to turn its economy around and avoid Japan’s fate. If Washington would just do less harm—and if the Japanese government would just do less harm in Japan—each country would enjoy a more prosperous future.

### --Wage inflation links

**Stimulus spending increases wage inflation**

**deRugy, 11** – senior fellow at the Mercatus Center at George Mason University specializing in tax and budget issues (Veronique, “FEDERAL INFRASTRUCTURE SPENDING: NEITHER A GOOD STIMULUS NOR A GOOD INVESTMENT”, 11/16, <http://mercatus.org/sites/default/files/publication/Federal%20Infrastructure%20Spending%20-%20Neither%20a%20Good%20Stimulus%20Nor%20a%20Good%20Investment.pdf)//DH>

Finally, other factors contribute to increasing the costs of public infrastructure spending and making it harder to be profitable. For instance, federal “prevailing-wage” requirements (such as the ones imposed by the Davis Bacon Act) require that construction workers employed by private contractors on public projects be paid at least the wages and benefits that are “prevailing” for similar work in or near the locality in which the project is located. 28

To the extent that the prevailing-wage is above the market wage, the laws may impose financial costs both through increased wage bills for construction projects and an inefficient mix of capital and labor and of different types of workers. However, because public construction accounts for between one-fifth and onequarter of all construction, and because prevailing-wage laws cover a substantial number of private projects undertaken with public financing or assistance, prevailing-wage laws may also affect construction labor markets more broadly.

In a paper called “Prevailing Wage Laws and Construction Labor Markets,” economists Daniel Kessler and Lawrence Katz examine the consequences of several states’ repeal of their prevailing-wage laws in the 1970s and 1980s. 29 By comparing trends in construction labor markets in “repeal” states to trends in labor markets in states that did not change their laws, they find that the average wages of construction workers (in repeal states) decline slightly after repeal—by about 2 to 4 percent.

However, they also find that the small overall impact of repeal masks substantial differences in outcomes for different groups of construction workers. The negative effects of repeal on wages are more pronounced for unionized workers who tend to benefit the most from the higher compensation provided by the prevailingwage requirement. Kessler and Katz find, for instance, that repealing prevailing-wage laws leads to a decline of approximately 10 percentage points in the long-run union wage premium earned by construction workers, or almost half of the total union wage premium in construction. They point out, “Since union members account for approximately 25 percent of all construction workers, the 10-percentage-point decrease in the union wage premium explains almost all of the (approximately 2 to 4 percent) decline in construction workers’ wages.” 30

This has implications for the most recent stimulus bill, the American Recovery and Reinvestment Act. According to the GAO, $102 billion of ARRA’s $787 billion went toward programs covered by Davis-Bacon (40 programs in total, seven of which had never been subject to prevailing-wage laws). 31 According to Rothschild and Jones, suspending Davis-Bacon would have created perhaps 55,000 additional federally funded jobs, funded 6 percent more projects, and hired 6 percent more workers. 32 (The more one pays per worker, the fewer workers one can hire.) If ARRA had suspended Davis-Bacon, more roads could have been repaved, more houses insulated, and more levees repaired. 33

Rothschild and Jones conclude that if government jobs paid market wages, then a recession would be a great time to build roads and hospitals at a much lower cost than usual. Taxpayers could save money by hiring employees who were waiting for the private sector to improve.

In fact, in their survey they found that among public and private organizations required to pay prevailingwages, 38.2 percent thought that they could have hired workers at wages below the Davis-Bacon prevailingwage while another 17 percent were unsure. The numbers were even higher for the private-sector and nonprofit organizations to which Davis-Bacon applied: 52 percent said they could have hired people at lower than the prevailing-wage. 34 Forcing organizations to hire at the prevailing-wage meant higher costs for the federal government and fewer jobs created. 35

### --IL: Investor confidence key

**The current downturn is because of the prior stimulus – further action will shatter investor confidence, and collapse the economy with global contagion effects**

**Edwards, 11** - director of tax policy studies at Cato. 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 (Chris, “The Damaging Rise in Federal Spending and Debt,” 9/20, Congressional Testimony, <http://www.cato.org/publications/congressional-testimony/damaging-rise-federal-spending-debt)//DH>

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

As federal debt grows larger, the problems caused by fiscal uncertainty will get magnified. The CBO notes that "growing federal debt also 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. Such a crisis would . . . probably have a very significant negative impact on the country."10

Research by economists Kenneth Rogoff and Carmen Reinhart found that government debt burdens above 90 percent of GDP are associated with lower economic growth.11 After examining data on dozens of countries, they concluded that "high debt is associated with slower growth; a relationship which is robust across advanced and emerging markets."12 High debt can also be associated with inflation crises, "financial repression," and other problems. Furthermore, high public and private debt acts as a "contagion amplifier" in the globalized economy.

A new paper by economists at the Bank for International Settlements (BIS) similarly found that when government debt in OECD countries rises above a threshold of about 85 percent of GDP, economic growth is slower.13 As debt rises, borrowers become increasingly sensitive to changes in interest rates and other shocks. "Higher nominal debt raises real volatility, increases financial fragility, and reduces average growth," the authors note.14

### --Inflation impact

**The expectation of future spending risks inflation – it will cause a run from the dollar and economic collapse**

**Cochrane, 11** - AQR Capital Management Distinguished Service Professor of Finance at the University of Chicago Booth School of Business, a research associate of the National Bureau of Economic Research, and an adjunct scholar at the Cato Institute (John, “Inflation and Debt”, National Affairs, Fall, <http://faculty.chicagobooth.edu/john.cochrane/research/papers/Cochrane_Inflation_and_Debt_National_Affairs.pdf)//DH>

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.

### --AT: Fed checks

**High deficits decrease the ability of the Fed to check – it assumes the bond market will respond**

**Cochrane, 11** - AQR Capital Management Distinguished Service Professor of Finance at the University of Chicago Booth School of Business, a research associate of the National Bureau of Economic Research, and an adjunct scholar at the Cato Institute (John, “Inflation and Debt”, National Affairs, Fall, <http://faculty.chicagobooth.edu/john.cochrane/research/papers/Cochrane_Inflation_and_Debt_National_Affairs.pdf)//DH>

All sides of the conventional inflation debate believe that the Fed can stop any inflation that breaks out. The only question in their minds is whether it actually will—or whether the fear of higher interest rates, unemployment, and political backlash will lead the Fed to let inflation get out of control. They assume that the government will always have the fiscal resources to back up any monetary policy—to, for example, issue bonds backed by tax revenues that can soak up any excess money in the economy. This assumption is explicit in today’s academic theories.

While the assumption of fiscal solvency may have made sense in America during most of the post-war era, the size of the government’s debt and unsustainable future deficits now puts us in an unfamiliar danger zone—one beyond the realm of conventional American macroeconomic ideas. And serious inflation often comes when events overwhelm ideas—when factors that economists and policymakers do not understand or have forgotten about suddenly emerge. That is the risk we face today. To properly understand that risk, we must first understand the ideas underlying our debates about inflation.

**The Fed can’t check – interest rates are zero and higher inflation risks a run from the dollar that short-circuits the Fed’s tools**

**Cochrane, 11** - AQR Capital Management Distinguished Service Professor of Finance at the University of Chicago Booth School of Business, a research associate of the National Bureau of Economic Research, and an adjunct scholar at the Cato Institute (John, “Inflation and Debt”, National Affairs, Fall, <http://faculty.chicagobooth.edu/john.cochrane/research/papers/Cochrane_Inflation_and_Debt_National_Affairs.pdf)//DH>

The Fed is noticeably absent from this terrifying scenario. We have come to think that central banks control inflation. In fact, the Fed’s ability to control inflation is limited—and the bank would be especially impotent in the event of fiscal or “run on the dollar” inflation.

The Fed’s main policy tool is an “open-market operation”: It can buy government bonds in return for cash, or it can sell government bonds to soak up some money. Thus, the Fed can change the composition of government debt, but not the overall quantity. Money, after all, is just a different kind of government debt, one that happens to come in small denominations and doesn’t pay interest. Bank reserves, which now pay interest, are just very liquid, one-day maturity, floating-rate debt. So the Fed can affect financial affairs and ultimately the price level only when people care about the kind of government debt they hold—reserves or cash versus Treasury bills.

But in the “run from the dollar” scenario, people want to get rid of all forms of government debt, including money. In that situation, there is essentially nothing the Fed can do. When there is too much debt overall, changing its composition doesn’t really matter.

The Fed is particularly powerless now, as short-term interest rates are essentially zero, and banks are holding $1.5 trillion of excess reserves. In this situation, money and short-term government debt are exactly the same thing. Monetary policy today is like taking away a person’s red M&Ms, giving him green M&Ms, and expecting the change to affect his diet.

How can the Fed be powerless? Milton Friedman said that the government can always cause inflation by essentially dropping money from helicopters. That seems sensible. But the Fed cannot, legally, drop money from helicopters. The Fed must always take back a dollar’s worth of government debt for every dollar of cash it issues, and the Fed must give back a government bond for every dollar it removes from circulation. While it is easy to imagine that giving everyone a newly printed $100 bill might cause inflation, it is much less obvious that giving everyone that bill and simultaneously taking away $100 of everyone’s government bonds has any effect.

### --Debt impact

**Turns the case – spiraling debt will eliminate infrastructure investment across the board, and crushes US leadership, increases prolif and the risk of nuclear use**

**Lieberthal and O’Hanlon, 12** - \*Director of the John L. Thornton China Center at Brookings AND \*\* Director of Research and Senior Fellow Foreign Policy (Kenneth and Michael, “The Real National Security Threat: America's Debt”, The Brookings Institute, 7/10, <http://www.brookings.edu/research/opinions/2012/07/10-economy-foreign-policy-lieberthal-ohanlon>) EL

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

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

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

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

### --AT: No risk of sell-off

**A crisis could come at any point that would cause foreign investors to leave**

**Masters, 12** – Associate Staff Writer at the Council on Foreign Relations (Jonathan, “U.S. Deficits and National Debt”, 3/2, ¶ <http://www.cfr.org/united-states/us-deficits-national-debt/p27400#p5>)//DH

At some point in the not-too-distant future, analysts say, investors may decide the lack of effective governance constitutes an increased risk of default and will no longer be willing to hold U.S. Treasuries at normal interest rates. Standard and Poor's [downgrade of the U.S. debt rating](http://blogs.wsj.com/marketbeat/2011/08/05/sp-downgrades-u-s-debt-rating-press-release/?mod=WSJ_markets_article_liveupdate) in August 2011 indicated as much: "America's governance and policymaking [has become] less stable, less effective, and less predictable than what we previously believed." If many investors begin fleeing to alternatives, it may become prohibitively expensive for Washington to attract new buyers of debt, resulting in even larger deficits, increased borrowing, or what is known as a "debt spiral."

Global investors may continue to fund high U.S. deficits for several years, but the recent experiences of [several advanced economies in Europe](http://www.cfr.org/eu/eurozone-crisis/p22055)--Greece, Iceland, Ireland, and Portugal--indicate the unpredictability and speed at which fiscal crises can come. Several factors have thus far helped insulate the United States from such a fate--a floating exchange rate, reserve currency status, lower borrowing costs, a higher capacity for growth, and no record of default. But there are also some striking similarities with the situation faced by some European states, including a rising debt to GDP and a reliance on foreign capital to finance debt.

**An investor confidence crisis will come quickly and without warning**

**CBO 10**—Congressional Budget Office (“Federal Debt and the Risk of a Fiscal Crisis”, 7/27, <http://www.cbo.gov/publication/21625>) EL

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.

**History proves that even with low inflation it can rise suddenly**

**Cochrane, 11** - AQR Capital Management Distinguished Service Professor of Finance at the University of Chicago Booth School of Business, a research associate of the National Bureau of Economic Research, and an adjunct scholar at the Cato Institute (John, “Inflation and Debt”, National Affairs, Fall, <http://faculty.chicagobooth.edu/john.cochrane/research/papers/Cochrane_Inflation_and_Debt_National_Affairs.pdf)//DH>

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### --Perception key

**The expectation of inflation will cause investors to abandon the dollar**

**Eichengreen, 11** - Professor of Economics and Political Science at the University of California at Berkeley (Barry, “U.S. Futures and Out-of-Control Deficits,” 12/5, <http://www.theglobalist.com/printStoryId.aspx?StoryId=9461)//DH>

Given low interest rates and the still-weak U.S. economy, it will be tempting for the U.S. government to continue running deficits and issuing additional debt. At some point, however, investors will recognize this behavior for the Ponzi scheme it is. They will then come to understand that the real alternatives to the conundrum facing the United States ultimately reduce themselves to measures to drive down the real value of the debt, presumably by inflating it away.

Since investors look forward, they will want to close out their dollar positions as soon as they recognize this path as inevitable — and hence long before this inflation actually happens.

U.S. interest rates could rise by a full percentage point, if foreign investors refuse to accumulate additional dollar securities as they flow onto the market. More alarmingly, foreign investors could become unwilling to hold dollar securities, period. Selling their holdings will have even larger interest-rate and exchange-rate effects than simply refusing to absorb additional issues.

Anticipating continued dollar depreciation, residents of other countries will see no reason to risk pricing their exports in dollars. They will not accept payment in that form, just as Britain’s creditors refused to accept sterling in 1956.

If history is any guide, this scenario will develop not gradually but abruptly. Previously gullible investors will wake up one morning and conclude that the situation is beyond salvation. They will scramble to get out. Interest rates in the United States will shoot up. The dollar will fall.

The United States will suffer the kind of crisis that Europe experienced in 2010, but magnified. These events will not happen tomorrow. But Europe’s experience reminds us that we probably have less time than commonly supposed to take the steps needed to avert them.

### --AT: Inflation good – debt

**Using inflation to decrease debt destroys investor confidence**

**Stammer 3/13**-- taught economics and finance at the University of New England, the University of Hong Kong and the Australian National University, moved to senior positions in the Reserve Bank of Australia, the Chief Economist/Director of Investment Strategy for Deutsche Bank Australia , a non-executive director of the listed company ING Private Equity Access Limited and also of Kaplan Higher Education Pty Limited (Don, “Global inflation a medium-term threat”, The Australian, LexisNexis Academic, EL)

Increasing the world's money supply has a downside IN the 20 years to the early 1990s, inflation in Australia averaged the uncomfortably high rate of 8 per cent a year. Since then, trend inflation has been a mere 2.7 per cent a year. Australians younger than 40 have no direct experience of the uncertainties and complications that high inflation causes. The risks of an outbreak of inflation in the major economies during the next half-dozen years are worrying -- and if global inflation picks up, it will be hard for Australia to avoid it. Since 2007, central banks of the US, Europe, Japan and Britain have greatly expanded their balance sheets as they've responded to the global financial crisis and Europe's sovereign debt crisis. These central banks are printing money to support bank lending, to finance budget deficits and, in Europe, to stabilise bond markets. These things are what central banks are expected to do during financial crises and, for the most part, their actions are delivering the expected short-term results. So far this hasn't led to higher inflation. But there are risks further out. As confidence returns and credit flows start speeding up, the stock of money in the big industrialised economies will surge and create conditions highly accommodative to inflation. Moreover, governments may take the view, as they did in the late 40s (and by the US government in the 70s), that inflation is a more acceptable way of dealing with a massive overhang of public debt than tax hikes or spending cuts. The chart shows how, across various periods, inflation in Australia has eroded the real purchasing power of money. Trend inflation at a ``modest'' 3 per cent a year means money loses half of its value every 20 years. The cyclical surges in inflation that come along inflict serious losses on investors. Inflation-linked bonds are the simplest and most effective way by which investors can maintain the real value of their savings in periods of rising inflation; when issued by the federal or a state government these bonds also have a negligible credit risk. Call deposits with banks or money market funds, along with floating rate notes, can give reasonable protection so long as the Reserve Bank of Australia uses variations in the cash rate as its main way of keeping inflation under control. By contrast, conventional government bonds usually suffer a severe loss in real value when inflation surges. Shares and property generally maintain their real values while inflation rises modestly but they leave investors stranded when inflation moves to very high levels. Defined benefits superannuation, where employers pay retirement benefits at a proportion of the employees' final salary, often with automatic adjustment for inflation, is becoming rare. The risks to global inflation in coming years are such that anyone with that form of superannuation should not give it up.

**Increasing inflation will cause stagflation – it will lay waste to the economy**

**Bassanese 11**-- Economics & Finance columnist with the Australian Financial Review (David, “Bernanke has some leeway with inflation for now;

Bassanese”, 6/11, Australian Financial Review, LexisNexis Academic, EL)

And he'll stand guard over the printing presses for as long as he can credibly claim his policies - or other global pressures - are not stoking inflation. As long as inflation is dormant, the Fed can afford to turn the full force of its policy weaponry onto the problem of sluggish jobs growth and high unemployment. And if that means printing more money and expanding the Fed's balance sheet, so be it. That said, the absolute worst-case scenario for Wall Street, and global markets, would be if US underlying inflation and/or inflation expectations began to creep higher - as it would severely curtail the ability of the Fed to stimulate the economy further if need be. Rising inflation and high unemployment is what economists term "stagflation", a terrible economic blight that laid waste to financial-market returns through much of the 1970s. It's for this reason that it's just as important to keep a close eye on the US inflation outlook as it is to worry about the pace of economic growth and employment. The good news is that US inflation is far from getting out of hand, but we can't be complacent. US headline inflation has lifted in recent months, reaching a relatively high 3.2 per cent in the year to April. Stripping out the volatile fuel and food price components, however, so-called "core" US CPI inflation is up only 1.3 per cent over the past year. That's still below the implicit 1.5 to 2 per cent annual rate of core inflation that the Fed would be comfortable with. That said, annual core inflation has also edged higher in recent months, from a recent low of only 0.6 per cent last October. In fact, the very low levels of inflation late last year had briefly led to renewed fears of falling prices or "deflation", which would have made America's recovery even more difficult and was a major catalyst in persuading the Fed to launch QE2. Of course, these deflation fears have evaporated, and we're now back to a careful inflation watch. But in his speech this past week, Bernanke remained sanguine, noting "so far at least, there is not much evidence that inflation is becoming broad-based or ingrained in our economy". He noted that most of the rise in inflation of late reflected increases in the price of a single product - petrol. Over the previous six months, for example, the personal consumption expenditure deflator rose at a 3.6 per cent annual rate but excluding petrol, the rise was only 2 per cent. Bernanke also noted that high unemployment was keeping a firm lid on wages - with unit labour costs below pre-recession levels, which in turn was boosting corporate profitability. And perhaps most critically, Bernanke observed inflation expectations still appeared relatively stable. Indeed, according to the Thomson Reuters/University of Michigan survey, consumer inflation expectations for the next five to 10 years was 2.9 per cent in May compared with an average of 2.8 per cent last year. In financial markets, the implied five-year inflation expectation in five years' time was about 2.75 per cent in May, which was in the upper half of its longer-term range but down on the spike to 3 per cent observed late last year. Given that US unemployment is likely to remain relatively high for some time - keeping down wages - then there's a good chance US inflation will be contained if oil prices and inflation expectations also are relatively stable. The concern, however, is if oil prices don't remain stable - especially if supply-side disruptions and continued strong demand from emerging economies combine to push up prices even in the face of a weak US economy. The longer rising oil prices keep headline inflation elevated, the greater the risk that inflation expectations could eventually become "unanchored". While Bernanke sought to argue this week that US inflation expectations were relatively stable, they are nonetheless at the higher end of their historic range. As noted by BNP Paribas economist Julia Coronado, for example, "while core US inflation trends are only moderate and inflation expectations are not overly worrisome, the latter remain elevated ... policymakers should not be overly sanguine about these trends".

**Inflation will raise borrowing costs, decrease investment, and can’t be controlled – any strategy using it to control debt will backfire**

**Nelson 2/29**-- Analyst in International Trade and Finance for the Congressional Research Office (Rebecca M., “Sovereign Debt in Advanced Economies:

Overview and Issues for Congress”, Congressional Research Office, <http://assets.opencrs.com/rpts/R41838_20120229.pdf>) EL

If sovereign debt is denominated in the domestic currency, the government can use inflation to reduce the real value of the debt. This is frequently referred to as a government “running the printing presses” in order to create the money it needs to repay creditors, although there are other ways the government can create inflation in the economy. Many economists view this policy as an effective default on the debt, because even if creditors are repaid, the value of goods and services they can purchase is significantly lower than what they expected when they extended the loan to the government. Inflation has not featured prominently in recent major emerging-market debt crises because most emerging-market debt tends to be denominated in foreign currencies. 41 Inflation allows a government to repay its debt without having to implement austerity measures, and can be less complicated than a debt restructuring. Using inflation as part of a debt management strategy, however, can be problematic. The inflation has to be unexpected to investors, or else investors will price in the risk of inflation through higher interest rates. Even if the government is able to introduce surprise inflation, it will raise the government’s borrowing costs in the future. Inflation can also have a number of adverse consequences, including wiping out the value of savings, creating shortages of goods, and reducing future investment by creating uncertainty in the economy. Governments may also have trouble limiting the amount of inflation introduced into the economy: one round of inflation may raise expectations about future inflation, which in turn could lead to more inflation. Additionally, using inflation to lower the real value of the debt assumes the cooperation of the central bank, but in most advanced economies, the central bank sets policies independently of the government. Finally, using inflation to address a debt problem is not available to countries whose debt is denominated in a currency held jointly. Individual Eurozone countries issue debt denominated in euros, but they do not have control over monetary policy in the Eurozone and cannot use inflation to reduce the real value of their debt.

## Answers to Stimulus Good

### Stimulus fails – empirics

**2009 economic data disprove deficit spending’s benefits**

**Riedl, 10** - Grover M. Hermann Fellow in Federal Budgetary Affairs in the Thomas A. Roe Institute for Economic Policy Studies at The Heritage Foundation (Brian, “Why Government Spending Does Not Stimulate Economic Growth: Answering the Critics,” 1/8, Wall Street Journal, <http://online.wsj.com/article/SB10001424052748703481004574646551469288292.html)//DH>

The Evidence Is In

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

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

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

**The 2009 stimulus had almost no productive effect**

**Taylor, 12 –** professor of economics at Stanford (John, “Debating Stimulus and Harvard and Stanford,” 3/2,

<http://johnbtaylorsblog.blogspot.com/2012/03/debating-stimulus-and-harvard-and.html>)//DH

In the case of the 2009 stimulus package, there was also an attempt to increase significantly government purchases of goods and services. But the evidence is that this attempt largely failed. A special satellite account produced by the Bureau of Economic Analysis shows that federal infrastructure investment—at the peak quarter—increased by only .05 percent of GDP as a result of the stimulus and federal government consumption by only .14 percent.

**Taylor’s research makes use of the most recent and comprehensive data**

**Taylor, 11 –** professor of economics at Stanford (John, CQ Congressional Testimony, “Stimulus Assessment”, 2/16, lexis)//DH

My purpose here today is not to explain this recent revival of a failed approach to policy, but rather to summarize the facts which once again raise doubts about its effectiveness. I take a macroeconomic perspective, looking at the impact of ARRA on the major components of GDP, such as government purchases and consumption expenditures. Changes in GDP are of course directly related to employment growth, with faster growth of GDP creating more jobs. I make use of a new data set developed by the Bureau of Economic Analysis (BEA) at the Department of Commerce which traces the impact of ARRA on the economy through the National Income and Product Accounts, the major source of data for macroeconomic analysis. I present and analyze the data through a series of simple graphs, but the findings can be verified and supported through statistical analysis.

**Aff studies are based on models – not actual data from the ARRA**

**Taylor, 11 –** professor of economics at Stanford (John, CQ Congressional Testimony, “Stimulus Assessment”, 2/16, lexis)//DH

Why do some argue that ARRA has been more effective than the facts presented here indicate? Many evaluations of the impact of ARRA use economic models in which the answers are built-in, and were built-in before the stimulus package was enacted. The same economic models that said, two years ago, that the impact would be large now show that the impact is in fact large. This is why, for example, the Congressional Budget Office finds larger effects while other researchers using different models find smaller effects. The models disagree so the policy evaluations disagree.

**Japan’s failed infrastructure stimulus also proves**

**Foster, 9** - [J. D. Foster, Ph.D.](http://www.heritage.org/About/Staff/jdfoster.cfm), is Norman B. Ture Senior Fellow in the Economics of Fiscal Policy in the Thomas A. Roe Institute for Economic Policy Studies at The Heritage Foundation (J.D., “Keynesian Fiscal Stimulus Policies Stimulate Debt -- Not the Economy,” 7/27

<http://www.heritage.org/research/reports/2009/07/keynesian-fiscal-stimulus-policies-stimulate-debt-not-the-economy>)//DH

Japan of the 1990s is the modern poster child for Keynesian stimulus, having embarked on massive government infrastructure projects producing wonderful new roads, bridges, waterworks, and airports.[[3]](http://www.heritage.org/research/reports/2009/07/keynesian-fiscal-stimulus-policies-stimulate-debt-not-the-economy" \l "_ftn3)Net government debt rose as a share of the economy from 15 percent in 1990 to 60 percent in 2000.[[4]](http://www.heritage.org/research/reports/2009/07/keynesian-fiscal-stimulus-policies-stimulate-debt-not-the-economy" \l "_ftn4)Japan was left with beautiful infrastructure, a mountain of debt, and the now-resumed lost decade.

### --AT: Too small / stopped decline

**The claim the stimulus was too small or prevented things from getting worse is fully disproven by counterfactual simulations of a larger stimulus**

**Taylor, 11** – professor of economics at Stanford (John, “An Empirical Analysis of the Revival of Fiscal Activism in the 2000s,” Journal of Economic Literature 2011, 49:3, 686–702, <http://www.stanford.edu/~johntayl/JEL_Taylor_Final%20Pages.pdf>)//DH

In sum, this empirical examination of the direct effects of the three countercyclical stimulus packages of the 2000s indicates that they did not have a positive effect on consumption and government purchases, and thus did not counter the decline in investment during the recessions as the basic Keynesian textbook model would suggest. Individuals and families largely saved the transfers and tax rebates. The federal government increased purchases, but by only an immaterial amount. State and local governments used the stimulus grants to reduce their net borrowing (largely by acquiring more financial assets) rather than to increase expenditures, and they shifted expenditures away from purchases toward transfers.

Some argue that the economy would have been worse off without these stimulus packages, but the results do not support that view. According to the empirical estimates of the impact of ARRA, if there had been no temporary stimulus payments to individuals or families, their total consumption would have been about the same. And if there had been no ARRA grants to states and localities, their total expenditures would have been about the same. The counterfactual simulations show that the ARRA-induced decline in state and local government purchases was larger than the increase in federal government purchases due to ARRA. In terms of the simple example of model A versus model B presented above, these results are evidence against the views represented by model A, and thus against using such models to show that things would have been worse.

Others argue that the stimulus was too small, but the results do not lend support to that view either. Using the estimated equations, a counterfactual simulation of a larger stimulus package—with the proportions going to state and local grants, federal purchases, and transfers to individuals the same as in ARRA—would show little change in government purchases or consumption, as the temporary funds would be largely saved. Of course, the story would be different for a stimulus program designed more effectively to increase purchases, but it is not clear that such a program would be politically or operationally feasible.

### --AT: China proves transport spending stimulates

**China’s model was based on private infrastructure investment**

**Staley 12**- Ph.D, senior research fellow at Reason Foundation, and Managing Director at the DeVoe L. Moore Center at Florida State University where he teaches urban economics, land use, and urban planning. (Samuel R., "Highway Construction As Stimulus? Not So Fast" Reason.org, 5/15/12, <http://reason.org/news/show/highway-construction-as-stimulus-no>)//AP

A critique of this argument might be that we're just knit picking on price. However, new research out of China of all places suggests that the waste may well have amounted to more than 20 percent of the total cost.

China is a particularly intriguing case study because its economy is going through many of the same challenges, fits, and starts as the U.S. economy in the early and mid-twentieth century. Roads, rails, bridges, ports, and airports have emerged as critical infrastructure for nurturing a burgeoning manufacturing economy, and facilitating national mobility.

China, however, didn't have the economic tax base to support a sprawling national highway system. While provinces were responsible for building the roads and expressways, they couldn't levy taxes to finance them. So, they relied on private capital to build their expressways and later established government-controlled toll authorities to fund many more.

The model worked reasonably well except that the primary purpose was to collect money to pay off the debt, not optimize the efficiency of the highway network. Tollroads were established based on whether the agencies could float bonds to finance them, not economic analysis of travel demand and willingness to pay.

### AT: Multiplier effect

**Multiplier effect arguments are wrong because private sector spending has the same or better multiplier**

**Riedl, 10** - Grover M. Hermann Fellow in Federal Budgetary Affairs in the Thomas A. Roe Institute for Economic Policy Studies at The Heritage Foundation (Brian, “Why Government Spending Does Not Stimulate Economic Growth: Answering the Critics,” 1/8, Wall Street Journal, <http://online.wsj.com/article/SB10001424052748703481004574646551469288292.html)//DH>

Critics' Objection No. 3: Government Spending Has a Multiplier Effect That Allows the Money to Re-circulate Through the Economy Multiple Times. This point is correct but irrelevant to the question of stimulus. Yes, $100 in unemployment benefits can be spent at a grocery store, which, in turn, can use that $100 to pay salaries and support other jobs. The total amount of additional economic activity will be well above $100; but because government borrows the $100, that same money is now unavailable to the private sector--which would have spent the same $100 with the same multiplier effect.

Consider a more comprehensive example. A family might normally put its $10,000 savings in a CD at the local bank. The bank would then lend that $10,000 to the local hardware store, which would then recycle that spending around the town, supporting local jobs. Suppose that the family instead buys a $10,000 government bond that funds the stimulus bill. Washington spends that $10,000 in a different town, supporting jobs there instead. The stimulus has not created new spending, jobs, or a multiplier effect. It has merely moved them to a new town.

The mistaken view of fiscal stimulus persists because people can easily observe the factories and people put to work with government funds. By contrast, people cannot easily observe the jobs that would have been created or factories used elsewhere in the economy with those same dollars had they not been lent to Washington.

In his 1848 essay, "What Is Seen and What Is Not Seen," French economist Frederic Bastiat termed this the "broken-window fallacy," a reference to a local myth that breaking windows would stimulate the economy by creating window-repair jobs. In reality, the window-repair spending comes out of funds that otherwise would have been spent (and created jobs) elsewhere in town. Today, the broken-windows fallacy explains why thousands of new stimulus jobs are not improving the total employment picture.

**The multiplier is likely negative – deadweight losses**

**Edwards, 11** - director of tax policy studies at Cato. 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 (Chris, “The Damaging Rise in Federal Spending and Debt,” 9/20, Congressional Testimony, <http://www.cato.org/publications/congressional-testimony/damaging-rise-federal-spending-debt)//DH>

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.

The government uses a "leaky bucket" when it tries to help the economy. Stanford University's Michael Boskin, explains: "The cost to the economy of each additional tax dollar is about $1.40 to $1.50. Now that tax dollar ... is put into a bucket. Some of it leaks out in overhead, waste, and so on. In a well-managed program, the government may spend 80 or 90 cents of that dollar on achieving its goals. Inefficient programs would be much lower, $.30 or $.40 on the dollar."21Texas A&M University's Edgar Browning comes to similar conclusions about the magnitude of the government's leaky bucket: "It costs taxpayers $3 to provide a benefit worth $1 to recipients."22

**Empirical data on wartime spending disprove the multiplier effect – prefer it, wartime spending is the most comprehensive data set**

**Barro, 9** - economics professor at Harvard University and a senior fellow at Stanford University's Hoover Institution (Robert, Wall Street Journal, “Government Spending is No Free Lunch”, 1/22, <http://online.wsj.com/article/SB123258618204604599.html)//DH>

Back in the 1980s, many commentators ridiculed as voodoo economics the extreme supply-side view that across-the-board cuts in income-tax rates might raise overall tax revenues. Now we have the extreme demand-side view that the so-called "multiplier" effect of government spending on economic output is greater than one -- Team Obama is reportedly using a number around 1.5.

To think about what this means, first assume that the multiplier was 1.0. In this case, an increase by one unit in government purchases and, thereby, in the aggregate demand for goods would lead to an increase by one unit in real gross domestic product (GDP). Thus, the added public goods are essentially free to society. If the government buys another airplane or bridge, the economy's total output expands by enough to create the airplane or bridge without requiring a cut in anyone's consumption or investment.

The explanation for this magic is that idle resources -- unemployed labor and capital -- are put to work to produce the added goods and services.

If the multiplier is greater than 1.0, as is apparently assumed by Team Obama, the process is even more wonderful. In this case, real GDP rises by more than the increase in government purchases. Thus, in addition to the free airplane or bridge, we also have more goods and services left over to raise private consumption or investment. In this scenario, the added government spending is a good idea even if the bridge goes to nowhere, or if public employees are just filling useless holes. Of course, if this mechanism is genuine, one might ask why the government should stop with only $1 trillion of added purchases.

What's the flaw? The theory (a simple Keynesian macroeconomic model) implicitly assumes that the government is better than the private market at marshaling idle resources to produce useful stuff. Unemployed labor and capital can be utilized at essentially zero social cost, but the private market is somehow unable to figure any of this out. In other words, there is something wrong with the price system.

John Maynard Keynes thought that the problem lay with wages and prices that were stuck at excessive levels. But this problem could be readily fixed by expansionary monetary policy, enough of which will mean that wages and prices do not have to fall. So, something deeper must be involved -- but economists have not come up with explanations, such as incomplete information, for multipliers above one.

A much more plausible starting point is a multiplier of zero. In this case, the GDP is given, and a rise in government purchases requires an equal fall in the total of other parts of GDP -- consumption, investment and net exports. In other words, the social cost of one unit of additional government purchases is one.

This approach is the one usually applied to cost-benefit analyses of public projects. In particular, the value of the project (counting, say, the whole flow of future benefits from a bridge or a road) has to justify the social cost. I think this perspective, not the supposed macroeconomic benefits from fiscal stimulus, is the right one to apply to the many new and expanded government programs that we are likely to see this year and next.

What do the data show about multipliers? Because it is not easy to separate movements in government purchases from overall business fluctuations, the best evidence comes from large changes in military purchases that are driven by shifts in war and peace. A particularly good experiment is the massive expansion of U.S. defense expenditures during World War II. The usual Keynesian view is that the World War II fiscal expansion provided the stimulus that finally got us out of the Great Depression. Thus, I think that most macroeconomists would regard this case as a fair one for seeing whether a large multiplier ever exists.

I have estimated that World War II raised U.S. defense expenditures by $540 billion (1996 dollars) per year at the peak in 1943-44, amounting to 44% of real GDP. I also estimated that the war raised real GDP by $430 billion per year in 1943-44. Thus, the multiplier was 0.8 (430/540). The other way to put this is that the war lowered components of GDP aside from military purchases. The main declines were in private investment, nonmilitary parts of government purchases, and net exports -- personal consumer expenditure changed little. Wartime production siphoned off resources from other economic uses -- there was a dampener, rather than a multiplier.

We can consider similarly three other U.S. wartime experiences -- World War I, the Korean War, and the Vietnam War -- although the magnitudes of the added defense expenditures were much smaller in comparison to GDP. Combining the evidence with that of World War II (which gets a lot of the weight because the added government spending is so large in that case) yields an overall estimate of the multiplier of 0.8 -- the same value as before. (These estimates were published last year in my book, "Macroeconomics, a Modern Approach.")

There are reasons to believe that the war-based multiplier of 0.8 substantially overstates the multiplier that applies to peacetime government purchases. For one thing, people would expect the added wartime outlays to be partly temporary (so that consumer demand would not fall a lot). Second, the use of the military draft in wartime has a direct, coercive effect on total employment. Finally, the U.S. economy was already growing rapidly after 1933 (aside from the 1938 recession), and it is probably unfair to ascribe all of the rapid GDP growth from 1941 to 1945 to the added military outlays. In any event, when I attempted to estimate directly the multiplier associated with peacetime government purchases, I got a number insignificantly different from zero.

**The multiplier effect is small and greatly outweighed by long-term fiscal damage**

**Edwards, 11** - director of tax policy studies at Cato. 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 (Chris, “The Damaging Rise in Federal Spending and Debt,” 9/20, Congressional Testimony, <http://www.cato.org/publications/congressional-testimony/damaging-rise-federal-spending-debt)//DH>

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

### --XT – wartime spending

**Wartime spending disproves the multiplier and is higher than a peacetime stimulus**

**Foster, 9** - [J. D. Foster, Ph.D.](http://www.heritage.org/About/Staff/jdfoster.cfm), is Norman B. Ture Senior Fellow in the Economics of Fiscal Policy in the Thomas A. Roe Institute for Economic Policy Studies at The Heritage Foundation (J.D., “Keynesian Fiscal Stimulus Policies Stimulate Debt -- Not the Economy,” 7/27

<http://www.heritage.org/research/reports/2009/07/keynesian-fiscal-stimulus-policies-stimulate-debt-not-the-economy>)//DH

Perhaps Robert J. Barro's analysis of fiscal stimulus efficacy is the most well known and controversial. Barro argues the clearest evidence of fiscal policy effects is likely to be found when spending ramps up rapidly during wars.[[7]](http://www.heritage.org/research/reports/2009/07/keynesian-fiscal-stimulus-policies-stimulate-debt-not-the-economy" \l "_ftn7) Examining U.S. fiscal policy in the periods surrounding World War II, the Korean War, and the Vietnam War, Barro's analysis suggests a fiscal multiplier of 0.8, meaning even at its most effective, the increase in output was a fraction of the increase in government spending.

Barro further theorizes the wartime multiplier is likely to be much greater than the peacetime multiplier, with a peacetime multiplier likely near zero so every extra dollar of government spending actually replaces a dollar of private spending leaving output unaffected. Paul Krugman among others have criticized Barro's results, noting that the wars themselves and the often attendant wage and price controls would have diminished the effectiveness of fiscal policy.[[8]](http://www.heritage.org/research/reports/2009/07/keynesian-fiscal-stimulus-policies-stimulate-debt-not-the-economy" \l "_ftn8) However, none of his critics has as of yet provided an empirical analysis challenging Barro's results.

### --XT – negative multiplier

**Aff stimulus studies are highly flawed – they assume conditions that don’t apply to the current US economic situation – the multiplier is more likely to be negative**

**de Rugy and Mitchell, 11** – both are senior research fellows at the Mercatus Center at George Mason University (Veronique and Matthew, “WOULD MORE INFRASTRUCTURE SPENDING STIMULATE THE ECONOMY?,” September, <http://mercatus.org/sites/default/files/publication/infrastructure_deRugy_WP_9-12-11.pdf)//DH>

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

**New infrastructure spending is net negative for the economy**

**de Rugy and Mitchell, 11** – both are senior research fellows at the Mercatus Center at George Mason University (Veronique and Matthew, “WOULD MORE INFRASTRUCTURE SPENDING STIMULATE THE ECONOMY?,” September, <http://mercatus.org/sites/default/files/publication/infrastructure_deRugy_WP_9-12-11.pdf)//DH>

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.

### AT: Spending pays for itself

**If spending paid for itself the multiplier would have to be 5 – which not even aff hacks would claim**

**Cochrane, 12** – professor of economics at the University of Chicago (John, “Austerity, Stimulus, or Growth Now?,” 3/21, <http://johnhcochrane.blogspot.com/2012/03/austerity-stimulus-or-growth-now.html>)//DH

Lately, Keynesians have been pushing an even more audacious idea: deficits pay for themselves. In a March 17 [column](http://krugman.blogs.nytimes.com/2012/03/17/the-future-is-another-country/), Krugman wrote: “there’s a plausible case that spending more now actually improves the long-run fiscal picture.”  
U.S. Federal revenue is less than 20 percent of GDP. For deficit spending to pay for itself, then, $1 of spending must create more than $5 of output. Economists have been arguing about whether this “multiplier” is more or less than one; five is beyond any reported estimate. Keynesians made fun of “supply siders” in the 1980s, who made similar claims for tax cuts. At least those cuts had incentives on their side, which stimulus doesn't.

### AT: Increases jobs

**Labor crowd out – new infrastructure jobs divert labor from other private infrastructure projects – no net increase in hiring and it decreases overall investment**

**deRugy, 11** – senior fellow at the Mercatus Center at George Mason University specializing in tax and budget issues (Veronique, “FEDERAL INFRASTRUCTURE SPENDING: NEITHER A GOOD STIMULUS NOR A GOOD INVESTMENT”, 11/16, <http://mercatus.org/sites/default/files/publication/Federal%20Infrastructure%20Spending%20-%20Neither%20a%20Good%20Stimulus%20Nor%20a%20Good%20Investment.pdf)//DH>

Perhaps more importantly, unemployment rates among specialists, such as those with the skills to build roads or schools, are often relatively low. And 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 plucking the jobless from the unemployment rolls. This is what economists call “crowding out.” Except that in this case, labor, not capital, is being crowded out.

New data from Mercatus Center professor Garret Jones and AEI staffer Dan Rothschild confirm that companies and governments used stimulus money to poach a plurality of workers from other organizations rather than hiring them from the unemployment lines. 14 Based on extensive field research—over 1,300 anonymous, voluntary responses from managers and employees—Jones and Rothschild bring to light the fact that less than half of the workers hired with stimulus funds were unemployed at the time they were hired. A majority were hired directly from other organizations, with just a handful coming from school or outside the labor force. In email correspondence, Garrett Jones further explains that during recessions most employers who lose workers to poaching decline to fill the vacant positions—leaving unemployment essentially unchanged.

**ARRA proves stimulus can’t solve jobs, workers shift from other sectors**

**Jones and Rothschild 11**-a Professor of Economics and BB&T Professor for the Study of Capitalism at the Mercatus Center, George Mason University, Ph.D. in economics from the University of California. AND\* received his M.P.P. from the Gerald R. Ford School of Public Policy at the University of Michigan (Garret and Daniel M.,“Did stimulus Dollars hire the unemployed? Answers to questions about the American recovery and reinvestment act”, Mercatus Center, Semptember, <http://mercatus.org/sites/default/files/publication/Did_Stimulus_Dollars_Hire_The_Unemployed_Jones_Rothschild_WP34.pdf>)//EL

Keynesian theory requires strong conditions to work: In the words of Lawrence Summers, stimulus spending must be “targeted” at unemployed workers and underused organizations. 17 Roughly half of the new hires and one-third of the organizations in our sample fit the description.

That means that almost half of ARRA jobs in our sample went to workers hired away from other organizations and two-thirds of our organizations already had plenty of work to do before receiving ARRA funds. This is far from the ideal prescribed by Keynesian macroeconomics. In the Keynesian ideal, spending should be targeted toward the slack sectors, and workers should overwhelmingly be hired away from unemployment lines. Instead, the direct job-to-job shifts for ARRA-receiving organizations were similar to the average job-to-job shift rates in the U.S. during normal economic times.

ARRA was implemented at time when the Keynesian model had every chance of succeeding on its own terms. The high level of unemployment and the rapid deadline for spending created both the supply of workers and the demand for workers. If the job market results are so lackluster in this setting, economists should expect even weaker stimulative results during more modest recessions.

As economists and policy makers calculate the short-run effects of government spending, they should consider the immediate effect of that spending on hiring decisions. This survey and its companion interview-based paper (Jones and Rothschild 2011) provide the first broad-based evidence that hiring good, unemployed workers on short notice is harder and rarer than most would expect. We hope that government agencies will ask past and future stimulus recipients some of the questions we asked, including: “How many of your new workers already had a job elsewhere when you hired them?”

**Job creation spending removes jobs from other sectors of the economy**

**Riedl, 10** - Grover M. Hermann Fellow in Federal Budgetary Affairs in the Thomas A. Roe Institute for Economic Policy Studies at The Heritage Foundation (Brian, “Why Government Spending Does Not Stimulate Economic Growth: Answering the Critics,” 1/8, Wall Street Journal, <http://online.wsj.com/article/SB10001424052748703481004574646551469288292.html)//DH>

Critics' Objection No. 4: During a Recession, Government Spending Can Put Unused Resources to Work. This restates the overall spending fallacy. Yes, government spending can put under-utilized factories and individuals to work--but only by idling other resources in whatever part of the economy supplied the funds. If adding $1 billion would create 40,000 jobs in one depressed part of the economy, then losing $1 billion will cost roughly the same number of jobs in whatever part of the economy supplied Washington with the funds. It is a zero-sum transfer regardless of whether the unemployment rate is 5 percent or 50 percent.

**Empirical job growth estimates ignore tradeoffs from other sectors of the economy**

**Riedl, 10** - Grover M. Hermann Fellow in Federal Budgetary Affairs in the Thomas A. Roe Institute for Economic Policy Studies at The Heritage Foundation (Brian, “Why Government Spending Does Not Stimulate Economic Growth: Answering the Critics,” 1/8, Wall Street Journal, <http://online.wsj.com/article/SB10001424052748703481004574646551469288292.html)//DH>

Critics' Objection No. 5: Government Reports Show That the Stimulus Has Already Created or Saved 640,000 New Jobs.

According to a White House survey, businesses have used much of the $200 billion in stimulus dollars distributed thus far to hire or retain 640,000 workers. These figures have been ridiculed for their absurdity, such as reporting $6.4 billion spent in congressional districts that do not exist, and the survey's assertion that a single lawnmower purchase in Arkansas saved or created 50 jobs.[17]

Setting aside these inaccuracies, this jobs figure is not surprising. Businesses that receive large government grants would be expected to expand and hire more workers. However, this ignores half of the equation. If injecting $200 billion into the economy supports 640,000 jobs, how many jobs were first lost by borrowing that $200 billion from the economy?

The White House says zero. The White House job numbers assume that all $200 billion is new and supports jobs that would not otherwise exist. But that could be true only if the private sector would have otherwise hoarded the entire $200 billion in safes and mattresses, where it could not be consumed, invested, or deposited in banks for investment spending--but instead turned the entire $200 billion over to the government.

When dollars are transferred from one part of the economy to another, jobs will transfer accordingly. The White House's single-entry bookkeeping ignores the part of the economy that financed all these jobs. Not surprisingly, the nation's overall unemployment rate has continued to rise.

### AT: State budgets

**Empirically the plan is likely to increase state taxes**

**de Rugy and Mitchell, 11** – both are senior research fellows at the Mercatus Center at George Mason University (Veronique and Matthew, “WOULD MORE INFRASTRUCTURE SPENDING STIMULATE THE ECONOMY?,” September, <http://mercatus.org/sites/default/files/publication/infrastructure_deRugy_WP_9-12-11.pdf)//DH>

 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

### AT: Idle savings

**Savings still boost the economy – all saved money is immediately reinvested**

**Riedl, 10** - Grover M. Hermann Fellow in Federal Budgetary Affairs in the Thomas A. Roe Institute for Economic Policy Studies at The Heritage Foundation (Brian, “Why Government Spending Does Not Stimulate Economic Growth: Answering the Critics,” 1/8, Wall Street Journal, <http://online.wsj.com/article/SB10001424052748703481004574646551469288292.html)//DH>

Critics' Objection No. 1: People Are Saving Instead of Spending, and Banks Are Not Lending.By Borrowing and Spending these "Idle Savings," Government Can Circulate More Money Through the Economy. This is the most common defense of government stimulus cited by policymakers. Indeed, among proponents of government spending there is a strong focus on whether people are spending or saving, with the implication that spending circulates through the economy while savings effectively drop out.

But savings do not drop out of the economy. Nearly all people put their savings in: (1) banks, which quickly lend the money to others to spend; (2) investments in stocks and bonds; or (3) personal debt reduction. In each of these situations, the financial system transfers one person's savings to someone else who can spend it. So all money is quickly spent regardless of whether it was initially consumed or saved. The only savings that drop out of the economy are those hoarded in mattresses and safes.

Some contend that recession-weary banks are hoarding savings well beyond the legal minimum reserves. Yet even when banks hesitate to lend their deposits, they invest them in Treasury bills to keep them circulating through the economy and earning interest.[14] In fact, the federal funds market--where banks lend each other any excess cash at the end of the day--exists because banks refuse to sit on unused cash even overnight. Thus, even in recessions, one person's savings quickly finances another person's spending.[15]

**Stimulus spending can’t prevent savings behavior**

**Riedl, 10** - Grover M. Hermann Fellow in Federal Budgetary Affairs in the Thomas A. Roe Institute for Economic Policy Studies at The Heritage Foundation (Brian, “Why Government Spending Does Not Stimulate Economic Growth: Answering the Critics,” 1/8, Wall Street Journal, <http://online.wsj.com/article/SB10001424052748703481004574646551469288292.html)//DH>

Advocates of the "idle savings" theory fail to specify the location of all these newly hoarded piles of dollar bills they believe have been shielded from spending in the financial system. Even more telling, they also fail to explain--even if there were massive amounts of idle savings--how the federal government is supposed to acquire them for injection as new spending. After all, even if individuals, businesses, and banks were hoarding dollar bills in mattresses and safes, why would they suddenly lend them to the government to finance a stimulus bill? The very idea of hoarding dollars suggests these people and businesses would not trust the financial system, and would be quite unlikely to attend the next Treasury bill auction.[16]

Stimulus spending advocates must be able to show that nearly all money lent to Washington would have otherwise sat idle in mattresses and bank safes. Otherwise, Washington is merely a middleman transferring purchasing power from one part of the economy to another--and the justification for government spending as stimulus collapses.

**Decreasing savings decreases private investment – savings finance private sector loans**

**Foster, 9** - [J. D. Foster, Ph.D.](http://www.heritage.org/About/Staff/jdfoster.cfm), is Norman B. Ture Senior Fellow in the Economics of Fiscal Policy in the Thomas A. Roe Institute for Economic Policy Studies at The Heritage Foundation (J.D., “Keynesian Fiscal Stimulus Policies Stimulate Debt -- Not the Economy,” 7/27

<http://www.heritage.org/research/reports/2009/07/keynesian-fiscal-stimulus-policies-stimulate-debt-not-the-economy>)//DH

What if the extra government borrowing soaks up "idle savings" in an underperforming economy, proponents may ask. In troubled economic times those who can save more often do so, directing their savings toward safe investments like Treasury Bonds and bank deposits. However, these cautious savers almost never withdraw their savings from the financial system entirely by stuffing cash into mattresses. Aside from the occasional mattress stuffer, even savings held in the safest of instruments are not idle but remain part of the financial system, working to find their most productive uses through the available channels. Borrowing to finance Keynesian stimulus, then, remains a subtraction from the funds available to the private sector.

**New deficit spending increases idle savings that won’t be reinvested**

**Foster, 9** - [J. D. Foster, Ph.D.](http://www.heritage.org/About/Staff/jdfoster.cfm), is Norman B. Ture Senior Fellow in the Economics of Fiscal Policy in the Thomas A. Roe Institute for Economic Policy Studies at The Heritage Foundation (J.D., “Keynesian Fiscal Stimulus Policies Stimulate Debt -- Not the Economy,” 7/27

<http://www.heritage.org/research/reports/2009/07/keynesian-fiscal-stimulus-policies-stimulate-debt-not-the-economy>)//DH

Suppose widespread fear spurred savers to engage in rampant mattress stuffing, withdrawing purchasing power from the economy and creating large amounts of truly idle savings. This has happened before, and could be happening now to some extent. Surely, Keynesian stimulus works in such cases. Highly unlikely. Nothing about a flood of government bonds engulfing capital markets to finance a surge in wasteful government spending is likely to convince nervous mattress stuffers that their concerns are misplaced. Idle savings, then, remain idle, making deficit spending a competitor for an even smaller pool of available private savings. Worse, mattress stuffers are likely to increase their mattress-based, economically idle saving in the face of a surge of profligate, irresponsible government spending. Keynesian "stimulus" would then be an economic depressant.

**Savings and cash hoarding don’t hurt the economy – that money lies in banks where it is invested in other economic activity**

**Foster, 11** – PhD, Norman B. Ture Senior Fellow in the Economics of Fiscal Policy in the Thomas A. Roe Institute for Economic Policy Studies at The Heritage Foundation (J.D., “Promoting Job Creation and Reducing Unemployment in the U.S.,” Congressional Testimony, 9/21,

<http://www.heritage.org/research/testimony/2011/09/promoting-job-creation-in-the-us>)//DH

The answer, of course, is that the economy is more complicated than this simple equation. Government borrows the money, so every deficit dollar spent by the government is a dollar less available to the private sector. The answer, in other words, is that the [macroeconomic model](http://www.heritage.org/Issues/Economy/Economic-Growth/Recession-and-Recovery) ignores financial intermediation which is the bread and butter of financial markets.

Proponents will counter by saying that people are saving more, and corporations are sitting on mounds of cash. True, but it changes nothing. All this saving is not lying dormant in some vault or stuffed in some mattress. Ironically, even if it were, irresponsible deficit spending would surely not draw it out. On the contrary, this saving is deposited with the financial system, which then takes the resources from those who do not currently need them and makes them available to those who do need them. In terms of aggregate flows, this process works just as well today in recession as it does at full employment.

### AT: Spending helps confidence

**Government signals don’t reassure consumers or investors – zero data supports this and it’s logically backwards**

**Hassett, 11** - Mr. Hassett is director of economic policy studies at the American Enterprise Institute (Kevin, “Stimulus Optimists vs. Economic Reality,” Wall Street Journal, 8/3,

<http://online.wsj.com/article/SB10001424053111903520204576484071534800318.html>)//DH

Worse, aggressive stimulus sets off a kind of Keynesian death spiral in which nervous politicians adopt repeated stimulus packages in order to avert near-term distress, the cumulative effect of which can be ruinous.

Keynesians might dispute this logic, saying that their policy prescription helps avert "catastrophic panic" in the economy. But there is no established connection between higher government spending and the mental health of consumers and investors, and there likely never will be. A policy that reduces long-run output should, if anything, increase the likelihood of panic.

**New spending increases business and consumer uncertainty over deficit concerns – decreases overall demand**

**Taylor, 11 –** professor of economics at Stanford (John, CQ Congressional Testimony, “Economic and Job Creation Proposal”, 9/13, lexis)

In my estimation, the temporary and targeted fiscal policy interventions in the 2009 stimulus package and most others cash- for-clunkers, first-time homebuyers credit, and the sharp increase in federal outlays from 19.6 percent in 2007 to 23.8 percent of GDP today 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. Thus the impact of this policy uncertainty and unpredictability shows up as a lack of demand.

So the best thing government can do to create sustained consumption and investment demand is to move away from such temporary actions and start now on a clear comprehensive strategy going forward. Part of the strategy should be to lay out a plan to reduce the deficit and the growth of debt gradually and credibly over time, and thereby remove some of the concerns and fears, whether about another financial crisis or inflation or deflation or tax increases. Other reforms should accompany such a budget strategy, including permanent pro-growth tax reform and regulatory reform, which will help stimulate the economy in a more sustained way. This is the most promising way to get a good recovery going and reduce unemployment.

### AT: We solve trade deficit

**Aff fails—the stimulus will just leave the US economy**

**Spilimbergo, et al 08**-- studied economics at the University Bocconi of Milan where he worked for a year. He received his Ph.D. in economics from M.I.T. in 1994. He worked at the Inter-American Development Bank between 1994 and 1997. Since July 1997, he has worked in the fiscal and research departments at the I.M.F (Antonio, Steve Symansky, Olivier Blanchard, and Carlo Cottarelli, “Fiscal Policy for the Crisis”, IMF Staff Position Note, 12/29, SSRN, ELi)

V. A COLLECTIVE INTERNATIONAL EFFORT 36. The international dimension of the crisis calls for a collective approach to providing fiscal stimulus. There are several important spillovers that could limit the effectiveness of actions taken by individual countries, or even create adverse externalities across borders: • Countries with a high degree of trade openness may be discouraged from fiscal stimulus; the more open a country, the less it will benefit from a domestic demand expansion, and the more the fiscal expansion will translate into a deterioration of the trade balance. The amount of stimulus needed to achieve a given level of increased output can be large in open economies. The flip side of these spillovers is that if all countries act, the amount of stimulus needed by each country is reduced (and provides a political economy argument for a collective fiscal effort). At the same time, this collective fiscal effort must be tailored to individual country circumstances to take account of external imbalances, the effects of automatic stabilizers and the degree to which each country has fiscal space. • Some interventions currently discussed such as subsidies to troubled industries may be perceived as hidden (unfair) industrial policy by trading partners. Such a race would bring significant costs in terms of efficiency.10 • The history of the Great Depression shows that, as the crisis deepens, there is increasing pressure to raise trade barriers. While it is improbable that trade tariffs will be increased because of the commitments to WTO, there is a distinct possibility that organized groups may advocate non-tariff protection to limit imports, or introduce various forms of export subsidies, especially if some fiscal measures are misconstrued as unfair industrial policy (see previous point). 37. All these factors point to the need for a concerted effort by the international community, and stricter coordination among countries with closer economic and institutional ties (e.g., the European Union).11 The recent decision to finance some of the national expenditures from the EU budget is clearly a step in this direction.

### AT: Plan prints money

**Printing money empirically causes stagflation – higher prices with lower demand**

**Foster, 9** - [J. D. Foster, Ph.D.](http://www.heritage.org/About/Staff/jdfoster.cfm), is Norman B. Ture Senior Fellow in the Economics of Fiscal Policy in the Thomas A. Roe Institute for Economic Policy Studies at The Heritage Foundation (J.D., “Keynesian Fiscal Stimulus Policies Stimulate Debt -- Not the Economy,” 7/27

<http://www.heritage.org/research/reports/2009/07/keynesian-fiscal-stimulus-policies-stimulate-debt-not-the-economy>)//DH

Printing Money to Make Fiscal Stimulus Work

In the last theoretical refuge for Keynesian stimulus, suppose the monetary authority broke its commitment to independence and opted explicitly to buy up the Treasury's debt issuance under a Keynesian fiscal policy. Government cannot create real purchasing power by whim, diktat, or debt, but the monetary authority can create the illusion of purchasing power through a policy of monetizing debt and increasing cash liquidity in the economy. Combining an obliging monetary policy with increased deficit spending may create the illusion that fiscal policy is effective, but as Prime Minister Callaghan commented, it is temporary and only an illusion.

In most countries the monetary authority's independence is a foundational policy principle. The monetary authority may buy significant amounts of Treasury notes and bills in pursuit of its own expansionary monetary policy as the Federal Reserve has done for many months in extraordinary quantities. But these actions would be driven by monetary policy considerations of maintaining strong long-run growth consistent with low and stable inflation. The monetary authority would take these actions whether or not the fiscal authorities embarked on a stimulative policy. The central bank's policy goal is the same as the Treasury's in this instance--to resuscitate the economy--but the central bank is ultimately pursuing its policies independent of Treasury policy.

However, the monetary authority may opt to subordinate its policy rules and objectives to fiscal policy, repeating the 1970s experiments in the United States. The previous outcome of loose monetary policy was economic stagnation coupled with high and rising inflation, what came to be known as "stagflation." The policy failed to produce sustained economic growth because market participants learn quickly. Businesses, investors, workers, and savers recognized the shift toward an inflationary monetary policy, interpreted it correctly, and reflected higher inflation in their pricing and expectations. In so doing, they nullified the potential stimulative effects of the policy and the Federal Reserve was forced to adopt a contractionary counter-inflationary policy resulting in the deep recession of 1981- 1982. Even a compliant central bank cannot make Keynesian policy effective unless the central bank can consistently and persistently fool the markets.

### AT: Foreign borrowing

**Borrowing from abroad increases net imports which offsets any increase in demand**

**Foster, 9** - [J. D. Foster, Ph.D.](http://www.heritage.org/About/Staff/jdfoster.cfm), is Norman B. Ture Senior Fellow in the Economics of Fiscal Policy in the Thomas A. Roe Institute for Economic Policy Studies at The Heritage Foundation (J.D., “Keynesian Fiscal Stimulus Policies Stimulate Debt -- Not the Economy,” 7/27

<http://www.heritage.org/research/reports/2009/07/keynesian-fiscal-stimulus-policies-stimulate-debt-not-the-economy>)//DH

The dynamics in an open economy are slightly more complicated, but the final outcome for output is unchanged. An open economy permits a government to finance its deficits by importing savings from abroad as the United States has done for years, rather than by tapping domestic sources. However, an increase in deficit spending met by an increase in net imports of foreign savings must, in turn, be matched by an increase in net imports of goods and services to preserve the balance of payments. Thus, the increase in domestic demand due to deficit spending is fully offset by a reduction in demand arising from an increase in net exports. Once again, Keynesian stimulus has no effect.

**Foreign borrowing won’t increase the amount of money in the economy and more likely expand the trade deficit**

**Riedl, 10** - Grover M. Hermann Fellow in Federal Budgetary Affairs in the Thomas A. Roe Institute for Economic Policy Studies at The Heritage Foundation (Brian, “Why Government Spending Does Not Stimulate Economic Growth: Answering the Critics,” 1/8, Wall Street Journal, <http://online.wsj.com/article/SB10001424052748703481004574646551469288292.html)//DH>

Critics' Objection No. 2: Borrowing from Foreign Nations Can Provide "New" Money for the Economy. Accepting that domestic borrowing is no free lunch, some analysts have asserted that foreign borrowing can inject new dollars into the economy. However, these nations must acquire American dollars before they can lend them back to Washington. Foreign countries can acquire American dollars by either:

Attracting American investments in their country. In that instance, the dollars leaving America match the dollars lent back to America. The net flow of saving circulating through the U.S. economy does not increase.

Selling goods and services to Americans and receiving American dollars in return. For the United States, these imports raise the trade deficit and thus reduce domestic demand. The government's subsequent borrowing back and spending of these dollars merely offsets the increased trade deficit.

In either situation, American dollars must first leave the country before they can be lent back into the U.S. economy. The balance of payments between America and other nations must net zero. Consequently, government spending funded from foreign borrowing does not provide stimulus.

## Uniqueness

### CP solves uniqueness

**If the CP solves the case it also provides uniqueness for the disad – it will rein in deficits**

**Cochrane, 12** – professor of economics at the University of Chicago (John, “Austerity, Stimulus, or Growth Now?,” 3/21, <http://johnhcochrane.blogspot.com/2012/03/austerity-stimulus-or-growth-now.html>)//DH

Growth is the key to paying off debts. The only way to escape large debt/GDP ratios is to embark on a decade or more of solid  growth. Growth like this comes from long-run productivity, not short-run stimulus.    
Europe is beginning to figure this out. Italy’s prime minister, Mario Monti, is addressing his country’s debt crisis by proposing far-reaching deregulation, now. While his proposals aren't complete or close to radical enough, and they are combined with some unfortunate business-stifling tax increases, it’s remarkable that anyone in Europe is beginning to talk about this approach.  
“Structural reform” is vital to restore growth now, not a vague idea for many years in the future when the stimulus has worked its magic. Europe learned that it’s also a lot harder politically than the breezy language suggests. “Reform” isn’t just “policy” handed down by technocrats like rules on the provenance of prosciutto; it involves taking away subsidies and interventions that entrenched interests have grown to love, and support politicians to protect. They will fight it tooth and nail.  
That is even more reason to address growth now, while there is a crisis. The will to do so will evaporate if better times return, and the ability to do so will disappear if the economies plunge.

### Economy growing

**The US economy is growing now—will return to full employment by 2015**

**Zandi 5/9/12**-- Chief Economist of Moody's Analytics, where he directs the company's research and consulting activities (Mark, “U.S. Macro Outlook: Beneath the Surface, a Recovery”, Moody’s Analytics: The Dismal Scientist, <http://www.economy.com/dismal/article_free.asp?cid=230711&tid=5FCB4BBF-D759-422D-BD25-BFF7D505D457>) EL

Discounting weather and other temporary factors, U.S. GDP is growing at almost a 2.5% annual pace. The unemployment rate is on track to fall below 8% by year's end and near 7% by the end of 2013. The foreclosure wave at home and the debt crisis in Europe still threaten to disrupt the recovery. The pace of employment growth needed to lower the jobless rate has declined. Baby-boomer retirements and a drop in immigration are holding back U.S. labor force growth. The U.S. economy continues to grow at a solid if less than exciting pace. Looking past temporary and technical factors such as the record warm winter, real GDP growth remains near 2.5% annualized. With productivity growth slow, this will be enough to expand employment by more than 2 million jobs this year and next. And with slow growth in the labor force, this will be sufficient to push the unemployment rate below 8% by the end of 2012, and closer to 7% by the end of 2013. Threats domestic and foreign Much could derail this sanguine outlook, however, and given the slowdowns that occurred at this time of year in 2011 and 2010, concern about the economy’s recent performance and potential threats is reasonable. At home, the foreclosure crisis continues, and the so-called fiscal cliff draws ever closer. Policymakers must also deal more credibly with the nation’s long-term fiscal problems. From abroad, threats include the never-ending European debt crisis, a possible hard landing in the emerging world, and the chance of a slipup in negotiations with Iran that could produce a new oil shock. But while things can certainly go wrong, most likely the economy will muddle through, slowly but steadily repairing itself while laying the foundation for stronger growth. Weather effects The extraordinarily warm winter played havoc with the economic data, including the recent jobs numbers. After increasing by an average 250,000 per month between December and February, payroll employment grew an average of only 135,000 in March and April. The government’s household survey shows employment swinging even more sharply from big gains to huge losses. Because of the weather, industries such as construction, temporary help, trucking and distribution, and leisure and hospitality kept workers on or brought them back more quickly than they would have in a normal winter. That threw off the Bureau of Labor Statistics’ seasonal-adjustment process; without the usual reductions in jobs, the winter months registered big job gains. And since those workers were already on the job as spring arrived, the BLS didn’t count as many job gains as it expected; thus after seasonal adjustment these industries appear to have only weak job growth or even losses. The weather effect probably inflated monthly job gains by about 50,000 jobs on average during the winter months, and subtracted as much from the employment data this spring. Factoring in the weather and other temporary effects, actual monthly job growth is probably running between 175,000 and 200,000. This isn’t a boom, but it is fast enough growth to lower the unemployment rate, which has fallen by almost a percentage point over the past year. Lower unemployment The speed of the drop in unemployment is still surprising, given only middling growth in real U.S. GDP. Using Okun’s Law—a tried-and-true rule of thumb that relates changes in unemployment to the difference between actual and potential GDP growth—the joblessness rate should have barely budged. Indeed, prior to the Great Recession, such a sharp drop in unemployment would have required real GDP growth of more than 4%. It is plausible that GDP will ultimately be revised by the Bureau of Economic Analysis to show stronger growth than is currently measured. Gross domestic income, an alternative measure of economic output based on incomes and profits, is growing much more quickly than the more closely followed GDP. Based on expenditures, GDP is often revised to be more consistent with gross domestic income. Another likely explanation is that the economy’s potential growth has slowed, at least temporarily. Potential is determined by productivity and labor force growth, and both have slowed sharply. Productivity surged coming out of the Great Recession, as panicked businesses slashed payrolls and other costs. In early 2010, productivity was expanding at nearly record annual rates above 6%. As firms have found it more difficult to generate productivity gains more recently, the rate has fallen to a paltry 0.5% over the past year. Firms appear to have aggressively cut labor costs during the downturn but have largely run out of ways to do that. With current workers already putting in as many hours as possible, even modest gains in GDP will therefore be translated into healthy job gains. The labor force has also not grown since the recession hit. It expanded a bit over the past year, but only back to where it was four years ago. Behind that phenomenon is a slowdown in the growth of the working-age population, largely resulting from weaker foreign immigration. More people are also choosing to stay out of the labor force; the participation rate has fallen by almost 2½ percentage points since the recession. Foreign immigration will turn around as the economy improves, but it won’t happen quickly given stiffer immigration laws in a number of states and tougher enforcement. Labor force participation also has a cyclical component, but it only represents about a percentage point of the decline in participation, and will not turn up quickly. Many young people who chose to stay in school rather than look for jobs won’t return to the labor market until they complete their degrees. Others who left the workforce after losing jobs won’t return until they can find a good paying position close enough to home to make commuting affordable. This may take a while. Exit the baby boomers Most of the decline in labor force participation is being driven by demographics, including the retirement of the baby boom generation. This is fast becoming the biggest drag on the labor force, and will remain so for the next couple of decades. Given expected future population growth by age and gender, simply holding participation rates for these groups unchanged at their current values will result in an additional 2-percentage point decline in the overall participation rate by 2020. With the labor force expanding so slowly, it won’t take much job growth to significantly reduce the unemployment rate. An old rule of thumb held that the U.S. needed to add more than 150,000 jobs per month to bring down the unemployment rate. Now it requires closer to 100,000 jobs per month. Also pushing unemployment lower over the next year will be the expiring emergency unemployment insurance program. This program added an estimated a half percentage point to the unemployment rate, encouraging some older workers to delay formal retirement and some younger workers to hold off taking new jobs, in order to collect benefits as long as they last. Such workers are counted as unemployed, but when the benefits run out they will either leave the workforce or take whatever jobs are available. The emergency UI program has already expired in some states, and unless policymakers extend the program again, which seems unlikely, it will wind down nationwide by early next year. Steady as she goes The contours of the outlook have not changed appreciably in recent months. The U.S. economy is expected to grow at a middling rate around 2.5% through mid-2013, before accelerating to 4% by mid-2014. At this pace, full employment, defined as an unemployment rate just under 6%, should be achieved by late 2015. Much could still go wrong, however. The most immediate domestic threat is the continuing home foreclosure crisis, and the possibility that house prices will sink further rather than rise as forecast. Much depends on how many of the 3.6 million loans in or near foreclosure will result in distress sales during the coming year. While investor demand for distressed property appears strong and house prices are not expected to fall much if at all, it is not hard to envisage darker scenarios. Until house prices are consistently rising, the economic recovery won’t fully engage. Europe on a tightrope The most immediate international threat is further turmoil in Europe. The euro zone’s drive for fiscal sustainability through draconian austerity is fracturing as voters react at the polls, electing new leaders in France and elsewhere. While austerity policies likely went too far in some countries, aggravating recessions, leaders face a delicate balancing act. They must not hit the fiscal brakes so hard that economies stall, but must do it enough to keep investors willing to buy billions of euros in sovereign debt. It is unclear how successfully the new European leadership will be able to strike this balance. Without more clarity, Europe will remain unsettled and so too will global financial markets. While these or other threats could easily derail the U.S. recovery, they all seem less threatening than they did even a few weeks ago. U.S. policymakers are taking incremental but valuable steps to address the foreclosure crisis, and the ECB appears dedicated to keeping the euro zone together. Policymakers in the emerging world are aggressively easing monetary policy to cushion any slowdowns in their economies, and Iran and the West are at least talking. Although not all will go smoothly, the U.S. economy’s fundamentals are firming, putting it in better position to handle whatever comes.

**Growth will be below average but positive over the long term**

**Silver 7/17/12**—American statistician, writes the FiveThirtyEight blog, which was was licensed for publication by The New York Times (“July 17: Obama’s Re-election Chances Fall on Gloomy G.D.P. Forecast”, <http://fivethirtyeight.blogs.nytimes.com/2012/07/17/july-17-obama-odds-fall-on-gloomy-g-d-p-forecast/>, Nate, The New York Times, EL)

Tuesday was a bit of an eclectic day for economic and polling news, but there was one data point that had the largest influence on our presidential forecast. That was the latest edition of The Wall Street Journal’s economic forecasting survey, which showed more bearish projections for gross domestic product and other economic indicators. Economists now expect the below-average growth that the economy has been experiencing to continue for quite a while, with G.D.P. growing at a rate of about 2 percent into early 2013. The panel’s previous projections had not been especially bullish, but had been closer to 2.5 percent. The G.D.P. projections are one of seven economic variables that our model uses in its forecast; a couple of the others were also updated on Tuesday. Inflation remains low: in fact, there was no inflation at all in June, as the decline in gas prices offset a modest increase in other goods. This is welcome news for consumers, but it did not immediately help Mr. Obama in our forecast because the model was already giving him the maximum amount of credit for the low inflation rate. (The model does not give “extra” credit to the incumbent candidate when the inflation rate is below 2 percent, since a 2 percent inflation rate is considered optimal by economists.) There was also data out on industrial production on Tuesday, which showed a rebound in June after a decline in May. Industrial production has generally been fairly robust over the past year, and is one of the more emphatic signs that our economy — however tepid the recovery might be — is at least not in recession right now. However, since the trend in the industrial production numbers had already been favorable (excluding the poor May data point), the new numbers did not shift our model’s economic index much.

**US economy is growing but slowly—long term recovery is inevitable**

**Zandi 7/16**-- Chief Economist of Moody's Analytics, where he directs the company's research and consulting activities (Mark, “U.S. Macro Outlook: Policymakers Must Get It Right”, Moody’s Analytics: The Dismal Scientist, http://www.economy.com/dismal/article\_free.asp?cid=232471&tid=F0851CC1-F571-48DE-A136-B2F622EF6FA4&src=economy\_homepage) EL

The U.S. economy is growing but uncomfortably slowly. Europe's leaders know they must keep the euro zone together, and they are making progress toward a fiscal union. The U.S. outlook depends critically on what governments do in the U.S. and elsewhere in coming months. Europe’s problems are causing U.S. employers to hold back from investment and hiring. Washington must deal with short- and long-term fiscal issues soon after the November election. The U.S. economy is growing but uncomfortably slowly. Real GDP is expanding no faster than 2% at an annual rate, and recent payroll job gains have averaged 75,000 per month. At this pace, unemployment will remain stuck above 8% for some time. Businesses are reticent to hire because of the threats posed by a potential crack-up of the euro zone, a hard-landing in the emerging world, and the approaching fiscal cliff in Washington. The U.S. economy will continue to muddle along until these threats abate. Even this will require some reasonably good policy choices here and abroad in coming months. Assuming policymakers get it roughly right, the U.S. economy is expected to gain traction going into 2014 and to return to full employment–a sub-6% jobless rate–by late 2015.

**Economy will recover now—positive news outweighs**

**Woods 7/8/12-**- contributing writer for NewsMax.com (Amy, “Zandi: Jobs Report Is ‘Disappointing’”, Newsmax, <http://www.newsmax.com/Newsfront/Zandi-jobs-report-economy/2012/07/08/id/444691>) EL

Mark Zandi, chief economist for Moody’s Analytics, called the latest jobs report — 8.2 percent unemployment and 80,000 new jobs — “disappointing,” but predicted the economy will see robust growth in the future. “Eighty thousand jobs — that’s pretty disappointing,” Zandi said Sunday on CNN’s “State of the Union.” “If that’s the reality of what’s going on, then unemployment’s going to rise.” While the figures are negative, they are outweighed by positive news, he said. “The stock market is only 10 percent away from its previous all-time high, house prices are starting to rise again, and we’re creating jobs,” Zandi said. “We’re not creating them fast enough, but we are creating them.” He said economic crises historically take a decade or more to heal, but the crash of 2008 will heal much faster. “We’re only three years, four years after the nadir of all of this,” Zandi said. “I think our economy is on the precipice of very strong economic growth. It’s a matter of confidence. It’s not a matter of ability to go out and expand, and I think they will.”

**Even if growth is slowing trends are still positive**

**Reuters 7/18/12**—“U.S. Economy Expanding Modestly, Fed Says”, Fox Business, <http://www.foxbusiness.com/economy/2012/07/18/us-economy-expanding-modestly-fed-says/>) EL

Economic growth in the United States cooled in June and early July and hiring grew at a tepid pace in much of the country, the Federal Reserve said on Wednesday. "Reports from most of the twelve Federal Reserve districts indicated that overall economic activity continued to expand at a modest to moderate pace in June and early July," the central bank said in its latest "Beige Book" summary of national activity. The Fed's previous Beige Book assessment of the economy, released on June 6, had painted growth in slightly more upbeat light, describing it as "moderate." The Beige Book, prepared this time by the Atlanta Fed based on information collected through July 9, has market interest because it is based on anecdotal reports from business people from coast to coast and will be used by Fed policymakers at their next meeting on July 31-Aug. 1. "Employment levels improved at a tepid pace for most districts," the Fed said. In its previous assessment, the Fed said hiring was steady or increasing moderately. Many economists now think economic growth slowed in the second quarter, perhaps sharply. The pace of hiring in the United States slowed sharply during the period, as did growth in factory output. Retail sales have also flagged in recent months. The Fed found businesses were still optimistic about the economy, but some companies were holding back on hiring because they were unsure about the future of government policies on taxes and spending. "Overall, districts reported that their contacts remained cautiously optimistic," the Fed said. The central bank said inflation pressures appeared to be modest, in part because of modest wage pressures.

**Even if the aff is right – overall trends are still positive. Slow growth will only last for a year**

**Lowery 7/12/12**-- reports on economic policy for The New York Times (Annie, “In Latest Data on Economy, Experts See Signs of Pickup”, The New York Times, <http://www.nytimes.com/2012/07/13/business/economy/in-latest-data-economists-see-signs-of-pickup.html>) EL

WASHINGTON — Despite the recent run of disappointing economic data, a broad range of experts and forecasters expect the economy to improve slightly in coming months, thanks to lower oil prices and new signs of life from sectors like automobiles and housing. Call it a firming up, if not quite a comeback. Economists at many of the most-watched forecasting organizations, both public and private, expect growth to pick up through the summer and into the fall, although only to a pace broadly considered sluggish, if not dismal. This week, Macroeconomic Advisers, an economic consultancy often cited by policy makers, estimated the annual rate of growth in the second quarter at just 1.2 percent — well below the pace needed to reduce the unemployment rate. But the firm also projected growth to accelerate to around 2.4 percent in the third quarter. “The pace of economic growth is picking up, but not to a rate that is very robust,” said Joel Prakken, the chairman of Macroeconomic Advisers. “It certainly is no great shakes.” Forecasters, including those at the Federal Reserve, have been overly optimistic at several points during the slump of the last few years, of course. But the recent fall in oil prices and the stabilization of the housing market do give some gravitas to the current predictions. On Thursday, the Labor Department reported that new claims for jobless benefits dropped to their lowest level in four years, at 350,000 a week. Analysts said they were unsure how much of the decline stemmed from an actual improvement, as opposed to temporary factors in the auto industry. The pace of economic growth will have huge implications for a country still trying to emerge from the worst downturn in 70 years amid a presidential campaign that will most likely turn on the economy. United States growth began to surge in late 2011 and early 2012, before slowing significantly in the spring. Some of the recent headwinds — like a re-escalation of the euro zone crisis, households that are paying down their debt, and a falloff in growth in big emerging markets, like China and Brazil — remain. With tax increases and across-the-board government budget cuts looming at the end of the year — unless Congress acts to change the law — some economic experts are wary. “The soft patch could easily extend through year-end or almost a full year,” Steven Ricchiuto, the chief economist at Mizuho Securities USA, wrote in a note to clients on Thursday. “Companies are unlikely to hire, invest in new plants and equipment or build inventory. This pullback could very well last through year-end as the chances of any movement on the fiscal front are unlikely until after the election.” The weaker-than-expected spring data has raised speculation that the Federal Reserve might announce a new round of bond buying this summer to spur growth. Some Fed officials want further action because they are not confident the economy will pick up soon.

**Economy will grow now—gas prices and housing**

**Lowery 7/12/12**-- reports on economic policy for The New York Times (Annie, “In Latest Data on Economy, Experts See Signs of Pickup”, The New York Times, <http://www.nytimes.com/2012/07/13/business/economy/in-latest-data-economists-see-signs-of-pickup.html>) EL

But other headwinds have started to slack, leading some economists to believe that jobs and growth numbers will track up modestly. Perhaps most significant is the falling price of oil. Gas prices rose steadily from January through March on concerns over a confrontation with Iran as the United States and its allies cut the producer out of the petroleum market. But tensions have faded and gas prices have fallen to $3.38 a gallon today from above $3.90 a gallon in April, which has left more money in American consumers’ wallets and businesses’ ledgers. Every penny that the price of gas falls leaves about a billion dollars in American pockets over the course of a year, economists estimate. The lower gas prices “will take a few months to show up” in consumer spending and confidence numbers, said Mr. Prakken of Macroeconomic Advisers. But it should lead to higher sales for businesses and greater optimism among households. James Bullard, the president of the Federal Reserve Bank of St. Louis, said that he saw “modestly improving economic growth during the second half of 2012, along with a slow and intermittent decline in unemployment,” when he spoke in London this week. Economists pointed to surging new car sales as a good economic indicator: a sign that households are confident enough to make a major purchase and that they are accessing the credit markets. It is also a boon for auto businesses — the auto industry reported a 22 percent jump in sales in June, with some carmakers reporting that revenue increased as much as 60 percent year-on-year. “The surge in car sales is disproportionately important,” said Ian Shepherdson, an economist and forecaster at High Frequency Economics. “It means that you’re willing and able to take out a loan — and that’s quite a good sign.” Moreover, there are accumulating signs that housing has turned around, perhaps auguring a rise in residential investment, an upturn in construction jobs and growing sales. “I do think that the economy is stronger than the recent data would suggest,” said Mark M. Zandi, the chief economist of Moody’s Analytics. “We’ve had the numbers say underlying job growth is at 80,000 jobs a month, where we could see 150,000 jobs a month. Or G.D.P. at 2 percent, where it’s really at 2.5 percent. That will become evident later in the year.” Some economists pointed to private forecasts showing a stronger June than the one depicted in government reports. A Bureau of Labor Statistics survey showed that employers added just 80,000 new positions that month — not enough to bring the unemployment rate down from its elevated rate of 8.2 percent. But a closely watched monthly survey showed that private sector employers added a strong 176,000 jobs in June. “Everybody has argued that A.D.P. got it wrong,” said Mr. Shepherdson, of the survey. “But it’s a big survey, and a good survey. Maybe the Bureau of Labor Statistics got it wrong.” Mr. Prakken said the initial unemployment claims “suggest that the labor market has not fallen out of bed.” He added, “There’s been a pause in hiring, a momentary pause in hiring.”

### Job growth increasing

**Jobs growth now**

**MSNBC 7/5/12**—“Layoffs appear to ease in good sign for job market”, Economy Watch on MSNBC, <http://economywatch.msnbc.msn.com/_news/2012/07/05/12577589-layoffs-appear-to-ease-in-good-sign-for-job-market?lite>) EL

The U.S. labor market got some upbeat news Thursday, a day ahead of a crucial monthly jobs report from the government that is likely to be one of the last chances President Barack Obama has to prove the economy is improving before the November election. New claims for unemployment benefits dropped to the lowest level in six weeks, a Labor Department report showed, in a sign that layoffs may be easing. The report said that initial claims for unemployment insurance tumbled by 14,000 to a seasonally adjusted 374,000. The four-week moving average, considered a more accurate gauge of job market trends, shed 1,500 to 385,750. The initial claims number was the biggest drop since April. Economists polled by Reuters had forecast claims falling to 385,000 last week Meanwhile, U.S. private employers added 176,000 jobs in June, topping economists' expectations, a report by a payrolls processor showed. Economists surveyed by Reuters had forecast the ADP National Employment Report would show a gain of 105,000 jobs. May's figures were revised up slightly to an increase of 136,000 jobs from the previously reported 133,000. The report is jointly developed with Macroeconomic Advisers LLC. It only covers hiring in the private sector and excludes government job growth. The Labor Department will offer a more complete picture of June hiring on Friday. The ADP survey offered some hope that hiring is picking up. But it has often deviated sharply from the government report. In May, the Labor Department said employers added just 69,000 jobs, the fewest in a year and nearly half ADP's estimate. "Jobless claims are a move in the right direction. The drop, combined with the ADP report earlier, suggests the jobs market is not as weak as recent data has suggested. The ADP does suggest there is a risk for a upside surprise in tomorrow's payrolls report, which is good for the dollar," said Omer Esiner, chief market analyst at Commonwealth Foreign Exchange. The initial claims data has no bearing on Friday's jobs data, but it does offer a bright spot in what has been a slew of gloomy economic data recently, including signs that the manufacturing sector, which has been a growth engine for the recovery, has slowed. The Labor Department's monthly report on the nation's employment situation in June is expected to show a slight improvement from May's dismal report. Economists are expecting jobs growth of around 125,000 and an unchanged 8.2 percent unemployment rate, after rising in May for the first time since August. Job growth has weakened in recent months amid a cloud of uncertainty, spawned by the European debt crisis and fears of tax increases at home next year. The struggling labor market prompted the Federal Reserve last month to ease monetary policy further by extending a program to re-weight bonds it already holds toward longer maturities to hold down borrowing costs. New applications for unemployment benefits remain in a tight range, and the four-week average is still elevated, suggesting any improvement in the jobs market will only be gradual. The economy likely will be the top focus for voters in November who will have to choose between Obama, who has argued the economy is improving although it still has a long way to go, and his Republican challenger Mitt Romney. Romney has argued that Obama's policies have failed to create jobs and that he, as a former businessman, is a better choice to lead the economy to faster growth. Opinions about the state of the economy often get formed long before people take to the polls, so time is running short for Obama to make his case.

### Inflation low

**Inflation is close to zero now**

**Mullaney 7/19**-- Economics reporter for USA Today (Tim, “Inflation index is flat in June as energy prices drop” ,USA Today, <http://www.usatoday.com/money/economy/story/2012-07-16/inflation-cpi-june/56266030/1>) EL

Inflation stayed cool in June, as the falling price of gasoline outweighed the a slight pickup in the cost of food. The consumer price index was unchanged for the month, the Labor Department reported this morning. That includes a 1.4% drop in the cost of energy and a 0.2% rise in food prices. The rest of the index, known as the core inflation rate, rose 0.2%. Core inflation for the last 12 months was 2.2%, the department said. The inflation data has been one of the few bright spots in recent economic news. Retail sales dropped for a third month in June, while data from the Institute of Supply Management suggest the manufacturing sector is shrinking for the first time since 2009. STORY: After drop, gas prices rising again Tuesday the Federal Reserve said factory output rose 0.7% last month, after falling by the same amount in May. Factories produced more machines and vehicles used by businesses. Auto production rebounded after its first decline of the year. But the strong results in June follow a period of shaky growth. Factory output fell in two of the past four months. The Fed says factory growth in the second quarter slowed to an annual rate of 1.4%, after leaping 9.8% in the first quarter. Hiring by manufacturers also slowed in recent months. With such weakness, many economists expected inflation to be virtually nil for the month, according to a Bloomberg survey of 81 forecasts. Their core rate estimate was right on at 0.2% and 2.2% for the last 12 months. Consumer price index But that isn't low enough for everyone. "Stubborn is the exact right word,'' said Drew Matus, an economist at investment bank UBS in New York. "The core inflation rate doesn't seem to want to go down. Considering the weak economy you would expect core to go below 2%.'' Core inflation is being propped up by increases in health care costs, which rose 0.7% last month, and apparel, which saw 0.5% inflation in June, Matus said. No other category saw gains of more than 0.2%, the government said.

### AT: Transportation bill

**MAP-21 left transportation spending flat – wasn’t an increase**

**Cooper, 7/2/**12 – Senior Fellow at the Center for American Progress (Dana, “New Highway Bill Leaves Bumps in the Road,”

<http://www.americanprogress.org/issues/2012/07/highway_bill.html)//DH>

Congress finally reached a bipartisan agreement on Friday to continue highway and transit funding, and passed the [Moving Ahead for Progress in the 21st Century Act](http://www.rules.house.gov/Media/file/PDF_112_2/LegislativeText/CRPT-112hrpt-HR4348.pdf), or MAP 21.

The bill faced a rough road to passage. Some Republicans in the House and Senate pulled out all the stops to derail an agreement. They [proposed to link passage of the bill to forced approval of the Keystone tar sands pipeline from Canada without determining the pipeline's impact on air or water pollution and overturning the Environmental Protection Agency’s ruling on coal ash](http://www.bloomberg.com/news/2012-06-27/keystone-coal-ash-dropped-from-highway-bill-inhofe-says-1-.html). But [Senate leadership](http://thehill.com/blogs/transportation-report/highways-bridges-and-roads/217081-reid-does-not-plan-senate-vote-on-house-short-term-highway-bill-extension) stood firm, demanding a two-year bill without the highly charged and environmentally damaging provisions.

The bill is a political victory for Democrats. It also means America’s construction sector will enjoy a year and a half of predictable work, nearly [2 million jobs](http://thinkprogress.org/economy/2012/06/18/501154/house-gop-transportation-deadline/) will be sustained, and some of the urgently needed road, bridge, transit, and rail improvements will get underway. But let’s not kid ourselves. The bill falls far short of what’s needed to build a 21st century transportation system capable of improving [U.S. competitiveness](http://www.americanprogress.org/issues/2012/02/pdf/infrastructure.pdf).

The far right plays politics with our rails and roadways

The current highway bill—the [Safe, Accountable, Efficient Transportation Equity Act](http://www.fhwa.dot.gov/safetealu/legis.htm)—was on its ninth temporary extension and set to expire on June 30. Without an agreement on a new bill or another extension, tens of thousands of construction and related jobs would have vanished within weeks. The ripple effect on the economy could have set the markets tumbling, with grave consequences for the fragile recovery.

Nevertheless, the [Heritage Foundation and Tea Party Republicans](http://thehill.com/blogs/transportation-report/highways-bridges-and-roads/235533-conservative-groups-rev-up-opposition-to-highway-bill) called for a “no” vote on the bill. Blind to the devastating economic impact of failing to pass a bill, the Grover Norquist-driven misinformation campaign prompted the far right to label this status quo-funding bill as a “[massive increase in federal gluttony](http://thehill.com/blogs/transportation-report/highways-bridges-and-roads/235533-conservative-groups-rev-up-opposition-to-highway-bill).”

Of course, this Tea Party talking point is flat-out wrong. Annual federal highway appropriations have not been increased above the rate of inflation since 2009 and the bill maintains current levels of funding through September 31, 2014.

But that flat funding is bad news for the U.S. economy. Nearly [150,000 bridges need repair](http://www.fhwa.dot.gov/bridge/deficient.cfm)and [half of all the nation’s road miles](http://roughroads.transportation.org/RoughRoads_FullReport.pdf) need to be resurfaced or significantly repaired. The poor condition of both roads and bridges leads to more frequent vehicle repairs, contributes to higher costs for goods, and [requires](http://roughroads.transportation.org/RoughRoads_FullReport.pdf) detours and slow travel.

Moreover, the construction sector's unemployment rate is still more than 14 percent. Yet for every $1 billion in new highway or transit investment, [approximately 20,000 new jobs are likely to be created.](http://www.peri.umass.edu/236/hash/efc9f7456a/publication/333/) The Center for American Progress’s [in-depth review](http://www.americanprogress.org/issues/2012/02/pdf/infrastructure.pdf) of U.S. infrastructure needs found that federal appropriations need to double from their current level to bring our infrastructure up to par.

Although the bill’s flat funding undermines progress on transit and rail, the full House roundly rejected the [Tea Party ploy to cut transit funding and decouple it from the Highway Trust Fund](http://www.americanprogress.org/issues/2012/02/highway_bill.html). Had the decoupling succeeded, the Reagan legacy of funding transit improvements from a small portion of the gas tax would have ended, forcing transit improvements to rely on annual appropriations from Congress.

**Transportation bill is a reauthorization of current spending – and it wasn’t funded with deficit spending**

**Plumer, 6/29**/12 (Brad, “Highway bill showdown: Five things to know,” Washington Post,

<http://www.washingtonpost.com/blogs/ezra-klein/wp/2012/06/29/highway-bill-showdown-five-things-to-know/)//DH>

In theory, there’s a deal at hand to avert chaos. Key members of the House and Senate just tentatively agreed on a new $120 billion transportation [bill](http://www.rules.house.gov/Media/file/PDF_112_2/LegislativeText/CRPT-112hrpt-HR4348.pdf) (pdf) that will fund the nation’s roads, bridges and mass transit for the next 27 months. Both chambers are expected to take a final vote on the measure Friday. But, as always, there might be a few last hiccups. Here are five key things to know about the bill:

1) Transportation spending stays at current levels — but one-time gimmicks are making up for an ongoing shortfall in gas taxes. Most members of Congress would prefer not to cut spending on highways. That’s rarely popular. Trouble is, the highway bill has typically been paid for by the 18.4-cents-per-gallon federal gas tax. And with fewer people driving these days, [there’s not enough gas tax money](http://www.washingtonpost.com/blogs/ezra-klein/post/gas-tax-aversion-is-tying-congress-in-knots/2011/11/08/gIQA5qrt1M_blog.html?wprss=ezra-klein) to pay for everything. So, instead of raising the gas tax, Congress scrounged up [an extra $18.8 billion](http://www.finance.senate.gov/newsroom/chairman/release/?id=fb956656-28d3-4fee-9eb8-3d181967cc14) for the Highway Trust Fund.

This money mostly came from changes to pension rules (see [here](http://www.washingtonpost.com/blogs/ezra-klein/post/is-congress-setting-itself-up-for-a-pension-crisis/2012/03/16/gIQANGTqGS_blog.html?wprss=rss_ezra-klein) for a rundown) and from a fund meant to clean up leaking underground storage tanks. It’s not a permanent solution. And, yes, 27 months from now, Congress will face this exact same gas-tax crisis.

**It didn’t fund new infrastructure**

**Transport Topics, 7/16/12** (“Obama Signs Highway Bill,” <http://www.ttnews.com/articles/lmtbase.aspx?storyid=1949&t=Obama-Signs-Highway-Bill-)//DH>

President Obama signed a new transportation reauthorization law on July 6 that authorizes $105 billion in spending for highways and public transit over two years.

The measure provides $52.2 billion in funding for fiscal 2013 and $52.95 billion in fiscal 2014, and is the first long-term transportation bill to make its way through Congress since a four-year bill was passed in 2005. Since that bill’s expiration in 2009, Congress has approved nine temporary funding extensions bill while wrangling over a new multi-year bill.

Sen. Barbara Boxer (D-Calif.), chairwoman of the Environment and Public Works Committee, which drafted the highway funding section of the bill, said that, “with a stroke of the president’s pen, nearly . . . 3 million American jobs will be saved and created nationwide.”

American Trucking Associations President Bill Graves said that while the bill contains many positives, the measure does not provide “adequate” funding to improve the nation’s infrastructure network.

### AT: Deficit spending now

**Renewed growth will move the US back from a deficit crisis – but this will only happen if Congress refrains from new spending**

**DeLong, 11** – professor of economics at U.C. Berkeley (Brad, “There is no fundamental deficit crisis”, The Economist, 2/16, <http://www.economist.com/economics/by-invitation/guest-contributions/there_no_fundamental_deficit_crisis)//DH>

This tells us that America has a large short-term deficit now: we are still in a deep downturn, and as a result revenues are temporarily below trend and spending is temporarily above trend. But, the CBO projects in its current-law extended baseline, as the economy recovers revenues will rise and spending will decline, and from 2015 on the dotted revenue line matches the top of the primary spending line.

Our current deficit is not a problem: running a deficit during an economic downturn is healthy and appropriate. Our short-term deficit problem is that our deficit is not large enough given that if Congress simply goes on autopilot the revenue and primary spending lines are likely to cross by themselves in four years.

And our long term projected spending and revenue balance is not a problem \*if\*. If the economy and if programmes perform as expected, if the US government continues to be able to finance its debt at a real interest rate less than the growth of labour productivity plus the labour force, and if Congress and the president do not do anything further to raise spending above or decrease taxes below current law, the United States simply does not have a fundamental fiscal crisis.

The problems are all in the \*ifs\*. If people fear that there will be a fiscal crisis they could demand an interest rate premium for rolling over US government debt, and then we would we have a non-fundamental fiscal crisis. Could we have one? Yes: the East Asian economies had one in 1997-1998. Had foreign investors not panicked and fled, there would have been no problem. Those foreign investors who did not panic did well. Those who bailed themselves in at the bottom of the crisis did extremely well. But that was no consolation to the East Asian governments that faced the crisis, or to the East Asian workers rendered unemployed by the consequences of the crisis.

However, today there are no signs of any possibility of a collapse of foreign investor confidence in their US Treasury holdings. A non-fundamental crisis is not even a cloud on the horizon.

But there are the other \*ifs\*.

The big \*if\* is, to put it simply, this: Congress will pass something stupid and the president will sign. Congress might never come up with pay-fors for its recurrent AMT patches. Congress might remove the revenue raising parts of the Affordable Care Act. Congress might remove the cost saving parts of the Affordable Care Act. The Supreme Court might decide, just for the hell of it, to rule that the cost saving parts of the Affordable Care Act are unconstitutional. Congress might pass a big unfunded tax cut just for the hell of it. Congress might pass a big unfunded spending increase just for the hell of it.

**The deficit will fix itself**

**Klein 12**- Columnist at at The Washington Post and a policy analyst for MSNBC (Ezra, “Don’t Worry About Deficit That Will Heal Itself”, Bloomberg, April 4, <http://www.bloomberg.com/news/2012-04-04/don-t-worry-about-deficit-that-will-heal-itself.html>)//EL

I’m not particularly worried about the budget deficit. In fact, of all the major problems the U.S. faces, I’m least worried about the deficit.

That’s not because we don’t have to get the problem under control; it’s because I’m pretty sure we will. Why? The budget deficit is unique: If Congress is unable to agree on a remedy, the problem goes away on its own. Would that all of our challenges were so cooperative.

Federal Reserve Chairman Ben S. Bernanke calls the end of 2012 “a fiscal cliff.” The Bush tax cuts are set to expire. The $1.2 trillion spending sequester, enforcing cuts in the defense and domestic budgets, is set to go off. Various stimulus measures -- including the payroll tax cut -- are scheduled to end. “Taken together,” writes the Committee for a Responsible Federal Budget, “these policies would reduce ten-year deficits by over $6.8 trillion relative to realistic current policy projections -- enough to put the debt on a sharp downward path.”

In fact, if Congress gridlocks -- and what does Congress do these days but gridlock? -- we face the prospect of too much deficit reduction too fast. The Congressional Budget Office estimates that barreling over the fiscal cliff would increase unemployment by 1.1 percent in 2013.

Common Goal

Inaction isn’t inevitable: Deficit reduction is an unusual issue in that both parties fundamentally agree on the goal, even if they don’t agree on how to achieve it. This past week, for instance, President Barack Obama and Representative Paul Ryan traded barbs on how best to go about it. The same can’t be said for issues such as catastrophic climate change or access to health insurance, in which the two parties disagree on whether there’s even a problem that needs federal action.

Finally, Washington is thick with potential crises -- real and invented -- that will be used to increase the urgency of deficit reduction. There are appropriations bills to pass in order to keep the federal government functioning. There’s raising the debt ceiling, which we’re expected to breach at the end of 2012. There’s the expiration of the various tax cuts and stimulus measures. And, if all this is somehow surmounted without further deficit reduction, there’s the eventual pressure the bond market will exert on the economy and policy makers. No other issue is subject to such a varied and continuous array of forcing mechanisms.

Some of those mechanisms have already proved their effectiveness. The 2010 debt-ceiling debate led to the Simpson- Bowles commission. The 2011 government-shutdown debate led to a small deficit-reduction package -- the participants estimated it at $37 billion over 10 years. The 2011 debt-ceiling debate, though a disaster for the economy, led to a deficit-reduction plan of $2.1 trillion -- about half the size of the Simpson- Bowles plan. These outcomes point the way to deficit deals that might be struck in the next year or two, with the potential to stabilize our finances for the next decade or more.

That won’t comfort some of the most ardent deficit hawks. They are, for better or worse, considerably more farsighted. They brandish charts showing scary red lines reaching out to 2080. Those charts show a huge problem that requires radical solutions. I know those charts well. I’ve used them myself. But those charts are really about health-care spending, as you can see here. What they’re really telling us is this: If you look at how medical costs have risen in recent decades and you draw that line out for 70 more years, we’re really in trouble. And that’s true: We are.

But there’s something ridiculous about extrapolating current trends all the way out to 2080. By that point, we’ll probably either be robots, the servants of robots or a bit of both. Either way, the health-care system will probably undergo dramatic change.

No Pacemakers

Look what happens when you turn back the clock 70 years from today. That puts you in 1942, the year John Bumstead and Orvan Hess first saved a patient’s life using penicillin. There were no pacemakers, oral contraceptives or chemotherapy. Water wasn’t fluoridated, and health insurance was a niche product. Imagine trying to predict the trajectory of today’s health-care system from that vantage point. How incredibly, hilariously wrong would we have been?

In part for that reason, we don’t balance the budget for 70 years at a time. Indeed, we usually don’t even balance it for 10 years at a time. Instead, we muddle through, striking deals that are smaller than wonks like, but sufficient to keep us out of the woods. That’s what we did in the 1990s, which featured deficit-reduction bills in 1991, 1993, 1995 and 1997. We’ll probably follow a similar path in the decade to come.

Of course, you can muddle wisely or muddle stupidly. I worry we’ll choose the latter. Evidence is already mounting: The sequester is a stupid way to cut spending. Letting the Bush tax cuts expire all at once is a stupid way to raise taxes. And repeatedly forcing the country to the brink of default is a stupid way to manage our budget.

Worse, too much deficit reduction too fast will hurt economic growth. You can see that happening in Europe, where an excess of austerity has tipped a number of nations into fiscal holes they can’t seem to climb out of. In a city as obsessed with deficits as Washington, yet unwilling to strike smart deals that pair long-term deficit reduction with short-term support for the economy, a bad turn in the economy or a set of policy misjudgments remain a real threat.

Nevertheless, I’m confident that we will, one way or another, muddle through. Because when it comes to the deficit, Congress really has two choices: Do something to solve it, or do nothing and let that solve it. The same can’t be said for issues such as infrastructure and loose nukes and climate change and preparing for pandemic flu. On those questions, congressional inaction isn’t enough to make the problem disappear. So those are the issues I worry about.

**Deficits will fall below 3 percent by 2016**

**Taylor 12**-Associated Press (Andrew, “CBO: 2013 budget leaves deficit of $977 billion”, The Washington Post, March 17, Lexis)//EL

The White House seized on the figures as validation of its claims that [Obama's](http://www.lexisnexis.com.proxy.lib.umich.edu/lnacui2api/search/XMLCrossLinkSearch.do?bct=A&risb=21_T15173943314&returnToId=20_T15173943362&csi=8075&A=0.6434229146494316&sourceCSI=9369&indexTerm=%23PE000A0BO%23&searchTerm=Obama's%20&indexType=P)budget brings the deficit under control - at least when measured against the economy, the measure used by most economists in evaluating the deficit.

"CBO found that by 2016, deficits as a share of the economy would be below 3 percent - a key milestone of fiscal sustainability," said Jeffrey Zients, White House budget office acting director. "Debt held by the public will decrease and then stabilize as a share of the economy, also a key indicator of improving fiscal health."

The nonpartisan CBO said [Obama's](http://www.lexisnexis.com.proxy.lib.umich.edu/lnacui2api/search/XMLCrossLinkSearch.do?bct=A&risb=21_T15173943314&returnToId=20_T15173943362&csi=8075&A=0.6434229146494316&sourceCSI=9369&indexTerm=%23PE000A0BO%23&searchTerm=Obama's%20&indexType=P)budget office consistently overestimates tax revenue over the coming decade. The CBO predicts revenue on average that is about $120 billion less each year than predicted by the White House.

Still, the CBO said [Obama's](http://www.lexisnexis.com.proxy.lib.umich.edu/lnacui2api/search/XMLCrossLinkSearch.do?bct=A&risb=21_T15173943314&returnToId=20_T15173943362&csi=8075&A=0.6434229146494316&sourceCSI=9369&indexTerm=%23PE000A0BO%23&searchTerm=Obama's%20&indexType=P)budget would generate somewhat lower deficits over the coming decade than the White House predicts. Much of that is due to lower interest costs and less generous cost-of-living adjustments in Social Security benefits.

**Future tax and spending cuts set the stage for smaller deficits**

**Montgomery 6/6**-reporter for Washington Post (Lori, “From CBO, stark talk on taxes, spending”, Washington Post, 2012, Lexis)//EL

While the year-end burst of tax hikes and spending cuts known as Taxmageddon promises to be messy, it would set the nation on a course to smaller budget deficits and lower debt, the nonpartisan Congressional Budget Office said Tuesday.

So policymakers looking to preserve the current low tax rates should be prepared to cover the cost, the CBO said, or pay a steep price in the form of a rapidly soaring debt that could ignite a European-style crisis on this side of the Atlantic.

"The aging of the U.S. population and the rising costs for health care mean that the combination of budget policies that worked in the past cannot be maintained in the future," the CBO said with uncharacteristic bluntness in a long-term budget outlook released Tuesday.

"To keep deficits and debt from climbing to unsustainable levels . . . policymakers will need to increase revenues substantially above historical levels as a percentage of GDP, decrease spending significantly from projected levels, or adopt some combination of those two approaches," ideally maintaining deficits at least as low as those projected if Taxmageddon were to strike on schedule.

Taxmageddon is the popular nickname for a series of policies set to lapse or take effect in January, immediately slicing more than $500 billion out of next year's federal budget deficit. While spending would be cut by about $100 billion, the bulk of the changes would raise taxes, primarily through the expiration of [President Obama's](http://www.lexisnexis.com.proxy.lib.umich.edu/lnacui2api/search/XMLCrossLinkSearch.do?bct=A&risb=21_T15173943314&returnToId=20_T15173943386&csi=8075&A=0.08440852478114569&sourceCSI=9369&indexTerm=%23PE000A0BO%23&searchTerm=President%20Obama's%20&indexType=P)payroll tax holiday and of the broad tax cuts enacted under President George W. Bush in 2001 and 2003.

**The deficit will decline naturally if we win our economy uniqueness argument**

**Labonte 2/15--** Specialist in Macroeconomic Policy at the Congressional Research Office (Marc, “Reducing the Budget Deficit: Policy Issues”, Congressional Research Office, <http://www.fas.org/sgp/crs/misc/R41778.pdf>) EL

As Table 1 illustrates, much of the projected reduction in the deficit over the next 10 years is a function of the assumptions made by the current law baseline. But even the Alternative Fiscal Scenario projects that the deficit will fall from over 9% of GDP in 2009-2011 to 7% of GDP in 2012 to as low as 4.9% of GDP in 2017. The deficit declines under the Alternative Fiscal Scenario for the following reasons:

• CBO projects that revenues automatically rise and certain mandatory spending automatically falls as the economy eventually returns to full employment. Economists refer to these changes as “automatic stabilizers.” Assuming all expiring tax provisions are extended, revenues are projected to rise from about 15% of GDP in 2011 to 18% of GDP from 2017 on. 17 By 2015, unemployment compensation is projected to fall to less than half of its 2011 level in nominal dollars, although this is partly due to the expected expiration of the temporary extension of benefits.

• The temporary spike in budget authority caused by the American Reinvestment and Recovery Act (ARRA, P.L. 111-5, popularly known as the 2009 “Economic Stimulus Act”) has dissipated. ARRA was intended to be only a temporary boost to spending to stimulate the economy, and Congress has allowed budget authority to return to close to pre-ARRA levels to date. 18

• Most financial stabilization outlays in the federal budget occurred within the Troubled Asset Relief Program (TARP) 19 or on transfers to the government sponsored enterprises (GSEs). CBO projects that there will be only minimal outlays on financial stabilization programs going forward, due to improvements in financial markets and the expiration in 2010 of Treasury authority to enter into new contracts with regards to TARP and the GSEs. In 2009, outlays of $243 billion were recorded for TARP and the GSEs. In 2010 and 2011, transfers to the GSEs declined and, due to budgetary conventions, TARP recorded negative outlays that reduced the deficit. 20

• CBO assumes in the Alternative Fiscal Scenario that discretionary spending will adhere to the first round discretionary caps created by the Budget Control Act. This would reduce discretionary spending from 9% of GDP in 2011 to 6% of GDP in 2022, which would be its lowest level since data were first collected in 1962.

**Growth solves the debt problem**

**Nelson 12**-- Analyst in International Trade and Finance for the Congressional Research Office (Rebecca M., “Sovereign Debt in Advanced Economies: ¶ Overview and Issues for Congress”, Congressional Research Office, 2/29, <http://assets.opencrs.com/rpts/R41838_20120229.pdf>) EL

Growth Economic growth also allows governments to lower the size of their debt relative to the size of their economy (GDP). It can also lead to lower levels of government spending and increase tax revenues, lowering the dollar value of sovereign debt as well. In the short run, economic stabilization is a necessary condition for sustained economic growth. Growth can be stimulated by pursuing expansionary fiscal and monetary policies or by pursuing structural reforms at the microeconomic level. Expansionary fiscal policies, however, lead to more debt, and “easy” monetary policies, such as lowering interest rates, may not be effective if firms and households are unwilling to borrow to increase investment and consumption. At the microeconomic level, growth can be supported by a number of structural reforms that can increase the competitiveness of industries in the economy. Examples include removing barriers to labor mobility, privatizing state-owned companies, and liberalizing trade policy. The IMF’s program for Greece, for example, includes structural reforms aimed at encouraging growth. The benefit of growing out of debt is that it allows countries to address their debt problems without possibly painful fiscal cuts or alienating creditors. However, the results of these reforms tend to manifest themselves over the long term, and a country already in a debt crisis may have difficulty just “growing out of it” in the short term. Moreover, empirical evidence suggests that countries with high levels of debt have trouble growing. 42 The uncertainty around growth as a strategy for short-term debt reduction is one reason why Greece’s IMF program does not just include structural reforms; fiscal cuts are also a central component.

### AT: Entitlement spending

**Entitlement spending isn’t the problem – it’s past stimulus spending and lower revenues from the recession that created the current crisis**

**York 11**—chief political correspondent for the Washington Examiner (Byron, “Spending, Not Entitlements, Created Huge Deficit”, The Washington Examiner 8/23, <http://www.freerepublic.com/focus/f-news/2768090/posts>) EL

It's conventional wisdom in Washington to blame the federal government's dire financial outlook on runaway entitlement spending. Unless we rein in Social Security, Medicare and Medicaid, the conventional wisdom goes, the federal government is headed for disaster. That's true in the long run. But what is causing massive deficits now? Is it the same entitlements that threaten the future? Yes, say some conservatives who favor making entitlement reform a key issue in the 2012 campaign. "We're $1.5 trillion in debt," Weekly Standard Editor Bill Kristol said Sunday, referring to this year's projected deficit. "Where's the debt coming from? It's coming from entitlements." There's no doubt federal spending has exploded in recent years. In fiscal 2007, the last year before things went haywire, the government took in $2.568 trillion in revenues and spent $2.728 trillion, for a deficit of $160 billion. In 2011, according to Congressional Budget Office estimates, the government will take in $2.230 trillion and spend $3.629 trillion, for a deficit of $1.399 trillion. That's an increase of $901 billion in spending and a decrease of $338 billion in revenue in a very short time. Put them together, and that's how you go from a $160 billion deficit to a $1.399 trillion deficit. But how, precisely, did that happen? Was there a steep rise in entitlement spending? Did everyone suddenly turn 65 and begin collecting Social Security and using Medicare? No: The deficits are largely the result not of entitlements but of an explosion in spending related to the economic downturn and the rise of Democrats to power in Washington. While entitlements must be controlled in the long run, Washington's current spending problem lies elsewhere. A lot of the higher spending has stemmed directly from the downturn. There is, for example, spending on what is called "income security" -- that is, for unemployment compensation, food stamps and related programs. In 2007, the government spent $365 billion on income security. In 2011, it's estimated to spend $622 billion. That's an increase of $257 billion. Then there is Medicaid, the health care program for lower-income Americans. A lot of people had lower incomes due to the economic downturn, and federal expenditures on Medicaid -- its costs are shared with the states -- went from $190 billion in 2007 to an estimated $276 billion in 2011, an increase of $86 billion. Put that together with the $257 billion increase in income security spending, and you have $343 billion. Add to that the $338 billion in decreased revenues, and you get $681 billion -- which means nearly half of the current deficit can be clearly attributed to the downturn. That's a deficit increase that would have happened in an economic crisis whether Republicans or Democrats controlled Washington. But it was the specific spending excesses of President Obama and the Democrats that shot the deficit into the stratosphere. There is no line in the federal budget that says "stimulus," but Obama's massive $814 billion stimulus increased spending in virtually every part of the federal government. "It's spread all through the budget," says former Congressional Budget Office chief Douglas Holtz-Eakin. "It was essentially a down payment on the Obama domestic agenda." Green jobs, infrastructure, health information technology, aid to states -- it's all in there, billions in increased spending. As for the Troubled Assets Relief Program, or TARP -- it has no specific line in the budget, either, but that is because it was anticipated to pay nearly all of its own cost, which it has. Spending for Social Security and Medicare did go up in this period -- $162 billion and $119 billion, respectively -- but by incremental and predictable amounts that weren't big problems in previous years. "We're getting older one year at a time, and health care costs grow at 7 or 8 percent a year," says Holtz-Eakin. If Social Security and Medicare were the sole source of the current deficit, it would be a lot smaller than it is. The bottom line is that with baby boomers aging, entitlements will one day be a major budget problem. But today's deficit crisis is not one of entitlements. It was created by out-of-control spending on everything other than entitlements. The recent debt-ceiling agreement is supposed to put the brakes on that kind of spending, but leaders have so far been maddeningly vague on how they'll do it. This issue could be an important one in the coming presidential race. Should Republicans base their platform on entitlement reform, or should they focus on the here and now -- specifically, on undoing the damage done by Obama and his Democratic allies? In coming months, the answer will likely become clear: entitlements someday, but first things first.

**Squo solves deficit and addresses entitlement spending**

**Fiegl 2/20**—amendnews staff writer (Charles, “Obama budget proposal sidesteps Medicare mandatory spending cuts”, American Medical News,

<http://www.ama-assn.org/amednews/2012/02/20/gvl10220.htm>) EL

Washington -- The Obama administration's fiscal 2013 budget proposal to Congress calls for replacing deep, mandatory health spending cuts with $360 billion in targeted health spending decreases, while providing a permanent solution to Medicare's sustainable growth rate formula. President Obama released his $3.8 trillion budget blueprint on Feb. 13. His plan abandons the $1.2 trillion, across-the-board cut in federal spending that he and Congress approved in July 2011 as a fallback plan if lawmakers could not agree on a long-term deficit reduction measure. That across-the-board reduction is known as sequestration and would start in 2013. Under the agreement, nearly every federal program would be exposed to cuts, except total reduced spending in the Medicare program would be capped at 2%, and Medicaid and Social Security would remain untouched. Lawmakers have said they would work to reverse some of the automatic cuts to save certain defense and discretionary programs. The White House budget blueprint meets those same sequestration savings targets, but it also relies on lowering federal deficits through tax increases on upper-income earners. The sequestration instructions forced the administration to slow federal spending rates in its proposal, said Alan Krueger, chair of the president's Council of Economic Advisers. But he said following through on the deep automatic cuts across nearly all defense, education and other federal programs would cause undue harm. "That's bad policy," he said. "So we believe the sequester should be replaced with balanced deficit reduction." Medicare's SGR formula that helps determine physician pay represents bad policy, too, said acting White House Office and Management Budget Director Jeffrey Zients. For the last decade, Congress has agreed to patch these Medicare cuts, but the temporary measures have exacerbated the problem. At this article's deadline, lawmakers had struck a tentative bipartisan deal that would prevent a 27% Medicare pay cut from taking effect March 1 by keeping pay rates stable through the end of 2012. The Obama budget accounts for a full SGR repeal, but it offers few details on how the administration would propose paying the roughly $300 billion, 10-year cost of eliminating the formula. Democrats and some Republicans have expressed support for using unspent war funds to pay for a repeal, a tactic that has won the favor of organized medicine. But several GOP leaders have dismissed the war funding strategy as an accounting gimmick. The American Medical Association appreciates the inclusion of an SGR repeal in this year's White House budget, said AMA President-elect Jeremy A. Lazarus, MD. "Scheduled cuts to physicians who treat seniors and military families have threatened patient access to care, and temporary patches by Congress have made the problem bigger and more expensive. The time has come for a permanent solution." But the president's budget, along with any budgets that might be adopted by Congress, serves only as a guideline for establishing annual spending levels and tax policy. Actual funding for federal programs in fiscal 2013 will be set by House and Senate appropriators, who often do their work without guidance from any congressional budget. Republican lawmakers denounced Obama's newest budget and said Congress would not go along with the priorities it establishes. The budget calls for $22 trillion in entitlement spending during the next 10 years. Medicare, Medicaid and Social Security are on a path to consume 10% of the gross domestic product, said Sen. Orrin Hatch (R, Utah). "These programs are on autopilot to fiscal ruin. They are the leading driver of our debt, and they threaten seniors currently relying on the programs and our children and grandchildren who'll have to pay for them." The budget does address health entitlement spending and would lower future deficits, Krueger said. Medicare spending would be reduced by $302.8 billion from 2013 to 2022. The budget proposes aligning Part D drug pay policy with Medicaid to save $155.6 billion. Adjusting postacute care payments would save $56.7 billion, and reducing Medicare coverage of hospitals' bad debt would lower spending by $35.9 billion. The Assn. of American Medical Colleges opposes a White House plan to lower Medicare graduate medical education payments by $9.7 billion over 10 years. "Such cuts would mean that up to 10,000 fewer physicians will be trained every year when the nation already faces a shortage of nearly 92,000 doctors in the next 10 years," said AAMC President and CEO Darrell G. Kirch, MD. The National Assn. of Public Hospitals and Health Systems also objected to proposed Medicaid policy changes that would limit the federal matching funds states could procure to pay hospitals and physicians. The proposal to squeeze those funds by $21.8 billion could lead some states to make pay cuts or otherwise pass costs onto doctors and patients, said Bruce Siegel, MD, MPH, the association's president and CEO. The Centers for Medicare & Medicaid Services has earmarked $1.9 billion in the budget to prevent fraud and waste. The administration believes that investment would return about $5 billion by 2017. Medicare has begun using more prepayment predictive modeling technology to flag fraudulent claims, but the administration still is trying to determine the added money it saves the program through deterring additional fraud, said Peter Budetti, MD, CMS deputy administrator and director of the agency's Center for Program Integrity. "As everybody in the public health community knows, it's hard to measure the effects of prevention."

**Social Security will be stable for the long term – plenty of time to reform**

**CEPR 12**-Center for Economic and Policy Research (“Social Security and the Economy”, February 12, <http://www.cepr.net/index.php/blogs/beat-the-press/social-security-and-the-economy>)

Finally there is the substantive issue about the urgency of a Social Security fix. I see little urgency for two reasons. The first reason is that at a time when we are still down close to 10 million jobs from where the economy should be, the first, second, and third priority of policymakers should be job creation. In principle, Congress and the president can do more than one thing at a time, but this is Washington that we are talking about.

The second reason why I see no urgency for a Social Security fix is that the program is still fundamentally sound. According to the latest projections from CBO we still have more than a quarter-century before the fund will first face a shortfall. Even after that date the program would still be able to pay more than 80 percent of projected benefits, which would be more than current beneficiaries receive.

The eventual fix for Social Security will inevitably involve some mix of revenue increases and benefit cuts. There has been a well-financed campaign over the last few decades to convince the public that the program's finances are far worse than is in fact the case. (A payroll tax increase equal to one-twentieth of projected wage growth over the next four decades would be more than enough to keep the program fully solvent past the end of the century.)

The lack of confidence in Social Security's finances created by this misinformation campaign may cause the public to accept much larger cuts than if they realized the program's true financial state. Therefore it makes sense to delay any major changes in the hope that the public will be better informed about the program in the future. (Peter Peterson will eventually run out of money.)

So the word for the day is "relax" – Social Security is fine for long into the future. Folks should instead spend their time yelling about the lack of adequate stimulus, insufficient measures from the Fed, and an over-valued dollar.

**Social Security doesn’t feed into deficits**

**Krugman 11**-professor of Economics and International Affairs at Princeton University, received his B.A. from Yale University and Ph.D. from MIT (Paul, “Social Security Bait And Switch, A Continuing Series”, New York Times, October 11, <http://krugman.blogs.nytimes.com/2011/10/30/social-security-bait-and-switch-a-continuing-series/>)//EL

You see, the WaPo makes a big deal of the fact that Social Security is currently taking in less in payroll taxes than it’s paying out in benefits. Yet this means nothing, except as a favorite point used to create confusion by those who want to kill the program.

I’ve written about this repeatedly in the past, but here it is again: Social Security is a program that is part of the federal budget, but is by law supported by a dedicated source of revenue. This means that there are two ways to look at the program’s finances: in legal terms, or as part of the broader budget picture.

In legal terms, the program is funded not just by today’s payroll taxes, but by accumulated past surpluses — the trust fund. If there’s a year when payroll receipts fall short of benefits, but there are still trillions of dollars in the trust fund, what happens is, precisely, nothing — the program has the funds it needs to operate, without need for any Congressional action.

Alternatively, you can think about Social Security as just part of the federal budget. But in that case, it’s just part of the federal budget; it doesn’t have either surpluses or deficits, no more than the defense budget.

Both views are valid, depending on what questions you’re trying to answer.

What you can’t do is insist that the trust fund is meaningless, because SS is just part of the budget, then claim that some crisis arises when receipts fall short of payments, because SS is a standalone program. Yet that’s exactly what the WaPo claims.

This is what you call negative journalistic value added.

**Reforming Social Security isn’t key, doesn’t hurt the budget**

**Krugman 12**-professor of Economics and International Affairs at Princeton University, received his B.A. from Yale University and Ph.D. from MIT (Paul, “Social security medicare and medicaid Strikes Again”, New York Times, April 9, <http://krugman.blogs.nytimes.com/2012/04/09/socialsecuritymedicareandmedicaid-strikes-again/>)//EL

The serious (as opposed to Serious) thing to say here is that on current projections, Social Security faces a shortfall — NOT bankruptcy — a quarter of a century from now. OK, I guess that’s a real concern. But compared to other concerns, it’s really pretty minor, and doesn’t deserve a tenth the attention it gets.

It’s also worth noting that even if the trust fund is exhausted and no other financing provided, Social Security will be able to pay about three-quarters of scheduled benefits, which would mean real benefits higher than it pays now. I don’t want to see that happen, but it’s worth keeping in perspective — especially when you look at the solutions “reformers” propose, which all seem to involve reducing future benefits relative to those currently scheduled.

## Data cooking net benefit

### 1nc data cooking turn (in CP)

**Public investment is manipulated by project managers who cook the data to win project approval – exaggerates aff benefits and causes massive cost overruns**

**Flyvbjerg, 10** - Professor of Major Programme Management at [Oxford University](http://en.wikipedia.org/wiki/Oxford_University)'s [Saïd Business School](http://en.wikipedia.org/wiki/Sa%C3%AFd_Business_School) and is Founding Director of the University's BT Centre for Major Programme Management. He was previously Professor of Planning at [Aalborg University](http://en.wikipedia.org/wiki/Aalborg_University), [Denmark](http://en.wikipedia.org/wiki/Denmark) and Chair of Infrastructure Policy and Planning at [Delft University of Technology](http://en.wikipedia.org/wiki/Delft_University_of_Technology), The Netherlands (Bent, “Survival of the unﬁttest: why the worst infrastructure gets built—and what we can do about it,” Oxford Review of Economic Policy, Volume 25, Number 3, 2009, pp.344–367, Oxford Journals Online)//DH

This situation may need some explication, because it may sound to many like an unlikely state of affairs. After all, it may be agreed that project managers and other professionals involved in major infrastructure provision ought to be interested in being accurate and unbiased in their work. It is even stated in the Project Management Institute (PMI)’s Code of Ethics and Professional Conduct (PMI, 2006, pp. 4, 5) that project managers should ‘provide accurate information in a timely manner’ and they must ‘not engage in or condone behaviour that is designed to deceive others’. Economists, engineers, planners, and others involved in major infrastructure provision have similar codes of conduct. But there is a dark side to their work, which is remarkably underexplored in the literature (Flyvbjerg, 1996).

On the dark side, project managers and planners ‘lie with numbers’. as Wachs (1989) has aptly put it. They are busy not with getting forecasts and business cases right and following the PMI Code of Ethics but with getting projects funded and built. And accurate forecasts are often not an effective means for achieving this objective. Indeed, accurate forecasts may be counterproductive, whereas biased forecasts may be effective in competing for funds and securing the go-ahead for a project. ‘The most effective planner,’ says Wachs (1989, p. 477), ‘is sometimes the one who can cloak advocacy in the guise of scientiﬁc or technical rationality.’ Such advocacy would stand in direct opposition to PMI’s ruling that project managers should ‘make decisions and take actions based on the best interests of society’ (PMI, 2006, p. 2).

Nevertheless, seemingly rational forecasts that underestimate costs and overestimate beneﬁts have long been an established formula for project approval as we saw above. Forecasting is here mainly another kind of rent-seeking behaviour, resulting in a make-believe world of misrepresentation which makes it extremely difﬁcult to decide which projects deserve undertaking and which do not. The consequence is, as even one of the industry’s own organs, the Oxford-based Major Projects Association, acknowledges, that too many projects proceed that should not. One might add that many projects do not proceed that probably should, had they not lost out to projects with ‘better’ misrepresentation (Flyvbjerg et al., 2002).

In this situation, the question is not so much what project managers can do to reduce inaccuracy and risk in forecasting, but what others can do to impose on project managers the checks and balances that would give managers the incentive to stop producing biased forecasts and begin to work according to their Code of Ethics. The challenge is to change the power relations that govern forecasting and project development. Better forecasting techniques and appeals to ethics will not do here; organizational change with a focus on transparency and accountability is necessary.

As argued in Flyvbjerg et al. (2003), two basic types of accountability deﬁne liberal democracies: (i) public-sector accountability through transparency and public control; and (ii) private-sector accountability via competition and the market mechanism. Both types of accountability may be effective tools to curb misrepresentation in project management and to promote a culture which acknowledges and deals effectively with risk, especially where large amounts of taxpayers’ money are at stake and for projects with signiﬁcant social and environmental impacts, as is common with major infrastructure projects.

**Data cooking creates economic disasters – the worst projects are approved, and necessary infrastructure loses out – this turns the case**

**Flyvbjerg, 10** - Professor of Major Programme Management at [Oxford University](http://en.wikipedia.org/wiki/Oxford_University)'s [Saïd Business School](http://en.wikipedia.org/wiki/Sa%C3%AFd_Business_School) and is Founding Director of the University's BT Centre for Major Programme Management. He was previously Professor of Planning at [Aalborg University](http://en.wikipedia.org/wiki/Aalborg_University), [Denmark](http://en.wikipedia.org/wiki/Denmark) and Chair of Infrastructure Policy and Planning at [Delft University of Technology](http://en.wikipedia.org/wiki/Delft_University_of_Technology), The Netherlands (Bent, “Survival of the unﬁttest: why the worst infrastructure gets built—and what we can do about it,” Oxford Review of Economic Policy, Volume 25, Number 3, 2009, pp.344–367, Oxford Journals Online)//DH

In sum, the UK study shows that strong interests and strong incentives exist at the project-approval stage to present projects as favourably as possible—that is, with beneﬁts emphasized and costs and risks de-emphasized. Local authorities, local developers and land owners, local labour unions, local politicians, local ofﬁcials, local MPs, and consultants all stand to beneﬁt from a project that looks favourable on paper and they have little incentive actively to avoid bias in estimates of beneﬁts, costs, and risks. National bodies, such as certain parts of the Department for Transport and the Ministry of Finance who fund and oversee projects, may have an interest in more realistic appraisals, but so far they have had little success in achieving such realism, although the situation may be changing with the initiatives to curb bias set out in HM Treasury (2003) and UK Department for Transport (2006).

Wachs (1986, 1990) found similar results for transit planning in the USA. Taken together, the UK and US studies both account well for existing data on cost underestimation and beneﬁt overestimation. Both studies falsify the notion that in situations with high political and organizational pressure the underestimation of costs and overestimation of beneﬁts is caused by non-intentional technical error or optimism bias. Both studies support the view that in such situations promoters and forecasters intentionally use the following formula in order to secure approval and funding for their projects:

underestimated costs + overestimated beneﬁts = funding

Using this formula, and thus ‘showing the project at its best’ as one interviewee said above, results in an inverted Darwinism, i.e the survival of the unﬁttest. It is not the best projects that get implemented, but the projects that look best on paper. And the projects that look best on paper are the projects with the largest cost underestimates and beneﬁt overestimates, other things being equal. But the larger the cost underestimate on paper, the greater the cost overrun in practice. And the larger the overestimate of beneﬁts, the greater the beneﬁt shortfall. Therefore the projects that have been made to look best on paper in this manner become the worst, or unﬁttest, projects in reality, in the sense that they are the very projects that will encounter most problems during construction and operations in terms of the largest cost overruns, beneﬁt shortfalls, and risks of non-viability. They have been designed like that, as disasters waiting to happen.

### 2nc data cooking

**Expanding infrastructure investment without appropriate accountability measures risks economic collapse – projects subject to cost overruns will fail as local partners pullout and investment bubbles collapse**

**Flyvbjerg, 10** - Professor of Major Programme Management at [Oxford University](http://en.wikipedia.org/wiki/Oxford_University)'s [Saïd Business School](http://en.wikipedia.org/wiki/Sa%C3%AFd_Business_School) and is Founding Director of the University's BT Centre for Major Programme Management. He was previously Professor of Planning at [Aalborg University](http://en.wikipedia.org/wiki/Aalborg_University), [Denmark](http://en.wikipedia.org/wiki/Denmark) and Chair of Infrastructure Policy and Planning at [Delft University of Technology](http://en.wikipedia.org/wiki/Delft_University_of_Technology), The Netherlands (Bent, “Survival of the unﬁttest: why the worst infrastructure gets built—and what we can do about it,” Oxford Review of Economic Policy, Volume 25, Number 3, 2009, pp.344–367, Oxford Journals Online)//DH

In the introduction to this article, I mentioned that current spending on infrastructure constitutes the biggest investment boom in history, measured as share of world GDP. We also saw above that, even in the best of times, large infrastructure investments have a dismal performance record in terms of cost overruns, delays, and beneﬁt shortfalls. Nine out of ten projects experience cost overrun, and overrun has not diminished for the 70 years for which we have data, to mention but two grim statistics.

Throwing hundreds of billions of extra stimulus dollars at an underperforming business that is already at bubble-like investment levels, is therefore highly risky at best. Nevertheless, this is what China, the USA, and many other countries decided to do with their stimulus packages in 2008 and 2009. Risks include rampant pork-barrel, fast-tracking, bid-rigging, local governments pulling their funds out of on-going projects in anticipation of national funding that may not come or comes late, and projects left unﬁnished because of cost overruns on stimulus projects that local government cannot ﬁnance. The consequences could be dire to the economy, and to public trust in the institutions and people who administer infrastructure spending. Perhaps this is why Macquarie Bank—probably the largest and most experienced infrastructure investor in the world—began reducing its infrastructure portfolio in 2009, moving into energy instead.

**Infrastructure planners deliberately cook the data to secure project funding – prevents genuine democratic deliberation and destroys accountability**

**Flyvbjerg, 5** - Professor of Major Programme Management at [Oxford University](http://en.wikipedia.org/wiki/Oxford_University)'s [Saïd Business School](http://en.wikipedia.org/wiki/Sa%C3%AFd_Business_School) and is Founding Director of the University's BT Centre for Major Programme Management. He was previously Professor of Planning at [Aalborg University](http://en.wikipedia.org/wiki/Aalborg_University), [Denmark](http://en.wikipedia.org/wiki/Denmark) and Chair of Infrastructure Policy and Planning at [Delft University of Technology](http://en.wikipedia.org/wiki/Delft_University_of_Technology), The Netherlands (Bent, “Design by Deception: The Politics of Megaproject Approval”, Harvard Design Magazine, Spring/Summer,

<http://flyvbjerg.plan.aau.dk/HARVARDDESIGN63PRINT.pdf>)//DH

Proponents of the Sydney Opera House intentionally deceived lawmakers, the public, and the media when they lowballed the budget to get the project started. But is such behavior really common for large projects? And is Frank Gehry's approach, as described above, the exception? Such questions are rarely asked. Maybe because in an uncomfortable number of cases the answer is "Yes." Our data show that the conventional explanations-the inherent difficulty of forecasting, inadequate data, inappropriate forecasting models-do not explain forecasting outcomes well. The outcomes are too biased, with nine out of ten cost forecasts being cost underestimates. The conventional explanations could be upheld only if outcomes were more normally distributed around a figure for error closer to zero. With an unusually high level of statistical significance, this is not the pattern that outcomes follow. Even more remarkably, for more than seventy years, cost overruns have stayed large and mainly constant--they are highly predictable.26 But cost forecasters keep ignoring this, even though it could be used to make their forecasts much more accurate.27 The situation is similar for forecasts of benefits.

Either the people who forecast are incredibly incompetent, which is unlikely, or they are incredibly optimistic, which is more common but still does not adequately explain the data. Again, many forecasters deliberately manipulate costs and benefits to help projects get approved. This best explains the data and has been further verified through interviews with forecasters and planners conducted by both my own research teams and by others.28 For reasons of space, I include but one example of a planner explaining the mechanism of cost underestimation in an interview, "You will often as a planner know the real costs [of projects]. You know that the budget is too low, but it is difficult to pass such a message to the counselors [politicians] and the private actors. They know that high costs reduce the chances of national funding." 29 In comparison, it is hard to imagine a society that would allow medical doctors to make the same predictable "errors" decade after decade in diagnosing and treating patients. This would be blatant malpractice. So it is in planning and design.

But what's most disturbing is not deceptive individual project estimates, it's the massive extent to which rent-seeking behavior by stakeholders has hijacked and replaced the pursuit of public good in this important and expensive policy area and the high costs this behavior imposes on society. Deceptive cost-benefit analyses keeps critical scrutiny (by lawmakers, the public, and the media), accountability, and good governance at bay until it's too late, that is, until the sunk costs for a project are so high that its point of no return has been reached and construction must be completed. Thus, there are few half-built bridges and tunnels in the world, although there are many that function poorly.

Public planning-to deserve its name-presupposes a notion of public good. When this notion is hijacked, planning itself is hijacked. Instead we get one of the most undermining misfits of democracy: the public institution used for private gain. Any society that wants to remain one will have to prevent such hijacking and restore the vital distinction between public good and private interest. The same may be said of planning: The public good, as defined by law, is planning's raison d'etre.

But the whole structure of incentives for planning major projects is geared towards keeping deception going. Each project is a multimillion- and often even multibillion-dollar business, and when it goes forward, many people profit--architects, engineers, contractors, consultants, bankers, landowners, construction workers, lawyers, and developers. In addition, politicians with a "monument complex" gain satisfaction and get to cut ribbons, administrators get larger budgets, and cities get investments and infrastructures that might otherwise go elsewhere. Stakeholders may have an interest in letting a project go ahead even if it is not especially useful from a public point of view.

**And data cooking is endemic to public sector infrastructure planning – the aff studies aren’t immune**

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Problems, Causes, Cures”, December, <http://www-wds.worldbank.org/servlet/WDSContentServer/WDSP/IB/2005/12/01/000016406_20051201094022/Rendered/PDF/wps3781.pdf)//DH>

The second study was carried out by Martin Wachs (1990, 1986). Wachs interviewed

public officials, consultants, and planners who had been involved in transit planning cases in ¶ the US. He found that a pattern of highly misleading forecasts of costs and patronage could ¶ not be explained by technical errors, honest mistakes, or inadequate methods. In case after ¶ case, planners, engineers, and economists told Wachs that they had had to "revise" their ¶ forecasts many times because they failed to satisfy their superiors. The forecasts had to be ¶ cooked in order to produce numbers that were dramatic enough to gain federal support for ¶ the projects whether or not they could be fully justified on technical grounds. Wachs (1990: ¶ 144) recounts from his interviews:

"One young planner, tearfully explained to me that an elected county supervisor had ¶ asked her to estimate the patronage of a possible extension of a light-rail (streetcar) ¶ line to the downtown Amtrak station. When she carefully estimated that the route ¶ might carry two to three thousand passengers per day, the supervisor directed her to ¶ redo her calculations in order to show that the route would carry twelve to fifteen ¶ thousand riders per day because he thought that number necessary to justify a federal ¶ grant for system construction. When she refused, he asked her superior to remove her ¶ from the project, and to get someone else to 'revise' her estimates."

In another typical case of cost underestimation and benefit overestimation, Wachs (1990:

144-145) gives the following account:

"a planner admitted to me that he had reluctantly but repeatedly adjusted the

patronage figures upward, and the cost figures downward to satisfy a local elected ¶ official who wanted to compete successfully for a federal grant. Ironically, and to the ¶ chagrin of that planner, when the project was later built, and the patronage proved ¶ lower and the costs higher than the published estimates, the same local politician was¶ asked by the press to explain the outcome. The official's response was to say, 'It's not ¶ my fault; I had to rely on the forecasts made by our staff, and they seem to have made ¶ a big mistake here'."

Like in the UK study above, Wachs specifically interviewed consultants. He found, as one

consultant put it, that "success in the consulting business requires the forecaster to adjust ¶ results to conform with the wishes of the client," and clients typically wish to see costs ¶ underestimated and benefits overestimated (1990: 151-152).

On the basis of his pioneering study, Wachs (1990: 145) concludes that forecasts of ¶ costs and benefits are presented to the public as instruments for deciding whether or not a ¶ project is to be undertaken, but they are actually instruments for getting public funds ¶ committed to a favored project. Wachs (1990: 146, 1986: 28) talks of "nearly universal abuse" of forecasting in this context, and he finds no indication that it takes place only in ¶ transit planning; it is common in all sectors of the economy where forecasting routinely ¶ plays an important role in policy debates, according to Wachs.

**The exaggeration of benefits and underestimate of costs occurs by huge amounts – prefer our evidence, it is the only study conducted on this**

**Postrel, 11** - writes about commerce and culture, innovation, economics and public policy for Bloomberg (Virginia, Bloomberg, 7/8, “Too Many Public Works Built on Rosy Scenarios,”

<http://www.bloomberg.com/news/2011-07-08/too-many-public-works-built-on-rosy-scenarios-virginia-postrel.html)//DH>

This glamorizing extends not just to imagery but also to forecasts. Project promoters routinely overstate benefits and understate costs -- and not just a little bit.

“Cost overruns in the order of 50 percent in real terms are common for major infrastructure, and overruns above 100 percent are not uncommon,” [Bent Flyvbjerg](http://www.sbs.ox.ac.uk/research/people/Pages/BentFlyvbjerg.aspx), a professor of major program management at the University of Oxford’s Said Business School, writes in the [Oxford Review of Economic Policy](http://www.sbs.ox.ac.uk/centres/bt/Documents/UnfittestOXREPHelm3.4PRINT.pdf). “Demand and benefit forecasts that are wrong by 20-70 percent compared with actual development are common.”

To draw these conclusions, Flyvbjerg analyzed results from 258 projects in 20 countries over 70 years, the largest such database ever compiled. Like the “stars without makeup” features in celebrity tabloids, his research provides a disillusioning reality check. “It is not the best projects that get implemented, but the projects that look best on paper,” Flyvbjerg writes. “And the projects that look best on paper are the projects with the largest cost underestimates and benefit overestimates, other things being equal.”

Flyvbjerg got curious about forecasts when, as a young professor in [Denmark](http://topics.bloomberg.com/denmark/), he watched the Great Belt rail tunnel, connecting [Scandinavia](http://topics.bloomberg.com/scandinavia/) with continental [Europe](http://topics.bloomberg.com/europe/), go “terribly wrong,” with long delays and cost overruns of 120 percent. “I began to wonder not only why that was the case, but also whether it was common or not for that to happen,” he recalls in a telephone conversation. (The tunnel opened in 1997.)

Finding no comprehensive data available, he assembled his own -- and found that the big picture looked very much like the little one. “It’s very common to have cost overruns in big construction projects,” he says. “It’s the norm. It’s not the exception.”

On average, urban and intercity rail projects run over budget by 45 percent, roads by 20 percent, and bridges and tunnels by 34 percent.

And the averages tell only part of the story. Rail projects are especially prone to cost underestimation. Seventy-five percent run at least 24 percent over projections, while 25 percent go over budget by at least 60 percent, Flyvbjerg finds.

By comparison, 75 percent of roads exceed cost estimates by at least 5 percent, and 25 percent do so by at least 32 percent.

### --XT – aff authors lie

**Prediction biases in favor of infrastructure spending are because of deliberate misrepresentation – their solvency advocates are cooking the data**

**Flyvbjerg, 10** - Professor of Major Programme Management at [Oxford University](http://en.wikipedia.org/wiki/Oxford_University)'s [Saïd Business School](http://en.wikipedia.org/wiki/Sa%C3%AFd_Business_School) and is Founding Director of the University's BT Centre for Major Programme Management. He was previously Professor of Planning at [Aalborg University](http://en.wikipedia.org/wiki/Aalborg_University), [Denmark](http://en.wikipedia.org/wiki/Denmark) and Chair of Infrastructure Policy and Planning at [Delft University of Technology](http://en.wikipedia.org/wiki/Delft_University_of_Technology), The Netherlands (Bent, “Survival of the unﬁttest: why the worst infrastructure gets built—and what we can do about it,” Oxford Review of Economic Policy, Volume 25, Number 3, 2009, pp.344–367, Oxford Journals Online)//DH

Technical explanations have, as mentioned, gained widespread credence among forecasters and project managers (Ascher, 1978; Flyvbjerg et al., 2002, 2005). It turns out, however, that such credence could mainly be upheld because, until now, samples have been too small to allow tests by statistical methods. The data presented above, which come from the ﬁrst largesample study in the ﬁeld, lead us to reject technical explanations of forecasting inaccuracy. Such explanations do not ﬁt the data well. First, if misleading forecasts were truly caused by technical inadequacies, simple mistakes, and inherent problems with predicting the future, we would expect a less biased distribution of errors in forecasts around zero. In fact, we have found with high statistical signiﬁcance that for four out of ﬁve distributions of forecasting errors, the distributions have a mean statistically different from zero. Only the data for inaccuracy in road trafﬁc forecasts have a statistical distribution that seems to ﬁt with explanations in terms of technical forecasting error. Second, if imperfect techniques, inadequate data, and lack of experience were the main explanations of inaccuracies, we would expect an improvement in accuracy over time, since in a professional setting errors and their sources would be recognized and addressed through the reﬁnement of data collection, forecasting methods, etc. Substantial resources have, in fact, been spent over several decades on improving data and methods. Still our data show that this has had no effect on the accuracy of forecasts. Technical factors, therefore, do not appear to explain the data. It is not so-called forecasting ‘errors’ or their causes that need explaining. It is the fact that, in a large majority of cases, costs are underestimated and beneﬁts overestimated. We may agree with proponents of technical explanations that it is, for example, impossible to predict for the individual project exactly which geological, environmental, or safety problems will appear and make costs soar. But we maintain that it is possible to predict the risk, based on experience from other projects, that some such problems will haunt a project and how this will affect costs. We also maintain that such risk can and should be accounted for in forecasts of costs, but typically is not. For technical explanations to be valid, they would have to explain why forecasts are so consistent in ignoring cost and beneﬁt risks over time, location, and project type.

Psychological explanations better ﬁt the data. The existence of optimism bias in managers and promoters would result in actual costs being higher and actual beneﬁts lower than those forecasted. Consequently, the existence of optimism bias would be able to account, in whole or in part, for the peculiar bias found in most of our data. Interestingly, however, when you ask forecasters about causes for forecasting inaccuracies in actual forecasts, they do not mention optimism bias as a main cause of inaccuracy (Flyvbjerg et al., 2005, pp. 138– 40). This could of course be because optimism bias is unconscious and thus not reﬂected by forecasters. After all, there is a large body of experimental evidence for the existence of optimism bias (Buehler et al., 1994; Buehler et al., 1997; Newby-Clark et al., 2002). However, the experimental data are mainly from simple, non-professional settings. This is a problem for psychological explanations, because it remains an open question whether they are general and apply beyond such simple settings. Optimism bias would be an important and credible explanation of underestimated costs and overestimated beneﬁts in infrastructure forecasting if estimates were produced by inexperienced forecasters, i.e. persons who were estimating costs and beneﬁts for the ﬁrst or second time and who were thus inexperienced in the realities of major infrastructure development and were not drawing on the knowledge and skills of more experienced colleagues. Such situations may exist and may explain individual cases of inaccuracy. But, given the fact that in modern society it is a deﬁning characteristic of professional expertise that it is constantly tested—through scientiﬁc analysis, critical assessment, and peer review—in order to root out bias and error, it seems unlikely that a whole profession of forecasting experts would continue to make the same mistakes decade after decade instead of learning from their actions. Learning would result in the reduction, if not elimination, of optimism bias, which would then result in estimates becoming more accurate over time. But our data clearly show that this has not happened. The profession of forecasters would, indeed, have to be an optimistic—and non-professional—group to keep their optimism bias throughout the 70-year period our study covers for costs, and the 30-year period covered for patronage, and not learn that they were deceiving themselves and others by underestimating costs and overestimating beneﬁts. This would account for the data, but is not a credible explanation. Therefore, on the basis of our data, we are led to reject optimism bias as a primary and single cause of cost underestimation and beneﬁt overestimation.

Finally, political-economic explanations and strategic misrepresentation account well for the systematic underestimation of costs and overestimation of beneﬁts found in the data. A strategic estimate of costs would be low, resulting in cost overrun, whereas a strategic estimate of beneﬁts would be high, resulting in beneﬁt shortfalls. A key question for explanations in terms of strategic misrepresentation is whether estimates of costs and beneﬁts are intentionally biased to serve the interests of promoters in getting projects started. This question raises the difﬁcult issue of lying. Questions of lying are notoriously hard to answer, because by deﬁnition a lie consists in making a statement intended to deceive others, and in order to establish whether lying has taken place, one must therefore know the intentions of actors. For legal, economic, moral, and other reasons, if promoters and managers have intentionally cooked estimates of costs and beneﬁts to get a project started, they are unlikely to tell researchers or others formally that this is the case. Despite such problems, two studies exist that succeeded in getting forecasters and managers to talk about strategic misrepresentation, one from the UK (Flyvbjerg and COWI, 2004) and one from the USA (Wachs, 1990).

**Trusting the affirmative solvency advocates is about as smart as investing in Enron – the incentive to lie about the benefits of infrastructure projects is well documented**

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<http://flyvbjerg.plan.aau.dk/HARVARDDESIGN63PRINT.pdf>)//DH

Which large projects get built? My research associates and I found it isn't necessarily the best ones, but instead those for which proponents best succeed in designing-deliberately or not-a fantasy world of underestimated costs, overestimated revenues, overvalued local development effects, and underestimated environmental impacts. Project approval in most cases depended on these factors.

Our survey, the first and largest of its kind, looked at 300 projects in twenty countries.) Working from his observation that "Princes who have achieved great things have been those ... who have known how to trick men with their cunning, and who, in the end, have overcome those abiding by honest principles," Machiavelli seems to have been chief architect on these projects.2 Many project proponents don't hesitate to use this approach, even if it means misleading lawmakers, the public, and the media about the true costs and benefits of projects. The result is an inverted Darwinism--an unhealthy "survival of the unfittest" -- for large public works and other construction projects.

During project implementation, when fact overcomes fiction, the consequences are huge cost overruns, delays, missing revenues, crippling debt, and, to add insult to injury, often also negative environmental and social impacts. The misplaced investments, overspending, and financial problems are of Enron- and WorldCom-scandal magnitude, though much less transparent and harder to fix.

**Cost overruns are inevitable – aff studies lie about the benefits to secure funding**

**de Rugy and Mitchell, 11** – both are senior research fellows at the Mercatus Center at George Mason University (Veronique and Matthew, “WOULD MORE INFRASTRUCTURE SPENDING STIMULATE THE ECONOMY?,” September, <http://mercatus.org/sites/default/files/publication/infrastructure_deRugy_WP_9-12-11.pdf)//DH>

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

**Optimism bias and profit incentives mean the aff authors grossly overestimate the benefits**

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Three main types of explanation exist that claim to account for cost overruns and beneﬁt shortfalls in major infrastructure projects: technical, psychological, and political-economic. Technical explanations account for cost overruns and beneﬁt shortfalls in terms of imperfect forecasting techniques, inadequate data, honest mistakes, inherent problems in predicting the future, lack of experience on the part of forecasters, etc. This is the most common type of explanation of inaccuracy in forecasts (Ascher, 1978; Morris and Hough, 1987; Wachs, 1990; Flyvbjerg et al., 2002, 2005). Technical error may be reduced or eliminated by developing better forecasting models, better data, and more experienced forecasters, according to this explanation.

Psychological explanations account for cost overruns and beneﬁt shortfalls in terms of what psychologists call the planning fallacy and optimism bias. Such explanations have been developed by Kahneman and Tversky (1979); Kahneman and Lovallo (1993), and Lovallo and Kahneman (2003). In the grip of the planning fallacy, managers make decisions based on delusional optimism rather than on a rational weighting of gains, losses, and probabilities. They overestimate beneﬁts and underestimate costs. They involuntarily spin scenarios of success and overlook the potential for mistakes and miscalculations. As a result, managers pursue initiatives that are unlikely to come in on budget or on time, or to deliver the expected returns. Over-optimism can be traced to cognitive biases, that is, errors in the way the mind processes information. These biases are thought to be ubiquitous, but their effects can be tempered by simple reality checks, thus reducing the odds that people and organizations will rush blindly into unproﬁtable investments of money and time.

Political-economic explanations see project planners and promoters as deliberately and strategically overestimating beneﬁts and underestimating costs when forecasting the outcomes of projects. They do this in order to increase the likelihood that it is their projects, and not the competition’s, that gain approval and funding. Political-economic explanations have been set forth by Flyvbjerg et al. (2002, 2005) and Wachs (1989, 1990). According to such explanations planners and promoters purposely spin scenarios of success and gloss over the potential for failure. Again, this results in the pursuit of ventures that are unlikely to come in on budget or on time, or to deliver the promised beneﬁts. Strategic misrepresentation can be traced to agency problems and political and organizational pressures—for instance, competition for scarce funds or jockeying for position—and it is rational in this sense. 6 If we now deﬁne a lie in the conventional fashion as making a statement intended to deceive others (Bok, 1979, p. 14; Cliffe et al., 2000, p. 3), we see that deliberate misrepresentation of costs and beneﬁts is lying, and we arrive at one of the most basic explanations of lying that exists: lying pays off or, at least, political and economic agents believe it does. Where there is political pressure there is misrepresentation and lying, according to this explanation, but misrepresentation and lying can be moderated by measures of accountability.

### --Trade associations indict

**Their evidence from trade associations is completely unreliable**

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This does not show the uselessness of cost–beneﬁt analysis as such, needless to say. But if informed decisions are the goal, then conventional ex ante cost–beneﬁt analysis must be supplemented with empirical ex post risk analysis focused on documented uncertainties in the estimates of costs and beneﬁts that enter into cost–beneﬁt analysis. For a given major infrastructure project, this would constitute a kind of empirical due diligence of its cost– beneﬁt analysis, something that is rarely carried out today.

Given the data presented above, a key recommendation for decision-makers, investors, and voters who care about what Williams (1998) calls ‘honest numbers’ is that they should not trust the budgets, patronage forecasts, and cost–beneﬁt analyses produced by promoters of major infrastructure projects. Independent studies should be carried out and, again, such studies should be strong on empirically based risk assessment. Until now it has been difﬁcult or impossible to carry out such assessments, because empirically grounded and statistically valid ﬁgures of risk did not exist. With the study documented above, this has changed and empirical risk assessment and management has begun (Flyvbjerg, 2006). In addition to sound data, institutional checks and balances that would enforce accountability in actors towards risk are also necessary, as we will see below.

In economics, large inaccuracies in forecasting have recently led to discussions of the necessity of ‘ﬁring the forecaster’ (Akerlof and Shiller, 2009, p. 146). Below, I argue that this may be letting forecasters off too easily. Some forecasts are so grossly misrepresented that we need to consider not only ﬁring the forecasters but suing them, too—perhaps even having a few serve time.

### --Loan guarantees link

**Federal loan guarantees create moral hazard; they distort the market and increase overall costs by shielding the private sector from risk**

**de Rugy, 12** – senior fellow of the Mercatus Center at George Mason University (Veronique, “A Guarantee for Failure: Government Lending Under Sec. 1705”, 7/18, <http://oversight.house.gov/wp-content/uploads/2012/07/de-Rugy-Testimony.pdf)//DH>

Federally backed loans create a classic moral hazard. Because the loan amount is guaranteed, banks have less incentive to evaluate applicants thoroughly or apply proper oversight. In other words, the less skin the lender has in the game, the less likely it is that the lender will vet the quality of the project. In addition, the company that borrows the money risks less than it would if its loan weren’t guaranteed. Further, each time the government bails out a firm or shoulders the cost of a loan guarantee, it conveys to borrowers and bankers alike the mistaken idea that it’s okay for them to take excessive risks.

In a March 2012 report, the Government Accountability Office (GAO) found that the DOE loan guarantee program was riddled with program inefficiencies, which calls the fairness of its decisions into question.24 When the GAO requested data from the DOE on the status of applications, the DOE did not have consolidated data readily available and had to assemble the data from various sources over several months. Inadequate documentation and out-of-date review processes reduce one’s sense of confidence in the consistency and fairness of DOE’s decisions and raise questions about DOE’s ability to fully assess and mitigate project risks.

Moreover, the private sector (in the absence of government intervention) builds the infrastructure to assess risk, but the federal government has neither the expertise nor the incentive to build such a safety net. This increases the likelihood that loan guarantees will be awarded based on factors other than the ability of the borrower to repay the loan, such as political connections and congressional pork. 25

**The default rate for other federal loan guarantees proves our argument**

**de Rugy, 12** – senior fellow of the Mercatus Center at George Mason University (Veronique, “A Guarantee for Failure: Government Lending Under Sec. 1705”, 7/18, <http://oversight.house.gov/wp-content/uploads/2012/07/de-Rugy-Testimony.pdf)//DH>

One conspicuous issue is the default rate. Historically, loans guaranteed by the government have had a higher default rate than loans issued by the private sector. For instance, the Small Business Administration (SBA) has a long-term default rate of roughly 17 percent. 19 This compares to 4.3 percent for credit cards and 1.5 percent for bank loans guaranteed by the Federal Deposit Insurance Corporation.

The Congressional Budget Office has calculated that the risk of default on the DOE’s nuclear loan guarantee program is well above 50 percent. 20 In 2011, the CBO updated its study and replaced this embarrassing default rate with a list of variables affecting the rate. 21 The report now asserts that higher equity financing of these projects would reduce the risk of default; such a solution seems unlikely, however, as most loan guarantee programs cover 80 percent of their financing through debt rather than equity.

Moreover, according to the CBO, when the federal government extends credit, the associated risk of those obligations is effectively passed along from private lenders onto taxpayers who, as investors, would view this risk as costly. In other words, when the federal government encourages a risky loan guarantee it is “effectively shifting risk to the members of the public.” 22

**Loan guarantees distort capital markets - undermine the economy overall by distorting private investment. Government loans incentivize investors not to evaluate projects because of the government’s backing – this undermines higher quality projects and is exactly what Flyvbjerg describes**

**de Rugy, 12** – senior fellow of the Mercatus Center at George Mason University (Veronique, “A Guarantee for Failure: Government Lending Under Sec. 1705”, 7/18, <http://oversight.house.gov/wp-content/uploads/2012/07/de-Rugy-Testimony.pdf)//DH>

Loan guarantee programs can also have an impact on the economy beyond their cost to taxpayers because malinvestment—the misallocation of capital and labor—may result. In theory, banks lend money to the projects that represent the greatest likelihood of success, in terms of loan repayment, profits, and economic growth. However, since there isn’t an infinite amount of capital available at a given interest rate, loan guarantee programs could redirect resources from politically neutral projects to politically motivated ones. Think about it this way: When the government reduces a lender’s exposure to fund a project it wouldn’t have funded otherwise, it reduces the amount of money available for projects that would have been viable without subsidies.

This government involvement can distort the market’s signals further. For instance, the data shows that private investors tend to congregate toward government guarantee projects, regardless of the merits of the projects. This takes capital away from unsubsidized projects that have a more viable business plan and a better probability of success without subsidies. As the GAO noted, “Guarantees would make projects [the federal government] assists financially more attractive to private capital than conservation projects not backed by federal guarantees. Thus both its loans and its guarantees will siphon private capital away.” 26

**Loan guarantees politicize the market and undermine the economy overall – they prop up the worst parts of the private sector**

**de Rugy, 12** – senior fellow of the Mercatus Center at George Mason University (Veronique, “A Guarantee for Failure: Government Lending Under Sec. 1705”, 7/18, <http://oversight.house.gov/wp-content/uploads/2012/07/de-Rugy-Testimony.pdf)//DH>

In a 2003 speech to the National Economists Club in Washington, D.C., then–Federal Reserve Governor Edward M. Gramlich argued that loan guarantee programs are unable to save failing industries or to create millions of jobs, because—he explained—the original lack of access to credit markets is caused by serious industrial problems, not vice versa. If an applicant’s business plan cannot show a profit under reasonable economic assumptions, private lenders are unlikely to issue a loan, and rightly so.

Then why is the federal government still guaranteeing loans? Because it serves three powerful constituencies: lawmakers, bankers, and the companies that receive the subsidized loans.

Politicians are able to use loan programs to reward interest groups while hiding the costs. Because such loan programs are almost entirely off budget, Congress can approve billions of dollars in loan guarantees with little or no impact on appropriations. Moreover, unlike Solyndra, most failing projects take years to collapse, allowing politicians to collect short-term rewards while skirting, or postponing, political blame. It’s like buying a house on credit without having a trace of the transaction on your credit report.

It is also easy to understand why companies and company executives seek these loans. The preferential treatment they enjoy comes at the expense of the taxpayer, however, and ultimately at the expense of our market and political system.

Another potential beneficiary of these loans is the financial institution that issues them. With other loan programs, such as the SBA’s, evidence suggests that lenders may have an incentive to favor borrowers that qualify for a loan with a government guarantee over those that do not. When a small business defaults on its obligation to repay a loan, bankers do not bear most of the cost; taxpayers do. Meanwhile, lenders make large profits on SBA loans by pooling the guaranteed portions and selling investors trust certificates that represent a claim to the cash flow.

### --Rail specific

**Rail infrastructure spending exaggerates the benefits – projects will consistently be underutilized and resources poorly spent**

**Flyvbjerg, 10** - Professor of Major Programme Management at [Oxford University](http://en.wikipedia.org/wiki/Oxford_University)'s [Saïd Business School](http://en.wikipedia.org/wiki/Sa%C3%AFd_Business_School) and is Founding Director of the University's BT Centre for Major Programme Management. He was previously Professor of Planning at [Aalborg University](http://en.wikipedia.org/wiki/Aalborg_University), [Denmark](http://en.wikipedia.org/wiki/Denmark) and Chair of Infrastructure Policy and Planning at [Delft University of Technology](http://en.wikipedia.org/wiki/Delft_University_of_Technology), The Netherlands (Bent, “Survival of the unﬁttest: why the worst infrastructure gets built—and what we can do about it,” Oxford Review of Economic Policy, Volume 25, Number 3, 2009, pp.344–367, Oxford Journals Online)//DH

Table 2 shows the inaccuracy of travel demand forecasts for rail and road infrastructure. The demand study covers 208 projects in 14 nations on ﬁve continents. All projects for which data were obtainable were included in the study. 3 For rail, actual passenger trafﬁc is 51.4 per cent lower than estimated trafﬁc on average. This is equivalent to an average overestimate in rail passenger forecasts of no less than 105.6 per cent. The result is large beneﬁt shortfalls for rail. For roads, actual vehicle trafﬁc is on average 9.5 per cent higher than forecasted trafﬁc. We see that rail passenger forecasts are biased, whereas this is less the case for road trafﬁc forecasts. The difference between rail and road is statistically signiﬁcant at a high level. Again the standard deviations are large, indicating that forecasting errors vary widely across projects (Flyvbjerg et al., 2005; Flyvbjerg, 2005b).

The following observations hold for trafﬁc demand forecasts:

84 per cent of rail passenger forecasts are wrong by more than ±20 per cent;

nine out of 10 rail projects have overestimated trafﬁc;

50 per cent of road trafﬁc forecasts are wrong by more than ±20 per cent;

the number of roads with overestimated and the number with underestimated trafﬁc is about the same;

inaccuracy in trafﬁc forecasts is found in the 14 nations and ﬁve continents covered by the study;

inaccuracy is constant for the 30-year period covered by the study; forecasts have not improved over time.

We conclude that if techniques and skills for arriving at accurate cost and trafﬁc forecasts have improved over time, these improvements have not resulted in an increase in the accuracy of forecasts.

We also conclude that cost overruns and beneﬁt shortfalls are a problem because: (i) they lead to a Pareto-inefﬁcient allocation of resources, i.e. waste; (ii) they lead to delays and further cost overruns and beneﬁt shortfalls; (iii) they destabilize project management; and (iv) the problem is getting bigger, because projects get bigger.

### --AT: Doesn’t assume transportation

**Every Flyvbjerg card is about transportation infrastructure**

**Flyvbjerg, 10** - Professor of Major Programme Management at [Oxford University](http://en.wikipedia.org/wiki/Oxford_University)'s [Saïd Business School](http://en.wikipedia.org/wiki/Sa%C3%AFd_Business_School) and is Founding Director of the University's BT Centre for Major Programme Management. He was previously Professor of Planning at [Aalborg University](http://en.wikipedia.org/wiki/Aalborg_University), [Denmark](http://en.wikipedia.org/wiki/Denmark) and Chair of Infrastructure Policy and Planning at [Delft University of Technology](http://en.wikipedia.org/wiki/Delft_University_of_Technology), The Netherlands (Bent, “Survival of the unﬁttest: why the worst infrastructure gets built—and what we can do about it,” Oxford Review of Economic Policy, Volume 25, Number 3, 2009, pp.344–367, Oxford Journals Online)//DH

Table 1 shows more detailed cost data for transportation infrastructure projects. Transportation is used as an example here and elsewhere in the article because the best data exist for transportation and because there is not enough space to present data for all project types. It should be mentioned, however, that comparative research shows that the problems identiﬁed for transportation apply to a wide range of other project types including ICT systems, buildings, aerospace projects, defence, mega-events such as the Olympics and the World Cup, water projects, dams, power plants, oil and gas extraction projects, mining, large-scale manufacturing, big science, and urban and regional development projects (Flyvbjerg et al., 2003, pp. 18–19; Altshuler and Luberoff, 2003; Priemus et al., 2008; Flyvbjerg et al., 2002, p. 286; Flyvbjerg, 2005a).

### --Flyvbjerg prodict

**Flyvbjerg’s data is the most comprehensive study and confirmed by multiple other studies**

**Poole and Samuel, 11** – \* director of transportation policy and Searle Freedom Trust Transportation Fellow at Reason Foundation, also an MIT-trained engineer AND \*\*senior fellow at the Reason Foundation (Robert and Peter, “Transportation Mega-Projects and Risk”, <http://www.fairfaxcounty.gov/planning/tysons_docs/090711transportation_mega_projects_risk_big_dig.pdf>)//DH

First, Flyvbjerg and colleagues cite studies showing that this is hardly a new problem, nor is it unique to a few countries. One of the most comprehensive studies (from Aalborg University) covers 258 highway and rail projects ($90 billion worth) in 20 countries. 16 Nearly all (90%) suffered cost overruns, with the average rail project costing 45% more than projected, the average highway project 20% more. Traffic forecasts were also far from accurate, with rail projects generating an average of 39% less traffic than forecast (though highway projects averaged a 9% under-estimate of traffic).

Flyvbjerg concludes that the “cost estimates used in public debates, media coverage, and decisionmaking for transport infrastructure are highly, systematically, and significantly deceptive. So are the cost-benefit analyses.” Many other analysts have reached similar conclusions. Flyvbjerg goes on to explain why this comes about. First, he cites two MIT researchers’ conclusion that “the incentives to produce optimistic estimates of viability are very strong and the disincentives weak.” And the reason for that is a lack of accountability of the parties involved, not a lack of technical skills or insufficient data.

**Flyvberg’s data is based on 258 projects over 70 years and demonstrated no cost improvement over time**

**Marom, 10** -  project manager for the development and deployment of IT Business Systems (Shim, “Project Failure Predictability” 11/19,

<http://quantmleap.com/blog/2010/11/project-failure-predictability/>)//DH

Paul Naybour brings from a published work by [Bent Flyvbjerg](http://en.wikipedia.org/wiki/Bent_Flyvbjerg)\*, that cost escalation (i.e. cost overruns) happens in almost nine out of 10 projects. Flyvbjerg (2003) work further suggests (based on a study examining 258 projects executed over a period of 70 years) that actual costs were on average 28% higher than the forecast costs. One poignant point identified in Flyvbjerg’s (2003) study is that the tendency for cost overruns has not decreased over the past 70 years and that no learning seems to have taken place over that extended period of time to demonstrate any improvement in that trend.

Which takes us back to the point about predictability; Lynda Bourne suggests in her post that “most of our project stakeholders expect predictability”. Contrast this with the fact that over a substantial period of time we see a statistical tendency for consistent cost overruns and you get a simple and unambiguous prediction that your next project will most likely result in cost overruns.

### --AT: Remington

**Remington is wrong**

**Flybjerg et al, 3 -** - Professor of Major Programme Management at [Oxford University](http://en.wikipedia.org/wiki/Oxford_University)'s [Saïd Business School](http://en.wikipedia.org/wiki/Sa%C3%AFd_Business_School) and is Founding Director of the University's BT Centre for Major Programme Management. He was previously Professor of Planning at [Aalborg University](http://en.wikipedia.org/wiki/Aalborg_University), [Denmark](http://en.wikipedia.org/wiki/Denmark) and Chair of Infrastructure Policy and Planning at [Delft University of Technology](http://en.wikipedia.org/wiki/Delft_University_of_Technology), The Netherlands (Bent, “Response to Remington”, Letter for the JAPA Winter 2003 Issue, vol. 69, no. 1, p. 83, <http://flyvbjerg.plan.aau.dk/ResponseRemington0301.pdf)//DH>

We disagree with Remington, however, that the cost estimates of planners, consultants, and advisors are unrealistic mainly because of the low level of detail available at the crucial early decision-making points in the life of a project. We also disagree that if only clients realized, in Remington's words, "that it costs money to gather the detailed information required for more accurate forecasts" and if clients were willing to spend that money, then the problem with cost underestimation might be solved. This is the type of explanation of cost underestimation which we call "technical" in our article. And we reject this type of explanation with very high statistical certainty. The data simply do not support such explanations; the data are too biased. If Remington were right, on average the cost estimates would be more or less correct, only with large fluctuations. Remington would need to explain why in almost 9 out of 10 projects does the low level of detail, which he identifies as the main cause of inaccuracy, lead to cost UNDERestimation? Why would there not be more instances of cost OVERestimation? The burden of proof is on Remington and other proponents of technical explanations. The statistics of the matter indicate that it will be very difficult to lift this burden. Political and economic explanations of cost underestimation account better for the data, as we show in the article.

## Indicts

### AT: Krugman

**Krugman is wrong every time**

**Lott, 2012** economist and co-author of the just released “Debacle: Obama's War on Jobs and Growth and What We Can Do Now to Regain Our Future” (John, “Krugman's bad predictions,” 4/12/12, http://www.foxnews.com/opinion/2012/04/12/krugman-bad-prediction/)//AM

Few prominent economists have a worse record predicting the impact of Obama’s economic policies than Paul Krugman. Writing for the New York Times and touting his close “genuine contact” with the “smart” economists and others in the Obama administration and the Democratic congressional leadership, Krugman has been, and remains, Obama’s most important champion. Not only has he been defending Obama’s Keynesian-type deficit-spending, but he has been advocating still more of these same failed policies.

The economy just can’t gain ground. Thirty-four months since the "recovery" started in June 2009 and the actual number of jobs have increased by just 0.4%. Hardly making up for the 5.5 percent drop in jobs from the peak. Given Krugman’s continued prominence in supporting Obama during the coming election, the best way of evaluating the advice is going to give voters is to see how accurate his claims have been up to this point.

It is important to realize just how terrible Krugman’s record has been. He predicted on CNBC: “I am still guessing that we will peak out at around 9 percent [unemployment] and that would be late this year.” He assured listeners that double-digit unemployment was “not the most likely event” and “Actually, we are already seeing some positive effects [from the Stimulus].” With unemployment peaking at 10.1 percent and still above 9 percent over two-and-a-half years after he predicted it would peak, Krugman was wrong on both counts.

Krugman’s predictions were also filled with personal attacks against those with whom he disagreed. In March 2009, when Greg Mankiw, the chair of George W. Bush’s Council of Economic Advisers, and some conservative economists questioned what they called Obama’s “overly optimistic” growth predictions, Paul Krugman questioned their honesty. In a New York Times blog post titled the “Roots of Evil,” Krugman attacked Mankiw as “more than a bit of deliberate obtuseness” and that “we can expect fast growth.”

Yet, our economic growth has not even come close to what Obama and Krugman predicted. It has also been much slower than past economic recoveries. This last year Obama predicted that GDP would grow at 4 percent, while in fact it was less than half of that -- just 1.7 percent.

Mankiw challenged Krugman to a bet over whether the Obama prediction was right, but, despite all Krugman’s abusive rhetoric, he never responded. Krugman must be glad that he never bet his money to back up his claims of “evil” or “deliberate” misinformation, but he never tempered his rhetoric.

Amazingly, despite his track record against conservatives, Krugman didn’t flinch in late 2010 when he claimed: “It’s also worth pointing out that everything the right said about why Obamanomics would fail was wrong.”

Krugman’s predictions were no more accurate for other countries. He criticized the reduction in German government spending in June 2010 as a “huge mistake,” and said: “budget cuts will hurt your economy and reduce revenues [by reducing economic growth].” Yet, more than a year later, Germany’s unemployment rate continued falling, dropping by 0.7 percentage points between June 2010 and August 2011. And as of June 2011, German GDP during 2011 grew at 3 percent, almost twice as fast as our own GDP growth. Germany accomplished the lower unemployment and higher growth rates without burdening its children with the massively higher debt that Obama and Krugman advocated.

But you get some idea why Krugman predictions have so been consistently wrong by understanding that he just thinks government spending is free. He also thought that the 9/11 attacks “could even do some economic good” by stimulating the economy because “all of a sudden, we need some new office buildings” and “rebuilding will generate at least some increase in business spending.” Let’s the buildings and spend the money on something else.

Digging ditches and filling them in again leaves people no better off. Krugman has a different view: “If we discovered that space aliens were planning to attack and we needed a massive buildup to counter the space alien threat and really inflation and budget deficits took secondary place to that, this slump would be over in 18 months. And then if we discovered, oops, we made a mistake, there aren’t any aliens, we’d be better off.”

The federal government’s publicly held debt has almost doubled in just over three years. How many more rosy predictions coming from Paul Krugman can we afford?

**Krugman contradicts his economic stances to score political points**

**Markay 10**- an associate with Dialog New Media, the consulting firm owned by NewsBusters (Lachlan, “Paul Krugman Is Nation's Most Partisan Economist, Study Finds”, MRC, May 9, http://newsbusters.org/blogs/lachlan-markay/2010/05/09/paul-krugman-nations-most-partisan-economist-study-finds)//EL

Most economists are not susceptible to partisanship in their work, a new scholarly study finds. But anyone who reads Paul Krugman's columns in the New York Times will hardly be surprised to learn he is a glaring exception to the study's findings.

He consistently changes his fiscal views depending on the party in power.

"Krugman has changed his tune in a significant way regarding the budget deficit when the White House has changed party," found Brett Barkley, an economics student at George Mason University. The study, published in Econ Journal Watch, a peer reviewed journal, examined statements from 17 economists from 1981 through 2009, and gauged the consistency of their stances on deficit spending and reduction during Republican and Democratic administrations.

According to the study, Krugman was the only economist of the 17 to "significantly" change his stance on the federal budget deficit for partisan reasons.

Barkley wrote,

Large budget deficits represent a burden on the future, and debt accumulation eventually poses great problems. Economists writing for the public can either highlight such truths, neglect the issue, or try to allay worries or excuse or justify large budget deficits (as anti-recession policy, for example). Economists affiliated or aligned with one of the parties may be suspected of changing their positions on budgets deficits to serve their favored party or win favor with its constituency.

Krugman "explicitly supported deficit reduction in the 1990s and early 2000s under Republican administrations," the study found, "then changed his view once Clinton entered office in 1993 and the Democrats gained control of Congress in 2006."

This study lends academic weight to a theory anyone who consistently reads Krugman's work has no doubt already postulated. In his never-ending quest to score political points for the left, Krugman has even gone so far as to contradict his own findings to bash Republican politicians.

**Krugman is a hypocrite with inconsistent economic perspectives**

**Goldberg 11-** The National Review Online columnist (Jonah, “The Krugman Fallacy”, September 14, The National Review, http://www.nationalreview.com/corner/277245/krugman-fallacy-jonah-goldberg)//EL

[Stan](http://www.nationalreview.com/corner/277237/krugman-makes-ponzi-point-stanley-kurtz), I’m afraid you’re heading down a blind alley. You cannot hold pre-NYT Economist Paul Krugman up to the current version. You’ll just go mad. Sallie James pointed out the problem with Columnist Paul Krugman, when it comes to the [concept of competitiveness.](http://www.cato-at-liberty.org/krugman-both-of-them-on-competitiveness/)

But my favorite example was well chronicled by our friend [James Taranto last year](http://online.wsj.com/article/SB10001424052748703915204575103720332317434.html). When Sen. Jim Bunning held up an extension of unemployment benefits, Krugman lamented “the incredible gap that has opened up between the parties”

Take the question of helping the unemployed in the middle of a deep slump. What Democrats believe is what textbook economics says: that when the economy is deeply depressed, extending unemployment benefits not only helps those in need, it also reduces unemployment. …

But that’s not how Republicans see it. Here’s what Senator Jon Kyl of Arizona, the second-ranking Republican in the Senate, had to say when defending Mr. Bunning’s position (although not joining his blockade): unemployment relief “doesn’t create new jobs. In fact, if anything, continuing to pay people unemployment compensation is a disincentive for them to seek new work.”

Krugman added, “To me, that’s a bizarre point of view — but then, I don’t live in Mr. Kyl’s universe. And the difference between the two universes isn’t just intellectual, it’s also moral.”

Intrigued, Taranto went out to investigate what “textbook economics” says on the matter. He went to, of all places, Paul Krugman’s textbook (co-written with Robin Wells, AKA Mrs. Krugman) Macroeconomics. It says:

Public policy designed to help workers who lose their jobs can lead to structural unemployment as an unintended side effect. . . . In other countries, particularly in Europe, benefits are more generous and last longer. The drawback to this generosity is that it reduces a worker’s incentive to quickly find a new job. Generous unemployment benefits in some European countries are widely believed to be one of the main causes of “Eurosclerosis,” the persistent high unemployment that affects a number of European countries.

Now Krugman’s extended moralizing about helping the unemployed is not invalidated by his hypocrisy, but his pose of astonishment that anyone could agree with what his own textbook says is hard to square with claims of consistency or good faith.

### AT: Zandi

**Zandi’s theory is flawed, the multiplier affect accumulates debt and crushes private sector consumption**

**Tanner 11**-senior fellow at the [Cato Institute](http://www.nationalreview.com/articles/261636/zandinomics-michael-tanner) (Michael, “[Zandinomics](http://www.nationalreview.com/articles/261636/zandinomics-michael-tanner)”, National Review Online, March 9, <http://www.nationalreview.com/articles/261636/zandinomics-michael-tanner)//EL>

Zandi’s current prominence is based on an economic simulation he developed, allowing him to plug in government policies and report quotably precise estimates of how those policies will impact economic growth and job creation. But Zandi relies on an old-fashioned Keynesian economic model under which government spending creates a large “multiplier effect” that inevitably leads to growth.

Under this model, if government spends $1 billion to build a new bridge, the money doesn’t just disappear; it is used to pay wages to the bridge builders, buy steel, and so on. The bridge builders and steel suppliers in turn spend their income, raising consumption and creating demand as the money cycles through the economy.

If the multiplier equals one, then each unit increase in government purchasing leads to a unit increase in GDP, and government spending is essentially free. The government can build a bridge or invest in “green energy” without reducing anyone else’s consumption or investment: It’s a free lunch.

But Zandi goes even further. In his model, the multiplier is greater than one. This means that when government builds that bridge, not only does the bridge not really cost us anything, but building it generates additional resources that we can use to stimulate private consumption and investment: The free lunch includes a free dessert. In fact, the logic of Zandi’s model holds that government spending is such a good deal that it doesn’t matter if we needed the bridge in the first place; we should keep building it, tearing it down, and building it again, to multiply the money we are spending. From Zandi’s point of view, former Alaska senator Ted Stevens’s infamous “bridge to nowhere” wasn’t pork — it was a brilliant investment, and we should have built ten of them, or a hundred.

Of course, Zandi’s premise is simply a restatement of the ancient “broken-window fallacy,” an economic error refuted by the economist Frédéric Bastiat in 1850. In Bastiat’s parable, a shopkeeper’s careless son breaks a pane of glass in his father’s store. According to the economic theory popular at the time, that was actually a good thing, because it meant that the shopkeeper would have to pay the glazier to repair the window. The glazier then would use his new income to buy a pair of shoes, and the shoemaker would spend the money, etc. The cycle continues, and the economy is stimulated. As Bastiat notes, “You come to the conclusion, as is too often the case, that it is a good thing to break windows, that it causes money to circulate, and that the encouragement of industry in general will be the result of it.”

But as Bastiat pointed out, that leaves out an important calculation: what the shopkeeper would have done with the money had he not been obliged to buy a new window. “It is not seen that as our shopkeeper has spent six francs upon one thing, he cannot spend them upon another,” Bastiat wrote. “It is not seen that if he had not had a window to replace, he would, perhaps, have replaced his old shoes, or added another book to his library. In short, he would have employed his six francs in some way, which this accident has prevented.” The accident only means that the shopkeeper has spent six francs to bring himself back to the economic state he was in before the window was broken; he is no richer for it, but six francs poorer.

Zandi ignores the way in which government spending, taxes, and borrowing squeeze out private consumption and investment — what we might have done with the money had it not been taken by the government to build bridges to nowhere. And he ignores the need for economies to create new wealth rather than to simply redistribute existing wealth.

Winston Churchill once noted, “However beautiful the plan, one should occasionally look at the results.” However elegant Zandi’s model, we have not managed to spend our way to prosperity. On the other hand, we have managed to accumulate enormous debts that threaten to bankrupt our children.

Zandi is wrong — spending is not our friend. It’s time to cut.

**Zandi’s multiplier effect fails-investor uncertainty**  
**McQuillan 12**-PhD, Chief Economist (Lawrence J., “Mark Zandi and CTBA trying to pull Keynesian rabbit out of hat”, Illinois Policy Institute, 5/9, <http://www.illinoispolicy.org/blog/blog.asp?ArticleSource=4836)//EL>

Zandi, [a registered Democrat](http://dailycaller.com/2011/09/19/democrats-favorite-conservative-republican-economist-is-neither-republican-nor-conservative/) and chief economist at Moody’s Analytics, applies the old-fashioned “Keynesian multiplier” to arrive at the number. Here’s the thinking behind the multiplier number: First, the government spends more money. The initial government spending becomes someone’s income, and they spend some of it, which becomes another person’s income and they spend some of it and so on. One dollar of government spending cascades through the economy to produce $1.36 in private-sector income, according to Zandi.

But this is what I call “rabbit-out-of-a-hat” economics – people thinking you can get something out of nothing. The “multiplier” tells only half the truth.

What Zandi doesn’t tell you – or doesn’t understand – is that government can’t spend anything unless it first takes it from somebody else through taxes or borrowing. Every government action, especially taxing and borrowing, has an “opportunity cost.” The taking of resources from the private sector has many negative costs – two are especially damaging.

First, as economist Frederic Bastiat first explained in 1850, taking resources from the private sector causes contractions in other parts of the economy, either in private consumption or private investment. These contractions cascade through the economy, too, and offset Zandi’s multiplier. Government spending is largely a shell game – moving money or wealth from one part of the economy to another; from one group of people to another, and lowering society’s total income in the process.

Second, increased government spending creates uncertainty about how much taxes must be hiked in the future to pay for the new commitments. Politicians can’t resist establishing new permanent spending programs, which often are unsustainable – exhibit A is Illinois’ public employee pensions and retiree health care.

Faced with unpaid government debts, unfunded liabilities, new spending programs and higher taxes people become very worried and uncertain as to what future costs and private-property rights will be. In response, people don’t make new capital investments, don’t hire new employees or start new businesses, don’t buy big-ticket durable goods or take that family vacation. Economists call this “[regime uncertainty](http://www.cato-at-liberty.org/in-the-grip-of-regime-uncertainty-again/),” and these rational responses cause the economy to shrink. These are the fatal flaws with Zandi’s zany figure. Think about it, if Zandi and the CTBA were correct, America would have had economic nirvana since 2008 with the trillions of federal government spending.

### AT: Luduc and Wilson

**Infrastructure stimulus is ineffective and hurts job growth – specifically indicts the study done by Leduc and Wilson**

**Ramey, 2012** PhD in Economics from Stanford University, Chair of the Department of Economics at UCSD (Valerie, ““Roads to Prosperity or Bridges to Nowhere? Theory and Evidence on the Impact of Public Infrastructure Investment” by Sylvain Leduc and Daniel Wilson Comment by Valerie Ramey,” 2012, http://www.nber.org/chapters/c12752.pdf)//AM

3. Puzzling Dynamic Effects of Highway Spending

The estimated impulse responses have some very puzzling features that are not discussed by the authors. Consider the graph of GDP in Figure 3A and the graphs of productivity, employment, personal income, and wages and salaries displayed in Figure 4. All show the same basic dynamic pattern: the variables rise somewhat on impact, then fall below normal in years two through four, rise above normal in years six through eight, and then return to normal by year 10. Leduc and Wilson’s theoretical model is able to produce a small dip in the early years because of time‐to‐build considerations, but the dip is miniscule relative to the positive effects much later in the theoretical model. In contrast, the employment response in the data shows that the trough is deeper than the expansion.

These declines in years two through four of numerous series are particularly puzzling when compared to the dynamic patterns of government spending. Figure 5 shows that grants, obligations and outlays are all significantly above normal during these times. In fact, the outlay series peaks at year 2. The analysis thus begs the question: **Why are employment, wages and salaries, and GDP below normal when infrastructure spending is above normal**? Who is working on these projects if employment is depressed?

Leduc and Wilson focus all of their attention on the positive impact effect on GDP and the positive effects on multiple variables at years six through eight. However, the anomalous drops in key variables at years two through four are just as large and statistically significant as the effects on which Leduc and Wilson focus. **One could have easily used these results to write a paper entitled “Infrastructure Spending Depresses Short‐Run Employment.”**

These results suggest that **infrastructure spending is not a good stimulus tool**. While the GDP multiplier peaks at eight years in the future, the average multiplier in the first three to four years appears to be about zero, since the positive impact effect shown in Figure 3A is balanced by the negative effects in years two through four. Moreover, **employment falls significantly** below zero for most of the first five years after a shock. Since policy makers care more about the short‐run employment response than the GDP response, these results suggest that infrastructure spending would actually be counter‐productive. Leduc and Wilson cite evidence that labor costs represent only eight percent of the expenditures on road construction because it is so capital intensive. Thus, infrastructure spending clearly not an activity that can create many jobs in the short‐run.

### AT: Aschauer/Munnel

**Aschauer and Munnell’s data are wrong**

**Lewis 93**- Ph.D. in Economics from the London School of Economics. During his seven years with the Congressional Budget Office, he served as a Principal Analyst in the Natural Resources and Commerce Division conducting policy analysis in surface transportation, aviation and risk management (David, "Ensuring Productive Investment In Transportation Infrastructure." Policy Study Number 159. June 1993. reason.org/files/3f2491828ed3b56b77e7f6580fcb3a04.pdf)//TD

More recently, however, enthusiasm among policymakers for the conclusions of Aschauer and Munnell has been tempered by growing doubts about their findings from many other economists. Critics charge that the econometric methodologies employed are flawed, that the direction of causation between public investment and output growth is unclear (i.e., higher growth may permit and lead to greater infrastructure spending) and that, even if the historical empirical relationships were estimated correctly, they provide no clear indications for current policy.

One major review was conducted by the Congressional Budget Office. After a year-long examination of the Aschauer findings, including the econometric analysis, the CBO reports that there is little basis for his conclusions and thus little evidence to suggest that substantial, across-the-board increases in infrastructure spending would be more productive on average than private investment.

The Federal Highway Administration has also published a review of recent research on the relationship between infrastructure investment and productivity. H. J. Aaron of the Brookings Institution and J. A. Tatom of the St. Louis Fed independently performed statistical tests on Aschauer's work, and found that public investment was no longer related to output in a statistically significant manner. M. Nienhaus of the Volpe National Transportation Systems Center performed other statistical tests on both the Aschauer and Munnell data and found that the relationship is unsupported for the critical period (1970 to 1987) when both output growth and productivity declined. Other researchers looked more closely at state- and regional-level data (as opposed to aggregate national data) and broke the data down by categories of infrastructure. As summarized by FHWA, their findings are that overall public investment has either a small positive or insignificant effect on economic output. Moreover, only in the highways and water/sewer categories had significant positive relationships. For other categories, the relationships were either insignificant or negative.

**Aschauer and Munnell haven’t established causality – more rigorous studies disprove them**

**Holtz-Eakin, 1992** president of the American Action Forum. He was the director of the Congressional Budget Office and a chief economist of President George W. Bush’s Council of Economic Advisers (Douglas, “Public-Sector Capital and the Productivity Puzzle,” July 1992, http://www.nber.org/papers/w4122.pdf)//AM

Abstract-A number of studies have suggested a quantita- tively important relationship between public-sector capital accumulation and private sector productivity, with the most compelling evidence derived from analyses of state-level data. Estimates herein of production functions that use standard techniques to control for unobserved, state-specific character- istics, however, reveal essentially no role for public-sector capital in affecting private sector productivity. Only estimates of state production functions that do not include such controls find substantial productivity impacts. This result reconciles existing econometric estimates with the findings of Hulten and Schwab based on growth accounting techniques, as such tech- niques effectively control for state-specific effects. Region-level estimates are essentially identical to those from state data, suggesting no quantitatively important spillover effects across states.

I. Introduction

POPULAR and professional perception of the role played by public sector capital has un- dergone a remarkable transformation. For the bulk of the postwar period, government capital budgeting decisions focused at best on the con- sumption benefits accruing from public goods and services, and at worst on the pork-barrel punch they carried. More recently, however, the public sector capital stock has emerged as a potent force for improved macroeconomic performance. Spurred by the work of Aschauer (1989a, 1989b), a number of studies have examined the relation- ship between public-sector capital accumulation, especially "infrastructure" capital, and output or productivity in the private sector. The initial stud- ies suggested a quantitatively important link be- tween public sector capital and private productiv- ity and buttressed the arguments of proponents of greater spending on public works.'

Perhaps the most compelling evidence in sup- port of this thesis derives from empirical analyses of state data, and the purpose of this paper is to re-visit these analyses. Analysts have turned to the states only after exhausting other avenues for research. Aschauer (1989a), Holtz-Eakin (1988, 1989) and Munnell (1990a) use annual data for the United States to estimate production func- tions that include public-sector capital. Unfortunately, these data contain essentially a single observation: the concomitant slowdown in productivity growth and public sector capital accumulation in the early 1970s. It is tempting to infer a causal relationship from public-sector capital to productivity, but the evidence does not justify this step. It is just as easy to imagine the reverse scenario in which deteriorating economic condi- tions reduce capital stock growth. More gener- ally, almost every post-war macroeconomic series (on quantities) has this characteristic shape, and it remains unclear as to the underlying causes of the slowdown.

A second potential source of information is cross-national studies of productivity growth (e.g. Aschauer (1989b)). Studies using these sources must face a relative paucity of comparable data and the difficulty of controlling for greatly differ- ent institutional arrangements across countries. The result has been rather unstable parameter estimates (see Tanzi (1990)).

This leaves the states as the most promising source of information on the spillovers from pub- lic sector capital. States exhibit a wide array of fiscal behaviors and the available samples are large enough to produce reliable estimates. Re- cent studies using state data have, however, largely produced controversy. On one hand, the econometric analyses of state data in Munnell (1990b) and Garcia-Mila and McGuire (forthcom- ing) attribute to public-sector capital an impor- tant role in explaining differences in states' eco- nomic performance. On the other hand, Hulten and Schwab (1978, 1991) use growth-accounting techniques to apportion regional economic growth. They find that the residual not accounted for by private inputs is at odds with regional patterns of public-sector investment.2 Is the con- flict the result of differing technique, the degree of aggregation, or some other factor? In this paper, I argue that these disparate findings are easily reconciled. Estimates herein of production functions that use standard techniques to control for unobserved, state-specific characteristics reveal essentially no role for public-sector capital at the margin. The presence of such effects is quite likely on a priori grounds and is confirmed by the results of the statistical analysis. Because more prosperous states are likely to spend more on public capital, there will be a positive correlation between the state-specific ef- fects and public sector capital. This should not be confused, however, with the notion that greater public capital leads a state to be more productive. Importantly, the estimates of state production functions cited above do not include controls for these effects, while the focus in growth account- ing on changes over time effectively controls for state-specific effects. Thus, the exclusion of these considerations from previous econometric studies is the apparent source of the conflicting evidence using state data. To further ensure that this fea- ture of the estimation is the source of the differ- ence, the analysis is repeated using regional ag- gregates as in, for example, Hulten and Schwab (1978, 1991). The regional results are essentially identical to those from state data.3

# Counterplans

## \*\*\*PPPs

### PPP 1nc

The United States federal government should provide

[the plan]

exclusively to areas in which private actors guarantee at least one-third of the funding upfront for a minimum of twenty years. In negotiating these partnerships, the United States federal government should open infrastructure plans to modification, including the possible transfer of project ownership to private actors. The federal government should make all necessary regulatory changes to encourage greater public-private partnerships

[in the area of the plan],

and provide necessary technical assistance for implementation.

**This solves**

**Puentes, 10** - Senior Fellow at the Brookings Institute (Robert, “New Partnerships for Accelerating Infrastructure Investments,” 8/23, <http://www.brookings.edu/research/testimony/2010/08/23-los-angeles-puentes>)

So as Congress continues to develop its plans for the reauthorization of the nation’s surface transportation law it should support metro areas that raise their own revenue for the long term. Though a new partnership, the federal government should provide incentives to metropolitan areas that secure long-term and substantial regional funding sources approved for a minimum of 20 years and that equal a significant (one-third to one-half) portion of the annual federal transportation funding received. As to the incentives, a possible menu of options might include: more direct funding to metropolitan planning organizations (MPOs), more flexible “mode neutral funding,” more streamlined planning processes, more direct reporting to federal agencies, and reduced bureaucracy.[[7]](http://www.brookings.edu/research/testimony/2010/08/23-los-angeles-puentes" \l "note7)

**The net benefit is infrastructure accountability**

**Public investment is manipulated by project managers who cook the data to win project approval – exaggerates aff benefits and causes massive cost overruns, and means better projects lose out**

**Flyvbjerg, 10** - Professor of Major Programme Management at [Oxford University](http://en.wikipedia.org/wiki/Oxford_University)'s [Saïd Business School](http://en.wikipedia.org/wiki/Sa%C3%AFd_Business_School) and is Founding Director of the University's BT Centre for Major Programme Management. He was previously Professor of Planning at [Aalborg University](http://en.wikipedia.org/wiki/Aalborg_University), [Denmark](http://en.wikipedia.org/wiki/Denmark) and Chair of Infrastructure Policy and Planning at [Delft University of Technology](http://en.wikipedia.org/wiki/Delft_University_of_Technology), The Netherlands (Bent, “Survival of the unﬁttest: why the worst infrastructure gets built—and what we can do about it,” Oxford Review of Economic Policy, Volume 25, Number 3, 2009, pp.344–367, Oxford Journals Online)//DH

This situation may need some explication, because it may sound to many like an unlikely state of affairs. After all, it may be agreed that project managers and other professionals involved in major infrastructure provision ought to be interested in being accurate and unbiased in their work. It is even stated in the Project Management Institute (PMI)’s Code of Ethics and Professional Conduct (PMI, 2006, pp. 4, 5) that project managers should ‘provide accurate information in a timely manner’ and they must ‘not engage in or condone behaviour that is designed to deceive others’. Economists, engineers, planners, and others involved in major infrastructure provision have similar codes of conduct. But there is a dark side to their work, which is remarkably underexplored in the literature (Flyvbjerg, 1996).

On the dark side, project managers and planners ‘lie with numbers’. as Wachs (1989) has aptly put it. They are busy not with getting forecasts and business cases right and following the PMI Code of Ethics but with getting projects funded and built. And accurate forecasts are often not an effective means for achieving this objective. Indeed, accurate forecasts may be counterproductive, whereas biased forecasts may be effective in competing for funds and securing the go-ahead for a project. ‘The most effective planner,’ says Wachs (1989, p. 477), ‘is sometimes the one who can cloak advocacy in the guise of scientiﬁc or technical rationality.’ Such advocacy would stand in direct opposition to PMI’s ruling that project managers should ‘make decisions and take actions based on the best interests of society’ (PMI, 2006, p. 2).

Nevertheless, seemingly rational forecasts that underestimate costs and overestimate beneﬁts have long been an established formula for project approval as we saw above. Forecasting is here mainly another kind of rent-seeking behaviour, resulting in a make-believe world of misrepresentation which makes it extremely difﬁcult to decide which projects deserve undertaking and which do not. The consequence is, as even one of the industry’s own organs, the Oxford-based Major Projects Association, acknowledges, that too many projects proceed that should not. One might add that many projects do not proceed that probably should, had they not lost out to projects with ‘better’ misrepresentation (Flyvbjerg et al., 2002).

In this situation, the question is not so much what project managers can do to reduce inaccuracy and risk in forecasting, but what others can do to impose on project managers the checks and balances that would give managers the incentive to stop producing biased forecasts and begin to work according to their Code of Ethics. The challenge is to change the power relations that govern forecasting and project development. Better forecasting techniques and appeals to ethics will not do here; organizational change with a focus on transparency and accountability is necessary.

As argued in Flyvbjerg et al. (2003), two basic types of accountability deﬁne liberal democracies: (i) public-sector accountability through transparency and public control; and (ii) private-sector accountability via competition and the market mechanism. Both types of accountability may be effective tools to curb misrepresentation in project management and to promote a culture which acknowledges and deals effectively with risk, especially where large amounts of taxpayers’ money are at stake and for projects with signiﬁcant social and environmental impacts, as is common with major infrastructure projects.

**Data cooking creates economic disasters – the worst projects are approved, and necessary infrastructure loses out – this turns the case**

**Flyvbjerg, 10** - Professor of Major Programme Management at [Oxford University](http://en.wikipedia.org/wiki/Oxford_University)'s [Saïd Business School](http://en.wikipedia.org/wiki/Sa%C3%AFd_Business_School) and is Founding Director of the University's BT Centre for Major Programme Management. He was previously Professor of Planning at [Aalborg University](http://en.wikipedia.org/wiki/Aalborg_University), [Denmark](http://en.wikipedia.org/wiki/Denmark) and Chair of Infrastructure Policy and Planning at [Delft University of Technology](http://en.wikipedia.org/wiki/Delft_University_of_Technology), The Netherlands (Bent, “Survival of the unﬁttest: why the worst infrastructure gets built—and what we can do about it,” Oxford Review of Economic Policy, Volume 25, Number 3, 2009, pp.344–367, Oxford Journals Online)//DH

In sum, the UK study shows that strong interests and strong incentives exist at the project-approval stage to present projects as favourably as possible—that is, with beneﬁts emphasized and costs and risks de-emphasized. Local authorities, local developers and land owners, local labour unions, local politicians, local ofﬁcials, local MPs, and consultants all stand to beneﬁt from a project that looks favourable on paper and they have little incentive actively to avoid bias in estimates of beneﬁts, costs, and risks. National bodies, such as certain parts of the Department for Transport and the Ministry of Finance who fund and oversee projects, may have an interest in more realistic appraisals, but so far they have had little success in achieving such realism, although the situation may be changing with the initiatives to curb bias set out in HM Treasury (2003) and UK Department for Transport (2006).

Wachs (1986, 1990) found similar results for transit planning in the USA. Taken together, the UK and US studies both account well for existing data on cost underestimation and beneﬁt overestimation. Both studies falsify the notion that in situations with high political and organizational pressure the underestimation of costs and overestimation of beneﬁts is caused by non-intentional technical error or optimism bias. Both studies support the view that in such situations promoters and forecasters intentionally use the following formula in order to secure approval and funding for their projects:

underestimated costs + overestimated beneﬁts = funding

Using this formula, and thus ‘showing the project at its best’ as one interviewee said above, results in an inverted Darwinism, i.e the survival of the unﬁttest. It is not the best projects that get implemented, but the projects that look best on paper. And the projects that look best on paper are the projects with the largest cost underestimates and beneﬁt overestimates, other things being equal. But the larger the cost underestimate on paper, the greater the cost overrun in practice. And the larger the overestimate of beneﬁts, the greater the beneﬁt shortfall. Therefore the projects that have been made to look best on paper in this manner become the worst, or unﬁttest, projects in reality, in the sense that they are the very projects that will encounter most problems during construction and operations in terms of the largest cost overruns, beneﬁt shortfalls, and risks of non-viability. They have been designed like that, as disasters waiting to happen.

**The counterplan solves by doing less than the plan – the only projects that will be built are those that can secure private sector capital. This increases accountability in infrastructure design and reduces overall costs**

**Flyvbjerg, 10** - Professor of Major Programme Management at [Oxford University](http://en.wikipedia.org/wiki/Oxford_University)'s [Saïd Business School](http://en.wikipedia.org/wiki/Sa%C3%AFd_Business_School) and is Founding Director of the University's BT Centre for Major Programme Management. He was previously Professor of Planning at [Aalborg University](http://en.wikipedia.org/wiki/Aalborg_University), [Denmark](http://en.wikipedia.org/wiki/Denmark) and Chair of Infrastructure Policy and Planning at [Delft University of Technology](http://en.wikipedia.org/wiki/Delft_University_of_Technology), The Netherlands (Bent, “Survival of the unﬁttest: why the worst infrastructure gets built—and what we can do about it,” Oxford Review of Economic Policy, Volume 25, Number 3, 2009, pp.344–367, Oxford Journals Online)//DH

In order to achieve accountability via competition and market control, the following would be required, again as practices that are both embedded in and enforced by the relevant institutions.

The decision to go ahead with a major infrastructure project should, where at all possible, be made contingent on the willingness of private ﬁnanciers to participate without a sovereign guarantee for at least one-third of the total capital needs. 7 This should be required whether projects pass the market test or not—that is, whether projects are subsidized or not or provided for social justice reasons or not. Private lenders, shareholders, and stock-market analysts would produce their own forecasts or conduct due diligence for existing ones. If they were wrong about the forecasts, they and their organizations would be hurt. The result would be added pressure to produce realistic forecasts and reduced risk to the taxpayer.

Forecasters and their organizations must share ﬁnancial responsibility for covering cost overruns and beneﬁt shortfalls resulting from misrepresentation and bias in forecasting.

The participation of risk capital would not mean that government reduces control of major infrastructure projects. On the contrary, it means that government can more effectively play the role it should be playing, namely as the ordinary citizen’s guarantor for ensuring concerns about safety, environment, risk, and a proper use of public funds.

Whether infrastructure projects are public, private, or public–private, they should be vested in one and only one project organization with a strong governance framework and strong contract-writing skills. The project organization may be a company or not, public or private, or a mixture. What is important is that this organization has the capacity to (i) set up and negotiate contracts that will effectively safeguard its interests, including in equity risk allocation, and (ii) enforce accountability vis-a-vis ` contractors, operators, etc. In turn, the directors of the organization must be held accountable for any cost overruns, beneﬁt shortfalls, faulty designs, unmitigated risks, etc. that may occur during project planning, implementation, and operations.

Experience with contract writing is a much-neglected topic, but is particularly important in developing and managing major infrastructure projects. This is because a fundamental asymmetry in experience with and resources allocated to contract writing often applies in the client– contractor relationship for such projects. Clients who decide to do major infrastructure—for instance, a city council deciding to build a new subway or toll road—do so relatively rarely, often only once, or never, in the lifetime of the individual city manager and council member. Learning is therefore impaired for clients, and if you do not know what your interests are, it is difﬁcult to safeguard them. Contractors, on the other hand, who bid for and build such projects, do so all the time. Contractors, therefore, typically know much more than clients about the ins and outs of projects and contracts, including the many risks and pitfalls that apply, plus which lawyers, bankers, and consultants to hire to safeguard their interests most effectively. This asymmetry has brought many a client to grief. A possible way to bring more symmetry into the client–contractor relationship would be for government to establish a central contract-writing unit at the state or national level, which would be in charge of negotiating, on behalf of local and other branches of government, the types of major contracts they do too infrequently to gain real experience. This would concentrate a larger number of contracts in one place, allowing experience—and the negotiating power that comes with it—to accumulate.

Fortunately, better governance along the lines described above has recently become stronger around the world. The Enron scandal and its successors have triggered new legislation and a war on corporate deception that is spilling over into government with the same objective: to curb ﬁnancial waste and promote good governance. Although progress is slow, good governance is gaining a foothold also in major infrastructure project management.

For example, in 2003 the Treasury of the United Kingdom required, for the ﬁrst time, that all ministries develop and implement procedures for major projects that will curb what the Treasury calls—with true British civility—’optimism bias’. Funding will be unavailable for projects that do not take into account this bias, and methods have been developed for how to do this (HM Treasury, 2003; Flyvbjerg and COWI, 2004; UK Department for Transport, 2006). In the Netherlands in 2004, the Parliamentary Committee on Infrastructure Projects for the ﬁrst time conducted extensive public hearings to identify measures that will limit the misinformation about large infrastructure projects given to the Parliament, public, and media (Tijdelijke Commissie Infrastructuurprojecten, 2004). In Boston, the government has sued to recoup funds from contractor overcharges for the Big Dig related to cost overruns. More countries and cities are likely to follow the lead of the UK, the Netherlands, and Boston in coming years; Switzerland and Denmark are already doing so (Swiss Association of Road and Transportation Experts, 2006; Danish Ministry for Transport and Energy, 2006, 2008).

Moreover, with private ﬁnance in major infrastructure projects on the rise over the past 15–20 years, capital funds and banks are increasingly gaining a say in the project development and management process. Private capital is no panacea for the ills in major infrastructure project management, to be sure (Hodge and Greve, 2009). But private investors place their own funds at risk, as opposed to governments who place the taxpayer’s money at risk. Capital funds and banks can therefore be observed not to automatically accept at face value the forecasts of project managers and promoters. Banks typically bring in their own advisers to do independent forecasts, due diligence, and risk assessments, which is an important step in the right direction. The false assumption that one forecast or one business case (which is also a forecast) may contain the truth about a project is problematized. Instead project managers and promoters are getting used to the healthy fact that different stakeholders have different forecasts and that forecasts are not only products of objective science and engineering but of negotiation. Why is this more healthy? Because it is more truthful about our ability to predict the future and about the risks involved.

If the institutions with responsibility for developing and building major infrastructures continued to implement, embed, and enforce such measures of accountability effectively, then the misrepresentation in cost, beneﬁt, and risk estimates, which is widespread today, might be mitigated. If this is not done, misrepresentation is likely to continue, and the allocation of funds for major infrastructure is likely to continue to be wasteful, unethical, and sometimes even unlawful.

### 2nc – CP solves accountability

**Government financed projects incentive massive cost overruns – only true public private partnerships where the private sector assumes a significant portion of the financing with an ownership stake can solve**

**Poole and Samuel, 11** – \* director of transportation policy and Searle Freedom Trust Transportation Fellow at Reason Foundation, also an MIT-trained engineer AND \*\*senior fellow at the Reason Foundation (Robert and Peter, “Transportation Mega-Projects and Risk”, <http://www.fairfaxcounty.gov/planning/tysons_docs/090711transportation_mega_projects_risk_big_dig.pdf>)//DH

Asking why risk is disregarded leads Flyvbjerg to question the conventional approach to project development, in which government is the project promoter and financier, and private firms are only too happy to do the best-case feasibility studies, produce the designs, and take on construction contracts fattened by numerous change orders. That is sometimes called a “public-private partnership,” but it is a perverse use of the term, since that model does not adequately protect the public interest. The conventional approach puts the major risks—of cost overruns and of inadequate traffic—onto the shoulders of hapless taxpayers. If somebody else is picking up the tab, neither government officials nor private contractors have strong incentives to anticipate the kinds of things that will lead to problems and then costly change orders. Not only is this inherently undesirable, but a system set up in this way “is likely to increase the total risks and costs of a project.” It leads directly to the kinds of results seen with the Big Dig and documented in the Aalborg University study.

A much better delivery model is a true public-private partnership that more appropriately “allocates risks to parties who have an incentive to reduce the negative impacts,” as Flyvbjerg puts it. It would be far better to put commercial-type risks, such as construction cost risk and traffic risk, on the shoulders of investors. But to bring that about requires that there be true risk capital involved in a mega-project. Indeed, one of Flyvbjerg’s strongest conclusions is that the decision to proceed with such a project should be based on “the willingness of private financiers to participate in the project without a sovereign guarantee.” By putting their own capital at risk, such investors will be personally and financially involved in monitoring how the project is done, to mitigate the risk to themselves. And if such private parties shy away from investing in proposed mega-projects, that should be a signal to government that the project may not be fiscally sustainable or even viable.

One recommended model is what Europeans call the long-term concession or build-operate-transfer (BOT) model, under which a private consortium, selected by a competitive process, gains a long-term ownership interest in the project, sufficiently long that it has a reasonable likelihood of making a return on the investment. Because of this long period of responsibility, the consortium will also have strong incentives to build it right in the first place and to minimize lifecycle costs (as opposed to just upfront costs). The point is to create accountability and risk-management, which the conventional government-dominated model simply does not provide.

**Decades of public choice scholarship disproves all economic benefits of the aff – government run infrastructure investment is subject to interest group capture. The worst projects will get funded and government ownership is responsible for current infrastructure problems**

**Thierer, 12** - is a senior research fellow at the Mercatus Center at George Mason University with the Technology Policy Program (Adam, “Public Choice: More than a Mere Footnote in Infrastructure Policy Discussions,” 4/27, <http://mercatus.org/expert_commentary/public-choice-more-mere-footnote-infrastructure-policy-discussions>)//DH

No doubt we do have an infrastructure problem in the U.S., but are we to conclude from this chart that enhanced commons-based management or more money -- $2.2 trillion to be exact -- will satisfy our infrastructural “investment needs” and turn around this dismal state of affairs?

Here’s another way of interpreting that chart: the current system doesn’t work. Most of the infrastructure resources listed are already either government controlled, regulated, or heavily funded, and many are currently managed as a commons or semi-commons.  Yet, things haven’t turned out so well. Might it be the case that it is government intervention and persistent mismanagement -- not a shortage of funding -- that’s responsible for the low grades? Had private actors been managing those resources, after all, they would have all been fired or gone out of business a long time ago with grades like that.

Unless we are going to completely disregard Einstein’s definition of insanity -- “doing the same thing over and over again and expecting different results” -- we must take into account the many downsides of expanding commons-based management of infrastructural resources or employing greater government subsidy / ownership of infrastructure. In other words, we have to be willing to discuss the possibility of government failure as a root cause of our infrastructure woes.

Sadly, Frischmann is unwilling to do so. He admits to a “limited attention to supply-side issues” (p. 368) and, in a mere footnote in Chapter 2 he tells us that:

In the past few decades, concerns over government failures have served as a counterbalance and suggested that identifying a market failure alone does not warrant government intervention because the solution may be worse than the problem. There has been and continues to be much wrangling over these issues. This book will not focus on public choice analysis. (p. 12)

I find Frischmann’s terse dismissal of public choice insights perplexing because it is precisely those insights that can help us unlock the mystery of why infrastructural supply-side problems have become so costly and seemingly intractable.

Politics without Romance

For those unfamiliar with the field, public choice analysis was perhaps best described by Nobel prize-winning economist James M. Buchanan as “[politics without romance](http://www.econlib.org/library/Enc/PublicChoice.html).” Public choice strips away the “public interest” and “common good” gloss sometimes associated with government regulation and public resource management. Instead, public choice analysis shows that political actors are typically motivated by the same concerns as private actors. Public figures are just as self-interested and prone to make mistakes as private figures. Politicians will cater to special interests and bureaucrats will seek to protect their turf and grow their budgets (and not just the folks at [the General Services Administration](http://www.latimes.com/news/nationworld/nation/la-na-gsa-vegas-20120418,0,4197821.story)!)

When one begins to ponder infrastructure management problems through the prism of public choice theory, the resulting failures we witness become far less surprising. The sheer scale of many infrastructure projects opens the door to logrolling, rent-seeking, bureaucratic mismanagement, and even outright graft. Regulatory capture is an omnipresent threat, too. As I have [shown elsewhere](http://techliberation.com/2010/12/19/regulatory-capture-what-the-experts-have-found/), a large body of nonpartisan scholarship -- from economists, political scientists, historians, and journalists -- has documented the lamentable reality that any system big enough and important to be captured by special interests and affected parties often will be. Frischmann acknowledges the problem of capture in just a single footnote in the book and admits that “there are many ways in which government failures can be substantial.” (p. 165) But he asks the reader to quickly dispense with any worries about government failure since he believes “the claims rest on ideological and perhaps cultural beliefs rather than proven theory or empirical fact.” (p. 165)

To the contrary, decades of public choice scholarship has empirically documented the reality of government failure and its costs to society, as well as the plain old-fashioned inefficiency often associated with large-scale government programs. For infrastructure projects in particular, the combination of these public choice factors usually adds up to massive inefficiencies and cost overruns.

**Prefer our evidence – it’s a massive, cross-national study over 70 years of infrastructure projects and demonstrates that private sector investment is vital to solve accountability**

**Thierer, 12** - is a senior research fellow at the Mercatus Center at George Mason University with the Technology Policy Program (Adam, “Public Choice: More than a Mere Footnote in Infrastructure Policy Discussions,” 4/27, <http://mercatus.org/expert_commentary/public-choice-more-mere-footnote-infrastructure-policy-discussions>)//DH

If You Build It, They Might Come -- But You Will Pay for It Anyway

For example, Bent Flyvbjerg of the Oxford Business School has recently described the “[survival of the unﬁttest](http://www.sbs.ox.ac.uk/centres/bt/Documents/UnfittestOXREPHelm3.4PRINT.pdf)” problem that pervades many infrastructure fields in that, “the projects that are made to look best on paper are the projects that amass the highest cost overruns and beneﬁt shortfalls.” There is a persistent underestimation of costs and an overestimation of benefits in most infrastructure sectors because, sadly, governments have traditionally rewarded such dishonesty with larger infrastructure grants.

We should not be surprised by the results. Flyvbjerg and his colleagues studied 258 transportation infrastructure projects in 20 nations on five continents over a 70-year period. Road projects averaged cost overruns of 20.4%; bridges and tunnels averaged cost overruns of 33.8%; and rail projects averaged an astonishing 44.7% cost overrun. And every week brings a new headline along these lines: “[Urban Center Is Budget Hole](http://online.wsj.com/article/SB10001424052702304331204577356471425094502.html).” That one is from a Wall Street Journal article this Monday about a Kansas City urban redevelopment project that wildly overestimated benefits and now “generates less than one-third of what is needed to cover the debt service on the bonds.” Meanwhile, the [epic cost overruns associated with sports stadium deals](http://online.wsj.com/article/SB10001424052748704461304576216330349497852.html) have become so commonplace that it is surprising when one actually doesn’t result in budget-busting bailouts and massive tax hikes. [Studies](http://www.cato.org/pubs/regulation/regv23n2/coates.pdf) [consistently](http://www.amazon.com/Field-Schemes-Stadium-Swindle-Private/dp/1567511392/ref=sr_1_1?ie=UTF8&s=books&qid=1232382779&sr=8-1) [find](http://www.amazon.com/Public-Dollars-Private-Stadiums-Building/dp/0813533430/ref=pd_sim_sbs_b_3) [no net economic benefits](http://www.amazon.com/Sports-Jobs-Taxes-Economic-Stadiums/dp/0815761112/ref=pd_sim_sbs_b_4) for local communities from those infrastructure deals despite persistent predictions to the contrary. Other public services and programs often suffer as a result of these grotesque misallocations of scare public resources.

Because of the chronic ongoing problems of cost overruns, beneﬁt shortfalls, and the systematic underestimation of risks for large infrastructure projects, Flyvbjerg has actually recommended criminal penalties “for managers and forecasters who consistently and foreseeably produce deceptive forecasts.” That seems like an extreme step to me, but it’s a good indication of just how out-of-hand things have gotten in the infrastructure sectors that have the greatest degree of government involvement. Without a profit and loss feedback mechanism, and with so little accountability for failure, governments cannot allocate resources to their most efficient use or manage them effectively.

### 2nc – long-term concession solves

**Government run design, project selection and contracting escalates overall costs – a long-term concession model creates incentives for the private sector to substantially limit costs**

**Poole and Samuel, 11** – \* director of transportation policy and Searle Freedom Trust Transportation Fellow at Reason Foundation, also an MIT-trained engineer AND \*\*senior fellow at the Reason Foundation (Robert and Peter, “Transportation Mega-Projects and Risk”, <http://www.fairfaxcounty.gov/planning/tysons_docs/090711transportation_mega_projects_risk_big_dig.pdf>)//DH

To further understand how much difference it can make to shift the model for mega-project

development, consider a $2.5 billion urban tunnel project—perhaps the missing link in the Los Angeles area’s Long Beach Freeway (I-710) through South Pasadena. Under the conventional approach, a government agency (e.g., Caltrans or the Los Angeles County Metro) would be the project developer. It would do the preliminary design, go out to bid for detailed design, and once that design was in hand, it would go out to bid for one (or a set of) construction contractors. After the project was built, the agency would operate and maintain the project out of annual budgetary appropriations.

Let’s think about the incentives involved. The design contractor will not be responsible for building or maintaining the project, so it will seek to do a straightforward job of design, meeting the required specifications but not being overly concerned about constructability or the ongoing cost of operations and maintenance. That is not its problem. And the construction contractor will bid what it thinks the job will cost, but will know that as problems and unknowns are discovered during construction, it will be able to submit change orders, which the government agency will mostly approve. To the extent that the contract provides incentives to control costs, those incentives typically focus only on initial cost to construct. That incentivizes the contractor to make decisions that may reduce the initial cost at the expense of higher costs to maintain the project in future years—but that’s not its problem. Likewise, conventional contracts for large projects seldom provide meaningful incentives for on-time completion (or if they do, they suffer from the same problem of implicitly encouraging initial short-cuts that may carry a higher long-term cost in operations and maintenance).

Now let’s think through how the long-term concession model pioneered in Europe and Australia would address the same project. Under this model, the responsible government agency does a feasibility study and preliminary design and then goes out to bid for a firm or consortium to detail, design, finance, build, operate and maintain the project for a long period of time, typically 30 to 50 years. It is up to this consortium to cover all the costs of building, operating and maintaining the tunnel project out of the user-fee revenues it generates (unless a portion of the initial cost will be provided by the public sector, in a transparent and publicly approved process). Consider the very different incentives involved in this model.

First, the fact that businesses have bid on the project suggests that it is fiscally viable and

sustainable. The winning consortium will almost certainly use the design-build method, in which a single team designs and constructs the project, thereby facilitating constructability because everyone has the same incentives. Design-build also generally cuts the overall development time significantly.

Second, since the investors who finance the project (banks, toll revenue bond buyers and equity investors) have a very strong interest in avoiding cost overruns, the design-build team will be held accountable to a fixed price that allows for various contingencies. This exerts strong pressures to produce a buildable design and to solve problems efficiently—because it’s the consortium’s own money that is at stake in cost overruns. (Design-build has an excellent track record of delivering large projects on-time and on-budget; recent examples include California’s Alameda Corridor and Utah’s rebuild of I-15 in Salt Lake City.) 18

### 2nc technical assistance solves

**The federal government has adequate expertise – the CP provides a good model for dissemination**

**Marks, 11** - guest editor of Infrastructure Journal and partner in Milbank Tweed Hadley and McCloy’s Global Project Finance¶ (Allan, “U.S. Infrastructure: Challenges, Politics and Opportunities,” 4/11, http://www.milbank.com/images/content/6/6/6634/MARKS-US-Infrastructure-Infrastructure-Journal-04-11-2011-.pd.pdf)//DH

The federal government through TIFIA today provides not just a source of funding for

infrastructure projects but also general expertise in the PPP area. This knowledge is largely

wasted and should be compiled and disseminated in a more coherent way. No national center

of expertise exists in the United States (compared to, say, Canada or the United Kingdom) to

foster PPPs. Because the federal government has the experience of witnessing infrastructure

deals made across the country, it is in an ideal position to accumulate best practices.

Complete standardization of the types of deals that merit approval based on a “value for

money” analysis or other rubric would not be desired. Regional experimentation and

innovation are critical. However, at a minimum, identifying best practices and establishing

model templates and suggested procedures for state and local governments would streamline

the PPP procurement and contacting process and avoid having to reinvent the wheel each

time new enabling legislation or a new project at the state or local level is on the table.

Aside from providing expertise on the PPP process in general, the federal government can

facilitate the building of infrastructure by stepping up its role in encouraging states to look

more seriously at PPPs. While TIFIA has sometimes been the last resort for states that have

been unable to secure funding elsewhere for their projects, the statute can be an even more

effective tool for bridging the “investment gap” for states. With some expansion of the

current provisions of TIFIA, and an increase in its capital, PPPs can become more of a part of

institutional knowledge and more widely used to move state infrastructure projects forward

by leveraging private capital to lower life cycle costs.

**Federal technical expertise solves – cross country studies prove it creates better P3’s**

**Puentes 11**- Senior Fellow at the Brookings Institute (Robert, "Moving Forward on Public-Private Partnerships: U.S. and International Experience with PPP Units." Brookings. December 2011. [www.brookings.edu/~/media/research/files/papers/2011/12/08%20transportation%20istrate%20puentes/1208\_transportation\_istrate\_puentes.pdf)//TD](http://www.brookings.edu/~/media/research/files/papers/2011/12/08%20transportation%20istrate%20puentes/1208_transportation_istrate_puentes.pdf)//TD)

As the experience of other federal structures shows, federal PPP units appear later in the process of ¶ building PPP capacity, given that states are in charge of procuring transportation projects. Yet a federal PPP unit would be useful in providing technical assistance to states and other public entities that ¶ cannot develop internal capacity to deal with the projects themselves. This does not exclude the assistance of private consultants, but it provides a guarantee that public sector employees who are experts ¶ on the matter have reviewed the business case. This type of assistance should come on a request basis ¶ rather than regulations or conditions for federal funding, which will make it even more difficult for ¶ state agencies to pursue PPPs.

The Federal Highway Administration has started building capacity in the Office of Innovative Program Delivery (IPD) in this direction. Upon request, staff from IPD could provide a general first ¶ presentation on alternative financing for a project proposed by a state agency. IPD can present in a ¶ workshop how the project would be financed under several alternatives, including the PPP option. ¶ They show the pros and cons of the financing options considered and present different types of PPP, ¶ appropriate for that specific project (design-build, long-term concession, etc.) In addition, they provide ¶ examples from other states on PPPs conducted. While this is a start, IPD does not have the resources ¶ and the staff to assist other public entities in the procurement and management of a PPP.¶ 102

An important lesson for the United States is that some national PPP units are integrated in agencies in charge of overall investment and infrastructure strategy. PPP units help other agencies to procure ¶ projects through a PPP process, ensuring well-defined procurement processes with clear performance ¶ indicators. For best results, any capital project should be assessed for alternative financing, procurement and delivery methods, in order to ensure best Value for Money. Therefore, the work of a PPP unit ¶ is integral in the capital strategy of a state or national government. Following this principle, both the ¶ UK and Australia have integrated the functions of a PPP unit into newly created institutions in charge ¶ of the country’s infrastructure strategy.

**Developing dedicated P3 units for technical advice solve all the downsides**

**Puentes 11**- Senior Fellow at the Brookings Institute (Robert, "Moving Forward on Public-Private Partnerships: U.S. and International Experience with PPP Units." Brookings. December 2011. [www.brookings.edu/~/media/research/files/papers/2011/12/08%20transportation%20istrate%20puentes/1208\_transportation\_istrate\_puentes.pdf)//TD](http://www.brookings.edu/~/media/research/files/papers/2011/12/08%20transportation%20istrate%20puentes/1208_transportation_istrate_puentes.pdf)//TD)

Most of the countries with well-developed PPP markets have dedicated PPP units that help them design and implement their PPP projects.¶ 90¶ Given their primary role in infrastructure development, states and provinces in Australia, Canada and Germany are some of the early adopters of the PPP unit model. The ¶ federal PPP units are rather recent, and are often built on models that proved successful at the state ¶ level. Several lessons for U.S. states emerge from the international experience with PPP units:

First, it is clear that most often governments start developing the PPP market with the primary goal of offloading the budgetary burden of certain projects. However, they soon realize the complexity of PPP projects and the potential negative consequences if the PPP agreements are not properly assessed and the sharing of risk and revenue not well understood by all parties. Dedicated PPP units help governments develop and expedite PPP markets. while at the same time protecting the public interest, by addressing any identified gaps in dealing with PPPs from the public side.

**Providing federal technical assistance helps overcome most barriers**

**Puentes 11**- Senior Fellow at the Brookings Institute (Robert, "Moving Forward on Public-Private Partnerships: U.S. and International Experience with PPP Units." Brookings. December 2011. [www.brookings.edu/~/media/research/files/papers/2011/12/08%20transportation%20istrate%20puentes/1208\_transportation\_istrate\_puentes.pdf)//TD](http://www.brookings.edu/~/media/research/files/papers/2011/12/08%20transportation%20istrate%20puentes/1208_transportation_istrate_puentes.pdf)//TD)

Technical Assistance. One of the recurring problems in PPPs is the lack of adequate and necessary skill in the public sector to deal with PPP deals. This proficiency is not limited to financing issues such as the assessment of the Value for Money and the discount rate of the project, which may be contracted out to private consultants. More important is to understand the place of the PPP project in the government’s long term plan, its fiscal consequences, the allocation of risk between the public and the private sector and what government reforms would be required for a successful implementation. While there is a role for private advisors in pursuing PPPs due to the complexity of the contracts, the public sector should be able at least to adequately provide oversight of the consultants to secure the public interest.

The creation of a PPP unit with the necessary technical skills to help procuring agencies would simplify the PPP process and allow for a more effective negotiation process. Further, it provides a consolidated authority in negotiations. This is especially important when the PPP project involves several departments of the procuring public client. 29

### 2nc – deregulation solves

**Reducing federal regulations regarding P3’s will allow states to attract billions in private sector finance**

**Thomasson, 12** - is president of NewBuild Strategies LLC, an energy and infrastructure consulting firm in Washington, DC. He most recently served as a policy director at a nonprofit think tank and has testified before Congress about current proposals for financing infrastructure (Scott, “Encouraging U.S. Infrastructure Investment”, April, <http://www.cfr.org/infrastructure/encouraging-us-infrastructure-investment/p27771)//DH>

Congress can unlock state and private investment by reducing state borrowing costs and allowing flexibility for alternative revenue sources and private capital for financing solutions. Specifically, federal policymakers should:

Give states the flexibility to use alternative capital and revenue sources. Billions of dollars to finance new infrastructure could be raised every year from private-sector capital and untapped revenue sources like tolls and user fees. Neither is a free lunch, but they are potential alternatives to a federal tax increase or deficit spending. New tolls are banned on interstates, except for a federal pilot program that allows only three states to use tolling to replace worn-out roads. Congress should eliminate this cap and make tolling options available for any interstate improvement project. In addition, Congress should promote PPPs by loosening rules on government contracting and concessions and provide grants and other assistance to develop state PPP programs. Congress should also help states attract private capital by allowing broader use of tax-favored structures preferred by many investors for other types of investments, like master limited partnerships (MLPs) and real estate investment trusts (REITs).

### AT: Private sector won’t fund

**Investors are looking for additional infrastructure investment – billions in private capital exists**

**Ybarra 08**- Senior Transportation Analyst at the Reason Foundation (Shirley, "Public-Private Partnerships in Transportation." Reason Foundation. July 28, 2008. reason.org/news/show/public-private-partnerships-in-1)//TD

1. Access to large new sources of capital Public-private partnerships are attractive to many different types of investors, including equity investors and lenders. More importantly, they open the door to institutional investments, such as pension funds. Infrastructure has become a fashionable asset class for a host of investors that don’t invest in toll-agency bonds. Billions of dollars of private investment is available, as we’ve seen in the well-publicized concession agreements for the Chicago Skyway and Indiana Toll Road. Less well known are the investments in several new roads underway in Texas, California, and Virginia, among others. 2. Ability to raise larger sums for toll projects New highway capacity is far more costly these days than it was when the Interstates were built. Hence, rebuilding and modernizing our freeways and Interstates will be far more costly than most people realize. There is growing evidence that the long-term concession model can raise significantly more funding for a given toll project than the traditional toll agency financing model. For a new toll road in Texas (SH-130 segments 5 and 6), for example, a toll traffic and revenue study estimated the ability to finance $600 million, but the project’s cost was $1.3 billion. The Texas Department of Transportation (TXDOT) turned to a long-term concession approach, in which the private sector financed the entire $1.3 billion project in exchange for a 50-year concession. Three factors seem to drive such results. First, the concession agreement adds certainty to future toll increases that we’ve never seen with toll agencies. Second, the private sector seems more aggressive in both attracting traffic and holding down costs. And third, the private sector can take depreciation as a tax write-off, and toll agencies can't.

**Upfront commitments will leverage billions in private funding**

**Cooper, 12** - Donna Cooper is a Senior Fellow with the Economic Policy team at the Center for American Progress (“Meeting the Infrastructure Imperative”, 2/16, <http://www.americanprogress.org/issues/2012/02/infrastructure.html)//DH>

Improving how the government approaches planning for, paying for, and financing infrastructure can increase the impact of every dollar spent and result in higher levels of private investment. Given that so much of this plan relies on more private-sector investment, the reforms necessary to attract this level of investment are essential to achieving our goal. If the reforms we propose are adopted, CAP projects that nearly $60 billion per year in private investments could materialize.

We estimate that most of the new private-sector investment will be directed in the energy sector. With carefully calibrated federal incentives including loans, loan guarantees, grants, and tax credits, we estimate that as much as $40 billion in new annual private investment will enable the build-out of the smart grid as well as expanded renewable energy generation and distribution capacity to desired levels.

The balance of the private investment is likely to occur in the transportation sector. In this sector, new private investment will most likely occur through the formation of new entities where the public sector and private sector join forces to undertake large-scale infrastructure improvements financed with private capital and where the projects generate revenues that can pay back private investors while the private investor and the government share the risk of the project being financially viable. The most likely candidates for this approach to financing are airports, ports, inland waterways, new tolled roads, some existing roads that might be tolled, and tolled bridges.

To reach the desired level of upfront private investment, the public must have a deeper understanding and trust that the government and private partners jointly share the risk and responsibility for a high-quality infrastructure. These models will need to rely on creative partnership structures that offer private investors the opportunity to earn a rate of return beyond interest on their investment. Likewise, partnership agreements need to ensure that the taxpayers are assured that high expectations of performance must be met and are enforceable, users are not exploited to cover costs and profits, risk is appropriately shared among all parties, and workers are not shortchanged in an effort to maximize profits.

### P3’s solve better

**P3’s solve- private sector competition decreases costs, has substantially more capital to invest, bolsters innovation, decreases public risk and creates superior infrastructure services**

**Brouillette 07**- President and CEO of the commonwealth foundation (Matthew, "The Benefits of Public-Private Partnerships in Transportation." The CommonWealth Foundation. 10/18/07. [www.commonwealthfoundation.org/research/detail/the-benefits-of-publicprivate-partnerships-in)//TD](http://www.commonwealthfoundation.org/research/detail/the-benefits-of-publicprivate-partnerships-in)//TD)

Fortunately, alternatives exist. Policymakers in Harrisburg don’t have to merely choose between higher taxes or bad roads. Indeed, an even better means of financing and managing our transportation infrastructure and systems could be placed at your fingertips. This tool—known as Public-Private Partnerships—will enable policymakers to leverage private capital and expertise to help pay for and operate our transportation infrastructure and mass transit systems. This new paradigm is one that many cities and states across the nation are employing to meet their transportation needs. By partnering with the private sector, policymakers can better provide public services. I would to highlight a number of benefits of Public-Private Partnerships.

Costs Savings The first is reduced costs to taxpayers and commuters—a leading driver behind Public-Private Partnerships in transportation. There is a long history of achieving significant savings in operational functions. For example, Florida’s Public-Private Partnership initiatives for highway maintenance have generated cost savings between 15% and 20%. Additionally, some of the largest opportunities for savings occur in transit operations.

Greater Efficiency Closely related to saving money, Public-Private Partnerships can produce greater efficiencies through competition and specialization. Study after study shows that a competitive system is more efficient and effective than traditional single provider systems. For example when Massachusetts turned to competition for its highway maintenance, nearly half of the contracts were won by employee groups who competed. For the first time, efficiency and effectiveness were introduced system wide producing tremendous improvements. Massachusetts was able to lower labor input costs and receive greater productivity in return. Furthermore, the introduction of competition freed up resources that could be allocated to other, higher priority needs.

Access to New Capital In addition to saving money, Public-Private Partnerships also open up new sources of capital to the Commonwealth. A lease of the Turnpike would potentially bring in billions of dollars that should be dedicated to strategic investments in other transportation infrastructure projects throughout the state. Other concession opportunities may also emerge bringing additional money for transportation purposes.

Achieving Performance or Quality Improvements The contractual mechanism in Public-Private Partnerships increases the incentive to produce high-quality work and to ensure high performance. Indeed, the level of performance is firmly established in the contract. Generally, contracts can (and should be) performance-based (focusing on outputs or outcomes) and can include quality assurances. Often these performance standards exceed these established for the public agencies, the Indiana Toll Road agreement being just one example. Enhancing accountability and performance also are prime considerations for many public officials. Partnerships require strong contracts with performance requirements. In many cases, this adds an additional level of transparency into the operations.

Changing the Incentive Structure Similarly aligned with performance or quality improvements is changing the incentive structure. If nothing else, Public-Private Partnerships change traditional business practices, making them more flexible, innovative, transparent, and customer focused. In addition, these new incentive structures lead to more on-time and on-budget project delivery.

Enhancing Risk Management Public-Private Partnerships also protect citizens’ interests. These contracts allow government agencies to shift risk from taxpayers to the contractors. With the power of a contract at hand, governments can build quality assurance and/or quality controls into project delivery as a means to manage risk. An increasing trend is the employment of warranty concepts whereby the contractor places a long-term guarantee on their work. This further shields taxpayers from risk.

Spurring Innovation Finally, Public-Private Partnerships produce innovative solutions. In non-competitive systems and where the incentive structure is not set up to reward innovation, there is no motivation to “swim upstream” and advance a new idea. Private firms have far more opportunity and incentive to encourage and foster innovative ideas at all levels. In sum, the advantage of a Public-Private Partnership paradigm is that most, if not all, concerns about performance expectations and costs to the public can be adequately mitigated by the General Assembly and Governor. This level of accountability simply cannot be matched by the traditional funding and management model. It is also important to note that the public sector retains full control of its transportation infrastructure and services. A public-private partnership is neither a divesture of responsibility nor a transfer of an asset. It is merely a contractual arrangement whereby the expertise of both the public and private sector are maximized.

**P3’s decrease delay, boost innovation and reduce costs**

**Siemiatychi 10**- PhD in Urban Planning (Matti, "Delivering Transportation Infrastructure Through Public-Private Partnerships." American Planning Association. Winter 2010. Proquest.)//TD

In the United States, PPPs have also gained growing attention. Twenty three states in the United States have enacted special legislation to enable PPPs on state transportation projects (Federal Highway Administration, 2009), while the National Surface Transportation Policy and Revenue Study Commission reported in 2007 that "public-private partnerships should play an important role in financing and managing our surface transportation system" (p. 29). Indeed, the rise of PPPs has been among the most important trends shaping public service delivery (Sagalyn, 2007) at a time when governments around the world are increasingly turning to high quality urban infrastructure as a strategy to stimulate economic growth and create jobs, ameliorate environmental problems, and promote social equity. Proponents suggest that using PPPs to introduce private financing, competition, and market forces into the procurement of public infrastructure can lead to projects being built sooner than they would be if entirely paid for by governments, reduce project lifecycle costs through greater innovation, introduce more accountable decision making, and reduce the potential for construction cost escalations that have consistently plagued infrastructure mega-projects (Deloitte Research, 2006; Government Accountability Office, 2008; Levy, 1996). Most recently, the bundling of facility design, building, financing, and operation into a single long-term concession (known by the acronym DBFO) has become a favored partnership model for delivering large projects in the transportation sector (Federal Highway Administration, 2009).

### P3’s solve competitiveness

**This solves – it incentivizes greater private sector investment, solves the case and boosts competitiveness**

**Goldsmith 11**- Director of the Keston Institute for Public Finance and Infrastructure Policy (Stephen, "Infrastructure Investment and U.S. Competitiveness." Council on Foreing Relations. 4/5/11. [www.cfr.org/united-states/infrastructure-investment-us-competitiveness/p24585)//TD](http://www.cfr.org/united-states/infrastructure-investment-us-competitiveness/p24585)//TD)

Unfortunately, this pattern has been repeated for decades, and the accumulation of deferred maintenance and deferred investment in future infrastructure has led to an unsatisfactory status quo. To ensure America's future competitiveness in the global marketplace, we must rethink our approach to the construction and financing of infrastructure. And in this policy area, many of the most promising ideas for unlocking public value involve public-private partnerships.

The key question in a debate about infrastructure should be: "How can we produce the most public value for the money?" Answering this question should lead us to pursue both operational and financing innovations. The private sector has an important role to play in both. Public officials can produce more value for the dollar by better structuring the design, construction, operation, and financing of infrastructure projects that produce more lifecycle benefits and fewer handoffs among various private parties. A private partner can often achieve savings for government by identifying operational efficiencies and assuming risk formerly held by the public sector. Unlike the traditional model for bridge construction in which one firm designs, one firm builds, one company finances, and the public maintains, an arrangement which gives the private firm an ongoing responsibility for maintenance or durability will encourage design optimization and likely increase the length of the asset's lifecycle.

Public-private partnerships can produce access to capital that will accelerate the building of critical infrastructure in sectors ranging from transportation to wastewater treatment. However, maximizing their potential to solve America's infrastructure challenges also requires governments to create a regulatory climate conducive to them. Government agencies should be given maximum flexibility to enter into partnerships with the private sector; and private companies should not have to navigate unreasonable tax laws that limit their ability to partner with government entities to produce better public value.

At a time when every dollar counts, extracting maximum public value out of infrastructure investment is crucial. The private sector can be a strong partner to government. By prioritizing long-term value creation over short-term politics, America can bridge the infrastructure divide and ensure our continued prosperity.

### P3’s solve cost overruns

**P3s decrease delays and cost overruns**

**Edwards, 11** - director of tax policy studies at Cato. 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 (Chris, “Federal Infrastructure Investment” Congressional Testimony, 11/16, <http://www.cato.org/publications/congressional-testimony/federal-infrastructure-investment)//DH>

A recent Brookings Institution study describes some of the advantages of PPPs. It notes that the usual process for government infrastructure investment decouples the initial construction from the later management, which results in contractors having few incentives to build projects that will minimize operation and maintenance costs.32 PPP solves this problem because the same company will both build and operate projects. "Many advantages of PPP stem from the fact that they bundle construction, operations, and maintenance in a single contract. This provides incentives to minimize life-cycle costs which are typically not present when the project is publicly provided," notes the Brookings' study.33

There are other advantages of infrastructure PPP and privatization. One advantage is the greater efficiency of construction. Extensive British experience shows that PPP projects are more likely to be completed on time than traditional government projects.34 Another advantage is the greater efficiency of operations. Private firms have incentives to reduce excessive operational costs, as illustrated by the labor cost savings from the leasing of the Chicago Skyway.35 Finally, private operators of infrastructure such as toll roads are more likely to charge efficient market rates to users, as illustrated by the leasing of the Indiana Toll Road.36

The Brookings' paper raises some important concerns with PPP, which I share. One is that state officials may lease assets such as toll roads simply to paper over short-term budget deficits. Another concern is that policymakers write poor contracts that assign profits to private parties but risks and possible losses to taxpayers. The Brookings' authors propose approaches to structuring contracts and competitive bidding to ensure efficiency.

For new infrastructure investments, well-structured PPP or full privatization appears to be a winning approach for taxpayers, governments, and the broader economy. Taxpayers win because subsidies to infrastructure users are minimized. Governments win because they get new facilities built. And the economy wins because private investment is more likely to be cost-efficient and well-targeted than traditional government investments.

**The CP contains cost and decreases pressure on state budget**

**Bosworth and Milusheva 11**- Senior of economic studies at the Brookings Institute and research assistant at the Brookings Institute (Barry and Sveta, "Innovations in U.S. Infrastructure Financing: An Evaluation." Brookings. 10/20/11www.brookings.edu/~/media/research/files/papers/2011/10/20%20infrastructure%20financing%20bosworth%20milusheva/1020\_infrastructure\_financing\_bosworth\_milusheva.pdf)//TD

Advocates of public-private partnerships for infrastructure projects view them as relieving some of the financial pressures on state and local governments, but the primary objective is to improve the management of the projects by combining initial investment decisions with responsibility for future costs of operation and maintenance. PPPs can vary substantially from relatively simple long-term supply contracts to turning over to a private entity the responsibility to build, operate and maintain a facility. Most commonly, the private entity recoups its costs through user fees. The bundling of investment and O&M is expected to increase efficiency by incorporating operational concerns in the initial design, and the necessity of recovering costs imposes a strong fiscal discipline. A private contract to operate a facility may also offer a degree of separation of politicians from a decision to raise tolls or user fees. An extensive discussion of public–private partnerships in transportation can be found in a Department of Transportation study (USDOT, 2004) PPPs are extensively used to build and manage infrastructure projects in Europe, but they have been less popular in the United States. In part, that reflects the favorable financial position of U.S. sub-governments who can make use of tax-exempt bond financing, an option not generally available in Europe. In addition, many state governments prefer to delay projects until they can obtain access to federal subsidies (grants). While it is not impossible for PPPs to qualify for both tax-exempt financing and federal grants, both features limit their appeal. 11 Private sector managers also must pay federal taxes and provide for a significant equity return. 11 Tax-exempt Private Activity Bonds, sponsored by the Department of Transportation, can be issued by public entities to finance private projects that are deemed to be in the public interest. Moreover, there is a public suspicion of such arrangements because in the past they have been proposed as a means of auctioning off future project revenues in exchange for a large onetime payment to the benefit of current political incumbents. Certain private-sector efficiencies of PPPs might offset their higher cost of capital. The integration of the initial investment and O&M does lead to some design efficiencies, and privatesector managers are more successful in managing the revenue side of the operation, overcoming political objections to increases in user fees and congestion charges. PPPs in transportation, however, have generally not achieved significant operating efficiencies. Fundamentally, a PPP is simply the payment of a lump-sum to the public entity in exchange for the stream of future revenues. Since a public entity engages in the same exchange through the issuance of bonds, it is not obvious that PPPs increase the total availability of funds for infrastructure investments. They are attractive in situations where the public entity is constrained in its ability to issue new debt, but that is not common for projects that differ only in their financing options. A more significant advantage is likely to be the removal of political considerations from the day-to-day management of the facility. The negotiation of PPP contracts that balance public and private concerns in a transparent fashion can be quite complex. Many infrastructure projects are very long-lived and estimates of future revenues can be quite uncertain. Mistakes are bound to be made, and provisions must be made for revisions that are fair to both sides. Most projects will be quasi-monopolies where market competition can offer limited guidance. Engel, Fischer, and Galetovic (2011) discuss a large number of these concerns and outline a number of broad principles that they believe should guide those decisions. Still PPPs have only a limited appeal in the U.S. context, and their record has been quite mixed to date (CBO, 2008; and US GAO, 2008)).

**P3’s substantially decrease costs and reduce delays**

**Laudan 03**- Senior Communications Consultant for Partnerships British Columbia. (Mina, "An Introduction toPublic Private Partnerships." Partnerships British Columbia. June 2003. [www.partnershipsbc.ca/pdf/An%20Introduction%20to%20P3%20-June03.pdf)//TD](http://www.partnershipsbc.ca/pdf/An%20Introduction%20to%20P3%20-June03.pdf)//TD)

P3s provide an opportunity to: Improve service delivery by allowing both sectors to do what they do best. Government’s core business is to set policy and serve the public. It is better positioned to do that when the private sector takes responsibility for non-core functions such as operating and maintaining buildings. Improve cost-effectiveness. By taking advantage of private sector innovation, experience and flexibility, P3s can often deliver services more cost-effectively than traditional approaches. The resulting savings can then be used to fund other needed services. Increase investment in public infrastructure. Investments in hospitals, schools, highways and other provincial assets have traditionally been funded by the Province and, in many cases, have added to levels of overall debt. P3s can reduce government’s capital costs, helping to bridge the gap between the need for infrastructure and the Province's financial capacity. Reduce public sector risk by transferring to the private partner those risks that can be better managed by the private partner. For example, a company that specializes in operating buildings may be better positioned than the government to manage risks associated with the changing demands of commercial real estate. Deliver capital projects faster, making use of the private partner’s increased flexibility and access to resources. Improve budget certainty. Transferring risk to the private sector can reduce the potential for government cost overruns from unforeseen circumstances during project development or service delivery. Services are provided at a predictable cost, as set out in contract agreements. Make better use of assets. Private sector partners are motivated to use facilities fully, and to make the most of commercial opportunities to maximize returns on their investments. This can result in higher levels of service, greater accessibility, and reduced occupancy costs for the public sector. An Introduction to Public Private Partnerships The P3 approach also encourages a “life cycle” approach to planning and budgeting, through the use of long-term contracts. For example, a company that agrees to operate and maintain a building for 50 years will have to ensure that the asset remains in a certain condition and, therefore, must include maintenance costs in its budget for the life of the agreement. By contrast, public sector planning is based on three-year cycles in British Columbia. Maintenance costs can sometimes be deferred in response to budget pressures, which can reduce the value of an asset over time.

### P3’s solve delay

**P3’s create faster delivery of infrastructure services**

**ACT 07**- Aecom Consult Team ("Case Studies ofTransportationPublic-PrivatePartnerships aroundthe World." US DOT Federal Highway Administration. 7/7/07. [www.fhwa.dot.gov/ipd/pdfs/int\_ppp\_case\_studies\_final\_report\_7-7-07.pdf)//TD](http://www.fhwa.dot.gov/ipd/pdfs/int_ppp_case_studies_final_report_7-7-07.pdf)//TD)

Faster Delivery PPPs can expedite the financing and delivery of transportation projects through the involvement of the private sector in these phases of a project, that lower project costs by avoiding inflationary cost increases, applying best practices and new technology, and transferring more technical and other risks to the private sector which is often better able to manage these risks. The private sector has an incentive to minimize construction delays in order to minimize costs and bring forward their revenue stream. Contract conditions including early completion bonus payments and the inclusion of the construction period within the concession period can provide further incentives to bring forward delivery.

### P3’s solve – empirics

**P3’s are empirically successful- states and other countries**

**Celluci 10**- PhD, MBA. Cheif Commercial Officer of the DHS (Thomas, "Innovative Public-Private Partnerships." Department of Homeland Security. July 2010. [www.dhs.gov/xlibrary/assets/st\_innovative\_public\_private\_partnerships\_0710\_version\_2.pdf)//TD](http://www.dhs.gov/xlibrary/assets/st_innovative_public_private_partnerships_0710_version_2.pdf)//TD)

Another common example of public-private partnerships found today is the construction of transportation infrastructure such as roads and highways. The state and local governments of California, Virginia, and Texas work with private sector companies to build and maintain this infrastructure with limited impacts on taxes. One method to this approach is to create Transportation Oriented Development. This includes the construction of train stations, metro stations, tram stops, and bus stops. This increase in public transportation reduces the amount of roads that need to be made or extended, as well as facilitates the better distribution of urban density. More people are able to commute outside of the urban communities they work in because of the public transportation that reaches out to where they live. Other nations, like Ireland, utilize public-private partnerships. The reason for the introduction of public-private partnerships in Ireland was due to government frustration with the slow delivery, inefficient development, and overrunning costs that would occur when developing projects in the public-sector. They also found that through public-private partnerships, the public infrastructure’s needs would be addressed quicker than if it was to be achieved by traditional means. The Irish government found that it was more cost effective and less time consuming to seek help from the private sector than it was for them to use their own public research and development sectors.

**Empirically P3’s work for transportation infrastructure – cross country studies**

**Briccetti 11**- President and CEO of the Business Council of New York State, Inc (Heather, "Utilizing Public-Private Partnerships to fund Transportation infrastructure projects in New York State." The Business Council. May 16, 2011. [www.bcnys.org/whatsnew/testimony/2011/public-private-partnerships0516.htm)//TD](http://www.bcnys.org/whatsnew/testimony/2011/public-private-partnerships0516.htm)//TD)

P3s are not THE solution – they’re a part of a solution; that’s where the partnership aspect of the process plays a pivotal role in determining whether a P3 is a success or a failure. P3s should not be viewed as the solution to a budget crisis – or a way to supplant public investment. The P3 process by its nature works best when there is a strong and trusted relationship among the public and private partners who advance the process together. An open and collaborative process between the public and private sectors helps to ensure that P3 projects go well and also provides for an atmosphere which encourages innovation and creativity. The P3 process also must include the public and other stakeholders – and it is a process which makes its objectives clear from the outset. There are longstanding P3 successes around the world – many countries in Europe and Australia have been using a P3 model for many years. P3s represent between 10 and 15% of all UK investments in public infrastructure. Recently, Canada, our state’s largest trading partner, has had demonstrated P3 successes. Much P3 research has already been done in New York State. On June 1, 2009, the NYS Commission on State Asset Maximization issued their Final Report of Recommendations on public-private partnerships in New York State. Six months in the making, this report was very supportive of advancing public-private partnerships in the state. Their report recommended that the state move forward on public-private partnerships in the areas of Transportation, Social Infrastructure, Higher Education, Energy, Information Technology and Underutilized Property. Transportation is a key sector where P3’s can be beneficial. The state’s transportation needs are large and continually growing, far exceeding our reliance on fuel taxes, tolls and borrowing to fund the infrastructure. This requires serious consideration of alternatives to the standard approach to financing, constructing, and operating our transportation system. Key elements driving private sector transportation infrastructure investment are: Finance and Energy Government Budgetary Constraints Maintenance and Obsolescence Demographic Trends Global Competitiveness Availability of Private Capital Private sector transportation investment would help accelerate projects and keep them on-time and on-budget by implementing: Management Efficiencies Newer Technologies Workplace Efficiencies Cash Flow Management Personnel Development Shared Resources

### P3’s solve – roads

**P3s are the best model for building highways**

**CBO 12**- Congressional Budget Office ("Using Public-Private Partnerships to Carry Out Highway Projects." CBO. 1/9/12www.cbo.gov/publication/42685)//TD

In this study, the Congressional Budget Office (CBO) finds that private financing will increase the availability of funds for highway construction only in cases in which states or localities have chosen to restrict their spending by imposing legal constraints or budgetary limits on themselves. The reason is that revenues from the users of roads and from taxpayers are the ultimate source of money for highways, regardless of the financing mechanism chosen. The cost of financing a highway project privately is roughly equal to the cost of financing it publicly after factoring in the costs associated with the risk of losses from the project, which taxpayers ultimately bear, and the financial transfers made by the federal government to states and localities. Any remaining difference between the cost of public versus private financing for a project will stem from the effects of incentives and conditions established in the contracts that govern public-private partnerships. CBO also finds, on the basis of evidence from a small number of studies, that such partnerships have built highways slightly less expensively and slightly more quickly, compared with the traditional public-sector approach. The relative scarcity of data on public-private partnerships for highway projects, however, and the uncertainty surrounding the results from the available studies make it difficult to apply their conclusions definitively to other such projects.

### P3’s solve – mass transit

**The counterplan solves Mass Transit- efficiency, competition, and public protection**

**US DOT 07**- United States Department of Transportation ("Report to Congress on the Costs,Benefits, and Efficiencies of PublicPrivate Partnerships for Fixed GuidewayCapital Projects." DOT. December 2007. [www.fta.dot.gov/documents/Costs\_Benefits\_Efficiencies\_of\_Public-Private\_Partnerships.pdf)//TD](http://www.fta.dot.gov/documents/Costs_Benefits_Efficiencies_of_Public-Private_Partnerships.pdf)//TD)

A PPP is not merely the outsourcing of transit system services and functions to the private sector but involves a partnership relationship between the sponsor transit agency and the private partner whereby each provides those services it is best equipped to offer in the most cost-effective manner – not merely the cheapest. PPPs bring specialized resources to a transit service operation that can significantly leverage the resources and capabilities of the sponsor transit agency. These improved practices result in better patron service, greater access to capital markets to expedite project delivery by augmenting more traditional sources of funding and finance, quicker access to more efficient technology, and in certain instances less expensive staff resources to perform functions only when needed instead of retaining them on a full-time basis. PPPs also introduce competition to the provision of public transportation facilities and services, which inevitably serves to increase the availability of qualified resources to perform these functions and places downward pressure on the prices of these services, especially when there are multiple providers to choose from. Alternatively, private sector involvement can result in service quality improvements at the same cost as traditional public agency-provided services, but with the potential for the added benefit of transferring the risk of providing the desired service quality to the private partner. The public sponsor agency also serves to protect the public interest in the social benefits and externalities provided by public transportation services.

### P3’s solve – rail

**P3’s solve rail- innovation and cost efficiencies**

**Krueger et al 11**- Chairman of the President's Council of Economic Advisors (Alan, "RECENT EXAMPLES OFTHE ECONOMIC BENEFITS FROMINVESTING IN INFRASTRUCTURE." Executive Office of the President. November, 2011. [www.whitehouse.gov/sites/default/files/infrastructure\_report\_final\_pdf\_110211.pdf)//TD](http://www.whitehouse.gov/sites/default/files/infrastructure_report_final_pdf_110211.pdf)//TD)

One way to address the need for more infrastructure investment is to attract more private capital for direct investment in transportation infrastructure. Increased reliance on the private sector to finance transportation infrastructure investments can also improve the efficiency of project selection and drive greater returns on investment. For example, in order to attract private financing, many projects incorporate dedicated revenue streams, often from user fees or other forms of usage-based pricing. Because these revenue streams link investment returns directly to user demand, they can help to guide capital towards the most efficient projects. In general, innovative financing mechanisms have the potential to engage the private sector in infrastructure investments with important public benefits. In particular, this report considers three innovative approaches to private sector engagement: public-private partnerships, particularly in the area of rail freight; Build America Bonds (BABs), as an alternative to municipal bonds that can attract new sources of private funding into the market for financing infrastructure projects; and a National Infrastructure Bank, that has the potential to leverage private capital into projects of national significance. 17 Example: Heartland Corridor Clearance Project (KY, OH, VA, WV) This project is a public-private partnership among Norfolk Southern and federal and state agencies to increase vertical clearances in 28 tunnels and remove 24 overhead obstructions, to allow passage of double-stacked container trains between the Port of Virginia and Columbus, Ohio. It was among the most ambitious railroad engineering projects in the past century. Construction began in 2007, and ended in 2010. The project excavated the roofs and replaced liners in 15 tunnels, carved notches into arch tunnel roofs to allow corners of containers to pass in seven tunnels, lowered or realigned track in six tunnels to improve vertical clearances along a heavily traveled freight rail route. Insufficient vertical clearances forced double-stacked container trains to take circuitous routes or to increase the volume of commercial trucks relying on highways when capacity of rail routes was insufficient. The benefits of this project are numerous – increased corridor capacity and better use of assets helps the shipping community and reduces commercial traffic and fuel consumption on highways, thereby improving air quality all along the route. The project also helps to reduce transit time between Norfolk and Chicago from four days to three and improves overall reliability of service. It also makes the Port of Virginia more attractive to international shippers and inland terminals. Public-Private Partnerships In the U.S., most investment in freight railway infrastructure is privately financed, as that infrastructure is largely owned by the rail carriers themselves. However, even in a network based on private ownership, there are important public benefits that can be realized through investments that improve the flow of freight across the railway network. These benefits include reduced highway congestion, greater safety, and reduced pollution, when freight can be efficiently diverted from trucks to rails. Public-private partnerships between state and federal agencies and the rail carriers can be an efficient way to promote such investments.

### P3’s solve – high speed rail

**P3’s are key to HSR**

**Briccetti 11**- President and CEO of the Business Council of New York State, Inc (Heather, "Utilizing Public-Private Partnerships to fund Transportation infrastructure projects in New York State." The Business Council. May 16, 2011. [www.bcnys.org/whatsnew/testimony/2011/public-private-partnerships0516.htm)//TD](http://www.bcnys.org/whatsnew/testimony/2011/public-private-partnerships0516.htm)//TD)

High Speed Rail linking the major cities across upstate New York and New York City But, public-private partnerships should go well beyond transportation needs. State government has many talented people and access to expertise which can ensure that we not be constrained by near term needs. In an era when state revenues are declining, the opportunity ought not be lost to review the core missions of state agencies. Many worthwhile services provided by state agencies can no longer be met through existing resources and those needs should be evaluated through a P3 lens: whether it’s the rethinking of how wastewater treatment facilities are funded; to thinking broadly about state-owned resources such as our vast network of parks where revenue maximization may not be realized because resources to maintain and expand them may be constrained. It may be as simple as looking to neighboring states, such as New Hampshire, which in 1998 entered into a 30 year lease agreement for the operation of their state-owned ski facilities. In entering into a lease which protected and ensured the broadest public access (and thus keeping to the state’s objectives) but allowed for the operation of the facility to be professionally managed and operated after competitive procurement. This was NOT privatization of assets; this has served as a means to increase access and use; increase capital investment in the ski area; and ultimately increase revenues to the State of New Hampshire from both lease payments and through a percent of gross revenues generated by the facility. Increasing the state’s return on its assets – while maintaining those assets in the public domain — should be fully explored, and, as New Hampshire has shown – with clear objectives, a tightly written lease and revenue agreements, the goals can be met for a true P3. We can also look at New York's leadership role with its public and private universities in support of research, development and technology transfer for examples on how P3s can be used to further economic and infrastructure objectives. The P3 partnership which created the College of Nanoscale Science & Engineering demonstrates how complex issues such as intellectual property ownership didn't impede private sector investment and commitment to achieving the outcome — an example of having an equitable transfer of risk and reward. P3 initiatives with our public universities — SUNY and CUNY — ought to be fully evaluated. The asset portfolio within SUNY and CUNY represent real opportunities to provide P3 solutions for these systems' capital needs and perhaps for ways to leverage research into broader economic P3 partnerships.

### Politics net benefit

**Requiring upfront private sector financing avoids politics and spending links**

**Cooper, 12** - Donna Cooper is a Senior Fellow with the Economic Policy team at the Center for American Progress (“Meeting the Infrastructure Imperative”, 2/16, <http://www.americanprogress.org/issues/2012/02/infrastructure.html)//DH>

Private investors have partnered with state or local governments to build roads, expand highway systems, and build or repair bridges. Typically in this case the private investor pays the public entity upfront an estimated market value for the transportation asset, and then is required under an agreement to cover the cost of improving the asset. In addition, these agreements permit the investor to charge tolls or receive dedicated tax payments while also establishing clear maintenance requirements. Investors enter into these agreements where the tolls or dedicated taxes are projected to cover all costs and profits and are most attractive to investors when the level of earnings has the potential to exceed projections. Federal credit subsidies lower the overall project costs, which in turn reduces the pressure on tolls and/or dedicated taxes, which then has the positive results of making a project more politically and financially feasible.

**Congress wants greater P3’s because of opposition to spending**

**Marks, 11** - guest editor of Infrastructure Journal and partner in Milbank Tweed Hadley and McCloy’s Global Project Finance¶ (Allan, “U.S. Infrastructure: Challenges, Politics and Opportunities,” 4/11, http://www.milbank.com/images/content/6/6/6634/MARKS-US-Infrastructure-Infrastructure-Journal-04-11-2011-.pd.pdf)//DH

Despite ongoing reports from analysts about the ailing state of infrastructure in the United

States, the US Congress continues to focus more on the federal budget deficit than the

infrastructure deficit.

Although securing financing for new infrastructure projects can be a challenge, the recession

has created an excellent opportunity to take advantage of historically low interest rates and

underutilized construction capacity to invest in critically needed infrastructure upgrades.

Because there has been less and less money available from traditional funding sources to

meet the ever-growing need, both for new capacity and to repair and upgrade aging facilities,

governments at federal, state, and local levels have been reluctant to invest in many new

projects and have stalled existing projects. Fortunately, public-private partnerships (PPPs)

offer an attractive tool to bridge this gap.

### --AT: CP still spends money

**Even if the CP spends – spending less comparatively links less to politics**

**Thomasson, 12** -  is president of NewBuild Strategies LLC, an energy and infrastructure consulting firm in Washington, DC. He most recently served as a policy director at a nonprofit think tank and has testified before Congress about current proposals for financing infrastructure (Scott, “Encouraging U.S. Infrastructure Investment”, April, <http://www.cfr.org/infrastructure/encouraging-us-infrastructure-investment/p27771)//DH>

In cases where modest reforms can make more financing solutions possible, good ideas should not be held hostage to "grand bargains" on big legislation like the highway bill or the failed 2010 energy bill. Congress should take up smaller proposals that stand a chance of passing both houses this year—incremental steps that can unlock billions of dollars in additional investments without large federal costs. Any proposals hoping to win Republican support in the House need to have a limited impact on the federal deficit and focus on reducing, rather than expanding, federal regulations and bureaucracy. Some progress can also be achieved by circumventing Congress entirely with executive branch action.

**Even if the counterplan causes some government spending, it still avoids the link to politics because it’s perceived as freeing up federal resources**

**Engel et al 11**- Professor of economics at Yale (Eduardo, "Public-Private Partnerships to Revamp U.S. Infrastructure." Brookings. February 2011. cowles.econ.yale.edu/~engel/pubs/efg\_revamp.pdf)//TD

Governments often justify the use of PPPs because the private sector finances these projects, which they argue frees up scarce government resources that may be used in programs that are socially attractive but not privately profitable. Or, in what amounts to the same idea, PPPs are attractive because governments can get the infrastructure without raising taxes. Of course, this argument does not apply to projects whose capital costs are funded by future government payments, as in the case of the various projects that specify a schedule of capital charges payable in the future and that bind the budget to that time schedule. Examples include the I-595 Corridor Roadway Improvements Project in Florida, the Port of Miami Tunnel, and the Eagle Commuter Project in Denver, all of which are under construction (see Table 2). In these cases, PPPs help state and local governments perform a useful accounting trick, in which future obligations are kept off the balance sheet for no clear economic reason. That PPPs relieve government budgets under strain is also a doubtful argument for projects whose capital costs are partially or totally covered by user fees. In this case, user fees also could have been used to pay the capital costs under public provision. The resources saved by the government by not paying the upfront investment under a PPP should be equal, in present value, to user-fee revenue reaped by the private firm with the concession. There is one exception to this argument, which occurs when a (local, state, or national) government temporarily faces borrowing constraints. A PPP might be the only option to finance a given project in the necessary time frame, after separating the revenue flows of the project from the rest of the public budget, something that may be hard to do if the government cannot borrow. We conclude that in many cases governments choose PPPs because they allow them to make public investments while keeping future obligations off the balance sheet and beyond legislative control. This is not a valid economic justification for partnership with the private sector.

### AT: Perm – do the CP

1. the plan commits to federal investment, the counterplan only does 50% or less of that investment. The permutation severs half of the plan.

2. severance is a voting issue – a stable plan text is the basis for all negative strategy, they destroy all negative ground

3. the CP isn’t federal investment – they either sever the plan or aren’t topical

**‘its’ is possessive**

**Encarta, 9** (Encarta World English Dictionary, http://encarta.msn.com/encnet/features/dictionary/DictionaryResults.aspx?refid=1861622735)

its [ its ]   
adjective  Definition:   indicating possession: used to indicate that something belongs or relates to something  
http://encarta.msn.com/xImages/dictionary/bullet.gifhttp://encarta.msn.com/xImages/trans.gifThe park changed its policy.

**Investment means capital spending**

**CBO, 9** – Congressional Budget Office (“Subsidizing Infrastructure Investment with Tax-Preferred Bonds”, October, <http://www.cbo.gov/sites/default/files/cbofiles/ftpdocs/106xx/doc10667/10-26-taxpreferredbonds.pdf>)

In this analysis, investment in infrastructure is defined as capital spending on transportation, utilities (for example, water and power supply), environmental projects, and schools. 1 In addition, because they account for a significant share of the tax-exempt debt issued, health care facilities and hospitals are treated as infrastructure in this study, although they might not be classified as such for many other types of analyses. Capital spending under this study’s definition consists of investment in physical capital, such as structures and facilities, rather than intangible capital, which is formed by spending on educational programs or on research and development.

**The CP relieves the federal government of the need for capital spending**

**McMillan, no date** - Senior Lecturer in politics at the University of Sheffield

(Alistair, “Public-Private Partnership,” About.com Political Dictionary, <http://www.answers.com/topic/public-private-partnership>)

PPP

Agreement between government and the private sector regarding the provision of public services or infrastructure. Purportedly a means of bringing together social priorities with the managerial skills of the private sector, relieving government of the burden of large capital expenditure, and transferring the risk of cost overruns to the private sector. Rather than completely transferring public [assets](http://www.answers.com/topic/public-private-partnership) to the private sector, as with [privatization](http://www.answers.com/topic/privatization), government and business work together to provide services. The British Government has used PPPs to finance the building of schools, hospitals, for defence contracts, and specific capital projects such as the Channel Tunnel Rail Link, the National Air Traffic Services, and improvements to the London Underground. The system has been criticized for blurring the lines between public and private provision, leading to a lack of accountability with regard to funding, risk exposure, and performance (see also [Private Finance Initiative](http://www.answers.com/topic/private-finance-initiative)).

**4. the CP allows extensive private modification to the plan – severs the certainty of implementation**

**Dornan, 7** - Senior Consulting Manager AECOM Consult, Inc. (Daniel, “Case Studies of Transportation Public-Private Partnerships in the United States”, Report prepared for the Federal Highway Administration, <http://www.fhwa.dot.gov/ipd/pdfs/us_ppp_case_studies_final_report_7-7-07.pdf)//DH>

Public-private partnerships are defined by the US DOT as follows.

³A public-private partnership is a contractual agreement formed between public

and private sector partners, which allows more private sector participation than¶ is traditional. The agreements usually involve a government agency contracting¶ with a private company to renovate, construct, operate, maintain, and/or manage¶ a facility or system. While the public sector usually retains ownership in the¶ facility or system, the private party will be given additional decision rights in¶ determining how the project or task will be completed.´¶ 1

This definition emphasizes that with a PPP the public and private sectors share responsibility for the delivery of the project and/or its services. By expanding the private sector role, the public¶ sector is better able to avail itself of the technological, managerial, and financial resources to¶ leverage scarce public funds and expedite the delivery of a project and/or services in a more costeffective manner and with reduced risk to the public agency sponsor. As noted above, the public¶ sector bore most project delivery, financial, and operational risks. By sharing responsibility and¶ resources for the delivery of a PPP project, both public and private sectors share in the potential¶ risks and rewards from the delivery of the facility or service relative to what they retain¶ responsibility for.¶ 2

**And these modifications are vital to solving - the investment decision must be explicitly conditioned on private lenders assuming the risk to ensure accountability. The counterplan involves the possibility that projects won’t be built if the economic case is terrible**

**Flyvberg et al, 3** – Professor of Major Programme Management at [Oxford University](http://en.wikipedia.org/wiki/Oxford_University)'s [Saïd Business School](http://en.wikipedia.org/wiki/Sa%C3%AFd_Business_School) and is Founding Director of the University's BT Centre for Major Programme Management. He was previously Professor of Planning at [Aalborg University](http://en.wikipedia.org/wiki/Aalborg_University), [Denmark](http://en.wikipedia.org/wiki/Denmark) and Chair of Infrastructure Policy and Planning at [Delft University of Technology](http://en.wikipedia.org/wiki/Delft_University_of_Technology), The Netherlands (Bent, Megaprojects and Risk: An Anatomy of Ambition, p. 120)//DH

In principle, the most important issue from an accountability point of view is the actual decision on whether to undertake the investment in a megaproiect or not. Given that the size of the investment is in the¶ multibillion-dollar range and that the uncertainties involved are substan-¶ tial, it seems self-evident that it must be possible to hold accountable¶ those who take the decision. Experience from Great Belt, Oresund and other projects shows that government in itself is not sufficiently effective¶ when it comes to enforcing accountability with respect to specific issues such as decisions on major infrastructure investments (see Chapters 2-4). A more effective way of achieving this is, in our judgement, to let the decision to go ahead with a project - given that the project satisfies agreed public interest objectives - be conditioned by the willingness of private financiers to participate in the project without a sovereign guarantee. This¶ means that at least part of the capital, which will have to be mobilised¶ for a given project, should be genuine risk capital. In other words, only if this risk capital can be mobilised will the project be built. By requiring that a substantial commitment in the form of risk capital is made, the ordinary citizen will not be required to carry any, or only limited, risks. The common practice, followed at Oresund and Great Belt, of transferring the costs of risk to those who are in the weakest position to protect¶ themselves is thereby, if not eliminated, at least significantly reduced.22

**6. it severs ‘substantial’ – the CP alone involves insubstantial federal commitments**

**Mattei, 11 –** partner at Debevoise & Plimpton (Ivan, “The current catalysts for US PPP development,” Project Finance, October, lexis)

There is also growing appreciation by state governments that PPPs can be used to effect an efficient transfer of various risks (eg. construction overruns and revenue shortfalls) and obligations (eg. operating an airport in accordance with rigorous stan­dards) to the private sector, thereby allow­ing the government to focus its resources and efforts on core governmental services. The private sector is also willing and able to contribute significant equity to PPPs, which can be used to lever debt financing for transportation infrastructure projects, reliev­ing the government of substantial financial commitments.

### AT: Perm – do both

**The perm links to politics and the link alone undermines solvency**

**Geddes, 12** – visiting scholar at the American Enterprise Institute (Richard, “Private investment for infrastructure,” 4/6, <http://www.aei.org/article/economics/private-investment-for-infrastructure/)//DH>

Despite its long history of private investment in railroads, canals, electricity, natural gas, water systems and many other sectors, the United States now lags behind many other countries in private infrastructure investment. After controlling for the relative size of the economies, Canada has seven times more private investment in infrastructure than the United States. Mexico, Latin America and the Caribbean have about 3½ times as much - as does Europe. The hostile environment created by some U.S. politicians is an important deterrent to private investment.

**Links to our accountability net benefit – the plan locks in projects that it funds, generating massive cost overruns and waste - this will collapse the economy overall**

**Flyvbjerg, 10** - Professor of Major Programme Management at [Oxford University](http://en.wikipedia.org/wiki/Oxford_University)'s [Saïd Business School](http://en.wikipedia.org/wiki/Sa%C3%AFd_Business_School) and is Founding Director of the University's BT Centre for Major Programme Management. He was previously Professor of Planning at [Aalborg University](http://en.wikipedia.org/wiki/Aalborg_University), [Denmark](http://en.wikipedia.org/wiki/Denmark) and Chair of Infrastructure Policy and Planning at [Delft University of Technology](http://en.wikipedia.org/wiki/Delft_University_of_Technology), The Netherlands (Bent, “Survival of the unﬁttest: why the worst infrastructure gets built—and what we can do about it,” Oxford Review of Economic Policy, Volume 25, Number 3, 2009, pp.344–367, Oxford Journals Online)//DH

With so much money in the pipeline—and with the health of the global economy riding on the success of infrastructure investment—the efﬁciency of infrastructure delivery is particularly important at present. If done right the investment boom could become a boon, because infrastructure investment is appealing in many ways: it creates and sustains employment; there is a large element of domestic inputs relative to imports; it improves productivity and competitiveness by lowering producer costs; it beneﬁts consumers through higher-quality services; and it improves the environment when infrastructures that are environmentally sound substitute for infrastructures that are not (Helm, 2008, p. 1).

But there is a big ‘if’ here. Because if done wrong the thrust may become a bust, with boondoggles worse than any seen yet, weakening the economy instead of improving it. Unfortunately the conventional way of delivering major infrastructure shows a dismal performance record. In what follows, I document the record, explain why it is so poor, and ﬁnally describe measures that may help current stimulus spending become effective, instead of adding to the ﬁnancial and economic failures that litter the ﬁeld of infrastructure investment. But ﬁrst, let’s see what the characteristics of major infrastructure are.

II. Characteristics of major infrastructure

Major infrastructure projects generally have the following characteristics.

Such projects are inherently risky owing to long planning horizons and complex interfaces.

Technology and design are often non-standard.

Decision-making, planning, and management are typically multi-actor processes with conﬂicting interests.

Often there is ‘lock in’ or ‘capture’ of a certain project concept at an early stage, leaving analysis of alternatives weak or absent.

The project scope or ambition level will typically change signiﬁcantly over time.

Statistical evidence shows that such unplanned events are often unaccounted for, leaving budget and time contingencies sorely inadequate.

As a consequence, misinformation about costs, beneﬁts, and risks is the norm throughout project development and decision-making, including in the business case.

The result is cost overruns and/or beneﬁt shortfalls during project implementation.

Cost overruns in the order of 50 per cent in real terms are common for major infrastructure, and overruns above 100 per cent are not uncommon. Demand and beneﬁt forecasts that are wrong by 20–70 per cent compared with actual development are common.

Table 1 shows more detailed cost data for transportation infrastructure projects. Transportation is used as an example here and elsewhere in the article because the best data exist for transportation and because there is not enough space to present data for all project types. It should be mentioned, however, that comparative research shows that the problems identiﬁed for transportation apply to a wide range of other project types including ICT systems, buildings, aerospace projects, defence, mega-events such as the Olympics and the World Cup, water projects, dams, power plants, oil and gas extraction projects, mining, large-scale manufacturing, big science, and urban and regional development projects (Flyvbjerg et al., 2003, pp. 18–19; Altshuler and Luberoff, 2003; Priemus et al., 2008; Flyvbjerg et al., 2002, p. 286; Flyvbjerg, 2005a).

The dataset in Table 1 shows cost overrun in 258 projects in 20 nations on ﬁve continents. All projects for which data were obtainable were included in the study. 2 For rail, average cost overrun is 44.7 per cent measured in constant prices from the build decision. For bridges and tunnels, the equivalent ﬁgure is 33.8 per cent, and for roads 20.4 per cent. The difference in cost overrun between the three project types is statistically signiﬁcant (Flyvbjerg et al., 2002). The large standard deviations shown in Table 1 are as interesting as the large average cost overruns. The size of the standard deviations demonstrates that uncertainty and risk regarding cost overruns in infrastructure are large, indeed.

The following key observations pertain to cost overruns in transportation infrastructure projects:

nine out of 10 projects have cost overrun;

overrun is found across the 20 nations and ﬁve continents covered by the study;

overrun is constant for the 70-year period covered by the study; cost estimates have not improved over time.

**The investment decision must be explicitly conditioned on private lenders assuming the risk – it’s the only way to guarantee accountability. The counterplan involves the possibility that projects won’t be built if the economic case is terrible**

**Flyvberg et al, 3** – Professor of Major Programme Management at [Oxford University](http://en.wikipedia.org/wiki/Oxford_University)'s [Saïd Business School](http://en.wikipedia.org/wiki/Sa%C3%AFd_Business_School) and is Founding Director of the University's BT Centre for Major Programme Management. He was previously Professor of Planning at [Aalborg University](http://en.wikipedia.org/wiki/Aalborg_University), [Denmark](http://en.wikipedia.org/wiki/Denmark) and Chair of Infrastructure Policy and Planning at [Delft University of Technology](http://en.wikipedia.org/wiki/Delft_University_of_Technology), The Netherlands (Bent, Megaprojects and Risk: An Anatomy of Ambition, p. 120)//DH

In principle, the most important issue from an accountability point of view is the actual decision on whether to undertake the investment in a megaproiect or not. Given that the size of the investment is in the¶ multibillion-dollar range and that the uncertainties involved are substan-¶ tial, it seems self-evident that it must be possible to hold accountable¶ those who take the decision. Experience from Great Belt, Oresund and other projects shows that government in itself is not sufficiently effective¶ when it comes to enforcing accountability with respect to specific issues such as decisions on major infrastructure investments (see Chapters 2-4). A more effective way of achieving this is, in our judgement, to let the decision to go ahead with a project - given that the project satisfies agreed public interest objectives - be conditioned by the willingness of private financiers to participate in the project without a sovereign guarantee. This¶ means that at least part of the capital, which will have to be mobilised¶ for a given project, should be genuine risk capital. In other words, only if this risk capital can be mobilised will the project be built. By requiring that a substantial commitment in the form of risk capital is made, the ordinary citizen will not be required to carry any, or only limited, risks. The common practice, followed at Oresund and Great Belt, of transferring the costs of risk to those who are in the weakest position to protect¶ themselves is thereby, if not eliminated, at least significantly reduced.22

## \*\*\*Privatization

### Privatization 1nc

Text –

The United States federal government should:

-- devolve all control over [the plan’s infrastructure] to state and local governments, including returning any current federal funding spent on [the plan’s infrastructure] to the states.

-- eliminate any barriers to greater private sector investment in [the plan’s infrastructure]

--grant states permission to transfer ownership [of the plan’s infrastructure] to the private sector.

**Solves the case – the CP encourages state experimentation with full privatization – this raises more capital than the plan and stimulates the economy without federal funding**

**Edwards, 11** - director of tax policy studies at Cato. 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 (Chris, “Federal Infrastructure Investment” Congressional Testimony, 11/16, <http://www.cato.org/publications/congressional-testimony/federal-infrastructure-investment)//DH>

Decentralizing Infrastructure Financing  
The U.S. economy needs infrastructure, but state and local governments and the private sector are generally the best places to fund and manage it. The states should be the "laboratories of democracy" for infrastructure, and they should be able to innovate freely with new ways of financing and managing their roads, bridges, airports, seaports, and other facilities.

It is true that — like the federal government — the states can make infrastructure mistakes. But at least state-level mistakes aren't automatically repeated across the country. If we ended federal involvement in high-speed rail, for example, California could continue to move ahead with its own system. Other states could wait and see how California's system was performing before putting their own taxpayers on the hook.

A big step toward devolving infrastructure financing would be to cut or eliminate the federal gasoline tax and allow the states to replace the funds with their own financing sources. President Reagan tried to partly devolve highway funding to the states, and more recent legislation by Rep. Scott Garrett (R-NJ) and Rep. Jeff Flake (R-AZ) would move in that direction.15 Reforms to decentralize highway funding would give states more freedom to innovate with the financing, construction, and management of their systems.16

One option for the states is to move more of their infrastructure financing to the private sector through the use of public-private partnerships (PPP) and privatization. The OECD has issued a new report that takes a favorable view on the global trend towards infrastructure PPPs, and notes the "widespread recognition" of "the need for greater recourse to private sector finance" in infrastructure.17 The value of PPP infrastructure projects has soared over the past 15 years in major industrial countries.18

PPPs differ from traditional government projects by shifting activities such as financing, maintenance, management, and project risks to the private sector. There are different types of PPP projects, each fitting somewhere between traditional government contracting and full privatization. In my view, full privatization is the preferred reform option for infrastructure that can be supported by user fees and other revenue sources in the marketplace.

Transportation is the largest area of PPP investment. A number of projects in Virginia illustrate the options:

Midtown Tunnel. Skanska and Macquarie will be building a three-mile tolled tunnel under the Elizabeth River between Norfolk and Portsmouth. Private debt and equity will pay $1.5 billion of the project's $1.9 billion cost.19

Capital Beltway. Transurban and Fluor will be building, operating, and maintaining new toll lanes on the I-495. The firms are financing $1.4 billion of the project's $1.9 billion cost.20

Dulles Greenway. The Greenway is a privately-owned toll highway in Northern Virginia completed with $350 million of private debt and equity in mid-1990s.21

Jordan Bridge. FIGG Engineering Group is constructing, financing, and will own a $100 million toll bridge over the Elizabeth River between Chesapeake and Portsmouth, which is to be completed in 2012.22

About $900 billion of state-owned assets have been sold in OECD countries since 1990, and about 63 percent of the total has been infrastructure assets.23 The OECD notes that "public provision of infrastructure has sometimes failed to deliver efficient investment with misallocation across sectors, regions or time often due to political considerations. Constraints on public finance and recognized limitations on the public sector's effectiveness in managing projects have led to a reconsideration of the role of the state in infrastructure provision."24

There has been a large increase in privatization and infrastructure PPPs in many countries, but the OECD notes that the United States "has lagged behind Australia and Europe in privatization of infrastructure such as roads, bridges and tunnels."25 More than one-fifth of infrastructure spending in Britain and Portugal is now through the PPP process, so this is becoming a normal way of doing business in some countries.26

The industry reference guide for infrastructure PPP and privatization is Public Works Financing.27 According to this source, only 2 of the top 40 companies doing transportation PPP and privatization around the world are American. Of 733 transportation projects currently listed by PWF, only 20 are in the United States. Canada — a country with one-tenth of our population — has more PPP deals than we do. In Canada, PPPs account for 10 to 20 percent of all public infrastructure spending.28

One of the fuels for infrastructure PPP has been growing investment by pension funds.29 In Canada, Australia, and other countries, there is larger pension fund investment in infrastructure than in the United States. In some countries, such as Australia, the growth in pension assets has been driven by the privatization of government retirement programs.30 Thus, there is a virtuous cycle in place — the privatization of savings in some countries has created growing pools of capital available to invest in privatized infrastructure.

There are many advantages of infrastructure PPP and privatization. One advantage is that we are more likely to get funding allocated to high-return investments when private-sector profits are on the line. Of course, businesses can make investment mistakes just as governments do. But unlike governments, businesses have a systematic way of choosing investments to maximize the net returns. And when investment returns are maximized, it stimulates the largest gains to the broader economy.

One reason that privatized infrastructure is efficient is that private companies can freely tap debt and equity markets to build capacity and meet market demands. By contrast, government investment suffers from the politics and uncertainties of the federal budget process. You can see the problems with our air traffic control system, which needs long-term investment but the Federal Aviation Administration can't count on a stable funding stream. For its part, the FAA's management of ATC investment has been poor. The agency has a history of delays and cost overruns on its technology upgrade projects. The solution is to privatize our air traffic control system, as Canada has done with very favorable results.31

**The CP’s experiment creates the political will for full-scale infrastructure privatization**

**Winston, 10** - applied microeconomist and senior fellow in the Economic Studies Program at the [Brookings Institution](http://en.wikipedia.org/wiki/Brookings_Institution). He specializes in the analysis of and has written extensively on industrial organization, regulation, and transportation (Clifford, Last Exit: Privatization and Deregulation of the U.S. Transportation System, p. 2-3)//DH

Do the current problems with the transportation system suggest that the nation should find a new stable equilibrium that will persist indefinitely? The unequivocal answer in this book is yes-namely, by designing experiments, which if successful, could take the United States back to the future by privatizing and deregulating the vast majority of the transportation system and by reducing the government's primary role in this sector to mitigating externalities, such as emissions, and to enforcing the antitrust laws.

l am not prepared to unconditionally call for privatization and deregulation because such a major change in public policy is likely to create good and bad unintended consequences. Accordingly, I recommend trying the policy in a few places to see what happens before implementing it nationwide.

Policymakers should select transportation services in certain locales that are provided by the public sector, allow private firms to innovate in those services, and respond according to the results. By producing greater understanding of how market forces could allocate transportation resources, the experiments could guide widespread implementation of and justification for a new approach to transportation policy that could significantly improve the system’s performance.

**4 net benefits –**

**1. productivity – federal planning undermines productivity because it can’t accurately respond to price signals. Private decision making more efficiently allocates resources tailored to economic need**

**Edwards, 11** - director of tax policy studies at Cato. 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 (Chris, “Federal Infrastructure Investment” Congressional Testimony, 11/16, <http://www.cato.org/publications/congressional-testimony/federal-infrastructure-investment)//DH>

In the description of today's hearing, the committee asked how infrastructure helps to promote growth, jobs, and manufacturing. The short answer is that we can spur growth by ensuring that America's infrastructure investment is as efficient as possible. Infrastructure funding should be allocated to the highest-value projects, and those projects should be constructed and maintained in the most cost-effective manner. My testimony will discuss why reducing the federal role in infrastructure will help to increase the efficiency of our investment.

The first thing to note about America's infrastructure is that most of it is not provided by the government, but by the private sector. A broad measure of private infrastructure spending — on items such as buildings, factories, freight rail, pipelines, and refineries — is much larger than government infrastructure spending on items such as roads and airports. In Figure 1, data from the Bureau of Economic Analysis show that private gross fixed investment was $1.7 trillion in 2010, which compared to gross fixed investment by federal, state, and local governments of $505 billion.1 When defense investment is excluded, government infrastructure spending was just $388 billion, or less than one-quarter of private infrastructure spending.

One implication of this data is that if Congress wants to boost infrastructure spending, the first priority should be to make reforms to encourage private investment. Tax reforms, such as a corporate tax rate cut, would increase the net returns to a broad range of private infrastructure investments. Regulatory reforms to reduce barriers to investment are also needed, as illustrated by the delays in approving the $7 billion Keystone XL pipeline from Alberta to Texas.

Despite its smaller magnitude, public-sector infrastructure spending is also very important to the U.S. economy. But the usual recommendation to simply spend more federal taxpayer money on infrastructure is misguided. For one thing, the government simply can't afford more spending given its massive ongoing deficits. More importantly, much of the infrastructure spending carried out by Washington would be more efficiently handled by devolving it to state and local governments and the private sector.

Notes on Government Infrastructure  
Many types of current government infrastructure used to be owned and financed by the private sector. Before the 20th century, for example, more than 2,000 turnpike companies in America built more than 10,000 miles of toll roads.2 And up until the mid-20th century, most urban rail and bus services were private.3 With respect to railroads, the federal government subsidized some of the companies building railroads to the West, but most U.S. rail mileage in the 19th century was in the East, and it was generally unsubsidized. The takeover of private infrastructure activities by governments in the United States and abroad in the 20th century caused many problems. Fortunately, most governments have reversed course in recent decades and have started to hand back infrastructure to the private sector.

Let's look at current data on infrastructure spending. Interest groups complain that governments in the United States aren't spending enough on infrastructure, and we often hear that U.S. roads and other assets are crumbling. However, Figure 2 shows that while federal, state, and local infrastructure spending in the United States has dipped a little in recent decades, U.S. spending has closely tracked trends in other high-income nations. The figure shows gross fixed investment as a share of gross domestic product in the United States compared to the average of countries in the Organization for Economic Cooperation and Development.4 In 2010, U.S. infrastructure spending by governments was 3.5 percent of GDP, which was a little higher than the OECD average of 3.3 percent.

Let's take a closer look at just U.S. federal infrastructure spending using data from the Bureau of Economic Analysis.5 Figure 3 shows that federal nondefense infrastructure spending declined somewhat during the 1980s and 1990s, but started to rise again during the 2000s even before the recent "stimulus" spending. Spending in recent decades was generally above the levels of the 1950s, but below the high levels of the 1960s.

The high federal infrastructure spending of the 1960s was unique. A large share of that spending was for building the Interstate Highway System, which is now complete. Also note that substantial federal infrastructure spending at that time was misallocated to dubious or harmful activities. For example, federal funding of urban redevelopment and high-rise public housing schemes often had damaging social and economic effects. Also, federal spending on water infrastructure, such as dams, peaked in the mid-20th century, and a substantial part of that spending made little sense from an economic or an environmental perspective.

Thus, the important thing about infrastructure is to focus on allocating funds efficiently, not to maximize the amount of government spending. If infrastructure funding flows to low-value activities, it doesn't aid economic growth, nor does it help industries such as manufacturing. Experience shows that Washington often does a poor job at allocating infrastructure spending, in part because its decisions are far removed from market-based demands and price signals.

Most federal nondefense infrastructure spending today is for activities that are state, local, and private in nature. Federal budget data for fiscal 2011 show that nondefense infrastructure spending was about $162 billion, including both direct spending and aid to the states.6 Some of that spending which was state, local, and private in nature included: $42.0 billion for highways, $16.8 billion for water and power projects, $14.3 billion for urban transit, $12.5 billion for community development, $12.5 billion for housing, and $3.5 billion for airports.

**2. Innovation – federal planning doesn’t accurately target infrastructure development to best meet economic need – mismanagement deepens economic problems**

**Norcross and Sautet, 9** – both are senior research fellows at the Mercatus Center at George Mason University (Eileen and Frederic, “THE AMERICAN RECOVERY AND REINVESTMENT ACT: Will More Public Spending Pave the Way to a Better Infrastructure?” SSRN)//DH

Infrastructure development is not the cause of economic growth, but rather a consequence.6 Infrastructure is composed of economic assets. It is built as economies grow, providing the architecture demanded by increased commerce, trade, and individual mobility. Infrastructure is an integral part of the web of economic assets that constitute the capital that form an economy.

Infrastructure needs are dynamic, changing with individual preferences and innovations. To be useful, infrastructure projects must fulfill a consumer demand, including the desire of many consumers to take into account environmental impacts. Markets are the best vehicle to communicate that demand to suppliers.

Will more of the same policies solve infrastructure problems?

Government planning, financing, and maintaining of infrastructure suppress competition—hiding vital information about costs and performance. For this reason knowing the impact of public infrastructure development on the economy is difficult. CBO finds spending estimates on mass transit and water transportation are flawed.7

Thus, more federal money may not fix current problems. In fact, it may only deepen and extend them as recipients will have little reason to innovate, correct mistakes, or respond to changing conditions in how consumers use infrastructure.8 Current government infrastructure investment is seldom effective or well-targeted.9 Future investment is unlikely to differ.

Ways of Funding Infrastructure

The argument in favor of public finance of infrastructure is that many of the things that comprise infrastructure—highways, airports, utilities, railways, bridges, telecommunication networks, and public buildings (schools, libraries, etc.)—are “public goods.”10 When a good is truly public, government funding is often viewed as the best way to provide it. But is that true? First, a public good does not imply public provision. Radio fits the definition of a public good, and in the U.S., private entities have provided it for decades.11

Second, highways, airports, and many other types of infrastructure are not public goods. They are normal economic goods, all of which can—and frequently are—provided privately in other countries and parts of the United States.12

Third, government has used the notion of “public goods” or “public utilities” as an economic rationale for involving itself in the production of goods and services that could be left to private entities.13 This has politicized the provision of certain goods such as roads and utilities.

Private infrastructure provision is best suited to meet consumer preferences. Absent private markets, the benefits principle should apply: those who benefit directly should pay (e.g. user’s fees for utilities consumption).14 But when taxpayers at the federal level fund lower level infrastructure development, it fractures the link between beneficiaries and providers, which produces a “disconnect of accountability.” Consumers don’t obtain what they need and don’t pay for what they consume.

**3. competitiveness – using private sector capital diverts it from other countries – maximizes competitiveness more effectively than public spending**

**Staley, 8** - senior research fellow at Reason Foundation and associate director of the DeVoe L. Moore Center at Florida State University in Tallahassee where he teaches graduate and undergraduate courses in urban planning, regulation, and urban economics (Samuel, “Gas Tax Increase or Private Capital?,” 7/16, <http://reason.org/news/show/1006992.html>)//DH

Congress isn't waiting to see who wins in November before deciding how to spend the next trillion dollars or so on the nation's roads, rails, bridges, and tunnels. Yet, all the beltway jockeying for transportation money may be diverting attention from an even bigger problem: our inability to tap into billions of private capital as our competitors soak up a growing worldwide pot of infrastructure funds.

The stakes are high. We're not just faced with the problem of how to maintain and repair our roads and rails. We also need to find a way to come up with billions of dollars to redesign and reconfigure our transportation network for the 21st century. That's a big challenge because we are already facing an annual transportation deficit of at least $75 billion, according to groups such as the American Society of Civil Engineers and the National Cooperative Highway Research Program, the National Surface Transportation Policy and Revenue Commission.

But where will the money come from?

Some are holding out for a major increase in the gas tax to fund infrastructure needs. The National Surface Transportation Policy and Revenue Commission recommended a hike of 60 cents. Many in Congress would like to see a gas tax increase increase, but most insiders doubt they can get much more than a few pennies at the end of the day. Few see Congress rushing in to hike the gas tax in the midst of record-high gas prices and a slumping economy.

Further complicating a gas tax option is its scale: even if taxes were increased dramatically the gas tax still wouldn't provide all of the needed funding for road projects.

Meanwhile, the US is in danger of leaving billions of infrastructure dollars on the table for other countries to eagerly snatch up. Private investments funds are capable of leveraging $525 billion for infrastructure investments worldwide, more than 10 times the amount available just eight years ago. These funds are simply looking for the right places to invest. And thus far they've found them outside of the United States.

Europe and Asia have decades-long histories of tapping into private equity to fund their transportation infrastructure using public-private partnerships. France has virtually its entire limited access highway system under the management of privately-owned firms, including Cofiroute, ASF, APRR, and Sanef. Australia has been tapping into private capital using companies such as Macquarie and Transurban to build tunnels and tollroads in its major cities since the 1990s. Italy and the United Kingdom claimed nearly half of the private investment in public infrastructure between 2003 and 2006 among the 20 nations that make up the Organization for Economic Cooperation and Development (OECD), according to Standard & Poor's.

China may be the most aggressive in using private capital to build its transportation infrastructure. The nation is embarking on an epic road-building program that will match the size of the US Interstate Highway System and be completed in less than half the time. Its expressway network is intended to link all provincial capitals, 80 percent of the nation's population, and 90 percent of the nation's ports, according to a report prepared by the China Construction Bank Corporation (CCBC). Most of these expressways are being financed by tolls, and the tollway companies depend on private capital to finance them.

The US lags behind all of these countries. Just a handful of projects have closed in the US for a fraction of the amount of capital available on the global market, most notably the $3.8 billion Indiana Toll Road and the $1.8 billion Chicago Skyway. In a positive sign, three Greenfield (new) toll road deals were signed recently in California, Texas and Virginia. The combined investment value, however, doesn't even match the Indiana deal. While a consortium of domestic and foreign companies submitted bids to lease the Pennsylvania Turnpike, the winning bid of $12.8 billion is still far from a done deal even though it is strongly supported by Democratic Governor Ed Rendell.

The US market appears to be limited largely for political reasons. In the immediate aftermath of the Indiana and Chicago partnership deals, Congressmen James Oberstar (D-MN) and Peter DeFazio (D-OR) sent a letter to governors and state highway officials warning them that the US House Committee on Transportation and Infrastructure would "work to undo any state public-private partnership (PPP) agreements that do not fully protect the public interest and the integrity of the national system."

A strong response from state officials quelled some the protest from Capitol Hill and the short-term momentum to rein in public-private partnership projects. Nevertheless, proponents of public-private partnerships were put on notice that the federal government might become active in discouraging the further use of private capital in highway and transportation projects.

We may be giving private capital, even US-based funds, little choice but to invest their billions in fruitful, but less lucrative projects abroad. That would be unfortunate for the US, undermining our global competitiveness and undercutting efforts to shore up a transportation system desperately in need of an extreme makeover. Unless national transportation policy gets on track and embraces private capital, our transportation system will continue to lag far behind our global competitors.

**4. data cooking - public investment is manipulated by project managers who cook the data to win project approval – exaggerates aff benefits and causes massive cost overruns**

**Flyvbjerg, 10** - Professor of Major Programme Management at [Oxford University](http://en.wikipedia.org/wiki/Oxford_University)'s [Saïd Business School](http://en.wikipedia.org/wiki/Sa%C3%AFd_Business_School) and is Founding Director of the University's BT Centre for Major Programme Management. He was previously Professor of Planning at [Aalborg University](http://en.wikipedia.org/wiki/Aalborg_University), [Denmark](http://en.wikipedia.org/wiki/Denmark) and Chair of Infrastructure Policy and Planning at [Delft University of Technology](http://en.wikipedia.org/wiki/Delft_University_of_Technology), The Netherlands (Bent, “Survival of the unﬁttest: why the worst infrastructure gets built—and what we can do about it,” Oxford Review of Economic Policy, Volume 25, Number 3, 2009, pp.344–367, Oxford Journals Online)//DH

This situation may need some explication, because it may sound to many like an unlikely state of affairs. After all, it may be agreed that project managers and other professionals involved in major infrastructure provision ought to be interested in being accurate and unbiased in their work. It is even stated in the Project Management Institute (PMI)’s Code of Ethics and Professional Conduct (PMI, 2006, pp. 4, 5) that project managers should ‘provide accurate information in a timely manner’ and they must ‘not engage in or condone behaviour that is designed to deceive others’. Economists, engineers, planners, and others involved in major infrastructure provision have similar codes of conduct. But there is a dark side to their work, which is remarkably underexplored in the literature (Flyvbjerg, 1996).

On the dark side, project managers and planners ‘lie with numbers’. as Wachs (1989) has aptly put it. They are busy not with getting forecasts and business cases right and following the PMI Code of Ethics but with getting projects funded and built. And accurate forecasts are often not an effective means for achieving this objective. Indeed, accurate forecasts may be counterproductive, whereas biased forecasts may be effective in competing for funds and securing the go-ahead for a project. ‘The most effective planner,’ says Wachs (1989, p. 477), ‘is sometimes the one who can cloak advocacy in the guise of scientiﬁc or technical rationality.’ Such advocacy would stand in direct opposition to PMI’s ruling that project managers should ‘make decisions and take actions based on the best interests of society’ (PMI, 2006, p. 2).

Nevertheless, seemingly rational forecasts that underestimate costs and overestimate beneﬁts have long been an established formula for project approval as we saw above. Forecasting is here mainly another kind of rent-seeking behaviour, resulting in a make-believe world of misrepresentation which makes it extremely difﬁcult to decide which projects deserve undertaking and which do not. The consequence is, as even one of the industry’s own organs, the Oxford-based Major Projects Association, acknowledges, that too many projects proceed that should not. One might add that many projects do not proceed that probably should, had they not lost out to projects with ‘better’ misrepresentation (Flyvbjerg et al., 2002).

In this situation, the question is not so much what project managers can do to reduce inaccuracy and risk in forecasting, but what others can do to impose on project managers the checks and balances that would give managers the incentive to stop producing biased forecasts and begin to work according to their Code of Ethics. The challenge is to change the power relations that govern forecasting and project development. Better forecasting techniques and appeals to ethics will not do here; organizational change with a focus on transparency and accountability is necessary.

As argued in Flyvbjerg et al. (2003), two basic types of accountability deﬁne liberal democracies: (i) public-sector accountability through transparency and public control; and (ii) private-sector accountability via competition and the market mechanism. Both types of accountability may be effective tools to curb misrepresentation in project management and to promote a culture which acknowledges and deals effectively with risk, especially where large amounts of taxpayers’ money are at stake and for projects with signiﬁcant social and environmental impacts, as is common with major infrastructure projects.

**Data cooking creates economic disasters – the worst projects are approved, and necessary infrastructure loses out – this turns the case**

**Flyvbjerg, 10** - Professor of Major Programme Management at [Oxford University](http://en.wikipedia.org/wiki/Oxford_University)'s [Saïd Business School](http://en.wikipedia.org/wiki/Sa%C3%AFd_Business_School) and is Founding Director of the University's BT Centre for Major Programme Management. He was previously Professor of Planning at [Aalborg University](http://en.wikipedia.org/wiki/Aalborg_University), [Denmark](http://en.wikipedia.org/wiki/Denmark) and Chair of Infrastructure Policy and Planning at [Delft University of Technology](http://en.wikipedia.org/wiki/Delft_University_of_Technology), The Netherlands (Bent, “Survival of the unﬁttest: why the worst infrastructure gets built—and what we can do about it,” Oxford Review of Economic Policy, Volume 25, Number 3, 2009, pp.344–367, Oxford Journals Online)//DH

In sum, the UK study shows that strong interests and strong incentives exist at the project-approval stage to present projects as favourably as possible—that is, with beneﬁts emphasized and costs and risks de-emphasized. Local authorities, local developers and land owners, local labour unions, local politicians, local ofﬁcials, local MPs, and consultants all stand to beneﬁt from a project that looks favourable on paper and they have little incentive actively to avoid bias in estimates of beneﬁts, costs, and risks. National bodies, such as certain parts of the Department for Transport and the Ministry of Finance who fund and oversee projects, may have an interest in more realistic appraisals, but so far they have had little success in achieving such realism, although the situation may be changing with the initiatives to curb bias set out in HM Treasury (2003) and UK Department for Transport (2006).

Wachs (1986, 1990) found similar results for transit planning in the USA. Taken together, the UK and US studies both account well for existing data on cost underestimation and beneﬁt overestimation. Both studies falsify the notion that in situations with high political and organizational pressure the underestimation of costs and overestimation of beneﬁts is caused by non-intentional technical error or optimism bias. Both studies support the view that in such situations promoters and forecasters intentionally use the following formula in order to secure approval and funding for their projects:

underestimated costs + overestimated beneﬁts = funding

Using this formula, and thus ‘showing the project at its best’ as one interviewee said above, results in an inverted Darwinism, i.e the survival of the unﬁttest. It is not the best projects that get implemented, but the projects that look best on paper. And the projects that look best on paper are the projects with the largest cost underestimates and beneﬁt overestimates, other things being equal. But the larger the cost underestimate on paper, the greater the cost overrun in practice. And the larger the overestimate of beneﬁts, the greater the beneﬁt shortfall. Therefore the projects that have been made to look best on paper in this manner become the worst, or unﬁttest, projects in reality, in the sense that they are the very projects that will encounter most problems during construction and operations in terms of the largest cost overruns, beneﬁt shortfalls, and risks of non-viability. They have been designed like that, as disasters waiting to happen.

### 2nc devolution causes privatization

**Devolution causes states to seek privatization to cover the costs**

**Poole 96** - Robert Poole is president of the Reason Foundation. An engineering graduate of MIT, he has advised the U.S. and California departments of transportation, the White House, and the President's Commission on Privatization (Robert, “DEFEDERALIZING TRANSPORTATION FUNDING.” <http://reason.org/files/4883e8bd01480c4d96ce788feb1f2e05.pdf)//DH>

Public agencies tend to be risk-averse and oriented to the status quo. Hence, they are slow to adopt innovations. It is the private sector which is pioneering the introduction of congestion pricing on highways. It is the private sector which is taking full advantage of electronic toll collection to develop the world's first toll road without any toll booths. And it is likely to be the private sector that introduces Asmart highway@ technology, targeting upscale customers who desire in-car navigation and two-way communications as a niche market willing to pay for valueadded services. Airports, air traffic control, and highways fail to make use of state-of-the-art technology because they are operated by input-oriented public agencies rather than user-friendly service businesses.

These fundamental problems lend support to the idea of changing the infrastructure paradigm to one that, as much as possible, relies on user funding, dedicated revenues, and market pricing. Devolving transportation infrastructure responsibilities to lower levels of government would hasten the adoption of the new infrastructure paradigm.

C. State and Local Innovators

As prospects for increased federal infrastructure investment have given way to likely decreases (as part of budgetbalancing efforts), the federal government has attempted to encourage innovative financing and the investment of private capital. The 1991 ISTEA measure included provisions for public-private partnerships and innovative financing. In addition, the Bush administration issued Executive Order 12803 (in 1992) on infrastructure privatization, and the Clinton administration followed up with a complementary measure, Executive Order 12893, in 1994. But little real activity has been generated by these measures.

Instead, it is the states and cities that have been the principal innovators. By the end of 1995, 12 states and Puerto Rico had enacted public-private partnership measures for surface transportation infrastructure, and three private toll projects had been financed and opened to traffic. A growing number of mayors and governors are proposing to sell or lease airports and other infrastructure facilities, seeking to substitute private capital for increasingly limited public capital (so that the latter can be reserved for more inherently governmental needs). This disparity between federal and state/local governments suggests that greater innovation and new forms of private investment would occur if the federal government devolved the responsibility and funding authority for most infrastructure to the state level.

**Eliminating federal funding will cause the states to turn to privatization – spurs innovation to create better infrastructure delivery**

**Roth, 11** - Gabriel Roth is a transport and privatization consultant and a research fellow at the Independent Institute (Testimony on Financing Infrastructure, The United States Senate Committee on Finance, 5/17,

<http://www.independent.org/issues/article.asp?id=3092>)//DH

This testimony is designed to show that, for two principal reasons, the federal government should fund no transportation infrastructure at all.

The first reason is that, in these times of financial stringency, government should not finance facilities for which users themselves could pay if they wished to cover the costs. For example, those wanting railroads should cover the costs themselves, and those wanting roads should pay more into the dedicated funds that support them. The US air, railroad, and road sectors have a long “user pays” tradition, and the current financial deficits require that this tradition be restored. Government funding for interurban travel can be eliminated for this reason alone.

The second reason is that federal payments currently support local services, such as mass transit, and other projects, to promote an undefined concept of “liveability.” Such payments do not seem appropriate for federal funding. Why should farmers in Montana be forced to pay for the travel of wealthier people in New York and Washington DC? If local services are to be subsidized, would it not be better for the funds to be raised from the localities that demand them?

These considerations do not apply to appropriations from the federal Highway Trust Fund, which receives dedicated revenues from road users, and has no claims on general revenues. Highway Trust Fund revenues could be increased by raising the dedicated federal fuel taxes but, because conditions vary from state to state, and because of the waste involved in the federal financing of state roads, it would be preferable to meet road funding shortages by raising state charges.

For the longer term, for reasons given in my testimony, consideration should be given to phasing out the federal Highway Trust Fund, and for turning back highway and transit funding to the states.

States are in a better position than the federal government to reform the current systems of owning, funding and managing highways. For example, they could introduce road-use charges based on distances traveled (rather than on fuel consumed), and give private providers opportunities to maintain existing roads and provide new ones on a commercial basis, eliminating the need for government financing, even by “Infrastructure Banks.”

Abolition of federal financing is likely to encourage state and private sector funding, and successful reforms pioneered by some states could quickly be replicated in others.

**Devolution and deregulation will incentivize private sector partnerships to cover the cost**

**Poole 96** - Robert Poole is president of the Reason Foundation. An engineering graduate of MIT, he has advised the U.S. and California departments of transportation, the White House, and the President's Commission on Privatization (Robert, “DEFEDERALIZING TRANSPORTATION FUNDING.” <http://reason.org/files/4883e8bd01480c4d96ce788feb1f2e05.pdf)//DH>

Airports, highways, and mass transit systems are primarily state and local responsibilities. They are developed and operated by state and local governments (with increasing private-sector involvement) and funded primarily from state and local sources. Yet the federal government, by collecting transportation user taxes and using them to make grants for these systems, both raises the costs and exerts significant control over these state and local activities.

Congress should devolve transportation infrastructure funding and responsibilities to cities and states, ending federal grant programs and their accompanying restrictions. Cities and states have been open to privatization, and most would welcome the flexibility and freedom from costly federal regulations which devolution would give them. Devolving transportation funding would lead to more-productive investment, greater intermodalism, more innovation, and new capital from the private sector.

**Ending the federal role in transportation will spur greater privatization**

**Edwards, 10** - director of tax policy studies at Cato. 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 (Chris, “Department of Transportation: Proposed Spending Cuts”, June, <http://www.downsizinggovernment.org/transportation/spending-cuts)//DH>

Most Department of Transportation activities are properly the responsibility of state and local governments and the private sector. There are few advantages in funding infrastructure such as highways and airports from Washington, but there are many disadvantages. Federal involvement results in political misallocation of resources, bureaucratic mismanagement, and costly one-size-fits-all regulations imposed on the states.

The Federal Highway Administration should be eliminated. Taxpayers and highway users would be better off if federal highway spending and gasoline taxes were ended. State governments could more efficiently plan their highway systems without federal intervention. The states should look to the private sector for help in funding and operating highways, and they ought to move forward with innovations such as expressways with electronic tolling.

The Federal Transit Administration should be eliminated. Federal transit subsidies have caused local governments to make inefficient transportation choices. Federal aid favors rail systems, which are more expensive and less flexible than bus systems. The removal of federal subsidies and related regulations would spur local governments to discover more cost-effective transportation solutions, such as opening transit markets to private operators.

Air traffic control should be removed from the federal budget, and the ATC system should be set up as a stand-alone and self-funded agency or private company. Many nations have moved towards such a commercialized ATC structure, and the results have been very positive with regard to efficiency and safety. Canada's reform in the 1990s to create a private nonprofit ATC corporation is a good model for the United States to follow. U.S. ATC is currently overseen by the Federal Aviation Administration, which has serious funding problems and a poor record on implementing new technologies. Moving to a Canadian-style ATC system would help solve these problems and allow our aviation infrastructure to meet rising aviation demand.

Amtrak has provided second-rate rail service for decades, while consuming almost $40 billion in federal subsidies. It has a poor on-time record, and its infrastructure is in bad shape. As a government agency, it is hamstrung in its decisionmaking regarding routes, workforce polices, capital investment, and other aspects of business. Amtrak should be privatized to give it the management flexibility it needs to operate in a more efficient and competitive manner.

The table shows that federal taxpayers would save about $85 billion annually by closing down the agencies and programs listed. The department would retain its current activities regarding highway safety, aviation safety, and some other regulatory functions. Those functions could be reformed as well, but the most important thing is to end federal subsidies for transportation activities that would be better handled by the states and private sector. America should take heed of the market-based reforms being implemented abroad, and pursue similar solutions to its transportation challenges.

### 2nc – CP spills over

**Privatization experiments facilitate technological innovation – it will spill over to full intermodal, integrated transportation services**

**Winston, 10** - applied microeconomist and senior fellow in the Economic Studies Program at the [Brookings Institution](http://en.wikipedia.org/wiki/Brookings_Institution). He specializes in the analysis of and has written extensively on industrial organization, regulation, and transportation (Clifford, Last Exit: Privatization and Deregulation of the U.S. Transportation System, p. 156)//DH

Moreover, experiments could lead to unlocking constraints that now hobble the development of a national technologically advanced transportation system. The traditional characterization of the system in terms of urban and intercity modes and infrastructure is the result of government regulation and ownership. Privatization could result in more integrated, intermodal, and multimodal service, thereby enabling, say, one firm to provide all segments of a trip abroad door to door. Perhaps a new revolutionary transportation technology may, at long last, emerge that would have been impeded by the public sector. Like travel itself, the potential of a privatized and deregulated system should be limited only by our imagination.

### 2nc solves stimulus

**Greater privatization stimulates the economy, boosts competitiveness and solves state budget pressure – 1 trillion in private capital exists**

**Suozzi, 10** – former Nassau county executive. (Tom, Wall Street Journal, “How About a Partnership Stimulus?,” <http://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=7&ved=0CFYQFjAG&url=http%3A%2F%2Fwww.local237.org%2Findex.php%3Foption%3Dcom_docman%26task%3Ddoc_download%26gid%3D286%26Itemid%3D124&ei=aIwAUIPkBoGE8AS59sWSCA&usg=AFQjCNFf8i6rBDWHx24kT2hVA08-reJMzw)//DH>

One realistic answer would be a stimulus package funded by the private sector. Two hundred billion dollars of private investment in public infrastructure currently dedicated by major investment and public pension funds would help jump-start the economy, reduce the pressure on state and local governments, and improve the quality of life for millions of Americans. Instead of putting more taxpayer dollars into current wasteful modes of infrastructure financing, federal, state and local officials should recognize that there are better ways to get these critical projects done.

Public-Private Partnerships are globally proven models. During the past two decades, more than 1,300 such partnerships valued at over $250 billion were signed in the European Union, Canada, South America, Australia and Asia. Some of our states (like Florida, Virginia and Maryland) and cities (such as Chicago and Denver) have successfully started to implement them, but overall the U.S. lags far behind.

Our economic recovery is hampered by the poor condition of our infrastructure and our congested roadways, ports and airports. The American Society of Civil Engineers (ASCE) estimates that $1.6 trillion is needed beyond what is available over the next five years. According to the ASCE, "one-third of America's major roads are in poor or mediocre condition and 36% of major urban highways are congested." When more than 26% of the nation's bridges are either "structurally deficient or functionally obsolete," it's not a safe situation. We shouldn't tolerate congested airports, outdated air traffic control systems, or aging sewer systems that spew billions of gallons of untreated wastewater into our rivers and harbors. The federal stimulus package included $27 billion to fund transportation, and President Obama is now proposing another $50 billion for roads, rail and runways. That's good news, but it's not nearly enough. Even if we could get the newly divided Congress's support, we would be borrowing every dollar of that figure. Fortunately, over 30 major investment funds with more than $180 billion in capital are seeking to invest in long-term public infrastructure projects. That capital can be leveraged by the funds to nearly $1 trillion. There are also 50 pension funds with approximately $40 billion available for infrastructure investment. Some of America's largest public pension funds already invest directly in infrastructure projects. The Dallas Police and Fire Pension System now owns a 10% stake in a $2.7 billion Texas public-private partnership, the LBJ Freeway. CalPERS purchased a $157 million, or 12.7%, interest in Gatwick Airport -- in the United Kingdom. If we don't create ways to attract private capital here, more will flow to our competitors around the globe.

### 2nc - CP solves data cooking

**Private ownership creates incentives to read the market accurately and contain costs – they’re inevitable with public ownership – this reduces the incentive to cook the data and creates accountability**

**Thierer, 12** - is a senior research fellow at the Mercatus Center at George Mason University with the Technology Policy Program (Adam, “Public Choice: More than a Mere Footnote in Infrastructure Policy Discussions,” 4/27, <http://mercatus.org/expert_commentary/public-choice-more-mere-footnote-infrastructure-policy-discussions>)//DH

If You Build It, They Might Come -- But You Will Pay for It Anyway

For example, Bent Flyvbjerg of the Oxford Business School has recently described the “[survival of the unﬁttest](http://www.sbs.ox.ac.uk/centres/bt/Documents/UnfittestOXREPHelm3.4PRINT.pdf)” problem that pervades many infrastructure fields in that, “the projects that are made to look best on paper are the projects that amass the highest cost overruns and beneﬁt shortfalls.” There is a persistent underestimation of costs and an overestimation of benefits in most infrastructure sectors because, sadly, governments have traditionally rewarded such dishonesty with larger infrastructure grants.

We should not be surprised by the results. Flyvbjerg and his colleagues studied 258 transportation infrastructure projects in 20 nations on five continents over a 70-year period. Road projects averaged cost overruns of 20.4%; bridges and tunnels averaged cost overruns of 33.8%; and rail projects averaged an astonishing 44.7% cost overrun. And every week brings a new headline along these lines: “[Urban Center Is Budget Hole](http://online.wsj.com/article/SB10001424052702304331204577356471425094502.html).” That one is from a Wall Street Journal article this Monday about a Kansas City urban redevelopment project that wildly overestimated benefits and now “generates less than one-third of what is needed to cover the debt service on the bonds.” Meanwhile, the [epic cost overruns associated with sports stadium deals](http://online.wsj.com/article/SB10001424052748704461304576216330349497852.html) have become so commonplace that it is surprising when one actually doesn’t result in budget-busting bailouts and massive tax hikes. [Studies](http://www.cato.org/pubs/regulation/regv23n2/coates.pdf) [consistently](http://www.amazon.com/Field-Schemes-Stadium-Swindle-Private/dp/1567511392/ref=sr_1_1?ie=UTF8&s=books&qid=1232382779&sr=8-1) [find](http://www.amazon.com/Public-Dollars-Private-Stadiums-Building/dp/0813533430/ref=pd_sim_sbs_b_3) [no net economic benefits](http://www.amazon.com/Sports-Jobs-Taxes-Economic-Stadiums/dp/0815761112/ref=pd_sim_sbs_b_4) for local communities from those infrastructure deals despite persistent predictions to the contrary. Other public services and programs often suffer as a result of these grotesque misallocations of scare public resources.

Because of the chronic ongoing problems of cost overruns, beneﬁt shortfalls, and the systematic underestimation of risks for large infrastructure projects, Flyvbjerg has actually recommended criminal penalties “for managers and forecasters who consistently and foreseeably produce deceptive forecasts.” That seems like an extreme step to me, but it’s a good indication of just how out-of-hand things have gotten in the infrastructure sectors that have the greatest degree of government involvement. Without a profit and loss feedback mechanism, and with so little accountability for failure, governments cannot allocate resources to their most efficient use or manage them effectively.

**Prefer our evidence - decades of public choice scholarship disproves all economic benefits of the aff. Government run infrastructure investment is subject to interest group capture. The worst projects will get funded and government ownership is responsible for current infrastructure problems**

**Thierer, 12** - is a senior research fellow at the Mercatus Center at George Mason University with the Technology Policy Program (Adam, “Public Choice: More than a Mere Footnote in Infrastructure Policy Discussions,” 4/27, <http://mercatus.org/expert_commentary/public-choice-more-mere-footnote-infrastructure-policy-discussions>)//DH

No doubt we do have an infrastructure problem in the U.S., but are we to conclude from this chart that enhanced commons-based management or more money -- $2.2 trillion to be exact -- will satisfy our infrastructural “investment needs” and turn around this dismal state of affairs?

Here’s another way of interpreting that chart: the current system doesn’t work. Most of the infrastructure resources listed are already either government controlled, regulated, or heavily funded, and many are currently managed as a commons or semi-commons.  Yet, things haven’t turned out so well. Might it be the case that it is government intervention and persistent mismanagement -- not a shortage of funding -- that’s responsible for the low grades? Had private actors been managing those resources, after all, they would have all been fired or gone out of business a long time ago with grades like that.

Unless we are going to completely disregard Einstein’s definition of insanity -- “doing the same thing over and over again and expecting different results” -- we must take into account the many downsides of expanding commons-based management of infrastructural resources or employing greater government subsidy / ownership of infrastructure. In other words, we have to be willing to discuss the possibility of government failure as a root cause of our infrastructure woes.

Sadly, Frischmann is unwilling to do so. He admits to a “limited attention to supply-side issues” (p. 368) and, in a mere footnote in Chapter 2 he tells us that:

In the past few decades, concerns over government failures have served as a counterbalance and suggested that identifying a market failure alone does not warrant government intervention because the solution may be worse than the problem. There has been and continues to be much wrangling over these issues. This book will not focus on public choice analysis. (p. 12)

I find Frischmann’s terse dismissal of public choice insights perplexing because it is precisely those insights that can help us unlock the mystery of why infrastructural supply-side problems have become so costly and seemingly intractable.

Politics without Romance

For those unfamiliar with the field, public choice analysis was perhaps best described by Nobel prize-winning economist James M. Buchanan as “[politics without romance](http://www.econlib.org/library/Enc/PublicChoice.html).” Public choice strips away the “public interest” and “common good” gloss sometimes associated with government regulation and public resource management. Instead, public choice analysis shows that political actors are typically motivated by the same concerns as private actors. Public figures are just as self-interested and prone to make mistakes as private figures. Politicians will cater to special interests and bureaucrats will seek to protect their turf and grow their budgets (and not just the folks at [the General Services Administration](http://www.latimes.com/news/nationworld/nation/la-na-gsa-vegas-20120418,0,4197821.story)!)

When one begins to ponder infrastructure management problems through the prism of public choice theory, the resulting failures we witness become far less surprising. The sheer scale of many infrastructure projects opens the door to logrolling, rent-seeking, bureaucratic mismanagement, and even outright graft. Regulatory capture is an omnipresent threat, too. As I have [shown elsewhere](http://techliberation.com/2010/12/19/regulatory-capture-what-the-experts-have-found/), a large body of nonpartisan scholarship -- from economists, political scientists, historians, and journalists -- has documented the lamentable reality that any system big enough and important to be captured by special interests and affected parties often will be. Frischmann acknowledges the problem of capture in just a single footnote in the book and admits that “there are many ways in which government failures can be substantial.” (p. 165) But he asks the reader to quickly dispense with any worries about government failure since he believes “the claims rest on ideological and perhaps cultural beliefs rather than proven theory or empirical fact.” (p. 165)

To the contrary, decades of public choice scholarship has empirically documented the reality of government failure and its costs to society, as well as the plain old-fashioned inefficiency often associated with large-scale government programs. For infrastructure projects in particular, the combination of these public choice factors usually adds up to massive inefficiencies and cost overruns.

### 2nc – solves NIB

**The CP solves comparatively better than the plan – there are also 3 disads to the perm**

**a. politicization of the bank distorts the market**

**b. inefficient pricing from the bank reduces overall productivity**

**c. the bank has much greater cost overruns**

**Winston, 10** - applied microeconomist and senior fellow in the Economic Studies Program at the [Brookings Institution](http://en.wikipedia.org/wiki/Brookings_Institution). He specializes in the analysis of and has written extensively on industrial organization, regulation, and transportation (Clifford, “The Private Sector Can Improve Infrastructure with Privatization not a Bank,” 9/29, <http://www.brookings.edu/research/opinions/2010/09/29-infrastructure-privatization-winston>)//DH

The notion of an “infrastructure bank” seems to be gathering steam among the cognoscenti as an effective way to put our long-term economic recovery back on track. Creating an infrastructure bank would be a nice coup for the Obama administration because it would reinforce its strategy of massive spending to solve the nation’s economic ills while simultaneously enlisting the participation of Wall Street and the business community. Unfortunately, an infrastructure bank would be compromised by the same political pressures that our current transportation system faces, and it would also fail to address the most glaring problems with the nation’s infrastructure.

The Administration could improve the nation’s infrastructure—and also improve its standing with Wall Street and the business community—by selling some roads and airports outright to the private sector. Privatizing infrastructure would also help cut the federal deficit by raising revenues and reducing expenditures.

The bank’s funds would consist of private capital and general funds, which would allegedly be allocated by an appointed Board to projects that meet national economic objectives instead of local political objectives. Really? Why would state and local sponsors bring candidate projects to the bank unless they thought they could apply political pressure to get their projects approved? Would Florida stand by while California got funding for a large project and it got nothing? And is it plausible to believe that states and cities would support allocating public funds primarily on the basis of maximizing private investors’ returns? Do governments often think that way?

Moreover, even if an infrastructure bank existed, it would not address the public sector’s inefficient pricing, investment, and production policies.

Consider highways, airports, and urban transit. Motorists and truckers pay a gasoline tax but they are not charged for delaying other vehicles on the road; truckers are not charged for damaging pavement and stressing bridges; aircrafts pay a weight-based landing fee but they are not charged for delaying other planes that want to takeoff or land; and bus and rail transit users pay fares that only cover a modest fraction of operating costs and no capital costs—in fact, some, like federal employees, obtain subsidies to ride completely free. Prices that are set below costs send the wrong signals for investment by justifying expenditures to expand a crowded road when the problem would be fixed by simply charging peak-period tolls. The bank may try to force states and cities to consider pricing options but politicians have made it clear that they prefer to spend money on their constituents, not to charge them a user fee.

The way we waste money on our transportation infrastructure is appalling. Road pavement is not built thickly enough to minimize the sum of maintenance and up-front capital costs. The cost of highway projects is inflated by Davis-Bacon regulations that require labor to be paid at the prevailing union wage rate in a metropolitan area, and by cost overruns that occur because the bidding process selects the firm that is the lowest-cost bidder even though those costs do not tend to end at the bid thanks to renegotiable (mutable-cost) clauses in the contract for underestimated project expenses. Boston’s Big Dig, which came in at a large multiple of the bid price, comes to mind.

Airports are a nightmare because they take several years to add runways thanks to opposition from local residents, environmental groups, and regulatory hurdles such as EPA environmental impact standards. And building a new large airport from scratch is basically impossible for the same reasons. Only one has been built over the last 35 years.

Mass transit—busses, subways and trains—run too many schedules that make little sense, which is why on average, most buses and subways fill roughly 20% of their seats—and routes don’t change even if population centers shift. At the same time, the cost of providing transit service is inflated by regulations such as “buy American” provisions that mandate that transit agencies first offer contracts to domestic producers instead of seeking the most efficient suppliers of capital equipment. Other perverse incentives include giving extra federal dollars to transit agencies to replace their capital stock prematurely rather than maintaining it efficiently. And it is basically impossible to lay- off or fire a transit employee because to do so could result in severance packages that approach $400,000 per worker.

An infrastructure bank would do nothing to address those inefficiencies. And if an infrastructure bank is going to be funded by outside institutional investors, why not allow the private sector to have a greater stake in infrastructure performance by selling them ownership?

Privatization of the system would have at least three positive effects. First, private operators would have the incentive to minimize the costs of providing transportation service and can begin the long process of ridding the system of the inefficiencies that have developed from decades of misguided policies. Second, private operators would introduce services and make investments that are responsive to travelers’ preferences. Third, private operators would develop new innovations and expedite implementation of current advances in technology, including on-board computers that can improve highway travel by giving drivers real-time road conditions, satellite-provided information to better inform transit riders and drivers of traffic conditions, and a satellite-based air traffic control system to reduce air travel time and carrier operating costs and improve safety. The technology is there. But it hasn’t been deployed in a timely fashion because government operators have no incentive to do so. The private sector does.

The major and legitimate concern with privatization is that private firms would be able to set excessive prices and drastically cut service because they face little competition or that they might experience serious financial difficulties. Thus, experiments are needed to provide evidence on the intensity of various potential sources of competition, firms’ financial performance, and the evolution of capital markets to fund a privatized system. Congressional legislation for airports and highways has included funding and tax breaks to explore privatization, so the idea of experiments is not new (nor is the idea of private infrastructure in most parts of the world).

Supporters of an infrastructure bank claim it would treat infrastructure like a long-term investment, not an expense. Yet, unlike privatization, a bank would do little to curb wasteful expenses. The case is not difficult to make: the country would clearly benefit from a policy that has great potential to spur innovation and growth and has the added bonus of budgetary relief. Privatization, instead of a bank, is the real long-term solution to the nation’s transportation infrastructure problems.

### Productivity turn 2nc

**The CP solves government budgets and boosts overall economic growth and total investment in infrastructure**

**Winston, 10** - applied microeconomist and senior fellow in the Economic Studies Program at the [Brookings Institution](http://en.wikipedia.org/wiki/Brookings_Institution). He specializes in the analysis of and has written extensively on industrial organization, regulation, and transportation (Clifford, Last Exit: Privatization and Deregulation of the U.S. Transportation System, p. 155-156)//DH

A similar approach could be taken to gain public support for privatization and deregulation of the transportation system. All levels of government are facing enormous fiscal pressures for the foreseeable future as a result of the deep recession that began in late 2007. The public hardly needs to be convinced that funding may not be available to keep the transportation system from significantly deteriorating and greatly affecting the quality of life, especially following such recent major disruptions as the fatal crash between two Washington. D.C. Metro trains and the closing of the Oakland Bay Bridge for several weeks. Governments can vastly improve their budgetary situation by selling transportation services and infrastructure to private firms and giving them the opportunity to attract additional capital.

In addition, as the economy recovers from the recession, privatization and deregulation could facilitate important sources of economic growth. First, technological advance in transportation is more likely to occur in the private sector than it has in the public sector. Second, while privatization would cause labor to be used more efficiently and eliminate certain positions that exist in the public sector, it also would spur the creation of young firms that are a vital force for job creation [Haltiwanger, Jarmin, and Miranda 2010). Third, as noted in the introduction, parts of the transportation sector have historically attracted some of the finest business leaders in the nation. Privatization would give the entire sector the opportunity to attract exceptional innovative leaders who could fully use their skills in new enterprises. Finally, it is noteworthy that Warren Buffett has recently made a large investment in Burlington Northern-Santa Fe railroad-something he certainly did not do when the industry was regulated. It is likely that privatization and deregulation of the U.S. transportation system would create new investment opportunities that attract significant investments from firms and individuals throughout the world.

The status quo is not a viable option because budgets are unlikely to improve in the near future, while congestion, delays, potential threats to safety, and the like will only become worse. In sum, broad public interest in privatization and deregulation of the transportation system can be generated by arguing that such a policy is necessary to ameliorate the nation`s fiscal problems and to promote economic growth. The evidence obtained from experiments would then, I hope, indicate that individual citizens will benefit from the policy’s effects on the transportation system. Attracting the support of the broad public will be essential for overcoming objections of special interests who perceive they may lose the rents they receive from the current system.

Leading up to the experiments, the federal government should take preliminary steps to show how government's role in the transportation system will be substantially reduced. As Roth (2005) observes, Congress, in passing the 1956 Highway Act, envisioned that its obligation to finance road projects would end in 1972 with the completion of the Interstate Highway System. The federal government should, at long last, cease to be a source of highway finance and encourage state and local governments-which would be solely responsible for highways-to explore privatization experiments. It should also stop supporting construction of new transit systems and costly extensions of existing ones. Finally, although commercial airports are owned by local municipalities and sometimes by states, they receive federal airport development grants, have access to federal tax-exempt financing, and are subject to federal regulatory control. The federal government should end its role in financing and regulating commercial airports.

**The private sector outperforms the government in spending for productivity growth**

**Riedl, 10** - Grover M. Hermann Fellow in Federal Budgetary Affairs in the Thomas A. Roe Institute for Economic Policy Studies at The Heritage Foundation (Brian, “Why Government Spending Does Not Stimulate Economic Growth: Answering the Critics,” 1/8, Wall Street Journal, <http://online.wsj.com/article/SB10001424052748703481004574646551469288292.html)//DH>

Only in the rare instances where the private sector fails to provide those inputs in adequate amounts is government spending necessary. Government spending on education, physical infrastructure, and research and development, for instance, could increase long-term productivity rates--but only if government invests more competently than businesses, nonprofit organizations, and private citizens would have if those investment dollars had stayed in the private sector. Historically, governments have rarely outperformed the private sector in generating productivity growth. Thus, mountains of academic studies show that government spending typically reduces long-term economic growth.[19]

Even most programs that could increase productivity would take too long to be considered stimulus. Education spending will not affect productivity until the student has graduated and entered the workforce (and it is not clear that additional spending improves productivity anyway). New roads, highways, and bridges can take more than a decade to complete before they can transport people and goods. These policies should not be considered short-term stimulus spending.

**Federal investment increases the risk of cost overruns and replicates errors nationally – magnifies all of our turns**

**Edwards, 11** - director of tax policy studies at Cato. 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 (Chris, “Federal Infrastructure Investment” Congressional Testimony, 11/16, <http://www.cato.org/publications/congressional-testimony/federal-infrastructure-investment)//DH>

Problems with Federal Infrastructure Investment  
There are calls today for more federal spending on infrastructure, but advocates seem to overlook the downsides of past federal efforts. Certainly, there have been federal infrastructure successes, but there has also been a history of pork barrel politics and bureaucratic bungling in federal investment spending. A substantial portion of federal infrastructure spending has gone to low-value and dubious activities.

I've examined spending by the two oldest federal infrastructure agencies — the Army Corps of Engineers and the Bureau of Reclamation.7 While both of those agencies constructed some impressive projects, they have also been known for proceeding with uneconomic boondoggles, fudging the analyses of proposed projects, and spending on activities that serve private interests rather than the general public interest. (I am referring to the Civil Works part of the Corps here).

Federal infrastructure projects have often suffered from large cost overruns.8 Highway projects, energy projects, airport projects, and air traffic control projects have ended up costing far more than originally promised. Cost overruns can happen on both public and private infrastructure projects, but the problem is exacerbated when multiple levels of government are involved in a project because there is less accountability. Boston's Big Dig — which exploded in cost to five times the original estimate — is a classic example of mismanagement in a federal-state project.9

Perhaps the biggest problem with federal involvement in infrastructure is that when Washington makes mistakes it replicates those mistakes across the nation. Federal efforts to build massive public housing projects in dozens of cities during the 20th century had very negative economic and social effects. Or consider the distortions caused by current federal subsidies for urban light-rail systems. These subsidies bias cities across the country to opt for light rail, yet rail systems are generally less efficient and flexible than bus systems, and they saddle cities with higher operating and maintenance costs down the road.10

When the federal government subsidizes certain types of infrastructure, the states want to grab a share of the funding and they often don't worry about long-term efficiency. High-speed rail is a rare example where some states are rejecting the "free" dollars from Washington because the economics of high-speed rail seem to be so poor.11 The Obama administration is trying to impose its rail vision on the nation, but the escalating costs of California's system will hopefully warn other states not to go down that path.12

Even if federal officials were expert at choosing the best types of infrastructure to fund, politics usually intrudes on the efficient allocation of dollars. Passenger rail investment through Amtrak, for example, gets spread around to low-population areas where passenger rail makes no economic sense. Indeed, most of Amtrak's financial loses come from long-distance routes through rural areas that account for only a small fraction of all riders.13 Every lawmaker wants an Amtrak route through their state, and the result is that investment gets misallocated away from where it is really needed, such as the Northeast corridor.

Another problem is that federal infrastructure spending comes with piles of regulations. Davis-Bacon rules and other federal regulations raise the cost of building infrastructure. Regulations also impose one-size-fits-all solutions on the states, even though the states have diverse needs. The former 55-mph speed limit, which used to be tied to federal highway funds, is a good example. Today, federal highway funds come with requirements for the states to spend money on activities such as bicycle paths, which state policymakers may think are extraneous.14

**Privatization prevents overbuilding which undermines overall productivity**

**Staley 12**- Ph.D, senior research fellow at Reason Foundation, and Managing Director at the DeVoe L. Moore Center at Florida State University where he teaches urban economics, land use, and urban planning. (Samuel R., "Highway Construction As Stimulus? Not So Fast" Reason.org, 5/15/12, <http://reason.org/news/show/highway-construction-as-stimulus-no>)//AP

President Obama is sending strong signals that he wants more stimulus spending to keep the American economy out of recession, even if the White House is not saying it explicitly. The president's "the private sector is fine" moment clearly emphasized a perceived need for state, local, and federal governments to increase spending to pick up the slack in an anemic economy.That means more stimulus money for public works projects like building new firehouses, hiring more cops, and reviving the idea for an infrastructure bank. But let's look at some hard sobering facts before we jump on the public spending bandwagon.

Transportation infrastructure is a case on point. The Interstate Highway System is justly lauded as one of the greatest engineering and political achievements of the 20th century. President Obama regularly invokes the nearly three-decade initiative when talking about public works projects that could get the economy back on track. Unfortunately, the simplified story about the Highway System misses the fact that billions of dollars were likely wasted because we built a system too large to serve its core purposes, and we failed to ensure the investments were in the right place at the right time.

As it is, the Interstate Highway System was wildly over budget. The U.S. Department of Transportation reports that initial estimates put total construction costs at about $27 billion. By the time the system was completed in the 1980s, the federal government had spent more than $114 billion and the total cost accumulated to $129 billion.

Changing design standards, environmental review, and inflation all contributed to escalating costs, but another critical factor was also in play: No incentives existed to prevent overbuilding. This overbuilding may have resulted in tens of billions of dollars in excess federal and state government spending even though many economists suggest that the economic benefits of the system outweighed the costs of its construction. After all, the result of the project was a 46,876 mile long system that knitted together all major U.S. metropolitan areas, and economists have shown that the interstate system was a boon to business as intercity trucking became more efficient and less costly and urban congestion fell dramatically.

Nevertheless, billions of dollars were likely wasted because the users - commercial truckers as well as passenger cars - were never required to directly consider the costs and benefits of using these roads with a true user fee such as a toll. In the 1950s, Congress decided to eschew tolls altogether, opting instead for the politically expedient and administratively efficient (at the time) gas tax. The end result was a system where many roads were built to nowhere, or at the wrong time, and transportation subsidies became endemic**. A price sensitive private sector, in contrast, might have otherwise built roads elsewhere and for even more productive purposes.**

It is this reality of overbuilding that should sober ideas about infrastructure spending "paying for itself" or "filling a need," particularly in an advanced and mature economy such as the one within th United States. Certain parts of the Highway System certainly showed positive economic gains, but many other segments were unnecessary - or at least not necessary at the time the government built them. While spending federal dollars on road development is not the only arrow in the quiver of the pro-stimulus argument, a more sophisticated look at our experience with the Interstate Highway System at least suggests that **Washington should be careful about simply dropping billions more dollars on the economy without considering the potential inefficiencies they create.**

### --Cost turn – roads

**Federal control escalates costs and incentivizes states to spend their money on low-priority projects**

**Roth, 11** - Gabriel Roth is a transport and privatization consultant and a research fellow at the Independent Institute (Testimony on Financing Infrastructure, The United States Senate Committee on Finance, 5/17,

<http://www.independent.org/issues/article.asp?id=3092>)//DH

First, the fact that up to 90 per cent of highway costs are paid from federal funds gives states incentives to pay for low-priority projects. For example, the Boston “Big Dig” project, which grew in cost from $2.8 billion to $8.1 billion (both figures in 1982 dollars), would never have been funded by Massachusetts alone.

Second, over a third of revenues paid by road users are spent for purposes not directly related to their travel and safety. For starters, 20 per cent of revenues are put into a “Mass Transit Account.” Calculations made by Ronald Utt [2](http://www.independent.org/issues/article.asp?id=3092" \l "2f) show that, in the latest highway reauthorization bill passed in 2005 (popularly known as SAFETEALU), road users receive for general-purpose roads and safety programs only about 62 percent of what they pay into the federal Highway Trust Fund.

Third, federal involvement raises road costs considerably:

- Federal construction specifications can be higher, which increases costs;

- The duplication involved by sending money to Washington DC, and back to the states, can increase costs by 10 percent of construction costs;

- The application of federal regulations, such as “Buy America” provisions and Davis-Bacon laws also increase project costs. Davis-Bacon alone can increase construction costs by over 35 percent.

Fourth, the federal congress uses its powers to favor some states at the expense of others. Alaska, for example gets over five times the amount it pays in to the federal Highway Trust Fund, while Arizona gets 95 per cent. In general, the northwest states tend to get more than they pay into the fund, while southern states get less.

### --Cost turn – rail

**Federal control increases overall transit costs**

**Poole 96** - Robert Poole is president of the Reason Foundation. An engineering graduate of MIT, he has advised the U.S. and California departments of transportation, the White House, and the President's Commission on Privatization (Robert, “DEFEDERALIZING TRANSPORTATION FUNDING.” <http://reason.org/files/4883e8bd01480c4d96ce788feb1f2e05.pdf)//DH>

Abundant evidence now exists that federal transit programs have stimulated investment in unviable rail systems and have needlessly boosted transit system operating costs. The flexibility created by repeal of federal transit regulations would permit changes (such as competitive contracting of transit operations) that could save enough to offset much of the loss of federal operating subsidies. It would be up to cities and states to decide whether to continue to Ainvest@ in non-cost-effective rail transit.

### Competitiveness turn 2nc

**US infrastructure spending is equivalent to spending by other countries – means the competitiveness issue is due to government ownership. Devolution improves decisionmaking, spurs privatization and boosts competitiveness**

**Edwards, 11** - director of tax policy studies at Cato. 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 (Chris, “Federal Infrastructure Investment” Congressional Testimony, 11/16, <http://www.cato.org/publications/congressional-testimony/federal-infrastructure-investment)//DH>

Conclusions  
In its report on the state of U.S. infrastructure, the American Society of Civil Engineers gives America a grade of "D."37 However, the ASCE report mainly focuses on infrastructure provided by governments, so if you believe that this low grade is correct, then it is mainly due to government failures. The ASCE lobbies for more federal spending, but OECD data shows that public-sector spending on infrastructure is about the same in this country as in other high-income nations.

Some of the infrastructure shortcomings in the United States stem from mismanagement and misallocation by the federal government, rather than a lack of taxpayer support. So part of the solution is to decentralize infrastructure financing, management, and ownership as much as possible. State and local governments and the private sector are more likely to make sound investment decisions without the federal subsidies and regulations that distort their decisionmaking.

This committee's description of today's hearing noted: "Transportation infrastructure is especially important to the manufacturing sector, which relies on various modes of transportation to obtain raw materials and to transport end products to the marketplace." That is certainly true, and I think transportation privatization is part of the answer to improve America's competitiveness in global markets. For example, nearly all airports and seaports in this country are owned by governments, but many airports and seaports abroad have been partly or fully privatized. The World Economic Forum rates America's seaports only 23rd in the world, but the first- and third-best seaports in the world, according to the WEF, are private — Singapore and Hong Kong.38

The federal government cannot afford to expand its infrastructure spending because of today's massive deficits. Many states are also in a budget squeeze. Fortunately, the global trend is toward partly or fully privatizing the financing and ownership of infrastructure. U.S. policymakers should study the recent innovations in infrastructure investment, and then start unloading the financing and ownership of our infrastructure to the private sector.

### Politics net benefit

**The CP avoids increased levels of federal spending – avoids politics**

**Hecker, 11** - Director of Transportation Advocacy National Transportation Policy Project A project of the Bipartisan Policy Center (JayEtta, “DRIVING PERFORMANCE: ISSUES AND PRIORITIES FOR THE REAUTHORIZATION OF THE SURFACE TRANSPORTATION PROGRAM”, 5/19, <http://banking.senate.gov/public/index.cfm?FuseAction=Files.View&FileStore_id=30751c7e-e8b6-4cb7-85ea-e69b78491b07)//DH> – italics in original

The current environment is substantially different making it extremely difficult if not impossible to raise additional revenue in the near term for federal transportation investment. This new environment is shaped by several factors:

• Prolonged economic downturn – contributing to decreased revenues coming into the Highway Trust Fund (HTF); the Recovery Act, by making billions of dollars available for infrastructure spending with no state or local share, diffused focus on the bankruptcy of the Trust Fund ; the economic environment similarly delayed any serious political focus on badly needed reforms; and persistently high unemployment and ever increasing gas prices have made it even more difficult than it has been over the past 19 years to ask Americans to pay more in fees to begin to cover the costs of maintaining or improving our national system.

• National debt crisis - this issue is finally taking center stage with a BPC Commission5 as well as a Presidential Commission both recommending major changes to taxes and spending to restore fiscal balance; the Congress is currently engaging in a major debate about the depth and breadth of spending reductions and revenue increases to accompany the required increase in the debt ceiling; overall this environment makes it more difficult than ever to generate support for *increased* spending on any federal program, even one with promising long-term benefits such as transportation.

• Greater hostility to taxes - there is a broad public unwillingness to accept new or additional federal taxes making the potential for finding new revenue for transportation even more of a challenge.

The Opportunity of Constrained Resources

The new reality we confront today is clearly one of severely constrained resources for transportation investment. The Highway Trust Fund (HTF) is solvent only because of repeated infusions of over $30 billion over the past two years. With the environment supporting debt-financed stimulus spending now past, it is more clear than ever that “funding” transportation with general revenues means more borrowing and increased public debt. With national attention on strategies for decreasing the national debt, and growing opposition to any kind of government spending, the transportation sector will have to determine how to be nimble, surviving with fewer federal resources.

Our work and that of many others supports the need for higher levels of federal investment, with the evidence increasingly apparent that we are neither maintaining our core system nor preparing for the steady increases in our populations, freight flows, and growth. Few dispute that strategic investment in transportation infrastructure can be an essential element of a growing economy. However, our panel believes that continued general fund transfers – i.e. increased borrowing – is no longer an option. Until the President and the Congress are prepared to identify and enact new sustainable revenue sources to support an expanded program, we believe the program should be refocused and scaled back to a spending level aligned with existing revenue. Our program recommendations for the pending authorization focus on setting clear national priorities and limited to the level of revenue coming in to the Trust Fund - approximately $40 billion annually. There are risks and severe economic consequences associated with lower levels of investment. However, this difficult environment where it has become clearer that every dollar should be spent wisely can also be seen as an opportunity for implementing substantial reform. Acknowledging a reality of constrained resources puts pressure on the federal government to spend wisely, to make the most of every dollar spent – and to assure critical and true national priorities are being funded. We also believe that devising a strategy when funds are so scarce highlights the importance of spurring innovation and forcing a closer look at how we might better leverage funds from non-federal sources.

**Transportation privatization is popular in Congress**

**Utt 12**- PhD in economics from the Unviersity of Indiana (Ronald, "Can Public-Private Partnerships Fill the Transportation Funding Gap." Heritage Foundation. January 12, <http://www.heritage.org/research/reports/2012/01/can-public-private-partnerships-fill-the-transportation-funding-gap>)//TD

To date, all of these projects have been developed and initiated by states, private investors, or a combination of the two, often with federal support, such as TIFIA grants and permission to build on the interstate right-of-way. With federal transportation funding limited by macroeconomic budget concerns, many in Congress are looking to be more proactive. Both the House and Senate reauthorization draft proposals welcome and encourage greater private-sector involvement in transportation investment.

### --AT: CP still spends money

**Even if the CP spends – spending less comparatively links less to politics**

**Thomasson, 12** -  is president of NewBuild Strategies LLC, an energy and infrastructure consulting firm in Washington, DC. He most recently served as a policy director at a nonprofit think tank and has testified before Congress about current proposals for financing infrastructure (Scott, “Encouraging U.S. Infrastructure Investment”, April, <http://www.cfr.org/infrastructure/encouraging-us-infrastructure-investment/p27771)//DH>

In cases where modest reforms can make more financing solutions possible, good ideas should not be held hostage to "grand bargains" on big legislation like the highway bill or the failed 2010 energy bill. Congress should take up smaller proposals that stand a chance of passing both houses this year—incremental steps that can unlock billions of dollars in additional investments without large federal costs. Any proposals hoping to win Republican support in the House need to have a limited impact on the federal deficit and focus on reducing, rather than expanding, federal regulations and bureaucracy. Some progress can also be achieved by circumventing Congress entirely with executive branch action.

**Even if the counterplan causes some government spending, it still avoids the link to politics because it’s perceived as freeing up federal resources**

**Engel et al 11**- Professor of economics at Yale (Eduardo, "Public-Private Partnerships to Revamp U.S. Infrastructure." Brookings. February 2011. cowles.econ.yale.edu/~engel/pubs/efg\_revamp.pdf)//TD

Governments often justify the use of PPPs because the private sector finances these projects, which they argue frees up scarce government resources that may be used in programs that are socially attractive but not privately profitable. Or, in what amounts to the same idea, PPPs are attractive because governments can get the infrastructure without raising taxes. Of course, this argument does not apply to projects whose capital costs are funded by future government payments, as in the case of the various projects that specify a schedule of capital charges payable in the future and that bind the budget to that time schedule. Examples include the I-595 Corridor Roadway Improvements Project in Florida, the Port of Miami Tunnel, and the Eagle Commuter Project in Denver, all of which are under construction (see Table 2). In these cases, PPPs help state and local governments perform a useful accounting trick, in which future obligations are kept off the balance sheet for no clear economic reason. That PPPs relieve government budgets under strain is also a doubtful argument for projects whose capital costs are partially or totally covered by user fees. In this case, user fees also could have been used to pay the capital costs under public provision. The resources saved by the government by not paying the upfront investment under a PPP should be equal, in present value, to user-fee revenue reaped by the private firm with the concession. There is one exception to this argument, which occurs when a (local, state, or national) government temporarily faces borrowing constraints. A PPP might be the only option to finance a given project in the necessary time frame, after separating the revenue flows of the project from the rest of the public budget, something that may be hard to do if the government cannot borrow. We conclude that in many cases governments choose PPPs because they allow them to make public investments while keeping future obligations off the balance sheet and beyond legislative control. This is not a valid economic justification for partnership with the private sector.

### AT: Perm do both

**The permutation fails –**

**a. changes the political equation – new federal investment decreases the likelihood that the CP’s privatization experiment will spill over to overall infrastructure policy**

**b. expands public sector inefficiency – this puts more burdens on the private sector, increasing the likelihood of failure**

**Winston, 10** - applied microeconomist and senior fellow in the Economic Studies Program at the [Brookings Institution](http://en.wikipedia.org/wiki/Brookings_Institution). He specializes in the analysis of and has written extensively on industrial organization, regulation, and transportation (Clifford, Last Exit: Privatization and Deregulation of the U.S. Transportation System, p. 155-156)//DH

Policymakers, however, are currently focused on national fundraising strategies for infrastructure investments-particularly for highways-that include a National Infrastructure Bank, grants from the American Recovery and Reinvestment Act of 2009 (popularly known as the stimulus bill), and taxes on vehicle-miles traveled. As noted, $8 billion of stimulus funds has already been appropriated to expand high-speed rail service without conducting any serious economic analysis. Such spending would do little to address the vast inefficiencies in the system and would entail considerable waste. Moreover, efforts to increase public spending on transportation would "waste" the opportunity created by the current economic crisis to conduct privatization experiments that could lead to the adoption of a policy that would enable all levels of government to reduce their expenditures and raise revenues by selling certain assets that would become more productive in the private sector, thereby increasing the nation`s welfare.

It has become abundantly clear that the weak incentive structure inherent in public sector activities makes government incapable of reforming the management and operations of the transportation system. The strong status quo bias that characterizes transportation policy and the system`s shortcomings will produce even more frustrations in the years to come for travelers and shippers and place greater strains on public coffers. Delaying privatization experiments would add to the growing costs of inaction by making it even more difficult for new private firms to shed the public sector’s accumulated inefficiencies.

In the current economic climate, policymakers and the public are especially justified for questioning whether the private market can improve the efficiency of the nation's transportation system, instead of contributing to a major crisis that creates havoc for travelers and shippers. Experiments represent a reasonable low-risk option that would enable policymakers to carefully explore whether privatization can create sufficiently competitive markets in transportation to greatly increase Americans' satisfaction with how they and their goods move throughout the country.

**Any government intervention distorts the market – full privatization solves better**

**DeHaven, 10** budget analyst on federal and state budget issues for the Cato Institute (Tad, “Why Not Private Infrastructure,” Downsizing the Federal Government, 9/8/10, http://www.downsizinggovernment.org/why-not-private-infrastructure)//AM

The biggest obstacle to private provision is that federal funding and associated privileges makes it difficult for private operators to “compete” with government roads: By subsidizing the states to provide seemingly "free" highways, federal financing discourages the construction and operation of privately financed highways. A key problem is that users of private highways are forced to pay both the tolls for those private facilities and the fuel taxes that support the government highways. Another problem is that private highway companies have to pay taxes, including property taxes and income taxes, while government agencies do not. Furthermore, private highways face higher borrowing costs because they must issue taxable bonds, whereas public agencies can issue tax-exempt bonds. The bottom line is that the private sector can satisfy our transportation needs if given the chance. Unfortunately, myopic policymakers are stuck in the 20th century, which is exactly where the special interests they bemoan would like them to stay.

**Any government subsidies reduce private returns on investment – decreasing the amount of investment the permutation can attract**

**de Rugy, 12** – senior fellow of the Mercatus Center at George Mason University (Veronique, “A Guarantee for Failure: Government Lending Under Sec. 1705”, 7/18, <http://oversight.house.gov/wp-content/uploads/2012/07/de-Rugy-Testimony.pdf)//DH>

More important, once the government subsidizes a portion of the market, the object of the subsidy becomes a safe asset. Safety in the market, however, often means low return on investments, which is likely to turn venture capitalists away. As a result, capital investments will likely dry out, and innovation rates will go down. 27

In fact, the data show that in cases in which the federal government introduced few distortions, private investors were more than happy to take risks and invest their money— even in projects that required high initial capital requirements. The Alaska pipeline project, for example, was privately financed at a cost of $35 billion, making it one of the most expensive energy projects undertaken by private enterprise. 28 The project was ultimately abandoned in 2011 because of weak customer demand and the development of shale gas resources outside Alaska. 29 However, the undertaking proves that the private sector invests money even when there is a chance that it could lose it. Private investment in U.S. clean energy totaled $34 billion in 2010, up 51 percent from the previous year. 30 Finally, when the government picks winners and losers (in the form of a technology or a company), it often fails.

Two factors come into play. First, the government does not have an advantage in information or technology over private agents. In many cases their decision makers are insulated from market signals and won’t learn important and necessary lessons about the technology or the market. Second, the resources that the government offers are so addictive that companies may switch their focus from the needs of the customer to the wishes of government officials.

**The permutation resembles a public private partnership – this creates a moral hazard that allows the private sector to ignore market signals because the government assumes too much risk – prevents cost containment**

**Scribner, 11** - land-use and transportation policy analyst at the Competitive Enterprise Institute’s Center for Economic Freedom (Marc, “The Limitations of Public-Private Partnerships Recent Lessons from the Surface Transportation and Real Estate Sectors,” January, <http://cei.org/sites/default/files/Marc%20Scribner%20-%20The%20Limitations%20of%20Public-Private%20Partnerships.pdf>

Increasing private sector involvement in transportation is a positive development, but there are right ways to involve private ﬁrms, and then there are wrong ones. Many of the problems associated with transport PPPs concern concession projects 21—those where private ﬁrms hold management and construction responsibilities, but not ownership, and those rights are transferred back to the state after a ﬁxed period of time. For the most part, the problems stem from the fact that merely transferring management fails to shift risk to the appropriate parties. Feasibility studies and trafﬁc forecasts are often overly optimistic, and political factors—such as opposition to tolls out of principle, shifting regulatory frameworks, and cronyism and a lack of competition in procurement and contracting— exacerbate the risk-sharing problems. 22 Unfortunately, concession projects remain the most popular form of public-private partnership in transportation. Government ofﬁcials are more likely to agree to a PPP project if they are able to retain ownership in the long run without taking on the ﬁnancial and construction risks. This is a serious problem. If government is going to engage in concession partnerships with private industry, it must accept that transferring all associated project risk—including inﬂation and exchange rate risk to ﬁnancing—to private ﬁrms will increase the total cost of the project. 23 Likewise, if government retains too much risk (particularly in the construction phase), the resulting moral hazard to the ﬁrm signiﬁcantly diminishes the project’s chances of success and greatly increases the likelihood of cost overruns and construction delays.

**The permutation links to all of our stimulus bad turns**

**Taylor and Vedder 10**- Professor of economics at Central Michigan University. Distinguished professor of economics at Ohio University and adjunct scholar at the American Enterprise Institute (Jason and Richard, "Stimulus by Spending Cuts: Lessons From 1946." Cato. May/June 2010 [www.cato.org/pubs/policy\_report/v32n3/cpr32n3.pdf](http://www.cato.org/pubs/policy_report/v32n3/cpr32n3.pdf))

The illusion that new employment results from the stimulus package is understandable because the jobs created by it are visible, whereas jobs lost due to the stimulus are much less transparent. When several hundred million dollars are spent building a 79-mile per hour railroad from Cleveland to Cincinnati, we will see workers improving railroad track, building new rail cars, and so on. In fact, we can directly count the number of jobs supported by stimulus dollars and report them on a website (www.recovery.gov currently reports that 608,317 workers received stimulus monies in the 4th quarter of 2009). At the same time, however, the federal spending invisibly crowds out private spending. This happens regardless of how higher federal spending is financed. Tax financing (not done in this case) reduces the after-tax return to workers and investors, leading them to reduce the resources they provide. Deficit-financing (borrowing) tends to push up interest rates and, more generally, eats up dollars that would otherwise have gone toward private lending and investment. Inflationary financing (roughly the Fed printing money—a fear in this situation) reduces investor confidence, lowers the real value of some financial assets, and leads to falling investment. Of course we do not register these “job losses” on the mainstream statistical radar because they are jobs that would have been created, absent the government spending, but never were—hence their invisibility.

### AT: Plan creates P3’s

**P3’s don’t solve privatization – it requires granting states permission to sell transportation infrastructure**

**Semmens, 12 –** Laissez Faire Institute (John, Book Review of Last Exit: Privatization and Deregulation of the U.S. Transportation System, by Clifford Winston, a senior fellow in the Economic Studies Program at Brookings, The Independent Review, Winter, <http://www.independent.org/publications/tir/article.asp?a=869>)//DH

Rather than expecting policymakers to leap into privatization with both feet, however, Winston tries to coax them along by urging them to carry out modest experiments. A first step would be to reduce the federal government’s role. Instead of having a centralized authority mandating that state and local government dance to tunes played by the federal piper, Winston suggests, states and local government should be granted permission to deviate from a uniform standard and be encouraged to try new methods for meeting transportation needs (p. 156).

Although many state transportation departments are beginning to warm to a public–private partnership concept, Winston believes that this course does not really bring about the initiative and innovation that a true privatization would accomplish (p. 130). True privatization requires that transportation assets currently owned by governments be sold to private firms that will have the entrepreneurial freedom to manage them for profit. The pursuit of profit in a competitive environment pushes firms to improve the products and services they offer while simultaneously decreasing the cost to the consumer.

## \*\*\*Blocks for both

### Elections net benefit

**The CP has public support among independents**

**Suozzi, 10** – former Nassau county executive. (Tom, Wall Street Journal, “How About a Partnership Stimulus?,” <http://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=7&ved=0CFYQFjAG&url=http%3A%2F%2Fwww.local237.org%2Findex.php%3Foption%3Dcom_docman%26task%3Ddoc_download%26gid%3D286%26Itemid%3D124&ei=aIwAUIPkBoGE8AS59sWSCA&usg=AFQjCNFf8i6rBDWHx24kT2hVA08-reJMzw)//DH>

A national poll sponsored this year by Lazard, a company where I serve as a senior adviser, shows that voters -- overwhelmingly concerned with the economy -- want their elected officials to find nontraditional means of addressing fiscal problems. The method they favor most is private investment in public infrastructure. Voters who describe themselves as moderate favor private investment in public infrastructure by 2 to 1. The U.S. Department of Transportation estimates that every $1 billion in infrastructure spending creates 25,000 jobs, which should further encourage both the public and elected officials to support such an effort.

### Stimulus bad net benefit

**The CP solves the case and avoids all of our stimulus turns**

**deRugy, 11** – senior fellow at the Mercatus Center at George Mason University specializing in tax and budget issues (Veronique, “FEDERAL INFRASTRUCTURE SPENDING: NEITHER A GOOD STIMULUS NOR A GOOD INVESTMENT”, 11/16, <http://mercatus.org/sites/default/files/publication/Federal%20Infrastructure%20Spending%20-%20Neither%20a%20Good%20Stimulus%20Nor%20a%20Good%20Investment.pdf)//DH>

Economic theory suggests that private markets under-provide so called “public goods.” 36 As a result, the government is often believed to have a comparative advantage in the provision of public goods. Theory also suggests that private markets have a comparative advantage in providing non-public goods, goods and services that businesses can supply. Thus, having the federal government run businesses—such as Amtrak and the Postal Service—and oversee infrastructure—such as the air traffic control system—is not just inefficient, it also hinders economic growth and costs the taxpayers money while providing low-quality services to customers. 37

Identically, economists argue it is inefficient to have the federal government oversee roads and highway expansions as state and local governments and the private sector are better suited to oversee roads and highway expansions. In a 2009 Policy Analysis paper, Cato Institute urban economist Randall O’Toole explains how, with very few exceptions, most roads, bridges, and even highways are local projects (state projects at most) by nature. 38 In fact, a number of states have started to finance and operate highways privately. In 1995, Virginia opened the Dulles Greenway, a 14-mile highway, paid for by private bond and equity issues. Similar private highway projects have been completed, or are being pursued, in California, Maryland, Minnesota, North Carolina, South Carolina, and Texas. In Indiana, Governor Mitch Daniels leased the highways and made a $4 billion profit for the state’s taxpayers. Consumers in Indiana were better off: the deal not only saved money, but the quality of the roads improved as they were run more efficiently.

Experiences in other countries have also shown that privatization leads to innovation and reduced congestion. In France, the A14 in Paris was funded privately and has not only managed to stay in business, but has also helped reduce traffic congestion. Furthermore, while almost all major U.S. airports are owned by state and local governments, with the federal government subsidizing airport renovation and expansion, many countries have privatized or partly privatized their airports, including Athens in Greece, Auckland in New Zealand, Brussels in Belgium, Copenhagen in Denmark, Frankfurt in German, London in the UK, Melbourne and Sydney in Australia, Naples and Rome in Italy, and Vienna in Austria. 39

Conclusion

Economists have long recognized the value of infrastructure. Roads, bridges, airports, canals, and other projects are the conduits through which goods are exchanged. However, it doesn’t mean that the federal government should be funding infrastructure projects. Rather, it should devolve this function to the states or, better yet, leave it to the private sector. Moreover, whatever its merits, because infrastructure spending does not provide much of a stimulus to an economy—especially if that economy needs long-term, sustainable jobs—it should not be used as a jobs program.

### AT: Federal key to solve uncertainty

**Deregulation alone substantially reduces uncertainty**

**Thomasson, 12** -  is president of NewBuild Strategies LLC, an energy and infrastructure consulting firm in Washington, DC. He most recently served as a policy director at a nonprofit think tank and has testified before Congress about current proposals for financing infrastructure (Scott, “Encouraging U.S. Infrastructure Investment”, April, <http://www.cfr.org/infrastructure/encouraging-us-infrastructure-investment/p27771)//DH>

Streamlining regulatory reviews and financing approval processes and improving program management can speed project delivery and reduce regulatory uncertainty for project sponsors. Specifically, federal policymakers should:

* Coordinate and enhance existing finance programs. A modest but viable alternative to an infrastructure bank is coordinating the many loan programs for infrastructure that are already spread across various federal agencies and departments. There is bipartisan agreement that these programs need improvement—for example, TIFIA needs more credit experts to keep up with its growing workload, and the Department of Energy's loan program needs better oversight and transparency. Congress should modernize the outdated Federal Financing Bank (FFB), a nearly dormant government corporation now controlled by the Treasury Department, and convert it into an independent credit review and oversight office. The new, more active FFB could perform technical, "back office" functions like risk assessments and loan tracking for agency credit programs. Using a central team of experts would avoid duplicative staff across programs, speed approvals, and minimize taxpayer exposure to unforeseen loan risks.
* Cut red tape for new projects. On March 22, 2012, President Obama issued a new executive order to "improve performance of federal permitting and review of infrastructure projects." But the order is short on substance and long on studies and steering committees. A bolder step would be eliminating duplicative reviews by merging them into single-track proceedings wherever possible. The approval process for natural gas pipelines is a model; an interagency agreement established a "one-stop" review conducted by the Federal Energy Regulatory Commission (FERC) with input from other government agencies. President Obama could order similar streamlining without congressional approval and without waiting months for a steering committee plan.

### AT: State budgets

**States won’t spend more on transportation – the fact their budgets are tight means the CP creates the political imperative for greater privatization – that’s Edwards**

**Privatization and deregulation substantially decrease transportation infrastructure costs – saves both federal and state budgets**

**Winston, 10** - applied microeconomist and senior fellow in the Economic Studies Program at the [Brookings Institution](http://en.wikipedia.org/wiki/Brookings_Institution). He specializes in the analysis of and has written extensively on industrial organization, regulation, and transportation (Clifford, Last Exit: Privatization and Deregulation of the U.S. Transportation System, p. 13-14)//DH

Government intervened in a developing urban and intercity transportation system that faced different problems than it does today. Regardless of the justification for that intervention, most policymakers, transportation providers, and users have increasingly concluded that the performance of the current system is generally unsatisfactory and that government`s traditional solution (reinforced by classic political pressure from interest groups) of spending our way out of the problems is not a viable option because the federal government and most state governments are facing severe fiscal pressures for the foreseeable future.

Privatization and deregulation may appear to be an extreme approach. Especially given the past problems with private provision of certain transportation services and infrastructure and current doubts about whether markets can be trusted to deliver essential services. At the same time, government failure in transportation has solidified inefficient practices that must be purged and has slowed technological advance that must be accelerated. Private firms may accomplish those goals if they are not constrained by the kinds of regulatory interventions that undermined their initial efforts to develop the system.

Potential Benefits

The essential goal of privatization and deregulation of the U.S. transportation system is to develop market-based institutions that are stimulated by competition to respond to customers' preferences, expand choices, minimize costs, and introduce innovative services and technologies. Privately owned enterprises selling services directly to the public are dependent on customer goodwill and in contrast to public sector providers less likely to have their operations shaped by special interests that substantially raise the cost of transportation to the general public.

The evidence l synthesize in subsequent chapters indicates that the annual efficiency costs associated with public ownership and (mis)management of the system clearly exceed $100 billion, not including the costs of impediments to innovation and slow technological advance. Theoretical and limited empirical arguments suggest that privatization and deregulation could significantly eliminate current inefficiencies and spur innovations that are difficult to envision in the current environment, but the case would be much more persuasive if it were accompanied by evidence obtained from privatization experiments in the United States.

**They’ll substitute private sector capital for public capital**

**Poole 96** - Robert Poole is president of the Reason Foundation. An engineering graduate of MIT, he has advised the U.S. and California departments of transportation, the White House, and the President's Commission on Privatization (Robert, “DEFEDERALIZING TRANSPORTATION FUNDING.” <http://reason.org/files/4883e8bd01480c4d96ce788feb1f2e05.pdf)//DH>

Public agencies tend to be risk-averse and oriented to the status quo. Hence, they are slow to adopt innovations. It is the private sector which is pioneering the introduction of congestion pricing on highways. It is the private sector which is taking full advantage of electronic toll collection to develop the world's first toll road without any toll booths. And it is likely to be the private sector that introduces Asmart highway@ technology, targeting upscale customers who desire in-car navigation and two-way communications as a niche market willing to pay for valueadded services. Airports, air traffic control, and highways fail to make use of state-of-the-art technology because they are operated by input-oriented public agencies rather than user-friendly service businesses.

These fundamental problems lend support to the idea of changing the infrastructure paradigm to one that, as much as possible, relies on user funding, dedicated revenues, and market pricing. Devolving transportation infrastructure responsibilities to lower levels of government would hasten the adoption of the new infrastructure paradigm.

C. State and Local Innovators

As prospects for increased federal infrastructure investment have given way to likely decreases (as part of budgetbalancing efforts), the federal government has attempted to encourage innovative financing and the investment of private capital. The 1991 ISTEA measure included provisions for public-private partnerships and innovative financing. In addition, the Bush administration issued Executive Order 12803 (in 1992) on infrastructure privatization, and the Clinton administration followed up with a complementary measure, Executive Order 12893, in 1994. But little real activity has been generated by these measures.

Instead, it is the states and cities that have been the principal innovators. By the end of 1995, 12 states and Puerto Rico had enacted public-private partnership measures for surface transportation infrastructure, and three private toll projects had been financed and opened to traffic. A growing number of mayors and governors are proposing to sell or lease airports and other infrastructure facilities, seeking to substitute private capital for increasingly limited public capital (so that the latter can be reserved for more inherently governmental needs). This disparity between federal and state/local governments suggests that greater innovation and new forms of private investment would occur if the federal government devolved the responsibility and funding authority for most infrastructure to the state level.

**Privatization solves state budgets**

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

The success of existing private sector participation in transportation services highlights the potential benefits for many transportation projects needed on the state level. While not a panacea, public-private partnerships have proven successful when done properly with a strong contract that protects taxpayer interests, continual oversight, and strict accountability.

Indiana is sitting on a $1.4 billion surplus right now, thanks in part to its $3.8 billion lease of the Indiana Toll Road in 2006. The state has used that money to fund numerous infrastructure projects that wouldn't have been built without the cash from the lease deal. And the state has earned over $300 million in interest from the upfront payment it received.

In addition to Indiana, global capital is invested in Illinois, Virginia, Texas, California and Georgia. Public-private partnerships (PPPs) in these states have offered three key benefits:

Access to large, new sources of capital for various infrastructure projects;

Quality improvements in construction, delivery, and, in the cases of toll roads and bridges, operations management; and

Transferred capital risks from taxpayers to investors; and

At least 25 states have some legislation permitting public-private partnerships for transportation projects.

Yet, only a few are making use of this opportunity. Even with the credit troubles worldwide, a substantial amount of private sector money is available for public-private partnership investment. Over the last few years several funds set aside as much as $180 billion waiting for the right infrastructure investment opportunities.

### AT: Private bankruptcy

**Even if some private companies fail – competition means best practices will emerge**

**Winston, 10** - applied microeconomist and senior fellow in the Economic Studies Program at the [Brookings Institution](http://en.wikipedia.org/wiki/Brookings_Institution). He specializes in the analysis of and has written extensively on industrial organization, regulation, and transportation (Clifford, Last Exit: Privatization and Deregulation of the U.S. Transportation System, p. 16-17)//DH

Indeed, the justification for government intervention and takeover of transportation during the past century is far from clear. One cannot make the case by simply pointing to alleged market failures, such as the existence of scale economies in transit operations, and claim that workable competition was not possible. In theory, market failures should be compared with government failures and how the consequences of each will evolve over time. Periodic financial failures by private firms are not necessarily bad if inefficient firms exit and are eventually replaced by firms that use more efficient production methods and up-to-date technologies. Public provision and regulation may cause greater social costs than are caused by private firms that are struggling financially. Moreover, such costs maybe concealed from the public, the majority of whom do not realize the extent of increasing public sector inefficiencies and taxpayer subsidies. Indeed, the strongest justification for privatization may be that it can eliminate dynamic X-inefficiencies--steadily rising production costs and little innovation and technological advance.

**Even with the risk of bankruptcy, overall costs are less than government planning and other companies can takeover**

**Poole and Samuel, 11** – \* director of transportation policy and Searle Freedom Trust Transportation Fellow at Reason Foundation, also an MIT-trained engineer AND \*\*senior fellow at the Reason Foundation (Robert and Peter, “Transportation Mega-Projects and Risk”, <http://www.fairfaxcounty.gov/planning/tysons_docs/090711transportation_mega_projects_risk_big_dig.pdf>)//DH

There are several important lessons to be drawn here. The first is that having to persuade investors to part with capital for such mega-projects will typically produce a far higher degree of scrutiny of the project’s underlying feasibility than is all too often the case for conventionally done megaprojects. The second is that even when such scrutiny is overtaken by events and a concession project does badly, it is investors who are at risk, rather than taxpayers. Third, despite financial difficulties, the project remains in service, meeting transportation needs. In extreme cases the original company may go bankrupt and the assets get purchased by new owners (with approval of the government agency that is a party to the concession). By purchasing the asset at a fraction of the original cost, the new owners hope to operate it in a financially sustainable manner (much as happened with failed telecom companies such as Global Crossing and Iridium).

### AT: Not enough capital

**Hundreds of billions in private capital exist for infrastructure investment**

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

At least 25 states have some legislation permitting public-private partnerships for transportation projects.

Yet, only a few are making use of this opportunity. Even with the credit troubles worldwide, a substantial amount of private sector money is available for public-private partnership investment. Over the last few years several funds set aside as much as $180 billion waiting for the right infrastructure investment opportunities.

Given the unstable financial markets, infrastructure has become an attractive asset class for pension funds, private equity groups, and insurance companies which would not invest in traditional toll road bonds. This means even more money could be on the table for transportation projects.

### AT: User fees will be too low

**The CP incentivizes user fees that meet market rates – but even if they are too low, shadow tolls allow for companies to still make a profit**

**Engel et al 11**- Professor of economics at Yale (Eduardo, "Public-Private Partnerships to Revamp U.S. Infrastructure." Brookings. February 2011. cowles.econ.yale.edu/~engel/pubs/efg\_revamp.pdf)//TD

The usual concern under traditional public provision is that user fees are set too low because politicians fear voters. Another concern is that groups with effective lobbying power—such as truckers, in the case of highways—are often charged less than the cost of the damage and congestion they cause. Evidence exists that PPPs have helped maintain the real value of user fees in the face of inflation. Tolls for the Indiana Toll Road remained unchanged in nominal terms for more than twenty years under state ownership and management; in real terms, they fell substantially. When the road was auctioned as a PPP in January 2006, however, tolls doubled and were indexed to inflation, because potential private firm concessionaires were unwilling to bear inflation risk for seventy-five years. Other states, among them Florida, Pennsylvania, and Texas, have since adopted toll indexation for their projects. However, the rise in tolls in Indiana led to the introduction of a shadow toll (a payment from the government to the firm linked to usage of the project). Hence, a PPP does not totally solve the problem of low tolls due to political pressure.

### AT: Requires user fees to solve

**Direct compensation payments can cover infrastructure that can’t bring user fees**

**Gross 10**- Doctor of Philosophy in Civil engineering (Martha, "Aligning Public-Private Partnership Contractswith Public Objectives for Transportation Infrastructure." 2010. scholar.lib.vt.edu/theses/available/etd-08242010-173605/unrestricted/Gross\_ME\_D\_2010.pdf)//TD

Instead of providing revenue solely from user fees, a PPP arrangement may compensate the private sector through direct payments from the state. This compensation structure can take multiple forms, the most common of which are availability payments and shadow tolls. Although these contract types (if not also coupled with direct tolls) are not the focus of this study, their structure is outlined here for completeness’ sake. Chapter 1 7 Under the availability-payment model, concessionaires receive their revenue through periodic transfers from the public sector. These payments’ base level and duration are negotiated as part of the contract terms, and amounts are reduced for any deficiencies in agreed-upon operating standards, such as timely pothole repair or debris removal. Availability payments are generally independent of the number of vehicles using the facility, though they may sometimes be indexed for unexpectedly heavy traffic volumes. The state may or may not impose a toll on the facility. The FHWA (2007b) notes several advantages of the availability-payment model: – It creates an incentive for timely completion of project construction (since payments do not begin until the facility opens); – It provides an incentive for continued high operating and maintenance standards; and – It lowers the concessionaire’s cost of capital by eliminating traffic risk. Though availability-payment PPPs are more common abroad, Florida is pioneering this model in the US with a variety of toll structures. The Port of Miami Tunnel, for instance, will not be tolled: the concessionaire will receive monthly payments over a 30-year term after facility opening, with deductions for not meeting specified performance and service criteria. In contrast, the I-595 improvements in southern Florida will incorporate reversible express lanes tolled with variable congestion pricing; the state will retain the toll revenues throughout the 30-year concession and provide availability payments to the developer. In these projects, though, the concessionaire assumes a measure of appropriations risk, since these disbursements must be approved annually by the state legislature.

**Performance standards with direct compensation solve – the public sector will pay the private sector for superior performance even without tolling**

**Puentes 09**- Senior Fellow at the Brookings Institute (Robert, "Promises and Pitfalls in Public-Private Partnerships for Transportation." Brookings. July 14th 2009. [www.brookings.edu/~/media/research/files/speeches/2009/7/14%20transportation%20puentes/0714\_transportation\_puentes.pdf)//TD](http://www.brookings.edu/~/media/research/files/speeches/2009/7/14%20transportation%20puentes/0714_transportation_puentes.pdf)//TD)

Asset leases, sometimes known as concession agreements, are a type of PPP in which the public sector leases an asset, such as a toll road, a bridge, or an airport, to the private sector. The private sector provides an upfront payment and/or an agreement for revenue sharing and then manages and operates the facility in return for user fee revenues such as tolls. Two highly visible examples are the toll road leases in Chicago and Indiana. 6 Another form are availability payment PPPs, which typically involve finance, operations, maintenance, and sometimes design and building. The key distinction is that instead of the private sector operator being compensated primarily from toll revenue, it is rewarded by the public sector based on performance metrics such as how well the facility is maintained. The Port of Miami Tunnel is one such example. The private financing and management of new facilities model is where a private contractor agrees to design, build, operate, maintain and sometimes finance a particular transportation asset for a contracted number of years. Such a model has been employed in one form or another for highway projects such as the Capital Beltway HOT lanes project, and transit projects in New Jersey, Minneapolis, and Las Vegas

### Theory: Funding debates good

**The CP is centered on the core transportation policy debate that most directly shapes policy outcomes**

**Hecker, 10** - Director of Transportation Advocacy National Transportation Policy Project A project of the Bipartisan Policy Center (JayEtta, “STRATEGIES TO BETTER LEVERAGE THE FEDERAL TRANSPORTATION DOLLAR AND PROMOTE INCREASED NON FEDERAL INVESTMENT”, 3/11, <http://epw.senate.gov/public/index.cfm?FuseAction=Files.View&FileStore_id=209aba4f-ce26-49ec-a133-e028561efbb9)//DH> – **italics in the original**

Recognizing that the financing mechanisms in place to support the nation’s highway and transit programs are unsustainable and in need of significant reform, NTPP made several specific recommendations for thinking longer term about a sustainable – and performance enhancing strategy for raising revenue. The problem is not just that the current fuel tax and other taxes that support the highway and transit trust funds have not been increased or pegged to inflation, and that this is causing a growing funding shortfall. Rather, the central flaw of existing financing mechanisms is that they provide a poor signal to users about the costs they impose on the system. In other words, *how* we raise money for transportation is itself an extremely important policy decision—quite apart from decisions about how much money needs to be raised, where that money should go, or how the federal government can focus its program to enhance non federal investments. Thus, reform of current financing mechanisms must be central to any effort aimed at making overall U.S. transportation policy more performance-based, effective, and efficient. Federal leadership is required to assist and support both states and local governments in developing the next generation of an efficient user-based funding mechanism.

**Funding debates are the foundation of transportation infrastructure debates**

Gross 11 – Winner of the University Undergraduate Research and Arts Forum award in the field of Political Science and Economics (Evan, “Providing Public Transportation to a State and a Country on Wheels”, Michigan Policy Network, May 12 of 2011, <http://www.michiganpolicy.com/index.php?option=com_content&view=article&id=1096:providing-public-transportation-to-a-state-and-a-country-on-wheels&catid=246:employment-policy-briefs&Itemid=392>)//AW

When Americans think about government funding debates, issues like health care, social security, education, and defense are hot topics. However, many people take for granted that how they get to school, work, and shops every day is a highly political issue. Transportation is a multi-billion dollar a year taxpayer project that provides the roads, rails, bus lines, bridges, tunnels, airports, and seaports that allows us to get from point A to point B, anywhere in the country, quickly and efficiently. For the last century, Americans' choice mode of transportation has been private personal transit, the car. We own over 250 million vehicles, a treasured part of American culture and the basis of the layout of our cities, towns, states, and interstates. However, the country's dependence on the automobile has raised serious problems that have entered strongly into the political discourse. Up to one third of the surface area of our major cities is devoted to parking lots, smog from car exhaust is a health problem in cities like Los Angeles, Phoenix, Houston, and New York, and the price of gas is quickly climbing past four dollars a gallon, not to mention the influence of our oil dependence on wars in the Middle East and disastrous spills in the Gulf of Mexico. In recent decades, Americans have been looking toward our often neglected public transportation system for the answers to these problems and more. Michigan is the microcosm of this current debate over funding for public transportation. The Big Three automakers and the Motor City itself are in Michigan, but the state has been grappling over questions about whether the devotion to the car has cost the state in the long run, with the lack of investment in public transportation strangling cities seeking economic redevelopment and revitalization. Others, however, see existing buses, that usually run on huge subsidies, largely empty and claim that new public transit projects are a dangerous waste of money for cash-strapped cities. However, as with any funding debate, the discourse is not this simple and the rhetoric changes with every new development and current event. Some notable current events in the Michigan public transportation debate today are the new mass transit projects in Detroit and Grand Rapids, and a new bill in the legislature that threatens bus service cuts and fare increases across the state. The project in Detroit is the Woodward Avenue (M1) Light Rail Transit project which seeks to place a streetcar tram down the middle of one of Detroit's major boulevards at an estimated cost of $450-500 million. ("Woodward Light Rail") This is a major new investment for the city of Detroit which removed its extensive streetcar system in the 1950s and currently only has a 2.9 mile elevated rail loop called the People Mover and bus service for the city. In Grand Rapids, a new investment in Bus Rapid Transit is being debated. The proposed "Silver Line" would run down Division Street into south Grand Rapids extending into Kentwood. The line takes the form of a large bus which acts sort of like a train in that it has elevated stops, its own devoted street lane, and communicates its location with stoplights. Sources say the project would cost about $40 million, but bring new economic investment to the Division Street area. (Calabrese) The other big debate which will likely take place later this year is the Agema Farebox Bill, House Bill 4023 (2011), which proposes to cut state funding to bus and public transportation agencies in Michigan that cannot raise at least 20% of their revenue directly from farebox returns. Bus systems in Detroit, Grand Rapids, Flint, and Ann Arbor are currently operating on 85-90% taxpayer subsidy which allows them to charge low fares for rides. A debate is forming over whether these subsidy rates are too high and whether bus fares should increase. These issues represent the larger debate taking place as cities around the country discuss large taxpayer price tags for new public investments and decide how to best provide transportation services to a mobile population. While starting research and conducting interviews in Michigan, it quickly became evident that two different sides to the issue were emerging, but the debate was far more complex than a social action issue that has a "yes" or "no" question. After all the debate is not "Should the government fund transportation, yes or no?" Rather the question involves taxes, subsidies, which mode of transportation is the best, whether funding for rails should take away from roads, and if mass transit can bring in new economic investment and growth. There was a side that could be called, "for" public transportation and a side that could be called "against", but the division is not that simple. First of all, the arguments for the "pro" public transportation side tended to originate from specific issue-based interest groups like the American Public Transportation Association, as well as some other Urban, Transit, and Environmental groups and governmental organizations with a vested interest in public transportation funding. Their arguments consisted of a broad array of mass transit solutions to urban problems. The "anti" public transportation side on the other hand seemed to have a stronger tone. Coming mostly from conservatives and conservative/libertarian think tanks like Cato and the Heritage Foundation, the arguments would consist of pointedly questioning, attacking, and debunking specific research findings from the transit interest groups. To highlight these opposing viewpoints, two political figures were interviewed in the research. On the one side was Clark Harder, Executive Director of the Michigan Public Transportation Association, speaking for the primary group representing public transit agencies and interests to the state government. Mr. Harder speaks out in strong support for new investment in public transportation in Grand Rapids and Detroit, and against the Agema Farebox Bill. On the other side was Michigan Representative David Agema, a Republican and staunch conservative, and the primary sponsor of the Agema Farebox Bill. Representative Agema, who represents Grandville, MI and part of Ottawa County in suburban Grand Rapids, speaks out against wasteful spending in public transportation and wants to see more money put into roads as opposed to bus and mass transit systems. The two standpoints construct the local debate in Michigan over the new investment projects and the Agema Farebox Bill, both of which will play a large role in the future of public transportation in Michigan. In doing so, they allude to the more general, national debate taking place over transportation funding as cities and states across the country struggle with budget deficits, new project proposals, and overburdened systems. For the general content analysis, several sources were gathered from a national level, many from conservative leaning think tanks, some from news media and op-ed articles, some from liberal leaning journals and online sources such as Grist Magazine and American Prospect, and many directly taken from transit interest group sources such as the APTA and MPTA. These sources were analyzed for insight into the structure of the overall debate and what aspects of it will be most influential in policymaking. Overall the document sources were queried for political party influence in the discourse, interest group coalition mentions, and specific political figureheads. Afterward, the document sources were roughly divided into categories "for" or "against" public transportation. From here, the analysis concerned which broad issue areas were most important to each side of the debate. Was it cost and taxes that were concerning the "against" side the most, or was it inefficiency? Was the "pro" side more focused on the environmental benefits of public transit or the social mobility benefits for example? 17 separate documents that were representative of the mass transit debate were included in the content analysis, 75 pages total; sources were sought from the last five years. See source citations at the end

## \*\*\*EAP CP

### EAP 1nc

The United States federal government should submit [the plan] to an Economic Appraisal Process, and [do the plan] if and only if the EAP demonstrates that doing so would significantly boost economic productivity.

**It’s a competitive policy option and solves the case better. Increasing federal investment unconditionally threatens to crowd-out private sector investment. The CP’s condition solves and avoids our stimulus bad turns.**

**Lewis 93**- Ph.D. in Economics from the London School of Economics. During his seven years with the Congressional Budget Office, he served as a Principal Analyst in the Natural Resources and Commerce Division conducting policy analysis in surface transportation, aviation and risk management (David, "Ensuring Productive Investment In Transportation Infrastructure." Policy Study Number 159. June 1993. reason.org/files/3f2491828ed3b56b77e7f6580fcb3a04.pdf)//TD

The planning framework established by the Intermodal Surface Transportation Efficiency Act (ISTEA) could serve as an effective means by which rate-of-return guidance could be integrated into the state and local surface transportation investment planning process. The ISTEA establishes the Transportation Improvement Plan (TIP) as the major planning document for securing federal financial assistance. All highway and transit projects proposed for federal capital assistance must be included and prioritized in the TIP after first being subject to a specified analysis process. Without amending the legislation, the federal government could establish the consideration of economic rate of return as a required element in this process, a step that would have the added advantage of encouraging multimodal choices and priorities to be established according to economic growth decision criteria. States, which are required under ISTEA to integrate the TIPs into statewide longrange plans, could be brought into the rate-of-return framework accordingly.

For large projects (those with capital costs in excess of a specified amount, probably in the neighborhood of $10 million), and for projects involving highway-versus-transit modal alternatives, the federal government could require an "Economic Appraisal Process" (EAP) as part of the TIP and statewide plan. As a companion to the Environmental Impact Statement, an EAP would establish the requirements of a Benefit-Cost Appraisal, Logistics Analysis, and Risk Analysis as a basis for program and project approval. The federal government would provide technical guidance on the conduct of the analysis, in much the same way that the federal Office of Management and Budget publishes technical guidelines (in the Federal Register) for the conduct of Benefit-Cost Analysis in federal departments. The Primer on Transportation, Productivity and Economic Development developed by the National Cooperative Highway Research Program is already serving this purpose informally.

A similar mechanism is needed for aviation infrastructure investment, and could be incorporated into legislation reauthorizing the Aviation Trust Fund.

IV. CONCLUSION AND RECOMMENDATIONS

If the federal program design requirements outlined in Section III above are met, public transportation investment capital can be guided to its highest and best use, namely highyield, productivity-oriented projects serving economic growth objectives. In application, the appropriate objectives, decision criteria and assessment tools would signal, on an on-going basis, an appropriate level of transportation infrastructure spending both within and beyond a period of deficit reduction.

Without such a signaling mechanism, on the other hand, merely increasing the quantity of infrastructure spending will not put public investment to work in helping revitalize the nation's economy. Indeed, such expenditures could place a further burden on the economy, by displacing more productive private-sector investment.

The analysis presented here also has implications for the use of infrastructure spending as a means of short-term economic stimulus. While "ready-to-go," high rate-of-return projects cannot be expected to contribute significantly to growth in net new employment, this is not to say that infrastructure investment ought to be dismissed from the list of near-term priorities; indeed it should not. It is simply that such investment should be tailored to the achievement of productivity and growth-related objectives, not the creation of new employment.

**The CP’s attachment of economic performance conditions maximizes accountability in infrastructure decisionmaking**

**Hecker, 10** - Director of Transportation Advocacy National Transportation Policy Project A project of the Bipartisan Policy Center (JayEtta, “STRATEGIES TO BETTER LEVERAGE THE FEDERAL TRANSPORTATION DOLLAR AND PROMOTE INCREASED NON FEDERAL INVESTMENT”, 3/11, <http://epw.senate.gov/public/index.cfm?FuseAction=Files.View&FileStore_id=209aba4f-ce26-49ec-a133-e028561efbb9)//DH>

It is widely recognized that that a critical flaw in our existing national surface transportation policies and programs is the absence of clear, overarching, consensus-based national goals 3 . Since the era of interstate highway construction over a half century ago, this lack of defined goals has undermined federal efforts to keep pace with changing transportation needs and the need to promote the more effective management and maintenance of infrastructure that is critical to national interests. Absent clear goals, it is not surprising that the current system of transportation planning and funding, at all levels of government, lacks accountability. This has been a common theme of reviews by many stakeholders—and was the central finding of a body of GAO work concluding that existing programs lack a well-defined national vision, have no links to performance, and fail to address current nationally significant challenges including freight congestion and transportation’s unsustainable impacts on the environment 4 .

The problem of accountability stems in part from a well-intended effort to provide the states, which are the primary recipients of most federal transportation funds, with extensive flexibility to shift federal dollars to any “Title 23” or federally eligible road or project. The current structure amounts to a de facto block grant program. Federal oversight is almost entirely process-oriented and focused on the front end with little attention to the outcome or impact of the investment of federal dollars. Federal oversight that does exist - in terms of eligibility requirements for highway projects - is often criticized as adding considerable cost and time; and yet despite the costs and delay of the process-oversight, the quality and outcome of investments are rarely considered 5 .

More importantly, there is no current federal requirement to optimize any “return” on transportation investments, or even to estimate the potential returns or cost-effectiveness of alternate investments in most cases 6 . Formula funds, which constitute the bulk of federal funding, contain no requirement that grant recipients focus on results or even consider economic analyses of project costs or benefits. This simple mechanism for transferring funds may have had merit during the interstate construction years, when a national system had been agreed upon. But today there is no agreed-upon national plan. Recent research has documented that since the completion of the Interstate Highway System the returns on public highway investments have reduced to single digits 7 , due in part to inefficient policies and the failure to promote sound management of existing infrastructure while maximizing the returns from new investments.

Simply put, the existing system is based on a lack of accountability by recipients of federal funds who have never been asked to track the results of their investments of federal, state, and local funds – and has no consequence for poor investment choices or deteriorating system condition and performance. Further, the concern that federal dollars substitute for states’ own transportation funds was the subject of a rigorous GAO study which updated and refined the most sophisticated econometric work on the subject. That research demonstrated that during last 20 years, as federal investment levels increased, state substitution of federal dollars for levels of funding they would otherwise be expected to have made increased to over 50 cents on dollar 8 . The structure of the federal program directly affects how well the federal dollar is leveraged – and has the potential – not yet realized – for improving the performance of the nation’s transportation system.¶ With this context of the significant flaws inherent in the current policies, programs, and relationships, I ¶ turn to the focus of this hearing - exploring how the federal transportation dollar can be effectively ¶ leveraged and how the federal program can incentivize an appropriate increase in state, local and ¶ private dollars. Recall my remarks are organized around three key points:

 Federal policy should promote “wise” investment to optimize performance.

 Specific policies are needed to directly incentivize non federal investment.

 New financing mechanisms will not necessarily incentivize non federal investment.

In each section, I highlight specific NTPP recommendations for Congressional action to better leverage ¶ the federal transportation dollar.

ASSURE FEDERAL DOLLARS ARE INVESTED WISELY TO PROMOTE PERFORMANCE

Performance is central to the question of effectively leveraging the federal dollar. Without clear federal goals and dynamic measures to focus the use of federal funds, the federal program lacks direction and inherently fails to leverage non federal funds. As long as federal funds flow as an uninterrupted stream without regard to performance, there is little incentive for public or private entities to take the political risks necessary to make strategic transportation investments.¶ As with nearly all other observers, we concluded that there is an urgent need for defining specific goals ¶ for the federal transportation program that direct resources to the achievement of clear national ¶ interests.

RECOMMENDATION: NTPP recommends the national interests in transportation investment be recognized as advancing the following key national concerns:

Economic Growth—Producing maximum economic growth per dollar of investment

National Connectivity—Connecting people and goods across the nation with effective surface

transportation

Metropolitan Accessibility —Providing efficient access to jobs, labor, and other activities

throughout metropolitan areas

Energy Security and Environmental Protection—Integrating energy security and environmental protection objectives with transportation policies and programs

Safety —Improving safety by reducing the number of accidents, injuries, and fatalities associated ¶ with transportation

At the same time we recognize that moving toward a performance-driven approach requires ¶ fundamental reform and involves far more than identifying clear national goals. Implementing a ¶ performance-driven approach and introducing accountability will challenge entrenched interests and¶ require government institutions at all levels to change longstanding practices and ways of doing ¶ business. Accordingly, we believe it is essential for Congress to support the development of more ¶ specific outcome-oriented measures outlining the desired outcomes of federal investments. ¶ Performance metrics must be fair, transparent, and free of bias toward particular transportation modes ¶ or geographic regions.

There is compelling evidence that increasing the focus of the federal program on nationally significant ¶ and outcome-oriented performance metrics will require substantial development, refinement, ¶ application and testing, to build a reliable foundation for public and political confidence in core ¶ performance measures.

As a result, NTPP’s core recommendation is that a long term commitment is needed to begin a ¶ systematic transition from a process and revenue sharing model to a performance-based program. ¶ RECOMMENDATION: Congress should begin an aggressive transition to a performance-based system with SUPPORT FOR COMPREHENSIVE TESTING AND REFINING OF OUTCOME-ORIENTED NATIONAL METRICS. This will mean pilot testing the application of broad, mode-neutral national performance metrics on the state and metropolitan level to identify and address specific implementation challenges.

**Public investment is manipulated by project managers who cook the data to win project approval – exaggerates aff benefits and causes massive cost overruns. Only greater accountability metrics solve**

**Flyvbjerg, 10** - Professor of Major Programme Management at [Oxford University](http://en.wikipedia.org/wiki/Oxford_University)'s [Saïd Business School](http://en.wikipedia.org/wiki/Sa%C3%AFd_Business_School) and is Founding Director of the University's BT Centre for Major Programme Management. He was previously Professor of Planning at [Aalborg University](http://en.wikipedia.org/wiki/Aalborg_University), [Denmark](http://en.wikipedia.org/wiki/Denmark) and Chair of Infrastructure Policy and Planning at [Delft University of Technology](http://en.wikipedia.org/wiki/Delft_University_of_Technology), The Netherlands (Bent, “Survival of the unﬁttest: why the worst infrastructure gets built—and what we can do about it,” Oxford Review of Economic Policy, Volume 25, Number 3, 2009, pp.344–367, Oxford Journals Online)//DH

This situation may need some explication, because it may sound to many like an unlikely state of affairs. After all, it may be agreed that project managers and other professionals involved in major infrastructure provision ought to be interested in being accurate and unbiased in their work. It is even stated in the Project Management Institute (PMI)’s Code of Ethics and Professional Conduct (PMI, 2006, pp. 4, 5) that project managers should ‘provide accurate information in a timely manner’ and they must ‘not engage in or condone behaviour that is designed to deceive others’. Economists, engineers, planners, and others involved in major infrastructure provision have similar codes of conduct. But there is a dark side to their work, which is remarkably underexplored in the literature (Flyvbjerg, 1996).

On the dark side, project managers and planners ‘lie with numbers’. as Wachs (1989) has aptly put it. They are busy not with getting forecasts and business cases right and following the PMI Code of Ethics but with getting projects funded and built. And accurate forecasts are often not an effective means for achieving this objective. Indeed, accurate forecasts may be counterproductive, whereas biased forecasts may be effective in competing for funds and securing the go-ahead for a project. ‘The most effective planner,’ says Wachs (1989, p. 477), ‘is sometimes the one who can cloak advocacy in the guise of scientiﬁc or technical rationality.’ Such advocacy would stand in direct opposition to PMI’s ruling that project managers should ‘make decisions and take actions based on the best interests of society’ (PMI, 2006, p. 2).

Nevertheless, seemingly rational forecasts that underestimate costs and overestimate beneﬁts have long been an established formula for project approval as we saw above. Forecasting is here mainly another kind of rent-seeking behaviour, resulting in a make-believe world of misrepresentation which makes it extremely difﬁcult to decide which projects deserve undertaking and which do not. The consequence is, as even one of the industry’s own organs, the Oxford-based Major Projects Association, acknowledges, that too many projects proceed that should not. One might add that many projects do not proceed that probably should, had they not lost out to projects with ‘better’ misrepresentation (Flyvbjerg et al., 2002).

In this situation, the question is not so much what project managers can do to reduce inaccuracy and risk in forecasting, but what others can do to impose on project managers the checks and balances that would give managers the incentive to stop producing biased forecasts and begin to work according to their Code of Ethics. The challenge is to change the power relations that govern forecasting and project development. Better forecasting techniques and appeals to ethics will not do here; organizational change with a focus on transparency and accountability is necessary.

As argued in Flyvbjerg et al. (2003), two basic types of accountability deﬁne liberal democracies: (i) public-sector accountability through transparency and public control; and (ii) private-sector accountability via competition and the market mechanism. Both types of accountability may be effective tools to curb misrepresentation in project management and to promote a culture which acknowledges and deals effectively with risk, especially where large amounts of taxpayers’ money are at stake and for projects with signiﬁcant social and environmental impacts, as is common with major infrastructure projects.

**Data cooking creates economic disasters – the worst projects are approved, and necessary infrastructure loses out – this turns the case**

**Flyvbjerg, 10** - Professor of Major Programme Management at [Oxford University](http://en.wikipedia.org/wiki/Oxford_University)'s [Saïd Business School](http://en.wikipedia.org/wiki/Sa%C3%AFd_Business_School) and is Founding Director of the University's BT Centre for Major Programme Management. He was previously Professor of Planning at [Aalborg University](http://en.wikipedia.org/wiki/Aalborg_University), [Denmark](http://en.wikipedia.org/wiki/Denmark) and Chair of Infrastructure Policy and Planning at [Delft University of Technology](http://en.wikipedia.org/wiki/Delft_University_of_Technology), The Netherlands (Bent, “Survival of the unﬁttest: why the worst infrastructure gets built—and what we can do about it,” Oxford Review of Economic Policy, Volume 25, Number 3, 2009, pp.344–367, Oxford Journals Online)//DH

In sum, the UK study shows that strong interests and strong incentives exist at the project-approval stage to present projects as favourably as possible—that is, with beneﬁts emphasized and costs and risks de-emphasized. Local authorities, local developers and land owners, local labour unions, local politicians, local ofﬁcials, local MPs, and consultants all stand to beneﬁt from a project that looks favourable on paper and they have little incentive actively to avoid bias in estimates of beneﬁts, costs, and risks. National bodies, such as certain parts of the Department for Transport and the Ministry of Finance who fund and oversee projects, may have an interest in more realistic appraisals, but so far they have had little success in achieving such realism, although the situation may be changing with the initiatives to curb bias set out in HM Treasury (2003) and UK Department for Transport (2006).

Wachs (1986, 1990) found similar results for transit planning in the USA. Taken together, the UK and US studies both account well for existing data on cost underestimation and beneﬁt overestimation. Both studies falsify the notion that in situations with high political and organizational pressure the underestimation of costs and overestimation of beneﬁts is caused by non-intentional technical error or optimism bias. Both studies support the view that in such situations promoters and forecasters intentionally use the following formula in order to secure approval and funding for their projects:

underestimated costs + overestimated beneﬁts = funding

Using this formula, and thus ‘showing the project at its best’ as one interviewee said above, results in an inverted Darwinism, i.e the survival of the unﬁttest. It is not the best projects that get implemented, but the projects that look best on paper. And the projects that look best on paper are the projects with the largest cost underestimates and beneﬁt overestimates, other things being equal. But the larger the cost underestimate on paper, the greater the cost overrun in practice. And the larger the overestimate of beneﬁts, the greater the beneﬁt shortfall. Therefore the projects that have been made to look best on paper in this manner become the worst, or unﬁttest, projects in reality, in the sense that they are the very projects that will encounter most problems during construction and operations in terms of the largest cost overruns, beneﬁt shortfalls, and risks of non-viability. They have been designed like that, as disasters waiting to happen.

### 2nc – EAP solves

**The plan’s increase in the quantity of spending ignores the quality of investment – the CP creates better targeting, eliminates waste and maximizes economic growth**

**Lewis 93**- Ph.D. in Economics from the London School of Economics. During his seven years with the Congressional Budget Office, he served as a Principal Analyst in the Natural Resources and Commerce Division conducting policy analysis in surface transportation, aviation and risk management (David, "Ensuring Productive Investment In Transportation Infrastructure." Policy Study Number 159. June 1993. reason.org/files/3f2491828ed3b56b77e7f6580fcb3a04.pdf)//TD

What is missing in the institutional framework of public-investment planning is a functional relationship between the *quantity* of capital funds available for infrastructure and the *quality* of public investment that follows. In the private sector, such a relationship is assured by market forces which encourage managers to direct capital to productive, high rate-of-return investments and to do so at more or less the optimal time. Indeed, this is why deficit reduction can be expected to yield not only more private investment but basically sound, growth-oriented investment as well. This is also a reason why privatization of public works, where feasible, can provide a way to direct investment to productive infrastructure projects.

Most infrastructure investment dollars, however, will continue to be managed by publicsector decision makers who at present have adopted neither a growth-oriented mandate nor the tools by which to account for prospective returns-on-investment in choosing among their spending alternatives.

The second problem with the recent debate is its focus on output growth and productivity as if these were the ultimate aims of public investment. As discussed earlier, only the criterion of growth in economic welfare reflects the standard that the objective of public policy should be improved living standards.

III.A POLICY FRAMEWORK FOR PROMOTING GROWTHORIENTED INFRASTRUCTURE INVESTMENT

While prudent public investments can yield substantial growth in productivity, output, and economic welfare, an across-the-board increase in federal spending on public works offers no guarantee that such growth will result. Missing are the institutional linkages through which federal infrastructure spending programs can *establish a complementary relationship between the quantity of capital supplied and the "growth performance" of the specific public investments that follow*.

Specifically, the federal government needs to establish incentives for states and localities to apply growth-oriented decision criteria and related appraisal methodologies. Since federal programs finance a large share of state and local infrastructure budgets, a shift in the incentive structure of federal programs can be expected to shift the orientation of state infrastructure spending patterns.

A.Appropriate Decision Criteria and Appraisal Methodologies For Obtaining Federal Investment Funds

A "decision criterion" is simply a yardstick against which decision makers can gauge the performance of an investment opportunity. If regional employment growth is the decision maker's declared objective, the criterion will be the number of jobs projected to arise in the region as a result of the investment opportunity. An appraisal methodology is the technique by which the decision criterion is quantified. Economic Impact Analysis, for example, measures the number of direct and indirect jobs associated with a particular infrastructure facility. Not surprisingly, this has often been the technique of choice, since it reflects the underlying employment-oriented objective of most current infrastructure programs.

Economic Rate of Return as the Basic Decision Criterion

If economic growth is to be singled out as the principal objective of infrastructure investment, the appropriate decision criterion is each project's (or set of interrelated projects') economic rate of return. The rate of return associated with public investment provides, in essence, the same kind of information produced by private enterprise in examining the merit of a prospective investment. Both private and public managers seek to determine whether the wealth of shareholders will expand as a result of the proposed investment; namely, whether owners will likely enjoy a return on investment greater than that available from alternative uses of the capital (including the option of leaving it in the bank).

Public and private rate-of-return calculations differ principally in the range of costs and benefits taken into consideration. The corporate manager is interested only in the private costs and benefits that influence shareholder returns, namely those expected to accrue to the firm. The public-sector manager, by contrast, must consider all significant economic effects in executing the rate-of-return calculation. The shareholders are, in effect, the public atlarge, and it is the public's economic welfare, as defined earlier, that the infrastructure manager should seek to maximize.

Benefit-Cost Analysis, supplemented with studies of industrial logistics and risk analysis, represents the appropriate appraisal methodology for use in producing reliable estimates of the economic rate of return associated with prospective public investments. The BenefitCost framework comes closer than any other to reflecting the welfare maximization objective. In practical application, it facilitates the identification of public investments:

⋅ that yield productivity and output growth;

⋅ that generate gains in the standard of living (that is, projects with net economic benefits, taking account of all effects, whether or not they are reflected in the national income and product accounts); and

⋅ that represent neither too much nor too little long-term investment from the perspective of the electorate's willingness to sacrifice current consumption in return for future rewards. Getting this trade-off right is especially important to the declared aims of the Clinton administration.

The Benefit-Cost framework also offers the advantage of providing information about other related decision criteria, such as net present value and first-year benefit. As shown in Table 1, each of these interrelated criteria provides useful decision-support information. Net present value, (NPV) for example, allows investment alternatives to be ranked in order of their contribution to economic growth.

To be sure, Benefit-Cost Analysis is not without its shortcomings. There can be problems in earlier, it can overlook certain kinds of benefits, specifically those associated with logisticsrelated benefits and industrial reorganization in response to infrastructure improvements.

New techniques are emerging, however, that provide state and local planners with accessible techniques of measuring these effects.

The Benefit-Cost Analysis framework also suffers from uncertainty in the projections and assumptions that underlie its conclusions, a weakness that can lead to the suspicion that assumptions are "cooked" in order to generate a desired outcome. Modern approaches to probability and risk analysis, however, have helped to address this problem. Supplemented with logistics and risk analysis where necessary, the Benefit-Cost framework provides the most sensible and thorough operational technique for finding growth-oriented public infrastructure investments.

**The plan alone is unlikely to have as much of an effect on the economy – most investment is designed for distributional objectives, which spreads resources around rather than targeting them to areas of economic need**

**Lewis 93**- Ph.D. in Economics from the London School of Economics. During his seven years with the Congressional Budget Office, he served as a Principal Analyst in the Natural Resources and Commerce Division conducting policy analysis in surface transportation, aviation and risk management (David, "Ensuring Productive Investment In Transportation Infrastructure." Policy Study Number 159. June 1993. reason.org/files/3f2491828ed3b56b77e7f6580fcb3a04.pdf)//TD

At the state and local level, where most infrastructure investment programs are developed, the objectives are distributional, not growth-oriented, in character. In plain language, state and local policy makers usually justify projects in terms of the number of jobs they will "create" in their locality, ignoring the fact that the same funds would have produced other jobs elsewhere. Hence, there is often no net growth in employment from such projects. Research indicates that the majority of projects are assessed with appraisal methodologies and decision criteria that signal only their distributional ("job-creating") attributes. As a result, today's infrastructure capital programs are not designed to promote economic growth in any of its manifestations.

A national survey conducted in 1990 found that in 87 percent of infrastructure investment appraisals, distributional objectives are stated as their principal purpose. For example, the economic appraisal of most airport and transit capital investments over the past two decades, including the new Denver International Airport scheduled to open in 1993 and extensions to the BART transit system in San Francisco, were appraised in relation to distributional, not growth-related aims. Only 13 percent of investment appraisals, on the other hand, mention growth or growth-related aims as project or program objectives.

**Conditioning the plan’s spending on economic performance standards is vital to superior targeting of infrastructure investment – only the counterplan alone maximizes economic productivity**

**Lewis 93**- Ph.D. in Economics from the London School of Economics. During his seven years with the Congressional Budget Office, he served as a Principal Analyst in the Natural Resources and Commerce Division conducting policy analysis in surface transportation, aviation and risk management (David, "Ensuring Productive Investment In Transportation Infrastructure." Policy Study Number 159. June 1993. reason.org/files/3f2491828ed3b56b77e7f6580fcb3a04.pdf)//TD

Although many are calling for increased federal investment in the nation's transportation and municipal infrastructure as a means of promoting long-term productivity growth, the federal government cannot assume that its capital resources would be directed to high-return, productivity-enhancing improvements.

Investment leads to economic growth by improving productivity, i.e., by developing ways to provide greater output from a given input of resources. Research shows that some types of infrastructure investments (typically in selected airport and highway projects) have very large economic rates of return—i.e., their economic benefits are significantly larger than their costs (including the costs of adverse impacts). But there is little relationship between aggregate spending on infrastructure and economic growth. This should not be surprising, in that most infrastructure projects are promoted in terms of "distributional" effects — e.g., the number of jobs they will create in a specific locality. Research shows that this kind of "job creation" seldom involves real economic growth; it simply redistributes resources from one use or location to another use or location.

What is missing in public-sector investment policy is a functional relationship between the quantity of capital funds available for infrastructure and the investment-quality of resulting projects. What is needed is a causal link between the demand for capital to finance sensible, high-growth infrastructure opportunities on the one hand and the supply of public capital on the other. Economic rate of return, not the number of "jobs created," should be the criterion for project selection.

If federal infrastructure spending programs were re-designed to incorporate appropriate incentives, national infrastructure investment would automatically find a level and mix that yields a strong, growth-inducing economic rate of return. One tool for accomplishing this is privatization: using private capital for selected infrastructure projects. Investors will normally only risk their funds on projects producing an acceptable economic rate of return. For the balance of public infrastructure, the key lies in prompting state and local governments to select appropriate objectives, decision criteria and appraisal methodologies in developing capital programs. The federal government should provide incentives for states to incorporate such criteria as a condition of making use of federal transportation funds.

**The CP alone creates better targeting and boosts overall economic growth**

**Lewis 93**- Ph.D. in Economics from the London School of Economics. During his seven years with the Congressional Budget Office, he served as a Principal Analyst in the Natural Resources and Commerce Division conducting policy analysis in surface transportation, aviation and risk management (David, "Ensuring Productive Investment In Transportation Infrastructure." Policy Study Number 159. June 1993. reason.org/files/3f2491828ed3b56b77e7f6580fcb3a04.pdf)//TD

B.Creating the Right Federal Program Incentives

If growth-oriented federal program incentives were put in place, infrastructure investment could find its appropriate level through a dynamic relationship between the supply of public capital on the one hand and the demand for sensible, high-yield infrastructure opportunities on the other. As a practical reality, we can accept that the federal capital-rationing process is a political and allocational one and as such we can expect the dissemination of federal capital to reflect certain political purposes and distributional aims. But if at a minimum, federal programs were structured so as to target such allocations to infrastructure programs and projects that, inter alia, reflect economic growth objectives and exhibit at least a minimally desirable economic rate of return, the volume of demand for infrastructure investment would signal an economically appropriate level of public investment.

Adapting federal investment programs accordingly means:

⋅ integrating economic growth objectives and related decision criteria into the federal government's infrastructure planning process;

⋅ providing incentives for state and local programs to adopt economic growth as a principal objective for infrastructure investment and economic rate of return as a key decision criterion; and

⋅ providing mechanisms for state and local planners to adopt the Benefit-Cost Analysis framework, enhanced with logistics and risk analysis, as a principal appraisal methodology in assessing individual programs and projects.

### Solves federal leadership

**Adopting explicit performance metrics solves all of their federal leadership and certainty arguments**

**Caldwell, 11** - ASCE President The American Society of Civil Engineers (Kathy, CQ Congressional Testimony, 3/30, lexis)

Program Reform and Performance Based Outcomes

The federal surface transportation program should be reformed to ensure highway and public transportation investments achieve national objectives and demonstrate the clear value delivered to the American public. To achieve this goal, a process that integrates the development of performance metrics, implementation strategies, and accountability for progress1 with federal highway and public transportation investments should be established.

Additionally, ASCE supports a review of existing surface transportation programs to determine how reforms could be implemented to create a smaller, more efficient number of programs. Federal programs should be reorganized and consolidated around specific, overarching national objectives to ensure that planning is more comprehensive and projects reflect that federal role. ASCE supports a new, robust, multi-year surface transportation program that strives to meet these goals:

Increased safety;

Improved mobility and mode choice;

Improved international competitiveness;

Facilitate interstate commerce;

Increased employment opportunities;

Reduced congestion;

Increased security;

Improved environmental stewardship;

Improved incident response;

Energy; conservation.

Currently, most infrastructure investment decisions are made without the benefit of a national vision. That strong national vision must originate with demonstrated federal leadership and be shared by all levels of government and the private sector. Without a strong national vision, the national transportation infrastructure system will not be able to undergo much needed reform.

### AT: Perm – do both

**A performance audit must be completed prior to the initiation of new projects – otherwise lower quality projects with cost overruns will be approved**

**Utt, 8** - Ph.D., is Herbert and Joyce Morgan Senior Research Fellow in the Thomas A. Roe Institute for Economic Policy Studies at The Heritage Foundation (Ronald, “How States Can Improve Their Transportation Systems and Relieve Traffic Congestion,” 9/29, <http://archives.hawaiireporter.com/story.aspx?fdc81fd9-fd02-4a84-872f-12355c584d49>)//DH

With no clear mission, none of the many players in a state's transportation system can be held accountable for the performance of the transporta­tion program, thereby allowing a costly state of mediocrity to thrive. A performance audit would uncover these failings, reveal solutions, and pro­vide leaders with a meaningful agenda to support and fulfill.

One of the more compelling components of the Washington State audit was the requirement that the independent consultants and auditors develop a series of recommendations to reduce traffic con­gestion within five years. The five-year plan devel­oped by the consulting group included a series of specific projects that could reduce congestion by an estimated 15 percent to 20 percent within five years. Given that many state DOTs commit them­selves to no more than attempting to slow the rate at which traffic congestion worsens, the Washington result demonstrates a rare commitment to actual improvement.

As part of such a reform process, elected officials should agree to a moratorium on any new transpor­tation taxes, programs, and major projects until the audit is completed and the legislation implementing the recommended solutions is enacted.

Step 4: Implementing the Recommendations. Upon completion of the financial and performance audits, the findings would be incorporated into comprehensive legislation that establishes quantita­tive performance goals to guide all future transpor­tation spending. Importantly, this legislation would hold the governor, the state DOT, and the legislature responsible for meeting these goals within an explicit time frame.[2]

Chief among the quantitative goals would be meaningful measures of mobility enhancement, including congestion relief. Texas and Georgia have implemented performance plans with similar goals. The Texas DOT is now responsible for reducing congestion in urban areas by 50 percent over the next 20 years to a statewide Travel Time Index (TTI) of 120, while the Georgia DOT must reach a TTI of 135 in the Atlanta metropolitan area (as calculated by the Texas Transportation Institute).[3]

Other mobility-related issues, such as quantifi­able measures of safety and infrastructure quality, could be included in the performance measure set, while such trendy distractions as economic devel­opment, aesthetic charm, and transportation choice should be excluded.

Step 5: Informed Decision Making. Having established a detailed plan to prioritize projects by their impact on congestion mitigation, safety, and infrastructure preservation, both leaders and voters would then be in a better position to decide how much to spend based on a clear presentation of ben­efits from money spent on transportation. More­over, listing priorities according their resulting benefits would enable leaders and voters to make better choices among financing options (e.g., taxes, tolls, congestion charges, and special taxing dis­tricts) and among service providers, whether they are government (state, federal, or local) entities, the private sector, regional authorities, or public–pri­vate partnerships.

**Implementing performance metrics prior to authorizing new funding is vital to prevent states from approving terrible projects – only the CP alone maximizes the use of federal investment dollars**

**Puentes, 8** - senior fellow with the Brookings Institution’s Metropolitan Policy Program where he also directs the Program's Metropolitan Infrastructure Initiative (Robert, “Getting Infrastructure Bang for the Buck,” 11/13,

<http://www.brookings.edu/research/opinions/2008/11/13-infrastructure-puentes>)//DH

Before he starts building anything, Obama also needs to implement a tangible set of performance measures for federal programs before the first check is cut. Once funds are appropriated, states distribute them among projects as they see fit--with the current statute mandating that the federal government "shall in no way infringe on the sovereign rights of the states to determine which projects shall be federally financed." States rarely use formal benefit/cost analysis in deciding among alternative projects, and regular evaluations of outcomes are typically not conducted. The federal information system only tracks costs--not performance. In other words, the federal government requires states to build and maintain the nation's roadway network, but it does not require them to provide the public with accessible, detailed information about state investment decisions using those funds. It is far easier for citizens to discern where private banks and thrifts lend (thanks to the federal Home Mortgage Disclosure Act) than to determine where public transportation agencies spend.   
When new money starts to flow, President Obama should concentrate on three critical areas: preserving and maintaining the interstate system; developing a plan to move freight across the nation using rails, roads, and ports; and developing a comprehensive plan for getting people between our major metropolitan areas. These are areas that require national engagement because they are just too big for states and metros to handle on their own. Our competitor nations get this--see, for example, Australia's National Transportation Council, the UK's Eddington Transportation Study, and Canada's Straight Ahead transportation plan. So far, the U.S. doesn't.   
Transportation is the nation's largest discretionary domestic spending program. The existing approach to infrastructure reform is essentially revenue distribution and superficial state aid, rather than a serious and purposeful approach designed to meet national economic needs. If done properly, the federal stimulus dollars can accelerate the right kind of projects in the right places, creating jobs and waking up related areas of the economy. In an era of environmental anxiety, declining revenues, continued transportation problems, and a fiercely competitive global economic environment, Obama has to make American transportation policy about more than just dividing the spoils.

## \*\*\*Defense Spending CP

### 1nc – defense spending CP

Text – The United States federal government should substantially increase its investment in defense infrastructure and temporary military recruiting.

**The CP solves faster but avoids our stimulus turns - increasing defense spending can be timely, targeted and temporary – it just speeds up spending that would be done anyway**

**Feldstein, 8 -** an economics professor at Harvard University, is president emeritus of the National Bureau of Economic Research (Martin, “Defense Spending Would Be Great Stimulus” Wall Street Journal, 12/24,

<http://www.nber.org.proxy.lib.umich.edu/feldstein/wsj12242008.pdf)//DH>

A temporary rise in DOD spending on supplies, equipment and manpower should be a significant part of that increase in overall government outlays. The same applies to the Department of Homeland Security, to the FBI, and to other parts of the national intelligence community.

The increase in government spending needs to be a short-term surge with greater outlays in 2009 and 2010 but then tailing off sharply in 2011 when the economy should be almost back to its prerecession level of activity. Buying military supplies and equipment, including a variety of off-the-shelf dual use items, can easily fit this surge pattern.

For the military, the increased spending will require an expanded supplemental budget for 2009 and an increased budget for 2010. A 10% increase in defense outlays for procurement and for research would contribute about $20 billion a year to the overall stimulus budget. A 5% rise in spending on operations and maintenance would add an additional $10 billion. That spending could create about 300,000 additional jobs. And raising the military's annual recruitment goal by 15% would provide jobs for an additional 30,000 young men and women in the first year.

An important challenge for those who are designing the overall stimulus package is to avoid wasteful spending. One way to achieve that is to do things during the period of the spending surge that must eventually be done anyway. It is better to do them now when there is excess capacity in the economy than to wait and do them later.

Replacing the supplies that have been depleted by the military activity in Iraq and Afghanistan is a good example of something that might be postponed but that should instead be done quickly. The same is true for replacing the military equipment that has been subject to excessive wear and tear. More generally, replacement schedules for vehicles and other equipment should be accelerated to do more during the next two years than would otherwise be economically efficient.

Industry experts and DOD officials confirm that military suppliers have substantial unused capacity with which to produce additional supplies and equipment. Even those production lines that are currently at full capacity can be greatly expanded by going from a single shift to a twoshift production schedule. With industrial production in the economy as a whole down sharply, there is no shortage of potential employees who can produce supplies and equipment.

Military procurement has the further advantage that almost all of the equipment and supplies that

the military buys is made in the United States, creating demand and jobs here at home.

Increased military spending should involve more than just accelerated replacement schedules. Each of the military services can identify new equipment and additional quantities of existing equipment that can improve our fighting ability in Afghanistan and our ability to protect our military forces while they are in combat.

Military planners must also look ahead to the missions that each of the services may be called upon to do in the future. Additional funding would allow the Air Force to increase the production of fighter planes and transport aircraft without any delays. The Army could accelerate its combat modernization program. The Navy could build additional ships to deal with its increased responsibilities in protecting coastal shipping and in countering terrorism. And all three services have significant infrastructure needs.

### 2nc – defense spending solves

**Military procurement solves the case but avoids our stimulus turns – it can be done more quickly than the plan**

**Feldstein, 9 -** an economics professor at Harvard University, is president emeritus of the National Bureau of Economic Research (Martin, “An $800 Billion Mistake,” Washington Post, 1/29, <http://www.nber.org.proxy.lib.umich.edu/feldstein/washingtonpost_012909.html)//DH>

A large fraction of the stimulus proposal is devoted to infrastructure projects that will spend out very slowly, not with the speed needed to help the economy in 2009 and 2010. The Congressional Budget Office estimates that less than one-fifth of the $50 billion of proposed spending on energy and water would occur by the end of 2010.

If rapid spending on things that need to be done is a criterion of choice, the plan should include higher defense outlays, including replacing and repairing supplies and equipment, needed after five years of fighting. The military can increase its level of procurement very rapidly. Yet the proposed spending plan includes less than $5 billion for defense, only about one-half of 1 percent of the total package.

Infrastructure spending on domestic military bases can also proceed more rapidly than infrastructure spending in the civilian economy. And military procurement overwhelmingly involves American-made products. Since much of this military spending will have to be done eventually, it makes sense to do it now, when there is substantial excess capacity in the manufacturing sector. In addition, a temporary increase in military recruiting and training would reduce unemployment directly, create a more skilled civilian workforce and expand the military reserves.

### 2nc – solves jobs

**Expanding military recruiting boosts jobs and creates a higher skilled workforce**

**Feldstein, 8 -** an economics professor at Harvard University, is president emeritus of the National Bureau of Economic Research (Martin, “Defense Spending Would Be Great Stimulus” Wall Street Journal, 12/24,

<http://www.nber.org.proxy.lib.umich.edu/feldstein/wsj12242008.pdf)//DH>

Now is also a good time for the military to increase recruiting and training. Because of the current very high and rising unemployment rates among young men and women, it would make sense to depart from the military's traditional enlistment rules and bring in recruits for a short, two-year period of training followed by a return to the civilian economy. As a minimum this would provide education in a variety of technical skills -- electronics, equipment maintenance, computer programming, nuclear facility operations, etc. -- that would lead to better civilian careers for this group. It would also provide a larger reserve force that could be called upon if needed by the military in the future.

## \*\*\*congestion pricing cp

### 1nc congestion pricing cp

The United States federal government should provide incentives and expertise for states to adopt congestion pricing.

#### Setting prices for capacity solves the plan better

**Winston, 90** -- senior fellow at the Brooking Institution, former professor of civil engineering at MIT, PHD in economics, UC Berkley (Clifford, "How Efficient is Current Infrastructure Spending and Pricing?" <http://www.bostonfed.org/economic/conf/conf34/conf34f.pdf>) // NK

Traffic congestion appears to be one of the most intractable infrastructure problems of the nation. Regardless of what policies are implemented from high-occupancy vehicle lanes to subsidies for public transit--delays become longer and drivers and passengers become angrier. A conclusion being reached more and more frequently is that we have no choice but to build more roads. At first sight, increasing highway capacity appears as sensible as increasing highway durability, but capacity and durability inadequacies have different effects on road users. Few vehicles are discouraged from using a road because of its durability problems. Therefore, optimal durability produces benefits without significantly increasing use. On the other hand, because a lot of motorists are discouraged from using a road when it is congested, traffic will be attracted to it if capacity is expanded to relieve congestion. Benefits may be accrued, but congestion will persist in the long run. 8 The only way to reduce congestion permanently is to set an explicit price for capacity. Congestion pricing has been advocated by economists for many years. But it has either been ignored by policymakers or been dismissed on political and practical grounds. 9 Small (1982), however, shows that objections by those who protest that lower-income drivers would be unfairly penalized are unfounded if revenues are used properly. If toll revenues are explicitly used to lower property taxes, invest in public transit, replace registration fees or fuel taxes, or invest in central cities congestion pricing can actually work to the benefit of all income classes, lo Objections that tolls are impractical are also overstated. Congestion pricing can be implemented without disrupting a traveler’s journey. An automated vehicle identification (AVI) system, in which an electronic number plate is mounted underneath each vehicle, can be used to transmit a numbered identification to a control center each time a vehicle passes over a power loop embedded beneath a toll site. The vehicle owner is then sent a monthly bill similar to a phone bill. The technological side of such a system has been tested in Hong Kong and found to perform exceptionally well (Catling and Harbord 1985; Hau 1989).11 In the United States, an AVI system is currently operating on the North Dallas Tollway. Because the effects of congestion pricing vary widely by locale, most studies of its effects have been site-specific. But a study by Lee (1982) made a rough estimate of the effect of adopting congestion pricing nationwide and found that it would generate nearly $6 billion (1981 dollars) in annual net benefits, mostly in the form of travel delay savings. If congestion pricing were accompanied by optimal investments in road capacity, annual net benefits would be even higher and the initial redistribution from road users to the road authorities would probably be less.

#### Avoids politics and budget links

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Current strains on federal and state budgets have put a damper on proposals that call for an increase in infrastructure spending. But the findings presented earlier indicate that efficient infrastructure investment, coupled with efficient pricing, will generally improve federal and state budget balances in the long run and will lead to an approximately balanced budget for those facilities where some congestion is optimal. Budgetary demands will be fairly minor in the short run because efficient pricing will reduce initial capital outlays and because these outlays will be made efficiently.

#### **Federal incentives for user fees facilitate adoption**

**National Surface Transportation Infrastructure Financing Commission, 9** ("A New Framwork for Transportation Finance", February, financecommission.dot.gov/Documents/NSTIF\_Commission\_Final\_Report\_Mar09FNL.pdf) // NK

Facilitate State and Local Investment. Concurrently, the federal government should put in place policies that allow and encourage state and local governments to raise additional funds from targeted user-based mechanisms such as tolling and pricing. While other funding mechanisms undoubtedly are important at the state and local level, federal policy does not generally play a significant role with those.

### 2nc xt: solvency

#### **Investment is not a sustainable solution – efficient pricing solves and reduces the federal deficit**

**Winston, 91** – a senior fellow at the Brooking Institution, former professor of civil engineering at MIT, PHD in economics, UC Berkley (Clifford, “Efficient Transportation Infrastructure Policy”, The Journal of Economic Perspectives Vol. 5 No. 1, JSTOR) // NK

This paper offers a different perspective on paying for and investing in the transportation infrastructure. The following example illustrates the need to move away from the current national mind set. Pick any pothole-laden, con- gested two-lane road in an urban area. Suppose public funds are used to widen the road to four lanes and to repave it. Benefits will immediately flow from this investment in the form of lower travel time and less vehicle damage. But many travelers who previously avoided the road during peak travel periods will now find the road attractive and want to use it. The improvements will also induce long-lived land-use and vehicle purchase decisions. Before long the road may again fill to capacity and steadily deteriorate. Generalizing from this example, the trillion dollars spent over the next 20 years might result in expanded transportation capacity that eventually faces the same problems as before. This is an illustration of Downs's (1962) law: On urban commuter expressways, peak-hour traffic congestion rises to meet maximum capacity, because com- muters shift from less preferred modes and times of day.

This cycle can be broken only if infrastructure is priced and invested in more efficiently. If the pothole-laden road is kept to two lanes when it is repaved but vehicles are required to pay efficient tolls based on congestion and pavement wear, then the road's capacity is far less likely to be exceeded during peak periods and its pavement will remain in good condition. Making efficient use of current transportation capacity will reduce the need for massive public investment in airports and roads and will prevent the recurrence of infrastruc- ture problems.

Surprisingly, the belief of most economists that public infrastructure spend- ing should be substantially increased is not based on efficient pricing and investment principles. Instead, it appears to be based on either personal observations or on a suspicion that because uncongested infrastructure is a public good, society has tended to invest too little in it. Both perspectives have diverted many economists and policymakers from realizing there are surpris- ingly large but plausible benefits from efficient infrastructure pricing and investment.

These benefits arise because airports and roads are characterized by pricing systems that do not reflect economic costs and by poor design decisions that have resulted in higher costs of use. If road and airport systems are priced and invested in efficiently, then the long-run requisite increases in investment are quite modest, the systems would be roughly self-financing in places where some congestion is optimal, and the federal budget deficit is reduced. Efficient infrastructure policy can also complement the beneficial effects that deregula- tion of the transportation industries has had on competition and firms' opera- tions, and help to address the primary sources of current discontent with deregulation.

#### **Effective pricing solves congestion – disincentives road use and increases transit**

**National Surface Transportation Infrastructure Financing Commission, 9** ("A New Framwork for Transportation Finance", February, financecommission.dot.gov/Documents/NSTIF\_Commission\_Final\_Report\_Mar09FNL.pdf) // NK

Many commentators argue that by requiring drivers to pay more of the full cost of travel, road pricing can increase transit ridership. Recent research that looked at how drivers in Portland responded to the Oregon mileage pricing pilot project found that program participants who lived near transit facilities reduced the peak hour miles they drove, presumably by taking transit for some trips. 47 Some research has also asserted that the increase in transit demand due to pricing could enable transit agencies to charge higher fares, thereby reducing per-passenger operating subsidies. 48

Transit could also benefit from reduced roadway congestion through road pricing, which could lead to faster and more reliable bus transit services, thus increasing performance and making transit more attractive to a broader array of the public. Even pricing part of the network through a traditional turnpike or an HOT lane network can create a congestion-free route or network that buses can use to avoid traffic and provide higher-quality service. 49 For example, the HOT lanes on Houston’s Katy Freeway allow much improved express bus services along that route. 50

In most rural areas, however, travel speed is not impaired by congestion and is generally less important as a driver of transit demand than other factors such as the needs of low-income individuals to have access to jobs and other locations through means other than cars.

#### The benefit-cost ratio is 4-1 – but investment fails

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A fundamental flaw also exists in efforts to solve infrastructure problems by making substantial capital investments in new facilities or technologies, as can be illustrated by the following example. Pick any pothole-laden, congested, two-lane road in an urban area. Suppose public funds are used to widen the road to four lanes and repave it. Benefits will immediately flow from this investment in the form of faster travel time and less vehicle damage. But many travelers who previously avoided the road during peak travel periods will now find the road attractive to use. The short-term improvements will also induce irreversible decisions on land use and vehicle purchase. Before long the road will again fill to capacity and will steadily deteriorate. The corresponding social costs of congestion and road wear will be even higher than before the investment because more travelers use the road. 27 To generalize from this example, the money spent on new facilities or technologies would result in expanded transportation capacity that eventually faces the same problems as before but now requires even more money to "fix."

Although the empirical and conceptual basis for making large public infrastructure investments is highly suspect, this approach has generated interest in the social payoff from increased infrastructure spending. I found that the benefit-cost ratio for efficient investment in roads and airports is roughly 4:1, 28 and it can be obtained with only a small increase in annualized capital expenditures. Most importantly, efficient investment and efficient pricing will provide a long-run solution to infrastructure problems, a goal that cannot be met by just increasing spending.

#### Congestion fees solve – efficiency, cost savings and repairs

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The most common method of assessing landing fees at airports is by aircraft weight. Thus during a given hour a jumbo jet pays considerably more to land than a small private plane. Weight-based landing fees were probably a reasonable way to allocate airport costs and raise revenue when airports were uncongested, but today the principal cost that an aircraft imposes when it takes off or lands is that it delays other aircraft from these activities. Morrison and Winston (1989) found such a delay to be substantial. For example, the elasticity of average departure delay with respect to commercial carrier departures is 2.9; the elasticity with respect to general aviation departures is 2.5. Current landing fees undercharge aircraft in inverse proportion to their weight, because they do not account for the congestion externality. An airport’s capacity is primarily determined by its number of runways. 17 If it already owns the land, an additional runway 10,000 feet long and 150 feet wide can be constructed for roughly $40 million (1987 dollars) (Morrison and Winston 1989). Optimal runway capacity is reached when the marginal cost of an additional runway is equated with the marginal benefit of reduced delay. The effects of replacing weight-based landing fees with marginalcost congestion fees and of building the optimal number of runways at airports are shown in Table 2. Marginal-cost fees include delay costs and marginal maintenance, operations, and administrative costs. Optimal runway capacity is determined under the assumption that no additional land is needed for runway expansion. Although this is an unreasonable assumption for some airports, other capacity-enhancing mechanisms are or will be available that could by themselves produce a similar effect or enable runways to be built closer together at airports with limited room for growth. 18 In any case, this assumption produces an upward bias in the estimate of net benefits. An airline carrier choice model is used to estimate travelers’ value of the reduced delay and of the change in their surplus in response to the change in landing fees. The effects of efficient runway pricing and investment are shown in the first column of Table 2, and the effects of adopting efficient runway pricing at current runway investment are shown in the second column. Optimal airport pricing and investment policy could generate roughly $11 billion (1988 dollars) in annual benefits. Travelers would reap $8 billion in reduced delays and face lower fares, because the expansion in runway capacity called for under optimal investment, combined with congestion pricing, would reduce congestion to such an extent that on average landing fees would fall. 19 The annualized cost of the runway investment is only about $1.5 billion. Carriers benefit from lower operating costs, which result from reduced delay. Airports’ net revenues would fall slightly, but, as argued below, they would become financially self-sufficient. 20 The combination of efficient pricing and efficient investment policies is again economically and politically important. If airports adopted efficient congestion fees alone, net welfare would improve by only one-third as much, and considerable redistribution would occur to airports from travelers, who would primarily absorb the higher takeoff and landing fees through higher fares. Combining efficient pricing and investment would also postpone the need to build expensive new airports. The FAA estimates that the new Denver airport will reduce current delays at the Denver Stapleton airport by 35 to 50 percent. Optimal pricing and investment at Stapleton airport would lower delays by at least that much at lower cost (Morrison and Winston 1989). Continued growth in air travel will eventually necessitate the construction of new airports, but these decisions will be made efficiently only if our current airport capacity is used optimally.

### Politics net benefit

#### Avoids politics

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Political considerations. It is widely believed that the radical revision of infrastructure pricing called for under efficient pricing is impractical because it would generate politically unfavorable redistribution.25 Current approaches to pricing, however, are held hostage so relentlessly by political forces that policymakers are effectively prevented from taking any substantial steps to improve the infrastructure. The federal government’s decade-long aversion to new taxes complicates raising the federal gasoline tax. Individual states face strong voter opposition to proposed gasoline tax increases. Just recently California voters narrowly supported a doubling of their state gasoline tax, but the tax, which had not been raised for years and is now roughly equal to the national average, was part of a widely lobbied proposition to relax stringent limits on state expenditures. Airports are currently limited by law on the amount of revenue they can raise from pricing. Because of budgetary concerns, all levels of government are reluctant to increase---or in some cases even maintain--current spending on infrastructure without a committed source of additional revenue. The impact of politics has become clear: current calls for action have largely triggered finger-pointing.

By comparison, the political difficulties of efficient infrastructure pricing are manageable. The key to overcoming political objections to efficient infrastructure pricing is combining it with efficient investment and publicizing the expected outcome for beneficiaries. In the long run, no major highway interests will be harmed by efficient road wear pricing and investment. In the short run, the trucking industry would be hurt if charges were immediately set to marginal cost at current levels of durability. Political tensions could be minimized if road wear charges were initially set midway between current and ideal marginal-cost charges, with a definite schedule for reducing the charges to reflect planned improvements to road durability. Congestion pricing need not raise political objections if toll revenues are used in part to compensate lower-income drivers, in which case congestion pricing would work to the benefit of all income classes.

#### The counterplan is popular in California

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Congestion pricing is beginning to receive support and interest from various government organizations in California. California Department of Transportation (Caltrans) Director Robert Best favors it, although the official position of the department is that it is still studying the possibility. 33 To this end, Caltrans and the Urban Mass Transportation Administration jointly sponsored a University of California conference on the effects of congestion pricing. In addition, the Southern California Association of Governments instituted a task force on market incentives for land use and transportation that recommended congestion pricing. It is now soliciting proposals for demonstration programs as called for in its latest regional mobility plan

### Spending net benefit

#### The counterplan resolves the deficit and makes authorities self sufficient

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These proposals suggest ways the federal government could encourage highway and airport authorities to make more efficient investments. The authorities and the federal government would be better off if the federal government also encouraged efficient pricing. Many of the authorities would become financially self-sufficient, and the federal government’s deficit would be reduced. The debate over each level of government’s share of capital expenditures would become irrelevant. The challenge still remains to convince both parties that their interests would be served by efficient infrastructure policy.

#### Congestion pricing decreases the transportation deficit – it solves better than the aff

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This finding reveals an important additional benefit from congestion pricing. If efficient road-wear pricing is undertaken alone, the road authority would face a deficit for urban roads because of the economies of pavement durability. 14 But when efficient road-wear pricing is combined with efficient congestion pricing, the (marginal) cost of building the pavement itself is effectively charged twice: once from trucks because they, require a thicker pavement and once from cars because they require a wider pavement. The result is that losses from pavement durability economies are eliminated. As a further benefit, congestion pricing could substantially reduce the public transit operating deficit, which, according to the Urban Mass Transportation Administration, approached $9 billion in 1985. The higher congestion tolls will cause some motorists to shift to public transit, 15 This increased ridership will cause an increase in transit capacity, which is usually achieved by running buses or trains more frequently. The increased frequency will lower expected wait times and generate even more ridership. The result is that congestion pricing in combination with appropriate pricing and service responses by transit agencies could raise transit revenues and reduce the need for federal, state, and local operating subsidies. 16

### 2nc – solves gas tax

#### Congestion pricing solves without increasing the need for the gas tax

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Congested highwaysandairports**,** collapsing bridges**,** deteriorating roads, periodicwater shortages,and suspect waste disposal facilitiesbear silent witness thatthe infrastructureof our nation, currentlyvalued atclose to$1 trillion, is inadequate. To shore up America’s foundations, many economists and policy analysts have urged the federalgovernment to increase spendingsubstantially**.** Theurgency of theproblem, however,does not preclude the need to ask whether the current use of facilities is efficient, whether choices about how current facilities are used are possible, and how current use will affectthe efficiency of new facilities. In fact, surprisingly large benefits are to be gained from making efficient use of our current infrastructure by pricing it and investing in it efficiently**.** Efficient pricing and investment will reduce theneed formassivepublic investment andwill preventtherecurrence ofinfrastructure problems. The primary reason whythe current facilities aregravely deficientis thatthey are priced in ways that do not reflect economic costs and designed in ways that result in higher life-cycle costsof use. In their anxiety to address the infrastructure problem,policymakers are pushing policies that, if adopted, wouldindefinitelyforecloseconsideration ofefficient pricing and investment.Congressionalrenewal of the gas taxin 1991, for example,would perpetuatea method ofcharging trucks for interstatehighway use that could forecloseconsideration of the farmore efficientcost-based, axle-weightcharge fornearlya decade**.** It isthereforecrucial for policymakers to consider more efficient infrastructure policybefore the window of opportunity is closed**.**

### Investment spending fails

#### Investment spending fails

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Congested highways and airports, collapsing bridges, deteriorating roads, periodic water shortages, and suspect waste disposal facilities bear silent witness that the infrastructure of our nation, currently valued at close to $1 trillion, is inadequate. To shore up America’s foundations, many economists and policy analysts have urged the federal government to increase spending substantially. The urgency of the problem, however, does not preclude the need to ask whether the current use of facilities is efficient, whether choices about how current facilities are used are possible, and how current use will affect the efficiency of new facilities. In fact, surprisingly large benefits are to be gained from making efficient use of our current infrastructure by pricing it and investing in it efficiently. Efficient pricing and investment will reduce the need for massive public investment and will prevent the recurrence of infrastructure problems. The primary reason why the current facilities are gravely deficient is that they are priced in ways that do not reflect economic costs and designed in ways that result in higher life-cycle costs of use. In their anxiety to address the infrastructure problem, policymakers are pushing policies that, if adopted, would indefinitely foreclose consideration of efficient pricing and investment. Congressional renewal of the gas tax in 1991, for example, would perpetuate a method of charging trucks for interstate highway use that could foreclose consideration of the far more efficient cost-based, axle-weight charge for nearly a decade. It is therefore crucial for policymakers to consider more efficient infrastructure policy before the window of opportunity is closed. produced to the point where the marginal benefit from increasing investment in each dimension equals its marginal cost. Optimal investment is commonly viewed as being achieved in the long run. The pricing and investment rules jointly constitute an efficient long-run policy, in which a user’s marginal cost is determined at the optimal level of capacity and durability Mohring and Harwitz (1962) applied existing theoretical results to transportation and showed that the financial viability of a public infrastructure facility under optimal pricing and investment depends upon the technological properties of its cost function. If capacity and durability costs are jointly characterized by constant returns to scale, then the facility’s revenue from marginal cost pricing will fully cover its capital and operating costs. If costs are characterized by increasing returns to scale, then the facility’s revenues from marginal cost pricing will fall short of its operating and capital costs and it will require a subsidy; if costs are characterized by decreasing returns to scale, then the facility’s revenues from marginal cost pricing will exceed its operating and capital costs.

#### **Investment strategies fail – outdated funding mechanisms**

**National Transportation Policy Project, 9** ("Performance Drive: A New Vision for U.S. Transportation Policy", July 9, bipartisanpolicy.org/sites/default/files/ntpp\_performance%20driven\_june%209%2009\_0.pdf) // NK

This is a period of extraordinary opportunity for revitalizing America’s surface transportation system. The investments of the interstate-highway era, begun more than 50 years ago, are nearing or beyond their intended lifespan. Existing systems are dated, in many cases strained to (or beyond) capacity, and increasingly fall short of delivering transportation services at the level of quality, performance, and efficiency the American public demands. Current funding mechanisms are not sufficient to maintain existing infrastructure, let alone provide the investments needed to expand and modernize our transportation systems. The broader fiscal outlook—notwithstanding a near-term burst of stimulus spending—suggests that public resources will be more constrained than ever in the years ahead. Meanwhile, available resources are typically distributed without any sense of national priorities, and there is little to no recognition of the link between transportation investments, energy, and climate. As Congress prepares to debate a new surface transportation authorization bill, there is growing support for fundamental reform of our nation’s transportation policies. There is also a growing awareness that our approach to transportation must be responsive to a new set of 21 st century challenges, from staying competitive in an increasingly globalized economy, to addressing urgent concerns about energy security and climate change.

### 2nc solves airports

#### Efficient pricing solves airport congestion and creates self sufficiency

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The most common way of assessing landing fees at airports is by aircraft weight. Thus, a commercial jumbo jet pays considerably more to land during a given hour than a small private plane (general aviation). Weight-based landing fees were probably a reasonable way to allocate airport costs and raise revenue when airports were uncongested, but today, the principal cost that an aircraft imposes when it takes off or lands is that it delays other aircraft. (Runway damage caused by aircraft is small.) Morrison and Winston (1989b) found that this delay can be substantial. For example, the elasticity of average departure delay, defined as the percentage change in average departure delay caused by a 1 percent change in aircraft departures, is 2.9 for commercial carriers. This is similar to general aviation's elasticity of 2.5. Current weight-based landing fees undercharge aircraft in inverse proportion to their weight because they do not account for the congestion externality. Clifford Winston 123

An airport's capacity is primarily determined by its number of runways, although terminal facilities and gate space can also have some effect. If an airport already owns the land, an additional 10,000 foot x 150 foot runway can be constructed for roughly $40 million in 1987 dollars (Morrison and Winston, 1989b). Optimal runway capacity is reached when the marginal cost of an additional runway is equated with the marginal benefit of reduced delay. The benefits of reduced delay are mainly the time saved by air travellers. Morrison and Winston (1989b) estimate average delay to be just a few minutes at some airports but as high as 27 minutes at New York (La Guardia) airport. They also estimate commercial air travelers' hourly value of time to be $42 (1988 dollars) and account for the number of passengers carried by different types of aircraft. Thus, for example, the passenger delay cost imposed on a commercial jet landing at La Guardia approaches $2,000. The effects of replacing weight-based landing fees with marginal cost congestion fees and of building the optimal number of runways at airports is shown in Table 2.10 The effects of efficient runway pricing and investment are shown in the first column of the table, and the effects of adopting efficient runway pricing at current runway investment are shown in the second column.

Optimal airport pricing and investment policy could generate roughly $11 billion (1988 dollars) in annual benefits. Travelers reap $8 billion in reduced delay and also would pay lower fares because the expansion in runway capacity called for under optimal investment combined with congestion pricing would reduce congestion to such an extent that, on average, landing fees would fall." The annualized cost of the additional runway investment is only about $1.5 billion. Carriers benefit from the lower operating costs from reduced delay. Airports' net revenues would fall slightly, but, as we argue below, they would become financially self-sufficient.

The combination of efficient pricing and efficient investment policies is again economically and politically important. If airports adopted efficient congestion fees alone, there would be considerable redistribution from travelers -who would primarily absorb the higher takeoff and landing fees through higher fares-to airports. The losses to commercial travelers could be softened by reductions in the 8 percent ticket tax used to support air traffic control and airport construction. But general aviation, which would face the largest user fee increase, would remain uncompensated and mount heavy opposition to this change.1

Combining efficient pricing and investment would postpone the need to build expensive new airports. The FAA estimates that the new Denver airport will reduce current delays at the Denver Stapleton airport by 35 percent to 50 percent. Optimal pricing and investment at Stapleton would lower delays by at least that much at lower costs (Morrison and Winston, 1989b). Continued growth in air travel will eventually necessitate constructing new airports, but these decisions will be made more efficiently if we make better use of our current airport capacity.

Because airports are characterized by overall constant returns to scale (Morrison, 1983), they would be financially self-sufficient under optimal pricing and investment. Their self-sufficiency would help lower the federal government deficit because airports would not need funds from the government to finance improvements.

### 2nc solves bridges

#### Efficient pricing of bridge repair results in cost savings

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In contrast with pavement wear, bridge wear depends solely on vehicle weight, roughly in proportion to its third power (Moses, Schilling and Raju 1987). Thus, a fully efficient highway tax would account for a vehicle’s contribution to damage from bridge stress by including a charge related to weight. Catastrophic bridge failure is caused by simultaneous passage of heavy vehicles over a given bridge section. Simultaneous passage and thus the likelihood of catastrophic failure could be reduced by congestion pricing, which would spread the traffic flow. Current bridge design could also be economically suboptimal. Design guidelines are not explicitly based on optimization and include arbitrary margins of safety. Efficient bridge investment and design could result in significant cost savings.

Reisner’s Cadillac Desert (1986) focused popular attention on the nation’s inefficient policy toward water use: water is priced below marginal cost, far below for agricultural uses, and laws regarding water ownership provide farmers with a disincentive to conserve water. The current infrastructure stock for water (dams and aqueducts) is inefficiently used, while the price distortions and the absence of a market for water in most states have spurred proposals by some Western locales to build expensive new dams. Benefits would clearly be derived from efficient pricing of and investment in water supply.

### 2nc solves roads

#### **Congestion based road taxing solves better than federal funding – sustainability**

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Regardless of what policies are implemented to fight traffic congestions -from high-occupancy vehicle lanes to subsidies for public transit-delays get longer and drivers and passengers get angrier. At first sight, increasing high- way capacity may appear as sensible as increasing highway durability, but capacity and durability inadequacies have different effects on road users. Few vehicles are discouraged from using a road because of its durability problems, so optimal durability produces benefits without significantly increasing use. On the other hand, because many motorists are discouraged from using a con- gested road, traffic will be attracted when capacity is expanded to relieve congestion. Benefits may be accrued by expanding capacity but congestion will persist in the long run (Downs's law). The only way to reduce congestion permanently is to set an explicit price for capacity.6

Congestion pricing has been advocated by economists for many years, but policymakers have either ignored it or dismissed it on political and practical grounds. For example, congestion pricing is not mentioned in Time's (1988) eight-page cover story on gridlock. Ross Sandler, New York City Commissioner of Transportation (Pitt, 1989), dismissed the idea by saying, "What would you do-put tolls on all the highways?"

However, Small (1983) shows that objections by those who protest that lower income drivers would be unfairly penalized are unfounded. If toll revenues are used to lower property taxes, invest in public transit, or replace registration fees or fuel taxes, congestion pricing can benefit all income classes. Objections that tolls are impractical are also overstated. Congestion tolls vary- ing by time of day, and imposed when congestion would otherwise persist, can be implemented without disrupting a traveler's journey. An automated vehicle identification (AVI) system, in which an electronic number plate is mounted underneath each vehicle, can be used to transmit a vehicle's numbered identi- fication to a control center each time it passes over a power loop embedded beneath a toll site. The vehicle owner is then sent a monthly bill similar to a phone bill. Such a system has been tested in Hong Kong and found to perform exceptionally well. A sample of conclusions from the test includes the following: more than 99.7 percent of vehicles crossing a given toll site were correctly identified; security features could detect attempted fraud; and manual supple- mentary police enforcement at toll sites was proven feasible (Catling and Harbord, 1985). In the United States an AVI system is currently operating on the North Dallas Tollway and in New Orleans.

Because the effects of congestion pricing vary widely by locale, owing to different traffic densities and road systems, most studies of its effects have been 6Some have argued that the fuel tax is a surrogate for congestion pricing because cars tend to get lower fuel economy in heavy traffic. But fuel economy could actually improve if, for example, congestion forces cars to travel at moderate speeds (30 miles-per-hour) instead of higher speeds. 120 Journal of Economic Perspectives site-specific. But a study by Lee (1982) made a rough estimate of the effect of adopting congestion pricing nationwide and found that it would generate $5.65 billion (1981 dollars) in annual net benefits, mostly in the form of annual travel delay savings of approximately one billion vehicle-hours. If congestion pricing were accompanied by optimal investments in road capacity, then annual net benefits would be even higher and the initial redistribution from road users to the road authorities would probably be less.

#### Congestion and pavement pricing solve – they shift congestion

**Winston, 91** – a senior fellow at the Brooking Institution, former professor of civil engineering at MIT, PHD in economics, UC Berkley (Clifford, “Efficient Transportation Infrastructure Policy”, The Journal of Economic Perspectives Vol. 5 No. 1, JSTOR) // NK

Although efficient road pricing and investment would generate substantial benefits, one must estimate the degree of scale economies in highway produc- tion to determine whether this policy would enable highways to be financially self-sufficient. Highways produce two "products:" traffic volume requiring capacity (number of lanes) and standard loadings requiring durability (thick- ness). Determining the economies of scale in this multiproduct case requires finding the economies for each specific product, and then the economies of joint production, commonly referred to as economies of scope. Small, Winston, and Evans (1989) find strong economies associated with producing standard loadings, because a pavement's ability to withstand traffic increases far more than proportionally with its thickness. They find evidence from the literature that there are mild economies from producing traffic volume. (A common explanation is that capacity goes up faster than the number of lanes; for example, two lanes in a given direction have more than twice the capacity of one lane.) However, they also find diseconomies of scope from jointly produc- ing volume and standard loadings, because as the road is made wider to accommodate more traffic, the cost of any additional thickness required to handle heavy vehicles rises, since all lanes must normally be built to the same thickness. The result of combining these components is that the product specific economies are virtually offset by the diseconomies of scope, which leads to approximately constant returns to scale in highway production.7

These constant returns to scale imply that urban roads that are sometimes congested could be self-financing in the long run. For uncongested rural roads, additional charges such as license and registration fees would be required to attain a balanced highway budget.

This finding reveals an important additional benefit from congestion pric- ing. If efficient marginal cost pricing for road wear is undertaken alone, the road authority would face a deficit for urban roads, as well as rural roads, because of the economies of pavement durability.8 But when efficient road wear pricing is combined with efficient congestion pricing, the (marginal) cost of building the pavement itself is effectively charged twice: once from trucks because they require a thicker pavement and once from cars because they require a wider pavement. The result is that losses from pavement durability economies are eliminated.

7Small, Winston and Evans (1989) discuss the possible efficiency gain from a road system that separates truck and auto traffic, which is motivated by their finding of diseconomies of scope. Such a system could be like the split of autos and trucks on the New Jersey Turnpike outside of New York City. 8Small, Winston and Evans (1989) find that the "pavement deficit" is reduced by optimal pavement wear pricing and investment from its current level of $16.16 billion (1982 dollars) to $9.84 billion Efficient Transportation Infrastructure Policy 121 As a further benefit, congestion pricing could substantially reduce the public transit operating deficit, which approached $9 billion in 1985 according to the Urban Mass Transportation Administration. Higher congestion tolls will cause some motorists to shift to public transit. For example, Viton (1983) finds that congestion pricing in the San Francisco Bay Area would raise mass transit's share of downtown commuters by 10-20 percentage points. This increased ridership will probably lead to buses or trains running more frequently, which will increase convenience and allow transit agencies to raise fares above ineffi- ciently low levels but still attain more ridership.

Efficient highway infrastructure policy could also complement the effects of trucking deregulation. Instituted in 1980, motor carrier deregulation has benefited shippers by some $14 billion annually (1988 dollars) in lower ship- ping costs and better service (Winston, Corsi, Grimm, and Evans, 1990). Because of shippers' increased use of just-in-time inventory methods, which attempt to keep inventories to a minimum by bringing in raw materials just in time for production, frequent and reliable service has become especially impor- tant. Deregulation has also stimulated the trucking industry to make innova- tions in equipment, routing, scheduling, and communications.

Congested and damaged roads thwart the effectiveness of carrier innova- tions, cause travel delays that disrupt the just-in-time inventory process, and raise carrier operating costs through wasted fuel and vehicle damage. All these costs are eventually borne by consumers. Some recent proposals to combat congestion and pollution would ban trucks from downtown areas during certain parts of the day and raise shipping costs even higher. Efficient highway infrastructure policy could supplant potentially counterproductive proposals, and facilitate carriers' continuing efforts to minimize shipping costs.9

Efficient highway infrastructure policy is designed to make the best use of scarce durability and capacity. Scarce durability arises because roads can only withstand a finite number of standard loadings before they need resurfacing. Efficient road wear pricing attempts to reduce loadings by forcing shifts to trucks with fewer loadings; efficient investment recommends road design that allows roads efficiently to withstand a greater number of loadings. Each policy extends road life and saves society maintenance expenses; together they reduce maintenance expenses even more and, most importantly, they minimize redis- tribution and thus political problems. Scarce capacity is effectively rationed by congestion pricing; such capacity only can be used by those motorists willing to pay an efficient premium for it. With efficient highway infrastructure policy in place, authorities are able to make efficient decisions about whether building new roads can be economically justified.

### 2nc solves waterways

#### Congestion cost fees solve water ways insufficiencies

**Winston, 90** -- senior fellow at the Brooking Institution, former professor of civil engineering at MIT, PHD in economics, UC Berkley (Clifford, "How Efficient is Current Infrastructure Spending and Pricing?" <http://www.bostonfed.org/economic/conf/conf34/conf34f.pdf>) // NK

Use of the nation’s waterways could also be improved through more efficient pricing. Until October 1980, no charges were imposed on users of inland waterways. Some believe that this policy was justified because the rights-of-way are a pure public good. But Boger (1985) has shown positive social marginal costs of waterway use, Chiefly caused by congestion at locks. Efficiency could be improved if the current nominal charges were replaced by a marginal-cost congestion fee.

### 2nc sustainable

#### Efficient pricing creates a sustainable, long term policy

**Winston, 91** – a senior fellow at the Brooking Institution, former professor of civil engineering at MIT, PHD in economics, UC Berkley (Clifford, “Efficient Transportation Infrastructure Policy”, The Journal of Economic Perspectives Vol. 5 No. 1, JSTOR) // NK

Although the literature on optimal pricing and investment has a long and distinguished history that dates back to the writings of Pigou and Knight among others (see Winston (1985) for a survey), Mohring and Harwitz (1962) were the first to determine optimal pricing and investment policies in a rigorous long-run framework. Although recent work has extended their model to account for demand uncertainty, lumpy investment and so on, their basic insights remain intact. The efficient marginal cost pricing rule recognizes that when infrastructure users make travel decisions, they will ignore their contribu- tions to congestion and infrastructure wear. As a result, the social costs of a trip will exceed private costs, and the infrastructure authority must therefore set congestion tolls and infrastructure wear charges to close this gap. The efficient investment rule calls for capacity and durability to be produced to the point where the marginal benefit from increasing investment in each dimension equals its marginal cost. The pricing and investment rules jointly constitute an efficient long-run policy, in which a user's full marginal cost is determined at the optimal level of capacity and durability.

Mohring and Harwitz also showed that the financial viability of a public infrastructure facility under optimal pricing and investment depends upon its cost function. If capacity and durability costs are jointly characterized by constant returns to scale, then the facility's revenue from marginal cost pricing will fully cover its capital and operating costs. If costs are characterized by increasing returns to scale, then marginal cost pricing will not cover costs; conversely, if costs are characterized by decreasing returns to scale, marginal cost pricing will provide excess revenue. The analysis that follows discusses the effects of implementing optimal pricing and investment guidelines.

## \*\*\*VMT CP

### 1nc vmt tolling cp

The United States federal government should provide incentives and expertise for states to adopt a vehicle miles travelled tolling fee, and the federal government should abolish the gas tax.

#### **Tolling solves – enough revenue to solve all transportation needs**

**National Surface Transportation Infrastructure Financing Commission, 9** ("A New Framwork for Transportation Finance", February, financecommission.dot.gov/Documents/NSTIF\_Commission\_Final\_Report\_Mar09FNL.pdf) // NK

The Puget Sound Regional Council in Washington State conducted relevant research on comprehensive pricing using volunteers with dashboard devices that tracked their travel and imposed variable “virtual” tolls (i.e., the tolls were not real). The data from this experiment were then used to support modeling, which evaluated the costs and benefits of various road pricing approaches from HOT lanes to congestion pricing on all freeways and major arterials. The research concluded that region-wide variable pricing in the form of optimal tolls on all freeways and arterial streets would result in significant travel time and vehicle operating cost savings for all income classes and could generate enough revenue to finance all identified regional transportation needs over the life of the current Metropolitan Transportation Plan. 17

#### **Federal incentives for user fees facilitate adoption**

**National Surface Transportation Infrastructure Financing Commission, 9** ("A New Framwork for Transportation Finance", February, financecommission.dot.gov/Documents/NSTIF\_Commission\_Final\_Report\_Mar09FNL.pdf) // NK

Facilitate State and Local Investment. Concurrently, the federal government should put in place policies that allow and encourage state and local governments to raise additional funds from targeted user-based mechanisms such as tolling and pricing. While other funding mechanisms undoubtedly are important at the state and local level, federal policy does not generally play a significant role with those.

### 2nc solves

#### **Mileage based user fees solve – awareness and time of travel**

**Coyle 11** – masters candidate Department of Applied Economics University of Minnesota (David, "From Fuel Taxes to Mileage-Based User Fees: Rationale,Technology, and Transitional Issues", , August,i95coalition.org/i95/Portals/0/Public\_Files/pm/reports/VMT%20Transition%20Univ%20Minn%20aug%202011%20CTS11-16[1].pdf) // NK

In contrast to fuel taxes, MBUFs are able to serve as what Small et al. would call a marginal-cost

user charge. If MBUFs are set high enough to cover the costs users impose on the road’s

condition, and are variable so that they change with the type of road and time of day to capture

congestion costs, then MBUFs act as marginal-cost user charges. Furthermore, if the method of

payment makes users aware of what they pay in MBUFs for particular roads and times of travel,

then users can better weigh their travel time decisions and their choice of mode.

#### **VMT solves current funding shortfalls**

**Coyle 11** – masters candidate Department of Applied Economics University of Minnesota (David, "From Fuel Taxes to Mileage-Based User Fees: Rationale,Technology, and Transitional Issues", , August,i95coalition.org/i95/Portals/0/Public\_Files/pm/reports/VMT%20Transition%20Univ%20Minn%20aug%202011%20CTS11-16[1].pdf) // NK

It has been heavily documented that in 2008 the Highway Trust Fund, which is primarily funded

through fuel taxes, needed an eight-billion dollar transfer from the general fund to stay solvent. In

2009, the Highway Trust Fund received an additional seven-billion dollar transfer. Since then

billions more have come by way of stimulus dollars. Without significant changes in how the

system is financed, the solvency of the Highway Trust Fund will continue to be an issue.

Oh et al. (2008) assert, “Given that the objective of the VMT fees is to bridge the revenue…gap

of current fuel taxes, the fee rates based on the revenue needed and the vehicle-miles driven could

be higher than the current fuel taxes” (p. 26). Thus, given the inadequacy of fuel taxes at current

rates, for a VMT system to cover the funding shortfalls rates will most likely have to be

increased. However, rates will not have to be raised as high as they would under the current fuel

tax system, as a MBUF system broadens the base on which revenue is collected. While fuel taxes

collect low levels of revenue per-mile of travel from highly fuel efficient vehicles and no revenue

from non-petrol propelled vehicles, MBUFs have the potential to broaden the base and collecting

significant revenues from both of these groups of motorists. Considering that in 2007 there were

approximately 205 million licensed drivers in the U.S. (Federal Highway Administration 2009c),

MBUFs have a potentially very large base from which to draw revenue.

#### **Pricing improves targeted capital decisions**

**National Surface Transportation Infrastructure Financing Commission, 9** ("A New Framwork for Transportation Finance", February, financecommission.dot.gov/Documents/NSTIF\_Commission\_Final\_Report\_Mar09FNL.pdf) // NK

The implementation of either more targeted tolling/pricing initiatives or comprehensive pricing could also improve the setting of priorities for capital investment decisions in the future. Currently, transportation planners predict future capacity needs by extrapolating trends related to travel, land use, demographics, economic development, and other relevant considerations. With pricing, the willingness of users to pay (or not to pay) to travel certain routes, including their willingness to pay higher prices during congested periods, helps provide additional signals about where more capacity is needed, similar to the signals that prices provide for the demand of other goods and services in the economy

#### **User fees are the most viable and sustainable solution**

**National Surface Transportation Infrastructure Financing Commission, 9** ("A New Framwork for Transportation Finance", February, financecommission.dot.gov/Documents/NSTIF\_Commission\_Final\_Report\_Mar09FNL.pdf) // NK

VI. ConClusIon

Direct user charges in the form of mileage-based user charges are the most viable and sustainable long-term “user pay” option for the federal government to raise adequate and appropriate revenues to provide the federal share of funding for the system. Both real-world examples and academic research demonstrate that VMT fee systems have the capacity not only to raise needed revenues but also to provide additional benefits, including more efficient use of transportation infrastructure, reduced environmental and social externalities, and ancillary benefits to users in the form of information for drivers. Critically, a VMT fee system is the only option the Commission evaluated that, in addition to raising revenues, could actually reduce the amount of necessary additional capacity by improving the efficiency of current capacity use.

A transition from federal motor fuel taxes to a federal VMT fee system will present numerous political, technical, and technological challenges that will require broad stakeholder input throughout. These challenges, however, should not deter policy makers from committing to a paradigm shift and an aggressive course of action to implement a VMT-based charge system. Recommendations for specific congressional actions to facilitate this transition are included in Chapter 8.

#### **VMT maximizes costs in the long run and is sustainable**

**National Surface Transportation Infrastructure Financing Commission, 9** ("A New Framwork for Transportation Finance", February, financecommission.dot.gov/Documents/NSTIF\_Commission\_Final\_Report\_Mar09FNL.pdf) // NK

The national VMT fee system should also have the following basic characteristics (additional

details can be found in Chapter 6):

• The VMT fee system must be reliable, secure, and enforceable and must protect against

identity theft. It also must permit the efficient transfer of revenue among the federal government, states, local jurisdictions, and private service providers.

• In support of the dual objectives of ensuring transparency and maximizing the benefit of

pricing signals, the VMT fee system must provide travelers and commercial vehicle operators with information on applicable rates, through a combination of roadway signage,

in-vehicle devices, and the Internet (e.g., computers, cell phones, etc).

• The VMT fee system should provide a means for preserving privacy and allow for anonymous operations for motorists desiring such protection. The Commission has concluded

that available and emerging technology will be able to accommodate the highest degree

of privacy protections. Further, the VMT fee system should incorporate and offer the user

choices of protections that may include but are not limited to allowing cash or cash card

payment methods that separate use reporting from payer identity, limiting the amount or

type of information collected, encrypting the information, or combining these approaches, with the ultimate choices factoring in the associated relative costs.

1

• The VMT fee system should be designed to maximize cost-effectiveness. Recognizing that

the system will initially have higher collection costs than current fuel taxes, all efforts must be

made to reduce system costs, including for equipment and administration. The aim should

be for the total annual net cost of operation to be less than 10 percent of the total revenue

collected within a few years of implementation and less than 5 percent in the longer term.

• Finally, if there is a phased transition, the system must be designed so that during the

transition highway users are not paying both the gas or diesel tax and the VMT fee simultaneously except to the extent that all or a portion of these motor fuel taxes are converted

to a “carbon tax,” in which case all users would be required to pay either the VMT fee and

the “carbon tax” or the fuel tax (which would incorporate both charges).

#### **Fuel taxes are not sustainable – user fees generate long term revenue**

**Coyle 11** – masters candidate Department of Applied Economics University of Minnesota (David, "From Fuel Taxes to Mileage-Based User Fees: Rationale,Technology, and Transitional Issues", , August,i95coalition.org/i95/Portals/0/Public\_Files/pm/reports/VMT%20Transition%20Univ%20Minn%20aug%202011%20CTS11-16[1].pdf) // NK

In addition to generating adequate revenue from a large base, MBUFs are expected to generate

revenue streams that remain stable and predictable despite external changes. While the effects of

inflation may hamper the ability of MBUFs to be a sustainable revenue source, changes in fuel

prices and fuel efficiencies and the introduction of alternative fuels should not dramatically affect

the stability of MBUFs as a revenue source. In its findings and conclusions, the National Surface

Transportation Infrastructure Financing Commission (2009) first noted that the current system of

fuel taxes is “not sustainable in the long term” before recommending MBUFs as the consensus

choice for the future. The Commission noted the drive for more fuel efficient and alternative fuel

vehicles as a significant factor for why fuel taxes are not sustainable going forward.

### 2nc solves current transit

#### **MBUFs encourage more efficient use of the current transit system**

**Coyle 11** – masters candidate Department of Applied Economics University of Minnesota (David, "From Fuel Taxes to Mileage-Based User Fees: Rationale,Technology, and Transitional Issues", , August,i95coalition.org/i95/Portals/0/Public\_Files/pm/reports/VMT%20Transition%20Univ%20Minn%20aug%202011%20CTS11-16[1].pdf) // NK

MBUFs have the potential to encourage a more efficient use of the transportation system by

reducing the number of less-than-full truckloads and empty truck trips. If MBUFs were to

increase to reflect the actual costs imposed by users, then shippers and carriers would have a

greater incentive to consolidate loads. After heavy vehicle tolling was implemented in Germany,

which imposed per-kilometer charges that varied by truck weight and emission level, the number

of empty trips was reduced by 20 percent (Robinson 2008). The implementation of heavy vehicle

tolling in Germany gave rise to load consolidation brokers and enhanced efficiency in truck

operations. It should be noted that in Germany, trucks were charged the same rate whether they

were empty or fully-loaded (Robinson 2008). MBUFs should lead to greater efficiency in freight

transport than the current system of fuel taxes since they have the potential to price for actual

costs imposed.

### 2nc fuel tax fails

#### Multiple factors make fuel taxes inefficient and insufficient – the counterplan is comparatively better

**Whitty and Svadlenak, 9** -- \* director of the Office of innovative Partnerships for Oregon

Department of Transportation (James and John, "Discerning the Pathway to Implementation of a National Mileage-Based Charging System", October, Oregon Department of Transportation, [www.i95coalition.org/i95/Portals/0/Public\_Files/Whats-New/SR299.pdf](http://www.i95coalition.org/i95/Portals/0/Public_Files/Whats-New/SR299.pdf)) // NK

The fuels tax fails in many ways. Despite the strong potential for dramatic decline of road revenues as the motoring public chooses to operate more fuel-efficient vehicles, the amount motorists use the road system—measured by vehicles miles traveled (VMT)—continues to trend upward. VMT takes a dip when the economy does and the recent drop in VMT may indicate deterioration in economic condition more than a definite move away from road travel. Nonetheless, during times of rising fuel prices and economic tremors, the fuel efficiency of a motorist’s vehicle does have an impact upon an individual motorist’s VMT. The early response may be to cancel certain trips but as personal finances allow, motorists purchase fuel efficient vehicles. Such a move increases VMT because motorists tend to drive fuel-efficient vehicles further and more often than they drive less fuel-efficient vehicles. 1 The motorist can afford to drive more while operating a fuel-efficient vehicle. Vehicle switching places greater demand on the road system than would otherwise be expected, while generating less revenue from fuel taxes. Over time, such a trend creates an unsustainable road funding system. Owing to inherent inflexibility, the structure of the fuels tax cannot address any new policy requirements beyond highway revenue generation and modest carbon dioxide reduction.

Since the nature of America’s road traffic impacts several critical policy agendas for the 21 st century—climate change response, energy independence, adequate road capacity and funding, environmental protection—it would be wise for our nation to develop and employ a new, highly flexible road finance system. As road capacity improvements have not kept pace with road demand over the past 20 years and are unlikely to catch up under current circumstances, many transportation policymakers and stakeholders look to various forms of congestion pricing to reduce the amount of traffic during peak driving periods. As a per-gallon tax collected at the distributor level (and reimbursed by the retailer and, in turn, by the consumer), the fuel tax collection system has no ability to vary to facilitate congestion pricing during peak driving periods.

Nor does the fuels tax functionally address the crisis of climate change or environmental impact. While the fuels tax gives marginal advantage to fuel efficient vehicles over fuel inefficient vehicles, this per-gallon tax acts only as a blunt instrument for reduction of greenhouse gases and recovery of external costs. The inherent inflexibility of the fuels tax does not permit adjustments to implement environmental strategies having greater impact upon vehicle choice. If a new source of road revenue could have enough flexibility to accomplish policy goals beyond simply raising revenue it would have the potential, should policymakers so desire, to align with other national climate change strategies such as cap and trade or carbon taxes.

This nation’s 90-year old fuel tax collection system ought to be phased out in favor of a new system with an ability to effectively manage these problems—road revenue, congestion, climate change, dependence on foreign oil, environmental cost recovery—in a cost effective manner that accommodates the values of our nation’s citizens. As this paper will demonstrate, a distance-based direct user fee, called the mileage charge or, alternatively, the VMT fee or tax or pricing or per-mile charge, can be structured to make substantial contributions to resolution of today’s travel-related problems.

### 2nc govt spending fails

#### **Government spending cannot effectively reduce congestion**

**Coyle 11** – masters candidate Department of Applied Economics University of Minnesota (David, "From Fuel Taxes to Mileage-Based User Fees: Rationale,Technology, and Transitional Issues", , August,i95coalition.org/i95/Portals/0/Public\_Files/pm/reports/VMT%20Transition%20Univ%20Minn%20aug%202011%20CTS11-16[1].pdf) // NK

When drivers use a congested road, the cost they impose on society is higher than the cost when

using an uncongested road. One of the main impacts of congestion on road system expenditures

is the pressure it puts on road authorities to “fix” the congestion problem. The fix often takes the

form of costly road capacity expansion, or sometimes costly transit capacity and service

improvements, or setting up less costly, but often less effective, congestion management

programs. A study by Winston et al. (2006) estimated that one dollar of government spending on

highways reduced road users’ congestion costs by only eleven cents. From this finding the study

went on to estimate that states would have to spend nearly $350 billion annually to eliminate

congestion costs. These costs, and the need for some costly road expansions, could largely be

reduced if demand during peak-use periods were reduced. A second cost factor resulting from

congestion is the increase in emissions (Barth et al. 2009), which impose health as well as

environmental costs to society. A third factor is the increase in cost associated with each user

slowing the speed of all other users on a part of the system at a particular time. This cost is

expressed in terms of time lost due to delays times the value of time of different users.

#### **The current structure is inefficient and unsustainable**

**Coyle 11** – masters candidate Department of Applied Economics University of Minnesota (David, "From Fuel Taxes to Mileage-Based User Fees: Rationale,Technology, and Transitional Issues", , August,i95coalition.org/i95/Portals/0/Public\_Files/pm/reports/VMT%20Transition%20Univ%20Minn%20aug%202011%20CTS11-16[1].pdf) // NK

The trend of increasing fuel efficiency for the overall fleet is expected to continue as average fuel

economy for new vehicles accelerates (Energy Information Administration 2009). The Energy

Information Administration (2008) estimates that average fuel efficiency for all light-duty

vehicles on the road will grow from 20.4 mpg (8.7 km/L) in 2008 to 28.9 mpg (12.3 km/L) by

2030. A report of the National Surface Transportation Infrastructure Financing Commission

(2009) found that the current federal surface transportation funding structure, which relies heavily

on motor fuel taxes, is not sustainable and is likely to erode more quickly than previously thought due, in large part, to a drive for greater fuel efficiency caused both by heightened concerns over

global climate change and by an effort to reduce dependence on foreign energy sources. The

commission went on to state that fuel taxes and other user fees account for less than 60 percent of

total transportation system revenue (federal, state, and local), which clearly shows that users do

not bear the full cost of their travel. Going forward, as fuel efficiencies increase and users pay

less in fuel taxes per mile traveled, fuel taxes will account for less and less of the system cost

imposed by users.

#### **Increased funding causes more congestion – the counterplan solves**

**National Surface Transportation Infrastructure Financing Commission, 9** ("A New Framwork for Transportation Finance", February, financecommission.dot.gov/Documents/NSTIF\_Commission\_Final\_Report\_Mar09FNL.pdf) // NK

Those who directly use and benefit from the transportation system should, as a general rule and when feasible, bear the primary responsibility for the full cost of system use, including those costs placed on others and the environment—what economists refer to as “externalities.” Internalizing the full costs of transportation will require more accurately identifying, quantifying, and charging the full range of costs, including the direct costs of transportation improvements and operations, such as pavement damage, and the indirect costs, such as those due to associated congestion, accidents, and pollution.

Subsidizing use by not making users and direct beneficiaries primarily responsible for these costs can result in “overconsumption” of the system and inefficient use. A better alignment of costs with use should produce greater system efficiency in terms of both system use and investment, as those decisions would be guided more directly by the willingness of users and direct beneficiaries to pay. Direct system users include motorists who drive on the road network, transit riders who use public transportation systems, and transport and logistics companies that move goods over the highway, port, and rail networks. Examples of those who benefit less directly from the transportation system include businesses that receive goods that move on that system as well as individual citizens who purchase such goods or rely on certain components of the system for their safety and security. Some of these beneficiaries pay for the system when costs are passed on through charges (that is, for goods and services) imposed by direct system users.

In some cases, such as in rural areas, where it is more difficult for subcomponents of the system to be fully self-funding from users and direct beneficiaries, some cross-subsidies will be necessary and appropriate to meet other policy objectives. In these cases, crosssubsidization should be intentional, fully transparent, and designed to meet network, social equity, or other specified goals. Today, individual publicly owned toll roads and bridges are both recipients from and sources of cross-subsidies of the broader network. Similarly, nontolled roadway systems generally are not held to the standard of funding self-sufficiency at the level of the individual roadway or system and are often financially supported by nonuser fee revenues, such as sales and property taxes. The goal in these and other similar cases, however, should be to move toward a closer alignment of costs and prices.

Although transit systems historically also have not been funded on a fully self-sustaining basis, farebox revenues generate 35 percent of the operating costs on average across all transit modes and a portion of the capital investment requirements for transit systems. 2 It also is important to take into account additional benefits from transit systems, including congestion and pollution reduction. For example, there is evidence that public transportation benefits users of other parts of the transportation system by reducing congestion and improving travel reliability. Moreover, one of transit’s ongoing key roles is to provide critical transportation services and mobility for some individuals who could not otherwise afford them (if, for example, they had to use private automobiles). Such systemic impacts must be fully considered in evaluating the appropriateness of apparent cross-subsidization.

### 2nc at: normal means

#### **Now is key to transition to user-based fees – it is a sustainable solution to congestion**

**National Surface Transportation Infrastructure Financing Commission,** **9** ("A New Framwork for Transportation Finance", February, financecommission.dot.gov/Documents/NSTIF\_Commission\_Final\_Report\_Mar09FNL.pdf) // NK

The Commission’s core recommendations focus on the first attribute of this new intelligent

system: improving how the system is funded, specifically in ways that are more sustainable and

more efficient. The Commission’s other recommendations also play vital roles in ensuring overall

funding security and staving off further system degradation through immediate action that will

afford the nation the time to realign the funding framework.

Transitioning from a fuel tax–based system to one based more directly on use of the

highway system measured by miles driven undoubtedly will require a great deal of planning

and public education. But that is no reason to delay initiating the transition. As one

Commissioner warns, “If we don’t start, we won’t ever get there.” And, as this process

commences, policy makers will need to ensure that all stakeholders are consulted and

involved in the decision making for all aspects of the transition.

### 2nc at: user fees now

#### **Fuel taxes fail because of lacking accountability**

**Coyle 11** – masters candidate Department of Applied Economics University of Minnesota (David, "From Fuel Taxes to Mileage-Based User Fees: Rationale,Technology, and Transitional Issues", , August,i95coalition.org/i95/Portals/0/Public\_Files/pm/reports/VMT%20Transition%20Univ%20Minn%20aug%202011%20CTS11-16[1].pdf) // NK

We have seen in this discussion that fuel taxes have moved away from the user-pays-and-benefits

principle:

• Improvements in motor vehicle fleet fuel efficiency since the 1970s have allowed drivers

to pay less in fuel taxes per vehicle mile traveled. This trend of increasing fuel efficiency

for the overall fleet is expected to continue and even accelerate.

• The introduction of hybrids and alternative fuel vehicles has created an even greater

disconnect between system costs and user benefits.

• Not all users pay fuel taxes as some are exempt while others evade payment.

• Fuel tax payments do not cover total direct costs associated with road construction and

maintenance. This is especially true for heavy trucks.

• Fuel tax payments do not recover external costs such as congestion and pollution.

• Finally, the user-pays-and-benefits principle is violated as some fuel tax revenues have

been used for non-highway purposes such as mass transit.

### 2nc spill over

#### **The counterplan spills over – leads to more future efficient investments**

**Coyle 11** – masters candidate Department of Applied Economics University of Minnesota (David, "From Fuel Taxes to Mileage-Based User Fees: Rationale,Technology, and Transitional Issues", , August,i95coalition.org/i95/Portals/0/Public\_Files/pm/reports/VMT%20Transition%20Univ%20Minn%20aug%202011%20CTS11-16[1].pdf) // NK

On efficiency grounds, MBUFs have great potential:

• MBUFs can be set to price for total system costs, thus leading to a more efficient travel

and less highway congestion.

• The price signals generated from MBUFs allow users to weigh the true costs of

automobile vs. transit use and can lead to more efficient mode selection.

• MBUFs send price signals to public officials and investors that can lead to more efficient

transportation investment.

• The effect on land use is less well understood. However, depending on the structure of a

VMT system, MBUFs may reduce urban sprawl in some areas.

### 2nc solves congestion

#### **User fees solve congestions – decreased use**

**National Surface Transportation Infrastructure Financing Commission, 9** ("A New Framwork for Transportation Finance", February, financecommission.dot.gov/Documents/NSTIF\_Commission\_Final\_Report\_Mar09FNL.pdf) // NK

Unlike fuel taxes, direct user fees are a way to charge users a price better aligned with

the full cost of their travel. Specifically, prices (whether for targeted tolling and pricing or

comprehensive pricing) can be varied to incorporate both the costs of providing, maintaining,

and operating the infrastructure and some or all of the costs of other considerations such as

system damage associated with vehicle weight, congestion impacts, and vehicle emissions.

This, in turn, can better inform the individual about the true cost of their travel choices—that

is, the price for highway travel can help travelers make more efficient decisions about how

and when they use existing transportation infrastructure. For example, if road prices are set

higher during congested hours, some people will choose to travel at alternative times or on

alternative routes, make fewer trips, use other modes of travel, or telecommute. However,

many Americans (because of a lack of flexibility or a lack of alternative travel options) may not

be able to make significant changes in their travel habits and requirements.

#### **Increasing road tolling solves congestions – low cost solution**

**National Surface Transportation Infrastructure Financing Commission, 9** ("A New Framwork for Transportation Finance", February, financecommission.dot.gov/Documents/NSTIF\_Commission\_Final\_Report\_Mar09FNL.pdf) // NK

Expand the ability of states and localities to impose tolls on the interstate

System by allowing tolling of net new capacity. This recommendation builds on

the currently enacted Interstate System Construction Toll Pilot Program and would remove the limit on the number of facilities that can take advantage of the program. In

considering this and subsequent recommendations, and to ensure full adherence to

the commerce clause of the Constitution, any potential adverse impacts on interstate

commerce and local travel should be thoroughly analyzed and appropriately mitigated

as a requirement for implementation.

• Allow tolling of existing interstate capacity in large metropolitan areas (of 1

million or more in population) for congestion relief. This recommendation builds on

the Express Lanes Demonstration Program, expands its potential applications, and removes

some of the pilot requirements.

• Continue the interstate highway reconstruction and rehabilitation pilot program and expand it from three slots to five. This pilot program allows tolling of existing Interstate capacity for reconstruction and rehabilitation. If tolling the existing Interstate

System is determined to be the appropriate solution by a particular state, this pilot program

enables the state to use this option to help meet its funding gap. States that participate in

the pilot program must ensure that there are appropriate protections for system users and

interstate commerce.

#### **Mileage based fees vary with time and location – pricing is more efficient**

**Coyle 11** – masters candidate Department of Applied Economics University of Minnesota (David, "From Fuel Taxes to Mileage-Based User Fees: Rationale,Technology, and Transitional Issues", , August,i95coalition.org/i95/Portals/0/Public\_Files/pm/reports/VMT%20Transition%20Univ%20Minn%20aug%202011%20CTS11-16[1].pdf) // NK

Fuel taxes, our current method of funding the transportation system, have little or no ability to

reduce congestion. On the other hand, MBUFs offer great promise in this area. Because MBUFs

can be made to vary with time and location of travel, using congested roadways can be priced at

levels that more closely reflect the cost of congestion. As noted by a recent congressional

commission, “MBUFs, especially if applied as congestion pricing fees or weight-distance taxes

can send strong pricing signals to users.” (National Surface Transportation and Revenue Study

2007, p. 5.45) Studies have shown that users do in fact respond to these price signals. Traffic

declined by approximately 20 percent in the first few months after congestion pricing was

implemented in London (Litman 2004) and similar results were experienced in Stockholm

(Robinson 2006). A test of congestion tolling by the Puget Sound Regional Council, found that

the toll could reduce vehicle use during peak periods by approximately 10 percent (Oh 2008).

### 2nc feasible

#### **VMT pricing alleviates our need for fuel taxes – it is low cost, efficient and viable**

**National Surface Transportation Infrastructure Financing Commission, 9** ("A New Framwork for Transportation Finance", February, financecommission.dot.gov/Documents/NSTIF\_Commission\_Final\_Report\_Mar09FNL.pdf) // NK

The Oregon DOT VMT pricing pilot was the first real-world experience (albeit a voluntary one) with comprehensive, distance-based pricing in the United States. The final report’s findings include the following:

• the concept is viable—The pilot program demonstrated that existing technology can be used in new ways and that a mileage fee can be implemented to replace revenues from motor fuel taxes. At the conclusion of the pilot program, 91 percent of the program’s participants said they would agree to continue paying the mileage fee in lieu of a motor fuel tax if the program were extended statewide.

• paying at the pump works—The pilot program demonstrated that the mileage fee could be paid at the pump, with minimal difference in process or administration for motorists compared with how they pay the gas tax. Like the motor fuel tax, collection of the mileage fee can be embedded within routine commercial transactions, with the bulk of it prepaid by the distributor in the form of the motor fuel taxes.

• the mileage fee can be phased in—The study demonstrated that the mileage fee could be phased in gradually alongside the motor fuel tax, allowing non-equipped vehicles to continue paying the motor fuel tax while equipped vehicles pay the mileage fee. However, retrofitting existing vehicles with the necessary technology at this point will be relatively expensive and difficult.

• integration with current systems can be achieved— The study demonstrated the ability to integrate two critical existing systems: the service station point-ofsale system and the state’s current gas tax collection system.

• congestion and other pricing options are viable— The study demonstrated that pricing could be varied for different zones and time of day and that appropriate fees could be charged. This proves that the mileage fee concept could support congestion pricing and the assessment/collection of local taxes and other “zoneoriented” features. Furthermore, the area pricing strategy applied in the pilot program produced a 22 percent decline in peak period driving.

• privacy can be protected—The study demonstrated that privacy protection can be implemented, but there is a trade-off between privacy and information stored for enforcement and dispute resolution. Key privacy-related principles successfully integrated into the systems supporting the oregon pilot included that no point location data could be stored or transmitted, that all on-vehicle device communication must be short range, and that the only centrally stored data needed to assess mileage fees were vehicle identification, zone mileage totals for each vehicle, and the amount of fuel purchased.

• the burden on business is minimal—While distributors and gas stations bear some new accounting burdens, administration is automated and can be integrated relatively easily into existing transaction processes.

• there is minimal evasion potential—The on-vehicle device was successfully configured so that tampering with it resulted in default payment of the motor fuel tax, thus negating the benefits of evasion efforts. This approach, however, will not address evasion issues associated with alternative fuel vehicles.

• implementation and administration costs are manageable—Implementation and administration costs for an approach similar to that used in the oregon VMT tax pilot would occur in three areas: Service stations would incur capital costs to procure necessary system equipment and modify point-of-sale systems as well as operating costs for communications with a central database. In-vehicle capital costs would be determined by auto manufacturers and included in the price of new vehicles (costs to retrofit vehicles with on-board units (oBus) are estimated at about $150 per vehicle). The administering agency (e.g., the oregon DoT) would incur operating costs for auditing and providing technical assistance to service stations and motorists. Estimated auditing costs would include service station audits ($1 million annually for all services stations in the state) and auditing of non-complying motorists ($2 million annually, although these expenses could be recovered through fines for non-compliance) and would be in addition to costs to administer the current motor fuel tax.

• public acceptance is not guaranteed—Because all participants were volunteers, it is inappropriate to automatically assume their acceptance of the program would extend to the general public. In fact, volunteers indicated that they thought a smaller percentage of other people would find the system acceptable.

### 2nc solves pollution

#### **Road pricing decreases pollution – decreased use and less stop and go**

**National Surface Transportation Infrastructure Financing Commission, 9** ("A New Framwork for Transportation Finance", February, financecommission.dot.gov/Documents/NSTIF\_Commission\_Final\_Report\_Mar09FNL.pdf) // NK

Road pricing can potentially provide positive environmental results, although specific environmental results may be mixed. Congestion reduction effects do lower some pollutants by decreasing or eliminating stop and go driving in heavy traffic, but faster travel can also increase emissions of other pollutants.

Recent research that examined the effects of road pricing on a broad range of pollutants found that encouraging reduced vehicle travel and modal shifts would lead to a net reduction in emissions of all the pollutants examined. 46 In addition, by shifting more of the costs of driving to marginal costs and away from fixed costs (e.g., car registration fees, flat insurance rates only loosely related to miles driven, etc.), drivers would drive somewhat less, yielding environmental benefits. However, if comprehensive road pricing were not supplemented by some kind of charge on carbon emissions (such as a carbon tax), there would be some offsetting impacts because it would then become relatively cheaper to drive lower-mileage vehicles (since gasoline consumption would no longer be taxed).

### 2nc budget

#### **Tolling doubles the budget**

**National Surface Transportation Infrastructure Financing Commission, 9** ("A New Framwork for Transportation Finance", February, financecommission.dot.gov/Documents/NSTIF\_Commission\_Final\_Report\_Mar09FNL.pdf) // NK

Targeted Tolling and Pricing

Targeted tolling and pricing in the United States currently raises more than $17 billion annually, 22 but it could raise more if additional tolled facilities were added to the system and/or existing toll rates were raised to retrieve the full costs of system use (where fixed tolls currently do not fully cover costs) and/or to manage congestion. Still, it must be recognized that tolling is often resisted by the public, except to fund new options, such as the construction of new capacity, or to encourage more effective use of underutilized HOV lanes. At first glance, the new annual revenues that could be raised realistically through tolling are small relative to the enormous need at the state and local levels. One recent estimate of future tolling potential is that expanded use of tolling by state and local governments would only raise an additional $9 billion over 10 years. 23 However, this figure was based on tolling and pricing opportunities in the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users and on current political and administrative realities at the state level. If Congress lessened federal restrictions and increased federal incentives to encourage tolling, the contribution of tolling and pricing revenues to total national highway funding could be much higher. For example, tripling the current level of total annual toll road revenues over the next 20 years in constant dollar terms (the Commission recognizes this would be an ambitious achievement) could raise annual funding equivalent to almost half of current national highway capital expenditure levels. 24 To the extent that states are able to use toll revenue to fund some new projects, it expands their funding base and their ability to meet maintenance and reconstruction needs, as well as to build new projects using traditional revenue sources.

The use of tolling has increased in recent years, with one-third of all new limited-access lane miles built in the United States tolled, as previously noted. 25 For example, Florida has aggressively used tolling over the last two decades to help finance new capacity projects—to the point where toll revenues and other associated toll road receipts amount to over $1.2 billion annually and contribute nearly 14 percent of total highway capital and maintenance spending (including federal funding and bond receipts). 26 As a point of reference, if the rest of the nation implemented state and local tolling to the same degree as Florida does, total toll revenues would be on the order of $22 billion per year, or more than double current toll road revenues. 27 To put this figure in perspective, the added annual revenues would be equivalent to a 6¢ per gallon increase in motor fuel taxes. An even more optimistic estimate, from the Brookings Institution, estimates that applying tolls to all congested Interstates and freeways would raise $105 billion per year. 28

#### **Road pricing solves tax shortfalls**

**National Surface Transportation Infrastructure Financing Commission, 9** ("A New Framwork for Transportation Finance", February, financecommission.dot.gov/Documents/NSTIF\_Commission\_Final\_Report\_Mar09FNL.pdf) // NK

Comprehensive pricing rates—like toll rates—can vary, depending on their purpose. Pricing

systems can be simple mileage charges designed to pay for certain infrastructure costs or

more sophisticated systems used to also manage the road system more efficiently. While

the Oregon pilot project identified technical, administrative, and institutional challenges to

implementation of a true statewide or national comprehensive pricing system, the experience

there also showed conceptually that a comprehensive road pricing system could fully or

partially replace motor fuel taxes as the primary means of raising surface transportation

revenues at the state and/or federal level.

The amount of net revenues that could be raised through a comprehensive pricing system would be driven largely by the established fee levels and the costs of administering the system. Thus, like the current motor fuel tax, the amount of revenue that comprehensive road pricing could generate depends on the extent of fee coverage and the fee level; for instance, prices could be established as a replacement for fuel taxes, as in the Oregon experiment, or they could raise more (or less) if desired. Several states have evaluated the implications of replacing their motor fuel taxes with VMT fees and, depending on the individual state’s tax rates and on how the cost allocation between cars and trucks would be handled, have typically estimated that a fee of 1–2¢ per mile (average for light-duty vehicles (LDVs) and trucks) would be required. 33

### 2nc at: delay

#### **Tolling solve immediate shortfalls**

**National Surface Transportation Infrastructure Financing Commission, 9** ("A New Framwork for Transportation Finance", February, financecommission.dot.gov/Documents/NSTIF\_Commission\_Final\_Report\_Mar09FNL.pdf) // NK

States and localities also could choose to implement their own VMT-based charges, saving

on administrative costs by piggybacking on the national system. And to meet more immediate

funding demands, to the extent they wish to do so, states and localities are able to use

direct tolling and pricing options, including conventional tolling as well as congestion and

cordon pricing approaches to address urban congestion challenges. The primary federal role

in furthering state and local governments’ ability to use these techniques consists of limiting

restrictions on their use and facilitating and encouraging states and localities to experiment where

appropriate. Also, given the experience many states and localities already have implementing

pricing and tolling options, Congress will need to address interoperability concerns quickly,

lest states or regions implement equipment and technologies that will be incompatible and

not easily retrofitted to any future national VMT-based charge technologies.

#### Full operation is feasible in the near term

**Whitty and Svadlenak, 9** -- \* director of the Office of innovative Partnerships for Oregon

Department of Transportation (James and John, "Discerning the Pathway to Implementation of a National Mileage-Based Charging System", October, Oregon Department of Transportation, [www.i95coalition.org/i95/Portals/0/Public\_Files/Whats-New/SR299.pdf](http://www.i95coalition.org/i95/Portals/0/Public_Files/Whats-New/SR299.pdf)) // NK

Implementation of the VMT estimate system would require minimal technology development and testing. The marketplace already avails AVI device technology embedded in license plates. The Road User Fee Pilot Program already tested a similar data management system. 62 Implementation of this system should require only one six-month test. The remaining steps for implementation would include the following.

1. Commence production of the AVI license plates and installation as replacement

license plates commencing within the first year after legislative adoption. Alternatively,

commence production of a combined AVI vehicle emissions inspection sticker.

2. A legislative body mandates fueling stations to (1) add AVI reading equipment to

their fueling stations, (2) upgrade their point of sale systems in accord with specifications

provided by a governmental entity, and (3) add DSL line connection to a collection agency

central computer. Compliance with this mandate should occur within two years of governmental

adoption of specifications.

3. If system option #1 selected, the governmental entity develops central computer

system, including necessary redundancy, and prepares for deployment.

4. Switch on system for vehicles containing the necessary technology within four years

of the effective date of legislative enactment.

5. The VMT Estimate system could become fully operational for the entire vehicle fleet

within three or four years of the formal starting point, depending upon how quickly the

governmental entity adds AVI devices to all resident vehicles.