# Spending DA

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# \*\*\*1NC\*\*\*

A. Credit Rating Stable Now – Fiscal Responsibility key to avoid another downgrade.

Tomesco and Detrixhe 6/13

Frederic Tomesco and John Detrixhe, Bloomberg News, Jun 13, 2012, “U.S. Credit Rating Unlikely to Change in 2012, Moody’s Hess Says,” http://www.bloomberg.com/news/2012-06-13/u-s-credit-rating-unlikely-to-change-in-2012-moody-s-hess-says.html

The U.S.’s Aaa credit ranking from Moody’s Investors Service is unlikely to change this year amid the presidential election and potential for a wave of tax increases and [spending](http://www.bloomberg.com/quote/DEBPMARK:IND) cuts to take effect, according to [Steven Hess](http://topics.bloomberg.com/steven-hess/), Moody’s senior credit officer. The rating company placed a negative outlook on the top grade in August when the U.S. raised the debt ceiling after months of political wrangling about the deficit. The U.S. is on course for tax cuts enacted under President [George W. Bush](http://topics.bloomberg.com/george-w.-bush/) to expire at the end of this year and for more than $1 trillion of automatic spending reductions to take effect in January. “We are most likely going to wait until the outcome of all of this to see what the fiscal trajectory looks like,” Hess said today in [Montreal](http://topics.bloomberg.com/montreal/) in an interview. House Speaker [John Boehner](http://topics.bloomberg.com/john-boehner/) last month revived Republicans’ insistence that any increase in the nation’s debt limit be matched by at least as much in spending cuts, positioning his party for a renewed standoff with Democrats about the [federal budget](http://topics.bloomberg.com/federal-budget/). Last summer’s borrowing-limit debate was cited by [Standard & Poor’s](http://topics.bloomberg.com/standard-%26-poor%27s/) as among the reasons it cut the U.S. to AA+ on Aug. 5. The company has said political and fiscal risks may lead to another downgrade.

#### B. Federal infrastructure spending are wasteful and full of cost overruns

Edwards-- director of tax policy studies at the Cato Institute--11 [“Infrastructure Projects to Fix the Economy? Don't Bank on It.,” Chris, Cato Institute, [**http://www.cato.org/publications/commentary/infrastructure-projects-fix-economy-dont-bank-it**](http://www.cato.org/publications/commentary/infrastructure-projects-fix-economy-dont-bank-it)]

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

the country.

#### C. Unexpected federal spending causes credit rating downgrade

Kelley 9/13

Karen, Senior Managing Director of Invesco 8-11-11, Web 9-13-11 https://www.invesco.ca/publicPortal/ShowDoc?nodePath=/BEA%20Repository/common/document/pdf/Deficits\_Debt\_Ceiling.pdf

The Budget Control Act of 2011has been signed into law, raising the U.S. debt ceiling and forging a path for long-term deficit reductions. We applaud Congress and the White House for avoiding a default, which we believe could have triggered enormous unintended consequences. We also recognize that the work is not over. The legislation outlines $917 billion in deficit reduction between 2012 and 2021, to be achieved through caps on domestic and defense spending. It also creates a bipartisan committee to identify another $1.2 trillion to $1.5 trillion in deficit reduction, potentially including spending cuts, entitlement reform and tax reform. The committee must recommend its deficit reduction proposal by November 23, and Congress is required to vote on it by December 23. If a reduction is not agreed upon by the deadline, automatic procedures will be triggered that reduce spending by as much as $1.2 trillion starting Jan. 15, 2012. Half of the cuts would come from national security and defense. Medicare would receive limited cuts, but Social Security and Medicaid would be exempt. Bottom line: deficit reduction should total between $2.1 trillion and $2.4 trillion over 10 years. Once the deal was signed the question turned to the reaction of the three rating agencies—Standard & Poor’s, Moody Investor Service and Fitch Ratings—and whether they would maintain the country’s AAA credit rating, the highest rating possible. At the end of the day Tuesday Moody’s issued a press release confirming the country’s AAA government bond rating, with a negative outlook. Moody’s noted that the debt deal has virtually eliminated the risk of default. In assigning the negative outlook, Moody’s said there would be a risk of downgrade if any of the following occur: There is a weakening of fiscal discipline during the coming year; further fiscal consolidation measures are not adopted in 2013; the economic outlook deteriorates significantly; there is an appreciable rise in the U.S. government’s funding costs above and beyond what is currently expected.

#### D. Credit downgrade collapse the economy

Gingery 9-1-11

Phil, Reprentative from Georgia and MD http://economiccrisis.us/2011/09/real-economic-recovery-demands-balanced-budget-amendment/

For the first time in our country’s history, our credit rating was downgraded from its AAA standing to a AA+ rating. This has many repercussions – instability in U.S. and international markets, uncertainty for businesses and investors, and the erosion of consumer confidence. These ramifications are profound, but instead of discouraging the American people, they should serve as a wakeup call and a reminder of the heavy lifting needed in the weeks and months ahead if we’re to clean up this mess. Simply put, this downgrade is the final indicator that Washington’s spending spree must end, not just because House Republicans think so, but for the first time in our history one of the world’s leading credit-rating agencies does too. Standard & Poor’s (S&P) downgraded the United States credit primarily because the government failed to provide policies necessary to stabilize its debt payments. Although the recent deal struck by Congress and President Obama provides a down payment on reducing the debt, there is still a long road ahead to recovery. What’s worse, if there are not more substantial reductions in spending over the next few years, they could downgrade our standing again, sending another round of shock waves through the global markets and sinking our own economy further into recession. The bottom line is that we need more effective policies that will ensure the efforts made to cut spending today aren’t undone by politicians in the future.

#### E. Economic collapse causes global nuclear war

Mead 9—Senior Fellow in US Foreign Policy Studies @ Council on Foreign Relations

Walter Russell, Only Makes You Stronger, The New Republic, 2-4-09, http://www.tnr.com/politics/story.html?id=571cbbb9-2887-4d81-8542-92e83915f5f8&p=1

The greatest danger both to U.S.-China relations and to American power itself is probably not that China will rise too far, too fast; it is that the current crisis might end China's growth miracle. In the worst-case scenario, the turmoil in the international economy will plunge China into a major economic downturn. The Chinese financial system will implode as loans to both state and private enterprises go bad. Millions or even tens of millions of Chinese will be unemployed in a country without an effective social safety net. The collapse of asset bubbles in the stock and property markets will wipe out the savings of a generation of the Chinese middle class. The political consequences could include dangerous unrest--and a bitter climate of anti-foreign feeling that blames others for China's woes. (Think of Weimar Germany, when both Nazi and communist politicians blamed the West for Germany's economic travails.) Worse, instability could lead to a vicious cycle, as nervous investors moved their money out of the country, further slowing growth and, in turn, fomenting ever-greater bitterness. Thanks to a generation of rapid economic growth, China has so far been able to manage the stresses and conflicts of modernization and change; nobody knows what will happen if the growth stops.India's future is also a question. Support for global integration is a fairly recent development in India, and many serious Indians remain skeptical of it. While India's 60-year-old democratic system has resisted many shocks, a deep economic recession in a country where mass poverty and even hunger are still major concerns could undermine political order, long-term growth, and India's attitude toward the United States and global economic integration. The violent Naxalite insurrection plaguing a significant swath of the country could get worse; religious extremism among both Hindus and Muslims could further polarize Indian politics; and India's economic miracle could be nipped in the bud. If current market turmoil seriously damaged the performance and prospects of India and China, the current crisis could join the Great Depression in the list of economic events that changed history, even if the recessions in the West are relatively short and mild. The United States should stand ready to assist Chinese and Indian financial authorities on an emergency basis--and work very hard to help both countries escape or at least weather any economic downturn. It may test the political will of the Obama administration, but the United States must avoid a protectionist response to the economic slowdown. U.S. moves to limit market access for Chinese and Indian producers could poison relations for years. For billions of people in nuclear-armed countries to emerge from this crisis believing either that the United States was indifferent to their well-being or that it had profited from their distress could damage U.S. foreign policy far more severely than any mistake made by George W. Bush. It's not just the great powers whose trajectories have been affected by the crash. Lesser powers like Saudi Arabia and Iran also face new constraints. The crisis has strengthened the U.S. position in the Middle East as falling oil prices reduce Iranian influence and increase the dependence of the oil

sheikdoms on U.S. protection. Success in Iraq--however late, however undeserved, however limited--had already improved the Obama administration's prospects for addressing regional crises. Now, the collapse in oil prices has put the Iranian regime on the defensive. The annual inflation rate rose above 29 percent last September, up from about 17 percent in 2007, according to Iran's Bank Markazi. Economists forecast that Iran's real GDP growth will drop markedly in the coming months as stagnating oil revenues and the continued global economic downturn force the government to rein in its expansionary fiscal policy. All this has weakened Ahmadinejad at home and Iran abroad. Iranian officials must balance the relative merits of support for allies like Hamas, Hezbollah, and Syria against domestic needs, while international sanctions and other diplomatic sticks have been made more painful and Western carrots (like trade opportunities) have become more attractive. Meanwhile, Saudi Arabia and other oil states have become more dependent on the United States for protection against Iran, and they have fewer resources to fund religious extremism as they use diminished oil revenues to support basic domestic spending and development goals. None of this makes the Middle East an easy target for U.S. diplomacy, but thanks in part to the economic crisis, the incoming administration has the chance to try some new ideas and to enter negotiations with Iran (and Syria) from a position of enhanced strength. Every crisis is different, but there seem to be reasons why, over time, financial crises on balance reinforce rather than undermine the world position of the leading capitalist countries. Since capitalism first emerged in early modern Europe, the ability to exploit the advantages of rapid economic development has been a key factor in international competition. Countries that can encourage--or at least allow and sustain--the change, dislocation, upheaval, and pain that capitalism often involves, while providing their tumultuous market societies with appropriate regulatory and legal frameworks, grow swiftly. They produce cutting-edge technologies that translate into military and economic power. They are able to invest in education, making their workforces ever more productive. They typically develop liberal political institutions and cultural norms that value, or at least tolerate, dissent and that allow people of different political and religious viewpoints to collaborate on a vast social project of modernization--and to maintain political stability in the face of accelerating social and economic change. The vast productive capacity of leading capitalist powers gives them the ability to project influence around the world and, to some degree, to remake the world to suit their own interests and preferences. This is what the United Kingdom and the United States have done in past centuries, and what other capitalist powers like France, Germany, and Japan have done to a lesser extent. In these countries, the social forces that support the idea of a competitive market economy within an appropriately liberal legal and political framework are relatively strong. But, in many other countries where capitalism rubs people the wrong way, this is not the case. On either side of the Atlantic, for example, the Latin world is often drawn to anti-capitalist movements and rulers on both the right and the left. Russia, too, has never really taken to capitalism and liberal society--whether during the time of the czars, the commissars, or the post-cold war leaders who so signally failed to build a stable, open system of liberal democratic capitalism even as many former Warsaw Pact nations were making rapid transitions. Partly as a result of these internal cultural pressures, and partly because, in much of the world, capitalism has appeared as an unwelcome interloper, imposed by foreign forces and shaped to fit foreign rather than domestic interests and preferences, many countries are only half-heartedly capitalist. When crisis strikes, they are quick to decide that capitalism is a failure and look for alternatives. So far, such half-hearted experiments not only have failed to work; they have left the societies that have tried them in a progressively worse position, farther behind the front-runners as time goes by. Argentina has lost ground to Chile; Russian development has fallen farther behind that of the Baltic states and Central Europe. Frequently, the crisis has weakened the power of the merchants, industrialists, financiers, and professionals who want to develop a liberal capitalist society integrated into the world. Crisis can also strengthen the hand of religious extremists, populist radicals, or authoritarian traditionalists who are determined to resist liberal capitalist society for a variety of reasons. Meanwhile, the companies and banks based in these societies are often less established and more vulnerable to the consequences of a financial crisis than more established firms in wealthier societies. As a result, developing countries and countries where capitalism has relatively recent and shallow roots tend to suffer greater economic and political damage when crisis strikes--as, inevitably, it does. And, consequently, financial crises often reinforce rather than challenge the global distribution of power and wealth. This may be happening yet again. None of which means that we can just sit back and enjoy the recession. History may suggest that financial crises actually help capitalist great powers maintain their leads--but it has other, less reassuring messages as well. If financial crises have been a normal part of life during the 300-year rise of the liberal capitalist system under the Anglophone powers, so has war. The wars of the League of Augsburg and the Spanish Succession; the Seven Years War; the American Revolution; the Napoleonic Wars; the two World Wars; the cold war: The list of wars is almost as long as the list of financial crises. Bad economic times can breed wars. Europe was a pretty peaceful place in 1928, but the Depression poisoned German public opinion and helped bring Adolf Hitler to power. If the current crisis turns into a depression, what rough beasts might start slouching toward Moscow, Karachi, Beijing, or New Delhi to be born? The United States may not, yet, decline, but, if we can't get the world economy back on track, we may still have to fight.

# \*\*UQ\*\*

## Credit Rating Stabilizing Now

Current Political Climate has stabilized credit rating – Fiscal risks will jeopardize stability

Tomesco and Detrixhe 6/13

Frederic Tomesco and John Detrixhe, Bloomberg News, Jun 13, 2012, “U.S. Credit Rating Unlikely to Change in 2012, Moody’s Hess Says,” http://www.bloomberg.com/news/2012-06-13/u-s-credit-rating-unlikely-to-change-in-2012-moody-s-hess-says.html

The U.S.’s Aaa credit ranking from Moody’s Investors Service is unlikely to change this year amid the presidential election and potential for a wave of tax increases and [spending](http://www.bloomberg.com/quote/DEBPMARK:IND) cuts to take effect, according to [Steven Hess](http://topics.bloomberg.com/steven-hess/), Moody’s senior credit officer. The rating company placed a negative outlook on the top grade in August when the U.S. raised the debt ceiling after months of political wrangling about the deficit. The U.S. is on course for tax cuts enacted under President [George W. Bush](http://topics.bloomberg.com/george-w.-bush/) to expire at the end of this year and for more than $1 trillion of automatic spending reductions to take effect in January. “We are most likely going to wait until the outcome of all of this to see what the fiscal trajectory looks like,” Hess said today in [Montreal](http://topics.bloomberg.com/montreal/) in an interview. House Speaker [John Boehner](http://topics.bloomberg.com/john-boehner/) last month revived Republicans’ insistence that any increase in the nation’s debt limit be matched by at least as much in spending cuts, positioning his party for a renewed standoff with Democrats about the [federal budget](http://topics.bloomberg.com/federal-budget/). Last summer’s borrowing-limit debate was cited by [Standard & Poor’s](http://topics.bloomberg.com/standard-%26-poor%27s/) as among the reasons it cut the U.S. to AA+ on Aug. 5. The company has said political and fiscal risks may lead to another downgrade.

Congress must avoid sudden fiscal adjustment to keep credit rating stable

Bases 6/9

[Daniel Bases](http://blogs.reuters.com/search/journalist.php?edition=us&n=daniel.bases&), Reuters, “S&P says U.S. to avoid "fiscal cliff," risks remain,” Jun 9, 2012, http://www.reuters.com/article/2012/06/09/us-unitedstates-ratings-standardandpoors-idUSBRE8571DI20120609

Standard & Poor's said on Friday it expects U.S. lawmakers to set aside their differences to prevent a combination of tax hikes and spending cuts from hurting the economy in early 2013. The rating agency affirmed the AA-plus rating of the world's biggest economy but cautioned that its outlook remains negative. The affirmation of the rating restarts the six- to 24-month period in which the agency could again cut the U.S. rating. "One thing we do expect Republicans and Democrats to agree on -- given an unemployment rate of about 8 percent and continued risks to the U.S. economic recovery -- is avoiding sudden fiscal adjustment," the agency said in a statement. The United States lost its top-tier AAA credit rating from Standard & Poor's last August in the wake of a bruising fight in Congress over lifting the government's debt limit. "We expect that a sudden fiscal adjustment could occur if all current tax and spending provisions, set to either expire or take effect near the end of 2012, go forward in accordance with current law," S&P said on Friday.

Fiscal Consolidation Key to Avoid Fitch and Moody’s from dropping US AAA Credit Rating

Bases 6/9

[Daniel Bases](http://blogs.reuters.com/search/journalist.php?edition=us&n=daniel.bases&), Reuters, “S&P says U.S. to avoid "fiscal cliff," risks remain,” Jun 9, 2012, http://www.reuters.com/article/2012/06/09/us-unitedstates-ratings-standardandpoors-idUSBRE8571DI20120609

This week Janet Yellen, the Federal Reserve's second-highest official, laid out the case for the U.S. central bank to provide more support to a fragile economy as financial turmoil in Europe mounts. S&P said the U.S. economy still faces "significant" risks, adding that "we believe the risk of returning to recession in the U.S. is about 20 percent." In affirming the rating, S&P cited the resilience of the economy, its monetary credibility and the dollar's status as the world's key reserve currency. But the country faces "primarily political and fiscal" credit risks, S&P said. The United States is rated AAA by Fitch Ratings and Aaa by Moody's Investors Service. Both agencies have negative outlooks on the ratings, which means they could act within 12 to 18 months. Earlier this week Fitch said it would cut its sovereign credit rating for the United States next year if Washington cannot come to grips with its deficits and create a "credible" fiscal consolidation plan.

Moody’s and Fitch have not followed suit with S&P – GOP and Dems must sustain public finance

NUTTING 6/16

[REX NUTTING](http://online.wsj.com/search/term.html?KEYWORDS=REX+NUTTING&bylinesearch=true), June 16, 2012, Wall Street Journal, “S&P Missed the Mark on U.S. Debt,” http://online.wsj.com/article/SB10001424052702303822204577464480633342346.html

Other credit-ratings firms—Moody's and Fitch—haven't followed S&P in lowering their "AAA" ratings on U.S. debt, but they too have warned that political dysfunction poses a threat. In S&P's words, "recent shifts in the ideologies of the two major political parties in the U.S. could raise uncertainties about the government's ability and willingness to sustain public finances consistently over the long term."

#### US AAA credit rating stabilizing now—credit rating agencies are watching the US for commitment to deficit reduction

Sahadi 10/11

(Jeanne, NBC “Debt Committee May Raise Risk Of US Downgrade” [http://www.nbcmontana.com/money/29447125/detail.html]

The three major credit ratings agencies, which declined to comment for this article, basically put Congress on notice after the debt-ceiling nightmare this summer. Standard & Poor's took the hardest line by replacing the United States' top-notch AAA rating with the lesser AA largely because of lawmakers' willingness to risk default to extract concessions on budget cuts. S&P's action was, in essence, a political downgrade. Looking ahead, S&P said it could downgrade the country again if Congress fails to implement at least $1.2 trillion in deficit reduction on top of the initial round of cuts called for by the debt-ceiling deal. If the super committee process fails, in theory, $1.2 trillion in automatic spending cuts would be triggered. But many seasoned observers expect Congress may end up modifying or repealing that trigger. By contrast, if the super committee process succeeds and Congress votes through more than the minimum $1.2 trillion in savings, S&P said that could help to stabilize the country's long-term AA rating. Moody's, for its part, affirmed the country's AAA rating but revised the outlook to negative, and said if the super committee process proves "ineffective, this could affect the rating negatively." And Fitch, which still maintains a stable outlook on its AAA rating for the United States, said failure by the committee to reach agreement on at least $1.2 trillion could hurt the rating.

#### U.S. AAA Credit rating stabilized now- perceptions that the U.S. is committed to deficit reduction

Bernard 9/8

Stephen analyst for DOW JONES NEWSWIRES DBRS Initiates Rating On US Government At AAA, Stable Outlook

http://online.wsj.com/article/BT-CO-20110908-714692.html

NEW YORK (Dow Jones)--Seeing the opportunity to strike while investors are searching for a wider opinion on sovereign credit ratings and while its larger competitors come under heightened scrutiny, DBRS has initiated coverage of the U.S. government with a triple-A rating and a stable outlook. DBRS jumped into the fray Thursday, weighing in on the creditworthiness of the world's biggest economy at a unique time--just one month after ratings giant Standard & Poor's took the unprecedented step of downgrading the country's debt. Considered among the better known ratings firms outside the world's three biggest ratings companies, Toronto-based DBRS actually accelerated the timetable for launching a rating on the U.S., said Alan Reid, managing director for the financial institutions and sovereign ratings group at DBRS. The ratings firm had previously planned to begin providing a public rating on the U.S. government in early 2012, he said. "It was accelerated because of very significant demand from the market," Reid said. "The market wants diversity of opinion." Central banks around the world have routinely complained in recent months about the oligopoly the three largest ratings firms have and their power to influence markets based on ratings downgrades. Most recently, the U.S. government sharply criticized S&P for cutting its rating on the U.S. to AA-plus, one notch below triple-A. That downgrade set off a steep sell-off in global financial markets, further highlighting the power held by the largest ratings companies. Moody's Investors Service placed the U.S. on review for potential downgrade over the summer as well, but ultimately decided the country should keep its triple-A rating. But unlike Moody's--which has a negative outlook on the U.S.--DBRS says the U.S. government's rating outlook is stable. The rating and outlook put DBRS in-line with Fitch Ratings' view on the U.S. In giving the U.S. a top-notch rating, DBRS said it was encouraged by the "renewed commitment to reducing the deficit and stabilizing debt-to-GDP over the medium term" that came out of the last-minute deal to raise the country's debt ceiling in August. The U.S.'s position as the world's largest economy, its ability to handle external shocks and the dollar's position as the world's largest reserve currency also were primary reasons for the triple-A rating, DBRS said. Launching the U.S. rating, particularly at a crucial moment with the country facing mounting debt and a Congressional panel tasked with finding long-term spending cuts, further adds to DBRS's expansion plans.

## Economy High Now

Despite jobs reports, rest of the economy seems on upswing

Bloomberg News June 5, 2012 [“US economy’s repeat pattern has a silver lining,” <http://www.tampabay.com/news/business/markets/us-economys-repeat-pattern-has-silver-lining/1233638>]

Stocks plunged Friday on news that American employers last month added the fewest workers to their payrolls in a year while the jobless rate rose. After the jobs report, Michael Feroli, chief U.S. economist at JPMorgan Chase in New York, lowered his forecast for third-quarter economic growth to 2 percent from 3 percent.

Allen Sinai, chief executive officer of Decision Economics in New York, bumped up his odds of a recession next year to 15 percent from 10 percent.

The decline in jobs growth to 69,000 last month from a high this year of 275,000 in January was reminiscent of the labor market cooling that occurred in both 2010 and 2011.

Repeating the pattern of the last two years, Fed Chairman Ben Bernanke and his fellow central bankers are likely to respond to the job-market weakness by announcing further steps to stimulate growth. The moves could come when the Fed meets on June 19-20 to decide monetary strategy, Feroli said in a note to clients.

Sinai said the United States is in "better shape" to weather the global economic tremors than it was in the past. He sees U.S. growth picking up to 2.5 to 3 percent in the second half of this year as consumer spending expands, encouraging employers to take on more workers.

Consumers are benefiting from easier credit terms as financial institutions seek to put the money they've earned to work. U.S. banks "eased standards on credit card, auto and other consumer loans," according to the Fed's quarterly survey of senior loan officers, released April 30.

Investor nervousness over the world economy has pluses and minuses for U.S. households. On the negative side, it has lowered stock prices, reducing household net worth. On the positive side, it has helped bring down gas prices and mortgage rates.

## Economy on the Brink Now

#### Economy Improving now but still shaky

#### MacAskill, Ewen, Rushe, 6-26

MacAskill, Ewen, and Dominic Rushe. "OECD Says US Economy Is Recovering but Income Inequality Problematic." The Guardian. Guardian News and Media, 26 June 2012. Web. 29 June 2012. <http://www.guardian.co.uk/business/2012/jun/26/oecd-us-economy-income-inequality?newsfeed=true>.

The [OECD](http://www.guardian.co.uk/business/oecd) (Organization for Economic Cooperation and Development), which produces reports every two years, says that the US recovery is gaining momentum but remains fragile, with the country facing problems such as record long-term unemployment, income inequality and lack of investment in education and innovation.The report is more bullish on the economy than Federal Reserve chairman Ben Bernanke, who recently downgraded his forecasts for the[US economy](http://www.guardian.co.uk/business/useconomy). But it points out that poverty is worse in the US than in Europe. "Income inequality and relative poverty are among the highest in the OECD," the report says. Only Chile, Mexico and Turkey among the 34 member OECD countries rank higher in terms of income inequality. The [Obama administration](http://www.guardian.co.uk/world/obama-administration) welcomed the report, saying it was already implementing some of the proposals and backed others. It provides useful ammunition for the Obama administration in the run-up to the 2012 election which looks like being dominated by debate over the economy. There is less in the report that would be welcomed by Republicans. Karen Kornbluh, the US ambassador to the OECD, told a press conference in Washington to launch the report, that the organisation is recommending exactly what Barack Obama is doing in terms of investing in education to improve the skills of the workforce. One OECD recommendation the Obama administration is not acting on and is likely to continue to shy away from in an election year is a proposal to increase gas prices to help reduce the use of fossil fuels. Richard Boucher, deputy secretary-general of the OECD and a former US state department diplomat, who was also at the press conference, stood by the gas price recommendation. "I realise it is not always popular, particularly in an election year, but we call it as we see it." Boucher expressed concern about the persistence of income inequality in the US. The chances of staying poor in the US are higher than in Europe, he said. "If your parents are poor, the chances are you are going to stay poor," he said. The OECD argues that tackling inequality could help the wider economy, a point on which economists are divided. "We know that some of these steps to reduce inequality also help boost economic growth," Boucher said. The OECD report said that growth in the US will remain moderate this year but concludes that America's economic recovery has "gained momentum". Consumer and business spending have risen and unemployment, though still high at 8.2%, has fallen nearly two percentage points from its peak in 2009. "Even with these substantial improvements, however, the recovery is far from complete," the OECD warns. The US housing market has picked up but the large overhang of unsold homes and "the ongoing tide of foreclosures will continue to put downward pressure on house prices," according to the report. Europe's economic crisis and the looming political fight over the expiration on 31 December expiration of Bush-era tax cuts and imposition of automatic spending cuts – also remain serious threats, the report warns. It called on Congress to seek to trim government spending gradually rather than make drastic cuts at the end of this year, the so-called 'fiscal cliff' when $1.2tn in automatic spending cuts are due to kick in.

## Spending Cuts Now

#### Spending cuts are coming in the status quo

Washington Post, May 9, 2012 [“Top Senate Democrat Reid Stands Behind Automatic Defense Cuts to Pressure GOP on Budget,” <http://www.washingtonpost.com/business/economy/top-senate-democrat-reid-stands-behind-automatic-defense-cuts-to-pressure-gop-on-budget/2012/05/09/gIQArAcMDU_story.html>]

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

#### Discretionary spending frozen now

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

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

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

#### Obama is pushing spending cuts

USA Today 2012 [“Obama's spending cuts would spread pain,” ABC News, Richard Wolf and Kelly Kennedy, 9-20-2011, http://abcnews.go.com/Politics/obamas-spending-cuts-spread-pain/story?id=14560170#.T9L4oeJYtNt]

Upper-income beneficiaries could pay more for Medicare. Farmers could lose federal payments. Federal workers could pay more into their retirement plans. Airline passengers could pay higher security fees.

President Obama's full plan to slash upwards of $3 trillion from federal budget deficits over 10 years may be dead on arrival in Congress, but don't be surprised if some elements survive.

Although Obama's proposed $1.5trillion in tax increases on upper-income Americans and corporations are getting most of the attention — and opposition — his spending cuts are more likely to win Republicans' support, budget experts say.

"I'm proposing real, serious cuts in spending," Obama said Monday. "These savings are not only counted as part of our plan, but as part of the budget plan that nearly every Republican in the House voted for."

So, although the reaction from Republicans was overwhelmingly negative, they are likely to accept some of Obama's proposed spending cuts, particularly in Medicare and Medicaid — and then add to them.

#### Fiscal discipline now – federal spending increases are at historic lows

Nutting 12 (Ray, Wall Street Journal contributor, “Obama spending binge never happened,” 5-22-12, <http://articles.marketwatch.com/2012-05-22/commentary/31802270_1_spending-federal-budget-drunken-sailor>)

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

#### Current priority is to slash deficit

Associated Press, 6/12/12 (U.S. federal deficit totals $844.5B through 8 months, http://www.foxnews.com/us/2012/06/12/us-federal-deficit-totals-8445b-through-8-months/)

The federal budget deficit is approaching $1 trillion for a fourth straight year even though the government is collecting more tax revenue than last year. The Treasury Department said Tuesday that the deficit grew by $124.6 billion in May. That put the deficit through the first eight months of the budget year at $844.5 billion, or 8.9 percent below last year's imbalance for the same period. Still, the Congressional Budget office forecasts that the deficit for the entire 2012 budget year, which ends Sept. 30, will total $1.17 trillion. That's only a slight improvement from the $1.3 trillion deficit recorded in fiscal 2011. And it is certain to keep the federal budget near the center of the presidential campaign. So far this year, government receipts are running 5.3 percent higher than a year ago. A better job market and modest economic growth have led to higher tax revenue. Receipts in May totaled $180.7 billion, the second-largest tax take for the month of May. Rising tax collections have also helped state governments. U.S. states expect to collect higher tax revenue in the coming budget year that combined will top the collections being received before the recession, according to the findings of a survey released Tuesday by the National Governors Association and the National Association of State Budget Officers. The extra tax revenue hasn't cooled the budget debate in Washington. President Barack Obama and Republicans remain at odds over how much to spend, where to cut and whether they tax increases should be on the table. Obama submitted a budget to Congress in February that calls for $4 trillion in deficit reduction over the next decade through a combination of spending cuts and tax hikes on the wealthy. Republicans have rejected the tax increases and want deeper cuts in government programs. The GOP-controlled House has approved a budget that calls for deep cuts in Medicare and other programs and a new round of tax cuts that would favor wealthy Americans. The House-approved spending plan has no chance of winning approval in the Senate, where Democrats hold a slim majority. That sets the stage for gridlock until after the November elections when lawmakers will be faced with a number of end-of-the-year deadlines. Mitt Romney, the Republican presidential nominee, has proposed broad but largely unspecified spending cuts. Romney also wants to cut taxes further.

## Transportation Spending Stalled

**Stalled transportation bill proves no increase in spending on infrastructure**

**Baltimore Sun Jun 8 2012**

(“Transportation Bill: Do Republicans Want to Sabotage the Economy?” [http://articles.baltimoresun.com/2012-06-10/news/bs-ed-transportation-20120610\_1\_transportation-bill-transportation-projects-transportation-spending accessed 6/16](http://articles.baltimoresun.com/2012-06-10/news/bs-ed-transportation-20120610_1_transportation-bill-transportation-projects-transportation-spending%20accessed%206/16))

House Speaker John Boehner denies the allegation, but he has also announced that he's ready to pull the plug on negotiations over the measure until after the election if the two sides fail to work out an agreement before June 30. That gives negotiators less than three weeks to shake hands on something that's had them at odds for years.

What's frustrating is that the bill — which has been whittled down to a mere 15-month extension (and might even be trimmed to six months, according to Mr. Boehner) — should be a fairly routine matter. That has been the case in years past, when preserving and expanding U.S. transportation infrastructure, including roads, bridges, mass transit, ports and airports was seen as too important to the national interest to be derailed by partisan bickering.

But that was then. The problem now is that too many extraneous issues have been tied to the measure, including various "offsets" and "pay-fors" to [finance](http://articles.baltimoresun.com/2012-06-10/news/bs-ed-transportation-20120610_1_transportation-bill-transportation-projects-transportation-spending) the bill instead of merely updating the federal gasoline tax to allow for inflation over the last two decades. In reality, there's a lot of accounting gimmickry involved.

There's billions of dollars, for instance, from a decrease in federal contributions to employee pensions and billions more taken out of the Gulf oil spill compensation fund. There's even an allocation from the expected fines and penalties paid by tax delinquents who have their passports revoked.

# \*\*Links\*\*

## Link—Federal Spending

#### If we don't stop spending money, we will be downgraded a second time.

**Faux Jun 7 2012 -** Staff Writer for Blommberg.com

Zeke, "Fitch Repeats Warning of U.S. Downgrade In 2013, Reuters says"

http://www.bloomberg.com/news/2012-06-07/fitch-repeats-warning-of-u-s-downgrade-in-2013-reuters-says.html

**The U.S. may lose its AAA rating next year unless politicians reach an agreement to significantly cut the budget deficit**, an analyst at Fitch Ratings said. **The U.S. lacks a credible plan to reduce spending and stop the growth of the national debt**, Edward Parker, a sovereign analyst, said at the firm’s Global Banking Conference in New York, according to Reuters. The comments were consistent with the third-biggest ratings firm’s statements in November, when it assigned a negative outlook to the U.S. and said the probability of a downgrade is greater than 50 percent over two years. Standard & Poor’s, the world’s largest ratings company, downgraded the U.S. to AA+ in August, saying lawmakers had failed to agree on enough budget cuts. Moody’s Investors Service, the second-largest, has had a negative outlook on the country’s Aaa rating since August. Fitch’s analysts didn’t announce any changes to their views at the conference, Brian Bertsch, a spokesman in New York, said in an e-mail. Fitch forecasts **federal public debt will exceed 90 percent of gross domestic product** by the end of the decade **unless the government addresses** rising health and social security spending through tax increases or **reductions in expenditures**. The “high and rising federal and general government debt burden is not consistent with the U.S. retaining its AAA status even with its other fundamental sovereign credit strengths,” Fitch said Dec. 21 in a statement.

#### Fiscal Discipline key to avoid downgrade.

**NASDAQ, 6-7-12**

“Fitch may cut U.S. Rating If No ‘Credible’ Fiscal Plan” http://www.nasdaq.com/article/fitch-eyes-us-downgrade-without-credible-fiscal-plan-20120607-00970

A Fitch Ratings executive said Thursday that **the firm would** likely **downgrade U.S. debt if the federal government does not get its fiscal house in order.** Speaking at the firm's global banking conference in New York, Fitch sovereign group managing director Ed Parker said " the U.S. does not have a credible fiscal consolidation plan" and that "if we don't see one after the election, I would expect a downgrade." Fitch rates the U.S. at triple-A but put it on negative outlook last November, and Mr. Parker's comments were a reiteration of the firm's position. In its original note placing the U.S. on negative outlook last year, Fitch cited the country's uncertain economic growth prospects, and said projections showed federal debt exceeding 90% of GDP by the end of the decade. "In Fitch's opinion, such a level of government indebtedness would no longer be consistent with the U.S. retaining its "AAA" status despite its underlying strengths," the firm said at the time. Fitch has the U.S., U.K. and France on negative outlook because of high debt-to-gross-domestic-product-ratios. Mr. Parker noted that the three countries, plus Germany, are the most heavily indebted nations among those with the top credit rating (Germany is not on negative outlook because its debt-to-GDP ratio has already peaked and the country is on a path toward more stable finances). Negative outlook implies an increased likelihood of a downgrade in a two-year time horizon. "**There is a limit to how high these government debt levels can go**," Mr. Parker said.

#### Fitch will downgrade if we don't start budgeting our money.

**Reuters Nov '11**

“Fitch warns of U.S. downgrade if no budget deal in 2013"

http://www.reuters.com/article/2011/11/29/us-usa-ratings-fitch-idUSTRE7AR28J20111129

**Fitch Ratings gave the United States until 2013 to come up with a "credible plan" to tackle its** ballooning **budget deficit or risk a downgrade of the country's** coveted **AAA rating**. The ratings agency on Monday revised to negative from stable the outlook on the U.S. credit rating after a special congressional committee failed last week to agree on at least $1.2 trillion in deficit-reduction measures. The committee failure made it unlikely that any meaningful deficit plan will be adopted next year, increasing the fiscal burden on the next administration that will be elected in late 2012, Fitch said. "The negative outlook reflects Fitch's declining confidence that timely fiscal measures necessary to place U.S. public finances on a sustainable path and secure the U.S. AAA sovereign rating will be forthcoming," the ratings agency said in a statement, adding that the chance of a

#### Credit Rating Agencies will downgrade if there is unexpected federal spending

Kelley 8/11

Karen, Senior Managing Director of Invesco 8-11-11, Web 9-13-11 https://www.invesco.ca/publicPortal/ShowDoc?nodePath=/BEA%20Repository/common/document/pdf/Deficits\_Debt\_Ceiling.pdf

The Budget Control Act of 2011has been signed into law, raising the U.S. debt ceiling and forging a path for long-term deficit reductions. We applaud Congress and the White House for avoiding a default, which we believe could have triggered enormous unintended consequences. We also recognize that the work is not over. The legislation outlines $917 billion in deficit reduction between 2012 and 2021, to be achieved through caps on domestic and defense spending. It also creates a bipartisan committee to identify another $1.2 trillion to $1.5 trillion in deficit reduction, potentially including spending cuts, entitlement reform and tax reform. The committee must recommend its deficit reduction proposal by November 23, and Congress is required to vote on it by December 23. If a reduction is not agreed upon by the deadline, automatic procedures will be triggered that reduce spending by as much as $1.2 trillion starting Jan. 15, 2012. Half of the cuts would come from national security and defense. Medicare would receive limited cuts, but Social Security and Medicaid would be exempt. Bottom line: deficit reduction should total between $2.1 trillion and $2.4 trillion over 10 years. Once the deal was signed the question turned to the reaction of the three rating agencies—Standard & Poor’s, Moody Investor Service and Fitch Ratings—and whether they would maintain the country’s AAA credit rating, the highest rating possible. At the end of the day Tuesday Moody’s issued a press release confirming the country’s AAA government bond rating, with a negative outlook. Moody’s noted that the debt deal has virtually eliminated the risk of default. In assigning the negative outlook, Moody’s said there would be a risk of downgrade if any of the following occur: There is a weakening of fiscal discipline during the coming year; further fiscal consolidation measures are not adopted in 2013; the economic outlook deteriorates significantly; there is an appreciable rise in the U.S. government’s funding costs above and beyond what is currently expected.

#### Credit Rating agencies focused on federal spending

Times Free Press 8/19

U.S. gets new credit downgrade warning Web 9-13-11

http://www.timesfreepress.com/news/2011/aug/19/us-gets-new-credit-downgrade-warning/

But S&P and the other major rating agencies, Moody’s Investors Service and Fitch Ratings, had warned of a downgrade if the United States did not take serious steps to reduce deficits. So the administration should not have been surprised that S&P reduced our credit rating after Congress failed to pass the necessary level of spending cuts. So far, Moody’s and Fitch have left their ratings at AAA, but Moody’s adds a negative outlook to its rating. And now Fitch says it may lower its outlook to negative if Washington doesn’t do enough in the coming months to reduce our trillion-dollar-plus annual deficits or if the economy weakens further. Fitch said a negative outlook means it most likely would formally downgrade the United States’ debt rating within two years. That is alarming because it could force interest rates up for consumers and businesses, and reduce economic activity at a time when we desperately need it. It could also force the United States to pay even more than the hundreds of billions of dollars that we are already paying in interest on the $14.6 trillion national debt. The downgrading of our rating by S&P was not an isolated action. S&P’s concern about U.S. debt is shared by the other major credit-rating agencies — and, more importantly, by the American people. It is high time to get serious about cutting the irresponsible federal spending that created that debt.

#### Agencies are carefully monitoring federal spending-Perceptions of a commitment to curb spending key to preserve rating.

Cowan 9/7

Richard, financial analyst Reuters, Q+A-What's ahead for US Congress deficit-cutting panel? http://www.reuters.com/article/2011/09/07/usa-debt-idUSN1E7850TG20110907

When a new "super committee" in Congress begins work this week on reducing U.S. budget deficits, the financial world will be watching to see just how serious Washington is about getting its fiscal house in order. The Joint Select Committee on Deficit Reduction -- featuring six Republican and six Democratic members of Congress -- was created in early August as part of a deal that achieves $917 billion in spending cuts coupled with an increase in U.S. borrowing authority. Now, this special committee will try to find at least $1.2 trillion more in savings in the next decade. Credit ratings agencies will judge the panel's results, which could have a profound impact on the country's fiscal health.

## Link – New Infrastructure Spending

New infrastructure spending increase deficit spending and fail to stimulate the economy.

De Rugy and Mitchell, 2011 [Veroniqu de Rugy and Matthew Mitchell - senior research fellows at the Mercatus Center at George Mason University, “WOULD MORE INFRASTRUCTURE SPENDING STIMULATE THE ECONOMY?,” Working Paper, Mercatus Center, George Mason University, September, http://mercatus.org/sites/default/files/publication/infrastructure\_deRugy\_WP\_9-12-11.pdf]

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

#### Federal infrastructure spending are wasteful and full of cost overruns

Edwards-- director of tax policy studies at the Cato Institute--11 [“Infrastructure Projects to Fix the Economy? Don't Bank on It.,” Chris, Cato Institute, [**http://www.cato.org/publications/commentary/infrastructure-projects-fix-economy-dont-bank-it**](http://www.cato.org/publications/commentary/infrastructure-projects-fix-economy-dont-bank-it)]

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

the country.

**Infrastructure stimulus doesn’t work**

**De Rugy and Mitchell 11** — Veronique de Rugy, Senior Research Fellow at the Mercatus Center at George Mason University, former resident fellow at the American Enterprise Institute, policy analyst at the Cato Institute, and research fellow at the Atlas Economic Research Foundation, holds an M.A. in Economics from the University of Paris IX-Dauphine and a Ph.D. in Economics from the University of Paris Pantheon-Sorbonne, and Matthew Mitchell, Senior Research Fellow at the Mercatus Center at George Mason University, holds an M.A. and Ph.D. in Economics from George Mason University, 2011 (“Would More Infrastructure Spending Stimulate the Economy?,” Mercatus Center Working Paper Number 11-36, September, Available Online at <http://mercatus.org/sites/default/files/publication/infrastructure_deRugy_WP_9-12-11.pdf>, Accessed 06-29-2012, p. 1)

Four years into the deepest recession since World War II, the U.S. economy expanded at a rate of only 0.7 percent in the first half of 2011. This means that the economy is growing at a slower pace than the population and that capita output continues to fall.2

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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**.

## Link - Transportation Spending

**Transportation Infrastructure go over budget**

**De Rugy and Mitchell 11** — Veronique de Rugy, Senior Research Fellow at the Mercatus Center at George Mason University, former resident fellow at the American Enterprise Institute, policy analyst at the Cato Institute, and research fellow at the Atlas Economic Research Foundation, holds an M.A. in Economics from the University of Paris IX-Dauphine and a Ph.D. in Economics from the University of Paris Pantheon-Sorbonne, and Matthew Mitchell, Senior Research Fellow at the Mercatus Center at George Mason University, holds an M.A. and Ph.D. in Economics from George Mason University, 2011 (“Would More Infrastructure Spending Stimulate the Economy?,” Mercatus Center Working Paper Number 11-36, September, Available Online at <http://mercatus.org/sites/default/files/publication/infrastructure_deRugy_WP_9-12-11.pdf>, Accessed 06-12-2012, p. 6)

**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**.

## Link--Infrastructure Bank

#### Infrastructure Bank leads to deficit-spending – it will not be self-sustaining

Ronald Utt- Ph.D., is Herbert and Joyce Morgan Senior Research Fellow in the Thomas A. Roe Institute for Economic Policy Studies at The Heritage Foundation-2011 [“Obama’s Peculiar Obsession with Infrastructure Banks Will Not Aid Economic Revival,” The Heritage Foundation, http://www.heritage.org/research/reports/2011/08/using-infrastructure-banks-to-spur-economic-recovery]

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

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

**Misplaced Humor**

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

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

**Banks Make Loans, Not Grants**

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

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

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

*Banks don’t give out grants; they give out loans. There is also currently a mechanism for giving out federal transportation grants—it is called the highway bill. I don’t believe an infrastructure bank will increase total transportation investment—it will only take money away from what would otherwise go through the existing highway and transit programs.**[7]* **Bureaucratic Delays** Although Obama has yet to offer any legislation to implement his “bank,” infrastructure bank bills introduced by Senator John Kerry (D–MA) and Representative Rosa DeLauro (D–CT) illustrate the time-consuming nature of creating such a bank, suggesting more than a year or two will pass before the first dollar of a grant or loan is dispersed to finance a project.[[8]](http://www.heritage.org/research/reports/2011/08/using-infrastructure-banks-to-spur-economic-recovery" \l "_ftn8) Both the DeLauro and Kerry bills are—appropriately—concerned with their banks’ bureaucracy, fussing over such things as detailed job descriptions for the new executive team, how board members will be appointed, duties of the board, duties of staff, space to be rented, creating an orderly project solicitation process, an internal process to evaluate, negotiate, and award grants and loans, and so on. Indicative of just how bureaucracy-intensive these “banks” would be, the Obama plan proposes that $270 million be allocated to conduct studies, administer his new bank, and pay the 100 new employees hired to run it.

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

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

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

#### Infrastructure bank will be a never-ending deficit expense

Calabria-Director of Financial Regulation Studies at the Cato Institute

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

Like President Bush before him, Obama has a knack for taking the worst ideas of his opponents and making them his own.  It is truly bipartisanship in the worst of ways (think Sarbanes-Oxley, the TARP or No Child Left Behind).  The newest example is the President’s proposed “infrastructure bank.”  A bill along those lines was introduced a few years ago by then Senator Hagel, although the idea is far from new.

First, let’s get out of the way the myth that we have been “under-funding” intrastructure.  Take the largest, and usually most popular, piece:  transportation.  Over the last decade, transportation spending at all levels of government has increased over 70 percent.  One can debate if that money has been spent wisely, but there’s no doubt we’ve been spending an ever-increasing amount on infrastructure – so there goes one rationale for an infrastructure bank.

The real rationale for an infrastructure bank is to transfer the risk of default away from investors, bankers and local/state governments onto the federal taxpayer, but to do so in such a manner that the taxpayer has no idea what they are on the hook for.

If there are truly great projects out there that will pay their own way, then they should have no trouble getting private funding.

Of course, we will be told that the bank will charge an interest rate sufficient to cover losses and that the taxpayer won’t be on the hook.  Again, if it is charging an appropriate rate, then why does the bank need to be chartered (and backed) by the taxpayer?  We’ve heard this story before…with Social Security, flood insurance, FHA, Fannie/Freddie…the list goes on, that all of these programs would pay their own way and never cost the taxpayer a dime.  If there are truly outstanding infrastructure needs, then appropriate the money and pay for them.  An infrastructure bank is just another way to allow Wall Street to line its pockets while leaving the risk with the taxpayer.  If bankers aren’t willing to actually take the risks, then why exactly do we need them?

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

Chin-former U.S. ambassador to the [Asian Development Bank](http://www.washingtontimes.com/topics/asian-development-bank/)-2011 [Curtis,” CHIN: Obama’s infrastructure bank won’t create real jobs, Asia shows trade growth lifts economy more than government projects,” The Washington Times, Oct. 17th, <http://www.washingtontimes.com/news/2011/oct/17/obamas-infrastructure-bank-wont-create-real-jobs/?page=all>]

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

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

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

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

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

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

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

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

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

#### An Infrastructure Bank will lead to multiple rounds of spending with no economic pay-off

Brownfield- Assistant Director of Strategic Communications at The Heritage Foundation-2011 [Mike, “Morning Bell: Big Government Rising?,” Enterprise and Free Markets, September 6th, http://blog.heritage.org/2011/09/06/morning-bell-big-government-rising/print/]

It’s no surprise that the left favors more government spending–after all, it’s the core of their philosophy. Yet for months we have heard President Obama give lip service to cuts in spending, largely in response to the political shift that conservatives and the Tea Party revolution ushered into Washington last November. But with the President’s jobs speech on Thursday, Americans may see Obama “go bold” and propose a return to big government.

In his [speech to labor unions in Detroit yesterday](http://www.whitehouse.gov/the-press-office/2011/09/05/remarks-president-detroit-labor-day-event) [6], President Obama gave a preview of what “bold” means to him: more infrastructure spending*.*The trouble is that the President tried this approach before in his stimulus plan, and it just didn’t work. The stimulus included $48.1 billion for transportation infrastructure, but the funded projects have been very slow to get underway and have had a minuscule impact on economic activity.

An “infrastructure bank” is the latest permutation of the President’s plan for more of the same kind of spending. In the President’s February 2011 highway reauthorization proposal, the infrastructure bank would be funded by an appropriation of $5 billion per year in each of the next six years and would provide loans, loan guarantees, and grants to eligible transportation infrastructure projects. Translation: more big government spending and more federal bureaucracy. As Heritage’s Ronald Utt [explains](http://www.heritage.org/Research/Reports/2011/08/Using-Infrastructure-Banks-to-Spur-Economic-Recovery) [7], that’s a road to nowhere.

The President’s ongoing obsession with an infrastructure bank as a source of salvation from the economic crisis at hand is—to be polite about it—a dangerous distraction and a waste of his time . . . Obama’s infrastructure bank would likely yield only modest amounts of infrastructure spending by the end of 2017 while having no measurable impact on job growth or economic activity—a prospect woefully at odds with the economic challenges confronting the nation.

## Links-High Speed Rail

#### Rail projects are expensive and require long-term subsidies

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

In recent months, the CEO of the controversial project [resigned](http://californiawatch.org/dailyreport/rail-authoritys-ceo-announces-resignation-14458" \t "_blank) [2]. Brown installed Dan Richard, an official with political and transportation industry connections, as new board chairman.

More importantly, the California High-Speed Rail Authority dramatically revamped its business plan, slashing as much as [$30 billion](http://californiawatch.org/dailyreport/new-bullet-train-plan-shaves-30b-cost-15598" \t "_blank)[3] from the price tag for building the San Francisco-to-Los Angeles system – from $98 billion to as little as $68 billion.

But none of those changes addressed what a panel of outside financial experts has styled “the elephant in the room” for California’s proposed high-speed rail system – its extraordinarily low projected operating costs.

If the bullet train project is to pencil out, it must operate far more economically than any high-speed rail system in the world, according to the experts, who include former World Bank executive William Grindley.

Unless these extraordinary economies actually are achieved, the train will require alarmingly high annual operating subsidies “forever,” as the experts wrote in a [report](http://www.cc-hsr.org/" \t "_blank) [4] last month. The annual operating deficit could top $2 billion, they wrote.

## AT: Small Spending

#### Even if it’s small – markets are scrutinizing any new moves.

Mosley ‘11

Layna Mosley, Professor, international relations, international political economy and comparative political economy, UNC Chapel Hill, 8/6/11, “From AAA to AA+: Markets, Governments and the Downgrade,” http://themonkeycage.org/blog/2011/08/06/from-aaa-to-aa-markets-governments-and-the-downgrade/

Second, the S&P action reminds us that a specific assumption long held by markets – that the bonds issued by governments of wealthy countries are free from default risk – may be changing. In the early 2000s, I argued that governments of wealthy democracies have a good deal of policymaking autonomy vis-à-vis capital markets. As long as governments do well in terms of macro-outcomes, such as low inflation and small fiscal deficits, markets were content to charge them relatively low interest rates. Investors paid little attention to the finer details of government policies – how they allocated spending across categories, or whether left or right-leaning governments were in office. This was in marked contrast to the broader pressures that markets placed on governments of developing countries. In such places, a concern with default risk led to a greater set of pressures from private investors. But now, as it has become clear that membership in EMU does not lead necessarily to stable fiscal policies, and as some developed countries have deficit and debt levels that rival or exceed those of economies in Latin America, southeast Asia and sub-Saharan Africa, this easy shortcut – “developed country sovereign debt is safe”—may no longer apply. So some governments may find themselves more exposed to financial market pressures than in the past. And these governments could find that political events – including wrangling over a debt ceiling – provoke a greater market response than they once did. Whether this is a short-term pattern or a longer-term change remains to be seen.

## AT Stimulus Spending Solves

**The economy doesn’t need more stimulus**

**Scissors and Foster 11** — Derek Scissors, Research Fellow in Asia Economic Policy in the Asian Studies Center, Adjunct Professor at George Washington University, holds an M.A. in Economics from the University of Chicago and a Ph.D. in International Political Economy from Stanford University, and J. D. Foster, 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, holds a Ph.D. in Economics from Georgetown University, 2011 (“Avoiding America’s Lost Decades,” Heritage Foundation WebMemo #3398, October 18th, Available Online at http://www.heritage.org/Research/Reports/2011/10/Avoiding-Americas-Lost-Decades,)

**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**.

## AT Egan Jones Downgrade

#### Egan Jones is not one of the three major credit agencies, they don’t matter

#### Voigt, 2012

Voigt, Kevin. "Ratings Agencies Take Center Stage in Euro Crisis - CNN.com." CNN. Cable News Network, 14 Jan. 2012. Web. 25 June 2012. <http://edition.cnn.com/2011/12/06/business/eu-sp-eurozone-explainer/index.html>.

The mere rumor of a downgrade by the major ratings agencies is enough to send world markets into a tailspin, wiping billions off the values of global stocks. So what do ratings agencies do, and why are they so important? Who are the credit ratings agencies? The "Big Three" are Standard's & Poor's, Moody's Investor Services and Fitch Ratings. All originated in the United States, although Fitch has dual headquarters in New York and London. What do they do? Before you can get a credit card, banks run a credit check on you. Similarly, the ratings agencies run credit checks on companies, countries and financial products.Countries are rated on a sliding scale: Germany for example, has a top rating (AAA) which allows it to borrow cash at cheap interest rates. The lower the rating grade, however, the higher interest payments a nation must pay to attract investors to buy its bonds. Anything that slips to junk status -- as Ireland, Portugal and Greek government bonds are rated -- is considered a "highly speculative" investment. Furthermore, the pool of eligible investors is reduced -- many institutional investors, such as government pension funds, are forbidden to invest in junk-rated bonds.Why do they wield such power?Investors across the world look to credit rating agencies to judge where to place their bets in the market. For governments, the ratings agencies have a lot of power over the popularity of bonds: cash given to governments by investors that, over time, will pay a return on the original investment -- unless the government defaults.What does a debt rating downgrade mean?The decisions of the "Big Three" catalyze market moves in often unpredictable ways, creating a strong ripple effect. In the wake of the Greece downgrade last year, for example, investors across the globe started rethinking investment in other governments' bonds and began selling off more risky investments -- throwing the EU into crisis and depressing the value of the euro.

#### A 2nd downgrade by one of the big three is detrimental to the United States, other agencies are irrelevant

#### Nasdaq and EconMatters, Aug '11

"Mark Faber on U.S. Downgrade: Market "Incredibly Oversold

http://community.nasdaq.com/News/2011-08/marc-faber-on-us-downgrade-market-incredibly-oversold.aspx?storyid=89674

As pessimistic as Faber thinking S&P's downgrade is "backward looking" not fully reflecting the actual fiscal state of the U.S., there's Warren Buffett who's blasting S&P, ".... remember, this [S&P] is the same group that downgraded Berkshire," and said "The U.S., which was cut Aug. 5 to AA+ from AAA at S&P, merits a “quadruple A” in a separate Bloomberg interview. Buffett's Berkshire is the biggest shareholder of Moody’s Corp. that just reaffirms the AAA rating of the U.S. on Monday partly responding to S&P's action. **All eyes are on Fitch now** to see if it will follow S&P or Moody's making it a crucial swing vote. **Things (and markets) could get worse if two out of three major rating agencies end up downgrading the U.S.** U.S. fiscal and debt situation is horrendous, and probably deserves a downgrade. However, to me, a downgrade action needs to be supported with charts and tables showing why the current and projected risk profile warrants a downgrade action and how to rectify, rather than the U.S. politics cited by S&P as its main downgrade thesis (Name one Western country where politics do not come into play in the decision-making process?), not to mention some indications of a possible 'unfair distribution' of this downgrade information.

# \*\*\*Internal Links\*\*\*

## Credit Rating Internal Link to Economy

Another Downgrade would strain the Debt-to-GDP ratio and throw the economy in to a tailspin

Horowitz 6/7

Jed Horowitz, Reuters, Jun 7, 2012, “US rating faces 2013 cut if no credible plan-Fitch,” http://in.reuters.com/article/2012/06/07/usa-rating-fitch-idINL1E8H763B20120607

Fitch Ratings reiterated on Thursday it would cut its sovereign credit rating for the United States next year if Washington cannot come to grips with its deficits and create a "credible" fiscal consolidation plan. It also said it would immediately cut the credit ratings on Cyprus, Ireland, Italy, Spain and Portugal if Greece were to exit the euro zone. Additionally, all euro zone nations would have their ratings put on its negative ratings watch list, setting a six-month time frame for a potential downgrade. Europe's ongoing sovereign credit crisis undermines already below-trend growth seen in the United States, the world's biggest economy. "The United States is the only country (of four major AAA-rated countries) which does not have a credible fiscal consolidation plan," and its debt-to-GDP ratio, or how much debt it has relative to the size of the economy, is expected to increase over the medium term, Ed Parker, sovereign ratings analyst, told a Fitch conference in New York. Lower credit ratings typically lead to higher borrowing costs, putting more strain on government balance sheets already straining to cut spending without sending their economies into a tailspin.

## Downgrade Collapse US Economy

#### Further downgrades will cause economic collapse

GMA News 8-6-11

China flays US over credit rating downgrade http://www.gmanews.tv/story/228672/business/china-flays-us-over-credit-rating-downgrade

The S&P cut in the US long-term credit rating by a notch to AA-plus resulted from concerns about the nation's budget deficits and climbing debt burden. The move is likely eventually to raise borrowing costs for the US government, companies and consumers. By calling the outlook "negative," S&P signaled another downgrade is possible in the next 12 to 18 months. Worries that the United States was slipping into recession and the euro zone debt crisis was spreading drove a week-long rout in which $2.5 trillion was wiped off global markets. The European diplomatic source said the downgrading of the United States' credit rating had added a global dimension on top of the euro zone's debt crisis, raising the need for international coordination. "The G7 will confer by telephone. It's not yet confirmed whether it will be in one stage or in two stages, tonight and tomorrow," the source said. French Finance Minister Francois Baroin, who would chair such a meeting under the French presidency of the G7 and G20, said in a radio interview it was too early to say whether there would be an early G7 meeting. In the Xinhua commentary, China roundly condemned the United States for its "debt addiction" and "short sighted" political wrangling and said the world needed a new stable global reserve currency. "China, the largest creditor of the world's sole superpower, has every right now to demand the United States address its structural debt problems and ensure the safety of China's dollar assets," it said. It urged the United States to cut military and social welfare expenditure. It also said further credit downgrades would very likely undermine the world economic recovery and trigger new rounds of financial turmoil.

#### U.S. creditors believe another downgrade will crush the economy

GEC 8-6-11

<http://www.globaleconomiccrisis.com/blog/archives/1385>.

For the first time in its history, the United States has seen its sovereign debt downgraded by a major credit rating agency. S&P lowered its grading of U.S. government long-term debt by a notch, from AAA to AA +. Predictably, the Obama administration is attacking the rating agency, accusing it of mathematical errors, similar to the reaction of Eurozone politicians when ratings agencies cut the rating of insolvent sovereigns. American financial pundits are also attacking this unprecedented decision by a major ratings agency as “premature,” while boasting that Moody’s and Fitch have thus far held their AAA rating of American debt. In my view, the reaction and rationalizations of American politicians and financial commentators responding to the loss of the nation’s coveted AAA status is totally irrelevant. What is relevant is the point of view emerging from America’s largest overseas creditor, the People’s Republic of China. The official Chinese news agency, Xinhua, has issued a commentary on Standard and Poor’s downgrade of U.S. sovereign debt which clearly reflects the attitude of ruling circles and policymakers in China. What follows is the Xinhua commentary in its entirety: The days when the debt-ridden Uncle Sam could leisurely squander unlimited overseas borrowing appeared to be numbered as its triple A-credit rating was slashed by Standard & Poor’s (S&P) for the first time on Friday. Though the U.S. Treasury promptly challenged the unprecedented downgrade, many outside the United States believe the credit rating cut is an overdue bill that America has to pay for its own debt addiction and the short-sighted political wrangling in Washington. Dagong Global, a fledgling Chinese rating agency, degraded the U.S. treasury bonds late last year, yet its move was met then with a sense of arrogance and cynicism from some Western commentators. Now S&P has proved what its Chinese counterpart has done is nothing but telling the global investors the ugly truth. China, the largest creditor of the world’s sole superpower, has every right now to demand the United States to address its structural debt problems and ensure the safety of China’s dollar assets. To cure its addiction to debts, the United States has to reestablish the common sense principle that one should live within its means. S&P has already indicated that more credit downgrades may still follow. Thus, if no substantial cuts were made to the U.S. gigantic military expenditure and bloated social welfare costs, the downgrade would prove to be only a prelude to more devastating credit rating cuts, which will further roil the global financial markets all along the way. Moreover, the sputtering world economic recovery would be very likely to be undermined and fresh rounds of financial turmoil could come back to haunt us all.

## Downgrade Collapses Global Econ

#### Downgrade will collapse the global economy.

Foster 11

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Economy WebMemo- U.S. Credit Rating Downgraded: Now They’ve Done It Web 9-13-11 <http://www.heritage.org/research/reports/2011/08/us-credit-rating-downgraded-now-theyve-done-it>

In today’s global economy, however, the U.S. credit rating downgrade may prove catastrophic. Prior to the credit rating downgrade, Europe was already teetering on the brink. Last week European stock exchanges plunged 10 percent, their worst weekly losses since November 2008. The long-building government debt crisis in Europe, which had been so unsuccessfully papered over just a few weeks ago by its leaders, is reaching the boiling point, threatening to wash over not just the worst offenders like Greece and Portugal but also some of the pillars of the European Union like Spain and Italy. This is a European government debt problem on top of a European currency problem on top of a European economic growth problem. But the 2007–2009 financial crisis taught an important lesson about the intense interconnectedness of global financial markets—and that a great many of these connections are little known and poorly understood. What happens in Europe will not stay in Europe. What weaknesses in global finance and financial supervision will this crisis reveal? No one knows, but what a terrible time for the dominant financial actor in the global financial system, the United States government, to suffer an entirely preventable credit rating downgrade. The dangers to the global economy, and specifically to the U.S. economy, have increased markedly as the U.S. credit rating has been marked down. Perhaps the Last Opportunity That Must Not Be Lost President Obama and Congress have the time and opportunity to change the course of fiscal policy. The United States can recover its AAA credit rating and begin to heal the damage, but it must not delay. The debt ceiling deal included the provision for the creation of a joint select committee of Congress to cut at least $1.2 trillion over the next 10 years. Clearly, that figure is much too low. The committee was to report by November 23. Clearly, that is too late. In the eyes of many, the committee was designed to fail. That must not happen.

#### A new round of credit downgrades will cause global economic collapse.

Goldwein 8/11

Marc Goldwein is a senior policy analyst for the fiscal policy program at the New America Foundation and was Associate Director of the National Commission on Fiscal Responsibility and Reform. “Drawing a AAA-Road Map for Post-Downgrade America”. August 11, 2011. The Atlantic. http://www.theatlantic.com/business/archive/2011/08/drawing-a-aaa-road-map-for-post-downgrade-america/243463/

... Okay, Panic a Little If rating downgrades don't augur immediate crises, they tend to indicate trouble on the horizon. Of the 10 other countries that have been downgraded from AAA, eight experienced further downgrades and five have still never recovered their AAA rating. Deeper downgrades have been associated with interest rate spikes, and the fact that both S&P and Moody's have us on a negative outlook suggests that more downgrades could be in our future. What are the consequences of further downgrades? The most direct one could be higher interest rates, as investors insist on a risk premium. Even a 0.1 percent increase in interest rates would mean an additional $130 billion in government spending on interest over the next 10 years that we would have to offset in hiring taxes or fewer investments to meet the same debt goal. A 0.7% increase in interest rates would be enough to erase all of the gains from the recent debt deal. In addition, higher interest rates could reverberate throughout the market, impacting everything from mortgages to small business loans - and ultimately leading to something economists call "crowd out," where fewer dollars go into growth-driving investments. The biggest concern, though, should be that these rating downgrades could advance the day of a fiscal crisis. At some point, if we don't make some changes, investors will lose confidence in our nation's ability to make good on its debt. When that occurs, it is possible we could experience a global economic crisis akin to the financial crisis of 2009, except with no one available to bail out the U.S. government.

#### Loss of U.S. Credit rating Will Crush Global Economy

Schuman 11

Michael Schuman is a correspondent at TIME Web 9-14-11How the U.S. Downgrade Will Change the Global Economy http://curiouscapitalist.blogs.time.com/2011/08/07/how-the-u-s-downgrade-will-change-the-global-economy/

Because of the unique role the U.S. plays in the world economy, a downgrade of the U.S. isn't anything like a downgrade of Greece or Spain. For the past century, and especially since the end of World War II, the modern global economy as we know it has been built on top of the U.S., relying on its economic strength as a foundation and using its currency as the primary tool of world economic discourse. In many ways, the world has benefited greatly from the U.S.-led system. The past half-century has seen unprecedented economic integration and poverty alleviation, uplifting hundreds of millions out of destitution on a scale never before witnessed in history. America, simply, has been the economic engine that has made the world go round. Now that engine is sputtering, and the potential long-term repercussions are tremendous — for the way the world invests and trades, and for how the global financial system operates. First of all, the U.S. downgrade will force a reassessment of the entire concept of risk in the global economy. The U.S. has been considered the world's safest investment, the standard by which all other economies are judged. But if the U.S. isn't as safe as it once was, a domino effect may be felt throughout the world. If the U.S. doesn't warrant a triple-A, we have to ask: Which country does? France, for example, is rated AAA, but it has a similar level of government debt as the U.S. (each around 94% of GDP in 2010), and the economy doesn't have any better growth prospects. So if the U.S. doesn't deserve an AAA, does France? And if such stalwarts of the global economy are riskier than they were before, what does that mean for countries with lower ratings? Should they be downgraded further? (LIST: 25 People to Blame for the Financial Crisis) In the short term, that thinking likely means greater uncertainty in global markets, especially in Europe. If the U.S. isn't triple-A, what does that tell us about Italy and Spain? The S&P downgrade could well put even more pressure on Europe's weak economies and on European leaders to act to stem the crisis. On Sunday, the European Central Bank made a strong statement indicating that it would step in to support Spanish and Italian bonds, which have been rapidly losing value in recent weeks, threatening to escalate the euro debt crisis to catastrophic levels. Over time, the notion of a riskier U.S.A. will lead to a rethinking of the “safe haven.” Right now, in times of stress, investors rush into U.S. dollar assets like Treasuries. But if Treasuries become riskier, where will the money go? What we're likely seeing is the start of the reordering of risk perception that will match the major shift in economic clout to the developing world. While ratings on the core economies of the West have been dropping, those on some high-powered emerging markets, like Indonesia, have been rising. The U.S. downgrade, in other words, is going to alter the way investors decide what is safe and what is not safe, and allocate their money accordingly.

## Downgrade Leads to Global Depresssion

#### New credit downgrades cause a global depression

Gilani 11 (Shah, Contributing Editor Money Morning, “The Debt-Ceiling-Debacle: The Surprising Way a Default or Downgrade Could Crush the Global Economy, 7-29-11, http://moneymorning.com/2011/07/29/debt-ceiling-debacle-surprising-way-a-default-or-downgrade-could-crush-global-economy/, twm)

If there's a "worst-case scenario" for this whole debt-ceiling debacle, this is it. After studying everything that could happen due to a downgrade of the United States' top-tier AAA credit rating, and the potential default on its debt, we found a scenario that would result in forced asset sales that are so widespread that global stock-and-bond markets would plunge - and economies around the world would crash. Tangible evidence that this frightening scenario could really play out surfaced on Monday, when the Chicago Mercantile Exchange (CME) announced it was increasing the "haircut" that it applies to U.S. government debt posted as collateral by traders transacting on the exchange. The retail investors who didn't just ignore this announcement altogether probably dismissed it as a boring bit of administrative housekeeping by the CME. In truth, however, this kind of re-evaluation of U.S. Treasury securities, widely used as loan collateral, could trigger global margin calls and widespread asset sales. If that occurs, it's only a matter of time before the ripple effects of escalating margin calls could weigh down asset prices around the world.

#### Failure to protect the credit rating will cause global depression

Foster 11

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Economy WebMemo- U.S. Credit Rating Downgraded: Now They’ve Done It Web 9-13-11 http://www.heritage.org/research/reports/2011/08/us-credit-rating-downgraded-now-theyve-done-it

2In today’s global economy, however, the U.S. credit rating downgrade may prove catastrophic. Prior to the credit rating downgrade, Europe was already teetering on the brink. Last week European stock exchanges plunged 10 percent, their worst weekly losses since November 2008. The long-building government debt crisis in Europe, which had been so unsuccessfully papered over just a few weeks ago by its leaders, is reaching the boiling point, threatening to wash over not just the worst offenders like Greece and Portugal but also some of the pillars of the European Union like Spain and Italy. This is a European government debt problem on top of a European currency problem on top of a European economic growth problem. But the 2007–2009 financial crisis taught an important lesson about the intense interconnectedness of global financial markets—and that a great many of these connections are little known and poorly understood. What happens in Europe will not stay in Europe. What weaknesses in global finance and financial supervision will this crisis reveal? No one knows, but what a terrible time for the dominant financial actor in the global financial system, the United States government, to suffer an entirely preventable credit rating downgrade. The dangers to the global economy, and specifically to the U.S. economy, have increased markedly as the U.S. credit rating has been marked down. Perhaps the Last Opportunity That Must Not Be Lost President Obama and Congress have the time and opportunity to change the course of fiscal policy. The United States can recover its AAA credit rating and begin to heal the damage, but it must not delay. The debt ceiling deal included the provision for the creation of a joint select committee of Congress to cut at least $1.2 trillion over the next 10 years. Clearly, that figure is much too low. The committee was to report by November 23. Clearly, that is too late. In the eyes of many, the committee was designed to fail. That must not happen.

## AT: Downgrade Irrelevant

#### The S & P cut was a warning shot—Further cuts in rating are the real danger

Backlin 8-10-11

Jim Backlin http://www.cc.org/capitolhillupdates/rsc\_chairman\_jordan\_quotredeem\_our\_credit\_rating\_amp\_clear\_path\_jobsquot

Congressman Jordan said this about the United States of America losing its credit rating, "S&P's downgrade is a warning shot the whole world saw coming. And if we don’t heed this warning with serious spending reduction, additional downgrades are likely." He also said, "We have to get Washington out of the way to get the economy moving again. The way forward is clear -- cut spending, cut red tape, and force Washington to balance its budget."

#### S&P downgrade didn’t cause the impact – if others follow it will cripple the economy.

Frankel 8/10

Ken Frankel, KIF Capital Management LLC. “Action In The Equities Markets More Important Than S&P”. The Business Insider. August 10, 2011. http://www.businessinsider.com/action-in-the-equities-markets-more-important-than-sp-2011-8

As for the S&P credit rating issue, I don't expect rates to rise much because of this. Japan lost its AAA rating years ago and in fact, a decade ago S&P rated Japan sovereign debt lower than Botswana and look at how low rates are for Japanese bonds, they are lower than ours currently by some magnitude. My only concern would be if the rating changes triggered contractual actions, something I addressed in my latest blog entry. In most cases, and S&P rating change won't trigger an avalanche of events so long as Moody's retains a higher ratings because most mutual funds and other things driven by credit ratings are allowed to take the higher of a split rating. If Moody's follows S&P, we may have a larger problem.

## US Econ Key To Global Econ

#### The U.S. econ is key to the global economy – emerging economics resilience cannot save them from a double-dip recession by the U.S.

Spence 8/8

Michael Spence, a Nobel laureate in economics, is Professor of Economics at New York University’s Stern School of Business, Distinguished Visiting Fellow at the Council on Foreign Relations, and Senior Fellow at the Hoover Institution, Stanford University. “Stagnant and paralyzed”. August 8, 2011. CNN’s Global Public Square Blog. http://globalpublicsquare.blogs.cnn.com/2011/08/08/stagnant-and-paralyzed/

First, the fundamentals. Economic growth rates in the United States and Europe are low – and well below even recent expectations. Slow growth has hit equity valuations hard, and both economies are at risk of a major downturn. A slowdown in one is bound to produce a slowdown in the other – and in the major emerging economies, which, until now, could sustain high growth in the face of sluggish performance in the advanced economies. Emerging countries’ resilience will not extend to double-dip recessions in America and Europe: they cannot offset sharp falls in advanced-country demand by themselves, notwithstanding their healthy public-sector balance sheets. America’s domestic-demand shortfall reflects rising savings, balance-sheet damage in the household sector, unemployment, and fiscal distress. As a result, the large non-tradable sector and the domestic-demand portion of the tradable sector cannot serve as engines of growth and employment. That leaves exports – goods and services sold to the global economy’s growth regions (mostly the emerging economies) – to carry the load. And strengthening the U.S. export sector requires overcoming some significant structural and competitive barriers. What the world is witnessing is a correlated growth slowdown across the advanced countries (with a few exceptions), and across all of the systemically important parts of the global economy, possibly including the emerging economies. And equity values’ decline toward a more realistic reflection of economic fundamentals will further weaken aggregate demand and growth. Hence the rising risk of a major downturn – and additional fiscal distress. Combined, these factors should produce a correction in asset prices that brings them into line with revised expectations of the global economy’s medium-term prospects.

## AT Empirically Denied

#### A new recession coupled with a second rating downgrade will have far worse global economic effects

Danesh 9/12

Amir, http://www.theticker.org/about/2.8217/washington-must-take-action-for-all-1.2625409 Washington must take action for all

The recent economic data provided by the Bureau of Economic Analysis shows GDP growth shrinking significantly in 2011. These events, compounded by political factors, could leave the nation in great peril of sliding back into a recession. Although, a second recession may not prove to be as severe as the one in 2007, which was caused by the collapse of the housing bubble, the effects of the second recession will prove to be much more disastrous than the first one for the nation. Ballooning national debt, ever increasing deficits, and the threat of another possible rating downgrade from the S&P could mean that the federal government would have little to do in the event of a new recession. Bipartisan and responsive action by lawmakers seems unlikely in the wake of a divided government. This is especially evident as the nation heads into election season in which candidates from both sides would seek to use the event of an economic downturn as a way to blame the opposing campaign. Another U.S. recession will only serve to exacerbate the already ballooning EU debt crisis and further shock international markets.

# \*\*Impacts\*\*

## Collapse Leads to Global Nuclear War

#### Economic collapse causes global nuclear war

Mead 9—Senior Fellow in US Foreign Policy Studies @ Council on Foreign Relations

Walter Russell, Only Makes You Stronger, The New Republic, 2-4-09, http://www.tnr.com/politics/story.html?id=571cbbb9-2887-4d81-8542-92e83915f5f8&p=1

The greatest danger both to U.S.-China relations and to American power itself is probably not that China will rise too far, too fast; it is that the current crisis might end China's growth miracle. In the worst-case scenario, the turmoil in the international economy will plunge China into a major economic downturn. The Chinese financial system will implode as loans to both state and private enterprises go bad. Millions or even tens of millions of Chinese will be unemployed in a country without an effective social safety net. The collapse of asset bubbles in the stock and property markets will wipe out the savings of a generation of the Chinese middle class. The political consequences could include dangerous unrest--and a bitter climate of anti-foreign feeling that blames others for China's woes. (Think of Weimar Germany, when both Nazi and communist politicians blamed the West for Germany's economic travails.) Worse, instability could lead to a vicious cycle, as nervous investors moved their money out of the country, further slowing growth and, in turn, fomenting ever-greater bitterness. Thanks to a generation of rapid economic growth, China has so far been able to manage the stresses and conflicts of modernization and change; nobody knows what will happen if the growth stops.India's future is also a question. Support for global integration is a fairly recent development in India, and many serious Indians remain skeptical of it. While India's 60-year-old democratic system has resisted many shocks, a deep economic recession in a country where mass poverty and even hunger are still major concerns could undermine political order, long-term growth, and India's attitude toward the United States and global economic integration. The violent Naxalite insurrection plaguing a significant swath of the country could get worse; religious extremism among both Hindus and Muslims could further polarize Indian politics; and India's economic miracle could be nipped in the bud. If current market turmoil seriously damaged the performance and prospects of India and China, the current crisis could join the Great Depression in the list of economic events that changed history, even if the recessions in the West are relatively short and mild. The United States should stand ready to assist Chinese and Indian financial authorities on an emergency basis--and work very hard to help both countries escape or at least weather any economic downturn. It may test the political will of the Obama administration, but the United States must avoid a protectionist response to the economic slowdown. U.S. moves to limit market access for Chinese and Indian producers could poison relations for years. For billions of people in nuclear-armed countries to emerge from this crisis believing either that the United States was indifferent to their well-being or that it had profited from their distress could damage U.S. foreign policy far more severely than any mistake made by George W. Bush. It's not just the great powers whose trajectories have been affected by the crash. Lesser powers like Saudi Arabia and Iran also face new constraints. The crisis has strengthened the U.S. position in the Middle East as falling oil prices reduce Iranian influence and increase the dependence of the oil

sheikdoms on U.S. protection. Success in Iraq--however late, however undeserved, however limited--had already improved the Obama administration's prospects for addressing regional crises. Now, the collapse in oil prices has put the Iranian regime on the defensive. The annual inflation rate rose above 29 percent last September, up from about 17 percent in 2007, according to Iran's Bank Markazi. Economists forecast that Iran's real GDP growth will drop markedly in the coming months as stagnating oil revenues and the continued global economic downturn force the government to rein in its expansionary fiscal policy. All this has weakened Ahmadinejad at home and Iran abroad. Iranian officials must balance the relative merits of support for allies like Hamas, Hezbollah, and Syria against domestic needs, while international sanctions and other diplomatic sticks have been made more painful and Western carrots (like trade opportunities) have become more attractive. Meanwhile, Saudi Arabia and other oil states have become more dependent on the United States for protection against Iran, and they have fewer resources to fund religious extremism as they use diminished oil revenues to support basic domestic spending and development goals. None of this makes the Middle East an easy target for U.S. diplomacy, but thanks in part to the economic crisis, the incoming administration has the chance to try some new ideas and to enter negotiations with Iran (and Syria) from a position of enhanced strength. Every crisis is different, but there seem to be reasons why, over time, financial crises on balance reinforce rather than undermine the world position of the leading capitalist countries. Since capitalism first emerged in early modern Europe, the ability to exploit the advantages of rapid economic development has been a key factor in international competition. Countries that can encourage--or at least allow and sustain--the change, dislocation, upheaval, and pain that capitalism often involves, while providing their tumultuous market societies with appropriate regulatory and legal frameworks, grow swiftly. They produce cutting-edge technologies that translate into military and economic power. They are able to invest in education, making their workforces ever more productive. They typically develop liberal political institutions and cultural norms that value, or at least tolerate, dissent and that allow people of different political and religious viewpoints to collaborate on a vast social project of modernization--and to maintain political stability in the face of accelerating social and economic change. The vast productive capacity of leading capitalist powers gives them the ability to project influence around the world and, to some degree, to remake the world to suit their own interests and preferences. This is what the United Kingdom and the United States have done in past centuries, and what other capitalist powers like France, Germany, and Japan have done to a lesser extent. In these countries, the social forces that support the idea of a competitive market economy within an appropriately liberal legal and political framework are relatively strong. But, in many other countries where capitalism rubs people the wrong way, this is not the case. On either side of the Atlantic, for example, the Latin world is often drawn to anti-capitalist movements and rulers on both the right and the left. Russia, too, has never really taken to capitalism and liberal society--whether during the time of the czars, the commissars, or the post-cold war leaders who so signally failed to build a stable, open system of liberal democratic capitalism even as many former Warsaw Pact nations were making rapid transitions. Partly as a result of these internal cultural pressures, and partly because, in much of the world, capitalism has appeared as an unwelcome interloper, imposed by foreign forces and shaped to fit foreign rather than domestic interests and preferences, many countries are only half-heartedly capitalist. When crisis strikes, they are quick to decide that capitalism is a failure and look for alternatives. So far, such half-hearted experiments not only have failed to work; they have left the societies that have tried them in a progressively worse position, farther behind the front-runners as time goes by. Argentina has lost ground to Chile; Russian development has fallen farther behind that of the Baltic states and Central Europe. Frequently, the crisis has weakened the power of the merchants, industrialists, financiers, and professionals who want to develop a liberal capitalist society integrated into the world. Crisis can also strengthen the hand of religious extremists, populist radicals, or authoritarian traditionalists who are determined to resist liberal capitalist society for a variety of reasons. Meanwhile, the companies and banks based in these societies are often less established and more vulnerable to the consequences of a financial crisis than more established firms in wealthier societies. As a result, developing countries and countries where capitalism has relatively recent and shallow roots tend to suffer greater economic and political damage when crisis strikes--as, inevitably, it does. And, consequently, financial crises often reinforce rather than challenge the global distribution of power and wealth. This may be happening yet again. None of which means that we can just sit back and enjoy the recession. History may suggest that financial crises actually help capitalist great powers maintain their leads--but it has other, less reassuring messages as well. If financial crises have been a normal part of life during the 300-year rise of the liberal capitalist system under the Anglophone powers, so has war. The wars of the League of Augsburg and the Spanish Succession; the Seven Years War; the American Revolution; the Napoleonic Wars; the two World Wars; the cold war: The list of wars is almost as long as the list of financial crises. Bad economic times can breed wars. Europe was a pretty peaceful place in 1928, but the Depression poisoned German public opinion and helped bring Adolf Hitler to power. If the current crisis turns into a depression, what rough beasts might start slouching toward Moscow, Karachi, Beijing, or New Delhi to be born? The United States may not, yet, decline, but, if we can't get the world economy back on track, we may still have to fight.

#### Economic decline causes war – studies prove

Royal 10

(Jedediah, Director of Cooperative Threat Reduction at the U.S. Department of Defense, 2010, Economic Integration, Economic Signaling and the Problem of Economic Crises, in Economics of War and Peace: Economic, Legal and Political Perspectives, ed. Goldsmith and Brauer, p. 213-215)

Less intuitive is how periods of economic decline may increase the likelihood of external conflict. Political science literature has contributed a moderate degree of attention to the impact of economic decline and the security and defence behaviour of interdependent stales. Research in this vein has been considered at systemic, dyadic and national levels. Several notable contributions follow. First, on the systemic level. Pollins (20081 advances Modclski and Thompson's (1996) work on leadership cycle theory, finding that rhythms in the global economy are associated with the rise and fall of a pre-eminent power and the often bloody transition from one pre-eminent leader to the next. As such, exogenous shocks such as economic crises could usher in a redistribution of relative power (see also Gilpin. 19SJ) that leads to uncertainty about power balances, increasing the risk of miscalculation (Fcaron. 1995). Alternatively, even a relatively certain redistribution of power could lead to a permissive environment for conflict as a rising power may seek to challenge a declining power (Werner. 1999). Separately. Pollins (1996) also shows that global economic cycles combined with parallel leadership cycles impact the likelihood of conflict among major, medium and small powers, although he suggests that the causes and connections between global economic conditions and security conditions remain unknown. Second, on a dyadic level. Copeland's (1996. 2000) theory of trade expectations suggests that 'future expectation of trade' is a significant variable in understanding economic conditions and security behaviour of states. He argues that interdependent states arc likely to gain pacific benefits from trade so long as they have an optimistic view of future trade relations. However, if the expectations of future trade decline, particularly for difficult to replace items such as energy resources, the likelihood for conflict increases, as states will be inclined to use force to gain access to those resources. Crises could potentially be the trigger for decreased trade expectations either on its own or because it triggers protectionist moves by interdependent states.4 Third, others have considered the link between economic decline and external armed conflict at a national level. Momberg and Hess (2002) find a strong correlation between internal conflict and external conflict, particularly during periods of economic downturn. They write. The linkage, between internal and external conflict and prosperity are strong and mutually reinforcing. Economic conflict lends to spawn internal conflict, which in turn returns the favour. Moreover, the presence of a recession tends to amplify the extent to which international and external conflicts self-reinforce each other (Hlomhen? & Hess. 2(102. p. X9> Economic decline has also been linked with an increase in the likelihood of terrorism (Blombcrg. Hess. & Wee ra pan a, 2004). which has the capacity to spill across borders and lead to external tensions. Furthermore, crises generally reduce the popularity of a sitting government. "Diversionary theory" suggests that, when facing unpopularity arising from economic decline, sitting governments have increased incentives to fabricate external military conflicts to create a 'rally around the flag' effect. Wang (1996), DcRoucn (1995), and Blombcrg. Hess, and Thacker (2006) find supporting evidence showing that economic decline and use of force arc at least indirecti) correlated. Gelpi (1997). Miller (1999). and Kisangani and Pickering (2009) suggest that Ihe tendency towards diversionary tactics arc greater for democratic states than autocratic states, due to the fact that democratic leaders are generally more susceptible to being removed from office due to lack of domestic support. DeRouen (2000) has provided evidence showing that periods of weak economic performance in the United States, and thus weak Presidential popularity, are statistically linked lo an increase in the use of force. In summary, rcccni economic scholarship positively correlates economic integration with an increase in the frequency of economic crises, whereas political science scholarship links economic decline with external conflict al systemic, dyadic and national levels.' This implied connection between integration, crises and armed conflict has not featured prominently in the economic-security debate and deserves more attention.

## Econ Collapse Leads to Nationalism

#### Specifically – economic decline leads to authoritarian nationalism that undercuts other checks on conflict

Lind 10 – MA from Yale, JD from UTA

Michael, policy director of the Economic Growth Program at the New America Foundation, MA in International Relations from [Yale University](file://localhost/wiki/Yale_University) and a JD from the [University of Texas Law School](file://localhost/wiki/University_of_Texas_Law_School), Michael Lind: Will the Great Recession Lead to World War IV?, http://hnn.us/roundup/entries/126611.html

If history is any guide, an era of global economic stagnation will help the nationalist and populist right, at the expense of the neoliberal and cosmopolitan/multicultural left. During the Long Depression of the late 19th century, which some historians claim lasted from 1873 to 1896, the nations of the West adopted protectionist measures to promote their industries. Beginning with Bismarck’s Germany, many countries also adopted social reforms like government pensions and health insurance. These reforms were often favored by the nationalist right, as a way of luring the working class away from the temptations of Marxism and left-liberalism. By and large the strategy worked. When World War I broke out, the working classes and farmers in most countries rallied enthusiastically around their respective flags. The Great Depression of the 1930s similarly led to the rise of one or another version of the authoritarian, nationalist right in Europe. Only in a few societies with deeply established liberal traditions, like the English-speaking countries and Scandinavia, did liberals or liberal conservatives hold on. And Franklin Delano Roosevelt’s New Deal Democratic Party, a coalition that included racist Southerners and traditionalist Catholic immigrants, was not particularly liberal by today’s standards. In both eras of depression, great-power rivalry for resources and markets intensified and **ultimately led to a world war**. Following World War II, the U.S. sought to avert a repetition of that pattern, by creating a global market secured by a global great-power concert in the form of the Security Council. But the project of economic disarmament and security cooperation broke down almost immediately after 1945 and the split between the Soviets and the Anglo-Americans produced the Cold War. The second attempt at a global market that began after the Cold War may be breaking down now, as the most important economic powers **pursue their conflicting national interests**.

## Collapse Leads to Global Nuclear War

#### Econ decline causes global catastrophe and nuclear war

Harris and Burrows 9 – PhD in History and Statistical analyst

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Increased Potential for Global Conflict

Of course, the report encompasses more than economics and indeed believes the future is likely to be the result of a number of intersecting and interlocking forces. With so many possible permutations of outcomes, each with ample Revisiting the Future opportunity for unintended consequences, there is a growing sense of insecurity. Even so, history may be more instructive than ever. While we continue to believe that the Great Depression is not likely to be repeated, the lessons to be drawn from that period include the harmful effects on fledgling democracies and multiethnic societies (think Central Europe in 1920s and 1930s) and on the sustainability of multilateral institutions (think League of Nations in the same period). There is no reason to think that this would not be true in the twenty-first as much as in the twentieth century. For that reason, the ways in which the potential for greater conflict could grow would seem to be even more apt in a constantly volatile economic environment as they would be if change would be steadier. In surveying those risks, the report stressed the likelihood that terrorism and nonproliferation will remain priorities even as resource issues move up on the international agenda. Terrorism’s appeal will decline if economic growth continues in the Middle East and youth unemployment is reduced. For those terrorist groups that remain active in 2025, however, the diffusion of technologies and scientific knowledge will place some of the world’s most dangerous capabilities within their reach. Terrorist groups in 2025 will likely be a combination of descendants of long established groups\_inheriting organizational structures, command and control processes, and training procedures necessary to conduct sophisticated attacks\_and newly emergent collections of the angry and disenfranchised that become self-radicalized, particularly in the absence of economic outlets that would become narrower in an economic downturn. The most dangerous casualty of any economically-induced drawdown of U.S. military presence would almost certainly be the Middle East. Although Iran’s acquisition of nuclear weapons is not inevitable, worries about a nuclear-armed Iran could lead states in the region to develop new security arrangements with external powers, acquire additional weapons, and consider pursuing their own nuclear ambitions. It is not clear that the type of stable deterrent relationship that existed between the great powers for most of the Cold War would emerge naturally in the Middle East with a nuclear Iran. Episodes of low intensity conflict and terrorism taking place under a nuclear umbrella could lead to an unintended escalation and broader conflict if clear red lines between those states involved are not well established. The close proximity of potential nuclear rivals combined with underdeveloped surveillance capabilities and mobile dual-capable Iranian missile systems also will produce inherent difficulties in achieving reliable indications and warning of an impending nuclear attack. The lack of strategic depth in neighboring states like Israel, short warning and missile flight times, and uncertainty of Iranian intentions may place more focus on preemption rather than defense, potentially leading to escalating crises. 36 Types of conflict that the world continues to experience, such as over resources, could reemerge, particularly if protectionism grows and there is a resort to neo-mercantilist practices. Perceptions of renewed energy scarcity will drive countries to take actions to assure their future access to energy supplies. In the worst case, this could result in interstate conflicts if government leaders deem assured access to energy resources, for example, to be essential for maintaining domestic stability and the survival of their regime. Even actions short of war, however, will have important geopolitical implications. Maritime security concerns are providing a rationale for naval buildups and modernization efforts, such as China’s and India’s development of blue water naval capabilities. If the fiscal stimulus focus for these countries indeed turns inward, one of the most obvious funding targets may be military. Buildup of regional naval capabilities could lead to increased tensions, rivalries, and counterbalancing moves, but it also will create opportunities for multinational cooperation in protecting critical sea lanes. With water also becoming scarcer in Asia and the Middle East, cooperation to manage changing water resources is likely to be increasingly difficult both within and between states in a more dog-eat-dog world.

#### A new economic collapse would escalate to nuclear war.

Merlini ‘11

Cesare Merlini, senior fellow at Brookings, nonresident senior fellow at the Center on the United States and Europe and chairman of the Board of Trustees of the Italian Institute for International Affairs (IAI) in Rome. He served as IAI president from 1979 to 2001. “A Post-Secular World?”. Survival. Volume 53, Issue 2, 2011. Taylor & Francis.

Two neatly opposed scenarios for the future of the world order illustrate the range of possibilities, albeit at the risk of oversimplification. The first scenario entails the premature crumbling of the post-Westphalian system. One or more of the acute tensions apparent today evolves into an open and traditional conflict between states, perhaps even involving the use of nuclear weapons. The crisis might be triggered by a collapse of the global economic and financial system, the vulnerability of which we have just experienced, and the prospect of a second Great Depression, with consequences for peace and democracy similar to those of the first. Whatever the trigger, the unlimited exercise of national sovereignty, exclusive self-interest and rejection of outside interference would self-interest and rejection of outside interference would likely be amplified, emptying, perhaps entirely, the half-full glass of multilateralism, including the UN and the European Union. Many of the more likely conflicts, such as between Israel and Iran or India and Pakistan, have potential religious dimensions. Short of war, tensions such as those related to immigration might become unbearable. Familiar issues of creed and identity could be exacerbated. One way or another, the secular rational approach would be sidestepped by a return to theocratic absolutes, competing or converging with secular absolutes such as unbridled nationalism.

#### Economic collapse causes nuclear war Cook 7

Richard. Frequent contributor to Global Research. 6/14/7. <http://www.globalresearch.ca/index.php?context=va&aid=5964>.

Times of economic crisis produce international tension and politicians tend to go to war rather than face the economic music. The classic example is the worldwide depression of the 1930s leading to World War II. Conditions in the coming years could be as bad as they were then. We could have a really big war if the U.S. decides once and for all to haul off and let China, or whomever, have it in the chops. If they don’t want our dollars or our debt any more, how about a few nukes?

## Impacts – Rogue States/Power Vaccuum

#### Economic decline risks great power conflict and increase nation’s belligerance.

Green and Schrage in ‘9

Michael J Green, Senior Advisor and Japan Chair at the Center for Strategic and International Studies (CSIS) and Associate Professor at Georgetown University. Steven P Schrage, the CSIS Scholl Chair in International Business and a former senior official with the US Trade Representative's Office, State Department and Ways & Means Committee. Asia Times. March 26 2009. http://www.atimes.com/atimes/Asian\_Economy/KC26Dk01.html

However, the Great Depression taught us that a downward global economic spiral can even have jarring impacts on great powers. It is no mere coincidence that the last great global economic downturn was followed by the most destructive war in human history. In the 1930s, economic desperation helped fuel autocratic regimes and protectionism in a downward economic-security death spiral that engulfed the world in conflict. This spiral was aided by the preoccupation of the United States and other leading nations with economic troubles at home and insufficient attention to working with other powers to maintain stability abroad. Today's challenges are different, yet 1933's London Economic Conference, which failed to stop the drift toward deeper depression and world war, should be a cautionary tale for leaders heading to next month's London Group of 20 (G-20) meeting. There is no question the US must urgently act to address banking issues and to restart its economy. But the lessons of the past suggest that we will also have to keep an eye on those fragile threads in the international system that could begin to unravel if the financial crisis is not reversed early in the Barack Obama administration and realize that economics and security are intertwined in most of the critical challenges we face. A disillusioned rising power? Four areas in Asia merit particular attention, although so far the current financial crisis has not changed Asia's fundamental strategic picture. China is not replacing the US as regional hegemon, since the leadership in Beijing is too nervous about the political implications of the financial crisis at home to actually play a leading role in solving it internationally. Predictions that the US will be brought to its knees because China is the leading holder of US debt often miss key points. China's currency controls and full employment/export-oriented growth strategy give Beijing few choices other than buying US Treasury bills or harming its own economy. Rather than creating new rules or institutions in international finance, or reorienting the Chinese economy to generate greater long-term consumer demand at home, Chinese leaders are desperately clinging to the status quo (though Beijing deserves credit for short-term efforts to stimulate economic growth). The greater danger with China is not an eclipsing of US leadership, but instead the kind of shift in strategic orientation that happened to Japan after the Great Depression. Japan was arguably not a revisionist power before 1932 and sought instead to converge with the global economy through open trade and adoption of the gold standard. The worldwide depression and protectionism of the 1930s devastated the newly exposed Japanese economy and contributed directly to militaristic and autarkic policies in Asia as the Japanese people reacted against what counted for globalization at the time. China today is similarly converging with the global economy, and many experts believe China needs at least 8% annual growth to sustain social stability. Realistic growth predictions for 2009 are closer to 5%. Veteran China hands were watching closely when millions of migrant workers returned to work after the Lunar New Year holiday last month to find factories closed and jobs gone. There were pockets of protests, but nationwide unrest seems unlikely this year, and Chinese leaders are working around the clock to ensure that it does not happen next year either. However, the economic slowdown has only just begun and nobody is certain how it will impact the social contract in China between the ruling communist party and the 1.3 billion Chinese who have come to see President Hu Jintao's call for "harmonious society" as inextricably linked to his promise of "peaceful development". If the Japanese example is any precedent, a sustained economic slowdown has the potential to open a dangerous path from economic nationalism to strategic revisionism in China too. Dangerous states It is noteworthy that North Korea, Myanmar and Iran have all intensified their defiance in the wake of the financial crisis, which has distracted the world's leading nations, limited their moral authority and sown potential discord. With Beijing worried about the potential impact of North Korean belligerence or instability on Chinese internal stability, and leaders in Japan and South Korea under siege in parliament because of the collapse of their stock markets, leaders in the North Korean capital of Pyongyang have grown increasingly boisterous about their country's claims to great power status as a nuclear weapons state. The junta in Myanmar has chosen this moment to arrest hundreds of political dissidents and thumb its nose at fellow members of the 10-country Association of Southeast Asian Nations. Iran continues its nuclear program while exploiting differences between the US, UK and France (or the P-3 group) and China and Russia - differences that could become more pronounced if economic friction with Beijing or Russia crowds out cooperation or if Western European governments grow nervous about sanctions as a tool of policy. It is possible that the economic downturn will make these dangerous states more pliable because of falling fuel prices (Iran) and greater need for foreign aid (North Korea and Myanmar), but that may depend on the extent that authoritarian leaders care about the well-being of their people or face internal political pressures linked to the economy. So far, there is little evidence to suggest either and much evidence to suggest these dangerous states see an opportunity to advance their asymmetrical advantages against the international system.

## Impacts – Protectionism/Rogue States

#### Growth prevents conflicts that lead to nuclear war

Friedberg and Schoenfeld 8

Aaron, professor of politics and international relations at Princeton University's Woodrow Wilson School, Gabriel, Visiting Scholar @ Witherspoon Institute, The Dangers of a Diminished America, WSJ, 10/21, Proquest

Pressures to cut defense spending, and to dodge the cost of waging two wars, already intense before this crisis, are likely to mount. Despite the success of the surge, the war in Iraq remains deeply unpopular. Precipitous withdrawal -- attractive to a sizable swath of the electorate before the financial implosion -- might well become even more popular with annual war bills running in the hundreds of billions. Protectionist sentiments are sure to grow stronger as jobs disappear in the coming slowdown. Even before our current woes, calls to save jobs by restricting imports had begun to gather support among many Democrats and some Republicans. In a prolonged recession, gale-force winds of protectionism will blow. Then there are the dolorous consequences of a potential collapse of the world's financial architecture. For decades now, Americans have enjoyed the advantages of being at the center of that system. The worldwide use of the dollar, and the stability of our economy, among other things, made it easier for us to run huge budget deficits, as we counted on foreigners to pick up the tab by buying dollar-denominated assets as a safe haven. Will this be possible in the future? Meanwhile, traditional foreign-policy challenges are multiplying. The threat from al Qaeda and Islamic terrorist affiliates has not been extinguished. Iran and North Korea are continuing on their bellicose paths, while Pakistan and Afghanistan are progressing smartly down the road to chaos. Russia's new militancy and China's seemingly relentless rise also give cause for concern. If America now tries to pull back from the world stage, it will leave a dangerous power vacuum. The stabilizing effects of our presence in Asia, our continuing commitment to Europe, and our position as defender of last resort for Middle East energy sources and supply lines could all be placed at risk. In such a scenario there are shades of the 1930s, when global trade and finance ground nearly to a halt, the peaceful democracies failed to cooperate, and aggressive powers led by the remorseless fanatics who rose up on the crest of economic disaster exploited their divisions. Today we run the risk that rogue states may choose to become ever more reckless with their nuclear toys, just at our moment of maximum vulnerability. The aftershocks of the financial crisis will almost certainly rock our principal strategic competitors even harder than they will rock us. The dramatic free fall of the Russian stock market has demonstrated the fragility of a state whose economic performance hinges on high oil prices, now driven down by the global slowdown. China is perhaps even more fragile, its economic growth depending heavily on foreign investment and access to foreign markets. Both will now be constricted, inflicting economic pain and perhaps even sparking unrest in a country where political legitimacy rests on progress in the long march to prosperity. None of this is good news if the authoritarian leaders of these countries seek to divert attention from internal travails with external adventures.

## Impacts – Diversionary Wars

#### US prolonged recession leads to diversionary wars

#### Yulu 3

Zhang, Viewpoint: Economic Recession-Blasting Fuse of Modern War, People’s Daily Online

The Iraq war has caused world people to think of many questions, one of which being the cause of war. Based on their analyses, many scholars and experts hold that the world political and economic unbalance is the factor that leads to war, but in the opinion of this author, Zhang Yulu, economic recession is the real fuse of modern war. If one examines the wars broken out ever since more than a century ago, one will discover an interesting phenomenon, that is, each fairly big economic recession (or economic crisis) was inevitably followed by the eruption of a war. This is true with World I, World War II, the Gulf War, as well as the Iraq war. It can be said that economic downturn is the blasting fuse of modern war. After the establishment of the capitalist system in Western countries, the market economy gradually replaced the natural economy to hold a dominant position. The market economy, more often than not, presented itself as a "surplus economy". The economic crisis is the result of this kind of relative excess and a passive method for eliminating the excess. During the period of recession, there are sharp social contradictions, stockpiling commodities and declining production, under this circumstance, the State must bear the responsibility to eliminate excess and stimulate production. The most effective method. The interactions of the two major forces--the sharp domestic contradictions and the expansion of military strengths-are bound to cause certain big powers to cherish the motive to lift themselves out of the "quagmire" of recession by relying on war. No wonder before the Iraq war completely came to an end, certain American "experts" began to calculate how large a role the Iraq war could play for US economic recovery. As a matter of fact, the United States is quite experienced in making a big fortune out of war and making use of war to remedy recession. World War I helped the United States to secure its throne as the world's number one power, World War II helped it to attain the position as a superpower. Victory in the Gulf War, to a certain extent, helped bring about a "new economy" and a period of 10-year-long economic prosperity for the United States. Owing to US military might, many countries have attached themselves to or are dependent on America politically and militarily, as a result, US hegemony pushes its way through, thus objectively making the United States become the country enjoying the most "stability" in the world. US present economic difficulty is associated with the declining investment rates resulted from enterprises' overproduction capacity and companies' accounting scandals, thus laying bare the aspect of false prosperity of its "new economy", but the most direct fuse of US economic recession is the "9.11" incident, it exposes the weakness of the US "security system", predicting that the "investment paradise" is facing challenges. So, in a certain sense, American economic recession is caused by the threat to its hegemony, not purely due to economic factors. The US government is well aware of the relations among US economic prosperity, its security and world security, the United States holds that to maintain US economic prosperity, it is essential to ensure national security, restore the "investment paradise" position and create neither too big nor too small troubles to the world, leaving other parts of the world in a state of "controlled" insecurity. Only by doing so, can the United States "gain benefits as can a fisherman". That's why the United States is going all out to attack "terrorism" at all costs, which presently poses the greatest threat to the country; blockade so-called disobedient "axis of evil countries", guard against potential competitors such as China, Russia and Europe, and reestablish a "secured islet". The Afghanistan war produced the effect of "killing three birds with one stone", dealt a heavy blow to terrorism and at the same time helped US influence to penetrate into regions close to China and Russia. Guided by this policy and inspired by victory gained in the anti-terrorism war, the United States started attacks on Iraq in defiance of world people's strong anti-war cries. This action was neither taken out of the emotional impulse of President George W. Bush, nor was it taken purely for oil interests. The disintegration of the Soviet Union once greatly excited some people who thought that war danger had decreased with the conclusion of the Cold War. Now it turns out that the world dominated by one superpower is more disquiet than it is faced with the contest between two powers for hegemony. The world is analogous to a scale that can be balanced only when things on both ends are of equal weights, change in the weight on one end means the loss of balance. After the break-up of the Soviet Union, the strength restraining the United States has been weakened, multi-polarization is in the process of development, the United States, being the sole superpower, increasingly likes to speak in a "Tomahawk" way. Especially when the tranquillity of various countries has begun to be linked up with the performance of the US economy, as a "folk prescription" for remedying US economic recession, war has become a "good recipe". The United States has repeatedly drawn benefits from its military might, so it has made up its mind to maintain its military leading position. As soon as he took office, President Bush declared his intention to build an "unmatchable" military force, and approved the defense budget totaling US$310 billion for 2001 and the country's budgeted military spending reached as high as US$392 billion for 2003, even higher than the combined total of other 20 military powers. An additional war fund worth nearly US$80 billion was put in during the Iraq war. It seems that the dose of fitness "desperate cures" of the United States will continuously be put into use.

## Collapse Causes Extinction

#### Economic Collapse causes extinction

#### Kerpen 8

Phil, National Review Online, October 29, , Don't Turn Panic Into Depression, http://www.cbsnews.com/stories/2008/10/29/opinion/main4555821.shtml

It’s important that we avoid all these policy errors - not just for the sake of our prosperity, but for our survival. The Great Depression, after all, didn’t end until the advent of World War II, the most destructive war in the history of the planet. In a world of nuclear and biological weapons and non-state terrorist organizations that breed on poverty and despair, another global economic breakdown of such extended duration would risk armed conflicts on an even greater scale. To be sure, Washington already has stoked the flames of the financial panic. The president and the Treasury secretary did the policy equivalent of yelling fire in a crowded theater when they insisted that Congress immediately pass a bad bailout bill or face financial Armageddon. Members of Congress splintered and voted against the bill before voting for it several days later, showing a lack of conviction that did nothing to reassure markets. Even Alan Greenspan is questioning free markets today, placing our policy fundamentals in even greater jeopardy. But after the elections, all eyes will turn to the new president and Congress in search of reassurance that the fundamentals of our free economy will be supported. That will require the shelving of any talk of trade protectionism, higher taxes, and more restrictive labor markets. The stakes couldn’t be any higher.

#### Collapse causes extinction

#### Bearden 00

Thomas**. (**Lt. Col in US Army), “The Unnecessary Energy Crisis”, Free Republic, June 24, p. online

History bears out that desperate nations take desperate actions. Prior to the final economic collapse, the stress on nations will have increased the intensity and number of their conflicts, to the point where the arsenals of weapons of mass destruction (WMD) now possessed by some 25 nations, are almost certain to be released. As an example, suppose a starving North Korea launches nuclear weapons upon Japan and South Korea, including U.S. forces there, in a spasmodic suicidal response. Or suppose a desperate China-whose long-range nuclear missiles (some) can reach the United States-attacks Taiwan. In addition to immediate responses, the mutual treaties involved in such scenarios will quickly draw other nations into the conflict, escalating it significantly. Strategic nuclear studies have shown for decades that, under such extreme stress conditions, once a few nukes are launched, adversaries and potential adversaries are then compelled to launch on perception of preparations by one's adversary. The real legacy of the MAD concept is this side of the MAD coin that is almost never discussed. Without effective defense, the only chance a nation has to survive at all is to launch immediate full-bore pre-emptive strikes and try to take out its perceived foes as rapidly and massively as possible. As the studies showed, rapid escalation to full WMD exchange occurs. Today, a great percent of the WMD arsenals that will be unleashed, are already on site within the United States itself. The resulting great Armageddon will destroy civilization as we know it, and perhaps most of the biosphere, at least for many decades.

# AFF ANSWERS

## N/U – Egan Jones Downgrade

#### Credit Rating not stable now – Egan Jones Downgrade

Bigelow 4/6 William Bigelow “Egan Jones Dowgrades US Credit Rating”

<http://nation.foxnews.com/us-credit-rating-downgrade/2012/04/06/egan-jones-downgrades-us-credit-rating#ixzz1zAKRMu9W> April 6, 2012 online

Credit rating agency Egan Jones downgraded the United States Thursday on concern over the sustainability of public debt. Egan Jones is one of the most important ratings firms in the world; they lowered our credit level from AA+ to AA. The firm reduced America from AAA to AA+ in July 2011, just before Standard & Poor's did the same. Egan Jones warned. "Without some structural changes soon, restoring credit quality will become increasingly difficult . . . without some structural changes soon, restoring credit quality will become increasingly difficult." They added that there was a 1.2% probability of U.S default in the next 12 months.  The company cited the fact that the US’s total debt, which now equals its total GDP, is rising and soon will eclipse the national GDP; the company sees the debt rising to 112% of the GDP by 2014.

## N/U Economy Slow

#### Economy has slowed down due to consumer confidence

#### Reuters 6/16

(<http://www.nytimes.com/2012/06/16/business/economy/dip-in-manufacturing-could-suggest-stalled-economy.html?ref=economy> accessed 6/29/12

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

## Link Turn- Infrastructure Key to Econ Grown

#### Infrastructure stimulus is key to economic growth

New America Foundation 10

“a nonprofit, nonpartisan public policy institute that invests in new thinkers and new ideas to address the next generation of challenges facing the United States,” 2010 “The Case for an Infrastructure-Led Jobs and Growth Strategy,” 2/13/10 http://www.newamerica.net/publications/policy/the\_case\_for\_an\_infrastructure\_led\_jobs\_and\_growth\_strategy, Accessed 6/29/12

As the Senate takes up a greatly scaled down $15 billion jobs bill stripped of all infrastructure spending, the nation should consider the compelling case for public infrastructure investment offered by Governors Arnold Schwarzenegger (R-CA) and Ed Rendell (D-PA). Appearing on ABC’s "This Week" on Sunday, the bipartisan Co-Chairs of Building America's Future explained why rebuilding America’s infrastructure is the key to both job creation in the short and medium term and our prosperity in the longer term.

Rather than go from one negligible jobs bill to the next, the administration and Congress should, as the governors suggest, map out a multi-year plan of infrastructure investment and make it the centerpiece of an ongoing economic recovery program.

Here is why:

With American consumers constrained by high household debt levels and with businesses needing to work off overcapacity in many sectors, we need a new, big source of economic growth that can replace personal consumption as the main driver of private investment and job creation. The most promising new source of growth in the near to medium term is America’s pent-up demand for public infrastructure improvements in everything from roads and bridges to broadband and air traffic control systems to a new energy grid. We need not only to repair large parts of our existing basic infrastructure but also to put in place the 21st-century infrastructure for a more energy-efficient and technologically advanced society. This project, entailing billions of dollars of new government spending over the next five to ten years, would generate comparable levels of private investment and provide millions of new jobs for American workers.

More specifically, public infrastructure investment would have the following favorable benefits for the economy:

Job Creation. Public infrastructure investment would directly create jobs, particularly high-quality jobs, and thus would help counter the 8.4 million jobs lost since the Great Recession began. One study estimates that each billion dollars of spending on infrastructure can generate up to 17,000 jobs directly and up to 23,000 jobs by means of induced indirect investment. If all public infrastructure investment created jobs at this rate, then $300 billion in new infrastructure spending would create more than five million jobs directly and millions more indirectly, helping to return the economy to something approaching full employment.

A Healthy Multiplier Effect. Public infrastructure investment not only creates jobs but generates a healthy multiplier effect throughout the economy by creating demand for materials and services. The U.S. Department of Transportation estimates that, for every $1 billion invested in federal highways, more than $6.2 billion in economic activity is generated. Mark Zandi, chief economist at Moody’s Economy.com, offers a more conservative but still impressive estimate of the multiplier effect of infrastructure spending, calculating that every dollar of increased infrastructure spending would generate a $1.59 increase in GDP. Thus, by Zandi’s conservative estimates, $300 billion in infrastructure spending would raise GDP by nearly $480 billion (close to 4 percent).

A More Productive Economy. Public infrastructure investment would not only help stimulate the economy in the short term but help make it more productive over the long term, allowing us to grow our way out of the increased debt burdens resulting from the bursting of the credit bubble. As numerous studies show, public infrastructure increases productivity growth, makes private investment more efficient and competitive, and lays the foundation for future growth industries. In fact, many of the new growth sectors of the economy in agriculture, energy, and clean technology require major infrastructure improvements or new public infrastructure.

Needed Investments that Will Pay for Themselves. New infrastructure investment can easily be financed at historically low interest rates through a number of mechanisms, including the expansion of Build America Bonds and Recovery Zone bonds (tax-credit bonds that are subsidized by favorable federal tax treatment) and the establishment of a National Infrastructure Bank. Public infrastructure investment will pay for itself over time as a result of increased productivity and stronger economic growth. Several decades of underinvestment in public infrastructure has created a backlog of public infrastructure needs that is undermining our economy’s efficiency and costing us billions in lost income and economic growth. By making these investments now, we would eliminate costly bottlenecks and make the economy more efficient, thereby allowing us to recoup the cost of the investment through stronger growth and higher tax revenues.

#### Infrastructure investment key to long term growth – Must Act Now

Boushey 11

Heather Boushey, Senior Economist at the Center for American Progress, previous economist positions with the Joint Economic Committee of the U.S. Congress and the Center for Economic and Policy Research and the Economic Policy Institute. Ph.D. in economics from the New School for Social Research. “Now Is the Time to Fix Our Broken Infrastructure,” Center for American Progress, 9/22/11

http://www.americanprogress.org/issues/2011/09/aja\_infrastructure.html, Accessed 6/29/12

Infrastructure is a good investment now because it will get people to work, and at this point, given the lingering high unemployment, we shouldn’t be too concerned if projects take a bit of time to get up and running. As Mark Zandi said in August 2011:

Infrastructure development has a large bang for the buck, particularly now when there are so many unemployed construction workers. It also has the potential for helping more remote hard-pressed regional economies and has long-lasting economic benefits. It is difficult to get such projects up and running quickly—“shovel ready” is in most cases a misnomer—but given that unemployment is sure to be a problem for years to come, this does not seem in the current context as significant a drawback.[16]

We can create jobs. With nearly 14 million Americans unemployed, now is the time to make long-lasting investments in infrastructure that will not only get people to work today but pave the way for long-term economic growth.

Repairing potholes, upgrading an elementary school’s aging furnace, and replacing old water mains are all infrastructure investments. These are repairs that must be done and are often cheaper to do as maintenance than waiting to repair a totally failed system. Now is the right time for America to invest in maintaining and upgrading our infrastructure. We have millions of American workers who want to get off the unemployment queue and into a job and borrowing costs at decade lows, making it extraordinarily cost effective to make big investments today.

#### Infrastructure investment empirically stimulates the economy long-term and short-term.

Boushey 11

Heather Boushey, Senior Economist at the Center for American Progress, previous economist positions with the Joint Economic Committee of the U.S. Congress and the Center for Economic and Policy Research and the Economic Policy Institute. Ph.D. in economics from the New School for Social Research. “Now Is the Time to Fix Our Broken Infrastructure,” Center for American Progress, 9/22/11

http://www.americanprogress.org/issues/2011/09/aja\_infrastructure.html, Accessed 6/29/12

Investing in infrastructure creates jobs and yields lasting benefits for the economy, including increasing growth in the long run. Upgrading roads, bridges, and other basic infrastructure creates jobs now by putting people to work earning good, middle-class incomes, which expands the consumer base for businesses. These kinds of investments also pave the way for long-term economic growth by lowering the cost of doing business and making U.S. companies more competitive.

There is ample empirical evidence that investment in infrastructure creates jobs. In particular, investments made over the past couple of years have saved or created millions of U.S. jobs. Increased investments in infrastructure by the Department of Transportation and other agencies due to the American Recovery and Reinvestment Act saved or created 1.1 million jobs in the construction industry and 400,000 jobs in manufacturing by March 2011, according to San Francisco Federal Reserve Bank economist Daniel Wilson.[1] Although infrastructure spending began with government dollars, these investments created jobs throughout the economy, mostly in the private sector.[2]

Infrastructure projects have created jobs in communities nationwide. Recovery funds improved drinking and wastewater systems, fixed bridges and roads, and rehabilitated airports and shipyards across the nation. Some examples of high-impact infrastructure projects that have proceeded as a result of Recovery Act funding include:

\* An expansion of a kilometer-long tunnel in Oakland, California, that connects two busy communities through a mountain.[3]

\* An expansion and rehabilitation of the I-76/Vare Avenue Bridge in Philadelphia and 141 other bridge upgrades that supported nearly 4,000 jobs in Pennsylvania in July 2011.[4]

\* The construction of new railway lines to serve the city of Pharr, Texas, as well as other infrastructure projects in that state that have saved or created more than 149,000 jobs through the end of 2010.[5]

Infrastructure investments are an especially cost-effective way to boost job creation with scare government funds. Economists James Feyrer and Bruce Sacerdote found for example that at the peak of the Recovery Act’s effect, 12.3 jobs were created for every $100,000 spent by the Department of Transportation and the Department of Energy—much of which was for infrastructure.[6] These two agencies spent $24.7 billion in Recovery dollars through September 2010, 82 percent of which was transportation spending. This implies a total of more than 3 million jobs created or saved.

## No Link- Credit Ratings Irrelevant

#### The agencies have little to no credibility left, and another downgrade would have no impact.

**Reuters Oct. 27, 2011**

"Another US Downgrade 'won't harm economy' "

http://www.telegraph.co.uk/finance/economics/8854472/Another-US-downgrade-wont-harm-economy.html

Analysts warn, however, that signs of complacency on Capitol Hill threaten efforts to cure America's long-term fiscal health. Bond markets defied predictions of a jump in borrowing costs since August when Standard & Poor's downgraded the country's AAA credit rating, after the debt ceiling crisis. Tim Ryan, a Democrat on the House Budget Committee, said there was broad sentiment in Congress that **the US economy would not** necessarily **suffer from a downgrade by the other two big agencies - Fitch and Moody's - that still rate US debt as AAA.** Ryan cited the role of the three major agencies in the build-up to the 2008 financial collapse, when they gave AAA ratings to the toxic mortgage-backed securities at the heart of the crisis. Since then, Ryan said, "**the credit rating agencies have lost a tremendous amount of credibility. The US is still the safest investment to make**" - meaning **another downgrade may have little influence how investors view US debt.** **When it comes to fixing the economy** and sentiment **on Capitol Hill**, "I don't think **the ratings agencies' analysis is the major issue**", Ryan told Reuters. A bipartisan congressional "super committee" is tasked with finding ways to cut the budget deficit by at least $1.2 trillion over 10 years by November 23. If it gridlocks, across-the-board spending cuts of $1.2 trillion are due to begin in 2013. However, some analysts say they could yet be undone by a new Congress elected next year. It is unclear how most members of the deficit-cutting committee feel about the risk of another downgrade. But even if they reach a deal it must be passed by the full Congress, too. Congressman Michael Grimm, a Republican, told Reuters: "**There's no question that when the sky didn't crash after the first downgrade**, it has been easy for some members to become complacent and to say **we can absorb another downgrade.** "There have been some that think we can absorb another one and they hide behind the fact that the credibility of the ratings agencies has been called into question. "I think that's dangerous because by doing that you are not accepting the gravity of the debt." Ratings agencies analysts have said they are watching closely for signs that US politicians can come to grips with the country's fiscal mess. Stephen Hess, Moody's lead analyst for the US, said an immediate downgrade is unlikely even if the super committee flopped.

#### Credit Ratings are irrelevant and empirically have no impact on the economy

Peter Gorenstein | Daily Ticker – Fri, Aug 26, 2011 Reaction to U.S. Downgrade Shows Just How “Unimportant” Ratings Agencies Are, Eisinger Says

http://finance.yahoo.com/blogs/daily-ticker/reaction-u-downgrade-shows-just-unimportant-ratings-agencies-140025812.html

When Standard & Poor's downgraded the U.S. credit rating earlier this month pundits and politicians claimed this would cause interest rates to spike and kill what little lending there was in the economy. However, the opposite has happened. Interest rates on Treasury bonds have actually fallen and T-bills continue to lead the flight to safety during the recent market turmoil. What does it all mean? "It just emphasizes the irrelevance of the ratings agencies," says Jesse Eisinger senior reporter at ProPublica and longtime critic of the ratings agencies. "I think this was a watershed moment for how unimportant the ratings agencies are." As The Daily Ticker's Aaron Task and Eisinger note in the accompanying clip, the market's reaction to the America's loss of AAA rating is similar to the reaction when it happened to Japan earlier this decade - nothing. Japan, downgraded in 2002, still enjoys some of the lowest borrowing costs in the world. (Earlier this week, Moody's downgraded Japan's credit rating to Aa3 from Aa2, with little or no obvious market impact.)

**A second US downgrade would have less of an impact then the first.**

**Brandimarte Nov '11 -** Staff writer for Reuters

Walter, "Analysis: United States gets reprieve to deal with deficit"

http://www.reuters.com/article/2011/11/04/us-usa-deficits-markets-idUSTRE7A35R520111104

"But the negative outlook that we have on the Aaa rating is for a period of a year or two. It's not that we're waiting just for this committee to decide on the rating," he added. Fitch Ratings has not ruled out a "negative rating action" on the United States if the economy grows less than expected or if the super committee fails to agree on at least $1.2 trillion in deficit-reduction measures. But such an action could be only a revision of the U.S. rating outlook to negative from its current stable position. **Even if it happened, a second U.S. downgrade would** probably **have less market impact than when Standard & Poor's stripped the country of its AAA rating** in August. **Merrill Lynch economist Ethan Harris**, who **forecasts the United States will lose its triple-A rating from another agency by the end of the year**, expects **a second downgrade to cause "a smaller hit to the markets and confidence" than the first.** At that time, stocks sold off but U.S. Treasuries benefited from a renewed flight to safety that drove their yields lower. A similar reaction, only less intense, could come when a second downgrade happens, analysts said. U.S. borrowing costs will eventually have to price in the deterioration of its credit quality, but lack of real alternatives to U.S. Treasuries have been postponing that day. "I think the major issue is that everyone else in the neighborhood has a pretty (bad) house too," said James Dailey, chief investment officer at TEAM Financial Managers, with $125 million under management.

#### Empirically rating downgrades don’t hurt the economy

Froomkin 8-6-11

Dan Business reporter for Huffington Post http://www.huffingtonpost.com/2011/08/06/us-credit-downgrade-history\_n\_920280.html

The downgrade of the U.S.'s AAA credit rating by Standard & Poor's on Friday may end up having little to no effect on interest rates for U.S. securities, according to analysts who have examined past credit rating downgrades in other countries. When S&P did the exact same thing to Japan in 2000, demand for Japanese bonds actually increased in the following months, analysts note, because the market still saw Japan as safe for investment relative to the rest of the world. The history of downgrades in Japan, Canada and other countries suggests the U.S. market could well shrug off the downgrade, rather than consider it an indicator of any real change in the status of U.S. bonds as the ultimate safe investment. "The U.S., downgrade or no downgrade, is still going to be the benchmark," Rick Rieder, the chief investment officer at New York-based BlackRock Inc., told Bloomberg earlier this week. "Even with a downgrade, I think the market would assume the safest asset you could buy in a portfolio was still Treasuries." A muted market reaction to the downgrade would be "consistent with the market’s reaction so far to saber rattling by rating agencies," analysts for AllianceBernstein Global Wealth Management wrote in June. "The US dollar's special place as the world's reserve currency reinforces this perception." It seems the more alarming the rhetoric gets, the more investors flock to Treasury bonds, rather than flee them. Yields on two-year Treasury notes were near an all-time low Friday, at 0.28 percent, while 10-year bond rates were at 2.58 percent. There are other factors at work, as well. A Reuters story last week suggested that a downgrade would have minor effects simply because it "pales in significance with evidence of flagging economic growth." Other analysts, such as Forbes' Tim Worstall, have predicted a muted response because "the move in the rating is simply confirming what the market already believes." The Wall Street Journal reported last week that not only Japan, but also Canada and Australia and a few other countries have seen their sterling credit ratings downgraded, but "by and large, borrowing costs remained fairly steady and, in some instances, eventually declined."

# \*\*\*AT Econ Decline Leads to war\*\*\*

## AT Decline Leads to war – No Benefit

#### Impact decline won’t lead to war—no economic benefit

Jervis '11

Robert, Prof of Intnatl Politics and Member of the Arnold A. Saltzman Institute of War and Peace Studies at Columbia University, 2006 was given the National Academy of Sciences award for behavioral science contributions to avoiding nuclear war. He is a former president of the American Political Science Association. "Force in Our Times," Saltzman Working Paper No. 15 July 2011, http://www.siwps.com/news.attachment/saltzmanworkingpaper15-842/SaltzmanWorkingPaper15.PDF, AD 5/23/12

Even if war is still seen as evil, the security community could be dissolved if severe conflicts of interest were to arise. Could the more peaceful world generate new interests that would bring the members of the community into sharp disputes?45 A zero-sum sense of status would be one example, perhaps linked to a steep rise in nationalism. More likely would be a worsening of the current economic difficulties, which could itself produce greater nationalism, undermine democracy, and bring back old-fashioned beggar-thy-neighbor economic policies. While these dangers are real, it is hard to believe that the conflicts could be great enough to lead the members of the community to contemplate fighting each other. It is not so much that economic interdependence has proceeded to the point where it could not be reversed – states that were more internally interdependent than anything seen internationally have fought bloody civil wars. Rather it is that even if the more extreme versions of free trade and economic liberalism become discredited, it is hard to see how without building on a pre-existing high level of political conflict leaders and mass opinion would come to believe that their countries could prosper by impoverishing or even attacking others. Is it possible that problems will not only become severe, but that people will entertain the thought that they have to be solved by war? While a pessimist could note that this argument does not appear as outlandish as it did before the financial crisis, an optimist could reply (correctly, in my view) that the very fact that we have seen such a sharp economic down-turn without anyone suggesting that force of arms is the solution shows that even if bad times bring about greater economic conflict, it will not make war thinkable.

## AT: Decline Leads to War – Empirically Denied

#### Empirically denied – the global economy crashed in 2008.

Banerji and Dua in ‘9

Anirvan Banerji, Economic Cycle Research Institute, New York and Pami Dua, Delhi School of Economics, University of Delhi and Economic Cycle Research Institute, New York. “Synchronization of Recessions in Major Developed and Emerging Economies”. September 2009. http://www.econdse.org/seminar/seminar40.pdf

With the U.S. economy experiencing its worst post-war recession beginning December 2007, the global economy experienced the most synchronized recession on record. The breadth and depth of this remarkably concerted global recession was a reflection of increased globalization and strong global interdependence amongst economies, in terms of both their financial interconnections and trade linkages. The trade linkages, in fact, greatly amplified the transmission of the global recession to the export-oriented economies due to declines in consumer demand the world over, but especially in major developed economies such as the U.S. and Japan. The simultaneity of the worldwide downturns due to the trade linkages was further exacerbated by a financial market crisis that not only led to a severe abatement of trade flows but also resulted in major financial imbalances. The upshot was that the economies of virtually all major developed countries shrunk rapidly, along with many export-dependent developing economies.

#### 2008 Crash empirically denies all of your worst prediction cards

Naim in ‘10

Moises Naim, Editor in Chief of Foreign Policy Magazine. Foreign Policy. “It Didn't Happen”. January/February 2010. http://www.foreignpolicy.com/articles/2010/01/04/it\_didnt\_happen?page=full

Just a few months ago, the consensus among influential thinkers was that the economic crisis would unleash a wave of geopolitical plagues. Xenophobic outbursts, civil wars, collapsing currencies, protectionism, international conflicts, and street riots were only some of the dire consequences expected by the experts. It didn't happen. Although the crash did cause severe economic damage and widespread human suffering, and though the world did change in important ways for the worse -- the International Monetary Fund, for example, estimates that the global economy's new and permanent trajectory is a 10 percent lower rate of GDP growth than before the crisis -- the scary predictions for the most part failed to materialize. Sadly, the same experts who failed to foresee the economic crisis were also blindsided by the speed of the recovery. More than a year into the crisis, we now know just how off they were. From telling us about the imminent collapse of the international financial system to prophecies of a 10-year recession, here are six of the most common predictions about the crisis that have been proven wrong

## AT: Decline Leads to War – No Causal Relationship

#### No causality – economic decline doesn’t cause war

Ferguson in ‘6

Niall Ferguson, MA, D.Phil., is the Laurence A. Tisch Professor of History at Harvard University and William Ziegler Professor at Harvard Business School, “The Next War of the World”, Foreign Affairs 85.5, Proquest

There are many unsatisfactory explanations for why the twentieth century was so destructive. One is the assertion that the availability of more powerful weapons caused bloodier conflicts. But there is no correlation between the sophistication of military technology and the lethality of conflict. Some of the worst violence of the century -- the genocides in Cambodia in the 1970s and central Africa in the 1990s, for instance -- was perpetrated with the crudest of weapons: rifles, axes, machetes, and knives. Nor can economic crises explain the bloodshed. What may be the most familiar causal chain in modern historiography links the Great Depression to the rise of fascism and the outbreak of World War II. But that simple story leaves too much out. Nazi Germany started the war in Europe only after its economy had recovered. Not all the countries affected by the Great Depression were taken over by fascist regimes, nor did all such regimes start wars of aggression. In fact, no general relationship between economics and conflict is discernible for the century as a whole. Some wars came after periods of growth, others were the causes rather than the consequences of economic catastrophe, and some severe economic crises were not followed by wars.

#### Empirical studies show no causal relationship between economic decline and war – democratic regimes don’t collapse and authoritarian governments increase repression as a response.

Miller in ‘1

Morris Miller, adjunct economics professor at the University of Ottawa. “Poverty: A Cause of War?”. Peace Magazine Jan-Mar 2001, page 8 http://archive.peacemagazine.org/v17n1p08.htm

Library shelves are heavy with studies focused on the correlates and causes of war. Some of the leading scholars in that field suggest that we drop the concept of causality, since it can rarely be demonstrated. Nevertheless, it may be helpful to look at the motives of war-prone political leaders and the ways they have gained and maintained power, even to the point of leading their nations to war. Poverty: The Prime Causal Factor? Poverty is most often named as the prime causal factor. Therefore we approach the question by asking whether poverty is characteristic of the nations or groups that have engaged in wars. As we shall see, poverty has never been as significant a factor as one would imagine. Largely this is because of the traits of the poor as a group - particularly their tendency to tolerate their suffering in silence and/or be deterred by the force of repressive regimes. Their voicelessness and powerlessness translate into passivity. Also, because of their illiteracy and ignorance of worldly affairs, the poor become susceptible to the messages of war-bent demagogues and often willing to become cannon fodder. The situations conductive to war involve political repression of dissidents, tight control over media that stir up chauvinism and ethnic prejudices, religious fervor, and sentiments of revenge. The poor succumb to leaders who have the power to create such conditions for their own self-serving purposes. Desperately poor people in poor nations cannot organize wars, which are exceptionally costly. The statistics speak eloquently on this point. In the last 40 years the global arms trade has been about $1500 billion, of which two-thirds were the purchases of developing countries. That is an amount roughly equal to the foreign capital they obtained through official development aid (ODA). Since ODA does not finance arms purchases (except insofar as money that is not spent by a government on aid-financed roads is available for other purposes such as military procurement) financing is also required to control the media and communicate with the populace to convince them to support the war. Large-scale armed conflict is so expensive that governments must resort to exceptional sources, such as drug dealing, diamond smuggling, brigandry, or deal-making with other countries. The reliance on illicit operations is well documented in a recent World Bank report that studied 47 civil wars that took place between 1960 and 1999, the main conclusion of which is that the key factor is the availability of commodities to plunder. For greed to yield war, there must be financial opportunities. Only affluent political leaders and elites can amass such weaponry, diverting funds to the military even when this runs contrary to the interests of the population. In most inter-state wars the antagonists were wealthy enough to build up their armaments and propagandize or repress to gain acceptance for their policies. Economic Crises? Some scholars have argued that it is not poverty, as such, that contributes to the support for armed conflict, but rather some catalyst, such as an economic crisis. However, a study by Minxin Pei and Ariel Adesnik shows that this hypothesis lacks merit. After studying 93 episodes of economic crisis in 22 countries in Latin American and Asia since World War II, they concluded that much of the conventional thinking about the political impact of economic crisis is wrong: "The severity of economic crisis - as measured in terms of inflation and negative growth - bore no relationship to the collapse of regimes ... or (in democratic states, rarely) to an outbreak of violence... In the cases of dictatorships and semi-democracies, the ruling elites responded to crises by increasing repression (thereby using one form of violence to abort another)."

## AT: Decline Leads to War – Shocks

#### There is no “trigger” that causes war – economic collapse does not cause war – their authors are too generic and the threat is just hype.

Miller in ‘2k

Morris Miller, adjunct economics professor at the University of Ottawa. Poverty as a Cause of Wars?. Interdisciplinary Science Reviews, Volume 25, Number 4, April 2000 , pp. 273-297(25) .http://www.management.uottawa.ca/miller/poverty.htm

It seems reasonable to believe that a powerful "shock" factor might act as a catalyst for a violent reaction on the part of the people or on the part of the political leadership. The leadership, finding that this sudden adverse economic and social impact destabilizing, would possibly be tempted to seek a diversion by finding or, if need be, fabricating an enemy and setting in train the process leading to war. There would not appear to be any merit in this hypothesis according to a study undertaken by Minxin Pei and Ariel Adesnik of the Carnegie Endowment for International Peace. After studying 93 episodes of economic crisis in 22 countries in Latin America and Asia in the years since World War II they concluded that Much of the conventional wisdom about the political impact of economic crises may be wrong …..The severity of economic crisis - as measured in terms of inflation and negative growth – bore no relationship to the collapse of regimes….(or, in democratic states, rarely) to an outbreak of violence…In the cases of dictatorships and semi-democracies, the ruling elites responded to crises by increasing repression (thereby using one form of violence to abort another.) If armed conflict is not caused by (nor even correlated with) poverty or the blows of economic crisis with its ensuing exacerbation of poverty, there is a fall-back position that is frequently put forward, namely, that it is the increased awareness of the poor of the sudden widening of the divergence of incomes and wealth between themselves and the rich who they see as managing to weather the economic downturn with little or no loss. There have been several such events in the past four decades but the gap has continued to grow wider and wider. The bald statistics are eloquent: in 1960 there was a 30:1 gap in average per capita incomes between the fifth of the world’s people who live in the rich industrialized countries and the fifth who live in the poorer countries, but by 1990 the gap was 60:1, and as we enter the new millennium, it is 74+:1, a contrast of about $30,000 annual average income per person to less than $400. This troubling dynamic has given rise to societal tensions and when an economic or financial event occurs that further reduces the real income of the already desperately poor, there are frequent protestations that take the form of violent riots and insurgencies and frequent warnings by commentators of impending armed conflicts on the scale of war. Thus, to cite a very recent example, we read in an informative book, Bread, not Bombs: A Political Agenda for Social Justice, written by a well-informed Canadian, Senator Douglas Roche, who was formerly Ambassador for Disarmament, that "modern wars do not just happen: they spring from the terrible disparities in the possession of wealth and resources…" In this assessment he is in distinguished company: in a speech given last October by the U.N. Secretary-General, Koffi Annan, observed that "the fact that political violence occurs more frequently in poor countries has more to do with failures of governance, and particularly with failure to redress ‘horizontal inequalities’, than with poverty as such…One highly explosive structural factor is the unequal distribution of power and resources between groups that are also differentiated by race, religion, or language…Grievances by groups with uneven access to power can provide a trigger, as can greed poised to take advantage of the chaos of war." Then there is the voice of Sir Shridath Ramphal, formerly head of the Commonwealth Secretariat: Every child born in the North consumes over a lifetime, 20 to 30 times the resources and accounts for 20 to 30 times the waste of their counterparts in developing countries – (and) 95 percent of world population growth will take place in the South. So where is the bomb ticking? The truth is that there are many explosions in the making." Two of the authors of the Carnegie Report on the Prevention of Deadly Conflict., David Hamburg and Jane Holl, indulge similar dramatic phraseology when, in their essay "Preventing Deadly Conflict: From Global Housekeeping to Neighborhood Watch" in a recent book, Global Public Goods: International Cooperation the 21st Century,, they write: Poverty is often a structural outgrowth of political decisions (about the distribution of economic benefits in a society) and when poverty runs in parallel with ethnic or cultural divisions, it often creates a flash point. It is not difficult to find other examples of commentators pointing to the factor of extreme inequality and adding drama to their commentary with the concepts of "triggers" and/or "explosions" and/or "flash points" precipitating an apocalyptic denouement. While an analysis of the process leading to the pulling of the metaphoric trigger is sometimes attempted by these authors, the description is almost always couched in general terms. They are understandably reticent or cautious about specifying the timing, nature and intensity of the breaking point and the triggers. In an effort to explain those cases where extreme poverty and excruciating hardship exist but no war has ensued, some analysts have been prompted to explain the "no-war" scenario by noting the absence of a trigger event. Others, digging deeper for their explanations of the absence of war-precipitating factors go beyond the poverty factor to identify the roles of three mediating factors: • culture, when through religion and other means it has been inculcating passivity and fatalism, • repression, when through the instrumentality of an overpowering authoritarian government it instills fear of dissent, and • comparative weakness of civil society in relation to government and of the government in relation to other governments, when an unequal power relationship deters reference to rights or fairness and the only option open to the injured and weaker party is to talk, not fight. All that being said, there is no denying that the issue of income distribution is central to the maintenance of "civil society" in the broadest sense of the term. One important facet of that "civil society", as the UN defines its concept and practice is the provision of opportunity for "citizens and groups to articulate their interests… and mediate their differences.". As Professor Brecher observes, the objective should not be to eradicate conflict or to prevent crises (as) that path is certain to fail because conflict is part of the human and interstate condition…Rather, the aim must be to channel conflict from the path of violence to that of non-violent bargaining and negotiations towards a mutually acceptable compromise agreement, an outcome that will be satisfactory to all but ideal for none. The central concern should be violence, more precisely, full-scale war. When inequality is very pronounced both within nations and between nations, and there is widespread awareness by the poor of the fact that the inequality is growing even more pronounced and, to boot, some measures are taken and/or systemic changes are occurring that have a pronounced adverse impact on the poor, warning bells are ringing loudly. This portends a crisis that, given the unequal power of the rich and the poor as contending parties, is not easily or quickly amenable to bargaining or negotiation. The institutions of governance for a "civil global society" characterized by fairness are not up to the task, but the logical sequence of this kind of scenario does not indicate war as the necessary or likely outcome. The historic record reveals that it would be rash to assume that the denouement of the trends associated with these disparities in income must lead or would likely lead to violent outcomes of the nature of international or intra-state armed conflicts on the scale of war. The most compelling support for this line of thought is that there has not been a significant correlation of countries with high inequality being more often engaged in war and, to look at this issue from the other side, a significant correlation of developing countries with low degrees of inequality escaping the scourge of war. We can identify a few developing countries that are characterized by an exceptionally high degree of inequality of wealth and incomes as ones that are, or have recently been, wracked by civil war: Sierra Leone and Columbia are the prime examples. In both these countries half the population have about 5 percent of their country’s total income. But there are others with extreme degrees of inequality that have not experienced such tragedies .And, if we look at all those poor countries with a much fairer distribution of wealth and income, we find some that have undergone the same civil war traumas as, for example, Rwanda where the richest 20 percent of the population possesses only about 40 percent of total income

## AT: Decline Leads to War – Protectionism

#### Increased protectionism is false – the collapse in 2008 proves.

Naim in ‘10

Moises Naim, Editor in Chief of Foreign Policy Magazine. Foreign Policy. “It Didn't Happen”. January/February 2010. http://www.foreignpolicy.com/articles/2010/01/04/it\_didnt\_happen?page=full

Protectionism will surge. It didn't. Trade flows did drop dramatically in late 2008 and early 2009, but they started to grow again in the second half of 2009 as economies recovered. Pascal Lamy, director-general of the World Trade Organization, had warned that the global financial crisis was bound to lead to surges in protectionism as governments sought to blame foreigners for their problems. "That is exactly what happened in the 1930s when [protectionism] was the virus that spread the crisis all over the place," he said in October 2008, echoing a widely held sentiment among trade experts. And it is true that many governments dabbled in protectionism, including not only the U.S. Congress's much-derided "Buy American" provision, but also measures such as increased tariffs or import restrictions imposed in 17 of the G-20 countries. Yet one year later, a report from the European Union concluded that "a widespread and systemic escalation of protectionism has been prevented." The protectionist temptation is always there, and a meaningful increase in trade barriers cannot be ruled out. But