# Unemployment/Deficit Spending Good

Unemployment/Deficit Spending Good 1

Deficit Spending 3

General Deficit Spending Good 4

AT - Deficit Spending Bad 5

Market/Investment 6

Employment/Productivity 7

Infrastructure Spending Good 8

Manufacturing 9

Productivity 10

Ripple Effect 11

Metrics 12

Jobs/Confidence 13

Jobs/Growth 14

Jobs/Productivity 15

Jobs 16

Jobs 17

Jobs 18

Jobs 19

Jobs 20

Private Investment 21

Private Investment 22

Now Key 23

Multiplier 24

Multiplier 25

solve long term deficit 26

History 27

History 28

History 29

History 30

Deficit Spending Bad 31

Infrastructure deficit spending fails 32

Infrastructure deficit spending fails 33

Infrastructure deficit spending fails 34

trades off with private dollars 35

trades off with private dollars 36

fails short term 37

Unemployment 38

Unemployment Good 39

Infrastructure = short term jobs 40

AT Infrastructure increases jobs 41

AT Multiplier Effect 42

AT Multiplier Effect 43

Crowd Out turn 44

Inflation Turn 45

Low Wage Job Turn 46

Infrastructure projects = delays 47

Infrastructure projects = delays 48

No short term solvency 49

AT Costs Low 50

Employment Mechanics 51

U – Job Growth up now 52

Can’t Solve 53

Can’t Predict/Measure 54

Structural/Frictional 55

Eurozone 56

Impact Defense 57

Econ impact Defense 58

Econ impact Defense 59

Econ impact Defense 61

# Deficit Spending

## General Deficit Spending Good

### AT - Deficit Spending Bad

#### Claims of Deficit spending collapsing the economy are from zealots without reliability

Douglas J Amy, 2011

(**professor of politics at Mt. Holyoke College)**The Deficit Scare: Myth vs. Reality

http://www.governmentisgood.com/articles.php?aid=30&print=1, 2011

Also leading the charge to alarm the public has been private-equity billionaire Peter G. Peterson. For 25 years he has been warning that the growing national debt would lead the economy into a disastrous collapse – even during the Clinton administration when many economists predicted many coming years of budget surpluses. In recent years he has pledged to spend a billion dollars to convince lawmakers that we must drastically curtail spending and reduce Social Security and Medicare benefits. He has funded a foundation dedicated to this cause, produced a documentary shown on PBS, and created an on-line newspaper, Fiscal Times, to spread his alarmist point of view. Peterson and many other fiscal austerity zealots rely primarily on highly questionable predictions that budget deficits and the debt will soar to unimaginable heights several decades from now. They predict economic doom as interest rates soar and investment grinds to a halt. But as numerous critics have pointed out, predictions that extend out several decades are extremely unreliable and depend entirely on the assumptions one uses. For example, slight changes in his assumptions about the rate of economic growth or key tax rates would mean that none of his dire predictions about soaring debt would actually come about.

#### Spending is great for the economy- creates jobs and increases private investment in projects which is key to economic growth. Spending bad arguments are backed by conservative rhetoric that is historically denied.

**E.J. Dionne 2001** (Writer for The New York Times) <http://www.washingtonpost.com/ej-dionne-jr/2011/02/24/ABhJNkM_page.html>

Decades of anti-government rhetoric have made liberals wary of claiming their legacy as supporters of the state’s positive role. That’s why they have had so much trouble making the case for President Obama’s stimulus program passed by Congress in 2009. It ought to be perfectly obvious: When the private sector is no longer investing, the economy will spin downward unless the government takes on the task of investing. And such investments — in transportation and clean energy, refurbished schools and the education of the next generation **—** can prime future growth. Yet the drumbeat of propaganda against government has made it impossible for the plain truth about the stimulus to break through. It was thus salutary that Douglas Elmendorf, the widely respected director of the Congressional Budget Office, told a congressional hearing last week that [80 percent of economic experts](http://www.igmchicago.org/igm-economic-experts-panel/poll-results?SurveyID=SV_cw5O9LNJL1oz4Xi) surveyed by the University of Chicago’s Booth School of Business agreed that the stimulus got the unemployment rate lower at the end of 2010 than it would have been otherwise. Only 4 percent disagreed. The stimulus, [CBO concluded](http://www.washingtonpost.com/business/economy/congressional-budget-office-defends-stimulus/2012/06/06/gJQAnFnjJV_story.html), added as many as 3.3 million jobs during the second quarter of 2010, and it may have kept us from lapsing back into recession**.** So when conservatives say**,** as they regularly do, that “government doesn’t create jobs,” the riposte should be quick and emphatic: “Yes it has, and yes, it does!” Indeed, our unemployment rate is higher today than it should be because conservatives blocked additional federal spending to prevent layoffs by state and local governments — and because progressives, including Obama, took too long to propose more federal help.[**Obama**’s jobs program](http://www.washingtonpost.com/blogs/plum-line/post/new-obama-ad-i-have-a-jobs-plan-and-congress-should-pass-it-now/2012/06/07/gJQAwnT9KV_blog.html) would be a step in the right direction, and he’s right to tout it now. But he should have pushed for a bigger stimulus from the beginning.The anti-government disposition has so much power that Democrats and moderate Republicans allowed themselves to be intimidated into keeping it too small. Let’s turn Ronald Reagan’s declaration on its head: Opposition to government isn’t the solution. Opposition to government was and remains the problem. It is past time that we affirm government’s ability to heal the economy, and its responsibility for doing so.

### Market/Investment

#### Deficit spending allows for economic stability and the prevention of an economic spiral.

Mark Thoma2011 (Mark Thoma is a macroeconomist and time-series econometrician at the University of Oregon. His research focuses on how monetary policy affects the economy, and he has also worked on political business cycle models. Mark is currently a fellow at The Century Foundation.) No spec. date Accessed: 6/27/12 title: “Government deficits: The good, the bad, and the ugly” URL: <http://www.cbsnews.com/8301-505123_162-39741324/government-deficits-the-good-the-bad-and-the-ugly/>

The deficit is at the top of the political agenda, and cuts to spending are certain to come, but how urgent is the deficit problem in reality? Is it important that we cut as much as we can as soon as we can, or is there time for a more patient and deliberative approach? The first thing to recognize is that deficits are not always bad. When the economy goes into recession, deficit spending through tax cuts or the purchase of goods and services by the government can stop the downward spiral and help to turn the economy back around. Thus, deficits can help us to stabilize the economy. In addition, as the economy improves due to the deficit spending the outlook for businesses also improves, and this can lead to increased investment, an effect known as [crowding in](http://economistsview.typepad.com/economistsview/2008/12/crowding-out-an.html). Deficits also allow us to purchase infrastructure and spread the bills across time similar to the way households finance the purchase of a car or house, or the way local governments finance schools with bond issues. This allows us to purchase infrastructure that we might not be able to afford if it had to be financed all at once (this can also force future generations who benefit from the spending to share the construction costs). Finally, deficits can be used to finance wars, but whether this is a good or a bad depends upon your view of whether the war is just.

#### Deficit Spending Good

Mark Thoma, CBS journalist, **May 22,** 2011**,**

Government deficits the good the bad and the ugly, <http://www.cbsnews.com/8301-505123_162-39741324/government-deficits-the-good-the-bad-and-the-ugly/>

The first thing to recognize is that deficits are not always bad. When the economy goes into recession, deficit spending through tax cuts or the purchase of goods and services by the government can stop the downward spiral and help to turn the economy back around. Thus, deficits can help us to stabilize the economy. In addition, as the economy improves due to the deficit spending the outlook for businesses also improves, and this can lead to increased investment, an effect known as crowding in. Deficits also allow us to purchase infrastructure and spread the bills across time similar to the way households finance the purchase of a car or house, or the way local governments finance schools with bond issues. This allows us to purchase infrastructure that we might not be able to afford if it had to be financed all at once (this can also force future generations who benefit from the spending to share the construction costs). Finally, deficits can be used to finance wars, but whether this is a good or a bad depends upon your view of whether the war is just.

### Employment/Productivity

#### Deficit spending is awesome- increasing employment and productivity.

Ryan Grim 2009 (the Washington bureau chief for The Huffington Post, The Huffington Post, Why the Stimulus is too Small, 02-09-2009, http://www.huffingtonpost.com/2009/02/09/is-stimulus-too-small\_n\_165076.html) EK

**For the stimulus to be able to turn around an economy spiraling down at that rate, the money injected into the economy would have to be multiplied many times over**. But, Galbraith says, the economy is currently stuck in a "liquidity trap." **People aren't spending because they're insecure about the future; companies aren't borrowing and expanding because the business climate looks stormy; and banks aren't lending because when the economy's tanking almost everyone looks like a bad credit risk.** The multiplier effect for a tax cut to business and the middle-class, Galbraith guesses, will be close to zero, because the money will be saved or used to pay down debt. With the banks in collapse, the CBO, then, is modeling for a situation that doesn't exist in reality. The running assumption among pundits and politicians - that the economy will turn around in 2010 or thereabouts - assumes that this recession is similar to previous recessions in which the financial sector and credit markets didn't collapse. "We are working with a set of economic projections which assume, for mechanical reasons, that the economy is going to start turning around at the end of this year. There is no analytical foundation for that," Galbraith says. "Those models that are based on the period after 1945 aren't going to work. They just aren't going to be right." **The current crisis is qualitatively different than any recession that the current projections are based on.** If they're wrong, then - **given the small size of the stimulus -- there will be no turnaround** in 2010. Instead**, the economy will careen out of control, unemployment will continue to rise, production will slow, etc.** The White House acknowledges the severity. "We're in a very serious situation," Obama's economic adviser, Lawrence Summers, told ABC News' "This Week." "This is worse than any time since the Second World War. It's worse than, I think, most economists like me ever thought we would see."

## Infrastructure Spending Good

### Manufacturing

#### Every dollar the government spends on Transportation Infrastructure creates positively massive spillover effects to the manufacturing sector- that’s key to econ.

Isabelle Cohen Thomas Freiling Eric Robinson ’**12** Report Title: “The Economic Impact and Financing of Infrastructure Spending” All authors respectively work at The College of William & Mary Thomas Jefferson Program in Public Policy URL: <http://www.aednet.org/government/pdf-2012/infrastructure_report.pdf>

To effectively gauge the short-run economic impact of different types of public infrastructure investment, we rely upon an input-output model using national data from the Bureau of **E**conomic **A**nalysis. The basic premise of an input-output model is to gauge the short-run impact of some initial amount of direct spending in one sector of the economy, and diagram how that money then ripples through other sectors as businesses purchase inputs and sell outputs. For instance, **one dollar spent on** road **construction is distributed to asphalt producers, laborers, and providers of heavy construction equipment among other places. These respective recipients then spend money on purchasing inputs, which stimulates further indirect effects on the manufacturing sector, the retail sector, and various other businesses.**1 **In the end, one dollar spent in most sectors spreads through the whole economy, indirectly affecting other sectors, and generates greater than one dollar of ultimate economic impact.**

#### New Infrastructure projects key to stave off recession

Dau-Schmidt '12 (Willard and Margaret Carr Professor of Labor and Employment Law, Indiana

University Maurer School of Law)

Kenneth, Indiana Law Journal, January, Vol. 87, Issue 1, p. 62

We now find ourselves in a very similar predicament in which investment speculation has resulted in the failure of financial institutions and a significant decline in the money supply, aggregate demand, and employment.16 The Federal Reserve has valiantly and appropriately combated the recession by expanding the money supply, but with interest rates to banks basically at zero, interest rates have fallen to the point where there is no more room for purely monetary policy to stimulate the economy.17 Balancing state or the federal budgets at this time would merely repeat the errors of the Hoover administration, decreasing aggregate demand and killing, or even reversing, the recovery.18 Although deficit spending increases future commitments on debt maintenance, well-designed deficit spending now will shorten the recession, improve our children’s and student’s job prospects, increase employment and tax revenues, and lessen the long-run government budget deficit. General tax cuts for businesses and the wealthy—the “job creators” as the Republicans like to call them—would be a very ineffective way to stimulate aggregate demand because not all of these tax cuts would be spent on consumption,19 and much of what was spent on consumption would just be spent on more crap from China—benefiting Chinese workers but not American workers.20 Direct government deficit spending on the infrastructure ensures that that money is spent on jobs in the United States and that the money purchases something that will benefit our children who will be left with any debt load.

### Productivity

#### US Infrastructure boosts the economy – 4 reasons

William Holahan**,** writer for the Tampa Bay Times, June 13, 2012

On US infrastructure spend now gain later, <http://www.tampabay.com/opinion/columns/on-us-infrastructure-spend-now-gain-later/1234943>

When the American Society of Civil Engineers issued a report card giving D and F grades for major infrastructure assets in the United States, the group estimated that it would cost $2.2 trillion to rehabilitate them. Even though these public sector assets support the private sector of the economy, and despite the availability of cheap money, Congress has no current plans to remedy this situation. Its reluctance to support investment in infrastructure is unfortunate because this is an opportune time to earn a better report card; presently,we can borrow at very low interest rates to upgrade our streets, roads, bridges, railroads, school buildings, Internet bandwidth and K-12 education. We have earned the trust of foreign investors, who value the safety of our financial markets and seek to loan us money through their purchases of U.S. Treasury bonds. In the short run, infrastructure investment would stimulate business growth and employ otherwise unemployed resources of labor and equipment. In the longer run, when these assets are in good working order, they would support faster growth of the economy, a prerequisite for bringing down the national debt and putting workers back on the path to higher after-tax incomes.

#### Infrastructure spending from the government is key to productivity

Michael Lind, Policy Director for Economic Growth for the New American Foundation, July 13, **2010**

Can infrastructure led growth save the economy?,<http://www.newamerica.net/publications/articles/2010/can_infrastructure_led_growth_save_the_economy_34335>

To avoid competing with private enterprise, the government should produce public goods that increase overall productivity and that the private sector has no incentive to provide, in good times or bad, such as infrastructure and social services like policing, health care, education and care for the young and old. In addition to mobilizing idle resources and labor directly, both infrastructure and public service spending could help business in general by boosting the purchasing power of Americans who are now unemployed. Infrastructure-led growth could boost private-sector productivityif it lowered energy costs for businesses and households, reduced freight and passenger congestion or increased the efficiency of telecommunications while lowering the cost. At the same time, infrastructure-led growth could bolster American manufacturers and suppliers and prepare for an export rebound in the future, as long as Buy American laws required that all infrastructure inputs like steel, concrete and electronic components, and all equipment used to construct infrastructure, including machine tools and construction vehicles, must be made in the U.S. If the World Trade Organization were to rule against such a Buy American policy, then the U.S. should demand a change in WTO rules, on penalty of unilateral U.S. withdrawal and then collapse of the WTO. Buy American policies should be combined with Hire American policies that provide jobs for many of the American citizens and legal immigrants who formerly worked in construction. Following decades in which private residential construction encouraged illegal immigration, public infrastructure construction should deter it.

### Ripple Effect

#### Investing in transportation infrastructure would increase the economy exponentially

Isabelle Cohen Thomas Freiling Eric Robinson ’**12** Report Title: “The Economic Impact and Financing of Infrastructure Spending” All authors respectively work at The College of William & Mary Thomas Jefferson Program in Public Policy URL: http://www.aednet.org/government/pdf-2012/infrastructure\_report.pdf

The United States faces an increasing shortfall of revenue for much-needed infrastructure investment. According to the CBO the US has already fallen behind the level of funding required to maintain our current network of highways and streets. However, money spent on infrastructure does much more than just maintain current stock. The effects of that spending multiply as they ripple throughout the economy, stimulating growth and output in other sectors, and ultimately return substantial tax revenue to the government per our findings. In the short-run, spending on infrastructure produces twice as much economic activity as the level of initial spending. These effects are most heavily concentrated in the manufacturing and professional and business services sectors, but also accrue to smaller sectors like agriculture. In the long-run, spending on all types of infrastructure generates substantial permanent positive effects across the economy as a whole**.** Money spent now will produce significant tax revenue returns to the government’s budget over twenty years. Given the substantial economic benefit of infrastructure spending, current budget deficits, and concerns regarding the future economic growth of the economy, it is crucially important that the United States invest in infrastructure like road networks, power stations, sewer systems, public safety buildings, and airfields**.** We must find innovative new ways to fund infrastructure construction and maintenance, and we can be secure in the knowledge that our economy will grow and strengthen as a result.

#### Infrastructure spending can revive the economy

David **Hunkar,** Holds degrees in finance and marketing also writer for seekingalpha.com, March 5, **2009**

Will Infrastructure Spending Really Revive U.S. Economic Growth?,<http://seekingalpha.com/article/124299-will-infrastructure-spending-really-revive-u-s-economic-growth>

According to the Organization for Economic Cooperation and Development (OECD), spending on infrastructure projects will be beneficial for long-term prosperity. On March 3rd, the OECD released the 'Going For Growth' 2009 report. This flagship “annual periodical provides an overview of structural policy developments in OECD countries from a comparative perspective.” In this report, Klaus Schmidt-Hebbel, OECD Chief Economist, says that infrastructure performs a vital role in the functioning of our economy. In summary, from the above three charts it is clearly evident that infrastructure spending needs to be increased in the US. The OECD report mentions that infrastructure investments may have positive spillovers throughout the other parts of the economy. But to reap the full benefits of such investments, it is essential to carefully select projects that will deliver the most benefits. Furthermore strong regulatory measures must be in place to ensure competition among market players in executing the projects.

### Metrics

#### infrastructure generates numerous benefits to the economy.

Isabelle Cohen ThomasFreilingEric Robinson ’**12** Report Title: “The Economic Impact and Financing of Infrastructure Spending” All authors respectively work at The College of William & Mary Thomas Jefferson Program in Public Policy URL: http://www.aednet.org/government/pdf-2012/infrastructure\_report.pdf

**In the long-run, our estimates suggest that investment in infrastructure continues to generate beneficial returns to the economy as a whole. To calculate the long-run effects of government investment in public infrastructure, we begin by taking into account the long-term relationship between types of infrastructure spending and overall economic output** (GDP), **as well as fluctuations in the value and depreciation of the current stock of infrastructure.** This long-term relationship is based on the sensitivity of GDP to different types of public investment. After an exhaustive review of the relevant academic and professional literature which has previously sought to estimate this structural relationship between economic activity and public infrastructure investment, we use the vector autoregression (VAR) method explicated in Alfredo Pereira’s (2000) paper, Is All Public Capital Created Equal?, published in the Review of Economics and Statistics. **This method produces an econometric determination of the long-run sensitivity of** GDP to **investment**, a numerical value **which captures the dynamic effects that GDP and investment spending each have on the other.** We then adjust this natural sensitivity (or “elasticity”) for recent changes in the stock of different types of infrastructure. These processes allow us to calculate the long-run permanent effect of investment on GDP. Primarily, the econometric approach used by Pereira (2000) offers the most sophisticated and consistent means through which these long-run effects can be calculated. **This method also allows for analysis of five different types of public infrastructure which are of interest to this study – highways and streets; transportation and power;** sewer and water; health, educational, office, and public safety buildings; and conservation, development and nonmilitary equipment.

### Jobs/Confidence

#### Spending is wonderful for the economy- creates jobs and investor confidence.

**The Hub** January 23, **2011** (News Site) <http://thesource.hubpages.com/hub/Government-spending-and-taxes-during-recession> “Government spending and taxes during recession.”

During a recession, the private sector spending drops for a variety of reasons.

Demand for goods and services drop. Private investors tend to restrict their investments. Factories tend to drop production and lay off workers. Eventually more and more businesses will continue to lay off more because less and less people have the money to spend. Revenues of government, state and local communities will also fall. These revenues usually come from taxes, which is a portion of individual and corporate incomes. Local communities will be forced to cut back on many essential services like law enforcement, emergency services, education, and the maintenance of infrastructure. All this will lead to higher unemployment, bankruptcies, hunger, homelessness, desperation, and crime**.** In addition, there will be social issues such as loss of personal dignity and in extreme situations we have seen political revolutions. If this downward spiral continues we can expect serious consequences for everyone including corporations, the rich, the middle class, and the poor. In extreme situations, faith in capitalism can erode and there can be considerable social pressure to move away from capitalism. We all know that in every business transaction for goods and services there must be a buyer who will spend. Without a buyer or a spender there will not be any economic activity. To prevent the downward spiral there has to be spending. If the ailing private sector cannot provide enough spending, we will need someone else to resuscitate the economy during a recession. Economists recommend injecting government funds into the economy without increasing taxes. Recession may be one of the few exceptions in which economists can justify deficit financing. In order to do this right the spending should be big enough to make an impact.  Ideally, spending should be in labor-intensive projects that would benefit the community and businesses. It can include spending in construction, education, communication networks, massive power-generation, and other major infrastructure projects. For example during the Great depression of the 1930s, the TVA was created. This not only created jobs, but it also helped us come out of the economic depression. It also improved the quality of life by providing cheap and clean electricity for millions. Industries who were heavily dependent on large amounts of energy thrived. TVA also helped the US during the Second World War by providing a huge amount of electricity needed to build the atomic bomb that stopped the war with Japan. With an effective stimulus package, such job creation will start very quickly. With workers now having money, they will be able to create a demand for goods and services. Businesses with capital will now begin to invest in goods and services. This in turn creates more jobs and more demand for good and services**.** More small business such as retail shops and restaurants will sprout within many communities. There will be ample opportunities for the masses to rise above subsistence. Self-esteem and consumer confidence of the masses will improve. Human hardships, homelessness, crime and other social issues will decrease. Eventually, as the positive ripple effect continues, the tax revenues naturally will go up and government’s deficit financing will not be needed at some point. Eventually tax revenues will automatically rise due to higher economic activity. This rise in revenues should now be used to reduce the budget deficit. The justification for a budget deficit will not be there anymore after the recession. Then taxes, fiscal policies, and interest-rates should be adjusted to maintain the health of the economy and keep government budgets balanced.

### Jobs/Growth

#### Spending stimulates the economy

Center on Budget and Policy Priorities, 2/8/12

<http://mediamatters.org/research/201206100006>, 2012

Deep cuts to state services also erode the foundations of a strong economy, in both the short and long term. Spending on education, transportation, and public safety has been shown to stimulate economic growth in the short run and is among the most important determinants of economic growth and job quality in the long run.Research also shows that expanding and improving upon these investments through well-targeted tax increases (in other words, finding new money to pay for better services) stimulates income and job growth

#### New spending doesn't require deficit spending and boosts the economy – promotes economic and job growth

Shiller '10 Professor of economics and finance at Yale

Robert J, New York Times, 12/26

<http://www.nytimes.com/2010/12/26/business/26view.html>

In that context, herefs some good news extracted from economic theory: We donft need to go deeper into debt to stimulate the economy more. For economists, of course, this isnft really news. It has long been known that Keynesian economic stimulus does not require deficit spending. Under certain idealized assumptions, a concept known as the gbalanced-budget multiplier theoremh states that national income is raised, dollar for dollar, with any increase in government expenditure on goods and services that is matched by a tax increase. The reasoning is very simple: On average, peoplefs pretax incomes rise because of the business directly generated by the new government expenditures. If the income increase is equal to the tax increase, people have the same disposable income before and after. So there is no reason for people, taken as a group, to change their economic behavior. But the national income has increased by the amount of government expenditure, and job opportunities have increased in proportion.

### Jobs/Productivity

#### Deficit spending is awesome- increasing employment and productivity.

Ryan Grim 2009 (the Washington bureau chief for The Huffington Post, The Huffington Post, Why the Stimulus is too Small, 02-09-2009, http://www.huffingtonpost.com/2009/02/09/is-stimulus-too-small\_n\_165076.html) EK

**For the stimulus to be able to turn around an economy spiraling down at that rate, the money injected into the economy would have to be multiplied many times over**. But, Galbraith says, the economy is currently stuck in a "liquidity trap." **People aren't spending because they're insecure about the future; companies aren't borrowing and expanding because the business climate looks stormy; and banks aren't lending because when the economy's tanking almost everyone looks like a bad credit risk.** The multiplier effect for a tax cut to business and the middle-class, Galbraith guesses, will be close to zero, because the money will be saved or used to pay down debt. With the banks in collapse, the CBO, then, is modeling for a situation that doesn't exist in reality. The running assumption among pundits and politicians - that the economy will turn around in 2010 or thereabouts - assumes that this recession is similar to previous recessions in which the financial sector and credit markets didn't collapse. "We are working with a set of economic projections which assume, for mechanical reasons, that the economy is going to start turning around at the end of this year. There is no analytical foundation for that," Galbraith says. "Those models that are based on the period after 1945 aren't going to work. They just aren't going to be right." **The current crisis is qualitatively different than any recession that the current projections are based on.** If they're wrong, then - **given the small size of the stimulus -- there will be no turnaround** in 2010. Instead**, the economy will careen out of control, unemployment will continue to rise, production will slow, etc.** The White House acknowledges the severity. "We're in a very serious situation," Obama's economic adviser, Lawrence Summers, told ABC News' "This Week." "This is worse than any time since the Second World War. It's worse than, I think, most economists like me ever thought we would see."

### Jobs

#### Investing in Transportation Infrastructure really pays off

LAURA D'ANDREA TYSON, 2011 (writer for the NY Times, Laura D’Andrea Tyson is a professor at the Haas School of Business at the University of California, Berkeley, and served as chairwoman of the Council of Economic Advisers under President Clinton. She currently serves on President Obama’s Council on Jobs and Competitiveness and its infrastructure subgroup. http://economix.blogs.nytimes.com/2011/06/03/the-virtues-of-investing-in-transportation/)

Yet the heated debate in Washington about how much and how fast to slash government spending is overlooking how a significant, sustained increase in infrastructure investment would create jobs and strengthen the nation’s competitiveness. Infrastructure spending, adjusted for inflation and accounting for the depreciation of existing assets, is at about the same level it was in 1968, when the economy was one-third smaller. Public investment on transportation and water infrastructure as a share of gross domestic product has fallen steadily since the 1960s and now stands at 2.4 percent, compared with 5 percent in Europe and more than 9 percent in China. Studies indicate that each $1 billion of infrastructure spending creates 11,000 (estimate of the President’s Council of Economic Advisers) to 30,000 jobs (estimate of the Department of Transportation for infrastructure spending on highways) through direct and indirect effects. Public infrastructure enables the private sector. A modern transportation infrastructure improves private-sector productivity by reducing production and transportation costs, and facilitating trade, economies of scale and efficient production methods. Even as we slash other forms of government spending, we must invest more in our infrastructure.

#### Infrastructure Spending boosts Economy

Roger **Runningen,** white house correspondent/reporter, February 16, **2012**

Lew Says Infrastructure Spending Still Needed to Bolster Economy, <http://www.businessweek.com/news/2012-02-16/lew-says-infrastructure-spending-still-needed-to-bolster-economy.html>

Feb. 12 (Bloomberg) -- White House Chief of Staff Jack Lew said hundreds of billions of dollars in spending for roads and bridges, education and manufacturing are necessary to keep the U.S. economy growing. “Most Americans understand that a crumbling infrastructure is not the way to build an economy that can last,” Lew, the former White House budget director, said on CNN’s “State of the Union” program. “We need to make sure we have a manufacturing base in this country” and workers with the needed skills.

### Jobs

#### Federal Investment in Infrastructure promotes economic well being

Center For American Progress, February 16, **2012**

Meeting the infrastructure Imperative, <http://www.americanprogress.org/issues/2012/02/infrastructure.html>

We need to do something similar beginning this year. The plan presented in this paper proposes a reasonable level of new federal investment and how to pay for it, enabling significant progress in bringing our infrastructure up to par. In addition, this paper outlines a set of critical reforms to how the federal government funds, prioritizes, finances, and plans for infrastructure improvements. These reforms can stretch the impact of each dollar invested. Together these policies will also stimulate sizable new private investment in public infrastructure projects to help close the gap between needs and the resources available. In our plan the proposed new level of federal investment is fully paid for by reasonable increases in specific sources of revenues, including a fee on imported oil, elimination of antiquated and expensive oil tax breaks, and modest increases to a limited number of infrastructure user fees. Aside from the strong economic impact of elevated spending on infrastructure, the need to do so is indisputable. The state of disrepair of every element of transportation, drinking water and wastewater, and dams and levees systems is well documented, as this paper details in the pages ahead. To a great extent these basic public assets are decades past their useful life or are currently being used far beyond their expected or engineered capacity. Meanwhile our energy infrastructure is woefully outdated. The prospects for economic growth and job creation from increased federal investments in our transportation, water, and energy infrastructure are undeniable and more affordable than most think.

#### Infrastructure spending increases short and long term growth

Mark **Zandi,** Chief economist at the Moody’s Corporation, November 2, **2011**

Doing infrastructure the right way, <http://www.economy.com/dismal/article_free.asp?cid=226001&src=mark-zandi>

The U.S. can and should invest more in its public infrastructure. This would be good economic policy for both the near and long term, as it would address the nation’s current jobs deficit and reduce the cost of doing business for American companies in global markets. The returns to infrastructure investment dwarf the costs, particularly since private investors are clamoring to team up with the government to rebuild the country. Federal, state and local governments invest less than $300 billion a year in such infrastructure needs as roads, schools, water and sewage systems, hospitals, and public safety systems. This is less than 2% of GDP and about one-third of what the U.S. spends annually on defense. The 2009 American Recovery and Reinvestment Act temporarily lifted infrastructure spending, but that is now quickly fading; even with the ARA boost, real inflation-adjusted infrastructure spending remains historically low. Given the fiscal pressures on all levels of government, such investment is sure to weaken further in coming years.

### Jobs

#### Infrastructure Spending Leads To Jobs

Claudia Copeland, Linda Levine, & William J Mallett September 21, 2011

(Specialist in Resources and Environmental Policy)(Specialist in Labor Economics)(Specialist in Transportation Policy) "The Role of Public Works Infrastructure in Economic Recovery" <http://www.fas.org/sgp/crs/misc/R42018.pdf>

Infrastructure spending directly increases employment because workers are hired to undertake construction projects. It also adds to demand for goods and services throughpurchases of material and equipment and through additional spending by the extra workerswho are hired … that increase in demand leads to further hiring.According to this view, spending on projects to address unmet infrastructure needs presents anopportunity to contribute significantly to economic recovery.

#### Infrastructure Spending key mechanism to job growth

**Center For American Progress,** February 17, **2012**

Idea of the Day: Boosting Infrastructure Investments Generates Business, Creates Jobs, and Boosts Public Safety, <http://www.americanprogress.org/issues/ideas/2012/02/021712.html>

Among the tools at the government’s disposal to boost jobs, rebuilding our infrastructure is one of the options with the greatest impact. After President Barack Obama proposed the American Jobs Act, Mark Zandi, chief economist at Moody’s Analytics, found in 2011 that new federal spending for infrastructure improvements to highways and public schools would generate $1.44 of economic activity for each $1 spent. In reviewing the economic impact of the American Recovery and Reinvestment Act of 2009, the Congressional Budget Office found that infrastructure investments and purchases by the federal government for goods and services had the largest jobs multiplier impact of all the stimulus elements. American families and communities are suffering from the consequences of anemic economic growth and high unemployment. Meanwhile, aging roads, bridges, water systems, and other key public assets are putting our public safety and national economic competitiveness at risk. The challenges present an obvious opportunity for bipartisan action: Boost infrastructure investments that build permanent public assets, generate business for small- and medium-sized companies, create jobs, and enhance our global competitiveness

### Jobs

#### Jobs provided by Transportation Infrastructure Overflow into Other Sectors

Kristina Costa, research assistant for the center for American progress, September 8, 2011

Infrastructure Spending Builds American Jobs, <http://www.americanprogress.org/issues/2011/09/jobs_infrastructure.html>

The fact that transportation spending translates to real jobs in construction and other industries isn’t surprising. The Federal Highway Administration periodically estimates the impact of highway spending on direct employment, defined as: Jobs created directly by the firms working on a given project Jobs supported indirectly by the project, including those in firms supplying materials and equipment for projects Jobs induced by direct and indirect hires when they make consumer purchases with their paychecks

#### Transportation Infrastructure spending creates jobs/ better econ

Kristina Costa**,** research assistant for the center for American progress, September 8, 2011

Infrastructure Spending Builds American Jobs, http://www.americanprogress.org/issues/2011/09/jobs\_infrastructure.html

But for construction workers, the benefits of government spending on transportation and infrastructure investments are direct. The spending helped bring down the high unemployment rates experienced in the construction sector of the economy. The accompanying chart compares the most recent August 2011 construction unemployment rate with the unemployment rates for the same month in preceding years.[2] Prior to the Great Recession, average August unemployment in the construction industry was around 6.5 percent. As the real estate market collapsed and the recession took hold, construction unemployment shot up precipitously, reaching 8.7 percent in 2008 and 17 percent in 2009.Infrastructure projects often have long planning stages, but as Recovery Act infrastructure investment kicked into gear, construction unemployment notched steadily down, falling to 16.3 percent in 2010 and then to 13.2 percent in August 2011.

### Jobs

#### Developing a new transit system to create jobs by spending in the short term is the best way to improve the economy.

Louis Uchitelle 2009 (Mr. Uchitelle was a visiting scholar at the Russell Sage Foundation in New York in 2002-03 and taught journalism for many years at Columbia University’s School of General Studies. Before joining The Times, he worked for The Associated Press as a reporter, an editor and a foreign correspondent in Latin America.)

But there is not much agreement yet on what type of spending would produce the best results, or what mix of spending and tax cuts. “We have spent so many years thinking that discretionary fiscal policy was a bad idea, that we have not figured out the right things to do to cure a recession that is scaring all of us,” said Alan J. Auerbach, an economist at the University of California, Berkeley, referring to the mix of public spending and tax cuts known as fiscal policy. Hundreds of economists who gathered here for the annual meeting of the American Economic Association seemed to acknowledge that a profound shift had occurred. At their last annual meeting, ideas about using public spending as a way to get out of a recession or about government taking a role to enhance a market system were relegated to progressives. The mainstream was skeptical or downright hostile to such suggestions. This time, virtually everyone voiced their support, returning to a way of thinking that had gone out of fashion in the 1970s. **“**The new enthusiasm for fiscal stimulus, and particularly government spending, represents a huge evolution in mainstream thinking**,”** said Janet Yellen, president of the Federal Reserve Bank of San Francisco. She added that the shift was likely to last for as long as the profession is dominated by men and women living through this downturn. The few sessions that dealt with fiscal policy were packed with economists, mostly from academia. Nearly all argued that public spending can be more effective than tax cuts in getting out of a bad recession. Still, they said the present crisis required, as a tonic, a mix of the two, and they debated what that mix should be, just as President-elect Obama’s [transition team](http://topics.nytimes.com/top/news/us/series/the_new_team/index.html?inline=nyt-classifier) is now doing. Their proposals were all over the lot. But at the formal sessions and in more than a dozen interviews, many said that once the recession ended, the nation should not go back to the system that held sway from Ronald Reagan’s election in 1980 to the present crisis. It was one in which taxes, regulation and public spending were minimized. For Peter Gottschalk, a labor economist at Boston College, who earned his Ph.D. in 1973, the transition has not been easy. Keynesian economics, with its emphasis on a government role in the marketplace, was losing its grip when he started his career. Indeed, the present upheaval has been outside the theoretical boundaries of mainstream economics as practiced for a generation by most of the nation’s economists. “Our models are built on the assumption that on average people behave rationally and they do the right thing,” Mr. Gottschalk said, **“**but this time people did very much the wrong thing. It’s like thinking you have a disease under control and then being hit with a new strain of it.” Since the 1970s, the Federal Reserve has dealt with recessions by lowering interest rates, thus reviving demand by making it less expensive to borrow and to spend. But this time, the credit system is broken, and those who can borrow at relatively low rates are reluctant to spend. That shifts the burden of lifting the economy to fiscal policy, namely the $600 billion to $800 billion mix of tax cuts and spending that the Obama administration and Congress are likely to agree on early this year.Nearly every economist who spoke here agreed that a dollar invested in, say, a new transit system or in bridge repair is spent and respent more efficiently than a dollar that comes to a household in a tax cut. A bigger percentage of the latter is saved**,** they said. There was concern, however, that the nation lacked enough “shovel ready” projects that could be ramped up quickly, generating jobs**.**

### Private Investment

#### Govt spending encourages private sector investment

Douglas J Amy, 2011

(**professor of politics at Mt. Holyoke College)**The Deficit Scare: Myth vs. Reality

http://www.governmentisgood.com/articles.php?aid=30&print=1, 2011

As most **economists point out, government spending also has a “crowding in” effect that actually encourages more private investment. That is because much of the money that the government borrows and spends goes to the private sector. Private industry must then prepare to provide the various goods and services demanded by the government** – such as weapons systems, green energy systems, new roads and schools, etc. In order to do this, these businesses must invest in new production facilities and greater productivity. **This “crowding in” effect thus helps to mitigate any negative effects that public borrowing has on the private sector by indirectly encouraging more private investment and business growth.**

#### Economy down b/c lack of infrastructure investment – new investment key to jumpstart the economy

Kristina Costa, Adam Hersh, 2011 (Hersh: Ph.D. in economics, Economist, Costa: B.A. in political philosophy, Research Assistant for the Doing What Works project and the Economic Policy team, http://www.americanprogress.org/issues/2011/09/jobs\_infrastructure.html)

The loss of jobs and investment in construction has been dragging down the overall U.S. economy. At the same time, the United States’ transportation and other public infrastructure is underfunded, aging, and growing increasingly inadequate to serve the needs of families and business competitiveness.

Fortunately, there is something very simple the federal government can do about these problems: Put more resources into infrastructure investment. We know from very recent experience that infrastructure investments deliver the goods for job creation and business growth. Two years ago, the unemployment rate for construction workers was 17 percent—before federal government stimulus funds boosted construction and the overall economy. In 2009 Congress and the Obama administration allocated an additional $29.9 billion in transportation spending for roads, bridges, and transit systems alongside another $21.7 billion for other infrastructure investments, ranging from funds for improving drinking and wastewater systems to large-scale civil engineering projects overseen by the Army Corps of Engineers. Together, this money accounted for 6 percent of spending through the Recovery and Reinvestment Act of 2009, directly creating 1.1 million jobs by March 2011 in the construction sector. Those 1.1 million jobs represent 17 percent higher construction employment than would have been the case without government action, according to an analysis by Daniel J. Wilson, an economist with the Federal Reserve.[1]

### Private Investment

#### Federal Investment in Transport Infrastructure key – Solves jobs and prompts private sector investment

**Business Live 12**

Financial and Market Watchdog. Fixed investment creates growth, jobs — Busa Image: Michael Bratt No CaptionArticles FOCUS: Leading indicator points to a loss of momentum in SA econony No place for mining ‘dirt diggers’: ANC expert Liquidations up 151% in April A way of creating jobs that works Switzerland ‘key partner’ for SA: Davies http://www.businesslive.co.za/southafrica/sa\_markets/2012/06/26/fixed-investment-creates-growth-jobs--busa

Dust-up over Gigaba's coal plan With SA increasingly looking inward for economic growth drivers given the weak demand from its major trading partners, big business is proposing higher levels of total fixed investment by both the private the public sectors as the key to better growth and more jobs. The weak domestic economy as it stands, has led to a debate relating to where growth and jobs should come from. At levels of around 18% of gross domestic product (GDP), SA’s fixed investment is considered low compared to its peers. Speaking to BusinessLIVE, Business Unity SA (Busa) deputy CEO Raymond Parsons said that if South Africa wanted to reach a six-percent growth rate, this would need to be supported by total fixed investment of about 25% of GDP in the years ahead. “Both the New Growth Path and the National Development Plan base SA’s future economic performance on rising levels of total fixed investment,” Mr Parsons said. Official figures showed that real gross fixed capital formation lost some momentum in the opening months of this year primarily due to slower growth in capital spending by private business enterprises, an indication of the kind of strain private businesses found themselves under. Mr Parsons noted that in the current economic environment, infrastructural investment was crucial. “It is now essential that the existing infrastructural programme be implemented as soon as possible to crowd private sector investment in,” the deputy CEO said. “Implementing infrastructural investment projects successfully is now a missing link to a better economic performance for SA.” Although the central government was embarking on an over R800 billion infrastructure programme, Stanlib economist Kevin Lings believed the successful implementation of Transnet’s seven-year R300bn capital expenditure was a “more realistic catalyst” to unlocking private sector investment and subsequently economic growth and job creation. Transnet is set to embark on infrastructure programmes including the expansion of the iron ore and coal railway lines, general rail freight capacity, and the upgrading of container terminals in some of the country’s ports. The Reserve Bank’s June quarterly bulletin noted that the capital spending by Transnet, in particular on the new multi-product pipeline, gave rise to accelerated spending on machinery, equipment and construction works. Lings said during a presentation on Tuesday that South African corporates were sitting on over R500bn excess cash, which they were not investing, mainly due to the current gloomy economic climate, but also because they awaited the delivery of key infrastructure such as roads, energy, and freight. The delivery of infrastructure would lead private sector companies to invest in long-term projects, Lings suggested.

### Now Key

#### If we don’t spend on infrastructure now we will face consequences

**The Morning Call** (newspaper), April 1, **2012**

Wise investments in infrastructure can enhance America's dream, <http://articles.mcall.com/2012-04-01/opinion/mc-stimulus-infrastructre-jobs-donohue-point-20120402_1_investments-infrastructure-air-traffic-control-system>

In the 20th century, the United States built the most advanced infrastructure system ever — made up of highways, bridges, air and sea ports, rail and mass transit systems, dams and levees and a modern electricity grid. Those investments put millions to work and fueled our economic growth, expanded our horizons and made us the envy of the world. But in the years since, we've failed to keep up those investments, and we've moved from first in the world to middle of the pack. Finally, we must act with urgency. If we fail to make adequate investments in transportation infrastructure, by 2020 we'll lose almost $1 trillion in economic growth. Businesses will see their transportation costs rise by $430 billion, and the average American household income will drop by more than $700. U.S. exports will decline by $28 billion. Meanwhile, global competitors will surge past us with superior infrastructure that will attract jobs, businesses and capital.

### Multiplier

#### Government spending massively boosts the economy- history proves.

Beren 2010 (Robert M. Beren Professor of Economics at Harvard University,National Affairs, Crisis Economics, Summer 2010 issue, http://www.nationalaffairs.com/publications/detail/crisis-economics,) EK

To Obama-administration **economists**, as well as to many others**, the recession that followed the financial crisis of 2008 seemed like a classic case of decline in aggregate demand. Because of the credit crisis, people were not able to obtain loans** — for homes, cars, business equipment, or any of the countless other transactions **that rely on credit in today's economy. And because people were unable to obtain loans, these sales and purchases couldn't take place, resulting in a significant drop in demand across the economy**. So, inspired by the view that fiscal policy can prop up aggregate demand, Obama's advisors (and their congressional allies) began to design a stimulus plan heavy on direct government spending. A few days before President Obama's inauguration, his economic advisors released a document titled "The Job Impact of the American Recovery and Reinvestment Plan," in which they detailed some of their economic assumptions. They determined that the "**government**-purchases multiplier" — that is, the multiplier for direct **spending** — **would be 1.57, while the tax-cut multiplier would be 0.99. In other words, every dollar spent by the government would yield $1.57 in aggregate demand, while every dollar in reduced taxes would yield only 99 cents in increased demand. And because 1.57 is larger than 0.99**, the Obama team concluded **it was better to increase spending** than to cut taxes. Obama and his advisors arrived at these numbers through a standard macroeconometric model of the sort economists have been using for years. Such **models take various past relationships among economic variables** (inflation and **unemployment, for instance**) **and extrapolate them into the future.** In essence, the economy is modeled as a system of equations, each describing how one variable responds to many others. University of Chicago economist (and Nobel laureate) Robert Lucas famously criticized these models for lacking an appreciation of people's changing expectations; many economists, however, still find such models valuable, and have continued to employ them for forecasting and policy analysis. The question for economists now is whether the administration's assumptions, and the model based on them, were correct. After all, if we could be sure their model was right, we would know what to conclude when their stimulus plan was followed by 10% unemployment: The patient was sicker than they thought, and unemployment would surely have been higher still if not for the stimulus. (Indeed, since Obama's advisors do believe their model was right, this is the conclusion they have reached.)

### Multiplier

#### Infrastructure Spending promotes multiplier effect – causing job growth and Long Term Economic Growth.

Heather Boushey, 2011 (Senior Economist at American Progress) http://www.americanprogress.org/pressroom/releases/2011/09/infrastructure\_creates\_jobs

Today, as President Barack Obama points to a bridge in need of repair as a way to put Americans back to work, the Center for American Progress released an analysis proving that investments in infrastructure will create jobs and yield lasting benefits for the economy. Entitled “Now Is the Time to Fix Our Broken Infrastructure” the analysis states that 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. The analysis details the following reasons for why spending on infrastructure is a wise investment: Infrastructure projects create jobs in communities nationwide. Infrastructure investments are an especially cost-effective way to boost job creation with scarce government funds. Analysis of all fiscal stimulus policies shows a higher “multiplier” from infrastructure spending than other kinds of government spending, such as tax cuts, meaning that infrastructure dollars flow through the economy and create more jobs than other kinds of spending. Investing in infrastructure not only creates jobs, it increases the productivity of businesses small, medium, and large.

### solve long term deficit

#### Infrastructure spending leads to lower long term deficits

Stiglitz, Joseph. 05 Mar. 2010

"San Francisco Bay Guardian."*Stiglitz: The Dangers of Deficit Reduction*. San Francisco Bay Guardian, Web. 25 June 2012.

[**http://www.sfbg.com/bruce/2010/03/05/stiglitz-dangers-deficit-reduction**](http://www.sfbg.com/bruce/2010/03/05/stiglitz-dangers-deficit-reduction), 2010

Most economists also agree that it is a mistake to look at only one side of a balance sheet (whether for the public or private sector). One has to look not only at what a country or firm owes, but also at its assets. This should help answer those financial sector hawks who are raising alarms about government spending. After all, **even deficit hawks acknowledge that we should be focusing not on today’s deficit, but on the long-term national debt. Spending, especially on investments in education, technology, and infrastructure, can actually lead to lower long-term deficits.** Banks’ short-sightedness helped create the crisis; we cannot let government short-sightedness – prodded by the financial sector – prolong it. But **high-return public investments that more than pay for themselves can actually improve the well-being of future generations,** and it would be doubly foolish to burden them with debts from unproductive spending and then cut back on productive investments.

#### Transportation Infrastructure is key to increase revenues

Stan **Braselow,** writer for the Las Vegas Sun, August 5, **2011**

Government spending not cuts are needed, <http://www.lasvegassun.com/news/2011/aug/05/government-spending-not-cuts-needed/>

Our economy is in the tank, and spending cuts will further exacerbate the problem by cutting government employees and government contractors. This country needs to immediately embark on a massive program to restore, add or improve our bridges, roads, water mains, sewage systems, electric grids and renewable power systems.Then we will be in a position to start reducing government expenditures because our tax revenue will have increased sufficiently.

#### US Infrastructure Spending has several benefits to the Economy – tax revenue and reducing debt to GDP ratio

Chris Ferrell, writer for business week, October 17, **2010**

US infrastructure spending no time to be cheap, <http://www.businessweek.com/investor/content/oct2010/pi20101014_543655.htm>

"Spending now on infrastructure stimulates the economy in a way that will help provide for long-term higher economic growth that will increase future tax revenue and bring down the debt-to-GDP ratio," says David Aschauer, economist at Bates College. He's the author of an influential set of research papers from the late 1980s and early 1990s on the effect of infrastructure spending on national productivity. "It's real supply-side economics."

### **History**

#### Deficit spending helps the economy- cynicism ignores a half-century of proof

Stiglitz 04(2004, Joseph Stiglitz, recipient of the 2001 Nobel Prize for Economics, a Professor of economics at Columbia University, Chairman of the President's Council of Economic Advisers during the Clinton Administration, Chief Economist and Vice President for Development of the World Bank, The Economists’ Voice, Vol. 1 issue 1, “The Parties’ Flip-Flops on Deficit Spending: Economics or Politics?” <http://ic.ucsc.edu/~fravenna/econ100n/ReadingStiglitz.pdf>

Indeed, this **cynicism ignores a half-century of economic science** — **one result of which has been that there is an overwhelming consensus among economists about** a few basic propositions. And one area of such consensus involves the key circumstances when **deficits** matter, and when they do not. Suppose the economy is operating below its potential — say, because of a lack of aggregate demand. In that case, **an increase in aggregate demand can help the economy. And deficits normally increase demand.That's because the government is spending more money**, or because low taxes encourage increased consumer spending — or both. Keynes made this point clear a long time ago — and he is still correct. No wonder, then, that the IMF’s imposition of fiscal stringency in East Asia and Latin America — when those countries already faced a downturn — was a disaster. The IMF policy had the predictable consequence of making the economic downturns worse, turning downturns into recessions, and recessions into depressions. **The right prescription** for the affected countries **was** not balancing the budget, but **running a temporary deficit to stimulate the economy** — as Keynes knew.

#### Deficit Spending on infrastructure kick starts economies

Philip **Demont**, CBC journalist, May 28**, 2009**

The Return of Deficit Spending, <http://www.cbc.ca/news/business/story/2008/10/21/f-deficit.html>

John Maynard Keynes, and more recently Canadian economist John Kenneth Galbraith, are the people most often associated with deficit spending. Their thinking is fairly straightforward: in bad times, the government should borrow to spend money on useful things like bridges and highways or not-so-useful things, such as digging ditches, made famous when U.S. President Franklin Roosevelt used public money to battle the Great Depression in the 1930s. By going into debt, the government gets some much-needed cash into the wallets of consumers and companies who in turn spend more and kick-start the economic growth cycle.

### **History**

#### History proves that economic growth has nothing to do with saving money- spending encourages private investment-boosts growth.

Robert J. **Barro 1998**(Qualifications: Works at the NATIONAL BUREAU OF ECONOMIC RESEARCH.) <http://books.google.com/books?id=qPwiAQAAMAAJ&q=#search_anchor>

Recent **models of economic growth can generate long-term growth without relying on exogenous changes in technology or population.** Some of the models amount to theories of technological progress (Rower, 1986), and others to theories of population change (Becker and Barro, 1988). A general feature of these models is the presence of constant or increasing returns in the factors that can be accumulated (Rower, 1988, Lucas, 1988, Rebelo, 1987). **One strand of the literature on endogenous economic growth concerns models where private and social returns to investment diverge, so that decentralized choices lead to sub-optimal rates of saving and economic growth** (Romer, 1986).**In this setting private returns to scale may be diminishing, but social returns—which reflect spillovers of knowledge or other externalities—can be constant or increasing. Another line of research involves models without externalities, where the privately determined choices of saving and growth are** Pareto **optimal** (Rebelo, 1987). **These models rely on constant returns to private capital, broadly defined to encompass human and non-human capital.** The present analysis builds on both aspects of this literature by incorporating a public sector into a simple, constant-returns model of economic growth. **Because of familiar externalities associated with public expenditures** and taxes, the **privately-determined values of saving and economic growth turn out to be sub-optimal. Hence there are interesting choices about government policies, as well as empirical predictions about the relations among the size of government, the saving rate, and the rate of economic growth.**

### **History**

#### Infrastructure Spending Pays for Itself

Raymond **Messer**, writer for Design Intelligence, January 15 **2009**

Infrastructure improvements will boost a struggling economy, http://www.di.net/articles/archive/2966/

There is well-documented evidence of the direct correlation between transportation spending and job creation and the vital link between transportation and the economy. Transportation and transportation-related industries account for 10 percent of U.S. gross domestic product, and studies show that $1 billion in spending on infrastructure supports more than 34,000 jobs. Each dollar invested in highway construction generates $1.80 of GDP in the short term, according to Standard & Poor’s DRI. It is no surprise that the U.S. Chamber of Commerce and other business groups are making transportation a priority in their advocacy.

#### Infrastructure spending is known to make jobs

Heather **Boushy**, Senior economist for the Center for American Progress, September 8, **2011**

Government spending can create jobs and it has, <http://www.americanprogress.org/issues/2011/09/yes_we_can.html>

Increased investments in infrastructure saved or created 1.1 million jobs in construction industry and 400,000 jobs in manufacturing by March 2011. Almost all of these jobs were in the private sector. The reason for this success is simple: Upgrading roads, bridges, and other basic infrastructure not only creates jobs but also paves the way for businesses small, medium, and large to benefit. Infrastructure investments lower the cost of doing business, making U.S. companies more competitive. And they put people to work earning good, middle-class incomes, which expands the consumer base for businesses.

### **History**

#### History Proves Deficit Spending Helps Bad economies

Burton **Folsom**, professor of history at Hillsdale College, September **2011**

Which Strategy Really Ended the Great Depression? , http://www.thefreemanonline.org/columns/our-economic-past/which-strategy-really-ended-the-great-depression/

Franklin Roosevelt recognized that the war only provided a short-term fix for the economy—and a very costly one at that. What would happen after the war—when 12 million troops came home and the strong demand for guns, bullets, tanks, and ships ceased? Roosevelt envisioned a New Deal revival. He had created the National Resources Planning Board (NRPB) in 1939 and urged it during the war to plan for peacetime. The NRPB leaders believed that government planning was necessary to promote economic development. They consciously (and sometimes unconsciously) followed ideas popularized in 1936 by John Maynard Keynes in his bestselling book, The General Theory of Employment, Interest and Money. Capitalism was inherently unstable, Keynes argued, and would rarely provide full employ-ent. Therefore government intervention was needed, especially in recessions, to spend massive amounts of money on public works, which would create new jobs, expand demand, and rebuild consumer confidence. Yes, government would need to run large deficits, but economic stability was society’s reward. If government planners could manage aggregate demand through public works, the boom-bust business cycle could be flattened and economic development could be managed in the national interest. No more Great Depressions. Man could indeed be master of his economic future.

#### Infrastructure Spending is Key to Economy – history proves

Robert **Lenzer,** nationally awarded editor for Forbes, 7/29/**11**

Infrastructure spending is crucial for jobs and growth,

You can damn former White House economic adviser Larry Summers for vehemently opposing infrastructure spending as stimulus even before Obama moved into the White House. Two weeks before inauguration his op-ed in the Washington Post made it clear no make-work jobs on infrastructure. Just imagine the jobs that could have been created employing laid-off construction workers, painters, carpenters, plumbers etc. Summers is always carping about the pathetic look of our airports and railroad stations. Well, then. He should have corralled some of the $780 billion stimulus for repairing railroad stations, painting schools and other public buildings, fixing the bathrooms at public locations everywhere in the country. I am sure there is an enormous amount of infrastructure that needs to be modernized, freshened up, holes repaired in highways, subway stations cleaned, bridges strengthened. All without building a single new power plant or dam or project that requires environmental and local political approval. Look at the numbers; they show how crucial infrastructure spending is to the level of growth in GDP. Between 1950 and 1979 the year to year growth in public investment in infrastructure amounted to a 4% annualized growth rate. This 4% was just a tad under the 4.1% growth rate for the nation’s entire GDP. So, you can clearly see how important infrastructure spending was to our economy.

## Deficit Spending Bad

### Infrastructure deficit spending fails

#### New infrastructure spending fails to create new jobs or boost the economy

Riedl (Grover M. Hermann Fellow in Federal Budgetary Affairs in the Thomas A. Roe Institute for Economic Policy Studies atHeritage Foundation) 2010

Brian, Wall Street Journal, January 8

<http://online.wsj.com/article/SB10001424052748703481004574646551469288292.html?mod=WSJ_latestheadlines>

Spending-stimulus advocates claim that Congress can "inject" new money into the economy, increasing demand and therefore production. This raises the obvious question: From where does the government acquire the money it pumps into the economy? Congress does not have a vault of money waiting to be distributed. Every dollar Congress injects into the economy must first be taxed or borrowed out of the economy. No new spending power is created. It is merely redistributed from one group of people to another.[7] Congress cannot create new purchasing power out of thin air. If it funds new spending with taxes, it is simply redistributing existing purchasing power (while decreasing incentives to produce income and output). If Congress instead borrows the money from domestic investors, those investors will have that much less to invest or to spend in the private economy. If they borrow the money from foreigners, the balance of payments will adjust by equally raising net imports, leaving total demand and output unchanged. Every dollar Congress spends must first come from somewhere else. For example, many lawmakers claimthat every $1 billion in highway stimulus can create 47,576 new construction jobs. But Congress must first borrow that $1 billion from the private economy, which will then lose at least as many jobs.[8] Highway spending simply transfers jobs and income from one part of the economy to another. As Heritage Foundation economist Ronald Utt has explained, "The only way that $1 billion of new highway spending can create 47,576 new jobs is if the $1 billion appears out of nowhere as if it were manna from heaven."[9] This statement has been confirmed by the Department of Transportation[10] and the General Accounting Office (since renamed the Government Accountability Office),[11] yet lawmakers continue to base policy on this economic fallacy. Removing water from one end of a swimming pool and pouring it in the other end will not raise the overall water level. Similarly, taking dollars from one part of the economy and distributing it to another part of the economy will not expand the economy.

### Infrastructure deficit spending fails

#### Infrastructure Stimulus spending fails to promote growth – is wasteful

De Rugy and Mitchell '11 (Senior research fellows at the Mercatus Center at George Mason University)

Veronique & Matthew, Mercatus Center Working Paper No. 11-36; September

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.

#### Deficit spending on infrastructure projects fails to boost the economy

De Rugy and Mitchell '11 (Senior research fellows at the Mercatus Center at George Mason University)

Veronique & Matthew, Mercatus Center Working Paper No. 11-36; September

Economists have long recognized the value of infrastructure. Roads, bridges, airports, canals, and other projects are the conduits through which goods are exchanged. In many circumstances, private firms can and should be allowed to provide this infrastructure. But in other cases, there may be a role for public provision at the local level.42 But whatever its merits, infrastructure spending is not likely to provide much of a stimulus. As a short-term measure, more deficit-financed infrastructure spending is a risky bet. At best, it is likely to be ineffective; at worst it will be counterproductive. One long-term impact of further stimulus is certain: it would leave the United States deeper in debt at time when we can ill afford it.

### Infrastructure deficit spending fails

#### Deficit Spending can’t solve the economy – it fails to spur growth and takes too long

**Alesina12 (Professor Economics at Harvard)**

International Journal of Central Banking; Discussion of “Consequences of Government Deficits and Debt” Alberto Alesina Harvard University. January 2012

Overall these results should give pause to those who hold a textbook Keynesian view of public finance. According to the latter, spending multipliers should be larger than tax multipliers, and spending multipliers should be (much) larger than one. The wide range of estimates does not allow us to draw firm conclusions on how much one should use discretionary government spending as a countercyclical tool, but they certainly are not an endorsement of a very proactive stand. In addition, those estimates do not deal with two additional issues. One is the “long and variable lags” and the effect on deficits. That is, by the time an expansionary fiscal package is designed, approved, implemented, and spent, it may take so long that it may reach the wheels of the economy when it is too late, i.e., in the wrong part of the cycle. In addition, deficit spending (including the effect of automatic stabilizers) should be compensated by surplus during expansions. But often, for political reasons, it is not, and deficit spending during recessions accumulates in large debts, because they are never compensated. Therefore my reading of this evidence is that one should be careful in using discretionary spending as a countercyclical fiscal policy tool, above and beyond automatic stabilizers. Let’s now turn to the second issue, namely how costly it’s going to be to reduce deficits. Virtually everyone would agree that in the medium run, having a solid fiscal position facilitates public policies and growth. The most hotly debated issue is what are the short-run costs of the kind of large deficit-reduction policies that are needed both in several European countries and in the United States. Once again, this is not the place for a survey of the rather vast literature on these issues. Much of this literature, starting in the early nineties, has studied several examples of large fiscal adjustments that have occurred in OECD countries. My reading of the results is as follows: • Spending based on adjustments is less costly in terms of shortrun recessions than tax-based adjustments. Vol. 8 No. S1 Discussion: Alesina 241 • Only spending-based adjustments are likely to lead to a longlasting stabilization and reduction of the debt/GDP ratio. This is because without putting a break on programs which automatically grow, tax revenues cannot keep up with spending increases, especially with an aging population. Which programs are better candidates for cuts vary across countries but typically include pensions, health spending, and various other types of subsidies. In many European countries, government employment is overextended and public-sector wages have grown more than private-sector ones. • In some cases, spending-based adjustments have been much less costly than a standard Keynesian model would predict, and in fact they have been accompanied by expansionary effects on the economy. • In these cases, a swift response of private-sector investment (in addition to private consumption) has “crowded in” aggregate private demand. • These “expansionary” fiscal contractions are helped when they are accompanied by a structural reform package that indicates a “regime change.” • In small open economies, exchange rate devaluations helped in the short run. These results are sometimes labeled as “non-Keynesian effects” of fiscalpolicy, namelythepossibilitythat a fiscal adjustmentdoes not bring about a deep recession even in the short run. Several non-Keynesian channels that could counteract the standard effects of spending cuts on aggregate demand have been discussed in the literature. The first one goes through an expectation effect. A spendingbased adjustment today indicates a decreased need for a bigger one tomorrow and reduces expectations of future tax increases. This may have some positive effects on expected profits for firms and expected disposable income for consumers. Stabilization of the budget may also bring about positive effects on confidence for investors. The removal of uncertainty about the future stance of taxes and regulatory policy may bring about a boost of confidence. This is an issue that deserves further study.

### trades off with private dollars

#### New infrastructure spending trades off with private spending – no boost in jobs or growth

Riedl (Grover M. Hermann Fellow in Federal Budgetary Affairs in the Thomas A. Roe Institute for Economic Policy Studies atHeritage Foundation) 2010

Brian, Wall Street Journal, January 8

<http://online.wsj.com/article/SB10001424052748703481004574646551469288292.html?mod=WSJ_latestheadlines>

First, if money is not going to be printed, it has to come from somewhere. If the government borrows a dollar from you, that is a dollar that you do not spend, or that you do not lend to a company to spend on new investment. Every dollar of increased government spending must correspond to one less dollar of private spending. Jobs created by stimulus spending are offset by jobs lost from the decline in private spending. We can build roads instead of factories, but fiscal stimulus can't help us to build more of both. This form of "crowding out" is just accounting, and doesn't rest on any perceptions or behavioral assumptions. Second, investment is "spending" every bit as much as is consumption. Keynesian fiscal stimulusadvocates want money spent on consumption, not saved. They evaluate past stimulus programs by whether people who got stimulus money spent it on consumption goods rather than save it. But the economy overall does not care if you buy a car, or if you lend money to a company that buys a forklift.

#### Government spending doesn't boost the economy – only trades off with private dollars

Riedl (Grover M. Hermann Fellow in Federal Budgetary Affairs in the Thomas A. Roe Institute for Economic Policy Studies atHeritage Foundation) 2010

Brian, Wall Street Journal, January 8

<http://online.wsj.com/article/SB10001424052748703481004574646551469288292.html?mod=WSJ_latestheadlines>

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

### trades off with private dollars

#### Turn – stimulus dollars trade off with more productive private dollars – overall hurt the economy

Riedl (Grover M. Hermann Fellow in Federal Budgetary Affairs in the Thomas A. Roe Institute for Economic Policy Studies atHeritage Foundation) 2010

Brian, Wall Street Journal, January 8

<http://online.wsj.com/article/SB10001424052748703481004574646551469288292.html?mod=WSJ_latestheadlines>

Government spending can affect long-term economic growth, both up and down. Economic growth is based on the growth of labor productivity and labor supply, which can be affected by how governments directly and indirectly influence the use of an economy's resources. However, increasing the economy's productivity rate--which often requires the application of new technology and resources-- can take many years or even decades to materialize. It is not short-term stimulus.[13] In fact, large stimulusbillsoften reduce long-term productivity by transferring resources from the more productive private sector to the less productive government. The government rarely receives good value for the dollars it spends. However, stimulus bills provide politicians with the political justification to grant tax dollars to favored constituencies. By increasing the budget deficit, large stimulus bills eventually contribute to higher interest rates while dropping even more debt on future generations.

### fails short term

#### Government spending cannot cause a short, or long-term economic gain – history and studies are on our side

Riedl (Grover M. Hermann Fellow in Federal Budgetary Affairs in the Thomas A. Roe Institute for Economic Policy Studies atHeritage Foundation) 2010

Brian, Wall Street Journal, January 8

<http://online.wsj.com/article/SB10001424052748703481004574646551469288292.html?mod=WSJ_latestheadlines>

Government Spending Can Have a Long-Term Impact. Although it cannot immediately increase economic growth, government spending can have a long-term impact. Economic growth results from producing more goods and services (not from redistributing existing income), and that requires productivity growth and growth in the labor supply. Productivity growth requires some combination of: (1) a more educated and efficient workforce; (2) more private physical capital, such as factories and tools; (3) increased use of new technology; (4) more public infrastructure like roads and other utilities; and (5) markets to set prices and rule of law to enforce contracts. Government's effect on economic growth is determined by its effect on productivity and labor supply.

Only in the rare instances where the private sector fails to provide those inputs in adequate amounts is government spending necessary. Government spending on education, physical infrastructure, and research and development, for instance, could increase long-term productivity rates--but only ifgovernment invests more competently than businesses, nonprofit organizations, and private citizens would have if those investment dollars had stayed in the private sector. Historically, governments have rarely outperformed the private sector in generating productivity growth. Thus, mountains of academic studies show that government spending typically reduces long-term economic growth.

#### Infrastructure spending does not increase jobs in the short term – only shifts jobs from one area to another

Foster '11 (Norman B. Ture Senior Fellow in the Economics of Fiscal Policy at The Heritage Foundation) J.D., Testimony on Labor – Heritage Foundation, Sept. 21

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

Increased infrastructure spending, as the President and others have advocated, is an example of a double folly. To be clear, the issue here is not whether the nation needs more or less infrastructure spending. I am not expressing an opinion on that one way or another. The issue is whether it acts as a short-term stimulus. It does not. First, assuming the additional spending was financed by additional borrowing, the policy runs afoul of the Keynesian fallacy. To be sure, once a project is underway one can point to the people working, but just as surely the borrowing that made that project possible reduced employment elsewhere. The second folly is just as plain. Infrastructure spending on projects is capital intensive and stretches over years. It cannot, even if enacted, swiftly affect employment in the next year plus.

# Unemployment

## Unemployment Good

### Infrastructure = short term jobs

#### All jobs created by government infrastructure bills will be temporary

Garofalo 6/25/12 (PAT GAROFALO is Economic Policy Editor for ThinkProgress.org at the Center for American Progress Action Fund. Pat’s work has also appeared in The Nation, U.S. News & World Report, The Guardian, the Washington Examiner, and In These Times. He has been a guest on MSNBC and Al-Jazeera television, as well as many radio shows. Pat graduated from Brandeis University, where he was the editor-in-chief of The Brandeis Hoot, Brandeis’ community newspaper, and worked for the International Center for Ethics, Justice, and Public Life. <http://thinkprogress.org/economy/2012/06/05/495318/house-gop-transportation-pipelin/?mobile=nc>)

Despite last week’s disappointing jobs report, which showed the [largest drop in construction jobs](http://www.businessweek.com/news/2012-06-01/construction-jobs-loss-reignites-debate-on-highway-bill) in two years, House Republicans are [threatening to walk away](http://public.cq.com/docs/news/news-000004098691.html) from a transportation infrastructure bill unless Democrats agree to approve construction of the controversial Keystone XL pipeline and limit the Environmental Protection Agency’s ability to regulate coal ash: **House Republicans say they are willing to walk away from highway bill talks if they cannot get what they want on issues including approval of the Keystone XL pipeline and limiting the EPA regulation of coal ash, a move that clouds prospects for completing legislation before the June 30 deadline.**“If we can’t get serious about finding common ground, the bill will fail,” said Pennsylvania Republican Bill Shuster, a House Transportation and Infrastructure subcommittee chairman and a deputy whip. The Senate passed a bipartisan transportation bill by a 74-22 vote, but House Republicans have been unable to corral enough votes to pass their own legislation, instead opting for short-term extensions of transportation funding. And this is [not the first time](http://thinkprogress.org/economy/2012/04/13/464367/boehner-keystone-transportation/) that House Republicans, led by Speaker of the House John Boehner (R-OH), have threatened to use the bill to force approval of the pipeline. Meanwhile, the GOP claim that the pipeline is a key driver of job creation [is largely](http://thinkprogress.org/climate/2011/12/16/391272/myth-that-keystone-xl-creates-jobs-perpetuated-by-oil-lobby-parroted-by-congresss-oil-recipients/) [a myth](http://thinkprogress.org/climate/2012/01/13/403443/keystone-xl-tar-sands-pipeline-jobs-plan-oil-export/). Most government infrastructure bills create no permanent jobs.

### AT Infrastructure increases jobs

#### Infrastructure projects won't boost job growth

Becker '09 (**University Professor Department of Economics and Sociology;**
**Graduate School of Business The University of Chicago)**

Gary, January 18; The Becker-Posner Blog

<http://www.becker-posner-blog.com/2009/01/infrastructure-in-a-stimulus-package-becker.html>

Some of this infrastructure spending may be very worthwhile-I return to this issue a bit later- but however merited, it is difficult to believe that they would provide much of a stimulus to the economy. Expansion of the health sector, for example, will add jobs to this sector, but it will do this mainly by drawing people into the health care sector who are presently employed in jobs outside this sector. This is because unemployment rates among health care workers are quite low, and most of the unemployed who had worked in construction, finance, or manufacturing are unlikely to qualify as health care workers without considerable additional training. This same conclusion applies to spending on expanding broadband, to make the energy used greener, to encourage new technologies and more research, and to improve teaching. An analysis by Forbes publications of where most jobs will be created singles out engineering, accounting, nursing, and information technology, along with construction managers, computer-aided drafting specialists, and project managers. Unemployment rates among most of these specialists are not high. The rebuilding of "crumbling roads, bridges, and schools" highlighted by in various speeches by President Obama is likely to make greater use of unemployed workers in the construction sector. However, such spending will be a small fraction of the total stimulus package, and it is not easy for workers who helped build residential housing to shift to building highways.

### AT Multiplier Effect

#### Multiplier effect is wrong – government stimulus trades off with private dollars that would have the same effect

Riedl (Grover M. Hermann Fellow in Federal Budgetary Affairs in the Thomas A. Roe Institute for Economic Policy Studies atHeritage Foundation) 2010

Brian, Wall Street Journal, January 8

<http://online.wsj.com/article/SB10001424052748703481004574646551469288292.html?mod=WSJ_latestheadlines>

Critics' objection no. 3: government spending has a multiplier effect that allows the money to re-circulate through the economy multiple times. This point is correct but irrelevant to the question of stimulus. Yes, $100 in unemployment benefits can be spent at a grocery store, which, in turn, can use that $100 to pay salaries and support other jobs. The total amount of additional economic activity will be well above $100; but because government borrows the $100, that same money is now unavailable to the private sector--which would have spent the same $100 with the same multiplier effect.

#### No multiplier effect for infrastructure projects – delays in output kill the model and cause a short term downturn

De Rugy and Mitchell '11 (Senior research fellows at the Mercatus Center at George Mason University)

Veronique & Matthew, Mercatus Center Working Paper No. 11-36; September

There are unique problems with infrastructure stimulus that tend to diminish its chances of success. Chief among these are long implementation delays. The Congressional Budget Office reports that:

[F]or major infrastructure projects supported by the federal government, such as highway construction and activities of the Army Corps of Engineers, initial outlays usually total less than 25 percent of the funding provided in a given year. For large projects, the initial rate of spending can be significantly lower than 25 percent.17

Economists from the IMF studied the impact of implementation delays on the multiplier and found that, \Implementation delays can postpone the intended economic stimulus and may even worsen the downturn in the short run.

### AT Multiplier Effect

#### Multiplier effect has no basis – huge range of outcomes for the actual effect

De Rugy and Mitchell '11 (Senior research fellows at the Mercatus Center at George Mason University)

Veronique & Matthew, Mercatus Center Working Paper No. 11-36; September

Notwithstanding the confidence of stimulus advocates, there is no academic consensus regarding the size or even the sign of the multiplier. As a recent International Monetary Fund (IMF) working paper puts it, \Economists have offered an embarrassingly wide range of estimated multipliers.a5 The largest recent estimate is by Northwestern University economists Lawrence Christiano, Martin Eichenbaum, and Sergio Rebelo. They estimate that the multiplier may be as large as 3.7, implying that $1.00 in government purchases stimulates another $2.7 in private sector economic activity.6 On the other end of the spectrum is an estimate by University of Chicago economists Andrew Mountford and HaraldUhlig. They find that the multiplier may be as small as -2.88, implying that $1.00 in government purchases displaces $3.88 in private sector economic activity.7 A wide range of estimates exists, in part, because there is a wide range of circumstances in which stimulus might be applied. We now turn to the particular circumstances of the United States to see how infrastructure stimulus might impact the current economic situation.

### Crowd Out turn

#### New infrastructure projects cause a crowding out of other specialist jobs – no net reduction in unemployment

De Rugy and Mitchell '11 (Senior research fellows at the Mercatus Center at George Mason University)

Veronique & Matthew, Mercatus Center Working Paper No. 11-36; September

Unemployment rates among specialists, such as those with the skills to build roads or schools, are often relatively low. Moreover, it is unlikely that an employee specialized in residential-area construction can easily update his or her skills to include building highways. As a result, we can expect that firms receiving stimulus funds will hire their workers away from other construction sites where they were employed rather than from the unemployment lines. This is what economists call crowding out. Except that in this case, labor, not capital, is being crowded out. In fact, new data confirm that a plurality of workers hired with ARRA money were poached from other organizations rather than from the unemployment lines.

### Inflation Turn

#### Job Growth causes inflation

Fuhrer 2009(Jeff Fuhrer works for theEconomic Research Federal Reserve Bank of Boston <http://mitpress.mit.edu/books/chapters/0262013630chap1.pdf>)

New Zealand-born economist A.W **Philips** first put this theory forward in 1958 gathered the data of unemployment and changes in wage levels in the UK from 1861 to 1957. He **observed that one stable curve represents the trade-off between inflation and unemployment and they are inversely**/negatively related. **In other words, if unemployment decreases, inflation will increase, and vice versa**. Macroeconomics 102 the original \*\*\*Philips Curve: wage inflation against unemployment Inflation (%) Unemployment • **For example, after the economy has just been in recession, the unemployment level will be fairly high. This will mean that here is a labor surplus. • As the economy has just started growing, the aggregate demand (AD) will increase and therefore leading to an increase in employment. In the beginning, there will be little pressure for a raise in wages. However, as the economy grows faster and more people are employed, wages will start rising slowly. • This will increase the firm’s cost of production and the high costs are usually passed on to the customers in the form of higher prices. Therefore a decrease in unemployment has led to an increase in inflation and vice versa.** • Not only that, unemployed might suffer from money illusion as they thought the increase in wages offered to them represented a real wage. They underestimate inflation by not realizing that higher wages will be eaten up by higher prices. Thus they will accept job more readily and this will reduce the frictional unemployment (we discussed this in Ch5.. right??) in the short run. Macroeconomics 102 The relationship we discussed above is a phenomenon in the short-run. But in the long run, since unemployment always returns to its natural rate (unemployment rate at which GDP at its full-employment level that is, with no cyclical unemployment…. we discussed this in Ch5…right??), there is no such trade-off. [Remember that • When unemployment rate is below natural rate, GDP is greater than potential output – Economy’s self-correcting mechanism will then create inflation • When unemployment rate is above natural rate, GDP is below potential output – Self-correcting mechanism will then put downward pressure on price level] Using the data from the 1950s and 1960s where the world economy tend to be stable, Philips Curve relationship proved to be true for many economies such as United States and UK (Griffiths and Wall, 1999). However, during 1967-1970 most countries such as US, Britain and France had doubled their inflation. This was the first sign that the downward relationship in Philips Curve was not always true. In 70’s the concept of a stable Philips Curve shows a break down as the economy suffered from both high inflation and high unemployment simultaneously. The economists refer this kind of situation as stagflation where stagnant economies and rising inflation occurs together.

### Low Wage Job Turn

#### Low wage jobs don't create economic security and maintains cycle of poverty

Trevino, Marisa. 2 June 2011

"Low-wage Job Growth Bad Thing for Latinos and the Nation." *MarioWire Economy*. N.p., 2 June 2011. Web. 26 June 2012. <http://www.mariowire.com/2011/06/02/low-wage-job-growth-bad-for-latinos/>

Yet, today’s job market seems to be building upon a foundation of low-wage employment.It doesn’t help our economy in the long-run, but most importantly, it doesn’t help people of color who want to break the cycle of poverty in their families.Another report looking at national job creation finds that jobs created in the coming years will not provide economic security wages to the majority of workers who do not have 4-year college degrees. Fewer than 13% of jobs the US Department of Labor expects to be created by 2018 are likely to provide economic security to a single parent raising two or more children. A small majority of new jobs are expected to pay economic security wages for single workers without children, and approximately 43% of the new jobs will pay economic security wages for two workers raising two young children.

#### Low wage job creation doesn't translate into a better economy

Gongloff, Mark. 05 Apr. 2012

"Job Market Recovery Led By Low-Wage Sectors."The Huffington Post. TheHuffingtonPost.com, 05 Apr. 2012. Web. 26 June 2012. <http://www.huffingtonpost.com/2012/04/05/job-market-recovery-low-wage-sectors\_n\_1406102.html>.

That helps explain why wage growth hasn't kept up with inflation, despite the economy having created 1.2 million jobs in the past six months. "Those low-wage paying jobs are not translating into better spending," Brusuelas said in an interview with The Huffington Post.We can hope that these lower-wage sectors are leading the way for employment in higher sectors. Relatively cheap temp workers in particular are often seen as leading indicators for permanent hiring. But there is also a risk that lower-wage industries are doing most of the hiring because higher-wage industries like technology [can't find enough skilled people to hire](http://online.wsj.com/article/SB10001424052970203707504577010080035955166.html%22%20%5Ct%20%22_hplink). "For the past year we're hearing anecdotal evidence of a shortage in higher-skilled workers,"Brusuelas said. "We're hearing it from CEOs and other real-economy clients, and that's a problem."

### Infrastructure projects = delays

#### New infrastructure projects overrun budget estimates

De Rugy and Mitchell '11 (Senior research fellows at the Mercatus Center at George Mason University)

Veronique & Matthew, Mercatus Center Working Paper No. 11-36; September

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.

### Infrastructure projects = delays

#### Infrastructure projects overrun with delays

De Rugy and Mitchell '11 (Senior research fellows at the Mercatus Center at George Mason University)

Veronique & Matthew, Mercatus Center Working Paper No. 11-36; September

Inaccurate estimates of demand plague infrastructure projects: A study of 208 projects in 14 nations on five continents shows that 9 out of 10 rail projects overestimate the actual traffic.34 Moreover, 84 percent of rail-passenger forecasts are wrong by more than 20 percent. Thus, for rail, passenger traffic average 51.4 percent less than estimated traffic.35 This means that there is a systematic tendency to overestimate rail revenues. For roads, actual vehicle traffic is on average 9.5 percent higher than forecast traffic and 50 percent of road traffic forecasts are wrong by more than 20 percent.36 In this case, there is a systematic tendency to underestimate the financial and congestion costs of roads.

### No short term solvency

#### Infrastructure Spending won't be fast enough to help econ

Claudia Copeland, Linda Levine, & William J Mallett September 21, 2011

(Specialist in Resources and Environmental Policy)(Specialist in Labor Economics)(Specialist in Transportation Policy) "The Role of Public Works Infrastructure in Economic Recovery" <http://www.fas.org/sgp/crs/misc/R42018.pdf>

By definition, the goal of stimulus spending is to get money into the economy swiftly. But that objective conflicts with the reality of building infrastructure projects that typically are multiyear efforts with slow initial spendout. Public works projects are likely to involve expenditures that take a long time to get underway and also are spread out over a long time. Large-scale construction projects generally require years of planning and preparation, including cost analysis, land acquisition, engineering, environmental review, and securing financing. For major infrastructure, such as highway construction and water resource projects, the initial rate of spending can be 25% or less of the funding provided in a given year.

#### No shovel ready infrastructure project means no stimulus solvency

De Rugy and Mitchell '11 (Senior research fellows at the Mercatus Center at George Mason University)

Veronique & Matthew, Mercatus Center Working Paper No. 11-36; September

Perhaps the most important reasons to be skeptical about further stimulus\particularly infrastructure stimulus\have to do with the way it is implemented. As a general rule, the studies that obtain large multipliers do so by assuming that stimulus funds will be distributed just as Keynesian theory says they ought to be. Keynesian economist and former presidential economic advisor Lawrence Summers has offered a widely accepted summary of how\ideally\fiscal stimulus ought to be applied.18 He argues that fiscal stimulus \can be counterproductive if it is not timely, targeted, and temporary.a In reality, however, infrastructure spending cannot fulfill these criteria. There is no such thing as a shovel ready project: By nature, infrastructure spending fails to be timely. Even when the money is available, it can be months, if not years, before it is spent. This is because infrastructure projects involve planning, bidding, contracting, construction, and evaluation.

### AT Costs Low

#### Planners have an incentive to understate costs for political reasons

De Rugy and Mitchell '11 (Senior research fellows at the Mercatus Center at George Mason University)

Veronique & Matthew, Mercatus Center Working Paper No. 11-36; September

Survival of the un-fittest: Studies have shown that project promoters routinely ignore, hide, or otherwise leave out important project costs and risks to make total costs appear lower.37 Researchers refer to this as the \planning fallacya or the \optimism bias.a Scholars have also found that it can be politically rewarding to lie about the costs and benefits of a project. The data show that the political process is more likely to give funding to managers who underestimate the costs and overestimate the benefits. In other words, it is not the best projects that get implemented but the ones that look the best on paper.

## Employment Mechanics

### U – Job Growth up now

#### Hiring rates and employer confidence forecast rise in job rates

The Wall Street Journal June 12, 2012

http://www.marketwatch.com/story/manpower-employment-outlook-survey-reveals-increase-in-us-employers-hiring-plans-for-the-third-quarter-2012-06-12

- Hiring confidence among U.S. employers continues to inch up as all states, regions and industries surveyed report a positive Net Employment Outlook, according to the latest Manpower Employment Outlook Survey released today by ManpowerGroup. The seasonally adjusted survey results show the Net Employment Outlook for Quarter 3 2012 is +11%, slightly up from +10% during Quarter 2 2012 and +8% during the same period last year. U.S. Manpower Employment Outlook Survey Results Quarter % Increase Staff Levels % Decrease Staff Levels % No Change in Staff Levels % Don't Know Hiring Plans Net Employment Outlook This quarter's research concludes: surveyed also report positive hiring intentions. Employer Confidence Builds: Quarter 3 2012 marks the first double-digit Net Employment Outlook across all four regions since 2008. 92 Percent of Companies Expect Similar or Growing Staff Levels: According to seasonally adjusted data, 92 percent of U.S. employers plan to increase or make no changes to their hiring in Quarter 3 2012. The continued climb in confidence marks 11 straight quarters of positive overall hiring Outlook, which were preceded by three quarters of pessimistic employment plans. Positive Trend Continues Across U.S.: Hiring intentions continue to climb in the U.S. with employers in all 50 states expecting to add staff. With two consecutive quarters of strong results, Alaska remains a leader among the states. Alaskan employers have shown a significant increase in hiring intentions since Quarter 1 2012 when the Outlook was +1% compared with +29% in Quarter 3 2012. All 100 Metropolitan Statistical Areas Industry-Wide Optimism: For the first time since 2008, the survey shows two consecutive quarters of positive Outlooks in all industries across all four regions surveyed. "In our on-demand world, seeing long-term changes can be difficult, but it is important to keep in mind that employer confidence has been on an upward trajectory for three years," said Jonas Prising, ManpowerGroup president of the Americas. "While slow and sometimes frustrating, job growth has proven to be sustainable, and the data shows a solid foundation is in place for continued progress

### Can’t Solve

#### Can’t solve employment – Long term Structural damage proves

**Mutikani 12**

By Lucia Mutikani. Journalist for Reuters WASHINGTON | Tue Jun 26, 2012 1:11pm EDThttp://www.reuters.com/article/2012/06/26/us-usa-economy-jobs-idUSBRE85K0S920120626

(Reuters) - The lengthy spells many Americans are spending without work risk leaving a lasting scar of higher unemployment on the U.S. economy and training programs are needed to avert the damage, the OECD said on Tuesday. The warning from the Organization for Economic Cooperation and Development comes against the backdrop of stalled U.S. jobs growth and an uptick in the unemployment rate in May. In a report on the U.S. economy, the Paris-based OECD estimated the unemployment rate which the economy could sustain without generating inflation at 6.1 percent, up from 5.7 percent in 2007. In May, the rate stood at 8.2 percent. "However, structural unemployment may well already have risen more than this estimate would suggest, and there is a risk that it could increase still further, given the still high levels of long-term unemployment," the OECD said. Before the 2007-2009 recession, many economists believed the so-called natural or structural rate of unemployment was around 5 percent. However, millions of Americans have suffered unusually long bouts of unemployment, eroding both their skills and their attachment to the labor force - and potentially driving structural unemployment higher. The OECD's assessment of structural unemployment is at the high end of the 5.2 percent to 6 percent range that most policymakers at the Federal Reserve estimate. The estimates are important. The closer the Fed thinks it may be to the natural rate of unemployment, the more hesitant it will be to try to spur faster economic growth. While the U.S. central bank has slashed overnight lending rates to near zero and pumped about $2.3 trillion into the economy through asset purchases, the unemployment rate has stubbornly held above 8 percent for more than two years, the first time this has happened since the Great Depression. "We still have a good bit of cyclical unemployment, which is best addressed by supporting aggregate demand," Wendy Dunn, the OECD's economist for the United States, told reporters. The 34-nation OECD called for the development of programs that would facilitate the return to work for many unemployed individuals and mitigate the risk of long-term unemployment becoming structural. "Education and training are key to improving skills, (and) reducing mismatches" between employer needs and workforce skills," the OECD said. It would also help the country to address income inequality, the fourth highest in the OECD, it said. PERMANENT DAMAGE Though the median duration of unemployment has eased from the record 25 weeks touched in June 2010, it is still at an uncomfortably high 20.1 weeks. About 43 percent of the 12.7 million unemployed Americans have been out of work for more than six months. "The persistence of high unemployment duration is worrisome because the experience of other OECD countries has been that long-term unemployment can become structural or lead to permanent reductions in labor force participation," the OECD said. The U.S. labor force participation rate - the share of working-age Americans either employed or looking for work - is hovering near 30-year lows, driven down by retiring baby boomers and frustrated job seekers who have given up the hunt.

### Can’t Predict/Measure

#### Can’t predict actual employment – Hidden, Under, and Seasonal employment prove

**Beckett 12**

Whitney Beckett. Business and Dating Writer, DatingDebitsAndCredits.com GET UPDATES FROM Whitney Beckett Like 4 . Unemployment: A Love Story Posted: 06/07/2012 1:29 pm

Hidden Unemployment: Unemployment that is not counted in the official statistics, because the definition of unemployment requires not only lack of working, but also 1) being willing/able/available to work, and 2) having actively sought work within the past month. Thus the truly disheartened, who have given up and opted out of the market, are not employed but are also not accounted for in unemployment statistics.In other words, the Cat Lady.Under Unemployment: A type of hidden unemployment when people are working less than they would like -- settling for a part-time job when they want a full -- or in positions in which their skills are underutilized. In a job market, this is the chef working as a barista. In the relationship market, this is dating casually when you really want a commitment, or settling for someone you are not that into. Of course, it takes courage to claim the right to be happy, to be honest when we are not, and to leave a good thing in hopes of finding a great thing. Frictional unemployment signals market confidence because people are following their bliss rather than their fear. One final type of unemployment gives hope now summer has arrived: Seasonal Unemployment: Periodic unemployment due to seasonal variations in industries affected by weather. Dating is nearly as seasonal as construction. The chances of meeting someone goes up exponentially in the summer, because everyone is outside -- and just generally out -- more, plus at least 24 percent more attractive tan. Now is the time to sharpen your "interviewing" skills and altruistically do your part to help the employment numbers.

### Structural/Frictional

#### Unemployment resilient – Either unemployment is structural and the aff cant solve or its frictional and the squo will

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Structural Unemployment: (aka Involuntary Unemployment, Long-term Unemployment, and Bad Single) Exists because of structural problems in the market, in which the unemployed's skills and job requisites do not match, so that the market cannot absorb everyone. In the labor market, these are unskilled workers "left behind" by innovations. In the dating market, this is the laundry list of awesome traits rarely sought after in personal ads: clinginess, nagging, chronic jealousy... Frictional Unemployment: (aka Voluntary Unemployment, Search Unemployment, and Good Single) Defined as the search period between voluntarily leaving one job and landing a better one. Frictional unemployment necessarily exists because markets are heterogeneous: Every job is not the right fit for every person any more than every relationship is. The ideal unemployment rate accounts for frictional unemployment because it's a good thing. Leaving a relationship and leaving a job require a similar courage of being willing to be alone or without a paycheck -- forfeiting financial and emotional security -- for an unknown period. The willingness to leave, without something lined up to replace it, means that after sizing up both the market and the competition, people are confident not only that they won't be single forever, but also that they will find a better match. On the other hand, a lack of frictional unemployment signals a lack of confidence in the market -- and in themselves. It results in people settling because they doubt they can find something better, which in turn creates a misallocation of resources because people are not pursuing their best fit. In markets where the average age of marriage is fresh out of college (like my home state of Texas), the relationship unemployment rate is close to zero, and the accompanying heightened divorce rates suggest these early unions often result in a misallocation of resources. Relocating to New York City, where the average age of marriage is early 30s, buys an additional decade to conduct the search process, but with more time comes additional requisites: Many candidates qualify for an entry-level position, but later in careers, candidates differ more and few will meet C-suite requisites of a given company. Does this level of standards reflect becoming a specialist, or does it signal a structural problem of chronic pickiness? It's hard to say. Empirically, frictional and structural unemployment are tough to distinguish -- besides duration. Here is the human fear: We begin thinking we are frictionally unemployed only to discover our issues are actually structural -- or may become so if we are not careful. Structural unemployment often results from poor past choices, and creates a vicious cycle in which the unemployed become cynical and disheartened, and their skills -- both on the job and in job-seeking -- erode. There lurks the unspoken fear that you're just two cats and a cancelled Brazilian appointment away from being single forever. Other types of unemployment are born from that fear: Hidden Unemployment: Unemployment that is not counted in the official statistics, because the definition of unemployment requires not only lack of working, but also 1) being willing/able/available to work, and 2) having actively sought work within the past month. Thus the truly disheartened, who have given up and opted out of the market, are not employed but are also not accounted for in unemployment statistics. In other words, the Cat Lady. Under Unemployment: A type of hidden unemployment when people are working less than they would like -- settling for a part-time job when they want a full -- or in positions in which their skills are underutilized. In a job market, this is the chef working as a barista. In the relationship market, this is dating casually when you really want a commitment, or settling for someone you are not that into. Of course, it takes courage to claim the right to be happy, to be honest when we are not, and to leave a good thing in hopes of finding a great thing. Frictional unemployment signals market confidence because people are following their bliss rather than their fear.

### Eurozone

#### Alt Causality for Unemployment – US Jobs will never be solved until the Eurozone is stabilized

**Kurtzleben 12**

By Danielle Kurtzleben, Writer for US News, quotes Jacob Funk Kirkegaard, research fellow at the Peterson Institute of International Economics, a Washington, D.C.-based think tank. Why the Greek Elections Matter for U.S. Job Growth The outcome of Sunday's vote in Greece will affect even firms that don't do international business http://www.usnews.com/news/articles/2012/06/11/why-the-greek-elections-matter-for-us-job-growth

The Greek election is widely viewed as a referendum on the country's place in the euro zone. Greeks may elect leaders who agree to stick with the strict terms of the hundreds of billions of dollars in bailout money they have received. But if they pick leaders who are angered by the austerity that has come with those bailouts, there are widespread fears that Greece will leave the euro zone, potentially wounding the European and global economies with it. That uncertainty makes potential American hirers hesitant. "You're just fundamentally not going to undertake a large further investment, even in the U.S. market, if you risk that maybe Europe, which is still a sizable chunk of the global economy, is about to go down the tubes," says Jacob Funk Kirkegaard, research fellow at the Peterson Institute of International Economics, a Washington, D.C.-based think tank. A Greece exit could indeed send Europe's economy spiraling downward, says Kirkegaard. "Fundamentally, people will be worried about: 'If Greece can leave, maybe other countries can leave,'" he says. "It would be hugely destabilizing for the rest of the euro area. You would reintroduce currency risk into the common currency. You would show doubt about whether a German euro would be more valuable than the Italian euro." If that happens, it could mean that business owners will continue to sit on their cash, rather than using that money to expand. Low business confidence is the main reason employers are hesitant to hire, says Kirkegaard. And while the business community's gut feeling is a nebulous, difficult-to-measure concept, it is certain that Europe is a key factor in dragging that confidence down. [Read why healthcare reform may have boosted young Americans' economic fortunes.] He's not the only one who believes that more trouble in Europe could further rattle the U.S. economy. Speaking to Congress's Joint Economic Committee last week, Federal Reserve Chairman Ben Bernanke listed Europe worries as one reason firms are reluctant to expand, telling members that "the situation in Europe poses significant risks to the U.S. financial system and economy."

# Impact Defense

### Econ impact Defense

#### No impact to economic collapse

Gordon 08 – (historian specializing in business and financial history, full-time writer for the last nineteen years, Gordon's articles have been published in, among others, Forbes, Forbes FYI, Worth, The New York Times Book Review, The New York Times's and The Wall Street Journal's Op-Ed pages, and The Washington Post's Book World and Outlook Panics and PoliticsJohn, 10/22/08, Journal of the American enterprise institute, Panics and Politics <http://www.american.com/archive/2008/october-10-08/panics-and-politics>)

Will the current financial crisis spur a major political realignment? If history is any guide, the answer is probably no. **America has experienced recurrent financial meltdowns** since its birth in the late 18th century. Indeed, **there were severe credit crunches and Wall Street collapses in** 1792, 1819, 1837, 1857, 1873, 1893, 1907, **1929, 1987, andnow 2008. Most of these panics have not been followed by seismic political shifts**. To be sure, President Martin Van Buren, who took office a month before the stock market crash of 1837, lost badly when he ran for reelection in the depression year of 1840. But Van Buren was an unpopular and ineffective president, and his defeat did not signal a realignment.

### Econ impact Defense

#### No correlation between economic decline and war- their evidence is based on flawed conclusions

BoehmerCharles R., Ph.D. in Political Science from Pennsylvania State, is an associate professor of political science at the University of Texas ’10(Defense and Peace Economics, “ Economic Growth and Violent International Conflict: 1875-1999” June 2010, Volume 21: 249-68, Hopkins)

Crisis-Scarcity as a Source of Violent Conflicts I term the next body of literature the ‘Crisis-Scarcity’ perspective because it links violent interstate conflicts to domestic or international economic crises. The first group of studies within this broad perspective argues that downswings in Kondratieff cycles in the global economy or other crises of capitalism increase the risk of war. The theories of imperialism by Hobson (1917, 1938) and Lenin (1939 [1916]) make broad arguments in this manner. World-systems or Dependency scholars advance similar arguments (Chase-Dunn, 1978; Frank, 1978; Bosquet, 1980; Hopkins and Wallerstein, 1982; Bergesen, 1983, 1985). However, many of the theories in this category are difficult to test due to conceptual ambigu- ities and the number of available observations, considering that the temporal length of an entire cycle is purportedly 50 to 60 years. Moreover, World-Systems theory lacks an opera- tional definition by which to categorize states into ‘periphery’, ‘semi-periphery’, and ‘core’, making it difficult to quantitatively assess some of its claims. Although there could be strong consensus on how to categorize many states into the core or periphery categories, the roster ECONOMIC GROWTH AND VIOLENT CONFLICT 253 of semi-periphery states is much less clear. However, some propositions in these theories have been tested with historical data or have been covered in studies at the systemic level of analysis. The studies by Mansfield (1988), Goldstein (1988), Pollins (1996), and Pollins and Murrin (1999) yielded results contrary to some of the claims made by World-System theory, or similar theories, relating global economic cycles to violent conflicts. On the one hand, the historical analysis of World-Systems theory examines a longer time-frame than extant quan- titative studies, but on the other hand these historical approaches must assume that the main economic and political processes that shaped much of the past millennium will continue into the future, which may be heroic. Because I am in particular interested in whether individual states become more or less prone to involvement in violent interstate conflicts as their economic growth rises or falls, I do not offer further tests of systemic-level propositions found in the literature. In contrast, studies of diversionary theory make state-level (monadic) or dyadic arguments. Most studies to date have been monadic and only a few have examined strategic diversionary behavior from a dyadic perspective. Of central importance to this study are those theories of diversionary conflict arguing that economic crisis induces foreign conflicts. However, while diversionary theory has been popular, the bulk of extant research examines the foreign policy of the United States (Ostrom and Job, 1986; James and Oneal, 1991; Morgan and Bickers, 1992; DeRouen, 1995; Hess and Orphanides, 1995; Wang, 1996; Fordham, 1998; Mitchell and Moore, 2002; Foster, 2006). Meernik (1994) and Meernik and Waterman (1996) find no evidence of diversionary behavior. Of more importance to this analysis are those studies that theorize or examine cases more generally at the state-level of analysis. Russett (1987) finds an inverse relationship between economic growth (two and three year moving averages) and conflict involvement using a pooled time series of 23 countries. In an extension of this study, he later finds evidence that negative growth leads to a higher rate of militarized conflict participation by democracies but that the opposite is true of autocracies (Russett, 1990). When disaggregating by power and polity type, the results appear less clear. Positive growth leads to a higher participation rate in war for democracies (the sign is positive for autocracies but insignificant), whereas non-democratic major powers were more apt to use force. The sign directions for minor powers of both regime types were negative and statistically insignificant. However, Russett (1990: 126) notes in a larger sample of 100 states from 1953–1976, using the Penn World Tables (Summers and Heston, 1991), that economic growth was statistically insignificant. Considering the limitations in data and the lack of control for autocorrelation, these results could be inaccurate. Heldt (1999) similarly finds at the state level that while high depriva- tion increases the use of force by states, this is unrelated to regime type or any strategic interactions with other states. His sample though only includes challengers in territorial disputes with negative growth rates, leading to 187 cases, and he thus neither provides a general test of growing states compared with non-growing states nor compares conflict participants to non-conflict participants (non-barking dogs). Enterline and Gleditsch (2000) examine whether political leaders substitute diversionary tactics with other states for repres- sion when confronted with domestic pressure using the ‘leader-year’ as the unit of analysis. While they find that leaders often use both repression and diversion when pressured domestically, the results were unclear concerning economic growth rates and inflation. They dropped these variables from most of their discussion due to limited data and the resulting loss in cases.

### Econ impact Defense

#### Economic decline doesn’t cause war- prefer consensus

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(TirJaroslav, The Journal of Politics, “Territorial Diversion: Diversionary Theory of War and Territorial Conflict”, 2010, Volume 72: 413-425, Hopkins)

Empirical support for the economic growth rate is much weaker. The finding that poor economic performance is associated with a higher likelihood of territorial conflict initiation is significant only in Models 3–4.[14](http://journals.cambridge.org/action/displayFulltext?type=6&fid=7418116&jid=JOP&volumeId=72&issueId=02&aid=7418112&fulltextType=RA&fileId=S0022381609990879#fn14) The weak results are not altogether surprising given the findings from prior literature. In accordance with the insignificant relationships of Models 1–2 and 5–6, Ostrom and Job ([1986](http://journals.cambridge.org/action/displayFulltext?type=6&fid=7418116&jid=JOP&volumeId=72&issueId=02&aid=7418112&fulltextType=RA&fileId=S0022381609990879#ref68)), for example, note that the likelihood that a U.S. President will use force is uncertain, as the bad economy might create incentives both to divert the public’s attention with a foreign adventure and to focus on solving the economic problem, thus reducing the inclination to act abroad. Similarly, Fordham ([1998a](http://journals.cambridge.org/action/displayFulltext?type=6&fid=7418116&jid=JOP&volumeId=72&issueId=02&aid=7418112&fulltextType=RA&fileId=S0022381609990879#ref22), [1998b](http://journals.cambridge.org/action/displayFulltext?type=6&fid=7418116&jid=JOP&volumeId=72&issueId=02&aid=7418112&fulltextType=RA&fileId=S0022381609990879#ref23)),DeRouen ([1995](http://journals.cambridge.org/action/displayFulltext?type=6&fid=7418116&jid=JOP&volumeId=72&issueId=02&aid=7418112&fulltextType=RA&fileId=S0022381609990879#ref17)), and Gowa ([1998](http://journals.cambridge.org/action/displayFulltext?type=6&fid=7418116&jid=JOP&volumeId=72&issueId=02&aid=7418112&fulltextType=RA&fileId=S0022381609990879#ref34)) find no relation between a poor economy and U.S. use of force. Furthermore, Leeds and Davis ([1997](http://journals.cambridge.org/action/displayFulltext?type=6&fid=7418116&jid=JOP&volumeId=72&issueId=02&aid=7418112&fulltextType=RA&fileId=S0022381609990879#ref50)) conclude that the conflict-initiating behavior of 18 industrialized democracies is unrelated to economic conditions as do Pickering and Kisangani ([2005](http://journals.cambridge.org/action/displayFulltext?type=6&fid=7418116&jid=JOP&volumeId=72&issueId=02&aid=7418112&fulltextType=RA&fileId=S0022381609990879#ref69)) and Russett and Oneal ([2001](http://journals.cambridge.org/action/displayFulltext?type=6&fid=7418116&jid=JOP&volumeId=72&issueId=02&aid=7418112&fulltextType=RA&fileId=S0022381609990879#ref73)) in global studies. In contrast and more in line with my findings of a significant relationship (in Models 3–4), Hess and Orphanides ([1995](http://journals.cambridge.org/action/displayFulltext?type=6&fid=7418116&jid=JOP&volumeId=72&issueId=02&aid=7418112&fulltextType=RA&fileId=S0022381609990879#ref38)), for example, argue that economic recessions are linked with forceful action by an incumbent U.S. president. Furthermore, Fordham’s ([2002](http://journals.cambridge.org/action/displayFulltext?type=6&fid=7418116&jid=JOP&volumeId=72&issueId=02&aid=7418112&fulltextType=RA&fileId=S0022381609990879#ref24)) revision of Gowa’s ([1998](http://journals.cambridge.org/action/displayFulltext?type=6&fid=7418116&jid=JOP&volumeId=72&issueId=02&aid=7418112&fulltextType=RA&fileId=S0022381609990879#ref34)) analysis shows some effect of a bad economy and DeRouen and Peake ([2002](http://journals.cambridge.org/action/displayFulltext?type=6&fid=7418116&jid=JOP&volumeId=72&issueId=02&aid=7418112&fulltextType=RA&fileId=S0022381609990879#ref19)) report that U.S. use of force diverts the public’s attention from a poor economy. Among cross-national studies, Oneal and Russett ([1997](http://journals.cambridge.org/action/displayFulltext?type=6&fid=7418116&jid=JOP&volumeId=72&issueId=02&aid=7418112&fulltextType=RA&fileId=S0022381609990879#ref66)) report that slow growth increases the incidence of militarized disputes, as does Russett ([1990](http://journals.cambridge.org/action/displayFulltext?type=6&fid=7418116&jid=JOP&volumeId=72&issueId=02&aid=7418112&fulltextType=RA&fileId=S0022381609990879#ref72))—but only for the United States; slow growth does not affect the behavior of other countries. Kisangani and Pickering ([2007](http://journals.cambridge.org/action/displayFulltext?type=6&fid=7418116&jid=JOP&volumeId=72&issueId=02&aid=7418112&fulltextType=RA&fileId=S0022381609990879#ref49)) report some significant associations, but they are sensitive to model specification, while Tir and Jasinski ([2008](http://journals.cambridge.org/action/displayFulltext?type=6&fid=7418116&jid=JOP&volumeId=72&issueId=02&aid=7418112&fulltextType=RA&fileId=S0022381609990879#ref84)) find a clearer link between economic underperformance and increased attacks on domestic ethnic minorities. While none of these works has focused on territorial diversions, my own inconsistent findings for economic growth fit well with the mixed results reported in the literature.[15](http://journals.cambridge.org/action/displayFulltext?type=6&fid=7418116&jid=JOP&volumeId=72&issueId=02&aid=7418112&fulltextType=RA&fileId=S0022381609990879#fn15) Hypothesis 1 thus receives strong support via the unpopularity variable but only weak support via the economic growth variable. These results suggest that embattled leaders are much more likely to respond with territorial diversions to direct signs of their unpopularity (e.g., strikes, protests, riots) than to general background conditions such as economic malaise. Presumably, protesters can be distracted via territorial diversions while fixing the economy would take a more concerted and prolonged policy effort. Bad economic conditions seem to motivate only the most serious, fatal territorial confrontations. This implies that leaders may be reserving the most high-profile and risky diversions for the times when they are the most desperate, that is when their power is threatened both by signs of discontent with their rule and by more systemic problems plaguing the country (i.e., an underperforming economy).