**Fiscal Discipline DA**

\*\*\*1NC\*\*\* 3

Downgrade 1NC 4

Fiscal Discipline 1NC 7

\*\*\*Uniqueness\*\*\* 10

Growth Now 11

Downgrades- S&P 13

Downgrades- Fitch 14

Downgrades- Moody’s 15

Recession Likely 16

Simpson-Bowles 17

\*\*\*Links\*\*\* 19

Generic 20

HSR 23

Infrastructure bank 25

Next Gen 28

Port Security 29

FAA 31

Hydrogen 32

Mass Transit 33

Link Magnifier 36

\*\*\*Internal Links\*\*\* 37

Downgrade- investor confidence 38

Downgrade-china 39

Downgrade- Dollar 40

Downgrade- Elections 41

Downgrades- Economy 42

Downgrade- interest rates 43

Downgrades-Housing 44

Generic 45

Recession I/L 47

Spending kills econ 48

Increases Deficit 51

AT- No loss of investors 53

AT- I/L turn 54

AT- Keynes 56

AT- Krugman 57

DA stimulates growth 58

States Solve link 62

\*\*\*Impacts\*\*\* 63

Warming 64

Environment 65

Terrorism 66

Heg 67

Trade 69

\*\*\*Aff\*\*\* 70

\*\*\*Uniqueness\*\*\* 71

Recession inevitable 72

Economy Low 74

Consumer Confidence low 75

\*\*\*No Link\*\*\* 76

Inexpensive 77

Alt causes- Downgrade 78

Alt Causes- Deficit 79

\*\*\*I/L\*\*\* 80

No I/L 81

Generic- Turn 82

Next Gen- Turn 85

Downgrades- Investor confidence not affected 86

Downgrades- No China Impact 87

AT- interest rates 88

AT- fed reserve 89

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Downgrade 1NC

The U.S.’s credit rating is at risk, failure to maintain fiscal discipline will cause a downgrade

Odion-Esene, Market News International, 6/8/12 (Brai “S&P: Cld Downgrade US By 2014 If Fiscal,Political Risks Build”, https://mninews.deutsche-boerse.com/index.php/sp-cld-downgrade-us-2014-if-fiscalpolitical-risks-build?q=content/sp-cld-downgrade-us-2014-if-fiscalpolitical-risks-build

WASHINGTON (MNI) - Rating agency Standard & Poor's Friday warned that continued fiscal and political risks in the United States could build to a point that it could downgrade the nation's sovereign credit rating within the next two years. In a statement released after market hours, the firm affirmed its 'AA+' rating on the U.S., citing strengths that include "its resilient economy, its monetary credibility, and the U.S. dollar's status as the world's key reserve currency." "We believe the Federal Reserve System (the U.S. monetary authority) has an excellent ability and willingness to support sustainable economic growth and to attenuate major economic or financial shocks," S&P said. S&P said it believes the risk of the United States returning to recession is about 20%. The U.S.'s credit weaknesses include its fiscal performance, its debt burden, "and what we perceive as a recent decline in the effectiveness, stability, and predictability of its policymaking and political institutions, particularly regarding the direction of fiscal policy." S&P maintained its negative outlook on the United States, a reflection of the rating agency's opinion that "U.S. sovereign credit risks, primarily political and fiscal, could build to the point of leading us to lower our 'AA+' long-term rating by 2014." The outlook, it added, represents "the likelihood that we could lower our long-term rating on the U.S. within two years is at least one-in-three." S&P warned that pressure on the U.S. 'AA+' rating could build if the White House and Congress remain unable to agree on "a credible, medium-term fiscal consolidation plan that represents significant (even if gradual) fiscal tightening" beyond that envisaged in 2011 Budget Control Act. "Pressure could also increase if real interest rates rise and result in a projected general government (net) interest expenditure of more than 5% of general government revenue," it added. On the other hand, S&P said the rating could stabilize at the current level with a medium-term fiscal consolidation plan, "or if the U.S. government makes faster progress toward reducing the general government deficit than our base case currently presumes."

Stimulus measures through transportation infrastructure ultimately lead to cost overruns and balloon the deficit

Rugy and Mitchel, senior research fellows at the Mercatus Center, 2011(Veronique and Matthew, September, “Would More Infrastructure spending stimulate the economy?”, http://mercatus.org/sites/default/files/publication/infrastructure\_deRugy\_WP\_9-12-11.pdf)

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

A downgrade will devastate investor confidence

El- Shagi 08

Makran Halle Institute for Economic Research, University of Mannheim Germany, 7/23/08,

http://cje.oxfordjournals.org/content/34/4/671.full.pdf

Rating agencies play a key role in the generation and distribution of information concerning capital markets. The three major agencies, namely, Moody’s, Standard and Poor’s (S&P), and (the much smaller) Fitch IBCA have an aggregate market share of roughly 94%. Therefore, these three are said to ‘control’, or at least to substantially affect, a large portion of global capital flows. Several authors consider ratings to be a prime determinant of creditworthiness (for a literature summary, see Gras, 2003). The confidence of investors is essential for access to the global credit market and thus for the success or failure of firms and even countries.1 If rating agencies were truly essential for the confidence of investors, the impact on the affected economies and firms in the affected economies would determine the life chances of these entities. Especially severe problems might occur if an economy loses the so-called ‘investment grade’ rating due to a downgrading of the rating. Many investment funds focus on assets with low risk and are obliged to hold only assets that have received an investment grade rating rather than a poor speculative grade rating (for further details, see Schwarcz, 2002). If a rating approaches or crosses the threshold between investment grade and speculative grade ratings, the compulsive reaction of the respective funds might cause severe capital exports. Several authors believe that they have found empirical evidence for the self-reinforcing interaction between exchange rates and sovereign ratings.2 Some authors go even further and accuse the ratings agencies of being responsible for the outbreak of the crisis (Hillebrand, 2001).

**Loss of investor confidence tanks U.S. competitiveness**

**CFR 2011 (Committee of Responsible budget, “The Budget Deficit and U.S. competitiveness”, http://www.cfr.org/economics/budget-deficit-us-competitiveness/p24910)**

Most economists fear that large budget deficits and growing debt poses a considerable threat to U.S. global economic competitiveness. Maya MacGuineas of the New America Foundation suggests the government needs a dramatic shift from a consumption-oriented budget to one centered on investment, including R&D and human capital. The Peterson Institute's C. Fred Bergsten says an "early correction" is necessary to prevent investment-killing interest rate hikes and an inopportune rise in the dollar’s exchange rate.\* CFR's Sebastian Mallaby says ongoing deficits may reduce the willingness of major investors to buy and hold U.S. Treasuries, pushing up interest rates and threatening the dollar's reserve currency status. Daniel Mitchell of the Cato Institute asserts the best way to control red ink is to cap the rise of federal spending and allow revenue growth from the economic recovery to "catch up." The Economist's Greg Ip advocates a "medium-term plan" that includes a reform of the tax system and, possibly, raising the retirement age.

Economic competitiveness key to preventing war

Khalilzad, Former US Ambassador to Iraq, ‘11 (Zalmay, February 8, “The Economy and National Security” National Review, http://www.nationalreview.com/articles/259024/economy-and-national-security-zalmay-khalilzad)

Today, economic and fiscal trends pose the most severe long-term threat to the United States’ position as global leader. While the United States suffers from fiscal imbalances and low economic growth, the economies of rival powers are developing rapidly. The continuation of these two trends could lead to a shift from American primacy toward a multi-polar global system, leading in turn to increased geopolitical rivalry and even war among the great powers. The current recession is the result of a deep financial crisis, not a mere fluctuation in the business cycle. Recovery is likely to be protracted. The crisis was preceded by the buildup over two decades of enormous amounts of debt throughout the U.S. economy — ultimately totaling almost 350 percent of GDP — and the development of credit-fueled asset bubbles, particularly in the housing sector. When the bubbles burst, huge amounts of wealth were destroyed, and unemployment rose to over 10 percent. The decline of tax revenues and massive countercyclical spending put the U.S. government on an unsustainable fiscal path. Publicly held national debt rose from 38 to over 60 percent of GDP in three years. Without faster economic growth and actions to reduce deficits, publicly held national debt is projected to reach dangerous proportions. If interest rates were to rise significantly, annual interest payments — which already are larger than the defense budget — would crowd out other spending or require substantial tax increases that would undercut economic growth. Even worse, if unanticipated events trigger what economists call a “sudden stop” in credit markets for U.S. debt, the United States would be unable to roll over its outstanding obligations, precipitating a sovereign-debt crisis that would almost certainly compel a radical retrenchment of the United States internationally. Such scenarios would reshape the international order. It was the economic devastation of Britain and France during World War II, as well as the rise of other powers, that led both countries to relinquish their empires. In the late 1960s, British leaders concluded that they lacked the economic capacity to maintain a presence “east of Suez.” Soviet economic weakness, which crystallized under Gorbachev, contributed to their decisions to withdraw from Afghanistan, abandon Communist regimes in Eastern Europe, and allow the Soviet Union to fragment. If the U.S. debt problem goes critical, the United States would be compelled to retrench, reducing its military spending and shedding international commitments.We face this domestic challenge while other major powers are experiencing rapid economic growth. Even though countries such as China, India, and Brazil have profound political, social, demographic, and economic problems, their economies are growing faster than ours, and this could alter the global distribution of power. These trends could in the long term produce a multi-polar world. If U.S. policymakers fail to act and other powers continue to grow, it is not a question of whether but when a new international order will emerge. The closing of the gap between the United States and its rivals could intensify geopolitical competition among major powers, increase incentives for local powers to play major powers against one another, and undercut our will to preclude or respond to international crises because of the higher risk of escalation. The stakes are high. In modern history, the longest period of peace among the great powers has been the era of U.S. leadership. By contrast, multi-polar systems have been unstable, with their competitive dynamics resulting in frequent crises and major wars among the great powers. Failures of multi-polar international systems produced both world wars.

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**U.S. growth is slow but still increasing- turn around still possible**

Norris, chief financial correspondent at NY times, 6/15/12 (Floyd, “A Slow Recovery in the United States, but It’s All Relative”, <http://www.nytimes.com/2012/06/16/business/economy/a-slow-recovery-but-its-all-relative.html>, NYtimes)

THE slow pace of the American economic recovery seems likely to be a major issue in this year’s presidential election. But by the standards of other developed countries, the United States has done rather well since the credit crisis blossomed in 2008 and sent the world into recession. The American economy, adjusted for inflation, was 1.2 percent larger in the first quarter of this year than it was in the peak quarter before the recession. As the accompanying charts show, only Canada among the Group of 7 industrialized economies has done better. It has benefited from being an exporter of natural resources that China needs, but it also escaped the worst of the downturn because its banks, better regulated than those in this country, did not finance a real estate bubble during the boom. Even Canada, however, had one quarter last year when its economy declined. The charts show the performance of the Group of 7 nations, including three members of the euro zone, and that of seven other countries that use the euro. Of the 14, the United States is the only one to show consistent growth over the most recent four quarters. It has reported a growing economy for 11 consecutive quarters, even if the pace of growth has not been very fast.

Stimulus measures through infrastructure ultimately lead to cost overruns and balloons the deficit

Rugy and Mitchel, senior research fellows at the Mercatus Center, 2011(Veronique and Matthew, September, “Would More Infrastructure spending stimulate the economy?”, http://mercatus.org/sites/default/files/publication/infrastructure\_deRugy\_WP\_9-12-11.pdf)

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

Government spending is economically destructive

Mitchell, ‘05

Daniel J., expert on tax reform and supply-side tax policy, Cato member, Heritage Foundation senior fellow, economist for Senator Bob Packwood and the Senate Finance Committee, served on the 1988 Bush/Quayle transition team, Director of Tax and Budget Policy for Citizens for a Sound Economy, articles found in Wall Street Journal, New York Times, Investor’s Business Daily, and Washington Times, bachelor’s and master’s degrees in economics from the University of Georgia and a Ph.D. in economics from George Mason University, 3/15/05, “The Impact of Government Spending on Economic Growth”, Executive Summary Backgrounder published by the Heritage Foundation, No. 1831

A growing government is contrary to America’s economic interests because the various methods of financing government—taxes, borrowing, and printing money—have harmful effects. This is also true because government spending by its very nature is often economically destructive, regardless of how it is financed. The many reasons for the negative relationship between the size of government and economic growth include: • The extraction cost. Government spending requires costly financing choices. The federal government cannot spend money without first taking that money from someone. All of the options used to finance government spending have adverse consequences. •The displacement cost. Government spending displaces private-sector activity. Every dollar that the government spends means one less dollar in the productive sector of the economy. This dampens growth since economic forces guide the allocation of resources in the private sector. • The negative multiplier cost. Government spending finances harmful intervention. Portions of the federal budget are used to finance activities that generate a distinctly negative effect on economic activity. For instance, many regulatory agencies have comparatively small budgets, but they impose large costs on the economy’s productive sector. • The behavioral subsidy cost. Government spending encourages destructive choices. Many government programs subsidize economically undesirable decisions. Welfare encourages people to choose leisure. Unemployment insurance programs provide an incentive to remain unemployed. • The behavioral penalty cost. Government spending discourages productive choices. Government programs often discourage economically desirable decisions. Saving is important to help provide capital for new investment, yet the incentive to save has been undermined by government programs that subsidize retirement, housing, and education. • The market distortion cost. Government spending hinders resource allocation. Competitive markets determine prices in a process that ensures the most efficient allocation of resources. However, in both health care and education, government subsidies to reduce out-of-pocket expenses have created a “third-party payer” problem. • The inefficiency cost. Government spending is a less effective way to deliver services. Government directly provides many services and activities such as education, airports, and postal operations. However, there is considerable evidence that the private sector could pro- vide these important services at higher quality and lower costs. • The stagnation cost. Government spending inhibits innovation. Because of competition and the desire to increase income and wealth, individuals and entities in the private sector constantly search for new options and opportunities. Government programs, however, are inherently inflexible. The common-sense notion that government spending retards economic performance is bolstered by cross-country comparisons and academic research. International comparisons are especially useful. Government spending consumes almost half of Europe’s economic output—a full one-third higher than the burden of government in the U.S. This excessive government is associated with sub-par economic performance: • Per capita economic output in the U.S. in 2003 was $37,600—more than 40 percent higher than the $26,600 average for EU–15 nations. • Real economic growth in the U.S. over the past 10 years (3.2 percent average annual growth) has been more than 50 percent faster than EU–15 growth during the same period (2.1 percent). • Job creation is much stronger in the U.S., and the U.S. unemployment rate is significantly lower than the EU–15’s unemployment rate. • Living standards in the EU are equivalent to living standards in the poorest American states—roughly equal to Arkansas and Montana and only slightly ahead of West Virginia and Mississippi, the two poorest states. The global evidence is augmented by dozens of academic research papers. Using varying methodologies, academic experts have found a clear negative relationship between government spending and economic performance. For instance, a National Bureau of Economic Research paper found: “A reduction by one percentage point in the ratio of primary spending over GDP [gross domes- tic product] leads to an increase in investment by 0.16 percentage points of GDP on impact, and a cumulative increase by 0.50 after two years and 0.80 percentage points of GDP after five years.” According to a New Zealand Business Roundtable study, “An increase of 6 percentage points in government consumption expenditure as a percentage of GDP, (from, say 10 percent to 16 percent) would tend to reduce the annual rate of growth of GDP by about 0.8 percent.” An International Monetary Fund study con- firmed that “Average growth for the preceding 5- year period...was higher in countries with small governments in both periods.” Even the Organisation for Economic Co-operation and Development admitted: Taxes and government expenditures affect growth both directly and indirectly through investment. An increase of about one percentage point in the tax pressure— e.g. two-thirds of what was observed over the past decade in the OECD sample— could be associated with a direct reduction of about 0.3 per cent in output per capita. If the investment effect is taken into account, the overall reduction would be about 0.6–0.7 per cent. This is just a sampling of the academic research presented in the main paper. While no single research paper should be viewed as definitive, given the difficulty of isolating the impact of one policy on overall economic performance, the cumulative findings certainly bolster the theoretical and real-world arguments in favor of smaller government. Government spending should be significantly reduced. It has grown far too quickly in recent years, and most of the new spending is for purposes other than homeland security and national defense. Combined with rising entitlement costs associated with the looming retirement of the baby-boom generation, America is heading in the wrong direction. To avoid becoming an uncompetitive European-style welfare state like France or Germany, the United States must adopt a responsible fiscal policy based on smaller government. Budgetary restraint should be viewed as an opportunity to make an economic virtue out of fiscal necessity. Simply stated, most government spending has a negative economic impact. To be sure, if government spends money in a productive way that generates a sufficiently high rate of return, the economy will benefit, but this is the exception rather than the rule. If the rate of return is below that of the private sector-as is much more common-then the growth rate will be slower than it otherwise would have been. There is overwhelming evidence that government spending is too high and that America's economy could grow much faster if the burden of government was reduced. The deficit is not the critical variable. The key is the size of government, not how it is financed. Taxes and deficits are both harmful, but the real problem is that government is taking money from the private sector and spending it in ways that are often counterproductive. The need to reduce spending would still exist-and be just as compelling-if the federal government had a budget surplus. Fiscal policy should focus on reducing the level of government spending, with particular emphasis on those programs that yield the lowest benefits and/or impose the highest costs. Controlling federal spending is particularly important because of globalization. Today, it is becoming increasingly easy for jobs and capital to migrate from one nation to another. This means that the reward for good policy is greater than ever before, but it also means that the penalty for bad policy is greater than ever before.

Economic downturns cause global wars

**Mead 9** — Henry Kissinger Senior Fellow at the CFR, Professor at Yale (Walter Russel, "What Doesn't Kill You Makes You Stronger," The New Republic)

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

\*\*\*Uniqueness\*\*\*

Growth Now

**U.S. recovering slowly**

Norris, chief financial correspondent at NY times, 6/15/12 (Floyd, “A Slow Recovery in the United States, but It’s All Relative”, <http://www.nytimes.com/2012/06/16/business/economy/a-slow-recovery-but-its-all-relative.html>, NYtimes)

THE slow pace of the American economic recovery seems likely to be a major issue in this year’s presidential election. But by the standards of other developed countries, the United States has done rather well since the credit crisis blossomed in 2008 and sent the world into recession. The American economy, adjusted for inflation, was 1.2 percent larger in the first quarter of this year than it was in the peak quarter before the recession. As the accompanying charts show, only Canada among the Group of 7 industrialized economies has done better. It has benefited from being an exporter of natural resources that China needs, but it also escaped the worst of the downturn because its banks, better regulated than those in this country, did not finance a real estate bubble during the boom. Even Canada, however, had one quarter last year when its economy declined. The charts show the performance of the Group of 7 nations, including three members of the euro zone, and that of seven other countries that use the euro. Of the 14, the United States is the only one to show consistent growth over the most recent four quarters. It has reported a growing economy for 11 consecutive quarters, even if the pace of growth has not been very fast.

Market increasing and Europe is being pressured to come to a deal

Fox, CNNmoney, 6/27/12 (Emily, “Stocks finish higher on U.S. data”, http://money.cnn.com/2012/06/27/investing/stocks-markets/index.htm?iid=HP\_LN)

NEW YORK (CNNMoney) -- Stock markets closed with solid gains Wednesday following strong reports on durable goods and housing, but worries over the EU summit remain front and center. The Dow Jones industrial average ([INDU](http://money.cnn.com/data/markets/dow/?source=story_quote_link)) added 92 points, or 0.7%, the S&P 500 ([SPX](http://money.cnn.com/data/markets/sandp/?source=story_quote_link)) rose 12 points, or 0.9%, and the Nasdaq ([COMP](http://money.cnn.com/data/markets/nasdaq/?source=story_quote_link)) gained 21 points, or 0.7%. Durable goods orders for May increased 1.1% to $217.2 billion. And May pending home sales rose to their highest level in two years. That's the third positive housing report this week, and investors are taking heart. "These are good data points because housing really demonstrates employment and the durable goods number says businesses are spending," said Kim Caughey Forrest, senior equity analyst at Fort Pitt Capital Group. [Latest economy news](http://money.cnn.com/news/economy/?iid=EL) Analysts cautioned that the focus will quickly shift across the Atlantic after a key meeting of European leaders gets underway on Thursday. European leaders are under pressure to announce plans to backstop the debts of struggling nations, while also laying the groundwork for future growth. The leaders will discuss "building blocks," including an economic stimulus and the formation of a banking union, to address long-term challenges facing the eurozone.

Economy gaining momentum but downturn still possible

Rushe, the guardian writer, 6/26/12 (Dominic, “OECD: US economy is improving but recovery is far from complete”, http://www.guardian.co.uk/business/2012/jun/26/oecd-us-economy-recovery?newsfeed=true)

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

Economy expanding slowly

Washington Post 6/28/12 (“US economy grew at modest 1.9 percent rate in first quarter, matching previous estimate”, http://www.washingtonpost.com/business/economy/us-economy-grew-at-modest-19-percent-rate-in-first-quarter-matching-previous-estimate/2012/06/28/gJQA4SOt8V\_story.html)

The U.S. economy expanded at a 1.9 percent annual rate in the first three months of the year, a weak pace that few economists see changing much this year. The Commerce Department on Thursday made no change in its third and final estimate for growth in the January-March quarter. Slower growth in consumer spending was offset by faster growth in businesses investment in buildings, leaving the overall pace the same. Most economists say growth has likely stayed the same or possibly weakened since then. A sluggish job market and diminished consumer and business confidence have likely kept the economy from accelerating in the April-June quarter. Growth of around 1.9 percent typically generates roughly 90,000 jobs a month. That’s too weak to lower the unemployment rate, which was 8.2 percent last month.

Downgrades- S&P

US at risk of another downgrade from S&P

Macke 6/28 (Jeff Macke, “Another U.S. Credit Rating Downgrade Is Likely: Prechter”, 6/28/2012 http://finance.yahoo.com/blogs/breakout/america-likely-see-another-rating-downgrade-prechter-134922494.html)

On August 5th of last year ratings agency Standard & Poor's downgraded the credit rating of the U.S. Federal Government from AAA to AA+. Though widely telegraphed the news sent stocks tumbling with the benchmark S&P 500 (^GSPC) index dropping 6%. Despite vows at the time to change their profligate ways, the U.S. has, if anything, gotten even more fiscally reckless in the nearly 11 months since the downgrade, raising the questions as to whether or not the existing AA+ rating is at risk. Robert Prechter of Elliott Wave International says such another downgrade is "pretty likely, eventually" but regards ratings changes as the least of America's problems. At the heart of Prechter's concern is the U.S. borrowing costs. Despite the hand-wringing of last August, bond yields have actually dropped since then. At time of S&P's downgrade the yield on the 10-year treasury (^TNX) was 2.94%. Today the rate stands at 1.58%. Regardless of what S&P says about the U.S. credit rating, investors still regard our debt as a safe haven. But Prechter thinks that's about to change. "After 31 years the bond market may be ending a very long term uptrend and getting ready to turn down," he says, "that means higher rates. "Once borrowing costs go higher the Federal Reserve will have few options left for fighting it's real problem: deflation. Prechter notes the current economic environment includes historically low rates, a 40% decline in real estate, a 40% drop in commodities, low money velocity and last month's drop in CPI. "These things are a surprise to most people," says Prechter "but deflation explains them all."

Downgrades- Fitch

Only maintaining the status quo can prevent a downgrade

Horowitz, writer for reuters, 6/7/12 (Jed, “UPDATE 2-US rating faces 2013 cut if no credible plan-Fitch” http://www.reuters.com/article/2012/06/07/usa-rating-fitch-idUSL1E8H763B20120607

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

Fitch looking to downgrade the U.S.

Becker, The Hill, 6/7/12 (Bernie, “Fitch: Downgrade still possible in 2013”, http://thehill.com/blogs/on-the-money/banking-financial-institutions/231489-fitch-downgrade-still-possible-in-2013)

An official at Fitch repeated warnings Thursday that the credit rating agency would downgrade the U.S. debt rating next year if the federal government fails to craft a broad deficit-reduction plan. Fitch had sent similar signs last year when it assigned the United States a negative outlook and suggested it would be looking for a debt plan in 2013. Ed Parker, a sovereign ratings analyst at Fitch, told a conference in New York on Thursday that the United States was the only country with a AAA-rating that “does not have a credible fiscal consolidation plan.” Reuters reported Parker’s comments, which were confirmed by Fitch spokesman Brian Bertsch. He also noted that the statement was consistent with Fitch’s switch to a negative outlook last year. Meanwhile, Democrats and Republicans in Washington continue to spar over how to deal with looming tax and spending issues. House Speaker John Boehner (R-Ohio) said last month that Republicans would again demand that any hike in the debt ceiling be accompanied by a higher amount of spending cuts and reforms. Republicans issued the same ultimatum last year, and lawmakers and the White House agreed to a debt-ceiling deal shortly before the August deadline. That showdown also came just before Standard & Poor’s, another credit rater, gave the United States an unprecedented downgrade. This year, lawmakers are already discussing the possible need for a short-term extension of certain policies, with Bush-era tax rates set to expire and automatic spending cuts scheduled to go into effect in 2013. With all that in mind, top GOP lawmakers latched onto a suggestion from former President Clinton this week that Congress should temporarily extend all tax rates. The White House has said that, after President Obama signed off on an extension of all of the Bush tax cuts in 2010, he would not continue the rates for the wealthiest taxpayers again. Fitch put the United States on negative outlook last November after the supercommittee created by the debt-ceiling deal failed to agree on a deficit-reduction plan. That outlook means that Fitch thinks there’s better than a 50-50 shot that it will end up downgrading the United States, but the rater has said that would likely not occur before the end of 2013. Moody’s, a third ratings agency, has also placed the country on negative outlook.

Downgrades- Moody’s

Moody’s has a negative rating for the U.S.- fiscal discipline is needed to prevent a downgrade

Horowitz, writer for reuters, 6/7/12 (Jed, “UPDATE 2-US rating faces 2013 cut if no credible plan-Fitch” http://www.reuters.com/article/2012/06/07/usa-rating-fitch-idUSL1E8H763B20120607)

"The United States is the only one of the four largest economies whose debt as a percentage of GDP is expected to increase over the next five or six years," Parker said, referring to the United States, Britain, Germany and France. The U.S. economy's growth rate in the first quarter was revised down last month to 1.9 percent from a prior estimate of 2.2 percent as businesses restocked shelves at a moderate pace and government spending declined sharply. It grew 3.0 percent in the fourth quarter of 2011. Standard & Poor's made history in August 2011 when it cut the U.S. credit rating to AA-plus from AAA. It has held it with a negative outlook ever since. Moody's Investors Service has the United States rated at Aaa, also with a negative outlook as of November last year. All three of the ratings agencies have said they essentially do not expect much change in the U.S. budget situation or fiscal position until after the November presidential election. The negative outlook from S&P gives it a six-to-24-month window for making a decision while Moody's defines its time frame as 12 to 18 months. Fitch respects the size and flexibility of the U.S. economy but the "rising trajectory" of its debt could lead to the same kind of economic stagnancy that has long plagued Japan, Parker said.

Recession Likely

Double dip recession likely

Leonhardt 11 (David Leonhardt, “Rising Fears of Recession”, September 7, 2011, http://www.nytimes.com/2011/09/08/business/economy/american-economy-on-the-verge-of-a-double-dip-recession.html)

Economies have a strong self-reinforcing nature. When people are optimistic, they spend, which begets hiring and then more spending. When people are anxious, they pull back, which leads to a cycle of hiring freezes and further anxiety that often lasts for months. The United States appears to have entered some version of the vicious cycle. Most ominously, job growth has slowed to a pace that typically signals the start of a recession. Over the last 50 years, every time that job growth has been as meager as it has been over the last four months, the economy has been headed toward recession, in a recession or in the immediate aftermath of one. From early 2010 through this spring, by contrast, employment was growing fast enough to make the economy look as if it were in a recovery, albeit a modest one. “The chances that we are in something that is going to feel like a recession are close to 100 percent,” said Joshua Shapiro of MFR Inc. in New York, who has diagnosed the economy more accurately than many other forecasters lately. “Whether we reach the technical definition” — which is determined by a committee of academic economists and based on gross domestic product, employment and other factors — “I think is probably close to 50-50.”

Simpson-Bowles

**Simpson-Bowles will pass and reduce the deficit**

Bolton, The Hill, 6/20/12 (Alexander, “New star of deficit talks is Judd Gregg”, http://thehill.com/homenews/senate/233697-new-star-of-deficit-talks-is-judd-gregg)

Gregg, a columnist for The Hill who endorsed Mitt Romney in the GOP presidential primary, has written often in recent weeks on the need for Congress to act soon to cut the nation’s massive deficit. “Another run at reaching a structured and thoughtful bipartisan plan is going to be far more attractive. It should not only reduce the debt, but also strengthen our competitiveness as a country along the lines of Simpson-Bowles,” he wrote in a Monday column. “This is a time when those who have been elected to govern have an opportunity to do just that.” Gregg told The Hill on Tuesday that he hopes to “offer any assistance to reinvigorate” the Simpson-Bowles plan, which he described as a “comprehensive effort to get our deficit and debt under control.” “We’re going to try to be constructive and try to be as specific as people want us to be,” he said of his effort with Bowles. “It seems there’s a very large group of members on both sides of the aisle who are actively trying to pull together an effort to get something done.” Gregg, a member of the Simpson-Bowles commission and a former Budget Committee chairman, said, “I do genuinely believe the Simpson-Bowles commission is the only viable [blueprint] out there that is bipartisan and substantive.”

Simpson-Bowles is bipartisan

Gregg, chairman and ranking member of the Senate Budget Committee, 6/18/12 (Judd, “Opinion: Lawmakers haven’t run out of time to craft a bipartisan deficit deal”, http://thehill.com/opinion/columnists/judd-gregg/233121-opinion-lawmakers-havent-run-out-of-time-to-craft-a-bipartisan-deficit-deal

Simpson-Bowles was, and is, the only bipartisan, substantive vehicle that actually reduces the deficit and the debt and makes viable our tax code and programs like Social Security. It is refreshing, therefore, to have someone close to the administration and the Democratic party leadership be open about why they oppose the commission’s findings. This makes the choice for the American people, and those in Congress who wish to pursue constructive action on the debt, rather clear. The position of the activist left is to abandon any sort of effective or bipartisan action on the drivers of the deficit — specifically entitlement spending and tax policy — in favor of across-the-board cuts that fall primarily on our soldiers and dramatically increase the burden of the already-dysfunctional and counterproductive tax code. The other choice is to pursue a renewed effort based on a bipartisan and relatively-balanced approach, as set forth in Simpson-Bowles and expanded on by the various working groups in the Senate. The American electorate is obviously out of sorts with the nonfunctioning, partisan atmosphere they see in Washington. It is difficult to believe voters are going to find the approach of chaotic cuts as the type of governing they want or expect. Nor are they likely to endorse it when those cuts are coupled with tax increases based off a tax law that no one understands, and that will aggravate an already sluggish economy. Another run at reaching a structured and thoughtful bipartisan plan is going to be far more attractive. It should not only reduce the debt, but also strengthen our competitiveness as a country along the lines of Simpson-Bowles.

The increase of taxes and reduction of spending solves the deficit

Sala, contributor to MSNBC, 6/14/12 (Rose,“Geithner praises Simpson-Bowles framework as the way forward”, http://leanforward.msnbc.msn.com/\_news/2012/06/14/12225153-geithner-praises-simpson-bowles-framework-as-the-way-forward?lite)

U.S. Treasury Secretary Timothy Geithner recently suggested the Simpson-Bowles deficit reduction framework is the way forward in terms of balancing the federal budget. “This debate about what’s the right path to fiscal sustainability—it really began with Bowles-Simpson and that’s where it’s going to end,” Geithner said during an interview with Andrea Mitchell of MSNBC at the Council on Foreign Relations Wednesday. “The framework the president laid out is very close to that basic design.” Simpson-Bowles, named for its bipartisan creators—former President Bill Clinton’s White House chief-of-staff Erskine Bowles and former Sen. Alan Simpson of Wyoming, co-chairmen of Obama's deficit commission—included a combination of tax increases and spending cuts to balance the budget. Earlier this year the House shot down a Simpson-Bowles-like plan. Yet, there continues to be rumblings that portions of the plan will resurface in future legislation. Geithner, echoing the Obama administration’s stance, called for Washington to work together to restore confidence in government. “We need to take advantage of the incentive created by the sequester and these expiring tax cuts to force this town to confront and take on the things that divide us now in these long-term fiscal reforms so we can go ahead and govern,” he said. “This is a place where people spend a lot of time worrying whether Washington can work again and for Washington to say, ‘We’re going to defer,’ I don’t see how that would be helpful to confidence.”

Major bankers support the validity of the Simpson-Bolwes claims

Milbank, reporter and columnist for the Washington Post, 6/17/12 (Dana, “DANA MILBANK: To GOP dismay, JPMorgan head touts Simpson-Bowles debt proposal”http://www.onlinesentinel.com/opinion/to-gop-dismay-jpmorgan-head-touts-simpson-bowles-debt-proposal\_2012-06-16.html)

Dimon had little interest in joining Republicans in complaining that President Barack Obama's regulations destroyed capitalism as they knew it. In fact, he even had some kind words for the Dodd-Frank financial reforms. And the banker's most passionate plea to the lawmakers was one that Republicans most emphatically don't want to hear: Enact the Simpson-Bowles debt proposal, a package of spending cuts and -- gulp -- increased tax revenue that was largely scuttled by House Republicans. "If we had done something remotely like Simpson-Bowles," Dimon said in response to Sen. Michael Bennet, D-Colo., at the end of the hearing, "you would have increased confidence in America. You would have shown a real fix of the long-term fiscal problem. I think you would have had ... a more effective tax system that is conducive to economic growth."

Bipart support for Simpson-Bowles

Raum, Seattle times columnist, 6/20/12 (Tom, “Presidential race: Deficit panel report gets new attention” http://seattletimes.nwsource.com/html/politics/2018478808\_apustherace.html)

The shunned Simpson-Bowles deficit-reduction report is finally getting some love: from both the Obama and Romney camps. Republican challenger Mitt Romney has been talking up the plan and criticizing President Barack Obama for ignoring it. Romney told CBS' "Face the Nation" that he agrees with the concept of lowering tax rates and broadening the tax base advocated by the co-chairmen of Obama's deficit commission, Republican Alan Simpson and Democrat Erskine Bowles. Romney earlier said he thought "very highly" of their recommendations, suggesting some similarity with a House GOP plan authored by Budget Committee Chairman Paul Ryan, R-Wis. Romney campaigned with Ryan this week in Wisconsin and with House Speaker John Boehner in Ohio, both of whom opposed the Simpson-Bowles plan. The Obama campaign responded with a memo noting that, while Obama didn't endorse the Simpson-Bowles findings "in their entirety," his 2013 budget and later economic proposals build on the commission's recommendations.

\*\*\*Links\*\*\*

Generic

**Government infrastructure investments only move money around and does not add to employment**

Fama 9

Eugene F., Robert R. McCormick Distinguished Service Professor of Finance, Booth School of Business, University of Chicago, 1/16/2009,“Bailouts and Stimulus Plans”,

http://faculty.chicagobooth.edu/brian.barry/igm/bailoutsandstimulusplansJanuary\_16\_2009.pdf

In a “fiscal stimulus,” the government borrows and spends the money on investment projects or gives it away as transfer payments to people or states. The hope is that government spending will put people to work, either directly on government investment projects or indirectly through the consumption and savings decisions of the recipients of government spending. The current stimulus plan adds up to about $750 billion. Will it work? Unfortunately, there is a fly in the ointment. Like the auto bailout, government infrastructure investments must be financed -- more government debt. The new government debt absorbs private and corporate savings, which means private investment goes down by the same amount. Suppose the stimulus plan takes the form of lower taxes, another proposal of the incoming administration. Alas, we can’t get something for nothing this way either. If the government doesn’t also spend less, lower tax receipts must be financed dollar for dollar by more government borrowing. The government gives with one hand but takes them back with the other, with no net effect on current incomes. The general message bears repeating. Even when there are lots of idle workers, government bailouts and stimulus plans are not likely to add to employment. The reason is that bailouts and stimulus plans must be financed. The additional government debt means that existing current resources just move from one use to another, from private investment to government investment or from investment to consumption, with no effect on total current resources in the system or on total employment. And stimulus plans only enhance future incomes when they move current resources from less productive private uses to more productive government uses – a daunting challenge, to say the least. There has been lots of response to my little essay on bailouts and stimulus plans. I will only comment on the negative ones that I think have merit and are overlooked in my original paper. First, however, I want to restate my argument in simple terms. 1. Bailouts and stimulus plans must be financed. 2. If the financing takes the form of additional government debt, the added debt displaces other uses of the funds. 3. Thus, stimulus plans only enhance incomes when they move resources from less productive to more productive uses.

There is cost escalation in every transport infrastructure project, and it has not decreased in 70 years

Flyvbjerg et al, 2

Bent, professor of Major Programme Management at Oxford University’s Said Business School, Founding Director of the University’s BT Centre for Major Programme Management, Professor of Planning at Aalborg University, Chair of Infrastructure Policy and Planning at Delft University of Technology, Ph.D. in urban geography and planning from Aarhus University, Fulbright Scholarship, knighted in the Order of the Dannebrog, Mette K. Skamris Holm, Department of Development and Planning Aalborg University, SØREN L. BUHL, Department of Development and Planning Aalborg University, 6/26/02, “What Causes Cost Overrun in Transport Infrastructure Projects?”, http://www.sbs.ox.ac.uk/centres/bt/Documents/COSTCAUSES7.1-PRINT.pdfTransport Reviews, Vol. 24, No. 1, 3-18, January 2004

On the basis of the first statistically significant study of cost escalation in transport infrastructure projects, in a previous paper (Flyvbjerg et al., 2003b) we showed that cost escalation is a pervasive phenomenon in transport infrastructure projects across project types, geographical location and historical period. More specifically, we showed the following (all conclusions highly significant and most likely conservative): 􏰀 Nine of 10 transport infrastructure projects fall victim to cost escalation (*n* = 258). 􏰀 For rail, average cost escalation is 45% (*n* = 58, SD = 38). 􏰀 For fixed links (bridges and tunnels), average cost escalation is 34% (*n* = 33, SD = 62). 􏰀 For roads, average cost escalation is 20% (*n* = 167, SD = 30). 􏰀 Cost escalation exists across 20 nations and five continents; it appears to be a global phenomenon (*n* = 258). 􏰀 Cost escalation appears to be more pronounced in developing nations than in North America and Europe (*n* = 58, data for rail only). 􏰀 Cost escalation has not decreased over the past 70 years. No learning seems to take place (*n* = 111/246). The sample used to arrive at these results is the largest of its kind, covering 258 transport infrastructure projects in 20 nations worth approximately US$90 billion (1995 prices). The present paper uses this sample to analyse the causes of cost escalation in transport infrastructure projects. By ‘cause’, we mean ‘to result in’; the cause is not the explanation of the result. The main purpose here has been to identify which factors cause the cost escalation, to a lesser degree the reasons behind why they cause it. We test how cost escalation is affected by three variables: (1) length of the implementation phase measured in years, (2) size of the project measured in costs and (3) three types of ownership including public and private. In addition, we test whether projects grow larger over time. For results from a separate study of political explanations of cost escalation, see Flyvbjerg *et al.* (2002).

Government overruns common

LePatner 10 (Barry LePatner, “How to Fix Our Infrastructure— Before It’s Too Late”, 6/24/10, http://observer.com/2010/06/how-to-fix-our-infrastructure-before-its-too-late/)

The Big Dig epitomizes everything wrong with America’s broken construction industry. We cannot afford overruns of 20 percent, 30 percent or more. We cannot afford the waste triggered by contractor inefficiency. Construction is America’s least productive industry. The average project wastes up to 50 percent of its total labor cost. Taxpayers cannot squander a hundred billion on poor job performance. Yet fixed-priced contracts would save billions.

**Infrastructure is extremely expensive and money will be put into pet projects that don’t provide any economic advantage**

Edwards, director of tax policy studies at Cato, 2011 (Chris, “Infrastructure projects to fix the economy? Don’t bank on it.”, http://www.washingtonpost.com/opinions/infrastructure-projects-to-fix-the-economy-dont-bank-on-it/2011/10/18/gIQAgtZi3L\_story.html)

Looking at the Corps and Reclamation, the first lesson about federal infrastructure projects is that you can't trust the cost-benefit analyses. Both agencies have a history of fudging their studies to make proposed projects look better, understating the costs and overstating the benefits. And we've known it, too. In the 1950s, Sen. Paul Douglas (D-Ill.), lambasted the distorted analyses of the Corps and Reclamation. According to Reisner, Reclamation's chief analyst admitted that in the 1960s he had to "jerk around" the numbers to make one major project look sound and that others were "pure trash" from an economics perspective. In the 1970s, Jimmy Carter ripped into the "computational manipulation" of the Corps. And in 2006, the Government Accountability Office found that the Corps' analyses were "fraught with errors, mistakes, and miscalculations, and used invalid assumptions and outdated data." Even if federal agencies calculate the numbers properly, members of Congress often push ahead with "trash" projects anyway. Then-senator Christopher Bond of Missouri vowed to make sure that the Corps' projects in his state were funded, no matter what the economic studies concluded, according to extensive Washington Post reporting on the Corps in 2000. And the onetime head of the Senate committee overseeing the Corps, George Voinovich of Ohio, blurted out at a hearing: "We don't care what the Corps cost-benefit is. We're going to build it anyhow because Congress says it's going to be built." As Morgan noted in his 1971 book, these big projects have often damaged both taxpayers and ecology. The Corps, Reisner argues, has "ruined more wetlands than anyone in history" with its infrastructure. Meanwhile, Reclamation killed wetlands and salmon fisheries as it built dams to provide high-cost irrigation water to farmers in the West — so they could grow crops that often compete with more efficiently grown crops in the East. Taxpayers are double losers from all this infrastructure. They paid to build it, and now they are paying to clean up the environmental damage. In Florida, for example, the Corps' projects, along with federal sugar subsidies, have damaged the Everglades. So the government is helping to fund a multibillion-dollar restoration plan. In the West, federal irrigation has increased salinity levels in rivers, necessitating desalination efforts such as a $245 millionplant in Yuma, Ariz. And in a large area of California's San Joaquin Valley, federal irrigation has created such toxic runoff that the government is considering spending up to $2 billion to fix the damage, according to some estimates. When the federal government "thinks big," it often makes big mistakes. And when Washington follows bad policies, such as destroying wetlands or overbuilding dams, it replicates the mistakes across the nation. Today, for instance, Reclamation's huge underpricing of irrigation water is contributing to a water crisis across much of the West.

And rapid funding is uniquely worse for the economy- it causes misallocations that make the affirmative go over-budget

Rugy and Mitchel, senior research fellows at the Mercatus Center, 2011(Veronique and Matthew, September, “Would More Infrastructure spending stimulate the economy?”, http://mercatus.org/sites/default/files/publication/infrastructure\_deRugy\_WP\_9-12-11.pdf)

A rapid increase in stimulus spending makes things worse: There is an inherent tradeoff between speed and efficiency. Policy makers need time to weigh the merits of a project, structure requests for proposals, administer a fair bidding process, select the best firms, competently build the project, and impartially evaluate the results. Quite understandably, economists have found that when funds are spent quickly, they are not spent wisely.39 In October 2010, President Obama conceded that, in fact, ―There‘s no such thing as shovel-ready projects.‖40 In sum, there are strong reasons to suspect that stimulus is not likely to be implemented as Keynesian theoreticians say it ought to be. This means that even by Keynesians standards, the newest round of stimulus is likely to fail. Tellingly, the political economy problems that plague the implementation of stimulus were actually significant enough to make Lord Keynes himself a skeptic. Toward the end of his life, he wrote: Organized public works, at home and abroad, may be the right cure for a chronic tendency to a deficiency of effective demand. But they are not capable of sufficiently rapid organization (and above all cannot be reversed or undone at a later date), to be the most serviceable instrument for the prevention of the trade cycle.41 Given the experience with recent stimulus packages, Keynes‘s observations appear to be remarkably prescient. Unfortunately, modern-day Keynesians appear not to have paid heed.

Significant cost escalations in transportation infrastructure projects are detrimental to financers.

Flyvbjerg et al ‘03

Bent Flyvbjerg, Professor of Major Programme Management at Oxford University's Saïd Business School and Founding Director of the University's BT Centre for Major Programme Management, Mette K. Skamris Holm and Seren Buhl, 2003, “How common and how large are cost overruns in transport infrastructure projects?”, Taylor and Francis, http://flyvbjerg.plan.aau.dk/COSTFREQ4.pdf

The answer to this question is, with overwhelming statistical significance, No, transport infrastructure projects do not perform as promised, and, Yes, costs are highly uncertain involving substantial elements of downside risk. The main ®ndings from the study are (all highly signi®cant, and most likely conservative) the following: . Nine out of 10 transport infrastructure projects fall victim to cost escalation. . For rail average cost escalation is 45% (SD=38). . For ®xed links (tunnels and bridges) average cost escalation is 34% (SD=62). . For roads average cost escalation is 20% (SD=30). . For all project types average cost escalation is 28% (SD=39). . Cost escalation exists across 20 nations and ®ve continents; it appears to be a global phenomenon. . Cost escalation appears to be more pronounced in developing nations than in North America and Europe (data for rail only). . Cost escalation has not decreased over the past 70 years. No learning seems to take place. Or, alternatively, project promoters and forecasters have learned what there is to learn, namely that cost escalation pays o; cost escalation is a Cost overruns in transport infrastructure projects 85 simple consequence of cost underestimation and underestimation is used tactically to get projects approved and built. We conclude that cost estimates used in public debates, media coverage and decision-making for transport infrastructure development are highly, systematically and signi®cantly deceptive. Cost ± bene®t analyses are typically centrally placed in infrastructure decision-making to calculate viability and to rank projects. However, cost ± bene®t analyses will be as misleading as the estimates of the costs and bene®ts that enter into such analyses, which in turn will result in the misallocation of scarce resources. Moreover, the risks generated from misleading cost estimates are typically ignored or underplayed in infrastructure decision-making, to the detriment of social and economic welfare. Risks, therefore, have a doubly negative eect in this particular policy area, since it is one thing to take on a risk that one has calculated and is prepared to take, much as insurance companies and professional investors do, while it is quite another matter Ð that moves risk-taking to a dierent level Ð to ignore risks, especially when they are of the magnitude we have documented here. Such behaviour is bound to produce losers among those ®nancing infrastructure, be they taxpayers or private investors. If the losers, or, for future projects, potential losers, want to protect themselves, then our study shows that the risk of cost escalation, and related risk assessment and management, must be placed at the core of decision-making. Our goal with this paper has been to take a ®rst step in this direction by producing the type of knowledge that is necessary to initiate such risk assessment and management. The policy implications of our ®ndings are clear. First, the ®ndings show that a major policy problem exists for this highly expensive ®eld of public policy. The problem is the pervasiveness of misinformation in the planning of transport infrastructure projects, and the systematic bias of such misinformation toward justifying project implementation. Second, the size and perseverance over time of the problem of misinformation indicate that it will not go away by merely pointing out its existence and appealing to the good will of project promoters and their forecasters to make less deceptive forecasts. The problem of misinformation is an issue of power and pro®t and must be dealt with as such, using the mechanisms of accountability we commonly use in liberal democracies to control power and rent-seeking behaviour that have got out of hand. Institutional checks and balances must be put in place to curb misinformation, including ®nancial, professional or even criminal penalties for ignoring or giving misleading information about risk and for consistent or foreseeable estimation `errors'. The work of developing such checks and balances has been begun in Bruzeliuset al. (1998) and Flyvbjerget al. (2003), with a focus on four basic instruments of accountability in transport infrastructure planning and policy-making: (1) increased transparency, (2) the use of performance speci®cations, (3) explicit formulation of the regulatory regimes that apply to project development and implementation and (4) the involvement of private risk capital, even in public projects.

HSR

High Speed Rail would cost billions, incite controversy, requires $2 billion yearly – Just for California

Shackford 5/5 (Scott Shackford, May 5, 2012, “America's Most-Expensive Runaway Train: California High-Speed Rail”, http://reason.com/blog/2012/05/05/californias-most-expensive-train-wreck-c)

The certification moves the $68 billion project into the well-known phase of California development where people with various agendas use any little issue with the environmental impact report to sue, sue, sue. These people could be property owners looking to block the project (or negotiate better compensation), union groups looking to secure labor agreements, environmental attorneys hoping to make a buck by challenging the science, or any number of folks with complaints of varying legitimacy. The Los Angeles Times reports that farming interests in Merced and Madera counties may be planning suits over perceived defects with the environmental report and disruptions to their agricultural pursuits. If they press their concerns in the courts, they'll join quite a crowd of litigants already fighting various decisions about the train. In other recent developments connected to the still-not-quite-embattled-enough-to-kill-it-dead project: More Games with Numbers. CHSRA has faced plenty of criticism over inexplicable ridership projections that are accepted by absolutely nobody and funding methods that are essentially illegal. Now critics are focusing on its projected operational costs, which are absurdly low and would only add up if California's trains were the most economically efficient in the world. Authors of a new study say operation costs for the train will actually be four times what CHSRA is projecting, necessitating annual subsidies to continue operations. That would be a problem because state law forbids subsidizing the train's operations. The Reason Foundation estimated in 2008 that the operations of the train would cost as much as $700 million more per year than what CHSRA projected. This new study (readable here at Community Coalition on High Speed Rail) projects the train will actually require as much as $2 billion in subsidies annually to stay in operation. California Watch spoke to Alan Bushnell, one of the report's authors, who said, “We showed that their (projected) operating costs and revenue costs per mile were significantly lower than what anybody anywhere in the world had ever been able to achieve.”

High speed rail costs billions, has little effect

Rodriguez 9 (Aaron M. Rodriguez, “Doyle’s High Speed Rail Problem: Cost-Effectiveness”, 03 May 2009, http://www.thehispanicconservative.com/Madison/doyles-high-speed-rail-problem-cost-effectiveness.html)

The first pertinent and logical question taxpayers should ask about any local project is, “Does evidence show that the benefits will off-set the costs?” The question is particularly important because all available data suggests that high speed rail costs billions of dollars to create, operates at a steady stream of losses, insignificantly reduces highway traffic, and pollutes the environment nearly as much as planes and automobiles respectively. Let’s look at the facts. In May of 1971, Amtrak was built to provide a rail transportation service to intercity passengers. It was concocted by the Nixon administration because there was a steady decline of private passenger rail services from 1920 to 1970. (The one exception was WWII when rail was used to transport U.S. troops.) Since the time of its inception, Amtrak has lost an average of $500 million a year. This does not include the 2.3 billion dollar infusion it received from Congress in 1998 and 1999. And today, Amtrak is in worse shape than before Congress elected to intervene. In a 1998 audit, it showed that Amtrak lost money on all 40 rail routes that were audited except for 1.

High Speed Rail is a good place to start cutting spending

***Barone, Senior Political Analyst (January 18, 2011 (Michael, “***High-speed rail is a fast way to waste taxpayer money” <http://washingtonexaminer.com/article/109576>, The Washington Examiner)

Where can the new Congress start cutting spending? Here's one obvious answer: high-speed rail. The Obama administration is sending billions of stimulus dollars around the country for rail projects that make no sense and that, if they are ever built, will be a drag on taxpayers indefinitely. When incoming Govs. Scott Walker of Wisconsin and John Kasich of Ohio cancelled high-speed rail projects, Transportation Secretary Ray LaHood refused to let them spend the dollars on other forms of transportation and sent the funds instead to California and other states. Walker argued that Wisconsin didn't need $810 billion for a 78-mile line between Madison and Milwaukee because there's already a transportation artery — Interstate 94 — that enables people to get from one city to the other in a little more than an hour (I once drove that route to have dinner in Milwaukee). Kasich's rationale? "They tried to give us $400 million to build a high-speed train that goes 39 miles an hour." Train boosters countered that its top speed was 79 miles per hour — about the same as many drivers on Interstate 71. High-speed rail may sound like a good idea. It works, and reportedly even makes a profit, in Japan and France. If they can do it, why can't we? A look at some proposed projects gives the answer. Take the $2.7 billion, 84-mile line connecting Orlando and Tampa that incoming Florida Gov. Rick Scott is mulling over. It would connect two highly decentralized metro areas that are already connected by Interstate 4. Urban scholar Wendell Cox, writing for the Reason Foundation, found that just about any door-to-door trip between the two metro areas would actually take longer by train than by auto — and would cost more. Why would any business traveler take the train? As for tourists headed for Orlando's theme parks, there is already a convenient rental car operation, with some of the nation's lowest rates, at the Orlando airport. Why would parents get on a train, pay a separate fare for each kid and then rent a car at the station when you could more easily get one at the airport? As Cox points out, cost estimates for the Florida train seem underestimated and the ridership estimates seem wildly inflated. If he's even partially right, Florida taxpayers will be paying billions for this white elephant over the years. Other projects seem just as iffy. California is spending $4.3 billion on a 65-mile stretch of track between Corcoran and Borden in the Central Valley, which is supposed to be part of an 800-mile network connecting San Diego and Sacramento. Its projected cost was $32 billion in 2008 and $42 billion in 2009, suggesting a certain lack of precision. Or consider the $1.1 billion track improvement on the Chicago-St. Louis line in Illinois. It would reduce travel time between the cities by 48 minutes, but the trip would still take over four and a half hours at an average speed of 62 miles per hour. None of these high-speed projects are really high-speed. Japan has bullet trains that average 171 miles per hour, France's TGV averages 149 miles per hour. At such speeds you can travel faster door-to-door by train than by plane over distances up to 500 miles. In contrast, Amtrak's Acela from Baltimore to Washington averages 84 miles per hour and the Orlando-Tampa train would average 101 miles per hour. That makes the train uncompetitive with planes on trips more than 300 miles. Now take a look at your map and see how many major metro areas with densely concentrated central business districts and large numbers of business travelers are within 300 miles of each other. The answer is not very many outside of the Northeast Corridor between Washington and Boston. Our geography is different from France's or Japan's. Moreover, to achieve the speed of French and Japanese high-speed rail, you need dedicated track so you don't have to slow down for freight trains. To get dedicated track, you need a central government that is willing and able to ignore environmental protests and not-in-my-backyard activists. Japan and France have such governments. We don't. So we are spending billions on high-speed rail that isn't really high speed, that will serve largely affluent business travelers and that will need taxpayer subsidies forever. This should be a no-brainer for a Congress bent on cutting spending.

Infrastructure bank

Infrastructure Bank fails, alternatives stimulate private sector

Peltier 3/9 (Greyson Peltier, “Alternative to Obama infrastructure spending proposed”, March 9, 2012, http://www.teapartypatriots.org/news/alternative-to-obama-infrastructure-spending-proposed/)

Rep. John Campbell’s (R-CA) bill, HR 4001, would give private individuals and businesses the option of buying into publicly traded partnerships that invest in infrastructure projects. One of the primary advantages of partnerships is that, unlike stocks and bonds, the profit or loss of the partnership is passed along to the investors without corporate income tax. Losses of the partnership are also tax deductible to the investor. Campbell’s communications director, Chris Bognanno, says the plan is an alternative way to fund infrastructure projects while helping the economy. “Not only is Congressman Campbell’s bill a viable alternative, it is directionally opposite from the President’s plan. Instead of engaging in harmful deficit spending, the idea is to create a new class of investor for infrastructure projects. This has the dual benefit of jumpstarting the struggling private sector and repairing our nation’s infrastructure in a more efficient manner,” stated Bognanno. Currently, publicly traded partnerships can invest in gas and oil-related businesses, mining and real estate. There are also private placement partnerships available only to high net worth investors that can invest in most any business. The specific types of projects that will be available to publicly traded partnerships/master limited partnerships (MLP) if the bill passes are:

Infrastructure Bank fails, costs billions

Barnes 11 (Peter Barnes, “Infrastructure Bank May Boost Size of Obama Jobs Bill”, September 12, 2011, http://www.foxbusiness.cLom/industries/2011/09/12/infrastructure-bank-may-boost-cost-obama-jobs-bill/)

But critics have attacked infrastructure banks, like similar government-backed financing entities, as potentially costly to taxpayers housing insurance giants Fannie Mae and Freddie Mac have required about a $150 billion bailout as well as of questionable value in jumpstarting job creation. An infrastructure bank would do little to spur the economic recovery and nothing to create new jobs, Ronald Utt, a senior economics research fellow at the Heritage Foundation, wrote in August. Utt said the time-consuming nature of creating such a bank would mean more than a year or two will pass before the first dollar of a grant or loan is dispersed to finance a project. He also criticized the billions in direct federal infrastructure spending in the President’s 2009 stimulus plan as ineffective. The bank proposal faces an uphill fight in Congress, were some top Republicans oppose it. On Monday, House Republican Leader Eric Cantor (R-VA) called it a Fannie and Freddie for roads and bridges.”

Infrastructure bank costs $50 billion now, ten times that much over six years

DoT 5/23 (Department of the Treasury with the Council of Economic Advisers, “A New Economic Analysis of Transportation Infrastructure Investment”, March 23, 2012, http://www.treasury.gov/resource-center/economic-policy/Documents/20120323InfrastructureReport.pdf)

President Obama’s FY 2013 Budget proposes a bold plan to renew and expand America’s infrastructure. The plan includes a $50 billion up-front investment connected to a $476 billion six-year reauthorization of the surface transportation program and the creation of a National Infrastructure Bank. In support of this commitment, the Department of the Treasury, with the Council of Economic Advisers, has updated our analysis of the economic effects of infrastructure investment. The new data and analyses confirm and strengthen our finding that now is an ideal time to increase our investment in infrastructure for the following four key reasons: • Well-designed infrastructure investments have long-term economic benefits and create jobs in the short run; • This economic activity and job creation is especially timely as there is currently a high level of underutilized resources that can be used to improve and expand our infrastructure; • Middle-class Americans would benefit disproportionately from this investment through both the creation of middle-class jobs and by lowering transportation costs for American households; and • There is strong demand by the public and businesses for additional transportation infrastructure capacity.

Infrastructure bank is wasteful spending, not a solution to America’s large economic problems

Chin, 10/17/2011 (Curtis S, “Obama’s infrastructure bank won’t create real jobs Asia shows trade growth lifts economy more than government projects”, <http://www.washingtontimes.com/news/2011/oct/17/obamas-infrastructure-bank-wont-create-real-jobs/?page=all#pagebreak>, The Washington Times)

With U.S. unemployment persistently and unacceptably high, President Obama and others from all political persuasions have voiced support once again for establishment of a new government-created institution that would provide loans and guarantees to finance U.S. infrastructure. They note Asia’s continued economic growth and cite the region’s - and particularly China’s - tremendous investments in showcase infrastructure projects as reason enough to support greater government financing of infrastructure and development - and the jobs that come with such spending. Policymakers in Washington would be mistaken, however, if they see short-term job creation as rationale for creation of another federal bureaucracy in the guise of a U.S. national infrastructure bank. The latest proposal, part of Mr. Obama’s recent Senate-rejected $447 billion jobs bill, envisioned a new $10 billion institution in Washington. That subproposal of the “jobs” bill may well rise again. The benefits, proponents say, will be twofold: rebuilding the United States’ crumbling infrastructure and creating jobs. Just as the World Bank helped rebuild Europe after World War II and brings critical investment dollars to the poorest nations, isn’t it time, they say, to do the same thing at home in the United States? Yet, like many things too good to be true, caveat emptor - buyer beware. Asia, with its multitude of infrastructure projects, offers a lesson, albeit a counterintuitive one. For all the billions of dollars in projects pushed by the World Bank and other multilateral development banks, what is clear is that such institutions are not the key players when it comes to infrastructure investment and job creation for much of Asia. Much more critical to growth have been trade, a still-evolving but strengthening infrastructure of transparency, governance and the rule of law, and allowing businesspeople the chance to, well, go about doing their business. In that context, the recently passed U.S. Free Trade Agreements with Korea, Panama and Colombia may well do more in the long run to spur economic growth in the United States and those countries than any individual bridge or other single infrastructure project. A further case in point: China borrows a few billion dollars annually from the World Bank and the Asian Development Bank. That being said, for an economy of several trillion dollars, the financial and employment impact of these banks’ infrastructure lending to China are minimal, and even questionable on other policy grounds. And therein lies another lesson: A new U.S. national infrastructure bank may capture headlines but any proposal needs to be thoroughly vetted, lest taxpayers find themselves with another government-created institution that made political sense, but delivered very little in the long run beyond employment of the people who work there. Certainly, the infrastructure in the United States could use some serious updating. Recall the bridge collapse in Minnesota and the continued congestion of U.S. roads and skies. Sen. John F. Kerry, Massachusetts Democrat, Sen. Kay Bailey Hutchison, Texas Republican, and others in their own proposed legislation for a national infrastructure bank have rightly and usefully drawn attention to the need for greater investment in our country’s dated infrastructure. But, as with proposed “bridges to nowhere,” not all infrastructure projects or infrastructure banks are equal. Infrastructure spending is essential but not a panacea for persistent joblessness in the United States or persistent poverty in the developing world, particularly when larger, underlying economic issues are at play. So, what to do? Policymakers around the world need a more balanced approach to infrastructure, one that better embraces civil society and the private sector, including new forms of investment and ownership. We also need to think more seriously about models for better funding operations and maintenance, including public-private partnerships. In brief, this means a new attitude toward infrastructure, driven by a couple basic principles: First, we need to stop thinking of and selling infrastructure investment simply as a direct provider of short-term employment when times are bad. To do so risks not just bridges, but roads, rails and airports to nowhere. It also risks a decline in long-term support for critical infrastructure investment when promised jobs do not materialize. Second, we need to prioritize limited government resources on projects that will have more meaningful and sustainable economic results. We need to weed out what does not work and not be afraid to innovate. And third, we need to ensure the climate improves for private investment in infrastructure and its operations and maintenance. That means also ensuring that a welcoming business climate exists for the private enterprises and entrepreneurs that are the real drivers of job creation in any economy. On a basic economic level, obviously the larger-scale infrastructure development projects tend to contribute more to gross domestic product growth and employment, especially in the short-term. But when it comes to sustained growth, better focused projects of more modest scale can have a longer-term impact than bigger, costlier projects - shovel ready, or not. While putting people back to work must remain a short-term and long-term goal for policymakers in countries suffering chronic unemployment, the last thing needed is any institution, new or existing, pushing more bridges to nowhere, no matter how many short-term jobs might be created in building them. What the world needs more of are jobs for the long-term - jobs that matter and infrastructure that lasts. The two are not mutually exclusive.

Infrastructure bank will have “no measurable impact” on job growth or economic activity

Utt, Ph.D, August 30, 2011 (Ronald, “Obama’s Peculiar Obsession with Infrastructure Banks Will Not Aid Economic Revival”,

<http://www.heritage.org/research/reports/2011/08/using-infrastructure-banks-to-spur-economic-recovery>, The Heritage Foundation)

In response to the credit downgrade by Standard & Poor’s in August, the grim reports on the state of the economy, and the collapse of the stock and financial markets in the week after the downgrade, President Barack Obama has re-engaged with the issue of America’s faltering economy and the human misery left in its wake. While it is possible he may propose a serious and detailed plan during his much-anticipated jobs speech next week, so far his response has included policies that both Democrats and Republicans have rejected in the past. The President’s proposal for an infrastructure bank is one idea that he and other progressives have been flogging for the past few years.[1] Although several infrastructure bank proposals have been introduced in Congress,[2] all involve the creation of a new federal bureaucracy that would provide federally funded loans and grants to approved infrastructure proposals submitted to the bank by eligible entities. Funds to provide these loans would either be borrowed by the bank or provided by appropriations, depending on the proposal. But an infrastructure bank would do little to spur the economic recovery—and nothing to create new jobs. Misplaced Humor In reviewing these infrastructure plans it is apparent that, as a proposal to jump-start the economy, these banks possess all the liabilities of (but are even more ineffective than) the failed American Revitalization and Investment Act of 2009 (ARRA), which committed $800 billion to stimulus spending, including $48.1 billion for transportation infrastructure. As the President has recently acknowledged, and The Heritage Foundation predicted,[3] the funded projects have been very slow to get underway and have had a limited impact on economic activity. In a recent meeting with his Jobs Council, Obama noted that “Shovel-ready was not as…uh…shovel-ready as we expected.” The media reported that the “Council [Council on Jobs and Competitiveness ], led by GE’s Jeffrey Immelt, erupted in laughter.”[4] That the President and his business community advisers found this waste of $800 billion and the subsequent loss of hundreds of thousands of jobs a source of humor is emblematic of the Administration’s failed approach to the economy. Banks Make Loans, Not Grants Take for example the President’s national infrastructure bank proposal, which was included in his February 2011 highway reauthorization proposal. His bank would be part of the Department of Transportation and would be funded by an appropriation of $5 billion per year in each of the next six years. Obama’s “bank” would be permitted to provide loans, loan guarantees, and grants to eligible transportation infrastructure projects.[5] As Heritage and others have noted, the common meaning of a “bank” describes a financial intermediary that borrows money at one interest rate and lends it to credit-worthy borrowers at a somewhat higher interest rate to cover the costs incurred in the act of financial intermediation. In this regard, the Obama proposal is not a bank, and it relies entirely on congressional appropriations—thus, on deficit finance and taxpayer bailouts. Grants are not paid back, prompting “one former member of the National Infrastructure Financing Commission to observe that ‘institutions that give away money without requiring repayment are properly called ‘foundations’ not ‘banks.’”[6] Senator James Inhofe (R–OK), the ranking member of the Senate Environment and Public Works Committee, further noted that: Banks don’t give out grants; they give out loans. There is also currently a mechanism for giving out federal transportation grants—it is called the highway bill. I don’t believe an infrastructure bank will increase total transportation investment—it will only take money away from what would otherwise go through the existing highway and transit programs.[7] Bureaucratic Delays Although Obama has yet to offer any legislation to implement his “bank,” infrastructure bank bills introduced by Senator John Kerry (D–MA) and Representative Rosa DeLauro (D–CT) illustrate the time-consuming nature of creating such a bank, suggesting more than a year or two will pass before the first dollar of a grant or loan is dispersed to finance a project.[8] Both the DeLauro and Kerry bills are—appropriately—concerned with their banks’ bureaucracy, fussing over such things as detailed job descriptions for the new executive team, how board members will be appointed, duties of the board, duties of staff, space to be rented, creating an orderly project solicitation process, an internal process to evaluate, negotiate, and award grants and loans, and so on. Indicative of just how bureaucracy-intensive these “banks” would be, the Obama plan proposes that $270 million be allocated to conduct studies, administer his new bank, and pay the 100 new employees hired to run it. By way of contrast, the transportation component of the ARRA worked through existing and knowledgeable bureaucracies at the state, local, and federal levels. Yet despite the staff expertise and familiarity with the process, as of July 2011—two and a half years after the enactment of ARRA—38 percent of the transportation funds authorized have yet to be spent and are still sitting in the U.S. Treasury, thereby partly explaining ARRA’s lack of impact. Infrastructure “Banks” No Source of Economic Growth The President’s ongoing obsession with an infrastructure bank as a source of salvation from the economic crisis at hand is—to be polite about it—a dangerous distraction and a waste of his time. It is also a proposal that has consistently been rejected by bipartisan majorities in the House and Senate transportation and appropriations committees, and for good reason. Based on the ARRA’s dismal and remarkably untimely performance, Obama’s infrastructure bank would likely yield only modest amounts of infrastructure spending by the end of 2017 while having no measurable impact on job growth or economic activity—a prospect woefully at odds with the economic challenges confronting the nation.

Next Gen

Next Gen Costs billions, won’t be ready for years

Schrader 11 (Ann Schrader, “Air-traffic control's next generation may give airlines' fuel-savings, fliers a lift”, September 7, 2011, http://www.denverpost.com/business/ci\_18840006)

The work — expected to take more than two decades and cost $20 billion to $25 billion for the government's part and perhaps an equal amount for the airlines' — "is a complex undertaking and is really a partnership of government and users of the aviation system," Huerta said. It won't happen overnight. NextGen will evolve as technology evolves, and "it's not one day you flip a switch and it's deployed," Huerta said.

Next Gen costs billions, behind schedule

Mouawad 4/3 (Jad Mouawad, “A Satellite System That Could End Circling Above the Airport”, April 3, 2012, http://www.nytimes.com/2012/04/04/business/a-satellite-system-that-could-end-circling-above-the-airport.html?pagewanted=all)

Replacing the radar-based air traffic control system, which the nation’s airports have relied on since the 1940s, is an enormous and expensive undertaking. By one official government estimate, the price tag could reach $42 billion by 2025. But the agency in charge of the program, the Federal Aviation Administration, has been hamstrung by political infighting that deprived it of a stable budget for five years. Congress finally approved a four-year budget for the agency in February, including $1 billion a year for the program, called the Next Generation Air Transportation System, or NextGen. The program has already confronted trouble. A government audit found in February that half of the 30 critical contracts needed to build the new system were delayed, and more than a third were over budget.

High Cost for next gen, no immediate reward

Mouawad 4/3 (Jad Mouawad, “A Satellite System That Could End Circling Above the Airport”, April 3, 2012, http://www.nytimes.com/2012/04/04/business/a-satellite-system-that-could-end-circling-above-the-airport.html?pagewanted=all)

But NextGen has also been slowed by disagreements between the airlines and federal regulators over which would pay the bill. Equipping a single plane with a GPS system can cost more than $340,000. That quickly adds up for airlines with hundreds of planes in their fleet, and with no immediate payoff for the upgrade. (New planes have the technology, but older models must be retrofitted.) That is the sort of logjam that the Seattle experiment is seeking to break. It will use something called Required Navigation Performance, or R.N.P., which is like GPS in cars. The difference is that the plane’s autopilot feature can guarantee that the flight will stay precisely on course, from takeoff to landing, even in bad weather or turbulence.

Late adopters of Next Gen cost more

Spangler 11 (Scott Spangler, “Southwest Offers NextGen Lesson With RNP”, June 20th, 2011, http://www.jetwhine.com/2011/06/southwest-offers-nextgen-lesson-with-rnp/)

Yeah, the whole NextGen project isn’t perfect, it’s not on time or budget, and our elected officials can’t agree on or pass the FAA appropriation let alone anything else. Despite it all, NextGen is making progress, and the FAA has made it clear that in the new world, those best equipped for NextGen will be served first. GA operators who procrastinate will pay a premium if they wait until the deadline to think about NextGen upgrades.

Port Security

Port security too expensive

Millares 6 (Kristen Millares, “Congress drops financing for increased port security”, June 7, 2006, http://www.seattlepi.com/local/article/Congress-drops-financing-for-increased-port-1205625.php)

Nearly $650 million to increase scrutiny of containers shipping into Seattle and every other U.S. port was stripped out of a national security funding package moving through Congress this week in a move critics say makes the country more vulnerable to terrorist attacks. Opponents of the $648 million for port security said it was too expensive and needed to be cut to satisfy President Bush's request that the supplemental budget for things such as the Iraq war and Hurricane Katrina reconstruction be brought under control. Though the action by Congress was not unexpected, port safety advocates such as Sen. Patty Murray, D-Wash., and Port of Seattle Chief Executive Mic Dinsmore were dismayed. "We are not going to have the money we need for screening machines, customs inspectors, Coast Guard inspectors, radiation monitors, gates, fences and more," Murray said. "The administration keeps talking a good game, but words do not provide security."

An increase in port security funds is harmful to business owners.

Keefe ‘11

Joseph Keefe, Editor-in-chief of The Maritime Executive, 1/12/2011, “Port Security: At What Price, Who Decides and to Whose Account?”, The Maritime Executive, http://www.maritime-executive.com/article/port-security-what-price-who-decides-and-whose-account/

The Port Commission of the Port of Corpus Christi Authority on Tuesday, in a divided 4-3 vote, approved motions for fee local increases of more than 500 percent and implementation of a marine patrol to be supported by the fee increase. The annual operating cost of the three patrol boats could be as much as $2.9 million by 2011. Ten of eleven speakers at the meeting were opposed to the fee hike, which has taken local users by surprise. Local trade organizations such as the Port Industries of Corpus Christi, an alliance of ship channel industries, and the West Gulf Maritime Association, which represents more than 140 maritime companies on the Gulf Coast, also weighed in against the fee hikes. The whopping increase in fees also comes at a time when most users are ill-positioned to absorb the costs. One shipper who did not want to be identified, estimated that the new fees would cost his firm as much as USD $200,000 annually. The new fees, all but a foregone conclusion, also fly in the face of a recent proclamation by the American Association of Port Authorities (AAPA) which heralded a change in Federal Emergency Management Agency policy that will allow the use of preparedness grant funds for security equipment maintenance contracts, warranties, repair or replacement costs, upgrades and user fees under all active and future grant awards. FEMA manages the Department of Homeland Security's Port Security Grants program. Corpus Christi, according to DHS records, has received more than $30 million in DHS grants. Local users want to know why those DHS funds – now available for this kind of expense – cannot be used to fund the patrols. It is a very good question. But the situation developing in Corpus Christi probably shouldn’t surprise too many other port users in other places, where “port security” has eaten up more than its fair share of infrastructure dollars in the wake of 9/11 attacks. Back then, federal and state officials quickly realized that the sinking of a single vessel in the middle of a busy waterway - especially on the U.S. Gulf Coast – could effectively cripple the supply chain and/or the distribution of refined petroleum products. It is fair to ask what is reasonable in terms of local security arrangements and who should fund the cost of that protection. Local port officials clearly feel that the Coast Guard is not up to the task (I somehow doubt that DHS would share that sentiment) and accordingly have gone out and purchased patrol boats that the industrial user base feel are unnecessary. And just as these added costs are now about to be felt locally in the supply chain in South Texas, so too could this happen elsewhere. For that reason, port authorities everywhere and their customers are watching what unfolds here with real interest. The situation in Corpus Christi might be an anomaly, but I doubt it. And in places where a 10 percent hike in pilot’s fees hardly raises an eyebrow, the news from South Texas might seem like a non-event. This time, however, that kind of thinking would be a mistake. This week’s vote raises the harbor fee for ships from $275 to $2,032, starting April 1, 2010 with barge fees increasing at a similar percentage. For local refineries moving hundreds of thousands of barrels of crude and refined petroleum on multiple platforms daily, the fees will add up quickly.

Port security funds are too expensive – they should be spent on more pressing matters.

Bolt ’06

Kristen Millares Bolt, P-I reporter, 6/7/2007, “Congress drops financing for increased port security”, Seattle PI, http://www.seattlepi.com/local/article/Congress-drops-financing-for-increased-port-1205625.php

Nearly $650 million to increase scrutiny of containers shipping into Seattle and every other U.S. port was stripped out of a national security funding package moving through Congress this week in a move critics say makes the country more vulnerable to terrorist attacks. Opponents of the $648 million for port security said it was too expensive and needed to be cut to satisfy President Bush's request that the supplemental budget for things such as the Iraq war and Hurricane Katrina reconstruction be brought under control.

Rising costs in port security are harmful to businesses and their competitiveness.

Wyman ’04

Scott Wyman, Sun Sentinel Contributor, 2/18/2004, “Port Security Costs At Issue”, Sun Sentinel, http://articles.sun-sentinel.com/2004-02-18/news/0402180103\_1\_busiest-cruise-ports-port-businesses-security-costs

Businesses at Port Everglades are challenging the skyrocketing cost of protecting the port from terrorist attack, saying they cannot continue to bear the brunt of bills for blast walls, security gates and extra deputies. The cruise lines and shipping companies are pressing Broward County officials to rethink the extensive security precautions taken since the September 2001 terrorist attacks. The latest bill came Tuesday: $1 million in overtime for the Broward Sheriff's Office to staff each terminal this year with a deputy and community service aide when a cruise ship is docked. The security costs are expected to increase from $8.8 million last year to as much as $15 million this year, in addition to $40 million in ongoing construction to protect the port. The businesses want taxpayers or federal and state agencies to pick up more of the expenses if they can't be cut back. "We want to do our part, but one question we have is: What has been mandated, and what is the minimum that can be done?" asked Margaret Kempel of the Port Everglades Association. "There seems to be redundancy here out the wazoo. We have created the best in show, but is that what we need?" County officials in charge of the port agreed to reassess the costs and how they're paid over the next month. Among the ideas that will be considered: replacing some of the sheriff's deputies with a less expensive private security service. In agreeing to the review, port administrators acknowledged the repeated increases in security costs over the past three years are having a devastating effect on the businesses. "They cannot continue to bear the cost and remain competitive," Port Director Ken Krauter told county commissioners during their meeting Tuesday. "We can't continue to have increasing costs of security at Port Everglades. It is not sustainable. We have to find better and cheaper ways to do this." Port Everglades is one of the nation's busiest cruise ports and the entry point for all of South Florida's petroleum. It's been viewed as particularly vulnerable because major highways, the Fort Lauderdale-Hollywood International Airport and downtown Fort Lauderdale are all located near its docks and oil tanks. A critical audit last year detailed areas where the port was not in compliance with the state's seaport security regulations and its own security plan. Work is under way to install permanent security gates and build a blast wall to seal off the area. The county has received $9.4 million in grants to pay for the work, but much of the cost has been paid through the tariff charges paid by port businesses. Those fees increased 5 percent last year over the objections of the business association. At that time, officials expected security costs would total $12.8 million this year. But the latest estimate of $15 million will mean more than 19 percent of the port's operating budget will pay for security. That's money that, port businesses argue, is not going to improve terminals and docks. Commissioner Lori Parrish pressed for the review Tuesday, saying she is concerned that the secrecy surrounding security has led to higher costs than necessary. "I'm not asking that we reduce our security," Parrish said. "We need to be safe, but I want to make sure that we are exploring all the options to keep costs down." County Administrator Roger Desjarlais and Cheryl Stopnick, spokeswoman for Sheriff Ken Jenne, said their offices have been discussing ways to cut costs and will be better able to do that once federal and state officials review long-range security plans submitted last year. Federal and state law enforcement agencies have dictated much of the post-2001 security upgrades, including the latest edict that a deputy and a community service aide staff each terminal. Some changes have already been made, Desjarlais said. For example, the security wall being built around the port is not as high in some places as originally planned, he said. "Since 9/11, we have worked with the county to make sure the port is secure at the most cost-effective price we can charge," Stopnick said. "It is a balancing act because when the attacks occurred, there were federal mandates that had to be

FAA

Significant cost overruns in FAA/NACTA agreements are harmful to taxpayer money.

Transportation and Infrastructure Committee ‘ll

Transportation and Infrastructure Committee, 6/16/2011, “DOT IG Report Cites $1 Billion Cost Overrun of Air Traffic Controller Labor Agreement”, House.gov, http://republicans.transportation.house.gov/News/PRArticle.aspx?NewsID=1311

Washington, DC – Today the Department of Transportation Office of Inspector General (DOT IG) will release a report on the costs associated with the 2009 Federal Aviation Administration (FAA) National Air Traffic Controllers Association (NATCA) Collective Bargaining Agreement (CBA) and warn FAA not to repeat costly mistakes of the past. In October 2009, the FAA entered into a CBA with the air traffic controllers’ union. U.S. Rep. John L. Mica (R-FL), Chairman of the Transportation and Infrastructure Committee, requested that the DOT OIG review the costs related to the 2009 CBA, given the significant cost overruns associated with the 1998 FAA/NACTA agreement. The DOT OIG’s objectives were to evaluate the accuracy of FAA’s cost estimate of the new CBA, identify contract provisions that could escalate the cost, and determine if FAA has sufficient controls in place to prevent such escalations. The report determined that the 2009 CBA will cost the FAA $669 million more than it would have cost to extend the 2006 agreement. The OIG found that while FAA’s approach to developing this estimate appears to be reasonable, it includes several provisions that could escalate costs beyond the already high estimation. Similar provisions in the 1998 FAA/NATCA agreement led to significant additional costs—the FAA’s initial cost estimate for the 1998 agreement was $200 million, but the agreement eventually required more than $1 billion in additional funds. These overruns spurred Chairman Mica’s request that the OIG issue this report now, when the FAA has the opportunity to avoid repeating earlier mistakes. Also included in the report are recommendations to FAA to update the contract cost estimate of the 2009 CBA annually to reflect any changes to the underlying assumptions and incorporate it into its annual budget request. This was included to address the fact that the FAA’s personnel costs under the 2009 CBA were $14 million higher than it initially estimated for the first year of the contract. “I requested that the DOT issue this report so that we can avoid repeating past mistakes that led to the outrageous costs associated with the 1998 Collective Bargaining Agreement,” said Chairman Mica. “With this report, the FAA has been given fair warning that it must closely oversee the use of taxpayer money and put controls in place to avoid another $1billion bill that we can ill afford. It is crucial that we do all we can to protect the American taxpayer and ensure that those cost overruns are not repeated with the current agreement.”

Hydrogen

Hydrogen Expensive

Wise 6 (Jeff Wise, “The Truth About Hydrogen”, November 1, 2006, http://www.popularmechanics.com/science/energy/next-generation/4199381)

WHEN ASSESSING THE State of the Union in 2003, President Bush declared it was time to take a crucial step toward protecting our environment. He announced a $1.2 billion initiative to begin developing a national hydrogen infrastructure: a coast-to-coast network of facilities that would produce and distribute the hydrogen for powering hundreds of millions of fuel cell vehicles. Backed by a national commitment, he said, "our scientists and engineers will overcome obstacles to taking these cars from laboratory to showroom, so that the first car driven by a child born today could be powered by hydrogen, and pollution-free." With two years to go on the first, $720 million phase of the plan, PM asks that perennial question of every automotive journey: Are we almost there? And the inevitable answer from the front seat: No. Promises of a thriving hydrogen economy — one that supports not only cars and trucks, but cellphones, computers, homes and whole neighborhoods — date back long before this presidency, and the road to fulfilling them stretches far beyond its horizon.

Hydrogen costs billions

Muller 3 (Richard A. Muller, “A Pollution-Free Hydrogen Economy? Not So Soon”, July 11, 2003, http://muller.lbl.gov/tressays/18\_hydrogen.html

Think hydrogen—the clean fuel of the future. It burns with oxygen to make water vapor, and only water vapor—no soot, no nitrous oxides, no carbon dioxide with its potential greenhouse warming. In his State of the Union message in January, President Bush announced a major new initiative. He proposed $1.2 billion in research funding that he said would enable the United States to “lead the world in developing clean, hydrogen-powered automobiles.” Spurred by this new federal support, Bush said, “our scientists and engineers will overcome obstacles to taking these cars from laboratory to showroom, so that the first car driven by a child born today could be powered by hydrogen, and pollution-free.” His surprise announcement met with enthusiastic applause.

Mass Transit

**The government should stop investing in public transit, as it has been proven empirically that it has been a waste of money**

Semmens, 94

John, transportation policy analyst at the Laissez Faire Institute, February 19914, “Federal Transit Subsiides: How Government Harms the U.S. Economy”, http://www.thefreemanonline.org/columns/federal-transit-subsidies-how-government-investment-harms-the-us-economy/, Volume 44, Issue 2

The “public transit” investment option is, of course, the actual government investment made during this time period. The “corporate tax cut” investment option assumes that the amount spent on transit would have been “spent” on corporate tax relief (for example: an investment tax credit or a cut in corporate income taxes) and that this money would have been invested in business assets earning average rates of return. The “capital gains tax cut” investment option assumes that the amounts spent on transit subsidies would have been “spent” on reducing the capital gains tax and that this money would have been invested in the stocks comprising the Standard & Poor’s 500 stock index. Dividends were not assumed to be reinvested. The “IRA: treasury bills” investment option assumes that the amount spent on transit would have been “spent” by allowing tax-free investing by individuals and that these individuals selected a very conservative investment strategy of buying three-month treasury bills. The “IRA: S&P 500 stocks” investment option assumes the same tax-free investing by individuals, but that they buy stocks. In this case, dividends are assumed to be reinvested. The comparison of these investment alternatives is quite startling. The contributions to the U.S. economy made by public transit are pathetically meager compared to any of the alternatives. Even the least favorable private sector investment alternative could have had an incremental impact on the U.S. economy ten times the size of that the actual public transit investment has had. If any of these alternative paths had been chosen, GNP would have been larger, more people would have jobs, and the federal deficit would have been lower. Recent statistics indicate that there are about 9 million persons classified as unemployed. The implication of our analysis of hypothetical investment alternatives is that unemployment problems would have been greatly reduced had the government made different investment decisions. The more lucrative returns of the alternative investments would have created more job opportunities. More people would have been attracted into the workforce. Wages would likely have risen. The additional capital that would have been available would likely have improved labor productivity. So, even if it does seem improbable that the economy could sustain an additional 20 million jobs, as the “IRA: S&P 500 stocks” option implies, it is obvious that the employment environment would be far more favorable than it now is. The projection of a lower federal deficit is predicated on the assumption that all other expenditures remain the same. This probably tends to understate the favorable impact that a different investment decision would have had. Surely, the more robust employment environment that could have existed would be expected to reduce government outlays for unemployment compensation and welfare. Likewise, the higher tax revenues that the government would have received would also have reduced borrowing costs. These factors could have lowered the deficit even more than the additional tax revenues projected in Table 1 would imply. Profits Instead of Deficits The reason why each of the prospective investment alternatives would have produced much better results for the U.S. economy than the transit investment that was made is that each alternative would have earned a profit. **Public transit does not earn a profit**. As a whole, it cannot even cover its operating costs from passenger revenues. A glance at a graph of the aggregate public transit operating results from 1965 to 1992 (see Figure 1) shows a trend of deepening annual deficits. The losses suffered by public transit mean that the value of the outputs of the investment are worth less than the cost of the inputs. What this means is that the money invested in public transit is consumed. The investment cannot sustain itself independent of continual infusions of new capital. The last gasp of a defense on behalf of money-losing government investments like public transit is that a needed service is provided. Unfortunately, the fact that public transit is subsidized makes it impossible to determine the need for the service. The fact that we do not ask the consumers of public transit to pay what it costs to provide the service denies us any objective measure of need. It is probable that a substantial portion of the so-called need for transit would dissipate if taxpayers were not paying over 60 percent of the cost of every transit ride. While the need for money-losing transit has been undemonstrated and exaggerated, the need for the products and services that would have been provided by the forgone alternatives is easily overlooked. The fact that consumers of unsubsidized products and services produced by the private sector do pay the full costs is proof that a need has been fulfilled. The voluntary payment by willing consumers is an objective measure of need. So, not only has the federal government’s 27-year investment in public transit lost money, it has also prevented trillions of dollars worth of needs from being ful filled. The federal government’s investment in public transit currently amounts to around $3 billion per year. This is a relatively small amount of spending. But as we have seen, the cumulative economic cost of annually pouring a small amount of money into profitless transit operations in the past has had a huge opportunity cost for the U.S. economy. To place the total negative impact of excessive government spending in perspective, consider that the Grace Commission estimated that there was $140 billion per year in unnecessary federal spending. As this process of waste continues year after year the compound effect on the U.S. economy has to be devastating. The inability of the federal government to contain its appetite for bad investments has been a disaster of major proportions. The competitiveness of U.S. businesses, the standard of living of the population, even the health, safety, and welfare of the American people have been enormously harmed by the inferior investment choices policymakers have made over the last generation. When we see what could have been and compare it to what is, we are observing a government performance worthy of shame, not repetition. Unless we want to repeat and intensify this shame, it is clear that more government investment is exactly what we don’t need.

Taxpayer subsidies and federal grants have not improved transit systems

Love and Cox 91

Jean, Illinois-based consultant who specializes in transportation, privatization, and the economics of the private sector, Wendell, Illinoi-based consultant who specializes in transportation, privatization, and the economics of the private sector, 10/17/91, “False Dreams and Broken Promises: The Wasteful Federal Investment in Urban Mass Transit”, Cato Institute, Cato Policy Analysis No.162, http://www.cato.org/pubs/pas/pa-162.html

Over the past quarter century, U.S. taxpayers have pumped more than $100 billion in subsidies into the nation's urban mass transit systems. That massive taxpayer investment has paid for urban public transportation systems that fewer and fewer Americans are using. Incredibly, mass transit ridership is lower today--not only as a percentage of commuter trips taken but also in absolute numbers of riders-- than it was in the early 1960s. Despite the low and declining use of bus and rail systems, federal grants for urban transit now appear to be as popular as ever: bills before both houses of Congress would provide increases of up to 20 percent in public aid for municipal bus and rail systems. The considerable support within Congress for expanded transit aid is not surprising. Since the federal government created the Urban Mass Transportation Administration during Lyndon Johnson's administration, public transit has been a fertile field of dreams and promises. Tax-supported transit lobbyists(1) supply Congress and state houses with visions of magic carpets that whisk commuters around gleaming cities. The alleged virtues of public transit are by now familiar. For weary motorists, public transit systems promise less automobile-generated traffic congestion; for environmentalists, less air pollution; for city planners, a first step toward urban revitalization; for the poor, inexpensive access to efficient transportation; for conservationists, less wasteful use of energy; and for the business community, a way to lure suburbanites back to central business districts. Regrettably, more than two decades of experience with publicly supported bus and rail systems have exposed each of those dreams as a costly illusion. Public transit systems have failed to deliver any of the promised benefits. \* Transit subsidies are not increasing ridership. Transit ridership is lower today than it was 30 years ago--before the billion-dollar subsidies began. People, including transit executives(2) and elected officials, tend to ride public transit only when they have no other reasonable choice. \* Transit subsidies have not reduced road congestion. The shiny new multi-billion-dollar rail systems have not diverted meaningful numbers of drivers from their cars; most new patronage has been of less expensive, more flexible bus lines and energy-efficient car and van pools.(3) \* Transit subsidies do not reduce air pollution. Because public transit has not increased ridership, transit has had no discernible impact on air quality in cities. Mass transit patronage is so low that even doubling it would have a negligible effect on air quality. \* Public transit is not energy efficient. The average public transit vehicle in the United States operates with more than 80 percent of its seats empty.(4) Because of the low average number of passengers per bus, energy consumption per passenger mile for public transit buses now is greater than that for private automobiles and far exceeds that for car and van pools.(5) \* Transit subsidies have not helped revitalize cities. Cities, such as Buffalo, with new multi-billion-dollar rail systems have not reduced flight from their central business districts. Even with ever-greater subsidies for public transit, the exodus of businesses and residents from downtown areas is accelerating.(6) \* Urban transit does not benefit the poor. Ridership studies show that the poor are not heavy users of federally subsidized transit systems. Transit provided only 7 percent of trips made by low-income people.(7) The cold, hard lesson of the last 25 years is that instead of promoting increased efficiency in bus and rail service, higher taxpayer subsidies have paid higher-than-inflationary transit costs. Subsidies have financed exces-sive compensation for transit employees, declines in transit productivity, and swollen bureaucracies--not increased sevices. If public transit costs had risen only at the same rate as private bus industry costs, service levels now could be more than double the 1989 level.(8) Worst of all, taxpayer subsidies, particularly federal grants, have actually impeded the development of efficient and cost-effective urban transit programs in U.S. cities. The experience of other industrialized nations and some selected systems in the United States demonstrates that by tearing down the significant regulatory barriers, which prevent private, unsubsidized transit systems from developing, and by encouraging competitive contracting by private providers for subsidized systems, the mobility needs of urban residents can be met at lower cost and greater convenience to customers. Conversely, if Congress approves further large increases in transit subsidies, they will fuel further increases in transit costs. Those funding increases will ill-serve the interests of urban commuters, and they will certainly ill-serve the interests of American taxpayers.

Eliminating Federal Subsidies is a step forward to fixing the transit system

Love and Cox 91

Jean, Illinois-based consultant who specializes in transportation, privatization, and the economics of the private sector, Wendell, Illinoi-based consultant who specializes in transportation, privatization, and the economics of the private sector, 10/17/91, “False Dreams and Broken Promises: The Wasteful Federal Investment in Urban Mass Transit”, Cato Institute, Cato Policy Analysis No.162, http://www.cato.org/pubs/pas/pa-162.html

Clearly, inefficient, highly subsidized public transit systems cannot deliver the socioeconomic benefits that have been promised and hoped for. Federal subsidies have rewarded inefficiency and wasteful capital investment, while propping up transit monopolies that actually impede effective alternatives to public transit. The unique patterns of American urban and suburban development and our particular social problems do not lend themselves to old European solutions, which are being abandoned. To meet America's needs, the following reforms are needed. Federal transit subsidies have resulted in higher costs than they have covered. Subsidies have resulted primarily in a transfer of wealth from the taxpayers and the productive private sector to well-paid transit employees. At a minimum, in the interest of equity and efficiency, section 13(c) should be eliminated; transit workers should not continue to receive extraordinary compensation. Federal subsidies increase the cost of transit. Federal capital grants have generated a mad scramble among cities to secure federal transit dollars to pay for new buses and rail service. Often as little as 5 to 10 percent of the investment is local money,(67) yet mayors and local transit authorities have demonstrated repeatedly that to attract "free" federal dollars, they will undertake massive capital investments, even when ridership does not justify construction or purchase. The federal contribution to capital assistance can be as high as 80 percent; nationally, the federal government funds 62 percent of total capital costs.(68) That federal contribution has had an undue influence on the escalation of transit costs. Many countries have recognized the cost distortion that results from national subsidies and are reducing or eliminating them. Examples include Norway, New Zealand, the United Kingdom, and the Soviet Union.(69) Canada and Australia, with much higher per capita transit ridership, have neither federal operating nor federal capital subsidies. Costs are lower and investments are more effective when subsidies are eliminated altogether, or at least are drawn from a level of government closer to home.(70) We need to fix the transit system, but increasing The realities of public transit fall woefully short of the myths. Transit is needed, but we can no longer afford to imagine that conventional public transit can address the complex problems of the changing American city. And we can no longer support a monopoly system of public mass transit, which has proven to be ineffective, inequitable, and unaffordable. Through incorporation of competition, America can have efficient transit systems in every city--systems that do improve the environment, lessen traffic congestion, reduce fuel consumption, and help the poor. And improved transit can be provided at much less cost to the American taxpayer.

Link Magnifier

**Government spending is a slippery slope that justifies further intervention into the field**

Hoeing, managing member at Capitalistpig Hedge Fund, 6/18/12 (“The Economic Police State”, <http://www.smartmoney.com/invest/stocks/the-economic-police-state-1340037094013/?link=SM_hp_ls4e>, Smart Money)

Taking a page from the United States, Argentina announced plans last week to stimulate its stagnant economy with no-cost housing loans. The idea is to boost growth by intervening in the supposedly "free" economy. It won't work. Japan's decades of infrastructure spending, government-sponsored Fannie and Freddie, subsidies for green energy, automaker bailouts and the student-loan bubble itself all show that intervention into the economy destroys wealth. The only thing government meddling in the economy leads to is further government meddling in the economy. In the wake of Enron's 2001 collapse, for example, Congress passed Sarbanes-Oxley, heralded as the nation's most comprehensive and stringent financial regulation, the law added significant costs to public corporations or those looking to go public. That intervention was amended less than a decade later by the even more destructive Dodd-Frank in 2009, not to mention calls for further controls today. "The economy" is not some abstract academic metric on an Excel spreadsheet. It is simply the way free people trade, relate, interact and live. Once you accept the notion that government can control and intervene into the economy -- that is, individual's lives -- literally anything goes. Along with socialist Venezuela, Argentina criminalized trade, deploying tax inspectors with dollar-sniffing police dogs that hunt for those wishing to hold currencies besides their rapidly devaluing peso. A myriad of "protective" regulations on imports and production prompted shortages in items ranging from electrical equipment to bananas, leaving hospitals without syringes, prescription drugs or rubber gloves. According to The Wall Street Journal, even Argentine Olympic athletes are unable to get the bikes and rowing gear needed to compete at the coming London Games. In the name of "the public good," Argentina's government nationalized private pensions, as well as industries ranging from its newsprint manufacturer to YPF S.A. (YPF: 11.68, 0.13, 1.13%), a publicly traded oil and gas company owned in part by Repsol, which has dropped over 60% on the news. When government is permitted to control the economy, there's literally no end. Consider that Argentina filed criminal charges, with the threat of jail, against economists who publish inflation estimates that don't match the government's wholly inaccurate figures. The official government rate of 9.9% is far below the 25% of private estimates, meaning that Argentines are losing about 2% of their savings every month. The government's remedy? You guessed it, more controls, including laws requiring contracts like real-estate transactions to be denominated in pesos rather than dollars. Think that'll help? If such basic infringements into private liberty sounds like a farfetched impossibility in the U.S., consider that, as we wrote about a few weeks back, New York City is considering a ban on large-size soft drinks, coffee-based beverages, and movie theater popcorn, all intended to "protect health", just as Argentina's interventions were supposedly designed to "protect jobs" or our Federal housing bailouts were intended to "protect against foreclosure." The term "free market" means free from government. That does not mean free to steal, defraud, poison or violate rights, but to trade in a marketplace where force is removed and placed under objective control. Because government is that force, any intervention into the economy, be it in housing, energy, healthcare or corporations not only destroys wealth but creates even more controls. In New York, we're now regulating what you can eat. In Buenos Aries, they're regulating what one can say. Indeed, anything goes. It's not hard to see the very dangerous slippery slope.

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

**Downgrade- investor confidence**

Downgrades empirically hurts investor confidence

Bansal and Wilchins 11

Bansal Paritosh, Editor-in-charge M&A, Thomson Reuters, Dan Wilchins, Editor in charge, Banking and Insurance Companies, 8/8/11, “Debt Issuers brace for impact from downgrade”, http://www.reuters.com/article/2011/08/08/us-usa-ratings-financialsystem-idUSTRE7762W720110808

The immediate effects of the Standard & Poor's downgrade of the country's AAA credit rating late on Friday are likely to be modest, largely because it was expected and already at least partly discounted, experts said. Many downplayed the likelihood of the sort of financial contagion experienced when Lehman Brothers went under in September 2008. Few had expected it to have to file for bankruptcy, and few were prepared for the fallout. Money market funds froze, some major commercial banks collapsed, and many major dealers and [finance](http://www.reuters.com/finance) houses teetered on the edge of failure. But even if that type of scenario is unlikely this time, bankers, lawyers and investors wonder if there could be longer-term consequences of S&P's downgrade, given that U.S. sovereign credit is bedrock to the world financial system. The analysis is complicated because so many of the potential stress points for the financial system are relatively opaque areas like over-the-counter derivatives markets. Adding to the difficulties is the concern that the downgrade is only one of the many issues roiling global markets. The European debt crisis is spreading, with Italy and Spain coming under the gun after [Greece](http://www.reuters.com/places/greece), and **data in recent weeks point to a weaker U.S. economy than many investors had thought and have led to fears of another recession.** "I actually think it is going to end up having more of an impact than some of the news stories are suggesting," said Thomas Stoddard, a senior managing director at Blackstone Group who focuses on financial services investment banking. "Not having the U.S. as triple-A is just going to pop up in more places and have more frictional costs than people might suspect," Stoddard added. States that rely heavily on federal government spending -- such as Virginia and Maryland, which are home to many federal employees and defense contractors -- could suffer if Congress and President Barack Obama slice the federal budget more deeply. A downgrade of Fannie Mae and Freddie Mac would affect billions of dollars of debt issued by public housing authorities secured by federally guaranteed mortgages. Hospital credits could be weakened if the federal government slashes programs such as Medicaid -- the health plan for the elderly, poor and disabled that accounts for as much as 30 percent of state spending. Stocks in the health care sector sold off last week, amid fears of declining government support for spending in the sector. "The degree of dependence on the federal government now becomes a state credit issue," said Philip Fischer a managing principal at eBooleant Consulting, in a recent report.

Downgrade-china

Downgrades signal political and financial irresponsibility and relative rise of the East

Gary Dugan, Chief Investment Officer, Private Banking, Emirates NBD, 8-10-11, [“Downgrade to US credit adds to the fear in the markets,” Albawaba, http://www.albawaba.com/downgrade-us-credit-adds-fear-markets-387781] E. Liu

The world continues on a path of changing global leadership. The West is in decline and the East is on the rise. Events of the past few weeks are a reflection of ongoing change. As we had thought would happen, S&P cut the sovereign credit rating of the United States to AA+ from AAA. Such a move was inevitable after all of the political prevarication of recent weeks in dealing with the debt crisis. This was the first time the US has suffered a downgrade since it was given an AAA rating in 1917. Meanwhile the financial markets continue to pressure the Euro zone to find further solutions to their debt problems. Italian and Spanish bond markets felt the full force of selling pressure last week as their bond yields moved out to extreme spreads over German bunds. The problem at present is that the political and economic leadership of the West is still coming to grips with fundamental issues. Central bankers in Europe fight amongst themselves about what is needed and political infighting has brought the credit downgrade to the United States. The issue for the leadership of the West is that the situation cries out for more radical thinking in how to deal with the issues. Much of the West is built on capitalism and social democracy; however social democracy has become too expensive to deliver as health care and central government spending have far outstripped economic growth. Policy makers need to overhaul the social benefits whilst freeing up private sector industry to generate greater profits and ultimately employment growth. Unfortunately for the moment the policy makers of the day have still to offer the radical reform required.

Downgrade- Dollar

**Downgrades threaten the dollar’ place as reserve currency**

Chavez-Dreyfuss and Frierson 11

Gertrude Chavez-Dreyfuss, journalist, Burton Frierson, Editor in charge, financial Markets, 8/3/11, “Analysis: U.S. Downgrade could accelerate dollar decline”, http://www.reuters.com/article/2011/08/03/us-markets-forex-downgrade-idUSTRE7725ZK20110803

A downgrade to the U.S. sovereign credit rating could open up a new world of pain for the dollar. Already reeling from low interest rates, slow economic growth, and foreign investors eager to diversify away from U.S. assets, the loss of AAA status could cement the view the dollar is no longer the safest harbor in a troubled world. The risk of a downgrade remains real even after Washington's $2.1 trillion budget savings deal, since it fell well short of the $4 trillion Standard & Poor's said would be enough to support the AAA rating with a stable outlook. That it took so much drama to produce such a limited round of cuts has disappointed investors who had grown weary of fiscal weakness during budget crises in the [euro zone](http://www.reuters.com/subjects/euro-zone) countries. "A debt ceiling raised plus downgrade equals weak dollar," said Jonathan Lewis, founding principal of Samson Capital Advisors in New York, which manages assets of $7 billion. "Not only would a double AA rating be a concern for international investors, but the fiscal imbalances would not be a good reason to buy the dollar." For years, the dollar has acted as the world's reserve currency, an international store of value for central banks. However, the fact the other safe-haven [currencies](http://www.reuters.com/finance/currency) are gaining at the expense of the dollar suggests investors' views may already be changing, perhaps in anticipation of a downgrade or at least a tough fight to hang on to AAA. Over the last month, the dollar plummeted 6 percent against the Swiss franc and about 4 percent against the yen. "Being the world's reserve currency seems incongruous with a double-A rating," said Barclays Capital in a research note. Whether it's about fears of a ratings cut or concerns about global growth, investors are already witnessing some stress in the money market. The overnight rate on U.S. repos spiked to 38 basis points on Monday, its highest level since December, suggesting there is less cash in the banking system. The rate came down to 13 basis points on Wednesday, still above the zero to two basis points two weeks earlier. "Treasuries remain the benchmark for global yields and as well are a key source of funding and collateral in the money market. The Treasury market also remains the deepest and most liquid fixed income market in the world," said HSBC's Lynch. This may be the one factor that could help limit the dollar's fall, although probably not for long. The challenges facing the dollar are far too formidable and investors who have long supported the currency are fast running out of reasons to own it.

Downgrade- Elections

Obama gets the blame for downgrades

Strauss et al ‘11

Gary Strauss, Richard Wolf, John Waggoner and Matt Krantz, USA Today contributors, 8/8/11, “How bad will economic news get in U.S. and worldwide?”, USA Today, http://www.usatoday.com/money/economy/2011-08-07-credit-rating-downgrade-outlook\_n.htm

Solving the USA's financial woes could prove far more difficult for gridlocked Congress, which is on recess until after Labor Day. Weekend reaction to S&P's credit rating downgrade ignited little more than a fresh round of partisan finger-pointing and spin control. Republicans blamed President Obama for failing to consider major changes to costly entitlement programs such as Medicare, Medicaid and Social Security. Democrats accused conservative Tea Party elements of the GOP of sabotaging a larger debt-reduction plan that could have averted S&P's credit downgrade. "This is essentially a Tea Party downgrade," says David Axelrod, a top Obama political adviser. "The Tea Party brought us to the brink of a default." Republicans are firing back. "Unfortunately, the president and the (Democrat-led) Senate have always been unwilling to put a specific plan out there to address entitlements," says House Budget Committee Chairman Paul Ryan, R-Wis. The downgrade could put increased pressure on Congress to come up with additional deficit-reducing budget cuts and new ways to boost revenue. It has approved more than $900 billion in cuts spread over 10 years, and a bipartisan "super committee" will be charged with trying to find an additional $1.5 trillion . Now, budget watchdog groups want that figure to double. "Maybe it's the wake-up call we need," says Maya MacGuineas, president of the Committee for a Responsible Federal Budget. "This may be that push that's necessary to turn the super committee into something that's really super." David Walker, former U.S. comptroller general and head of the Government Accountability Office, says the downgrade could prompt Washington to act. Still, he says, major changes to the tax code and entitlement programs may have to wait until after the 2012 elections. That's because neither side is showing any signs of conciliation in the wake of the downgrade. Republicans whose opposition to tax increases made a bigger deficit-reduction deal impossible say the downgrade still fails to make the case for tax increases. "Republicans are Republicans. They will not raise taxes," said Grover Norquist, president of Americans for Tax Reform, the group that convinced most Republicans in Congress to sign an anti-tax pledge. Brendan Buck, a spokesman for House Speaker John Boehner, R-Ohio, said the purpose of the new deficit-reduction committee would be to "cut spending as much as possible." Democrats, whose opposition to cuts in benefits for seniors and people with disabilities was another roadblock to a bigger deal, haven't changed their tune, either. "Democrats are Democrats. They will not fix entitlements," Norquist said. Indeed, House Democratic leader Nancy Pelosi was headed to Texas today to discuss what she called her party's "commitment to Medicare, Medicaid and Social Security." Other are more hopeful that lawmakers will be able to compromise on policies aimed at spurring the economy. By agreeing on an economic stimulus plan, "we could show the world that actually it's not complete dysfunction in Washington," says Austan Goolsbee, former chairman of the White House Council of Economic Advisers.

Downgrades- Economy

A bear market may emerge as a result of the U.S. credit downgrade.

Strauss et al ‘11

Gary Strauss, Richard Wolf, John Waggoner and Matt Krantz, USA Today contributors, 8/8/11, “How bad will economic news get in U.S. and worldwide?”, USA Today, http://www.usatoday.com/money/economy/2011-08-07-credit-rating-downgrade-outlook\_n.htm

Mounting fears of a debt default already had put the brakes on the U.S. stock market's 2011 climb. The selling pressures gained steam in the days after an 11th hour deficit-reduction deal between Congress and the Obama administration that seemed to please no one. The S&P 500, an index encompassing the biggest blue-chip corporations, plummeted 12% the past two weeks — exceeding the 10% drop that unofficially marks a correction — and dropped another 6.5% on Monday. Moreover, economists and market strategists are unsure whether the economic headwinds and deepening debt crisis point to a soft patch in the economy or a more protracted double dip recession that many fear will derail consumer spending and corporate profits. "No question the economy has slowed. But for investors, does that mean this is a correction in a cyclical bull market or something more severe — the start of a bear market? I wish I knew," says Hugh Johnson, a veteran market strategist who manages a $2 billion portfolio. Bear markets are declines of 20% or more. Wall Street hasn't had one in nearly 2½ years. "With fingers crossed, I say this is a soft patch and transitory," Johnson says. "But it's a close call." Nigel Gault, chief U.S. economist for IHS Global Insight, now says the chance for recession is 40%, up from 20% in June. "Recent trends look perilously close to stall speed for the economy,'' says Gault, citing a lack of job expansion, a slower economy, Washington's political wrangling over how the $14 trillion deficit and the looming debt crisis in Europe. "For the past few months, there's been a competition between Eurozone and U.S politicians over who can mess up the most," Gault says. "I don't think a winner's been decided yet. The spectacle over the debt ceiling in Washington was very damaging to consumer and business confidence. That the government could let the U.S. go to the brink of defaulting on its obligations is disturbing for rational grownups." Late Sunday, the European Central Bank said it would "actively implement" buying government bonds, a move that could help alleviate concerns about debt-strapped Italy and Spain and bolster Europe's financial markets. The ECB also urged Spain and Italy to implement quick reforms to cut their deficits and shore up their economies.

Downgrade- interest rates

U.S. government’s downgrade from AAA to AA+ increases interest rates for governments, businesses, and home buyers.

Appelbaum and Dash ‘11

Binyamin Appelbaum and Eric Dash, New York Times Reporters, 8/5/2011, “S.& P. Downgrades Debt Rating of U.S. for the First Time”, New York Times, http://www.nytimes.com/2011/08/06/business/us-debt-downgraded-by-sp.html/

WASHINGTON — Standard & Poor’s removed the United States government from its list of risk-free borrowers for the first time on Friday night, a downgrade that is freighted with symbolic significance but carries few clear financial implications. The company, one of three major agencies that offer advice to investors in debt securities, said it was cutting its rating of long-term federal debt to AA+, one notch below the top grade of AAA. It described the decision as a judgment about the nation’s leaders, writing that “the gulf between the political parties” had reduced its confidence in the government’s ability to manage its finances. “The downgrade reflects our view that the effectiveness, stability, and predictability of American policymaking and political institutions have weakened at a time of ongoing fiscal and economic challenge,” the company said in a statement. The Obama administration reacted with indignation, noting that the company had made a significant mathematical mistake in a document that it provided to the Treasury Department on Friday afternoon, overstating the federal debt by about $2 trillion. “A judgment flawed by a $2 trillion error speaks for itself,” a Treasury spokeswoman said. The downgrade could lead investors to demand higher interest rates from the federal government and other borrowers, raising costs for governments, businesses and home buyers. But many analysts say the impact could be modest, in part because the other ratings agencies, Moody’s and Fitch, have decided not to downgrade the government at this time. The announcement came after markets closed for the weekend, but there was no evidence of any immediate disruption. A spokesman for the Federal Reserve said the decision would not affect the ability of banks to borrow money by pledging government debt as collateral, a statement that could set the tone for the reaction of the broader market. S.& P. had prepared investors for the downgrade announcement with a series of warnings earlier this year that it would act if Congress did not agree to increase the government’s borrowing limit and adopt a long-term plan for reducing its debts by at least $4 trillion over the next decade

The downgrade in U.S. credit increases interest rates.

Mui ‘11

Ylan Q. Mui, Washington Post contributor, 8/6/2011, “Five ways the downgrade in U.S. credit rating affects you”, Washington Post, http://www.washingtonpost.com/business/economy/five-ways-the-downgrade-in-us-credit-rating-affects-you/2011/08/06/gIQAin5LzI\_story.html

S&P is one of three major rating agencies that assess the riskiness of large institutions such as corporations and governments. The downgrade reflects a lack of confidence in the U.S. government to pay its debts over time. Riskier countries have to pay higher interest rates, just as riskier consumers do. S&P’s decision rocked the United States — and the world — because the nation has generally been considered one of the safest investments around. 2. If the government pays more, you pay more. The interest rate the United States pays on its short-term loans is determined by the market for Treasury bills. The downgrade could increase the yields on those bonds, forcing the government to spend more to borrow the same amount of money. Many consumer loans, such as credit cards and mortgages, are linked to the yield on Treasuries and therefore would also rise.

Downgrades-Housing

Housing bonds, municipal credits and governments backed by the U.S. government are at risk of being downgraded.

Hall ‘11

Kevin G. Hall, South America Bureau national economics correspondent, winner of the Sigma Delta Chi award, a Pulitzer Prize finalist, a member of the National Economists Club, and a member of the executive committee of the Society of American Business Editors and Writers, 7/27/2011, “Here's what happens if agencies downgrade U.S. debt: It's bad”, McClatchy Newspaper, http://www.mcclatchydc.com/2011/07/27/118462/heres-what-happens-if-agencies.html

Numerous municipal housing bonds backed by the U.S. government are on the watch list, too, threatening local finances. If U.S. government debt gets a downgrade, the S&P and its main competitors Fitch Ratings and Moody's Investors Service will review state, county and municipal bond issues with an eye toward possible downgrades. Moody's signaled July 13 that at least 7,000 AAA municipal credits and $130 billion in municipal debt linked to the U.S. government also could be downgraded. This would raise future borrowing costs for them. Moody's even added bonds issued by the governments of Israel and Egypt that are guaranteed by the U.S. government as up for a downgrade.

The downgrade in U.S. credit heightens the housing crisis.

Mui ‘11

Ylan Q. Mui, Washington Post contributor, 8/6/2011, “Five ways the downgrade in U.S. credit rating affects you”, Washington Post, http://www.washingtonpost.com/business/economy/five-ways-the-downgrade-in-us-credit-rating-affects-you/2011/08/06/gIQAin5LzI\_story.html

John Ulzheimer, president of consumer education for SmartCredit.com, thinks the downgrade could force some homeowners to default on a portion of their mortgages, exacerbating the housing crisis. During the economic boom, many people financed their homes with two loans: a standard mortgage and a special home equity line of credit. These HELOCS require borrowers to pay only the interest on the loan, and the rate varies each month. If there is a significant increase, some homeowners may not be able to make payments.

Generic

Increasing U.S. borrowing costs causes deflation and declining investor confidence.

Macke ‘12

Jeff Macke, Yahoo Finance contributor, 6/28/2012, “Another U.S. Credit Rating Downgrade Is Likely: Prechter”, Yahoo Finance, http://finance.yahoo.com/blogs/breakout/america-likely-see-another-rating-downgrade-prechter-134922494.html

On August 5th of last year ratings agency Standard & Poor's downgraded the credit rating of the U.S. Federal Government from AAA to AA+. Though widely telegraphed the news sent stocks tumbling with the benchmark S&P 500 (^GSPC) index dropping 6%. Despite vows at the time to change their profligate ways, the U.S. has, if anything, gotten even more fiscally reckless in the nearly 11 months since the downgrade, raising the questions as to whether or not the existing AA+ rating is at risk. Robert Prechter of Elliott Wave International says such another downgrade is "pretty likely, eventually" but regards ratings changes as the least of America's problems. At the heart of Prechter's concern is the U.S. borrowing costs. Despite the hand-wringing of last August, bond yields have actually dropped since then. At time of S&P's downgrade the yield on the 10-year treasury (^TNX) was 2.94%. Today the rate stands at 1.58%. Regardless of what S&P says about the U.S. credit rating, investors still regard our debt as a safe haven. But Prechter thinks that's about to change. "After 31 years the bond market may be ending a very long term uptrend and getting ready to turn down," he says, "that means higher rates."Once borrowing costs go higher the Federal Reserve will have few options left for fighting it's real problem: deflation. Prechter notes the current economic environment includes historically low rates, a 40% decline in real estate, a 40% drop in commodities, low money velocity and last month's drop in CPI. "These things are a surprise to most people," says Prechter "but deflation explains them all." Deflation is a lack of demand for goods or services at any price. The Fed has a mandate to control inflation and Volcker showed the world how to do it by strangling the supply of money. Deflation has no known cure. The Fed can, and has, dropped rates to zero yet no one seems to have the confidence to borrow money. Economists love to fight inflation, what keeps them awake is the notion of demand dropping no matter what the price. Prechter's sees America's "free ride" in terms of borrowing costs coming to an end as global investors come to realize the U.S. is no different than any other print-and-spend nation. The Fed sets the Fed Funds rate but the market decides how much it costs the U.S. to borrow money. When the U.S. starts getting punished for its profligate ways austerity will be thrust upon it at the time the Fed would most want the chance to "stimulate." Personal financial planning in a deflationary environment is simple. Sell everything and hoard money. "Cash is becoming more valuable," is how Prechter puts it. "That's what you want to hold on to."

The economy is not doing well; the downgrade causes interest rates to increase, which causes investment to decrease

Gerrity, ‘11

Michael, publisher and CEO of World Property Channel, served on several Boards like Central Florida Technology Partnership’s Digital media Advisory Board, City of Orlando’s Technology board, The Economic Development Commission’s Film and Television Board, founding Board Member of Digital Media Alliance Florida, and member of the National Association of Real Estate Editors (NAREE), 8/8/11, “SPECIAL REPORT: Experts Debate Impact of U.S. Credit Rating Downgrade on Housing Recovery”, http://www.worldpropertychannel.com/us-markets/residential-real-estate-1/standard-poors-rating-agency-us-credit-downgrade-united-states-of-america-credit-rating-sovereign-debt-ratings-federal-reserve-board-banking-system-negative-outlook-mohamed-el-erian-pimco-vanessa-grout-4634.php

On this past Friday night, Standard & Poor's rating agency lowered the long-term rating of the U.S. government and federal agencies from AAA to AA+, for the first time in U.S. history. According to Standard & Poor's U.S. Credit Downgrade Report released on August 5th, the primary reasons for their downgrading the credit of the U.S. sovereign debt were twofold: Rising Debt Burden and Negative Outlook. Standard & Poor's (S&P) further comments in their report: "We lowered our long-term rating on the U.S. because we believe that the prolonged controversy over raising the statutory debt ceiling and the related fiscal policy debate indicate that further near-term progress containing the growth in public spending, especially on entitlements, or on reaching an agreement on raising revenues, is less likely than we previously assumed and will remain a contentious and fitful process." **Key highlights of Standard & Poor's Credit downgrade report:** We have lowered our long-term sovereign credit rating on the United States of America to 'AA+' from 'AAA' and affirmed the 'A-1+' short-term rating. We have also removed both the short- and long-term ratings from CreditWatch negative. The downgrade reflects our opinion that the fiscal consolidation plan that Congress and the Administration recently agreed to falls short of what, in our view, would be necessary to stabilize the government's medium-term debt dynamics. More broadly, the downgrade reflects our view that the effectiveness, stability, and predictability of American policymaking and political institutions have weakened at a time of ongoing fiscal and economic challenges to a degree more than we envisioned when we assigned a negative outlook to the rating on April 18, 2011. Since then, we have changed our view of the difficulties in bridging the gulf between the political parties over fiscal policy, which makes us pessimistic about the capacity of Congress and the  Administration to be able to leverage their agreement this week into a broader fiscal consolidation plan that stabilizes the government's debt dynamics any time soon. The outlook on the long-term rating is negative. We could lower the long-term rating to 'AA' within the next two years if we see that less reduction in spending than agreed to, higher interest rates, or new fiscal pressures during the period resulted in a higher general  government debt trajectory than we currently assume in our base case. This downgrade's impact on the U.S. housing market has the potential to be significant over time according to some industry experts. A number of Wall Street analysts are now predicting that interest rates across the board in the U.S. are assumed to rise in the coming months, which will drive up the rates of consumer adjustable rate mortgage loans, credit cards, car loans and a host of other financial products. For future home buyers, fixed rate mortgages are now expected to go higher as well, thus making it even harder for millions of consumers to qualify for a new mortgage, thus causing a further buying drag of U.S. home sales. If foreign countries request a 1% rate increase from the U.S. on current debt owed, that will add an additional $1.4 trillion of interest to the U.S. debt over the next 10 years, effectively wiping out the entire deficit savings made by Congress last week.

**Recession I/L**

New Recession will be worse, economy vulnerable

Isidore 11 (Chris Isidore, “Recession 2.0 would hurt worse”, August 10, 2011, http://money.cnn.com/2011/08/10/news/economy/double\_dip\_recession\_economy/index.htm)

Another recession could be even worse than the last one for a few reasons. For starters, the economy is more vulnerable than it was in 2007 when the Great Recession began. In fact, the economy would enter the new recession much weaker than the start of any other downturn since the end of World War II. Unemployment currently stands at 9.1%. In November 2007, the month before the start of the Great Recession, it was just 4.7%. And the large number of Americans who have stopped looking for work in the last few years has left the percentage of the population with a job at a 28-year low. Various parts of the economy also have yet to recover from the last recession and would be at serious risk of lasting damage in a new downturn. Home values continue to lose ground and are projected to continue their fall. While manufacturing has had a nice rebound in the last two years, industrial production is still 18% below pre-recession levels. There are nearly 900 banks on the FDIC's list of troubled institutions, the highest number since 1993. Only 76 banks were at risk as the Great Recession took hold.

**Spending kills econ**

**Only reduced spending can balance the budget and solve the economy**

Salsman, president of InterMarket Forecasting, 6/26/12 (Richard, “Fiscal Austerity and Economic Prosperity” <http://www.forbes.com/sites/richardsalsman/2012/06/26/fiscal-austerity-and-economic-prosperity-pt-iii-why-government-spending-retards-growth/2/>, Forbes)

In this third and last of my entries on the “fiscal austerity” debate I discuss how, historically, prosperity has resulted not from the alleged “stimulus” of government deficit spending but from less government spending and big tax cuts. In part two I explained why there’s no magic “multiplier” whereby the economy somehow grows faster if politicians spend our money than if we do, nor by “fiscal austerity” schemes that effectively entail no real cuts in government spending but instead still greater tax burdens on the private sector. When government spending has been slashed materially the economy has performed not worse but far better. As I explained in part one, moral premises ultimately determine a nation’s fiscal affairs, to the extent they embody prevailing cultural views about the proper purpose, size, and scope of government. Today many people want much bigger government and still more handouts; these freeloaders want others to pay for their sloth. “Soak the rich,” they cry, for the rich allegedly have no right to the wealth they’ve actually earned, but the freeloaders supposedly have a “right” to the wealth they didn’t earn. The result is the false fiscal choice of hedonistic Keynesian “stimulus” schemes versus ascetic Puritanical “austerity” schemes; the former is a rationalization for still more government spending, while the latter is a rationalization for still more taxation. Instead, nations should adopt pro-capitalist, supply-side policies: viz., less government spending and taxing. Only that policy mix is consonant with the selfish enjoyment of our rights and the pursuit of our happiness. As fiscal policy, government “stimulus” schemes have a good reputation, but undeservedly so. Invariably they only undermine and delay recoveries. “The economy,” remember, is what remains today of our private system of production; it can’t be “stimulated” by government taking more of its precious resources (savings) through borrowing, and then spending the proceeds on those who don’t work (i.e., don’t produce wealth) or on those who exhibit a greater “propensity to consume” (i.e., to destroy wealth). In contrast, fiscal “austerity” plans tend to have a bad reputation, but also undeservedly. Invariably such plans entail additional taxation of the private sector but no real restraints on government spending. Austerity programs, in truth, are perfectly compatible with renewed prosperity, if by “austerity” is meant not additional tax burdens laid on a struggling, ailing economy but material reductions in the size, scope and cost of government. According to Keynesian Paul Krugman, austerity plans are “self-defeating.”As he puts it, “there’s quite a good case to be made that austerity in the face of a depressed economy is, literally, a false economy – that it actually makes long-run budget problems worse.” Well, “yes,” if austerity means more taxes imposed on the economy’s producers, but “no,” if instead it means spending cuts imposed on the economy’s non-producers (politicians). Krugman denies this, because he opposes reductions in government spending, and wants higher taxes on the rich, even in today’s context, a context he describes as a “depression,” and which, he adds, has been caused not by vast stimulus spending, to date, but by too little of it. In the 1990s it was Krugman who most loudly championed Japan’s innumerable and reckless “stimulus” schemes, together with dozens of rounds of “quantitative easing” (fiat money printing). Japan followed his advice and ever since then has suffered a secular stagnation. Since 1990 Japan’s public debt has ballooned from 68% to 233% of GDP; its money supply is up 286%, while its industrial output is lower by 3.4% and its equity index is down by 73%. This is what Keynesians “stimulus” has done for Japan – and Krugman wants the same for the U.S.

Government spending is economically destructive

Mitchell, ‘05

Daniel J., expert on tax reform and supply-side tax policy, Cato member, Heritage Foundation senior fellow, economist for Senator Bob Packwood and the Senate Finance Committee, served on the 1988 Bush/Quayle transition team, Director of Tax and Budget Policy for Citizens for a Sound Economy, articles found in Wall Street Journal, New York Times, Investor’s Business Daily, and Washington Times, bachelor’s and master’s degrees in economics from the University of Georgia and a Ph.D. in economics from George Mason University, 3/15/05, “The Impact of Government Spending on Economic Growth”, Executive Summary Backgrounder published by the Heritage Foundation, No. 1831

A growing government is contrary to America’s economic interests because the various methods of financing government—taxes, borrowing, and printing money—have harmful effects. This is also true because government spending by its very nature is often economically destructive, regardless of how it is financed. The many reasons for the negative relationship between the size of government and economic growth include: • The extraction cost. Government spending requires costly financing choices. The federal government cannot spend money without first taking that money from someone. All of the options used to finance government spending have adverse consequences. •The displacement cost. Government spending displaces private-sector activity. Every dollar that the government spends means one less dollar in the productive sector of the economy. This dampens growth since economic forces guide the allocation of resources in the private sector. • The negative multiplier cost. Government spending finances harmful intervention. Portions of the federal budget are used to finance activities that generate a distinctly negative effect on economic activity. For instance, many regulatory agencies have comparatively small budgets, but they impose large costs on the economy’s productive sector. • The behavioral subsidy cost. Government spending encourages destructive choices. Many government programs subsidize economically undesirable decisions. Welfare encourages people to choose leisure. Unemployment insurance programs provide an incentive to remain unemployed. • The behavioral penalty cost. Government spending discourages productive choices. Government programs often discourage economically desirable decisions. Saving is important to help provide capital for new investment, yet the incentive to save has been undermined by government programs that subsidize retirement, housing, and education. • The market distortion cost. Government spending hinders resource allocation. Competitive markets determine prices in a process that ensures the most efficient allocation of resources. However, in both health care and education, government subsidies to reduce out-of-pocket expenses have created a “third-party payer” problem. • The inefficiency cost. Government spending is a less effective way to deliver services. Government directly provides many services and activities such as education, airports, and postal operations. However, there is considerable evidence that the private sector could pro- vide these important services at higher quality and lower costs. • The stagnation cost. Government spending inhibits innovation. Because of competition and the desire to increase income and wealth, individuals and entities in the private sector constantly search for new options and opportunities. Government programs, however, are inherently inflexible. The common-sense notion that government spending retards economic performance is bolstered by cross-country comparisons and academic research. International comparisons are especially useful. Government spending consumes almost half of Europe’s economic output—a full one-third higher than the burden of government in the U.S. This excessive government is associated with sub-par economic performance: • Per capita economic output in the U.S. in 2003 was $37,600—more than 40 percent higher than the $26,600 average for EU–15 nations. • Real economic growth in the U.S. over the past 10 years (3.2 percent average annual growth) has been more than 50 percent faster than EU–15 growth during the same period (2.1 percent). • Job creation is much stronger in the U.S., and the U.S. unemployment rate is significantly lower than the EU–15’s unemployment rate. • Living standards in the EU are equivalent to living standards in the poorest American states—roughly equal to Arkansas and Montana and only slightly ahead of West Virginia and Mississippi, the two poorest states. The global evidence is augmented by dozens of academic research papers. Using varying methodologies, academic experts have found a clear negative relationship between government spending and economic performance. For instance, a National Bureau of Economic Research paper found: “A reduction by one percentage point in the ratio of primary spending over GDP [gross domes- tic product] leads to an increase in investment by 0.16 percentage points of GDP on impact, and a cumulative increase by 0.50 after two years and 0.80 percentage points of GDP after five years.” According to a New Zealand Business Roundtable study, “An increase of 6 percentage points in government consumption expenditure as a percentage of GDP, (from, say 10 percent to 16 percent) would tend to reduce the annual rate of growth of GDP by about 0.8 percent.” An International Monetary Fund study con- firmed that “Average growth for the preceding 5- year period...was higher in countries with small governments in both periods.” Even the Organisation for Economic Co-operation and Development admitted: Taxes and government expenditures affect growth both directly and indirectly through investment. An increase of about one percentage point in the tax pressure— e.g. two-thirds of what was observed over the past decade in the OECD sample— could be associated with a direct reduction of about 0.3 per cent in output per capita. If the investment effect is taken into account, the overall reduction would be about 0.6–0.7 per cent. This is just a sampling of the academic research presented in the main paper. While no single research paper should be viewed as definitive, given the difficulty of isolating the impact of one policy on overall economic performance, the cumulative findings certainly bolster the theoretical and real-world arguments in favor of smaller government. Government spending should be significantly reduced. It has grown far too quickly in recent years, and most of the new spending is for purposes other than homeland security and national defense. Combined with rising entitlement costs associated with the looming retirement of the baby-boom generation, America is heading in the wrong direction. To avoid becoming an uncompetitive European-style welfare state like France or Germany, the United States must adopt a responsible fiscal policy based on smaller government. Budgetary restraint should be viewed as an opportunity to make an economic virtue out of fiscal necessity. Simply stated, most government spending has a negative economic impact. To be sure, if government spends money in a productive way that generates a sufficiently high rate of return, the economy will benefit, but this is the exception rather than the rule. If the rate of return is below that of the private sector-as is much more common-then the growth rate will be slower than it otherwise would have been. There is overwhelming evidence that government spending is too high and that America's economy could grow much faster if the burden of government was reduced. The deficit is not the critical variable. The key is the size of government, not how it is financed. Taxes and deficits are both harmful, but the real problem is that government is taking money from the private sector and spending it in ways that are often counterproductive. The need to reduce spending would still exist-and be just as compelling-if the federal government had a budget surplus. Fiscal policy should focus on reducing the level of government spending, with particular emphasis on those programs that yield the lowest benefits and/or impose the highest costs. Controlling federal spending is particularly important because of globalization. Today, it is becoming increasingly easy for jobs and capital to migrate from one nation to another. This means that the reward for good policy is greater than ever before, but it also means that the penalty for bad policy is greater than ever before.

Increases Deficit

Federal spending deviating from sound principles increase budget deficit and federal spending GDP percentage.

Shultz et al ‘10

George P. Shultz, secretary of Treasury and secretary of state and fellow at Stanford University's Hoover Institution, Michael J. Boskin, a professor of economics at Stanford University and a senior fellow at the Hoover Institution and chairman of the Council of Economic Advisers under President George H.W. Bush, John F. Cogan, senior fellow at the Hoover Institution and deputy director of the Office of Management and Budget under President Ronald Reagan, Allan Meltzer, professor of political economy at Carnegie Mellon University, and John B. Taylor, an economics professor at Stanford and a senior fellow at the Hoover Institution, and undersecretary of Treasury under President George W. Bush, 9/16/2010, “Principles for Economic Revival”, Wall Street Journal, http://online.wsj.com/article/SB10001424052748703466704575489830041633508.html

America's financial crisis, deep recession and anemic recovery have largely been driven by economic policies that have deviated from proven fact-based principles. To return to prosperity we must get back to these principles. The most fundamental starting point is that people respond to incentives and disincentives. Tax rates are a great example because the data are so clear and the results so powerful. A wealth of evidence shows that high tax rates reduce work effort, retard investment and lower productivity growth. Raise taxes, and living standards stagnate. Nobel Prize-winning economist Edward Prescott examined international labor market data and showed that changes in tax rates on labor are associated with changes in employment and hours worked. From the 1970s to the 1990s, the effective tax rate on work increased by an average of 28% in Germany, France and Italy. Over that same period, work hours fell by an average of 22% in those three countries. When higher taxes reduce the reward for work, you get less of it. Long-lasting economic policies based on a long-term strategy work; temporary policies don't. The difference between the effect of permanent tax rate cuts and one-time temporary tax rebates is also well-documented. The former creates a sustainable increase in economic output, the latter at best only a transitory blip. Temporary policies create uncertainty that dampen economic output as market participants, unsure about whether and how policies might change, delay their decisions. Having "skin in the game," unsurprisingly, leads to superior outcomes. As Milton Friedman famously observed: "Nobody spends somebody else's money as wisely as they spend their own." When legislators put other people's money at risk—as when Fannie Mae and Freddie Mac bought risky mortgages—crisis and economic hardship inevitably result. When minimal co-payments and low deductibles are mandated in the insurance market, wasteful health-care spending balloons. Rule-based policies provide the foundation of a high-growth market economy. Abiding by such policies minimizes capricious discretionary actions, such as the recent ad hoc bailouts, which too often had deleterious consequences. For most of the 1980s and '90s monetary policy was conducted in a predictable rule-like manner. As a result, the economy was far more stable. We avoided lengthy economic contractions like the Great Depression of the 1930s and the rapid inflation of the 1970s. The history of recent economic policy is one of massive deviations from these basic tenets. The result has been a crippling recession and now a weak, nearly nonexistent recovery. The deviations began with policies—like the Federal Reserve holding interest rates too low for too long—that fueled the unsustainable housing boom. Federal housing policies allowed down payments on home loans as low as zero. Banks were encouraged to make risky loans, and securitization separated lenders from their loans. Neither borrower nor lender had sufficient skin in the game. Lax enforcement of existing regulations allowed both investment and commercial banks to circumvent long-established banking rules to take on far too much leverage. Regulators, not regulations, failed. The departures from sound principles continued when the Fed and the Treasury responded with arbitrary and unpredictable bailouts of banks, auto companies and financial institutions. They financed their actions with unprecedented money creation and massive issuance of debt. These frantic moves spooked already turbulent markets and led to the financial panic. More deviations occurred when the government responded with ineffective temporary stimulus packages. The 2008 tax rebate and the 2009 spending stimulus bills failed to improve the economy. Cash for clunkers and the first-time home buyers tax credit merely moved purchases forward by a few months. Then there's the recent health-care legislation, which imposes taxes on savings and investment and gives the government control over health-care decisions. Fannie Mae and Freddie Mac now sit with an estimated $400 billion cost to taxpayers and no path to resolution. Hundreds of new complex regulations lurk in the 2010 financial reform bill with most of the critical details left to regulators. So uncertainty reigns and nearly $2 trillion in cash sits in corporate coffers. Since the onset of the financial crisis, annual federal spending has increased by an extraordinary $800 billion—more than $10,000 for every American family. This has driven the budget deficit to 10% of GDP, far above the previous peacetime record. The Obama administration has proposed to lock a sizable portion of that additional spending into government programs and to finance it with higher taxes and debt. The Fed recently announced it would continue buying long-term Treasury debt, adding to the risk of future inflation. There is perhaps no better indicator of the destructive path that these policy deviations have put us on than the federal budget. The nearby chart puts the fiscal problem in perspective. It shows federal spending as a percent of GDP, which is now at 24%, up sharply from 18.2% in 2000. Future federal spending, driven mainly by retirement and health-care promises, is likely to increase beyond 30% of GDP in 20 years and then keep rising, according to the Congressional Budget Office. The reckless expansions of both entitlements and discretionary programs in recent years have only added to our long-term fiscal problem. As the chart shows, in all of U.S. history, there has been only one period of sustained decline in federal spending relative to GDP. From 1983 to 2001, federal spending relative to GDP declined by five percentage points. Two factors dominated this remarkable period. First was strong economic growth. Second was modest spending restraint—on domestic spending in the 1980s and on defense in the 1990s.

Excessive government spending raises federal spending GDP percentage and leads to greater debt.

Tanner ‘10

Michael D. Tanner, senior fellow at Cato Institute and author of “Leviathan on the Right: How Big-Government Conservatism Brought Down the Republican Revolution”, 8/25/2010, “The Deficit Is a Symptom, Spending Is the Disease”, National Review, http://www.nationalreview.com/articles/244616/deficit-symptom-spending-disease-michael-tanner

Sometime in the next week or so, the U.S. national debt will exceed $13.4 trillion. To put that in perspective: If you earned $1 every second, it would take you 425,000 years to earn enough money to pay off that debt. And it's not likely to get much better any time soon. According to the Congressional Budget Office, the United States will run up more than $1 trillion in debt next year as well, and for years to come. And with entitlement programs like Social Security and Medicare facing more than $100 trillion in future unfunded liabilities, we may look back on this level of debt as representing the "good old days." Yet, as frightening as those numbers are, focusing on the deficit and debt is to confuse the symptom with the disease. As Milton Friedman often explained, the real issue is not how you pay for government spending — debt or taxes — but the spending itself. In other words: Don't just look at the deficit, look at why we have a deficit. And the reason we have a deficit is pretty simple: Government spends too much. As Milton Friedman often explained, the real issue is not how you pay for government spending — debt or taxes — but the spending itself. Traditionally, federal spending has run around 21 percent of GDP. But George W. Bush and (even more dramatically) Barack Obama have now driven federal spending to more than 25 percent of GDP. And as the old joke goes, that's the good news. As the full force of entitlement programs kicks in, the federal government will consume more than 40 percent of GDP by the middle of the century. That doesn't even begin to count state and local-government spending. As any doctor knows, getting the diagnosis wrong leads to the wrong treatment. Thus Democrats pose as deficit hawks by calling for more taxes. But think about how high taxes would have to be raised to pay for all the government spending to come. Federal taxes have traditionally run at around 18 percent of GDP. Currently, they are down somewhat, around 15 percent of GDP, mostly as a result of the recession. Would we really be better off if, in 2050, federal spending reached 40 percent of GDP but we doubled taxes to pay for it? There would at least theoretically be no deficit, but we would be both poorer and less free. Of course it is almost as silly for Republicans to argue that the answer is simply to cut taxes in order to grow our way out of the problem. There are many good reasons to cut taxes — not the least of which is that the money really is ours — but too many Republicans argue that tax cuts would generate so much additional revenue that spending cuts aren't necessary. They harken back to Jude Wanniski's "Two Santa Claus Theory," which holds that "if the Democrats are going to play Santa Claus by promoting more spending, the Republicans can never beat them by promoting less spending. They have to promise tax cuts in order to grow the economy — not to 'starve the government of revenue.'" Yes, tax cuts — at least some types of tax cuts — will stimulate economic growth. But no amount of economic growth is going to enable us to afford the levels of spending to come. And even if it did, would that be a good thing? Do we want that big a government, even if we could pay for it? The fact is, there is no Santa Claus — not a Democratic spending one, and not a Republican tax-cutting one. Spending is going to have to be cut — really cut: The old "fraud, waste, and abuse" line is not going to do it. Cutting spending is never easy politically. In an election season like this one, being honest about spending is liable to get you labeled as an "extremist." But it is time for someone to step up and show the courage to tell the American people that Santa Claus isn't coming to town.

AT- No loss of investors

**Despite strong investor confidence fiscal discipline is required to maintain it**

Shea, president of Quantitative Solutions, 6/15/12 (Peter, “Guest Column: Deficits imperil our reserve currency status”, http://www.commercialappeal.com/news/2012/jun/15/guest-column-deficits-imperil-our-reserve-status/)

As the situation in Europe deteriorates, global investors are fleeing to the dollar and to the safety of U.S. Treasurys -- the debt instruments of our federal government. With so much demand for Treasurys, our government is able to borrow money and pay virtually nothing in the way of interest. Today, if you buy a 10-year Treasury note, you will receive a little over 1.5 percent a year in interest, which is less than the rate of inflation. The fact that our government can borrow money on such generous terms has some profound public policy implications. It means that in the short to medium term, Americans don't face the austerity measures that are being forced on the Greeks and the Irish. It means that our government can continue to incur enormous deficits. We are going to get enough rope to hang ourselves. The smart money is on our leadership in Washington choosing the course that involves continuing to borrow and spend while unpleasant budgetary decisions are pushed into the future. Taxes won't be raised, and spending won't be cut, regardless of who wins the November elections. It would be nice to borrow money for 1.5 percent, wouldn't it? It's an exorbitant privilege for the U.S. government that comes from the fact that global savers want to have their money in dollars in periods of crisis. (The term "exorbitant privilege" was coined in the 1960s by Valéry Giscard d'Estaing, then the French minister of finance.) When the financial crisis hit in 2008, money flooded into U.S. Treasurys, sending yields down. Incredibly, the yields on our Treasurys actually dropped after Standard & Poors downgraded the United States' credit rating last August. In this latest financial crisis in Europe, international investors are once again rushing in to Treasurys. The problem the Europeans face is the result of the fact that the individual member countries of the European Union cannot print euros. They can't inflate away the burden of their indebtedness by printing money, as we can. In joining the eurozone, these countries gave up their right to control their own monetary policies. The European Central Bank controls the money supply in Europe. This worked fine until the global financial crisis hit. Now Germany, the biggest economy and the biggest creditor in the EU, is being asked to print enough euros to bail out the weaker peripheral states. This the Germans are not eager to do. Why should they see the value of their claims be devalued through inflation? This raises the question of how much time the U.S. has to borrow 40 percent of what we spend every year. It's impossible to say. A lot of our financial flexibility comes from the fact that the dollar is the world's reserve currency, meaning the currency most widely held by other governments as part of their foreign reserves. Today the dollar makes up two-thirds of foreign exchange reserves and the euro accounts for one-third, but this latest crisis in Europe should check the euro's rise against the dollar. Nevertheless, our leaders in Washington should understand that the flight to the dollar is not an endorsement of how we Americans have run our affairs. We have our own crisis with runaway deficits and we shouldn't take any comfort in the spike in demand for our debt. Our day of reckoning is out there, too. A sure way of losing our reserve currency status is by running such enormous deficits that the world's savers become convinced that we have ruinous inflation ahead of us. They wouldn't want to keep their wealth in a currency that is about to lose a lot of its purchasing power. The Chinese are very aware of this possibility.

AT- I/L turn

Stimulus is incapable of fixing the economy

Hutchinson, author of Great Conservatives, 6/27/12 (Martin, “Stimulus fix to death” http://www.atimes.com/atimes/Global\_Economy/NF27Dj02.html)

Since 2008, economic policies throughout the rich world have boiled down to one word: stimulus. Interest rates in most countries have been held down well below the level of inflation, while spending programs have pushed national budgets far out of balance. As in Europe calls rise for further doses of "fiscal stimulus" in spite of that continent's precarious budget position, while in the United States both fiscal and monetary stimulus is widely canvassed, the global economy languishes. It must surely now be becoming clear: as with most pernicious drugs, repeated usage of stimulus is lessening the stimulative effect while exacerbating the adverse long-term side-effects. As this recession drags on into its fifth year, it is becoming one of diminishing marginal returns. From the various semi-controlled experiments that have been conducted around the world in the past five years, the efficacy of fiscal and monetary stimulus can be assessed. Public spending itself almost always has a multiplier of less than 1; in other words, when the effect of borrowing the money is factored in, it is generally moderately economically damaging, albeit possibly with a lag. There are exceptions to this, but they are fairly scarce. If as in Germany after World War II, public spending is used to rebuild damaged infrastructure, it may be devoted to projects of sufficient economic return as to "pay for itself". If a financial shock such as that of 2008 has damaged the banking system sufficiently as to increase the cost of borrowing for the private sector above its normal levels, then public spending on projects with even a modest positive economic return may also be economically beneficial. Much of China's 2008-09 stimulus, implemented very quickly, may well have been beneficial, although it's clear that a high percentage of it was so worthless as to be damaging. This does not however justify the Barack Obama "stimulus" of 2009 in the United States, for two reasons. First, much of it was used for uneconomic subsidies to featherbedded unions, for investments in economically foolish green energy projects and for other uses where the potential return was either negative or far below those in the private sector. Second, and crucially, the markets turned around in early March 2009, two months before the Obama stimulus moneys began to be spent; hence by the time the money was disbursed the banking system was functioning normally. By grossly increasing the volume of public debt issued, the "stimulus" simply steepened the yield curve, enabling the banks to play silly "gapping" games of borrowing short-term and investing in Treasury and housing agency bonds, thereby artificially depriving small business of finance, since the banks couldn't be bothered to lend to it.

Stimulus might have slowed the economic decline if applied in late 2008; by the late spring of 2009 it could have no beneficial effect. Moreover, much of the stimulus actually applied consisted of items that were hard to remove in subsequent years; the permanent increase in public spending caused further damage because of its effect on debt levels.

Stimulus fails to generate growth

Riedl, ‘08

Brian, Grover M. Hermann Fellow for Federal Budgetary Affairs at the Heritage Foundation, 11/12/08, “Why Government Spending Does Not Stimulate Economic Growth”, Backgrounder The Heritage Foundation, No. 2208

In a throwback to the 1930s and 1970s, Democratic lawmakers are betting that America's economic ills can be cured by an extraordinary expansion of government. This tired approach has already failed repeatedly in the past year, in which Congress and the President: Increased total federal spending by 11 percent to nearly $3 trillion; Enacted $333 billion in "emergency" spending; Enacted $105 billion in tax rebates; and Pushed the budget deficit to $455 billion in the name of "stimulus." Every one of these policies failed to increase economic growth. Now, in addition to passing a $700 billion financial sector rescue package, lawmakers have decided to double down on these failed spending policies by proposing a $300 billion economic stimulus bill. Even though the last $455 billion in Keynesian deficit spending failed to help the economy, lawmakers seem to have convinced themselves that the next $300 billion will succeed. This is not the first time government expansions have failed to produce economic growth. Massive spending hikes in the 1930s, 1960s, and 1970s all failed to increase economic growth rates. Yet in the 1980s and 1990s-when the federal government shrank by one-fifth as a percentage of gross domestic product (GDP)-the U.S. economy enjoyed its greatest expansion to date. Cross-national comparisons yield the same result. The U.S. government spends significantly less than the 15 pre-2004 European Union nations, and yet enjoys 40 percent larger per capita GDP, 50 percent faster economic growth rates, and a substantially lower unemployment rate. When conventional economic wisdom repeatedly fails, it becomes necessary to revisit that conventional wisdom. Government spending fails to stimulate economic growth because every dollar Congress "injects" into the economy must first be taxed or borrowed out of the economy. Thus, government spending "stimulus" merely redistributes existing income, doing nothing to increase productivity or employment, and therefore nothing to create additional income. Even worse, many federal expenditures weaken the private sector by directing resources toward less productive uses and thus impede income growth. Spending-stimulus advocates claim that government can "inject" new money into the economy, increasing demand and therefore production. This raises the obvious question: Where does the government acquire the money it pumps into the economy? Congress does not have a vault of money waiting to be distributed: Therefore, 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. Spending-stimulus advocates typically respond that redistributing money from "savers" to "spenders" will lead to additional spending. That assumes that savers store their savings in their mattresses or elsewhere outside the economy. In reality, nearly all Americans either invest their savings by purchasing financial assets such as stocks and bonds (which finances business investment), or by purchasing non-financial assets such as real estate and collectibles, or they deposit it in banks (which quickly lend it to others to spend). The money is used regardless of whether people spend or save. Government cannot create new purchasing power out of thin air. If Congress funds new spending with taxes, it is simply redistributing existing income. 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 Congress borrows the money from foreigners, the balance of payments will adjust by equally reducing net exports, leaving GDP unchanged. Every dollar Congress spends must first come from somewhere else. This does not mean that government spending has no economic impact at all. Government spending often alters the composition of total demand, such as increasing consumption at the expense of investment. More importantly, government spending can alter *future* economic growth. 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. A government's impact on economic growth is, therefore, determined by its policies' effect on labor productivity and labor supply. Productivity growth requires increasing the amount of capital, either material or human, relative to the amount of labor employed. Productivity growth is facilitated by smoothly functioning markets indicating accurate price signals to which buyers and sellers, firms and workers can respond in flexible markets. Only in the rare instances where the private sector fails to provide these inputs in adequate amounts is government spending necessary. For instance, government spending on education, job training, physical infrastructure, and research and development can increase long-term productivity rates-but only if government spending does not crowd out similar private spending, and only if government spends the money more competently than businesses, nonprofit organizations, and private citizens. More specifically, government must secure a higher long-term return on its investment than taxpayers' (or investors lending the government) requirements with the same funds. Historically, governments have rarely outperformed the private sector in generating productivity growth. Even when government spending improves economic growth rates on balance, it is necessary to differentiate between immediate versus future effects. There is no immediate stimulus from government spending, since that money had to be removed from another part of the economy. However, a productivity investment may aid future economic growth, once it has been fully completed and is being used by the American workforce. For example, spending on energy itself does not improve economic growth, yet the eventual existence of a completed, well-functioning energy system can. Those economic impacts can take years, or even decades, to occur.

AT- Keynes

Keynesian theory is wrong- free market independence is the only way to solve economic woes

Salsman, president of InterMarket Forecasting, 6/26/12 (Richard, “Fiscal Austerity and Economic Prosperity” <http://www.forbes.com/sites/richardsalsman/2012/06/26/fiscal-austerity-and-economic-prosperity-pt-iii-why-government-spending-retards-growth/2/>, Forbes)

Keynesian have lasting power, despite their many failures these past decades, because they provide a patina of a rationalization for advocates of ever-bigger government and statism. The Keynesians today claim that the global economy remains weak not because G-7 nations ballooned government spending amid massive “stimulus” schemes in 2008-2010, but because such schemes didn’t spend nearly enough or because by now G-7 nations are resorting to “austerity” programs. That’s not true, unless by “austerity” one means tax hikes. Indeed, G-7 governments have hiked taxes, hurting local economies, but contrary to popular belief, and the screams of street occupiers and rioters, government spending has not been cut. There’s been no austerity in government. Only when such spending is slashed – and long-term, structural reforms are enacted so as to radically reduce the redistributionist “entitlement state” – can economies prosper in any sustainable way. The empirical evidence is formidable that when an economy is depressed or weak, the best cure is radically less government spending and taxing, not more. When a nation’s fiscal affairs are precarious, “austerity” is surely in order, but it should consist not of tax hikes on the economy, but of material cuts in tax rates and in government spending rates. The bigger the cuts, the better. The way to multiply wealth isn’t by dividing (redistributing) it, as the Keynesians claim, but to leave it secure, and in the hands of its real creators. What works so well in practice is also consistent with the genuinely moral way of living and producing – not by the hedonism of Keynesian profligacy nor by the asceticism of Puritanical austerity, but by the rational enjoyment and genuine happiness that come from earning one’s way in a free-market, capitalist setting.

AT- Krugman

Krugman is wrong- only austerity measures can solve the economy

Hutchinson, author of Great Conservatives, 6/27/12 (Martin, “Stimulus fix to death” http://www.atimes.com/atimes/Global\_Economy/NF27Dj02.html)

As for the United States, the safe haven status of the dollar may allow monetary and fiscal authorities to double down on stimulus, certainly if President Obama is re-elected with stronger Democrat representation in Congress. At last New York columnist Paul Krugman's dream policy of perhaps $2 trillion in wasteful public spending financed by $2 trillion of "quantitative easing" Fed purchases of Treasury bonds will be tried once and for all. The result should be spectacular - spectacularly awful, that is. The dollar will collapse, as will US credit, and US unemployment will be prevented from rising to Greek levels only by reducing its inhabitants' living standards to those of China. In an ideal world this would produce a return to a gold standard, combined with a balanced budget amendment and an effective line-item veto. In the world we inhabit, that is most unlikely - quacks, charlatans and populists will ensure that voices of economic sanity are entirely drowned out. After all, Krugman has received an economics Nobel and Ludwig von Mises never did. (And make no mistake about it, if Nobels were voted on by the public, perhaps in a reality show "Celebrity Economist", the results would be even worse than they are.) There is an alternative, and one can only hope it will eventually be tried. Interest rates need to be raised to the 4-5% level, above the level of inflation, while public spending needs to be reduced and tax loopholes (housing, charitable contributions) need to be closed, to reduce the Federal budget deficit to manageable levels. The rise in interest rates will cause bankruptcies in the US banking system, not least that of the Fed, which will suffer huge losses on its massive "Operation Twist" portfolio of long-term low-yield Treasuries. For a year, as in 1982 in the United States or 1981 in Britain, it will appear the policy has failed, and massive wailings will go up to reverse it. Then economic growth will resume, on the basis of high savings, tight money and balanced international trade - the only true foundation for economic success. A popular saying on Wall Street holds that the U.S. is the "best house in a bad neighborhood" for investors. Maybe so, but it's also starting to look like the priciest.

DA stimulates growth

Government spending bad for the economy while private consumption stimulates growth

Kraipornsak, ‘10

Paitoon, BA (economics), Minor (Statistics) Thammasat University Bangkok, LL.B (law) Sukhothai Thammathirat University Nonthaburi, Master of Economics of Development The Austrailian Nautional University Australia, Ph.D (evonomics) The Australian National University, 2010, “Impact of Government Spending on Private Consumption and on the Economy: The Case of Thailand”, International Journal of Human and Social Sciences

The role of government spending has received a special attention recently since after the world financial problem due to the fact that the private sector and businesses have little ability to purchase and invest. The Thai government has announced few fiscal stimulus packages when the economy began showing the signs of recession in 2008. Consequently, the fiscal budget has shifted from a surplus previously into deficit from then on. Although most economists perceive the necessity of government spending measures to revive the economy, it is doubtful that increased government spending can really help stimulate the economy so that it will grow more than otherwise. Theoretically, the effectiveness of government spending policy depends very much on several specific conditions and economic situations. This study investigated empirical findings (whether the government spending affects the private consumption and the GDP, by how much, and in which direction). To conclude, the microeconomic consumption model indicates the substituting effect (negative impacts) of government consumption spending and government capital spending on the budget share of private nonfood and food consumption, respectively. Nevertheless the microeconomic consumption model does not necessarily indicate whether the result of the negative impact on changes of budget share of the nonfood and the food consumption means lower total private consumption. Microeconomic consumer demand analysis therefore indicates changes in component structure of aggregate expenditure in the economy as a result of government spending policy. The macroeconomic analysis concludes that government capital spending has an insignificant effect but government consumption spending has a negative effect on the GDP growth. This implies that the rapid expansions of government consumption can slowdown growth of the economy. Furthermore, both types of government spending do not have significant effect on the private consumption; no crowding-out effect on consumption is found. The demand stimulus policy (using government spending) is therefore ineffective and even reducing growth of GDP (perhaps due to inefficient government spending). Strategies to increase other components of demand expenditure (such as private consumption and business investment via tax policy) and efficient spending are other alternatives to stimulate growth in the longer run. Last but not least, the estimated relationship indicates that export is found to be the most effective factor for demand growth strategy in Thailand.

Lowering government spending allows private consumption to increase

Linnemann and Schabert ‘08

Ludger Associate Professor of Applied Economics at the University of Dortmund, Germany, since April 2008, Associate Professor of Macroeconomics at the University of Bonn from October 2005, Assistant Professor of Macroeconomics at the University of Coolgne, PhD in 2000 from the University of Cologne, Andreas, Professorship for Macroeconomics at the University Dortmund since 2006, doctoral degree in 1999, studied at Institute of Advanced Studies, worked as Postdoctoral Researcher and Assistant Professor in International Economics at the University of Amsterdam and Tinbergen Institute, 2008, “Optimal Government Spending and Unemployment”, Tinbergen Institute Discussion Paper

Here, employment and consumption increase in both specifications, whereas the capital stock decreases. The level of government spending increases, consequently, under the reference policy, but declines under the Ramsey policy. Thus, optimal fiscal policy is countercyclical both in relation to consumption as well as in levels under demand shocks. The reason is, in the first place, that the shock directly raises the marginal utility of consumption by construction. Thus, one incentive the Ramsey policy maker faces is to keep the marginal utility of public spending in line with the one of private consumption, and thus to decrease government spending while consumption increases. Thus, the ratio gt/ct decreases strongly under the optimal policy both from the countercyclical response of gt as well as from the procyclical response of ct.Importantly, the Ramsey policy implies a less volatile positive employment response, while private consumption reacts marginally more than under the reference policy. This shows the second incentive that the Ramsey planner faces, namely to economize on the resource costs entailed by temporary labor input adjustments. By lowering government spending during the demand led boom, the planner increases the resources available for private consumption, hence the latter increases more than under the reference policy. This means that saving has to decline less, in comparison, and consequently the drop in investment and thus in the capital stock is attenuated. Therefore, the real wage decline is mitigated, which again helps to limit the employment increase. In the end, the Ramsey planner tends to stabilize employment at the costs of a slightly higher consumption responses, and a markedly smaller adjustment of government spending.

Reagan improved the economy by reducing government spending.

Mitchell ‘05

Daniel J. Mitchell, McKenna Senior Research Fellow in the Thomas A. Roe Institute for Economic Policy Studies at The Heritage Foundation , 3/31/2005, “The Impact of Government Spending on Economic Growth”, The Heritage Foundation, http://heartland.org/sites/all/modules/custom/heartland\_migration/files/pdfs/16949.pdf

Ronald Reagan dramatically reversed the direction of public policy in the United States. Government—especially domestic spending—was growing rapidly when he took office. Measured as a share of national output, President Reagan reduced domestic discretionary spending by almost 33 percent, down from 4.5 percent of GDP in 1981 to 3.1 percent of GDP in 1989. Reagan’s track record on entitlements was also impressive. When he took office, entitlement spending was on a sharp upward trajectory, peaking at 11.6 percent of GDP in 1983. By the time he left office, entitlement spending consumed 9.8 percent of economic output. As a result of these dramatic improvements, Reagan was able to reduce the total burden of government spending as a share of economic output during his presidency while still restoring the nation’s military strength.28 Table 1 shows Reagan’s impressive performance compared to other Presidents, measured by the real (inflation-adjusted) growth of federal spending.

increased government spending leads to economic decline

Mitchell ‘05

Daniel J. Mitchell, McKenna Senior Research Fellow in the Thomas A. Roe Institute for Economic Policy Studies at The Heritage Foundation , 3/31/2005, “The Impact of Government Spending on Economic Growth”, The Heritage Foundation, http://heartland.org/sites/all/modules/custom/heartland\_migration/files/pdfs/16949.pdf

There are no “correct” answers to these questions, but the growing consensus in the academic literature is persuasive. Regardless of the methodology or model, government spending appears to be associated with weaker economic performance. For instance: • A European Commission report acknowledged: “[B]udgetary consolidation has a positive impact on output in the medium run if it takes place in the form of expenditure retrenchment rather than tax increases.”• The IMF agreed: “This tax induced distortion in economic behavior results in a net efficiency loss to the whole economy, commonly referred to as the ‘excess burden of taxation,’ even if the government engages in exactly the same activities—and with the same degree of efficiency—as the private sector with the tax revenue so raised.”8 • An article in the Journal of Monetary Economics found: “[T]here is substantial crowding out of private spending by government spending [P]ermanent changes in government spending lead to a negative wealth effect.”9 • A study from the Federal Reserve Bank of Dallas also noted: “[G]rowth in government stunts general economic growth. Increases in government spending or taxes lead to persistent decreases in the rate of job growth.”10 • An article in the European Journal of Political Economy found: “We find a tendency towards a more robust negative growth effect of large public expenditures.”11 • A study in Public Finance Review reported: “[H]igher total government expenditure, no matter how financed, is associated with a lower growth rate of real per capita gross state product.”12 • An article in the Quarterly Journal of Economics reported: “[T]he ratio of real government consumption expenditure to real GDP had a negative association with growth and investment,” and “Growth is inversely related to the share of government consumption in GDP, but insignificantly related to the share of public investment.”13 • A study in the European Economic Review reported: “The estimated effects of GEXP [government expenditure variable] are also somewhat larger, implying that an increase in the expenditure ratio by 10 percent of GDP is associated with an annual growth rate that is 0.7–0.8 percentage points lower.”14 • A Public Choice study reported: “[A]n increase in GTOT [total government spending] by 10 percentage points would decrease the growth rate of TFP [total factor productivity] by 0.92 percent [per annum]. A commensurate increase of GC [government consumption spending] would lower the TFP growth rate by 1.4 percent [per annum].”15 • An article in the Journal of Development Economics on the benefits of international capital flows found that government consumption of economic output was associated with slower growth, with coefficients ranging from 0.0602 to 0.0945 in four different regressions.16 • A Journal of Macroeconomics study discovered: “[T]he coefficient of the additive terms of the government-size variable indicates that a 1% increase in government size decreases the rate of economic growth by 0.143%.”17 • A study in Public Choice reported: “[A] one percent increase in government spending as a percent of GDP (from, say, 30 to 31%) would raise the unemployment rate by approximately .36 of one percent (from, say, 8 to 8.36 percent).”18 • A study from the Journal of Monetary Economics stated: “We also find a strong negative effect of the growth of government consumption as a fraction of GDP. The coefficient of –0.32 is highly significant and, taken literally, it implies that a one standard deviation increase in government growth reduces average GDP growth by 0.39 percentage points.”19 • The Organisation for Economic Co-operation and Development acknowledged: “Taxes and government expenditures affect growth both directly and indirectly through investment. An increase of about one percentage point in the tax pressure—e.g. two-thirds of what was observed over the past decade in the OECD sample— could be associated with a direct reduction of about 0.3 per cent in output per capita. If the investment effect is taken into account, the overall reduction would be about 0.6–0.7 per cent.”20 • A National Bureau of Economic Research paper stated: “[A] 10 percent balanced budget increase in government spending and taxation is predicted to reduce output growth by 1.4 percentage points per annum, a number comparable in magnitude to results from the one-sector theoretical models in King and Robello.”21 • Another National Bureau of Economic Research paper stated: “A reduction by one percentage point in the ratio of primary spending over GDP leads to an increase in investment by 0.16 percentage points of GDP on impact, and a cumulative increase by 0.50 after two years and 0.80 percentage points of GDP after five years. The effect is particularly strong when the spending cut falls on government wages: in response to a cut in the public wage bill by 1 percent of GDP, the figures above become 0.51, 1.83 and 2.77 per cent respectively.”22 • An IMF article confirmed: “Average growth for the preceding 5-year period…was higher in countries with small governments in both periods. The unemployment rate, the share of the shadow economy, and the number of registered patents suggest that small governments exhibit more regulatory efficiency and have less of an inhibiting effect on the functioning of labor markets, participation in the formal economy, and the innovativeness of the private sector.”23 • Looking at U.S. evidence from 1929–1986, an article in Public Choice estimated: “This analysis validates the classical supply-side paradigm and shows that maximum productivity growth occurs when government expenditures represent about 20% of GDP.”24 • An article in Economic Inquiry reported: “The optimal government size is 23 percent (+/–2 percent) for the average country. This number, however, masks important differences across regions: estimated optimal sizes range from 14 percent (+/–4 percent) for the average OECD country to…16 percent (+/–6 percent) in North America.”25 • A Federal Reserve Bank of Cleveland study reported: “A simulation in which government expenditures increased permanents from 13.7 to 22.1 percent of GNP (as they did over the past four decades) led to a long-run decline in output of 2.1 percent. This number is a benchmark estimate of the effect on output because of permanently higher government consumption.”

Increasing government spending GDP percentage negatively affects economic growth.

Mitchell ‘05

Daniel J. Mitchell, McKenna Senior Research Fellow in the Thomas A. Roe Institute for Economic Policy Studies at The Heritage Foundation , 3/31/2005, “The Impact of Government Spending on Economic Growth”, The Heritage Foundation, http://heartland.org/sites/all/modules/custom/heartland\_migration/files/pdfs/16949.pdf

• A study in Public Choice reported: “[A] one percent increase in government spending as a percent of GDP (from, say, 30 to 31%) would raise the unemployment rate by approximately .36 of one percent (from, say, 8 to 8.36 percent).” • A study from the Journal of Monetary Economics stated: “We also find a strong negative effect of the growth of government consumption as a fraction of GDP. The coefficient of –0.32 is highly significant and, taken literally, it implies that a one standard deviation increase in government growth reduces average GDP growth by 0.39 percentage points.”

States Solve link

**States want to control state spending to avoid inflation and rising taxes**

McSweeney 5

Patrick M., University of Virginia, T.C. Williams School of Law at the University of Richmond, served at the United States Department of Justice (1971-1973), Acting Assistant Attorney General in charge of the Office of Legislative Affairs, executive director of the Virginia Commission on State Governmental Management, 6/6/05, “Take ‘Fiscal Discipline’ Seriously”, http://articles.dailypress.com/2005-11-06/news/0511040348\_1\_car-tax-spending-increases-state-spending

I realize that some politicians have no qualms about ignoring what they've said or haven't said during a campaign once the election is over, but I'm certain you don't suggest making the car tax the centerpiece of the 2006 legislative session when the voters haven't been given an opportunity to register their view on it in the 2005 elections. That's not the way a republic should function, is it? Now, let's get back to real cases. We both want to control state spending. You want me to point to areas of the state budget that can be cut. I suggest that you take a look at the 2005 Piglet Book published jointly by the Virginia Institute for Public Policy and Citizens Against Government Waste. But deep cuts aren't what I expect from the General Assembly quite yet. As a political pragmatist, I've been proposing that legislators do something far less ambitious than what I would do if the budget were mine to write. First, they should hold the line on funding new and expanded programs, even if such funding has been "committed" under old spending formulas. Second, they should implement as much as possible of the $1 billion in annual spending cuts recommended by the Commission on Efficiency and Effectiveness in 2002. There is much more that can be done, but it will require uncommon political courage. I'm realistic enough to think that it would be a significant accomplishment just to reduce the rate of increase in state spending. Until the General Assembly is prepared to do that, it isn't likely to begin making substantial cuts in the budget base. Here's an undeniable fact. When spending increases regularly exceed the growth in the state's economy, the tax revenues needed to fund the budget cannot keep pace indefinitely. The rate of increase in recent state spending is unsustainable. Consider what's happened in California. No state can continue indefinitely with spending increases that exceed the rate of inflation and the rate of population growth. In a fiscal sense, California hit the wall a couple of years ago. Virginia will hit the same wall sooner or later unless it curbs its spending appetite. We should be clear about our terms. There is a significant difference between an immediate cut in the current budget and a reduction in the amount of increased spending proposed for the next budget. Often when politicians talk about budget cuts, they are actually referring to reducing the rate of spending from one biennium to the next. If the state budget did not include an increase in funding from one budget to the next to account for inflation, it would be fair to say that spending has been reduced. And if state funding did not increase to account for the increase in school age population from one biennium to the next, the result would be an actual reduction in per-student spending. But when a new budget is drafted with a spending increase beyond the rate of inflation and the increase in the number of students, a revision to the budget to bring it in line with inflation and population growth is not a program or spending cut. The politics of budgeting is changed fundamentally by statutory formulas that increase spending beyond inflation and population growth. Once the formula is incorporated in a budget draft, anyone who challenges it is labeled a heartless budget-slasher. The problem is the refusal of our elected representatives to acknowledge that spending formulas do not bind them when they approve the state budget every two years. Until our representatives are willing to challenge old assumptions underlying these formulas, to disregard those formulas on occasion and to examine alternatives, they cannot claim to be in control of the budget process. I have beaten this drum for several weeks now. It's that important to me. I don't want Virginia to become California. I don't want the citizens and taxpayers of Virginia to begin using the term "fiscal discipline" to mean raising taxes again and again simply to fund a collection of statutory spending formulas that we aren't willing to question. That's where we are, Barnie. And there's no better time to get our budget under control than the next session of the General Assembly. \*

\*\*\*Impacts\*\*\*

Warming

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

Richard 10/10/08 (Michael Graham, L.L.P, Law “4 Reasons Why Recession is BAD for the Environment”

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

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

Environment

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

Biello11/13/08 (David, Editor for the Scientific American. “Is a Global Recession Good for the Environment?” <http://www.scientificamerican.com/podcast/episode.cfm?id=is-a-global-recession-good-for-the-08-11-132>) MFR

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

Terrorism

**Economic collapse causes terrorism – data proves**

Sandler 3/28/11 (Todd, School of Economic, Political and Policy Sciences, University of Texas at Dallas “New frontiers of terrorism research: An introduction” <http://jpr.sagepub.com/content/48/3/279.full.pdf+html> Journal of Peace Research 2011 48: 279) MFR

The Piazza (2011) article returns to the elusive relationship between poverty and terrorism that was drawn by the Bush administration, the media, and commentators following 11 September 2001. As Piazza notes, the literature found mixed results: many studies demonstrated no relationship between aggregate income indicators and transnational terrorist events, while other studies tied poverty in a terrorist’s home country to terrorism in richer venue countries. Micro-level studies showed that terrorists are neither necessarily poor nor uneducated. Piazza takes a different approach by using measures to ascertain whether domestic terrorists come from social groups that are marginalized by government policies or adverse social conditions. That is, domestic terrorists may be aggrieved individuals from groups that experience economic discrimination with no remedial action by the government. In testing its hypotheses, this article is relying on less aggregate data to identify some root causes of terrorism. Piazza uses the division of GTD incidents into domestic and transnational terrorist events, engineered by Enders, Sandler & Gaibulloev (2011). However, Piazza uses only domestic terrorist event counts as his dependent variable in his reported runs. Three discrimination variables – the presence or absence of minority economic discrimination and government remediation of such discrimination – are drawn from Minorities at Risk (MAR) data, compiled by the Center for International Development and Conflict Management at the University of Maryland. Piazza’s main finding is that countries with minority groups that are subjected to economic discrimination will experience more domestic terrorist incidents. Moreover, remedial actions to reduce this discrimination limit domestic terrorism. These two important findings are robust to a set of standard controls. The zero-inflated results indicate that countries with no domestic terrorism generally do not have minority groups that suffer economic discrimination. The study also shows that aggregate poverty measures of income do not increase domestic terrorism. With panel estimates, the Gaibulloev & Sandler (2011) article investigates the impact of terrorism on income per capita growth for 51 African countries for 1970–2007, while accounting for cross-sectional (spatial) dependence and other forms of conflict (i.e. internal and external wars). The authors use Enders, Sandler & Gaibulloev’s (2011) division of GTD into domestic and transnational terrorist incidents to distinguish the differential impacts of the two types of terrorist events on growth. For their baseline fixed-effects models, the authors find that transnational terrorism had a significant, but modest, marginal influence on income per capita growth. An average sample country sustained an annual reduction of just 0.1% to its income per capita growth. The analysis also finds that domestic terrorism did not have a significant adverse effect on income per capita growth. Alternative terrorist variables (e.g. total number of incidents and lagged terrorism) are used with little change in the findings that transnational terrorism had a significant negative growth effect, while domestic terrorism did not have a significant growth impact. This finding holds despite the fact that domestic terrorist events far outnumbered transnational terrorist events.

**Economic collapse incentivizes joining terrorist organizations**

Boucek 1/2/10 (Christopher, associate in the Middle East Program at the Carnegie Endowment for International Peace.“Yemen's deteriorating security, economy could fuel terrorism” <http://www.washingtonpost.com/wp-dyn/content/graphic/2010/01/02/GR2010010201243.html>) MFR

Yemen's problems are many, and some are already spreading beyond its borders. Security and stability are deteriorating. The population is growing rapidly. The economy is collapsing. There are few good options today; things will look worse tomorrow. Immediate and sustained international attention is needed to at least lessen the impact of some problems. Yemen is a weak state with little history of central government control. The government's first priorities have been a civil war in the north and a growing secessionist movement in the south; lower on the list has been confronting al-Qaeda, which is now resurgent. The government does not fully control all territory, nor does it have the authority or capacity to adequately deliver social services in many rural areas. Organizations inspired or directed by al-Qaeda have sought refuge in undergoverned spaces. Spending is not directed toward the root causes of instability but toward war costs, accelerating the economic collapse. Petroleum sales supply the bulk of government revenue, but oil reserves are shrinking and there has been little serious planning for a post-oil economy. A large deficit is forecast for next year, and foreign currency reserves are being spent at an alarming rate. Corruption is a major problem. Separately, mismanagement, rising consumption, increased urbanization and poor irrigation practices are contributing to dire water shortages. Sanaa may be the first capital in modern history to run out of water. The population, most of which is under 30, is expected to double in the next 20 years. Meanwhile, unemployment is on par with levels in the United States during the Depression. Yemen is often considered a failing state. Its stability should be a critical concern for the United States. The international community needs an integrated and comprehensive approach that addresses both the immediate security issues and the underlying sources of instability and militancy. While military and counterterrorism operations are critical, long-term development assistance is also necessary. The United States can support police reforms, help to professionalize the prison service, and assist in implementing effective counterterrorism laws. Coast guard and border officials also need quiet aid in controlling smuggling, trafficking and illicit migration. The international community needs to build local capacity in Yemen before it is too late.

Heg

**Financial crisis proves collapse of heg paves the way for multilateralism**

Watson 2/18/10 (Allan, Department of Geography, Staffordshire University, UK “US Hegemony and the Obama Administration: Towards a New World Order?” Antipode Volume 42, Issue 2, pages 242–247, March 2010) MFR

However, the financial crisis of late 2008 and early 2009 has acted to undermine both the US and global economy. In an attempt to save the US economy from recession, the previous administration, led by the most right-wing president in living memory, took the unprecedented step of pursuing a “financial socialism” (Taylor et al 2009), rescuing private finance with public finance. The timing of this policy effectively forced the following Obama administration to continue down the same path, one which is fraught with difficulties. For the USA, the largest problem has been the state's own financial situation. When the $700 billion bailout package for private financial institutions was passed through Congress, the national deficit moved past the $10 trillion mark. A significant amount of this debt is held by foreign governments, predominantly Japan and China, along with a number of oil exporting countries. Relying on foreign governments in this way comes with risks that are now starting to bite. The US economy continues to be squeezed by the interest on the capital borrowed, and the fact that the largest potential rival to US hegemony in the twenty-first century, China, holds so much of the US debt, is something that will sit uncomfortably even with a less conservative Obama administration. The USA can no longer hope to keep China subordinate through economics alone. Given this, it now seems that US hegemony is in decline, economically and politically, and that we will begin to see the emergence of a new world order. It is difficult to see how one man, no matter how well supported, can change well-practised unilateral US foreign policies or solve deep-rooted national anxieties. The above discussion suggests that the fundamental principles of US engagement with the rest of the world will change very little under an Obama-led US administration. But I shall end this intervention on a note of optimism. The election of the first black president of the USA was after all an historic event, and undoubtedly the effects will continue to ripple around the world. It gives the USA a chance to re-invent itself as a more open and tolerant nation and practice what may be termed as a “moral hegemony” (see Kobayashi and Peake 2000), without the need to exercise the hard coercive unilateral military or economic power upon the rest of the world. From this perspective, the signing of the executive order to close the controversial Guantanamo Bay detention facility, and Obama's carefully crafted speech at Cairo University in June 2009 aimed at easing tensions with the Muslim world, both signalled a sharp break with the previous Bush administration and have strengthened the global wave of diplomatic and popular goodwill (see Black 2009; Finn 2008).

Economic collapse means the U.S. will always have diminishing returns regarding the global order

Hadar 2/3/09 (Leon T., He earned his MA degrees from the schools of journalism and international affairs and the Middle East Institute at Columbia University, and his Ph.D. in international relations is from American University.“The US Is No Longer a Global Hegemon” <http://www.cato.org/pub_display.php?pub_id=9937&utm_source=feedburner&utm_medium=feed&utm_campaign=Feed%3A+CatoRecentOpeds+%28Cato+Recent+Op-eds%29>) MFR

Changes in the status and power of nations, just like changes in economic conditions, are not always immediately apparent. There is, in the jargon of economics, a recognition lag between the time when an economic shock, such as a sudden boom or bust, occurs and the time when it is recognized by economists, central bankers and the government. Recognition lag explains why, for example, economists have only recently acknowledged the current economic recession - several months after it began. And recognition lag might well be why officials and pundits are now failing to recognize the detrimental impact of the combination of the Iraq war and the financial crisis on America's standing in the international system. Some attribute Washington's current difficulties in dictating global developments to the Bush administration's mismanagement of US diplomacy and national security policy. The conventional wisdom is that a more visionary and competent Obama administration will be able to reassert America's global leadership role - especially in the Middle East. According to that logic, a charismatic and cosmopolitan President Barack Obama, by re-energizing the United States' diplomatic influence and emphasizing Washington's commitment to play the role of an honest broker, will revive the dormant Israeli-Palestinian peace process, overcome the many obstacles to a political settlement, and help bring peace to the Holy Land. (Some pundits seem to assume a similar peacemaking model can be implemented in other troubled regions as well, such as South Asia and the Caucasus.) All that is lacking, supposedly, is enlightened leadership and American willpower. Such assumptions about US omnipotence are woefully out of touch with reality. The mess the Bush administration made in the Middle East, where US military power was overstretched to the maximum, coupled with the dramatic loss of American financial resources, has produced a long-term transformation in the balance of power in the region and worldwide. The confluence of these negative factors has significantly eroded Washington's diplomatic and political clout. The increasing wariness of the American public regarding new US military interventions, as a consequence of the Iraq war, will reinforce this trend. This is not the first time there has been a lag between when an international crisis, such as a military conflict or a loss of geostrategic standing, takes place and the time when officials, pundits and the public recognize its effect on the global balance of power. In the aftermath of World War II, which devastated the military and economic power of Britain and France, the two leading imperial powers, officials and journalists continued to refer to those two declining nation-states as Great Powers. It was not until the late 1950s that the diminished status of Great Britain and France was widely recognized and the adjective "great" was finally dropped when the two countries were mentioned. That the US has already been losing some of its leverage has been demonstrated by Washington's failure to contain the rising power of Iran and Tehran's growing influence through surrogates in Iraq, Lebanon, and the Palestinian territories. Notwithstanding strong opposition from Washington, Israel decided to open negotiations with Syria, while Hizbullah was once again invited to join the government in Lebanon. While the US does not now occupy the same kind of drastically weakened geopolitical position that Britain and France did after World War II, we must recognize that it is no longer a global hegemon, as it was during the first decade or so after the end of the Cold War. Even the most visionary and competent US president will be that much more constrained in his ability to "do something" when an international crisis takes place. In 2000, the United States was at the apex of international power in a unipolar world, and the Israelis and the Palestinians were led by strong and more moderate leaderships than today. Even at that time, Washington could not significantly advance an Israeli-Palestinian peace process. There is little reason to expect that Obama will be an exception, and an effective Holy Land peacemaker, in 2009. With an overstretched military and an economy in recession, the incoming president, like others in Washington, will be forced to recognize that reality sooner or later.

Trade

**Economic collapse in the U.S. collapses international trade**

The Economist 12/18/08 (“Fare well, free trade” <http://www.economist.com/node/12815617>) MFR

THIS Christmas the world economy offers few reasons for good cheer. As credit contracts and asset prices plunge, demand across the globe is shrivelling. Rich countries collectively face the severest recession since the second world war: this week’s cut in the target for the federal funds rate to between zero and 0.25% (see article) shows how fearful America’s policymakers are. And conditions are deteriorating fast too in emerging economies, which have been whacked by tumbling exports and the drying-up of foreign finance. This news is bad enough in itself; but it also poses the biggest threat to open markets in the modern era of globalisation. For the first time in more than a generation, two of the engines of global integration—trade and capital flows—are simultaneously shifting into reverse. The World Bank says that net private capital flows to emerging economies in 2009 are likely to be only half the record $1 trillion of 2007, while global trade volumes will shrink for the first time since 1982 (see article). This twin shift will force wrenching adjustments. Countries that have relied on exports to drive growth, from China to Germany, will slump unless they can boost domestic demand quickly. The flight of private capital means emerging economies with current-account deficits face a drought of financing as well as export earnings. There is a risk that in their discomfort governments turn to an old, but false, friend: protectionism. Integration has less appeal when pain rather than prosperity is ricocheting across borders. It will be tempting to prop up domestic jobs and incomes by diverting demand from abroad with export subsidies, tariffs and cheaper currencies. The lessons of history, though, are clear. The economic isolationism of the 1930s, epitomised by America’s Smoot-Hawley tariff (see article), cruelly intensified the Depression. To be sure, the World Trade Organisation (WTO) and its multilateral trading rules are a bulwark against protection on that scale. But today’s globalised economy, with far-flung supply chains and just-in-time delivery, could be disrupted by policies much less dramatic than the Smoot-Hawley act. A modest shift away from openness—well within the WTO’s rules—would be enough to turn the recession of 2009 much nastier. Incremental protection of that sort is, alas, all too plausible. Fair-weather free-traders In many countries politicians’ fealty to open markets is already more rhetorical than real. In November the leaders of the G20 group of big rich and emerging economies promised to eschew any new trade barriers for a year and to work hard for agreement on the Doha round of trade talks by the end of December. Within days, two of the G20 countries, Russia and India, raised tariffs on cars and steel respectively. And the year is ending with no Doha breakthrough in sight. As economies weaken, popular scepticism of open markets will surely grow. Among rich countries, that danger is greatest in America, where grumbles were heard long before recession set in. The new Congress, with bigger Democratic majorities, has a decidedly less trade-friendly hue. Barack Obama’s campaign rhetoric left an impression of a man in two minds about trade, which he has since done nothing to dispel. Now that their exports are faltering, emerging economies too may become less keen on trade. The WTO’s rules allow them plenty of scope: after two decades of unilateral tariff-cutting most of their tariffs are well below their “bound” rates, the ceilings agreed in the trade club. On average they could triple their import levies without breaking the rules. Handouts to the ready Politicians from Washington to Beijing are being pressed to help troubled industries, regardless of the consequences for trade. A bail-out of Detroit’s carmakers, whatever its final extent, will be a discriminatory subsidy. As China’s exporters go bust by the thousand, industries from textiles to steel have been promised handouts and rebates. Subsidies will beget more subsidies: Nicolas Sarkozy, France’s president, says that Europe will turn into an “industrial wasteland” if it too does not prop up its manufacturers. They will also invite retaliation. With China’s bilateral trade surplus at a record high even as America’s economy slumps, Congress will not take kindly to Beijing’s bolstering of its exporters. Exchange-rate movements could also prompt protectionist responses. Chinese officials have said publicly that they will not push down the yuan, and their currency has risen in trade-weighted terms. However, it did slip against the dollar in late November. Viewed from America, China still seems to be following a cheap-yuan policy. A Sino-American trade spat is all too plausible. Add all this together and it is hard for a free-trader not to worry. So what is to be done? The first requirement is political leadership, especially from America and China. At a minimum, both must avoid beggar-thy-neighbour policies. Second, a conclusion of the Doha round would help. A deal would reduce the risk of broader backsliding by cutting many countries’ bound tariffs—and it would establish Mr Obama’s multilateral credentials. Third—Doha deal or not—is greater transparency. A good recent idea is that the WTO publicise any new barriers, whether or not they are allowed by its rules.

\*\*\*Aff\*\*\*

\*\*\*Uniqueness\*\*\*

Recession inevitable

No way to prevent new recession

Isidore 11 (Chris Isidore, “Recession 2.0 would hurt worse”, August 10, 2011, http://money.cnn.com/2011/08/10/news/economy/double\_dip\_recession\_economy/index.htm)

But what has economists particularly worried is that the tools generally used to try to jumpstart an economy teetering on the edge of recession aren't available this time around. "The reason we didn't go into a depression three years ago is the policy response by Congress and the Fed," said Dan Seiver, a finance professor at San Diego State University. "We won't see that this time." Three times between 2008 and 2010, Congress approved massive spending or temporary tax cuts to try to stimulate the economy. But fresh from the bruising debt ceiling battle and credit rating downgrade, and with elections looming, the federal government has shown little inclination to move in that direction. So this new recession would likely have virtually no policy effort to counteract it.

Eurozone Collapse will crush American Economy

Gardiner. 5/16/12. (Nile, “Why Greece’s economic collapse is a nightmare for Barack Obama”. The Telegraph

http://blogs.telegraph.co.uk/news/nilegardiner/100158147/why-greeces-economic-collapse-is-a-nightmare-for-barack-obama/)

Greece teeters on the brink of economic collapse, and Athens heads for an inevitable exit from the Euro, the White House is watching nervously. The Greek calamity is having a distinctly unsettling effect on US markets, and stocks could fall heavily on Wall Street as well as London, Paris, Frankfurt, Milan and Madrid as economic uncertainty mounts across the Eurozone. It will also hurt the fragile economic recovery in the United States, with unemployment still stuck firmly above 8 percent for a record 39th month in a row, a housing market still in the doldrums, and anemic levels of job creation. 70 percent of Americans still believe the US is in recession, an impression that won’t be helped by the economic crisis across the Atlantic. But perhaps most damagingly for the Obama presidency, the debt crisis in Greece and across much of the EU is a sharp reminder to US voters of America’s own economic mess, which has been greatly exacerbated by the big government policies of the current administration. Economic freedom in the US has been declining significantly over the past few years, propelled by excessive levels of government intervention, spending and borrowing, with the largest budget deficits since World War Two. America’s national debt now stands at a staggering $15 trillion, and gross public debt surpassed 100 percent of GDP in 2011. And with the introduction of Obamacare, which is expected to add $1.6 trillion to net federal spending over the next decade according to George Mason University’s Mercatus Center, the federal budget deficit will grow by more than $340 billion over the same period on the present trajectory. The dire situation in Greece is a stark warning for the United States if it continues down its current path of profligate spending. The debt and broader economic crisis in Europe is merely the shape of things to come for America unless it reverses course. The Obama presidency has been in denial regarding the extent of the economic crisis, continuing to push the same failing big government solutions both at home and abroad in a self-defeating effort to revive economic growth. There are only two solutions to the disaster unfolding across Europe. The first is greater economic freedom, including reduced government spending, lower taxes, and deregulation of labour markets. And the second is a return to national sovereignty, giving nation states the freedom to shape their own economic policies. The Obama administration has been firmly opposed to both, pushing ever greater bailouts within the EU, as well as backing the rise of a European superstate. As Vice President Joe Biden put it, “we did our bailout. They’ve got to do their bailout.” As the Eurozone heads for the abyss, wedded to the same damaging policies that threaten to bring the United States to its knees, Americans will be sharply reminded of President Obama’s own big government agenda, and his administration’s addiction to squandering other people’s money. The Greek tragedy is a nightmare for Barack Obama, because it holds a mirror to his own presidency’s mounting debt crisis, against a backdrop of the biggest rise in federal spending in US history. With good reason, the unfolding drama in Europe is a mounting liability for the American president.

Can’t balance the budget

Desjardins. 3/29/12. (Lisa “Why the U.S. may never have a balanced budget again”. CNN News.

http://www.cnn.com/2012/03/29/politics/balanced-budget/index.html)

The House has passed the Republican budget plan submitted by Rep. Paul Ryan, but some budget experts believe that the federal government is so far in the red that it may not balance the budget again in our lifetime. "We may never, as a country, have a balanced budget again," said Marc Goldwein, policy director for the Committee for a Responsible Federal Budget. "And you know what? We don't have to." Goldwein is a bit of a budget wunderkind who was also a staffer for the Bowles-Simpson Commission, established by President Obama to address the nation's fiscal problems, and for the congressional super committee. He and the nonpartisan think tank where he works used to push vehemently for a balanced budget. But no longer. Now the bumper sticker hanging in his cubicle reads, "Stabilize the Debt." He feels that Washington has fallen so deep into the deficit hole that it has set off a seismic shift among some fiscal hawks. They now hope to contain the deficit, not erase it. "It'd be great if we could balance the budget," Goldwein said. "But ... it's just not realistic to look at balancing the budget right now. Right now, what we need to look at is bringing the debt down relative to the economy." Two respected former lawmakers whose names have become synonymous with bipartisan compromise in a highly divisive Congress are meeting with dozens of lawmakers to forestall a potential year-end fiscal crisis dubbed "taxmageddon."

Economy Low

**Dependence on foreign markets will crush American economy**

Roach, Chairman of Morgan Stanely Asia and Chief Economist, 6/27/12(Stephen, “The Great American Mirage”, http://www.project-syndicate.org/commentary/the-great-american-mirage)

Yes, the US economy has been on a weak recovery trajectory over the past three years. But at least it’s a recovery, claim many – and therefore a source of ongoing resilience in an otherwise struggling developed world. Unlike the Great Recession of 2008-2009, today there is widespread hope that America has the capacity to stay the course and provide a backstop for the rest of the world in the midst of the euro crisis. Think again. Since the first quarter of 2009, when the US economy was bottoming out after its worst postwar recession, exports have accounted for fully 41% of the subsequent rebound. That’s right: with the American consumer on ice in the aftermath of the biggest consumption binge in history, the US economy has drawn its sustenance disproportionately from foreign markets. With those markets now in trouble, the US could be quick to follow.

Consumer Confidence low

Consumer confidence low

Vitner, Senior economist at Wells Fargo Economics, 6/26/12 (Mark, “Consumer Condfidence Slips further in June” http://www.realclearmarkets.com/blog/ConsumerConfidenceIndex\_06262012%5B1%5D.pdf)

Consumer confidence fell 2.4 points in June to 62.0, which is the lowest the series has been since January. Consumers’ assessment of current economic conditions improved slightly, while the view on economic conditions six months out deteriorated. While the current conditions series improved slightly, the underlying data in the series are somewhat less comforting. The proportion of households stating that business conditions were good in June rose 1.3 points to 14.9 percent, while the proportion that rated conditions as bad rose by a nearly even amount to 35.1 percent. The number of households viewing business conditions as normal fell by the difference, declining 1.7 points to 50 percent. The same split is evident in consumers’ assessment of employment conditions, with the percentage of households stating that jobs were plentiful rising by 0.3 percentage points to 7.8 percent and the proportion stating that jobs were hard to get rising by a larger 0.6 points to 41.5 percent. The labor market differential, which takes the difference between the two series, deteriorated to an exceptionally weak -33.7. Concerns about employment prospects appear to have trumped any relief consumers have seen at the gas pump, at least in regard to how they see the near future. The future expectations series fell 5.0 points to 72.3 percent in June, which is the lowest reading since November. Consumers are generally less optimistic about employment and income growth six months out. There was a sharp increase in the proportion of respondents stating that they expected business conditions to worsen over the next six months, with this series rising 3.3 points to 16.2 percent, its highest reading since last fall. While the overall consumer confidence numbers weakened in June, buying plans have held up relatively well. Plans to purchase an automobile were unchanged at 10.6 percent, which is right at the average for the past six months. Plans to purchase a home rose to 5.0 percent, which is the highest reading this year. Plans to purchase major appliances fell back a bit but remain relatively solid at 45.5 percent. The resilience in buying plans and slight increase in the current conditions series suggest that June’s slide in consumer confidence will have little impact on consumer spending in the near term. Inflation expectations declined slightly during June, likely reflecting the recent slide in gasoline prices. That drop should provide consumers with a little more buying power, which is particularly important at a time that incomes are growing so modestly. The heightened concerns consumers are expressing about the economy six months out bears watching. While consumers want to buy more cars and homes and feel that now is a good time to do so, many may be reluctant to move forward with those purchases if they become more concerned about their employment and income prospects.

Consumer Confidence low now- Polls

Marlar, writer for gallup, 6/26/12 (Jenny, “U.S. Economic Confidence Continues to Slide”http://www.gallup.com/poll/155336/Economic-Confidence-Continues-Slide.aspx)

WASHINGTON, D.C. -- Gallup's Economic Confidence Index was -26 for the week ending June 24, down slightly from -24 the week before. Americans' confidence has now receded for four straight weeks, and is at the lowest point since late January. U.S. economic confidence last week was hardest hit June 19-21, when it fell to -28, but it bounced back to -25 over the weekend. The midweek slide may have resulted from the anticipated Moody's downgrade of several major banks and one of the worst trading days of the year on Thursday. However, the market rallied back on Friday, which may have led to the weekend improvement in confidence. Gallup's Economic Confidence Index consists of two measures -- one assessing current economic conditions and the other assessing the nation's economic outlook. Americans' perceptions of current economic conditions worsened to -31, down four from the previous week, with 44% saying the economy is poor and 13% saying it is excellent or good. Attitudes about the economic outlook were down marginally last week, at -21. A disappointing May jobs report combined with the tepid economic climate in Europe and downgrading of major U.S. banks appear to have given U.S. consumers cause for concern in June. It will be interesting to see how the last week of June wraps up. There may be reason for optimism, with Gallup's U.S. unemployment rate having reached its lowest number in over two years. In the coming weeks, a decline in the Bureau of Labor Statistics' U.S. unemployment number for June could help improve confidence, as could falling gas prices, which immediately affect the pocketbooks of Americans, if the price declines continue as expected.

\*\*\*No Link\*\*\*

Inexpensive

Infrastructure inexpensive

Cooper 2/16 (Donna Cooper, “Meeting the Infrastructure Imperative: An Affordable Plan to Put Americans Back to Work Rebuilding Our Nation’s Infrastructure”, February 16, 2012, http://www.americanprogress.org/issues/2012/02/infrastructure.html)

Before summarizing our proposal, however, let’s first examine what’s holding us back. In large part, the problem is a false perception that the cost of repairing America’s infrastructure requires trillions of dollars in new federal spending. In fact, our plan shows that the most pressing needs of infrastructure can be addressed by improving our use of current funds, making reasonable changes in how users of infrastructure pay for it, and increasing federal spending by roughly $48 billion a year, according to this new analysis by the Center for American Progress.

Alt causes- Downgrade

Political disputes is the reason for the downgrades not fiscal policy

AFP 6/9/12 (“S&P keeps US rating unchanged, Outlook ‘Negative’”,http://au.news.yahoo.com/world/a/-/world/13911065/s-p-keeps-us-rating-unchanged-outlook-negative/)

WASHINGTON (AFP) - The United States held onto its AA+ rating from Standard & Poor's Friday but the agency said it also kept a negative outlook on the country, citing the political deadlock over fixing the fiscal deficit. Ten months after delivering a historic rate cut to Washington, removing its top-level AAA rating, S&P warned that the reasons for the downgrade remained in place and that if anything they were deteriorating. The ideological deadlock between Republicans and Democrats continued to block real solutions for closing the government's deficit and bringing down debt, S&P said. It reiterated its August 2011 warning that if politicians do not come together to address the gaping fiscal hole and reduce debt over the medium term, the United States could be dealt another downgrade. "The negative outlook reflects our opinion that US sovereign credit risks, primarily political and fiscal, could build to the point of leading us to lower our 'AA+' long-term rating by 2014." The US still merits a high grade, S&P said, as the issuer of the world's key reserve currency. "We see the US economy with an economy as highly diversified and market-oriented, with an adaptable and resilient economic structure, all of which contribute to strong credit quality." However, it said, the government's ability to implement reforms "has weakened in recent years... particularly with regard to broad fiscal policy direction." "We think that recent shifts in the ideologies of the two major political parties in the US could raise uncertainties about the government's ability and willingness to sustain public finances consistently over the long term." It also doubted that long-term solutions would come out of the November presidential and congressional elections. "Although the 2012 elections could resolve the US fiscal debate, we see this outcome as unlikely. "If, as commentators currently expect, the election is close, the race could, in our view, reduce bipartisanship from its already low level as each side strives to rally support by more clearly distinguishing itself from the other." S&P said it expected the two parties would come together in a compromise to reverse pre-programmed policies on tax hikes and spending cuts that could send the country over a "fiscal cliff" and back to recession at the end of this year. But the solutions they come up with will not improve, and will likely worsen, the debt situation and slow the closing of the government's fiscal hole. In its base-case projections, it said the fiscal deficit, as a share of gross domestic product, will decline from 10 percent in 2011 to five percent by 2016. Even at that level, the deficit-GDP ratio "would still be at the high end of the ranges we use to assess sovereigns' fiscal performance." Meanwhile it said government debt would rise, from 77 percent of GDP in 2011 to 83 percent this year and 87 percent by 2016. "Moreover, absent significant fiscal policy change, we expect US net general government indebtedness, as a share of the economy, to continue to increase after 2016."

Political battles cause downgrades

Nutting, columnist at the WSJ, 6/16/12 (“S&P Missed the Mark on U.S. Debt” http://online.wsj.com/article/SB10001424052702303822204577464480633342346.html)

Reality: S&P lowered its rating on U.S. Treasury debt and announced its negative outlook on Aug. 5, 2011, not because the U.S. lacks the means to repay its debts, but rather because the broken political system may lack the will to bring the trajectory of deficits under control in time. Before the ink was dry on the news release, politicians were proving S&P's point. "This president has destroyed the credit rating of the United States," charged Rep. Michele Bachmann, a Minnesota Republican. Democrats pointed fingers in the other direction. "I believe this is, without question, the tea-party downgrade," said Sen. John Kerry of Massachusetts. Other credit-ratings firms—Moody's and Fitch—haven't followed S&P in lowering their "AAA" ratings on U.S. debt, but they too have warned that political dysfunction poses a threat. In S&P's words, "recent shifts in the ideologies of the two major political parties in the U.S. could raise uncertainties about the government's ability and willingness to sustain public finances consistently over the long term." But in the 10 months since the initial downgrade, the bond market has reacted just the opposite of what would have been expected. Traders have brushed aside the ratings downgrade and the continuing warnings about the sustainability of the debt and driven interest rates down, not up. The yield on the 10-year Treasury note dropped from 2.56% on the day of the downgrade to a record-low 1.47% on the day S&P reiterated its rating. The yield rose last week, closing Friday at 1.59%.

Alt Causes- Deficit

**Social Security is rapidly expanding the deficit**

Epstein, Baron’s economic Baron’s economic editor, 6/18/12 (Gene, “Watch Out!”, http://online.barrons.com/article/SB50001424053111903857104577460623198500652.html?mod=BOL\_hpp\_cover#articleTabs\_article%3D1)

In short, the future has arrived, and it doesn't look pretty. The boomers in their 60s and the legions after them will put pressure on federal programs that support the elderly for years to come, according to projections by the nonpartisan Congressional Budget Office. The surge will fuel a process that eventually renders these programs too expensive to sustain. More ominously, the federal budget's burden of eldercare will get heavier, not lighter, even after the boomers leave the scene completely. As the chart below illustrates, the costs of eldercare are rising faster than the growth of gross domestic product. The Social Security and Medicare parts alone, at 8.5% of GDP last year, will nearly double their share in 50 years, and keep rising from there. Add to Social Security and Medicare all other health-care entitlements, including Medicaid and "Obamacare," and federal revenues as we know them get nearly swallowed up as soon as 2035. Unless, of course, radical steps are taken. There is no shortage of proposals to curb rising costs; for example, there is a plan to address Medicare and Medicaid put forward last November by House Budget Committee Chairman Paul Ryan. Support for such proposals can only happen once taxpayers grasp the alarming dimensions of the problem. One measure of what's in store will be the dramatic shift in the "dependency ratio" -- the ratio of those 65 and older to those 20 to 64. Since 1990, the dependency ratio has been relatively stable at five younger adults to every senior. It is due to fall to three-for-one by 2035, mainly because the seniors will surge in number. Already, the system is showing strains. The Congressional Budget Office reports that costs of such programs have grown faster than anticipated since the recent recession, due to an increase in enrollees in response to the high unemployment rate.

\*\*\*I/L\*\*\*

No I/L

As a result of reducing government spending, Ireland’s GDP government percentage declines – prosperity increases.

Mitchell ‘05

Daniel J. Mitchell, McKenna Senior Research Fellow in the Thomas A. Roe Institute for Economic Policy Studies at The Heritage Foundation , 3/31/2005, “The Impact of Government Spending on Economic Growth”, The Heritage Foundation, http://heartland.org/sites/all/modules/custom/heartland\_migration/files/pdfs/16949.pdf

Ireland has dramatically changed its fiscal policy in the past 20 years. In the 1980s, government spending consumed more than 50 percent of economic output, and high tax rates penalized productive behavior. This led to economic stagnation, and Ireland became known as the “sick man of Europe.” However, the government decided to act. As one economist explained, “After a stagnant 13-year period with less than 2 percent growth, Ireland took a more radical course of slashing expenditures, abolishing agencies and toppling tax rates and regulations.” The reductions in government were especially impressive. A Joint Economic Committee report explained: “This situation was reversed during the 1987–96 period. As a share of GDP, government expenditures declined from the 52.3 percent level of 1986 to 37.7 percent in 1996, a reduction of 14.6 percentage points.”32 As Chart 2 illustrates, Ireland has been able to keep government from creeping back in the wrong direction. Little wonder that a writer for the Financial Post wrote that “Ireland’s biggest export was people until the country adopted enlightened trade, tax and education policies. Now it is the Celtic Tiger.”

Generic- Turn

**Only stimulus can fix the economy- Ireland proves reduced spending fails**

Krugman, Nobel-Prize winner in economics, 6/14/12 (Paul, “We Don’t Need No Education, <http://www.nytimes.com/2012/06/15/opinion/krugman-we-dont-need-no-education.html>, NYtimes

First of all, there’s our own experience. Conservatives would have you believe that our disappointing economic performance has somehow been caused by excessive government spending, which crowds out private job creation. But the reality is that private-sector job growth has more or less matched the recoveries from the last two recessions; the big difference this time is an unprecedented fall in public employment, which is now about 1.4 million jobs less than it would be if it had grown as fast as it did under President George W. Bush. And, if we had those extra jobs, the unemployment rate would be much lower than it is — something like 7.3 percent instead of 8.2 percent. It sure looks as if cutting government when the economy is deeply depressed hurts rather than helps the American people. The really decisive evidence on government cuts, however, comes from Europe. Consider the case of Ireland, which has reduced public employment by 28,000 since 2008 — the equivalent, as a share of population, of laying off 1.9 million workers here. These cuts were hailed by conservatives, who predicted great results. “The Irish economy is showing encouraging signs of recovery,” declared Alan Reynolds of the Cato Institute in June 2010. But recovery never came; Irish unemployment is currently more than 14 percent. Ireland’s experience shows that austerity in the face of a depressed economy is a terrible mistake to be avoided if possible. And the point is that in America it is possible. You can argue that countries like Ireland had and have very limited policy choices. But America — which unlike Europe has a federal government — has an easy way to reverse the job cuts that are killing the recovery: have the feds, who can borrow at historically low rates, provide aid that helps state and local governments weather the hard times. That, in essence, is what the president was proposing and Mr. Romney was deriding.

Government spending generates an increase in consumption of households, helping the economy

Gali et al, ‘04

Jordi, CREI and Universitat Pompeu Fabra, Javier Valles, Economic Bureau of Spanish, Prime Minister, J. David Lopez-Salido, Federal Reserve Board, April 2004, “Understanding the Effects of Government Spending on Consumption”, Working Paper Series International Research Forum on Monetary Policy, http://ssrn.com/abstract\_id=532982

No. 339

The analysis herein has shown how the interaction between rule-of-thumb behavior by some households (for which consumption equals labor income) and sticky prices (modeled as in the recent new Keynesian literature) make it possible to generate an increase in consumption in response to a rise in government spending, in a way consistent with much of the recent evidence. Rule-of-thumb consumers partly insulate aggregate demand from the negative wealth effects generated by the higher levels of (current and future) taxes needed to finance the fiscal expansion, while making it more sensitive to current disposable income. Sticky prices make it possible for real wages to increase (or, at least, to decline by a smaller amount) even in the face of a drop in the marginal product of labor, as the price markup may adjust sufficiently downward to absorb the resulting gap. The combined effect of a higher real wage and higher employment raises current labor income and hence stimulates the consumption of rule-of-thumb households. The possible presence of countercyclical wage markups (as in the version of the model with non-competitive labor markets developed above) provides additional room for a simultaneous increase in consumption and hours and, hence, in the marginal rate of substitution, without requiring a proportional increase in the real wage.

Private consumption shown to rise after government spending

Linnemann and Schabert ‘02

Ludger Associate Professor of Applied Economics at the University of Dortmund, Germany, since April 2008, Associate Professor of Macroeconomics at the University of Bonn from October 2005, Assistant Professor of Macroeconomics at the University of Coolgne, PhD in 2000 from the University of Cologne, Andreas, Professorship for Macroeconomics at the University Dortmund since 2006, doctoral degree in 1999, studied at Institute of Advanced Studies, worked as Postdoctoral Researcher and Assistant Professor in International Economics at the University of Amsterdam and Tinbergen Institute, 10/31/02, “Can fiscal spending stimulate private consumption?”, Economics Letters 82 (2004) 173–179

This paper has shown that a model with public spending gt in the representative household’s utility function can explain why, empirically, private consumption ct tends to rise after a positive shock to government spending. If the (constant) elasticity of substitution between public and private spending is sufficiently low, an increase in gt can raise the marginal utility of ct and counteract the negative wealth effect on consumption that in previous business cycle models dominates the consumption response.

The main results are as follows. Regarding the long-run, we compare the steady state under the Ramsey policy with a reference policy that would be the first best policy in a frictionless version of the model without shocks; given our parameter choices, this reference policy just fixes the ratio of government spending to private consumption to an exogenous utility parameter. The result of the comparison is that for the same parameter values the Ramsey policy steady state entails a higher ratio of government spending to private consumption (composed of higher government spending and lower consumption), along with higher employment. The reason is the presence of the hiring externality that makes employment inefficiently low. By raising government spending above the level that would be advisable under the reference policy, employment is increased, and although private consumption is reduced due to the higher resource withdrawal from the private sector, the overall result is superior in welfare terms. The mechanism is that the Ramsey policy uses high fiscal spending in order to restrain consumption; this lowers the reservation wage (the marginal rate of substitution between consumption and leisure), and hence allows employment to increase, thereby achieving the optimal (second best) level.

We then turn to the dynamic analysis and study optimal responses to exogenous tech- nology and demand shocks. If the economy experiences an adverse technology shock, the optimal policy reaction is to let employment, consumption, and government spending decline; fiscal policy is thus procyclical. This would also be the optimal outcome in an RBC model without employment frictions (see e.g. Lansing, 1997). In our environment with employment frictions, government spending under the Ramsey policy is less procycli- cal than under the reference policy. Consequently, employment adjustments are mitigated under the Ramsey policy and government expenditures are adjusted in the short run to stabilize employment. If the economy is hit by an adverse demand shock, i.e. by an ex- ogenously induced temporary reduction in private consumption, things are different. The Ramsey policy response is countercyclical in this case, with government spending increas- ing whereas consumption and employment decline. The reference policy would decrease spending in this case. However, in our model the rise in government spending mitigates the employment decrease. In this case, hence, optimal policy can indeed be described as a countercyclical fiscal policy that stabilizes employment fluctuations. While this result has a Keynesian ring to it, obviously, it is based entirely on the logic of minimizing the distortions arising from the frictions embedded in the model.

Turn- budget reduction will throw the economy back into recession

Mascaro. 5/23/12. (Lisa, “Tax hikes, budget cuts could bring recession, budget office warns” The Los Angeles Times.

<http://articles.latimes.com/2012/may/23/business/la-fi-congress-recession-20120523>)

The Congressional Budget Office warned that the country could be thrown into a recession if Congress tries to reduce the nation's deficit quickly with a combination of budget cuts and higher taxes scheduled to take place at the end of the year. The nonpartisan budget office laid out the stark choices Tuesday over what has been called the coming fiscal cliff as congressional leaders square off in an expected partisan showdown from now through December. The office warned that the growth of the nation's gross domestic product — the value of goods and services produced — would slow to just 0.5% next year if Congress did nothing. The economy would reach that rate by contracting at an annual rate of 1.3% in the first half of the year, then expanding at an annual rate of 2.3% in the second half. "Such a contraction in output in the first half of 2013 would probably be judged to be a recession," the office wrote.

Next Gen- Turn

Next gen could save $23 billion

Schrader 11 (Ann Schrader, “Air-traffic control's next generation may give airlines' fuel-savings, fliers a lift”, September 7, 2011, http://www.denverpost.com/business/ci\_18840006)

The FAA predicts NextGen will cut travel delays 35 percent by 2018, with an estimated $23 billion in benefits to aircraft operators, travelers and the FAA. In the next seven years, GPS-enabled flight procedures will reduce carbon dioxide emissions by 14 million tons and will save about 1.4 billion gallons of aviation fuel, FAA officials say. Jeff Smisek, chief executive of United Continental Holdings, said at a recent convention in Denver that Next Gen "could save 10 percent of our fuel burn — 1 million barrels of jet fuel a year." At $3 per gallon, that's a chunk of change.

Now is key to Next Gen – maximum savings

Michaels 11 (Dave Michaels, “LaHood: airlines should use tax savings to invest in NextGen equipment”, January 26, 2011, http://aviationblog.dallasnews.com/2011/01/lahood-airlines-should-use-tax.html/)

“Companies like Southwest are equipping their planes, training their pilots and putting in place new procedures which in Southwest’s case could eventually save $60 million every year,” LaHood told a gathering of Washington’s Aero Club. “In order for other airlines to reap similar, long-term benefits, they’ll need to make similar, up-front investments.” LaHood then urged that airlines take advantage of the expensing provision in last year’s tax package, which allows firms to deduct 100 percent of their capital investments in the year they’re made. “What does this mean for the airline industry?” LaHood said. “It means there is no better time to invest in NextGen to enjoy minimum costs and maximum long-term benefits.”

Next Gen saves millions every year

Huerta 3/8 (Michael Huerta, “Speech – "Growing with NextGen"”, March 8, 2012, http://www.faa.gov/news/speeches/news\_story.cfm?newsId=13396&omniRss=speechesAoc&cid=104\_Speeches)

At Hartsfield-Jackson International Airport, we estimate that airlines flying into Atlanta will fly about 1.2 million fewer miles per year, based on the improved flight paths. Those paths, combined with other, fuel-saving descents, translate into a projected fuel savings of about 2.9 million gallons per year. It also means 30,000 fewer metric tons of carbon emissions released into the air. This is the total savings for all aircraft and airlines using Atlanta’s hub airport. As the busiest airport in the world, what helps Atlanta has ripple effects that help the entire country. There’s another good development I want to share with you in Atlanta. Last fall, we were able to add a departure route out of Hartsfield-Jackson thanks to the precision of GPS. We are getting better use of the airspace and increasing the departures we can handle. Atlanta can clear up to 10 additional planes per hour thanks to NextGen. This greater throughput reduces the amount of time aircraft wait to takeoff and it reduces delays. Because all these jets spend less time on the ground with engines idling, waiting to take off, this lowers fuel burn and decreases environmental impact. All across the country we are getting these savings because of very precise Performance Based Navigation procedures, which will reduce the number of miles aircraft must fly by allowing them to take more direct routes. Southwest Airlines estimates that it saves $25 in fuel for every mile it saves because of a shorter flight track.

Downgrades- Investor confidence not affected

**Downturns force countries to change practices**

Alhambra Investment Partners 6/24/12(“Apocalypse Bubblehttp://www.alhambrapartners.com/2012/06/24/the-apocalypse-bubble/

I suppose things could come out that way with all these well known black swans coming home to roost but if so, it will be the most anticipated economic collapse in history. There is a positive case to be made though. China’s slowdown may convince the leadership there of the limits of government directed investment as a path to sustainable growth. It will also reduce the artificial demand for and cost of basic commodities such as food and gasoline. The Chinese slowdown should also push emerging markets to diversify their economies and reduce their dependence on natural resources. Europe is being pushed to reform rigid labor markets and reduce government intrusion into the market. And here in the US, local and state governments are being forced to become more efficient and confront the lavish costs of public pensions. The fiscal cliff may finally force the federal government to reform in positive ways as other governments, such as Canada in the 90s, have in the past. The benefits to society of organized government come with a cost and more efficient use of public funds should not be demonized. Finally, the recent actions of the Federal Reserve have started a long overdue debate about the role of monetary policy.

The downgrade will not affect the economy nor others countries’ confidence in the US

Gerrity, ‘11

Michael, publisher and CEO of World Property Channel, served on several Boards like Central Florida Technology Partnership’s Digital media Advisory Board, City of Orlando’s Technology board, The Economic Development Commission’s Film and Television Board, founding Board Member of Digital Media Alliance Florida, and member of the National Association of Real Estate Editors (NAREE), 8/8/11, “SPECIAL REPORT: Experts Debate Impact of U.S. Credit Rating Downgrade on Housing Recovery”, http://www.worldpropertychannel.com/us-markets/residential-real-estate-1/standard-poors-rating-agency-us-credit-downgrade-united-states-of-america-credit-rating-sovereign-debt-ratings-federal-reserve-board-banking-system-negative-outlook-mohamed-el-erian-pimco-vanessa-grout-4634.php

According to Roger W. Soderstrom, founder of Orlando-based Stirling Sotheby's International Realty, "The sun did rise again this morning and it is business as usual. I do not feel the downgrade by one of the three rating groups was a total surprise and maybe it will be a wakeup call for Washington and our politicians to start working together on real solutions. As for the U.S. and specifically Florida real estate market, I do not feel we are going to see any major impact. After five challenging years we have become a much more resilient society and I don't feel we will see any overreaction." Billionaire Warren Buffett said in an interview with Bloomberg Television this weekend, "Standard & Poor's erred when it lowered the U.S. credit rating and reiterated his view that the economy will avoid a second recession. The U.S., which was cut Aug. 5 to AA+ from AAA at S&P, merits a 'quadruple A' rating."

Downgrades- No China Impact

China wouldn’t take advantage of a downgrade- any advantage they gain would hurt them

Nye, 11

Joseph S. Jr., professor at Harvard’s John F. Kennedy School and author of “The Future of Power”, 8/8/11, “Can China afford to downgrade the US?” http://blogs.reuters.com/great-debate/2011/08/08/can-china-afford-to-downgrade-the-u-s/

After the rating agency Standard & Poor’s downgraded America’s long-term debt, China said that Washington needed to [“cure its addiction to debts”](http://www.reuters.com/article/2011/08/06/us-china-sp-idUSTRE7750R720110806) and “live within its means.” It must have been a delicious moment in Beijing, accustomed over the years to lectures from Washington about its management of the yuan. But actions speak louder than words. The real test will be whether China moves away from the dollar in any significant manner. While it makes modest adjustments to its reserve holdings, there are few good alternatives to the dollar. And while it calls for an international basket of currencies to replace the dollar, there are few takers. Of course, China might move toward opening its currency and credit markets in an effort to make the yuan a reserve currency, but the authoritarian political system is [unwilling and unprepared to move to that degree of economic freedom](http://www.reuters.com/article/2011/08/08/us-china-risk-idUSTRE77718W20110808). Many commentators see the downgrading of American debt as a great shift in the global balance of power between the U.S. and China. Some wags have warned the American navy not to sail too close to China, because if the Chinese captured our ships, we would no longer have enough money to ransom them. But such jokes misunderstand the nature of power. Analysts point to China’s seemingly unstoppable growth and its holdings of United States dollars. But as I show in my latest book*,* [*The Future of Power*](http://www.amazon.com/Future-Power-Joseph-Nye-Jr/dp/1586488910/ref=sr_1_1?s=books&ie=UTF8&qid=1312811642&sr=1-1)*,* they fail to take into account the role of symmetry in interdependence in creating and limiting economic power. If I depend on you more than you depend on me, you have power. But if we both depend equally upon each other, there is little power in the relationship. Some observers claim that China could bring the United States to its knees by threatening to sell its dollars. But in doing so, China would not only reduce the value of its reserves as the price of the dollar fell, but it would also jeopardize U.S. willingness to continue to import cheap Chinese goods, which would mean job loss and instability in China. If it dumped its dollars, China would bring the United States to its knees, but might also bring itself to its ankles. The situation, analogous to the Cold War’s balance of terror, where the price of aggression was the inevitable destruction of both sides, has both sides eager to maintain the balance of interdependence even as they continue to jockey to shape the structure and institutional framework of their market relationship. In 2010, when the [United States angered China by selling arms to Taiwan](http://www.reuters.com/article/2011/03/07/us-china-npc-usa-taiwan-idUSTRE7260MT20110307), some People’s Liberation Army generals suggested that China punish the U.S. by dumping its dollars. The Chinese leadership wisely rejected their advice. On American power relative to China, much will depend on the often underestimated uncertainties of future political change in China. China’s size and high rate of economic growth will almost certainly increase its relative strength vis-a-vis the U.S. This growth will bring it closer to the U.S. in power resources, but doesn’t necessarily mean that it will surpass the U.S. as the most powerful country. Even if China suffers no major domestic political setback, many current projections are based simply on GDP growth. They ignore U.S. military and soft-power advantages, as well as China’s geopolitical disadvantages. As Japan, India and others try to balance Chinese power, they welcome an American presence. The United States faces serious problems regarding debt, secondary education, and political gridlock, but one should remember that they are only part of the picture. In principle, and over a longer term, there are solutions to current American problems. Given the challenges they face, both China and the United States have much to gain by working together. As the largest and second largest economies in the world, the two countries have a responsibility to provide such international public goods as financial stability and less carbon intensive growth. But hubris and nationalism among some Chinese, as well as unnecessary fear of decline among some Americans, make it difficult to assure this future. Extrapolating the wrong long-term projections from short-term cyclical events like the recent financial crisis or the S & P downgrade can lead to costly policy miscalculations.

AT- interest rates

Empirically proven, deficits have little effect on interest rates.

Mitchell ‘05

Daniel J. Mitchell, McKenna Senior Research Fellow in the Thomas A. Roe Institute for Economic Policy Studies at The Heritage Foundation , 3/31/2005, “The Impact of Government Spending on Economic Growth”, The Heritage Foundation, http://heartland.org/sites/all/modules/custom/heartland\_migration/files/pdfs/16949.pdf

Specifically, the empirical data indicate that deficits have an extremely small impact on interest rates. Interest rates are determined in world capital markets in which trillions of dollars change hands every day. Even a large shift in the U.S. government’s fiscal balance is unlikely to have any noticeable impact. This is why economists have failed to find a meaningful link between deficits and interest rates.

Interest rates do not affect investment.

Mitchell ‘06

Daniel J. Mitchell, McKenna Senior Research Fellow in the Thomas A. Roe Institute for Economic Policy Studies at The Heritage Foundation , 3/31/2005, “The Impact of Government Spending on Economic Growth”, The Heritage Foundation, http://heartland.org/sites/all/modules/custom/heartland\_migration/files/pdfs/16949.pdf

Moreover, it is not clear that interest rates are the main determinant of investment. Demand for credit is a key factor, which is why higher interest rates are correlated with periods of stronger economic growth. Financial institutions and other lenders make funds available to borrowers because that is how they make money. In order to earn a profit, the interest rate charged on loans and other investments must be high enough to compensate for factors such as projected inflation rates and likelihood of default.

AT- fed reserve

**Federal reserve incapable of assisting- Political battle**

Krugman, Nobel-Prize winner in economics, 6/24/12 (Paul, “The Great Abdication” http://www.nytimes.com/2012/06/25/opinion/krugman-the-great-abdication.html#h[])

Let’s talk instead about the Federal Reserve. The Fed has a so-called dual mandate: it’s supposed to seek both price stability and full employment. And last week the Fed released its latest set of economic projections, showing that it expects to fail on both parts of its mandate, with inflation below target and unemployment far above target for years to come. This is a terrible prospect, and the Fed knows it. Ben Bernanke, the Fed’s chairman, has warned in particular about the damage being done to America by the unprecedented level of long-term unemployment. So what does the Fed propose doing about the situation? Almost nothing. True, last week the Fed announced some actions that would supposedly boost the economy. But I think it’s fair to say that everyone at all familiar with the situation regards these actions as pathetically inadequate — the bare minimum the Fed could do to deflect accusations that it is doing nothing at all. Why won’t the Fed act? My guess is that it’s intimidated by those Congressional Republicans, that it’s afraid to do anything that might be seen as providing political aid to President Obama, that is, anything that might help the economy. Maybe there’s some other explanation, but the fact is that the Fed, like the European Central Bank, like the U.S. Congress, like the government of Germany, has decided that avoiding economic disaster is somebody else’s responsibility.