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Debate Central - 2012

Spending – 1NC

Labor, housing and exports all picking up and narrowly staving off recession.

Plummer, 8-9-12

[Brad, The U.S. economy gets a dash of good news for a change, Washington Post, 8-9-2012, http://www.washingtonpost.com/blogs/ezra-klein/wp/2012/08/09/the-u-s-economy-gets-a-dash-of-good-news-for-a-change/]

It's fair to say that **the U.S. economy has been in a worrisome funk** these past few months. The unemployment rate has barely budged after a slew of disappointing jobs reports that started in April. GDP growth in the second quarter of the year turned out to be a tepid 1.5 percent annualized rate. The Federal Reserve noted glumly that "economic activity decelerated somewhat over the first half of this year." **Could that turn around in the second half of 2012?** In the past few days, **a handful of** economic **indicators have offered some reasons for** cautious — **very cautious — optimism.** T**he labor market appears to be strengthening** somewhat. **Exports have surged** of late. **And the U.S. housing marke**t, which has long hobbled the economic recovery, **is showing glimpses of improvement.** So how significant are these trends? Let's take a look: 1) The labor market. On Thursday, **the Department of Labor reported that the number of people who were newly filing for unemployment dropped to 361,000** last week. This was better than economists expected. What's more, initial jobless claims over the past four weeks have averaged 368,000, which is down a fair bit from 386,000 at the beginning of July. As the chart below from Calculated Risk shows, weekly claims are back down to their level in March, a period when many forecasters were hopeful that the job market was getting healthier. July's payroll report was also a marked improvement from previous months, with the U.S. economy adding 163,000 jobs for the month, according to the Bureau of Labor Statistics. There are, however, two big caveats here. First, it's possible that BLS's seasonal adjustments are making its monthly jobs reports look more erratic than they actually are. The data can be fairly noisy. And second, even if the economy does keep adding 163,000 jobs per month, it will still take 12 years to bring the unemployment rate back to pre-recession levels, according to the Hamilton Project's jobs calculator. 2) Exports. **Perhaps the most notable surprise on** Thursday **was** that **the U.S. trade deficit** for June **had narrowed to an 18-month low.** Part of that has to do with oil: As crude prices have settled down (thanks to the struggling global economy), the U.S. has needed to pay less for its oil imports. But exports also surged higher than expected, and they're now up 6 percent over the previous year. Since exports are one component of GDP, this could mean that second-quarter growth was higher than the initial estimate of 1.5 percent. (Though it probably won't be much higher—JP Morgan is revising its second-quarter GDP estimate to a still-weak 1.7 percent.) **The trade data** also **suggests that the U.S. economy has**, to some extent, **managed to avoid getting dragged down by** the never-ending crisis in **Europe.** Here's JP Morgan's Michael Feroli: Exports last month increased across a variety of products, including motor vehicles, consumer goods and capital goods… Who is buying this stuff? It's hard to say as the trade-by-country data is not seasonally adjusted, but it appears that exports to, and the U.S. trade balance with, Europe is holding up decently: through the first six months of the year exports to Europe are up 5.0% over the same period a year-ago… Other analysts, however, caution that the export news could just prove to be a blip. Here's a note from Capital Economics: "The sharp narrowing in the trade deficit in June suggests that the easing in global demand and the strengthening in the dollar have yet to take a major toll on the U.S economy. But we doubt this can last." 3) **The housing market.** On Tuesday, **two reports from Core Logic and Freddie Mac suggested that home prices in the second quarter of 2012 had jumped by the most in seven years**. Bill McBride at Calculated Risk explained why this could boost the U.S. economy: There are many positive economic impacts from flat to rising house prices and we are just beginning to see the positive impact on the overall economy…We might see something like 1 million households that regained a positive equity position at the end of Q2 2012…We will probably also see a meaningful decline in the number of newer mortgage delinquencies…And private mortgage lenders and homebuilders will regain confidence in the mortgage and housing market. But here, too, there's a catch. As Jordan Weissman explains, one reason why U.S. home prices have stabilized is that 23 percent of homeowners still owe more on their mortgages than their homes are currently worth. Many of these "underwater" homeowners are still reluctant to put their homes on the market, for fear of taking a big hit. That trend has helped prop up prices, but it's not a good sign for the underlying strength of the U.S. economy. For now, efforts to assist these homeowners are proceeding slowly. As Alan Zibel reports, a record 54,000 underwater homeowners in June took advantage of a program that lets them refinance their mortgage. But that still leaves millions of Americans underwater with few options. And Ed DeMarco, the head of the Federal Housing Finance Agency, has vetoed a plan to enable homeowners with federally backed mortgages from paying less. (See Dylan Matthews for more on that.) **All in all, there are a few encouraging signs.**

Continued deficit spending crowds out the private sector collapsing the US and global economies.

Amerman, 12

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[Daniel, CFA, High Government Deficits "Crowd Out" Stock Market Returns, Gold Seek, July 12, 2012, http://news.goldseek.com/GoldSeek/1342112703.php]

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

Plan inevitably leads to wasteful spending – cost overruns and mismanagement.
Edwards-- director of tax policy studies at the Cato Institute--11
["Infrastructure Projects to Fix the Economy? Don't Bank on It.," Chris, Cato Institute, http://www.cato.org/publications/commentary/infrastructure-projects-fix-economy-dont-bank-it]

For plenty of examples of the downside of federal infrastructure, look at the two oldest infrastructure agencies — the Army Corps of Engineers and the Bureau of Reclamation. Their **histories show that the federal government shouldn't be in the infrastructure business**. Rather, state governments and the private sector are best equipped to provide it. **The Corps** of Engineers **has been building** levees, canals and other civilian water **infrastructure for more than 200 years — and it has made missteps the entire time**. In the post-Civil War era, for example, **there were widespread complaints about** the Corps' **wastefulness and mismanagement**. A 1971 book by Arthur Morgan, a distinguished engineer and former chairman of the Tennessee Valley Authority, concluded: "There have been over the past 100 years consistent and disastrous failures by the Corps in public works areas ... **resulting in enormous and unnecessary costs** to ecology [and] the taxpayer." Some of the highest-profile failures include the Great Mississippi Flood of 1927. That disaster dramatically proved the shortcomings of the Corps' approach to flood control, which it had stubbornly defended despite outside criticism. Hurricane Katrina in 2005 was like a dreadful repeat. The flooding was in large part a man-made disaster stemming from poor engineering by the Corps and misdirected funding by Congress. Meanwhile, **the Bureau of Reclamation has been building economically dubious and environmentally harmful dams since 1902.** Right from the start, "every Senator ... wanted a project in his state; every Congressman wanted one in his district; they didn't care whether they made economic sense or not," concluded Marc Reisner in his classic history of the agency, Cadillac Desert. The dam-building pork barrel went on for decades, until the agency ran out of rivers into which it could pour concrete. Looking at the Corps and Reclamation, **the first lesson about federal infrastructure projects is that you can't trust the cost-benefit analyses. Both agencies have a history of fudging their studies to make proposed projects look better, understating the costs and overstating the benefits**. And we've known it, too. In the 1950s, Sen. Paul Douglas (D-Ill.), lambasted the distorted analyses of the Corps and Reclamation. **According to Reisner, Reclamation's chief analyst admitted that in the 1960s he had to "jerk around" the numbers to make one major project look sound and that others were "pure trash" from an economics perspective**. In the 1970s, Jimmy Carter ripped into the "computational manipulation" of the Corps. And **in 2006, the Government Accountability Office found that the Corps' analyses were "fraught with errors, mistakes, and miscalculations, and used invalid assumptions and outdated data." Even if federal agencies calculate the numbers properly, members of Congress often push ahead with "trash" projects anyway**.

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Then-senator Christopher Bond of Missouri vowed to make sure that the Corps' projects in his state were funded, no matter what the economic studies concluded, according to extensive Washington Post reporting on the Corps in 2000. And the onetime head of the Senate committee overseeing the Corps, George Voinovich of Ohio, blurted out at a hearing: "We don't care what the Corps cost-benefit is. We're going to build it anyhow because Congress says it's going to be built." As Morgan noted in his 1971 book, **these big projects have often damaged both taxpayers and ecology**. The Corps, Reisner argues, has "ruined more wetlands than anyone in history" with its infrastructure. Meanwhile, Reclamation killed wetlands and salmon fisheries as it built dams to provide high-cost irrigation water to farmers in the West — so they could grow crops that often compete with more efficiently grown crops in the East. the country.

Economic decline causes nuclear war and accesses every impact – democracy, terrorism, hegemony, ME war, resource war

Harris & Burrows 9

[Mathew, PhD European History @ Cambridge, counselor of the U.S. National Intelligence Council (NIC) and Jennifer, member of the NIC's Long Range Analysis Unit "Revisiting the Future: Geopolitical Effects of the Financial Crisis" http://www.ciaonet.org/journals/twq/v32i2/f_0016178_13952.pdf]

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

Uniqueness

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2NC UQ Wall

Extend Plummer from the 1NC – Economy showing cautious signs of recovery – labor, housing and export all ticking reaching 20 moth lows. Even if the AFF win that the 'snapshot' arguments about state of recovery, prefer NEG evidence citing trends over the longer term.

AND, Improving unemployment and better than expected export growth keeping deficit in check and preventing recession.

CBS News, 8-9-2012

[AP, Economic outlook brightens on jobs, trade data, August 9, 2012, http://www.cbsnews.com/8301-500395_162-57490142/economic-outlook-brightens-on-jobs-trade-data/]

AP) WASHINGTON - **The outlook for the U.S. economy brightened** a little Thursday a**fter new data pointed to improvement in hiring and greater exports.** The number of **Americans applying for unemployment** benefits last week **fell by 6,000** to a seasonally adjusted 361,000, the Labor Department said. Economists noted that the level suggests the modest job creation in July could carry over into August**. The U.S. trade deficit narrowed to $42.9 billion in June from $48 billion in May**, the Commerce Department said in a separate report. **That's the lowest level in 18 months.** The drop was largely because of cheaper oil imports. But exports also rose to a record-high $185 billion, an encouraging sign at a time when global growth has slowed. U.S. companies even sold more goods in Europe, despite the region's ongoing financial crisis. Weekly jobless claims fall by 6,000 Employers post the most jobs in 4 years 30-year mortgages rate rises again Some economists revised their growth forecasts higher for the April-June quarter after seeing the better trade data. **A smaller trade deficit acts as less of a drag on growth because it means the U**nited **States is spending less on foreign-made products and is taking in more from sales of U.S.-made goods.** "As long as we can keep selling more of our goods across the world, the economy can (grow) at a moderate pace," said Joel Naroff of Naroff Economic Advisors. "In June, despite all the craziness in Europe and the slowdowns in Asia, our exports managed to increase. " The economy is looking more resilient after faltering in the spring. **Employers added 163,000 jobs in July, the biggest increase since February.** From April through June, employers had created a lackluster 73,000 jobs a month, not enough to keep up with a rising population. Applications for unemployment benefits measure the pace of layoffs. When they fall consistently below 375,000, it typically suggests hiring is strong enough to lower the unemployment rate. Claims had averaged 385,000 a week in June before the numbers were muddied last month by seasonal factors related to temporary summertime layoffs in the auto industry. The seasonal distortions had faded by last week, providing a clearer picture of a slightly improved job market. **"The clear decline since June provides some corroboration** of the better-than-expected payrolls reading," **said Jim O'Sullivan,** chief U.S. economist at High Frequency Economics. **"In short, encouraging data for the recovery."** Paul Dales, an economist at Capital Economics, said fewer unemployment applications suggest that the job market is fairly stable. "The pickup in jobs growth in July may therefore be sustained in August," Dales said. Still, a third report offered a reminder that the economy remains weak. U.S. wholesalers cut their inventories in June from May after seeing sales fall by the most in three years, the Commerce Department said. If the trend continues, that could slow factory output and offset some of the benefits from higher exports. And economists are worried that slower overseas growth will eventually reduce demand for U.S. exports. About one-fifth of U.S. exports go to Europe, which is in the third year of a financial crisis. "It is surely only a matter of time before a deep recession in the euro-zone starts to take a greater toll on US exports," said Dales. So far, that hasn't happened. Exports to the 27-nation European Union grew 1.7 percent in June**. The sharp drop in the trade deficit could mean the economy actually grew at a faster pace in the April-June quarter than first estimated.** The government said last month that the economy expanded at a 1.5 percent annual rate in the April-June quarter. Peter **Newland,** an economist at Barclays Capital, says he e**xpects second-quarter growth to be revised to an annual pace of 1.8 percent.**

Credit liquidity corroborates the trend – no recession.

Wilson, 9-7-2012

[David, Loan Terms, Bond Yields Buttress U.S. Economy: Chart Of The Day, Bloomberg, August 7, 2012, http://www.bloomberg.com/news/2012-08-08/loan-terms-bond-yields-buttress-u-s-economy-chart-of-the-day.html]

Standards for bank loans and yields on corporate bonds **are signaling the U.S. economy will avoid a recession, according to** Michael T. Darda, **chief economist** and chief market strategist **at MKM Partners LLC.** The CHART OF THE DAY compares the percentage of banks tightening credit for larger companies with the difference in yield between AAA rated and high-yield corporate debt, as Darda did yesterday in a report. The lending data come from a survey of senior loan officers by the Federal Reserve, and the latest results were released two days ago. The yield comparison is based on indexes from Barclays Plc's investment-banking unit. **"The disposition of the credit markets** and the behavior of lending standards **have been very valuable guides" to the U.S. outlook, Darda wrote. These** gauges **suggest the economy "will continue to move forward" rather than shrinking**, the Stamford, Connecticut-based economist's report said. B**anks are more willing to lend** to companies with annual sales of $50 million or more for the second straight quarter, according to the central bank. The gap between loan officers that said they are easing credit terms and those tightening widened to 9.5 percentage points from 6.9 points last quarter. The yield gap between non-investment-grade U.S. corporate bonds and the highest-rated debt narrowed to 477 basis points two days ago from 532 basis points on June 30, according to the Barclays indexes. The smaller gap cut borrowing costs for lower- rated companies. Each basis point is 0.01 percentage point. "**U.S. credit markets remain liquid and essentially stress- free," Darda wrote. "This tends to be associated with easing or steady standards for business lending, which is exactly what we saw."**

Less than 20% chance of recession in the next 20 months – multiple signs of a slow but steady recovery.

Bloomberg, 7-29-12

[US recession unlikely this year, says Caterpillar, July 29, 2012, http://www.iol.co.za/business/international/us-recession-unlikely-this-year-says-caterpillar-1.1351333#.UDb_ytaPXls]

Caterpillar, among the first companies to ring warning bells about the recession in 2007, **isn't subscribing to the pessimism** of investors, such as Bill Gross, even while moderating its global growth projections. **A US recession this year is unlikely and the economy would probably grow** slightly more than 2 percent, down from an April forecast for about 3 percent, Caterpillar said this week **in its second-quarter earnings statement.** The climate is different than in 2008, because short-term interest rates are lower, central banks are prepared to inject more liquidity and the US housing market is slowly improving rather than falling off a cliff, the company said. **Caterpillar has a track record of accurate forecasts.** In October 2007 it said the US might fall into a recession, in contrast to the outlook of companies, including Ford, DuPont and Intel, at the time. Caterpillar – considered a US bellwether because it's the world's largest maker of construction and mining equipment – proved to be correct as the economy experienced a slump between December 2007 and June 2009. Caterpillar's projections this year are more in sync with the majority view of economists and contrast with comments made by Gross in a July 16 Twitter post. Gross, who runs the world's biggest bond fund at Pacific Investment Management, said the US was "approaching recession when measured by employment, retail sales, investment and corporate profits". Improvement in the US economy would produce a pick-up in world growth later this year and into 2013, Bob Baur, chief global economist for Principal Global Investors said. Caterpillar, while lowering the upper end of its sales forecast partly on a "weaker" global economy, raised its 2012 profit outlook and said actions to spur growth had begun in several countries. Brazil late last year began lowering interest rates and China's investment initiatives should help growth later this year and into 2013, the company said. In Europe, the central bank's monetary easing and a commitment to solving the debt crisis were improving the euro zone's long-term outlook, the company said. "We understand the world economic horizon is hazy," **Ed Rapp, chief financial officer of** Peoria, Illinois-based **Caterpillar, said** on the company's website. "**We are encouraged by the pro-growth actions by governments and central bankers throughout the world that are intended to stimulate world economic growth prospects moving forward and out into 2013." Prospects** for growth in the US **would likely improve next year** if there was more clarity on issues such as taxes and health care, Rapp said. Global growth would average 2.5 percent this year, lower than the expansion of more than 3 percent it forecast in April, Caterpillar said. **A majority of economists forecast the world's largest economy might avoid a recession** even as growth decelerated amid a cooling job market. **Federal Reserve officials predict a US expansion of 1.9 percent to 2.4 percent this year**, with unemployment stuck in a range of 8 percent to 8.2 percent. **The probability of a US recession within the next 12 months held at 20 percent this month**, according to the median forecast of economists in a Bloomberg News survey taken from July 6-10. "We should see a little faster growth in the second half," said Baur, who is based in Des Moines, Iow**a. "The US is still on a healing path. I don't see a recession imminent on the horizon." US housin**g, the industry that helped trigger the recession, **is stabilising.** Fed chairman Ben S Bernanke, in testimony to the Congress last week, said growth in construction and historically low mortgage rates were among "modest signs" of a housing recovery, even as some buyers showed concern about personal finances and the broader economy, and had difficulty meeting lending standards. Caterpillar forecast housing starts would exceed 750 000 units this year. While down from its prior forecast of 800 000 units, the prediction represents the best level since 2008. The motor industry – which remained a bright spot in US economic growth – was helping drive sales for Ford as more consumers traded in their older vehicles for newer models, said Alan Mulally, CEO of the Dearborn, Michigan-based carmaker. In the first half of the year, annualised US vehicle sales – including medium- and heavy-duty trucks – rose to 14.6 million from 12.8 million a year ago, said Ford. **"Even though it's a slower recovery than we've had** from past recessions, **we're seeing that expansion of around 2 percent to 2.5 percent," Mulally said of the US economy**. FedEx, the world's largest cargo airline, last month forecast 2.2 percent US economic growth this year, up from a projection of 2.1 percent in March. The company said it expected the economy to accelerate to 2.4 percent in 2013, contingent on the US avoiding a significant tax increase. – Shruti Singh, and Shobhana Chandra Chicago and Washington from Bloomberg.

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UQ - Cuts Now

Obama pushing austerity now – AFF arguments ignore the facts.
Dayen, 8-20-2012
[David, FDL News, Yes, Michael Grunwald, There Has Been Short-Term Austerity, FDL News, August 20, 2012, http://news.firedoglake.com/2012/08/20/yes-michael-grunwald-there-has-been-short-term-austerity/]

This is simply not true. I'm sure it must be comforting to Grunwald to think it is. But it's not. The best expression of the austerity that has been implemented at the federal level for the last two years can be found in this chart from Goldman Sachs. It shows pretty clearly that **fiscal policy at the federal level turned negative in mid-2010.** This doesn't just mean that fiscal policy, after the stimulus began to run out, was relatively speaking less powerful. It means that federal fiscal policy, not combined with state and local but just confined to the federal level, dragged on growth starting in mid-2010, before the 2010 midterm elections. It really never recovered, save for a couple quarters of near-zero growth from fiscal policy in the middle of 2011. And there are policies that correspond to this. **The White House froze federal employee pay;** it was one of the first items touted from their budget in 2010. **They cut food stamps twice to pay for other priorities. They cut unemployment benefits in the most recent extension**, so that the 99-week benefit has been reduced to 73. **They cut $39 billion from the 2012 budget and imposed a spending cap for the next ten years.** The Administration will tell you proudly that they have **inaugurated the lowest rate of discretionary spending since the Eisenhower** era. To just ignore these efforts at short-term austerity and say they did not exist is really a fallacy. To be sure, t**here have been additional efforts at fiscal expansion** as well. The Bush tax cuts were extended, with a payroll tax cut added on; unemployment benefits have continued, albeit in reduced form in the most recent extension; in 2010 a series of mini-stimulus bills, including money for state budgets for education and Medicaid, did pass. **But the deficits have closed over the past few years.** The President proudly champions this**. Federal spending and deficits are all lower today than when the President took office. That equals short-term austerity**. Heck, g**overnment purchases were** way **down DURING the stimulus in 2009**, relative to Reagan's response to the 1981-82 recession. That takes into account de facto austerity at the state and local level, but as I said before, even if you isolate the federal fiscal response, **there has been austerity since mid-2010.**

Obama cutting – not expanding – wage freeze proves.
The Washington Post, 8-21-2012
[AP, Obama extends federal pay freeze until Congress can act on new spending plan, August 21, 2012, http://www.washingtonpost.com/politics/congress/obama-extends-federal-pay-freeze-until-congress-can-act-on-new-spending-plan/2012/08/22/ed48551c-ec10-11e1-866f-60a00f604425_story.html]

WASHINGTON — President Barack O**bama told congressional leaders Tuesday that he is extending a two-year pay freeze** for federal employees **until at least next spring. The freeze will stay in effect during a short-term deal to fund the government through April.** The presidential campaign made it difficult to reach a more long-range agreement before the start of fiscal 2013 on Oct. 1**. Obama, in a letter to the congressional leadership, said that government "must maintain efforts to keep our nation on a sustainable fiscal course."** The administration estimates the two-year pay freeze will save more than $60 billion.

AT: Fiscal Cliff

Fiscal cliff arguments are conspiracy theory.

iStock Analyst, 8-10-2012

[Is 'Fiscal Cliff' Another 'Y2K'?, August 10, 2012, http://www.istockanalyst.com/finance/story/5987902/is-fiscal-cliff-another-y2k]

(By Mani) **The term "fiscal cliff" seems to be the buzzword** of U.S. investors and the common man as it is related to the expiring tax cuts at year-end and required spending reductions which would have wide repercussions across the economy. **The investors are concerned that whether the "fiscal cliff" would weaken the already fragile economy.** So, the question on everybody's mind is could the US economy tumble over the potential "fiscal cliff" at the start of 2013? **An economist sees this condition as highly unlikely. "We still see this as an unlikely outcome. Instead, we find the current hand wringing about a looming "fiscal cliff" somewhat reminiscent of the misplaced concerns about some earlier widely publicized potential threats that did not materialize,**" UBS economist **Maury Harris wrote in a note to clients. The current fiscal cliff can be compared to the "Y2K" problem** that dominated before the dawn of the new century. In 1999, numerous computer experts and even a few economists fanned concerns about a possible US recession if the world's computers ceased communicating at the start of the new century. **However, societies around the globe made the necessary** software and hardware **adjustments** and the feared Y2K fallout never happened.

AT: Economy Resilient

Collapse now will make recovery impossible.

Morici, 7-23

[Peter, economist and professor at the Smith School of Business, University of Maryland, and widely published column is, The coming economic collapse, FoxNews.com, http://www.foxnews.com/opinion/2012/07/23/coming-economic-collapse/]

The U.S. economy is teetering on the brink of another recession. The bad news is that if it goes down again, there won't be much we can do to save ourselves. Like a weary heavyweight, if it hits the mat again, it's down for good. The expansion has been terribly disappointing—growth is hardly 2 percent and jobs creation barely keeps unemployment steady at 8.2. **Manufacturing and exports powered the recovery but are now weakening.** Consumer spending and existing home sales are flagging, because policymakers failed to aid underwater homeowners as generously as the banks. President **Obama is doubling down on slow growth policies—new restrictions on offshore oil and CO2 emissions, and pushing forward with financial regulations that haven't stopped Wall Street banks from trading recklessly and rigging markets as indicated by the Libor scandal.** Governor Romney has reverted to shop-worn Republican prescriptions—tax cuts, free trade and deregulation. China, by manipulating its currency and shutting out western products, helped cause the Great Recession and is now constraining recovery in the United States and Europe. More free trade agreements won't fix that. With the federal government spending 50 percent more than it takes in, no sane economist could endorse big rate cuts, beyond renewing the Bush tax cuts. Dodd-Frank may be bureaucratic and ineffective but no sane person could claim banks can regulate themselves—smarter solutions, like breaking up unmanageable and unsuperviserable institutions, is needed. **Many analysts ask if another big innovation**—like the automobile or computer-- **is coming and could save the economy. The problems are many new products are creating more jobs in Asia than in the West, and many technology companies are consolidating or facing extinction**—consider the smart phone, Hewlett Packard and Yahoo. A lot of **US innovation is starting to look more like French art than American commerce**. Icons like Yahoo, Facebook and Twitter have made great contributions to the economy and culture but simply don't have business models that generate enough revenue and sustainable jobs growth. Google has succeeded by cannibalizing newspapers—the net effect has been to destroy more—and branching into software and media—which merely displaces workers elsewhere. Meanwhile, the profitable core of finance—investment banking—is shrinking. Burdensome regulations are a problem, but many clients—ranging from municipalities to wealth managers to foreign governments burnt by Wall Street schemes and securities—are now less interested in what the likes of Goldman Sachs and JP Morgan have to sell. To save European governments, several trillion dollars in sovereign debt must be written down. Beyond lacking a plan to equitably distribute the loss, Germany and other stronger states have not come to terms with the fact that market reforms are not enough. They cannot continue to pursue export-oriented growth strategies and trade surpluses if southern Europe is to create jobs and grow without running up trillions in new debt. China holds the West and its own future hostage—export-driven growth runs to ground when customers can no longer finance their purchases and trade deficits. Borrowing and printing money in the United States and Europe on the scale necessary to keep the Middle Kingdom producing and exporting is no loner possible. China must slow down because it is too late to reorient its economy toward domestic consumption without wrenching dislocations. When the United States entered the recent crisis, its budget deficit was $161 billion. Now it $1.3 trillion, and the Federal Reserve is already maintaining rock bottom interest rates. Even if Congress and the President manage to extend the Bush tax cuts, **any hiccup in Europe or China could easily throw the U.S. economy into a recession—and the world's biggest economy could hit the skids on its own. Capital markets simply won't be able to absorb a $2.5 to $3 trillion federal deficit to further stimulate the U.S. economy, without sucking badly needed capital out of struggling European and developing country economies.** The Fed could only print money to finance it and set off hyperinflation, but it can't really lower interest rates much further. Having failed to adequately address what caused the Great Recession—China's trade surplus and the imbalance in demand between the Middle Kingdom and the United States, the cowboy culture on Wall Street and the plight of underwater homeowners—not much can be done, having squandered the grace created by stimulus spending and easy money. **Get ready for a bad ride.**

Links

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<u>L – General Infrastructure</u>

Infrastructure costs increasing

Washington Post, March 21, 2012 [“Why Can’t We just Leave Infrastructure Spending to the States?,” http://www.washingtonpost.com/blogs/ezra-klein/post/why-cant-we-just-leave-infrastructure-spending-to-the-states/2012/03/21/gIQAjpYBSS_blog.html]

Keep in mind that this is all happening at a time when **<u>infrastructure is getting increasingly expensive to build</u>** – **<u>the CBO notes that the cost of building highways has tripled since 1980, far faster than inflation.</u>** **<u>States are spending the same, but getting less and less</u>**. Now, maybe this would all be okay if we were keeping our roads and bridges and pipes in good shape. But various experts and groups like the American Civil Society of Engineers seem to think that we’re woefully under-investing in infrastructure of all sorts.

L- Infrastructure Bank

Infrastructure Bank will just be a new vehicle for deficit-spending it will not be self-sustaining

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

In response to the credit downgrade by Standard & Poor's in August, the grim reports on the state of the economy, and the collapse of the stock and financial markets in the week after the downgrade, President Barack Obama has re-engaged with the issue of America's faltering economy and the human misery left in its wake. While it is possible he may propose a serious and detailed plan during his much-anticipated jobs speech next week, so far his response has included policies that both Democrats and Republicans have rejected in the past. The President's proposal for an infrastructure bank is one idea that he and other progressives have been flogging for the past few years.[1] 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 intermediarythat borrows money at one interest rate and lends it to credit-worthy borrowers at a somewhat higher interest rate** to cover the costs incurred in the act of financial intermediation. In this regard, **the Obama proposal is not a bank, and it relies entirely on congressional appropriations—thus, on deficit finance and taxpayer bailouts. Grants are not paid back,** prompting "one former member of the National Infrastructure Financing Commission to observe that 'institutions that give away money without requiring repayment are properly called 'foundations' not 'banks.'"[6] 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

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

Infrastructure bank will be a never-ending deficit expense

Calabria-Director of Financial Regulation Studies at the Cato Institute - 2010

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

Like President Bush before him, Obama has a knack for taking the worst ideas of his opponents and making them his own. It is truly bipartisanship in the worst of ways (think Sarbanes-Oxley, the TARP or No Child Left Behind). The newest example is **the President's proposed "infrastructure bank**." A bill along those lines was introduced a few years ago by then Senator Hagel, although the idea is far from new. First, let's get out of the way the myth that we have been "under-funding" intrastructure. Take the largest, and usually most popular, piece: transportation. **Over the last decade, transportation spending at all levels of government has increased over 70 percent.** One can debate if that money has been spent wisely, but **there's no doubt we've been spending an ever-increasing amount on infrastructure – so there goes one rationale for an infrastructure bank. The real rationale for an infrastructure bank is to transfer the risk of default away from investors, bankers and local/state governments onto the federal taxpayer, but to do so in such a manner that the taxpayer has no idea what they are on the hook for.** If there are truly great projects out there that will pay their own way, then they should have no trouble getting private funding. Of course, **we will be told that the bank will charge an interest rate sufficient to cover losses and that the taxpayer won't be on the hook.** Again, if it is charging an appropriate rate, then why does the bank need to be chartered (and backed) by the taxpayer? **We've heard this story before…with Social Security, flood insurance, FHA, Fannie/Freddie…the list goes on, that all of these programs would pay their own way and never cost the taxpayer a dime.** If there are truly outstanding infrastructure needs, then appropriate the money and pay for them. **An infrastructure bank is just another way to allow Wall Street to line its pockets while leaving the risk with the taxpayer. If bankers aren't willing to actually take the risks, then why exactly do we need them?**

L – HSR

Rail projects are expensive and depend on long-term subsidies-California proves.

Williams, 2012

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

In recent months, **the CEO of the controversial project resigned** [2]. Brown installed Dan Richard, an official with political and transportation industry connections, as new board chairman. More importantly, the California High-Speed Rail Authority dramatically revamped its business plan, slashing as much as $30 billion[3] from the price tag for building the San Francisco-to-Los Angeles system – from $98 billion to as little as $68 billion. But none of those changes addressed what **a panel of outside financial experts has styled “the elephant in the room” for California’s proposed high-speed rail system – its extraordinarily low projected operating costs.** If the bullet train project is to pencil out**, it must operate far more economically than any high-speed rail system in the world, according to the experts, who include former World Bank executive William Grindley. Unless these extraordinary economies actually are achieved, the train will require alarmingly high annual operating subsidies “forever,” as the experts wrote in a report [4] last month. The annual operating deficit could top $2 billion, they wrote.**

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Internals - Deficit Spending

Spending can only add to the deficit and make economic recovery unsustainable.

Rickards, 6-25-12

[James, hedge fund manager in New York City and the author of Currency Wars: The Making of the Next Global Crisis, Why Obama's Deficit Spending Is Making Things Worse, June 25, 2012, http://www.usnews.com/opinion/blogs/economic-intelligence/2012/06/25/why-obamas-deficit-spending-is-making-things-worse]

This neo-Keynesian formula has two parts. The first is deficit spending today ostensibly to create jobs and stimulate growth through the magic of the Keynesian multiplier—the idea that a dollar of deficit spending creates more than a dollar of gross domestic product. The second part is fiscal discipline in the so-called "out years" to reassure the bond vigilantes that U.S. spending is on a sustainable path. **Both parts of this formula are flawed** and the combination ruinous. However, the prominence of the proponents and political appeal of the timing—hamburgers today, payment tomorrow—give the idea a wide and receptive audience. [See a collection of political cartoons on the economy.] **The first part of the formula is easy to shoot down. Empirical evidence has been accumulating for years that the Keynesian multiplier is mythical**, an abstraction only an academic could embrace **bearing no resemblance to real world economic dynamics. One need look no further than** President Barack **Obama's** 2009 **stimulus program** of $787 billion in extra deficit spending. This was projected to create 7 million net new jobs and increase GDP by 3.7 percent by the end of 2010. In fact, no net jobs were created and the economy did not grow at all. **Many academic studies have shown the Keynesian multiplier to be less than one, which means that new deficit spending actually reduces private sector output. The second part of the formula—fiscal discipline down the road—is also flawed.** Here the issue is broken trust. **The latest promises from economists and opinion leaders about fiscal discipline in the future come on top of 50 years of lies**, frauds, broken promises, and disrespect for citizens exhibited by elected officials in the United States. The highlight reel would include Vietnam, Watergate, Whitewater-Lewinsky, and Iraqi weapons of mass destruction. Broken promises specifically related to fiscal discipline are plentiful. [See a collection of political cartoons on the budget and deficit.] In 1986, President Ronald Reagan's Tax Reform Act sought to cut tax rates and pay for the cuts by eliminating loopholes and deductions. This is sound economics and a step in the direction of a flat tax with low rates and no deductions. The problem was that between 1990 and 1993, Presidents George H. W. Bush and Bill Clinton gradually raised tax rates but did not restore the deductions. The result was an eight-year game of bait-and-switch in which taxpayers ended up with higher rates and fewer deductions. More recent examples of fiscal deception include President Obama's pledge in 2009 to "cut the deficit we inherited in half by the end of my first term in office." In fact, Obama has increased deficits by over $6 trillion and has come nowhere close to his promised target. **When you hear mainstream economists offer detailed reasons why the Bush-Clinton tax increases were needed and why the Obama deficits are the right medicine for the economy, bear in mind these are the same economists who did not see the 2007 housing collapse coming**, did not see the 2008 financial panic coming, **and are willfully ignoring gathering threats to the stability of the dollar today.** Government has become a complex entity with an insatiable demand for new spending. **Government is like a shark that must feed continually or die. When times are good government increases spending. When times are bad government increases debt so it can keep spending**. At no point in the business cycle does total government spending ever go down. **At no point in the credit cycle does total government debt ever go down.** Citizens understand this. They have been lied to long and often enough to get how the game is played. Citizens who insist that government stop talking about cuts and start the actual process of cutting spending now have got it right. **Fewer resources for government means more resources for the private sector where ideas, invention, technology, innovation, and jobs actually originate.**

Continued deficit spending will lead to a "Greece-style" economic collapse

Gardiner 2012

[Nile Gardiner- Washington-based foreign affairs analyst and political commentator, "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/]

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<u>As Greece teeters on</u> the brink of **<u>economic collapse</u>**, and Athens heads for an inevitable exit from the Euro, **<u>the White House is watching nervously</u>**. 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 **<u>uncertainty mounts across the Eurozone. It will also hurt the fragile economic recovery in the United States</u>**, 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 **<u>most damagingly for the Obama presidency, the debt crisis in Greece and across much of the EU</u>** **<u>is a sharp reminder to US voters of America's own economic mess, which has been greatly exacerbated by</u>** the **<u>big government policies of the current administration</u>**. **<u>Economic freedom in the US has been declining significantly</u>** over the past few years, **<u>propelled by</u>** excessive levels of **<u>government intervention, spending and borrowing, with the largest budget deficits since World War Two</u>**. 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. **<u>The dire situation in Greece is a stark warning for the United States if it continues down its current path of profligate spending</u>**. **<u>The debt and broader economic crisis in Europe is merely the shape of things to come for America unless it reverses course.</u>** **<u>The Obama presidency has been in denial</u>** regarding the extent of the economic crisis, **<u>continuing to push the same failing big government solutions</u>** both **<u>at home</u>** and abroad **<u>in a self-defeating effort to revive economic growth</u>**.

Deficit reductions now, key to economic recovery
Bloomberg, January 7, 2011

[http://www.bloomberg.com/news/2011-01-07/bernanke-sees-slow-drop-in-joblessness-even-with-growth-pickup.html]

Bernanke said that the longer lawmakers wait to deal with the federal budget deficit, "the greater the risks and the more wrenching the inevitable changes to the budget will be." "By contrast, **<u>the prompt adoption of a credible program to reduce future deficits would not only enhance economic growth and stability in the long run, but could also yield substantial near-term benefits in terms of lower long-term interest rates and increased consumer and business confidence</u>**," Bernanke said. **<u>Republicans have promised to seek cuts to reduce a budget deficit</u>** that may widen to $1.34 trillion for fiscal 2011, Credit Suisse Group AG strategists estimated on Dec. 7, a day after the president announced a deal with Republicans on extending Bush- era tax rates. The shortfalls were $1.29 trillion in fiscal 2010 and $1.42 trillion in fiscal 2009.

Internals – Dollar

Loss of confidence because of spending sparks a dollar sell-off crushing the economy

FINANCIAL TIMES 2009 [May, 22, http://www.ft.com/cms/s/0/bdd23cb0-4639-11de-803f-00144feabdc0.html]

Congressional Budget Office estimates suggest that under administration policies the US will have a medium-term structural deficit (the deficit when the economy is operating at full potential) of roughly 5 per cent of gross domestic product. "If we are winding up with deficits that are in the 5 per cent of GDP range we will change policies," a senior administration official told the FT. "We have said that 5 per cent is unsustainable." **Another administration official said the biggest threat to recovery was the risk that the bond market might lose confidence in US public finances, pushing up bond yields and throttling growth. That would present the Federal Reserve with the choice of standing by or creating more money to buy bonds to push private borrowing rates back down** – a move that could spook foreign creditors and fuel a sell-off in the dollar. **The yield on 10-year Treasuries has risen** 74 basis points to 3.15 per cent since the start of the year**, in spite of Fed buying. Meanwhile, the dollar is close to its lows for 2009. Analysts said recovery hopes naturally led to higher Treasury yields and a weaker dollar,** but movements likely reflected concern about US finances as well. **"It is to be expected that as we come out of the downturn bond yields will go up**," Mr Orszag said. But he added "we have said for a long time under current policies the nation is on an unsustainable fiscal path and therefore something has to change".

China's on the brink of wiping out their bond holdings – their perception of the sustainability of US debt levels is key

Branigan and Stewart, '10 –Tania and Heather, "China sells $34.2bn of US treasury bonds," The Guardian, 2-17, http://www.guardian.co.uk/business/2010/feb/17/china-sells-us-treasury-bonds

China sold $34bn (£21.5bn) worth **of US government bonds in December, raising fears that -Beijing is using its financial -muscle to signal that it has lost confidence in American economic policy**. US treasury figures for the period ending in December 2009 show that, **following the sale, China is no longer the largest overseas holder of US treasury bonds**. Beijing ended the year sitting on $755.4bn worth of US government debt, compared to Japan's $768.8bn. Since the sub-prime crisis that began on Main Street USA grew to engulf the global economy, China's leaders have repeatedly expressed concerns about US policy. December's $34bn sell-off made only a tiny dent in Beijing's total holdings of US assets, which amount to well over $1tn when stakes in American companies, as well as treasury bills, are taken into account. But **the news intensified concerns about China's appetite for bankrolling ever-widening American deficits**. Premier Wen Jiabao told reporters last year: "We have made a huge amount of loans to the United States. Of course we are concerned about the safety of our assets. To be honest, I'm a little bit worried." When Timothy Geithner, the US treasury secretary, visited China last summer, he sought to reassure his hosts, using a speech to promise that "the United States is committed to a strong and stable international financial system. The Obama administration fully recognises that the United States has a special responsibility to play in this regard, and we fully appreciate that exercising this special responsibility begins at home." But Allan **Meltzer, an economics professor at Carnegie Mellon** University, **said China's bond sales should be a wake-up call for Washington. "The Chinese are worried that we have unsustainable debt levels, and we do not have a policy for dealing with it**," he said. China's sales contributed to a record drop in foreign holdings of short-term treasury bills in December: in all, net overseas holdings of short-term bills fell by $53bn. The previous record was $44.5bn in April last year.

And this devastates US hard power overnight – and causes Taiwan war

DeVore, 10 - lieutenant colonel in the U.S. Army (retired) Reserve and served as a Reagan White House appointee in the Pentagon

[Chuck, "The end of the world as we know it" 9-13-2010, http://chuckdevore.com/category/the-military-and-war/]

I'm normally not given to pessimism about America—we are a strong people in a rich land—but **our political class has set the foundation for disaster. The Federal debt stands at $13.4 trillion** with another $110 trillion in unfunded Medicare and Social Security liabilities. The People's Republic of **China now holds about $850 billion in U.S. Treasury bonds**, most of it quietly moved over the past few months into notes maturing in less than a year. **The ability of a nation to borrow and to finance its debt and other obligations, such a maintaining its defenses or fighting a war, is as much**

based on trust—the expectation that one will be paid back—as **it is based on economic prowess. What might the end of history's greatest democratic republic look like? At some point in the near future, a rapidly rising China may decide to challenge American supremacy in the Pacific. The flashpoint may be over Taiwan, or** it may be over the reputedly vast oil and gas riches in **the disputed South China Sea** area—what matters is not the trigger, but the result. **Within minut**es of a Sino-American confrontation, world markets believe that **China will begin selling their almost one-trillion dollars in U.S. treasury bonds**. This starts a global sell-off that ripples through the entire American bond market as fears about inflation feed on investors. **Within days**, concerned **Americas begin to withdraw their bank deposits**, money market funds and other liquid assets, such as life insurance policies, using the money to buy precious metals, durable goods and even real estate. **Within a week, the Federal Reserve would be forced to create trillions of dollars of fiat money** to cover its obligations. **This, in itself, would be highly inflationary**, but, with confidence in the financial markets already shaken by the events of 2008-09, mass panic may lead to hyperinflation, a phenomenon of a different kind. **Within a month of the start of hyperinflation, the U.S. government's credibility is shot, the dollar is worthless, and, most importantly for national security purposes, the U.S. cannot even secure fuel for its military—essentially shutting down what was the world's most powerful military without a shot being fired. Beginning to pay down our massive Federal debt will take both political discipline and a patient public.** This will be difficult, but not impossible. **The alternative is almost unthinkable**.

XT – Crowding Out

Crowding out slows the growth.

Amerman, 12

[Daniel, CFA, High Government Deficits "Crowd Out" Stock Market Returns, Gold Seek, July 12, 2012, http://news.goldseek.com/GoldSeek/1342112703.php]

“Crowding out" is a term used to describe what happens when a government competes for limited resources with the private sector. The term is generally used for government borrowing. During periods of rapidly rising deficit spending the government is issuing large quantities of bonds, each of which carry the full faith and credit of the government. Because it is the government, the government also has the ability to effectively pay whatever interest rate it needs. Private sector bond issuers find this a very difficult one-two combination with which to compete, when trying to obtain funding from private bond investors. **So when the government sells too many bonds in order to finance deficit spending, it is said to “crowd out” private-sector borrowers, who have less ability to borrow and must pay higher interest rates than they otherwise would. Because less funding is available for business growth, this means that the essential side effect of crowding out is to slow the overall economic growth rate.**

Impacts

Econ Decline = War

Growth prevents conflicts that lead to nuclear war
Friedberg and Schoenfeld 8

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

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

Economic growth is key to avoid global conflict
Tilford '8

[Earl Tilford, PhD in history from George Washington University and served for thirty-two years as a military officer and analyst with the Air Force and Army, 2008, "Critical Mass: Economic Leadership or Dictatorship," The Cedartown Standard, Lexis]

Could it happen again? Bourgeois democracy requires a vibrant capitalist system. Without it, the role of the individual shrinks as government expands. At the very least, the dimensions of the U.S. government economic intervention will foster a growth in bureaucracy to administer the multi-faceted programs necessary for implementation. Bureaucracies, once established, inevitably become self-serving and self-perpetuating. Will this lead to "socialism" as some conservative economic prognosticators suggest? Perhaps. But so is the possibility of dictatorship. **If the American economy collapses**, especially in wartime, there remains that possibility. And if that happens **the** American **democratic era may be over**. **If the world economies collapse, totalitarianism will** almost **certainly return to Russia**, which already is well along that path in any event. **Fragile democracies in South America and Eastern Europe could crumble**. A **global economic collapse will** also **increase the chance of global conflict**. **As economic systems shut down, so will the distribution systems for resources** like petroleum and food. It is certainly within the realm of possibility that **nations perceiving themselves in peril will**, if they have the military capability, **use force, just as Japan and** Nazi **Germany did in the** mid-to-late 19**30s**. **Every nation in the world needs access to food and water. Industrial nations**—the world powers of North America, Europe, and Asia—**need access to energy. When the world economy runs smoothly**, reciprocal **trade meets these needs. If the world economy collapses, the use of military force becomes a more likely alternative**. And **given the increasingly rapid rate at which world affairs move; the world could devolve to that point very quickly.**

Economic decline reduces expectations of trade benefits, which encourages war – Japan and China prove

Dale **Copeland**, Associate Professor of International Relations at University of Chicago, **2003**, "Economic Interdependence and the Future of U.S.-Chinese Relations," International Relations Theory and the Asia-Pacific, CIAO

When considering how America should deal with its most significant long-term concern-China-we must therefore recognize both the upside and the downside of increasing Chinese integration into the global economy. Liberal supporters of engagement are correct to say that **interdependence can bind China in a web of economic constraints.** Chinese leaders clearly recognize that they need continued access to the world's markets and resources if they are to modernize their technological base and provide the wealth needed for future great-power status. Yet **such an argument ignores the significant potential risks to increasing** Chinese **dependence**. China's trade as a percentage of GNP has gone from 13 percent in 1980 to between 35 and 40 percent by the late 1990s56 **As China continues to specialize** to take advantage of its comparative advantage, **any cutoffs of trade will have that much more of a devastating effect on its economy**. **This is especially so given** China's growing **need for raw materials** and oil, as I discuss below. Moreover, as the paper's argument indicates, even if current trade is high, **a dependent state's anticipation of cutoffs can drive it to aggression, as the expected value of the trade option falls in comparison to the expected value of conflict.** Proponents of straightforward engagement must also recognize another possible problem with their strategy: that of China's increasing relative power.57 My argument does suggest that as China grows through trade, one would expect that states like the United States and Japan will become even more valuable trade partners; relatively equal states are more likely to enjoy high benefits of trade. But such **states are** also **likely to face higher potential costs if trade is** later **severed**. **They thus have more reason to fear** the **vulnerability** that goes with greater trade. Moreover, as China becomes stronger, the expected value of military expansion rises as the probability of victory increases and the costs of war fall. Vis-a-vis· the United States, war would still be an unprofitable and foolhardy venture, to be sure. Yet compared to the smaller states in the region, China's growing economic strength, tied to military modernization, would give it the capability to project both power and influence. Needless to say, Chinese leaders are well aware that military power projection, say against Southeast Asia, would pose certain costs and risks vis-a.-vis its relations with United States and Japan. Yet like Japan in the 193os, **Chinese leaders would be more likely to see** these **costs** and risks as **tolerable should their expectations regarding the future trading environment turn pessimistic**. As the expected value of continued peaceful trade fell, the creation of a Chinese coprosperity sphere in east and southeast Asia would become an attractive option, even if only as the lesser of two evils. It is worth remembering that **Japan was very reluctant to take on the U**nited **S**tates **in 1941. It did so only because military conflict**, despite its recognized costs and risks, **was seen as better than the continuation of the severe economic decline which was undermining Japan's long-term security.** China could come to a similar conclusion within the next two decades, should it anticipate trade restrictions. It is also worth remembering that Japan in 1941 had no desire to defeat and occupy the United States homeland. Rather, it sought to control Southeast Asia, and the oil-rich Dutch East Indies in particular, in order to compensate for U.S. and British cutoff. Yet given the United States' presence in the Philippines and U.S. expressions of resolve, Japanese leaders knew that an attack on the Dutch East Indies would lead to conflict with America. Thus it was deemed necessary to strike Pearl Harbor, in order to construct a defense perimeter which would keep the u.s. counterattack as far away as possible from Japan's core interests. Japanese leaders did expect the United States would fight for at least two years. But since the continental United States was not threatened, Tokyo hoped 111;11 the Americans would eventually see the costs of continued war as greater than the benefits. Washington would then concede the east Asian sphere to Jap;lll. resting American security on control over North and South America. Given the presence of nuclear weapons, Chinese leaders over the next few decades have even more reason to avoid a war with America against each othcr.~· homelands. Yet **Beijing might calculate that the formation of a coprosperity sphere could be achieved without necessarily bringing on major war**. As the Chinese navy grows and modernizes, **power projection** southward **might seem to pose acceptable costs and risks should** western **trading practices turn hostile**. **The potential for Chinese miscalc**ulation, **and a subsequent escalation In militarized conflict or war** with the United States, **cannot be easily dismissed**.

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Economic interdependence prevents and reduces the intensity and duration of war

Valentin **Krustev**, Department of Political Science at Rice University, **2006**, "Interdependence and the Duration of Militarized Conflict," Journal of Peace Research, sage

According to the opportunity-cost argument, **interdependence promotes peace by raising the costs of militarized conflict** (Polachek, 1980; Polachek, Robst & Chang, 1999). **Conflict becomes more costly**, in turn, **because the fighting parries**, in addition to **bear**ing **the costs of** waging **war**fare, **forfeit the potential gains from trading,** owing to government-imposed restrictions and increased business risks. However, these conflict-inhibiting effects of interdependence are not limited only to the pre-conflict phase of a dispute, and **the opportunity-cost argument can explain how the prospect of further trade losses provides incentives for conflict termination** as well. As some scholars have observed, any theory of the effect of interdependence on conflict should be grounded in a solid understanding of the occurrence and dynamic of conflict itself (Morrow, 1999, 2003; Gartzke, 2003b). While traditionally multiple theories of conflict have proliferated in the study of IR, recent scholarship has drawn attention to its informational origins (Fearon, 1995; Gartzke, 1999). As Fearon (1995) argues, if most conflicts end in some negotiated settlement over the disputed issue, **rational states should prefer to conclude that settlement prior to incurring the conflict costs**, as the bargaining range of mutually acceptable settlements is guaranteed to be non-empty when these costs are positive. A very common reason for states sometimes being unable to teach a rational pre-conflict settlement emerges in the asymmetry of information, combined with states' incentives to misrepresent their reservation values. Conflict, on the other hand, helps states to credibly communicate these reservation values by demonstrating their willingness to incur its costs or revealing the true magnitude of the costs, as an expanding informational literature on war suggests (e.g. Wagner, 2000; Filson & Werner, 2002; Slantchev, 2003). The opportunity-cost logic implies that interdependence can enter the theoretical framework outlined above through the conflict -cost parameters, as **interdependence increases these costs**. Following Fearon's (1995) discussion, higher **conflict costs increase the pre-conflict bargaining range and should**, therefore, **decrease the probability of conflict**. In their calculus, states balance the size of their demands against the probability that these demands exceed the opponent's reservation value and are rejected. Higher conflict costs due to greater interdependence worsen states' conflict payoffs and push them to lower their demands, which, in turn, results in a reduced probability of conflict onset.8 Signaling arguments, on the other hand, suggest that interdependence allows states to credibly communicate their resolve or reservation values by severing an advantageous economic relationship that an unresolved state would not terminate. **The credible communication made possible by interdependence reduces the uncertainty existing over the bargaining range and increases the likelihood of a settlement short of war** (e.g. Gartzke, 2003a,b; Morrow, 2003). Thus, if we adopt Fearon's (I997) terminology, signaling implies that interdependence allows states to 'sink costs') while the opporcunitycost logic is more reminiscent of 'tying hands'; that is, **interdependence affects states' behavior by changing their incentives.** The opportunity-cost argument for why interdependence inhibits militarized conflict can be easily extended to account for the effect of interdependence on the duration of conflict. If interdependence raises the opportunity costs of conflict prior to its onset, then **these costs should also remain high after onset**, because, at least in the short term when firms have not permanently reoriented their business operations, **they will gain if hostilities cease and normal trade with the adversary is restored.** Then, **just as the higher prospective costs of conflict push states to lower their demands and avert conflict prior to its onset, so do these higher prospective costs push states to settle early,** even if conflict has not fully served its informational purpose and states might be forfeiting the better deal they can get if they know more. That is, the purpose of militarized conflict is to overcome asymmetric information, but conflict costs are the price states have to pay to extract that information. **The higher these costs are due to interdependence, the more expensive the** information-revelation **process is**, **and the sooner are states likely to settle** on unfavorable terms rather than continue fighting.

Statistically proven

Blomberg '2

[Brock Blomberg, Professor of Economics at Wellesley College, Gregory Hess, Professor of Economics at Oberlin College, February 2002, "The Temporal Links between Conflict and Economic Activity," Journal of Conflict Resolution, sage

To begin this temporal causal investigation, we first need to develop a statistical framework to estimate the joint, dynamic determination of the occurrence of internal conflict, external conflict and growth. As conflict is measured as a discrete variable, researchers typically estimate the occurrence as a probability, or if we consider both internal and external conflict we can always estimate the joint probability distribution. But, are their similar interpretations of economic activity as a discrete state? Indeed, **a broad literature, considers the evolution of states in the economy as the natural progression of phases**. In fact, one of the key historical studies of U.S. and international business cycles undertaken by Burns and Mitchell (1944) treated he state of the economy as either an expansion or contraction, upon which the NBER's dating procedure for recessions was founded. The relevance for our paper is that **breakpoints in the state of the economy, either expansion or recession, are analogous to break points in peace internal or external**

conflicts. Using unbalanced panel of data covering 152 countries from 1950 to 1992, **we** therefore **consider the joint determination of internal conflict, external conflict and the state of the economy** as measured by the aforementioned discrete variables. We find that the relationship between the variables is not a simple one. Conflict does appear to be highly related to the economy for the entire sample. However, it seems to be most highly related when considering certain nation groups. For non democracies or in regions highly populated by non democracies, **there seems to be an intimate link between a poor economy and the decision to go to war both internally and externally**. These results confirm much of the original hypotheses put forth in Blomberg, Hess and Thatcher (2000), namely that **there is compelling evidence of a conditional poverty conflict trap**.

Best empirical studies of system-wide growth and conflict prove a robust relationship---decline causes war and growth solves it

Reuveny and Thompson 6 – Rafael Reuveny, Professor of Public and Environmental Affairs at Indiana University, and William R. Thompson, Professor of Political Science at Indiana University, 2006, Kondratieff Waves, Warfare, and World Security, p. 210-211

Our next step was to compute cross-correlation coefficients from the raw, annual, leading sector growth and conflict series. In each case, we perform the computations while using various leads and lags of each conflict series relative to the growth series. The cross correlations provide information on the patterns of co-movements of our variables along the long wave. Table 3 reports the results for the highest cross-correlation coefficient that is also statistically significant. **All of the correlations** reported in table 3 are similar in behavior. The cross-correlation coefficients **between leading sector growth and subsequent conflict** (with leads varying from 12 to 21 years) **are negative**. With the exception of the nonsignificant North-South conflict and Southern civil wars coefficients, **positive leading sector growth tends to be associated with a decline in interstate conflict** a decade or two later. **A decline in leading sector growth leads to a later increase in interstate conflict.** In addition, an increase in interstate conflict is associated uniformly with a subsequent increase in leading sector growth rates (although the lags vary from 4 to 17 years depending on the type of conflict). As expected theoretically, the highest coefficient (0.45) linking antecedent conflict to leading sector growth is found to be associated with Northern conflict. Note as well that the interstate results pertaining to leading sector growth leading conflict vary hardly at all in terms of the size of the coefficient. North-South conflict is the least influenced by economic growth but there is no discernible difference between the outcomes for Northern or Southern interstate conflicts. A diminishing pattern does show up in the coefficients for the conflict to leading sector growth relationships. Northern conflict (0.45), North-South conflict (0.33), and Southern conflict (0.24) coefficients decline as one moves away from the North towards the South. The outcome for the leading sector growth and Southern civil war correlation is different. Leading sector growth does not lead significantly to more or fewer Southern civil wars. Increasing civil wars in the South, we are told, do lead to a decline in leading sector growth. This is a curious finding that deserves more scrutiny. It appears to be largely a product of the last third or so of the twentieth century (sharply increasing civil warfare and decaying leading sector growth). Prior to World War II one does not observe any clear pattern linking these two variables. In this case, we need to push the analysis back further in time (to 1815) before accepting the outcome recorded in table 3 as fully meaningful. In sum, **we find empirical support for our** leadership-long cycle-based **theoretical expectations. Leading sector growth in the system's leader economy**, our index of the long wave, **tends to be related to military conflict in a variety of the structural settings evaluated here (total conflict. Northern conflict and North-South conflict)**. **Leading sector growth leads to less militarized conflict, not to more conflict - contrary to the expectation of Kondratieff**. Leading sector growth, in turn, follows militarized conflict, as we have suspected.

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Econ Decline = Prolif

Economic decline causes prolif

Silk 93 (Leonard, Professor of Economics – Pace University, "Dangers of Slow Growth", Foreign Affairs, 72(1), Winter, p. 173-174)

In the absence of such shifts of human and capital **resources** to expanding civilian industries, **there are strong economic pressures** on arms-producing nations **to maintain** high levels of **military production and** to **sell weapons**, both **conventional and** dual-use **nuclear** technology, wherever buyers can be found. **Without a** revival of national economies and the global **economy**, the **production and proliferation of weapons will continue, creating more** Iraqs, Yuugoslavias, **Somalias** and Cambodias - **or worse**. Like the Great Depression, the current economic slump has fanned the fires of nationalist, ethnic and religious hatred around the world. Economic hardship is not the only cause of these social and political pathologies, but it aggravates all of them, and in turn they feed back on economic development. They also undermine efforts to deal with such global problems as environmental pollution, the production and trafficking of drugs, crime, sickness, famine, AIDS and other plagues. Growth will not solve all those problems by itself But economic growth - and **growth alone - creates** the additional **resources** that make it possible **to achieve** such fundamental goals as higher living standards, national and collective **security**, a healthier environment, and more liberal and open economies and societies.

Economic collapse catalyzes massive prolif and increasing the economy solves prolif

William **Burrows and** Robert **Windram '94** (Critical Mass, p. 491-2)

Economics is in many respects proliferation's catalyst. As we have noted, **economic desperation drives** Russia and some of the former Warsaw Pact **nations to peddle weapons and tech**nology. **The possibility of considerable profits** or at least balanced international payments also **prompts Third World countries** like China, Brazil, and Israel **to do the same**. **Economics**, as well as such related issues as overpopulation, **drive prolif**eration **just as surely as** do purely **political motives**. Unfortunately, that subject is beyond the scope of this book. Suffice it to say that, all things being equal, well-off, **relatively secure societies** like today's Japan **are less likely to buy or sell superweapon tech**nology **than those that are insecure, needy, or desperate.** Ultimately, **solving economic problems**, especially as they are driven by population pressure, **is the surest way to defuse prolif**eration and enhance true national security.

Economic crisis kills non-proliferation reforms.

Cirincione, '9

[Joe, President, Ploughshares Fund, "TRANSCRIPT: Arms Control Association Annual Meeting - Morning Panel" Arms Control Association, May, 2009, http://armscontrol.org/node/3672]

On April 5th Barack Obama gave the first full foreign policy speech of his presidency. It was devoted to nuclear policy and was one of the most comprehensive, progressive, and ambitious arms control and disarmament agendas ever detailed by a U.S. president. With this address, President Barack Obama began the transformation of U.S. nuclear policy. **The question is, can he finish the job**? I see four main obstacles. First, **the global economic crisis,** which, **if it worsens, threatens to swallow any transformational agenda,** including **on nuclear policy.** Second, the nuclear Neanderthals, those with financial or ideological ties to the existing nuclear bureaucracy and posture. No matter how hard they beat the drums, however, this is a tribe in decline, clinging to tired doctrines and obsolete weapons.

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Econ Decline = Terror

Turns terrorism

Schaub 4 (Drew, Professor of Political Science – Penn State University, Journal of Conflict Resolution, 48(2), April)

Despite the caveats, our analysis suggests important policy implications for the war against terrorism. National governments should realize that economic globalization is not the cause of, but a possible partial solution to, transnational terrorism. Although opening up one's border facilitates the movement of terrorists and their activities, our results show that the effect of such facilitation appears weak. It does not precipitate a significant rise in transnational terrorist attacks within countries. This is an important lesson for policy makers who are designing antiterrorism policies. More important, economic openness, to the extent that it promotes economic **development, may** actually help to **reduce** indirectly the number of transnational **terrorist incidents** inside a country. Closing borders to foreign goods and capital may produce undesirable effects. **Economic closure** and autarky **can generate** more **incentives to** engage in transnational **terrorist activities** by hindering economic development. Antiterrorism policy measures should be designed with caution. They should not be designed to slow down economic globalization. Promoting economic development and **reducing poverty should be important** components of the global war against terrorism. Such **effects are structural and system-wide**. It is in the best interest of the United States not only to develop by itself but also to help other countries to grow quickly. The effect of economic development on the number of transnational terrorist incidents is large. The role of economic development deserves much more attention from policy makers than it currently enjoys.

Economic depression results in increased terrorist recruitment and risk of terrorism

Kevin J. **Fandl**, Adjunct Law Professor - Washington College of Law, **'4** (19 Am. U. Int'l L. Rev. 587)

In his final speech in the United Kingdom as President of the United States, Bill Clinton stressed: "we have seen how **abject poverty accelerates conflict**, how it **creates recruits for terrorists** and those who incite ethnic and religious hatred, [**and**] how **it fuels a violent rejection of** the economic and social **order** on which our future depends." 50 His words carried more significance than he could have known at that moment. 51 The terrorist networks that have come about in recent history are a significant threat to world security not only because of the suicidal methods they employ, but also because of the status of the countries [*598] where these networks recruit new members, engage in training exercises and where the leadership seeks refuge. These **countries are not equipped** politically or **economically to design proactive plans to uproot such organizations in their own countries**, despite their expressed efforts to do so. 52 They are developing countries with weak, or no, democratic political structure with which to coordinate such efforts. **They do not have the resources** that European countries, for instance, have in place to take preventative measures in order to sustain peace. 53 The George W. Bush Administration indicated that it "is aware of the link between desperate economic circumstances and terrorism." 54 Yet, rather than working to develop sustainable economies capable of both directly (through increased political pressure and rule of law programs) and indirectly (through increased employment opportunities and social stability) eradicating terrorism, President Bush has chosen to dedicate significant resources to a military conquest against the elusive concept of terrorism itself. 55 Many Americans and, to a much lesser extent, other Western citizens, support the view that terrorism can be fought with tanks and [*599] bombs. 56 They obstinately believe that military technology is capable of uncovering each potentially threatening terrorist cell and keeping the West safe. 57 This conventional method of warfare, while effective in pinpointing targets in complete darkness, will be useless in eliminating the ideology that fuels terrorism. Terrorists are non-conventional actors using non-conventional means through amorphous concepts that cannot be identified, contained, or labeled. These are actors whose most potent weapon is the communication of ideas among masses of people awaiting an opportunity for a better life. Many of us watch in excited anticipation for Osama **bin Laden's capture** and/or death. However, we should rest assured that whether he is still alive **will have no bearing on the control that his ideas,** and the ideas of those like him, **have** on the impoverished and desperate in the Middle East, South Asia, and perhaps beyond. **No military tech**nology **will be able to destroy the prevalence and furtherance of those ideas.** 58

Economic growth key to prevent terrorism

Fingar, '8

[C. Thomas Fingar, Chairman, National Intelligence Council "Global Trends: A Transformed World", November, http://www.dni.gov/nic/PDF_2025/2025_Global_Trends_Final_Report.pdf]

Terrorism: Good and Bad News **Terrorism** is unlikely to disappear by 2025, but its appeal **could diminish if economic growth continues** and youth unemployment is mitigated in the Middle East. **Economic opportunities** for youth and greater political pluralism probably **would dissuade** some from **joining terrorists' ranks**, but others— motivated by a variety of factors, such as a desire for revenge or to become "martyrs"— will continue to turn to violence to pursue their objectives. "For those terrorist groups active in 2025, the diffusion of technologies and scientific knowledge will place some of the world's most dangerous capabilities within their reach." In the absence of employment opportunities and legal means for political expression, conditions will be ripe for disaffection, growing radicalism, and possible recruitment of youths into terrorist groups. Terrorist and insurgent groups in 2025 will likely be a combination of descendants of long-established groups— that inherit organizational structures, command and control processes, and training procedures necessary to conduct sophisticated attacks—and newly emergent collections of the angry and disenfranchised that become self radicalized. **As long as turmoil** and societal disruptions, **generated by resource scarcities,** poor governance, ethnic rivalries, or environmental degradation, **increase in the Middle East, conditions will remain conducive to the spread of radicalism and insurgencies**. Future radicalism could be fueled by global communications and mass media. Increasing interconnectedness will enable individuals to coalesce around common causes across national boundaries, creating new cohorts of the angry, downtrodden, and disenfranchised. In some situations these new networks could act as forces for good by pressuring governments through non-violent means to address injustice, poverty, the impacts of climate change, and other social issues. Other groups, however, could use networks and global communications to recruit and train new members, proliferate radical ideologies, manage their finances, manipulate public opinion, and coordinate attacks.

AFF

UQ – Recession Inevitable

US will slip into double-dip recession in 2013.
Agence France Press, 8-21-2012

[AFP, Risk of US double-dip recession rises: S&P, August 21, 2012, http://www.google.com/hostednews/afp/article/ALeqM5hUW6S9xn4PTe3Oy6FaZ5SqADbALw?docId=CNG.9261c794f17a86efcc8014d16fa164f9.121]

WASHINGTON — **The odds the United States will slip back into recession next year have risen, ratings agency Standard & Poor's said, citing risks from the European debt** crisis **and budget tightening at year-end. The US ratings firm raised the chance of the US falling into recession to 25 percent**, up from a 20 percent chance estimated in February, as the world's largest economy struggles to recover from a severe 2008-2009 slump. **It also pointed to the looming possibility of the government being forced by existing law to severely cut spending and increase taxes on January 1, the so-called fiscal cliff that would crunch the economy.** "Economic activity has downshifted sharply from earlier this year," S&P said in a report on North American credit conditions amid global uncertainty, dated August 20. "At the same time**, possible contagion from the European debt crisis, the potential so-called 'fiscal cliff', and the risk of a hard landing for China's economy have added greater uncertainty to US economic prospects,"** it said. In the second quarter, the world's largest economy grew at a 1.5 percent annual rate, a sharp slowdown from late last year as unemployment remained stuck above 8.0 percent. S&P underscored concern about the impact of a recession in the 17-nation eurozone, whose economy contracted 0.2 percent in the second quarter. S&P forecast a 0.6 percent contraction this year. **"A double-dip recession in Europe that transmits financial turmoil to the US could push it into recession," the agency said.** However, S&P said its baseline scenario for the US economy -- remained "modest growth," projecting a gross domestic product expansion of about 2.1 percent for this year. S&P also said it expected that politicians would agree before year-end to change the current severe budget cut and tax hike mandates to avoid the fiscal cliff fate. However, it said, **"We do not believe the US and European economies will improve substantially in the next year."**

No signs of recovery – job growth is key.
Islam, 8-8-2012

[Frank, member of the advisory committee of the US Export-Import Bank and the Department of Commerce Industry Trade Advisory Committee, International Business Times, August 8, 2012, http://www.ibtimes.co.in/articles/371450/20120808/double-dip-recession-economy-america-frank-islam.htm]

But more than three years after the Great Recession officially ended, the American economy continues to give mixed signals. **While the job numbers** announced Friday **certainly were better than expected** - U.S. employers added 163,000 jobs in July - **a slight uptick in the unemployment** rate to 8.3 percent, c**oupled with the slower growth rate** in the second quarter clearly **show that the task ahead is not easy. Several factors are holding the United States back from** making a full **recovery, including a high unemployment rate, a dip in consumer spending, a dearth of business spending, and a dysfunctional U.S. Congress.** Troubles in the euro zone and a slowdown in Asia are also a big factor. In the aftermath of the recession, Washington had spent about $800 billion to bail out troubled giants to restore investors' confidence. According to Bloomberg News, the United States has "spent, lent or committed $12.8 trillion" to battle the recession. The corporate bigwigs that were bailed out included American International Group, Citigroup and major carmakers such as General Motors and Chrysler. In the absence of bailout packages, the entire financial system would have collapsed. But despite all that, **the U.S. recovery has been anemic largely because of an unemployment rate that has stayed above 8 percent** since President Barack Obama took office. **That's significantly higher than rate of around 5 percent that existed inDecember 2007 before the recession struck.**

US recovery is anemic and slacking in key areas like jobs, consumer confidence and wages.
Wall Street Journal, 8-15-2012

[AP, US economic recovery is weakest since World War II, August 21, 2012, http://online.wsj.com/article/AP1cb26ac50ff4411abf700d0c8f25bcf4.html]

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WASHINGTON — The recession that ended three years ago t**<u>his summer has been followed by the feeblest economic recovery since the Great Depression.</u>** Since World War II, 10 U.S. recessions have been followed by a recovery that lasted at least three years. An Associated Press analysis shows that by just about any measure, the one that began in June 2009 is the weakest. **<u>The ugliness goes well beyond unemployment</u>**, which at 8.3 percent is the highest this long after a recession ended. **<u>Economic growth has never been weaker</u>** in a postwar recovery. **<u>Consumer spending has never been so slack. Only once has job growth been slower</u>**. More than in any other post-World War II recovery, people who have jobs are hurting: Their paychecks have fallen behind inflation. Many economists say the agonizing recovery from the Great Recession, which began in December 2007 and ended in June 2009, is the predictable consequence of a housing bust and a grave financial crisis. Credit, the fuel that powers economies, evaporated after Lehman Brothers collapsed in September 2008. And a 30 percent drop in housing prices erased trillions in home equity and brought construction to a near-standstill. So any recovery was destined to be a slog. "A housing collapse is very different from a stock market bubble and crash," says Nobel Prize-winning economist Peter Diamond of the Massachusetts Institute of Technology. "It affects so many people. It only corrects very slowly." The U.S. economy has other problems, too. **<u>Europe's troubles have undermined consumer and business confidence</u>** on both sides of the Atlantic. **<u>And the deeply divided U.S. political system has delivered growth-chilling uncertainty</u>**. The AP compared nine economic recoveries since the end of World War II that lasted at least three years. A 10th recovery that ran from 1945 to 1948 was not included because the statistics from that period aren't comprehensive, although the available data show that hiring was robust. There were two short-lived recoveries — 24 months and 12 months — after the recessions of 1957-58 and 1980. Here is a closer look at how the comeback from the Great Recession stacks up with the others: —FEEBLE GROWTH **<u>America's gross domestic product</u>** — the broadest measure of economic output — **<u>grew 6.8 percent from the April-June quarter of 2009 through the same quarter this year, the slowest in the first three years of a postwar recovery</u>**. GDP grew an average of 15.5 percent in the first three years of the eight other comebacks analyzed. The engines that usually drive recoveries aren't firing this time. Investment in housing, which grew an average of nearly 34 percent this far into previous postwar recoveries, is up just 8 percent since the April-June quarter of 2009. That's because the overbuilding of the mid-2000s left a glut of houses. Prices fell and remain depressed. The housing market has yet to return to anything close to full health even as mortgage rates have plunged to record lows. Government spending and investment at the federal, state and local levels was 4.5 percent lower in the second quarter than three years earlier. Three years into previous postwar recoveries, government spending had risen an average 12.5 percent. In the first three years after the 1981-82 recession, during President Ronald Reagan's first term, the economy got a jolt from a 15 percent increase in government spending and investment. This time, state and local governments have been slashing spending — and jobs. And since passing President Barack Obama's $862 billion stimulus package in 2009, a divided Congress has been reluctant to try to help the economy with federal spending programs. Trying to contain the $11.1 trillion federal debt has been a higher priority. Since June 2009, governments at all levels have slashed 642,000 jobs, the only time government employment has fallen in the three years after a recession. This long after the 1973-74 recession, by contrast, governments had added more than 1 million jobs. —EXHAUSTED CONSUMERS **<u>Consumer spending has grown just 6.5 percent since the recession ended, feeblest in a postwar recovery.</u>** In the first three years of previous recoveries, spending rose an average of nearly 14 percent. It's no mystery why consumers are being frugal. Many have lost access to credit, which fueled their spending in the 2000s. Home equity has evaporated and credit cards have been canceled. Falling home prices have slashed home equity 49 percent, from $13.2 trillion in 2005 to $6.7 trillion early this year. Others are spending less because they're paying down debt or saving more. Household debt peaked at 126 percent of after-tax income in mid-2007 and has fallen to 107 percent, according to Haver Analytics. The savings rate has risen from 1.1 percent of after-tax income in 2005 to 4.4 percent in June. Consumers have cut credit card debt by 14 percent — to $865 billion — since it peaked at over $1 trillion in December 2007. "We were in a period in which we borrowed too much," says Carl Weinberg, chief economist at High Frequency Economics. "We are now deleveraging. That's a process that slows us down." —THE JOBS HOLE **<u>The economy shed a staggering 8.8 million jobs during and shortly after the recession.</u>** Since employment hit bottom, the economy has created just over 4 million jobs. So the new hiring has replaced 46 percent of the lost jobs, by far the worst performance since World War II. In the previous eight recoveries, the economy had regained more than 350 percent of the jobs lost, on average. During the 1981-82 recession, the U.S. lost 2.8 million jobs. In the three years and one month after that recession ended, the economy added 9.8 million — replacing the 2.8 million and adding 7 million more. Never before have so many Americans been unemployed for so long three years into a recovery. **<u>Nearly 5.2 million have been out of work for six months or more.</u>** The long-term unemployed account for 41 percent of the jobless; the highest mark in the other recoveries was 22 percent. Gregory Mann, 58, lost his job as a real estate appraiser three years ago. "Basically, I am looking for anything," he says. He has applied to McDonald's, Target and Nordstrom's. "Nothing, not even a rejection letter," he says. His wife, a registered nurse, has lost two jobs in the interim — and just received an offer to work reviewing medical records near Atlanta. "We are broke and nearly homeless," he says. "If this job for my wife hadn't come through, we would be out on the street come Sept. 1 or would have had to move in with relatives." Federal Reserve Chairman Ben Bernanke has called long-term unemployment a "national crisis." The longer people remain unemployed, the harder it is to find work, Bernanke has said. Skills erode, and people lose contact with former colleagues who could help with the job search. —SHRINKING PAYCHECKS Usually, workers' pay rises as the economy picks up momentum after a recession. Not this time. Employers don't have to be generous in a weak job market because most workers don't have anywhere to go. As a result, pay raises haven't kept up with even modest levels of inflation. Earnings for production and nonsupervisory workers — a category that covers about 80 percent of the private, nonfarm workforce — have risen just over 6.2 percent since June 2009. Consumer prices have risen nearly 7.2 percent. Adjusted for inflation, wages have fallen 0.8 percent. In the previous five recoveries —the records go back only to 1964 — real wages had gone up an average 1.5 percent at this point. Falling wages haven't hurt everyone. Lower labor costs helped push corporate profits to a record 10.6 percent of U.S. GDP in the first three months of 2012, according to the Federal Reserve Bank of St. Louis. And those surging profits helped lift the Dow Jones industrials 54 percent from the end of June 2009 to the end of last month. Only after the recessions of 1948-49 and 1953-54 did stocks rise more. Stock investments may be coming back, but savings are still getting squeezed by the rock-bottom interest rates the Fed has engineered to boost the economy. The money Americans earn from interest payments fell from nearly $1.4 trillion in 2008 to barely $1 trillion last year — a drop of more than $370 billion, or 27 percent. That amounts to shrinking income for many retirees. Washington isn't doing much to help the economy. An impasse between Obama and congressional Republicans brought the U.S. to the brink of default on the federal debt last year —a confrontation that rattled financial markets and sapped consumer and business confidence**. Given the political divide, businesses and consumers don't know what's going to happen to taxes, government spending or regulation.** Sharp tax increases and spending cuts are scheduled to kick in at year's end unless Congress and the White House reach a budget deal. In the meantime, it's difficult for consumers to summon the confidence to spend and businesses the confidence to hire and expand**. Never in the postwar period has there been so much uncertainty about what policymakers will do, says Steven Davis, an economist at the University of Chicago Booth School of Business: "No one is sure what will actually happen."**

Link Turns – Infrastructure Spending

The economic returns from transportation investment far outweigh the risks – every dollar spent returns the investment by 50%.

Cohen et al, 12

[Isabelle, The College of William and Mary, Thomas Jefferson Program in Public Policy, The Economic Impact and Financing
of Infrastructure Spending, AED, 2012, http://www.aednet.org/government/pdf-2012/infrastructure_report.pdf]

The goal of this report is to understand the short- and long-term effects of public infrastructure spending on the U.S. economy, as well as to contribute new suggestions towards alternative financing of future road construction. Estimated Short-Run Effects **In the short-run, a dollar spent on infrastructure construction produces roughly double the initial spending in ultimate economic output. The biggest effects** of infrastructure spending **occur in the manufacturing and business services sectors.** In better economic times, spending on infrastructure construction generates a larger return. Yet **even in a recession, the overall effects of initial spending still double output as they ripple through the economy.** Estimated Long-Run Effects **Over a twenty-year period, generalized 'public investment' generates an accumulated $3.21 of economic activity per $1.00 spent. Over twenty years, investing $1.00 in highways and streets returns approximately $0.35 in tax revenue to federal and state/local governments, of which $0.23 specifically accrues at the federal level**. Over twenty years, investing $1.00 in sewer systems and water infrastructure returns a full $2.03 in tax revenue to federal and state/local governments, of which $1.35 specifically accrues at the federal level**. Spending on public infrastructure stimulates the U.S. economy in the short-run. Investing in infrastructure goes beyond mere improvements to the quality of roads, highways**, sewers, and power plants. **These investments also generate significant economic returns for other portions of the U.S. economy and substantially increase ultimate tax revenue for the government.**

Investment in infrastructure ripples through US econy and is vital to recovery.

Cohen et al, 12

[Isabelle, The College of William and Mary, Thomas Jefferson Program in Public Policy, The Economic Impact and Financing
of Infrastructure Spending, AED, 2012, http://www.aednet.org/government/pdf-2012/infrastructure_report.pdf]

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

Link Turns – Jobs

Jobs key to solving economic recovery

NY Daily News June 9 2012

(http://india.nydailynews.com/business/8509691a813d4afa865a82d96a0239e1/european-situation-threat-to-us-economic-recovery-obama accessed 6/13/2012 tm)

The simmering eurozone debt crisis posed a big threat to the US economic recovery, with the region facing the risk of a renewed recession, US President Barack Obama said Friday. Speaking during a press conference, Obama said the European leaders should take further action to strengthen the weak banking sector and soothe market jitters, Xinhua reported. US lawmakers should pass the full American Jobs Act presented by the administration to Congress last September to **spur job creation in the US and guard against economic slowdown risks in other parts of the world,** he said. The conference came following a weak job report and a string of other economic data showing US economic growth was slowing and the impacts of the escalating eurozone debt crisis had reached US shores, putting pressure on US policy markers to take action. Obama reiterated his confidence in European leaders' capacity to contain the two-year-old crisis, saying that "the decisions required are tough but Europe has the capacity to make them". **The US president stressed the importance of fiscal stimulus measures to shore up anemic economic growth on both sides of the Atlantic Ocean, noting that the short-term challenges for the US were to speed up job creation and economic recovery. Over the longer term, even as European countries with large debt burdens carry out necessary fiscal reforms, they still need to promote economic growth and job creation, he noted. "As some countries have discovered, it's a lot harder to rein in deficits and debts if your economy isn't growing," Obama added.**

Link Turns – Public Spending

Only a risk of the turn – spending is key to preventing recession.

Miller & Sciacchitano, 12

[John & Katherine, professor at the National Labor College and a freelance labor educator & professor of economics at Wheaton College, Why the United States Is Not Greece, Dollars and Sense, January/February 2012, http://www.dollarsandsense.org/archives/2012/0112millersciacchitano.html]

What follows is a self-defense lesson on why **the United States is not Greece—or Europe. The U.S. economy is far large**r **and more productive** than Greece. **The United States has many more tools in its macro-economic policy box than countries in the eurozone. And while calls for austerity have kept the United States from undertaking government spending and investment large enough to support a robust economic recovery**, at least **thus far, the United States hasn't undertaken the same self-defeating austerity measures Europe has.** If we learn the right lessons from what is happening in the eurozone now, we never will.

Spending DA
Debate Central - 2012

AT: Econ Impacts – Resil / Others Check

US Economy is self-correcting – three reasons

- empirically proven – monetary policy – consumer spending inev

Conerly '9

Bill Conerly, principal of Conerly Consulting LLC and chairman of the board of Cascade Policy Institute, 1-11-2009, "Economic Stimulus: More Harm Than Good," http://businomics.typepad.com/businomics_blog/2009/01/economic-stimulus-more-harm-than-good.html

The consensus of the economic forecasting profession, as surveyed by the Philadelphia Federal Reserve and The Wall Street Journal, **is that economic growth will resume** this summer. This point may need some explanation, because many of us have trouble believing that things will ever be different. (Digging out from a major snowstorm it's hard to believe that we'll be sweltering come August.) Here's how the economic recovery will unfold. First, **the economy tends to be self-correcting. If not, we would have spiraled out of control many times already**. Second, **the Federal Reserve has pushed a tremendous amount of stimulus into the economy.** There's a long time lag between cause and effect, but **monetary policy always works** -- it just appears not to be working for months before it finally kicks in. Third, **consumers are cutting their spending** disproportionately **to the decline in incomes. Eventually, the money they are saving will burn a hole in their pockets, leading to a resumption of spending.**

China and India will sustain the global economy

Ross '9

John Ross, 2000-2008 Director of Economic and Business Policy for the Mayor of London Ken Livingstone, consultant for FTSE 100 and Fortune International 500 companies, Visiting Professor at Antai College, Jiaotong University Shanghai, 1-3-2009, "The decline in US asset prices and the perspectives for the global economy," Key Trends in the World Economy, http://ablog.typepad.com/key_trends_in_the_world_e/2009/01/the-decline-in-us-asset-prices-and-the-perspectives-for-the-global-economy.html

The fundamental assessment presented on this blog, for underlying macro and structural economic reasons, has been that the financial events of **2008 portend a deep world recession but not an economic depression of the type witnessed in the 1930s. This deep recession will be accompanied by a major strengthening of** their positions in the world economy by **China and India**, and to a lesser extent Russia. [1] To gauge the degree of seriousness of the economic crisis it is evidently merely necessary to consider the depth of the fall in financial markets. The decline in asset prices in 2008, as discussed in detail below, was fully comparable to 1929 - and greatly exceeds any fall seen in the period since. However whatever the similarities in financial markets the world macro-economic situation differs significantly to 1929. In 1929 the US was not only the world's largest but also the world's most dynamic economy with the highest rates of savings and investment. **When the US financial system entered deep crisis in** 19**29**, therefore, **there was no external economic force that could pick up** either it or **the world economy** – no economic backstop. The financial implosion in the US in 1929, therefore, necessarily dragged the world economy down into the abyss of prolonged depression. **In** 20**08 the configuration of world economic forces differs significantly. China and India are** today **the world's most dynamic large economies**. **with the world's highest savings and investment rates and the most rapid economic growth**. Furthermore **China has sufficient economic weight**, in terms of world savings, not to prevent international recession but **to be a significant counterbalance to the situation in the US.** China's savings and investment rates are not only far higher than the US as a proportion of GDP but are also now approximately equal to those of the US in absolute terms. **India's internal savings and investment rates**, now at over 30 per cent of GDP, **are** also **far higher than those of the US - enabling it to maintain significant economic growth** in what is, in real terms, now the world's fourth largest economy. For the relative trends in US, Chinese and Indian investment rates see Figure 1. **The world economy has already been saved once from the consequences of US financial crisis in the last economic period. Following the** 19**87 US stock market crash the export of financial resources from Japan**, carried out via an ultra-expansionary monetary policy, played a crucial role in stabilising both US and world financial markets. Whether Japan was wise to purse these policies in the particular form it did, in light of the consequent Japanese 'bubble economy' and financial crash which commenced in 1990, is another issue, but it showed that there was now an 'economic backstop' for the US in the world economy in a way that one had not existed in 1929. This economic strength of China, and to a lesser extent India, therefore significantly alters the situation of the world economy compared to 1929 - despite any apparent parallels on financial markets. Provided there are not disastrous economic policy miscalculations by the US, which of course are possible, international macro-economic fundamentals mean there need be no 1930s style depression. However there will be, instead, a deep recession of the global economy out of which China and India will emerge significantly strengthened in their relative weight in the world economy. This is therefore the conclusion which flows from consideration of international economic fundamentals.

Global economy resilient

Zakaria '9 - PhD Poli Sci @ Harvard

Zakaria, Editor of Newsweek, 12/12/'9 (Fareed, "The Secrets of Stability," Newsweek, http://www.newsweek.com/id/226425)

A key measure of fear and fragility is the ability of poor and unstable countries to borrow money on the debt markets. So consider this: the sovereign bonds of tottering Pakistan have returned 168 percent so far this year. All this doesn't add up to a recovery yet, but it does reflect a return to some level of normalcy. And that rebound has been so rapid that even the shrewdest observers remain puzzled. "The question I have at the back of my head is 'Is that it?' " says Charles Kaye, the co-head of Warburg Pincus. "We had this huge crisis, and now we're back to business as usual?" This revival did not happen because markets managed to stabilize themselves on their own. Rather, governments, having learned the lessons of the Great Depression, were determined not to repeat the same mistakes once this crisis hit. By massively expanding state support for the economy—through central banks and national treasuries—they buffered the worst of the damage. (Whether they made new mistakes in the process remains to be seen.) The extensive social safety nets that have been established across the industrialized world also cushioned the pain felt by many. Times are still tough, but things are nowhere near as bad as in the 1930s, when governments played a tiny role in national economies. It's true that the massive state interventions of the past year may be fueling some new bubbles: the cheap cash and government guarantees provided to banks, companies, and consumers have fueled some irrational exuberance in stock and bond markets. Yet these rallies also demonstrate the return of confidence, and confidence is a very powerful economic force. When John Maynard Keynes described his own prescriptions for economic growth, he believed government action could provide only a temporary fix until the real motor of the economy started cranking again—the animal spirits of investors, consumers, and companies seeking risk and profit. Beyond all this, though, I believe there's a fundamental reason why we have not faced global collapse in the last year. It is the same reason that we weathered the stock-market crash of 1987, the recession of 1992, the Asian crisis of 1997, the Russian default of 1998, and the tech-bubble collapse of 2000. The current global economic system is inherently more resilient than we think. The world today is characterized by three major forces for stability, each reinforcing the other and each historical in nature.

No single country is key

Sapolsky et al. '9 – Prof @ MIT

[Harvey M. Sapolsky is a professor of public policy and organization at MIT. Benjamin H. Friedman is a research fellow in defense and homeland security studies at Cato Institute. Eugene Gholz is an associate professor of public affairs at the University of Texas at Austin. Daryl G. Press is an associate professor of government at Dartmouth College. "Restraining Order: For Strategic Modesty" Fall, http://www.worldaffairsjournal.org/articles/2009-Fall/full-Sapolsky-etal-Fall-2009.html]

Although globalization heightens economic ties between countries, those ties mitigate U.S. vulnerability to overseas shocks. Globalization has multiplied the alternatives for almost every economic relationship. There are now alternative suppliers for the goods we consume, alternative consumers for the products we manufacture, alternative locations in which we can invest, and alternative sources of capital for our firms. A common metaphor for the global economy—a complex web—is on the mark. The structure of that web can survive even if a few strands are severed. Profit-seeking actors respond quickly to disruptions by searching for the next-best alternative. If there is trouble in the Strait of Malacca, ships will quickly reroute through the nearly-as-convenient Straits of Lombok or Makassar. If disruptions abroad make it harder to sell U.S. bicycles in Korea, manufacturers will sell them in Portugal. Because of globalization, the United States depends more on access to the global economy as a whole but depends less on any specific economic relationship. The oil market seems to stand out as an exception. Disruptions to oil supply routinely cause huge price spikes and painful adjustments. But the danger of oil disruptions does not require that Washington police the Middle East; rather, the United States ought to retain large stockpiles of oil and other critical materials. The U.S. government has already amassed approximately 700 million barrels of oil. If you add the stockpiles in the European Union, Japan, South Korea, and China, the total for the industrialized world is approximately 1.5 billion barrels of oil. And those are only government-controlled stocks; most analysts believe private holdings exceed official stockpiles. When one compares these massive reserves against plausible disruptions, government-controlled stockpiles alone count as more than sufficient to maintain global supply. **The extreme flexibility of the global economy adds to restraint's appeal as a strategy for the United States. The global economy is not a rigid chain with links that must be protected**. It is a flexible, constantly changing web that needs no global policeman to direct its traffic.

No Impact – Decline Not Cause War

No causality – economic decline doesn't cause war

Ferguson, Prof of History @ Harvard, 6

Niall, Professor of History @ Harvard, The Next War of the World, Foreign Affairs 85.5, Proquest

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

This isn't a repeat of the 30's

Zakaria '9 - PhD Poli Sci @ Harvard

Zakaria, Editor of Newsweek, 12/12/'9 (Fareed, "The Secrets of Stability," Newsweek, http://www.newsweek.com/id/226425)

Others predicted that these economic shocks would lead to political instability and violence in the worst-hit countries. At his confirmation hearing in February, the new U.S. director of national intelligence, Adm. Dennis Blair, cautioned the Senate that "the financial crisis and global recession are likely to produce a wave of economic crises in emerging-market nations over the next year." Hillary Clinton endorsed this grim view. And she was hardly alone. Foreign Policy ran a cover story predicting serious unrest in several emerging markets. Of one thing everyone was sure: nothing would ever be the same again. Not the financial industry, not capitalism, not globalization. One year later, how much has the world really changed? Well, Wall Street is home to two fewer investment banks (three, if you count Merrill Lynch). Some regional banks have gone bust. There was some turmoil in Moldova and (entirely unrelated to the financial crisis) in Iran. Severe problems remain, like high unemployment in the West, and we face new problems caused by responses to the crisis—soaring debt and fears of inflation. But **overall, things look nothing like they did in the 1930s.** The **predictions of economic and political collapse have not materialized at all.**