### 1AC — Plan

#### The Board of Governors of the United States Federal Reserve should substantially invest in transportation infrastructure in the United States.

### 1AC—QE Advantage

#### Advantage One is QE

#### First, the Fed’s bond buying has pumped 3 trillion into the economy and will continue indefinitely — no disad to Fed action or stimulus is unique.

Reuters 1/30 — Reuters, 2013 (“Fed keeps stimulus in place as U.S. economy "paused",” Byline Alister Bull and Pedro da Costa, January 30th, Available Online at <http://articles.chicagotribune.com/2013-01-30/business/sns-rt-us-usa-fedbre90t0tf-20130130_1_dual-mandate-policy-accommodation-monetary-policy>, Accessed 02-04-2013)

The Federal Reserve on Wednesday left in place its monthly $85 billion bond-buying stimulus plan, arguing the support was needed to lower unemployment even as it indicated a recent stall in U.S. economic growth was likely temporary.

The U.S. central bank predicted that the nation's job market would continue to improve at a modest pace, and repeated a pledge to keep purchasing securities until the outlook for employment "improves substantially."

"Growth in economic activity paused in recent months, in large part because of weather-related disruptions and other transitory factors," the Fed said after a two-day meeting.

A report on Wednesday showed the U.S. economy unexpectedly contracted in the fourth quarter as inventory investment slowed and government spending plunged. Analysts said superstorm Sandy, which slammed into a large swath of the U.S. East Coast in late October, also disrupted the recovery.

The Fed has kept overnight interest rates near zero since late 2008 and tripled its balance sheet to about $3 trillion through purchases of securities, which are aimed at pushing longer-term borrowing costs lower.

While the recovery from the 2007-2009 recession has been stubbornly tepid, the Fed's policy panel voiced confidence it would remain on track with continued help from monetary policy.

"The committee expects that, with appropriate policy accommodation, economic growth will proceed at a moderate pace and the unemployment rate will gradually decline toward levels the committee judges consistent with its dual mandate," it said.

That was cautiously more optimistic than the Fed had sounded in December, when it emphasized it was "concerned" the economy would not deliver stronger hiring without policy support.

"The changes to the policy rationale were tilted to sound more affirmative in nature," JPMorgan economist Michael Feroli wrote in a note to clients.

A report on Friday is expected to show the U.S. jobless rate remained stuck at 7.8 percent for a third straight month in January. The Fed repeated that it would keep overnight rates near zero until the unemployment rate hits 6.5 percent, as long as inflation does not threaten to exceed 2.5 percent.

"It's a message that policy is steady as she goes," said Julia Coronado, an economist at BNP Paribas in New York.

By and large, the statement was widely as anticipated, and U.S. stocks, government bonds and the dollar were little changed after the news.

STILL LOOKING FOR LABOR MARKET IMPROVEMENT

The Fed noted that consumer spending and business investment had picked up and the housing sector had shown further improvement. It also acknowledged calmer financial conditions in Europe, omitting a December warning that these posed a significant threat, although it said downside risks remained.

Kansas City Federal Reserve Bank President Esther George, in her first policy vote, dissented against continued Fed stimulus, picking up the mantle left behind by Richmond Fed chief Jeffrey Lacker, who dissented at every policy meeting last year.

The Fed's bond-buying program, under which it currently purchases $40 billion of mortgage-backed bonds and $45 billion of longer-dated Treasuries a month, is part of the central bank's unprecedented effort to spark a stronger recovery and drive down unemployment.

Most analysts do not expect the outlook for the labor market to show the substantial improvement the Fed wants to see this year, keeping it on track for further bond buying.

#### Second, the economy is weak—losing jobs now

Irwin 4/5— [Neil Irwin, a Washington Post columnist and the economics editor of Wonkblog; a Knight-Bagehot Fellow in Economic and Business Journalism at Columbia University (“Today’s jobs report is a disaster. But why?,” WonkBlog, The Washington Post, April 5th 2013, Available Online at <http://www.washingtonpost.com/blogs/wonkblog/wp/2013/04/05/todays-jobs-report-is-a-disaster-but-why/>, Accessed on April 6, 2013)]

This is a terrible, horrible, no-good, very bad jobs report.

The 88,000 net jobs added in March, if that or a similar figure holds up through revisions, is a tragedy: Nearly four years into the economic recovery, with the unemployment rate still close to 8 percent, the nation recorded a month in which too few jobs were added to keep up with the growing American workforce (that number is more like 125,000). The headline read that the unemployment rate fell to 7.6 percent from 7.7 percent, but it was almost entirely for bad reasons. A whopping 496,000 people dropped out of the labor force, and 206,000 fewer people reported having a job, meaning that the proportion of Americans currently working actually ticked down, not up.

Sigh. The summer swoon came early this year. (Nicholas Kamm/AFP/Getty Images)

Sure, there are a couple of silver linings: Revisions to previous months’ tallies added 61,000 more added jobs in 2013, and worker pay rose 0.5 percent, with both more hours worked and higher wages. But the overall thrust is this: The economy hasn’t been as strong this year as it had appeared to be just a few days ago.

So, what is the culprit? March was the month that the policy of sequestration, across-the-board government spending cuts went into effect. But the patterns of what sectors added and lost jobs doesn’t match what you would expect if this was the major driver of the weakness. The professional and business services sector, which includes many contractors, actually added 51,000 jobs, consistent with its recent results. The federal government excluding the U.S. Postal Service shed 2,200 jobs, which amounts to a rounding error across the whole of the American labor market. It’s not that the sequester won’t have some negative effects on the economy eventually, but you have to squint awfully hard to see them in this report.

The more plausible case is that the increase in payroll taxes that took place in January, lopping 2 percent off of most workers paychecks, is damaging the retail sector. Retailers shed 24,000 jobs, with the steepest losses among sellers of building materials and garden supplies and of clothing and clothing accessories. It makes sense that it would have taken two or three months for less cash in customers’ pockets to translate into retailers keeping fewer cashiers and sales clerks on staff. That said, consumer spending data and reports from retailers themselves has held up reasonably well in 2013 despite the payroll tax, so it’s hard to assign too much confidence the idea that the drop in retail jobs is a consequence of fiscal austerity as opposed to a routine statistical blip.

Which leaves us with this overarching conclusion: This economy isn’t as strong as we thought it was. What had seemed to be a nice winter acceleration in activity may be, as it has been for the last three years, undermined by a spring-summer swoon.

#### Third, crumbling infrastructure will wreck the economy — it’s getting worse.

Galston 1/23 — William A. Galston, Senior Fellow and Ezra Zilkha Chair in the the Governance Studies Program at the Brookings Institution, College Park Professor at the University of Maryland, former Saul Stern Professor and Acting Dean at the School of Public Policy at the University of Maryland, former Director of the Institute for Philosophy and Public Policy, winner of the American Political Science Association’s Hubert H. Humphrey Award, holds a Ph.D. in Political Science from the University of Chicago, 2013 (“Crumbling Infrastructure Has Real and Enduring Costs,” *Up Front*—a Brookings Institution blog, January 23rd, Available Online at <http://www.brookings.edu/blogs/up-front/posts/2013/01/23-crumbling-infrastructure-galston>, Accessed 04-03-2013)

Anyone who travels abroad can see that the United States no longer has a world-class infrastructure. And there’s hard evidence to back up that impression. The World Economic Forum compiles a massive annual “Global Competitiveness Report.” The 2012-2013 edition finds that the United States has fallen well behind many members of the European Union, Canada, and Asian countries such as Singapore, Japan, and South Korea in the overall quality of its infrastructure. We rank 18th in railroads, 19th in ports, 20th in roads, 30th in airports, and 33rd in the quality of our electrical system.

An outstanding new report from the Building America’s Future Educational Fund explains why this has happened. Relative to our economic competitors, we have no national infrastructure planning, we systematically underfund infrastructure investments, and we fail to use rigorous measures of evaluation and accountability for the projects we do manage to fund. This makes for a drag on our economy. One example: in 2010, Americans spent a total of 4.8 billion hours stuck in traffic, wasting 1.9 billion gallons of fuel, at a total cost of $101 billion.

And it will only get worse. According to the Building America’s Future report, by 2020, every American port will be struggling to cope with at least twice the tonnage it was designed to handle. While a projected 94 percent of the nation’s economic growth will occur in metropolitan areas, these jurisdictions are already home to “the most congested highways, the oldest roads and bridges, and the most overburdened transit systems,” with no relief in sight. The report warns that “if we don’t create a transportation system that functions reliably and cost-effectively in the 21st century, companies operating in this globalized world can simply choose to do their business elsewhere.”

But before it comes to that, the American economy will pay a steep price. Another report, from the American Society of Civil Engineers, lays out the projected costs, sector by sector. Here’s the bottom line: by 2020, if the mounting investment gap in infrastructure is not addressed, “the economy is expected to lose almost $1 trillion in business sales, resulting in a loss of 3.5 million jobs . . . the cumulative cost to the U.S. economy will be more than $3.1 trillion in GDP and $1.1 trillion in total trade.”

These numbers would appear large enough to arrest the attention of even the most jaded policy makers. This has not happened. Instead, current fiscal trends and policies portend a long-term squeeze on domestic discretionary spending—the pool of funds from which federal infrastructure investment is drawn. Innovative plans for federal government partnerships with the private sector to leverage scarce public resources have not gone forward in some instances and have fallen well short of adequate scope in others. While things have gone better at the state and metropolitan levels, aggregate investment continues to fall far short of needs—by an estimated $1.1 trillion between now and 2020, according to ASCE projections.

#### Independently, QE is creating a new housing bubble that will wreck the economy.

Pinto 4/9 — Edward Pinto, Resident Fellow at the American Enterprise Institute, served as chief credit officer at Fannie Mae from 1987 to 1989, 2013 (“Is the Fed Blowing a New Housing Bubble?,” *Wall Street Journal*, April 9th, Available Online at <http://online.wsj.com/article/SB10001424127887323646604578400252745095518.html>, Accessed 04-10-2013)

Over the past year, the Federal Reserve has ramped up its policy of quantitative easing, with the result being new stock market highs and surging bond prices. Moreover, housing prices jumped 8%, the biggest annual gain since 2006.

The result is that more than a trillion dollars have been added to the market value of single-family homes. Homeowners are now wealthier and according to what economists call the "wealth effect," they should be willing to spend more, helping the economy.

But there is another, less sanguine view of the housing recovery. Recent data released by the Federal Housing Finance Agency (FHFA) suggest that the increase in house prices is not being driven by a broad-based improvement in the economy's fundamentals. Instead, the Fed's lower rates are simply being capitalized into higher home prices. This does not bode well for the future.

A comparison of FHFA's conventional home-financing data for February 2012 and February 2013 shows that borrowers bought newly built and existing homes in 2013 for 9% and 15% more respectively than in the previous year. Increases of this magnitude cannot be attributed to higher incomes, as these rose a mere 2% over the last year, just keeping up with inflation. It appears that home prices are being levitated by quantitative easing. Because interest rates were .625% and .90% lower on new and existing homes respectively this year compared with last year, the monthly finance cost to purchase a new home remained the same and went up only 3% for an existing home.

While a housing recovery of sorts has developed, it is by no means a normal one. The government continues to go to extraordinary lengths to prop up sales by guaranteeing nearly 90% of new mortgage debt, financing half of all home purchase mortgages to buyers with zero equity at closing, driving mortgage interest rates to the lowest level in 100 years, and turning the Fed into the world's largest buyer of new mortgage debt.

Thus, with real incomes essentially stagnant, this is a market recovery largely driven by low interest rates and plentiful government financing. This is eerily familiar to the previous government policy-induced boom that went bust in 2006, and from which the country is still struggling to recover. Creating over a trillion dollars in additional home value out of thin air does sound like a variant of dropping money out of helicopters.

Will history repeat? When it comes to interest rates, whatever goes down must go up.

The average mortgage rate during the first nine years of the 2000s was 6.3% compared with today's rate of less than 3.5%. If mortgage rates were to increase to a moderate 6% in three years, say, some combination of three things would have to happen to keep the same level of homeownership affordability. Incomes would need to increase by a third, house prices would need to decline by a quarter, or lending standards would need to be loosened even further.

The National Association of Realtors and the rest of the government mortgage complex can be relied on to push for looser lending. The Consumer Financial Protection Bureau recently came out with new rules that would grease the skids for relaxed lending standards, compliments of Fannie Mae, FNMA -4.94% Freddie Mac FMCC -5.56% and the Federal Housing Administration.

Given the continued subpar economic recovery and our past experience with the disastrous impact of loose lending encouraged by federal policies, homeowners would best be cautious about spending their new found "wealth." Americans have seen this movie before and know how it ends.

#### However, ending QE prematurely will also destroy the economy. The Fed needs to effectively manage the phase-out to prevent collapse.

Newman 4/10 — Rick Newman, Chief Business Correspondent for *U.S. News & World Report*, 2013 (“Federal Reserve Policy Change Could Fool Investors,” *U.S. News & World Report*, April 10th, Available Online at <http://www.usnews.com/news/blogs/rick-newman/2013/04/10/federal-reserve-policy-change-could-fool-investors>, Accessed 04-10-2013)

For anybody trying to plan their financial future, nothing is more important than what the Federal Reserve does next.

The Fed's easy-money policies, which have been in place for more than four years, have helped stabilize home values and push the stf supply increased and demand remained the same, interest rates would rise because bond issuers would have to pay higher rates to attract buyers. And in fact, many Wall Street firms are predicting rising interest rates later this year, which would increase the cost of buying a home or car or taking out any kind of long-term loan.

But the opposite could happen if the Fed begins tapering QE too soon. "A premature end to QE would have negative consequences for growth and financial markets," IHS believes. "Equity prices would fall and, counterintuitively, bond prices would rally, sending interest rates lower."

Here's why that might happen. Many investors believe the Fed's policies have been the most powerful tool, by far, in helping the economy recover from the 2008 financial shock. Even now, the Fed's easing is softening the sting of tax hikes and spending cuts that might be far more damaging were the Fed not so intent on nursing the economy. So if the Fed changed course sooner than expected, it might be viewed as a global shock similar to a flare-up of the European debt crisis or a conflict in the Middle East that sent oil prices skyrocketing.

During those types of shocks, investors typically sell risky assets like stocks and flee to safer assets such as Treasury securities, which increases the demand for bonds, pushing rates down. It's hard to tell exactly how much the flight to safety would counteract the rise in rates triggered by Fed action, but it's clear that virtually every time investors get the jitters, they pile into bonds and rates fall.

The key issues, therefore, are when the Fed decides to tighten its policy and how much advance notice it provides. The Fed has already said it will continue its easing policies until the unemployment rate, now 7.6 percent, approaches 6.5 percent, as long as inflation remains under control. So a policy change might still be a long way off, despite speculation of an earlier exit. Bank of America Merrill Lynch told clients recently that it thinks the Fed will continue to ease until the first half of 2014, and then gradually slow its pace of bond purchases.

Weakening economic conditions could give the Fed plenty of reason to keep pumping the painkillers. The latest job-creation numbers were much weaker than expected, and some economists think they could get even worse during the next few months, as the full force of tax hikes and federal spending cuts enacted this year hit the economy. Many Wall Street analysts are also expecting a stock-market correction of 5 to 10 percent, which would further undercut confidence.

The Fed's latest meeting took place before the discouraging March job numbers came out, so the next time the Fed meets to review its strategy, it will have gloomier data to consider. That might be all it needs, for now, to stay the course.

#### We control uniqueness: the current recovery is unsustainable — only real job growth will enable the Fed to phase out QE without destroying the economy.

TIM 4/8 — Trading In Mexico—the pen name\* of an investor who has been analyzing and trading stocks for over 10 years, 2013 (“This Housing And Stock Market Rally Is Government-Induced And Can't Be Trusted,” *Seeking Alpha*, April 8th, Available Online at http://seekingalpha.com/article/1326091-this-housing-and-stock-market-rally-is-government-induced-and-can-t-be-trusted, Accessed 04-10-2013)

While there is reason to believe in a slow and steady improvement in housing, I think these stocks have gotten way ahead of the fundamentals. We have seen "false dawn" hopes and rallies quickly dashed as the economy and housing have stumbled after showing signs of promise, and this could happen again. The biggest problem I see with the housing market is that it is going up because of government manipulation and because of speculation with investors once again making overbids and buying multiple properties. This is the same type of behavior that got us into the financial crisis. A really healthy housing market rally would be based on strong jobs growth and not on monetary policy and interest rate manipulation that was creating a situation where people who saved money would actually lose money year after year, when taking inflation and taxes into consideration.

Government programs that were designed to increase home ownership rates and make homes affordable ended up making housing out of reach for many in the last years of the housing bubble. Americans are so used to government housing programs that I don't even think many realize how much manipulation of the housing market exists. Here are some of the programs that I believe were used and are still being used to manipulate Americans into buying a home, which as we know, can eventually lead to a financial crisis:

1. The Federal Reserve has pushed down interest rates to artificially low levels. Responsible savers and retirees are paid next to nothing in savings and money market accounts, and this is designed to make anything "safe" as a very painful option, since saving money at current interest rates actually means you could be losing money after factoring in taxes and inflation. The extremely low rates helped to stabilize the plunge in home prices, but in time, it could just lead to another bubble popping when interest rates rise. As seen in some countries in Europe, governments can lose the ability to control interest rates, and higher rates could push home values down sharply.

2. Little to no money down loan programs. Let's face it, any loan program that allows borrowers to put down 3% or less than what the standard 5 to 6% commission is to sell a property, is ridiculous. In many states, borrowers can walk away from the property without recourse, and that leaves the bank and the U.S. taxpayer to foot the bill without even enough equity to cover the sales commission that would be needed to sell the property. Even after a massive financial crisis, low money down programs exist, thanks to the U.S. Government. Low money down loans allowed massive leverage, and in the end, this type of loan just pushes up real estate prices to what eventually becomes unaffordable levels.

3. Once you buy a home, you can deduct mortgage interest ,which is yet another way that the government ends up making housing "affordable." I would call this more manipulation of the housing market. The problem is that the affordability factor is diminished over time, because the mortgage tax deduction ends up increasing what each buyer can afford to pay each month. Another problem is that if the government ends the mortgage tax deduction, it could be devastating to the housing market. There are proposals by members of Congress to end the tax deduction as a way to raise revenues for the U.S. Treasury, because this country is deeply in debt. Take away the tax deduction, and that completely changes what a borrower can qualify for in terms of the loan. That could lower property values significantly. As we have seen, a big decline in property values can cause a major financial crisis and lead to massive bank losses. If this happens again, it is questionable to believe that the U.S. Government will be in the financial position to bail out the economy.

4. Once you have bought a home with an extremely low down payment, with the added benefit of very (artificially) low interest rates, and a monthly mortgage payment which is currently tax deductible, you could then sell your home and pay no tax on the gains of up to $250,000 if single, or a whopping half a million dollars, if married. This is just another way in which the U.S. Government is pushing up demand artificially and increasing speculation in housing. In the long-run, government programs to make housing affordable do not work, because these plans just end up arming other buyers with the same increased purchasing power that you have, and that pushes prices back up. But the government is not just doing this to be nice, it is doing it to try to pump the sagging economy up. Politicians set up these programs to boost the economy in the short-term, in order to get themselves or their party re-elected, even though it can (and has) hurt our country and economy in the long-run.

So, why should we be worried? Mainly because the U.S. Government appears too heavily involved in manipulating asset prices, whether it be stocks or real estate. Had the government not been so involved in making home ownership "affordable" through multiple programs designed to entice potential buyers, it is doubtful that banks would have made loans that require so little down. It is also doubtful that prices would have reached such unaffordable levels, especially if borrowers were required to put down 20% or more, which is required in a standard bank loan that does not have government backing. Take away the tax deductions and that would have put a serious damper on the massive price appreciation that was seen. In fact, if government really wanted to make housing affordable, it would pull out of the real estate market altogether. Just imagine how low home prices would go without all these programs.

That brings me to the final point, which is what will happen to stock prices when the government does pul lback from the housing market and from quantitative easing? The Federal Reserve is reportedly buying $85 billion per month in assets. That is huge. Many investors and analysts are rightfully concerned about what might happen to the stock market when the Federal Reserve ends the bond buying and other asset purchases. While it might be considered to have as much likelihood as a "Black Swan" type of event, if the Federal Reserve pulls out of this market too early or too abruptly, or if the mortgage tax deductions are ended, if rates rise, etc., the housing and stock market rally could end badly.

The U.S. Government has a balance sheet that has been stretched thin by wars, the financial crisis, out of control entitlement spending and other factors. This will minimize its ability to endlessly prop up this economy or to curtail another financial crisis with massive bailouts. What if the Emperor has no clothes? How much more time will the markets give to the Federal Reserve to truly get this economy firing on all cylinders? Will the bond markets turn against U.S. Government debt as was the case in Europe, before this economy turns? Those that believe the U.S. Government has infinite powers should be reminded that many felt the same way about Rome. Let's not forget that the U.S. Government has brought us a number of programs that many consider to be essentially bankrupt: U.S. Postal Service, Social Security, Fannie Mae (FNMA.OB), student loans, Medicare, and others. That is quite a track record.

This won't keep me from buying stocks or even property, but I will do so with caution. Housing and market rallies that are significantly based on government intervention and policy support can't be trusted and could end badly. It appears to be a game of musical chairs, and it might last for a long time or it might not. The hope of the government policymakers seems to be that the entire economy can eventually reach escape velocity and that the Federal Reserve can pull out at the right time, while increased economic growth generates enough additional tax revenues to bring the debt levels back to more reasonable levels. That's the goal, and I hope it happens, but I think investors should remain prepared for policy missteps and other scenarios that might not let the "Goldilocks" scenario play out. I think investors who keep ample cash reserves around and who also sell into strength when markets are overbought (as is the case now), will do better than investors who remain fully invested.

The belief that everything is going to work out great seems too good to be true. For this housing and stock market rally to be trusted, real, and sustainable, it needs to be organic and based on jobs growth from the private sector, wage and productivity increases. Right now it is based on artificial government manipulation, that cannot last forever. So, enjoy the housing and market rally, but remember the reasons why this has been one of the least-respected and least-trusted market rallies.

\* Seeking Alpha’s Policy on Anonymous Authors: “While Seeking Alpha editors greatly prefer that our authors use their real names, we recognize that is not always possible. Due to regulations at their workplace or other factors, some contributors are not able to reveal their real names. In addition, many well-known, veteran stock market bloggers (some of the finest, in fact) write under a pseudonym.

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When an author uses a pseudonym, it is clearly stated on the SA author page.”

#### The plan solves — it allows the Fed to switch its bond-buying from mortgage-back securities to infrastructure.

Long 10/31 — Cate Long, guest contributor to *Reuters* where she writes the *Muniland* blog about retail fixed income markets including municipal bonds, leader of riski.us—an open source financial reform project, 2012 (“Can the Port Authority and MTA afford repairs after Sandy?,” *Muniland*—a *Reuters* blog, October 31st, Available Online at <http://blogs.reuters.com/muniland/2012/10/31/can-the-port-authority-and-mta-afford-repairs-after-sandy/>, Accessed 11-06-2012)

In one of its reports, the Investment bank Rothschild advocates privatizing some of the Port Authority’s assets so that private funds can be used. But there are many other ways to fund vital infrastructure in an economic region that helps power the U.S. economy. Tough times is no excuse to give away public assets to private entities.

The most obvious source of funding for these projects would be for the Federal Reserve to purchase public infrastructure bonds instead of the $40 billion a month of mortgage-backed securities it has been buying. The housing market is important, and keeping mortgage rates low is useful, but investing in public infrastructure is much more important for the nation now. This approach would require a small legislative change to Section 14(b) of the Federal Reserve Act, which currently only allows the Fed to purchase of municipal bonds that mature in six months or less. These infrastructure bonds must be issued with maturities extending from 30 to 50 years, because the assets they fund will last at least that long. In two months, the Fed could buy $80 billion in infrastructure bonds. That would build some very important public infrastructure.

#### This would deflate the Fed-driven housing bubble and spur economic expansion.

Long 12/28 — Cate Long, guest contributor to *Reuters* where she writes the *Muniland* blog about retail fixed income markets including municipal bonds, leader of riski.us—an open source financial reform project, 2012 (“Why the Federal Reserve should buy national infrastructure bonds,” *Muniland*—a *Reuters* blog, December 28th, Available Online at <http://blogs.reuters.com/muniland/2012/12/28/why-the-federal-reserve-should-buy-national-infrastructure-bonds/>, Accessed 01-23-2013)

The Federal Reserve is in the middle of a third round of bond buying that is commonly called quantitative easing (or QE3). The goal is to suppress interest rates, and it was the main monetary policy tool that the Fed began using in December 2008 to support the financial system during the credit crisis. The financial system has returned to racking up record-breaking profits, and the Fed has shifted the purpose of QE to propping up the housing system and the general economy.

By some measures though, the housing market may be showing bubble-like properties again from the broad efforts of the Fed. Rather than potentially fueling a new bubble, the Fed should turn to buying infrastructure bonds to rebuild America’s energy grid, bridges, roads, rail systems and ports. This would be a direct investment in the public sector of the nation, rather than the personal assets of households. If the Fed invested in America’s hard assets, it would create jobs and put in place the necessary framework to truly spur economic expansion.

#### The plan allows the Fed to effectively wind-down QE.

Casey 11/5 — Michael J. Casey, Managing Editor for the Americas at DJ FX Trader—a foreign-exchange news service from Dow Jones Newswires and *The Wall Street Journal*, 2012 (“How Sandy Might Help Fix Politics, Boost Dollar,” *Wall Street Journal*, November 5th, Available Online at <http://online.wsj.com/article/SB10001424052970203846804578100803487922118.html?mod=googlenews_wsj>, Accessed 11-05-2012)

All this is positive for the economy, and for the dollar. Once the reconstruction work translates into jobs, the Federal Reserve may have to consider winding down its "quantitative easing" program earlier than expected. With fewer dollars to be printed, a constant source of downward pressure on the greenback's value would disappear.

#### Independently, the plan spurs private investment in infrastructure — it’s crucial to get conservative investors off the sidelines.

Greider 11/7 — William Greider, National Affairs Correspondent for *The Nation*, former reporter and editor at the *Washington Post*, holds a degree from Princeton University, 2012 (“Can the Federal Reserve Help Prevent a Second Recession?,” *The Nation*, November 7th, Available Online at [http://www.thenation.com/article/171126/can-federal-reserve-help-prevent-second-recession#](http://www.thenation.com/article/171126/can-federal-reserve-help-prevent-second-recession), Accessed 01-23-2013)

Stephen Sleigh, a labor economist and director of the national pension fund for the International Association of Machinists and Aerospace Workers union, has similar ideas about how the Fed can persuade private capital investment to finance major infrastructure projects. “Part of Bernanke’s strategy of pushing down interest rates, both short-term and long-term, is to force conservative money into investments like construction,” Sleigh observed. “That makes perfect sense, but the capital is not flowing. It’s still on the sidelines. I would love to see the Fed start talking about infrastructure. The Fed needs to be working on new tools and find ways to get the conservative money off the sidelines and start rebuilding the American economy.”

Conservative investors like pension funds and insurance companies lost an important source of income when the Fed lowered interest rates drastically. Sleigh explained: “As a pension fund manager, I need investments that are going to provide reliable, steady income that can sustain our long-term assumptions. Traditionally, the ten-year Treasury bond was a way to pay the bills, but it doesn’t do that anymore, because it is trading now at less than 2 percent.”

A solution Sleigh envisions would involve bond borrowing for public-private infrastructure projects that would be “labor-intensive and great for long-term economic growth and would absolutely help us meet our obligations, because these bonds are going to yield 6 to 8 percent on our investments.” The Federal Reserve’s blessing and its willingness to accept the infrastructure bonds as collateral on the Fed’s lending could be a powerful lure for capital investors—including China, which owns a mountain of low-yielding US Treasuries.

“Wouldn’t that be an amazing story,” Sleigh said, “if the Chinese, instead of holding Treasury notes, invested $100 billion in building high-speed rail in the United States?” These ideas sound farfetched to the usual experts who dominate monetary politics. But stay tuned. As Bernanke surely understands, the economic crisis is not over. We are still at risk of things turning worse. If that occurs, these and other proposals for action will become highly relevant.

#### That’s crucial to economic recovery — traditional stimulus fails.

Carew 12 — Diana G. Carew, Economist at the Progressive Policy Institute, formerly served as policy analyst at the Export-Import Bank of the U.S. and as an economist at the Bureau of Labor Statistics, holds an M.A. in Applied Economics from Johns Hopkins University, 2012 (“Move Over Demand, Make Room for Investment,” *The Progressive Fix*, August 3rd, Available Online at [http://www.progressivepolicy.org/2012/08/move-over-demand-make-room-for-investment/](http://www.progressivepolicy.org/2012/08/move-over-demand-make-room-for-investment/?utm_source=rss&utm_medium=rss&utm_campaign=move-over-demand-make-room-for-investment), Accessed 08-24-2012)

It’s become conventional wisdom: when the economy falters, it’s because people aren’t spending. Give people money and they will spend their troubles away (and our troubles, thanks to the money multiplier). Everyone is a winner. This advice is at the top of campaign trail talking points. It has been given by economists ranging from Bruce Bartlett and Paul Krugman to Ben Bernanke.

But what if that isn’t the whole story – the government has spent hundreds of billions in a series of stimulus measures aimed at consumers and it hasn’t been enough. Growth is painfully slow and today’s jobs report shows we are still not creating enough jobs–163,000 in July–to absorb recessionary losses. So what’s going on – was the stimulus too little? Is demand being unusually stubborn?

We’re missing something: it’s not only about demand; it’s also about investment. And the July 2012 annual revision to GDP confirms we are in an investment drought. The graph below tells the story.

[Graph Omitted]

Halfway into 2012, real nonresidential private investment is still 7% below its pre-recessionary level. And after initially increasing, real government investment is now almost 10% below its pre-recession level – and falling. Meanwhile, demand appears to be doing fine. Both real personal consumption expenditures (PCE) and real retail sales, two commonly used measures of consumer demand, have fully recovered from the recession – and then some.

Low investment is bad news for jobseekers and Americans struggling to make ends meet. Investment buys us growth in output and in jobs through production expansion. It also buys us wage increases through gains in productivity. It buys future innovation. Economic success begins with investment.

That’s why we must focus more on stimulating investment and less on stimulating demand. And that’s why PPI recently published a list of the top 25 “Investment Heroes,” defined as U.S. based companies ranked by their U.S. investment. We wanted to highlight those companies that continue to invest heavily in America, and explore what we can do to encourage more.

That means policies aimed at stimulating consumer demand will not have the intended effect. While many economists argue the stimulus from the ARRA was not big enough, perhaps the real issue is there was not enough stimulus aimed at investment. Perhaps the drop-off in real government investment was too soon.

Yet politicians, economists, and journalists alike continue to blame our current economic woes solely on weak demand. We hardly ever hear about the dearth in private investment. Instead they continue to develop policies aimed at getting money to consumers. But until they realize that aim misses the mark we will continue to take the slow, winding road forward.

#### And, growth is the controlling internal-link—even small growth-rate differentials produce large fiscal impacts

Swanson 11 — Bret Swanson, President of Entropy Economics—a research firm focused on technology and the global economy, President of Entropy Capital—a venture firm that invests in early-stage technology companies, Visiting Fellow at Digital Society, Fellow at the National Chamber Foundation, former Senior Fellow and Director of the Center for Global Innovation at The Progress & Freedom Foundation, 2011 (“The Growth Imperative,” *Forbes*, May 27th, Available Online at http://www.forbes.com/sites/bretswanson/2011/05/27/the-growth-imperative/, Accessed 08-29-2012)

The central factor in America’s fiscal future is hardly being discussed. In most conversations of deficits, entitlements, debt ceilings, and bond markets, economic growth goes unmentioned. In recent days, a few smart policy makers finally whispered it, yet not with the needed volume and specificity.

Perhaps the paltry 1.8% first quarter GDP figure, when our recovery should be generating 5% numbers, will get the nation’s attention. Growth today is our biggest problem – but also our biggest opportunity.

We’ve all seen the budget charts with steeply sloping outlays and trillion dollar deficits stretching over the horizon, leading inevitably to skyrocketing debt. The responsible people, like those gathered at Pete Peterson’s Fiscal Summit this week, tell us the only solution is to “cut spending and raise taxes” – in dramatic amounts. And of course less spending and more revenue are essential. But the partisan divide between the spending cutters and tax raisers is unlikely to yield a helpful policy path – more likely a muddle of growth killing taxes and out-year NIMTO (not in my term of office) spending cuts.

Economic growth, on the other hand, swamps every spending cut and tax rate increase. In 2010, U.S. GDP was $14.66 trillion. Today’s 2% growth rate, over the long-term, would yield output of $17.9 trillion in 2020, $21.8 trillion in 2030, $26.6 trillion in 2040, and $32.4 trillion in 2050.

But what if America committed to a bold long range growth goal? I’m no budget expert, but for a presentation to the National Chamber Foundation on May 24, I offered a few simple charts that tell the story. A 4% growth rate would mean almost $4 trillion in additional output in the year 2020, $10 trillion more in 2030, $21 trillion more in 2040, and an astounding $38 trillion more in 2050, when the economy would be more than twice as large had we kept growing at 2%. Over this period, with an arbitrarily chosen 20% tax-to-GDP ratio, a 4% growth rate would generate $109 trillion more revenue than a 2% growth rate.

But 4% is wildly optimistic, you say. Perhaps. The consensus long range projection is just 2.5%. Fine, what if we could bump growth to a measly 3%? We would still generate an additional $25 trillion in tax revenue over the 40-year period. Didn’t the Medicare actuary just tell us the program’s unfunded liability is $24.6 trillion?

Boosting the share of the economy we collect in taxes doesn’t do any good if the economy lags. Collecting 20% or 25% of GDP in taxes, as some propose, doesn’t get us anywhere close to balance if we grow just 2% or 2.5%. On the other hand, 4% growth with the historical 18% tax-GDP ratio keeps up with even our current profligate spending path. The power of compound growth towers over every other consideration.

Rapid economic growth should thus be our chief national objective. We should measure every policy – extant and proposed – against this goal. Do our tax, regulatory, trade, immigration, and social policies help maximize economic growth? Or do they risk depressing our potential growth rate even just a bit? Compound growth is so powerful, no policy that imperils it should be tolerated.

This Growth Test should inform and shape every debate. Economic growth helps federal, state, and local budgets, sure, but more importantly creates opportunity for generations of Americans, particularly those whose outlook today seems bleakest.

#### The impact is large: economic growth is crucial to address all global challenges.

Silk 93 — Leonard Silk, Distinguished Professor of Economics at Pace University, Senior Research Fellow at the Ralph Bunche Institute on the United Nations at the Graduate Center of the City University of New York, and former Economics Columnist with the *New York Times*, 1993 (“Dangers of Slow Growth,” *Foreign Affairs*, Available Online to Subscribing Institutions via Lexis-Nexis)

Like the Great Depression, the current economic slump has fanned the firs 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.

#### And, economic decline increases the risk of war—*strong statistical support*.

Royal 10 — Jedidiah Royal, Director of Cooperative Threat Reduction at the U.S. Department of Defense, M.Phil. Candidate at the University of New South Wales, 2010 (“Economic Integration, Economic Signalling and the Problem of Economic Crises,” *Economics of War and Peace: Economic, Legal and Political Perspectives*, Edited by Ben Goldsmith and Jurgen Brauer, Published by Emerald Group Publishing, ISBN 0857240048, p. 213-215)

Less intuitive is how periods of economic decline may increase the likelihood of external conflict. Political science literature has contributed a moderate degree of attention to the impact of economic decline and the security and defence behaviour of interdependent states. Research in this vein has been considered at systemic, dyadic and national levels. Several notable contributions follow.

First, on the systemic level, Pollins (2008) advances Modelski and Thompson's (1996) work on leadership cycle theory, finding that rhythms in the global economy are associated with the rise and fall of a pre-eminent power and the often bloody transition from one pre-eminent leader to the next. As such, exogenous shocks such as economic crises could usher in a redistribution of relative power (see also Gilpin. 1981) that leads to uncertainty about power balances, increasing the risk of miscalculation (Feaver, 1995). Alternatively, even a relatively certain redistribution of power could lead to a permissive environment for conflict as a rising power may seek to challenge a declining power (Werner. 1999). Separately, Pollins (1996) also shows that global economic cycles combined with parallel leadership cycles impact the likelihood of conflict among major, medium and small powers, although he suggests that the causes and connections between global economic conditions and security conditions remain unknown.

Second, on a dyadic level, Copeland's (1996, 2000) theory of trade expectations suggests that 'future expectation of trade' is a significant variable in understanding economic conditions and security behaviour of states. He argues that interdependent states are likely to gain pacific benefits from trade so long as they have an optimistic view of future trade relations. However, if the expectations of future trade decline, particularly for difficult [end page 213] to replace items such as energy resources, the likelihood for conflict increases, as states will be inclined to use force to gain access to those resources. Crises could potentially be the trigger for decreased trade expectations either on its own or because it triggers protectionist moves by interdependent states.4

Third, others have considered the link between economic decline and external armed conflict at a national level. Blomberg and Hess (2002) find a strong correlation between internal conflict and external conflict, particularly during periods of economic downturn. They write,

The linkages between internal and external conflict and prosperity are strong and mutually reinforcing. Economic conflict tends to spawn internal conflict, which in turn returns the favour. Moreover, the presence of a recession tends to amplify the extent to which international and external conflicts self-reinforce each other. (Blomberg & Hess, 2002. p. 89)

Economic decline has also been linked with an increase in the likelihood of terrorism (Blomberg, Hess, & Weerapana, 2004), which has the capacity to spill across borders and lead to external tensions.

Furthermore, crises generally reduce the popularity of a sitting government. “Diversionary theory" suggests that, when facing unpopularity arising from economic decline, sitting governments have increased incentives to fabricate external military conflicts to create a 'rally around the flag' effect. Wang (1996), DeRouen (1995). and Blomberg, Hess, and Thacker (2006) find supporting evidence showing that economic decline and use of force are at least indirectly correlated. Gelpi (1997), Miller (1999), and Kisangani and Pickering (2009) suggest that the tendency towards diversionary tactics are greater for democratic states than autocratic states, due to the fact that democratic leaders are generally more susceptible to being removed from office due to lack of domestic support. DeRouen (2000) has provided evidence showing that periods of weak economic performance in the United States, and thus weak Presidential popularity, are statistically linked to an increase in the use of force.

In summary, recent economic scholarship positively correlates economic integration with an increase in the frequency of economic crises, whereas political science scholarship links economic decline with external conflict at systemic, dyadic and national levels.5 This implied connection between integration, crises and armed conflict has not featured prominently in the economic-security debate and deserves more attention.

This observation is not contradictory to other perspectives that link economic interdependence with a decrease in the likelihood of external conflict, such as those mentioned in the first paragraph of this chapter. [end page 214] Those studies tend to focus on dyadic interdependence instead of global interdependence and do not specifically consider the occurrence of and conditions created by economic crises. As such, the view presented here should be considered ancillary to those views.

#### Alternatives to growth kill hundreds of millions and cause global conflict—we can’t “*turn off*” the economy.

Barnhizer 6 — David R. Barnhizer, Emeritus Professor at Cleveland State University’s Cleveland-Marshall College of Law, 2006 (“Waking from Sustainability's "Impossible Dream": The Decisionmaking Realities of Business and Government,” *Georgetown International Environmental Law Review* (18 Geo. Int'l Envtl. L. Rev. 595), Available Online to Subscribing Institutions via Lexis-Nexis)

The scale of social needs, including the need for expanded productive activity, has grown so large that it cannot be shut off at all, and certainly not abruptly. It cannot even be ratcheted down in any significant fashion without producing serious harms to human societies and hundreds of millions of people. Even if it were possible to shift back to systems of local self-sufficiency, the consequences of the transition process would be catastrophic for many people and even deadly to the point of continual conflict, resource wars, increased poverty, and strife. What are needed are concrete, workable, and pragmatic strategies that produce effective and intelligently designed economic activity in specific contexts and, while seeking efficiency and conservation, place economic and social justice high on a list of priorities. n60

The imperative of economic growth applies not only to the needs and expectations of people in economically developed societies but also to people living in nations that are currently economically underdeveloped. Opportunities must be created, jobs must be generated in huge numbers, and economic resources expanded to address the tragedies of poverty and inequality. Unfortunately, natural systems must be exploited to achieve this; we cannot return to Eden. The question is not how to achieve a static state but how to achieve what is needed to advance social justice while avoiding and mitigating the most destructive consequences of our behavior.

#### QE is creating a farmland bubble that will decimate the agriculture industry and ripple through the economy.

Hurst 3/29 — Blake Hurst, Missouri farmer and frequent contributor to *The American*, 2013 (“The Next Real Estate Bubble: Farmland,” *The American*, March 29th, Available Online at http://www.american.com/archive/2013/march/the-next-real-estate-bubble-farmland, Accessed 04-10-2013)

Farmers have been taking on mounting debt, creating an unsustainable increase in land prices and risking a crash that would ripple through our economy.

Eeyore should have been a farmer. It’s almost impossible to find a farmer happy about his situation. The weather’s too hot, cold, wet, or dry, and prices are too low or too high, depending on whether we’re buying or selling. We can’t, at least in front of our peers, admit to prosperity or even the chance of prosperity. Although we’d never admit it at the local coffee shop, the last few years have been good, at least for Midwestern grain farmers. Prices have been strong — strong enough to make up for much of the production lost to last year’s drought. That’s terrible news for livestock producers, who’ve been faced with drought-damaged pastures and high feed costs, but for farmers producing corn and soybeans, it has been a profitable few years.

Farmers have cash, and nowhere to invest it but farmland. Farmers largely ignore equities, as they tend to balance the inherent risk in farming by investing in what they perceive as less risky places. We aren’t dumb, however, and have figured out that it's a losing game to invest in bonds or CDs at rates less than inflation while we’re in tax brackets we never even knew existed.

So, farmland prices are booming. Land prices in the heart of the Corn Belt have increased at a double-digit rate in six of the last seven years. According to Federal Reserve studies, farmland prices were up 15 percent last year in the most productive part of the Corn Belt, and 26 percent in the western Corn Belt and high plains. Closer to home, a neighbor planning his estate had an appraisal done in 2010 and again in late 2012. In that two-year period, the value of his farm had doubled. According to Iowa State economist Mike Duffy, Iowa land selling for $2,275 per acre a decade ago is now at $8,700 per acre. A farm recently sold in Iowa for $21,900 per acre.

Although much of the increase in land prices has been driven by well-financed farmers and outside investors (many paying a large portion of the purchase price in cash), there are disturbing trends occurring on farm balance sheets. The Kansas Farm Management Association reports that debt-to-equity ratios are highest in large farms, which have over a million dollars in sales. Although the debt-to-asset ratio is low even in the largest farms in Kansas, it's higher than it was in 1979, shortly before the farmland crash of the eighties. As former home owners in Las Vegas and Southern California can attest, equity can melt away in a hurry. A debt-to-asset ratio of 30 percent can enter dangerous territory with a land price drop of 50 percent, which sounds like a lot, until you remember that is a price level last seen only 24 months ago in much of the Midwest.

The number of farmers in the Kansas survey with a 40 percent debt-to-asset ratio is higher now than it was in 1979, and those farms with a debt-to-asset ratio of over 70 percent are three times as numerous today.

We farmers should be more sophisticated than the average subprime borrower and more risk averse than startup investors in the 1990s. After all, we manage multi-million dollar businesses, and since the average age of farmers is near 60, most of us are survivors of the agricultural asset crash of the early 1980s. In 1981, the average price of farmland in Iowa was $2,147 per acre; by 1986, the average farm brought $787 an acre. That period was the formative experience of my farming career, and one I would not wish to repeat. According to a recent article in the USA Today, a third of Iowa’s farmers left the industry during that crash.

In a population thus inoculated, we ought not to catch the fever again. It is a mark of the few investment choices left to farmers that we’ve so eagerly contributed to this unsustainable increase in land prices. We know better, we know it’s likely to end badly, but we don’t feel that we have an alternative.

A personal admission here. We bought our neighbor’s farm a couple of years ago. Yes, I know better, but we’ve had our eye on that farm for a generation.

Interest rates are low because the Federal Reserve believes that low interest rates are the best way to help heal an ailing economy, or at least the best tool available to the Federal Reserve. Our economy is so fragile and our major banks so tenuously financed that the Fed thinks it has no choice but to risk a repeat of the early 1980s bubble in farmland, the 1990s tech boom, and the recent housing market bust.

A cynic might also notice that low interest rates are extremely important to large borrowers, and the largest of all borrowers is the federal government. Need an example of the impact that an increase in the interest rate will have on the federal budget? The sequester — which has caused the White House to cut tours, is increasing lines at airports, and means that Yellowstone National Park will open later than normal this spring — requires budget cuts of around $85 billion. Even a 1 percent increase in the interest rate would eventually increase federal borrowing costs by $160 billion annually; more normal borrowing costs are around 5 percent.

We can argue over what economic policy works best, but the one thing we can be sure of is this: the federal government and the Federal Reserve are not working with a scalpel, but rather performing surgery on the economy with a chain saw. No one should expect our present monetary policy to be unwound in such a manner that farmland prices can be gently slowed to a more sustainable path — one that reflects the slow but steady increase in demand for food and fiber.

The federal government spent billions of dollars in the 1980s supporting farm income and writing off bad debts from various government farm lending programs. Those resources clearly aren’t available today, and agriculture is facing a grim future.

The Kansas City Federal Reserve recently had a symposium examining whether we are experiencing a farmland bubble. Bubbles are impossible to truly define until they burst, but when the Fed is sponsoring seminars on the topic, it occurs to this Eeyore that straws may well be floating in the wind. The ripples from a crash in farmland prices would not have the long-lasting effects on the economy that the subprime debacle did, but the chance of a crash in farmland prices should still concern policymakers. Farmers may well be collateral damage in the quantitative easing battle and are rightly worried that the next victim of our monetary policy will be wearing overalls when the music stops.

#### Strong U.S. agriculture is crucial to prevent global starvation, environmental destruction, and resource conflicts.

Lugar 4 — Richard G. Lugar, U.S. Senator from Indiana who serves as Chairman of the Senate Foreign Relations Committee and as a member and former chairman of the Senate Agriculture Committee, 2004 (“Plant power,” *Our Planet*, Volume 14, Number 3, Available Online at <http://www.ourplanet.com/imgversn/143/lugar.html>, Accessed 02-08-2013)

In a world confronted by global terrorism, turmoil in the Middle East, burgeoning nuclear threats and other crises, it is easy to lose sight of the long-range challenges. But we do so at our peril. One of the most daunting of them is meeting the world’s need for food and energy in this century. At stake is not only preventing starvation and saving the environment, but also world peace and security. History tells us that states may go to war over access to resources, and that poverty and famine have often bred fanaticism and terrorism. Working to feed the world will minimize factors that contribute to global instability and the proliferation of weapons of mass destruction.

With the world population expected to grow from 6 billion people today to 9 billion by mid-century, the demand for affordable food will increase well beyond current international production levels. People in rapidly developing nations will have the means greatly to improve their standard of living and caloric intake. Inevitably, that means eating more meat. This will raise demand for feed grain at the same time that the growing world population will need vastly more basic food to eat.

Complicating a solution to this problem is a dynamic that must be better understood in the West: developing countries often use limited arable land to expand cities to house their growing populations. As good land disappears, people destroy timber resources and even rainforests as they try to create more arable land to feed themselves. The long-term environmental consequences could be disastrous for the entire globe.

Productivity revolution

To meet the expected demand for food over the next 50 years, we in the United States will have to grow roughly three times more food on the land we have. That’s a tall order. My farm in Marion County, Indiana, for example, yields on average 8.3 to 8.6 tonnes of corn per hectare – typical for a farm in central Indiana. To triple our production by 2050, we will have to produce an annual average of 25 tonnes per hectare.

Can we possibly boost output that much? Well, it’s been done before. Advances in the use of fertilizer and water, improved machinery and better tilling techniques combined to generate a threefold increase in yields since 1935 – on our farm back then, my dad produced 2.8 to 3 tonnes per hectare. Much US agriculture has seen similar increases.

But of course there is no guarantee that we can achieve those results again. Given the urgency of expanding food production to meet world demand, we must invest much more in scientific research and target that money toward projects that promise to have significant national and global impact. For the United States, that will mean a major shift in the way we conduct and fund agricultural science. Fundamental research will generate the innovations that will be necessary to feed the world.

The United States can take a leading position in a productivity revolution. And our success at increasing food production may play a decisive humanitarian role in the survival of billions of people and the health of our planet.

### 1AC—Hegemony

#### Advantage Two is Hegemony

#### Only the Fed can create a long-term commitment to fund transportation infrastructure—solves the liquidity trap

Peterson 13 — Eric C. Peterson, Transportation Policy Consultant at the Eno Center for Transportation—a neutral, non-partisan think-tank that promotes policy innovation, former Staff Member for U.S. Senator John Warner (R-Va), former Deputy Administrator for the U. S. Department of Transportation’s Research and Innovative Technology Administration, 2013 (“Is Quantitative Easing an Option for Infrastructure Financing?,” *Eno Brief Newsletter*—a publication of the Eno Center for Transportation, January, Available Online at <http://www.enotrans.org/eno-brief/is-quantitative-easing-an-option-for-infrastructure-financing>, Accessed 02-20-2013)

Over the past four years, in an effort to stimulate employment and stabilize the national economy, the Federal Reserve has carried out three exercises it referred to as “Quantitative Easing.” Through these exercises the Fed bought Treasury notes and poured hundreds of billions of dollars into the market. In mid-December, the Fed announced a fourth round of Quantitative Easing that will continue until either the unemployment rate reaches 6.5 percent, or inflation rises to 2.5 percent. Under this new round the Fed will buy $45 billion in Treasury notes monthly and will direct $40 billion monthly to the mortgage market in order to encourage bankers to help improve conditions in the housing sector.

Also occurring over the past several years has been considerable discussion over the notion of the United States establishing an infrastructure investment bank similar to the one established by the European Union. Through this facility, it is suggested, infrastructure projects like roads, airports, public transit and railroads could receive low-cost, long-term financing that could give confidence to investors, contractors, and suppliers in their decisions on both bidding for and providing materials to these vital initiatives.

The challenge in the U.S. is that the Executive and Legislative branches insist on treating infrastructure in the budgetary and appropriations process of the federal government the same way they treat the purchase of office supplies and equipment or government workers’ salaries. The commitment is mostly annual in nature with little guarantee that the next Congress, or the next administration, will honor the commitment of the current Congress or administration. There is little long-range planning or contracting. As a result, the cost of materials, human resources and financing these projects are highly distorted… much more expensive and less effective than they should or could be.

If the U.S. had an infrastructure bank, or better yet, if the Federal Reserve were to direct its quantitative easing resources toward infrastructure projects, the massive inventory of needed and planned transportation infrastructure projects could be addressed quickly, securing both a brighter future for America’s workforce, a better future for America’s competitive position in the world, and brighter prospects for improving the mobility of the nation while redressing the environmental impacts that the nation’s current transportation produces.

This may sound like a revolutionary strategy for the United States, but both Britain and Japan are currently using a similar approach to address their transportation infrastructure needs. If the Fed were to make a portion, say one-third of the monthly amount of easing that it announced in early December, available to transportation infrastructure – approximately $28 billion per month – it is conceivable that within a year millions of jobs could be created, and major progress could be made in fixing roads, building new rail and aviation capacity, and addressing other transportation infrastructure-related needs without stressing the Congressional imposed debt limit, or otherwise affecting the government’s budgetary balance.

In fact such a move would have a beneficial impact on government budgets at all levels.

New and/or improved transportation would improve the mobility of workers and travelers, improve the efficiency by which goods flow to the domestic and international markets, help generate new economic activity that would ultimately generate new revenue with which to pay for other government services, as well as service the long-term debt of infrastructure construction, operation and maintenance.

Over the past two years, the House Transportation and Infrastructure Committee held a series of hearings, all aimed at making the case for private investment in the nation’s re-emerging intercity passenger rail service. The majority party on the committee is most interested in having the Northeast corridor taken over by a private-sector organization that would not require any form of subsidy from the Federal government.

At the final hearing in the committee’s series, Perry Offutt, Managing Director, Morgan Stanley, informed Committee Chair John Mica (R-Fla.), that: A) the private-sector has never attempted to undertake such a massive project on its own, and thus has no experience; B) while he could imagine the possibility of the private-sector becoming involved, it would only come about if the Federal government were also involved and willing to guarantee protection for the private-sector’s investment; C) the amount of investment the private-sector might be willing to make would probably be no more than 15 percent of the total project; and D) the private-sector would expect a rate of return on their investment of between 11 percent and 15 percent.

If nothing else, Mr. Offutt sent a clear message that from the private sector’s perspective there is an expectation and an obligation for the Federal government to accept and fulfill its role in insuring the vitality of the nation’s transportation infrastructure. Further, if there is no money at the present time that would allow the Federal government to address this responsibility, the private sector will continue to sit on the sidelines or invest its funds in more attractive opportunities. Without some sense of long-term commitment from the Federal government, there will be no long-term commitment from the private-sector investment community.

So what are the alternatives? It would appear there are three.

The first alternative is for Congress and the Administration to muster the courage to raise and provide adequate levels of funding that will allow for both the backlog of projects and the development of new projects to be addressed.

The second alternative is for Congress and the Administration to continue doing little or nothing, thus allowing the nation’s competitiveness to continue to deteriorate, extending the possibility of high unemployment and slow economic growth.

The third, and perhaps most pragmatic and efficient alternative, would be for the Federal Reserve to redirect a portion of its fourth round of Quantitative Easing to rehabilitate and further develop that nation’s infrastructure.

Working with the U.S. Department of Transportation and other Federal agencies with oversight for the nation’s transportation system and other infrastructure systems, the Federal Reserve could provide long-term low-cost/no-cost financing that could help hold down the cost of fixing the nation’s infrastructure, bring down unemployment, stimulate economic growth, and provide private investors the confidence to be constructive partners in the rebuilding of America.

In the 1860s, the Federal government put the United States on track to be a world leader by committing to the long-term development of the transcontinental railroad. Nearly 100 years later, the Federal government renewed that commitment to world leadership by building the interstate highway system. Now, fully a half-century later, that infrastructure, as well as other elements of the nation’s transportation system is in grave need of renovation and improvement.

While the call for austerity in government seems to be the political currency of the day, it cannot and must not be the obstacle to infrastructure repair, improvement and maintenance. To end this situation, the Federal Reserve should pursue its twin missions of fighting unemployment and stabilizing the economy by dedicating a portion of the fourth round of Quantitative Easing to the nation’s transportation infrastructure. In both the long-term and the short-term such a move could be highly beneficial and transformative.

#### That’s key to revitalize the American steel industry—transportation infrastructure investment is vital.

AISI 12 — American Iron and Steel Institute—an association of North American steel producers, 2012 (“AISI Public Policy Priorities – Promoting a Pro-Manufacturing Agenda,” February 2nd, Available Online at http://www.steel.org/en/Public%20Policy/~/media/Files/AISI/Public%20Policy/Agenda/AISI2012PublicPolicyAgenda%20\_%20Final%20020212.ashx, Accessed 09-01-2012, p. 11)

Background. A globally competitive economy depends on an effective and efficient transportation infrastructure. The report of the National Surface Transportation Infrastructure Financing Commission to Congress estimates that it will require approximately $200 billion per year, each year, for the foreseeable future to maintain and improve the nation’s highways and transit systems. An efficient infrastructure directly impacts the competitiveness of the manufacturing sector. In addition, infrastructure improvements and expansion creates significant demand for steel fabricated products.

Steel plays a vital role in transportation infrastructure repair and development through the use of steel plate, structural members, reinforcement bar, guardrails, signage, utility poles and a wide range of other steel products. The most recent transportation act, Safe, Accountable, Flexible and Efficient Transportation Equity Act-a Legacy for Users (SAFETEA-LU), addressed a portion of the infrastructure expansion and improvement in the U.S. and provided a high-profile opportunity for steel. This legislation was set to expire in September 2009 but has been extended on a short-term basis on several occasions, most recently through March 2012. Authorization of a new act is way overdue. In addition, federal funding through the Highway Trust Fund is currently inadequate. This, coupled with the current economic downturn, has resulted in delays or stoppage of vital transportation projects nationally.

#### And, a strong steel industry is the lynchpin of U.S. global leadership.

Buyer 7 — Steve Buyer, Member of the U.S. House of Representatives (R-Indiana), Colonel in the U.S. Army Reserve, holds a B.S. from The Citadel and a J.D. from Valparaiso University, 2007 (“Statement of Representative Steve Buyer Before the International Trade Commission Regarding the five-year sunset review on Certain Hot-Rolled Carbon Steel Flat Products from Argentina, China, India, Indonesia, Kazakhstan, Netherlands, Romania, South Africa, Taiwan, Thailand, and Ukraine (Inv. Nos. 701 -TA-404-408 and 731 -TA-898-908),” July 31st, Available Online via EDIS (Document # 279239), Accessed 09-01-2012)

A robust steel industry is fundamental to the security and economic viability of this nation. If you were to contemplate the ten resources considered essential to the successful establishment of a nation, steel would be high on that list. A fruitful domestic steel industry maintains its viability by being adaptive, technologically savvy, and flexible so that it can maintain its competitive edge in the world market. That competitive edge lends itself to economic security and stability here at home. Both of those elements are vital ingredients to a nation's ability to develop and maintain an adequate defense.

I believe we must remain vigilant to protect ourselves from a future without a steelmaking infrastructure sufficient to meet our national defense needs. In the years that have followed the tragic events of September 11, 2001, national defense has dominated public attention. When contemplating the tumultuous nature of this global war against terror in which we are immersed, I think it is apparent that we cannot accept a situation in which we are reliant on the kindness of strangers to meet our security-related steel needs. Depending on trusted friends and allies may not be wise, since they have requirements of their own for steel.

Simply put, the defense of our nation depends on steel. Our aircraft carriers, cruisers, tanks, HUMMVEES, are all made of steel. We cannot become dependent on foreign sources for this material so vital to our national defense. The United States is the only superpower in the world. We cannot project our force around the globe, which from time to time is necessary, without the ability to move people and equipment quickly. It is in our national interest to maintain a vigorous steel industry. The economic stability of the steel industry here at home, and our ability to remain competitive abroad, directly impacts our national security.

The efficient low-cost producers that comprise the membership of our domestic steel market can compete effectively against any foreign producer in the global economy. To ensure their stature, the steel industry has invested billions of dollars in modernizing itself while simultaneously improving environmental compliance. It has learned the hard way the benefit of cutting-edge technology. These producers are heavily concentrated in northwest Indiana and at the end of 2006 they employed over 19,000 Americans in that region. Companies like Nucor of Crawfordsville and Steel Dynamics of Pittsboro contribute substantially to the ensuring a healthy local economy and thereby contribute to a stable and healthy national economy. The nation's annual production of over I00 million tons of steel, of which Indiana is the second-largest producer among the states, keeps this country at the top of the worldwide steel industry. However, if the competitive nature of this market is unfairly influenced by steel dumping or by illegal subsidies given to foreign producers by their governments or other entities, the integrity of the domestic and global market is jeopardized. In those instances, the domestic market loses its ability to effectively compete with its global rivals. When that occurs, it negatively impacts the economic stability of our domestic steel industry which in turn threatens our national security. We need to ensure that companies like Nucor and Steel Dynamics have the opportunity to modernize and grow to adequately meet the demands of the global market without the fear of sustaining financial damage from unfair or illegal trade practices.

To ensure that our nation’s defense remains adequate and capable, we must continue to enable mechanisms that will influence other countries to play by the rules. Simultaneously, we must be cognizant, and take appropriate action, to recognize those instances in which anti-dumping and countervailing duties are no longer required to safeguard our economic and security interests. In either instance, we cannot allow to go unchallenged the continuous violations of international and U.S. trade laws that lend to a skewed market and undercut the ability for fair competition to flourish in the global economy.

The preservation of the economic integrity of our domestic steel industry is fundamental to our ability to protect our very existence as a nation. Please take this under consideration while contemplating your decision in this matter - a vital instrument of our national security lies in your hands.

#### Hegemony creates structural disincentives for war—*theoretical* and *empirical* evidence

Wohlforth 9 — William C. Wohlforth, Daniel Webster Professor of Government at Dartmouth College, holds an M.Phil. and Ph.D. in Political Science from Yale University, 2009 (“Unipolarity, Status Competition, and Great Power War,” *World Politics*, Volume 61, Number 1, January, Available Online to Subscribing Institutions via Project MUSE, p. 29-31)

The upshot is a near scholarly consensus that unpolarity’s consequences for great power conflict are indeterminate and that a power shift resulting in a return to bipolarity or multipolarity will not raise the specter of great power war. This article questions the consensus on two counts. First, I show that it depends crucially on a dubious assumption about human motivation. Prominent theories of war are based on the assumption that people are mainly motivated by the instrumental pursuit of tangible ends such as physical security and material prosperity. This is why such theories seem irrelevant to interactions among great powers in an international environment that diminishes the utility of war for the pursuit of such ends. Yet we know that people are motivated by a great many noninstrumental motives, not least by concerns regarding their social status. 3 As John Harsanyi noted, “Apart from economic payoffs, social status (social rank) seems to be the most important incentive and motivating force of social behavior.”4 This proposition rests on much firmer scientific ground now than when Harsanyi expressed it a generation ago, as cumulating research shows that humans appear to be hardwired for sensitivity to status and that relative standing is a powerful and independent motivator of behavior.5 [end page 29] Second, I question the dominant view that status quo evaluations are relatively independent of the distribution of capabilities. If the status of states depends in some measure on their relative capabilities, and if states derive utility from status, then different distributions of capabilities may affect levels of satisfaction, just as different income distributions may affect levels of status competition in domestic settings. 6 Building on research in psychology and sociology, I argue that even capabilities distributions among major powers foster ambiguous status hierarchies, which generate more dissatisfaction and clashes over the status quo. And the more stratified the distribution of capabilities, the less likely such status competition is. Unipolarity thus generates far fewer incentives than either bipolarity or multipolarity for direct great power positional competition over status. Elites in the other major powers continue to prefer higher status, but in a unipolar system they face comparatively weak incentives to translate that preference into costly action. And the absence of such incentives matters because social status is a positional good—something whose value depends on how much one has in relation to others.7 “If everyone has high status,” Randall Schweller notes, “no one does.”8 While one actor might increase its status, all cannot simultaneously do so. High status is thus inherently scarce, and competitions for status tend to be zero sum.9 I begin by describing the puzzles facing predominant theories that status competition might solve. Building on recent research on social identity and status seeking, I then show that under certain conditions the ways decision makers identify with the states they represent may prompt them to frame issues as positional disputes over status in a social hierarchy. I develop hypotheses that tailor this scholarship to the domain of great power politics, showing how the probability of status competition is likely to be linked to polarity. The rest of the article investigates whether there is sufficient evidence for these hypotheses to warrant further refinement and testing. I pursue this in three ways: by showing that the theory advanced here is consistent with what we know about large-scale patterns of great power conflict through history; by [end page 30] demonstrating that the causal mechanisms it identifies did drive relatively secure major powers to military conflict in the past (and therefore that they might do so again if the world were bipolar or multipolar); and by showing that observable evidence concerning the major powers’ identity politics and grand strategies under unipolarity are consistent with the theory’s expectations.

#### History proves our impact—hegemonic decline causes conflict.

Friedberg 11 — Aaron L. Friedberg, Professor of Politics and International Affairs at Princeton University, holds a Ph.D. from Harvard University, 2011 (“Hegemony with Chinese Characteristics,” *The National Interest*, June 21st, Available Online at http://nationalinterest.org/print/article/hegemony-chinese-characteristics-5439, Accessed 09-15-2011)

Throughout history, relations between dominant and rising states have been uneasy—and often violent. Established powers tend to regard themselves as the defenders of an international order that they helped to create and from which they continue to benefit; rising powers feel constrained, even cheated, by the status quo and struggle against it to take what they think is rightfully theirs. Indeed, this story line, with its Shakespearean overtones of youth and age, vigor and decline, is among the oldest in recorded history. As far back as the fifth century BC the great Greek historian Thucydides began his study of the Peloponnesian War with the deceptively simple observation that the war’s deepest, truest cause was “the growth of Athenian power and the fear which this caused in Sparta.”

The fact that the U.S.-China relationship is competitive, then, is simply no surprise. But these countries are not just any two great powers: Since the end of the Cold War the United States has been the richest and most powerful nation in the world; China is, by contrast, the state whose capabilities have been growing most rapidly. America is still “number one,” but China is fast gaining ground. The stakes are about as high as they can get, and the potential for conflict particularly fraught.

At least insofar as the dominant powers are concerned, rising states tend to be troublemakers. As a nation’s capabilities grow, its leaders generally define their interests more expansively and seek a greater degree of influence over what is going on around them. This means that those in ascendance typically attempt not only to secure their borders but also to reach out beyond them, taking steps to ensure access to markets, materials and transportation routes; to protect their citizens far from home; to defend their foreign friends and allies; to promulgate their religious or ideological beliefs; and, in general, to have what they consider to be their rightful say in the affairs of their region and of the wider world.

As they begin to assert themselves, ascendant states typically feel impelled to challenge territorial boundaries, international institutions and hierarchies of prestige that were put in place when they were still relatively weak. Like Japan in the late nineteenth century, or Germany at the turn of the twentieth, rising powers want their place in the sun. This, of course, is what brings them into conflict with the established great powers—the so-called status quo states—who are the architects, principal beneficiaries and main defenders of any existing international system.

The resulting clash of interests between the two sides has seldom been resolved peacefully. Recognizing the growing threat to their position, dominant powers (or a coalition of status quo states) have occasionally tried to attack and destroy a competitor before it can grow strong enough to become a threat. Others—hoping to avoid war—have taken the opposite approach: attempting to appease potential challengers, they look for ways to satisfy their demands and ambitions and seek to incorporate them peacefully into the existing international order.

But however sincere, these efforts have almost always ended in failure. Sometimes the reason clearly lies in the demands of the rising state. As was true of Adolf Hitler’s Germany, an aggressor may have ambitions that are so extensive as to be impossible for the status quo powers to satisfy without effectively consigning themselves to servitude or committing national suicide. Even when the demands being made of them are less onerous, the dominant states are often either reluctant to make concessions, thereby fueling the frustrations and resentments of the rising power, or too eager to do so, feeding its ambitions and triggering a spiral of escalating demands. Successful policies of appeasement are conceivable in theory but in practice have proven devilishly difficult to implement. This is why periods of transition, when a new, ascending power begins to overtake the previously dominant state, have so often been marked by war.

#### Even if hegemony is ineffective, it upholds an international order that prevents conflict

Kagan 12 — Robert W. Kagan, Senior Fellow in Foreign Policy Studies at the Brookings Institution, Adjunct Professor of History at Georgetown University, former senior associate at the Carnegie Endowment for International Peace, contributing editor to The Weekly Standard, holds a Master of Public Policy degree from the John F. Kennedy School of Government at Harvard University and a Ph.D. in U.S. History from American University, 2012 (“Why the World Needs America,” Wall Street Journal, February 11th, Available Online at http://online.wsj.com/article/SB10001424052970203646004577213262856669448.html, Accessed 02-16-2012)

But international order is not an evolution; it is an imposition. It is the domination of one vision over others—in America's case, the domination of free-market and democratic principles, together with an international system that supports them. The present order will last only as long as those who favor it and benefit from it retain the will and capacity to defend it.

There was nothing inevitable about the world that was created after World War II. No divine providence or unfolding Hegelian dialectic required the triumph of democracy and capitalism, and there is no guarantee that their success will outlast the powerful nations that have fought for them. Democratic progress and liberal economics have been and can be reversed and undone. The ancient democracies of Greece and the republics of Rome and Venice all fell to more powerful forces or through their own failings. The evolving liberal economic order of Europe collapsed in the 1920s and 1930s. The better idea doesn't have to win just because it is a better idea. It requires great powers to champion it.

If and when American power declines, the institutions and norms that American power has supported will decline, too. Or more likely, if history is a guide, they may collapse altogether as we make a transition to another kind of world order, or to disorder. We may discover then that the U.S. was essential to keeping the present world order together and that the alternative to American power was not peace and harmony but chaos and catastrophe—which is what the world looked like right before the American order came into being.