# 1NC – Investor Confidence DA

**The global economy is on the brink of collapse, but strong investor confidence is keeping it afloat**

**Harding 10/13** [Sy Harding, President of Asset Management Research Corporation, Editor of Street Smart Post. “Stock Market Investors Confidence Despite Global Recession Threat.” October 13, 2012. <http://www.marketoracle.co.uk/Article36986.html>] AP

The global economic recovery from the 2007-2009 financial collapse stalled last year and continues to worsen this year, with the International Monetary Fund cutting its forecasts for global economic recovery yet again, including for the U.S., and warning four days ago that risks of the world dropping back into a global recession “are alarmingly high”, and that “no significant improvements appear in the offing.”¶ That certainly sounds like the IMF doesn’t have much confidence that the ‘Troika’ (the IMF, EU, and ECB) will be successful with the euro-zone rescue plans and stimulus measures announced a month ago.¶ Meanwhile the stock markets of China and Japan, the world’s second and third largest economies, are in serious bear markets due to their economic slowdowns and fears of the worsening global economic conditions. China’s stock market is down 40% from its peak in 2009. Japan’s market is down 22% from its 2010 peak and still 51% beneath its peak in 2007.¶ Clearly neither of those extremely important global economies have any more confidence than the IMF that improvements are in the offing.¶ U.S. corporations seem to be preparing for the possibility of unusually difficult times ahead. They have salted away a record $1.4 trillion in cash, refusing to invest it in their futures, earning near zero on it, the purpose for hoarding the cash rather than using it apparently being to make sure they can pay their bills and survive anything that might lie ahead.¶ The fear of corporate managements could also be seen in the way that corporate insiders did not agree with the optimism that created the big stock market rally off the June low. They sold into its strength at an unusually heavy pace. According to the latest Vickers Weekly Insider Report, their selling has continued even after the Fed announced its QE3 stimulus measures. Like the IMF, and China and Japan’s markets, they apparently have little confidence that the new rescue efforts by the ECB in Europe and the U.S. Fed, will produce economic improvement anytime soon.¶ Usually savvy hedge-fund managers likewise did not participate in the June rally, instead selling into it. According to the Wall Street Journal, that has them experiencing their worst year since 1997. The opinion of hedge fund Comstock Partners, revealed in a report this week, is that the economy and stock market face “severe headwinds in the period ahead”. It cites “the ongoing European sovereign debt crisis, significant slowing of growth in China and emerging markets, ongoing problems in Japan, an anemic U.S. recovery, dysfunction in Washington, the coming fiscal cliff, and the first decline in S&P 500 earnings in three years.” Its conclusion is that “while these problems are fairly well-known, they have not been factored into the market since investors have been focusing on other factors they regard as highly bullish.” They cite those factors as mainly being investor confidence that the Fed has their backs and “will prevent anything terrible from happening.”¶ Private-equity funds are having a similar under-performing year, up on average of only 4%. As the Journal says, that is not what their investors planned on. The funds were also suspicious of the rally, and are sitting on close to $1trillion in cash. ¶ However, U.S. investors remain bullish and confident as evidenced by the resilience in the U.S. stock market. For instance, while China’s stock market is in a bear market and at a 4-year low, the S&P 500 reached a four-year high in mid-September, and has settled back less than 3% since. ¶ That’s quite a contrast to the worsening worries of the IMF, China and Japan, U.S. corporations, company insiders, professional hedge fund and other institutional managers. ¶

**The plan causes abrupt investor pullout which collapses the economy**

**CBO 10** [Congressional Budget Office. “Federal Debt and the Risk of a Fiscal Crisis.” July 27, 2010. <https://www.cbo.gov/publication/21625>] AP

Over the past few years, U.S. government debt held by the public has grown rapidly to the point that, compared with the total output of the economy, it is now higher than it has ever been except during the period around World War II. The recent increase in debt has been the result of three sets of factors: an imbalance between federal revenues and spending that predates the recession and the recent turmoil in financial markets, sharply lower revenues and elevated spending that derive directly from those economic conditions, and the costs of various federal policies implemented in response to the conditions.¶ Further increases in federal debt relative to the nations output (gross domestic product, or GDP) almost certainly lie ahead if current policies remain in place. The aging of the population and rising costs for health care will push federal spending, measured as a percentage of GDP, well above the levels experienced in recent decades. Unless policymakers restrain the growth of spending, increase revenues significantly as a share of GDP, or adopt some combination of those two approaches, growing budget deficits will cause debt to rise to unsupportable levels.¶ Although deficits during or shortly after a recession generally hasten economic recovery, persistent deficits and continually mounting debt would have several negative economic consequences for the United States. Some of those consequences would arise gradually: A growing portion of peoples savings would go to purchase government debt rather than toward investments in productive capital goods such as factories and computers; that crowding out of investment would lead to lower output and incomes than would otherwise occur. In addition, if the payment of interest on the extra debt was financed by imposing higher marginal tax rates, those rates would discourage work and saving and further reduce output. Rising interest costs might also force reductions in spending on important government programs. Moreover, rising debt would increasingly restrict the ability of policymakers to use fiscal policy to respond to unexpected challenges, such as economic downturns or international crises.¶ Beyond those gradual consequences, a growing level of federal debt would also increase the probability of a sudden fiscal crisis, during which investors would lose confidence in the government’s ability to manage its budget, and the government would thereby lose its ability to borrow at affordable rates. It is possible that interest rates would rise gradually as investor’s confidence declined, giving legislators advance warning of the worsening situation and sufficient time to make policy choices that could avert a crisis. But as other countries experiences show, it is also possible that investors would lose confidence abruptly and interest rates on government debt would rise sharply. The exact point at which such a crisis might occur for the United States is unknown, in part because the ratio of federal debt to GDP is climbing into unfamiliar territory and in part because the risk of a crisis is influenced by a number of other factors, including the governments long-term budget outlook, its near-term borrowing needs, and the health of the economy. When fiscal crises do occur, they often happen during an economic downturn, which amplifies the difficulties of adjusting fiscal policy in response.¶ If the United States encountered a fiscal crisis, the abrupt rise in interest rates would reflect investors’ fears that the government would renege on the terms of its existing debt or that it would increase the supply of money to finance its activities or pay creditors and thereby boost inflation. To restore investors’ confidence, policymakers would probably need to enact spending cuts or tax increases more drastic and painful than those that would have been necessary had the adjustments come sooner.

# 2NC - Uniqueness

**Investors are confident in the U.S. economy – money is pouring in despite a slowdowns in other countries – that’s putting the economy on the brink – that’s Harding**

**Investor confidence is up**

**a) Multiple studies**

**Eyden 9/20** [Christina Camara. “Investor Confidence in U.S. Companies Inching Upward.” September 20, 2012. <http://www.accountingweb.com/article/investor-confidence-us-companies-inching-upward/219889>] AP

On September 19, the Center for Audit Quality (CAQ) released its sixth annual "Main Street Investor Survey," which shows that investor confidence in capital markets has increased 4 percentage points since 2011, with 65 percent saying they have "a great deal of confidence, quite a bit of confidence, some confidence, very little confidence, or at least some confidence." The survey defines "investors" as those with $10,000 or more in such investments as mutual funds, stocks, IRAs, 401(k)s.¶ ¶ By way of comparison, confidence in capital markets outside the United States fell 8 percentage points, to 35 percent.¶ ¶ Confidence in investing in US publicly traded companies leveled off at 71 percent this year, a 1-point drop from 2011, and a 5-point drop from years 2008 through 2010.¶ ¶ CAQ Executive Director Cindy Fornelli said, "Individual investors, as a group, have confidence in audited financial information released by public companies and believe that auditors are effective in looking out for investors' interests." ¶ ¶ Other findings:¶ 69 percent of those surveyed say they have confidence in audited financial information released by public companies.¶ 70 percent believe the American economy will either stay the same or improve over the next year; 20 percent believe it will get worse.¶ 25 percent expect their personal financial situation to improve; 64 percent expect it to stay the same over the next year.

**b) Market trends prove confidence, but progress is not guaranteed**

**Roose 9/19** [Kevin Roose. “The Confidence Game: The Economy is Recovering, Most of Us Think.” September 19, 2012. <http://nymag.com/daily/intel/2012/09/confidence-game.html>] AP

Still, consumer confidence does affect consumer behavior. It's a self-fulfilling prophecy that often, if not always, predicts the economic future. So, every month, we get a flurry of surveys and studies and articles that all purport to give us a window to our collective economic psyches and deduce from that where things are headed.¶ And lo and behold, it turns out that we are an increasingly confident bunch.¶ According to that NBC/WSJ poll, 42 percent of Americans think the economy will get better in the next year. Another survey that came out today, from the Center for Audit Quality (via Politico), asked "Main Street investors" (people with more than $10,000 in investments) how they felt, and it found largely the same: 65 percent said they were confident in U.S. capital markets, a number that reverses a years-long slide. Here's what that looks like:¶ Housing numbers, which are often used as a stand-in for confidence (because people who think their jobs and savings are about to vanish generally don't buy houses) are also up. The new-home construction rate is up nearly 30 percent from a year ago, and new-home applications are up 25 percent. The National Association of Home Builders' "builder confidence index," whatever that is, is at its highest level since 2006.¶ In fact, most of the statistics we use to approximate the idea of "confidence" are going in the right direction. We're spending more. On Wall Street, the VIX (a so-called "fear gauge" that basically tracks how sweaty traders' palms are) is near a five-year low. And as Felix Salmon points out, credit card debt is also going down, meaning that people are at least confident enough in next month's wages to pay off their bills this month.¶ Granted, Bloomberg did report today that steakhouse revenues have fluctuated "as diners digest economic news." (Digest? Get it? Give those guys a Comedy Central special!) But fewer people going to Capital Grille means basically nothing about the broader economic recovery, since, like, what if they just wanted fish?¶ So, with a pile of imperfect polls and statistics mostly pointing in the same direction, it's relatively safe to say that four years after the near-collapse of the financial system, we're seeing the light at the end of the tunnel — or at least we think we are.

**Investor confidence strong – dollar is only viable reserve currency**

**PBS 6/21** (6/21/11, Nightly Business Report, PBS, “Signs of Confidence in the US Economy,” http://www.pbs.org/nbr/site/onair/transcripts/signs\_of\_confidence\_in\_us\_economy\_110621/)

Wolfgang, the dollar index, measuring the dollar against six currencies, is up from the month of May. What do you think the economic factors are that have been driving it lately? WOLFGANG KOESTER, CEO, FIREAPPS: Well, I think that a lot of the economic factors are that people are starting to have maybe a little bit more confidence in the United States dollar than they have in other currencies. So really the play here is, it`s not as weak as other currencies. Not meaning that it`s a very strong dollar, but it is not as weak as others would think. HUDSON: Is that confidence well put in the U.S. currency, do you think, at this point? KOESTER: I think as -- if you`re looking at a safe haven, there had been a lot of discussions about is China the new current reserve currency, is Europe the new reserve currency, is Switzerland the new reserve currency? And the fact is that none of them could actually support the world economy with a reserve currency like the United States dollar does, so people are starting to see that the reserve currency is still the U.S. dollar.

**Direct foreign investment ensures the US economy is continuing to grow in the face of recession**

WSJ, 6/20 (“Foreign Investment in the U.S. Jumped 49% in 2010 From 2009,” <http://blogs.wsj.com/economics/2011/06/20/foreign-investment-in-u-s-jumped-49-in-2010-from-2009/>, Wall Street Journal, June 20, 2011)

Despite a world struggling through an economic crisis, direct foreign investment in the U.S. jumped $75 billion in 2010, the White House said Monday. “The United States remains the No. 1 destination for foreign investment in the entire world,” said the chairman of U.S. President Barack Obama‘s Council of Economic Advisers, Austan Goolsbee. In times of crisis, he said, the U.S. is the “safest harbor.” Direct foreign investment in the U.S. jumped 49% to $228 billion from $153 billion in 2009. Goolsbee said these investments support 5.7 million workers in the U.S. President Obama, in a statement, hailed the important role of foreign investments in the U.S. He said the country’s openness to foreign investors helps explain the boost. He said the U.S. has the “world’s most productive workforce,” a culture of innovation, remarkable colleges, and a business environment marked by transparency and the rule of law. Boosting foreign investment is something the administration is considering to help accelerate the U.S. economy. To do that, Goolsbee said the administration wants to make permanent a tax credit for companies’ research and development costs, as well as overhaul the corporate tax code. Obama’s Jobs and Competitiveness Council, led by General Electric Co. Chief Executive Jeff Immelt, last week recommended that the government create programs to accelerate direct foreign investment. Investment in the U.S. will likely continue to grow in the face of the global economic crisis and economic uncertainty, Goolsbee said. The European Union is currently grappling with how to rescue Greece from a debt crisis. “In moments of crisis it has always been and has continued to be now the case that the United States is the safest harbor in the world, so there does tend to be a flight to safety when people get nervous about uncertainties in the world economy,” Goolsbee said. Separately, Goolsbee said he would offer advice to whomever the administration chooses to replace him. Goolsbee is leaving the administration at the end of the summer to return to the University of Chicago Graduate School of Business. Goolsbee said he hopes his replacement keeps the CEA’s focus on finding ways to grow the economy. “We have to grow,” Goolsbee said. He continued, “We need broad-based growth in this country that gets away from the bubble-based, unbalanced growth of the previous expansion.”

# 2NC – Link

**Investors will quickly withdraw from U.S. markets with new expansionary policy – they fear debt default and inflation from spending – that’s CBO**

**Here’s more evidence – investors fear the U.S. could default on its debt – rising interest payments**

**Hall 09** [Kevin G. Hall 07.19.2009 "Ballooning Federal deficits putting US in Dire straits" http://www.azstarnet.com/business/301459]

Skyrocketing federal budget deficits increasingly are limiting the government's ability to take on new financial commitments. Investors also are starting to worry about something once unthinkable: that the U.S. government could default on its debts someday. The federal budget deficit is the annual sum of what government spends beyond what it collects in revenues. This year's deficit is on course to balloon to a figure equivalent to 12 percent of the nation's gross domestic product, the total annual value of all goods and services produced. That's double the peak Reagan-era deficit, which was the post-World War II high until now. A June study by the Brookings Institution, a center-left policy research group, found that current increases in spending and continuation of most George W. Bush-era tax cuts will combine to produce a 10-year deficit of $9.1 trillion. That will drive interest payments on the national debt — the total of accumulated annual deficits — to about 3.8 percent of the GDP by 2019. Interest payments on the debt that high would surpass defense spending as a percentage of the GDP. Taxpayers would get nothing in return. All that spending on interest would go only to holders of government bonds who'd financed the past deficit spending.

**Specifically, foreign investors will withdraw – they don’t want to keep funding our debts**

**Ebeling 09** [Richard M. Ebeling, president of The Foundation for Economic Education. “Who Will Fund Obama's Stimulus Spending?” American Institute for Economic Research. http://www.aier.org/research/commentaries/1105-will-foreigners-bailout-obamas-stimulus-spending]

**The president’s stimulus package, which in the Senate version may top $900 billion, will require the United States government to go much further into debt to cover the cost of spending these hundreds of billions of dollars. The question is: Who is going to lend all this money to Uncle Sam?**  The current decade Federal government debt has doubled, from $5.6 trillion in 2000 to more than $10.6 trillion at the end of 2008. As the chart below shows, almost $6.3 trillion or nearly 60 percent of the debt is held by the public (individuals, corporations, financial institutions, or foreign holders). The remaining $4.3 trillion or 40 percent is held by intragovernmental agencies (the Federal Reserve, the Social Security Fund, the Federal Employees Retirement Fund, and a variety of other government entities). **The Federal government is already tapping into all of the agencies**, such as the Social Security Fund, that are currently running surpluses to siphon off funds to help cover its current expenditures. On the other hand, **given the uncertainties in the financial markets, U.S. Treasuries have continued to appear as a relative safe haven for private investors.** However, the Congressional Budget Office has estimated that the Federal government will need to borrow at least $1.5 trillion dollars in the current fiscal year to cover the implemented and planned bailout and “stimulus” spending. To do this Uncle Sam has both to issue new debt and rollover existing debt that matures. It is questionable whether private individuals or corporations in the United States will have either the willingness or ability to finance deficit spending of this magnitude. **At the end of 2008, foreigners held more than $3 trillion or about 30 percent of the U.S. Treasury debt. China tops the list** of these foreign holders, with more than $680 billion in its investment portfolio. **Japan comes in second,** holding $577 billions in U.S. government securities. Great Britain is third with Treasury holdings of $360 billion, followed by the leading oil exporting nations holding $198 billion in Treasuries, and Brazil and Russia holding respectively more than $129 billion and $78 billion. Despite the current economic crisis and the hit American financial institutions have taken during the last six months, foreign holdings of government debt has continued to grow. In November 2007, foreign debt holdings totaled $2.3 trillion, and crossed the $3 trillion mark in October and November of 2008, for a 30 percent increase over the 12 month period.(Japan, however, decreased its holdings of U.S. Treasuries by 4 percent during this time.) **The question now is whether the U.S. government, with more than $1.5 trillion in deficit spending to finance in the current fiscal year, can continue to count on foreign lenders to pick up a large proportion of what these expenditures are going to cost.**  All the **European countries are facing growing budget deficits of their own** as their respective governments all go down the same stimulus spending path being followed by Washington. It is estimated that European Union nations will likely spend at least a combined total of $250-$300 billion on their own economic recovery programs in 2009. At the same time, **the fall in oil prices has cut down on trade surpluses oil exporting countries will have to invest in the U.S. financial markets. The global recession is hitting China’s exporting revenues as well.**  **Furthermore, the Chinese are becoming increasing leery of lending to the American markets.** At the recent international meeting of bankers, businessmen, and bureaucrats in Davos, Switzerland, Chinese officials made clear their dissatisfaction with the American market, where they have suffered significant losses in banks and other financial institutions into which they had invested. In the last five months of 2008, the Chinese sold off almost half of the $46 billion is Fannie Mae and Freddie Mac bonds that they had purchased in the earlier part of the year. **If foreign lenders do not come to the rescue, Uncle Sam will have to rely far more than in the recent past on the financial markets at home to finance its deficit spending dollars. A lot of new bank lending**--with perhaps some of the billions already given by Washington to bailout many of these banks--**will have to end up covering the federal government’s expenditures, rather than being available for private sector investment and employment creation.** **This amount of borrowing will inevitably put upward pressure on interest rates to attract that $1.5 trillion into the government's hands. It will further exacerbate the crowding out of private sector borrowing at a time when prospective profit margins will still be relatively weak.**  **That leaves only one “solution”** to Washington’s deficit funding problems: **more monetary expansion by the Federal Reserve to provide the spending dollars and keep interests artificially below market-based levels. That can only set the stage for worsening price inflation and a new unsustainable investment boom.**