# Spending/China DA

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### Uniqueness/ Link

#### There is no money in the budget for the Plan

**McCaffrey 12** (Paul, June 12th, [Points of View: Reference Shelf **Transportation** **Infrastructure**](javascript:__doLinkPostBack('','mdb%7E%7Epwh%7C%7Cjdb%7E%7Epwhjnh%7C%7Css%7E%7EJN%20%22Points%20of%20View%3A%20Reference%20Shelf%2D%20Transportation%20Infrastructure%22%7C%7Csl%7E%7Ejh','');), VP, Chief Financial Officer at Grange Insurance and graduate of The University of Akron)

Many fear that if **infrastructure** is not properly funded it will threaten US competitiveness in the global marketplace. In 2010, the World Economic Forum (WEF) ranked the United States 23rd in the world in infrastructure quality. Currently, the United States spends around 2.4 percent of its gross domestic product (GDP) on transport and water infrastructure, while Europe averages 5 percent, and China 9 percent. Established by Congress in 2005, the National Surface Transportation Policy and Revenue Study Commission analyzed anticipated American transport needs over the next fifty years. According to its 2008 estimates, $255 billion in annual investments would be required to both maintain the existing infrastructure and to build the necessary improvements. Despite these figures, less than half the money the commission believes is needed is currently being spent each year.¶ The federal government, states, and municipalities are all under severe budgetary constraints. The political environment, meanwhile, is prone to gridlock. In the federal sphere, over the past five years, for example, federal funds for high-speed rail (HSR) projects have been rejected by several states, while the Federal Aviation Administration (FAA), which oversees American air transit, was shut down for nearly two weeks in the summer of 2011 due to partisan wrangling between Congress and the White House.¶ In addition to political gridlock, revenues are diminishing. The federal government is responsible for about 25 percent of all transportation infrastructure funding. The rest is provided by state and local authorities. Much of the money from the federal government for roads, bridges, and mass transit is raised through a tax on various transport fuels. The federal tax rate on a gallon of gasoline has been 18.4 cents since 1993. The money generated from these taxes is then deposited into the Highway Trust Fund (HTF) and used to finance various transit projects throughout the country. But as fuel efficiency and gas prices have increased, fuel tax revenue has declined, meaning there's less and less money to invest in transport infrastructure.

### Scenario 1: Econ

#### Continued deficit spending collapses the economy

Roe 11 (Phil, member of the Education and Workforce Committee and Representative from Tennessee, “Cut, cap and balance: A fight toward fiscal responsibility,” 5-18, <http://voices.washingtonpost.com/federal-eye/2010/05/navy_plebes_scale_herndon_monu.html>)

On Monday, the United States reached the legal limit of its borrowing authority – further evidence that out-of-control spending is a matter of national security. Serious reforms and government spending cuts need to be made to avoid severe economic disruptions – both in the short and long-term. The national debt and deficits are rising at an unconscionable rate. The national debt now exceeds $14 trillion, and the government is still piling up debt at the rate of $200 million an hour, $30 billion a week, $120 billion a month and $1.6 trillion a year. It’s clear we don’t have a revenue problem – we have a spending problem. Raising the debt ceiling without these serious reforms will only burden our future generations with outrageous debt. Worse, the president and Senate Democrats are saying they want a “clean” debt ceiling increase, which means that they want to continue spending and borrowing more money with no strings attached. My view is we must not raise the debt ceiling by $1 without simultaneously making deep cuts in spending and taking real steps towards a balanced budget. It is imperative to the future of the country that we fight for an immediate shift toward fiscal responsibility. That is why I, along with my colleagues in the Republican Study Committee (RSC), wrote a letter to House Speaker John Boehner asking him to “Cut, Cap and Balance.” Specifically, we advocated for discretionary and mandatory spending reductions that would cut the deficit in half next year; enacting statutory, enforceable total-spending caps to reduce federal spending to 18 percent of Gross Domestic Product (GDP); and a Balanced Budget Constitutional Amendment (BBA) with strong protections against federal tax increases and including a Spending Limitation Amendment (SLA). This proposal will put us on a path to prosperity, and I will work to see provisions like this are included in any final agreement. I believe it is prudent to limit the extension of borrowing authority as much as possible, in order to demand accountability from Senate Democrats and the Obama Administration. Every day, we see more and more evidence of the need to confront the problem now. The International Monetary Fund (IMF) report released in April adds urgency to the need for meaningful actions — both short and long-term — to confront the nation's debt head-on. Additionally, Moody's Analytics released a report several weeks ago forecasting a downgrade in our country’s bond rating. It’s clear that if we fail to stop the spending spree, our nation will face economic collapse in the long-term.

#### US econ’s key to the global economy

Harris & Burrows 9 - Mathew, PhD European History @ Cambridge, counselor of the U.S. National Intelligence Council (NIC) and Jennifer, member of the NIC’s Long Range Analysis Unit “Revisiting the Future: Geopolitical Effects of the Financial Crisis” http://www.ciaonet.org/journals/twq/v32i2/f\_0016178\_13952.pdf

Such was the world the NIC foresaw as the crisis unfolded. Now, emerging markets the world over have lost more than half of their value since September 2008 alone. Banks that have never reported a net loss earnings quarter were dissolved in a matter of days. Even with the one year anniversary of the Bear Stearns collapse approaching in March, markets may have yet to find a floor. The proportions of the current crisis hardly need familiarizing. As the panic has not yet given way to a lucid picture of the impacts, most economists and political forecasters are smart enough to shy away from sweeping predictions amid the fog of crisis. Yet, in the post-crisis world, it seems conceivable that global growth will most likely be muted, deflation will remain a risk while any decoupling of the industrialized from developing countries is unlikely, the state will be the relative winner while authoritarianism may not, and U.S. consumption as the engine for global growth will slowly fade. Whether U.S. political and market clout will follow, and whether U.S. political leadership will come equipped with knowledge of the strategic forces affecting the United States remains to be seen.

Mapping the NIC’s predictions against early facts, one of the most interesting observations is less about any particular shock generated by the financial crisis and more about its **global reach**. If anything, the crisis has underscored the importance of globalization as the overriding force or ‘‘mega-driver’’ as it was characterized in both the NIC’s 2020 and 2025 Global Trends works. Developing countries have been hurt as **decoupling theories**, assertions that the emerging markets have appreciably weaned themselves from the U.S. economy, **have been dispelled**. This second epicenter of the crisis in emerging markets could also continue to exacerbate and prolong the crisis. Alongside foreseeable exposures, such as Pakistan with its large current account deficit, are less predictable panics like Dubai, whose debt was financed on suddenly expensive dollars. Even those with cash reserves, such as Russia and South Korea, have been severely buffeted.

#### Global economic crisis causes great-power nuclear war

Mead 9 – Walter Russell Mead, the Henry A. Kissinger Senior Fellow in U.S. Foreign Policy at the Council on Foreign Relations, 2-4, 2009, “Only Makes You Stronger,” The New Republic, http://www.tnr.com/politics/story.html?id=571cbbb9-2887-4d81-8542-92e83915f5f8&p=2

If current market turmoil seriously damaged the performance and prospects of India and China, the current crisis could join the Great Depression in the list of economic events that changed history, even if the recessions in the West are relatively short and mild. The United States should stand ready to assist Chinese and Indian financial authorities on an emergency basis--and work very hard to help both countries escape or at least weather any economic downturn. It may test the political will of the Obama administration, but the United States must avoid a protectionist response to the economic slowdown. U.S. moves to limit market access for Chinese and Indian producers could poison relations for years. For billions of people in nuclear-armed countries to emerge from this crisis believing either that the United States was indifferent to their well-being or that it had profited from their distress could damage U.S. foreign policy far more severely than any mistake made by George W. Bush.

It's not just the great powers whose trajectories have been affected by the crash. Lesser powers like Saudi Arabia and Iran also face new constraints. The crisis has strengthened the U.S. position in the Middle East as falling oil prices reduce Iranian influence and increase the dependence of the oil sheikdoms on U.S. protection. Success in Iraq--however late, however undeserved, however limited--had already improved the Obama administration's prospects for addressing regional crises. Now, the collapse in oil prices has put the Iranian regime on the defensive. The annual inflation rate rose above 29 percent last September, up from about 17 percent in 2007, according to Iran's Bank Markazi. Economists forecast that Iran's real GDP growth will drop markedly in the coming months as stagnating oil revenues and the continued global economic downturn force the government to rein in its expansionary fiscal policy.

All this has weakened Ahmadinejad at home and Iran abroad. Iranian officials must balance the relative merits of support for allies like Hamas, Hezbollah, and Syria against domestic needs, while international sanctions and other diplomatic sticks have been made more painful and Western carrots (like trade opportunities) have become more attractive. Meanwhile, Saudi Arabia and other oil states have become more dependent on the United States for protection against Iran, and they have fewer resources to fund religious extremism as they use diminished oil revenues to support basic domestic spending and development goals. None of this makes the Middle East an easy target for U.S. diplomacy, but thanks in part to the economic crisis, the incoming administration has the chance to try some new ideas and to enter negotiations with Iran (and Syria) from a position of enhanced strength.

Every crisis is different, but there seem to be reasons why, over time, financial crises on balance reinforce rather than undermine the world position of the leading capitalist countries. Since capitalism first emerged in early modern Europe, the ability to exploit the advantages of rapid economic development has been a key factor in international competition. Countries that can encourage--or at least allow and sustain--the change, dislocation, upheaval, and pain that capitalism often involves, while providing their tumultuous market societies with appropriate regulatory and legal frameworks, grow swiftly. They produce cutting-edge technologies that translate into military and economic power. They are able to invest in education, making their workforces ever more productive. They typically develop liberal political institutions and cultural norms that value, or at least tolerate, dissent and that allow people of different political and religious viewpoints to collaborate on a vast social project of modernization--and to maintain political stability in the face of accelerating social and economic change. The vast productive capacity of leading capitalist powers gives them the ability to project influence around the world and, to some degree, to remake the world to suit their own interests and preferences. This is what the United Kingdom and the United States have done in past centuries, and what other capitalist powers like France, Germany, and Japan have done to a lesser extent. In these countries, the social forces that support the idea of a competitive market economy within an appropriately liberal legal and political framework are relatively strong.

But, in many other countries where capitalism rubs people the wrong way, this is not the case. On either side of the Atlantic, for example, the Latin world is often drawn to anti-capitalist movements and rulers on both the right and the left. Russia, too, has never really taken to capitalism and liberal society--whether during the time of the czars, the commissars, or the post-cold war leaders who so signally failed to build a stable, open system of liberal democratic capitalism even as many former Warsaw Pact nations were making rapid transitions. Partly as a result of these internal cultural pressures, and partly because, in much of the world, capitalism has appeared as an unwelcome interloper, imposed by foreign forces and shaped to fit foreign rather than domestic interests and preferences, many countries are only half-heartedly capitalist. When crisis strikes, they are quick to decide that capitalism is a failure and look for alternatives.

So far, such half-hearted experiments not only have failed to work; they have left the societies that have tried them in a progressively worse position, farther behind the front-runners as time goes by. Argentina has lost ground to Chile; Russian development has fallen farther behind that of the Baltic states and Central Europe. Frequently, the crisis has weakened the power of the merchants, industrialists, financiers, and professionals who want to develop a liberal capitalist society integrated into the world. Crisis can also strengthen the hand of religious extremists, populist radicals, or authoritarian traditionalists who are determined to resist liberal capitalist society for a variety of reasons. Meanwhile, the companies and banks based in these societies are often less established and more vulnerable to the consequences of a financial crisis than more established firms in wealthier societies.

As a result, developing countries and countries where capitalism has relatively recent and shallow roots tend to suffer greater economic and political damage when crisis strikes--as, inevitably, it does. And, consequently, financial crises often reinforce rather than challenge the global distribution of power and wealth. This may be happening yet again.

None of which means that we can just sit back and enjoy the recession. History may suggest that financial crises actually help capitalist great powers maintain their leads--but it has other, less reassuring messages as well. If financial crises have been a normal part of life during the 300-year rise of the liberal capitalist system under the Anglophone powers, so has war. The wars of the League of Augsburg and the Spanish Succession; the Seven Years War; the American Revolution; the Napoleonic Wars; the two World Wars; the cold war**:** The list of wars is almost as long as the list of financial crises.

Bad economic times can breed wars. Europe was a pretty peaceful place in 1928, but the Depression poisoned German public opinion and helped bring Adolf Hitler to power. If the current crisis turns into a depression, what rough beasts might start slouching toward Moscow, Karachi, Beijing, or New Delhi to be born?

The United States may not, yet, decline, but, if we can't get the world economy back on track, we may still have to fight.

### Scenario 2: China

#### Due to Economic crises, Deficit spending has lead to poor U.S. China relations

**Strokes 10** (Bruce, [National Journal](javascript:__doLinkPostBack('','mdb%7E%7Eaph%7C%7Cjdb%7E%7Eaphjnh%7C%7Css%7E%7EJN%20%22National%20Journal%22%7C%7Csl%7E%7Ejh','');); 2/20/2010,  international economics columnist for the National Journal, a Washington-based public policy magazine, Academic search premier)

Thanks to the financial crisis, the global economy was the first substantive item on the Obama White House's U.S.-China agenda. The Bush administration had convened the first G-20 meeting of leading economies in November 2008 to cope with the spreading recession. Continuing the G-20 as the primary focus for addressing the crisis dovetailed nicely with the Obama team's thinking on how best to nudge China into assuming greater global responsibilities. Washington and Beijing get high marks from analysts for their close cooperation at both the London G-20 summit in April 2009 and the Pittsburgh meeting in September.¶ With consumer demand imploding everywhere, the global community especially needed China to prime its economic pump, and Beijing responded. In 2009, China's crisis-related discretionary-spending measures equaled 3.1 percent of its economy, according to the International Monetary Fund. U.S. stimulus spending, in contrast, totaled only 2 percent of gross domestic product, which was about the G-20 average. And China's current-account surplus, the broadest measure of its international balance sheet, fell from an out-of-whack 11 percent of GDP in 2007 to a more manageable 5.8 percent in 2009.¶ Yet, Beijing rejected the Obama administration's long-term economic goal of a permanent rebalancing in which the Chinese trade surplus and the U.S. trade deficit would be reduced to more sustainable levels to forestall global financial crises. "The Chinese believe that rebalancing is a U.S. mechanism for pushing responsibility for the financial crisis onto China and for creating expectations about exchange rate management," said David Gordon, a former director of policy planning at the State Department and now the head of research at the Eurasia Group, a consulting firm. "And they will not go there."¶ Absent an agreement on rebalancing trade, economic tensions are only likely to grow. Chinese exports increased nearly 18 percent in December, suggesting that China's trade surplus will rise by the second half of 2010.¶ An appreciation of the yuan could slow that export surge by making Chinese products more expensive and fueling imports. John Williamson, senior fellow at the Peterson Institute for International Economics in Washington, argues that China's currency is undervalued by about 25 percent. But so far, the Obama administration has failed to persuade Beijing to allow the yuan to appreciate.¶ In April, the U.S. Treasury must issue its semi-annual currency report. Speculation is growing that the department may finally cite China for manipulating the exchange rate, something it has heretofore declined to do. Naming Beijing a currency manipulator has one official consequence: It triggers consultations with China. But that designation might encourage Congress to revive legislative efforts to impose a duty on imports from China equivalent to the yuan's undervaluation.¶ Beijing could defuse the tensions by simply allowing the yuan to appreciate. If that happens, China experts do not expect the **Chinese** to allow more than a small rise in value. The Obama administration may then declare victory, maintaining that the move reaffirms its engagement strategy. But a small move in the currency value will achieve little in rebalancing the international economy.¶ Regardless of what happens on the currency front this year, observers expect more trade frictions. In 2009, Washington acted against imports of Chinese tires and steel. More dumping and countervailing duty cases could be on the way.¶ China is engaging in protectionism of its own, however. In late 2009, Beijing announced plans to give preference in government procurement and eligibility for subsidies to products that contain intellectual property that is developed and owned in China. This practice could make it nearly impossible for U.S. makers of software, telecommunications equipment, and green technologies to qualify for the preferences unless they establish Chinese brands and transfer their research and development to China. The Obama administration's reaction to this provocation is likely to be a major test of its China policy.

#### Conflict with China goes nuclear

Glaser 2011 (Professor of Political Science and International Affairs and Director of the Institute for Security and Conflict Studies at the Elliott School of International Affairs at George Washington University, Will China's Rise Lead to War? Subtitle: Why Realism Does Not Mean Pessimism, Foreign Affairs, March/April, lexis)

ACCOMMODATION ON TAIWAN? The prospects for avoiding intense military competition and war may be good, but growth in China's power may nevertheless require some changes in U.S. foreign policy that Washington will find disagreeable -- particularly regarding Taiwan. Although it lost control of Taiwan during the Chinese Civil War more than six decades ago, China still considers Taiwan to be part of its homeland, and unification remains a key political goal for Beijing. China has made clear that it will use force if Taiwan declares independence, and much of China's conventional military buildup has been dedicated to increasing its ability to coerce Taiwan and reducing the United States' ability to intervene. Because China places such high value on Taiwan and because the United States and China -- whatever they might formally agree to -- have such different attitudes regarding the legitimacy of the status quo, the issue poses special dangers and challenges for the U.S.-Chinese relationship, placing it in a different category than Japan or South Korea. A crisis over Taiwan could fairly easily escalate to nuclear war, because each step along the way might well seem rational to the actors involved. Current U.S. policy is designed to reduce the probability that Taiwan will declare independence and to make clear that the United States will not come to Taiwan's aid if it does. Nevertheless, the United States would find itself under pressure to protect Taiwan against any sort of attack, no matter how it originated. Given the different interests and perceptions of the various parties and the limited control Washington has over Taipei's behavior, a crisis could unfold in which the United States found itself following events rather than leading them. Such dangers have been around for decades, but ongoing improvements in China's military capabilities may make Beijing more willing to escalate a Taiwan crisis. In addition to its improved conventional capabilities, China is modernizing its nuclear forces to increase their ability to survive and retaliate following a large-scale U.S. attack. Standard deterrence theory holds that Washington's current ability to destroy most or all of China's nuclear force enhances its bargaining position. China's nuclear modernization might remove that check on Chinese action, leading Beijing to behave more boldly in future crises than it has in past ones. A U.S. attempt to preserve its ability to defend Taiwan, meanwhile, could fuel a conventional and nuclear arms race. Enhancements to U.S. offensive targeting capabilities and strategic ballistic missile defenses might be interpreted by China as a signal of malign U.S. motives, leading to further Chinese military efforts and a general poisoning of U.S.-Chinese relations.

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## Uniqueness/Link

#### Ext. McCaffrey 12: No room in the budget

#### Spending Political consequences

Washington Post 10 (“New spending plans belie Congress's deficit worries,” 5-24, <http://www.washingtonpost.com/wp-dyn/content/article/2010/05/24/AR2010052403585.html>)

Not every item has been "scored" by the Congressional Budget Office, but senior Democratic aides have told The Post that they expect the measure to cost almost $200 billion over the next decade. This is on top of a separate $60 billion measure to fund the war in Afghanistan, now before the Senate, to which the White House is trying to attach $23 billion in additional deficit spending to avoid layoffs of public school teachers. With deficit anxiety rising in the electorate, there are signs that both the White House and the leadership in Congress are beginning to worry about the political costs of more red ink. House leaders are discussing a one-year budget plan that might cut more than Obama's proposed freeze on non-national security discretionary spending. But first, more dollars out the door.

#### Economy fine Economic growth won’t collapse – Decline factors are temporary

MarketWatch 11 (Rex Nutting, MarketWatch, “Will the Economic Slump Last?” Wall Street Journal, <http://www.marketwatch.com/story/will-the-economic-slump-last-2011-06-01?link=MW_latest_news>)

Isn’t there anything good to say about the economy? Sure. Many of the factors depressing the economy are temporary: Gasoline prices have been falling for the past month, and businesses are figuring out how to work around the supply disruptions from the tsunami. Household finances are slowly improving, setting the stage for faster domestic growth. Even the optimists are nervous about the next few months. It’s possible that some of the gloomy data reflect excessive caution ahead of several key events: The end of the Federal Reserve’s asset purchases, the resolution of the U.S. debt-ceiling soap opera, the resolution of Europe’s fiscal disaster, and the ability of the developing world to achieve its soft landing. If all of those go well or even just OK, the future might look a little brighter at the end of the summer. And if they don’t? We may look back on this spring with fond memories.

#### Job growth, minimal inflation, and low interest rates

Bloomberg 11 (Joshua Zumbrun, “Fed’s Pianalto Says U.S. Economy Likely to Grow at 3 Percent Annual Pace,” Bloomberg. June 1, 2011. http://www.bloomberg.com/news/2011-06-01/fed-s-pianalto-says-gradual-economic-recovery-to-continue.html)

Federal Reserve Bank of Cleveland President Sandra Pianalto said she expects the U.S. economic expansion to advance further and that the central bank’s current monetary stimulus is appropriate. “I expect the economy to continue on a gradual recovery pace over the next few years, with annual growth just above 3 percent a year,” Pianalto said today in a speech in Columbus, Ohio. “I believe inflation will be temporarily elevated this year due to developments in oil and food prices, but I expect inflation to fall back below 2 percent in the next couple of years.“Given this outlook, I think that the current accommodative stance of monetary policy, with short-term interest rates close to zero, is appropriate and supports the FOMC’s dual mandate of stable prices and maximum employment,” Pianalto said at the Columbus Metropolitan Club. Chairman Ben S. Bernanke and the Federal Open Market Committee plan this month to complete a $600 billion bond purchase program. At their last meeting in April they said they’ll hold interest rates “exceptionally low” for an “extended period.” They’re considering a policy plan that would follow the end of record monetary stimulus. Pianalto said in response to audience questions that she doesn’t anticipate that the economy will fall into “stagflation,” with simultaneous high unemployment and high inflation because “there has not been a growth in the money supply.” Kept Reserves The Fed has funded its asset purchases by creating bank reserves, and “banks have kept those reserves. They have not put them back into the economy,” she said. The softness in recent economic data is different from the slowdown last year, when Europe’s fiscal crisis damaged business confidence in the U.S., Pianalto said. “This time around even though we are again seeing some softness, we’re not seeing the same reaction on the part of businesses,” she said. Businesses are hiring and “not pulling back,” indicating the “economy is on firmer footing.” The Labor Department will report on June 3 that the economy added 175,000 jobs in May, according to the median of a Bloomberg Survey. The unemployment rate will fall to 8.9 percent from 9 percent in April, according to the survey. More Churning Pianalto cited research from the Cleveland Fed showing that “research reveals that historically, the more dynamism or churn in the job market, the faster the unemployment rate returns to its “trend” rate or “natural” rate, which we believe is between 5.5 and 6 percent.” She said it could take about five years for unemployment to return to that level. “Unfortunately, the rate of churn is not returning as quickly as it has after previous recessions,” she said. Low wage growth was likely to restrain inflation in coming years, Pianalto said. “After a recession, wage increases typically remain low for quite some time,” she said. “This should keep the inflation rate lower because lower wage growth directly implies little rise in the cost of producing goods and providing services.” Regular gasoline at the pump fell 0.5 cent yesterday to $3.775 a gallon, the lowest price since April 10, AAA said on its website. The Fed has said pressures from high commodity prices will have only a “transitory” effect on overall inflation. The Labor Department said overall prices rose 3.2 percent in April from a year earlier and prices excluding food and fuel rose 1.3 percent. The Fed aims for inflation of 2 percent or a bit below. Pianalto said in a March speech that she supports an explicit inflation target of 2 percent.

### Transportation Infrastructure Wall

### Deficit spending bad

#### Spending kills the economy.

**Murphy 11** – graduate of Virginia Commonwealth University with a degree in political science (Conor, 2011, "Dark economic times ahead," http://communities.washingtontimes.com/neighborhood/political-pro-con/2011/aug/7/debt-federal-reserve-bernake-obama/, RG)

While it is obvious that this **market uncertainty is almost exclusively related to the national debt**, the Treasury Department chalked it up to a flawed analysis and a 2 trillion dollar error. It appears that the new debt deal has scared investors and convinced the S&P that we cannot pay our bills. They're quite right. In an ideal world, this crisis might provide our elected officials enough evidence to realize that current policy is not working, but these are the same people who voted for TARP, the bank bailouts, the auto bailouts, and the stimulus bill. It should be no surprise that they assumed the debt deal would solve all of our problems. This is the kind of incompetence that Washington has seen from both parties for many years, and anyone who claims that the two parties are different should take a look at public policy for the last decade. The fix to this problem is no secret. Economists from the Austrian school and supporters of the free market know exactly what needs to be done, but no one is listening to them. **Congress needs to make real cuts to spending**, and not just cuts to proposed increases. Those are not real cuts, and yet we keep getting told that this deal will help reduce the debt. We may have avoided a default, but we are well on our way to an even bigger problem; a collapse of the dollar. With the Federal Reserve weakening the value of the dollar, the chance of a depression grows more likely everyday. Ben Bernanke and the rest of those at the Fed believe that keeping interest rates low is the best medicine for this ailing economy, but it is actually the poison making us grow weaker and weaker. When interest rates are below natural market value people make decisions that they wouldn't make normally, and when the crash comes it'll be too late. Printing money out of thin air will also do nothing but devalue the dollar and place an unseen tax on the American people who don't have the advantage of being bailed out by the federal government. If the dollar crashes, hyper inflation will set in and money will no longer even be worth the paper it is printed on. Assuming the United States wishes to avoid what happened to Germany in 1923, elected officials will have to look long and hard at fiscal policy and the role of the Federal Reserve when it comes to monetary policy. President Obama will almost certainly continue to downplay this action taken by S&P. There will be name calling, back stabbing and lies that will circle around this incident. The President is very much in danger of losing public support, and if he is not careful he will lose in 2012. Obama needs to understand not just what the problem is, but what is causing the problem. This event will most likely result in even more market regulation, the very cause of the financial meltdown. But unless the President wakes up tomorrow channeling the spirit of Barry Goldwater and suddenly understands free market economics, nothing will change. In the last few months, the S&P has begun to figure out what Austrian school free market economists have known for a while. The United States cannot keep going further into debt and expect to walk away unscathed. This action will only make the next economic downturn even worse. Kicking the can down the road has prolonged our economic problems for a while, but President Obama and the Congress are running out of road and they still don't see the cliff at the end.

#### Deficit spending collapses the economy

Bohn 10 (Henning, University of California Santa Barbara, “The Economic Consequences of Rising U.S. Government Debt: Privileges at Risk” Departmental Working Papers, Department of Economics, UCSB, <http://escholarship.org/uc/item/7kz6v3zs>)

The rapidly growing federal government debt has become a concern for policy makers and the public. Yet the U.S. government has seemingly unbounded access to credit at low interest rates. Historically, Treasury yields have been below the growth rate of the economy. The paper examines the ramifications of debt financing at low interest rates. Given the short maturity of U.S. public debt – over $2.5 trillion maturing in 2010 – investor expectations are critical. Excessive debts justify reasonable doubts about solvency and monetary stability and thus undermine a financing strategy built on the perception that U.S. debt is safe. The rapidly growing U.S. government debt has become a concern for policy makers and the public. The ratio of U.S. public debt to GDP has increased from 36.2% in 2007 to 53.0% in 2009. Under current policies, the debt-GDP ratio is likely to reach 70% by 2011 and 90% by 2020.1 What are the consequences of this rising U.S. government debt? The paper will argue that a proper analysis of U.S. debt must account for the U.S. government’s ability to issue debt at interest rates that are on average below the growth rate of the U.S. economy. Evidence suggests that the low interest rates are largely due to perceptions of safety, with a secondary role for liquidity effects. Given the short maturity of U.S. public debt – over $2.5 trillion maturing in 2010 – investor expectations are critical. To refinance its debt, the government must ensure that bond buyers remain firmly convinced of the government’s solvency. Excessive debts justify reasonable doubts about solvency and about inflation. Hence they undermine a financial strategy built on a perception of safety.

#### Independently trades off with raising the debt ceiling

Wingfield 11 (Kyle, writer – AJC, “Boehner’s smart move on debt ceiling, spending cuts,” 5-10, <http://blogs.ajc.com/kyle-wingfield/2011/05/10/boehners-smart-move-on-debt-ceiling-spending-cuts/?cxntfid=blogs_kyle_wingfield>)

The House Republicans have been setting the terms of the budget debate ever since Rep. Paul Ryan unveiled his “Path to Prosperity,” and now they’ve upped the ante. In a speech in New York City, Speaker John Boehner said any increase in the federal government’s debt limit must be accompanied by even larger spending cuts: Without significant spending cuts and reforms to reduce our debt, there will be no debt limit increase. And the cuts should be greater than the accompanying increase in debt authority the President is given. A few thoughts on why this is good policy and good politics: First, it’s good policy because a “clean bill” to raise the debt ceiling, as the Obama administration wants, would be disastrous policy. Congress has proven that the mere requirement to raise the ceiling is not a sufficient restraint. And it’s become clear that the 2012 budget is not going to produce a grand bargain. If there’s going to be a compromise that begins to apply some semblance of fiscal discipline to Washington, the debt ceiling is the time for it. Second, it’s good policy because a more-cuts-than-new-authority approach is perhaps the only way to put teeth into the restraint side of the compromise. In an editorial, The Wall Street Journal reports that Boehner’s advisers say “those cuts would have to be scored as real by the Congressional Budget Office over a five-year budget window.” This is hardly Draconian: A debt-ceiling increase of $2 trillion through the end of fiscal 2012 — which the White House says is necessary to keep the government running until Oct. 1, 2012 — would mean spending cuts of $2 trillion over five years, or $400 billion a year. In fact, it comes closer to being too weak a proposal given the severity of our debt problem. A $400 billion cut this year could still leave us with an annual budget deficit approaching $1 trillion. Third, it’s good politics because it shows the House GOP learned a thing or two from its negotiations over the budget for the remainder of fiscal 2011. Note the part of the above quote about “scored as real by the Congressional Budget Office.” Republicans got burned when the $38 billion in 2011 budget cuts turned out to be more like $352 million this year — just 1 percent as much as advertised. The cuts can’t consist of programs that were already discontinued or mere reductions from what President Obama has requested for 2012. They need to be taken from real spending levels this year. Fourth, it’s good politics because it’s common sense. Opinion polls (see question 10 in this recent one, for example) show Americans strongly disagree with raising the debt ceiling in the first place. So, raising it at all is an act of compromise with taxpayers. The price of the compromise is a pledge to spend less taxpayer money in the future. It’s kind of like the terms of a loan: If you want to borrow $10,000 today, you have to promise to repay that $10,000 with interest in the future. (Although, as I noted above, the fact that borrowing would remain high means Washington is still acting like the loan shark in this situation.) Finally, it’s good policy and good politics because it sets a precedent in which cutting spending is necessary. That’s good policy because our problem will spiral out of control otherwise. And it’s good politics because, as others have noted before, we need a system in which politicians compete to spend less of our money, not more.

#### That collapses the economy and causes food price spikes

Min 10 (David, Associate Director for Financial Markets Policy – Center for American Progress, “The Big Freeze”, 10-28, <http://www.americanprogress.org/issues/2010/10/big_freeze.html>)

A freeze on the debt ceiling could erode confidence in U.S. Treasury bonds in a number of ways, creating further and wider panic in financial markets. First, [by causing a disruption in the issuance of Treasury debt, as happened in 1995-96](http://www.gao.gov/archive/1996/ai96130.pdf), a freeze would cause investors to seek alternative financial investments, even perhaps causing a run on Treasurys. Such a run would cause the cost of U.S. debt to soar, putting even more stress on our budget, and the resulting enormous capital flows would likely be highly destabilizing to global financial markets, potentially creating more asset bubbles and busts throughout the world.

Second, the massive withdrawal of public spending that would occur would cause significant concern among institutional investors worldwide that the U.S. would swiftly enter a second, very deep, recession, raising concerns about the ability of the United States to repay its debt. Finally, the sheer recklessness of a debt freeze during these tenuous times would signal to already nervous investors that there was a significant amount of political risk, which could cause them to shy away from investing in the United States generally.

Taken together, these factors would almost certainly result in a significant increase in the interest rates we currently pay on our national debt, currently just above 2.5 percent for a 10-year Treasury note. If in the near term these rates moved even to 5.9 percent, the long-term rate predicted by the Congressional Budget Office, then our interest payments would increase by more than double, to nearly $600 billion a year. These rates could climb even higher, if investors began to price in a “default risk” into Treasurys—something that reckless actions by Congress could potentially spark—thus greatly exacerbating our budget problems.

The U.S. dollar, of course, is the world’s reserve currency in large part because of the depth and liquidity of the U.S. Treasury bond market. If this market is severely disrupted, and investors lost confidence in U.S. Treasurys, then it is unclear where nervous investors might go next. A sharp and swift move by investors out of U.S. Treasury bonds could be highly destabilizing, straining the already delicate global economy.

Imagine, for example, if investors moved from sovereign debt into commodities, most of which are priced and traded in dollars. This could have the catastrophic impact of weakening the world’s largest economies while also raising the prices of the basic inputs (such as metals or food) that are necessary for economic growth.

In short, a freeze on the debt ceiling would cause our interest payments to spike, making our budget situation even more problematic, while potentially triggering greater global instability—perhaps even a global economic depression.

#### Prices spikes kill billions and cause global war

Brown 7 (Lester R., Director – Earth Policy Institute, 3-21, [http://www.earth-policy.org/Updates/2007/Update65 .htm](http://www.earth-policy.org/Updates/2007/Update65%20.htm))

Urban food protests in response to rising food prices in low and middle income countries, such as Mexico, could lead to political instability that would add to the growing list of failed and failing states. At some point, spreading political instability could disrupt global economic progress. Against this backdrop, Washington is consumed with “ethanol euphoria.” President Bush in his State of the Union address set a production goal for 2017 of 35 billion gallons of alternative fuels, including grain-based and cellulosic ethanol, and liquefied coal.  Given the current difficulties in producing cellulosic ethanol at a competitive cost and given the mounting public opposition to liquefied coal, which is far more carbon-intensive than gasoline, most of the fuel to meet this goal might well have to come from grain. This could take most of the U.S. grain harvest, leaving little grain to meet U.S. needs, much less those of the hundred or so countries that import grain. The stage is now set for direct competition for grain between the 800 million people who own automobiles, and the world’s 2 billion poorest people. The risk is that millions of those on the lower rungs of the global economic ladder will start falling off as higher food prices drop their consumption below the survival level.

## Scenario 1

### Link

#### Ext. Roe 11: Continued deficit spending collapses economy

### Internal Link

#### Ext. Harris and Burrows 09: US econ key to global economy

#### US is key to global economic growth

Mead 4 (Walter Russell, Senior Fellow at the Council on Foreign Relations, Foreign Policy, April 1, pg. Lexis)

Similarly, in the last 60 years, as foreigners have acquired a greater value in the United States--government and private bonds, direct and portfolio private investments--more and more of them have acquired an interest in maintaining the strength of the U.S.-led system. A collapse of the U.S. economy and the ruin of the dollar would do more than dent the prosperity of the United States. Without their best customer, countries including China and Japan would fall into depressions. The financial strength of every country would be severely shaken should the United States collapse. Under those circumstances, debt becomes a strength, not a weakness, and other countries fear to break with the United States because they need its market and own its securities. Of course, pressed too far, a large national debt can turn from a source of strength to a crippling liability, and the United States must continue to justify other countries' faith by maintaining its long-term record of meeting its financial obligations. But, like Samson in the temple of the Philistines, a collapsing U.S. economy would inflict enormous, unacceptable damage on the rest of the world. That is sticky power with a vengeance. THE SUM OF ALL POWERS? The United States' global economic might is therefore not simply, to use Nye's formulations, hard power that compels others or soft power that attracts the rest of the world. Certainly, the U.S. economic system provides the United States with the prosperity needed to underwrite its security strategy, but it also encourages other countries to accept U.S. leadership. U.S. economic might is sticky power.

### Impact

#### Ext. Mead 09: Nuclear war

#### Economic decline causes nuclear world war – institution collapse

**Smith, ’11** – Robert Smith is president of Oregon 1031 Investments and has been a registered investment adviser and financial planner for 24 years. (Daily Journal. “Commentary: Recession could lead to World War III”. Jan 18. <http://findarticles.com/p/articles/mi_qn4184/is_20110118/ai_n56722962/?tag=mantle_skin;content>)

The stock market crash of 1929 and the Great Depression precipitated the unraveling of institutional arrangements that had ordered global business and government relationships since the end of World War I. Two of the primary consequences of the depression were: the global monetary system, embodied in the gold standard, fell apart; and collective security via the League of Nations was shattered. It appears that similar forces are at work today. The breakup of the Euro appears imminent, and the dollar's role as reserve currency of choice (extant since the end of World War II) is under serious pressure. And this says nothing of the total irrelevance of the United Nations as a guarantor of global security. With nuclear proliferation rampant among rogue states and appeasement the response of choice, it is not difficult to imagine a chain of events that would result in yet another world war. It is impossible to know how long this state of affairs will last. However, it is precipitating major change, and we appear to have entered another period of monetary instability as a result.

#### **Economic Collapse risk global nuclear wars**

**Harris and Burrows 09** PhD European History @ Cambridge, counselor in the National Intelligence Council (NIC) & member of the NIC’s Long Range Analysis Unit

Mathew, and Jennifer “Revisiting the Future: Geopolitical Effects of the Financial Crisis” <http://www.ciaonet.org/journals/twq/v32i2/f_0016178_13952.pdf>

Of course, the report encompasses more than economics and indeed believes the future is likely to be the result of a number of intersecting and interlocking forces. With so many possible permutations of outcomes, each with ample Revisiting the Future opportunity for unintended consequences, there is a growing sense of insecurity. Even so,history may be more instructive than ever. While we continue to believe that the Great Depression is not likely to be repeated, the lessons to be drawn from that period include the harmful effects on fledgling democracies and multiethnic societies (think Central Europe in 1920s and 1930s) and on thesustainability of multilateral institutions (think League of Nations in the same period). There is no reason to think that this would not be true in the twenty-first as much as in the twentieth century. For that reason, the ways in which the potential for greater conflict could grow would seem to be even more apt in a constantly volatile economic environment as they would be if change would be steadier. In surveying those risks, the report stressed the likelihood that terrorism and nonproliferation will remain priorities even as resource issues move up on the international agenda. Terrorism’s appeal will decline if economic growth continues in the Middle East and youth unemployment is reduced. For those terrorist groups that remain active in 2025, however, the diffusion of technologies and scientific knowledge will place some of the world’s most dangerous capabilities within their reach. Terrorist groups in 2025 will likely be a combination of descendants of long established groups\_inheriting organizational structures, command and control processes, and training procedures necessary to conduct sophisticated attacks\_and newly emergent collections of the angry and disenfranchised that become self-radicalized, particularly in the absence of economic outlets that would become narrower in an economic downturn. The most dangerous casualty of any economically-induced drawdown of U.S. military presence would almost certainly be the Middle East. Although Iran’s acquisition of nuclear weapons is not inevitable, worries about a nuclear-armed Iran couldlead states in the region to develop new security arrangements with external powers, acquire additional weapons, and consider pursuing their own nuclear ambitions. It is not clear that the type of stable deterrent relationship that existed between the great powers for most of the Cold War would emerge naturally in the Middle East with a nuclear Iran. Episodes of low intensity conflict and terrorism taking place under a nuclear umbrella could lead to an unintended escalation and broader conflict if clear red lines between those states involved are not well established. The close proximity of potential nuclear rivalscombined with underdeveloped surveillance capabilities and mobile dual-capable Iranian missile systems also will produce inherent difficulties in achieving reliable indications and warning of an impending nuclear attack. The lack of strategic depth in neighboring states like Israel, short warning and missile flight times, and uncertaintyof Iranian intentions may place more focus on preemption rather than defense, potentially leading to escalating crises. 36 Types of conflict that the world continues to experience, such as over resources, could reemerge, particularly if protectionism grows and there is a resort to neo-mercantilist practices. Perceptions of renewed energy scarcity will drive countries to take actions to assure their future access to energy supplies. In the worst case, this could result in interstate conflicts if government leaders deem assured access to energy resources, for example, to be essential for maintaining domestic stability and the survival of their regime. Even actions short of war, however, will have important geopolitical implications. Maritime security concerns are providing a rationale for naval buildups and modernization efforts, such as China’s and India’s development of blue water naval capabilities. If the fiscal stimulus focus for thesecountries indeed turns inward, one of the most obvious funding targets may be military. Buildup of regional naval capabilities could lead to increased tensions, rivalries, and counterbalancing moves, but it also will create opportunities for multinational cooperation in protecting critical sea lanes.With water also becoming scarcer in Asia and the Middle East, cooperation to manage changing water resources is likely to be increasingly difficult both within and between states in a more dog-eat-dog world.

### Impact – Deficits – Dollar

#### Deficit spending collapses dollar hegemony

Lewis 5-3 (Katherine, writer for the fiscal times, “National Debt: Budget Turmoil Slams Treasurys”, http://www.thefiscaltimes.com/Articles/2011/05/03/National-Debt-Budget-Turmoil-Slams-Treasuries.aspx?p=1)

If global investors start to shun U.S. debt as a safe haven — and the dollar as the world’s reserve currency — the federal government will face difficulty continuing to fund operations with trillions of dollars in debt. Rising interest rates would also cause borrowing costs to skyrocket and adversely impact other portions of the federal budget. During the fourth quarter of 2010, U.S. households, the financial sector and foreign investors purchased Treasury securities worth nearly $300 billion less than the average purchases of the previous three quarters, according to an analysis of Federal Reserve data by Société Generale. China, the single biggest Treasury investor with just under 26 percent of U.S. debt, is shifting some of its Treasury investment to commodities and capital investment outside the U.S. In January, China reduced its portfolio by $5.4 billion to $1.15 trillion, according to data released by the Treasury Department.

#### Dollar collapse causes nuclear war

Porter 6 ([Dave](http://www.blueoregon.com) , Director of Business Development-Structures at General Dynamics, “Oregon Steel”, Blue Oregon, 12-8, http://www.blueoregon.com/2006/12/ff\_oregon\_steel.html)

There could be a soft landing or a domestic and international disaster. As Clyde Prestowitz in ["Three Billion New Capitalists: The Great Shift of Wealth and Power to the East"](http://www.blueoregon.com/2006/12/:/www.pbs.org/newshour/bb/economy/july-dec05/prestowitz_8-15.html) writes: "The nightmare scenario - an economic 9/11 - is a sudden, massive sell-off of dollars; a world financial panic whose trigger might be as minor, relatively speaking, as the assassination of a second-rate archduke in a third-rate European city. A collapse of the dollar and its consequent abandonment as the world's reserve currency would create a deep recession in the United States. Gas and fuel prices would soar, anything imported would suddenly become much more expensive, interest rates would jump, as would unemployment. The "stagflation" of the 1970's - slow growth and high unemployment combined with double-digit interest rates-would look like a walk in the park. And since the United States is at present the world's only major net importer, all of the exporters that depend on it for their economic stability would suffer severely as well. It's the thought of these consequences that make the big dollar holders so nervous, and makes them, for now, hold on to their excess dollars." Our economy has been totally mismanged and it's scary. And beyond the worldwide economic ruin, international cooperation would break down and wars would erupt. Peoples around the world would be so vulnerable and angry that they would blame and envy their neighbors. I am particularly concerned about China-US relations during the rest of the 21st century. Both countries would be under severe stress in such a scenario. **Nuclear exchanges would not be impossible**. As I have argued in our proposal ["Developing the China Connection through Educational Programs,"](http://www.dennisrichardson.org/pdf/OBPchineseproposal.pdf) we need to give our children the skills to get through such a crisis.

### A2: Econ Resilient

#### The global economy is not resilient – US deficits risk a global slowdown.

World Economic Forum, 2006 (“The Changing Economic Landscape,” Annual Meeting Report for 2006, January. [Online http://www.weforum.org/pdf/summitreports/am2006/changing.htm)

Given US influence on the global economy, its current account deficit of 5.7% of GDP in 2004 or US$ 666 billion, continues to concern policy-makers in Washington DC and abroad. China’s economy is still too small to counter a possible US slowdown, and Europe and Japan, while perhaps improving, are currently too slow growing to drive the global economy forward. Moreover, the major economies are struggling to keep fiscal promises as their pension and healthcare bills grow. Inequities in trade and increased competition for natural resources mean risk is rising – especially to the environment. While the world economy has proven resilient enough to absorb a sustained US$ 60 a barrel for oil, participants were quick to agree, if prices rise further and stay high, the effects will hurt. The global economy is beset with inefficiencies and imbalances that threaten to derail growth and halt efforts to bring prosperity to the world’s poorest corners. US deficits and yawning Asian surpluses, inequities in trade and the increasingly heated race for natural resources pose risks.

## Scenario 2

### Link

#### Ext. Strokes 10: Deficit spending hurts China relations

### Impacts

#### Ext. Glaser 11: China war goes nuclear

### A-To China relations resilient

#### A. Chinese cyber espionage is at the brink after a recent attack on Google.

**Reuters**, AFX Asia Focus; AFX News Limited, June 3, **2011**

The United States has asked Beijing to investigate Google's latest allegation of a major hacking attack that the Internet giant says originated in China, the State Department said on Friday.   
'We did raise our concerns with the Chinese about the allegations and asked them to take a look into them,' State Department spokesman Mark Toner told reporters.   
Toner declined to provide details on what was conveyed to the Chinese, or whether the U.S. government believes Beijing may have had a hand in the alleged hacking attack.   
He said investigations of the case prevent him from saying more about Google's allegations.   
'We take them seriously and expressed that concern to the Chinese,' Toner said.   
Google said this week it had detected and disrupted a campaign aimed at stealing passwords of hundreds of Google email account holders including senior U.S. government officials, Chinese activists, and journalists.   
Toner repeated that the State Department had no evidence its employees had been targeted in the case, which the Federal Bureau of Investigation is examining along with Google.   
Neither Google nor the U.S. government has said that China was behind the attacks, which the Internet company merely said appeared to originate in China.   
But the incident looks likely to fuel tensions between the United States and China over cybersecurity and espionage, areas that are considered potential flashpoints.

#### U.S.-Sino relations shaky multiple warrants

**Strokes 10** (Bruce, [National Journal](javascript:__doLinkPostBack('','mdb%7E%7Eaph%7C%7Cjdb%7E%7Eaphjnh%7C%7Css%7E%7EJN%20%22National%20Journal%22%7C%7Csl%7E%7Ejh','');); 2/20/2010,  international economics columnist for the National Journal, a Washington-based public policy magazine, Academic search premier)

But 2009 ended on some sour notes, with the Chinese stiffing President Obama at a bilateral summit in China in November and snubbing him at the Copenhagen climate gathering in December. And 2010 opened with controversy: allegations of Chinese cyber-espionage against Google; a long-promised U.S. arms sale to Taiwan followed by Chinese threats of retaliation against U.S. firms; and a presidential meeting with the Tibetan religious leader, the Dalai Lama, in defiance of Chinese warnings.

#### U.S.-Sino relations difficult due to naval presence

**Strokes 11** (international economics columnist for the National Journal, a Washington-based public policy magazine, Continental Rift: Bridging ¶ Transatlantic Differences on ¶ Economic Policy Toward China)

The transatlantic gulf in military and ¶ diplomatic interests involving China is ¶ real and may be unbridgeable. Thanks ¶ to geography and history, the United ¶ States has Pacific security equities that ¶ Europe will never share. It is the U.S. ¶ 7th fleet that patrols the South and ¶ East China seas, where daily it is at risk ¶ of confrontations with the increasingly ¶ aggressive Chinese navy. Moreover, it is ¶ U.S. warships, not European ones, that ¶ could be called to interdict a Chinese ¶ invasion of Taiwan. In addition, the ¶ United States maintains bases in Japan, ¶ South Korea, and on Guam. Europe ¶ will never have as many military assets

## Add-ons

### Growth solves war

#### Growth empirically prevents war.

**Bloomberg and Hess, 2k2** [S. Brock, Department of Economics, Wellesley College, and Gregory D., Department of Economics, Oberlin College, Journal of Conflict Resolution, Volume 46, Number 1, pg. 88-89]

Using an unbalanced panel of 152 countries from 1950 to 1992, we estimate a Markov probability model to investigate the joint determination of internal conflict, external conflict, and the economy. We begin with a simple model that allows for a two-variable relationship: internal conflict and recessions, external conflict and recessions, and internal conflict and external conflict. We find that these are not independent events. In particular, we find that recessions play an important role in determining internal conflict, especially in Africa and for nondemocratic countries. In this case, the occurrence of a recession causes an increase in the probability of internal conflict starting in a given year to almost double. We then extend the model to allow for a three-variable relationship: internal conflict, external conflict, and recessions. In the more complicated system, we continue to find an important link. In this case, we find that the presence of a recession coupled with an external war will actually cause the probability of an internal conflict starting in a given year to increase between two- and threefold. If this study is to convince readers and policy makers of anything, it is that 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 favor. Moreover, the presence of a recession tends to amplify the extent to which internal and external conflicts self-reinforce each other. However, the ability of government organizations to stop the spread of internal conflict to external conflict and vice versa by helping to reduce the incidence of recessions may be quite limited. Economic aid that is to improve a nation’s productive capacity is likely to be difficult to identify and implement in just such circumstances.

### Econ – Turns Heg

#### --Turns heg

Khalilzad 96 (Zalmay, Senior Fellow at Rand, Strategic Appraisal, p.31)

Whether the United States retains its global leadership position will depend in large part on what happens in the United states. One factor that will be key will be the state of the U.S. economy. The United States is unlikely to preserve its military and technological dominance if the U.S. economy declines seriously or if the balance of economic power shifts decisively to another country. In such an environment, the domestic economic and political base for global leadership would diminish, and the United States would probably incrementally withdraw from the world. As the United States weakened, others would try to fill the vacuum. The world is likely then to become multipolar. Therefore, leadership requires a strong U.S. economy.

### Econ – Turns Terrorism

#### --Turns terrorism

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

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

### Econ – Turns China

#### --Turns US/China cooperation and war

Mead 9 (Walter Russell, Henry A. Kissinger Senior Fellow in U.S. Foreign Policy – Council on Foreign Relations, “Only Makes You Stronger”, The New Republic, 2-4, <http://www.tnr.com/politics/story.html?id=571cbbb9-2887-4d81-8542-92e83915f5f8&p=2>)

The greatest danger both to U.S.-China relations and to American power itself is probably not that China will rise too far, too fast; it is that the current crisis might end China's growth miracle. In the worst-case scenario, the turmoil in the international economy will plunge China into a major economic downturn. The Chinese financial system will implode as loans to both state and private enterprises go bad. Millions or even tens of millions of Chinese will be unemployed in a country without an effective social safety net. The collapse of asset bubbles in the stock and property markets will wipe out the savings of a generation of the Chinese middle class. The political consequences could include dangerous unrest--and a bitter climate of anti-foreign feeling that blames others for China's woes. (Think of **Weimar Germany**, when both Nazi and communist politicians blamed the West for Germany's economic travails.) Worse, instability could lead to a vicious cycle, as nervous investors moved their money out of the country, further slowing growth and, in turn, fomenting ever-greater bitterness. Thanks to a generation of rapid economic growth, China has so far been able to manage the stresses and conflicts of modernization and change; nobody knows what will happen if the growth stops. India's future is also a question. Support for global integration is a fairly recent development in India, and many serious Indians remain skeptical of it. While India's 60-year-old democratic system has resisted many shocks, a deep economic recession in a country where mass poverty and even hunger are still major concerns could undermine political order, long-term growth, and India's attitude toward the United States and global economic integration. The violent Naxalite insurrection plaguing a significant swath of the country could get worse; religious extremism among both Hindus and Muslims could further polarize Indian politics; and India's economic miracle could be nipped in the bud. If current market turmoil seriously damaged the performance and prospects of India and China, the current crisis could join the Great Depression in the list of economic events that changed history, even if the recessions in the West are relatively short and mild. The United States should stand ready to assist Chinese and Indian financial authorities on an emergency basis--and work very hard to help both countries escape or at least weather any economic downturn. It may test the political will of the Obama administration, but the United States must avoid a protectionist response to the economic slowdown. U.S. moves to limit market access for Chinese and Indian producers could poison relations for years. **For billions** of people **in nuclear-armed countries** to emerge from this crisis believing either that the United States was indifferent to their well-being or that it had profited from their distress could damage U.S. foreign policy far more severely than any mistake made by George W. Bush. It's not just the great powers whose trajectories have been affected by the crash. Lesser powers like Saudi Arabia and Iran also face new constraints. The crisis has strengthened the U.S. position in the Middle East as falling oil prices reduce Iranian influence and increase the dependence of the oil sheikdoms on U.S. protection. Success in Iraq--however late, however undeserved, however limited--had already improved the Obama administration's prospects for addressing regional crises. Now, the collapse in oil prices has put the Iranian regime on the defensive. The annual inflation rate rose above 29 percent last September, up from about 17 percent in 2007, according to Iran's Bank Markazi. Economists forecast that Iran's real GDP growth will drop markedly in the coming months as stagnating oil revenues and the continued global economic downturn force the government to rein in its expansionary fiscal policy. All this has weakened Ahmadinejad at home and Iran abroad. Iranian officials must balance the relative merits of support for allies like Hamas, Hezbollah, and Syria against domestic needs, while international sanctions and other diplomatic sticks have been made more painful and Western carrots (like trade opportunities) have become more attractive. Meanwhile, Saudi Arabia and other oil states have become more dependent on the United States for protection against Iran, and they have fewer resources to fund religious extremism as they use diminished oil revenues to support basic domestic spending and development goals. None of this makes the Middle East an easy target for U.S. diplomacy, but thanks in part to the economic crisis, the incoming administration has the chance to try some new ideas and to enter negotiations with Iran (and Syria) from a position of enhanced strength. Every crisis is different, but there seem to be reasons why, over time, financial crises on balance reinforce rather than undermine the world position of the leading capitalist countries. Since capitalism first emerged in early modern Europe, the ability to exploit the advantages of rapid economic development has been a key factor in international competition. Countries that can encourage--or at least allow and sustain--the change, dislocation, upheaval, and pain that capitalism often involves, while providing their tumultuous market societies with appropriate regulatory and legal frameworks, grow swiftly. They produce cutting-edge technologies that translate into military and economic power. They are able to invest in education, making their workforces ever more productive. They typically develop liberal political institutions and cultural norms that value, or at least tolerate, dissent and that allow people of different political and religious viewpoints to collaborate on a vast social project of modernization--and to maintain political stability in the face of accelerating social and economic change. The vast productive capacity of leading capitalist powers gives them the ability to project influence around the world and, to some degree, to remake the world to suit their own interests and preferences. This is what the United Kingdom and the United States have done in past centuries, and what other capitalist powers like France, Germany, and Japan have done to a lesser extent. In these countries, the social forces that support the idea of a competitive market economy within an appropriately liberal legal and political framework are relatively strong. But, in many other countries where capitalism rubs people the wrong way, this is not the case. On either side of the Atlantic, for example, the Latin world is often drawn to anti-capitalist movements and rulers on both the right and the left. Russia, too, has never really taken to capitalism and liberal society--whether during the time of the czars, the commissars, or the post-cold war leaders who so signally failed to build a stable, open system of liberal democratic capitalism even as many former Warsaw Pact nations were making rapid transitions. Partly as a result of these internal cultural pressures, and partly because, in much of the world, capitalism has appeared as an unwelcome interloper, imposed by foreign forces and shaped to fit foreign rather than domestic interests and preferences, many countries are only half-heartedly capitalist. When crisis strikes, they are quick to decide that capitalism is a failure and look for alternatives. So far, such half-hearted experiments not only have failed to work; they have left the societies that have tried them in a progressively worse position, farther behind the front-runners as time goes by. Argentina has lost ground to Chile; Russian development has fallen farther behind that of the Baltic states and Central Europe. Frequently, the crisis has weakened the power of the merchants, industrialists, financiers, and professionals who want to develop a liberal capitalist society integrated into the world. Crisis can also strengthen the hand of religious extremists, populist radicals, or authoritarian traditionalists who are determined to resist liberal capitalist society for a variety of reasons. Meanwhile, the companies and banks based in these societies are often less established and more vulnerable to the consequences of a financial crisis than more established firms in wealthier societies. As a result, developing countries and countries where capitalism has relatively recent and shallow roots tend to suffer greater economic and political damage when crisis strikes--as, inevitably, it does. And, consequently, financial crises often reinforce rather than challenge the global distribution of power and wealth. This may be happening yet again. None of which means that we can just sit back and enjoy the recession. History may suggest that financial crises actually help capitalist great powers maintain their leads--but it has other, less reassuring messages as well. If financial crises have been a normal part of life during the 300-year rise of the liberal capitalist system under the Anglophone powers, so has war. The wars of the League of Augsburg and the Spanish Succession; the Seven Years War; the American Revolution; the Napoleonic Wars; the two World Wars; the cold war: The list of wars is almost as long as the list of financial crises. **Bad economic times** can **breed wars**. Europe was a pretty peaceful place in 1928, but the Depression poisoned German public opinion and helped bring Adolf Hitler to power. If the current crisis turns into a depression, what rough beasts might start slouching toward **Moscow**, **Karachi**, **Beijing**, or **New Delhi** to be born? The United States may not, yet, decline, but, if we can't get the world economy back on track, **we may** still **have to fight**.

### Econ – Turns Russia

#### --Turns Russian conflict

Nyquist 5 (J.R., Author and Geopolitical Columnist – Financial Sense Online, "The Political Consequences of a Financial Crash," 2-4, <http://www.financialsense.com/stormwatch/geo/pastanalysis/2005/0204.html>)

Should the United States experience a severe economic contraction during the second term of President Bush, the American people will likely support politicians who advocate further restrictions and controls on our market economy – guaranteeing its strangulation and the steady pauperization of the country. In Congress today, Sen. Edward Kennedy supports nearly all the economic dogmas listed above. It is easy to see, therefore, that the coming economic contraction, due in part to a policy of massive credit expansion, will have serious political consequences for the Republican Party (to the benefit of the Democrats). Furthermore, an economic contraction will encourage the formation of anti-capitalist majorities and a turning away from the free market system. The danger here is not merely economic. The political left openly favors the collapse of America's strategic position abroad. The withdrawal of the United States from the Middle East, the Far East and Europe would **catastrophically impact** an international system that presently allows 6 billion people to live on the earth's surface in relative peace. Should anti-capitalist dogmas overwhelm the global market and trading system that evolved under American leadership, the **planet's economy would contract and untold millions would die of starvation**. Nationalistic totalitarianism, fueled by a politics of blame, would once again bring war to Asia and Europe. **But this time the war would be waged with mass destruction weapons and the United States would be blamed** because it is the center of global capitalism. Furthermore, if the anti-capitalist party gains power in Washington, we can expect to see policies of appeasement and unilateral disarmament enacted. American appeasement and disarmament, in this context, would be an admission of guilt before the court of world opinion. Russia and China, above all, would exploit this admission **to justify aggressive wars, invasions and mass destruction attacks**. A future financial crash, therefore, must be prevented at all costs. But we cannot do this. As one observer recently lamented, "We drank the poison and now we must die."

### Economic --- AT: No War Impact

#### Economic decline causes war – studies prove

**Royal 10** (Jedediah, Director of Cooperative Threat Reduction at the U.S. Department of Defense, 2010, Economic Integration, Economic Signaling and the Problem of Economic Crises, in Economics of War and Peace: Economic, Legal and Political Perspectives, ed. Goldsmith and Brauer, 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 stales. Research in this vein has been considered at systemic, dyadic and national levels. Several notable contributions follow. First, on the systemic level. Pollins (20081 advances Modclski 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. 19SJ) that leads to uncertainty about power balances, increasing the risk of miscalculation (Fcaron. 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 arc 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 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. Mom berg and Hess (2002) find a strong correlation between internal conflict and external conflict, particularly during periods of economic downturn. They write. The linkage, between internal and external conflict and prosperity are strong and mutually reinforcing. Economic conflict lends 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 (Hlomhen? & Hess. 2(102. p. X9> Economic decline has also been linked with an increase in the likelihood of terrorism (Blombcrg. Hess. & Wee ra pan a, 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), DcRoucn (1995), and Blombcrg. Hess, and Thacker (2006) find supporting evidence showing that economic decline and use of force arc at least indirecti) correlated. Gelpi (1997). Miller (1999). and Kisangani and Pickering (2009) suggest that Ihe tendency towards diversionary tactics arc 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 lo an increase in the use of force. In summary, rcccni 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 al systemic, dyadic and national levels.' This implied connection between integration, crises and armed conflict has not featured prominently in the economic-security debate and deserves more attention.

### Econ – AT: US not key to Global Econ

#### US is key to global economic growth

Mead 4 (Walter Russell, Senior Fellow at the Council on Foreign Relations, Foreign Policy, April 1, pg. Lexis)

Similarly, in the last 60 years, as foreigners have acquired a greater value in the United States--government and private bonds, direct and portfolio private investments--more and more of them have acquired an interest in maintaining the strength of the U.S.-led system. A collapse of the U.S. economy and the ruin of the dollar would do more than dent the prosperity of the United States. Without their best customer, countries including China and Japan would fall into depressions. The financial strength of every country would be severely shaken should the United States collapse. Under those circumstances, debt becomes a strength, not a weakness, and other countries fear to break with the United States because they need its market and own its securities. Of course, pressed too far, a large national debt can turn from a source of strength to a crippling liability, and the United States must continue to justify other countries' faith by maintaining its long-term record of meeting its financial obligations. But, like Samson in the temple of the Philistines, a collapsing U.S. economy would inflict enormous, unacceptable damage on the rest of the world. That is sticky power with a vengeance. THE SUM OF ALL POWERS? The United States' global economic might is therefore not simply, to use Nye's formulations, hard power that compels others or soft power that attracts the rest of the world. Certainly, the U.S. economic system provides the United States with the prosperity needed to underwrite its security strategy, but it also encourages other countries to accept U.S. leadership. U.S. economic might is sticky power.