### 1ac plan

#### The United States federal government should establish an independent government-owned National Infrastructure Bank to provide transportation infrastructure loans.

### 1ac advantage 1

#### Advantage One is Growth:

#### Slow growth will persist now – only creating an NIB *before* pursuing deficit reduction can *increase* growth rates and *insulate* the economy from crisis in Europe and China

Schwenninger 10-29 (Sherle R. Schwenninger, Director, Economic Growth Program and American Strategy Program, and co-founder, New America Foundation, founding editor of World Policy Journal, and Senior Fellow at the World Policy Institute, former Senior Program Coordinator for the Project on Development, Trade, and International Finance at the Council on Foreign Relations, “The Missing Economic Debate,” The Nation, 10-29-2012, http://newamerica.net/publications/articles/2012/the\_missing\_economic\_debate\_72715)

Barack Obama and Mitt Romney agree on at least one thing: that this election is “a choice between two different paths for America,” as the president put it. Yet when it comes to the economy, many of the basic reasons for our sluggish recovery and the ideas needed to address it have been missing from the debate. Instead, we have been given a choice between the clearly mistaken supply-side tax cuts and deregulation championed by Romney, on the one hand, and the well-meaning but timid proposals of Obama, on the other. Here are five economic ideas that should be at the center of the election debate but are not.¶ § Let’s begin with a key point about today’s crisis: we are in what economists call a “balance-sheet recession.” This is the only way to explain why, despite repeated doses of monetary stimulus and large budget deficits, the economy is essentially stalled, producing well below potential with continued high unemployment. The two textbook cases of a balance-sheet recession are the Great Depression and Japan’s “Lost Decade,” which began in 1990. Like those two cases, our recent recession followed a financial crisis involving the bursting of a major asset bubble—in this case, the housing and credit bubble. When it collapsed in 2007, housing and other asset values fell, leaving many households with unsustainable levels of debt. Accordingly, they have had no choice but to cut spending and increase savings in order to pay down debt, thus reducing consumer demand. And with weak consumer demand, businesses quickly followed suit by curtailing investment and cutting the workforce.¶ The overall effect has been a huge shortfall in demand, which has been worsened by an even more worrying debt and institutional crisis in Europe, and now by a potentially serious economic slowdown in China. The only way the government has avoided depression has been by borrowing and spending to offset the falloff in the private sector.¶ The problem is that balance-sheet recessions can drag on for years—in this case, until the household sector (about 70 percent of the US economy) has repaired its balance sheet or some major new source of demand emerges in the world economy. By most estimates, we are less than halfway through this deleveraging process. (Household debt as a percentage of GDP has declined from a peak of 97.5 percent in 2009 to 83 percent today, but is still considerably above its pre-bubble level of 65 percent.) And the world economic slowdown will probably continue to weigh on the United States for some time.¶ The bottom line is that Washington has no choice but to borrow and spend for the foreseeable future. The question is how large this borrowing and spending should be, and what form it should take. But that is not the debate the presidential campaign is giving us. Instead, both parties are trying to impress us with their commitment to cutting the deficit. But even modest steps to reduce the deficit in the short to medium term will bring about the kind of premature fiscal consolidation that prolonged the Great Depression when FDR decided to cut spending and raise taxes in 1937.¶ § We need to create “good deficits” by replenishing America’s capital stock. The federal government has been running large deficits; the problem is that they are what some economists call “bad deficits.” Take the fiscal year 2012 shortfall, projected to be $1.1 trillion. That sounds large, yet it is not the result of government spending on things that will make us richer and more productive or put more people to work (such as infrastructure, research and development, and human capital). Rather, the deficit is mostly the result of weak tax revenues arising from slack economic growth; supply-side tax cuts (originating in the Bush era but extended ever since) that reward wealthy Americans but have little stimulative effect; and the lingering costs of two wars of occupation, which have done little to promote economic activity at home. In fact, if one includes state and local government spending, total government investment has actually declined over the past four years—in part because Republicans in Congress have blocked even the administration’s modest proposals in this area.¶ Given that the government must continue to borrow and spend to allow the private sector time to mend, the question is how to transform bad deficits into good ones. Obama’s efforts to wind down the wars in Iraq and Afghanistan and to let the Bush tax cuts for upper-income Americans expire are part of the answer. Beyond that, one obvious step would be a major public investment program to replenish our public capital stock—roads, bridges, airports, electrical grid, research and development—and to develop our human capital with more spending on training and apprenticeship programs.¶ Because of several decades of underinvestment, and because the government can borrow at absurdly low interest rates, investment in public capital stock would bring large returns to the economy. Indeed, investment in our transportation, communications, energy and water systems would be the best way to create jobs, make the economy more productive and improve our quality of life. The question is not whether we need such a program, but what kind and with what priorities.¶ Yet once again, this is not the debate we are having. Instead, the Romney camp is making the nonsensical argument that public borrowing and spending are crowding out private investment, even though trillions of dollars are sitting on the sidelines.¶ § We need a public bank for infrastructure and reconstruction. We have underinvested in infrastructure and human capital, in part because we lack the appropriate institutions and mechanisms for doing so. Over the past two decades, the private sector has done a questionable job of allocating capital, overinvesting in the technology sector by more than $3 trillion in the late 1990s and then recycling global surpluses into an even larger housing and mortgage bubble in the early 2000s, all while neglecting pressing infrastructure needs. Today, the banking and financial sector is sitting on more than $2 trillion, largely content to “arbitrage” the difference between near 0 percent short-term rates and somewhat higher longer-term rates rather than make new loans and investments in the real economy.¶ Clearly, our financial system requires fundamental reform. The two candidates, of course, do offer a choice on regulation, with Romney pledging to roll back much of the Dodd-Frank financial reform law that is now being implemented. But both candidates have largely been silent on the fundamental question of how to ensure adequate investment in infrastructure and human capital.¶ The answer of an earlier generation of reformers was to create what economic historian Michael Lind calls public-purpose financial institutions to complement the private banking system. Beginning in the 1930s, the New Dealers created or expanded a host of public credit agencies, including the Reconstruction Finance Corporation, to ensure that capital was delivered to depressed sectors of the economy by making investments that private banks were unwilling or unable to make. Many of those institutions served us well until they were either privatized (such as Fannie Mae and Freddie Mac) or shut down (the RFC).¶ President Obama did propose creating a national infrastructure bank, but he never put serious energy into fleshing out the idea or moving it through Congress. Consequently, it has largely disappeared from the national conversation. Yet the creation of a public bank (or a series of regional public banks to mirror the Federal Reserve System) could do more than any other single act to meet our most pressing infrastructure investment needs in a fiscally responsible way.¶ If properly designed, a public infrastructure and development bank with the ability to issue its own debt would allow the government to leverage much larger sums of private capital for vital projects without large increases to the federal deficit. In this sense, a public bank would be a budget multiplier, enabling investments in public-private infrastructure that the private sector would not undertake without government support or federal guarantees. In the end, the federal debt would increase only to reflect the risk that some of these projects financed by the public bank might fail.¶ As noted earlier, the problem now is not lack of capital; it’s the inability of the financial system to put this money to work in a way that creates jobs and expands our productive capacity. A public bank would solve that problem.¶ § We must increase wages and employment. If a shortfall in demand is the biggest drag on the economy, then increasing wages and incomes should be a critical policy goal. Higher incomes would increase the purchasing power of households and thus accelerate the deleveraging process. Yet wages and incomes have barely figured into the election debate, except as an occasional talking point for Romney supporters about how bad the economy is. Instead, most of the focus has been on taxes and how to use the tax code to benefit the middle class. Progressive tax policies are needed to reduce inequality, but the future of the middle class will be determined by the kinds of jobs the economy creates and what level of wages those jobs command.¶ According to Census Bureau data, median household income actually declined by 4.1 percent from 2009 to 2011, from $52,195 to $50,054. Real median wages have also fallen. Indeed, the same trends that helped cause the crisis are continuing in the weak recovery. Wages for the great majority of Americans are stagnating or even declining, while upper-income professionals and capital owners are capturing most of the gains from national income growth. The only difference now is that many households can no longer borrow to maintain their standard of living or make ends meet.¶ A robust and sustained recovery is not possible without a rise in real wages and incomes. One obvious place to begin would be to increase the minimum wage, which, as Roosevelt Institute senior fellow Richard Kirsch points out, buys 30 percent less than it did forty years ago. Raising the hourly minimum wage from the current $7.25 to $12 would immediately help millions of Americans, and would boost economic growth because most of it would be spent on basic goods and services.¶ Another essential step would be to increase public sector employment by expanding public services along with infrastructure investment. We could expand popular programs like the Army Corps of Engineers and AmeriCorps, and then add other programs to meet serious public service needs. One reason for the decline in household income has been the loss of middleincome jobs, especially in the government sector. Normally, government hiring helps the economy recover in a recession—at this point in other postwar recoveries, public sector employment had increased by an average of 8 percent. But since this recession ended, government jobs at all levels—federal, state and local— have been cut by about 570,000, a huge drag on the recovery.¶ To his credit, President Obama has proposed increasing federal assistance to state and local governments to retain teachers, cops and firefighters. But he has not yet made the larger case for more public sector employment, which is increasingly necessary, as automation and rising productivity continue to eliminate employment in manufacturing and business services.¶ § We need a Plan B for the world economy and globalization. This is perhaps the biggest missing debate of all: how to respond to the world economic crisis. Except for the usual election-year pledges to get tough with China on trade, expand American exports and fix the tax code in order to encourage more investment at home, the two candidates have been silent on the world economy, as if there were no eurozone crisis, no overinvestment and property bubble in China, and no talk of a new round of currency wars.¶ Plan A for the world economy, from both Obama and Romney, seems to make some very questionable assumptions: that the crisis in Europe will be overcome through continued austerity and ad hoc management led by the European Central Bank; that China will be able to engineer a soft landing despite the collapse of its export markets and the incipient deflation of its property and overinvestment bubble; and that all three major economies—Europe, China and the United States—will be able to fiscally consolidate and export their way to growth at the same time.¶ If this is Plan A, then we urgently need to ask the candidates what their Plan B is. At best, the recession in Europe and the economic troubles in China will create serious difficulties for the US economy. At worst, the deleveraging and institutional crisis in the eurozone and the overinvestment crisis in China will spell the end of the second great try at globalization (the first having ended with the Great Depression and World War II ).¶ During the 1997–98 world financial crisis, the United States was able to stabilize the system with an expansive macroeconomic policy and by keeping its markets open to troubled Asian exporters. But this crisis is larger than any since the Great Depression, and the United States is now a much smaller player, given the increase in size of the global economy over the past decade. It is therefore unlikely that the old playbook of crisis management will work. And even if it does, it will not work without inflicting great harm on the US economy.¶ One possibility for Plan B would be a truly coordinated world economic recovery, with each major region committing itself to fiscal expansion and with the IMF and World Bank helping to channel resources to depressed countries. We got a pale version of this in 2009. The other, more realistic—or perhaps parallel— option would be a North American strategy that would seek to insulate the US economy from the worst effects of the crisis in Europe and China by doing more to develop the growth potential of our own neighborhood—for example, by expanding the continental transportation, production and energy infrastructure and by increasing trade with our Latin American neighbors.¶ One could argue that it is hardly realistic to expect the candidates to take up these ideas. After all, they are not part of the mainstream debate. But that, of course, is precisely the problem. Whatever the two campaigns debate or promise, it is widely believed that if Obama is re-elected, he will immediately turn to the federal budget and the “fiscal cliff” and, under pressure from groups like the Fix the Debt Campaign, seek a new “grand bargain” on the deficit, because that’s what conventional wisdom believes he should do. But as suggested here, the real world has a way of intruding on political calculations. Long after the election, the US economy will probably still be struggling to stay above water, and the world economy could be well into a more dangerous phase of the global crisis. At that point, it will matter whether we debated Plan A or Plan B for the world economy and discussed the merits of a major public investment program for creating jobs and supporting stronger growth.

#### Alternative mechanisms fail

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Infrastructure forms the foundation of the U.S. economy. Without highways, power grids, railroads, dams, levees, and water systems, businesses could not transport their goods, homes would be without electricity or drinkable water, parents could not get their kids to school, and the United States would cease to be a world leader in productivity and innovation. But despite our infrastructure’s clear indispensability, decades of negligence and underinvestment have allowed much of it to fall into a shameful state of disrepair.¶ Inefficiencies in our infrastructure affect all aspects of American life. Commuters on our highways now lose more than $100 billion every year in time spent and fuel burned due to ever-increasing congestion on their way to and from work.1 U.S. ports are struggling to handle increased ship sizes and cargo volumes. Lock systems on inland waterways are crumbling, causing tens of thousands of hours of delays every year. And leaking pipes lose an estimated 7 billion gallons of clean drinking water every day.2 Together, these failures jeopardize public health, contribute to environmental degradation, and make American businesses less competitive, forcing them to pass additional costs on to consumers.¶ At the same time, our closest competitors have dramatically stepped up their investment in infrastructure and adopted ambitious plans for additional development. The United States fell to 24th place in overall infrastructure, down from ninth in 2008, according to a 2011 annual survey conducted by the World Economic Forum.3 What’s worse, under current levels of investment, this ranking will likely only continue to fall. A recent Center for American Progress report on America’s infrastructure funding gap estimated that the federal government is underinvesting in infrastructure by approximately $48 billion per year, assuming a goal of adequately maintaining existing infrastructure and preparing for projected economic and population growth.4¶ But our situation is not hopeless. By coupling increased investment with a number of commonsense reforms, the United States could make great progress toward¶ bringing its infrastructure up to modern standards. The establishment of both a national infrastructure bank and a national infrastructure planning council represents an innovative and promising way in which we could finance and plan infrastructure projects. That is the subject of this report.¶ By establishing a centralized federal lending authority in the form of an infrastructure bank, the United States could:¶ •¶ Increase public investment in infrastructure¶ •¶ Leverage billions in additional private investment¶ •¶ Streamline existing federal lending initiatives¶ •¶ Increase the share of federal money that flows to projects meeting rigorous cost-benefit criteria¶ With a relatively modest investment, the federal government could enable the completion of numerous large-scale projects of critical economic importance throughout our country, potentially producing thousands of jobs in the process.¶ Forming a national infrastructure planning council would also help better coordinate federal investments in infrastructure. This would go a long way toward resolving the siloed decision-making process that currently prevents crucial project integration and encourages inefficient spending across government agencies, as each agency attempts to independently address single components of a complex, interdependent infrastructure system. Better coordination would allow the United States to finally develop a comprehensive national infrastructure plan on par with those implemented by both industrialized and developing nations, while also encouraging the adoption of the best investment and planning practices at all levels.¶ Congress and the Obama administration should be praised for taking a significant step toward better investment coordination and improved due diligence by expanding the Department of Transportation’s Transportation Infrastructure Finance and Innovation program, included in the recently passed Moving Ahead for Progress in the 21st Century Act. Increasing this program’s funding from $122 million in fiscal year 2012 (which began in October 2011) to a combined $1.7 billion for FY 2013 through FY 2014 will help it achieve a considerably greater impact. The program provides low-interest loans, loan guarantees, and lines of credit to public and private investors undertaking large-scale surface transportation projects. Although the program’s limited surface-transportation-only focus and known funding horizon of only two years means it alone cannot shoulder the¶ burden of America’s infrastructure needs, the designers of any future infrastructure bank should look to this program as an example of how to successfully operate a federal infrastructure lending initiative.¶ This report will detail the need for both a national infrastructure bank and a planning council, explain how they each would work, and examine how they would address the specific failings of our current system of infrastructure investment. We will consider existing policy proposals for creating an infrastructure bank and will note which facets of these plans still require significant attention from policymakers. Finally, we will put forward a number of suggestions for immediate action to lay the groundwork for a national infrastructure bank and an infrastructure planning council.¶ The United States simply cannot wait any longer to address our crumbling infrastructure. If we take action now to better plan, finance, and coordinate critical investments in our national infrastructure, we can ensure continued prosperity for future generations, while immediately helping the American economy get back on its feet.¶ The need for an infrastructure bank and planning council¶ The overwhelming scale of the challenges facing U.S. infrastructure cannot be adequately addressed by individual state and local efforts or piecemeal federal support. Our myriad overlapping and competing funding streams, programs, and initiatives have repeatedly proven to be inadequate, and the need for central entities to plan, coordinate, and finance projects of national importance could not be more apparent.¶ In this section, we examine the four greatest failings of our current infrastructure investment system and illustrate their detrimental effect on the U.S. economy:¶ •¶ Failure to provide sufficient public funds¶ •¶ Failure to attract private investment¶ •¶ Failure to coordinate investments¶ •¶ Failure to allocate funds efficiently¶ Let’s examine each of these failures in turn.¶ Failure to provide sufficient public funds¶ Despite a large number of independent funding streams and initiatives for infrastructure development already in the federal government, the United States is failing—by a large margin—to adequately invest in its infrastructure. These existing funding streams include multiple federal loan programs, a far greater number of grant opportunities, and many additional layers of programs at the state and local level. A recent Center for American Progress report estimated that bringing America’s infrastructure into a state of good repair and adequately preparing it for projected growth would require the federal government to invest at least an additional $48 billion per year on top of current infrastructure spending levels, which in FY 2010 totaled roughly $92 billion in grants, credit subsidies, and tax expenditures.5¶ Even then, this spending could only be considered sufficient if it triggered $11 billion annually in additional state spending and was accompanied by a $10 billion increase in annual federal loan authority. The United States is simply not investing enough to repair and maintain our most critical infrastructure, let alone expand and upgrade it to enable future economic growth.¶ This lack of sufficient funding and political will means we are not only underfunding local water-treatment systems and roadway investments but also perpetually neglecting large-scale regional projects. Such cross-state “megaprojects” have the potential to produce massive economic returns but frequently go unfunded or unconsidered because they are simply too large for states, localities, or limited federal programs to finance. While the Transportation Infrastructure Finance and Innovation program and similar initiatives may seek to support large-scale undertakings, it simply does not have the funds to provide the level of capital required for such megaprojects and is generally limited to funding projects that fall into a specific sector—such as surface transportation—instead of integrated, cross-sector proposals.¶ This problem is evident, for example, in ongoing efforts to replace the functionally obsolete Brent Spence Bridge that connects Cincinnati, Ohio, with Covington, Kentucky, carrying traffic from two large interstate highways across the Ohio River. Despite its critical importance to regional commerce and the economic vitality of both cities, project planners have not been able to find a funding source for the $2.4 billion needed to begin work.6 Even with combinations of grants, municipal bonds, and private investment, such projects often require an additional source of funding to make it out of the concept stage.7 Currently this source of funding does not exist, which means the very projects that hold the greatest potential to spur lasting economic growth are the most frequently abandoned.¶ These problems are further compounded by a congressional appropriations process that allocates some infrastructure funds on a year-to-year basis and legislators who are sometimes reluctant to commit resources over the longer time frames required to complete most infrastructure projects. The recently passed Moving Ahead for Progress in the 21st Century Act surface-transportation bill provides program allocations for only two years—well short of the five-year timeframe of most of its predecessors. This leaves states, localities, and private investors struggling to make long-term plans under the uncertainty of future federal support.¶ Additionally, this annual appropriations process can encourage state and local policymakers to delay necessary projects in the hope of securing federal funding¶ in the next election cycle, both delaying benefits and potentially increasing costs, as required repairs become more significant.8¶ Failure to attract private investment¶ Private investors can be valuable and innovative partners in maintaining and modernizing critical infrastructure. Our current system of financing, however, has often failed in its attempts to forge viable partnerships with private investors.¶ While the traditional American method of attracting private capital by offering tax-exempt municipal bonds has been successful in many instances and will remain a valuable tool for infrastructure investment, it often leaves many large potential investors sitting on the sidelines. The reason: These groups are either already exempt from taxes, as in the case of pension funds, or have no state tax liability to begin with, as is the case with international investors. These characteristics have historically made tax-exempt bonds far less attractive to these groups, resulting in extremely limited purchases.¶ In the wake of the Great Recession of 2007–2009, however, many of these institutional investors now say they are eager to diversify their portfolios by investing in infrastructure. The California Public Employees’ Retirement System, for example, has already allotted $4 billion to be invested in U.S. infrastructure projects over the next three years.9¶ The success of so-called Build America Bonds has demonstrated that alternatives to traditional municipal bonds can have success in attracting pension funds and international investors. The program, initiated in 2009, issued an estimated $117 billion in taxable state and local bonds for which the federal government directly subsidized a portion of the interest costs.10 This made the bonds significantly more attractive to private investors, eliminating inefficiencies in the system of federal bond subsidization that cost the federal government billions of dollars every year.11 Unfortunately, the program was allowed to expire in 2010 and has not yet been renewed.¶ Public-private partnerships offer shareholders a direct stake in projects, and the potential for greater returns are also extremely attractive to these types of private investors. Unfortunately, states and the federal government have not yet fully taken advantage of these new types of investment vehicles. While 25 states have passed legislation expressly aimed at encouraging public-private partnerships, relatively few projects have actually been launched.12¶ This is largely because our infrastructure financing system lacks the experience and tools to quickly identify viable investment opportunities and match private investors with public partners. Without improved coordination, transparency, and financial assistance, billions of dollars more in potential investment may go unrealized despite the existence of numerous willing investors. In contrast, Europe has a fully functioning infrastructure finance program up and running. (see box)¶ Lessons from the European Investment Bank¶ While the United States struggles to develop a national infrastructure investment plan, the European Union has been operating a transnational, publically chartered infrastructure bank for longer than half a century. Founded in 1957, the European Investment Bank funds critical projects throughout Europe and in developing nations worldwide to the tune of tens of billions of dollars every year.¶ The bank is capitalized by funds from its 27 member states but also raises a large portion of its capital from issuing bonds. These funds are used to offer low-interest, long-term loans to both public and private entities, as well as loan guarantees and technical assistance. The bank is able to offer such attractive rates because it is large, nonprofit, has a AAA credit rating, and is fully backed by member governments.13¶ In 2010 the bank loaned out more than $100 billion, the vast majority of which (87.5 percent) went to projects in EU countries.14 This included $5 billion in high-speed rail projects; $3 billion in road and bridge improvements; $12 billion in sustainable urban transit; and $134 million in inland waterway improvements.15 Overall, the bank financed 460 “large projects” in 72 countries in 2010 alone, and this was all on top of the investments made independently by individual member states.16¶ The European Investment Bank should serve as both a useful example for policymakers and as a harsh reminder of how the United States is continuing to fall further behind our international competition. Any U.S. infrastructure bank must learn from the successes and failures of its international predecessors and must do so quickly if we are to keep pace in the decades ahead.¶ \* This report uses 2010 data to allow for easy comparison between European Investment Bank investment levels and federal U.S. loan authorities for infrastructure. (see Figure 1)¶ Failure to coordinate investments¶ The uncoordinated and siloed fashion in which federal dollars are allocated also hampers efforts to modernize U.S. infrastructure. Despite the interdependence of America’s electricity, water, transport, and telecommunications networks, the vast majority of federal funds are dispersed by sector-specific programs that do not take into consideration the impact of their initiatives on other infrastructure systems.¶ The Department of Transportation, for example, does not fully consider how increased investment in passenger or freight railways might alleviate the need for additional road and highway expenditures, and does not coordinate the landside port improvements it funds with Army Corps of Engineers waterside investments at the very same ports. Indeed, according to a recent Center for American Progress analysis, integrated transportation spending accounts for only about 2 percent of the Department of Transportation’s investments—a distressing figure for those concerned with maximizing efficiency and minimizing costs.17¶ Exacerbating this problem is the inherently reactive nature of the many federal agencies responsible for various aspects of our nation’s infrastructure. Nearly all of the projects that agencies consider are brought to them by localities, states, or Congress. They are almost never asked to propose projects based on their own analysis of national needs or to take on the role of integrating multiple small-scale proposals. Instead, they are only given the responsibility of evaluating individual pitches from policymakers primarily concerned with their own limited constituencies. Consequently, the United States has no national goods movement, water, or energy plans to match those of other rapidly developing nations, and our economic competitiveness and prospects for growth are suffering as a result.¶ Failure to allocate funds efficiently¶ Despite inadequate funding levels and limited program coordination, the United States still allocates tens of billions of dollars annually to a multitude of projects across the nation. Such investment could go further toward upgrading America’s infrastructure if it were spent more efficiently.¶ The vast majority of funds for infrastructure projects in the United States are not disbursed on the basis of a rigorous comparison of projects’ economic costs and benefits. Instead, they are allocated by formula or annual congressional appropriations that place more emphasis on geographic political considerations than on return on investment. For decades, highway funding has been distributed by formulas that heavily weigh vehicle miles of road over the actual need for repair or extension. As a result, Alabama has in the past received more funds than Massachusetts, Florida more than New York, and Georgia more than Michigan.18 This inefficient process is only getting worse, as the recently passed surface transportation bill actually increased the percentage of funds apportioned by formula from 83 percent to 92.6 percent.19¶ Highway spending, however, is not the only area where money is allocated in this fashion. According to the Congressional Research Service, the nation’s 20 busiest ports handle 80 percent of arriving oceangoing ships but account for less than 40 percent of federal Harbor Maintenance Trust Fund expenditures.20 In the allocation of funds for drinking water projects, millions of dollars are allotted every year just to ensure that every state receives at least 1 percent of the funds available.21 Such processes virtually ensure a suboptimal distribution of investment, as money is directed according to arbitrary legal requirements not potential impact.¶ America’s present system of infrastructure financing is failing on multiple fronts and falling well short of providing the levels of coordinated and expertly directed investment required to rebuild and modernize our aging bridges, electrical grids, and highways. It is clear that if the status quo is maintained, the United States will only continue to fall further behind its neighbors and competitors—with significant and damaging repercussions for the future health of the U.S. economy.¶ How would an infrastructure bank and planning council help?¶ The establishment of a national infrastructure bank and national planning council would go a long way toward making the existing system of infrastructure financing more rational, efficient, and transparent. In this section, we lay out the potential benefits offered by both institutions and illustrate how they can immediately help remedy the failures of the status quo. Americans deserve an infrastructure network befitting the largest and most innovative economy in the world, and creating a national infrastructure bank and national planning council will do much to achieve that goal.¶ National infrastructure bank¶ A national infrastructure bank would help spur more infrastructure investment by creating a strong federal lending authority capable of financing and coordinating high-value infrastructure investments throughout the country. It could provide low-interest loans and loan guarantees to state, local, and private investors, and help stakeholders connect available capital with financially viable projects and willing partners. Because all of the funds distributed by the bank would be paid back with interest by borrowers following the completion of their projects, the costs to the federal government following the initial capitalization of the bank would be remarkably low. Every federal dollar put into the bank would be able to achieve an impact well beyond its face value by supporting project after project as long as the bank continued operation.¶ Despite its low costs, however, a national infrastructure bank could put a substantial dent in the infrastructure funding gap by attracting billions of dollars in additional public and private investment. By providing the final financial piece that many large projects require to get off the ground, federal infrastructure loans and loan guarantees could enable hundreds of otherwise-abandoned projects to move forward. An infrastructure bank proposal put forward by Sens. John Kerry (D-MA), Kay Bailey Hutchison (R-TX), Mark Warner (D-VA), and Lindsey Graham (R-SC) estimates that an initial $10 billion endowment could provide up to $160 billion in financial assistance over the next decade, pulling in between $320 billion and $640 billion in additional nonfederal spending.22 Such levels of investment would pour billions of dollars into some of the economic sectors hit worst by the recession, among them the construction industry and heavy manufacturing, and could help put thousands of unemployed Americans back to work on projects with guaranteed economic and social returns.¶ An infrastructure bank could be particularly effective at leveraging additional investment because it would be able to make such investment more attractive to private investors. A federal bank could help inexperienced states and localities develop attractive public-private partnerships and could connect willing private partners with these investment opportunities. Providing a single “home” for such project proposals would eliminate the need for investors to make redundant pitches to multiple federal, state, and local agencies, making the entire process of linking private capital with critical infrastructure projects both more efficient and user-friendly. Federal oversight and guidance could also perform the important task of promoting models that protect wages and collective bargaining rights. For all of these reasons, both the U.S. Chamber of Commerce and the American Federation of Labor and Congress of Industrial Organizations see significant benefits for their members should a national infrastructure bank be created, and both have jointly come out in strong support of establishing such a bank.23¶ An infrastructure bank would also help overcome the many problems associated with the annual appropriations process and could provide the types of financial assistance that are most useful for infrastructure projects. By providing long-term loans and loan guarantees, the new bank would make year-to-year federal support significantly more predictable. Short-line railroad owners could hire employees, and clean energy operations could plan for expansion without being constrained by the uncertainty of not knowing whether the critical federal loan programs that support them will exist in a year’s time.¶ Additionally, by building delayed-repayment mechanisms into these loans, many crucial projects could be undertaken even if they may take time to begin generating sufficient user fees or savings to begin repayment. Public and private investors alike frequently find it difficult to acquire financing of this kind, but by filling this void, a national infrastructure bank could further enable billions of dollars in investment.¶ Furthermore, introducing a centralized federal lending authority could help dramatically improve coordination between federal agencies and the multiple lending¶ initiatives they oversee. A recent Center for American Progress analysis estimated that in FY 2010, just under $124 billion in total federal lending authority for infrastructure projects was spread out over six different programs in three different departments. (see Figure 1) It would likely be more efficient for an infrastructure bank to assimilate these existing federal loan schemes. Such changes would eliminate redundancies, build capacity to plan intermodal projects, and further improve due diligence in project selection.¶ Energy is a major cost driver when it comes to getting water to the tap and treating wastewater, but our current system does not adequately account for energy needs when planning water-system improvements. A federal lending authority, however, could allow for drinking and clean water infrastructure investments to be coordinated with the expansion of electrical capacity required to support them. Or it could arrange for channel deepening at ports to be planned alongside the bridge replacements required to ensure new and larger freight vessels can access harbors. Bank experts would be able to actively seek out opportunities for cross-state and cross-sector cooperation, and encourage policymakers and private investors to undertake the kinds of visionary and integrated projects that are the most beneficial to economic growth.¶ Finally, more efficiency-driven project selection could possibly deliver the greatest gains. An independent bank with a professional staff could rank project proposals by expected economic and social returns, and allot funds accordingly. They would not have to be constrained by outmoded formulas or arbitrary allocation processes, and could instead ensure that each dollar lent out achieves the greatest possible impact for the greatest number of people. With funding for projects of all kinds becoming increasingly difficult to come by and with infrastructure needs growing daily, we cannot afford to continue being inefficient with our spending. A national infrastructure bank could help reduce such waste, while making the most of limited resources to effectively promote valuable economic, social, and environmental goals.¶ The creation of a national infrastructure bank would thus help increase public investment, attract private investment, improve investment coordination, and ensure investment efficiency. As the United States becomes more integrated into an increasingly competitive global economy, we have no choice but to pursue these goals, and we must do so with the greatest possible urgency. Indeed, the idea of an infrastructure bank is not new to policymakers. (see box on following page)¶ A brief history of state infrastructure banks¶ The idea of establishing infrastructure banks to help finance needed investment is not new to the United States. As of 2010, 32 states and Puerto Rico already had state infrastructure banks in operation, using them to enter into more than 700 loan agreements worth $6.5 billion.24¶ A handful of banks were established in the 1990s as part of a limited federal pilot program, which was expanded in 2005 to include all states. Since then, most state infrastructure banks have been capitalized using a combination of federal and state funds, although a few have used only state monies to avoid certain federal regulations.¶ While these banks have helped finance hundreds of projects, their results have been somewhat mixed. Almost the entirety of the $6.5 billion allotted in loans comes from only eight states. South Carolina—one of the first participants in the bank pilot program and which raises significant additional funds by allowing its bank to sell bonds—is alone responsible for more than $3 billion of that investment. Many states have barely made use of their banks at all.25¶ Just as importantly, almost all of these banks provide funding only for surface-transportation projects, ignoring other critical types of infrastructure. Due to their relatively small size, they also do not have the funds or expertise necessary to handle regional megaprojects and generally avoid complex multimodal undertakings.26¶ State infrastructure banks will play an important role in meeting future infrastructure needs, but they would be more effective working alongside an equivalent federal institution. Such a national bank would be capable of taking on projects that state banks cannot and providing the expertise, coordination, and leadership currently lacking in our infrastructure-investment system.¶ National infrastructure planning council¶ While structuring financing packages for vital projects is among the most important roles the federal government plays in infrastructure investment, its activities extend well beyond this role and into research, issuing regulations, awarding grants, environmental protection, and even directly operating and maintaining locks, dams, bridges, and utilities throughout our country. To coordinate all of these activities and maximize the efficiency of federal infrastructure programs, we need a national infrastructure planning council. Such a council would unite the disparate federal initiatives currently attempting to individually tackle our national infrastructure crisis, thereby making the jobs of federal agencies easier and dramatically improving program effectiveness.¶ Such a council would help federal agencies establish a common understanding of the scope and breadth of the federal government’s investment in our nation’s infrastructure. By sharing current and pending project inventories, synergistic opportunities can more easily be identified and acted upon. Investments in locks and dams on¶ inland waterways could be coordinated with landside improvements at the seaports they service, while the impact of the information technology revolution on commuting patterns could be taken into consideration when allotting highway funding.¶ A national infrastructure council should also be tasked with collecting and disseminating best practices pertaining to project selection, preventative maintenance, and construction cost reduction. It would also promote the use of common objective measures to evaluate the progress of ongoing and completed infrastructure projects. The council would work to identify opportunities for innovation and help develop new mechanisms for leveraging private investment. A national infrastructure council would also work in close coordination with a national infrastructure bank, as the council could coordinate federal activities with nonfederal and private initiatives to ensure that the bank did not unnecessarily duplicate existing federal expert capacity.¶ With all relevant authorities sitting at a single table, we can finally develop and pursue coordinated approaches to overarching national problems such as road congestion and electrical grid reliability. A national infrastructure planning council would help the United States begin to close the gap between our level of investment and that of our international competitors—whose levels of infrastructure investment have surpassed that of the United States for years—and would help spur economic growth in both the short term and the long term.¶ What might a national infrastructure bank look like?¶ Multiple serious proposals for a national infrastructure bank have been put forward at the Congressional level in just the past five years, beginning with the bipartisan Dodd-Hagel National Infrastructure Bank Act of 2007.27 More recent proposals include the 2011 Building and Upgrading Infrastructure for Long-Term Development, or BUILD Act, sponsored by Sens. Kerry, Hutchison, Warner, and Graham, and the National Infrastructure Development Bank Act, sponsored by Rep. DeLauro (D-CT). The BUILD Act also served as the basis for infrastructure bank proposals recently put forward by the Obama administration, including those found in the proposed American Jobs Act of 2011 and the president’s proposed 2013 federal budget.28¶ These various proposals share many common elements but also differ on several key institutional attributes. In this section we consider which features are almost certain to be incorporated into any future infrastructure bank, as well as components which still require significant attention from policymakers to ensure any proposed institution is as efficient and effective as possible.¶ The fundamentals of an infrastructure bank: Where most plans agree¶ Most infrastructure bank proposals envision a wholly government-owned corporation led by a board selected by the president and subject to some form of congressional approval. Although the board’s size and composition vary among plans, all plans agree that rules must be put in place to ensure the board is not dominated by a single party’s partisan appointees and that its members have sufficient and relevant expertise in infrastructure development and financing. An important balance will also have to be struck between ensuring adequate oversight of the bank and enabling it to operate independent of political pressure, lest its project-selection process simply become another extension of existing, politically motivated allocation methods.¶ The majority of proposals permit an infrastructure bank to offer long-term loans and loan guarantees of up to about 35 years, with the potential for flexible repayment schedules that would allow investors the time required to complete large-scale projects and begin recouping their costs via user fees, tolls, or other revenue sources. Entities eligible to receive financing would include state and local governments, private investors, or public-private partnerships. Eligible project areas vary somewhat between the plans but would almost certainly include energy, transportation, and water projects, possibly alongside environmental and telecommunications undertakings.¶ A successful example of such lending practices can be seen in the aforementioned Transportation Infrastructure Finance and Innovation program. Over the past 14 years, this program has used $9.2 billion in federal funding to provide attractive long-term loans, loan guarantees, and lines of credit that have leveraged more than $36.4 billion in private and public capital, helping undertake 27 major transportation projects across the nation.29 Among the reasons the program has been so successful is its ability to offer loans of up to 35 years and the flexibility of its repayment schedule. Recipients of this program’s loans can wait up to five years after substantial project completion to begin paying back their loans so as to allow time for facility construction and ramp-up.30 The designers of an infrastructure bank would be wise to use these elements of the Transportation Infrastructure Finance and Innovation program as a model.¶ To ensure that a future infrastructure bank accomplishes its goal of attracting significant additional nonfederal and private investment, a cap on the percentage of a project’s financing which can be covered by loans from the bank may also be required. The bipartisan BUILD Act proposal—as well as the most recent administration proposals—set this cap at 50 percent. This would ensure that the federal government never foots the majority of the bill for any project and maximizes the commitments of its public and private partners.¶ Importantly, most existing plans also avoid establishing specific criteria for project selection and leave this process up to the bank’s board. They do, however, emphasize that project selection should take into account all economic, social, and environmental costs. The board should also prioritize projects that lead to economic growth and job creation or are of particular national or regional importance. If an infrastructure bank is properly structured and appropriate selection criteria are adopted, then it could not only help construct new and valuable national assets but also create thousands of jobs and promote environmentally sustainable development.¶ An infrastructure bank proposal from Sens. John Rockefeller (D-WV) and Frank Lautenberg (D-NJ) includes an even greater emphasis on breaking down modal silos in the Department of Transportation. The Rockefeller-Lautenberg proposal also includes a requirement for an infrastructure bank to consider the long-term fiscal and competitiveness impacts of their decision making. Some experts advocate including such proposals from the Democratic infrastructure bank bill in the larger bipartisan BUILD Act.31¶ Variability in bank plans: Important features still to be considered¶ There is a great deal of consensus about what should be included in the creation of an infrastructure bank. But there also is disagreement about certain components.¶ Among the first features of any potential infrastructure bank that remain open for consideration is whether or not a floor should be placed on the size of projects eligible for financing. The proposed BUILD Act and the president’s 2013 federal budget both mandate that estimated project costs be at least $100 million—or, in the BUILD Act, $25 million if the project is in a rural area—in order to receive bank support. The goals of such provisions include ensuring only large projects with substantial returns are financed and keeping bank funds away from smaller projects that could be capable of raising sufficient capital on their own.¶ Such limits, however, may also make it more difficult for the bank to take on the duties of smaller federal lending initiatives such as the Railroad Rehabilitation and Improvement Financing loan program or the Department of Energy’s 1703 and now-defunct 1705 loan programs. These programs support valuable investment in regional rail revitalization and clean energy technologies but generally make relatively small loans to individual companies or local governments. If cost floors exist, policymakers will have to carefully weigh the benefits of streamlining federal investment in infrastructure by assimilating such programs against the costs of cutting support for smaller but still valuable projects.¶ Second, architects of any future bank will have to determine how administrative costs will be covered. These year-to-year costs could simply be taken from the funds used to initially capitalize the bank, although this would diminish its lending authority over time. Yearly congressional appropriations could also be used, but this would then sacrifice the self-sustaining nature of the bank.¶ To circumvent these problems, the BUILD Act proposed allowing the bank to charge fees—such as application and transaction fees—or make interest rate adjustments to ensure a balanced bottom line. This would ensure the fiscal independence of the bank and avoid depleting its loanable funds, but it could make borrowing from the bank slightly less attractive. Regardless of the solution chosen, however, such costs will have to be planned for if the bank is to prove sustainable in the long term.¶ The bank’s ability to increase its pool of loanable funds by issuing bonds or borrowing on global capital markets is also of great importance. The DeLauro proposal includes provisions allowing the bank to do both with the goal of maximizing the amount of money the bank would have on hand to support critical investment. Some state infrastructure banks employ similar practices—including those in Florida and South Carolina—as does the European Investment Bank (described in the box above). But this practice requires attaching higher interest rates to loans issued by the bank since it must subsequently raise more funds to pay back bond buyers.32 Consequently, policymakers will have to evaluate whether the benefits of such debt issuance outweigh the potential for higher rates that could ward off borrowers.¶ Finally, the size of the bank’s initial capitalization and whether it will be a permanent institution are both critical and undecided issues. A permanent institution could help ensure infrastructure investment does not again fall so far below required levels as it has in recent years and would help spur economic growth for decades instead of only in the near term. And if the bank is appropriately structured and fees set at a sufficient rate, then it could become an entirely self-sustaining entity that could operate for decades with virtually no need for additional federal funding. The BUILD Act calls for a permanent bank to be established and capitalized with $10 billion. The DeLauro proposal, in contrast, calls for a temporary bank—to exist for only 15 years—but which would be capitalized with $5 billion annually from FY 2012 through FY 2016.¶ While these are still important features to be decided, there are a number of steps that can be taken to spur the establishment of a national infrastructure bank, as the next section explains.¶ Getting started¶ Neither a national infrastructure bank nor a national infrastructure plan will be created overnight. But there are a number of actions that can be undertaken immediately to move the United States in the right direction. In this section, we will detail the steps that should be taken by policymakers right now to help get these ideas off the ground and help get America’s infrastructure working again. Specifically:¶ •¶ Creating the national infrastructure planning council¶ •¶ Establishing a federal infrastructure bundling entity¶ •¶ Expanding and better utilizing existing federal loan programs in the short term¶ Let’s look at each step in turn.¶ Creating the national infrastructure planning council¶ We should immediately create a federal interagency planning council to ensure we develop a coordinated and comprehensive approach to national infrastructure investment as quickly as possible. The Center for American Progress recommends that the council include, at a minimum, the secretaries or their designees of the following departments, commissioners of the following agencies, and the directors of the following federal offices:¶ •¶ Department of Agriculture, Office Rural Development¶ •¶ Department of Agriculture, Natural Resources Conservation Service¶ •¶ Department of Defense, Army Corps of Engineers¶ •¶ Department of Energy, Office of Electricity Delivery and Reliability¶ •¶ Department of the Interior, Bureau of Reclamation¶ •¶ Department of Transportation, Federal Aviation Administration¶ •¶ Department of Transportation, Federal Highway Administration¶ •¶ Department of Transportation, Federal Railroad Administration¶ •¶ Department of Transportation, Federal Transit Administration¶ •¶ Department of Transportation, Maritime Administration¶ •¶ Environmental Protection Agency, Office of Ground Water and Drinking Water¶ •¶ Environmental Protection Agency, Office of Wastewater Management¶ •¶ Federal Communication Commission¶ •¶ Federal Emergency Management Agency¶ •¶ Federal Energy Regulatory Commission¶ Leadership will be critical to the council’s success. The president should select a knowledgeable and trusted neutral party to lead the council—someone who has experience in both infrastructure investment and interagency coordination. With such a council in place operating with the strong support of the executive branch, departments will be able to have a fuller understanding of each agency’s investments in the nation’s infrastructure and will be better able to identify and take advantage of opportunities for interagency cooperation. This will help ensure the federal government makes the most efficient use of its limited resources and is able to strategically confront the challenges ahead.¶ Establishing a federal infrastructure bundling entity¶ Given existing partisan gridlock in Congress and lawmakers’ hesitance to undertake large new projects, it may take some time to establish a national infrastructure bank. But in the meantime we can move toward establishing a bank while also yielding immediate benefits by creating a federal infrastructure bundling entity.¶ This body—which could be thought of as phase one of a national infrastructure bank—would provide intermediary services between public infrastructure projects and willing private investors but would not distribute loans or loan guarantees. It would identify large financeable projects and prepare them for pairing with interested partners, filling a critical void that is presently preventing millions of potential investment dollars from reaching critical projects due to a lack of viable investment options.¶ This bundling entity would be similar in function to the recently announced Chicago Infrastructure Trust but would operate on a national scale and concentrate on larger-scale and more complex projects. The estimated $1.7 billion in investment commitments the Chicago Infrastructure Trust already expects from investors such as JPMorgan Chase & Co. and Citibank, Inc. demonstrates that a national bundling entity could produce immediate benefits.33¶ To ensure effectiveness, an infrastructure bundling entity should:¶ •¶ Be able to enter into contracts with experts in infrastructure finance, who can work directly with project sponsors¶ •¶ Be able to solicit projects for review and to work with federal agencies to explore creative options for bundling projects such that they may tap public loan programs, as well as private investors¶ •¶ Be required to seek out large-scale, financeable projects in every region of the nation¶ Creating an infrastructure bundling entity would by no means obviate the need for a full-strength infrastructure bank with lending authority, and it would not be able to leverage nearly as much investment. But a bundling entity would produce immediate benefits and help lawmakers recognize the beneficial role a full-fledged bank could provide. CAP recommends that Congress take action to create this entity as soon as possible and appropriate $10 million to fund its operation.¶ Expanding and better utilizing existing federal loan programs in the short term¶ While getting a national infrastructure bank off the ground may take time, there are still hundreds of vital projects throughout the country that need public debt financing. The recent allocation of $1.7 billion to the Transportation Infrastructure Finance and Innovation program over the next two years in the new surface transportation bill is certainly a significant step in the right direction but is insufficient on its own to meet national demand.¶ As a result, CAP recommends restoring the Department of Energy’s 1705 loan program, which invested $25 billion mostly in clean energy projects over two years before expiring in 2011.34 The program should be extended for another 10 years and enabled to support $4 billion in lending authority. This could mobilize up to $40 billion in additional investment, a CAP analysis found.35¶ Additionally, other underutilized loan programs should be encouraged to streamline their application and awards processes and utilize a greater percentage of their lending authority to put the highest rate of available funds to work. Of the nearly $124 billion available in FY 2010 for federal loans, loan guarantees, and lines of credit, a recent CAP analysis found that only approximately $44 billion was actually disbursed.36 One particular example of such underutilization can be seen in¶ the Railroad Rehabilitation and Improvement Financing program, which has only allocated a total of $1.3 billion in loans since its lending authority was extended to $35 billion in 2005.37¶ Certainly, accountability and good judgment in the allocation process must be maintained. In any given year it may not be feasible or responsible to disburse the entirety of the funds legally available. But there is significant room for improvement, and our existing system of infrastructure investment is far from tapping its full potential. By expanding and better utilizing existing federal loan programs, at least some progress can be made in repairing and modernizing America’s infrastructure before a national infrastructure bank is established.¶ Conclusion¶ For decades the United States has categorically underinvested in its infrastructure, and it should come as no surprise that the consequences of this negligence are finally coming home to roost. Locks and dams on inland waterways are falling apart. Commuters and businesses alike are losing billions of dollars on congested highways. And the nation’s electrical grids and drinking water systems are aging to the point of failure.¶ Meanwhile, our competitors in the global economy have only ramped up infrastructure investment and adopted ambitious national plans and targets. If the United States is to remain internationally competitive, and our economy is to return to its previous growth rates, then we have no choice but to repair and modernize our creaking infrastructure. Establishing a national infrastructure bank and planning council could immediately help accomplish these goals.¶ To be sure, some commentators—including the Congressional Budget Office, in a recent report—express concerns that there may not be enough suitable projects for an infrastructure bank to finance, particularly in the realm of surface transportation. The same report also notes that surface transportation support through an infrastructure bank may ultimately be duplicative of existing federal loan and loan guarantee programs.38 But as we have established in this report, an infrastructure bank could have an enormous impact in planning and financing the kinds of large-scale, multimodal projects that create jobs and increase our economic competitiveness, but which struggle to attract federal funding or leverage sufficient private funds.¶ Rather than focusing solely on surface transportation—long a priority in congressional appropriations—a national infrastructure bank would ideally be able to finance complex investments that integrate transportation systems and enable our ports, rails, roads, and waterways to operate more efficiently. Moreover, such investments would leverage productivity gains throughout the economy by better connecting improvements in related infrastructure sectors—energy and water infrastructure, for instance.¶ While the Congressional Budget Office report expresses concern that a sufficient pipeline of such projects may not exist in the short term, Robert Puentes of the Brookings Metropolitan Policy Program respectfully disagrees. In 2011 Brookings “challenged public and private leaders to send us their ideas for innovative, transformative investments. And the response was tremendous,” Puentes writes in The New Republic.39 He points out, rightly, that not every project would make sense for financing through a national infrastructure bank, but creating a national bank sends a clear signal to the private sector and the rest of the world that the United States is making bigger, smarter choices about infrastructure. A national infrastructure bank is the missing link needed to connect private capital to the kinds of infrastructure megaprojects most needed to boost economic activity and competitiveness.¶ Working in concert, a national infrastructure bank and planning council would help increase and coordinate public investment and ensure that federal dollars go only to deserving projects with substantial potential returns. By helping bridge the gap between private investors and critical infrastructure projects, these institutions could also attract billions of dollars in additional investments and help get promising but complex projects off the drawing board. It is time to stop wasting taxpayer dollars on a system characterized by inefficient formulas and disconnected decision making. It is time to finally create institutions capable of providing Americans with the infrastructure they need to compete, create jobs, and innovate.¶ Establishing a national infrastructure bank and national infrastructure planning council makes economic sense and offers taxpayers the opportunity to multiply a relatively modest investment into massive and meaningful gains nationwide. Only by investing today can we hope to improve our prospects for tomorrow, and only by establishing such institutions can we ensure that our investment achieves its maximum potential. The stakes are simply too high to accept the status quo, and it is past time for us to stop neglecting the very foundation of our economy.

#### Slow growth makes nuclear conflict and all transnational threats more likely

Silk 93 (Leonard Silk, Distinguished Professor of Economics at Pace University, Senior Research Fellow at the Ralph Bunche Institute on the United Nations at the Graduate Center of the City University of New York, and former Economics Columnist with the New York Times, “Dangers of Slow Growth,” Foreign Affairs, 72(1), 1992/1993, pp.167-182, JSTOR)

Global Productivity's Long Decline ¶ Slow growth of the world economy and rising unemployment in the industrialized world along with the end of the Cold War, which once bound together the capitalist countries of North America, Europe and Asia have given new life to nationalism, regionalism and protectionism in various quarters of the globe. Combating the persistence of slow growth must be a priority for the new American president and other leaders of the developed nations. As he ponders remedies, President Clinton starts from a shaky base. The U.S. economy he inherits experienced the slowest growth of the postwar period an average of 1.2 per cent per year over the last four years. The economy began to recover from recession in mid-1991, but so slowly that most voters felt the recession was still on and rejected President Bush's bid for a second term. Governor Clinton's campaign was built on his pledge to "get the economy moving again," a theme borrowed from the 1960 campaign of John F. Kennedy. But the 1990s are not the 1960s; despite somewhat faster growth in the latter part of 1992, the U.S. economy is still hampered by deep structural problems and a global recession. America's role in the new world economy has changed. Though still the largest national economy in the world, the United States is not the single dominant power it was at the end of World War II. The economic strength of Japan and other Pacific rim nations and of the European Community makes it unlikely that this nation will hold that position again. The current global economic slowdown has been the most painful and protracted of the postwar era. The growth rate of the industrial countries has come down from 4.4 percent in ¶ 1988 to 3.3 percent in 1989, 2.6 percent in 1990, 0.9 percent in 1991, and 1.7 percent in 1992 too slow to keep pace with the growth of the labor force. Unemployment has risen above ten percent in most of Europe and in Canada, and above seven percent in the United States.1 The combined growth rate of the "economies in transition" the former Soviet Union and eastern Europe fell from 4.5 percent in 1988 to 2.3 percent in 1989. It then went negative, plummeting by five percent in 1990, 15.9 percent in 1991, and 12 percent in 1992 a decline of one-third of total output in three years, a steeper decline than any country or combination of countries suffered in the Great Depression of the 1930s. Systemic collapse in the East has aggravated problems in the West especially the huge influx of immigrants to western Europe, a flood that may not yet have reached full tide. The economic slowdown of the West did not begin with the collapse of the Soviet empire, the end of the financial boom of the 1980s or the 1987 stock market crash. Rather it started two decades earlier with the beginning of a persistent decline in productivity, whether measured either by output per worker hour or total factor productivity. The trend stands out in the data for the "big seven" members of the Organization for Economic Cooperation and Development: the United States, Japan, Germany, the United Kingdom, Italy, France, and Canada. The annual growth of U.S. gross domestic product per capita dropped from an average of two percent in 1955-73 to 1.3 percent in 1973-86. In the same two periods, Japan's per capita GDP growth fell from 8.8 percent to 3.3 percent, Germany's from 4.2 percent to two percent, and the combined rate of the other four members of the big seven from 3.8 percent to 1.7 percent. One may argue about the precise measures but not about the overall downslide of productivity growth that has been going on for two decades. ¶ Lingering Impact of Oil Shocks What caused the productivity slowdown? Economists are still unsure. Their principal explanation, especially because of the timing, is the oil shocks of 1973 and 1979. Other leading suspects are an asserted greater rigidity of national economic systems, a falloff in the growth of new knowledge and technology, and tax systems (especially that of the United States) that favor consumption, discriminate against saving and retard investment.2 Low savings and investment rates, it seems evident, have weakened America's productivity growth and overall economic performance. In the 1980s America's net national savings rate fell from about eight percent of national income in the preceding three decades to less than three percent, because of large federal deficits and lower private savings. Proportionally the United States saves far less as a nation than any other major industrial country. In the past decade America's net savings rate averaged about one-fifth that of Japan and about one third that of Germany and the Group of Seven (G-7) as a whole. This shortage of savings has not only constrained American growth but has also severely limited the capital the United States can supply to developing countries or the ex-communist states struggling to build market economies and effective democracies. The economic slowdown has deep political roots. The oil price inflation of the 1970s and early 1980s was triggered by Arab states using oil as a weapon against Western In the past decade importers following the 1973 Arab-Israeli war, and then by the Ayatollah Khomeini's Iranian revolution in 1979. These were what economists call exogenous shocks to the economic system. But the oil shocks were also endogenous. They were linked to changing market conditions—that is, to growing Western dependence on Middle Eastern oil, to economic boom and worldwide commodity-price inflation kicked off by the escalation of the Vietnam War and the Johnson ¶ administration's dilatory fiscal policy. President Johnson's unwillingness either to curb domestic spending by gutting Great Society programs or to demand a tax increase to finance the war as well as his desire to push for economic growth all helped prompt global inflation. Excess fiscal and monetary stimulus on the part of other developed countries also contributed to the worldwide commodity boom. Inflation worsened the terms of trade of Third World and Middle Eastern producers, setting the stage for the first round of oil-price explosions. Rising oil prices fueled general inflation and forced the developed countries to adopt the tight monetary and fiscal policies that would in turn intensify the investment, productivity and output slowdowns of the 1970s, 1980s and 1990s. In the 1980s the effect of the oil price explosion on productivity growth gradually wore off; industrial nations, some faster than others, adjusted to higher oil prices, and the relative world oil price came down. Nevertheless the slow rate of productivity growth continued. Hence, the causes of continuing slow growth in the late 1980s and early 1990s must lie elsewhere. ¶ Deflating “Bubbles” Slowed Growth ¶ Speculative fever gripped stock markets and real estate markets in the 1980s and caused a global wave of mergers and acquisitions. Rapid growth of the global financial markets and a "less government" political climate that reduced financial and antitrust supervision and regulation combined to produce "bubbles" in economies around the world. Lest the bubbles burst, governments and central banks decided to let air out of them. But deflationary actions not only by financial regulators but also private financial institutions themselves aggravated the economic slowdown. The fall of the Berlin Wall exacerbated the switch to counter-inflationary measures in Germany. The huge price paid by Chancellor Helmut Kohl to bring about quick unification an exchange of West German marks for East German marks at an overpriced one-to-one rate and a transfer of capital to the East amounting to about S100 billion a year caused the German budget to swing from a moderate surplus in 1989 to a deficit equal to five percent of GDP in 1992. That set off inflationary pressures and still worse inflationary fears. To still the pressures and fears, the Bundesbank kept money ¶ tight and interest rates high while the rest of Europe was trying to fight recession. The result was to worsen the problem of slow growth in Europe and everywhere else. Bundesbank policy also intensified disequilibrium among currencies and political strains among European Community signatories of the Maastricht treaty, threatening European monetary and political integration and even the world trading system under the General Agreement on Tariffs and Trade. Japan was also experiencing the worst economic and political tensions and anxieties since beginning its remarkable post war recovery and long spell of high growth. Its financial bubble, built on inflated asset values, has been sharply deflated. Stock prices have fallen about 60 percent, and real estate prices, though they have already come down by about 20 per cent, are regarded as very shaky. Scandals over political and business corruption have helped to undermine public confidence in the system. The Japanese establishment including politicians, bureaucrats and business leaders now acknowledges that the country is in a genuine recession. Present strains, it warns, may last another five to seven years, and possibly a decade or more. The fear is that the steep fall of securities prices and land and other asset values will have a long-lasting effect on Japanese banks and industries. One senior Japanese economist explained: "In the past the threats were like a broken leg sharp, painful but specific and it was clear what was needed to mend them. This downturn is more like a virus affecting the blood system much more complex and pervasive."3 In its efforts to cure the disease, says Akio Mikuni, a leading Japanese financial analyst, the Ministry of Finance got caught in a dilemma: "If it allows the prices of land and equity to be set genuinely by market forces, asset prices would plummet and the capital cushion of Japan's banks wiped out. The Finance Ministry would have given up its most important tools right at the moment they would be needed for coping with a resultant first-order banking crisis."4 For the time being, the Ministry of Finance has chosen to support the markets at deteriorated levels. Nevertheless, Mikuni believes that the ministry's actions are ultimately unsustainable. "The negative carrying costs of holding overpriced assets," he notes, "will ¶ continue to eat away not just at the stability of the financial sector but also at the profitability of manufacturing firms." Other analysts, while conceding that Japan "has finally gone over the edge," believe that it will come back in a few years, stronger than ever. Japan, says Kenneth S. Courtis, strategist and senior economist for the Deutsche Bank Group in Asia, is "purging itself of the excesses of the 1980s, cleansing its economy, melting off the fat" it had accumulated over recent years. "By the mid-1990s," he contends, "once the economy is brought down again to its rock-hard, competitive core, Japan will be poised for another powerful leap ahead through to the end of the decade."5 Japan's future will depend not just on actions by the Ministry of Finance, the Ministry of International Trade and Industry or other agencies, banks and businesses, but also on the policies of foreign governments and developments in the world economy. Whichever crystal ball is right about Japan's economy, analysts, government officials and central bankers agree that this has not been a typical business-cycle recession, either in Japan, Europe or the United States. ¶ The Dangers of a New Depression ¶ After a meeting with Japanese Prime Minister Kiichi Miyazawa and officials from the Ministry of Finance and Bank of Japan, Federal Reserve Board Chairman Alan Greenspan noted that among the topics discussed was "the balance sheet problem" that in Japan is referred to as "asset deflation."6 Greenspan had earlier described the structural imbalances in the U.S. economy as more severe and more enduring than many had previously thought. The economy, he said, was "still recuperating from past excesses involving a generalized overreliance on debt to finance asset accumulation. Many of these activities were based largely on inflated expectations of future asset prices and income growth."7 As reality broke through, businesses and individuals holding debt-burdened balance sheets had diverted cash flows to debt ¶ repayment at the expense of spending, while lenders turned cautious. The credit crunch was on. And as Greenspan further explained: "This phenomenon is not unique to the United States; similar adjustments have spread to Japan, Canada, Australia, the United Kingdom and a number of northern European countries. For the first time in a half century or more, several industrial countries have been confronted at roughly the same time with asset-price deflation and the inevitable consequences." The last such asset deflation, credit crunch and wave of bankruptcies followed the Great Crash of 1929. Fiscal, monetary, and trade policy blunders helped to turn that earlier asset deflation into the Great Depression of the 1930s, which lasted a full decade until the outbreak of World War II. I shall always remember the phrase of my old boss, Elliott V. Bell: "Out of the wreckage of depression slithered the serpents of Nazism and war." Nowadays, reversing the celebrated maxim of George Santayana, we believe or hope that those who remember the past are not condemned to repeat it. Yet it is already evident that the long period of slow growth, which some have called a "controlled depression," has produced revolutionary consequences of its own. It helped to shatter the Soviet empire. As the British editor William Rees-Mogg has written: "A world economic crisis is a type of world revolution. It destroys old structures, economic and political. The Soviet Union, with its rigid inability to adapt, was the first to fall before the full force of the storm. Such a crisis destroys well-meaning politicians and promotes men of power.... It destroys respect for government, as people discover that their leaders cannot control events."8 The burst of optimism that greeted the downfall of Soviet communism has given way to anxiety that years will pass before the new states in the East can become effective market economies and democracies and that some may not make it at all before dictatorship returns. The end of the Cold War was expected to bring great benefits to people in many countries as resources were shifted from military to social programs. Thus far, however, the peace dividend only shows up in lost jobs and falling incomes. Theoretically there is no reason why this must be so; in a ¶ rational world, the improved prospects for peace should have led to greater spending on consumer goods and productivity \_ raising investment. But that can happen only if workers can be shifted to new jobs—and financial resources reallocated to create those jobs. In the absence of such shifts of human and capital resources to expanding civilian industries, there are strong economic pressures on arms-producing nations to maintain high levels of military production and to sell weapons, both conventional and dual-use nuclear technology, wherever buyers can be found. Without a revival of national economies and the global economy, the production and proliferation of weapons will continue, creating more Iraqs, Yugoslavias, Somalias and Cambodias or worse. Like the Great Depression, the current economic slump has fanned the fires of nationalist, ethnic and religious hatred around the world. Economic hardship is not the only cause of these social and political pathologies, but it aggravates all of them, and in turn they feed back on economic development. They also undermine efforts to deal with such global problems as environmental pollution, the production and trafficking of drugs, crime, sickness, famine, AIDS and other plagues. Growth will not solve all those problems by itself. But economic growth and growth alone creates the additional resources that make it possible to achieve such fundamental goals as higher living standards, national and collective securi ty, a healthier environment, and more liberal and open economies and societies. ¶ Reducing the Deficit to Promote Growth ¶ What will it take to fuel the engines of world growth? The answer can be found in the lesson learned from the Great Depression: the developed countries need to pursue macroeconomic policies that will keep the world economy moving forward and keep world trade and investment flowing freely. ¶ This means, first and foremost, that the United States and most other industrial countries must make efforts to increase savings and productive investment.9 A higher rate of capital formation will serve not only their own interests but also through the global growth mechanism of expanded markets promote the interests of the developing world, Asia's newly industrialized countries and the states of eastern Europe and the former Soviet Union that are striving to modernize and build closer links with the world economy. Higher rates of capital formation in the developing and newly market-oriented economies are critical to their economic success and, in many cases, to their political viability. The United States, still the largest and most important economy in the world, needs to play a constructive role in raising global capital formation. It can only do so if it eliminates its huge and still growing federal budget deficits. The Bush administration's final estimate of the U.S. budget deficit, which was $290 billion in fiscal year 1992, was revised upward to $305 billion by 1997, if present policies continue. That deficit is "structural" meaning the bulk of it would still be there, even if the economy were operating at full capacity and full employment. Repeated deficits have forced the United States to import capital from abroad in order to finance government activities and to help cover America's own investment needs. Instead of exporting capital to the developing world, with reciprocal benefits to its own exporting industries, the United States has been absorbing global capital, putting upward pressure on long-term interest rates and slowing its own and worldwide investment and growth. America's deficits, both internal and external, could not have grown so large nor endured so long had it not been for the willingness of foreigners to invest in dollar assets. That willingness reflected the international role of the dollar and relative confidence in America's political stability and long-run growth potential. The United States must now move decisively to justify that confidence or risk seeing it shattered. Strengthening America's economic growth must be a top priority for the rest of the decade. Stronger growth will require eliminating the budget deficits that have undermined the nation's savings rate and long-term investment. Unless ¶ remedied, America's chronic and rising budget deficits and low national savings rate will act as a drag on its productivity growth and its ability to build any international cohesion on critical economic and political issues. Washington's budget deficits will also continue to limit its ability to deal with social problems at home. U.S. economic policy should aim to raise the rate of nation al savings to at least its pre-1980 level of about eight percent of national income, about five percentage points above its current level. When invested in plant and equipment, research and development or infrastructure, the additional savings would raise the annual growth rates of productivity back to its historical level of more than two percent per year, making possible a steady increase in living standards, a steady reduction in unemployment and the accumulation of extra capital for meeting domestic and foreign needs. Proposals by certain economists to get rid of the budget deficit problem by excluding outlays for capital goods from total government expenditures have little merit and might even aggravate problems with the nation's fiscal mismanagement. The idea of a government capital budget is not new. Proposals for a capital budget surfaced in response to the nation's savings public concern over the contribution of rising public expenditures to inflation during the Vietnam War, and - they were rejected as likely further to confuse and distort the federal government's fiscal policy.10 That conclusion still applies: use of a capital budget would seriously understate the government's current draft on the resources of the economy. Indeed it was the overdraft on the nation's resources during Vietnam that broke the long spell of stable postwar economic growth and initiated the inflationary pressures and slow productivity growth that have dogged America and the world since. In periods of inflationary pressure the appearance of a balanced budget, with capital expenditures excluded, would pose ¶ a political and psychological barrier to adequate taxation, even beyond the usual resistance present in Congress and the public. Those interest groups pressing for new spending would inevitably seek to stretch capital budget rules to get their proposals included as forms of investment, whether in physical, intellectual or human capital, skirting the immediate impact that would normally be to increase the current deficit. If the capital budget were limited to physical capital, it would be likely to distort decisions about allocation of resources, promoting the priority of investments for "brick and mortar" over programs for which future benefits could not readily be capitalized, such as health, public education and child care, even when there was no accurate evidence that such a shift would be more beneficial to the nation. Several foreign governments that previously used capital budgets subsequently abandoned them. In other countries maintaining a semblance of capital budgets the division of transactions "above the line" in the regular budget and "below the line" in the capital budget became so arbitrary as to make the distinction meaningless. Even if a capital budget were desirable, it raises a formidable array of accounting problems and issues, such as how to count military hardware (which produces no incremental income year to year) and how to measure depreciation of government property. Concerns about the distorting effects of a federal capital budget should not imply rejection of special tabulations and analyses of government spending of an investment nature. On the contrary, efforts to promote long-term productivity and overall economic growth could be served by careful analysis of the costs and benefits of proposed capital expenditures in future budget documents, without harm to the budget as a tool for furthering economic stability and growth. The Clinton administration should be encouraged to move in that direction. But it should bear in mind that the private sector requires at least as much attention as the public sector in its potential contributions to increasing investment in productivity-generating capital goods, research and development and job training. A reduction of the structural budget deficit would augment private investment by increasing national savings. The long-term aim of fiscal policy should be not just to reduce the budget deficit but to achieve a structural budget surplus, including Social Security and other retirement accounts, of one to two percent of GDP over the coming decade. ¶ Short-Term Growth vs. Deficit Reduction ¶ Achieving the nation's goal of stronger long-term growth must be accomplished in a way that is consistent with raising the level of economic activity in the short run, especially to increase employment. President Clinton needs to reconcile the apparent conflict between two types of economic advisers the short-term fiscal stimulators versus the longer-term deficit eliminators. He has said he intends to call the shots himself and avoid, on the one side, excess stimulus that would drive up interest rates and retard investment and, on the other, fiscal drag that would keep the economy in the doldrums. , If a solution to this dilemma is possible, it can be found in a unified program to encourage private and public investment over the next four years: short-term stimulus and long-term progress toward eliminating the budget deficit should be offered and legislated as part of one package. This is the task for which President Clinton's experienced legislators Senator Lloyd Bentsen and Representative Leon Panetta were presumably chosen as secretary of the treasury and director of the Office of Management and Budget: to persuade Congress to enact a program for gradually phasing in deficit-shrinking measures that would not interfere with the recovery or with the financing of public and private investments to spur national economic growth, and to make each year's fiscal policy consistent with the longer term program. A program for recovery and steady growth should provide for deferring measures to get rid of the budget deficit if economic stagnation persists and legislated as and the economy slides back into recession. But such deferrals should be only temporary, until the economy recovers. Such a program is difficult to lay out firmly in advance and will require the closest cooperation between the administration and Congress to maintain flexibility without deserting its fundamental goals. Stable growth will also require closer coordination between ¶ fiscal and monetary policy. In the past, some central bankers and economists have argued that the sole task of the Federal Reserve's monetary policy is to prevent inflation and to safe guard the value of the dollar. But in times when overcapacity and unemployment and even deflation are the main problems, the Federal Reserve has an obligation to aid economic recovery. The goals of reducing unemployment and preventing inflation are parallel, not irreconcilable, objectives. Those objectives can best be achieved in existing circumstances by reducing the structural budget deficit, thereby making it possible for the Federal Reserve to maintain or increase the growth of the money supply and to bring interest rates down farther without fear of regenerating inflation. With industrial output at less than 80 percent of capacity and the unemployment rate above seven percent, there is no reason for premature alarm about inflation. It was that kind of alarm that so inhibited monetary policy in the 1930s, worsening the depression and hampering the recovery. That was a time when reducing unemployment, not heading off a feared inflation, should have been the primary target of monetary policy. Although the present slump, except in eastern Europe and the former Soviet Union, is not as severe as the Great Depression, monetary policy still needs to avoid focusing on the wrong problem at the wrong time. ¶ Tighten G-7 Coordination In this more closely integrated and stagnating world economy, it is the inadequate growth of the world money supply, not just the money supply of any single nation, that provokes the greatest concern. Collaboration among the three most important central banks and sources of international monetary reserves the Federal Reserve, the Bundesbank and the Bank of Japan will be vital to curbing world inflation or deflation and achieving stronger and steadier world economic growth. Collaboration by nations and their central banks on monetary policy must be accompanied by efforts of national administrations and legislatures to coordinate fiscal policy, from which, as we have seen, monetary policy cannot be divorced. There is no reason for not achieving greater fiscal and monetary cooperation, even among members of the "Group of Three," which represent different national interests, different ¶ national cultures and different regional constituencies. Such cooperation might most effectively be achieved within the framework of the Group of Seven, where the other four members of the group could help to resolve disagreements among the three. Participation in the ongoing efforts to develop consistent fiscal and monetary policies to achieve common goals could also, within this context, be sought from representatives of the emerging regional organizations in Europe, North America and Asia. To become an effective policy coordinator, however, the Group of Seven needs to be more than a once-a-year "summit" of presidents and prime ministers, which has served as more of a photo opportunity than as a forum for analysis, debate and decision-making. The work of the G-7 must involve much more than drafting an annual communique phrased in its broad, if not altogether meaningless, generalities. If the G-7 is to be transformed into a useful instrument for economic cooperation, it needs a secretariat, regular meetings of economic, financial and political representatives, and more frequent ministerial meetings to prepare the way for decision making on the major issues. Its fundamental aim should be to strengthen the growth of the world economic system, on which all national economies increasingly depend. In recognition of the likelihood of different conditions within national and regional economies at any given time, policies for systemic growth should not necessarily impose the same fiscal or monetary policies on all member countries at all times. Rather, the G-7 should aim at harmonizing national policies to achieve the common goal of systemic international growth. International cooperation must also be sought in other multilateral and bilateral negotiations for reducing military spending to levels appropriate to the post-Cold War environment. Military expenditures need to be adjusted to meet changing national security requirements, competing private and public investment aims, and the goals of reducing budget deficits and increasing the world supply of savings and capital, crucial to the reconstruction and growth of the ex-communist and Third World countries. The defense budget should not be treated by any nation including the United States as an employment-security or growth-stimulus program, with spending levels rationalized by misapplied economic arguments. It would be a tragically lost opportunity if America and other nations failed to transfer resources desperately needed for investment and growth from military uses because of incompetence or self-interested opposition to economic adjustment. Such a failure would not only waste resources but also create pressures for otherwise unnecessary tax increases. The excess military capacity, moreover, would continue to spur the proliferation of weapons, both conventional and dual-use nuclear, thereby increasing threats to world peace and economic development. ¶ Danger of Beggar-Thy-Neighbor Policies The long-term problem made acute by economic globalization and global slow growth, stagnating real output and income, overcapacity and unemployment is not just maintaining aggregate demand but also raising investment in activities that generate strong productivity growth and jobs. Increasing savings, per se, may not automatically raise the level of domestic investment sufficiently, although greater savings will help reduce interest rates and thereby encourage investment. In the integrated global economy, capital saved in one country can readily be invested either domestically or abroad; increasingly businesses and nations must create or acquire the capital, human skill and technology they will need to meet international competition. The alternative protectionism and an aggressive nationalism would, as the world has learned over and over, endanger both peace and prosperity. Every developed country has accepted, formally or de facto, the responsibility of employing macroeconomic policies to combat inflation and unemployment. But under varying economic and political pressures, countries weigh those objectives differently. Throughout most of the postwar period, the need to contain and defeat Soviet communism went far to overcome political opportunism, the pressures of interest groups and the inherent unpredictability of capitalist economic systems. As a result the early postwar performance of the industrial nations was much better than in the years between the world wars. But slow growth in the world economy now makes the danger of a reversion to beggar-thy-neighbor policies a real one.11 ¶ Some see the three major economic powers the United States, Germany and Japan riding in different directions and threatening to pull the world economy apart. But the interdependence resulting from economic integration has greatly reduced the effective autonomy of even large national economies. Nations have found that their policies are now less potent domestically, affect other countries more strongly and produce sharp and often unwelcome changes in the trade and payments balances and exchange rates that link them with others. In this changed world, cooperation among the major economies in policymaking has become increasingly important. But there are no technical solutions to the economic problems the world is facing. What is most needed is the political will the will of the United States, Germany, Japan and other major industrial countries to deal more effectively with their own problems and the will of all the major developed countries to work together for a common end. The most important challenge for economic cooperation in the years ahead will be to keep the world economy growing at a vigorous and sustainable pace. With real economic growth the serious problems of world debt, unbalanced trade, currency disequilibrium and unemployment as well as the social, ethnic, racial and nationalist tensions and the violence to which they give rise can be contained, and progress made toward their solutions. The greatest change needed to preserve stability and nurture growth is for the world economy to become the focus of policy formulation. Despite the resistance of traditional national politics and interest-group pressures, the development of far sighted fiscal, monetary, trade and investment policies in the major industrial countries has become vital to the economic well-being of all nations.

### 1ac advantage 2

#### Advantage Two is Congressional Elections:

#### Obama will win – consensus of statistical models, polls, indicators and empirics

Zero Hedge 10-18 (citing Tina Fordham, Citi Research's Global Political Analyst, “Citi On The Election: ‘Ignore Pundits & Partisans; HuffPo Data Says Obama’,” 10-18-2012, http://www.zerohedge.com/news/2012-10-18/citi-election-ignore-pundits-partisans-huffpo-data-says-obama)

With less than 20 days to go to the election, the Presidential race has tightened following Romney's performances in the debates, as the Republican challenger has overtaken the president in the national averages for the first time this year (and RealClearPolitics has him with an edge in the electoral college also). But ever the fair-and-balance bank, Citi believes that Obama's advantages remain substantial, as an incumbent president in an improving economic environment. In this broad discussion, the Pandit-less bank addresses 'the data' driving their Obama call, what would have to happen for a Romney win, the Senate and House split, The Tea Party (and other unusual events), and the 'bungee jump'-causing headline risk of the pending Fiscal Cliff debate.¶ ¶ Via RealClearPolitics (today):¶ ¶ Citi: The Data-Driven Case for an Obama Victory¶ Since August, we've argued that President Barack Obama is likely to be re-elected to a second term. Our view, based on a political science assessment, derives from Obama's year-long lead in the polls and from the marginal improvement in the US economy. While the race has tightened over the past two weeks, we nevertheless reiterate our call, while underscoring that the president’s lead has narrowed and the race has returned to the state of play of late summer, prior to the conventions. In our view, investors should focus on the political fundamentals.¶ With over 500 polls having been conducted in the United States this year, we pay attention to the totality of the data and to the main trends. This focus on rolling averages makes more statistical sense, and it avoids the 'house effects' that come along with a reliance on any individual polling outfit.¶ Despite Governor Mitt Romney's recent bounce, Obama maintains his lead in the Pollster.com rolling average. The Real Clear Politics average is subject to more volatility, and showed Romney leading between October 9 and October 16.¶ This year-long lead is important because, historically, incumbent presidents who have led their challengers all year have gone on to be re-elected, while incumbent presidents who fall behind have been defeated. These incumbents were often behind as early as May (i.e. five months ago). The conventional wisdom is often flatly incorrect here. As we discuss later, 'come from behind' victories are incredibly rare, if indeed they've ever happened.¶ At the same time, as we noted in September, the US economy hit its lows three years ago and is not in recession today, and the swing states have added almost a million jobs. Looking at other elections in mature industrialized economies in the past year, leaders presiding over countries with positive economic growth, even nominal growth, have tended to be re-elected, while those where the economic indicators were going into reverse have been voted out of office.¶ ¶ Why Not Romney (Yet)?¶ Governor Mitt Romney's poll numbers have surged since his strong performance in the first debate on October 3. Will it be enough to see him to victory? After a week, some commentators suggest that the Romney bump may already be receding, with all eyes focused to see if the momentum can continue.¶ Romney’s favorable ratings, long a persistent liability, have improved six points over the past month and 15 points since the peak of the grueling Republican primaries. Romney enters the end of October a far more popular candidate, but still one struggling to win over a majority of voters. Favorability ratings are highly correlated with election results, and Romney was hampered by his “upside down” ratings all year.¶ Romney's rise the national polls hasn't been matched by better performances in the states. Romney's national boost has translated into leads in only two more swing states: Florida and Virginia. Arithmetic says that if Romney makes gains overall, he should also make gains in the swing states. Without these gains, reversion to the mean may be forthcoming.¶ Obama still leads in seven of the ten swing states. Obama only needs to win 53 electoral votes among the swing states to be re-elected, so even the loss of Florida's 29 votes doesn't substantially endanger his electoral math. Romney needs to make more headway to overtake the president, gaining 79 votes of the 130 at stake.¶ Swing state voters aren't easy to convince. These states have seen far more campaign activity than the rest of the country, so voters there have been exposed to more information about the candidates and are therefore more likely to have firm opinions. It's also clear that Republicans have been significantly outspent by Democrats up to this point.4 These factors make swing state numbers much harder to move than the electorate as a whole, and that's exactly the dynamic we've seen.¶ The momentum in the US economy is still positive, albeit sluggish. After more than three years, the US employment rate dropped below 8% this month, an economic milestone. Yet Obama saw no discernable boost from the change. In our previous assessment, we cited academic studies highlighting that economic indicators have surprisingly meager effects on election results, especially the unemployment rate with its r2 of zero.¶ The premise of the Romney campaign remains problematic. Romney is ahead of the president in most assessments of his competence on the economy, the overwhelming top priority of voters this year. Romney has argued that Obama should be fired because of the sluggish state of the US economy. But despite slow growth and high unemployment, voters may have lowered their expectations for the recovery, and may not be focusing on these indicators as much as may have been expected. For those who ask why Romney doesn’t lead in an environment of US economic woe and a global anti-incumbent trend, this number may hold the key. A recent Pew poll found that only 36% of Independents, the quintessential swing voters, had heard bad news about the economy recently. The balance heard good or neutral news. This number is striking because it highlights the struggle that has faced Romney all year.¶ The right direction/wrong track number has improved. Pollsters have historically asked voters whether they think the country is headed in the right director or off on the wrong track. As we've mentioned in past, this key indicator has been upside-down for as long as a decade and is indicative of a pessimistic 'new normal' in the United States. But the 'right direction' number has approved 10% since July, and this shift is also to Obama's benefit.¶ Political scientists and forecasters say the fundamentals still favor Obama. Professor James Campbell, the dean of the election watchers in the American political science community, looked at thirteen models published in peer-reviewed journals and found that eight of the thirteen models journals forecast an Obama victory. The combination of all 13 models gives Obama 50.2% of the vote. Other popular models from The New York Times' Nate Silver and Emory University professor Drew Linzer also point to an Obama win.¶ ¶ Bush-Gore Redux? No.¶ The closeness of the race raises the possibility of a Bush-Gore situation, where the victorious candidate wins the Electoral College but loses the popular vote. This eventuality, which has only happened once in the past 124 years, is highly unlikely.¶ Obama still leads overall, and in an electorate of 140 million even a 1% victory means a margin of almost 1.5 million votes. Furthermore, arithmetic suggests that Obama's margins of victory in the larger swing states of Ohio and Pennsylvania should more than balance out Romney's margins should the latter win Florida. Anything is possible in politics, but we feel comfortable putting a negligible probability on this scenario.¶ ¶ 'Come From Behind' Elections, and the Lack Thereof¶ That Romney has been able to repair his image, damaged by hard-fought Republican primaries and gaffes like his "47%" comment, is significant. This trend is the best single argument to be made for new strength underlying the Romney campaign. Favorability is far better correlated with electoral outcomes than economic indicators which, as we've demonstrated, are not very predictive. So with three weeks left, what are the prospects that Romney can come from behind to win?¶ A review of past elections shows that the leader in Gallup's October polling has gone on to win in almost every case since 1948. This year, Obama is the October leader. A rolling average of Gallup's polling this month, provided by Pollster.com, shows Obama with a 2-point lead.¶ ¶ And even Gallup's two 'come from behind' cases are problematic. The 1948 campaign is remembered for Truman's relentless whistle-stop tour and that famous "Dewey Defeats Truman" headline. But polling was in such a primitive state at the time, it's difficult to know whether Truman's campaign was truly in jeopardy.¶ As we have previously noted, the typical narrative of the 1980 campaign, where Reagan swung the election in the final weeks, is flatly wrong. As usual, we look at the totality of the data. Carter – hobbled by vigorous opposition inside the Democratic Party, economic "malaise" and the Iran hostage crisis – trailed Reagan as early as May. This year, a number of commentators have been quick to point this out.¶ As mentioned, endangered incumbent presidents trail their challengers long before Election Day. Should Romney manage to buck this trend, it would be a first in modern presidential history. To us, the rarity of this event is another argument in favor of our base-case scenario: Obama by a nose in November.¶ Democrats on Top in US Senate¶ We also reiterate our earlier view that the political status quo will continue after the US election: Obama in the White House, Republicans in the US House, and Democrats in the Senate. Republican chances to win the Senate have receded since our last update.¶ Of the ten Senate races we identified as competitive according to the polling data, Republicans lead today in three (Arizona, Indiana, Nevada), none of which is held by Democrats. Democrats lead in seven (Connecticut, Massachusetts, Missouri, Montana, North Dakota, Virginia and Wisconsin). Retirements will be a wash: Democrats will pick up Maine, while Republicans will pick up Nebraska. Other races, like Florida and Ohio, are not competitive and will be Democratic holds.¶ Republicans need four seats to take control, but a Democratic lead in GOP-held Massachusetts may mean that Republicans could even lose a seat. Republicans appear to have fallen behind in Montana, North Dakota and Wisconsin, not to mention Missouri, where they led earlier in the cycle. Democrats hold only small leads there, as in Virginia and Connecticut. These states will be the chief battlegrounds over final three weeks.¶ ¶ Fiscal Cliff: 'Bungee Jumping' & Headline Risk¶ After the election, Washington's focus will shift to the fiscal cliff. The outgoing 'lame duck' Congress will meet for another two months.¶ Our basic thesis on the fiscal cliff has been simple: if you have the same players and the same situation, you should expect the same outcomes. Our base-case scenario is that the players remain the same: Obama in the White House and a divided Congress. We expect another piecemeal, short-term fiscal deal that temporarily resolves the fiscal cliff problem. The question is the timing: during the lame duck Congress, or in January after tax rates expire and sequestration begins?¶ Only a handful of legislative leaders will be key players in fiscal cliff negotiations. This is a positive development for the prognosticator, because it means one can ignore the press statements from the pundits and even from most Members of Congress, because they will not be in the room when a deal is cut.¶ ¶ With the resolution of the fiscal cliff buried in the minds of only a few, it's impossible to forecast accurately how the sausage will be made.¶ ¶ Even so, we highlight these possibilities for investors:¶ The influence of psychology & election results. Beginning the day after the election, legislative leaders and the President will look to see how their respective parties fared in the election, and how it might affect their leadership standing within their caucuses. From this they can demonstrate how much they can sell to their own Members and how much room for compromise exists. In reality, this means that the roadmap for a fiscal cliff solution is determined by their psychology and their perceptions of the election results. We'll be paying close attention to leaders' statements in reaction to the election.¶ 'Bungee jump.' Policymakers are concerned less about winning than avoiding losing. Going over the cliff for a short period in January may allow both Republicans and Democrats to avoid the toughest of votes, and it's an option that has been discussed widely in the press, both by us and by others. While not necessarily our base-case scenario, we caution investors to be aware.¶ Headline risk. Regardless of what happens on November 6, we should expect to see a very vocal debate inside both parties about 'who won' and 'who lost.' This debate will be played out loudly in the press in the context of fiscal cliff negotiations. If the news is particularly dire or suggests an impeding showdown, there may be market action in response. But investors should remember that very few of these people, even seemingly senior Members of Congress, will have influence over the process.¶ Republican sweep. A victory for Romney or Senate Republicans may mean that the GOP, fresh from victories at the polls and looking to put their own stamp on a fiscal cliff solution, will hold off until January for its own fix. Timing becomes important, as the new president Romney wouldn't take office until January 20, twelve market trading days after sequestration begins. (And January 20 is a Sunday, which could push 'day one' activities back another 24 hours.)¶ Blanket extensions. Though few commentators have discussed it, the possibility of simple blanket extensions to expiring tax cuts and budget cuts is there. Political players tend to downplay this scenario, if only because the simplest solutions have seemed to bedevil Congress over the past few years, but that shouldn't exclude this case as a possibility.¶ A summer tax package? Obama and Romney have talked about passing comprehensive tax reform in the new Congress, though certainly their packages would look quite different. Both Republicans and Democrats see this commitment as credible, and Hill staffers have been taking meetings and drafting legislation. A new tax code would be about as big a piece of legislation as Congress considers, so the idea that there may be a tax package in the summertime will affect the fiscal cliff negotiations in the winter.¶ ¶ The Unlikely Scenarios¶ Though multiple outcomes are possible, we feel comfortable putting low to negligible probabilities on these cases:¶ Republican 'capitulation.' Some have suggested that Republicans will merely defer to a re-elected Obama or, alternatively, a rogue group of Republicans will bolt from their own party to join with the Democratic president. But this isn't a very accurate picture of legislative politics in the United States. In reality, the one-year fiscal deals of the past few years have been cut between President Obama, House Republican Speaker Boehner and House Democratic leader Pelosi. The majority of both Republicans and Democrats signed off on the packages, leaving ample room for endangered Members on both the left and the right to protect their seats by voting against it. This roadmap is more likely in the American context than the idea that a cadre of renegade Republicans stands ready to throw their lot in with Obama.¶ The 'grand bargain.' Some commentators have suggested that policymakers can agree on a plan that will provide a definitive resolution to America's deficit problems and reform tax and budget policy. Many of those holding this view are from the business & economics community, where such a 'grand bargain' would certainly be very well-received. But even the historic budget compromises of the 1980's and 1990's weren't so far-reaching, so it stretches the mind to imagine that this option is in the cards for 2012.¶ No action. Even in this era of polarized politics, no commentator believes that Congress will take zero action and send the US economy back into recession. The question is the timing of a deal, as well as the substance.¶ ¶ A Note on the Tea Party¶ In our view, the numbers don't support the argument by some observers over the past few years that there is undue 'Tea Party influence' over the US budget process. Today the Tea Party Caucus has 60 members, a fraction of the 241 Republicans in the US House.9 This proportion is enough neither to block legislation nor to unseat the Republican leadership, should they want to pressure Speaker John Boehner on these issues. (There are four Tea Party members in the US Senate, out of 47 Republicans there.)¶ It is worth noting that despite Tea Party influence in the 2010 Congressional midterms, Mitt Romney is not a Tea Party member. Rather he was regarded as an establishment candidate in the Republican primaries, not the representative of any ideological or issue-based faction. (Congresswoman Michele Bachmann was the Tea Party candidate.) Congressman Paul Ryan is also not a Tea Party member. He would be considered a budget hawk, although many Tea Party members would certainly support him.¶ So conservatives and Tea Party members would not see a Romney loss as a rejection of their beliefs. Almost all these members sit in strong Republican districts and will be re-elected this year. To us, this factors into the psychology of Members as they react to the elections and turn their focus to the fiscal cliff as we've described.¶ ¶ What Next?¶ The next US President will face significant tests at home and abroad. The pressing issues of debt and the deficit will remain prominent, and foreign policy challenges will return to the fore.¶ With January elections in Israel pushing back the imminent threat of an attack on Iran, the civil war in Syria at a stalemate, and the continued dynamics of a post-Arab Spring region, the Middle East will remain in the foreground in 1H 2013. Likewise, US policymakers will deal with the persistent economic crisis in Europe and with new leaders in China.¶ 2012 has been a very political year for the United States, but worldwide political risk shows no sign of abating in 2013.

#### Only passing an infrastructure bank gives him an *economic mandate* – perceived as *prioritizing* *job* *creation* over austerity

Jones 12 (Forrest Jones, citing Robert Reich, economist, former U.S. Secretary of Labor, and professor of public policy at the University of California at Berkeley, “Reich: Obama’s Campaign Message Falling Short,” Money News, 4-23-2012, http://www.moneynews.com/StreetTalk/Reich-Obama-Campaign-Message/2012/04/23/id/436699)

President Barack Obama can lose to likely challenger Mitt Romney if he sticks with his we've-come-this-far campaign message, says economist and former U.S. Secretary of Labor Robert Reich. The economy is recovering but not fast enough to prevent voters from blowing off Obama's stick-with-me promises in favor of Romney's I'll-do-it-better stumps. "The Obama White House should face it: 'We’re on the right track' isn’t sufficient. The President has to offer the nation a clear, bold strategy for boosting the economy. It should be the economic mandate for his second term," Reich writes in his blog. Editor's Note: For Obama to win, he needs to base his campaign on four points, according to Reich, who served in three national administrations and was a secretary of labor under President Bill Clinton. First, Obama should demand that the nation’s banks modify mortgages of struggling homeowners and threaten to bring the Glass-Steagall Act if banks don't go along. The repeal of the Glass-Steagall Act under President Clinton allowed banks to offer both retail and investment banking services. Second, he needs to do more to fight oil speculators than he is already doing, and third, he needs to push through more job-creating investments in the infrastructure by renewing his call for an infrastructure bank and put job-creating top priority over fiscal austerity. Lastly, he need to tackle widening income gaps. "With so much of the nation’s disposable income and wealth going to the top, the vast middle class doesn’t have the purchasing power it needs to fire up the economy. That’s why the Buffett rule, setting a minimum tax rate for millionaires, is just a first step for ensuring that the gains from growth are widely shared," says Reich, a professor of public policy at the University of California at Berkeley. Obama's Buffett Rule, which slaps a 30 percent minimum tax on those earning at least $1 million annually and named after legendary investor Warren Buffett who championed the idea, failed to push through in the Senate.

#### Specifically, calling a *special session* to pass *part of the Jobs Act* just before the election is key to *contrast* Obama’s *action* with Congressional *obstruction*

Williams 9-4 (Victor Williams, attorney, Washington D.C., clinical assistant professor, Catholic University of America School of Law, “Harry Truman Advises Obama in Charlotte: Reconvene Congress to Fix Fiscal Cliff,” Huffington Post, 9-4-2012, http://www.huffingtonpost.com/victor-williams/harry-truman-advises-obam\_b\_1850165.html)

At the 1948 Democratic National Convention, Harry Truman accepted his party's nomination with a bold speech condemning the "Do Nothing" Republican Congress. President Truman was substantive and specific.¶ Truman described a Republican leadership long-controlled by "special privilege and greed" which served the "privileged few and not the common everyday man." He chronicled how the Republican Congress had repeatedly blocked needed economic and social reform legislation.¶ President Truman detailed the obstruction -- bill by bill. Republicans had blocked reforms in minimum wage, housing, taxes, education, social security, health care, energy, and civil rights.¶ Truman then ordered the Republicans to get back to work. President Truman announced from the Philadelphia convention that he would formally call Congress back from its long pre-election adjournment. Invoking Article II, Section 3 authority to convene a special session, Truman made the case for immediate action over mere political promises.¶ In his 2012 Charlotte acceptance speech, Barack Obama should invoke both Article II, Section 3 and the Truman precedent to formally "re-convene" Congress from its present recess. President Obama should charge the Congress with fixing the impending "fiscal cliff." In reconvening the Second Session for the constitutional "extraordinary occasion," Obama should state his expectation that future breaks and recesses (except religious holidays) be cancelled until the fiscal job is finished.¶ Obama should first demand that Congress deal with the myriad of taxes scheduled to increase in 2013. There is no justification for the Republicans continued opposition to tax cuts for 98 percent of Americans. President Obama should demand tax cut legislation be completed by summer's end - two weeks. As Truman stated in his speech:¶ They can do this job in 15 days if they want to do it. They will still have time to go out and run for office.¶ Obama should fully describe the damage caused to economic recovery and job growth by continued congressional obstruction. Obama should again strongly condemn those congressional Republicans who would edge the American economy ever closer to the fiscal cliff for shameless electoral advantage.¶ President Obama should reassert his willingness to work together with reasonable Republicans for a fiscal solution. A grand bargain can still be timely struck -- well before November 6.¶ As Truman did, Obama should cite his constitutional responsibility to challenge congressional irresponsibility notwithstanding the active election season:¶ My duty as President requires that I use every means within my power to get the laws the people need on matters of such importance and urgency.¶ Few would dispute the urgency or importance of fixing the fiscal cliff. The uncertainty costs alone - blunt automatic spending cuts, substantial tax hikes, debt ceiling limit- seriously harm the recovery. Congress's own budget authority (CBO) reports that a failure to timely act would likely bring a "significant recession" with two-million jobs lost.¶ By demanding immediate action, Obama would crystalize the contrast between the Republican Convention's vague economic promises and the Republican Congress's record of obstruction. Just as Truman framed the debate:¶ Now, what...Congress does in this special session will be the test. The American people will not decide by listening to mere words, or by reading a mere platform. They will decide on the record, the record as it has been written. And in the record is the stark truth...of Republican misrule and inaction.¶ In the 80th Congress's special session, extremist Republicans ultimately blocked votes for Truman's bipartisan reform proposals. Then, as now, the GOP's radical fringe purposely harmed the American economy in service to extreme ideology and privileged interests.¶ GOP Presidential Ticket: Romney/Ryan/Boehner/Cantor/McConnell/DeMint/Akin¶ In his acceptance speech, Truman did not mention Thomas Dewey's name once, nor did he even reference the GOP presidential nominee. Truman knew that the "Do-Nothing" 80th was his real opponent, and ran his 1948 race against the reactionary Republican Congress. ¶ History repeats. Since January 20, 2009, the "top priority" of congressional Republicans has been to defeat Obama by obstructing his economic recovery plans.¶ The 112th Congress earned its 10 percent Gallup approval rating obstructing critical legislation and blocking key appointments. It is analyzed as the most unproductive and ineffective legislative body since Truman's time.¶ By selecting House Budget Chair Paul Ryan as his running mate, the once moderate Mitt Romney embraces the most radical of the congressional Republicans. He adopts their extreme ideology as his own - without reflection or moderation.¶ Integral to moving FORWARD with his campaign, Barack Obama should fully expose the congressional extremists who passionately work against America's economic recovery. ¶ In Charlotte, Obama should tell the "Do-Nothing/Obstruct Everything" 112th Congress to start the serious work of governing by fixing the fiscal cliff. (Click here for a full video of Truman's 1948 Convention speech.)

#### That’s key to *capitalize* on both the *popularity* of *job-creating investments* in transportation infrastructure and the *unpopularity* of *obstruction*

Poole 12 (Isaiah Poole, Campaign for America’s Future, “Jobs Report: Challenge Congress to Act, Obama to Fight,” Nation of Change, 7-7-2012, <http://www.nationofchange.org/jobs-report-challenge-congress-act-obama-fight-1341639797>)

Today's unemployment report from the Bureau of Labor Statistics will be closely watched for its political impact on the presidential race. But it is not the numbers that will be most consequential. What will determine whether President Obama will keep his job in November is whether he steps up his fight for our jobs and whether we as progressives step up our pressure on Congress, particularly the Republicans who have blocked virtually every major effort to revive the Main Street economy.¶ From a political standpoint for the Obama administration as well as for job seekers, the news is bad. The economy produced a total of only 80,000 jobs in June, with 84,000 private sector jobs offset by an additional 4,000 jobs lost in the public sector. Middle-class level jobs in construction and manufacturing showed particularly weak growth. But also, the economy lost more than 5,000 retail jobs.¶ Unemployment among African Americans has creeped up above 14 percent, compared to 7.4 percent among whites; among African-American youth, the official rate is now almost 40 percent. Among Latinos, the unemployment rate is 11 percent; it was 10.3 percent in March and April.¶ Republican presidential candidate Mitt Romney and his surrogates will use today's report to repeat their claims that President Obama's economic agenda has failed. It will be up to Obama to make clear the plain truth that what America has experienced for the past three years has been a diluted and polluted version of the promises Obama made in his campaign and early months in office.¶ As former White House Council of Economic Advisers chairman Laura Tyson wrote earlier this week, "Congress left at least one million jobs on the negotiating table" just in the past year alone, thanks to congressional Republicans who are "holding unemployed workers hostage to the outcome of November’s election."¶ That is almost enough jobs to close the jobs deficit we've been calculating since January, based on the number of jobs the economy would have to create on average each month—about 400,000—to bring the unemployment rate down to 5 percent by the end of 2014. From January to May, the economy created a net 832,000 jobs; to be on pace to meet the 5-percent-in-2014 goal, the economy should have created 2 million jobs.¶ As we've repeated time and again, the corruption of the Obama agenda by the corporatists and anti-government ideologues in both political parties began when the 2009 Recovery Act emerged as a $787 billion program, more than half of which was tax cuts, instead of the more than $1 trillion in additional spending that was needed to begin adequately repairing the damage of the 2008 financial crash.¶ Since then, Republicans have assaulted the economy at every opportunity, forcing an austerity agenda of budget-cutting at the very time that the federal government should have been stepping up its spending in key areas, both to bring our infrastructure up to 21st-century needs and to prevent layoffs of teachers, first responders and other essential public workers by cash-strapped state and local governments. From June 2009 to May 2012, 605,000 state and local public sector jobs were cut. If public sector jobs had instead grown at the same pace as the three previous economic recoveries, there would be an extra 1.2 million jobs, and that level of additional employment would have supported the creation of an additional 500,000 jobs, according to the Economic Policy Institute.¶ When the White House and Democrats in Congress tried several times to pass elements of the American Jobs Act, $450 billion worth of job-creation initiatives, Republicans in the House voted as a solid bloc against the efforts, and Senate Republicans filibustered the legislation. The 2 percentage-point reduction in worker payroll taxes was the only major component that survived. Among the opponents is Romney, who has argued that cutting government spending at all levels is necessary to "help the American people" even though, as Tyson said, the teachers, firemen, and police who are being laid off "are American people who help other American people."¶ Late last month, Congress pat itself on the back for passing a two-year surface transportation funding bill that is at best a status-quo stop-gap, not the kind of bold, game-changing initiative that would give the nation the kind of transportation network that could sustain the economic growth we need. The obstacle in the way was once again House Republicans, who refused to support the longer-term funding commitment needed by state and local transportation planners without numerous "poison pills," including provisions that would have authorized construction of the Keystone XL pipeline without robust environmental review and would have ended federal regulation of hazardous coal waste disposal from power plants.¶ If it were not for congressional Republicans' repeated obstruction or dilution of virtually every significant job-creation proposal sent to Congress since 2009, unemployment today would likely be under 7 percent instead of stubbornly persisting at around 8 percent.¶ But while it is important for President Obama to point fingers at the real villains of this economic travesty and that Romney sides with those villains, that is not enough. As Richard Eskow eloquently writes on our site this morning, "One of the President's greatest failures over the last three and a half years is that he chose to think like a legislator, not a leader. And one of liberalism's greatest failures was allowing so many people to identify with a leader, not with the principles and values that should be a movement's guiding star."¶ In Ohio on Thursday, President Obama correctly noted that this year's presidential election will determine the course of the economy for the next decade. It is not too late for Obama to give the nation a vision based on principles such as those in the "economic manifesto" of economist and New York Times columnist Paul Krugman, declaring that conservative austerity policies will fail in the U.S. just as they are failing miserably in Europe and that part of "betting on America," to use his campaign's latest catchphrase, is to seize today's unique opportunity to double down instead of pulling back on our investment in America and its people.¶ But let's not wait for Obama to lead. We have to push. Start by confronting members of Congress this weekend, before they return to Washington for more right-wing political grandstanding such as "repealing Obamacare," as well as candidates running for Congress. Ask them whether they will take steps to put people to work on the work that needs to be done, or will they push instead for policies designed to enrich the already rich, while imposing austerity on everyone else. It will be up to us to make it clear to every politician, from Obama down to the freshman House candidate, that political reward only lies in support of an authentic middle-class jobs agenda.

#### And, it’s the only way to frame the election as a referendum on *Congress’ record* – key to *translate* popular policies into Congressional seats

Rothenberg 12 (Stuart Rothenberg, editor, Rothenberg Political Report, “Toxic Congress: Dose of Electoral Uncertainty,” Roll Call, 1-20-2012, http://www.rollcall.com/features/Welcome-Back-Congress\_2012/welcome\_back/toxic-congress-dose-of-electoral-uncertainty-211631-1.html)

Earlier this year, a CBS News poll showed Congress’ job approval at 12 percent, while CNN had it at 16 percent in mid-December and Gallup had it at 11 percent at the same time.¶ Given those stunningly low numbers, it isn’t surprising that Democratic strategists figure that running against Congressional Republicans is a way for President Barack Obama to win re-election and for Democrats to retake the House.¶ But, Gallup Editor-in-Chief Frank Newport observed in a September 2011 release, “Americans have never responded very positively when asked to rate Congress.” Newport notes that since his polling firm began asking Americans about Congress, the institution’s average job approval rating has been a mere 34 percent.¶ There have been upticks and even spikes of approval, of course, including shortly after Democrats took control of Congress in 2006, early in Obama’s term and after the attacks of Sept. 11, 2001. But ordinarily, Congress as an institution has been viewed more as a problem than a solution.¶ Still, Congress’ current standing is remarkable for the extent of its unpopularity.¶ For the past few months, more than eight in 10 Americans have disapproved of Congress’ performance, according to recent polling conducted by all of the major national media organizations — a level of dissatisfaction that is far greater than the public’s dissatisfaction with the performance of the president.¶ If Democrats can make the presidential election into a choice between the president, whose job approval is in the mid-40s, and House Republicans, with a job approval hovering around 10 percent, Obama would have a solid chance of winning a second term.¶ Indeed, the president has already begun to sprinkle his speeches liberally with criticisms of Congressional Republicans, portraying them as driven by partisanship and tea party extremism in opposing his agenda. An Obama re-election campaign based on Harry Truman’s successful, come-from-behind model seems likely.¶ And if Democrats can make the fight for the House into a referendum on Congress or, even better, the tea party, they could possibly defeat dozens of GOP incumbents and win more than their expected share of open seats.¶ After all, Gallup found Congress’ job approval sitting at 23 percent in late October 1994, only days before Republicans netted 54 seats and won control of the House that November. Congress’ approval was in the mid-20s when Democrats gained 30 seats and won back the speakership in 2006. And two years ago, when Republicans netted 63 House seats, Congress’ job approval was right around 20 percent.¶ But applying the lessons from 1994, 2006 and 2010 to this year’s elections ignores important differences between those years and the current one.¶ First, those three elections were midterms and each one was more of a referendum on an unpopular president (Bill Clinton, George W. Bush and Obama) than on Congress. The only way for voters to signal their dissatisfaction was to vote against candidates of the president’s party, and in each case that is exactly what voters did.¶ This year, the president is on the ballot, so voters have the opportunity to cast two very different votes. More importantly, Republicans will have their own nominee for president, who will be articulating his agenda and comparing his abilities and vision with the president’s.¶ When October rolls around, voters are likely to compare Obama to the GOP nominee for president, not the president to Speaker John Boehner (R-Ohio) or Congress. ¶ Second, during the elections of 1994, 2006 and 2010, one party controlled the White House and both chambers of Congress, so it was clear who was in control and who was responsible for the condition of the country.¶ This year, Republicans control the House but Democrats control the presidency and the Senate. Each party will be able to blame the other for gridlock and for the nation’s problems.¶ That doesn’t necessarily mean that both parties will share the blame equally, but it makes it difficult for Democrats to blame Boehner and his House GOP colleagues, especially because voters tend to give the president credit or blame when they are assigning it.¶ Congress’ poor ratings inevitably raise the possibility of an “anti-¶ incumbent election.”¶ I have written entire columns over the years noting that we don’t have ¶ “anti-incumbent elections” — where large numbers of incumbents of both parties lose re-election. Normally, one party or the other suffers the bulk of the losses because voters tend to blame one political party for their dissatisfaction.¶ Of course, we are in a time when political rules seem to break more easily, so the combination of Congress’ historically low approval ratings and redistricting (forcing incumbents to run in new territory) could produce a large number of primary and general election defeats.¶ One of the problems with trying to translate Congress’ unpopularity into votes against incumbents is that polls present a mixed message.¶ An Aug. 5-7 CNN poll of adults found that only 41 percent of those polled said that their Member of Congress deserves re-election, while 49 percent said that their Representative does not.¶ “The 41 percent, in the polling world, is an amazing figure,” CNN polling director Keating Holland said in an article on the cable network’s website.¶ But almost at the same time, Aug. 4-7, a Gallup Poll of registered voters found 54 percent of respondents saying that the Representative in their district “deserves to be re-elected,” while only 34 percent said that their Representative did not deserve to be re-elected.¶ Finally, and possibly even more important, it’s also far from clear where voters place blame for Congress’ failures.¶ Republicans who disapprove of Congress’ performance may simply blame Democrats, while Democrats blame Republicans. If that is what happens, there is no reason for those partisans to change their voting behavior in 2012 even though they both disapprove of Congress’ performance.¶ In that case, the creation of an anti-incumbent or anti-Congress wave would depend on independents voting almost unanimously against one party. But unable to blame a single party in control of both Congress and the White House, they are likely to be conflicted. And if they do blame one of the political parties disproportionately, it’s more likely to be the president’s, not the Speaker’s.¶ Congress is more unpopular than it has ever been. That’s certainly reason to watch for the possibility of unusually large Congressional defeats and to entertain the possibility that Obama can win re-election, in part, by contrasting his performance with Congress’. Just don’t bet on it.

#### This is the *only* strategy which can win over *working-class whites* – specifically key to post-election agenda

Teixeira 8-21 (Ruy Teixeira, “Obama’s White Working Class Problem, and Ours,” The New Republic, 8-21-2012, http://www.tnr.com/blog/electionate/106370/obama-isnt-the-only-candidate-whos-got-problems-the-white-working-class)

As has been widely noted, Obama’s weakest voter group by far is the white working class. That is true today as it was true in the 2008 election, when Obama lost white working class voters by 18 points, but white college graduates by only 4 points. (The closer you look at the numbers from 2008, the starker Obama’s problem with this demographic reveals itself to be: It is true, for example, that the white union vote overall was slightly Democratic (52-47), but that figure conceals that fact that Obama actually lost the unionized white working class (46-52) while carrying unionized white college graduates by a solid 58-41.)¶ Huge deficits among these same voters routed the Democrats in 2010. And Obama appears to be weaker among this group today than he was back in 2008. Yet Obama is running ahead consistently in the national and swing state polls. Why is the Obama coalition not yet succumbing to its clear Achilles’ heel?¶ There are two reasons. The first is that the rest of Obama’s coalition has held up so well. The minority vote looks rock solid for Obama, coming very close to the 80 percent support level he received in 2008. This is due to overwhelming backing from black voters plus support among Hispanic voters that meets or exceeds 2008 levels. In addition, judging from eligible voter trends, minorities should be a larger share of voters in 2012 than 2008. Also, Obama may have actually gained ground among college-educated whites. In Pew polls, this group is averaging around a 2 point deficit for Obama, compared to 4 points in 2008.¶ This gives Obama a considerable buffer against expected weakness among white noncollege voters. Indeed, if the minority and white college-educated vote hold up as well in November as they have in recent polling, Romney needs to generate a huge margin among white working class voters to have a decent chance of winning—closer to the 30 points Congressional Republicans won this group by in 2010 than the 18 point margin received by John McCain in 2008.¶ That brings us to the other reason Obama has been ahead so consistently in the polls. Romney has not been remotely close to that level of support among white working class voters. He’s been averaging around the same margin McCain received in ‘08 with occasional readings as high as 23 points. Even the latter margin is far off what he will need to win, given the size and leanings of the rest of the electorate.¶ The same story can be seen in swing states. Obama is typically holding his minority support and doing as well as or better than he did in 2008 among white college graduate voters, while Romney is conspicuously failing to generate the gaudy margins he needs among white working class voters to carry these states.¶ Why hasn’t Romney been able to do better among these voters, given that they are Obama’s greatest weakness, that they surged toward the GOP in 2010 and that are surely impacted by the continued bad economy? One reason is that the economy, while still poor, has gotten better and that may have taken the edge off of these voters’ anger. Another is that Romney himself, by dint of both his awkward personality and background as a private equity tycoon, is a less than ideal messenger to these voters, as the Obama campaign has so successfully emphasized in their negative ads. He had trouble connecting to white working class voters within the Republican primary electorate and those difficulties have carried over to the general election context.¶ Surprisingly, Romney has now selected Paul Ryan as his running mate which seems unlikely to enhance his standing with these voters. White working class voters may not have warm feelings about government and they do tend to favor the general idea of cutting government spending. But that does not mean they support the specific steps Ryan has called for in his budget documents. They are particularly leery of his proposal to transform Medicare. In a March United Technologies/National Journal Congressional Connection poll, respondents were given two options for the program: “Medicare should be changed to a system where the government provides seniors with a fixed sum of money they could use either to purchase private health insurance or to pay the cost of remaining in the current Medicare program;” or “Medicare should continue as it is today, with the government providing health insurance and paying doctors and hospitals directly for the services they provide to seniors.” Among non-college whites, 63 percent said they preferred the current system, compared to only 26 percent who backed Ryan’s approach. It seems unlikely that accusing Obama of being soft on welfare, as the Romney campaign has done, will be able to counter these negative sentiments about transforming Medicare.¶ So Obama seems well-positioned to keep his deficit among working class whites down to a level compatible with his re-election. Does that mean he has solved his greatest political problem? No, most obviously because the election is still two and a half months away and it is possible his position among this group might deteriorate in the intervening period.¶ Less obvious, but just as important, even if Obama keeps his deficit among white working class voters low enough to get re-elected--and “low enough” can mean 20 or even 25 points—he will still confront the lack of support that deficit represents. That lack of support will cripple his efforts to enact an ambitious agenda that involves investment in infrastructure, promoting the transition to clean energy and upgrading the educational system with significant spending frontloaded to jumpstart economic growth. As long as white working class voters resist this level of activist government, Obama and the Democrats will be deprived of the stable majority support they need around the country and within Congress to implement such programs. They will have what I call “the Krugman problem.” That is, there will be no overlap between the set of policies that seem politically feasible and the set of policies that might actually work (i.e., promote growth and reduce unemployment).¶ The only way out of the Krugman problem for Obama is to develop some real support among the white working class for an activist agenda. These voters have to see a positive future for themselves in this agenda, a vision that jolts them out of their current despair about their economic trajectory and that of their children. They are, as journalist Ron Brownstein has dubbed them, “the most pessimistic group in America.” Until Obama can turn some of that pessimism into optimism, his greatest political problem, even he gets re-elected, will continue to be the white working class.

#### Mandate is key to Obama’s leverage in deficit reduction negotiations – all other election outcomes end in gridlock

Becker 9-21 (Bernie Becker and Erik Wasson, “GOP fears reelected Obama would have the upper hand on taxes,” The Hill, 9-21-2012, http://thehill.com/blogs/on-the-money/domestic-taxes/251095-gop-fears-reelected-obama-would-have-leverage-to-raise-taxes)

House Republicans are increasingly concerned that a victory by President Obama in November would back them into a corner on taxes.¶ Democrats on Capitol Hill are vocal supporters of allowing current tax rates to increase for the highest earners, and Obama has made that plank central to his reelection message in the race against GOP nominee Mitt Romney.¶ Some Republican lawmakers say voters would be giving Obama a mandate for tax increases if they elect him to a second term, and predict the president would have leverage to make that happen in post-election negotiations over the “fiscal cliff.” ¶ “I think that is inevitable. If he is reelected, taxes will go up, and regulations will increase,” said Rep. Mike Simpson (R-Idaho). “He will veto anything that we send him.”¶ Republicans noted that Obama has made his position clear, vowing never again to extend all the Bush-era tax rates after consenting to that move during the 2010 lame-duck session of Congress.¶ “It is a referendum, clearly, on the choice between, is the problem that Washington spends too much, or does it take too little of people’s income? From that standpoint, it is a referendum on higher taxes,” said Rep. Kevin Brady (R-Texas), a senior member of the tax-writing Ways and Means Committee. ¶ “If the president’s reelected, he’s going to dig in his heels for those higher taxes,” he said.¶ But Brady also said he wouldn’t back any sort of tax increase, nor did he think that the GOP conference would.¶ The view that an Obama victory would represent a mandate for tax increases on the wealthy is far from unanimous among the House GOP, with differences of opinion cutting through the Republican leadership, veteran members and the hard-charging freshman class.¶ On Friday, Speaker John Boehner (R-Ohio) pushed back on the idea that an Obama win would be a mandate for tax increases, not long after Majority Leader Eric Cantor (R-Va.) and Rep. Tom Cole (R-Okla.) suggested that the presidential election would be decisive on that score.¶ “Raising taxes, according to Ernst and Young, would threaten our economy with a loss of 700,000 jobs ... now why would I ever be for something like that?” Boehner said.¶ So far this Congress, Republicans in the House and the Senate have been united in opposing the Democratic proposal to allow current rates to rise on family income above $250,000 per year. ¶ The vast majority of GOP lawmakers have signed a pledge from Grover Norquist’s Americans for Tax Reform promising to oppose all tax increases, and the House overwhelmingly passed a bill in August to extend all current tax rates for a year.¶ But Republicans are also eager to avoid the automatic spending cuts set to start in January that would slash heavily from defense and national security. ¶ GOP defense hawks like Sen. John McCain (Ariz.) have sounded more open to using revenue increases to avoid those cuts. If more Republicans take that position, it could give Democrats the upper-hand in the lame-duck negotiations.¶ “In my view, their position becomes less and less defensible every day that goes on,” said Rep. Chris Van Hollen (Md.), the top Democrat on the House Budget Committee. “Because come January, unless they agree to provide tax relief to 98 percent of Americans, those taxes are going to go up.”¶ House GOP leaders would only need a small minority of their conference to pass any measure extending tax cuts up to $250,000 of family income, given that Democrats support that proposal. ¶ And while members of the GOP rank-and-file on Friday said they remain steadfast against tax increases, some said the votes would likely be there if leadership needed them.¶ “I would not,” Rep. Tim Scott (R-S.C.) said when asked if the votes could be found to pass a high-end tax increase. “Enough [votes], probably.”¶ Top Republican officials say it is difficult to predict exactly what the political environment would look like in the immediate aftermath of an Obama victory. The newly reelected president could, for example, use his moment of maximum leverage to demand that Congress extend tax rates for the middle class, creating enormous pressure for Republicans coming off a loss at the polls. ¶ Yet Republicans are adamant that they will not relent on taxes in that environment without a significant concession from Democrats, likely relating to the automatic cuts in defense spending. ¶ Still, Norquist, who Democrats often blame for the partisan gridlock on cutting the federal deficit, said that a narrow Obama victory over Romney wouldn’t translate into a mandate for tax hikes.¶ “This is not a country that is excited about looting other people or getting looted,” Norquist told The Hill. ¶ Along those same lines, several House Republicans said that they would try to claim just as much of a mandate should they keep control of the chamber, as most independent analysts predict they will. ¶ “The House is standing on the principle that Americans already pay enough taxes,” Rep. Andy Harris (Md.), a member of the GOP freshman class, told The Hill. “An election’s not going to change that principle.”¶ If both Obama and the House GOP try to claim the electoral high ground, it could set the stage for one final round of brinkmanship for the divided Congress. ¶ Economic analysts have said that the full force of the fiscal cliff – which largely consists of the expiration of Bush-era rates and the automatic spending cuts – would push the U.S. back into recession.¶ Rep. Steve LaTourette (R-Ohio), who is not seeking reelection this year after saying he had tired of Washington’s paralysis, predicted an Obama victory would lead to the sort of “Mexican standoff” that occurred over raising the debt ceiling last year. ¶ “I don’t know what it would look like, but it would be a negotiation — not a capitulation,” said LaTourette, who has also pushed back against Norquist’s no-tax pledge.

#### Specifically, campaigning on the infrastructure bank is key – Obama needs a strong bargaining position to prevent delay and push his plan for deficit reduction

Newmyer 9-3 (Tory Newmyer, writer, Fortune Magazine, “Obama: A president ready for a showdown,” Fortune, 9-3-2012, online 8-16-2012, http://finance.fortune.cnn.com/2012/08/16/obama-election-economy/)

President Obama started his first term with a bang, simultaneously engineering an auto industry rescue, stabilizing a teetering Wall Street, and negotiating a massive stimulus package to wrench the economy back from the brink. The experience may be useful if he is reelected. That's because he'll face the pileup of policy shocks known as the fiscal cliff even before he can be sworn in again. The looming crisis is a Beltway creation that both sides have anticipated since last year, when congressional negotiations toward a deficit-cutting accord imploded. But unlike last summer's clash over the debt ceiling, when a faction of House Republicans was willing to let the U.S. default in order to force deeper spending cuts, the administration now has the upper hand. This time around, Republicans are the petitioners, eager to avert both a tax increase on income above $250,000 and scheduled cuts to defense spending. And the President is looking to use the challenge as a chance to tackle long-standing problems. Obama wants to apply his leverage to accomplish three things: a sweeping deficit-reduction agreement, a major investment in infrastructure and other spending to give the economic recovery a jolt, and a simplifying rewrite of our tax code. "People need to understand this can be an opportunity," Gene Sperling, the President's top economic adviser, tells me as he munches vending-machine Cheerios in his cramped West Wing office. (The White House made several senior aides available for interviews, but not the President.) "Historically, major budget agreements have often taken place when everyone felt there was a fiscal gun to their heads." Obama's first priority will be a long-term plan for stemming the federal government's tide of red ink. The administration hopes to secure $4 trillion in deficit reduction over the next decade, in part by raising $1.5 trillion in new revenue from higher taxes on upper incomes and closing loopholes in the tax code. But exactly how the President would squeeze entitlement spending remains an open question. Obama has walked away from concessions he offered the GOP last summer, including raising the eligibility age for Medicare and ratcheting back Social Security benefits. Instead, in his most recent budget, he proposes saving on health care programs mostly by cutting payments to providers. Whatever its final shape, however, such a deal alone would give business enough confidence to unleash a wave of hiring and investment, White House economic advisers argue. The President will also be pushing for passage of an ambitious set of spending proposals -- based on a $447 billion package of targeted tax cuts, infrastructure spending, and aid to state and local governments dubbed the American Jobs Act -- that remains the backbone of his plan to put people back to work. When Obama unveiled the bill last September, independent economic analysts predicted it could supply up to 1.9 million jobs and add two points to the GDP. The decision to pursue it marked an inflection in his presidency -- the moment he abandoned a strategy of accommodation in favor of what he viewed as a clarifying confrontation with Republicans. Obama had spent the previous summer tangling with the GOP over its austerity agenda. It was frustrating for the President, aides say. He felt diminished by the grinding talks toward a debt agreement because they prevented him from getting back on a jobs message as the economy stumbled. As his team worked behind the scenes crafting new proposals to prop up the flagging recovery, Obama told them not to "self-edit." The message: Don't pre-negotiate compromises to entice Republican support, as they had on the first stimulus. When the President's talks with House Speaker John Boehner finally fell apart in late July, he dived into the process of finalizing the details of the new bill. "The notion that the President had a heavy pent-up demand to get out there on jobs was an understatement. He was fired up," Sperling says. Obama unveiled the package to a joint session of Congress in September, then barnstormed the country in support of it, but aside from extensions of the 2% payroll tax cut and unemployment benefits, it didn't budge on Capitol Hill. The White House now believes it will have a chance to revive his proposals in the budget negotiations. If the administration's top priority, post-election, is securing a major compromise on the deficit, its second priority will be to force as much of the American Jobs Act into that as possible. It isn't clear yet which pieces of the bill the President will push to include. If the growth forecast for next year remains gloomy, Obama could seek to extend the payroll tax cut yet again. But he'd prefer not to. The cut supplies a quick bolt of energy -- a sort of economic sugar high. Instead, the White House favors spending that can swell employment rolls immediately while also meeting long-term needs like rebuilding roads, bridges, and schools. Economists of all stripes agree on the primacy of high-functioning infrastructure to promote growth. And yet America's is crumbling. In just the past decade the quality of U.S. infrastructure has fallen from fifth worldwide to 24th, according to a recent report by the Council on Foreign Relations. In his jobs bill Obama proposes spending $60 billion on upgrades, including $10 billion for an infrastructure bank, a government entity that would offer loans and guarantees to kick-start private projects. Getting all that into an already difficult budget deal would be a tall order. But the package could be bigger still. The last comprehensive rewrite of the nation's tax laws came 26 years ago, and the code has since become a sprawling mess larded with special-interest carve-outs and other costly preferences. Tax writers on Capitol Hill are already working on a wholesale update, and there is a surprising amount of bipartisan agreement in principle about what the corporate side should look like. Both parties agree that the top corporate rate should be no higher than 28% and want to pay for lowering it by getting rid of preferences in the code. Obama hasn't fully accounted for which ones he'd scrap, though he has called for limiting itemized deductions for the wealthy to 28%, taxing the earnings of hedge fund managers and private equity partners as ordinary income, and zeroing out breaks for oil and gas companies. And he wants to add new breaks for domestic manufacturers, including capping their tax rate at 25%. So that's a landmark deficit-reduction agreement, major new investments in infrastructure, and a quarter-century's worth of reform to the tax code. You have to wonder whether Obama could get it done at all, let alone before his second Inauguration. Reflecting on his first term in an interview with CBS last month, Obama said he had made a mistake. He had thought, he said, "that this job was just about getting the policy right. And that's important. But the nature of this office is also to tell a story to the American people that gives them a sense of unity and purpose and optimism, especially during tough times." It's odd that such a masterful storyteller forgot to tell a story. Bogged down in legislative wrangling, he frequently neglected his most powerful tool: his ability to go over the heads of the fractious Beltway crowd and take his case directly to the American people. He had run on a pledge to end an era of crippling partisanship, and he had won the White House with a huge army of volunteers. The care and feeding of that ground force shifted to the Democratic National Committee once Obama took office, but the party never quite figured out how to translate the popular energy that inspired his campaign into an instrument to advance his legislative agenda. It's an error Obama is determined not to repeat if he wins a second term. To that end, his team is prepping a major post-election mobilization to preserve the campaign's momentum and keep the heat on Congress during the budget talks. The plan is to retain about 150 of the campaign's sharpest operatives on payroll, deployed across the country to organize grass-roots support behind the President's agenda, people briefed on the plan say. "Whether you're organizing people to vote or organizing people to try to encourage their representative to support or oppose something, it's the same thing," says one, who wasn't authorized to discuss internal deliberations on the record. And Obama appears poised to match that tactical gambit with a new toughness at the negotiating table. Progressive operatives who have complained that the President was too eager to cut deals with the GOP in his first term have emerged from conversations with the administration over the summer convinced that he has steeled himself for a showdown. The official line from the White House remains that the administration hopes to reach an agreement before the end of this year to avert the expiration of the Bush tax cuts for the middle class and the slashes to defense and other spending. But it has also made clear to allies that it will let the changes occur if Republicans won't move sufficiently to meet its terms. The approach would give Democrats an advantage in the tax debate: By allowing all the cuts to expire, they could pursue reinstating lower rates for all but the highest incomes as a new tax cut next year, a proposal Republicans would be hard-pressed to oppose. It seems likely that both sides will agree to move the deadline for action into 2013 to give themselves more time, but top Democrats say Obama is keen to keep the pressure on by limiting any delay. "You have conditions that are extraordinarily propitious in terms of the political system coming together," says former Treasury Secretary Robert Rubin. "But if you delay it for six months or a year, the odds of a constructive response go way, way down." Obama could get an additional boost from an unlikely source: the business community. Corporate chiefs largely stayed out of the deficit fight last summer, believing the brinkmanship over the debt ceiling was just political theater. "All of us were shocked at how out of hand it got," Honeywell (HON) CEO David Cote says, "and if they were playing with fire before, they're playing with nitroglycerin now." Cote is recruiting other CEOs to a campaign called Fix the Debt, dedicated to promoting a solution along the lines of the proposal by the Simpson-Bowles commission, a framework Obama has mostly, if belatedly, embraced. The group has already raised about $20 million in personal contributions from CEOs and enlisted a roster that includes Eaton CEO Sandy Cutler, Invesco (IVZ) CEO Martin Flanagan, and Aetna (AET) CEO Mark Bertolini. There's no question the President's relationship with business executives remains strained. "Most CEOs say the difference is this administration, starting with President Obama, has an abiding faith in the creative genius of government to make decisions that will get the economy moving," says John Engler, president of the Business Roundtable. But the Obama team believes there would be plenty of chances to make common cause with business interests in a second term -- on new investments in infrastructure and federal research agencies, immigration reform, and promoting workforce training through community colleges, among others. The Obama team knows it will have to move quickly. History suggests that the opening months of a new presidential term are the ripest for a big budget compromise, and that such a deal can become a vehicle for other priorities. Bill Clinton, for example, spent the start of his second term hashing out a balanced-budget agreement with Republican leaders that also cut capital gains taxes (a sweetener for the GOP) and launched a program to provide health insurance to children -- a consolation prize for Clinton after the failure of his first-term health care reform drive. The precedent is fueling hope among senior Obama officials that there could be a dynamic shift toward deal cutting after the election. "The only way to break the fever is for voters to decide whether wealthy Americans should pay their fair share toward deficit reduction and economic growth, instead of putting it all on the back of the middle class. That's the choice in this election," says Stephanie Cutter, Obama's deputy campaign manager. "Does that mean it will change the way Republicans act in Washington? Quite possibly, because I don't think they're benefiting from the gridlock right now." It's a point Obama has been making explicitly on the campaign trail. The election, he told a small crowd gathered in Parma, Ohio, on July 5, is offering "two fundamentally different visions about how we move the country forward. And the great thing about our democracy is you get to be the tiebreaker." It remains to be seen whether lawmakers will see it the same way. Congressional deadlock may seem absolute now, but there are signs it could get even worse next year. Moderates are heading for the exits, with ideologues primed to replace them. Campaign operatives on both sides predict the contest for the White House itself will be a squeaker, meaning if Obama wins, it will be with a majority far shy of his 2008 electoral romp -- hardly a prescription for a muscular presidential mandate. Given that backdrop, some of the President's allies are wringing their hands over a campaign that has so far felt attritional. The summer months have seen a ceaseless spew of attack ads from both sides, while the daily back and forth fixes on the latest micro-gaffe. (A new low earlier this month: The candidates stooped to playground-worthy name-calling; Obama labeled his challenger "Romney Hood," a reverse Robin Hood, and Romney fired back that the critique was "Obamaloney.") When you observe the race, it's difficult not to notice the gap between the specificity with which Obama's economic team in the White House is thinking through second-term scenarios and the vague treatment the next four years are getting on the trail. "I have to believe, and this surprises me, that the Obama team has concluded their economic narrative is not strong enough to sustain their campaign," says Bill Galston, who was a senior adviser to President Clinton. Neera Tanden, president of the Center for American Progress and a former adviser to Obama, warns, "It matters what he campaigns on, because you can't claim a mandate for doing things unless you talk about them in the election." Campaign officials insist a more sustained focus on policy is coming, during Obama's speech at the Democratic National Convention on Sept. 6 and beyond. Romney's decision to tap as his running mate Rep. Paul Ryan (R-Wis.), the House budget chief who's emerged as a champion of conservative government reformers, seems to guarantee a meatier debate on the issues is at hand. But it's also clear that the campaign to date has exposed a President transformed by his first four years in office. Gone is the post-partisan figure who promised to bring wholesale change to the political process. In his place is a candidate hardened by stalemate and energized by the prospect of a showdown with his opposition. A second Obama term will reveal whether confrontation yields more progress than conciliation -- and we won't have to wait long to find out.

#### That’s key to adopt a deterrence posture which can accommodate inevitable post-hegemonic transition – sooner rather than later is key to prevent multiple scenarios for nuclear conflict

Kallberg & Lowther 8-20 (Dr. Jan Kallberg, assistant professor in Homeland Security at Arkansas Tech University and a researcher at Cyber Security Research and Educational Center, Erik Jonsson School of Engineering and Computer Science at The University of Texas at Dallas; and Dr. Adam B. Lowther, member of the faculty at the U.S. Air Force's Air University; “The Return of Dr. Strangelove,” The Diplomat, 8-20-2012, http://thediplomat.com/2012/08/20/the-return-of-dr-strangelove/?all=true)

How fiscal austerity will push the United States towards nuclear arms and cyber-warfare. With the prospect of sequestration looming, the United States may find itself increasingly relying on nuclear and cyber deterrence as an affordable means of guaranteeing national sovereignty and preventing major conflict between the U.S. and potential adversaries in the Asia-Pacific. While earlier defense planning and acquisition were based on economic conditions that no longer exist, Congress’s options to balance the budget by cutting defense spending are politically palatable because far fewer American are “defense voters” relative to “social welfare voters,” according to a number of recent public opinion surveys. The simple fact is China’s rise has yet to present a clear danger to American interests in the minds of most Americans. The first steps in this process are already underway and exemplified by the administration’s new strategy – published in January 2012. When the official requirement that the Department of Defense (DoD) be able to fight two major wars simultaneously disappeared, an opportunity to downsize the armed forces presented itself. From Congress’s viewpoint, the budget crisis must be solved without unseating its members. Ironically, austerity may cause Americans to stop worrying about a hypothetical rogue detonation and learn to love the bomb. Dr. Strangelove may return with a vengeance, but this time with a cyber doomsday device under one arm and its nuclear counterpart under the other. After all, dollar for dollar, nuclear weapons—in particular—provide American taxpayers the greatest level of security and stability of any weapon the nation has ever fielded. The fact that at an estimated $30 billion per year—5% of the defense budget—the nuclear arsenal is cheap, may spur Congress to take a pragmatic position toward the nation’s most powerful military capabilities (as the federal budget is increasingly engulfed by social welfare programs) and support an effective nuclear deterrent along with the development of devastating cyber capabilities. It is important to keep in mind that both areas—nuclear and cyber—are a primary focus of Chinese military developments. Failing to maintain an advantage in both may prove unwise for the United States. Some in the scientific community argue that this perspective is unrealistic. Politics, being what they are, is all about getting elected; complex strategic calculations in the Asia-Pacific offer little comfort during a tough reelection fight that is focused on the domestic economy. With Congress having a number of incumbents whose constituencies loathe the thought of cuts to Medicare, Medicaid, Veterans’ benefits, and Social Security, taking greater risks in national security is a more tangible option. As the nation borrows over $1 trillion per year, the quest to balance the budget is impossible without dramatic spending cuts given the unacceptability of tax increases. The nation’s deficit crisis may soon turn the United States’ geopolitical posture from one that is ideologically based on global interventionism—popular with both Republicans and Democrats—to one more akin to defense non-intervention. While international trade will continue and expand, the United States may cease to be a shining city upon a hill and the global policeman. It is somewhat paradoxical that after the country demonstrated overwhelming conventional superiority in the last two wars—Afghanistan and Iraq—the cost of that capability may lead to a renaissance of nuclear deterrence and the development of cyber deterrence as a strategic policy, a move that may be more useful in an “Asia-Pacific century” than many realize. In comparison to large conventional forces and the decades of veteran’s benefits that follow, the nuclear arsenal is far more affordable over the long term. Cyber is also more cost effective when it comes to R&D and expensive acquisition programs. With a per-unit price estimated at about $4 billion, a new Ohio-class-replacing nuclear ballistic missile submarine (SSBN-X) can produce strategic deterrence for less than an army division of 10,000 career soldiers whose compensation―with pensions and benefits―continues for an additional 40 years after these soldiers have served. A key policy driver in coming years may prove to be the limited costs of upgrading and maintaining existing nuclear weapons when a cash-strapped federal government seeks to reduce the deficit. Maintaining and upgrading existing nuclear weapon systems is inexpensive by comparison. Even if nuclear weapons are bound―as Kenneth N. Waltz states―to make people uneasy because of their immense destructive power, nuclear arms may prove to be a budgetary emergency exit. For many Americans, Peter Sellers’s portrayal of nuclear deterrence policies in the 1950s and 1960s remains a reality. While Dr. Strangelove (1964) is an iconic film, its black comedy addressed the dangers of nuclear weapons, doomsday devices, missile gaps, and the intricate webs of deterrence and geopolitics of a bygone era where the world was still coming to grips with the destructive power of “the bomb.” In one scene, Dr. Strangelove carefully explains for the president deterrence and the doomsday device saying, “Mr. President, it is not only possible, it is essential. That is the whole idea of this machine, you know. Deterrence is the art of producing in the mind of the enemy the fear to attack.” Admittedly, this psychological aspect has not changed, but technology and operational experience have made nuclear weapons a safe and secure means of deterring conventional and nuclear attack, which may prove critically important in deterring an increasingly assertive China. It is cyber deterrence that is in a similar position to where nuclear deterrence was at the time of Dr. Strangelove. After a generation of neglect, deterrence, in its broadest meaning, is experiencing an overdue renaissance among scholars and policy wonks. For those advocates of nuclear zero who thought conventional precision attack would serve as a panacea for the nation’s security challenges, the past twenty years were a disappointment. They failed to deter a number of adversaries America has fought over the last two decades. Most importantly, they have proven all too expensive and are not deterring a rising China, a resurgent Russia, or an unpredictable North Korea. Budgetary Realities Despite disengaging from Iraq and the start of reductions in Afghanistan, the federal budget has a trillion dollar plus deficit. And with the 2012 defense and national security budgets equaling 63% of discretionary spending, cuts are likely to come to defense many times in the future. Cuts of 25% or more have an historical precedent and the examples that exist where the warfare and welfare state collide are inevitably won by the welfare state. Dwindling Conventional Forces Policymakers are realizing there is a limited return on investment when using a counterinsurgency (COIN) military strategy to occupy foreign countries. Two schools of thought in national security have been vying for preeminence in the post-Vietnam era. The First, as embodied by the Weinberger Doctrine, suggests that the U.S. should only employ military force in conflicts with: an expected outcome, a given duration, public support, and where vital national interests are at stake. In short, realism is seeking to reassert itself. In such a way of thinking, there are no proverbial land wars in Asia. The second and, at least within the Beltway, more dominant view advocates employing economic and military power to accelerate the inevitable expansion of democracy. President Bill Clinton’s globalization and President George W. Bush’s doctrine of preemption are two sides of the same coin. This latter school of thought gave Americans Somalia, Bosnia, and Kosovo during the 1990s and Afghanistan and Iraq in the 2000s. While the nation’s military took an “acquisition holiday” during the 1990s, the 2000s saw defense spending increase dramatically in an effort to fight two wars. And while the Iraq war is over and Afghanistan is winding down, the bill for replacing the nation’s worn-out aircraft and ships is leaving Congress with sticker shock. Personnel are also an expensive asset. With the largest number of personnel, the Army represents a third of defense costs. It is likely that the nation’s occupation force will be the prime target for reduction in size and capability and rightfully so. It was the Army that grew by almost 20% to meet the demands of Iraq, and it is the Army that should shrink in its aftermath. This is not an issue of inter-service rivalry, but a question of shifting strategic threats. The Marine Corps also grew during the 2000s and must also return to pre-conflict levels. For the Navy and the Air Force, the past decade was a hard time because acquisition dollars went to fight the wars in Afghanistan and Iraq instead. Absent the services and the DoD finding a way to bring down acquisition costs, this decade may prove even tougher as defense spending is increasingly squeezed by entitlement growth. With all of the previous doom and gloom assessments, realist advocates of the nuclear arsenal have an opportunity to offer a different and more cost effective vision for national security, but it must include cyber. First, and most importantly, they must overcome Washington’s predilection toward costly action and offer a compelling case for restraint on a grand scale. By in large, China has given the United States a model for such restraint—thus far. Second, they must move beyond nuclear deterrence and offer a full spectrum of deterrence options, with cyber deterrence the central addition. Cyber Deterrence Had Dr. Strangelove been an advisor and scientist in today’s Department of Defense, it is certain that cyber deterrence would play a central role in his deterrence thinking. With cyberspace all the rage within the national security community, it should come as no surprise that cyber deterrence is a rapidly developing area of opportunity. While cyber weapons lack digital lethality (so far), the ability to kill other systems and create havoc in an adversary’s society—with significant human suffering as a side effect— creates the potential to deter an adversary. Deterrence is built on the certainty that a response to one’s actions will outweigh the potential gains of taking those actions. While it is true that cyber weapons have yet presented a visible threat of mass destruction—as nuclear and conventional arms have—this is changing. It is important to understand both the options embedded in cyber deterrence and the actions that are feasible. Cyber weapons have global reach at a limited cost, but questions remain about their actual lethality and attribution. After the Stuxnet attack in which malicious code entered the computer networks of the Iranian nuclear program and physically destroyed equipment by manipulating operating speeds, the legal community started a review of cyber weapons. According to some international legal theorists, there was no control over where, how, and when Stuxnet proliferated in computer systems. Therefore, it was assumed that it could create civilian harm and in doing so would become illegal by international law standards. A combination of the absence of destructive power and the soon-established precedence that cyber weapons are not precise military targets and, therefore, in conflict with international law, erode the opportunity of replacing conventional deterrence with cyber deterrence preparing the way for further reliance on nuclear deterrence. Thus, cyber deterrence is in need of significant development. This is particularly important because of the vast penetration of American private and public sector networks originating from China. Thus far, the United States has found no effective way to deter such attacks. Nuclear Deterrence In the coming decades, nuclear arms can play a greater role in comparison to the last two decades. They are the only weapons that project power from Montana to Macau simultaneously, without moving military hardware or personnel. Political theorist Kenneth N. Waltz argued that the power of nuclear arms lies in not what you do with them, but what you can do; an argument he was not alone in making. Under severe budgetary pressures, nuclear arms maintain the nation as a great power regardless of economic, cultural, or other influence—a point the Chinese, North Koreans, and Russians understand well. This reasoning also led the United Kingdom to make building nuclear-capable submarines a priority, even after the deepest defense cuts since the post-World War II drawdown. Reliance on nuclear arms to maintain geopolitical equilibrium is visible in Siberia and Russia’s Far East, where a resource-rich wilderness borders a resource-craving China. Russia’s ability to defend and uphold the territorial sovereignty of its Far East relies heavily on nuclear arms. Nuclear arms are returning as a tool of power—even if incrementally. Boom Time for Boomers, Bombers, and Ballistic Missiles Austerity and extensive defense budget cuts are triggering renewed interest in the nuclear triad. While the price of boomers, bombers, and intercontinental ballistic missiles (ICBM) may seem relatively high, at less than 10% of the defense budget, both figuratively and literally they offer the greatest bang for the buck. Nuclear submarines project awe-inspiring and stealthy power beyond the force any armored division or army corps can ever achieve. Bombers allow the president to signal adversaries in a way submarines and missiles cannot. ICBMs increase the threshold for launching an attack against the United States by forcing an adversary to attack the homeland should they seek to destroy our ability to return fire. While the triad may, at first glance, have appeared expensive and outdated after the Cold War, a fiscally constrained military that seeks to maintain stability across the globe requires a robust arsenal as means to preventing great powers from beginning and/or escalating conflicts that could go nuclear. In short, they deter and limit great power conflicts, which have proven costly for the United States. Affordable Deterrence The United States has no other option than to seek innovative ways to decrease defense costs without losing deterrent power and risking national security. Henry Kissinger once argued that “The absence of alternatives clears the mind marvelously.” The future of American deterrence will be connected to affordability. After the era of endless money, as Robert Gates calls the years after 9/11, there are tough decisions to make at the start of the Asia-Pacific century. Even if defense cuts are imminent, there are several advantages for the U.S. that can be exploited to achieve affordable defense; the nuclear arsenal being the most important one. Despite advances in technology the U.S. still enjoys geopolitical advantages. For example, the Pacific and Atlantic oceans protect the country from a variety of conventional military threats. In comparison to other nations, the country is safe geopolitically. The cost to defend the homeland is far less than conducting large-scale, counterinsurgency operations in remote countries—invade, occupy, and rebuild. In general, neighbors to both north and south are friendly. From a long-term financial viewpoint, defense focused on the American homeland requires a smaller land force in comparison to the present one. With deterrence, intelligence, and the ability to intercept incoming aircraft or missiles enabled by systems that are capital intensive and sophisticated, fewer personnel are required to defend the homeland and protect American interests in Asia. According to Waltz, deterrence is what you can do, not what you will do. Throughout history, adversaries have taken steps toward each other that escalated quickly because they underestimated the options and determination of the other based on the presence of resources of war at hand. Because of this, it is important that America is clear about its intentions and capability. The United States is the only nation that has used nuclear arms at war when it eradicated two Japanese cities at the end of World War II. None have yet to employ the nuclear option—an all-out attack, in cyberspace. America is, after all, the only nation that has used nuclear weapons—credibility that should not be frittered away. For any potential adversary, it is a lethal fact. America are likely able in near time to create disproportional digital exploitation responses (DDER) to any power that crosses the line and challenge U.S. cyber supremacy with significant destabilizing effect on the targeted society. It might not color the minds of the current American leadership, but it influences foreign leaders. Deterrence relies upon will and capability. If the United States can no longer deter with conventional forces; international sanctions are ineffective; and coalition building is beyond others’ financial reach; nuclear deterrence becomes the primary upholder of strategic deterrence. When austerity removes other strategically deterring options and the United States is left with nuclear deterrence, Dr. Strangelove and his doomsday machines (cyber and nuclear) can make their triumphal return. America’s ability and willingness to wage all-out war is validated by strategic deterrent patrols, bombers sitting on alert, launch-ready missiles, and an offensive cyber-Armageddon capability. With these assets ready to reach global targets, deterrence can be successful. No matter whether we want it, believe it, like it, or imagine it, federal austerity will force radical change in the nation’s defense posture, which is likely to lead to a greater reliance on nuclear and cyber arms. Succeeding in Asia will depend upon the United States realizing its position sooner rather than later.

#### Independently, delay guts the effectiveness of nuclear posture – budget uncertainty triggers deterrence failures in the face of current proliferators

McCorkle 12 (Sherman McCorkle, President and Chief Executive Officer of Technology Ventures Corporation, member of the Technology Triangle Advisory Board, Founder and Charter Director of New Mexico Bank & Trust, Honors Graduate of the Colorado Graduate School of Banking at the University of Colorado, “Budget Dithering Puts U.S. Defense System in Jeopardy,” Albuquerque Journal Online Edition, 7-22-2012, <http://www.abqjournal.com/main/2012/07/22/opinion/budget-dithering-puts-us-defense-system-in-jeopardy.html>)

The administration and Congress are playing chicken with our national security. The refusal to pass a budget could not be more absurd. Continuous institutional structures must have a predictive and assured budget to provide America’s deterrent capabilities. The administration and Congress need to pass our 2013 budget now. The administration and Congress must act to avoid the harm of sequestration. Events in Iran, North Korea, India, Pakistan and elsewhere have confirmed the continuing proliferation of advanced military technologies, including nuclear weapons and the means to deliver them. Such proliferation continues to both threaten global stability and demand that America, in accordance with established national policy, retain a credible nuclear deterrent. Our national policy of survivability requires that a first strike against us cannot be such as to reduce retaliation to a level which is acceptable to our adversary. The cost of maintaining the strategy is relatively modest. Today, however, America’s deterrent capabilities face a number of challenges. The Strategic Nuclear Triad has an aging delivery system made up of 14 Ohio Class submarines, 94 bombers and 450 intercontinental ballistic missiles. It is the undeniable versatility of the three independent launch systems that provides a sure and strategic deterrent shield. Our nuclear stockpile has changed. There is little experience in predicting age deterioration in materials and components. Stockpile reductions have narrowed the diversity of weapons within the stockpile, making the stockpile more uniform and raising the risk of repetitive “common mode” failures. There is a tendency to understate the complexity and perishability of nuclear weapons and the specialized facilities, personnel and expertise needed to properly sustain nuclear deterrence. A new nuclear arms control treaty now exists. Along with defense budget reductions, the number of nuclear weapons in the United States will be the lowest in more than 50 years. Maintaining the Strategic Nuclear Triad with its diversity of weapons and delivery vehicles becomes more critical as global proliferation continues. In this environment the tight integration of America’s nuclear weapons complex has proven to be essential. The uniquely integrated facilities and operations of Kirtland Air Force Base, Minot Air Force Base, Malmstrom Air Force Base, Barksdale Air Force Base, Warren Air Force Base, Whiteman Air Force Base, King’s Bay Naval Base, Bangor Naval Base, and Sandia, Los Alamos and Livermore national laboratories, Pantex, Y-12, the Savannah River Site, the Kansas City Plant and the Nevada National Test Site serve as the nation’s strategic nuclear deterrent. This Department of Defense/Department of Energy nuclear complex and its established working relationships remain essential to properly support the Strategic Nuclear Triad. As the nation continues to cut military spending, we cannot be indifferent to any reductions that might impair our national policy of survivability. The Strategic NuclearTriad stands guard against both today’s and tomorrow’s real dangers and provides the strategic deterrent under which diplomacy in international affairs is preserved. The administration and Congress need to pass our 2013 budget now. The administration and Congress must act to avoid the harm of sequestration.

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