# \*\*\*Business Confidence DA\*\*\*



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#### Biz Con high now – numerous indicators prove

* Inflation baked in
* High business spending
* Investment hasn’t decreased

Lucia Mutikani, 22, (Lucia Mutikani, 6-27-2022, U.S., U.S. manufacturing shows resilience despite rising interest rates, https://www.reuters.com/article/usa-economy-durablegoods-idTRNIKBN2O80WS, 6-28-2022) SCade

WASHINGTON (Reuters) - New orders for U.S.-made capital goods and shipments increased solidly in May, pointing to sustained strength in business spending on equipment in the second quarter, but rising interest rates and tighter financial conditions could slow momentum. The nearly broad rise in orders reported by the Commerce Department on Monday occurred despite deteriorating business and consumer sentiment as well as heightened fears of a recession. The gains partly reflected higher prices. The Federal Reserve is aggressively tightening monetary policy to quell inflation. “There’s some inflation behind the increase in orders, but, nevertheless, there are a lot of dollars flowing through the economy right now,” said Christopher Rupkey, chief economist at FWDBONDS in New York. “Businesses would not order new equipment if they thought consumers and other companies were looking to pull back their purchases.” Orders for non-defense capital goods excluding aircraft, a closely watched proxy for business spending plans, rose 0.5% last month. These so-called core capital goods orders gained 0.3% in April. Economists polled by Reuters had forecast core capital goods orders would climb 0.3%. Those orders were up 10.2% on a year-on-year basis in May. Last month’s increase reflected a 1.1% rise in machinery orders. There was also strong demand for primary metals as well as computers and electronic products. But orders for electrical equipment, appliances and components fell 0.9%, while demand for fabricated metal products was unchanged.

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#### Unpredictable shifts ruin biz con AND overall growth

Cambon 21 – Sarah Chaney, Reporter on The Wall Street Journal's Economics Team, BA in Business Journalism from the University of North Carolina-Chapel Hill. “Capital-Spending Surge Further Lifts Economic Recovery”, Wall Street Journal, <https://www.wsj.com/articles/capital-spending-surge-further-lifts-economic-recovery-11624798800>, 06-27-2021

Business investment is emerging as a powerful source of U.S. economic growth that will likely help sustain the recovery.

Companies are ramping up orders for computers, machinery and software as they grow more confident in the outlook.

Nonresidential fixed investment, a proxy for business spending, rose at a seasonally adjusted annual rate of 11.7% in the first quarter, led by growth in software and tech-equipment spending, according to the Commerce Department. Business investment also logged double-digit gains in the third and fourth quarters last year after falling during pandemic-related shutdowns. It is now higher than its pre-pandemic peak.

Orders for nondefense capital goods excluding aircraft, another measure for business investment, are near the highest levels for records tracing back to the 1990s, separate Commerce Department figures show.

“Business investment has really been an important engine powering the U.S. economic recovery,” said Robert Rosener, senior U.S. economist at Morgan Stanley. “In our outlook for the economy, it’s certainly one of the bright spots.”

Consumer spending, which accounts for about two-thirds of economic output, is driving the early stages of the recovery. Americans, flush with savings and government stimulus checks, are spending more on goods and services, which they shunned for much of the pandemic.

Robust capital investment will be key to ensuring that the recovery maintains strength after the spending boost from fiscal stimulus and business reopenings eventually fades, according to some economists.

Rising business investment helps fuel economic output. It also lifts worker productivity, or output per hour. That metric grew at a sluggish pace throughout the last economic expansion but is now showing signs of resurgence.

The recovery in business investment is shaping up to be much stronger than in the years following the 2007-09 recession. “The events especially in late ’08, early ’09 put a lot of businesses really close to the edge,” said Phil Suttle, founder of Suttle Economics. “I think a lot of them said, ‘We’ve just got to be really cautious for a long while.’”

Businesses appear to be less risk-averse now, he said.

After the financial crisis, businesses grew by adding workers, rather than investing in capital. Hiring was more attractive than capital spending because labor was abundant and relatively cheap. Now the supply of workers is tight. Companies are raising pay to lure employees. As a result, many firms have more incentive to grow by investing in capital.

Economists at Morgan Stanley predict that U.S. capital spending will rise to 116% of prerecession levels after three years. By comparison, investment took 10 years to reach those levels once the 2007-09 recession hit.

Company executives are increasingly confident in the economy’s trajectory. The Business Roundtable’s economic-outlook index—a composite of large companies’ plans for hiring and spending, as well as sales projections—increased by nine points in the second quarter to 116, just below 2018’s record high, according to a survey conducted between May 25 and June 9. In the second quarter, the share of companies planning to boost capital investment increased to 59% from 57% in the first.

“We’re seeing really strong reopening demand, and a lot of times capital investment follows that,” said Joe Song, senior U.S. economist at BofA Securities.

Mr. Song added that less uncertainty regarding trade tensions between the U.S. and China should further underpin business confidence and investment. “At the very least, businesses will understand the strategy that the Biden administration is trying to follow and will be able to plan around that,” he said.

#### Decline cascades – nuclear war.

Maavak 21 – Dr. Mathew, PhD in Risk Foresight from the Universiti Teknologi Malaysia, External Researcher (PLATBIDAFO) at the Kazimieras Simonavicius University, Expert and Regular Commentator on Risk-Related Geostrategic Issues at the Russian International Affairs Council. “Horizon 2030: Will Emerging Risks Unravel Our Global Systems?”, Salus Journal, The Australian Journal for Law Enforcement, Security and Intelligence Professionals, Vol. 9, No. 1, pg. 2-8, <https://search.informit.org/doi/abs/10.3316/informit.673954589035546>, 04-14-2021

Various scholars and institutions regard global social instability as the greatest threat facing this decade. The catalyst has been postulated to be a Second Great Depression which, in turn, will have profound implications for global security and national integrity. This paper, written from a broad systems perspective, illustrates how emerging risks are getting more complex and intertwined; blurring boundaries between the economic, environmental, geopolitical, societal and technological taxonomy used by the World Economic Forum for its annual global risk forecasts. Tight couplings in our global systems have also enabled risks accrued in one area to snowball into a full-blown crisis elsewhere. The COVID-19 pandemic and its socioeconomic fallouts exemplify this systemic chain-reaction. Onceinexorable forces of globalization are rupturing as the current global system can no longer be sustained due to poor governance and runaway wealth fractionation. The coronavirus pandemic is also enabling Big Tech to expropriate the levers of governments and mass communications worldwide. This paper concludes by highlighting how this development poses a dilemma for security professionals.

Key Words: Global Systems, Emergence, VUCA, COVID-9, Social Instability, Big Tech, Great Reset

INTRODUCTION

The new decade is witnessing rising volatility across global systems. Pick any random “system” today and chart out its trajectory: Are our education systems becoming more robust and affordable? What about food security? Are our healthcare systems improving? Are our pension systems sound? Wherever one looks, there are dark clouds gathering on a global horizon marked by volatility, uncertainty, complexity and ambiguity (VUCA).

But what exactly is a global system? Our planet itself is an autonomous and selfsustaining mega-system, marked by periodic cycles and elemental vagaries. Human activities within however are not system isolates as our banking, utility, farming, healthcare and retail sectors etc. are increasingly entwined. Risks accrued in one system may cascade into an unforeseen crisis within and/or without (Choo, Smith & McCusker, 2007). Scholars call this phenomenon “emergence”; one where the behaviour of intersecting systems is determined by complex and largely invisible interactions at the substratum (Goldstein, 1999; Holland, 1998).

The ongoing COVID-19 pandemic is a case in point. While experts remain divided over the source and morphology of the virus, the contagion has ramified into a global health crisis and supply chain nightmare. It is also tilting the geopolitical balance. China is the largest exporter of intermediate products, and had generated nearly 20% of global imports in 2015 alone (Cousin, 2020). The pharmaceutical sector is particularly vulnerable. Nearly “85% of medicines in the U.S. strategic national stockpile” sources components from China (Owens, 2020).

An initial run on respiratory masks has now been eclipsed by rowdy queues at supermarkets and the bankruptcy of small businesses. The entire global population – save for major pockets such as Sweden, Belarus, Taiwan and Japan – have been subjected to cyclical lockdowns and quarantines. Never before in history have humans faced such a systemic, borderless calamity.

COVID-19 represents a classic emergent crisis that necessitates real-time response and adaptivity in a real-time world, particularly since the global Just-in-Time (JIT) production and delivery system serves as both an enabler and vector for transboundary risks. From a systems thinking perspective, emerging risk management should therefore address a whole spectrum of activity across the economic, environmental, geopolitical, societal and technological (EEGST) taxonomy. Every emerging threat can be slotted into this taxonomy – a reason why it is used by the World Economic Forum (WEF) for its annual global risk exercises (Maavak, 2019a). As traditional forces of globalization unravel, security professionals should take cognizance of emerging threats through a systems thinking approach.

METHODOLOGY

An EEGST sectional breakdown was adopted to illustrate a sampling of extreme risks facing the world for the 2020-2030 decade. The transcendental quality of emerging risks, as outlined on Figure 1, below, was primarily informed by the following pillars of systems thinking (Rickards, 2020):

• Diminishing diversity (or increasing homogeneity) of actors in the global system (Boli & Thomas, 1997; Meyer, 2000; Young et al, 2006);

• Interconnections in the global system (Homer-Dixon et al, 2015; Lee & Preston, 2012);

• Interactions of actors, events and components in the global system (Buldyrev et al, 2010; Bashan et al, 2013; Homer-Dixon et al, 2015); and

• Adaptive qualities in particular systems (Bodin & Norberg, 2005; Scheffer et al, 2012) Since scholastic material on this topic remains somewhat inchoate, this paper buttresses many of its contentions through secondary (i.e. news/institutional) sources.

ECONOMY

According to Professor Stanislaw Drozdz (2018) of the Polish Academy of Sciences, “a global financial crash of a previously unprecedented scale is highly probable” by the mid- 2020s. This will lead to a trickle-down meltdown, impacting all areas of human activity.

The economist John Mauldin (2018) similarly warns that the “2020s might be the worst decade in US history” and may lead to a Second Great Depression. Other forecasts are equally alarming. According to the International Institute of Finance, global debt may have surpassed $255 trillion by 2020 (IIF, 2019). Yet another study revealed that global debts and liabilities amounted to a staggering $2.5 quadrillion (Ausman, 2018). The reader should note that these figures were tabulated before the COVID-19 outbreak.

The IMF singles out widening income inequality as the trigger for the next Great Depression (Georgieva, 2020). The wealthiest 1% now own more than twice as much wealth as 6.9 billion people (Coffey et al, 2020) and this chasm is widening with each passing month. COVID-19 had, in fact, boosted global billionaire wealth to an unprecedented $10.2 trillion by July 2020 (UBS-PWC, 2020). Global GDP, worth $88 trillion in 2019, may have contracted by 5.2% in 2020 (World Bank, 2020).

As the Greek historian Plutarch warned in the 1st century AD: “An imbalance between rich and poor is the oldest and most fatal ailment of all republics” (Mauldin, 2014). The stability of a society, as Aristotle argued even earlier, depends on a robust middle element or middle class. At the rate the global middle class is facing catastrophic debt and unemployment levels, widespread social disaffection may morph into outright anarchy (Maavak, 2012; DCDC, 2007).

Economic stressors, in transcendent VUCA fashion, may also induce radical geopolitical realignments. Bullions now carry more weight than NATO’s security guarantees in Eastern Europe. After Poland repatriated 100 tons of gold from the Bank of England in 2019, Slovakia, Serbia and Hungary quickly followed suit.

According to former Slovak Premier Robert Fico, this erosion in regional trust was based on historical precedents – in particular the 1938 Munich Agreement which ceded Czechoslovakia’s Sudetenland to Nazi Germany. As Fico reiterated (Dudik & Tomek, 2019):

“You can hardly trust even the closest allies after the Munich Agreement… I guarantee that if something happens, we won’t see a single gram of this (offshore-held) gold. Let’s do it (repatriation) as quickly as possible.” (Parenthesis added by author).

President Aleksandar Vucic of Serbia (a non-NATO nation) justified his central bank’s gold-repatriation program by hinting at economic headwinds ahead: “We see in which direction the crisis in the world is moving” (Dudik & Tomek, 2019). Indeed, with two global Titanics – the United States and China – set on a collision course with a quadrillions-denominated iceberg in the middle, and a viral outbreak on its tip, the seismic ripples will be felt far, wide and for a considerable period.

A reality check is nonetheless needed here: Can additional bullions realistically circumvallate the economies of 80 million plus peoples in these Eastern European nations, worth a collective $1.8 trillion by purchasing power parity? Gold however is a potent psychological symbol as it represents national sovereignty and economic reassurance in a potentially hyperinflationary world. The portents are clear: The current global economic system will be weakened by rising nationalism and autarkic demands. Much uncertainty remains ahead. Mauldin (2018) proposes the introduction of Old Testament-style debt jubilees to facilitate gradual national recoveries. The World Economic Forum, on the other hand, has long proposed a “Great Reset” by 2030; a socialist utopia where “you’ll own nothing and you’ll be happy” (WEF, 2016).

In the final analysis, COVID-19 is not the root cause of the current global economic turmoil; it is merely an accelerant to a burning house of cards that was left smouldering since the 2008 Great Recession (Maavak, 2020a). We also see how the four main pillars of systems thinking (diversity, interconnectivity, interactivity and “adaptivity”) form the mise en scene in a VUCA decade.

ENVIRONMENTAL

What happens to the environment when our economies implode? Think of a debt-laden workforce at sensitive nuclear and chemical plants, along with a concomitant surge in industrial accidents? Economic stressors, workforce demoralization and rampant profiteering – rather than manmade climate change – arguably pose the biggest threats to the environment. In a WEF report, Buehler et al (2017) made the following pre-COVID-19 observation:

The ILO estimates that the annual cost to the global economy from accidents and work-related diseases alone is a staggering $3 trillion. Moreover, a recent report suggests the world’s 3.2 billion workers are increasingly unwell, with the vast majority facing significant economic insecurity: 77% work in part-time, temporary, “vulnerable” or unpaid jobs.

Shouldn’t this phenomenon be better categorized as a societal or economic risk rather than an environmental one? In line with the systems thinking approach, however, global risks can no longer be boxed into a taxonomical silo. Frazzled workforces may precipitate another Bhopal (1984), Chernobyl (1986), Deepwater Horizon (2010) or Flint water crisis (2014). These disasters were notably not the result of manmade climate change. Neither was the Fukushima nuclear disaster (2011) nor the Indian Ocean tsunami (2004). Indeed, the combustion of a long-overlooked cargo of 2,750 tonnes of ammonium nitrate had nearly levelled the city of Beirut, Lebanon, on Aug 4 2020. The explosion left 204 dead; 7,500 injured; US$15 billion in property damages; and an estimated 300,000 people homeless (Urbina, 2020). The environmental costs have yet to be adequately tabulated.

Environmental disasters are more attributable to Black Swan events, systems breakdowns and corporate greed rather than to mundane human activity.

Our JIT world aggravates the cascading potential of risks (Korowicz, 2012). Production and delivery delays, caused by the COVID-19 outbreak, will eventually require industrial overcompensation. This will further stress senior executives, workers, machines and a variety of computerized systems. The trickle-down effects will likely include substandard products, contaminated food and a general lowering in health and safety standards (Maavak, 2019a). Unpaid or demoralized sanitation workers may also resort to indiscriminate waste dumping. Many cities across the United States (and elsewhere in the world) are no longer recycling wastes due to prohibitive costs in the global corona-economy (Liacko, 2021).

Even in good times, strict protocols on waste disposals were routinely ignored. While Sweden championed the global climate change narrative, its clothing flagship H&M was busy covering up toxic effluences disgorged by vendors along the Citarum River in Java, Indonesia. As a result, countless children among 14 million Indonesians straddling the “world’s most polluted river” began to suffer from dermatitis, intestinal problems, developmental disorders, renal failure, chronic bronchitis and cancer (DW, 2020). It is also in cauldrons like the Citarum River where pathogens may mutate with emergent ramifications.

On an equally alarming note, depressed economic conditions have traditionally provided a waste disposal boon for organized crime elements. Throughout 1980s, the Calabriabased ‘Ndrangheta mafia – in collusion with governments in Europe and North America – began to dump radioactive wastes along the coast of Somalia. Reeling from pollution and revenue loss, Somali fisherman eventually resorted to mass piracy (Knaup, 2008).

The coast of Somalia is now a maritime hotspot, and exemplifies an entwined form of economic-environmental-geopolitical-societal emergence. In a VUCA world, indiscriminate waste dumping can unexpectedly morph into a Black Hawk Down incident. The laws of unintended consequences are governed by actors, interconnections, interactions and adaptations in a system under study – as outlined in the methodology section.

Environmentally-devastating industrial sabotages – whether by disgruntled workers, industrial competitors, ideological maniacs or terrorist groups – cannot be discounted in a VUCA world. Immiserated societies, in stark defiance of climate change diktats, may resort to dirty coal plants and wood stoves for survival. Interlinked ecosystems, particularly water resources, may be hijacked by nationalist sentiments. The environmental fallouts of critical infrastructure (CI) breakdowns loom like a Sword of Damocles over this decade.

GEOPOLITICAL

The primary catalyst behind WWII was the Great Depression. Since history often repeats itself, expect familiar bogeymen to reappear in societies roiling with impoverishment and ideological clefts. Anti-Semitism – a societal risk on its own – may reach alarming proportions in the West (Reuters, 2019), possibly forcing Israel to undertake reprisal operations inside allied nations. If that happens, how will affected nations react? Will security resources be reallocated to protect certain minorities (or the Top 1%) while larger segments of society are exposed to restive forces? Balloon effects like these present a classic VUCA problematic.

Contemporary geopolitical risks include a possible Iran-Israel war; US-China military confrontation over Taiwan or the South China Sea; North Korean proliferation of nuclear and missile technologies; an India-Pakistan nuclear war; an Iranian closure of the Straits of Hormuz; fundamentalist-driven implosion in the Islamic world; or a nuclear confrontation between NATO and Russia. Fears that the Jan 3 2020 assassination of Iranian Maj. Gen. Qasem Soleimani might lead to WWIII were grossly overblown. From a systems perspective, the killing of Soleimani did not fundamentally change the actor-interconnection-interaction adaptivity equation in the Middle East. Soleimani was simply a cog who got replaced.

## Uniqueness

### Top Level Uniqueness

#### Despite recent decreases in biz con, manufacturing is strong and business spending is increasing – its recovering

Lucia Mutikani, 6-27, (Lucia Mutikani, 6-27-2022, U.S., U.S. manufacturing shows resilience despite rising interest rates, https://www.reuters.com/article/usa-economy-durablegoods-idTRNIKBN2O80WS, 6-28-2022) SCade

Core capital goods

The better-than-expected increase in core capital goods orders underscored underlying strength in manufacturing, which accounts for 12% of the economy, despite weak factory surveys. A survey from S&P Global last week showed business confidence dove in June to the lowest level since September 2020. Demand for goods remains strong even as spending is reverting back to services. Production also continues to be underpinned by businesses still rebuilding inventories, even as some major retailers like Walmart and Target have reported that they are carrying too much merchandise. “We’ve seen two of the largest inventory builds on record in the past two quarters, but, taken in the context of still solid sales, inventories are not yet at a concerning level in our view,” said Tim Quinlan, a senior economist at Wells Fargo in Charlotte, North Carolina. “We take the rebuild in inventories as a signal that supply chain problems are slowly easing.” Stocks on Wall Street were mixed. The dollar fell against a basket of currencies. U.S. Treasury yields rose. STRONG SHIPMENTS Core capital goods shipments increased 0.8% last month, matching April’s gain. Core capital goods shipments are used to calculate equipment spending in the gross domestic product measurement. Despite some boost from higher prices, shipments still showed strength after adjusting for inflation. Business spending on equipment is on track to grow again this quarter, though at a slower pace than the 13.2% annualized rate notched in the January-March period. Robust business investment in equipment helped to sustain strong domestic demand in the first quarter even as the economy contracted at a 1.5% rate, hit by a record trade deficit. Growth estimates for the second quarter range from as low as a 0.3% rate to as high as a 2.9% pace. The Fed this month raised its policy rate by three-quarters of a percentage point, its biggest hike since 1994. The U.S. central bank has increased its benchmark overnight interest rate by 150 basis points since March. “The unexpected strength won’t change anything for monetary policy except, perhaps, making the Fed just a smidgen more comfortable with their next rate hike decision,” said Will Compernolle, a senior economist at FHN Financial in New York. Orders for durable goods, items ranging from toasters to aircraft that are meant to last three years or more, advanced 0.7% in May after rising 0.4% in April. They were lifted by a 0.8% gain in orders for transportation equipment, which followed a 0.7% increase in April.

#### It’ll be a soft landing and stagflation fears are fake.

Philipp Carlsson-Szlezak et al., 6-10 (Philipp Carlsson-Szlezak is Boston Consulting Group's Global Chief Economist and leads the Center for Macroeconomics at the BCG Henderson Institute, Paul Swartz is a senior economist and director in Boston Consulting Group, Martin Reeves is chairman of the BCG Henderson Institute, 6-10-2022, accessed on 6-11-2022, Harvard Business Review, “Weighing the Risks of Inflation, Recession, and Stagflation in the U.S. Economy”, <https://hbr.org/2022/06/weighing-the-risks-of-inflation-recession-and-stagflation-in-the-u-s-economy>,) SCade

If a 2023 recession is avoided, it will be because U.S. consumers and firms are still in **robust health**. Household **balance sheets** are **strong**, and the labor market is **booming**. Encouragingly, we see some **cooling** of **inflation pressures** (such as falling durable goods prices and easing wage growth) without macroeconomic **weakness**. And though firms’ margins will decline from here, they’re coming down from **exceedingly strong levels**. Yet, it’s easy to point to the economy’s vulnerabilities. Deteriorating business sentiment can weigh on investment rapidly, robbing the economy of momentum. And despite the strong labor market and strong household balance sheets, consumer confidence has been depressed for a while, likely driven by energy prices. Add to that the fact that wobbly financial markets shrink household wealth — a problem that would get bigger if the housing market were to turn — and the cycle looks vulnerable. That said, if a recession hits in 2023, there are **good reasons** to expect it to be mild because the drivers of the **most damaging** types of recession are **less likely today**. Banks are well **capitalized**, **profitable**, and **unlikely** to drive a **structural overhang** in recession. This leaves the prospect that demand could **return quickly** and that labor markets **remain tight**, which would keep a recession mild. Fears of True “Stagflation” Are **Premature** One benefit of a recession would be the prospect of putting out the inflation fire. But what if a recession fails to reset price growth to its pre-pandemic slumber? A recession in 2023 or 2024 could easily coexist with above-target (2%) inflation, even if current levels are implausible. Such inflation could have sustained drivers, such as wages and housing, as opposed to the idiosyncratic squeezes we’ve seen so far. Though a plausible risk, such an outcome would still not be the true “stagflation” of the 1970s. Though popular in the headlines today, stagflation is **more** than the **coexistence** of **too slow growth** and **too high inflation**. That era was a structurally broken economy, one where price growth never calmed because the trust (expectations) in price stability was deeply damaged. This delivered high long-term interest rates, hampered monetary and fiscal policy, and sustained elevated unemployment rates — a constellation of outcomes that is much worse than prospects of elevated inflation and slow growth. Such a nightmare scenario cannot be ruled out today, but it should not be the base case. What stands between a recession with above-target inflation and “stagflation” is the Fed. If the central bank has the resolve to keep monetary policy tight despite recession, there is **every chance** that inflation can be **wrought** from the system. That requires significant strength and independence, as politicians, investors, and the public would push for rate cuts. Yet faced with the possibility of structural break we still think the Fed would **stand tall**.

#### Business confidence rising now

Christian Wade “Business confidence rising despite challenges” April 04, 2022 https://www.eagletribune.com/news/business-confidence-rising-despite-challenges/article\_52e800ba-b426-11ec-9bc7-63c95cfde27a.html

Business confidence among Massachusetts companies is rising despite persistent supply chain interruptions, rising prices and other economic pressures, according to a new report. The latest Business Confidence Index, which is compiled by the pro-business group Associated Industries of Massachusetts, shows overall enthusiasm among employers edged up 0.5 points to 57.2 in March. The report, which draws upon surveys of about 140 businesses, found that the index "remains within optimistic territory" but is 3.7 points lower than its level of a year ago, when employers anticipated an early end to the COVID pandemic. Driving the increasing confidence is enthusiasm among private employers about the prospects of their own companies and growing optimism among manufacturers, the report's authors noted. Despite the positive outlook, businesses face ongoing challenges from record high inflation, supply chain issues and the federal reserve decision to raise interest rates. Meanwhile, uncertainty about another surge in COVID-19 infections and economic fallout of Russia's war of Ukraine are also on the minds of employers. "We see a familiar pull and tug in the confidence reading between solid levels of confidence in the underlying economy and concerns about a multitude of geopolitical, resource, cost, and public-health issues," Sara L. Johnson, chair of AIM's Board of Economic Advisors, said in a statement on the report. The business group said Massachusetts employers are confident about the prospects of their own companies this year and that will translate into an improving labor market. Employers' confidence in their companies rose 1.6 points to 60.2, slightly less than it was a year ago. The report cited data from the U.S. Bureau of Labor Statistics showing employment in the state increased by 24,000 in the first two months of 2022. "It’s a remarkable accomplishment that employers have replaced most of the jobs lost during the initial COVID-19 shutdown," said John Regan, AIM's president and CEO. "That growth underscores the importance of educating and training the next generation of skilled workers to fill the jobs being created."

#### Global business confidence high now

Odgers Berndtson “Boost in confidence in business leaders' capabilities to manage disruption” May 19, 2022 https://www.yahoo.com/now/boost-confidence-business-leaders-capabilities-090000829.html?guccounter=1&guce\_referrer=aHR0cHM6Ly93d3cuZ29vZ2xlLmNvbS8&guce\_referrer\_sig=AQAAAArwbqtjSdNYfXC5ROpzDT6YAWZjDvI-xPIUy2nNM\_wIbyikF7rtlhW8gNXhHCPqYhvqCjtTobRsus1IwAoIBmVuou1AzN0qg-ZaPrAj2oVTx7P04y615D2dl35bC0MTcmxZJBkCj1HIH8Hdl9qfrAi6Bkr-eqcIIFDWTGJmYYP9

Odgers Berndtson, a global integrated leadership advisory firm operating in 33 countries, has found business executives worldwide have more confidence in their company's leadership than they did two years ago. Leadership Confidence Index 2022, was conducted in conjunction with research and advisory firm Forrester. The joint Index reveals 42% of business executives across a spectrum of sectors and geographies, are confident their organizations are being led by the right leaders. Two years ago, Odgers Berndtson published its first Leadership Confidence Index, which at the time found just 24% of executives were confident in their company's leadership. In the 2022 Index – which surveyed 1,100 executives – the majority of respondents (90%) stated that their organizations had been impacted by disruption while also reporting their organizations experienced growth (71%). The findings indicate the almost doubling in confidence in the past two years is a result of leaders successfully navigating their organizations through the disruption of the pandemic. The Index also reveals several trends that have played a role in this increased confidence. Technology, the adoption of which grew significantly during the pandemic, is increasingly viewed as an enabler rather than a disruptor. 44% of executives now see it as a disruptive force; a reduction from 62% two years ago.

#### Business confidence high – record profits in key industries

Sally Hardin “These Top 5 Oil Companies Just Raked In $35 Billion While Americans Pay More at the Pump” May 17, 2022 https://www.americanprogress.org/article/these-top-5-oil-companies-just-raked-in-35-billion-while-americans-pay-more-at-the-pump/

Since Russia’s unjustified invasion of Ukraine in February 2022, which disrupted the global supply of fossil fuels and caused oil and gas shortages worldwide, oil and gas giants have quietly enjoyed unprecedented record profits. While people across the United States have seen gas prices as high as $6 per gallon—stretching budgets thin and driving worsening inflation—the oil majors have been absolutely raking in money, lining CEOs’ and shareholders’ pockets with profits. It is hard to overstate how profitable the war in Ukraine and the resulting financial pain have been for oil executives. Companies already benefited from inflated gas prices in 2021 as the economy bounced back from the COVID-19 pandemic shutdowns—in fact, the top 25 companies made more than $205 billion in profits in 2021—but the recently announced first-quarter profits for 2022 are even more astounding. The top five oil companies alone—Shell, ExxonMobil, BP, Chevron, and ConocoPhillips—brought in more than 300 percent more in profits than in the first quarter of 2021. That is a total of more than $35 billion in profits in just three months. In fact, these five companies’ first-quarter profits alone are equivalent to almost 28 percent of what Americans spent to fill up their gas tanks in the same time period.

#### Business confidence high – record business profits

Michael Lodholz “Finance professor: corporate greed and record profits contribute to massive inflation” May 17, 2022 https://www.wjfw.com/news/finance-professor-corporate-greed-and-record-profits-contribute-to-massive-inflation/article\_4653825c-d631-11ec-8b50-8318b393bcaa.html

"CEO pay for the largest corporations are up 30 percent," said Kevin Bahr. Kevin Bahr is a professor of finance at the University of Stevens Point. He says while most families are struggling… the largest companies in America are posting record profits. "Pick a measure and it all points to, yeah some people, a lot of people struggled last year but some people not so much," said Bahr. Inflation is often measured using the consumer price index, a combination of household good prices. This means that if companies raise their prices, inflation rises.

#### Growth is high and Confidence is growing

Marcelli and Lefkowitz 1-10 – Solita, Head of CIO Americas, UBS Financial Services Inc. David, CFA, Head of Equities Americas, UBS Financial Services Inc. “A big shift in financial markets”, UBS Wealth Management, <https://www.ubs.com/us/en/wealth-management/insights/market-news/article.1555418.html?caasID=CAAS-ActivityStream>, 1-10-2022

After a sleepy end to the year, financial markets started off 2022 with a bang. The yield on the 10-year Treasury bond has risen by almost a quarter of a percent in just the first five trading days of the year. Real interest rates (nominal rates less inflation expectations) have risen by even more. These have been some of the most aggressive increases in interest rates over the last 20 years.

At the beginning of the week the rate move seemed to be based on optimism that the omicron wave would be fast and the economy would escape substantial damage. But then the Fed released minutes of their December meeting and suggested that they could remove stimulus at a faster pace than the market expected—specifically, by reducing their nearly USD 9 trillion of government and mortgage bond holdings at a quicker-than- expected pace. And then Friday’s payroll report suggested that the labor market is rapidly approaching full employment. As a result of these drivers, we believe the yield on the 10-year Treasury bond can continue to rise and hit 2% in the coming months.

Growth stocks benefited from falling rates and a shift in spending

The moves in the bond market were mirrored by similar moves in the stock market. Over the last few years, growth stocks (e.g. tech) have been some of the biggest beneficiaries of extraordinarily low interest rates. Over this period, there has been a very strong correlation between the relative performance of value and growth stocks and the level of real interest rates. Value stocks significantly underperformed as real rates fell to some of the lowest levels in history.

The value of any company is the net present value of all expected future cash flows. Growth companies generate the bulk of their cash flows well out into the future. Mathematically, this makes growth companies much more sensitive to changes in the “discount rate” that investors use to derive the net present value. In contrast, because value companies grow more slowly, they generate more of their cash flows in the early years of the forecast horizon. This makes them less sensitive to changes in the discount rate.

We can observe this by looking at the forward price-to-earnings (P/E) ratio for growth stocks. The P/E ratio for the Russell 1000 Growth index has increased from 22x right before the pandemic, to 31x now. The fastest-growing and most speculative companies have been the biggest beneficiary of this dynamic. In contrast, the P/E ratio for the Russell 1000 Value index has only risen from 13x to 16x.

Growth companies now trade at 15 P/E points higher than value companies, compared to the long-term average of 6. As the discount rate rises, valuations for growth companies should compress more rapidly relative to value stocks. And that is exactly what has happened in the first week of the year. Value stocks are up 0.5% while growth stocks have fallen by 4%. More speculative, very rapidly growing, non-profitable tech companies have fallen even more and are down 10%.

Growth companies, and especially tech, also benefited from some of the trends unleashed by the pandemic. Businesses have been scrambling to digitize their businesses, driving strong earnings growth for large segments of the tech complex. As the pandemic transitions into something more endemic, consumer behavior and the economy should normalize and spending could shift away from some of the winners in 2021.

Rotation into value is set to continue as market moves higher

As a result of the prospect for higher interest rates and a normalization in spending patterns, we believe the recent rotation into value stocks this year could have further to go. Importantly, overall economic growth remains solid and value companies, which are more tied to economic growth, should continue to produce relatively strong earnings growth. In fact, profit growth for value companies looks poised to outpace growth companies in 2022 (when stripping out the one-time benefit of bank loan loss releases in 2021). This is the crux of our preference for value over growth stocks. We have a neutral view on the S&P 500 Information Technology sector.

At a market level, the more hawkish Fed shouldn’t be a significant headwind for the market. Bear in mind that, historically, stocks have risen about 5% in the three months before the first Fed rate hike. In addition, the Fed has become incrementally more hawkish since June of last year and the S&P 500 is still up more than 10% over this time period. Furthermore, stocks rise by about 5% in the six months after the first rate hike. Fourth quarter earnings results will start to be released next week and we expect another good earnings season, which should be supportive for the market. Our year-end 2022 S&P 500 price target is 5,100.

#### Growth is surging despite other issues – accounts of omicron, inflation, and interest rates

Bahuguna 01-11 – Anwiti, Ph.D., Senior Portfolio Manager, Head of Multi-Asset Strategy. “The U.S. economy will continue to grow in 2022, but COVID, inflation and the labor market may compete for headlines.”, Columbia Thread Needle Investments, <https://www.columbiathreadneedleus.com/blog/gain-clarity-in-2022-dont-lose-sight-of-a-growing-economy>, 01-11-2022

The U.S. economy is expected to grow above trend in 2022, but it may not always feel that way. Find out why — and what we think you shouldn’t lose sight of.

We are not recovering from a typical recession.

The intentional shutdown of the economy and the massive, global synchronous fiscal and monetary support have created distortions across the economy — from shifts in consumption patterns to the labor force. This has put policymakers and central bankers in uncharted waters; it’s unusual to have higher-than-expected inflation alongside a labor market that’s still recovering.

Inflation data will get worse before it gets better.

Inflation is proving to be both more persistent and higher than the Fed (and the markets) initially anticipated. Rising costs are impacting a wider set of goods and services, and the supply distortions driving this are not likely to end quickly. While the Fed wants to see some level of inflation, timing the use of its tools to control higher prices requires new surgical precision. If the various forces keeping inflation high ease next year, then the Fed can implement rate hikes in a measured fashion. This is the Goldilocks scenario. The differing expectations on when rate hikes may occur set the stage for higher volatility in the markets — so flexibility in portfolios will be critical. It’s also important to remember that lower inflation (when it happens) will not mean lower prices for many goods (although used car prices may fall). The price gains that we’ve seen for many products will continue to be a reality and may create an even greater need for retirement income.

Pay attention to the labor market if you want to understand the Fed’s plan for interest rates.

The central bank famously has a dual mandate: stable prices and maximum employment. While the Fed’s inflation target for a rate hike has already been met, the usually reliable labor market dynamics are much harder to discern. Sector-specific labor shortages are creating distortions in wage gains. Meanwhile, the Fed’s new maximum employment mandate isn’t well understood. We know that the central bank is looking beyond the headline unemployment rate at measures such as labor force participation, but it’s unclear how maximum employment is measured. Given that the Fed has stated that both its inflation and employment goals must be met for it to hike rates, it will be important to listen to the language on labor (rather than a magic data point); if we see continued inflationary pressure and improvement in the labor market, we may see a much swifter pace of action — even if the central bank expects inflation to eventually moderate.

A decelerating growth environment is still a growth environment.

Amid the concern around inflation, lower fiscal spending, the supply chain and higher energy prices, it can be easy to lose sight of the fact that the U.S. will continue to grow in 2022, and that growth will likely be above the long-term trend. The U.S. is still a consumer-led economy, and we expect consumer demand to stay strong as we enter the new year. The strong labor market and healthy consumer balance sheets will be helpful, so keep an eye on these measures. Historically, above trend growth has been a good environment for risk assets like equities.

#### The economy will boom in ’22 – inflation, unemployment, wages, housing, and Covid

Baker 01-01 – Dean, economist and co-founder of the Center for Economic and Policy Research. “Commentary: The good news in 2022 will be the economy”, Fredericksburg, <https://fredericksburg.com/opinion/columns/commentary-the-good-news-in-2022-will-be-the-economy/article_1b6e1f27-828c-5fd8-8652-a6f2a1669386.html>, 01-01-2022

THIS IS probably a minority position, but I feel very confident in saying that 2022 will be a very good year for the economy. We are looking at a situation where we have low unemployment, falling inflation and rising real wages. It is likely to be the best economy we have seen in many decades.

In recent weeks, inflation has been front and center in people’s minds as the media have given us endless stories about higher prices for gasoline, milk and other items.

Many have been convinced that inflation will only get higher, outstripping wages and leaving most workers worse off. This is not going to be the case.

We now see inflation driven by supply chain problems associated with reopening. This is demonstrated by the fact that we see big jumps in inflation almost everywhere. The United Kingdom, Germany, Spain and many other countries have all seen a rise in prices similar to what we see in the United States.

The reason this matters is because we will get through these supply chain problems. When we do, inflation will slow, and in many cases, be reversed.

We are already seeing this story in some cases. The price of gasoline has risen by almost 50 percent over the last year. This was the result of a surge in oil prices following a pandemic plunge. Oil producers who had shut down in the pandemic were surprised by the economy’s rapid growth. They are now catching up, and the world price of oil has fallen by 20 percent from its November peaks. Gas prices will soon follow oil prices down.

There is a similar story with cars. New- and used-car prices have soared in the last year primarily because a worldwide shortage of semiconductors forced auto manufacturers to cut back production. Several manufacturers are back up to capacity now, and the others are likely to be soon. This means the price hikes of 2021 will be largely reversed in 2022.

With inflation coming down rapidly, workers’ pay will go further. And, many workers should be in a position in 2022 to secure pay increases well in excess of inflation.

The 4.2 percent unemployment rate reported for November is already low by historical standards, but it will get still lower in 2022.

We are likely to see an unemployment rate close to 3.5 percent by the middle of the year, putting us at a 50-year low.

Low unemployment primarily benefits the most disadvantaged workers. Black and Hispanic workers, workers with less education, and people with criminal records get opportunities in a tight labor market that they would not typically see.

We are also likely to see mortgage interest rates remain low. This is good news for both home buyers and for people who have not yet refinanced a mortgage.

Low mortgage interest rates should also help fuel the sort of relocation process that started during the pandemic with increased opportunities for people to work from home. With many employers now making work-from-home options permanent, people are moving from high-priced cities like New York and San Francisco to lower-priced towns and cities. This process will continue and pick up speed in 2022.

A huge wild card in any forecast for the economy for 2022 is the path of the pandemic. This is obviously uncertain, but there are some grounds for optimism, even as we see cases and deaths skyrocket in this holiday season. Vaccination rates continue to rise, and the evidence shows that fully vaccinated people are largely protected from serious illness or death.

The other factor that could potentially be very good news is the spread of the omicron variant. We know that omicron is far more transmissible than delta or other COVID-19 variants. But, the evidence to date indicates that it is considerably less severe. Even though cases have skyrocketed in South Africa, the first country where omicron was identified, there has been no corresponding increase in hospitalizations and deaths. It’s still early, and more data may give us a different picture. However, from what we see to date, if omicron becomes the dominant variant, we may have much less to fear from the pandemic.

### A2: Markets Prove Economic/Confidence Decline

#### Stock market estimates are always worst case scenario and never as bad as perceived. This overreaction is normal and not a sign that economic decline is coming

Nicole Goodkind (CNN Business) “Dow tumbles 1,160 points in worst trading day since June 2020” May 18, 2022 https://www.cnn.com/2022/05/18/investing/fed-interest-rate-hike-market/

St. Louis Fed president James Bullard has stoked the flames for a potential three-quarter-point hike this year in public speeches and Federal Reserve Bank of Cleveland President Loretta Mester told Japan's The Nikkei that a 0.75 percentage point hike could not be ruled out later this year in an interview Monday. So why are markets fighting the Fed chair's assurances that a larger hike won't come in June — and hurting themselves by predicting it will? "When a Fed official suggests a 50 basis points hike, markets immediately start trying to price in 75 basis point hikes," said Jamie Cox, Managing Partner for Harris Financial Group. "It's madness really." The Dow has fallen 5,095 points, or 14% in 2022. The S&P 500 has dropped over 18% and the Nasdaq Composite has lost about 28%. "Powell tried to take the 75 basis point hike off of the table at the last press conference," said David Lebovitz, a global market strategist at J.P. Morgan Asset Management. But the following week, the Consumer Price Index, a key measure of inflation, shot up 8.3% for the year. The measure was lower than March's 8.5% increase, but higher than the 8.1% increase economists expected.

### A2: Inflation – 2NC

#### The Fed is confident it can stop inflation

Rugaber 01-13 – Christopher, Economics Reporter, Associated Press,American University, Washington, District of Columbia, United States. “Fed nominee Brainard: Fighting inflation is top priority”, Yahoo, <https://www.yahoo.com/now/fed-nominee-brainard-fighting-inflation-165640630.html>, 01-13-2022

WASHINGTON (AP) — Lael Brainard, President Joe Biden's nominee for the Federal Reserve's No. 2 spot, said Thursday that combating high inflation is the central bank's top priority and said she believed the Fed could reduce it without sacrificing economic growth.

Testifying at her confirmation hearing before the Senate Banking Committee, Brainard noted that inflation is “too high, and working people around the country are concerned about how far their paychecks will go.”

“We are taking actions ... that I have confidence will be bringing inflation down, while continuing to allow the labor market to return to full strength over time,” she said. Fighting inflation is “our most important task.”

Brainard’s elevation of inflation-fighting as the Fed’s top goal is notable given that she is, for now, the lone Democrat on the Fed’s board and has long been seen as inclined to keep interest rates low to boost employment, rather than to back higher rates to curb inflation pressures. Her stance reflects the abrupt pivot the Fed has recently made under Chair Jerome Powell toward making inflation-fighting its top priority.

Biden nominated Brainard to be the Fed's vice chair in late November, the same day that he announced he would nominate Powell for another four-year term as Fed chair. Biden is expected soon to nominate three more people to fill vacancies on the board.

Brainard encountered little hostile questioning or overt opposition at Thursday's hearing. Both Brainard and Powell are expected to win approval from the committee and final confirmation by the full Senate in the coming weeks.

On Wednesday, the government reported that inflation spiked to 7% in December from a year earlier, the sharpest such increase in four decades. The acceleration of consumer prices has thrust Fed policy into the spotlight. The central bank is tasked by Congress with keeping prices stable and fostering “maximum employment.”

Several Republican senators expressed concern that the Fed might increasingly take account of climate change in its policymaking and use its supervisory authority over banks to discourage them from lending to oil and gas companies. Brainard pushed back against such a likelihood.

“We would not want to tell banks what sectors to lend to, or not to lend to,” she said.

Sen. Steve Daines, a Republican from Montana, questioned whether the Fed has the “experience or expertise” to incorporate climate change into its regulation of banks. Last year, Brainard had suggested that the Fed should evaluate scenarios in which climate change could harm the financial system. An example would be widespread lending losses or insurance payouts resulting from weather disasters.

Brainard said the Fed did not engage in “environmental policy” but still has a duty to evaluate possible risks.

“We do have some sort of responsibility for understanding potential financial stability implications of a host of different kinds of things,” she said. “We don’t have any expertise in disease and pandemics. But certainly it turned out that the pandemic had enormous financial stability consequences."

In his testimony Tuesday, Powell pledged that the Fed would accelerate its planned interest rate hikes, if needed, to curb high inflation. The Fed has held its benchmark short-term rate near zero since March 2020, when the pandemic plunged the economy into a deep recession.

#### Inflation’s temporary, omicron’s not as bad as feared, supply chain kinks are mending

Wolf 21 – Zachary B, writes the What Matters newsletter for CNN. He also serves as a senior writer for CNN Politics. “Reasons for optimism: Omicron, gas prices and inflation”, CNN, <https://www.cnn.com/2021/12/08/politics/omicron-gas-prices-inflation-what-matters/index.html>, 12-09-2021

The news that gas prices have stabilized and are now dipping could be evidence that inflation may actually be temporary, like many economists have guessed.

The national average price for gas hit a seven-week low of $3.35 per gallon on Tuesday, which is still high and well above prices a year ago, but down from recent heights. Natural gas prices have also fallen.

"Energy sticker shock has been one of the biggest drivers behind the 31-year high in inflation," according to CNN's Matt Egan. "Cooling energy prices, if they last, could take significant inflationary pressure off the US economy and inspire confidence among bummed-out consumers."

Omicron variant may not be as dangerous. Some of the worst fears about the Omicron variant may not be coming to pass.

People who received two initial doses of the Pfizer/BioNTech vaccine and subsequent booster shots should have sufficient protection against Omicron, according to a report on laboratory data released by the companies.

The US Centers for Disease Control and Prevention has already recommended vaccine boosters to protect against Omicron. Read more.

Most vaccinated Americans have not yet received their boosters, but there's evidence of an uptick in vaccinations.

Dr. Anthony Fauci, director of the National Institute of Allergy and Infectious Diseases, was in an optimistic mood about Omicron when he appeared Wednesday on CNN.

"You said this is good news. Are you breathing a little easier this morning with this news?" CNN's Kate Bolduan asked Fauci.

"Quite frankly, I am, Kate," he said. "When you're entering into an arena of a new variant with very many unknown aspects about it, you always have a degree of anxiety about how it's going to turn out."

He said he still wants to know more about Omicron, in particular about its transmissibility and severity.

But the early indication from South Africa, where Omicron was first identified and is much more prevalent, is that the new variant is less severe than Delta.

We're also learning more about how Omicron has spread in the US. Some cases have been tied to an anime convention in New York City, where tens of thousands of fans gathered at the Javits Center in November.

To be sure, Covid-19 -- and specifically the Delta variant -- is still a massive health emergency. Cases are rising going into the winter and more than 1,000 American lives are lost every day. The Covid-19 death toll in the US is likely to hit 800,000 before Christmas.

But it would be undeniably good news for Omicron to be less dangerous than once feared.

Supply chain kinks may be easing. This might not be apparent to holiday shoppers who can't find the electronics they want, anyone who needs a stove, car buyers getting sticker shock or beverage buyers with fewer options.

But there are some indications, at least to banks and industry analysts, that the global supply chain problems are on the mend.

It might not be felt until next year, but the improvement is coming.

#### Inflation concerns are temporary and not holding back optimism.

Huddleston Jr. 21 – Tom, entrepreneurs writer at CNBC, He was previously a reporter at Fortune magazine and The American Lawyer. “Small-business owners had a devastating year — but they finally have hope now, according to a new survey”, CNBC, <https://www.cnbc.com/2021/12/15/survey-small-business-optimism-on-the-rise-despite-inflation-concerns.html>, 12-15-2021

“I don’t know any small business that isn’t always worried, and that worry is certainly strongest [now] when they talk about inflation,” Sullivan says. “But worry is not holding back optimism. That’s for sure.”

A major reason for that optimism, Sullivan says: Perspective.

Even once the pandemic lockdowns of 2020 ended, small businesses struggled to recover. The country’s labor shortages and supply chain issues have persisted all throughout 2021, and U.S. gross domestic product only managed to edge past its pre-pandemic levels in July.

Compared with the intense hardship that many small-business owners have experienced since the start of the pandemic, the prospect of increased consumer spending during the holiday season — and into 2022 — is enough for them to feel confident about the future, Sullivan suggests.

If the optimism is warranted, the lofty prices you’ve probably noticed at your favorite small businesses could finally fall sometime next year. Just last month, year-over-year U.S. inflation rose 6.8% — the country’s fastest rate since 1982, according to the Department of Labor.

#### Inflation’s receding.

Zandi 21 – Mark, chief economist at Moody’s Analytics, where he directs economic research and risk analysis. “Relax. Omicron Isn’t Going to Take Down the Economy”, The New York Times, <https://www.nytimes.com/2021/12/10/opinion/omicron-delta-economy-inflation.html>, 12-10-2021

But the worst of this inflation may well be behind us. After the costs of fuel and food — which can fluctuate greatly — are excluded, inflation in November rose to 4.9 percent for the previous 12 months.

The cost of gasoline and heating homes, among the biggest contributors to the high inflation in November, have already come down in the weeks since. And they are set to fall more, given the recent decline in oil prices, as global oil suppliers continue increasing production

Nothing tends to color consumer perceptions of inflation more than gasoline prices. If history is any guide, if those prices fall, sentiment should improve.

What about the aftershocks from the Delta wave?

Prices for goods that surged when the Delta wave scrambled global supply chains are also set to decline as those chains slowly sort themselves out. Shipping rates remain high but are down from just a few weeks ago. Far fewer container ships are stuck waiting to offload their goods at the Port of Los Angeles and the Port of Long Beach.

The vehicle industry has been the poster child for supply chain problems. Delta contributed to the closure of semiconductor plants in Asia, creating a severe shortage of the chips needed to produce cars and sending the price of cars skyrocketing. But Washington is considering measures that could ramp up domestic manufacturing. That could help bring vehicle prices back to earth next year.

Another factor that should take the edge off inflation: the easing of the acute labor shortage. This shortage has led to runaway labor costs for lower-wage, lesser-educated and younger workers in service businesses that reopened en masse with the Covid vaccines. Many of these workers lost their jobs in the pandemic and have been slow to come back, since they are particularly at risk of getting sick. At the height of Delta, millions of people said they weren’t working because they were sick with Covid-19, taking care of someone who was sick or fearful of getting sick.

But as Delta has receded, people are returning to work. The labor force participation rate for younger people and high school graduates with no college surged in the most recent employment statistics. And many more may soon return to work as they quickly spend down the remaining financial support they received from the government. As workers fill the still considerable number of open positions, wage growth should moderate, as will the pressure on businesses to raise prices.

### A2: Omicron – 2NC

#### Omicron and future waves won’t disrupt recovery.

Zandi 21 – Mark, chief economist at Moody’s Analytics, where he directs economic research and risk analysis. “Relax. Omicron Isn’t Going to Take Down the Economy”, The New York Times, <https://www.nytimes.com/2021/12/10/opinion/omicron-delta-economy-inflation.html>, 12-10-2021

To be sure, Omicron or future variants of the virus could upend this optimism. But I expect each new wave to be less disruptive to the health care system and economy than the previous one. If populations continue getting vaccinated and taking their booster shots and new antiviral medications and therapies become available, this should help ensure that while many more people will get sick, there will be fewer hospitalizations and deaths.

Businesses, too, are increasingly adept at adjusting to the virus and will be less likely to significantly disrupt their operations when the next wave hits. Those in the supply chains are devising bottleneck workarounds, such as 24/7 seaport operations, that will ensure the chains don’t break again.

The next wave of the virus will undoubtedly slow growth and fan inflation. But as each wave fades, the recovery will quickly revive, and inflation will moderate; this has been our experience for nearly two years.

#### Omicron wont’ be disruptive.

Maskin and Pazzanese 21 – Eric, Adams University Professor and professor of mathematics and economics at Harvard University. Christina, Harvard Staff Writer. “Will Omicron damage the economy?”, The Harvard Gazette, <https://news.harvard.edu/gazette/story/2021/12/will-omicron-damage-the-economy/>, 12-06-2021

MASKIN: The biggest questions are: 1) how transmissible and virulent the variant is and 2) how effective vaccines are at preventing serious disease. If Omicron turns out not to be as dangerous as feared and if vaccines (perhaps rejiggered a bit) work well, then Omicron need not be terribly disruptive to the economy at all.

“[T]he serious recession in the first wave wasn’t attributable so much to uncertainty as it was to the lockdown.”

GAZETTE: Uncertainty is typically not desirable for investors and businesses. Given the role that psychology plays on some aspects of the economy, could such concerns have a negative economic fallout even if the health effects turn out to be relatively mild?

MASKIN: Uncertainty could indeed have a negative effect on the economy. But the serious recession in the first wave wasn’t attributable so much to uncertainty as it was to the lockdown. And by now producers have learned to some extent to live with the ups and downs of the pandemic. So, worries about uncertainty may not be of first-order importance.

### A2: Resiliant – 2NC

#### Growth is fragile AND economic spending cuts social services, sparking instability

Beckelman 21 – Tyler, Director of International Partnerships at the U.S. Institute of Peace, Master’s Degree in Conflict Resolution from Georgetown University, BA in Political Science, International Studies, and Economics from Macalester College, and Amanda Long, Senior International Partnerships Assistant at the U.S. Institute of Peace, BA in International Relations and Global Studies from the University of Texas at Austin. “A New U.S. Approach to Help Fragile States Amid COVID-Driven Economic Crisis”, United States Institute of Peace, <https://www.usip.org/publications/2021/03/new-us-approach-help-fragile-states-amid-covid-driven-economic-crisis>, 03-05-2021

Without a financial lifeboat, a prolonged economic and fiscal crisis will make fragile states even more fragile.

The ability of governments to spend their way to recovery is considerably strained; highly indebted regimes must confront the difficult choice of servicing debt payments or scaling up spending on social services like health care, infrastructure, and education, with most nations forced to reduce investments in services just as they’re needed most. Diminished spending on services results in widening inequality, declining trust in government, and further erosion of the social contract. With more than three-quarters of the population classified as “extremely poor” in fragile states, the potential for new waves of civil resistance, insecurity—and repression—is considerable.

#### Monetary buffers are exhausted

Fan et al. 20 – Irina, Master Degree in Quantitative Analysis for Business from the City University of Hong Kong, Head of Insurance Market Analysis at the Swiss Re Institute, Jerome Jean Haegeli, Group Chief Economist at the Swiss Re Institute, and Patrick Saner, Head Macro Strategy at the Swiss Re Institute. “Global Resilience Has Taken A Hit – These Countries Will Bear The Brunt”, Swiss Re Group, <https://www.swissre.com/risk-knowledge/building-societal-resilience/global-resilience-taken-a-hit.html>, 08-26-2020

The global economy has suffered its biggest shock since the Second World War. When coronavirus hit, we battened down the hatches and it’s driven us into deep recession.

As countries begin to emerge, they face a different landscape. Massive stimulus packages rolled out by hard-hit economies have created a seismic shift. They may have softened the impact, but they have left us more exposed to future economic shocks than before.

According to initial figures from the Swiss Re Institute's Resilience Index 2020, we estimate global resilience has dropped by a fifth in 2020 compared to 2019 levels.

This is a comparable fall to that seen during the 2008 Global Financial Crisis. But this time, the impacts have been far more rapid: during the GFC, the same scale of decline took three years to materialise. In addition, we went into this recession less resilient than in 2007 ahead of the GFC. And despite major bailouts and fiscal stimuli, lockdowns continue to hamper economic activity.

In an uncertain global economy, resilience is key to building economic stability. Identifying weak spots at a macro and micro level will put us in a stronger position to manage risk. Alongside their resilience status prior to the pandemic, fiscal policies are likely to be key in shaping the economic resilience of each country post-pandemic.

But, even for some at the top half of the resilience index, monetary policy buffers are all but exhausted. Many levers have already been pulled. This reduced space to manoeuvre means our preliminary 2020 rankings have seen some major shifts from 2019.

### A2: Supply Chains – 2NC

#### Supply chains are stabilizing.

Zandi 21 – Mark, chief economist at Moody’s Analytics, where he directs economic research and risk analysis. “Relax. Omicron Isn’t Going to Take Down the Economy”, The New York Times, <https://www.nytimes.com/2021/12/10/opinion/omicron-delta-economy-inflation.html>, 12-10-2021

What about the aftershocks from the Delta wave?

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But as Delta has receded, people are returning to work. The labor force participation rate for younger people and high school graduates with no college surged in the most recent employment statistics. And many more may soon return to work as they quickly spend down the remaining financial support they received from the government. As workers fill the still considerable number of open positions, wage growth should moderate, as will the pressure on businesses to raise prices.

To be sure, Omicron or future variants of the virus could upend this optimism. But I expect each new wave to be less disruptive to the health care system and economy than the previous one. If populations continue getting vaccinated and taking their booster shots and new antiviral medications and therapies become available, this should help ensure that while many more people will get sick, there will be fewer hospitalizations and deaths.

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The next wave of the virus will undoubtedly slow growth and fan inflation. But as each wave fades, the recovery will quickly revive, and inflation will moderate; this has been our experience for nearly two years.

### A2: Thumpers – 2NC

#### Thumpers are Temporary.

Bokat-Lindell 21 – Spencer, NYT staff editor. “Americans Are in a Funk About the Economy. How Long Will It Last?”, The New York Times, <https://www.nytimes.com/2021/11/11/opinion/inflation-economy-supply-chain.html>, 11-11-2021

Why morale could improve

The economy really is recovering. In April 2020, as the pandemic cast the economy into crisis, the unemployment rate reached 14.7 percent — the highest level since the Great Depression. But by last month, the unemployment rate had fallen to a much healthier 4.6 percent.

As a result of the tighter labor market, workers are enjoying more leverage than they’ve had in decades. “For the last 25, maybe 30 years, labor has been on its back heels and losing its share of the economic pie,” said Mark Zandi, the chief economist at Moody’s Analytics. “But that dynamic is now shifting.”

Supply chain issues could ease sooner rather than later. No one really knows when the “everything shortage” will end. “We’ve been looking at no relief coming until the end of the 2022 calendar year,” Sarah Banks, the global lead for freight and logistics at consulting firm Accenture, told The Wall Street Journal. But, she added, “it’s still a guess how long we will be in this situation.”

Some think relief is closer on the horizon. In an interview with Bloomberg, Malcolm Wilson, the chief executive of the world’s largest contract logistics provider, said that the company is seeing more goods arrive at its facilities — a sign that kinks in the supply chain are beginning to work themselves out. “We’re through the worst of it. I think we’ve reached the peak,” he said. “Hopefully, things will look a bit smoother as we move forward.”

Inflation can be brought back down. Economists say that resolving supply chain issues should help to relieve the upward pressure the shortages are putting on prices. “For things like used cars, prices are flexible in both directions,” said David Mericle, Goldman Sachs Research’s chief U.S. economist. “And once you can actually get your hands on a new car, no one is going to pay the same price for a used car as for a new car, as they are now.”

He predicts inflation will come down sharply in the middle of next year and reach 2.15 percent — within range of the Federal Reserve’s target — by year-end.

Inflation doesn’t tell the whole story. While many Americans are paying more than they were a year or two ago, the economist Claudia Sahm argues that looking at inflation alone risks obscuring the positive role that federal relief has played over the pandemic. In part because of interventions like the child tax credit, enhanced unemployment benefits and stimulus payments, Americans have accumulated $2.3 trillion more in savings in the past 19 months than would have been expected in the prepandemic path.

“We should be cautious when using the spending of specific families to drive conversations about inflation,” Sahm writes in her newsletter. “No one likes to pay more for something at the store, but if you have more income too, it’s not a problem that’s getting worse.”

The pandemic will end. Much of the recent economic turmoil started with the pandemic, and much of it could end with the pandemic too. But while Covid cases have indeed fallen since the summer, more than 1,200 Americans are still dying of the disease every day. “The most important thing to watch if you want to understand the economy is, as has been the case for a year and half now, the progress made against the virus,” Austan Goolsbee, a professor of economics at the University of Chicago, writes in The Times.

## Link

### 2NC Link Overview

#### The link outweighs and happens faster than the case can solve the link turn because perception alone kills confidence

#### Unpredictable shifts in the economy demolish business confidence –

### Links – Government Spending

#### Reducing deficit spending is necessary to sustain economic growth. Excessive expenditures must be eliminated.

Boccia, et.al. (Heritage Foundation), 2017 Romina Boccia, Rachel Greszler, Justin Bogie, Ryan Anderson, David Azerrad, Daren Bakst, Lindsey Burke, David Burton, Drew Gonshorowski, David Inserra, Melanie Israel, Justin Johnson, Diane Katz, Nicolas Loris, Mollie McNeill, Norbert Michel, Robert Moffit, David Muhlhausen, Nina Owcharenko, Robert Rector, Bryan Riley, James Roberts, Michael Sargent, Brett Schaefer, Alyene Senger, Rachel Sheffield, James Sherk, Thomas Spoehr, Katie Tubb, Hans von Spakovsky and Tori Whiting Blueprint for Balance: A Federal Budget for Fiscal Year 2018 March 28, 2017 http://www.heritage.org/budget-and-spending/report/blueprint-balance-federal-budget-fiscal-year-2018

Americans have reached a critical point. The federal government has grown to an unprecedented size, has expanded its scope to virtually every part of the economy, and is on a dangerous fiscal trajectory. Taxpayers pay enormous amounts of money to the government, and the government borrows huge sums beyond the amount it takes from taxpayers. The government uses taxes and borrows money to pay for excessive spending, including many programs that benefit the well-connected or lock people into low incomes by penalizing work. As of March 2017, the national debt is approaching $20 trillion. According to the Congressional Budget Office, if the government remains on its currently planned trajectory, it will spend at least another $10 trillion more than it will collect over the 2017 to 2027 period, piling on even more debt. Annual debt-service payments are expected to double within five years, and more than triple over the next 10 years, increasing from $241 billion in 2016 to $768 billion in 2027. That $768 billion in interest that the government must pay in 2027 represents 52 percent of the entire amount of the discretionary spending projected for the government in that year. The country cannot and should not sustain the current course of excessive spending and borrowing. While Congress cannot solve everything at once, it can and must take the opportunities available in the annual budget and appropriations processes to make a down payment on putting the government’s finances in order. Congress can do this by immediately reducing discretionary spending and taking meaningful steps to reduce mandatory spending by reforming mandatory spending programs.

#### Excessive new spending causes inflation pressures, which spurs fast economic downturn

Shultz et al 2021. George P. Shultz, a former secretary of state (1982-89), secretary of the Treasury, and secretary of labor. John F. Cogan, faculty member in the Public Policy Program at Stanford University. John B. Taylor, professor of economics at Stanford University. “America’s excessive government spending must stop” Marketwatch February 24, 2021. <https://www.marketwatch.com/story/americas-excessive-government-spending-must-stop-11614099270> Accessed 6/18/21. ARJH/msdi2021

Many in Washington now seem to think that the federal government can spend a limitless amount of money without any harmful economic consequences. They are wrong. Excessive federal spending is creating grave economic and national-security risks. America’s fiscal recklessness must stop. The COVID-19 crisis has provided the latest impetus for government spending, even to the point of steering the American mind-set toward socialism—a doctrine that has always harmed people’s well-being. Dangerously shortsighted But some say there is no need to worry about excessive spending. After all, they argue, record-low interest rates apparently show no sign of increasing. The economy was humming along just fine until the pandemic hit, and will no doubt rebound strongly when it ends. And is there even a whiff of inflation in the air? This thinking is dangerously shortsighted. The fundamental laws of economics have not been repealed. As one of us (Cogan) demonstrated in his book “The High Cost of Good Intentions,” profligate government spending invariably has damaging consequences. High and rising U.S. national debt will eventually crowd out private investment, thereby slowing economic growth and job creation. The Federal Reserve’s continued accommodation of deficit spending will inevitably lead to rising inflation. Financial markets will become more prone to turmoil, increasing the chance of another big economic downturn. Financial markets’ current relative calm and low consumer-price inflation are no cause for comfort. Previous periods of sharp increases in inflation, rapidly rising interest rates, and financial crises have followed periods of excessive debt like a sudden wind, without warning. Shultz and Taylor’s book “Choose Economic Freedom” shows that economic indicators in the United States gave no hint in the late 1960s of the subsequent rapid rise in inflation and interest rates in the early 1970s. Likewise, financial markets during the years immediately preceding the 2007-09 Great Recession provided little indication of the calamity that would ensue. So, what should today’s policy makers do? Higher tax rates are not the answer. Even before the pandemic hit, every federal tax rate would have had to be increased by one-third in order to finance the current level of federal spending without adding to the national debt. Such an increase would have harmful effects—similar to those of mounting public debt—on economic growth and job creation. Congress may be tempted to reduce defense spending to help close the deficit, as it often has done in the past. But these previous efforts demonstrably failed. Rather than reduce the budget deficit, Congress instead used the savings from lower defense outlays to finance additional domestic spending. Unless policy makers abandon their misguided beliefs about budget deficits, cutting defense expenditure now would produce the same result. More important, it would be a grave strategic mistake, weakening national security and emboldening the country’s foreign adversaries—particularly now that China is flexing its muscles in Asia and investing heavily in its military. Throughout U.S. history, the federal government’s ability to borrow during times of international crisis has proven to be an invaluable national-security asset. Two hundred years ago, the ability to borrow was instrumental in America maintaining its independence from England. During the Civil War, it was crucial to preserving the union. And it proved decisive in defeating totalitarian regimes in the two world wars of the 20th century. The U.S. government’s careless spending is jeopardizing this asset. If the country continues along its current fiscal path, the federal government’s borrowing well will eventually dry up. When it does, America will be far less able to counter national-security threats. As hostile foreign governments and terrorist organizations recognize this, the world will become a far more dangerous place. Policy makers’ mistaken belief that deficits and debt don’t matter is the sad culmination of a long downward slide in fiscal responsibility. From 1789 to the 1930s, the federal government adhered to a balanced-budget norm, incurring fiscal deficits during wartime and economic recessions, and running modest surpluses during good times to pay down this debt. This prudent management of the federal finances was instrumental in establishing America’s strong position in world financial markets.

#### Government spending drives additional inflation and collapsing business confidence

Robert Pollin Source: Challenge , NOVEMBER-DECEMBER 2010, Vol. 53, No. 6 (NOVEMBER-DECEMBER 2010 Austerity Is Not a Solution: Why the Deficit Hawks Are Wrong), pp. 6-36 Published by: Taylor & Francis, Ltd. Stable URL: https://www.jstor.org/stable/27896625

We are clearly in the midst of a high-stakes debate about fiscal deficits and macroeconomic policy. In reviewing the arguments developed by various leading deficit hawks, what also becomes clear is that they are not advancing one main argument or even a unified set of positions, but rather four distinct claims. We can characterize these four arguments as follows: The traditional view. Large fiscal deficits will cause high interest rates, large government debts, and inflation. Declining business confidence is the real danger. Even if the current deficits have not caused high interest rates and inflation, they are eroding business confidence. When business confidence is low, the economy is highly vulnerable to small changes in conditions, what some economists call "nonlinearities." Fiscal stimulus policies never work. New Classical economists, Robert Barro most notably, have long argued that the multiplier for fiscal stimulus policies is zero or thereabouts. A long-term fiscal train wreck is coming. Regardless of short-term considerations, we are courting disaster in the long run with structural deficits that the recession has only worsened.

#### Government spending drives inflation and economic collapse

Daniel Lacalle, PhD, economist and fund manager US Household Saving Rate Vanishes, Credit Card Debt Soars 06/22/2022 https://mises.org/wire/us-household-saving-rate-vanishes-credit-card-debt-soars

The key is inflation. If consumer prices continue to be elevated into the third quarter, it is very hard to believe that citizens will be comfortable depleting savings to continue consuming at the same pace as during the first half of 2022. People in developed economies are not used to high inflation and seem to be accepting the mainstream idea that price increases will drop in the next months. However, this may be a bad idea. Food prices are at all-time highs, oil and gas prices are supported by geopolitical risks and poor inventory levels, and the government deficit spending means that consumption of monetary reserves will continue to be extraordinary.

#### Deficit spending destroys business confidence

Daniel Lacalle, PhD, economist and fund manager US Household Saving Rate Vanishes, Credit Card Debt Soars 06/22/2022 https://mises.org/wire/us-household-saving-rate-vanishes-credit-card-debt-soars

Despite the perception of a solid economy with a tight labor market and rising nominal wages, the reality of the United States is that massive deficit spending and inflationary policies are hurting the middle and working classes. Unemployment may be low, but the employment-to-population and labor-participation rates remain poor, and the so-called Great Resignation is starting to reverse as citizens struggle financially. It seems very difficult to believe that consumers will end the 2022 fiscal year with the current levels of consumption growth, but the real challenge will appear in 2023. The buffers that families and businesses built in 2020 have all but disappeared.

### Links – OCOs increase government spending

#### OCOs are complex and extremely costly

Smeets ’22, Max; Feb 23; Senior Researcher at the Center for Security Studies (CSS) at ETH Zurich, co-founder and Director of the European Cyber Conflict Research Initiative (ECCRI.eu), an organization promoting the interdisciplinary study of cyber conflict and statecraft in Europe and beyond, also an Affiliate at Stanford University Center for International Security and Cooperation; Security Studies, “Cyber Arms Transfer: Meaning, Limits, and Implications,” vol. 31/ceng

An offensive cyber organization will also need attack tools to achieve a certain effect or goal. Payloads greatly vary in size. On one end of the spectrum, they can come as very lightweight files that are easy to distribute, but once executed they will trigger the download of a much larger piece of malware.43 On the other end of the spectrum, payloads can be multiple megabytes (MBs) in size. A multipurpose toolkit was discovered in 2012 by researchers from Kaspersky Lab, which they called Flame. Whereas the Stuxnet code is “only” about 1 MB in size, Flame’s malware code is about twenty times larger—and still not fully understood.44 It is difficult—and cost inefficient—to build an arsenal of tools for a more mature cyber command or intelligence agency. Although early development and stockpiling would be desirable to ensure swift deployment if the need arises, tools often must be tailored to the target and desired effect (especially if the actor desires stealth and stability), which means that in-time development is often necessary. Consider, for example, a case in which the leadership of a command decides there is a need to target a specific programmable logic controller (PLC) used to run a certain manufacturing process. The developers will likely have to build tools that can work on that particular PLC model. If leadership subsequently decides to target a different process, developers will have to deploy a new toolset. Finally, the more features of the target you can use, the less you need yourself. Napoleon was famous for making sure his troops were living off the land through which they moved. It allowed his army to travel light and march long distances. This notion of living off the land is also commonly applied to cyber operations. The attacker may use something exotic to get into a target’s network, but it makes a lot of sense to subsequently use the target’s existing infrastructure to gain further network access. For example, existing communication lines to push out notifications can be used to move through an organization’s network. Living off the land is not merely done for cost-efficiency benefits. The practice is equally, if not more, important for remaining undetected. Fourth, to effectively run cyber operations an organization requires infrastructure, broadly defined as the processes, structures, and facilities needed to pull off an offensive cyber operation. This element can be split into two categories: control infrastructure and preparatory infrastructure. Control infrastructure refers to processes directly used to run an operation. This is also the type of infrastructure that is generally burned down after a failed operation. It includes domain names of phishing sites, leaked email addresses, or other abused technologies.45 It also concerns C&C infrastructure used in remotely conducted operations to maintain communication with compromised systems within a target network. Depending on an operation’s goal and resources, the C&C infrastructure might be as basic as a single server operating on the external network.46 At the same time, an organization may run a whole set of operations simply to compromise legitimate web servers to use them for C&C later.

#### Offensive cyber operations are WAY more expensive than defense.

Rebecca Slayton | February 2017 Why Cyber Operations Do Not Always Favor the Offense https://www.belfercenter.org/publication/why-cyber-operations-do-not-always-favor-offense

Creating unnecessary vulnerabilities. Making offensive cyber operations a national priority can increase instabilities in international relations and worsen national vulnerabilities to attack. But because the skills needed for offense and defense are similar, military offensive readiness can be maintained by focusing on defensive operations that make the world safer, rather than on offensive operations. Managing complexity. The ease of both offense and defense increases as organizational skills and capability in managing complex technology improve; it declines as the complexity of cyber operations rises. What appears to be offensive advantage is primarily a result of the offense’s relatively simple goals and the defense’s poor management. Assessing kinetic effects. It is often more expensive for the offense to achieve kinetic effects—for instance, sabotaging machinery—than for the defense to prevent them. An empirical analysis of the Stuxnet cyberattacks on Iran’s nuclear enrichment facilities shows that Stuxnet likely cost the offense more than the defense and was relatively ineffective.

### Links - Innovation

#### Innovation is critical to business confidence and economic growth – especially growth in emerging technologies.

[Lanre Onibalusi](https://datafloq.com/user/lanre-onibalusi/) / How Innovation Is Impacting Society September 19, 2019 https://datafloq.com/read/how-innovation-is-impacting-society/

It sounds like a bit of a buzzword, but [innovation](https://datafloq.com/read/innovation-must-never-stop/) actually has a big role to play in society. Sure, anyone can innovate, but it’s those significant changes that truly have an impact. Key though is that the best kind of innovation actually solves problems by creating effective [processes](https://datafloq.com/read/entity/processes/), products, and ideas. By definition, [innovation is the introduction of something new](https://www.viima.com/blog/importance-of-innovation), furthering progress in society. Many [people](https://datafloq.com/read/entity/people/) will say that innovation is the core reason for how we exist in the modern world. Remember, change is inevitable and innovation almost always creates positive change. When it comes to products, the best are often the most innovative, providing a solution to a common problem. A good example is the [Apple iPhone](https://www.forbes.com/sites/michellegreenwald/2014/03/12/what-exactly-is-innovation/#4aa14afb5e5a) – they’re innovative both aesthetically and in terms of product features. Each new update provides new features such as voice recognition, fingerprint [technology](https://datafloq.com/read/12-myths-about-blockchain-technology/) and synchronization between devices. Key to remember though is that innovation does not equate to the invention. It can simply mean making slight changes to a business model or [environment](https://datafloq.com/read/mobile-app-development-data-integrity-security/) to ensure the delivery of products or services. McKinsey and [Company](https://datafloq.com/read/entity/company/) estimate that [84% of executives](https://www.mckinsey.com/business-functions/strategy-and-corporate-finance/how-we-help-clients/growth-and-innovation) believe their future success is dependent on innovation. In terms of businesses, innovation helps them to grow and plays a very important role in terms of economic growth. It helps problem solve, especially as the world’s problems continue to evolve. Innovation helps companies stay on top of constantly changing problems, especially in developing countries. There are [other very important reasons for innovation](https://www.inc.com/gordon-tredgold/4-reasons-why-you-need-to-focus-on-innovation.html). A Deloitte Innovation Survey found that 66% of respondents believe innovation is important for business growth and [development](https://datafloq.com/read/entity/development/), helping the business to scale up. A business is not the only [company](https://datafloq.com/read/prepare-your-company-for-ai-digital-adoption/) in that particular [market](https://datafloq.com/read/entity/markets/). There will always be competitors. Yet [innovation helps businesses stand out from the crowd](https://medium.com/swlh/4-important-benefits-of-innovation-in-business-64ed0d78d150), mainly because you’ll be figuring out new ways to solve customer’s problems. Innovation also helps companies meet constantly changing customer [needs](https://datafloq.com/read/entity/needs/). Innovation helps [predict](https://datafloq.com/read/entity/predict/) how the market will change, providing solutions before customers even realize there is a problem. This means when customers come to you with an issue, you already have a solution. Finally, innovation helps to attract the cream of the crop when it comes to employees. Someone is going to join a company that is going somewhere, that is constantly working to improve and innovate. Perhaps the biggest impact innovation has had on society is regarding [technology](https://fstechadvisory.accenture.com/how-does-innovation-impact-society/), which is, in effect, embedded in almost everything we do. From agriculture to transport, technology is changing the way we live our lives and interact with those around us. This is especially true in relation to robot process [automation](https://datafloq.com/read/5-ways-implementing-ai-automation-hr/) (RPA) and [artificial intelligence](https://datafloq.com/read/artificial-intelligence-what-is-it-why-now/2471) (AI). In addition to AI, thereâ€™s also cloud computing and storage methods, blockchain, augmented and [virtual reality](https://datafloq.com/read/entity/vr/) and the [Internet of Things](https://datafloq.com/read/what-is-the-value-of-the-internet-of-things-infogr/379) (IoT). With these technological innovations, the world is becoming a more seamless place where almost everything is available to us, any place, any time. The good news is that society as a whole is ready to embrace new technologies. It’ a given fact of life really, that as technology changes, society will need to adapt. The senior generation is no exception, with [69% of seniors feeling confident](https://www.seniors.com.au/news-insights/discover/seniors-technology-survey) that they will be able to keep up with future innovations in technology. As well as technology, innovation is also helping in terms of [jobs and economic growth](https://www.viima.com/blog/importance-of-innovation#fundamental-outcomes). It’s estimated that the world economy could more than double in size by 2050, due to technology-driven improvements. On top of this, more than 130 million jobs may be created by 2022. However, on the flip side, due to innovation such as AI and RPA, millions of jobs are on the line. There is also some [research](https://datafloq.com/read/entity/research/) that shows that wellbeing is inherently linked to innovation. [Living standards rise alongside innovation and economic growth](https://www.viima.com/blog/importance-of-innovation#fundamental-outcomes). When it comes to developing countries, [digital](https://datafloq.com/read/the-integration-billboard-advertising-digital-marketing/) technologies and innovative solutions are helping to combat issues such as sickness, poverty, and hunger.

#### Innovation key to business confidence

[Chris Simpson](https://hlb.com.au/our-people/chris-simpson/) Business Advisory Services March 9 2022 https://hlb.com.au/business-leaders-confidence-bounces-back-shift-to-innovation/

A recent HLB International survey of business leaders has shown confidence is up despite businesses facing a complex mix of concerns such as economic uncertainty and inflation, access to talent, and the ongoing pandemic. [HLB’s Survey of Business Leaders – Powering Your Innovation Engine](https://www.hlb.global/powering-your-innovation-engine/), gains insights into the concerns and priorities of business leaders in 2022. Between September and November 2021, HLB collected 586 survey responses from business leaders across 46 countries, including Australia. The report highlighted that although the pandemic has been an exceptionally difficult and challenging period for business, leaders have emerged feeling more confident to challenge the way things are done through innovation. In fact, 95 per cent of respondents said rapid and effective innovation is critical to future growth.

#### Innovations necessary for new business opportunities and growth

KPMG March 3 2022 Businesses want innovation and pro-growth measures in 2022 Federal Budget https://home.kpmg/ca/en/home/media/press-releases/2022/03/budget-2022-business-want-innovation-and-growth-focus.html

Nearly nine in 10 (88 per cent) of medium-sized companies surveyed tapped government support programs for assistance during the pandemic and almost four in five (78 per cent) feel they still require relief programs to survive. In light of the challenges companies have faced over the last two years, an overwhelming majority (89 per cent) say they must invest quickly in digital operations and 82 per cent believe their industry is in "for a major shakeup" and will require government support for them to invest in emerging and clean technologies. "The vast majority of business leaders told us that they're looking for support to help them invest in digital innovations that open up new business opportunities and revenue streams and build their resiliency to better weather economic storms," says Mary Jo Fedy, National Leader, Enterprise, KPMG in Canada. "They also believe that targeted government relief programs that help the hardest hit businesses and individuals should be maintained in the near-term. Our poll findings also indicated that skilled labour shortages continue to represent a risk to recovery."

#### Innovation is necessary for business confidence

European Central Bank June 27 2017 How does innovation lead to growth? https://www.ecb.europa.eu/ecb/educational/explainers/tell-me-more/html/growth.en.html

Innovation is an essential driver of economic progress that benefits consumers, businesses and the economy as a whole. How does it play that role, how does it contribute to economic growth and what can be done to promote it? What is innovation? In economic terms, innovation describes the development and application of ideas and technologies that improve goods and services or make their production more efficient. A classic example of innovation is the development of steam engine technology in the 18th century. Steam engines could be put to use in factories, enabling mass production, and they revolutionised transport with the railways. More recently, information technology transformed the way companies produce and sell their goods and services, while opening up new markets and new business models.

## Impact

### Impact – 2NC

#### Economic Decline goes Nuclear – intertwined sectors means that if one fails there is no safeguards and wrecks the global economy – leads to geopolitical realignment and incentivizes revisionist behavior on the global order and ignites hotspots – that’s Maavak

#### Outweighs:

#### Turns EVERYTHING:

#### It causes terrorism, civil wars, and diversion that go global – nothing checks

Liu 18 – Dr. Qian, PhD in Economics from Uppsala University, Former Visiting Researcher at the University of California, Berkeley, Managing Director for Greater China at The Economist Group, Guest Lecturer at New York University, Tsinghua University, the Chinese Academy of Social Sciences and Fudan University. “The Next Economic Crisis Could Cause A Global Conflict. Here's Why”, World Economic Forum, <https://www.weforum.org/agenda/2018/11/the-next-economic-crisis-could-cause-a-global-conflict-heres-why>, 11-13-2018

The next economic crisis is closer than you think. But what you should really worry about is what comes after: in the current social, political, and technological landscape, a prolonged economic crisis, combined with rising income inequality, could well escalate into a major global military conflict.

The 2008-09 global financial crisis almost bankrupted governments and caused systemic collapse. Policymakers managed to pull the global economy back from the brink, using massive monetary stimulus, including quantitative easing and near-zero (or even negative) interest rates.

But monetary stimulus is like an adrenaline shot to jump-start an arrested heart; it can revive the patient, but it does nothing to cure the disease. Treating a sick economy requires structural reforms, which can cover everything from financial and labor markets to tax systems, fertility patterns, and education policies.

Policymakers have utterly failed to pursue such reforms, despite promising to do so. Instead, they have remained preoccupied with politics. From Italy to Germany, forming and sustaining governments now seems to take more time than actual governing. And Greece, for example, has relied on money from international creditors to keep its head (barely) above water, rather than genuinely reforming its pension system or improving its business environment.

The lack of structural reform has meant that the unprecedented excess liquidity that central banks injected into their economies was not allocated to its most efficient uses. Instead, it raised global asset prices to levels even higher than those prevailing before 2008.

In the United States, housing prices are now 8% higher than they were at the peak of the property bubble in 2006, according to the property website Zillow. The price-to-earnings (CAPE) ratio, which measures whether stock-market prices are within a reasonable range, is now higher than it was both in 2008 and at the start of the Great Depression in 1929.

As monetary tightening reveals the vulnerabilities in the real economy, the collapse of asset-price bubbles will trigger another economic crisis – one that could be even more severe than the last, because we have built up a tolerance to our strongest macroeconomic medications. A decade of regular adrenaline shots, in the form of ultra-low interest rates and unconventional monetary policies, has severely depleted their power to stabilize and stimulate the economy.

If history is any guide, the consequences of this mistake could extend far beyond the economy. According to Harvard’s Benjamin Friedman, prolonged periods of economic distress have been characterized also by public antipathy toward minority groups or foreign countries – attitudes that can help to fuel unrest, terrorism, or even war.

For example, during the Great Depression, US President Herbert Hoover signed the 1930 Smoot-Hawley Tariff Act, intended to protect American workers and farmers from foreign competition. In the subsequent five years, global trade shrank by two-thirds. Within a decade, World War II had begun.

To be sure, WWII, like World War I, was caused by a multitude of factors; there is no standard path to war. But there is reason to believe that high levels of inequality can play a significant role in stoking conflict.

According to research by the economist Thomas Piketty, a spike in income inequality is often followed by a great crisis. Income inequality then declines for a while, before rising again, until a new peak – and a new disaster. Though causality has yet to be proven, given the limited number of data points, this correlation should not be taken lightly, especially with wealth and income inequality at historically high levels.

This is all the more worrying in view of the numerous other factors stoking social unrest and diplomatic tension, including technological disruption, a record-breaking migration crisis, anxiety over globalization, political polarization, and rising nationalism. All are symptoms of failed policies that could turn out to be trigger points for a future crisis.

Voters have good reason to be frustrated, but the emotionally appealing populists to whom they are increasingly giving their support are offering ill-advised solutions that will only make matters worse. For example, despite the world’s unprecedented interconnectedness, multilateralism is increasingly being eschewed, as countries – most notably, Donald Trump’s US – pursue unilateral, isolationist policies. Meanwhile, proxy wars are raging in Syria and Yemen.

Against this background, we must take seriously the possibility that the next economic crisis could lead to a large-scale military confrontation. By the logic of the political scientist Samuel Huntington , considering such a scenario could help us avoid it, because it would force us to take action. In this case, the key will be for policymakers to pursue the structural reforms that they have long promised, while replacing finger-pointing and antagonism with a sensible and respectful global dialogue. The alternative may well be global conflagration.

#### Turns every impact

Kemp 12 – Geoffrey, Director of Regional Strategic Programs at The Nixon Center, Served in the White House Under Ronald Reagan, Special Assistant to the President for National Security Affairs and Senior Director for Near East and South Asian Affairs on the National Security Council Staff, Former Director, Middle East Arms Control Project at the Carnegie Endowment for International Peace. “The East Moves West: India, China, and Asia’s Growing Presence in the Middle East”, pg. 233-234, Brookings Institution Press, 06-14-2012

The second scenario, called Mayhem and Chaos, is the opposite of the first scenario; everything that can go wrong does go wrong. The world economic situation weakens rather than strengthens, and India, China, and Japan suffer a major reduction in their growth rates, further weakening the global economy. As a result, energy demand falls and the price of fossil fuels plummets, leading to a financial crisis for the energy-producing states, which are forced to cut back dramatically on expansion programs and social welfare. That in turn leads to political unrest: and nurtures different radical groups, including, but not limited to, Islamic extremists. The internal stability of some countries is challenged, and there are more “failed states.” Most serious is the collapse of the democratic government in Pakistan and its takeover by Muslim extremists, who then take possession of a large number of nuclear weapons. The danger of war between India and Pakistan increases significantly. Iran, always worried about an extremist Pakistan, expands and weaponizes its nuclear program. That further enhances nuclear proliferation in the Middle East, with Saudi Arabia, Turkey, and Egypt joining Israel and Iran as nuclear states. Under these circumstances, the potential for nuclear terrorism increases, and the possibility of a nuclear terrorist attack in either the Western world or in the oil-producing states may lead to a further devastating collapse of the world economic market, with a tsunami-like impact on stability. In this scenario, major disruptions can be expected, with dire consequences for two-thirds of the planet’s population.

### Turns: Disease – 2NC

#### Decline turns disease

Brian Alexander 9, Staff Writer at MSNBC, “Recession May Worsen Spread Of Exotic Diseases”, MSNBC, 3/10/2009, www.msnbc.msn.com/id/29599786

To most Americans, diseases with names like dengue fever, chikungunya, malaria, Chagas and leishmaniasis might sound like something out of a Victorian explorer’s tales of hacking through African jungles. Yet ongoing epidemics of these diseases are killing millions of people around the world. Now, disease experts are increasingly concerned these and other infections may become as familiar in the United States as West Nile or Lyme disease. Few believe Americans face a killer epidemic from tropical diseases. But scientists who specialize in emerging infectious diseases say such illnesses may become more common here as the economic downturn batters an already weakened public health system, creating environmental conditions conducive to infectious diseases spread by insects or other animals. At the same time, such vector-borne diseases are capable of spreading around the world much more rapidly due to massive south-to-north immigration, rapid transportation, and global trade.

### AT: Biz Con not Key – 2NC

#### Studies prove biz con’s key AND depends on perceptions of political stability

Montes and Nogueira 21 – Gabriel Caladas, PhD Candidate in the Department of Economics at Fluminense Federal University. Fabiana da Silva Leite, PhD in Economics from Universidade Federal Fluminense, Professor of Economics at the Universidade de Vassouras. “Effects of Economic Policy Uncertainty and Political Uncertainty on Business Confidence and Investment”, Journal of Economic Studies, <https://www.emerald.com/insight/content/doi/10.1108/JES-12-2020-0582/full/html>, 04-29-2021

1. Introduction

The literature on business confidence is vast. If on the one hand some studies indicate that business confidence acts as a leading indicator of macroeconomic activity and influences the economic environment, on the other hand, some studies investigate the determinants of business confidence (Khan and Upadhayaya, 2020).

Although many advances have been made, the literature on the determinants of business confidence continues to evolve. Some studies analyze not only the effects of macroeconomic variables, but also the effects of other variables able to create (or reduce) uncertainties, such as corruption (Montes and Almeida, 2017) and monetary policy credibility (Montes, 2013; de Mendonça and Almeida, 2019). These studies reveal that low credibility and high levels of corruption reduce confidence due to the uncertainties that emerge.

Uncertain economic scenarios created by economic policy uncertainty undermine confidence, and affect the decision making of entrepreneurs, who, for example, postpone investment and employment decisions in order to gain more information (Bloom et al., 2018). Regarding the definition of economic policy uncertainty, Al-Thaqeb and Algharabali (2019) points out that “*Policy uncertainty is the economic risk associated with undefined future government policies and regulatory frameworks*” (Al-Thaqeb and Algharabali, 2019, p. 2). Baker et al. (2016) and Al-Thaqeb and Algharabali (2019) suggest that economic policy uncertainty delay economic recoveries during periods of recession as businesses and households postpone their decisions about investment and consumption expenditures due to market uncertainty. Nevertheless, regarding the effects of economic policy uncertainty on research and development (R&D) expenditures and innovation outputs, Tajaddini and Gholipour (2020) find positive relationships for a set of 19 developed and developing countries, thus, contradicting those that claim a negative association between economic policy uncertainty and R&D expenditure.

Since the work of Bloom (2009), and due to existing controversies in the literature, studies investigate the effects of uncertainty shocks on different economic variables (e.g., Baker et al., 2016; Bachmann et al., 2013; Colombo, 2013; Nodari, 2014; Donadelli, 2015; Gulen and Ion, 2015; Moore, 2017; Istiak and Serletis, 2018; Bahmani-Oskooee and Nayeri, 2018; Bahmani- Oskooee et al., 2018; Mumtaz and Surico, 2018; Gholipour, 2019; Greenland et al., 2019; Istiak and Alam, 2019, 2020; Tajaddini and Gholipour, 2020). In general, the findings suggest that macroeconomic variables such as GDP, investment and employment are adversely affected by increased economic policy uncertainty.

The political environment is also a source of uncertainty that affects the economy. Studies provide evidence that the instability of the political environment has negative effects on the economic environment (e.g., Barro, 1991; Alesina and Perotti, 1996; Svensson, 1998; Carmignani, 2003; Aisen and Veiga, 2006, 2013; Durnev, 2010; Zouhaier and Kefi, 2012; Julio and Yook, 2012; Uddin et al., 2017; Azzimonti, 2018; Jens, 2017). These studies show that political instability has negative effects on inflation, GDP and unemployment.

Political uncertainty reflects instabilities on the political scene (i.e., involving politicians). The instabilities arising from the political scenario are associated to uncertainties regarding possible changes in the “rules of the game” and in the functioning of institutions. Hence, the uncertainty related to the political system is a key feature affecting the business environment, which entrepreneurs must consider when deciding, for instance, to start or expand their businesses. The effects of political uncertainty are stronger when firms and politicians have close connections and political favors might be at play.

One can suggest economic policy uncertainty reduces entrepreneurs’ optimism about the future of the economy and their business. Similarly, an uncertain political environment can deteriorate business confidence, producing negative effects on the economic environment. Hence, some important questions arise. Does political uncertainty affect business confidence? Is business confidence affected by economic policy uncertainty? Are political uncertainty and economic policy uncertainty transmitted to investment decisions through business confidence? These questions are particularly important for developing countries since these countries often present higher levels of political uncertainty and economic policy uncertainty.

#### Failure causes bankruptcies and unemployment – it’s unique: confidence is slowly recovering with stable support

Boone 20 – Dr. Laurence, PhD in Economics from London Business School, OECD Chief Economist, Master Degree in Econometrics from the University of Reading, MAS in Modelization and Quantitative Analysis from Paris X-Nanterre University. “Building Confidence Crucial Amid An Uncertain Economic Recovery”, OECD Interim Economic Report, <https://www.oecd.org/newsroom/building-confidence-crucial-amid-an-uncertain-economic-recovery.htm>, 09-16-2020

With the COVID-19 pandemic continuing to threaten jobs, businesses and the health and well-being of millions amid exceptional uncertainty, building confidence will be crucial to ensure that economies recover and adapt, says the OECD’s Interim Economic Outlook.

After an unprecedented collapse in the first half of the year, economic output recovered swiftly following the easing of containment measures and the initial re-opening of businesses, but the pace of recovery has lost some momentum more recently. New restrictions being imposed in some countries to tackle the resurgence of the virus are likely to have slowed growth, the report says.

Uncertainty remains high and the strength of the recovery varies markedly between countries and between business sectors. Prospects for an inclusive, resilient and sustainable economic growth will depend on a range of factors including the likelihood of new outbreaks of the virus, how well individuals observe health measures and restrictions, consumer and business confidence, and the extent to which government support to maintain jobs and help businesses succeeds in boosting demand.

The Interim Economic Outlook projects global GDP to fall by 4½ per cent this year, before growing by 5% in 2021. The forecasts are less negative than those in OECD’s June Economic Outlook, due primarily to better than expected outcomes for China and the United States in the first half of this year and a response by governments on a massive scale. However, output in many countries at the end of 2021 will still be below the levels at the end of 2019, and well below what was projected prior to the pandemic.

If the threat from COVID-19 fades more quickly than expected, improved business and consumer confidence could boost global activity sharply in 2021. But a stronger resurgence of the virus, or more stringent lockdowns could cut 2-3 percentage points from global growth in 2021, with even higher unemployment and a prolonged period of weak investment.

Presenting the Interim Economic Outlook, covering G20 economies, OECD Chief Economist Laurence Boone said: “The world is facing an acute health crisis and the most dramatic economic slowdown since the Second World War. The end is not yet in sight but there is still much policymakers can do to help build confidence.”

She added: “It is important that governments avoid the mistake of tightening fiscal policy too quickly, as happened after the last financial crisis. Without continued government support, bankruptcies and unemployment could rise faster than warranted and take a toll on people’s livelihoods for years to come. Policymakers have the opportunity of a lifetime to implement truly sustainable recovery plans that reboot the economy and generate investment in the digital upgrades much needed by small and medium-sized companies, as well as in green infrastructure, transport and housing to build back a better and greener economy.”

#### Business optimism is key to hiring and investment that sustains recovery

Arora 17 – Rohit, Master's Degree in International Finance from Columbia University, Economics Contributor to Forbes. “As Obama Exits, Three Aspects of a Trump Presidency Instill Small Business Confidence”, Forbes, <http://www.forbes.com/sites/rohitarora/2017/01/11/as-obama-exists-three-aspects-of-a-trump-presidency-instill-small-business-confidence/#7b20f0d44c60>, 01-11-2017

Optimism

In many ways, optimism breeds success. Sentiment plays a pivotal role in economic recovery. When the economy looks brighter in the days ahead, entrepreneurs are willing to take risks and business owners become more willing to invest in the expansion of their companies. Before he has even taken office, Trump reached deal with Carrier to save the factory jobs that would have been lost if the company moved its Indianapolis manufacturing plant to Mexico. While the amount of credit he deserves for Ford's decision to maintain its assembly plant in Kentucky seems to be a topic for debate, the perception remains that Trump is pro-business.

Donald Trump won the Presidency because of his success in business. Perhaps his net worth isn't as high as other billionaires and, quite possibly, his real estate holdings are not as valuable as is perceived. He has failed and come back. He takes risks and has creative ideas. That's part of being an entrepreneur. Trump has long been a master marketer and a large part of his personal brand is predicated on his financial success. He chose an out-of-the-box pick of Linda McMahon to head the Small Business Administration (SBA). The Americans who voted for him are hoping that this creativity translates into more economic growth and efficient government.

Business Policy

We already know that deregulation and corporate tax reform will be two pillars of Trump's economic policy. Lower taxes for business owners provides them with greater opportunity to invest back into their firms. Additionally, foreign money will flow back into the United States. This will make the country more competitive internationally, resulting in greater investment, business expansion and the resulting jobs growth. If this does indeed happen, small businesses will thrive.

Trump will enter office with economic winds at his back. The most recent Jobs Report marked the 75th straight month of job gains and the unemployment rate remains at (4.7 percent), below what most economists consider the full employment rate (5 percent). Meanwhile, the Dow Jones Industrial Average continues to flirt with the 20,000 mark. The National Federation of Independent Business (NFIB)'s Index of small-business confidence for December hit its highest point since 2004, and its increase of 7.4 points to 105.8 from November's figure of 98.4 was the biggest month-to-month jump in 30 years.

“This is the second consecutive month in which small business owners reported a much brighter outlook for the economy and higher expectations for their businesses,” Bill Dunkelberg, the NFIB;s chief economist. “In this month’s report, we are also finding evidence that higher optimism is leading to increased business activity, such as capital investment.”

"Optimistic consumers and business owners are more likely to bet (spend and hire) on a future that seems to hold promise," Dunkelberg added. "But to maintain the enthusiasm, reality will play a supporting role."

### AT: Impact D – 2NC

#### Defense doesn’t assume the post-COVID landscape – the globe’s a tinderbox, primed for conflict

Labott 21 – Elise, Adjunct Professor at American University’s School of International Service, Columnist at Foreign Policy, MA in Media Studies, New School for Social Research, BA in International Relations from the University of Wisconsin-Madison. “Get Ready for a Spike in Global Unrest”, Foreign Policy, <https://foreignpolicy.com/2021/07/22/covid-global-unrest-political-upheaval/>, 07-22-2021

To call 2021 the summer of discontent would be a severe understatement. From Cuba to South Africa to Colombia to Haiti, often violent protests are sweeping every corner of the globe as angry citizens are taking to the streets.

Each country has different histories and realities on the ground, particularly in Haiti, where years of violence and government corruption culminated two weeks ago in the assassination of President Jovenel Moïse. But they all faced a perfect storm of preexisting social, economic, and political hardships, which fallout from the COVID-19 pandemic only inflamed further. And they are merely a foreshadowing of the post-coronavirus global tinderbox that’s looming as existing tensions in countries across the world morph into broader civil unrest and uprisings against economic hardships and inequality deepened by the pandemic.

The coronavirus pandemic was a once-in-a-century crisis that not only shocked countries’ existing health systems but also demanded a response that impacted—and was itself shaped by—economic, political, and security considerations. The efforts to contain it may have curbed fatalities in the short term but have inadvertently deepened vulnerabilities that laid the groundwork for longer-term violence, conflict, and political upheaval and should serve as a danger sign to world leaders as countries reopen—including in the United States.

History is full of examples of pandemics being incubators of social unrest, from the Black Death to the Spanish flu to the great cholera outbreak in Paris, immortalized in Victor Hugo’s Les Miserables. Underlying it all this time around is a pervasive inequality. COVID-19 has ripped open economic divides and made life harder for already vulnerable groups, including women and girls and minority communities.

It has also exposed weaknesses in food security and dramatically increased the number of people affected by chronic hunger. The United Nations estimates around one-tenth of the global population—between 720 million people and 811 million—were undernourished last year. The impacts of climate change and environmental degradation have only compounded the despair.

Take the Sahel, where, due to a toxic cocktail of conflict, COVID-19 lockdowns, and climate change, the scale and severity of food insecurity continues to rise. Countries such as Ethiopia and Sudan are among the world’s worst humanitarian crises, with catastrophic levels of hunger. Droughts and locusts are coming at a critical time for farmers ready to plant crops and are stopping herders in their tracks from driving their livestock to greener pastures.

The global vaccine shortage is fueling the instability. A majority of Africa is lagging far behind the world in vaccinations, meaning COVID-19 will continue to constrain national economies and, in turn, become a source of potential political instability. The same is true for much of Latin America and Asia, where countries don’t have enough vaccines to protect their populations and simmering sources of protest—such as rising living costs and deepening inequalities—are more likely to boil over.

The global risk firm Verisk Maplecroft has warned that as many as 37 countries could face large protest movements for up to three years. A new study by Mercy Corps examining the intersection of COVID-19 and conflict found concerning trends that warn of potential for new conflict, deepening existing conflict, and worsening insecurity and instability shaped by the pandemic response.

The group found a collapse of public confidence in governments and institutions was a key driver of instability. People in fragile states, already suffering from diminished trust in their government, have felt further abandoned as they face disruptions in public services, rising food prices, and massive economic hardships, such as unemployment and reduced wages. Supply chains disrupted during the pandemic have seen food prices skyrocket, while in the global recession humanitarian aid budgets are being slashed, bringing many countries to the brink of famine. For the first time in 22 years, extreme poverty—people living on less than $1.90 a day—was on the rise last year. Oxfam International estimates that “it could take more than a decade for the world’s poorest to recover from the economic impacts of the pandemic.”

The shocks caused by the pandemic have also eroded social cohesion, further fraying relations between communities and deepening polarization. That is especially true in the United States, where social and political pressures both deepened the health crisis and were themselves worsened by it. All of this should serve as a clarion call to countries that they can’t prepare for, or respond to, future health crises in a vacuum—but must anticipate an economic, political, and social crisis. This is true for any severe shock, which brings the potential for a breakdown in public order.

#### Best models go NEG.

Gallea and Rohner 21 – Quentin, PhD, postdoctoral researcher in political economy at the University of Zürich. Dominic, Faculty of Business and Economics, University of Lausanne. “Globalization mitigates the risk of conflict caused by strategic territory”, Proceedings of the National Academy of Sciences, Vol. 118, No. 39, <https://doi.org/10.1073/pnas.2105624118>, 09-28-2021

This contrasts with an intellectual tradition of arguing that globalization, business, and trade may—by fostering interdependence—curb the incentives for engaging in domestic and international conflicts. This argument has its roots ranging as far back as the thinking of De Montesquieu [1758 (2)] or Angell [1909 (3)], has been refined verbally by an array of “liberalist” scholars in international relations (see the survey in ref. 4), and has recently been scrutinized in formal game-theoretical models (see, e.g., refs. 5 and 6).

While a small body of empirical research has linked trade to interstate wars (4, 5, 7, 8), the arguably even more pressing question of how globalization and trade affect domestic conflicts has received even less attention.† This is a major gap in the literature, given that since World War II, roughly 80 to 90% of wars have been within rather than between states (11). Hence, the goal of the current article is to study the question of how places close to strategically important trade routes may be more or less subject to civil conflict and how their fate is affected by surges in globalization.‡

We have built what—to the best of our knowledge—is the most precise and fine-grained dataset of strategic location importance covering the entire globe. Our dataset allows us to investigate, using a regression analysis, how a location’s strategic centrality affects its risk of being drawn into an armed conflict and how globalization can influence this centrality-conflict nexus.

In order to develop an empirically testable hypothesis to guide our statistical investigation, we have built a game-theoretic model that systematically studies the incentives for engaging in conflict (SI Appendix). As discussed in detail in SI Appendix, our framework predicts that under mild conditions in years of low international trade openness, strategic territory tends to entail above-average levels of conflict (due to the strategic value of territory providing incentives for appropriation). In contrast, in years of roaring globalization, areas with strategic value are, on average, less combatted, as major international powers have incentives to intervene in local disputes to make sure that crucial trade routes remain open.§ In what follows, we will present the data and methods, before confronting these predictions to the data.

Data and Methods

To carry out our empirical analysis, we have constructed a panel dataset that consists of grid cells of size 0.5 × 0.5 decimal degrees (55 km × 55 km at the equator) covering the whole world from 1989 to 2018. We have designed an algorithm to detect strategic zones in the sea, so-called maritime “choke points” (e.g., straits or capes) that are points of “natural congestion along two wider and important navigable passages” that are typically of key strategic importance for international shipping. Crucially, we have built this measure purely based on geographical features, which has the advantage of addressing a series of potential statistical biases—such as reverse causation—that would arise if we were to focus on measures of actual water transport volumes.¶ In particular, drawing on a network model, we compute the betweenness centrality of any water location, allowing us to uncover where crucial strategic choke points lie. SI Appendix contains detailed variable definitions and sources and a full discussion of the construction of all variables.

It is widely accepted that maritime choke points are of crucial importance to world trade and global energy security. Our algorithm identifies real ship density and all famous maritime landmarks, such as the straits of Hormuz or Malacca and the canals of Suez or Panama. Furthermore, our measure provides a fine-grained scale of strategic importance for any water spot worldwide, including the great number of less well-known locations. Fig. 1A depicts for each water location how close it is to a choke point, as computed using our algorithm. Fig. 1B displays for illustration major marine traffic routes (observed density of ships in 2017 from https://www.marinetraffic.com/). Strikingly, the proximity to waterway choke points, as computed by our algorithm based on purely geographical features, matches remarkably well the actual marine trade routes, hence stressing the relevance of our measure.

After having computed strategic water choke points, we have then, in a second step, constructed, for all land locations, the distance to these waterway bottlenecks. The obtained values across the world are displayed in Fig. 1C. Darker colors indicate areas closer to choke points, which typically lie close to major straits and waterways, and brighter colors indicate zones that are further away from maritime choke points. This measure of the strategic importance of any land location worldwide is used as the main explanatory variable in our statistical analysis. We study its direct impact as well as how it interacts with the volume of world trade in a given year, which is measured by using world trade openness from the World Bank [trade in percentage of gross domestic product (GDP) (18)]. SI Appendix contains a graphical representation of the evolution of this variable, as well as of other key covariates.

In terms of the dependent outcome variable, for measuring conflict, we draw on fine-grained geolocalized information on conflict events from the Uppsala Conflict Data Program (UCDP) Georeferenced Event Dataset (GED) (19). This allows us to know for each cell and year whether at least one conflict event took place, as well as the types of events and their number. As mentioned, all data, variable construction, and methods are described in detail in SI Appendix.

Descriptive summary statistics of all variables of the analysis are provided in SI Appendix. In a nutshell, the final sample is composed of 64,818 cells covering the world from 1989 to 2018, resulting in a total of 1,944,540 observations. The unconditional likelihood for any type of violent events for the whole sample at the cell level is 1.5%, while for state-based it is 0.7%, for nonstate 0.2%, and 0.6% for one-sided events. The mean number of deaths is 1.126 per year per cell. The difference between the mean value of the outcome for the cells “close” to choke points (above median by proximity) and for those “far away” (below median by proximity) is also displayed. The difference is statistically significant and positive for any type of violence (using a t test with a bilateral null hypothesis; SI Appendix). These results highlight a positive association between the proximity to waterway choke points and violent events, which we shall investigate in more depth in what follows.

In terms of the methodology used, we carry out a multivariate regression analysis, focusing on Linear Probability Models (LPMs) when facing a binary dependent variable and on Ordinary Least Squares (OLS) estimators otherwise. We will include a battery of fixed effects, filtering out time-invariant location characteristics, as well as global shocks. Specifically, in some specifications, we go as far as including fixed effects at the cell level (i.e., separate constant terms for each cell), which control for all local, time-invariant potential confounders such as local climate, elevation, sea access, distance to capital, and historical population density, among others. We also control for annual time effects, which analogously capture all global shocks occurring in a given year, such as, for example, major geo-political shocks like the fall of the Soviet Union or 9/11, major recessions such as the subprime crisis, or health shocks such as a pandemic (e.g., severe acute respiratory syndrome or COVID-19). The various specifications, as well as additional estimation results, are reported in SI Appendix.

Results

We start by running a very simple regression specification before gradually increasing complexity. In particular, we focus first on comparing areas with high strategic importance scores (according to our measure) with cells for which our algorithm has found a lower strategic importance (i.e., that are further away from maritime choke points). Our main explanatory variable is “proximity” (to the nearest choke point), and the dependent variable of interest is the likelihood of experiencing at least one violent event in a given cell and year. The goal of this initial table being to report the parsimonious “raw” correlation, we limit ourselves to controlling for latitude fixed effects (i.e., a specific constant term for each latitude, filtering out climate zone effects and earth perimeter# ) and annual year dummies (which account for global shocks). All methodological details of this specification are provided in SI Appendix.

The regression analysis of Table 1 reveals that overall areas closer to maritime choke points face a greater risk of conflict, as shown by the fact that in all columns, the proximity variable has a positive, statistically significant coefficient. This holds when including a dummy for any violent event (column [col.] 1) and also for various subcategories of violent events (col. 2–4). It is imprecisely estimated for a violence intensity measure (col. 5). The effect is quantitatively sizable, as one SD greater proximity (i.e., 1,100 km closer to a choke point, corresponding to the straight-line distance from Paris to Rome or New York to Chicago) in the main specification (col. 1) corresponds to a 0.31-percentage-point increase in conflict risk, which is about a fifth of the baseline conflict risk for a given cell and year (1.5%). Note that the results of col. 2–4 show that the quantitatively largest effect emanates from state-based conflict (col. 2).

Next, we investigate the main prediction of our game-theoretic model (SI Appendix), namely, that while proximity to maritime choke points increases the conflict risk for moderate levels of trade openness, for peak levels of globalization, the prediction reverses, and locations of strategic importance are expected to benefit from a relatively low likelihood of conflict. We illustrate graphically how the locations of strategic choke points relate to conflict events—both for periods of high trade (Fig. 2 A and C) and low trade (Fig. 2 B and D). We zoom in on key strategic regions: Panama Canal and Cape of Good Hope (a full map of the world is depicted in SI Appendix). Visual inspection suggests—in line with our predictions discussed above—that strategic territory may bear a conflict potential, in particular, during periods of low trade, while in times of high trade volumes (when major powers are particularly keen to keep world trade routes open and secure), conflicts may be less concentrated around choke points. While these associations are interesting, they could be driven by various confounders, and, hence, we need to perform in what follows an in-depth regression analysis that allows us to control for confounding variables and statistical biases.

At present, we move to a regression analysis with this interactive effect. Note that SI Appendix presents a simplified regression specification (featuring the same controls as in Table 1) and provides all methodological details for the more demanding main specification that we shall now discuss. This main regression specification features, as before, as dependent variables several measures of violent events. As a main explanatory variable, we still focus on the proximity to maritime choke points, but now not only as a linear term, but also in interaction with a measure of world trade openness (imports plus exports) in percentage of world GDP. In this main baseline specification, we include a more stringent set of controls. As before, we control for annual time dummies (which account for global shocks) and latitude fixed effects (capturing, among others, climate zone effects, earth perimeter, and cell size), but now we also control for country fixed effects. These different constant terms for each country allow us to control for any time-invariant country characteristics (such as colonial heritage, tradition of autocracy, country size, geographical features, etc.), and, hence, our identifying statistical variation stems from comparing different locations of the same country (e.g., Medellin with Bogota or Miami with Nashville). Note that controlling for annual time dummies picks up the world trade openness measure (which takes the same value for each country and varies annually), which, hence, is dropped.

The results are displayed in Table 2. Consider the main specification of col. 1, where the linear effect of proximity has a statistically significant positive coefficient, whereas its interaction with world trade openness has the expected negative sign. This means that strategic territories face, on average, a higher conflict risk in periods of low trade openness, while with greater trade openness, they are relatively more shielded from armed conflict, which is fully consistent with our game-theoretic model in SI Appendix. This result carries over for subcategories of conflict (col. 2–4) and for a conflict intensity variable (col. 5). The results of Table 2 are represented graphically in Fig. 3.

The impact is quantitatively sizable, as moving one SD (1,100 km) closer to a choke point increases by 0.4 percentage points∥(24.8% of the unconditional baseline risk) the conflict likelihood in periods when trade openness is low (0.4), while reducing it by 0.2 percentage points\*\* (12.1% of the conflict baseline risk) when trade openness is high (0.6).

In SI Appendix, we present the details of all specifications used in the main text, in addition to results for alternative specifications. In particular, we go one step further by running the same regression, but including controls for cell fixed effects. These constant terms are specific to each cell of 0.5 × 0.5 decimal degrees (55 km × 55 km at the equator) and, hence, filter out all time-invariant characteristics of this very fine-grained local area. In particular, this controls for the potentially confounding impact of elevation, microclimate, sea access, ruggedness of terrain, river proximity, and historical road network, to name a few. This specification is described in detail in SI Appendix. It is shown that all our results go through in this demanding specification and that the interaction term of interest between the proximity to maritime choke points and world trade openness continues to have a statistically significant negative sign in all specifications.

#### Specifically, economic decline causes China to press its claims in the SCS.

Bapat 20 – Navin, a Professor in International Relations. He received a B.A. in Political Science from the University of Michigan in 1998 and pursued graduate studies at Rice University, where he received an M.A. (2000) and a PhD (2004) in political science. “Will COVID-19 Cause a War? Understanding the Case of the U.S. and China”, Peace Economics, Peace Science and Public Policy, Vol. 26, No. 3, <https://www.degruyter.com/view/journals/peps/ahead-of-print/article-10.1515-peps-2020-0047/article-10.1515-peps-2020-0047.xml?language=en>, 08-19-2020

We therefore see that COVID-19 may cause a decline in U.S. economic power, which may undermine its military readiness and ability to support future economic gains. However, the next question is: does the PRC seek to challenge the U.S. for global primacy, and if so, why? In his speech to the Communist Party in 2017, President Xi Jinping claimed that China should now, “take center stage in the world.”4 A key part in of this effort is represented by Xi’s 2013 Belt and Road Initiative (OBOR), which seeks to extend the PRC’s economic, political, and cultural influence throughout south Asia to the Middle East and into Europe. The OBOR utilizes the newly created Asian Infrastructure Investment Bank (AIIB), an alternative to the World Bank, to finance infrastructure projects throughout the different regions (Liao and McDowell 2016). From the power transition standpoint, it therefore appears that the PRC is developing a string of assets and bases extending from the Pacific through the Indian Ocean to the Persian Gulf. Numerous U.S. military planners view these developments as a deliberative effort to undermine U.S. power and influence in both the Pacific and Middle East theaters.

In theoretical terms, if we accept that the OBOR represents an effort by the PRC (the rising power) to supplant the U.S., war could still be avoided if the power transition moves at a relatively slower rate. Powell’s (2006) model establishes that dominant powers only initiate preemptive war if they are declining at precipitous rates. This is where COVID-19 poses a significant threat. Since the outbreak, the U.S. economy has declined by 4.8%, and the U.S. is borrowing from its future at high levels.5 If the PRC wanted to challenge the US for supremacy, this would be the time, and there is some evidence that the PRC is exploiting the opportunity. Beginning in May 2020, the Peoples’ Liberation Army (PLA) is engaging in repeated clashes with the Indian Armed Forces in the Ladekh region as part of a longstanding border dispute.6 As of July 2020, China is coming close to forming a strategic partnership with Iran. The pact would give the PRC a foothold in the Middle East, secure discounted oil, and perhaps allow for more oil trades to be settled in non-dollar denominations. This effort is in spite of significant strategic interests in the region and growing hostilities between Washington and Tehran.

The greater concern is that China will use its newfound clout to accelerate its effort to take control of much of the territory in the South China Sea. China has long claimed large portions of this key area as its own, whereas Vietnam, Malaysia, the Philippines, and Brunei who all have competing claims. The US has long served as a balancer to prevent China from encroaching. However, beginning in December 2013, China constructed and later militarized artificial islands in the South China Sea to reinforce its territorial claims, despite promises not to do so.7 In this period, the states of Southeast Asia have typically looked to the U.S. Navy to challenge China’s claims. It has done so through Freedom of Navigation exercises. However, now, with COVID-19, the Navy’s capabilities are in doubt.

Interestingly, most analysts conclude that China is not exploiting the opportunity in the area. Instead, the PRC’s efforts to build and fortify their islands continue at the previous rate, indicating “business as usual.”8Nonetheless, the U.S. seems concerned about the possibility that China will seek to exploit the opportunity created by COVID-19. The Trump administration is therefore sending three carrier strike groups, with a large influx of naval vessels, into the area to re-assert American control of the seas. Although this increases U.S. capability, it also signals weakness, in that the U.S. would not need to take such dramatic steps unless it faced a significant challenge. While it does not appear that the US is ready to initiate a preemptive challenge here, this increased militarization raises the possibility of accidents, which in turn does increase the probability of conflict. Empirically, military mobilizations such as these raise the possibility of accidents that may trigger militarized interstate disputes, or military crises short of war (Ghosn, Palmer, and Bremer 2004). Theoretically, military mobilizations may temporarily increase a state’s power, but this increase may be unsustainable given the increasing cost of putting armed forces in theater. This creates a dynamic where a state that has mobilized may be forced to use its weapons before it is compelled to redeploy them (Slantchev 2005; Tarar 2013).

3 COVID-19’s Long Term Threat

These observations lead to several conclusions about the immediate security situation. COVID-19 seems to have cost the U.S. some of its military capability relative to China. This may encourage China to push the U.S. while it is weak, and conversely, may compel the U.S. to mobilize to counter this threat. Since each of these activities is a response to the economic shock of COVID-19, we can see that the virus has increased the likelihood of a militarized encounter between the U.S. and China. However, it is important to recognize that even if China were to succeed in all of its military challenges to the U.S., this alone would not shift hegemony from the U.S. The key reason for this is that the majority of economic actors in the world seem to view the USD as the key reserve currency, and at this point, the RMB is not in a position to challenge that status (Norrlof et al. 2020; Oatley et al. 2013; Poast 2015).9 Despite significant criticism of the Trump administration during the economic shock of COVID-19, much of the world seems to view Federal Reserve Chairman Jerome Powell as a critical and stable player in international monetary policy. Powell indicated that the U.S. will continue to support global growth by keeping U.S. interest rates low. This allows for more money to be available for the rest of the world. Indirectly, this move may make China more powerful by encouraging investments in their market. However, this is also keeping the world tied to the dollar based system, which is the key component of American power. So long as the rest of the world continues to rely on USD as the means to settle transactions, and so long as the PRC’s market seems less transparent and stable, the US will continue to maintain its position of power in the international system.

However, this is based on the assumption that the US will be able to recover whatever power it has temporarily lost due to COVID-19. There are a few reasons to call this assumption into question. First, the US right now is the global epicenter of the COVID-19 crisis, despite its economic power and large medical infrastructure. This is largely attributed to a poor political response, which is causing the virus to spread at a much faster rate than in other states. As a result, the US now finds itself facing travel restrictions from numerous countries. This may give other states less reason to engage in economic transactions with Americans. These lost exchanges will likely be replaced by interacting with other citizens throughout the globe, and will therefore be settled in non-dollar denominations. The more this occurs, the more demand for USD could decline into the future. The US could potentially find itself increasing isolated with fewer individuals demanding its currency. Should this occur, the ability of the US to finance its budgets through deficit spending will decrease, and it will need to raise taxes and cut spending. Some of this will likely be on defense, which means that the ability of the US to defend interests in the Pacific and the Middle East will decline, opening the door for China.

Even worse, the political rhetoric inside the US is encouraging these changes. President Trump’s foreign policy platform is described as “American First”, which represents a combination of isolationism and unilateralism, and a general rejection of multilateral cooperation. If that is the case, each state in the international system will need to begin planning to move away from the American backed system. The damage done by COVID-19 to the US market, and the weakening of the US position as a result of the virus, will accelerate this process.

These changes will not happen overnight, and will not happen so quickly that a rapid transition will occur. This means that it is unlikely that COVID-19 will increase the risk of general war between the US and China, though it does raise the risk of crises and limited encounters. However, over the long term, if the US is unable to get the virus under control and develop a plan of action, COVID-19 does pose significant threats to US military and economic hegemony.

#### Post-COVID economic rebound secures geopolitical dominance – the alternative is global conflict, EU collapse and Chinese authoritarian dominance

Kempe 20 – Frederick, best-selling author, prize-winning journalist and president & CEO of the Atlantic Council, one of the United States’ most influential think tanks on global affairs. He worked at The Wall Street Journal for more than 25 years as a foreign correspondent, assistant managing editor and as the longest-serving editor of the paper’s European edition. “Op-ed: How the US can win the post-coronavirus race for global dominance”, CNBC, <https://www.cnbc.com/2020/04/18/op-ed-how-us-can-win-the-post-coronavirus-race-for-global-dominance.html>, 04-18-2020

Place your bets for the coming race to growth.

It will be an epic contest among the world’s most significant economies, with generational and geopolitical consequences. For context, think back to what the United States accomplished after World War II, when it rose as an economic power to shape a better world.

The post-COVID19 race could determine whether the U.S. rebounds in a manner that allows it to retain the mantle of global leadership. More likely for the moment, Beijing could leverage its first-mover advantage – alongside a faster economic recovery across Asian markets – accelerating the trend toward a Chinese-centric globalization.

Elsewhere, as President Macron argued this week to the Financial Times, the coming months could determine whether the European Union collapses as a political and economic project. The days ahead also could trigger a dangerous widening of the economic gap between emerging markets and the developed world – with escalating conflict and surging migration.

It may seem premature to reflect on which of the globe’s economies is likely to have the most robust and lasting economic comeback – and with what geopolitical impact. After all, this was a week in which the International Monetary Fund projected a 3% contraction in global GDP for 2020, the most dramatic drop since the Great Depression.

Yet it is the details behind that dismal forecast that should raise concerns within the U.S. and Europe. Their steeper economic decline and slower recovery could lay the seeds for a long-lasting shift of global tectonic plates to China’s advantage.

The IMF projected a U.S. economic decline of about 6% in 2020 and a contraction of the eurozone of 7.5%. That compares to projected Chinese economic growth for 2020 of 1.2% after a first quarter real decline of 6.7% – far less than the 10%-plus dip many experts had expected. The only group of countries in the world projected to be in positive territory are East Asian, at roughly 1%.

Even if one accepts that Chinese coronavirus fatalities likely are greater than their public figures and that the growth decline is likely larger, that doesn’t change the potential for a scenario that Deloitte and Salesforce this week referred to as “Sunrise in the East.”

Describing this scenario, as one of four possibilities they list, they write, “The global center of power shifts decisively east as China and other East Asian nations take the reigns as primary powers on the world stage and lead global coordination of the health system and other multilateral institutions.”

That comes with the broader acceptance of greater surveillance mechanisms as part of the public good, a faster recovery of East Asian countries with less economic impact from COVID19, and a significant ramping up of Chinese foreign direct investment to burnish its global reputation.

Still, the U.S. has a host of incumbent advantages that could serve it well if it uses its economic recovery to also strengthen its infrastructure, if it reverses runaway unemployment quickly, if it can tame political polarization and, most significantly, if it rediscovers its taste for collaborative global leadership.

In the economic race, no advantage is greater than the dollar.

China may be the world’s second largest economy, but the Chinese yuan makes up only 2% of global payments and reserves while the dollar accounts for roughly two thirds of foreign exchange reserves. The dollar underpins four-fifths of global supply chains.

The Economist reckons China could chip away at U.S. economic advantages through three underestimated strengths of its own: as a trusted debtor, an attractive creditor, and increasingly as a tech partner.

As a debtor, China’s $13 trillion bond market is the world’s second largest and has weathered the crisis well. Chinese debt returned 1.3% in the first quarter, vastly better than the 15.5% decline for other emerging market bonds. Over the same period, the Chinese market added $8.5 billion (60 billion yuan) in net inflows.

As a creditor, China has remained willing and generous, an approach that served the U.S. well after World War II. For example, it declared its willingness to back a G20 deal to suspend bilateral loan repayments by poorer countries, a sizable benefit also at its own cost.

On the tech front, few countries were as ready as China for money and people to go entirely online. Tencent and Ant Financial have more than a billion users each for their digital wallets, and they are expanding rapidly throughout Asia. OneConnect, an offshoot of China’s largest insurer, provides financial institutions in sixteen Asian countries with cloud-based services.

So, what other advantages can the United States leverage in this race?

Never underestimate the brittleness of an authoritarian country under stress. Its broad censorship, it’s opaque legal system, and the nature of its surveillance state are hardly models to emulate.

Beyond that, Japanese Prime Minister Shinzo Abe is not alone in proposing that his country relocate high-value supply chains from China. If many countries do the same, the manufacturing foundation of China’s economy could erode.

The Financial Times’ Gideon Rachman adds that the global trust in the dollar is just one of two built-in U.S. advantages that are difficult to dislodge.

The other?

“Where, outside your home country, would you most like your children to go to university or to work?” he writes.

Most significant in this race would be if the United States regained its appetite for political and economic leadership as the world’s premier “convening power.”

That need not be done at the cost of China – or anyone else.

The race still can be won if U.S. leaders see it as a marathon and recall that much of the world long embraced their global leadership because partners learned they were more likely to win as American partners.

This economic rebound from COVID19 will be patchy and uneven. Being first out the gate will be significant, and that is likely to be China. Yet history has taught the United States that it’s victory will be longest lasting if it can achieved alongside partners and allies.4.

## Affirmative Answers

### Non-unique – Business confidence low

#### Small business confidence is lowest it’s been since peak pandemic – pessimism is at all time high

Xavier Fontdegloria, 6-14, (Xavier Fontdegloria, Xavier Fontdegloria is an economy reporter for Dow Jones Newswires and The Wall Street Journal in Barcelona. Before he was correspondent in China for seven years, working at EFE news agency and at Spanish daily newspaper El País., 6-14-2022, MarketWatch, U.S. small business confidence stalled in May: NFIB, https://www.marketwatch.com/story/u-s-small-business-confidence-stalled-in-may-nfib-11655202475, 6-15-2022) SCade

Confidence among small-business owners in the U.S. flatlined in May for a second consecutive month, but expectations for future business conditions continued to deteriorate amid persisting inflation and supply shortages. The NFIB Small Business Optimism Index decreased marginally to 93.1 in May from 93.2 in April, the lowest level since April 2020, according to data released Tuesday by the National Federation of Independent Business. The reading is broadly in line with economists’ expectations in a poll by The Wall Street Journal. “Small-business owners remain very pessimistic about the second half of the year as supply-chain disruptions, inflation and the labor shortage are not easing,” NFIB Chief Economist Bill Dunkelberg said. The number of small-business owners who expect better business conditions in the next six months declined further in May, reaching a fresh new low in the near-five-decade survey’s history. Respondents also became more downbeat when assessing their projections for short-term sales.

#### Large Business isn’t doing better – CEO’s are terrified about the next 12 months

Melanie C. Nolen, 6-13 (Melanie C. Nolen, 6-13-2022, ChiefExecutive.net, CEO Confidence Falls To Decade Low, But Few Predict Recession, https://chiefexecutive.net/ceo-confidence-falls-to-decade-low-but-few-predict-recession/, 6-15-2022) SCade

Nearly 300 U.S. CEOs participated in Chief Executive’s CEO Confidence Index poll in June, sharing their prospect of the U.S. economy and business landscape. While their ratings of current business conditions remained flat month-over-month, at 6.4 out of 10, their forecast for business 12 months from now dropped another 6 percent, down to 5.6/10 from 5.9/10 in May. That reading is now 20 percent off where it was at the beginning of the year, before Russia’s invasion of Ukraine, when CEOs told us they were increasingly hopeful that persistent issues in the supply chain and growing inflation—and even Covid-19—would wind down this year. It is the lowest level it’s been since January 2013, on the heels of the “Fiscal Cliff” drama in Washington and ahead of further debt ceiling negotiations. CEOs say it’s the uncertainty of the situation more than specific issues that is driving their forecast down, although the list of concerns they shared continues to grow each month. Among those: market volatility, a chaotic geopolitical scene, uncontrolled inflation, record-high oil prices, and continued labor and supply chain shortages are all adding to the mix fueling doubts over the future. “The economy runs on oil, and until we get more, things are not getting better,” said Darrel Box, CEO at Lafayette Regional Health Center in Lexington, Missouri, who also lists labor and supply costs and shortages as reasons for his 4 out of 10 rating of business conditions 12 months from now (considered “Weak” according to our 10-point scale points). “Supply chain issues remain and do not seem to be getting any better,” said the CEO of an electronic component manufacturer participating in the poll. “Finding people is another major problem, so even if we find the parts, we will still have issues executing.”

#### Small business confidence collapsed now – inflation, supply chain disruptions, lack of workers

SARAH EWALL-WICE (CBS News) “As inflation soars, major corporations are posting record profits. But small businesses are feeling the squeeze” April 25, 2022 https://www.cbsnews.com/news/inflation-profits-corporate-small-business/

80% of small-business owners say their business' financial health has suffered due to inflation over the past six months, a new Goldman Sachs 10,000 Small Businesses Voices survey found. Of those, 67% have increased wages to retain employees, and 61% have increased wages to attract new employees. Meanwhile, 60% said they've offset their cost increases by passing it off to consumers by raising prices. Increasing energy costs – up 32% overall over the past year – are having a negative impact on bottom lines, 73% of small-business owners said. Overall, 91% of small-business owners say broader economic trends, such as inflation, supply chain issues and workforce challenges are hurting their businesses. And while the U.S. economy is considered strong by multiple measurements, 56% of small-business owners say the economy has worsened since January this year. As small businesses grapple with inflation – it's adding to other challenges they're already facing. At the top of the list, hiring and retaining qualified workers remains the top challenge cited by small-business owners, the survey found, as job openings remain near a record high with more than 11 million as of the end of February

#### crushed now---Supply chain weaknesses and pandemic

Crush 10/28[Peter Crush, "Business leaders admit over confidence in dealing with disruptions", 10/28/21, https://www.cips.org/supply-management/news/2021/october/business-leaders-admit-over-confidence-in-dealing-with-supply-chain-challenges/]

**Business heads have admitted being over confident about their ability to deal with supply chain disruptions**, according to a new report The research, by DuPont Sustainable Solutions, surveyed attitudes to managing unexpected supply chain events before and after the Covid-19 pandemic. It revealed **more than eight in 10 of the 203 leaders surveyed in 2019 thought they had a plan capable of addressing any unexpected business disruption**. However, this **level of confidence fell dramatically when they were asked again in 2021, with just 43% of those polled claiming they were prepared**. According to the survey, **77% of those questioned now feel risks to their business have increased since the pandemic began** (just 5% thought they had decreased), with 18% saying it is the same. Although the survey reveals **leaders were overly bullish about their ability to respond to sudden events**, the data did, however, reveal learnings had been made. Some 70% of leaders questioned said the pandemic had a positive impact on their digital strategies; more than 50% said communication had improved, and nearly 60% agreed their attitude to risk management had been positively impacted. Commenting on the research, CEO of DuPont Sustainable Solutions, Davide Vassallo, said: “By placing a premium on achieving cost efficiencies by minimising inventories, streamlining supply chains, sourcing from low-cost labour markets, and implementing just-in-time manufacturing, it left companies with little flexibility to absorb the supply, sourcing, operating, and commercial shocks caused by the pandemic.” According to the report, **some 64% of respondents said the pandemic had negatively impacted their supply chain, with 36% saying it had negatively impacted operations**.

### Thumpers

#### Laundry list of issues and uncertainty which destroyed bizcon

Melanie C. Nolen, 6-13 (Melanie C. Nolen, 6-13-2022, ChiefExecutive.net, CEO Confidence Falls To Decade Low, But Few Predict Recession, https://chiefexecutive.net/ceo-confidence-falls-to-decade-low-but-few-predict-recession/, 6-15-2022) SCade

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#### The Ukraine conflict has tanked business outlook across the G4 economies

IHS Markit 3/29, (IHS Markit (Nasdaq: INFO) is a world leader in critical information, analytics and solutions for the major industries and markets that drive economies worldwide, 3-29-2022, 3-29-2022, < https://seekingalpha.com/article/4498323-ukraine-war-hits-business-confidence-drives-price-pressures-to-new-highs > Blucas

While Russia's invasion of Ukraine had only a minor adverse impact on business output across the four largest developed economies in March, its impact was more evident on business confidence. Across the G4, business expectations of output in the coming 12 months slumped to the lowest since December 2020, sliding in all four economies but most notably in the eurozone. Future expectations hit 17-month lows in both the eurozone and UK, with 14- and five-month lows recorded in Japan and the US respectively. Anecdotal evidence from the surveys revealed that the invasion had exacerbated existing concerns over supply chains, prices and a potential slowing of economic growth as the pandemic rebound faded.

Ukraine war crushes business confidence

Roubini February 25 2022 (Nouriel Roubini, Professor Emeritus of Economics at New York University's Stern School of Business, 2-25-2022, Putin's war promises to crush the global economy with inflation and much slower growth, MarketWatch, https://www.marketwatch.com/story/putins-war-promises-to-crush-the-global-economy-with-inflation-and-much-slower-growth-11645803074)

The economic and financial fallout from the war, and the resulting stagflationary shock, will of course be largest in Russia and Ukraine, followed by the European Union, owing to its heavy dependence on Russian gas. But the U.S. will suffer, too. Because world energy markets are so deeply integrated, a spike in global oil prices—represented by the Brent BRN00, +0.47% benchmark—will strongly affect U.S. crude oil (West Texas Intermediate) prices. Yes, the U.S. is now a minor net energy exporter; however, the macro-distribution of the shock will be negative. While a small cohort of energy firms will reap higher profits, households and businesses will experience a massive price shock, leading them to reduce spending. Given these dynamics, even an otherwise strong U.S. economy will suffer a sharp slowdown, tilting toward a stagflationary growth recession. Tighter financial conditions and the resulting effects on business, consumer, and investor confidence will exacerbate the negative macro consequences of Russia’s invasion, both in the U.S. and globally. Likewise, the coming sanctions against Russia—however large or limited they turn out to be, and however necessary they are for future deterrence—inevitably will hurt not only Russia but also the U.S., the West, and emerging markets.

### BizCon not key

#### Not key to growth

Cameron Bagrie 18, Managing Director of Bagrie Economics, “Business confidence is a hopeless indicator. But that doesn't mean the economy isn't in trouble,” Spinoff, 8-9-2018, https://thespinoff.co.nz/business/09-08-2018/business-confidence-is-bullshit-but-that-doesnt-mean-the-economy-isnt-in-trouble/

The good news is that business confidence is hopeless as an economic indicator. The correlation with economic growth is poor and I largely ignore business confidence readings. Changes in direction can provide some insightful information – whether things are picking up or slowing down, but not the levels.

Businesses tend to be more upbeat regarding general confidence about the economy under a blue flag as opposed to a red one. Business confidence averaged minus 18 between 2000 and 2007. The economy (measured by real gross domestic product) grew on average by more than 3.5% per year. Yep, confidence was negative, but growth was positive. So, we ignore business confidence as an economic indicator. This is nothing new. It’s surprising headline business confidence figures receive so much attention’

#### “Shocks” are inevitable and have no impact.

Bagrie ’18 [Cameron; 8/9/18; Managing Director @ Bagrie Economics; “Business Confidence Is a Hopeless Indicator. But That Doesn’t Mean the Economy Isn’t in Trouble”; https://thespinoff.co.nz/business/09-08-2018/business-confidence-is-bullshit-but-that-doesnt-mean-the-economy-isnt-in-trouble]

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Commentators make the constant mistake of saying the ANZ survey is a business confidence survey. The same applies to the NZIER’s QSBO. They are surveys of business views across an array of key indicators including prospects for growth, hiring, whether firms are planning to invest and experiences with inflation / costs. These indicators matter. Business confidence is one question.

The so-called “soft” or “perception” indicators are the hard data of tomorrow. They are estimates and view based but you can’t ignore them. They are well correlated with growth.

In a perfect world we’d have timely “hard” official data and statistics. We don’t. Official data comes with a lag. So, we need to rely on sentiment-based indicators if we want timely readings on the economy and a guide as to the year ahead.

The likes of the ANZ survey are showing a sombre mood when it comes to indicators that matter. The ANZ survey asks key questions about activity, employment, investment and profitability. When these indicators head to zero, which they have done now, growth can do the same. Those indicators were weak in 2000 during the so-called winter of discontent – and growth slowed to 0.9% year on year.

Growth did rebound. But back then the economy was early in the economic expansion. The economy is late in the business cycle this time around. The economy has tended to go through a ten-year cycle, so businesses are naturally looking more nervously over their shoulders at present. The economy is going through substantial economic change too and businesses are wary. There is little argument over the need to change the economy. However, there are serious questions about the actual economic plan and what the new economy looks like. That is a key issue that needs addressed.

Some of the weakness in survey measures could be put down to the way survey questions are phrased. Firms are asked their view and given three options; will conditions improve, stay the same, or worsen. For a lot of firms’ things are damned good. It’s telling that finding skilled staff is the biggest problem firms are facing. Businesses are facing capacity constraints. So, zero readings may reflect a levelling out at a high base.

### Econ defense

#### No Econ Impact

Walt 20 – Stephen M, the Robert and Renée Belfer professor of international relations at Harvard University. “Will a Global Depression Trigger Another World War?”, Foreign Policy, <https://foreignpolicy.com/2020/05/13/coronavirus-pandemic-depression-economy-world-war/>, 05-13-2020

One familiar argument is the so-called diversionary (or “scapegoat”) theory of war. It suggests that leaders who are worried about their popularity at home will try to divert attention from their failures by provoking a crisis with a foreign power and maybe even using force against it. Drawing on this logic, some Americans now worry that President Donald Trump will decide to attack a country like Iran or Venezuela in the run-up to the presidential election and especially if he thinks he’s likely to lose. This outcome strikes me as unlikely, even if one ignores the logical and empirical flaws in the theory itself. War is always a gamble, and should things go badly—even a little bit—it would hammer the last nail in the coffin of Trump’s declining fortunes. Moreover, none of the countries Trump might consider going after pose an imminent threat to U.S. security, and even his staunchest supporters may wonder why he is wasting time and money going after Iran or Venezuela at a moment when thousands of Americans are dying preventable deaths at home. Even a successful military action won’t put Americans back to work, create the sort of testing-and-tracing regime that competent governments around the world have been able to implement already, or hasten the development of a vaccine. The same logic is likely to guide the decisions of other world leaders too. Another familiar folk theory is “military Keynesianism.” War generates a lot of economic demand, and it can sometimes lift depressed economies out of the doldrums and back toward prosperity and full employment. The obvious case in point here is World War II, which did help the U.S economy finally escape the quicksand of the Great Depression. Those who are convinced that great powers go to war primarily to keep Big Business (or the arms industry) happy are naturally drawn to this sort of argument, and they might worry that governments looking at bleak economic forecasts will try to restart their economies through some sort of military adventure. I doubt it. It takes a really big war to generate a significant stimulus, and it is hard to imagine any country launching a large-scale war—with all its attendant risks—at a moment when debt levels are already soaring. More importantly, there are lots of easier and more direct ways to stimulate the economy—infrastructure spending, unemployment insurance, even “helicopter payments”—and launching a war has to be one of the least efficient methods available. The threat of war usually spooks investors too, which any politician with their eye on the stock market would be loath to do. Economic downturns can encourage war in some special circumstances, especially when a war would enable a country facing severe hardships to capture something of immediate and significant value. Saddam Hussein’s decision to seize Kuwait in 1990 fits this model perfectly: The Iraqi economy was in terrible shape after its long war with Iran; unemployment was threatening Saddam’s domestic position; Kuwait’s vast oil riches were a considerable prize; and seizing the lightly armed emirate was exceedingly easy to do. Iraq also owed Kuwait a lot of money, and a hostile takeover by Baghdad would wipe those debts off the books overnight. In this case, Iraq’s parlous economic condition clearly made war more likely. Yet I cannot think of any country in similar circumstances today. Now is hardly the time for Russia to try to grab more of Ukraine—if it even wanted to—or for China to make a play for Taiwan, because the costs of doing so would clearly outweigh the economic benefits. Even conquering an oil-rich country—the sort of greedy acquisitiveness that Trump occasionally hints at—doesn’t look attractive when there’s a vast glut on the market. I might be worried if some weak and defenseless country somehow came to possess the entire global stock of a successful coronavirus vaccine, but that scenario is not even remotely possible. If one takes a longer-term perspective, however, a sustained economic depression could make war more likely by strengthening fascist or xenophobic political movements, fueling protectionism and hypernationalism, and making it more difficult for countries to reach mutually acceptable bargains with each other. The history of the 1930s shows where such trends can lead, although the economic effects of the Depression are hardly the only reason world politics took such a deadly turn in the 1930s. Nationalism, xenophobia, and authoritarian rule were making a comeback well before COVID-19 struck, but the economic misery now occurring in every corner of the world could intensify these trends and leave us in a more war-prone condition when fear of the virus has diminished. On balance, however, I do not think that even the extraordinary economic conditions we are witnessing today are going to have much impact on the likelihood of war. Why? First of all, if depressions were a powerful cause of war, there would be a lot more of the latter. To take one example, the United States has suffered 40 or more recessions since the country was founded, yet it has fought perhaps 20 interstate wars, most of them unrelated to the state of the economy. To paraphrase the economist Paul Samuelson’s famous quip about the stock market, if recessions were a powerful cause of war, they would have predicted “nine out of the last five (or fewer).” Second, states do not start wars unless they believe they will win a quick and relatively cheap victory. As John Mearsheimer showed in his classic book Conventional Deterrence, national leaders avoid war when they are convinced it will be long, bloody, costly, and uncertain. To choose war, political leaders have to convince themselves they can either win a quick, cheap, and decisive victory or achieve some limited objective at low cost. Europe went to war in 1914 with each side believing it would win a rapid and easy victory, and Nazi Germany developed the strategy of blitzkrieg in order to subdue its foes as quickly and cheaply as possible. Iraq attacked Iran in 1980 because Saddam believed the Islamic Republic was in disarray and would be easy to defeat, and George W. Bush invaded Iraq in 2003 convinced the war would be short, successful, and pay for itself.The fact that each of these leaders miscalculated badly does not alter the main point: No matter what a country’s economic condition might be, its leaders will not go to war unless they think they can do so quickly, cheaply, and with a reasonable probability of success. Third, and most important, the primary motivation for most wars is the desire for security, not economic gain. For this reason, the odds of war increase when states believe the long-term balance of power may be shifting against them, when they are convinced that adversaries are unalterably hostile and cannot be accommodated, and when they are confident they can reverse the unfavorable trends and establish a secure position if they act now. The historian A.J.P. Taylor once observed that “every war between Great Powers [between 1848 and 1918] … started as a preventive war, not as a war of conquest,” and that remains true of most wars fought since then. The bottom line: Economic conditions (i.e., a depression) may affect the broader political environment in which decisions for war or peace are made, but they are only one factor among many and rarely the most significant. Even if the COVID-19 pandemic has large, lasting, and negative effects on the world economy—as seems quite likely—it is not likely to affect the probability of war very much, especially in the short term. To be sure, I can’t rule out another powerful cause of war—stupidity—especially when it is so much in evidence in some quarters these days. So there is no guarantee that we won’t see misguided leaders stumbling into another foolish bloodletting. But given that it’s hard to find any rays of sunshine at this particular moment in history, I’m going to hope I’m right about this one.

**--War can’t be attributed to recessions**

**Liao 19** – Jianan, Shenzhen Nanshan Foreign Language School, China. “Business Cycle and War: A Literature Review and Evaluation”, Advances in Economics, Business and Management Research, International Symposium on Social Science and Management Innovation, Vol. 68, <https://www.atlantis-press.com/proceedings/ssmi-18/55913122>, 02-xx-2019

Academic researches on the relationship between business cycle and war are particularly rich, all of which can be divided into two major categories. One is the relationship between economic **rise** and **war**, and the other is the relationship between economic **recession** and war. Through the simple description and comparison of the two types of standpoints, the author divides economic upturn into recovery phase and expansion phase, and economic recession into recession phase and crisis phase, **all of which** have motivations as well as conditions enabling wars to break out. Therefore, the **outbreak of war** shall **never** be **simply attributed** to **either economic rise or recession**.

#### --They’re exogenous

Caldara and Lacoviello 18 – Dario, Federal Reserve Board of Governors. Matteo, Federal Reserve Board of Governors. “Measuring Geopolitical Risk”, International Finance Discussions Papers, <https://www.federalreserve.gov/econres/ifdp/files/ifdp1222.pdf>, 02-xx-2018

**We identify** the **structural shocks** **by using a Cholesky decomposition of the covariance matrix of the VAR reduced-form residuals**, ordering the GPR index first. **The ordering implies that the GPR index reacts contemporaneously only to its own shock.** Hence, **any contemporaneous correlation between the macro variables and the GPR index reflects the effect of the GPR index on the macro variables**. The characteristics of the GPR index discussed in Section 2—as well as the comparison to the EPU index in Section 3—lend support to this assumption. For instance, **Jackson and Morelli** (2011) **list religion, revenge, ethnic cleansing, and bargaining failure** over resources **as** **the** **main reasons for armed conflicts. Although recessions, lower** **commodity** prices**, or dismal economic performance might in some cases** **have** **exacerbated existing** **geopolitical** **tensions**, **it seems reasonable to assume that** **movements in economic variables** within a month **have little bearing on geopolitical risks**. Nonetheless, in Section A.4 in the Appendix we explore robustness to an alternative Cholesky ordering, as well as to alternative specifications of the baseline VAR model.

The solid lines in Figure 9 show the median impulse responses to an exogenous increase in the GPR index of 167 points, while the light- and dark-shaded areas represent the corresponding 68 percent and 90 percent pointwise credible bands, respectively. The size of the shock equals the average change in the index following the nine episodes of largest increases in the GPR index.29 The rise in the GPR index induces a small and short-lived increase in the EPU index and a decline in consumer sentiment. Intuitively, geopolitical risk can induce some economic policy uncertainty on items such as national security and the fiscal budget and negatively weigh on consumer sentiment. On the real side, IP declines quickly, bottoming out at negative 0.9 percent after about 6 months, before reverting back to trend. The deterioration in labor market conditions is substantial but more gradual, with payroll employment reaching a trough of negative 0.4 percent a year after the shock. Gross trade also drops, with U.S. imports and exports falling nearly 2 percent relative to the baseline. Figure A.7 in the Appendix plots the response of private investment to a GPR shock, based on an extension of the baseline model estimated on quarterly data. The economically significant decline in investment following a GPR shock, together with the decline in employment, is consistent with models of investment under uncertainty a la Dixit and Pindyck (1994).30

On the financial side, the response of the stock market is economically and statistically significant. Stock prices drop by almost 3 percent on impact and remain below baseline for a little over three months. The increase in the GPR leads to a decrease in oil prices, which bottom out at 7 percent below baseline after three months. This result stands in contrast with much of the conventionally held view that higher geopolitical risk drives up oil prices persistently—a view that might reflect a selective memory that confounds all geopolitical tensions with oil supply shocks driven by geopolitical tensions in the Middle East. Finally, the yield on two-year Treasuries declines by about 20 basis points, indicating both a worsening of the macroeconomic outlook and a loosening of the monetary policy stance.

One useful way to assess the exposure to GPR of various sectors of the U.S. economy is depicted in Figure 10. We add to the VAR model the cumulative excess return of firms in given industries relative to the S&P 500.n The solid lines show the excess return for 6 industries. The defense industry, which is perhaps directly exposed to geopolitical risk, records a positive but short-lived excess return; by contrast, industries that are exposed to the overall U.S. economy—such as aircraft, steelworks, and mining—display somewhat persistent negative returns. The oil industry, which some commentators argued could benefit from wars, especially in the Middle East, displays an initial positive excess return followed by a persistent decline, a response that mimics the path of oil prices. Finally, the insurance industry moves in sync with the overall U.S. stock market.

4.2 Threats versus Acts

Next, we evaluate the difference between innovations in the two broad components of the GPR index, the GPA geopolitical acts index and the GPT geopolitical threats index, by replacing the GPR index with the GPA and GPT indexes in the benchmark VAR. To achieve identification, we use a Cholesky ordering, with the GPA index ordered first and the GPT index ordered second. We interpret the first shock the GPA shock -as the realization of some adverse geopolitical events that could induce an increase in geopolitical threats; we interpret the second shock the GPT shock -as capturing geopolitical threats that are not contemporaneously associated with geopolitical acts, such as tensions building up before wars or after terrorist attacks.

The impulse responses to the GPA and GPT shocks are shown for selected variables in Figure 11. In presenting the results, we adopt the following exposition scheme, which is best viewed in color. Specifically, the responses to the GPA shock are plotted using a green-based color motif, while the responses to the GPT shock are plotted using a red-based color motif.

Starting from the responses of the three uncertainty proxies, a GPA shock of size 288—a shock sized to be equal to the 7 largest spikes in GPA, shown in panel (a)—induces an initial increase in the GPT and EPU indexes, followed by a period of below-average GPT and EPU that lasts for about a year. Thus, these responses are consistent with the realization of acts leading to the resolution of threats and uncertainty. By contrast, a GPT shock—shown in panel (b)—leads to a persistent increase in GPT which remains elevated for over a year- and in EPU. The GPA index, which by assumption does not move on impact, increases for about one year, as in our sample many geopolitical threats precede geopolitical acts.

The responses of activity, trade, and the stock market show that the GPA and GPT shocks have asymmetric effects on the U.S. economy. A shock to the GPA leads to a small but short-lived decline in economic activity and trade, whereas the stock market rises sharply one month after the shock. By contrast, a shock to the GPT induces large and protracted recessionary effects, as well as a decline in stock prices. Incidentally, the response of the stock market lends support to the old idea, attributed to London financier Nathan Rothschild, that one should buy stocks “on cannons,” and sell them “on trumpets.”

Figure 12 further elaborates on the asymmetric response of the stock market by depicting the response of cumulative excess returns in six industries to GPA and GPT shocks. Excess returns in all industries feature an asymmetric response, albeit to a various degree. The defense industry features the largest asymmetry: defense companies, on average, earn an excess return of about 5 percent for more than two years following a GPA shock, while they earn only a modest and shortlived excess return following a GPT shock. Excess returns in the steel and mining industries are also asymmetric—positive when geopolitical acts materialize and negative when threats are high. By contrast, the asymmetry in excess returns for insurance companies is economically modest.

One possible interpretation of the asymmetric effects of shocks to acts and threats is that the act component of GPR leads to a resolution of the uncertainty around a particular set of events, as well as to a coordinated policy response that ends up giving protection on the worst possible outcomes. By contrast, threat shocks depress asset prices and economic activity because they increase uncertainty and send signals about future adverse events. 2 The finding that the realization of the event has only modest economic consequences compared to the threat echoes the findings of theoretical models where agents form expectations using a worst case probability, as for instance in lint and Schneider (2014).

5 International Effects of Higher Geopolitical Risk

This section characterizes the international effects of rising geopolitical tensions. We first estimate a battery of structural VAR models, which we use to track the macroeconomic implications of an exogenous rise in geopolitical risk on real activity. We then test whether global stock market returns depend on geopolitical risk. Finally, we estimate panel regressions to unveil whether geopolitical risk affects international capital flows.

5.1 Geopolitical Risk and Real Activity

We first study whether GPR shocks have adverse consequences on the real economy outside the United States. We start by looking at the response of world IP and IP in advanced and emerging economies. Importantly, the emerging economies’ IP index includes mostly Asian, European, and Latin American countries. Reliable data on IP in major oil producing countries—which are likely to be highly exposed to the geopolitical risks captured by our index—are not available. We then estimate the response of real activity in three countries: Canada and the United Kingdom—as we used newspapers from these two countries in the construction of the index—and Mexico, an emerging economy selected for its large exposure to the U.S. economy.

We estimate a battery of VAR models consisting of the GPR index, the EPU index for the United States, and IP.'14 As for the U.S. model, we identify a GPR shock ordering the GPR index first in a Cholesky decomposition of the covariance matrix of the VAR residuals. The black lines in Figure 13 depict the median responses of IP for the six countries and regions listed above. These impulse responses suggest that a GPR shock has global consequences—world IP declines by about 0.5 percent one year after the shock—but its effects are mostly concentrated in advanced economies. By contrast, the emerging economies included in our index, on average, do not respond to geopolitical risks. Yet, Mexico—possibly through its large exposure to U.S. trade—experiences a modest but persistent decline in real activity.   
5.2 Geopolitical Risk and Stock Returns

We now turn to examining the reaction of stock market returns to changes in geopolitical risk. We do so both for the sample covered by the historical GPR index and for the sample covered by the benchmark GPR index.

The baseline econometric specification echoes the work of Berkman, Jacobsen, and Lee (2011). These authors find that disaster risk depresses stock returns. They measure disaster risk by counting the number of active crises recorded in the International Crisis Database discussed in Section 3 and plotted in Figure 7. Since their measure of disaster risk is tightly linked to geopolitical events, in this section we ask if our proxy, which displays only a weak correlation with their crisis index, can help us uncover a significant relationship between geopolitical risk and stock returns.

We obtain data on monthly stock returns based on general market price indexes from Global Financial Data. Our sample ranges from 1900 to 2016, although data availability varies by country, and the world stock price index is available starting in 1919. We select 17 countries—all countries that are currently classified as advanced economies, with the exception of India, Peru, and South Africa—for which data before World War II are available. The world stock price index is the Morgan Stanley Capital International (MSCI) index from 1970. Prior to 1970, world returns are calculated using the weighted average of country-specific returns. Nine countries have data starting before World War I. Many countries included in our regressions have gaps in the coverage that range from one month to over a year. Since these gaps partly coincide with World War II—as some stock markets did not operate in those years—we follow Berkman, Jacobsen, and Lee (2011) and use all available information.

We start by estimating the following regression:

rwtd,t — fa + otwidQPRSHOCKt + PnijCRISESt + £wid,t>

where rw[jt is the world stock market return in month t, GPRSHOCKt is the residual of an autoregressive process of order one estimated for the GPR index, and CRISESt is the crisis index constructed by Berkman, Jacobsen, and Lee (2011). In columns (1) and (3) of Table 2 we report results for two samples, starting in 1919 and 1985, respectively. To compare the impact on the GPR and on the crisis index, the coefficients measure the impact on stock returns of a one standard deviation shock in the GPR, and of having 2.41 active crises per month, the average number of crises over our sample.

For the historical sample, we find that a 1 standard deviation increase in the GPR induces a statistically significant decline in monthly stock returns of 0.5 percent. The sensitivity of world stock returns to geopolitical risk is larger after 1985, with an estimated drop of 0.75 percent. Interestingly, the coefficient on the crisis variable is negative for the historical sample—albeit not statistically significant—and becomes positive and not significant in the post-1985 sample. Thus, the GPR index correlates with negative stock returns controlling for the realizations of international crises. Moreover, the result over the post-1985 sample suggests that an advantage of the GPR index over the crisis index is that, having substantially more time variation, allows for the estimation of the impact of geopolitical events on stock returns over relatively short samples.

World stock returns react more to threats about geopolitical events than their realizations. This result is based on a modified version of equation (1), where we replace GPRSHOCKt with the residuals of AR(1) processes estimated for the GPR acts and threats indexes. As tabulated in column (2) of Table 2, for the historical sample, world stock returns decline in response to both GPA and GPT shocks, but the response to the former is small and not statistically significant. By contrast, in the post-1985 sample, stock returns rise in response to a positive GPA shock, while they experience a large and statistically significant decline in response to a GPT shock. Thus, as in the United States, world stock returns respond asymmetrically to the threats and realizations of geopolitical events.

We also estimate the following regression on country stock returns data:

rM = p, + aMGPRSHOCKt + eM,

where ri t is the stock market return in country i and month t. We exclude the crisis index from the country regressions because for the 11 countries we have stock returns data starting prior to 1919, the first year the crisis index is available. Table 3 tabulates the results for the historical and the post-1985 samples.

Three results emerge from this exercise. First, both in the historical and post-1985 sample, geopolitical risk depresses stock returns in all but one of the countries included in our regressions— the only positive coefficient is estimated for Japan and is close to zero. Second, on average, the sensitivity of stock returns to geopolitical risk is larger in the post-1985 sample relative to the historical sample, with countries like the Netherlands, Portugal, and Spain having a coefficient about 3 times larger in the short sample. Third, the response of stock returns varies substantially across countries. For the historical sample, the response ranges from about negative 0.9 for Italy and South Africa, to 0 for countries like Japan and Germany. Similarly, for the post-1985 sample, coefficients range from negative 1.50 for Italy and Germany, to negative 0.3 for Australia and Japan. Furthermore, while stock returns in some countries have remained particularly responsive (such as Italy or South Africa) or unresponsive (such as Japan) over time, stock returns have become more sensitive in others most notably in Germany.

5.3 Geopolitical Risk and Capital Flows

Finally, we present additional evidence on the global economic consequences of changes in geopolitical risk by showing how geopolitical risk affects capital inflows in a sample of advanced and emerging economies. The procyclical and volatile nature of capital flows makes them a leading policy concern, especially in economies that rely heavily on foreign sources of financing. We use country-level, quarterly data on capital inflows from the IMF’s Balance of Payments Statistics database. Our sample consists of 22 advanced economies, 23 emerging economies, and the United States, and covers the period from 1986:Q1 through 2015:Q4.36

Our baseline specification tests whether movements in geopolitical risk have explanatory power for gross capital inflows. We choose gross inflows—net purchases of domestic assets by foreign residents excluding official reserves—in line with a large and growing body of empirical evidence that shows that gross capital flows respond systematically to changes in global conditions, and in line with the notion that our measure of geopolitical risk is more likely to matter for the economic-decisions of global investors on where to allocate capital across countries. \*7

Our regression takes the form:

Vi,t — ai + PDi.t-i + PGP Rt + rXt + Uit,

where yi t — inflowsi t/GDP,t are gross capital inflows divided by annualized GDP, a, are country fixed effects, GPRt is our geopolitical risk index, and Xt is a vector of control variables. We estimate equation (3) separately for emerging economies, for advanced economies excluding the United States, and for the United States. Throughout, we assume that the effect of the GPR index on capital inflows is equal within each group of countries. Following the work of Ahmed and Zlate (2014), our model specification includes the VIX to control for global economic risk, lagged capital flows to control for persistence in capital flows, as well as country-specific GDP growth to capture demand-side factors that could drive capital flows towards one country.

Table 4 reports regressions coefficients scaled to denote the impact of a 1 standard deviation increase in the GPR index and the VIX. Comparing columns (1) and (2) of the table, an increase in GPR produces different effects on capital inflows in emerging versus advanced economies. In emerging economies, high GPR reduces capital inflows by 0.23 percentage points, while an equally sized increase in the VIX reduces capital inflows by more than one percentage point. By contrast, in advanced economies, increases in GPR lead to a sizable increase in capital inflows— about one percentage point—whereas increases in the VIX reduces capital inflows by 1.5 percentage points. GPR and VIX also have opposite effects on inflows for the United States: as tabulated in column (3), the effect of an increase in geopolitical risk is negative (albeit the coefficient is not statistically different from zero) while the effect of an increase in the VIX is positive and statistically significant. In all specifications, the coefficient on lagged GDP growth is positive, confirming the findings in Broner, Didier, Erce, and Schmukler (2013) that a better investment climate (as proxied by GDP growth) leads to larger inflows in both advanced and emerging economies.

In additional regressions results, we have verified that the asymmetric effect of geopolitical risk on capital inflows for emerging and advanced economies is present for all three subcomponents of capital inflows: portfolio flows, foreign direct investment, and other investments.38 However, such effects are especially pronounced for portfolio flows and other investments compared to foreign direct investment.

All told, the results suggest a marked difference between the effects on capital flows of global economic risk (as measured by the VIX) and geopolitical risk. While higher economic uncertainty leads to a repatriation of foreign capital across the board, increases in geopolitical risk appear to shift purchases of foreign capital away from emerging and toward advanced economies, consistent with a flight-to-safety hypothesis.311 However, the relatively small estimate of the effect of GPR on emerging economies' inflows suggests that adverse geopolitical events fall short of causing full-blown sudden stops in these economies. This finding mirrors our international VAR evidence showing little effects of higher geopolitical risk on activity in emerging economies.

6 Conclusions

**We construct an index of geopolitical risk and examine** **its evolution and** **its effects over** **the past** **120 years. This index captures** **an important dimension of uncertainty: the** **risk of events that disrupt** **the normal**, democratic, and **peaceful course of relations across states**, populations, and territories. **Compared to existing proxies for macroeconomic uncertainty**, **we argue that our index can be used to isolate risks -such as risks of wars** and terrorist attacks—**that are more likely** to be **exogenous to economic developments in the U**nited **S**tates **and other** advanced **economies.**

#### Economic downturns don’t cause conflict

Clary 15 (Ph.D. in Political Science from MIT, Postdoctoral Fellow, Watson Institute for International Studies, Brown University, “Economic Stress and International Cooperation: Evidence from International Rivalries,” April 22, 2015, http://papers.ssrn.com/sol3/papers.cfm?abstract\_id=2597712)

Do economic downturns generate pressure for diversionary conflict? Or might downturns encourage austerity and economizing behavior in foreign policy? This paper provides new evidence that economic stress is associated with conciliatory policies between strategic rivals. For states that view each other as military threats, the biggest step possible toward bilateral cooperation is to terminate the rivalry by taking political steps to manage the competition. Drawing on data from 109 distinct rival dyads since 1950, 67 of which terminated, the evidence suggests rivalries were approximately twice as likely to terminate during economic downturns than they were during periods of economic normalcy. This is true controlling for all of the main alternative explanations for peaceful relations between foes (democratic status, nuclear weapons possession, capability imbalance, common enemies, and international systemic changes), as well as many other possible confounding variables. This research questions existing theories claiming that economic downturns are associated with diversionary war, and instead argues that in certain circumstances peace may result from economic troubles.