

SPENDING DA

The nation's fiscal policy – how much the government spends and taxes – is at the center of our public policy debates. The size of the government's annual deficit and its accumulated long-term debt are important economic figures to investors and international traders. They are worried about the future economic stability of the United States and connect that view to the ability of the U.S. government to manage its fiscal policy wisely.

The President and Republican leadership in Congress are currently engaged in a protracted negotiation about how much the U.S. Federal Government should tax and spend. This issue has been raised in the context of the current debate over the debt limit, but it also arises several times during the year in various stages of the annual budget writing. The talks are highly contentious and ideological. Striking a deal is difficult but it is an important signal to markets that the U.S. is on rational, credible footing when it comes to fiscal policy.

Should international investors and traders come to believe that the U.S. Federal Government was incapable of dealing with their budget problems, confidence in the U.S. economy would be lost. The result would be that less investment would take place in the U.S. and possibly a shift away from the dollar as the primary international currency for trade.

There is also a second scenario included on hyperinflation. If the U.S. doesn't fix its spending habits to the satisfaction of investors, it could trigger hyperinflation and economic collapse. The U.S. is on the brink of hyperinflation with a situation similar to other nations who in the past have suffered from it. Confidence in the economy right now is crucial.

Basic Explanation

The affirmative plan represents new spending by the Federal Government at a time when it is important for the U.S. to show some fiscal discipline. This signal begins a downward spiral of loss of investment, collapse of the dollar and a new, deep recession in the United States.

Uniqueness – In the status quo, the President and Congress will eventually strike a deal that demonstrates fiscally responsible behavior by the Federal Government. The fact that our government is divided between the two parties will reinforce this because Democrats won't allow further tax cuts and Republicans won't allow further spending. Part of controlling spending extends to NASA's budget, which is to be frozen and reduced over the next five years. There are also no new NASA programs scheduled. Even with all the negative factors in the economy, we will avoid a second recession and the dollar will remain strong.

Link – The affirmative plan sends a terrible signal to international markets regarding American fiscal discipline. Space programs tend to be expensive and end up costing more than originally projected. Space is also viewed as a luxury -- not essential to short-term job creation or economic stimulus. If at this time of great fiscal crisis, the U.S. would embark on a brand new spending program, it would undermine any confidence that our leaders can get control of the budget.

Impact – Loss of credibility on controlling government spending would undermine the dollar as a currency. The budget battle is a key indicator of whether or not the dollar will retain strength. The closer Democrats and Republicans come to lowering the deficit and debt, the more likely the international community will keep supporting the dollar by buying American assets that are valued in dollars. If the international community loses faith in the American economy, there will be less investment here and possibly an abandonment of the dollar. And a single event could trigger that. A big international currency war would cause another recession and maybe depression.

DOLLAR COLLAPSE – 1NC SHELL

A. UNIQUENESS. CURRENT BUDGET PLANS FOR REDUCED NASA SPENDING

National Journal February 14, 2011

[<http://www.nationaljournal.com/nationalsecurity/nasa-largely-spared-big-cuts-in-obama-budget-20110214>]

President Obama's controversial vision for America's space program may have already come face to face with fiscal reality. NASA largely dodged major cuts under his proposed budget released today, but the plan reveals some significant reallocation of funds and doesn't appear to include any of the \$6 billion boost that he promised to provide over five years. The total amount budgeted for NASA matches 2010's funding of \$18.7 billion, but the plan strips nearly \$2 billion from the Space Operations program, which is responsible for operating the space shuttle and International Space Station. This reduction is based largely on the shuttle program drawing to an end (the last flight is scheduled this year), as well as a planned merger of the two directorates.

DOLLAR COLLAPSE – 1NC SHELL

B. THE PLAN UNDERMINES THE VALUE OF THE DOLLAR

1. THE PLAN IS NEW GOVERNMENT SPENDING IN A TIME WHEN WE NEED FISCAL RESTRAINT. SPACE EXPLORATION IS EXPENSIVE

USA Today January 30, 2011

[http://www.usatoday.com/tech/science/space/2011-01-261Achallenger26_CV_N.htm]

Space exploration takes big bucks. After the accident, Congress poured money into NASA to fund its recovery from the catastrophe, including the construction of a shuttle to replace Challenger. NASA's budget soared from \$15.5 billion (in 2010 dollars) in fiscal 1986 to almost \$21 billion the year after the accident, and it continued to trend upward for the next half-decade. Since then, however, NASA often has faced "a disconnect between the goals that have been set and the funds that have been available to carry out those goals," says Norman Augustine, former chairman and CEO of Lockheed Martin who led a panel appointed by the Obama administration to examine NASA's plans.

2. LOSS OF CREDIBILITY ON CONTROLLING GOVERNMENT SPENDING WILL UNDERMINE THE DOLLAR

Christian Science Monitor April 14, 2011

[<http://www.csmonitor.com/Commentary/the-monitors-view/2011/0414/Budget-cuts-are-the-dollar-s-savior>]

Americans should look at the battle of the budget in Washington as bigger than typical power-play antics. Not only is the tussle over spending a way to define government's role. It will also dictate the future of US leadership – and its values – in the global economy. The best measure of that influence lies in the continuing strength of the US dollar as the world's dominant currency for countries to hold in reserve and for use in trade. The closer Democrats and Republicans get to a deal on dramatic cuts in the deficit, the more likely the greenback will keep its perch as the global banknote of choice. Without a credible agreement to reduce trillions in US debt, however, the wolves will soon be at the gate in an attempt to dethrone the dollar, and Americans will lose the benefits of easy trade in dollars and the use of credit from countries recycling dollars back into purchase of Treasury bonds.

DOLLAR COLLAPSE – 1NC SHELL

B. 3. BRINK - ANY SINGLE EVENT THAT WORRIES INVESTORS COULD TRIGGER A DOLLAR SELL OFF

Judith Sherman, attorney, Foley, Baron & Metzger, September 6, 2010

[<http://canwebelieveit.info/2010/09/06/will-u-s-dollar-collapse/>]

Several conditions MUST be in place before the dollar could collapse. First, the dollar must already be weak. Second, there must be a viable currency alternative that everyone can turn to quickly in an emergency. Third, an event would have to trigger a stampede to a sell-off before a collapse could occur. The dollar is already weak so the first condition exists right now. The dollar has been declining against the euro by 40% between 2002 and 2009. Why? The U.S. debt more than doubled during that time period, from \$5.9 trillion to \$13 trillion. This increases the chance the U.S. will let the dollar's value slide, allowing it to repay the debt with cheaper money. An event or a cascade of events would be enough to cause the dollar to collapse. An event would be anything that investors consider worrisome. Investors will sell-off their holdings with dollars at a panic rate that cause the value of the dollar to fall quickly and crash.

DOLLAR COLLAPSE – 1NC SHELL

C. IMPACT.

GOVERNMENT SPENDING RISKS A CURRENCY WAR AND GREAT DEPRESSION

John Ing, President, CEO at Maison Placements Canada Inc. December 17, 2010

[<http://www.financialsense.com/contributors/john-ing/currency-wars-and-china>]

Washington's insatiable appetite for debt and taxes has become just too big. In reflating this bubble with yet another round of quantitative easing, Fed Chairman Bernanke (a.k.a. Helicopter Ben) has greatly increased the risk of a global currency war dragging down an already vulnerable banking system. Desperately the Americans and Europeans have resorted to the printing press, manipulating their currencies lower destabilizing capital flows, raising fears of an all out currency war, similar to the one that spawned the Great Depression.

ECONOMIC COLLAPSE IMPACT

James Cusick, Sunday Herald (Scotland) 3.18.09

[http://www.sundayherald.com/oped/opinion/display.var.2495478.0.dont_bank_on_financial_trouble_being_resolved_without_conflict.php]

I'm not saying that America is about to declare war on China, or that Germany is going to invade France. But there are profound economic stresses in central Europe that could rapidly turn into conflict in the bankrupt Baltic states, Hungary, Ukraine. And if the Great Recession, as the IMF's Dominique Strauss-Kahn called it last week, turns into a Great Depression, with a prolonged collapse in international trade and financial flows, then we could see countries like Pakistan disintegrate into nuclear anarchy and war with neighbouring India, which will itself be experiencing widespread social unrest. Collapsing China could see civil war too; Japan will likely re-arm; Russia will seek to expand its sphere of economic interests. Need I to go on?

UNIQUENESS - SPACE BUDGET

OBAMA BUDGET FREEZES NASA FOR FIVE YEARS

Agence France Presse February 14, 2011

[<http://www.abs-cbnnews.com/global-filipino/world/02/14/11/obama-five-year-freeze-nasa-budget>]

President Barack Obama on Monday proposed reining in expenses at NASA, sending his 2012 budget blueprint to Congress calling for a five-year freeze on new spending at the US space agency. The president would restrict NASA's budget to last year's levels, \$18.7 billion annually through fiscal 2016. The figure represents a 1.6-percent decrease from the spending total the agency had sought for fiscal 2011, which ends in September. "This budget reflects the overall fiscal reality of the US government. There is not a lot of money available," said John Logsdon, a former director of the Space Policy Institute in Washington.

NO GREAT POLICY CHANGES IN STORE FOR NASA

Yahoo News February 14, 2011

[http://old.news.yahoo.com/s/ac/20110214/pl_ac/7856368_obamas_nasa_budget_proposal_for_fy2012__business_as_usual]

Unlike last year, President Barack Obama's proposed budget for NASA in the coming fiscal year includes no great policy changes. In keeping with the President's propose to freeze domestic spending it comes out to \$18.7 billion dollars for fiscal year 2012. The outline of the budget proposal pretty much accepts the priorities set down in the bipartisan NASA authorization act passed last year.

UNIQUENESS - SPACE MISSIONS

THE SPACE AGE IS OVER

The Economist June 30, 2011

[<http://www.economist.com/node/18897425>]

It is quite conceivable that 36,000km will prove the limit of human ambition. It is equally conceivable that the fantasy-made-reality of human space flight will return to fantasy. It is likely that the Space Age is over.

SPACE EXPLORATION IS NOT INEVITABLE

The Economist June 30, 2011

[<http://www.economist.com/node/18897425>]

The reason for that second objective is also the reason for thinking 2011 might, in the history books of the future, be seen as the year when the space cadets' dream finally died. It marks the end of America's space-shuttle programme, whose last mission is planned to launch on July 8th (see article, article). The shuttle was supposed to be a reusable truck that would make the business of putting people into orbit quotidian. Instead, it has been nothing but trouble. Twice, it has killed its crew. If it had been seen as the experimental vehicle it actually is, that would not have been a particular cause for concern; test pilots are killed all the time. But the pretence was maintained that the shuttle was a workaday craft. The technical term used by NASA, "Space Transportation System", says it all. But the shuttle is now over. The ISS is due to be de-orbited, in the inelegant jargon of the field, in 2020. Once that happens, the game will be up. There is no appetite to return to the moon, let alone push on to Mars, El Dorado of space exploration. The technology could be there, but the passion has gone—at least in the traditional spacefaring powers, America and Russia.

UNIQUENESS - SPACE MISSIONS

THE PUBLIC HAS LOST INTEREST IN PAYING FOR SPACE EXPLORATION

The Economist June 30, 2011

[<http://www.economist.com/node/18897425>]

Unless life turns up on Mars, or somewhere even more unexpected, public interest in the whole thing is likely to wane. And it is the public that pays for it all. The future, then, looks bounded by that new outer limit of planet Earth, the geostationary orbit. Within it, the buzz of activity will continue to grow and fill the vacuum. This part of space will be tamed by humanity, as the species has tamed so many wildernesses in the past. Outside it, though, the vacuum will remain empty. There may be occasional forays, just as men sometimes leave their huddled research bases in Antarctica to scuttle briefly across the ice cap before returning, for warmth, food and company, to base. But humanity's dreams of a future beyond that final frontier have, largely, faded.

UNIQUENESS - ECONOMY

EVEN WITH ALL THE NEGATIVE FACTORS, WE WILL AVOID A DOUBLE DIP RECESSION IN THE STATUS QUO

Andrew Stout, senior investment officer, MCF Advisors, June 7, 2011

[<http://www.bizlex.com/Articles-c-2011-06-07-97934.113117-ThreeYear-Outlook-A-Look-at-the-Headwinds.html>]

Within this outlook, economic growth and recovery will be led by the private sector, but it will likely be more muted than recent recoveries due to economic headwinds. Because of these headwinds, economic growth should average around 2 percent to 3 percent over the next three years, with the potential to see a weak quarter as the economy recovers. But even with significant headwinds such as a weak housing sector, chronically high unemployment, and high debt loads in the consumer and governmental sectors of the economy, a double-dip recession is not likely in the near term.

ECONOMIC GROWTH WILL BE SUFFICIENT TO PREVENT ANOTHER HOUSING COLLAPSE

Andrew Stout, senior investment officer, MCF Advisors, June 7, 2011

[<http://www.bizlex.com/Articles-c-2011-06-07-97934.113117-ThreeYear-Outlook-A-Look-at-the-Headwinds.html>]

Because of this imbalance, home prices are likely to fall even further. While the spotty demand and shaky supply would appear to be a perfect recipe for another housing collapse, this is less likely if the economy continues to grow. With steady economic growth around 3 percent over the next few years, the job market should slowly heal, and this will provide a floor under the housing market.

UNIQUENESS - ECONOMY

DRAGS ON THE ECONOMY ARE LOOSENING, SETTING UP THE PROSPECT FOR SOLID GROWTH THIS YEAR

Tom Petruno, financial columnist, Los Angeles Times July 2, 2011

[<http://www.latimes.com/business/la-fi-petruno-markets-20110702,0,6504218.column>]

Certainly, the jump in oil prices last winter, as social unrest in the Middle East exploded, cost the U.S. some growth. So did Japan's terrible earthquake in March, which led to bottlenecks in the global industrial supply chain, particularly for autos and tech equipment. With oil down from its spring highs and Japan ramping up production, those factors will be less of a drag on the economy. And the money the Fed pumped into the financial system, which mostly still is sitting at the banks, may start to trickle into the real economy via loans. Once again, many analysts see growth reaching 3% to 4% rates in the second half.

UNIQUENESS - HYPERINFLATION

THERE IS ENOUGH SLACK IN THE ECONOMY NOW TO PREVENT INFLATION

Andrew Stout, senior investment officer, MCF Advisors, June 7, 2011

[<http://www.bizlex.com/Articles-c-2011-06-07-97934.113117-ThreeYear-Outlook-A-Look-at-the-Headwinds.html>]

In the near term, the core inflation risk in the United States is low despite the rising commodity prices. While commodity prices have increased recently, the slack in our economy will moderate price increases. Evidence of the slack in our economy can be found in the high unemployment rate. With so many people unemployed, wage increases are smaller and spaced further apart. The high unemployment rate also reduces the buying power and behavior of individuals, which reduces demand and thus, the rate of inflation.

CURRENT POLICIES WON'T PRODUCE HYPERINFLATION

Andrew Stout, senior investment officer, MCF Advisors, June 7, 2011

[<http://www.bizlex.com/Articles-c-2011-06-07-97934.113117-ThreeYear-Outlook-A-Look-at-the-Headwinds.html>]

Even though economic growth will remain positive beyond 2011, it will not be strong enough to create hyperinflation. It took several years of high price and wage inflation in the 1970s before bond markets began to price hyperinflation. Furthermore, the argument that the Fed's actions will spur higher core prices is weak. It is true the monetary base has increased substantially over the last few years, 195 percent over three years to be exact. That sounds inflationary because it could mean there is more money chasing fewer goods; however, the money is not making its way into the economy. This can be seen with the money supply (via M2) increasing only 15 percent in the past three years. The reason money supply is not increasing at the same rate is because banks are not making as many loans as they had prior to the recession. Thus, the money is not hitting Main Street.

UNIQUENESS - FISCAL DISCIPLINE

SPENDING DISCIPLINE IN THE STATUS QUO

Philadelphia Inquirer July 3, 2011

[<http://www.philly.com/philly/news/124929599.html?cmpid=15585797>]

Even as the political battle rages over federal spending, the end result for federal policy already is visible - and clearly favors Republican goals of deep spending cuts and drastically reduced government services. President Obama entered the fray last week to insist that federal deficits cannot be reduced through spending cuts alone. Tax revenues also must rise as part of whatever deficit-reduction package Congress approves this summer, he said. Obama has been pushing to end a series of what he calls tax loopholes and tax breaks for the rich. But even if Obama were to gain all of the tax-law changes he wants, new revenues would make up only about 15 cents of each dollar in deficit reduction in the package.

SPENDING CUTS WILL BE ACROSS THE BOARD

Philadelphia Inquirer July 3, 2011

[<http://www.philly.com/philly/news/124929599.html?cmpid=15585797>]

Democrats have largely accepted more than \$1 trillion in spending reductions as a signal that they are willing to make difficult choices - including what a Democratic official said are \$200 billion in cuts to Medicare and Medicaid. Details of such cuts are still unknown, but they will slice across every domestic agency, reducing funds for education, transportation, and health and welfare.

LINKS – SPACE IS EXPENSIVE

SIGNIFICANT BUDGET OVERRUNS AT NASA ARE COMMON

Amy Klamper, Space News Staff Writer, November 15, 2010

[<http://www.space.com/9530-nasa-space-telescope-cost-overtuns-imperil-projects.html>]

Massive cost overruns on NASA's James Webb Space Telescope will imperil funding for the agency's on-orbit astronomy missions while potentially wiping out big-ticket space observatories and a host of less-expensive development projects deemed high priorities by the science community, according to experts. During a Nov. 10 news conference, NASA released the findings of an independent review that found the James Webb Space Telescope (JWST) will cost some \$1.5 billion more than its current \$5 billion life-cycle cost estimate, and that the observatory's launch, previously slated for June 2014, will not occur before September 2015. Led by John Casani of NASA's Jet Propulsion Laboratory in Pasadena, Calif., the Independent Comprehensive Review Panel attributed JWST cost growth to poor management and inadequate funding reserves needed to develop, launch and operate the next-generation flagship astronomy mission.

NASA HAS A REPUTATION FOR ALWAYS BEING OVER BUDGET

Associated Press March 4, 2009

[http://www.msnbc.msn.com/id/29513895/ns/technology_and_science-space/t/cost-overtuns-plague-us-space-agency/]

NASA can land a spacecraft on a peanut-shaped asteroid 150 million miles away, but it doesn't come close to hitting the budget target for building its spacecraft, according to congressional auditors. NASA's top officials know it and even joke about it. This week auditors found that on nine projects alone NASA is nearly \$1.1 billion over cost estimates that were set in the last couple of years. Congress' financial watchdog, the Government Accountability Office, reviewed NASA's newest big-money projects and found most were either over budget, late or both. That doesn't include two of NASA's largest spending projects whose costs have wildly fluctuated and still aren't firm — replacements for the space shuttle fleet and Hubble Space Telescope. Historically, overruns have caused NASA to run low on money, forcing it to shelve or delay other projects. Often, the agency just asks taxpayers for more money.

LINKS – SPACE IS EXPENSIVE

NASA ALREADY HAS MANDATED PROGRAMS IT CAN'T FUND

USA Today January 30, 2011

[http://www.usatoday.com/tech/science/space/2011-01261Achallenger26_CV_N.htm]

One of the most recent victims of NASA's financial woes was a plan Bush announced in 2004 to return humans to the moon. In 2009, Augustine's panel concluded that there wouldn't be enough money, given NASA's existing budget, to pay for a new moonshot until the 2030s, "if ever." President Obama moved to cancel the effort in 2010. He told NASA to rely on private space companies to blast astronauts into space and to decide in 2015 on the design for a new, heavy-duty rocket that could blast humans to the moon and beyond. Obama's new program didn't outlive the year. In September, Congress piled expensive new chores on NASA: Develop a new space pod to carry humans into orbit and beyond, build the big new rocket by 2017 and continue with some of Obama's pet projects, such as subsidies for private space companies. Congress' to-do list "is not executable ... in today's budgetary climate," says Marcia Smith, who runs SpacePolicyOnline.com "The debate's going to continue on what this nation is actually going to fund."

SPACE MISSIONS ARE EXPENSIVE

Michio Kaku, professor theoretical physics, CUNY, July 16, 2009

[<http://www.forbes.com/2009/07/16/apollo-moon-landing-anniversary-opinions-contributors-cost-money.html>]

After all is said and done about what went wrong, the bottom line is simple: money. It's about \$10,000 to put a pound of anything into a near-earth orbit. (Imagine John Glenn, the first American to orbit the earth, made of solid gold, and you can appreciate the enormous cost of space travel.) It costs \$500 to \$700 million every time the shuttle flies. Billionaire space tourists have flown to the space station at a reputed price of \$20 million per head. And to put a pound of anything on the moon costs about 10 times as much. (To reach Mars, imagine your body made of diamonds.) We are 50 years into the space age, and yet space travel is just as expensive as it always was.

LINKS – SPACE IS EXPENSIVE

NASA HAS NO RECORD FOR COST CONTAINMENT

Michio Kaku, professor theoretical physics, CUNY, July 16, 2009

[<http://www.forbes.com/2009/07/16/apollo-moon-landing-anniversary-opinions-contributors-cost-money.html>]

One of the primary missions of NASA should have been to drive down the cost of space travel. Instead of spending half a billion dollars on each shuttle mission, it should have diverted some of the funds to make research and development a primary focus. New materials, new fuels and innovative concepts, which would make space exploration less expensive, should have been prioritized.

SPACE PROGRAMS ARE EXPENSIVE

USA Today January 30, 2011

[http://www.usatoday.com/tech/science/space/2011-01-26-1Achallenger26_CV_N.htm]

The new Republican leadership of the House of Representatives has promised to slash government funding, and NASA will make a tempting target, space analysts say. The reality is that "this is all very expensive and you can't do everything," says Johnson-Freese, but that reality is one that "Congress is still not acknowledging. ... We're setting ourselves up for another round of disappointment."

SPACE PROGRAMS ARE EXPENSIVE

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LINKS – SPACE IS EXPENSIVE – SPACE SHUTTLE EXAMPLE

THE SPACE SHUTTLE PROVES PROGRAMS ARE VASTLY MORE EXPENSIVE AND INEFFICIENT THAN PROJECTED

Stephen Walt, professor international relations, Harvard, March 22, 2011

[http://walt.foreignpolicy.com/posts/2011/03/21/the_space_shuttle_program_stunning_success_or_dismal_failure]

The Space Shuttle was expected to provide inexpensive and reliable access to space for a multitude of missions. It never came close to achieving this goal. In retrospect the goal proved impossible due to high refurbishment costs, program delays, and the inappropriate use of humans where robots would have been better. To promote shuttle use and spread fixed costs over many flights, the Expendable Launch Vehicle (i.e., disposable rocket) programs were discontinued, so that all civilian missions could be diverted onto the Shuttle. Yet instead of being inexpensive, a single launch required approximately \$1B. Schedules were compromised by endless delays and by the inspections needed to verify that the complex machinery was ready to transport humans safely. NASA underestimated the time required to service the orbiters between flights, and the launch frequency never approached the advertised rate, leading to a substantial backlog of payloads, both scientific and applied, awaiting launch.

THE SPACE SHUTTLE WAS EXTREMELY EXPENSIVE

Stephen Walt, professor international relations, Harvard, March 22, 2011

[http://walt.foreignpolicy.com/posts/2011/03/21/the_space_shuttle_program_stunning_success_or_dismal_failure]

It is difficult to estimate the overall direct and indirect cost of the Space Shuttle program, but it must be well over \$100B. As these overruns occurred, funds to pay for them were extracted from the science projects the Shuttle was intended to support. Costs of science experiments launched by the Shuttle were also inflated by the need to certify the instruments as "man rated." Even such unique feats as repairing the Hubble Space Telescope seem less meritorious when one realizes that the repair mission expense was \$1B and put astronauts lives at risk. That same \$1B could have been used to build and launch a new Space Telescope. In short, the Space Shuttle Program was enormously expensive, led to a tragic loss of human life, and contributed little to science other than launching of scientific payloads which could have been placed in orbit better by expendable vehicles.

LINKS – SPACE BASED SOLAR ENERGY

SBSP IS EXPENSIVE

Adam Hadhazy, Scientific American, April 16, 2009

[<http://www.scientificamerican.com/article.cfm?id=will-space-based-solar-power-finally-see-the-light-of-day&page=4>]

Overall, the *how* may be much easier to overcome than the *how much*. "Technically, we're a lot closer to space-based solar power than we are economically," Little says. The biggest obstacle, he says, continues to be launch costs. "Large structures in space are not showstoppers, but the cost of getting up into space is the real hang-up [for SBSP]," CSP's Best says. In Space Energy's business plan, for instance, half of the \$250 million allotted for their communication satellite-size prototype goes toward just lofting the approximately 1,760-pound (800-kilogram) craft into orbit.

THE MICROWAVE TRANSMITTERS ARE GIGANTIC AND EXPANSIVE

Adam Hadhazy, Scientific American, April 16, 2009

[<http://www.scientificamerican.com/article.cfm?id=will-space-based-solar-power-finally-see-the-light-of-day&page=4>]

Some think that SBSP efforts should zero in on lasers rather than microwave transmission to avoid this and other confounding issues. "I think an approach using microwaves is doomed," N.Y.U.'s Hoffert says. Given the necessary size of microwave transmitters and their solar arrays, "it's a huge capital investment before you get one kilowatt of power," he adds.

SBSP WON'T WORK WITHOUT A MAJOR GOVERNMENT SPENDING PROGRAM

Todd Woody, former senior editor, Forbes Magazine, April 16, 2009

[<http://www.grist.org/article/2009-04-16-solera-space-solar>]

No surprise that solar in space has long been a dream of scientists and military strategists but deemed technologically and economically impracticable without Manhattan Project-sized government funding and the cooperation of, well, the military-industrial complex. The technological challenge has not been so much converting solar energy into radio frequencies - that's been done though not on Solaren's scale - but getting a supersized solar array into space and making it work.

LINKS – SPACE BASED SOLAR ENERGY

GOVERNMENT FUNDING WOULD BE NECESSARY

Todd Woody, former senior editor, Forbes Magazine, April 16, 2009

[<http://www.grist.org/article/2009-04-16-solera-space-solar>]

The 2007 National Security Space Office report concluded that space-based solar posed no insurmountable technological obstacles but offers huge logistical and engineering challenges, not to mention economic ones, that would require government funding to overcome.

THE SATELLITES RE GIGANTIC AND EXPENSIVE TO LAUNCH

Todd Woody, former senior editor, Forbes Magazine, April 16, 2009

[<http://www.grist.org/article/2009-04-16-solera-space-solar>]

Search online for information about space-based solar and the images that pop up are of kilometers-long structures of solar arrays connected to satellites. And therein lies a big reason space-solar hasn't gotten off the ground -- launching thousands of tons of heavy metal into orbit is exorbitantly expensive.

INTERNAL LINKS

ONE ACTION CAN CAUSE SERIOUS QUESTIONING OF U.S. FISCAL POLICY

Niall Ferguson, professor Harvard Business School, February 28, 2010

[<http://articles.latimes.com/2010/feb/28/opinion/la-oe-ferguson28-2010feb28>]

One day, a seemingly random piece of bad news -- perhaps a negative report by a rating agency -- will make the headlines during an otherwise quiet news cycle. Suddenly, it will be not just a few policy wonks who worry about the sustainability of U.S. fiscal policy but the public at large, not to mention investors abroad. It is this shift that is crucial: A complex adaptive system is in big trouble when its component parts lose faith in its viability.

LIBERAL SPENDING POLICIES UNDERMINE CONFIDENCE IN AMERICA'S FINANCIAL FUTURE

John Ing, President, CEO at Maison Placements Canada Inc. December 17, 2010

[<http://www.financialsense.com/contributors/john-ing/currency-wars-and-china>]

The real crisis in the United States then is not one of easy money or even ultra low levels of interest rates but of the diminished confidence borne of a mounting debt load due to Mr. Obama's "big government" approach to stimulus spending, healthcare and bailouts. Americans have simply lost confidence in the ability of government to make things work, from stimulus spending to Obamacare to airport security to the task of mopping up oil in the Gulf of Mexico. His federal mandarins have too often expanded their reach. Yet, unwittingly, he has eroded the basic rules of democratic administration. Worse. America's trading partners and its creditors have also lost confidence in America's financial policies.

INTERNAL LINKS

THE CREDIBILITY OF THE U.S. GOVERNMENT TO DEAL WITH SPENDING IS THE KEY TO AVOIDING A SIMILAR SITUATION TO GREECE

Michael Schuman, Global Economic Affairs columnist, Time Magazine, June 29, 2011

[curiouscapitalist.blogs.time.com/2011/06/29/how-america-can-avoid-a-greek-tragedy/]

The Greeks have the EU shoving austerity measures down their throats. They don't have options; the Americans do. Whether or not the U.S. ever ends up like Greece depends on what Washington does with those options. And Washington will have to do something, and soon. That's because there are similarities between the American and Greek debt problems. First, the government debt of both countries is expected to continue rising – to 107% of GDP for America and 159% for Greece by 2012, estimates the OECD. Secondly, both governments have credibility issues in regard to their ability or willingness to confront the problem. Greece may have passed its austerity package today, but whether or not its politicians will be able to actually implement it is an open question. Washington politicians do a lot of blabbering about the budget deficit and debt, but very little doing.

A BIPARTISAN PLAN TO REDUCE THE DEFICIT WOULD HELP US AVOID THE FATE OF GREECE

Michael Schuman, Global Economic Affairs columnist, Time Magazine, June 29, 2011

[curiouscapitalist.blogs.time.com/2011/06/29/how-america-can-avoid-a-greek-tragedy/]

However, the U.S. is in a position to chart its own course. How do Americans avoid a Greek fate? Here are a few suggestions: First, come up with a plan, a real plan. I think market sentiment would be improved if Washington simply set down a credible program for reducing the budget deficit and stabilizing government debt, one that is bipartisan, and one the world would believe can be achieved.

INTERNAL LINKS

THE U.S. MUST MAINTAIN CREDIBILITY TO PREVENT ECONOMIC COLLAPSE

Vic Sperandeo, professional money manager of 45 years, Barron's, December 18, 2010

[online.barrons.com/article/SB50001424052970203676504575618532254502558.html]

U.S. government debt is now over \$13.7 trillion (not including estimated states' debt of \$2.8 trillion and agencies' debt of \$3.0 trillion). The average rollover period for the debt is 49 months. With recent deficits running over \$1 trillion a year, the Treasury issues new debt and refunds old debt at a rate of about \$4.3 trillion a year. A nation needs to inspire a lot of confidence to keep that Ponzi scheme alive.

DOLLAR SCENARIO - BRINK

THE DOLLAR IS AT THE BRINK OF LOSING RESERVE CURRENCY STATUS

Money News March 3, 2011

[<http://www.moneynews.com/Headline/Sam-Zell-EndDollar/2011/03/03/id/388209>]
Billionaire real-estate magnate Sam Zell warns that Americans should brace for a "disastrous" 25 percent decline in the standard of living if the U.S. dollar's reign as the global reserve currency ever ends. He says there are signs in the market that it could eventually happen. As it is now, a Korean manufacturer who wants to sell to Brazil must first buy dollars to complete the deal. If countries decide to bypass the dollar, the effect would be a disaster, Zell says. "Frankly, I think we're at a tipping point. My biggest single financial concern is the loss of the dollar as the reserve currency," he told CNBC in an interview. "I can't imagine anything being more disastrous to our country than if the dollar lost its reserve-currency status."

THE DOLLAR IS AT A KEY TIPPING POINT BASED ON AMERICAN DEBT

Vic Sperandio, professional money manager of 45 years, Barron's, December 18, 2010

[online.barrons.com/article/SB50001424052970203676504575618532254502558.html]

This leads to the question, being asked from Beijing to Brussels: Does the risk match the reward? A negative response to that question could lead to hyperinflation. Potentially, investors in U.S. debt will begin something similar to a run on the bank, selling Treasuries, even at severe losses. In our system, the Federal Reserve can buy all the paper the Treasury can issue, and the Treasury can pay the government's bills with the Fed's newly printed Federal Reserve notes. But at some point, the scales will tip, and debt investors will decide they won't be repaid with the same buying power. Historically, that break point occurs when a government borrows an amount equal to 40% of its expenditures over an extended period of years. Look at the federal budget for fiscal 2009. That year, the budget deficit was \$1.55 trillion, with total expenditures of \$3.52 trillion. If the government borrows the entire amount of the deficit, it would have a borrowing rate of 44% of total expenditures. In 2010, the figure also has exceeded 40%. Can this imbalance continue without triggering a hyperinflationary spiral?

DOLLAR SCENARIO - BRINK

OTHER NATIONS ALREADY MOVING AWAY FROM THE DOLLAR BECAUSE OF AMERICAN FISCAL POLICY

Christian Science Monitor April 14, 2011

[<http://www.csmonitor.com/Commentary/the-monitors-view/2011/0414/Budget-cuts-are-the-dollar-s-savior>]

The nipping of the wolves has already begun. It is led by China, and supported by countries from France to Brazil. The dollar's dominance will be a topic at this week's meeting of the Group of 20 countries and the International Monetary Fund (IMF). But the tone for those conferences was partly set Thursday in the third summit of the so-called BRIC nations – Brazil, Russia, India, China – plus South Africa this time. They agreed to use their own currencies for trade – a practice that would diminish the dollar. Together, the five BRICs have 40 percent of the world's population and command more than a sixth of the world's economy, a portion expected to match the US share in a few years. China has already begun reducing its vast holdings of US dollars. That is the most worrisome sign yet of how much both markets and countries are losing confidence in Washington's ability to rein in its debt, despite the recent agreements between President Obama and Republicans on the remainder of this year's budget.

INVESTORS ARE CONSIDERING DUMPING THE DOLLAR

Katherine Reynolds Lewis, The Fiscal Times, May 3, 2011

[<http://www.thefiscaltimes.com/Articles/2011/05/03/National-Debt-Budget-Turmoil-Slams-Treasuries.aspx>]

Until recently, countries like Canada, Australia, and Norway could expect little more than scraps off the table after global investors parked most of their cash in U.S. Treasuries — long considered the gold standard for government securities. Throughout much of the past decade, more than two-thirds of the world's cash reserves were held in dollars. But all of that is changing as Wall Street, sovereign wealth funds, and other global financial concerns are looking askance at Washington's long-term deficit problems and tumultuous political wrangling over the debt ceiling – and are scouting out more stable investments. The signs of this souring on U.S. debt are everywhere. If global investors start to shun U.S. debt as a safe haven — and the dollar as the world's reserve currency — the federal government will face difficulty continuing to fund operations with trillions of dollars in debt. Rising interest rates would also cause borrowing costs to skyrocket and adversely impact other portions of the federal budget.

DOLLAR SCENARIO - INTERNAL LINK

U.S. FISCAL POLICY IS THE KEY TO MAINTAINING ROLE OF THE DOLLAR

Christian Science Monitor April 14, 2011

[<http://www.csmonitor.com/Commentary/the-monitors-view/2011/0414/Budget-cuts-are-the-dollar-s-savior>]

But the US dominance only assumes Washington finally sees the error of its profligate ways before there's a run on the bank, so to speak, as investors perceive the US Treasury may not back up its bonds. Just as the US dollar began to take over from the British sterling in the 1920s as the world's top currency, China's yuan may be on its way to take over the dollar. But how soon? And will it be slow and organic, or quick and drastic? China's mercantile way of controlling its economy and manipulating the value of its currency only works against its hopes of usurping the dollar. Its authoritarianism is inherently unstable, and its values run counter to those set by the US in the global system. But if China inches toward democracy and freer markets during this century, its currency, along with others, might define a new multipolar currency system in which the US dollar becomes merely a first among equals. How that trend plays out depends in large part on the political battles in Washington over issues like Medicare and tax reform. The leaders there need to see their roles in that long-term contest over the values of the global system.

WITHOUT CONTROL OF DEFICITS WE ARE REACHING A PSYCHOLOGICAL BREAKING POINT

Vic Sperandeo, professional money manager of 45 years, Barron's, December 18, 2010

[online.barrons.com/article/SB50001424052970203676504575618532254502558.html]

Without the support of foreign buyers, government spending will have to be paid with newly printed money, and the inflation consequences will be dire. Historically, nations default when the bulk of the debt is owed to other nations, but the U.S. still owes most of its debt to its own citizens. Gold trading at more than \$1,350 an ounce, despite no appreciable increase in the consumer price index, is much more understandable when you realize that in periods of hyperinflation, gold tends to appreciate by 2,000% to 50,000% against a hyperinflated currency. Do the gold bugs know something we don't? In time, the markets will surely say whether this is so. But unless drastic measures are taken to change the trend of deficits, or unless purchasers of U.S. government debt ignore all rational measures of risk, a psychological breaking point is approaching. When this happens, history tells us that hyperinflation is not far behind.

DOLLAR SCENARIO - INTERNAL LINK

**FAILURE TO COME UP WITH A PLAN TO STABILIZE THE DEBT WILL TRIGGER
A RUN ON TREASURIES**

Katherine Reynolds Lewis, The Fiscal Times, May 3, 2011

[<http://www.thefiscaltimes.com/Articles/2011/05/03/National-Debt-Budget-Turmoil-Slams-Treasuries.aspx>]

“A lot of people talk about the Treasury market blowing up, and that's our concern as well,” said Aneta Markowska, senior U.S. economist at Société Generale, in an interview. So what happened? A lot has to do with the growing turmoil in Washington over the economy and huge deficits that seem to defy any solution. A recent report by Standard & Poor's, warning that this country's AAA bond rating might be in jeopardy unless the White House and Congress agree to a plan to stabilize the debt, has further fueled that concern.

DOLLAR SCENARIO - AT: NO ALTERNATIVE TO THE DOLLAR

THE CHINESE YUAN IS A CREDIBLE ALTERNATIVE TO THE DOLLAR

Christian Science Monitor April 14, 2011

[<http://www.csmonitor.com/Commentary/the-monitors-view/2011/0414/Budget-cuts-are-the-dollar-s-savior>]

China is also building up its own currency, known as yuan or renminbi, as an instrument of trade while calling for a new way to have a global reserve currency other than the dollar. "The current international currency system is the product of the past," China's president, Hu Jintao, said recently. So far, Washington has been fortunate that the euro, the yen, the yuan, or the IMF's own synthetic currency ("special drawing rights") have not come close to knocking the dollar down. America's giant and open economy, as well as its political stability as a democracy, are hard to beat. A recent IMF report in February said the dollar would remain the world's most important reserve currency for the "foreseeable future." (About 61 percent of global reserves are in dollars.) But the US dominance only assumes Washington finally sees the error of its profligate ways before there's a run on the bank, so to speak, as investors perceive the US Treasury may not back up its bonds. Just as the US dollar began to take over from the British sterling in the 1920s as the world's top currency, China's yuan may be on its way to take over the dollar.

INVESTORS ARE ALREADY TESTING OUT ALTERNATIVE MARKETS

Katherine Reynolds Lewis, The Fiscal Times, May 3, 2011

[<http://www.thefiscaltimes.com/Articles/2011/05/03/National-Debt-Budget-Turmoil-Slams-Treasuries.aspx>]

Already, global investors are testing out other investment markets. "We watch the foreign buyers very carefully because that's the biggest single category of buyers and the ones that could leave very easily," said Markowska. "They're buying less U.S. assets as a whole." Government-owned sovereign wealth funds are investing in mines, plantations, gold and other commodity assets in Malaysia, Indonesia, Africa and South America, says Paul Schulte, global head of financial strategy for CCB International Securities, a subsidiary of China Construction Bank. "Many of the central banks that have been buying Treasuries previously have been signaling that they're not interested in keeping these high levels any more. The best-case scenario is that they keep the same amount. A less optimistic scenario is that they begin to sell off their Treasuries," Schulte says.

DOLLAR SCENARIO - IMPACT

CURRENCY WARS CAN ESCALATE

John Ing, President, CEO at Maison Placements Canada Inc. December 17, 2010

[<http://www.financialsense.com/contributors/john-ing/currency-wars-and-china>]

One cause of the currency wars is that the US continues to print dollars, forcing excess liquidity into the system. For others, countries must import a monetary policy that is too loose. China has piled up a \$2.7 trillion hoard of mostly dollars. So far, countries have resorted to rhetoric and threats, but as the Great Depression showed, capital controls, tariffs and competitive currency devaluation are next. Already the dollar's role as a global reserve currency is unravelling in a world of competitive devaluations. The euro, the globe's number two currency is also unravelling and the European Union itself is threatened by a tsunami of sovereign debt defaults. History shows currency wars can easily degenerate into trade wars.

HYPERINFLATION SCENARIO

A SINGLE ECONOMIC SHOCK CAN TRIGGER HYPERINFLATION

Daryl Montgomery, organizer, New York Investing meetup, December 11, 2009

[<http://seekingalpha.com/article/177738-common-roots-of-hyperinflation>]

Once the preconditions for hyperinflation exist, a major economic shock can then become the precipitating incident. Governments will always assume that the problem is temporary and the economy can be righted quickly through a little money printing. In deep economic shocks like the depression in the 1930s, the Japanese banking crisis in the 1990s, and the Credit Crisis today, this is not the case. The problem will take at least a decade and possibly multiple decades to solve.

IF THE U.S. DOES NOT FIX ITS SPENDING HABITS, THEY FACE THE RISK OF HYPERINFLATION AND COLLAPSE

Commodity Zen February 12, 2011

[<http://www.commodityzen.com/2011/02/hyperinflation/hyperinflation-and-us-bond-crash-real-threat-says-victor-sperandeo/>]

According to (Victor) Sperandeo, (CEO of Alpha Financial Technologies) the political leadership in the United States will continue to print large amounts of fresh money until foreign investors lose their confidence in the repayment of the outstanding US debts. This would eventually lead to a panic at the bond markets. The incipient bond sales avalanche would then trigger the outbreak of a hyperinflation in the United States. In the past three years the US government had borrowed about 40 percent of its yearly revenues by emitting new government bonds. Sperandeo explained that history showed that in 30 examined cases of hyperinflation exactly this amount of capital preceded an uncontrollable inflationary development. The current situation was therefore comparable with these historic cases. The US dollar is very much threatened by this development and will become subject to an enormous devaluation. In this context gold and silver are expected to continue to develop extremely well, since investors are hedging against a bond and US dollar crash by purchasing precious metals. According to Sperandeo, the current development in the precious metals prices was nothing more than a correction in a continuing bull market. As long as policy makers do not find another solution to their dilemma than printing more and more money, things will just stay the same.

HYPERINFLATION SCENARIO

THE U.S. IS ON THE BRINK OF HYPERINFLATION

Graham Summers, Senior Market Strategist, Phoenix Capital Research, May 19, 2011

[<http://www.zerohedge.com/article/time-prepare-hyper-inflation-it-explodes>]

The similarities between the US today and Weimar pre-hyperinflation are striking. As in Weimar, US fiscal authorities are not taking any steps to rein in their loose money policies. Similarly, the US Fed, like Germany's financial elites believes that currency depreciation is a good thing. Thus we have a rather frightening set-up for hyperinflation in the US: the largest emerging market players are moving away from using the US Dollar at the same time that US monetary authorities are engaging in disastrous policies similar to those employed by the men who brought hyperinflation to Weimar Germany.

HYPERINFLATION IS CAUSED BY A LACK OF CONFIDENCE

Vic Sperandeo, professional money manager of 45 years, Barron's, December 18, 2010

[online.barrons.com/article/SB50001424052970203676504575618532254502558.html]

Unlike normal inflation, which may be attributed to a variety of factors, hyperinflation has a single cause: It occurs when a government cannot borrow money because its debt has risen so much that investors believe they will never be paid back with close to the same purchasing power. As a consequence of this flight of confidence, such a government is forced to print money to meet its obligations. This further undermines the value of its currency, often culminating in a frenzied collapse. That is hyperinflation, and only governments and central banks cause it.

HYPERINFLATION SCENARIO

HISTORICAL EXAMPLES OF HYPERINFLATION ARE SIMILAR TO TODAY'S SITUATION

John Ing, President, CEO at Maison Placements Canada Inc. December 17, 2010

[<http://www.financialsense.com/contributors/john-ing/currency-wars-and-china>]

Whenever governments print too much money, spend too much and borrow too much, bad things can happen. We recently studied the hyperinflations of the past to give a clue of the future. We believe there are too many compelling similarities today with the past. There have been over twenty-five episodes in the last century and most major economies have had a legacy of hyperinflation. In a study for the International Monetary Fund, Stanley Fischer, Ratna Sahay and Carlo Veigh wrote about the causes of the French hyperinflation, noting, "that the link with the French revolution supports the view that hyperinflations are modern phenomena related to printing paper money in order to finance large deficits caused by wars, revolutions, the end of empires and the establishment of new states".

HEGEMONY IMPACTS

U.S. HEGEMONY CAN BE THREATENED SUDDENLY BY AN ECONOMIC FAILURE

Niall Ferguson, professor Harvard Business School, February 28, 2010

[<http://articles.latimes.com/2010/feb/28/opinion/la-oe-ferguson28-2010feb28>]

If empires are complex systems that sooner or later succumb to sudden and catastrophic malfunctions, what are the implications for the United States today? First, debating the stages of decline may be a waste of time -- it is a precipitous and unexpected fall that should most concern policymakers and citizens. Second, most imperial falls are associated with fiscal crises. Alarm bells should therefore be ringing very loudly indeed as the United States contemplates a deficit for 2010 of more than \$1.5 trillion -- about 11% of GDP, the biggest since World War II. These numbers are bad, but in the realm of political entities, the role of perception is just as crucial. In imperial crises, it is not the material underpinnings of power that really matter but expectations about future power. The fiscal numbers cited above cannot erode U.S. strength on their own, but they can work to weaken a long-assumed faith in the United States' ability to weather any crisis.

HISTORY PROVES U.S. PRIMACY COULD COLLAPSE SUDDENLY

Niall Ferguson, professor Harvard Business School, February 28, 2010

[<http://articles.latimes.com/2010/feb/28/opinion/la-oe-ferguson28-2010feb28>]

Over the last three years, the complex system of the global economy flipped from boom to bust -- all because a bunch of Americans started to default on their subprime mortgages, thereby blowing huge holes in the business models of thousands of highly leveraged financial institutions. The next phase of the current crisis may begin when the public begins to reassess the credibility of the radical monetary and fiscal steps that were taken in response. Neither interest rates at zero nor fiscal stimulus can achieve a sustainable recovery if people in the United States and abroad collectively decide, overnight, that such measures will ultimately lead to much higher inflation rates or outright default. Bond yields can shoot up if expectations change about future government solvency, intensifying an already bad fiscal crisis by driving up the cost of interest payments on new debt. Just ask Greece. Ask Russia too. Fighting a losing battle in the mountains of the Hindu Kush has long been a harbinger of imperial fall. What happened 20 years ago is a reminder that empires do not in fact appear, rise, reign, decline and fall according to some recurrent and predictable life cycle. It is historians who retrospectively portray the process of imperial dissolution as slow-acting. Rather, empires behave like all complex adaptive systems. They function in apparent equilibrium for some unknowable period. And then, quite abruptly, they collapse. Washington, you have been warned.

HYPERINFLATION ANSWERS

NO CONNECTION BETWEEN GOVERNMENT SPENDING AND INFLATION

Casey Mulligan, Economics Professor, University of Chicago, June 10, 2009

[<http://economix.blogs.nytimes.com/2009/06/10/inflation-and-the-size-of-government/>]

Last year the Federal Reserve Board's Song Han and I published a study of 80 countries where we looked at the correlation between inflation and government spending. We found inflation to be similar (or even somewhat less) in countries whose governments spend more for nonmilitary purposes as compared to countries whose governments spent less. Our study found significant positive correlations between inflation and government spending only in cases when military spending grew — as it does during wartime. But the government spending growth we have seen in 2008 and 2009 comes from the nonmilitary part of the budget.

DEFICIT SPENDING WILL NOT CAUSE INFLATION

Casey Mulligan, Economics Professor, University of Chicago, June 10, 2009

[<http://economix.blogs.nytimes.com/2009/06/10/inflation-and-the-size-of-government/>]

The Bush and Obama administrations have added, and continue to add, much to the United States' national debt. Both Republicans and Democrats spend too much of taxpayers' money, but excessive government spending does not mean that inflation will necessarily — or even probably — follow. The Treaty of Versailles gave Germany debts that amounted to years of the nation's gross domestic product, whereas 2008-9 bailout mania has so far given us debt that amounts to "only" several months' G.D.P. Moreover, thanks to the emergence of payroll taxation and income tax withholding, the capacity of governments to tax its citizens without resorting to inflation is much greater than it was before World War II. Neither inflation nor war will be needed to settle the debts that Presidents Bush and Obama are giving us.

HYPERINFLATION ANSWERS

THE THREAT OF HYPERINFLATION IS A GIMMICK USED TO SELL THE GOLD STANDARD

Edward Harrison, founder, Credit Writedowns, finance executive, April 7, 2011

[<http://www.creditwritedowns.com/2011/04/on-hyperinflation.html>]

People arguing that hyperinflation is around the corner usually are pushing this view because of an ideological bias against fiat money. This is a bias I share because I believe that fiat money allows excessive money creation that winds up as a credit super bubble - and our experience over the past 40 years demonstrates this. However, I don't let this bias get in the way of my analysis of the economics of the situation. I have a better understanding of the fiat money system because I am not anchored in a gold-standard mentality when looking at the constraints on government in the fiat money system and the types of events that lead to hyperinflation. The **hyperinflation talk is a gimmick used to push a particular ideological viewpoint**. While I share that viewpoint and don't like fiat money, I am not a fear monger, so you won't see pushing an ideological agenda which has the economics wrong.

THE CONDITIONS THAT ALLOWED HYPERINFLATION IN OTHER COUNTRIES DO NOT EXIST IN THE UNITED STATES

Edward Harrison, founder, Credit Writedowns, finance executive, April 7, 2011

[<http://www.creditwritedowns.com/2011/04/on-hyperinflation.html>]

As you can see from the two most severe cases of hyperinflation, the problem in each case was a loss of productive capacity, foreign currency liabilities, and a loss of the ability to tax. When the economy is overheating, traditionally we think of interest rates, the price of money, as the mechanism which government could use to slow things down and bring inflation to heel. However, fiscal policy is effective here. If government increases taxes, it cools the economy and reduces consumption, relieving the pressure on productive capacity. Thus, the loss of the ability to tax is central in hyperinflation. In the German example, the Germans had a huge foreign currency liability that it had to pay, meaning it could not make good on the liability by printing money. It was a currency user as far as these liabilities went. Meanwhile, with productive capacity limited, the government was then unable to ease price pressure through the tax lever. The shortage of goods drove up prices inexorably and the government was forced to turn to the printing press in order to meet its domestic obligations. In the Zimbabwe example, taxes were again central. Unable to recoup enough tax revenue and with large foreign currency obligations and a loss of productive capacity, the government resorted to printing money in an environment where prices were rising. So, hyperinflation has very specific preconditions that are not apparent in the U.S.

HYPERINFLATION ANSWERS

THE U.S. DOESN'T FACE THE SAME PROBLEMS AS GREECE

Michael Schuman, Global Economic Affairs columnist, Time Magazine, June 29, 2011

[curiouscapitalist.blogs.time.com/2011/06/29/how-america-can-avoid-a-greek-tragedy/]

I should state right at the state that the U.S. is not Greece. In many important ways, the situations these two countries face are extremely different. First, the debt burden of the U.S., relative to the size of its GDP, is not nearly as large – just under 94% compared to 147% for Greece at the end of 2010, according to the OECD. Secondly, the level of U.S. debt is considered sustainable; Greece's isn't. Generally, there is a widespread belief among those who follow European finance that Greece is unlikely to be able to pay off its current debt load. Those very divergent perceptions are reflected in bond yields, a sign of the risk investors believe they take on by holding the bonds. Ten-year Treasuries are trading at a yield of only 3%; Greece's are at 17%. Third, the U.S. has far more flexibility in how it deals with its debt than Greece. The U.S. can devalue the dollar or inflate its way to a lower debt burden. Those measures have their own consequences, but they make an American default much less likely than a Greek default. Since joining the euro zone, however, Athens has lost control over its monetary policy – it can't devalue the euro or control its supply. That means the adjustment for Greece will potentially be much more painful than the one America faces. And lastly, the U.S. still has control over its own fate and can choose the course it takes in tackling its debt and deficits. Greece is at the point of no return. The Greeks have the EU shoving austerity measures down their throats. They don't have options; the Americans do.

DOLLAR ANSWERS

LACK OF AN ALTERNATIVE PREVENTS COLLAPSE OF THE DOLLAR

Tom Petruno, financial writer, Los Angeles Times April 23, 2011

[<http://articles.latimes.com/2011/apr/23/business/la-fi-petruno-20110423>]

Barry Eichengreen, a UC Berkeley economics professor, chronicled the dollar's history in his book, "Exorbitant Privilege: The Rise and Fall of the Dollar and the Future of the International Monetary System," published this year. Although he believes that the dollar is in a long-term decline, he said he doubted that we're headed for a currency meltdown in the near term. There's a practical barrier to a sudden collapse, Eichengreen said: "There has to be somewhere to flee to." The dollar remains preeminent as the world's primary currency, and no other paper currency has the market presence to take over for the greenback. Neither do gold or silver.

NO ALTERNATIVE TO THE DOLLAR

Martin Wolf, Financial Times October 13, 2009

[www.ft.com/intl/cms/s/0/9165b8b0-b82a-11de-8ca9-00144feab49a.html#axzz1R5a0wPf2]

Finally, what can replace the dollar? Unless and until China removes exchange controls and develops deep and liquid financial markets – probably a generation away – the euro is the dollar's only serious competitor. At present, 65 per cent of the world's reserves are in dollars and 25 per cent in euros. Yes, there could be some shift. But it is likely to be slow. The eurozone also has high fiscal deficits and debts. The dollar will exist 30 years from now; the euro's fate is less certain.

DEBT DEFAULT IMPACT

FAILURE TO INCREASE THE DEBT CEILING WILL CAUSE A GLOBAL DEPRESSION

David Min, Assoc. Dir., Financial Markets Policy, Center for American Progress, 10.28.10

[http://www.americanprogress.org/issues/2010/10/big_freeze.html]

In short, a freeze on the debt ceiling would cause our interest payments to spike, making our budget situation even more problematic, while potentially triggering greater global instability—perhaps even a global economic depression. The very idea of a federal debt freeze among the radical right in our country, while they continue to ignore responsible deficit reduction measures and continue to focus on the wrong policy solutions, exemplifies their obstinacy as much as their short-sightedness. A freeze on the debt ceiling, or shutting down the federal government will not reduce the federal budget deficit and will in fact increase it over the long run by tipping the global economy into depression.

DEPRESSION INCREASES THE RISK OF NUCLEAR WAR

James Cusick, Sunday Herald (Scotland) March 18, 2009

http://www.sundayherald.com/oped/opinion/display.var.2495478.0.dont_bank_on_financial_trouble_being_resolved_without_conflict.php

I'm not saying that America is about to declare war on China, or that Germany is going to invade France. But there are profound economic stresses in central Europe that could rapidly turn into conflict in the bankrupt Baltic states, Hungary, Ukraine. And if the Great Recession, as the IMF's Dominique Strauss-Kahn called it last week, turns into a Great Depression, with a prolonged collapse in international trade and financial flows, then we could see countries like Pakistan disintegrate into nuclear anarchy and war with neighbouring India, which will itself be experiencing widespread social unrest. Collapsing China could see civil war too; Japan will likely re-arm; Russia will seek to expand its sphere of economic interests. Need I to go on?

DEBT DEFAULT IMPACT

SHUTTING DOWN THE GOVERNMENT WOULD CAUSE THE ECONOMY TO CRASH

David Min, Assoc. Dir., Financial Markets Policy, Center for American Progress, 10.28.10

[http://www.americanprogress.org/issues/2010/10/big_freeze.html]

The budgetary consequences of this conservative pledge would be catastrophic and far-reaching, forcing the immediate cessation of more than 40 percent of all federal government activities (excluding only interest payments on the national debt), including Social Security, military operations in Iraq and Afghanistan, homeland security, Medicare, and unemployment insurance. This would not only threaten the safety and economic security of all Americans, but also have dire impacts for the economy and job growth. In short, the economic consequences of such a large and precipitous drop in spending would be crushing, and almost certainly result in a severe drop in economic growth and employment at a time when we can least afford it.

SHUTTING DOWN THE GOVERNMENT WOULD CAUSE A GLOBAL ECONOMIC PANIC

David Min, Assoc. Dir., Financial Markets Policy, Center for American Progress, 10.28.10

[http://www.americanprogress.org/issues/2010/10/big_freeze.html]

Moreover, such a move could lead to a panic in the international financial markets. Following the 2008 financial crisis, we have seen debt crises hit Ireland, Greece, and Italy, with fears that this could spread further and cause a global economic downturn. The financial markets are on edge today, with U.S. Treasury bonds being the safe haven for most investment capital. Refusing to raise the debt ceiling would recklessly disrupt the sale and purchase of new Treasury bonds, and could potentially cause a run on outstanding Treasuries as well, as investors sought other investments. This could have catastrophic consequences for our economy as well as the economic stability of the rest of the world.

DEBT DEFAULT IMPACT

GOVERNMENT SPENDING CUTS WOULD CAUSE A HUGE DIP IN THE ECONOMY

David Min, Assoc. Dir., Financial Markets Policy, Center for American Progress, 10.28.10

[http://www.americanprogress.org/issues/2010/10/big_freeze.html]

Second, these large spending cuts would increase unemployment and severely dampen economic growth, destroying any prospects of a sustained economic recovery. The resulting job losses and the steep cuts to unemployment insurance, food stamps, and other federal safety net expenditures would create a reverse “multiplier effect” that would cause a large dip in economic growth.

REFUSING TO RAISE THE DEBT CEILING WOULD MAKE THE BUDGET SITUATION WORSE

David Min, Assoc. Dir., Financial Markets Policy, Center for American Progress, 10.28.10

[http://www.americanprogress.org/issues/2010/10/big_freeze.html]

Refusing to raise the debt ceiling would also exacerbate the problems with our long-term budget outlook. The budget deficit right now is the result of two distinct sets of changes since 2001, when we last had a budget surplus. First, a series of long-term policies enacted by the Bush administration—most notably the Bush tax cuts of 2001 and 2003, the decision to fight two major wars without raising taxes, and the passage of an unfunded Medicare Part D prescription drug program—created permanent structural budget deficits that will remain with us over the long term unless they are addressed. Second, the poor economy caused a drop in tax receipts alongside higher “countercyclical” spending, such as for unemployment insurance and food stamps.

RAISING THE DEBT CEILING IS NECESSARY TO AVOID A SECOND GREAT DEPRESSION

David Min, Assoc. Dir., Financial Markets Policy, Center for American Progress, 10.28.10

[http://www.americanprogress.org/issues/2010/10/big_freeze.html]

Implementing a debt ceiling freeze ignores the first set of issues and makes the second set of issues worse by forcing a massive multitrillion dollar hit to an already struggling economy and threatening to take us into a second Great Depression.

DEBT DEFAULT IMPACT

WE WOULDN'T BE ABLE TO AVOID THE CONSEQUENCES OF A GOVERNMENT SHUTDOWN LIKE WE DID IN 1995

David Min, Assoc. Dir., Financial Markets Policy, Center for American Progress, 10.28.10

[http://www.americanprogress.org/issues/2010/10/big_freeze.html]

Indeed, it was only through the use of some fairly extraordinary measures by President Clinton's Treasury Department, including a temporary use of retirement funds for former government employees, that the United States managed to avoid defaulting on its national debt during this period. Unfortunately, such measures would not be as effective today, as analysts at Deutsche Bank found. They worry that if it happened today the federal government would "not be able to stave off a government shutdown (or possible suspension of bond payments) for long."

GOVERNMENT SHUTDOWN WOULD THREATEN AMERICANS SECURITY

David Min, Assoc. Dir., Financial Markets Policy, Center for American Progress, 10.28.10

[http://www.americanprogress.org/issues/2010/10/big_freeze.html]

Such severe expenditure cuts would be devastating in two ways. First, they would eviscerate the basic services and protections offered by our federal government, leaving our country in perilous danger from a myriad of threats and many of its most vulnerable citizens without a safety net. Americans would be vulnerable to increased crime, drugs, terrorism, food safety, and air traffic safety, to name just a few.

DEBT DEFAULT IMPACT

FREEZING THE DEBT CEILING WOULD CAUSE A CRASH OF INTERNATIONAL MARKETS

David Min, Assoc. Dir., Financial Markets Policy, Center for American Progress, 10.28.10

[http://www.americanprogress.org/issues/2010/10/big_freeze.html]

The conservative pledge to freeze the debt ceiling would also lead to some fairly momentous problems in the world's financial markets. Following the financial crisis of 2008-2009, which exposed problems with many private financial instruments that were previously thought to be safe, such as money market funds and AAA-rated asset-backed securities, investors sought safe haven by investing in sovereign debt. Unfortunately, sovereign debt crises in Greece and Ireland have caused significant uncertainty in European financial markets, and as a result, investors have flocked to the perceived safety of sovereign debt issued by the United States, which has never defaulted in its history. A freeze on the debt ceiling could erode confidence in U.S. Treasury bonds in a number of ways, creating further and wider panic in financial markets. First, by causing a disruption in the issuance of Treasury debt, as happened in 1995-96, a freeze would cause investors to seek alternative financial investments, even perhaps causing a run on Treasuries. Such a run would cause the cost of U.S. debt to soar, putting even more stress on our budget, and the resulting enormous capital flows would likely be highly destabilizing to global financial markets, potentially creating more asset bubbles and busts throughout the world.

THE NEGATIVE EFFECTS OF SHUTTING THE GOVERNMENT DOWN ARE ENORMOUS AND COULD NOT BE OFFSET BY ACTIONS OF THE FEDERAL RESERVE BOARD

Agence France Presse 11.7.10

[<http://www.google.com/hostednews/afp/article/ALeqM5ipWPdjTFzazLloVxpmrzOA7OKOuQ?docId=CNG.d04e0fe6c1cf2cf2a4da82dbc1a5208b.d81>]

Whatever the outcome of the political tussle within the Republican party, financial experts are warning that another government shutdown would be an unmitigated economic disaster. "It would be a huge negative hit for the economy," according to David Min, a former Congressional staffer who now works for the left-leaning Center for American Progress. According to Min, shutting down the government would even neutralize the Federal Reserve's recent 600 billion dollar punt to prime the economy, a policy dubbed quantitative easing two, or QE2. "If the Republicans shut down the government, any impact of QE2... will be dwarfed by the huge negative fiscal impact of

shutting down the government." "If you cut down the government, even for a week or two, you furlough workers, you shut down services, that is going to be a huge fiscal hit, the fact that money is a little bit easier to acquire through credit is not going to offset that," he said.

DEBT DEFAULT IMPACT

ADVOCATES OF DEFAULT UNDERSTATE THE RISKS

Bruce Bartlett, The Fiscal Times 6.11.10

[http://www.thefiscaltimes.com/Issues/BudgetImpact/2010/11/15/~//link.aspx?_id=74D52AA4315E430A973B3867DC314179&_z=z]

The recent financial crisis in Greece has led to a lot of discussion about whether the United States might one day have a public debt so large that default becomes a real possibility. While the sort of problem Greece is experiencing is impossible here, we have another problem that, to my knowledge, no other nation on Earth has: a legal limit on government debt that Congress must raise periodically. This peculiarity of our fiscal system could indeed lead to a default on the debt, with repercussions that advocates of default — yes, they exist — have absolutely no clue about.

DEFAULT IS DEFINITELY POSSIBLE

Bruce Bartlett, The Fiscal Times 6.11.10

[http://www.thefiscaltimes.com/Issues/BudgetImpact/2010/11/15/~//link.aspx?_id=74D52AA4315E430A973B3867DC314179&_z=z]

This does not mean that default is impossible, however, because there is always a danger that Congress will not raise the debt ceiling in a timely manner, meaning that the Treasury may not have sufficient cash to make interest payments or redeem maturing securities. If that happens, there would be a technical default. As of right now, outstanding debt subject to limit is a little over \$13 trillion and the debt limit is \$14.3 trillion. At the rate the Treasury is borrowing, it can continue for about 10 months before the debt limit must be raised again. It has been difficult enough, politically, to raise the debt limit when Democrats control both houses of Congress. But next year there is almost certain to be a very substantial increase in the number of Republicans in both the House and Senate, with Republican control of the House being well within the realm of possibility. The party opposite the White House always demagogues increases in the debt limit to score cheap political points.

DEBT DEFAULT IMPACT

THE FACT WE HAVE ALWAYS RAISED THE CEILING IN THE PAST DOESN'T MEAN WE WILL THIS TIME, THE POLITICS HAVE CHANGED

Bruce Bartlett, The Fiscal Times 6.11.10

[http://www.thefiscaltimes.com/Issues/BudgetImpact/2010/11/15/~//link.aspx?_id=74D52AA4315E430A973B3867DC314179&_z=z]

To be sure, the debt limit has always been raised in time to prevent a default, although Treasury sometimes had to push the limits of the law to move money around to pay the government's bills. However, I believe the game has changed because Republicans have become extremely bold in using the filibuster to make it extraordinarily difficult to pass any major legislation without at least 60 votes in the Senate. Furthermore, a growing number of conservatives have suggested that default on the debt wouldn't be such a bad thing. It is often said that default would lead to an instantaneous balanced budget because no one would lend to the U.S. government ever again. Therefore, spending would have to be cut to the level of current revenues.

DEFAULT IS NO LONGER UNTHINKABLE

Bruce Bartlett, The Fiscal Times 6.11.10

[http://www.thefiscaltimes.com/Issues/BudgetImpact/2010/11/15/~//link.aspx?_id=74D52AA4315E430A973B3867DC314179&_z=z]

Consequently, it is becoming increasingly common for the idea of default to be discussed as a realistic possibility even by responsible analysts. Last year, The Economist's Greg Ip wrote an article in The Washington Post saying that financial markets were placing the risk of default at 6 percent over the next 10 years. "Default is unlikely," he said. "But it is no longer unthinkable." My purpose today is not to make the case against default or explain all of its ramifications — that would require a separate column. Rather, my purpose is simply to alert readers to the consequences of increased Republican membership in the next Congress, a Democratic administration, the need for 60 votes in the Senate on major bills, and a debt limit that will run out early next year. I believe we could be in for the biggest debt crisis we have seen since Alexander Hamilton was Treasury secretary.

DEBT DEFAULT IMPACT

THE IMPACT OF THE DEFAULT WILL HAPPEN SO QUICKLY NO ONE WOULD BE ABLE TO DO ANYTHING ABOUT IT

Neal Harl, professor economics Iowa State Univ. 11.20.10

[<http://www.desmoinesregister.com/article/20101120/OPINION01/11200313-1/SPORTS12/Guest-column-A-perfect-fiscal-storm-may-be-brewing>]

Another way to begin is to refuse to raise the federal debt limit, as some key Republicans propose. The consequences of that could be breathtakingly tragic. If the government is unable to pay interest on the debt and to refinance expiring issues, the obvious result is default. The consequences of a default would do untold damage to the standing of the United States as a debtor nation and would raise the specter of another Greece. But the impact would be several times greater, with any meaningful rescue beyond the financial ability of any nation - or group of nations. And it could happen fast.

DEFAULT IS A GROWING POSSIBILITY – RESULTING IN A DOUBLE DIP RECESSION

Derek Thompson, staff editor, The Atlantic, 11.5.10

[<http://www.theatlantic.com/business/archive/2010/11/doomsday-prophecy-2011-will-be-even-worse-than-2010/66161/>]

In the first few months of the 2011, the federal government will run out of cash. We will max out the federal credit card, and Congress will refuse to open another line of credit. Treasury won't have enough money to both run the government and pay back our lenders. The implications will be dramatic, and possibly cataclysmic. We will stop funding up to 40 percent of all federal government activities. While the Treasury will feel required to pay back international investors to calm fears of a historic default, we won't have enough money to pay for Social Security, Medicare, homeland security, and the keep the federal government running. Workers will lose jobs. Companies would lose contracts. Businesses will lose confidence. Both inside and outside the United States, panic will proliferate. Global markets will roil and the US economy will tip from slow growth back into negative growth, double dipping into recession. It sounds like a doomsday scenario. It's closer to reality than you might think.