

# Spring 2009

# UIL LD Topic



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### Topic Overview

## **Resolved: Federal government bailouts of major corporations are just.**

The spring 2009 UIL LD topic is one that is firmly rooted in the economic crisis that started in September and rages on today. The first tremors in this new crisis were felt in the spring of 2008 when the Wall Street firm of Bear Sterns faced eminent collapse. Fearing that a collapse of Bear Sterns would lead to greater instability in the credit markets the U.S. Federal Government stepped in and provided a bailout of sorts that allowed Bear Sterns to stay afloat long enough to be sold and to prevent a wider crisis. Events began to heat up fast in September when a string of Wall Street firms faced collapse. Again the federal government stepped up with a bailout to save these firms. The resulting crisis we are still in today. These events have sparked a sharp debate in this country about the role of government in the economic life of the nation. This is the inspiration for this topic.

On the debate level there is a huge issue that jumps off the page when you look at the resolution and that is that pesky word at the end of the resolution: just. Any way that you want to slice it, justice is going to be what this resolution is about and hence should be the value that you advocate either on the affirmative or the negative. A little deeper look at the resolution leads to the conclusion that while you can certainly make philosophical arguments with this resolution, that the majority and the best arguments are going to be more pragmatic. This is just the nature of a topic that is as much about public policy as it is about values. A quick note

about methodology, this topic analysis will have pieces of evidence that are referenced, but each piece of evidence is included at the end of this packet, so don't feel like you have to cut the topic analysis.

### **Debating the Affirmative**

The first thing to note when contemplating debating this topic on the affirmative is that the resolution cuts both ways. This means that the burden is as much on the negative as the affirmative. The resolution is worded in such a way that there is no way to stand in the middle. On the affirmative your advocacy has to be that the bailout is just and on the negative your advocacy has to be that the bailout is unjust. This has a series implication for the philosophical side of this debate. It will be extremely hard for the negative to prove that bailouts are inherently unjust. This is a tool of economic policy; it is not slavery or unjust war. This means that the debate should focus, especially on the negative, on the pragmatic implications of bailouts.

Lets start with one of the philosophic arguments that lend itself to the affirmative.

*Every individual must make some sacrifices for the good of the whole*

*Robert Nozick*

*(Anarchy, State, And Utopia, 1971, p. 32)*

*Side constraints express the inviolability of other persons. But why may not one violate persons for the greater social good? Individually, we each sometimes choose to undergo some pain or sacrifice for a greater benefit to avoid a greater harm: we go to the dentist to avoid worse suffering later; we do some unpleasant work for its results; some persons diet to improve their health or looks; some save money to support themselves when they are older. In each case, some cost is borne for the sake of the greater overall good. Why not, similarly, hold that some persons have to bear*

*some costs that benefit other persons more, for the sake of the overall social good? But there is no social entity with a good that undergoes some sacrifice for its own good. There are only individual people, with their own individual lives. Using one of these people for the benefit of others, uses him and benefits the others. Nothing more. Talk of an overall social good covers this up.*

This argument preempts and answers the negative argument that bailouts are unjust because the government is using tax money from all of its citizens to help just a few citizens. On a purely philosophical level this is simply not true. Individuals give to the greater good all of the time. The government spends our tax money on social services to help the elderly and the poor when we are young and well off. They spend our tax money on research for disease when we are healthy. This type of monetary sacrifice for the good of the whole happens every day and it is a key part of society and it is just.

*The government must bailout key industries.*

***Krauthammer '08*** (Charles, Columnist, Washington Post, November 14) p. Online

*Underlying the policy differences is a philosophical divide. The Bush administration sees the \$700 billion rescue as an emergency measure to save the financial sector on the grounds that finance is a utility. No government would let the electric companies go under and leave the country without power. By the same token, government must save the financial sector lest credit dry up and strangle the rest of the economy.*

This argument is one of the keys to this debate on the affirmative, bailouts are not just about saving a particular company, bailouts are about saving a company whose failure would have wide ranging impact on the citizens and economy of the country. This is the key bright-line to bailouts. In order for bailouts to be justified, the companies in question must have a wide-ranging impact on the economy as a whole.

*Bailouts are key to making economic downturns not as painful.*

**Farrell '08** (Chris, Columnist, Business Week, August 5) p. Online

*There's the rub. If the monetary and fiscal authorities are right in their judgment that the risk of an economic plunge of frightening proportions is real, then the Herculean actions they're taking are fair to all of us. What's more, if innovation is the core dynamic in a capitalist economy, the engine of growth and higher living standards, then there will be booms and busts, especially during periods of rapid technological change. It's in the nature of the beast. Like it or not, limiting the downside damage when the boom goes bust is a critical part of the monetary authorities job.*

*Take the searing experience of the Great Depression. The 1920s was an era of remarkable technological and organizational innovation. Eventually, as happens in a capitalist system, the boom went bust. Yet the downturn morphed into the Great Depression, an economic calamity of momentous proportions. What happened? The Fed didn't do its job, according to Milton Friedman and Anna Schwartz's *A Monetary History of the United States, 1867-1960*.*

This is another one of the key arguments for the affirmative on this topic. The reason why the government performs bailouts is to limit the damage to the economy as a whole when one of these big inter-connected companies fail. When one of these firms is on the brink of collapse there are two choices for the government: 1) they can do nothing and let the long and wide ranging effects of the firms collapse be felt all across the country or 2) they can do a bailout and limit the damage as much as possible. Which of these options is the best policy for lawmakers? Which of these options is just?

*A bailout would have prevented or made easier the Great Depression.*

**Farrell '08** (Chris, Columnist, Business Week, August 5) p. Online

*In essence, the authors argued that the Great Depression stemmed from a decline in the money supply. The public lost confidence in banks. Depositors wanted their money back. The money*

*supply contracted. Bank deposits weren't being used to expand credit and economic activity but to meet the public's panicked need for cash. Incomes fell, economic activity plummeted, more banks went out of business, yet the Fed refused to break the cycle of fear by acting as lender of last resort.*

*"[T]he experience was a tragic testimonial to the importance of monetary forces," write Friedman and Schwartz. "The drastic decline in the quantity of money during those years, and the occurrence of a banking panic of unprecedented severity, were not the inevitable consequences of other economic changes."*

*They did not reflect the absence of power on the part of the Federal Reserve System to prevent them, according to the authors. "Throughout the contraction, the System had ample powers to cut short the tragic process of monetary deflation and banking collapse. Had it used those powers effectively in late 1930 or even in early to mid-1931... Such action would have eased the severity of the contraction and very likely would have brought it to an end at a much earlier date."*

This piece of evidence makes an important historical argument. What if the federal government had used bailouts back at the start of the Great Depression? Would it have been just a recession, one of the many ups and downs in a capitalist economy? We will never know because the federal government failed to act. What if the government had done nothing at the start of this current crisis? Would we be in the midst of another depression instead of just a recession? The government must act to try to prevent the mistakes of history being made again.

*Large companies are too big to fail and must be bailed out so we do not have another Great Depression.*

*Litan '08 (Robert, Senior Fellow at Brookings, Government Bailout: Changing the Face of Capitalism, September 17) p. Online*

*Recent events have brought to the fore the kinds of financial nightmares policy-makers had hoped they never would have to face: saving very large financial institutions (and their creditors and possibly shareholders indirectly) because those firms' failures would cause much greater financial and economic damage to the U.S. economy as a whole, as well as economies abroad. In my view, most policy-makers, would be forced to do this, and now they have confirmed those expectations and made the "too big to fail" policy explicit.*

*What is so shocking to many is that these worst-case scenarios—something that few ever expected to play out—have actually materialized. But the good news is that we have learned from the past: while Depression-era policy makers watched idly while events spiraled out of control, today's policy-makers have recognized the need for swift action to contain the damage.*

This piece of evidence combines two of the previous arguments; both that bailouts limit the damage to the economy as a whole and that government intervention might well have proved the deciding factor in limiting the scope and effect of the Great Depression. These are the key arguments in the round, if you can win these arguments, then everything else flows from here. If you win that bailouts limit the economic impact of failure for the entire economy, then it is easy to win that bailouts are just; for how could an economic policy be unjust that helps everyone?

*Bailouts are not about rewarding bad performance or being corporate welfare, bailouts are about stabilizing the economy for every citizen.*

**Rivlin '08** (Alice, Senior Fellow at Brookings, *The Bear Stearns Rescue: The Fed's Money Well Spent*, April 11) p. Online

*Never mind that the supposed conflict between Wall Street and Main Street is a false one — Main Street runs on credit and cannot prosper if the financial system is in shambles and credit dries up. Never mind that the supposed Fat Cat “bailout” was a disaster for Bear Stearns stockholders, and that the idea of a “moral hazard” risk — that other investment banks will be tempted to emulate Bear Stearns — is preposterous. Never mind that if markets head back up and the collateral can be sold at a profit, taxpayers may lose nothing.*

*In the end, the Fed's action was not aimed at rescuing those who made bad decisions out of greed or stupidity, but at protecting the rest of the country — and indeed the world — from the possibly devastating consequences of a financial meltdown.*

This piece of evidence helps to answer one of the big arguments that the negative is going to make. They are going to say that bailouts are just a reward for poor performance or extreme risk taking. The answer to this is the heart of the affirmatives position and that is regardless of the performance of some companies, the governments responsibility is to limit the damage of an economic crisis as much as possible.

## Debating the Negative

Debating the negative on this topic is all about winning that bailouts are bad public policy and have negative long-term impacts on the economy.

*Bailouts disrupt the natural market forces that correct for economic woes and ensure that instead of fixing a crisis they will extend a crisis and make it more destructive.*

**Mitchell '08** (Daniel, Senior Fellow, Cato Institute, Real Clear Politics) p. Online

*The proposed bailout of the financial system is a misguided scheme that will hurt the U.S. economy in the short run and long run. The economy currently is stumbling as a consequence of a government-created housing bubble, but a bailout of companies, executives, and shareholders that made unwise decisions would, at best, extend the economy's adjustment process. More likely, the bailout would impose considerable additional economic damage because political factors would at least partially supplant market forces in determining the allocation of resources.*

*Some politicians and government officials are making reckless charges of greater financial turmoil in the absence of a bailout. These grossly irresponsible statements may cause short-term market losses as investors try to second-guess how other investors will respond, but the assertion that the stock market's health - especially in the long run - depends on bigger*

*government is belied by real-world evidence. Japanese politicians made many of the same mistakes in the 1990s that American politicians today are considering, and the Nikkei suffered a lengthy period of decline - and remains today far below its peak level.*

This evidence makes the key argument that all others spring from for the negative. The argument is that in a capitalist economy firms that fail do so for a reason and that reason is that the firm is just not healthy enough to survive, but do not shed tears for this firm, because that is the way that the economy gets rid of firms that are old in their ways and no longer competitive. To thwart this natural order of things means that the government is propping up firms that should go out of business in order to make room for other firms that perform better. This changing of the nature of capitalism by the government puts the economy in great danger in the long-term.

*Bailouts thwart the economic forces that will turn a crisis into long-term growth and will make the crisis longer in intensity and duration.*

**Mitchell '08** (Daniel, Senior Fellow, Cato Institute, Real Clear Politics) p. Online

*The bailout is bad for the economy. The unfortunate truth is that bad government policy has resulted in excess investment in the housing sector, and the inevitable reallocation of labor and capital is going to cause some economic dislocation. The good news, though, is that this process - if not hindered - will create a stronger and more vibrant economy. A bailout, however, will discourage this process and reduce economic efficiency. This may not seem important in the short run, since modest changes in the rate of economic growth are difficult to perceive. But in the long run, because of compounding, even small changes in the rate of growth can have a significant impact on living standards. Small differences in annual growth rates are why*

*disposable income in the United States is substantially higher than disposable income in nations that practice economic interventionism, such as France, Germany, and Japan.*

This piece of evidence makes a similar argument that it is key to let capitalism work, even if that means that some firms go out of business. These capitalists' forces ensure that we will come out of the other side of a crisis a leaner and better economy. Bailouts thwart this and ensure that an economic crisis will last longer and be more severe than if the government had refused to interfere in the economy. Another implication is that government bailouts prop up weak firms and that this leaves the economy open to further disaster in the future.

*History proves that government intervention in economic crisis is a bad idea.*

**Mitchell '08** (Daniel, Senior Fellow, Cato Institute, Real Clear Politics) p. Online

*The bailout repeats the mistakes Japan made in the 1990s. There are several historical episodes that indicate the dangers of government intervention to prop up a bubble. Japan faced a similar situation at the end of the 1980s, with real estate prices rising to absurd levels. The bubble then burst, but rather than let market forces operate, Japanese politicians sought to prop up both insolvent institution and asset prices. This interfered with the orderly reallocation of labor and capital, created considerable uncertainty, and contributed to a "lost decade" of economic stagnation. Another worrisome parallel is what happened during the 1930s. Policy mistakes such as protectionism (Hoover), higher tax rates (Hoover and Roosevelt), increased government spending (Hoover and Roosevelt) and increased intervention (Hoover and Roosevelt), helped turn a stock-market correction into the Great Depression.*

This evidence helps to answer the affirmative argument that bailouts could have prevented the Great Depression. The argument is that history has proven that government intervention makes economic crisis last longer and be more severe. Look at the Japanese economy in the 1990's when government intervention made a recession worse. This argument is also saying that if the government had not intervened in the Great Depression, it would have just been a stock market correction and not the economic cataclysm that it was.

*Bailouts increase government corruption.*

**Mitchell '08** (Daniel, Senior Fellow, Cato Institute, Real Clear Politics) p. Online

*The bailout will increase corruption in Washington. When politicians have more power over the allocation of economic resources, people have an incentive to play the "rent-seeking" game of exchanging campaign contributions and hiring lobbyist in hopes of obtaining unearned wealth (or, more honorably, taking the same steps in hopes of protecting themselves from those seeking unearned wealth). The squalid mess at Fannie Mae and Freddie Mac was made possible in part because politicians received enormous amounts of money from advocates of the two government-sponsored enterprises. If the government obtains power over financial markets, including the ability to steer money to particular firms, it will create a feeding frenzy of lobbying and influence peddling.*

This argument is a simple one, anytime that there is this much money flowing, there is bound to be influence peddling which is nothing short of corruption. Money is the grease that makes politics run in this country and when the government is handing out billions in bailouts it will lead to corruption as business tries to ensure that they can belly up to the trough.

*Bailouts reward companies and executives that make bad choices.*

**Mitchell '08** (Daniel, Senior Fellow, Cato Institute, Real Clear Politics) p. Online

*The bailout rewards executives and companies that made poor choices. Unfettered markets are the best generator of prosperity because people have incentives to make wise decisions. If an entrepreneur figures out a way to provide a valued good or service to others, he can become wealthy. But if that entrepreneur makes a mistake, he will suffer losses and maybe even bankruptcy. If investors put money into a well-run company, they can increase their wealth. But if they put their money into a poorly run firm, the opposite can happen. In other words, market forces encourage people to make smart decisions so they can prosper. But it is equally important that people bear the consequences when they make wrong choices.*

This is another argument that flows from the idea that you should not thwart the mechanisms of capitalism. This argument is that if firms and those that run them make bad choices that there should be consequences for those choices. In business the consequences are that your company will do poorly, maybe even go out of business. If there is no fear of failure, because you know that the government will bailout you out, then it is an incentive to make bad choices and kills any incentive to take good care of your company.

*Deciding whom to bailout and who not to bailout out is political and arbitrary, this is not just.*

**Krauthammer '08** (Charles, Columnist, Washington Post, November 14) p. Online

*First, the arbitrariness. Where do you stop? Once you've gone beyond the financial sector, every struggling industry will make a claim on the federal treasury. What are the grounds for saying yes or no?*

*The criteria will inevitably be arbitrary and political. The money will flow preferentially to industries with lines to Capitol Hill and the White House. To the companies heavily concentrated in the districts of committee chairmen. To clout. Is this not precisely the kind of lobby-driven policymaking that Obama ran against?*

This argument is the link to the philosophical for the negative. You must force from the affirmative in cross-examination to make a choice; they are either for bailouts of large corporations in all cases or only in some cases. If they are for them in only some cases then you can make the argument that that is arbitrary and that makes the bailouts unjust. If the affirmative says that they are for bailouts in all cases, then you can still make that argument, because the wording of the resolution limits the affirmative ground to only large firms? What about America's small businesses, don't they deserve to be bailed out if they are about to fail?

\*\*\*\*\*AFFIRMATIVE ANSWER\*\*\*\*\*

The affirmative can answer this by making the argument that it is only just to bailout those firms that impact the wider economy, because a failure of the wider economy impacts all the people of the country.

*Bailouts are worse for the long-term economy than the recession that they try to prevent or truncate.*

**Chapman '08** (Steve, Columnist, Real Clear Politics, September 25) p. Online

*The point of the plan, after all, is to shore up struggling firms by awarding them more for those assets than they could get anywhere else. As an analysis in The Washington Post put it, "the more effective the plan, the more expensive it will be."*

*Not only that, the more effective it is, the more damage it will do to the free market system. Saving companies from their bad gambles turns business into a game of "profits for me, losses for you," corroding the incentives that make capitalism so innovative and efficient.*

*And for what? Bernanke warns of a recession. But economic downturns are not to be avoided at all costs. And one good thing about recessions is that they end, usually in a matter of months. An intervention of this nature, by contrast, would have malignant consequences for decades to come.*

This argument is what policy debaters call a turn, it both answers an affirmative argument and then turns it against them. This piece of evidence can be used to answer the affirmative argument that bailouts make economic crisis shorter and not as severe.

### **Affirmative Evidence**

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technological change. It's in the nature of the beast. Like it or not, limiting the downside damage when the boom goes bust is a critical part of the monetary authorities job.

Take the searing experience of the Great Depression. The 1920s was an era of remarkable technological and organizational innovation. Eventually, as happens in a capitalist system, the boom went bust. Yet the downturn morphed into the Great Depression, an economic calamity of momentous proportions. What happened? The Fed didn't do its job, according to Milton Friedman and Anna Schwartz's *A Monetary History of the United States, 1867-1960*.

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They did not reflect the absence of power on the part of the Federal Reserve System to prevent them, according to the authors. "Throughout the contraction, the System had ample powers to cut short the tragic process of monetary deflation and banking collapse. Had it used those powers effectively in late 1930 or even in early to mid-1931... Such action would have eased the severity of the contraction and very likely would have brought it to an end at a much earlier date."

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What is so shocking to many is that these worst case scenarios—something that few ever expected to play out—have actually materialized. But the good news is that we have learned from the past: while Depression-era policy makers watched idly while events spiraled out of control, today's policy-makers have recognized the need for swift action to contain the damage.

Bailouts are not about rewarding bad performance or being corporate welfare, bailouts are about stabilizing the economy for every citizen.

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In the end, the Fed’s action was not aimed at rescuing those who made bad decisions out of greed or stupidity, but at protecting the rest of the country — and indeed the world — from the possibly devastating consequences of a financial meltdown.

John Rawls on the importance of justice

John Rawls

([A Theory of Justice](#), p. 3)

Justice is the first virtue of social institutions, as truth is of systems of thought. A theory however elegant and economical must be rejected or revised if it is untrue; likewise laws and institutions no matter how efficient and well-arranged must be reformed or abolished if they are unjust.

Every individual must make some sacrifices for the good of the whole

Robert Nozick

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Side constraints express the inviolability of other persons. But why may not one violate persons for the greater social good? Individually, we each sometimes choose to undergo some pain or sacrifice for a greater benefit to avoid a greater harm: we go to the dentist to avoid worse suffering later; we do some unpleasant work for its results; some persons diet to improve their health or looks; some save money to support themselves when they are older. In each case, some cost is borne for the sake of the greater overall good. Why not, similarly, hold that some persons have to bear some costs that benefit other persons more, for the sake of the overall social good? But there is no social entity with a good that undergoes some sacrifice for its own good. There are only individual people, with their own individual lives. Using one of these people for the benefit of others, uses him and benefits the others. Nothing more. Talk of an overall social good covers this up.

Against Marketplace of Ideas: Inequitable marketplace undermines truth seeking

Dom Carist

(Expanding Free Expression in the Marketplace: Broadcasting and the Public Forum, 1992, p. 6)

While the theory has much to recommend it, the search for truth as free expression theory is flawed. First, if a marketplace of ideas is to function effectively, all must have equal access to that marketplace, both to "buy" and "sell" goods. When the goods at issue are ideas, this requires that all participants have the opportunity to both speak and hear a diversity of voices. When one entity (or even a handful of like-thinking individuals) is able to dominate the marketplace, monopolizing opportunities, the marketplace metaphor falls apart.

### **Negative Evidence**

Bailouts disrupt the natural market forces that correct for economic woes and ensure that instead of fixing a crisis they will extend a crisis and make it more destructive.

**Mitchell '08** (Daniel, Senior Fellow, Cato Institute, *Real Clear Politics*) p. Online

The proposed bailout of the financial system is a misguided scheme that will hurt the U.S. economy in the short run and long run. The economy currently is stumbling as a consequence of a government-created housing bubble, but a bailout of companies, executives, and shareholders that made unwise decisions would, at best, extend the economy's adjustment process. More likely, the bailout would impose considerable additional economic damage because political factors would at least partially supplant market forces in determining the allocation of resources.

Some politicians and government officials are making reckless charges of greater financial turmoil in the absence of a bailout. These grossly irresponsible statements may cause short-term market losses as investors try to second-guess how other investors will respond, but the assertion that the stock market's health - especially in the long run - depends on bigger government is belied by real-world evidence. Japanese politicians made many of the same mistakes in the 1990s that American politicians today are considering, and the Nikkei suffered a lengthy period of decline - and remains today far below its peak level.

Bailouts thwart the economic forces that will turn a crisis into long-term growth and will make the crisis longer in intensity and duration.

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The bailout is bad for the economy. The unfortunate truth is that bad government policy has resulted in excess investment in the housing sector, and the inevitable reallocation of labor and capital is going to cause some economic dislocation. The good news, though, is that this process - if not hindered - will create a stronger and more vibrant economy. A bailout, however, will discourage this process and reduce economic efficiency. This may not seem important in the short run, since modest changes in the rate of economic growth are difficult to perceive. But in the long run, because of compounding, even small changes in the rate of growth can have a significant impact on living standards. Small differences in annual growth rates are why disposable income in the United States is substantially higher than disposable income in nations that practice economic interventionism, such as France, Germany, and Japan.

History proves that government intervention in economic crisis is a bad idea.

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The bailout repeats the mistakes Japan made in the 1990s. There are several historical episodes that indicate the dangers of government intervention to prop up a bubble. Japan faced a similar situation at the end of the 1980s, with real estate prices rising to absurd levels. The bubble then burst, but rather than let market forces operate, Japanese politicians sought to prop up both insolvent institution and asset prices. This interfered with the orderly reallocation of labor and capital, created considerable uncertainty, and contributed to a "lost decade" of economic stagnation. Another worrisome parallel is what happened during the 1930s. Policy mistakes such as protectionism (Hoover), higher tax rates (Hoover and Roosevelt), increased government spending (Hoover and Roosevelt) and increased intervention (Hoover and Roosevelt), helped turn a stock-market correction into the Great Depression.

Bailouts increase government corruption.

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The bailout will increase corruption in Washington. When politicians have more power over the allocation of economic resources, people have an incentive to play the "rent-seeking" game of

exchanging campaign contributions and hiring lobbyist in hopes of obtaining unearned wealth (or, more honorably, taking the same steps in hopes of protecting themselves from those seeking unearned wealth). The squalid mess at Fannie Mae and Freddie Mac was made possible in part because politicians received enormous amounts of money from advocates of the two government-sponsored enterprises. If the government obtains power over financial markets, including the ability to steer money to particular firms, it will create a feeding frenzy of lobbying and influence peddling.

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The bailout rewards executives and companies that made poor choices. Unfettered markets are the best generator of prosperity because people have incentives to make wise decisions. If an entrepreneur figures out a way to provide a valued good or service to others, he can become wealthy. But if that entrepreneur makes a mistake, he will suffer losses and maybe even bankruptcy. If investors put money into a well-run company, they can increase their wealth. But if they put their money into a poorly-run firm, the opposite can happen. In other words, market forces encourage people to make smart decisions so they can prosper. But it is equally important that people bear the consequences when they make wrong choices.

Bailouts reward imprudent risk.

**Mitchell '08** (Daniel, Senior Fellow, Cato Institute, *Real Clear Politics*) p. Online

The bailout will encourage imprudent risk in the future. The debacles at Fannie Mae and Freddie Mac, as well as the savings & loan failures from the late 1980s/early 1990s, are compelling examples of the

negative economic consequences that occur when profits are privatized but losses are socialized. Faced with this perverse incentive structure, people engage in riskier behavior (analogously, if you are in Vegas, and somebody else is going to cover your losses, you obviously have an incentive to make bigger bets). A bailout would extend this risky behavior to the whole financial system, if not the entire economy.

Short-term market performance is a bad determinant of policy

**Mitchell '08** (Daniel, Senior Fellow, Cato Institute, *Real Clear Politics*) p. Online

Supporters of the bailout breathlessly watch the Dow Jones Industrial Average and interpret any downward movement as evidence that a bailout is necessary. This is a rather odd benchmark, particularly since it almost goes without saying that a \$700 billion transfer from taxpayers to the financial industry is going to increase - at least in the short run - the value of financial assets. A \$700 billion transfer from taxpayers to the auto industry would increase the value of auto companies, but that is hardly an argument for such a handout.

Moreover, short-term stock market performance is a bad indicator of good government policy. The Dow Jones Industrial Average rose substantially in the weeks following the imposition of wage and price controls by Richard Nixon in 1971. Yet Nixon's policy caused considerable economic damage by hindering market forces. And since it did not address the real cause of rising prices - an easy-money policy by the Federal Reserve, Nixon let the problem fester and worsen, which unavoidably was a major reason for the relatively deep economic recession in 1974-75.

One of the reasons why short-term stock market performance can be misleading is that investors sometimes care more about what other investors think than they do about the underlying fundamentals. This is known as the "Keynesian beauty contest," and though it is not a sound approach for long-term investing, it a perfectly reasonable strategy for speculative short-term investments. And in today's volatile environment - particularly with the reckless comments by Administration officials and Members of Congress, many investors will assume lower stock prices because they think other investors assume lower stock prices.

Deciding whom to bailout and who not to bailout out is political and arbitrary, this is not just.

**Krauthammer '08** (Charles, Columnist, *Washington Post*, November 14) p. Online

First, the arbitrariness. Where do you stop? Once you've gone beyond the financial sector, every struggling industry will make a claim on the federal treasury. What are the grounds for saying yes or no?

The criteria will inevitably be arbitrary and political. The money will flow preferentially to industries with lines to Capitol Hill and the White House. To the companies heavily concentrated in the districts of committee chairmen. To clout. Is this not precisely the kind of lobby-driven policymaking that Obama ran against?

Bailouts are worse for the long-term economy than the recession that they try to prevent or truncate.

**Chapman '08** (Steve, Columnist, *Real Clear Politics*, September 25) p. Online

The point of the plan, after all, is to shore up struggling firms by awarding them more for those assets than they could get anywhere else. As an analysis in The Washington Post put it, "the more effective the plan, the more expensive it will be."

Not only that, the more effective it is, the more damage it will do to the free market system. Saving companies from their bad gambles turns business into a game of "profits for me, losses for you," corroding the incentives that make capitalism so innovative and efficient.

And for what? Bernanke warns of a recession. But economic downturns are not to be avoided at all costs. And one good thing about recessions is that they end, usually in a matter of months. An intervention of this nature, by contrast, would have malignant consequences for decades to come.

Economists agree that bailouts are short sighted and have long term consequences.

**Chapman '08** (Steve, Columnist, *Real Clear Politics*, September 25) p. Online

A group of 122 economists, including at least two Nobel laureates, signed a letter this week summarizing the danger: "If the plan is enacted, its effects will be with us for a generation. For all their recent troubles, America's dynamic and innovative private capital markets have brought the nation unparalleled prosperity. Fundamentally weakening those markets in order to calm short-run disruptions is desperately short-sighted."

Failure is an important part of what make capitalism work and bailout short-circuit this.

**Tracinski '08** (Robert, Columnist, *Real Clear Politics*, October 2) p. Online

This is a normal part of the rough and tumble of capitalism. All of the current talk about the "failure" of the free market ignores the fact that the process of failure is a crucial benefit of the free market. In a capitalist system, high-risk firms are always trying out new and untested ideas, and failure is the messenger that tells the market which strategies work and which strategies don't. It is also an indispensable corrective mechanism that moves capital from enterprises with failing strategies to those with successful strategies.

But the Treasury Department and the Federal Reserve have repeatedly short-circuited this mechanism by trying to outlaw failure. When the market sent the message that too many bad loans had been made and that this needed to be corrected by a contraction in the amount of available credit, the government wanted to avoid the unpleasant consequences of such a contraction. So the Federal Reserve papered over the facts--with a flurry of paper money--by artificially reducing interest rates and loosening up credit just when it needed to be tightened.

But that didn't change the underlying facts, and the bad investments still went bad. Yet as the market has sent the message that some firms have become over-extended and are no longer solvent, the government has still tried to avoid letting the market face the facts. The Treasury and the Fed kept trying to rewrite reality by orchestrating a series of government-backed bailouts.

. John Rawls on the importance of justice

John Rawls

(A Theory of Justice, p. 3)

Justice is the first virtue of social institutions, as truth is of systems of thought. A theory however elegant and economical must be rejected or revised if it is untrue; likewise laws and institutions no matter how efficient and well-arranged must be reformed or abolished if they are unjust.

Defining John Stuart Mill's concept of the "Marketplace of Ideas"

Jill Gordon

(Social Theory and Practice, Vol. 23, 1997)

Applying the metaphor to Mill's text, we must read it to be saying simply that all opinions are to be expressed; everyone comes to the market with his or her ideas, and through discussion everyone exchanges ideas with one another. The ideas or opinions compete with one another, and we have the opportunity to test all of them, weighing one against the other. As rational consumers of ideas, we choose the "best" among them. In the same way that "bad" products naturally get

pushed out of the market because of the lack of demand for them and "good" products thrive because they satisfy a demand, so also "good" ideas prevail in the marketplace and "bad" ones are weeded out in due course. So, further implicit in the analogy is the notion that the ideas that ultimately prevail in the marketplace must be the "best" in some sense of that word.

### **Note on Definitions**

Definitions in Lincoln-Douglas debate are a topic of some confusion. Do you need to define every word, the important words, or no words at all. The truth is that the only reason that a debater should define a word in an LD round is if they think they need to take a stand on what a word means in order to gain some strategic high ground. There is never a need to just define words, if your definitions do not have a key part in your strategic thinking then do not waste the time, you are much better off making arguments instead. In this resolution the words are all common ones that we can all agree on, there is no need to define words on this topic either on the affirmative or on the negative.

In essence, the authors argued that the Great Depression stemmed from a decline in the money supply. The public lost confidence in banks. Depositors wanted their money back. The money supply contracted. Bank deposits weren't being used to expand credit and economic activity but to meet the public's panicked need for cash. Incomes fell, economic activity plummeted, more banks went out of business, yet the Fed refused to break the cycle of fear by acting as lender of last resort.

"[T]he experience was a tragic testimonial to the importance of monetary forces," write Friedman and Schwartz. "The drastic decline in the quantity of money during those years, and the occurrence of a banking panic of unprecedented severity, were not the inevitable consequences of other economic changes."

They did not reflect the absence of power on the part of the Federal Reserve System to prevent them, according to the authors. "Throughout the contraction, the System had ample powers to cut short the tragic process of monetary deflation and banking collapse. Had it used those powers effectively in late 1930 or even in early to mid-1931... Such action would have eased the severity of the contraction and very likely would have brought it to an end at a much earlier date."

Because I agree with Chris Farrell I stand firmly resolved that: Federal Government bailouts of major corporations are just.

The value that I am going to defend in the debate is the value of Justice. Justice is the value that is explicit in the resolution. In this debate the debater that wins whether or not bailouts are just will win this round. It all comes down to justice.

The criterion that I will use to weigh the debate is that of Utilitarianism. The idea of utilitarianism is that what is just for policy makers is trying to develop public policy that does the most good for the most people while doing the least amount of harm.

I would like to begin my defense of the resolution with:

**Contention 1 - Bailouts are key to making economic downturns not as painful.**

**Farrell '08** (Chris, Columnist, *Business Week*, August 5) p. Online

There's the rub. If the monetary and fiscal authorities are right in their judgment that the risk of an economic plunge of frightening proportions is real, then the Herculean actions they're taking are fair to all of us. What's more, if innovation is the core dynamic in a capitalist economy, the engine of growth and higher living standards, then there will be booms and busts, especially during periods of rapid technological change. It's in the nature of the beast. Like it or not, limiting the downside damage when the boom goes bust is a critical part of the monetary authorities job.

Take the searing experience of the Great Depression. The 1920s was an era of remarkable technological and organizational innovation. Eventually, as happens in a capitalist system, the boom went bust. Yet the downturn morphed into the Great Depression, an economic calamity of momentous proportions. What happened? The Fed didn't do its job, according to Milton Friedman and Anna Schwartz's *A Monetary History of the United States, 1867-1960*.

**Contention 2 - Large companies are too big to fail and must be bailed out so we do not have another Great Depression.**

**Litan '08**(Robert, Senior Fellow at Brookings, *Government Bailout: Changing the Face of Capitalism*, September 17) p. Online

Recent events have brought to the fore the kinds of financial nightmares policy-makers had hoped they never would have to face: saving very large financial institutions (and their creditors and possibly

shareholders indirectly) because those firms' failures would cause much greater financial and economic damage to the U.S. economy as a whole, as well as economies abroad. In my view, most policy-makers, would be forced to do this, and now they have confirmed those expectations and made the "too big to fail" policy explicit.

What is so shocking to many is that these worst case scenarios—something that few ever expected to play out—have actually materialized. But the good news is that we have learned from the past: while Depression-era policy makers watched idly while events spiraled out of control, today's policy-makers have recognized the need for swift action to contain the damage.

**Contention 3 - Bailouts are not about rewarding bad performance or being corporate welfare, bailouts are about stabilizing the economy for every citizen.**

**Rivlin '08** (Alice, Senior Fellow at Brookings, *The Bear Stearns Rescue: The Fed's Money Well Spent*, April 11) p. Online

Never mind that the supposed conflict between Wall Street and Main Street is a false one — Main Street runs on credit and cannot prosper if the financial system is in shambles and credit dries up. Never mind that the supposed Fat Cat "bailout" was a disaster for Bear Stearns stockholders, and that the idea of a "moral hazard" risk — that other investment banks will be tempted to emulate Bear Stearns — is preposterous. Never mind that if markets head back up and the collateral can be sold at a profit, taxpayers may lose nothing.

In the end, the Fed's action was not aimed at rescuing those who made bad decisions out of greed or stupidity, but at protecting the rest of the country — and indeed the world — from the possibly devastating consequences of a financial meltdown.

**Contention 4 - The government must bailout key industries.**

**Krauthammer '08** (Charles, Columnist, *Washington Post*, November 14) p. Online

Underlying the policy differences is a philosophical divide. The Bush administration sees the \$700 billion rescue as an emergency measure to save the financial sector on the grounds that finance is a utility. No government would let the electric companies go under and leave the country without power. By the same token, government must save the financial sector lest credit dry up and strangle the rest of the economy.

I now stand open for cross-examination.

**Note on Negative Strategy**

There are two ways that the negative could approach this topic. The first is to take the debate completely philosophical. The negative could spend the entire debate explaining why helping only large companies is unjust and could even make some economic freedom arguments, etc. The other approach is the one that we have taken and that approach is to debate the affirmative on their ground. The affirmatives on this resolution are going to want to debate if bailouts are good policy or not, we say bring it on. Debating on the affirmative ground will help make clash easier and it will be more appealing to the majority of the UIL judging pool.

## Negative

The bailout is bad for the economy. The unfortunate truth is that bad government policy has resulted in excess investment in the housing sector, and the inevitable reallocation of labor and capital is going to cause some economic dislocation. The good news, though, is that this process - if not hindered - will create a stronger and more vibrant economy. A bailout, however, will discourage this process and reduce economic efficiency. This may not seem important in the short run, since modest changes in the rate of economic growth are difficult to perceive. But in the long run, because of compounding, even small changes in the rate of growth can have a significant impact on living standards. Small differences in annual growth rates are why disposable income in the United States is substantially higher than disposable income in nations that practice economic interventionism, such as France, Germany, and Japan.

Because I agree with Daniel Mitchell I negate the resolution that: Federal Government bailouts of major corporations are just.

The value that I am going to defend in the debate is the value of Justice. Justice is the value that is explicit in the resolution. In this debate the debater that wins whether or not bailouts are just will win this round. It all comes down to justice.

The criterion that I will use to weigh the debate is that of Utilitarianism. The idea of utilitarianism is that what is just for policy makers is trying to develop public policy that does the most good for the most people while doing the least amount of harm.

I would like to begin my negation of the resolution with:

**Contention 1 - Bailouts disrupt the natural market forces that correct for economic woes and ensure that instead of fixing a crisis they will extend a crisis and make it more destructive.**

**Mitchell '08** (Daniel, Senior Fellow, Cato Institute, *Real Clear Politics*) p. Online

The proposed bailout of the financial system is a misguided scheme that will hurt the U.S. economy in the short run and long run. The economy currently is stumbling as a consequence of a government-created housing bubble, but a bailout of companies, executives, and shareholders that made unwise decisions would, at best, extend the economy's adjustment process. More likely, the bailout would impose considerable additional economic damage because political factors would at least partially supplant market forces in determining the allocation of resources.

Some politicians and government officials are making reckless charges of greater financial turmoil in the absence of a bailout. These grossly irresponsible statements may cause short-term market losses as investors try to second-guess how other investors will respond, but the assertion that the stock market's health - especially in the long run - depends on bigger government is belied by real-world evidence. Japanese politicians made many of the same mistakes in the 1990s that American politicians today are considering, and the Nikkei suffered a lengthy period of decline - and remains today far below its peak level.

## **Contention 2 - History proves that government intervention in economic crisis is a bad idea.**

**Mitchell '08** (Daniel, Senior Fellow, Cato Institute, *Real Clear Politics*) p. Online

The bailout repeats the mistakes Japan made in the 1990s. There are several historical episodes that indicate the dangers of government intervention to prop up a bubble. Japan faced a similar situation at the end of the 1980s, with real estate prices rising to absurd levels. The bubble then burst, but rather than let market forces operate, Japanese politicians sought to prop up both insolvent institution and asset prices. This interfered with the orderly reallocation of labor and capital, created considerable uncertainty, and contributed to a "lost decade" of economic stagnation. Another worrisome parallel is what happened during the 1930s. Policy mistakes such as protectionism (Hoover), higher tax rates (Hoover and Roosevelt), increased government spending (Hoover and Roosevelt) and increased intervention (Hoover and Roosevelt), helped turn a stock-market correction into the Great Depression.

**Contention 3 - Bailouts reward companies and executives that make bad choices.**

**Mitchell '08** (Daniel, Senior Fellow, Cato Institute, *Real Clear Politics*) p. Online

The bailout rewards executives and companies that made poor choices. Unfettered markets are the best generator of prosperity because people have incentives to make wise decisions. If an entrepreneur figures out a way to provide a valued good or service to others, he can become wealthy. But if that entrepreneur makes a mistake, he will suffer losses and maybe even bankruptcy. If investors put money into a well-run company, they can increase their wealth. But if they put their money into a poorly-run firm, the opposite can happen. In other words, market forces encourage people to make smart decisions so they can prosper. But it is equally important that people bear the consequences when they make wrong choices.

**Contention 4 - Deciding whom to bailout and who not to bailout out is political and arbitrary, this is not just.**

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**Contention 5 - Bailouts are worse for the long-term economy than the recession that they try to prevent or truncate.**

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