# KG January 18’ AC

**We affirm- Resolved: The United States federal government should prioritize reducing the federal debt over promoting economic growth.**

## Contention One is Being Prepared

**A recession is coming. Laura of Fortune writes that there is a “near certainty” that the economy falls into a recession in 2020 as a result of global jitters, heightened political tensions, and the actions of the federal reserve.**

**Laursen**, Lucas. “What Are the Odds of a U.S. Recession by 2020? Larry Summers Says They're Pretty High.” **Fortune**, Fortune, 16 Nov. **2018**, fortune.com/2018/11/16/larry-summers-recession-by-2020/.

The former U.S. treasury secretary told CNBC Thursday that **an economic retraction was a “near certainty” because of jitters within global finance, heightened political tensions worldwide and the actions of the Federal Reserve.** A survey this summer of business economists revealed that a majority also think the next recession will arrive by 2020. If these theories are proved correct, it will bring an end to a lengthy period of economic expansion that started in June 2009. Indeed, should the U.S. economy continue to expand until July 2019, it would become a record-breaking streak, according to the nonprofit National Bureau of Economic Research.

**This is important, as in times of recession, the government must step in and expend large amounts of capital to “jumpstart” the economy and get people back to work. Unfortunately, the ever-increasing debt makes it impossible for the government to step in and fix the economy. Collins of USA Today writes that the US went from a sizeable budget surplus in 2000 to a large debt total of 21 trillion dollars which is rising every second. This rapid increase in debt ruins the government’s economic intervention powers.**

https://www.usatoday.com/story/news/politics/2018/10/16/government-spending-how-rising-federal-debt-deficit-impact-americans/1589889002/

**Ghilarducci of Forbes writes that due to the fact the GDP to Debt ratio was low in 2008 the US had the ability to borrow crucial capital to finance stimulus packages that helped mitigate and significantly reduce the effects of the recession.**

**Ghilarducci**, Teresa. “Why We Should Control The Federal Debt Before The Next Recession.” **Forbes**, Forbes Magazine, 24 Sept. **2018**, [www.forbes.com/sites/teresaghilarducci/2018/09/23/why-we-should-control-the-federal-debt-before-the-next-recession/#50a610a5d33b](http://www.forbes.com/sites/teresaghilarducci/2018/09/23/why-we-should-control-the-federal-debt-before-the-next-recession/#50a610a5d33b).

And **high debt levels can leave little room to maneuver.** The IMF predicts that among rich nations, only the U.S. will increase its debt-to-GDP ratio in the next five years, the wrong direction during an economic expansion. During an expansion, especially the current nearly record-setting long one, debt should be falling, not rising. In Q3 of 2008, the government had collected revenue from the booming economy; the debt-to-GDP ratio was a low 64%. **When the Great Recession hit, the government had room to borrow to finance our fiscal lifesavers,** including the American Recovery and Reinvestment Act (ARRA) and TARP, **which helped keep the deep recession from turning into a global depression. Government deficits before a recession are even more dangerous.** Fueling a large federal deficit before a recession is a big mistake. If the economic downturn hit now the government would have less ammo to fight it. Interest payments alone will take up an ever-higher share of the budget as the debt ratio grows. **And as the Federal Reserve continues to raise interest rates, the interest share will grow even faster, again leaving little room to increase spending when the next recession comes.**

**These fiscal bills were crucial as Stone of US News writes that without proper federal responses the 2008 recession would have been more 3x worse, 2x longer, and raised unemployment significantly higher. That’s billions of lost economic productivity, and millions losing their jobs, all of which was prevented by government intervention.**

**Stone**, Chad. “It Could Have Been So Much Worse.” U.S. News & World Report, U.S. News & World Report, 23 Oct. **2015**, www.usnews.com/opinion/economic-intelligence/2015/10/23/the-great-recession-would-have-been-much-worse-without-stimulus-tarp.

In a nutshell, Blinder and Zandi estimate that **without the full set of federal responses, the recession would have been more than three times deeper and lasted twice as long; we would have lost twice as many jobs** and unemployment would have peaked at 16 percent rather than 10 percent; the budget deficit would have grown to 20 percent of GDP, reaching $2.8 trillion in fiscal 2011; and unemployment today would be 7.6 percent, not 5.1 percent. Those federal responses included: substantial fiscal stimulus (debt-financed tax cuts and spending increases), most notably the 2009 economic recovery act; extraordinary actions by the Federal Reserve, Federal Deposit Insurance Corporation and Treasury Department, together with TARP, to re-establish a stable financial system and get credit flowing again; and the Fed's aggressive monetary stimulus, first using standard monetary policy to cut short-term interest rates to zero, then making large-scale purchases of longer-term assets (so-called quantitative easing or QE) to lower longer-term rates to encourage more economic activity.

**Unfortunately, with the increasing debt, the government would be powerless during the recession. Ghilarducci furthers that the rapidly rising deficit and debt will leave little room to increase spending during the next recession, jeopardizing crucial initiatives. She concludes that we must reverse fiscal trends or we will all pay during the next recession**

[www.forbes.com/sites/teresaghilarducci/2018/09/23/why-we-should-control-the-federal-debt-before-the-next-recession/#50a610a5d33b](http://www.forbes.com/sites/teresaghilarducci/2018/09/23/why-we-should-control-the-federal-debt-before-the-next-recession/#50a610a5d33b)

## Contention Two is Interest Rates

**Federal interest rates on bonds are rising. Baldwin of Investopedia reports that the Federal Reserve has already increased the rates by 25 basis points, the highest recorded since 2008.**

**Baldwin**, James Garrett. “The Impact of a Fed Interest Rate Hike.” **Investopedia**, Investopedia, 8 Nov. **2018**, [www.investopedia.com/articles/investing/010616/impact-fed-interest-rate-hike.asp](http://www.investopedia.com/articles/investing/010616/impact-fed-interest-rate-hike.asp).

After its meeting on November 8, 2018, the **Federal Reserve announced that it would maintain the target range for its benchmark interest rate of 2.00% - 2.25%. In September, the Fed raised interest rates by 25 basis points to current levels, the highest recorded since April 2008.** When interest rates increase, there are real-world effects on the ways that consumers and businesses can access credit to make necessary purchases and plan their finances. This article explores how consumers will pay more for the capital required to make purchases and why businesses will face higher costs tied to expanding their operations and funding payrolls when the Federal Reserve increases the target rate. However, the preceding entities are not the only ones that suffer due to higher costs, as this article explains. The recent rise in the Fed funds rate will likely cause a ripple effect on the borrowing costs for consumers and businesses that want to access credit based on the U.S. dollar.

**Das of Bloomberg that the federal reserve is now looking to hike interest rates even more.**

**Das**, Satyajit. “Could the Fed Set Off a Debt Bomb?” **Bloomberg**.com, Bloomberg, 12 Apr. **2018**, [www.bloomberg.com/opinion/articles/2018-04-12/u-s-federal-reserve-rate-hikes-could-trigger-a-debt-bomb](http://www.bloomberg.com/opinion/articles/2018-04-12/u-s-federal-reserve-rate-hikes-could-trigger-a-debt-bomb).

The U.S. Federal Reserve minutes released Wednesday show that central bank officials are increasingly committed to raising rates and shrinking the bank’s balance sheet. While economic signs remain mixed, **continued growth, rising inflationary expectations, tightening labor markets and the need to temper asset prices would all seem to argue in favor of higher rates.** QuickTake The Fed Lifts Off, Slowly Other central banks are likely to follow. The Bank of England and the European Central Bank have foreshadowed normalization of interest rates. The ECB seems likely to scale back its bond purchases. Markets are now factoring in multiple U.S. interest rate rises in 2018. The yield on the 10-year U.S. Treasury note has risen from 2.4 percent to 2.8 percent in 2018 alone.

**This trend has long term implications, as Tanhous of CNBC finds that this upward trend will likely be the return of historically high rates.**

**Tanous**, Peter J. “Rising Interest Rates Will Be Devastating to the US Economy for One Big Reason.” **CNBC**, CNBC, 6 Mar. **2018**, www.cnbc.com/2018/03/05/rising-interest-rates-will-be-devastating-to-the-us-economy-for-one-big-reason.html.

We now face a potential economic catastrophe as the long period of very low interest rates comes to an end. The recent stock market meltdown has been attributed to rising rates. That is correct, but for the wrong reasons. True, the long march of rising rates beginning now will be a dramatic change from the long trend of declining interest rates that started nearly 40 years ago**. The new upward trend is likely the beginning of a return to historic rates.** What are the historic rates, you may ask? We calculate that the average rate paid on the federal debt over the last 30 years was close to 5 percent. And if we get back to gaythat 30-year interest rate average, watch out.

**Crucially, rising rates will pull trillions away from the US budget. This is because as interest rates rise, the amount of interest payment the US has to make to others on its debt also increases. Indeed, The Peterson Foundation reports that interest costs currently are already 315 billion dollars and projected to increase to 914 billion by 2028, with interest payments totaling over 7 trillion dollars over the next decade.** **Overall, they conclude that these payments will become the third largest part of America’s federal budget.**

https://www.pgpf.org/fiscal-top-ten

Interest costs are growing rapidly. **Interest costs are projected to climb from $315 billion in 2018 to $914 billion by 2028. Over the next decade, interest will total nearly $7 trillion. By 2026, interest will become the third largest category of the budget.** With our many important budget priorities, none of us wants interest to become the third largest government “program.”

**Without prioritizing debt reduction, this huge pull on the budget decreases the funding and support for other programs. Schwartz of the New York Times finds that interest payments to investors will cripple the ability of the US to fund its crucial existing government programs and set up new ones in the future. Collins of USA Today confirms that as the government has less money to spend, government programs that help society the most will be cut. For example, MacGuineas of CNN projects that in the next 15 years, programs such as the Highway Trust Fund, Medicare, and Social Security will all lose funding and every citizen will face a 21 percent cut in governmental aid.**

**Schwartz**, Nelson. “As Debt Rises, the Government Will Soon Spend More on Interest Than on the Military.” **The New York Times**, The New York Times, 25 Sept. **2018**, www.nytimes.com/2018/09/25/business/economy/us-government-debt-interest.html.

The federal government could soon pay more in interest on its debt than it spends on the military, Medicaid or children’s programs. The run-up in borrowing costs is a one-two punch brought on by the need to finance a fast-growing budget deficit, worsened by tax cuts and steadily rising interest rates that will make the debt more expensive. **With less money coming in and more going toward interest, political leaders will find it harder to address pressing needs like fixing crumbling roads and bridges or to make emergency moves like pulling the economy out of future recessions.**

**Collins**, Michael. “The National Debt and the Federal Deficit Are Skyrocketing. How It Affects You.” **USA Today**, Gannett Satellite Information Network, 16 Oct. **2018**, www.usatoday.com/story/news/politics/2018/10/16/government-spending-how-rising-federal-debt-deficit-impact-americans/1589889002/.

Higher interest rates also affect credit card purchases, so expenses like buying gas or groceries or even going on vacation will cost more. **Government programs like food stamps or unemployment benefits that help the most vulnerable in society could face cuts if the government has less money to spend. It also may be more difficult to prop up financially strapped programs, like Medicare, which is projected to run out of money by 2026, and Social Security, which is expected to be insolvent by 2034, unless benefits are cut or other steps are taken to shore up the programs.**

**In 2022, the Highway Trust Fund will run out of full funding. In 2026, the Medicare Hospital Insurance Trust Fund follows. In 2032, the Social Security trust fund surpluses run dry, and all beneficiaries regardless of age or income level will face a 21 percent across-the-board benefit cut.** Before 2030, we could have trillion-dollar annual interest payments. Interest rates have been low until now, but that is changing. As rates go up, we have to pay more on new debt and on all accumulated debt. The amount we pay in interest on the debt is set to triple over the next ten years. But if interest rates rise just 1 point higher than expected, the government will owe an extra $1.9 trillion over 10 years.

**Budget cuts always hurt. Parrott of The Guardian explains that the past sequestrations in 2013 have pushed hundreds of thousands of people off aid programs and put millions of people into unemployment.**

**Parrott**, Sharon. “The Real Problem with the Sequester Is That It Unfairly Targets the Poor | Sharon Parrott and Joel Friedman.” The **Guardian**, Guardian News and Media, 27 Feb. **2013**, www.theguardian.com/commentisfree/2013/feb/27/budget-sequester-will-have-serious-economic-impact.

**Millions of Americans will feel the impact.** To cite just a few examples, we at the Center on Budget and Policy Priorities estimate that the WIC nutrition program for low-income pregnant women, infants, and young children will have to turn away 600,000 to 775,000 children and new mothers by the end of the fiscal year. We also estimate that **more than 100,000 low-income families will likely lose housing assistance that helps them afford rent. Meanwhile, the US Department of Labor estimates that the roughly 3.8m long-term unemployed workers who receive federally funded benefits will see their weekly benefits cut by nearly 11%.** That translates into an average of about $140 per month loss for a jobless worker, many of whom may have exhausted their savings. Other cuts under sequestration could affect a broad swath of the public, slowing everything from the processing of social security applications (due to staff cuts at the Social Security Administration), to air travel (due to cuts in the number of airport security workers), to progress in developing ways to prevent and treat serious diseases (due to funding cuts for the National Institutes of Health). The economy has struggled to regain its footing after the Great Recession, and Congress has already imposed headwinds by letting the temporary payroll tax cut of 2010 expire in January. Sequestration would be another significant hit. The Congressional Budget Office estimates that **sequestration will cost about 750,000 jobs by the fourth quarter of 2013 and slow economic growth this year from 2.0% to 1.4%.**

**However making these hard decisions now is better than later. Congressional Budget Office writes that any reduction in the debt and deficit now will result in much smaller effects than later. The longer you wait, the harsher the government policy will need to be in order to reduce the debt.**

https://www.cbo.gov/publication/45471

**The sooner significant deficit reduction was implemented, the smaller the government’s accumulated debt would be, the smaller policy changes would need to be to achieve a particular long-term outcome,** and the less uncertainty there would be about what policies would be adopted. However, if lawmakers implemented spending cuts or tax increases quickly, people would have little time to plan and adjust to the policy changes, and those changes would weaken the economic expansion during the next few years.

**This is why CFRB finds that reduction of debt now to sustainable levels would require up to 2.1% of the GDP while a 20 year delay would require up to 3.7% of GDP, meaning that the social program cuts would be many times worse in their world.**

http://www.crfb.org/blogs/quantifying-cost-waiting-address-debt

Stretching out the timeframe to 50 years reveals a similar story. By our estimates, **keeping debt at its current level or reducing it to the historical share of 39 percent of GDP 50 years from now would require debt reduction of** 1.3 and **2.1 percent of GDP**, respectively**.** Waiting ten years to act would increase those totals to 1.9 and 2.7 percent**, while a twenty year delay would push them up** to 2.6 and **3.7 percent.**

**All in all, Peterson of the CBO writes that every 5 years we wait raises the cost of stabilizing debt by 21 percent. This means more people off of aid programs and millions more unemployed if we continue to prioritize economic growth.**

**Peterson**, Peter. “Four Key Takeaways from the **CBO** 2018 Long-Term Outlook.” Peter G. Peterson Foundation, **2018**, www.pgpf.org/blog/2018/06/four-key-takeaways- from-the-cbo-2018-long-term-outlook

**Because it’s better to make the hard decisions now rather than see destruction later, we are very proud to affirm.**

# F/2s

## Social Spending

**Link In: Sequestration**

1. **Sequestration is eventually inevitable and is bound to happen in both worlds- as debt increases and it becomes unstable. This means that their cuts are worse in the long term**
2. **We say that now is better than later- that**

**Link In: Infrastructure**

1. **If sequestration is bound to happen, they plan on cutting from infrastructure too- that means we link in through the Peterson evidence which is general saying that the more we wait the high**

**F/2: Won’t Cut**

1. **The Parrot evidence shows we’ve literally done it historically- the time is coming to do it again as interest rates re-spike.**
2. **The Magunieas evidence predicts we will run out- we have a finite budget so we are forced to**
3. **First on the chopping block for two reasons**
   1. **Politicians see it as expendable and cut the poor who they value less than the rich**
   2. **Biggest chunk of our budget goes to social safety nets- the ‘little bit won’t hurt’ ideology.**

**F/2: Economic Growth Solves Interest**

1. **We have finite budget- even if we make money more and more of it WILL go to paying off rates if we sustain economic growth and spending-eventually it will run out**
2. **Davies of US News- debt grows at twice the rate of the growth- too fast; empirics prove its not keeping up.**

**F/2: Pays for Itself**

1. **Payrolls for taxes are out**
2. **Still cut discretionary aid during 2013**

## Contention One is Economic Overheating

**Amadeo of The Balance details that the U.S. economy follows a boom and bust cycle. She explains that as the economy reaches its limit of growth, the boom phase ends with an overheating economy, leading to a bust. However, if the GDP growth remains in the 2-3 percent range, the bust part of the cycle can be skimmed over.**

In **the boom cycle, growth is positive. If the gross domestic product growth remains in the healthy 2-3 percent range, it can stay in this phase for years.** It accompanies a bull market, rising housing prices, wage growth, and low unemployment**. The boom phase doesn't end unless the economy is allowed to overheat.**

**Current economic growth is escalating. Cox of CNBC reports that the economic growth is expanding at 3.5 percent, some of the fastest growth in 13 years.**

**Schneider**, Avie. “U.S. Economy Grew At A 3.5 Percent Rate In 3rd Quarter.” **NPR**, NPR, 26 Oct. **2018**, [www.npr.org/2018/10/26/660489729/will-headwinds-appear-in-u-s-economic-growth-benchmark](http://www.npr.org/2018/10/26/660489729/will-headwinds-appear-in-u-s-economic-growth-benchmark).

**The economy expanded at a 3.5 percent annual rate in the third quarter**, the Commerce Department said Friday. That's slower than the second quarter's blockbuster 4.2 percent, but **it puts the economy on pace for the fastest annual growth in 13 years.** Private analysts had estimated a 3.4 percent growth rate in gross domestic product for the third quarter.

https://www.cnbc.com/2018/11/05/goldman-economy-needs-to-slow-down-to-avoid-a-dangerous-overheating.html

Nonfarm payrolls rose by 250,000 in October and the **unemployment rate held at a 49-year low of 3.7 percent**, according to Labor Department data released Friday. On top of that, average hourly earnings rose 3.1 percent from the same period a year ago, the fastest pace during the post-Great Recession recovery.

**As the United States continues to prioritize too much economic growth, it is on the brink of a bust. Desmond of US News confirms that the current economy is in danger of overheating. On the other hand, prioritizing debt reduction would curb economic growth to stop overheating.**

https://www.usnews.com/opinion/economic-intelligence/articles/2018-02-14/us-economy-is-in-danger-of-overheating-and-exploding-into-financial-crisis

There are two basic reasons to fear another full-blown global economic crisis soon: The first is that we have in place all the ingredients for such a crisis. The second is that due to major economic policy mistakes by both the Federal Reserve and the U.S. administration, the **U.S. economy is in danger of soon overheating**, which will bring inflation in its wake. That in turn is all too likely to lead to rising interest rates, which could very well be the **trigger that bursts the all too many asset price bubbles** around the world.

**There are two impacts.**

**The first is skyrocketing interest rates. Cummins of The Financial Times writes that because the American economy is not reacting to current attempts to cool it down, the Federal Reserve will continue to increase interest rates in order to create a restrictive monetary policy. Cummins concludes that the Fed will do this more and more as it continues to enable a hotter economy, leading to drastic policies to slam on the brakes in the future.**

In Newton’s First Law, an object in motion stays in motion until a force acts upon it. Under new leadership, the Federal Reserve’s monetary policy strategy appears to be following the same logic. In his June press conference, chairman Jay Powell said **the Fed would raise interest rates until “we get a sense that the economy is reacting badly”. The latest numbers suggest the US economy is doing anything but reacting badly.** The unemployment rate declined to 3.75 per cent, a 48-year low and three-quarters of a percentage point below the Fed’s median estimate of its long-run sustainable rate. Consumer prices rose 2.3 per cent in May from a year earlier. Excluding volatile food and energy categories, core personal consumption expenditures inflation moved up to 2 per cent, matching the Fed’s target for the first time in more than six years. Despite downside risks from trade tension, these trends look set to continue. Monetary policy is still expansionary on top of the sizeable fiscal expansion that will build in the coming years. The labour market is poised to get tighter and put continued upward pressure on inflation. With its latest increase in the federal funds rate to a range of 1.75 per cent to 2 per cent, the Fed has finally brought real interest rates to approximately zero. With further gradual increases every quarter, interest rates would end the year at the lower end of Fed policymakers’ range of neutral — ie, the rate that neither stimulates nor slows economic activity. Given the gradual pace outlined in the Fed’s Summary of Economic Projections, monetary policy would eventually become modestly restrictive sometime in 2019 or later. Mission accomplished? Economic theory and history suggest otherwise. With long and variable lags between monetary policy and its effect on economic activity, theory teaches that **interest rates need to be restrictive before the economy overheats. The likelihood is the Fed will enable an even hotter economy and then really have to cool it down. With markets discounting an even more gradual path of rate rises, the central bank risks a sharp financial snap back when it has to slam on the brakes.**

**The second is boosting inflation. Chen of Investopida details that as the economy overheats, inflation occurs as a result of increased consumer wealth.**

<https://www.investopedia.com/terms/o/overheated_economy.asp>

**Inflation is worse for the poor, as Hulsman of The Mises Institute writes that inflation makes wages worth less and goods cost more, resulting in redistribution of income to the rich. Cardoso of The NBER furthers that when inflation doubles, wages fall by 14 percent. Hulsman thus concludes inflation limits social mobility and entrenches poverty.**

**Hulsmann**, Jorg. “How Inflation Helps Keep the Rich Up and the Poor Down” May 31 **2014**. **Mises Institute**. [https://mises.org/library/how-inflation-helps-keep-rich- and-poor-down](https://mises.org/library/how-inflation-helps-keep-rich-%20and-poor-down)

This excessive production of money and money titles is inflation by the Rothbardian definition, which we have adapted in the present study to the case of paper money. **Inflation is an unjustifiable redistribution of income in favor of those who receive the new money and money titles first, and to the detriment of those who receive them last**. In practice the redistribution always works out in favor of the fiat-money producers themselves (whom we misleadingly call central banks) and of their partners in the banking sector and at the stock exchange. And of course inflation works out to the advantage of governments and their closest allies in the business world. **Inflation is the vehicle through which these individuals and groups enrich themselves, unjustifiably, at the expense of the citizenry at large.** If there is any truth to the socialist caricature of capitalism — an economic system that exploits the poor to the benefit of the rich — then this caricature holds true for a capitalist system strangulated by inflation. **The relentless influx of paper money makes the wealthy and powerful richer and more powerful than they would be if they depended exclusively on the voluntary support of their fellow citizens.** And because it shields the political and economic establishment of the country from the competition emanating from the rest of society, **inflation puts a brake on social mobility. The rich stay rich (longer) and the poor stay poor (longer) than they would in a free society.”**

https://www.nber.org/papers/w4006.pdf?fbclid=IwAR29TfyyzG\_zQUxz5O\_rm2hILJAw0YALmQp3-3N1p9piMBXTat\_TaH\_0dG0

But the effect of falling real wages during periods of rising inflation totally dominates other influences. According to equation (3), **real wages fall by 14 percent when inflation doubles,** Figures 5-9 show episodes of rising inflation and declining real wages in Argentina, Costa Rica, Mexico, Peru, and Uruguay.