

We negate.

Contention 1 is *Bubbling Over*.

[Patel '18 of the Financial Times](#) writes that in order to fund the rapidly increasing deficit, the American government has to issue over \$1 trillion of government bonds in a single year, flooding the global bond market with American treasuries. However, the US must stop issuing bonds to reduce the debt because [Buchanan '12 of George Washington University](#) explains the US government adds to its debt by borrowing with bonds.

Without bonds as safe assets for investors to invest in, [Krishnamurthy '13 of Northwestern University](#) writes that investors shift investment to the corporate market, finding that every 1 dollar decrease in the US treasury supply increases financial lending by 50 cents. As investors flood the market with investments, corporations take on an overwhelming amount of debt. Thus, [Acharya '18 of the New York Federal Reserve](#) writes that failure to supply US treasuries for investors create market bubbles that eventually burst when investors realize that the corporations will fail to pay back the debt they owe the investors. Such bubbles generate deep recessions within the US economy as industries crash from capital flight. When the market bubble burst in 2008 after investors rapidly fled the market once they realized the market had become overleveraged with debt, the [World Bank '18](#) finds that the ensuing recession pushed 64 million into poverty.

Contention 2 is *Implementing Austerity*.

[Jones of Gallup](#) explains that since most Americans prefer a combination of spending cuts and tax increases to reduce the debt, politicians are most likely to take that approach if reducing the debt becomes a priority. [Capretta '18 of AEI](#) explains that if policymakers reduced the debt back to 41% of GDP by 2033, spending cuts and tax hikes would need to save the government 830 billion dollars every year. Unfortunately, there are two ways that prioritizing the debt harms the US economy.

Sub-point A. *Tax Hikes*.

By raising taxes, the US government takes cash from consumers and corporations and uses it to pay off the debt, stifling growth. [Romer '10 of NBER](#) confirms that as taxes increase, consumer spending and corporate investment fall, finding that every 1% increase in taxes reduces overall GDP by 3%. Such a negative impact on economic growth hurts the welfare of the people. [Matthur '11 of the American Enterprise Institute](#) finds that a 1% increase in corporate taxes reduce overall wages by .5%. [Weismann '16 of Slate](#) concludes that income taxes alone already drive 7 million Americans into poverty annually.

Sub-point B. *Spending Cuts*.

[Bivens '12 of the Economic Policy Institute](#) writes that government spending creates jobs and provides money for people to consume basic goods, generating more economic output and higher living standards. [Blinder '11 of the Wall Street Journal](#) explains a single government investment of 50 billion dollars into infrastructure spending, created up to 3.3 million jobs. [Gravelle '13 of the Congressional Research Service](#) confirms that if Congress had gone through with a planned bill to reduce the deficit in 2013, two million people would have gone unemployed. Besides the job opportunities provided by public spending, the government also keeps those struggling afloat with social safety-nets. [Bruenig '15 of Vox](#) writes that social safety programs like unemployment benefits and Social Security keep 25.7 million people out of poverty.

Tax hikes and spending cuts can deliver an even greater shock to the economy than those previously discussed. [The Congressional Budget Office '12 writes](#) that the last plan to reduce the federal deficit in 2013 would've imposed spending cuts and tax hikes so great that the economy would fall into recession. Unfortunately, as our debt has grown, the spending cuts and tax hikes needed today would be much greater. [The Wray '10 Levy Institute](#) confirms that every single reduction in debt has caused a recession in the US.

By prioritizing debt reduction, the problem only gets worse. [Blair '18 of EPI](#) explains that during a recession the government typically uses automatic stabilizers, which are programs like unemployment benefits and welfare that kick in to cushion the economy from the recession. Because these programs require spending that increase the debt, they cannot be used if debt reduction is a priority. Blair impacts that if the US had not increased spending and the debt during the 2008 recession, unemployment would've increased 20% more and the GDP would've dropped another 22%.

## Contention 1 Evidence.

Krishnamurthy '13 – reductions in supply of Treasury bonds lower yield on Treasury bonds relative to corporate securities that are less liquid and more risky than Treasury bonds; decreases in treasury supply increase the shift to risky/illiquid investments

**Krishnamurthy, Arvind. "Short-term Debt and Financial Crises: What We Can Learn from U.S. Treasury Supply." Northwestern University. Mar. 2013.**

**<https://pdfs.semanticscholar.org/b5ed/7f384a3ee2205dc5fce2fc7fb028b0ad4823.pdf> //RJ**

To arrive at these results, we exploit variation in the supply of government securities. In Krishnamurthy and Vissing-Jorgensen (2012) we showed that Treasury bonds are "money-like" in many respects. We established this by showing that **reductions in the supply of Treasury bonds lower the yield on Treasury bonds relative to corporate securities that are less liquid and more risky than Treasury bonds**, controlling for the default component of the corporate securities. Section 2 below reviews this evidence and extends it to

show that results are similar if Treasury yields are replaced with the interest rate on bank accounts (time and savings deposits), suggesting that bank accounts (a large fraction of the financial sector's short-term debt) share the safety/liquidity features of Treasuries. Given that, section 3 offers a theoretical equilibrium model to explain how changes in Treasury supply can be expected to affect financial sector short-term debt quantities if both satisfy the safety/liquidity demand of the non-financial sector. The main implication is that **Treasury supply should crowd out financial sector short-term debt because the**

**reduction in the yield spreads between risky/illiquid asset and safe/liquid asset brought about by an increase in Treasury supply makes it less profitable for banks to take in deposits in order to invest in riskier, less liquid assets.** To test this main prediction, we construct the supply of government

securities, defined as the net supply of Treasuries, reserves and currency by the U.S. Treasury and Federal Reserve (i.e. we subtract out the Federal Reserve's Treasury holdings from total supply of Treasuries) and study the relation between this government net supply variable and the net private supply of short-term debt. The latter variable is the total of all short-term debt issued by the financial sector net of the financial sector's holdings of Treasuries, reserves, and currency (and net of any short-term assets but these are tiny in practice). We show that the private net supply variable is strongly negatively correlated with the government net supply. This result, together with the result on the impact of Treasury supply on yield spreads between bank accounts relative to corporate securities, suggests that financial sector short-term debt is special and that the

financial sector issues such debt in large part to satisfy the special demand for safe/liquid debt. Moreover, we show that **reductions in government supply are correlated with increases in financial sector risky/illiquid loans.** The picture that emerges from the data is that of a financial sector that is active in transforming risky/illiquid loans into liquid/low-risk liabilities.

**Krishnamurthy '13 - \$1 increase in Treasury supply reduces short-term debt by 50 cents**  
**Krishnamurthy, Arvind. "Short-term Debt and Financial Crises: What We Can Learn from U.S. Treasury Supply." Northwestern University. Mar. 2013.**

**<https://pdfs.semanticscholar.org/b5ed/7f384a3ee2205dc5fce2fc7fb028b0ad4823.pdf> //RJ**

Table 4 Panel A and Figure 3 Panel A provide strong evidence in favor of prediction 1 and 2. In Table 4 we estimate regressions of various dependent variables (all scaled by GDP) on government supply/GDP and a trend. Regressions are estimated by OLS but with standard errors adjusted up to account for large positive autocorrelation in the error terms. Based on a standard Box-Jenkins analysis of the error term autocorrelation structure we model the error term as an AR(1) process. One could consider using a GLS estimator (which in many of the regressions would approximately amount to running the regressions in first differences), but as argued by Cochrane (2012) this removes a lot of the most interesting variation in the data. The regression estimates in Table 4 Panel A show that **increases in government supply lead to dramatic reductions in the financial sector's net short-term debt and its net long-term investments,** with regression coefficients in both cases around -0.5 and significant at the 1 percent level. The negative relations are apparent in Figure 3 Panel A and seem **consistently present over the 98 year period. These results suggest that a one-dollar increase in Treasury supply reduce the net short-term debt issued by the financial sector by 50 cents,** and reduce long-term lending of the financial sector by 50 cents.

**Acharya '18 – government debt is key to increase the supply of safe assets; failure to do so creates risky bubbles that pop and create a deep recession**

**Acharya, Sushant. "The Side Effects of Safe Asset Creation." Federal Reserve Bank of New York. 2018.**

**[https://www.newyorkfed.org/medialibrary/media/research/staff\\_reports/sr842.pdf](https://www.newyorkfed.org/medialibrary/media/research/staff_reports/sr842.pdf) //RJ**

**An increase in government debt satiates the demand for safe assets without requiring negative interest rates, allowing conventional monetary policy to restore full employment. This short-circuits the adverse feedback loop between unemployment and low investment, resulting in higher steady state capital than would occur without an increase in the supply of safe assets.** But this level of capital is lower than the optimal natural allocation, which

featured no safe asset creation and negative real rates. In this sense, the costs of a risk-induced recession may persist even after the economy has returned to full employment, manifesting as sluggish investment and low labor productivity. The fundamental problem is that the optimal natural allocation in a risky economy requires negative real rates to sustain high investment. When the ZLB binds, monetary policy cannot replicate this allocation. Safe asset creation shifts the goalposts, presenting monetary policy with the easier task of implementing a different, suboptimal natural allocation with positive real rates. Policies such as higher target inflation which permit negative real rates would instead implement the optimal natural allocation with high investment and full employment. While these policies have their own trade-offs,<sup>6</sup> they are worth considering, since safe asset creation is no panacea. In this regard, our analysis forces us to reassess the question of whether low safe rates indicate a shortage of safe assets, as is sometimes argued.<sup>7</sup> We formalize the notion of a safe asset shortage as a situation in which issuing more safe assets increases welfare. Whether low rates indicate a shortage in this sense depends critically on whether negative **real rates are implementable.**

**Besides pushing an economy to the ZLB, an increase in risk can also generate bubbles - assets with no intrinsic value which trade at a positive price.** As in Samuelson (1958), in an environment with nonpositive real interest rates, such assets can be held in equilibrium even when they have a stable price and pay no dividend. At zero interest rates, pseudo-safe bubbles with a zero probability of bursting may emerge in equilibrium. **Pseudo-safe bubbles are a perfect substitute for government debt, and crowd out capital - which reduces welfare since our economy is dynamically efficient.** This contrasts with classic models of rational bubbles (Tirole, 1985), in which bubbles can arise only in dynamically inefficient economies, and thus raise welfare if they emerge.<sup>8</sup> **Worse still, risky bubbles which burst with some probability may arise. Risky bubbles reduce welfare both because they crowd out capital, and when they burst.** It is often suggested that monetary policy should lean against the wind to prevent bubbles; our model suggests that **fiscal policy should** do so, by **committing to aggressively increase the public supply of safe assets to crowd out privately provided safe-ish assets.** This resonates with the argument of Greenwood et al. (2016) that **public creation of safe assets should crowd out inefficient private creation of money-like assets. The adverse consequences of bubbles are even worse when monetary policy faces constraints, since the bursting of a bubble pushes the natural rate of interest below zero, potentially constraining monetary policy at the ZLB and increasing unemployment.** Some commentators have argued that, prior to 2008, advanced economies 'needed' bubbles to maintain full employment; our model clarifies the sense in which this is true. When risk is sufficiently high, full employment requires one of three things: negative real interest rates, public safe assets, or private pseudo-safe assets. **A bubble can sustain full employment with positive interest rates even when public debt is insufficient to meet safe asset demand - for a while. When the bubble bursts, however, it can cause a deep recession. Substituting public safe assets for private pseudo-safe bubbles maintains full employment, but fails to raise investment below the inefficiently low levels prevailing even before the recession.**

Krishnamurthy - bubbles crowd out useful private sector investment

<https://pdfs.semanticscholar.org/fe9d/f9a06497f48fc345e5dcc767deed7ec8b01e.pdf>

**However, these arguments are leaving out the potentially negative effect of asset-price increases. An increase in activity and asset value in one sector, such as mortgage lending, may crowd out resources from other sectors and activities, such as borrowing and investment by commercial firms. The classic theory of rational bubbles (e.g., Tirole (1985)) says that bubbles, by increasing interest rates, will crowd out real investment. Moreover, in the recent paper by Farhi and Tirole (2012), this effect is stronger when firms are financially constrained. Banks may substitute away from lending to commercial firms and focus on investing in bubbly assets** (e.g., mortgages and real-estate). Similarly, Bleck and Liu (2012) consider the relationship between liquidity injections, asset prices, and economic growth in a model with two sectors. **They find that if too much liquidity is injected into the economy, the sector receiving the liquidity can overheat and "crowd-out" the other sector. Based on such arguments, the focus on increasing asset prices, and in particular real-estate prices, may be**

**wrong as the potential harm to commercial firms' borrowing and investment will hurt the economy as a whole.**

Buchanan - affirming means no issuance of bonds

When a government borrows money, it creates both deficits and debt. Although many people (including far too many politicians) use those terms interchangeably, they are wholly different concepts. The federal government's budget deficit (also called the fiscal deficit, or the cash-flow deficit) represents the new borrowing that the United States Treasury must undertake in a given year, equal to the amount by which government spending exceeds tax revenues collected during the year.<sup>21</sup> The debt, by contrast, is the total amount of money that the government owes to all of its lenders at any given time.<sup>22</sup> The debt, therefore, is equal to the sum of "all previous deficits (less previous annual surpluses), plus accumulated interest on the money borrowed."<sup>23</sup> **The government borrows money by selling Treasury bonds, 24 which are legal contracts obligating the government to pay principal and interest to lenders under specified terms.<sup>25</sup> Businesses, households, state and local governments, and foreign governments voluntarily lend money to the United States government by buying its bonds.<sup>26</sup>**

**People's intuitive attraction to "balance," by contrast, appears to reflect little more than a desire to see zeroes on a balance sheet. A person who favors balancing the annual budget, which means that there would be "zero new borrowing"** (neither increasing nor decreasing the debt in a given year), is thus drawn to a notion of balance that necessarily keeps the national debt at its current non-zero level in dollars. By contrast, a person who takes "neither a borrower nor a lender be"<sup>58</sup> as a literal guide for government finances will argue that the national debt should be zero—that is, that there should be no government bonds in existence at all. That, however, requires that the annual budget be unbalanced, with taxes exceeding spending.