Cards

Entitlement Cuts

Entitlement spending is rapidly rising and threatens the stability of entitlement programs

Levin 18 Yuval Levin, 9-24-2018, "The Entitlement Crisis Is Looming," Weekly Standard, https://www.weeklystandard.com/yuval-levin/the-entitlement-crisis-is-real-and-its-worse-than-you-think //DF

The inescapable conclusion from the historical budget data and all plausible projections is that entitlement spending will continue to be the primary cause of the federal government's fiscal problems. Entitlement spending therefore needs to be the primary focus of any attempted solutions. Entitlement spending growth is concentrated in three very large programs: Social Security, Medicare, and Medicaid. And all three are heavily influenced by the nation's shifting demographic profile. In 1965, when Medicare was created, there were roughly five workers for each beneficiary of that program and of Social Security. Today there are about three, and as the baby boomers rapidly exit the workforce over the coming years the number will continue to decline. This aging of the population also affects Medicaid, as about a fifth of that program's money is spent on seniors, particularly on long-term care. For Social Security, this demographic transformation is the essence of the problem. It means that the payroll tax intended to fund the program has proven increasingly insufficient over time. The cost of the program has exceeded its income every year since 2010, but the difference has been made up by income earned from interest on the reserves built up in Social Security's trust funds in better times. Last year's report of the Social Security trustees estimated that this interest income would prove insufficient starting in 2022, when the program would have to start drawing on its reserves. But that quickly turned out to be overly optimistic, and in this year's report the trustees note that the line has already been crossed, four years early. Social Security's total cost will exceed its total income (including interest income) this year, and if the program is not reformed it will continue to do so every year from now on. Social Security is living off its reserves, and the trustees expect those reserves to last until 2034. But even if they are right, this does not mean we have that long to address the problem. As former trustee Charles Blahous has noted, if we were to wait until 2034, even denying benefits entirely to newly retiring seniors at that point (which, needless to say, could never happen) would not be enough to enable the program to keep providing benefits to those already getting them. Some reforms must come well before that, and the longer we wait the harder they will be to enact. Social Security's core old-age and survivor benefit program will spend $834 billion this year, according to CBO, and that number will rise to $1.5 trillion per year by 2028. Reforms will have to take place against the backdrop of enormous fiscal pressures. Medicare is also an old-age benefit program and so is similarly exposed to the aging of our society, but it has other troubles besides. Medicare has never been fully funded by a payroll tax and has not built up reserves anywhere near those of Social Security. The one portion of Medicare that resembles Social Security's structure is its hospital-insurance trust fund, which does draw its funding in part from a payroll tax. But that part of the program, just like Social Security, began to draw on its reserves this year, about five years sooner than the program's trustees expected even a year ago. Its reserves are projected to be depleted well before Social Security's, in 2026. The other parts of Medicare (most notably its physician and outpatient services) are already funded largely by general tax revenue, so they don't face an insolvency date, but they are a massive draw on federal resources and becoming more so all the time. The scope of this spending is underappreciated. Federal taxpayers will be providing an astonishing $4.4 trillion in subsidies for these parts of the program over the next 10 years. More than 15 percent of federal revenue is now spent on Medicare, and that figure is expected to balloon as more and more baby boomers retire—growing much faster than the economy, inflation, or any plausible increase in federal revenue. This is not entirely because of demographics, of course. Social Security provides age-based cash benefits to a growing elderly population; Medicare provides health insurance, which means its costs are rising both because of a growing base of beneficiaries who live longer and because of health-care costs that have grown significantly faster than inflation for decades. CBO expects net federal spending on Medicare (after subtracting premiums paid by enrollees) to be $590 billion this year and to rise to $1.3 trillion per year over the coming decade. The fiscal prospects of Medicaid, which provides health coverage to lower-income Americans, are similarly influenced by the rising cost of care and have been transformed over the past decade by a massive expansion of the program under the Affordable Care Act. The ACA increased Medicaid enrollment by nearly 30 percent, to roughly 70 million Americans. The federal portion of Medicaid will cost taxpayers $383 billion this year, according to CBO, and over the coming decade that number is projected to rise to more than $650 billion a year. But Medicare and Medicaid are not simply victims of rapidly rising health-care costs. They contribute heavily to rising costs through their very design. Medicare in particular is a major reason why American health care is weighed down with rampant waste and inefficiency. It is the primary regulator of the American health-care system. Because it is the biggest payer in the system, its vast and arcane system of rules for paying hospitals, physicians, and other service providers heavily influences how care is delivered to all patients, not just the elderly. Above all, Medicare creates powerful incentives for excess service provision by paying providers on a fee-for-service basis while tightly capping prices per service. That means providers make more by providing more services rather then offering more value, which makes for a less efficient system. Medicare's administrators have long understood this problem, but attempts to address it have mostly proven counterproductive. Value-driven Medicare reform is therefore essential both to the fiscal health of our government and to keeping health-care costs under control more generally while providing seniors with the care they need and want. Medicaid is a smaller player in the system but still a massive one, and it also includes incentives that drive up costs. A fundamental problem is the split financial responsibility for the program. The federal government pays for about 60 percent of all state Medicaid spending, with no upper limit. This means states can give their residents a dollar in benefits while spending only about 40 cents themselves, which creates incentives for some kinds of over-spending even as the overall benefit is often inadequate. A web of federal rules imposed on the states has not solved this problem but has made the system even more complex. The sad irony of Medicaid is that its costs are so high that many states are struggling to finance their programs, even as the beneficiaries who rely on the program are too often underserved and provided with an unacceptably low quality of care. In both cases, we find the federal government worsening the problem of rising health-care costs and then paying a heavy price for it. Health-entitlement reform is therefore imperative both for fiscal reasons and to enable the American health-care system to provide more people with access to affordable coverage and care. All three of our major federal entitlements cry out for reform. Without it, a painful fiscal crunch will grow increasingly unavoidable. That doesn't make the politics of improving these programs any more palatable. But it means there is no excuse for avoiding the problem or for exaggerating the difficulties involved in addressing it.

Entitlement programs will soon run out of money, forcing drastic cuts. We need to act now to stop even worse cuts in the future

Schoenbrod 18 David Schoenbrod [Professor at New York Law School], 8-15-2018, "Cuts in Social Security and Medicare are inevitable. Delaying reform will make it worse.," USA TODAY, https://www.usatoday.com/story/opinion/2018/08/15/national-debt-growing-social-security-medicare-entitlement-reform-column/914488002/ //DF

The Social Security trust fund is currently in deficit yet will receive enough general revenue transfers (financed annually by your taxes) to pay full benefits until 2034. Medicare's trust fund will go belly up in 2026. And then what? Congress has shown it prefers borrowing more money rather than making the hard decisions. Yet the credit card will eventually max out. As then-Federal Reserve Board Chair Ben Bernanke told Congress in 2011, "The unsustainable trajectories of deficits and debt [under current policies] cannot actually happen, because creditors would never be willing to lend to a government whose debt, relative to national income, is rising without limit." Current spending is unsustainable Bernanke is right about the debt rising unsustainably. After averaging 35 percent of national income from the mid-1950s through 2008, the national debt has surged to 78 percent today and is projected to reach 100 percent within a decade, and 200 percent by 2050. Even these scary estimates rest on rosy assumptions — no new military or economic crises and creditors willing to accept record-low interest rates from a government heading towards a debt crisis. The cause of this coming debt deluge is no mystery: Social Security and Medicare are projected to run a staggering $82 trillion cash deficit over the next 30 years. We are adding 74 million retiring baby boomers to a system that provides Medicare recipients with benefits three times as large as their lifetime contributions and pays Social Security benefits typically exceeding lifetime contributions (even accounting for inflation and interest on the contributions). Politicians promise changes to avoid cuts in Social Security and Medicare, but their alternatives are plainly insufficient. Democrats favor tax hikes on the rich, but even doubling the highest two tax brackets to 70 and 74 percent would close just one-fifth of these programs' shortfalls — and even that assumes people keep working at 90 percent tax rates when including state and payroll taxes. Slashing defense spending to European levels would close just one-seventh of the gap. Single-payer healthcare proposals are projected by even liberal economists to increase the debt. Republicans favor cuts in antipoverty and social spending, but even the unimaginable elimination of all anti-poverty spending would close barely half of the shortfall. Responsible lawmakers should move quickly to stabilize Social Security and Medicare, and take no option off the table. Delay only makes the inevitable reforms even more drastic and painful.

Programs like social security will face drastic cuts if nothing is done

Koenig 13 Gary Koenig [AARP Public Policy Institute], 2013, "Social Security's Impact on the National Economy," AARP, https://www.aarp.org/content/dam/aarp/research/public_policy_institute/econ_sec/2013/social-security-impact-national-economy-AARP-ppi-econ-sec.pdf //DF

Social Security benefit payments in 2012 supported: About $1.4 trillion in economic output (goods and services) Just over 9.2 million jobs About $774 billion in value added (gross domestic product) More than $370 billion in salaries, wages, and other compensation Tax revenues for local, state, and federal governments exceeding $222 billion, including $78.9 billion in local and state taxes and $143.3 billion in federal taxes Every state—big and small—feels the effects of Social Security benefits being spent within its borders. Not surprisingly California, with the largest economy of the 50 states, showed the biggest impact. In California alone, Social Security benefits supported 888,000 jobs, $147.4 billion in output, and $8.7 billion in state and local tax revenues. The results of this report are important to discussions on how to close Social Security's long-term financing gap. According to the Social Security Administration, **without any changes to the program, Social Security benefits will have to be reduced across the board by about 25 percent beginning in 2033**. Too often the choice for closing this funding gap is characterized as a choice between harming the vulnerable through benefit cuts or harming the economy through tax increases. This report shows that reducing benefits would also have a serious impact on the economy by damaging employment and retail and other spending, and lowering tax revenues for both federal and state governments. According to our analysis, **reducing benefits by 25 percent across the board** (about $190 billion), which the Social Security actuaries project will occur around the year 2033, **could cost the U.S. economy about 2.3 million jobs**, $349 billion in economic output, **about $194 billion in GDP**, and about $93 billion in employee compensation in 2012 terms.

Wessel 19 David Wessel, 1-4-2019, "The Hutchins Center Explains: How worried should you be about the federal debt?," Brookings, https://www.brookings.edu/blog/up-front/2019/01/04/the-hutchins-center-explains-how-worried-should-you-be-about-the-federal-debt/ //DF

4. The longer we wait to put the federal budget on a sustainable course, the bigger and more abrupt the changes in government benefits and taxes will have to be. Changes are inevitable; **the sooner we start, the more gradual and gentle they can be**. One political reality: **Congress, with good reason, is reluctant to cut benefits abruptly for current retirees and other beneficiaries; major changes to Social Security, for instance, are phased in over decades.** The longer the government waits to make changes, the more Congress is likely to resort to raising taxes as opposed to cutting spending. Q: WE'VE BEEN HEARING DIRE WARNINGS ABOUT THE DEBT FOR YEARS. IS THERE A CASE FOR RELAXING AND DEFERRING THE BELT-TIGHTENING? Yes. After all, if the bond market isn't worried about the prospects for ever-greater federal borrowing, why should the rest of us panic? There's no evidence that government borrowing is crowding out private investment and very little sign of an imminent increase in inflation that will overwhelm the Federal Reserve's ability to manage it.

Crowdout

Huang, 2017, Graduate Institute of Geneva, "Does Public Debt Crowd Out Corporate Investment? International Evidence", https://repository.graduateinstitute.ch/record/296011/files/HEIDWP08-2018.pdf (NK)
In this paper, we focus on corporate investment and provide a direct test for the crowding out e§ect emphasized by the economic literature by showing that government debt reduces investment by tightening the credit constraints faced by private Örms. **Using data for nearly 550,000 firms in 69 countries over 1998-2014, we show that higher levels of government debt are associated with lower private investment** and with an increase of the sensitivity of investment to internally generated funds. Our results 2 are related to the Öndings of Greenwood, Hanson, and Stein (2010), Graham, Leary and Roberts (2015), and Demirci, Huang, and Sialm (2017) who describe the relationship between the structure and level of government debt and corporate leverage. While these authors focus on Örmsí capital structure, we study the behavior of corporate investment and thus describe a channel through which public debt directly a§ects economic activity.

CBO Long Term Budget Budget Outlook, 2018, https://www.cbo.gov/system/files?file=2018-06/53919-2018ltbo.pdf (NK)
Large federal budget deficits over the long term would reduce investment, resulting in lower national income and higher interest rates than would otherwise be the case. **If the government borrowed more money, a greater amount of household and business saving would be used to buy Treasury securities, thus crowding out private investment.** Both the government and private borrowers would face higher interest rates to compete for savings. Although those higher rates would strengthen the incentive to save, the increased government borrowing would exceed the rise in saving by households and businesses. As a result, total saving by all sectors of the economy (national saving) would be lower, as would private investment and economic output. (Private investment would be affected less than national saving because higher interest rates tend to attract more foreign capital to the United States and induce U.S. savers to keep more of their money at home.) **With less investment in capital goods—such as factories and computers—workers would be less productive. Because productivity growth is the main driver of growth in people's real compensation, decreased investment also would reduce average compensation per hour, making people less inclined to work**. CBO's extended baseline incorporates those economic effects as well as the feedback to the budget from negative effects on the economy

CBO long Term Budget Outlook, 2010, https://www.cbo.gov/sites/default/files/111th-congress-2009-2010/reports/06-30-ltbo.pdf (NK)
Because those assumptions are based largely on past outcomes, they serve as useful rules of thumb in situations that are within the range of experience. However, if interest rates and the debt-to-GDP ratio rise to levels rarely seen before, such rules of thumb may no longer apply. **CBO estimates that** with those rules of thumb applied, **real GDP per person** under the alternative fiscal scenario **would be about 6 percent lower in 2025 and 15 percent lower in 2035 than it would be under the stable economic conditions (with no crowding out**) assumed for the long-term budget projections (see Figure 1-5). Those reductions would occur because of the crowding out of investment. Nevertheless, real GDP per person would still be considerably higher in 2025 and 2035 than it is now because of continued growth in productivity. Incorporating the lower output and higher interest rates implied by crowding out would accelerate the projected growth of debt as a percentage of GDP. As a result, under the alternative fiscal scenario, debt as a percentage of GDP would be substantially higher than it would be without accounting for crowding out (see Figure 1-6 on page 22).

High Debt → less foreign debt buyers; crowding out etc (Goodkind - Newsweek)

Nicole Goodkind, 5-2-2018, "U.S. debt is growing and foreigners are buying less: Here's why that could be disastrous for the economy," Newsweek, https://www.newsweek.com/trump-tax-cuts-debt-china-907763 (NK)
A**merica is taking on record amounts of debt to pay for tax cuts and spending increases, but foreign investors, who currently hold about 43 percent of government debt, are getting skittish about purchasing it**. The Treasury announced Monday that it had racked up a record amount of debt in the first three months of 2018, borrowing about $488 billion, or $47 billion more than initial estimates. But **as the U.S. takes on these unprecedented levels of debt during economic boom times, a potential crisis looms: Foreign investment in U.S. debt is currently at**

__its lowest point since November 2016 and has been decreasing steadily since 2008, when foreigners owned about 55 percent of American debt.__ **__Foreign ownership of federal debt is essential to the country's economic well-being__**, said Andrea Dicenso, a portfolio manager and strategist at Loomis, Sayles & Co. "**__We cannot exist at these growth rates with these deficit projections without foreign participation,__**" she told The Wall Street Journal. **__If fewer foreigners buy U.S. debt, American investors will be forced to pick up the slack and buy debt instead of active investments, a problem called "crowding out." "If foreigners buy less debt, Americans buy more, and they're buying at the expense of making productive investments in businesses and startups,"__** explained Marc Goldwein, senior policy director for the nonpartisan Committee for a Responsible Federal Budget. "**__As a result of the dollars diverged to the treasury from other investments, our economy experiences less GDP [gross domestic product] growth, and wage growth slows__**." Recent Republican tax cuts will cost $1.9 trillion over the next 10 years, and the omnibus spending bill cost another $1.3 trillion, and because of this increase in federal spending, the government is now on track to run a deficit of more than $1 trillion by 2020. **__At a certain point, if that status quo is sustained, foreign unwillingness to buy U.S. debt will move beyond increased domestic purchasing and into panic territory,__** said Goldwein. **__"You could see a big jump in interest rates that happens quite rapidly__**." **__If the United States has to offer five percent returns on its debt instead of 2 percent to interest potential buyers, outstanding debt will become less valuable to investors. Just like the quick sell-off of housing debt led, in part, to the financial crisis of 2008, "a sell-off of debt could cause financial crisis," said Goldwein. "But who's big enough to bail out the U.S. federal government?__**" The United States is currently the wealthiest nation in the world and is in a good position to take on more debt if it needs to, but this could be a "the bigger they are the harder they fall" situation, said Goldwein. "It's not likely, but if [a large debt sell-off] does happen it would be really bad and could make the recent financial crisis look modest in comparison."

Lower consumer consumption will have large negative effects on the economy. According to the St Louis Fed in 2017: household spending fuels 83% of total economic growth.

St Louis Fed 17, 12-28-2017, "Household Spending Remains Key to U.S. Economic Growth," St Louis Fed, https://www.stlouisfed.org/on-the-economy/2017/december/household-spending-fuels-economic-growth //DF

Household-related spending is driving the economy like never before, according to a recent Housing Market Perspectives analysis. **__Since the U.S. economy began to recover in 2009, close to 83 percent of total growth has been fueled by household spending,__** said William R. Emmons, lead economist with the St. Louis Fed's Center for Household Financial Stability. "Hence, the continuation of the current expansion may depend largely on the strength of U.S. households," noted Emmons. An Examination of the Current Expansion In July, the U.S. economic expansion entered its ninth year, and it should soon become the third-longest growth period since WWII, Emmons said. He noted that it would become the longest post-WWII recovery if it persists through the second quarter of 2020. However, the current expansion has been weak and ranks ninth among the 10 post-WWII business cycles, as shown in the figure below.1 "Only the previous cycle, ending in the second quarter of 2009, was weaker," he said. "That cycle was dominated by the housing boom and bust and culminated in the Great Recession."

Rising Interest Rates

Chinese Weaponization

China could sell-off US treasury bonds in a trade war, a move that would raise fears among investors, resulting in higher interest rates

Seeking Alpha 18 Schiffgold, 9-23-2018, "Bond Yields Climbing: Could The Chinese Weaponize U.S. Debt?," Seeking Alpha, https://seekingalpha.com/article/4207515-bond-yields-climbing-chinese-weaponize-u-s-debt //DF

Yields have been on the rise this week in the midst of a bond market sell-off. Two-year borrowing costs hit their highest level in a decade on Wednesday. The yield on the 2-year Treasury climbed to 2.816%. Meanwhile, the 10-year Treasury yield hit a four-month high of 3.07%. What's going on here? The most obvious reason for falling bond prices and rising yields is the enormous amount of debt the US Treasury is currently dumping on the market. Despite the "strong economy," the US government is borrowing money like it's in the midst of a deep recession. To cover the growing federal deficit, the Treasury Department announced earlier this summer that it would raise $329 billion through credit markets during the July-September period. The borrowing estimate for the third quarter ranked as the highest since the same period in 2010 - at the height of the Great Recession. It comes in as the fourth-largest level of borrowing on record for the July-September quarter. But there could be another reason for the recent bond sell-off - the ongoing trade war. There is some fear the Chinese could weaponize their massive holdings of US debt and use it to gain the upper hand in the escalating tariff battle. This week, President Trump announced a 10% tariff on another $200 billion in Chinese imports. The Chinese retaliated, levying tariffs on $60 billion in US products. You'll notice that the Chinese are starting to have a difficult time keeping up with this tariff tit-for-tat. Could the country use its huge holdings of US debt as a weapon in the trade war? Some analysts think it could. The Chinese aren't currently dumping US debt, but they aren't buying either. China's holdings of US Treasuries have fallen slightly over the past several months, hitting a six-month low of $1.17 trillion in July. But some analysts say the Chinese could start aggressively selling Treasuries on the market in order to boost US borrowing cost as they run out of tariff raising options. A MarketWatch report verbalized this fear. Some investors fear China will use other means than tariffs to retaliate against the US, with some suggesting the second largest economy could sell its Treasury holdings to push the US's borrowing costs higher." Weaponizing US debt is the ace up China's sleeve. The Chinese can't out-tariff Trump. The US imports far more products than the Chinese. In other words, there is a lot more stuff coming into the US from China than vice versa. But that $1.17 trillion in Treasury holding does give the Chinese some leverage. China holds more US debt than any other country. If it started dumping all of the debt on the market, interest rates would soar and the dollar would plunge. This is not a good scenario for an economy built on piles of debt. A lot of pundits call this a nuclear option. It would be a disaster for the US economy. But it also comes with a significant amount of risk for the Chinese. A fire sale on Treasuries would cut into Chinese reserves and potentially destabilize the yuan. But China wouldn't have to sell everything to have a huge impact on US interest rates. Even dumping a relatively small percentage of its holdings would push rates up, and the debt-fueled US economy has very little tolerance for higher interest rates. Just consider the enormous federal debt the US Treasury is trying to finance. Last month, the US government set a spending record. Add to that piles of personal and corporate debt.

China could sell off American debt to one-up the US in the trade war, resulting in higher interest rates and making it more difficult to pay off the debt

Sorkin 18 Andrew Ross Sorkin, 10-9-2018, "The Unknowable Fallout of China's Trade War Nuclear Option," NYT, https://www.nytimes.com/2018/10/09/business/dealbook/china-trade-war-nuclear-option.html //DF

But the conventional wisdom about what China might — or might not — be prepared to do could be wrong. China has lately reduced its holdings of United States government debt, and a growing number of financiers, economists and geopolitical analysts are quietly raising the prospect that China may look to its ability to influence interest rates as its ultimate Trump card. After all, China doesn't have any American imports left to tariff and it is already taking aim at deals, so what's left? If China were to undertake such a maneuver, it would do so at a delicate time for the United States economy: The rising deficit has increased the Treasury's borrowing needs. There is more debt to be purchased, and the Federal Reserve is raising interest rates, making that debt more expensive. It's not clear how much China could drive up rates by shedding Treasuries, but it would certainly add to the momentum already present. And it is worth remembering that Beijing's endgame is not necessarily to ensure the financial health of its country this year or the next. If China were to suffer short-term pain to gain a real and lasting advantage over the United States — or at least not lose any advantages it does have — it might be willing to struggle a bit today.

The higher interest rates from the debt sell-off would slow economic activity

Borzykowski 18 Bryan Borzykowski, 6-27-2018, "China's $1.2 trillion weapon that could be used in a trade war with the US," CNBC, https://www.cnbc.com/2018/04/05/chinas-1-point-2-trillion-weapon-that-could-be-used-in-a-us-trade-war.html //DF

The biggest impact would be on interest rates and bond prices, he says. **If China floods the market with treasuries, and the supply of U.S. bonds spikes, then fixed income prices would fall and yields would rise. If yields climb then it would become more expensive for U.S. companies and consumers to borrow and that would cause the U.S. economy to slow down**. It will also become more expensive for the U.S. government to issue debt — they'll have to pay higher rates to borrowers — while the $15 trillion of treasuries held by itself and investors would fall in value. Equities would be sent crashing, too, as yields climb. "Higher interest rates would ripple through the entire economy," says Mills. "It would have a slowing effect." China holds about 20 percent of U.S. debt held by foreign countries, which is a lot, but it only accounts for about 5 percent of outstanding debt overall. Other holders include other countries – Japan owns about $1 trillion in treasuries – the U.S. government, corporations and investors. However, if China does decide to dump treasuries, it could make others panic and sell as well, says Vincent Reinhart chief economist and macro strategist at BNY Mellon.

China's debt sell-off could spook other countries and cause them to sell-off as well

Borzykowski 18 Bryan Borzykowski, 6-27-2018, "China's $1.2 trillion weapon that could be used in a trade war with the US," CNBC, https://www.cnbc.com/2018/04/05/chinas-1-point-2-trillion-weapon-that-could-be-used-in-a-us-trade-war.html //DF

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Something Else

David Wessel, 1-4-2019, "The Hutchins Center Explains: How worried should you be about the federal debt?," Brookings, https://www.brookings.edu/blog/up-front/2019/01/04/the-hutchins-center-explains-how-worried-should-you-be-about-the-federal-debt/

Because the federal debt cannot grow faster than the economy forever. At some point, something will give. It could be the arrival of a financial crisis – often predicted, though it hasn't shown up – in which investors abruptly decide that the U.S. government isn't such a good credit. If that happens, the interest rates that investors demand to buy U.S. Treasury debt go up, pushing up the rates that households and businesses pay to borrow. Or foreigners, major lenders to the U.S. Treasury, might lose confidence in the U.S. and put their money elsewhere, provoking a plunge in the value of the U.S. dollar alongside a surge in interest rates. No one knows if or when such a crisis might occur. Changing the trajectory of federal tax and spending would reduce the chances of one occurring.

Recessions

High Debt → less foreign debt buyers; crowding out etc (Goodkind - Newsweek)

Nicole Goodkind, 5-2-2018, "U.S. debt is growing and foreigners are buying less: Here's why that could be disastrous for the economy," Newsweek, https://www.newsweek.com/trump-tax-cuts-debt-china-907763 (NK)

A**merica is taking on record amounts of debt to pay for tax cuts and spending increases, but foreign investors, who currently hold about 43 percent of government debt, are getting skittish about purchasing it**. The Treasury announced Monday that it had racked up a record amount of debt in the first three months of 2018, borrowing about $488 billion, or $47 billion more than initial estimates. But **as the U.S. takes on these unprecedented levels of debt during economic boom times, a potential crisis looms: Foreign investment in U.S. debt is currently at its lowest point since November 2016 and has been decreasing steadily since 2008, when foreigners owned about 55 percent of American debt. Foreign ownership of federal debt is essential to the**

country's economic well-being, said Andrea Dicenso, a portfolio manager and strategist at Loomis, Sayles & Co. "**We cannot exist at these growth rates with these deficit projections without foreign participation,**" she told The Wall Street Journal. **If fewer foreigners buy U.S. debt, American investors will be forced to pick up the slack and buy debt instead of active investments, a problem called "crowding out." "If foreigners buy less debt, Americans buy more, and they're buying at the expense of making productive investments in businesses and startups,"** explained Marc Goldwein, senior policy director for the nonpartisan Committee for a Responsible Federal Budget. "**As a result of the dollars diverged to the treasury from other investments, our economy experiences less GDP [gross domestic product] growth, and wage growth slows**." Recent Republican tax cuts will cost $1.9 trillion over the next 10 years, and the omnibus spending bill cost another $1.3 trillion, and because of this increase in federal spending, the government is now on track to run a deficit of more than $1 trillion by 2020. **At a certain point, if that status quo is sustained, foreign unwillingness to buy U.S. debt will move beyond increased domestic purchasing and into panic territory,** said Goldwein. **"You could see a big jump in interest rates that happens quite rapidly**." **If the United States has to offer five percent returns on its debt instead of 2 percent to interest potential buyers, outstanding debt will become less valuable to investors. Just like the quick sell-off of housing debt led, in part, to the financial crisis of 2008, "a sell-off of debt could cause financial crisis," said Goldwein. "But who's big enough to bail out the U.S. federal government?**" The United States is currently the wealthiest nation in the world and is in a good position to take on more debt if it needs to, but this could be a "the bigger they are the harder they fall" situation, said Goldwein. "It's not likely, but if [a large debt sell-off] does happen it would be really bad and could make the recent financial crisis look modest in comparison."

1% decrease in GDP leads to a 2% increase in the unemployment rate (Sanchez- St Lois Federal Reserve)

Juan M. SáNchez, 2012, "The Relationships Among Changes in GDP, Employment, and Unemployment: This Time, It's Different,"St Lois Federal Reserve, https://research.stlouisfed.org/publications/economic-synopses/2012/05/18/the-relationships-among-changes-in-gdp-employment-and-unemployment-this-time-its-different/ (NK)

Different factors affect gross domestic product (GDP) and unemployment. However, historically, **a 1 percent decrease in GDP has been associated with a slightly less than 2-percentage-point increase in the unemployment rate.** This relationship is usually referred to as Okun's law.1 The first chart plots this relationship for 1949-2011 (open circles). The law, however, seems to have changed during the Great Recession. During the recent recession, the observed decrease in GDP corresponded to a higher increase in the unemployment rate than Okun's law would predict. In 2009:Q4, with only a 0.5 percent decrease in GDP, the unemployment rate rose by 3 percentage points relative to 2008:Q4. According to Okun's law, however, that 0.5 decrease in GDP should have instead corresponded to a 1.5-percentage-point increase in the unemployment rate. This pattern is reversed in 2011:Q4: A modest increase in GDP was accompanied by a decrease in unemployment significantly larger than what the pre-Great Recession relationship between the data would have predicted.

Maegan Vazquez, Kaitlan Collins and Allie Malloy, Cnn, 10-17-2018, "Trump asks Cabinet secretaries for 5% budget cut ," CNN, https://www.cnn.com/2018/10/17/politics/donald-trump-five-percent-cut-cabinet/index.html (NK)

President Donald Trump on Wednesday i**nstructed every agency secretary in his Cabinet to cut 5% from their budget for next year.** "I think you'll all be able to do it. There may be a special exemption, perhaps. I don't know who that exemption would be," Trump told Cabinet members during a meeting at the White House. Trump added, "some people at the table" could cut "substantially more" than 5% of their budgets. "There are some people here at the table, I'm not going to point you out, but there are some people that can do substantially more than that. Because now that we have our military taken care of, we have our law enforcement taken care of, we can do things that we really weren't in a position to do when I first came," he said. Democrats in Congress have blamed the Republican tax plan for ballooning the deficit. Massachusetts Sen. Elizabeth Warren claimed it amounted to a "$1.5 trillion in tax giveaways to wealthy donors."

https://www.imf.org/en/Publications/FM/Issues/2016/12/31/Debt-Use-it-Wisely

Moreover, the interaction between the incipient deleveraging and low nominal growth has resulted in a vicious loop that in some cases, notably in Europe, has delayed the resolution of banks' distressed assets, hampering the efficient flow of credit and further depressing output. **The empirical evidence in this chapter confirms that financial crises tend to be associated with excessive private debt levels in both advanced and emerging market economies.** Nevertheless, **entering a financial crisis with a weak fiscal position exacerbates the depth and duration of the ensuing recession, as the ability to conduct countercyclical fiscal policy is significantly curtailed in that case.** New analysis suggests that this effect is particularly strong for emerging markets which, in the absence of fiscal buffers, tend to cut government spending, reflecting perhaps tighter financing conditions in these countries during a crisis. The implications are important, as financial recessions in emerging market economies result in output losses that are almost double those in advanced economies after five years. These results underscore the importance of having the prudential and regulatory frameworks necessary to keep private debt in check as well as the value of prudent fiscal policy.

A recession is coming (Kearns - Time)

Jeff Kearns, 10-1-2018, "The Next Recession Is Coming by 2021, According to an Overwhelming Majority of Economists," Money, http://time.com/money/5411420/when-is-the-next-recession-economists/ (NK)

Two-thirds of business economists in the U.S. expect a recession to begin by the end of 2020, while **a plurality of respondents say trade policy is the greatest risk to the expansion**, according to a new survey. About 10 percent see the next contraction starting in 2019, 56 percent say 2020 and 33 percent said 2021 or later, according to the Aug. 28-Sept. 17 poll of 51 forecasters issued by the National Association for Business Economics on Monday. Forty-one percent said the biggest downside risk was trade policy, followed by 18 percent of respondents citing higher interest rates and the same share saying it would be a substantial stock-market decline or volatility. "Trade issues are clearly influencing panelists' views," David Altig, Federal Reserve Bank of Atlanta research director and NABE's survey chair, said in a statement with the report.

We could fund recovery programs in the last recession because of low debt to GDP ratio - no longer the case (Ghilarducci - Forbes)

Teresa Ghilarducci, Sept 2018, "Why We Should Control The Federal Debt Before The Next Recession," Forbes, https://www.forbes.com/sites/teresaghilarducci/2018/09/23/why-we-should-control-the-federal-debt-before-the-next-recession/#6952d5dad33b (NK)

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. I**n 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.

When debt must be repaid - we will either default or see incredibly high-interest rates (Byrne - Forbes)

John Aidan Byrne, 9-22-2018, "Next crash will be 'worse than the Great Depression': experts," New York Post, https://nypost.com/2018/09/22/next-crash-will-be-worse-than-the-great-depression-experts/ (NK)

"We won't be able to call it a recession, it's going to be worse than the Great Depression," said economic commentator Peter Schiff, forecasting a major economic downturn as early as the tail end of the Trump presidency's first term. "**The US economy is in so much worse shape than it was a decade ago.**" **Economic theorists say insurmountable debt is the big kahuna. The huge sums today certainly fed the boom times. But since it must eventually be repaid, the tipping point will come when a wave of defaults by overwhelmed borrowers — potentially squeezed by rising interest rates — leads to a widespread reduction in spending and incomes,** economists explain. Although Schiff has gotten some calls wrong in the past — he incorrectly predicted the US Federal Reserve would fail in its roundabout quantitative easing campaign to "reflate" housing and stocks in the wake of the financial crisis — he is convinced he is right on the money this time.

If a recession were to hit policymakers would freak out as the deficit would rise to roughly 2 trillion dollars (Aaron - Brookings)

Henry J. Aaron, 4-12-2018, "Tax and spending legislation disarms us against next recession," Brookings, https://www.brookings.edu/opinions/tax-and-spending-legislation-disarms-us-against-next-recession/ (NK)

It is not difficult to imagine the situation when the next recession hits. The ratio of debt to GDP is now twice what it was at the start of the last recession. The debt/GDP ratio is headed up, rather than down, as is normally the case when the economy is near full employment. **The budget deficit is projected to surpass $1 trillion in 2020**, even as unemployment is projected to sink to levels unseen in the last 50 years. W**ere a recession to occur, deficits would approach or even exceed $2 trillion a year as tax collections fall and spending triggered by rising unemployment rises. This flood of red ink would cause elected officials to worry—and even panic—about rising debt.** Whether or not such fears would be well-founded, they would be genuine and widespread. **Frightened legislators would be loath to enact even well-considered short term recession-fighting measures out of fears that doing so would push up deficits and debt even more.** The simple fact is that right now, t**he United States is largely bereft of weapons to fight a recession.** Recent research by David and Christina Romer quantifies those risks. Economic activity in countries, free to use monetary and fiscal policy aggressively to fight recessions, typically returns to pre-recession levels within three years. In countries without capacity to use either monetary or fiscal policy aggressively, GDP remains about 10 percent below pre-recession levels after 3½ years. In the U.S. context, the cumulative loss of GDP over five years following the onset of a moderately severe recession would be in the range of $6-7 trillion, about one-third of one year's GDP.

Bernstein, January 2018, Washington Post, "Lost in Fiscal Space" https://www.washingtonpost.com/news/posteverything/wp/2018/01/24/lost-in-fiscal-space/?noredirect=on&utm_term=.2c1661b55877 (NK)

But especially in a deeper downturn, it will take more than the automatic stuff. Congress will need to enact discretionary stimulus as well, and therein lies the politics. The economists Christine and David Romer recently released an important paper on these issues, showing that **when countries have higher debt-to-GDP ratios, they do less to offset negative economic shocks.** In that sense, **a country with a debt ratio of 80 percent has less perceived fiscal space than one with a ratio of 40 percent.** Empirically, the Romers find that countries with fiscal space (low debt ratios) apply anti-recessionary fiscal policy much more aggressively than countries without fiscal space. And it makes a big difference: "The fall in GDP with fiscal space is just 1.4 percent. The fall in GDP following a crisis without fiscal space reaches a maximum of 8.1 percent." Here's what you need to know about this. It is close to certain that the United States will enter the next downturn without a lot of fiscal space, by this definition. The U.S. debt ratio is about 75 percent, but it could hit the mid-90s over the next decade. As noted, part of that rise is the unpaid-for tax cut; part is the structural gap between our revenue and spending (a structural budget gap is one that persists even when the economy is at full employment). To be clear, this is not an argument that the debt ratio doesn't matter. There are economic risks of high debt levels. A spike in interest rates is a much more expensive problem at high vs. low debt levels. Throwing fiscal policy at a full employment economy can evaporate into higher prices vs. new, real economic activity if resources are fully utilized (which, according to inflation gauges, is not yet the case in our economy). What, then, explains the Romers' findings? In my interpretation, **it's not that fiscal policy is less effective at high debt levels. It's that policymakers simply won't do much of it when they're staring down debt-to-GDP levels well above average**. But at least in countries such as ours that can handily finance their debt and control their currency, this reluctance reflects political, not economic, constraints.

Due to our inability to fight recessions, they would be significantly lengthened (Aaron - Brookings)

Henry J. Aaron, 4-12-2018, "Tax and spending legislation disarms us against next recession," Brookings, https://www.brookings.edu/opinions/tax-and-spending-legislation-disarms-us-against-next-recession/ (NK)

This flood of red ink would cause elected officials to worry—and even panic—about rising debt. Whether or not such fears would be well-founded, they would be genuine and widespread. Frightened legislators would be loath to enact even well-considered short term recession-fighting measures out of fears that doing so would push up deficits and debt even more. The simple fact is that right now, the United

States is largely bereft of weapons to fight a recession. Recent research by David and Christina Romer quantifies those risks. **Economic activity in countries, free to use monetary and fiscal policy aggressively to fight recessions, typically returns to pre-recession levels within three years**. **In countries without capacity** to use either monetary or fiscal policy aggressively, **GDP remains about 10 percent below pre-recession levels after 3½ years. In the U.S. context, the cumulative loss of GDP over five years following the onset of a moderately severe recession would be in the range of $6-7 trillion, about one-third of one year's GDP**. What this means is that the December 2017 legislation to cut taxes and the February 2018 legislation to boost spending rashly weakened the already tenuous capacity of policy makers to deal with the next recession. Even if one is not outraged that the tax cuts flow mostly to the well-to-do, who have enjoyed the lion's share of growth in pre-tax incomes, the tax cuts should be rescinded. They give short-term pleasure to the wealthy few at the expense of serious losses for all Americans, rich and poor alike.

Baby boomer retirement also means billions in social security benefits, which will take a significant amount of spending (Frankel - Vox)

Jeffrey Frankel, 9-4-2018, "The next recession could be a bad one," VOX EU, https://voxeu.org/content/next-recession-could-be-bad-one (NK)

Expansionary fiscal policy is blowing up the deficit on both the tax side and the spending side. Most notable is the tax bill passed by the Republicans in December 2017, featuring big cuts in the corporate income tax. A reduction in the corporate tax rate was appropriate; but true tax reform should have been revenue-neutral. Also spending has been increasing rapidly this year. Once again, as in the administrations of Ronald Reagan and George W. Bush, despite their small-government rhetoric, 'fiscal conservatives' are fiscal profligates in practice. **When the next recession comes, the US will lack 'fiscal space' to respond, having already used up its ammunition**. Such destabilising fiscal policy is traditional in developing countries, exacerbating their booms and busts. The historical pattern is well-documented, though some emerging market countries achieved counter-cyclical fiscal policy after learning from the mistakes of the 1970s-1990s. (Another reason, **besides cyclical timing, why this is an especially bad time to push up the budget deficit: the retirement of the baby boom generation means that big deficits are coming in social security and Medicare.**)Pro-cyclical regulatory policy A second reason, beyond fiscal policy, why a future crisis may be severe is pro-cyclical financial regulation: relaxing financial regulation at the height of a financial boom. This is the wrong way to do it. Pro-cyclical regulation exacerbates the swings.

R2R

We affirm, resolved: the United States ƒederal government should prioritize reducing the national debt over promoting economic growth.

Our first contention is preventing an entitlement crisis.

Current spending on entitlement programs is unsustainable and is blowing up federal debt levels. David Schoenbrod, a Professor at New York Law School, writes in 2018: After averaging 35 percent of national income from the mid-1950s through 2008, the national debt has surged to 78 percent today and is projected to reach 100 percent within a decade, and 200 percent by 2050. Even these scary estimates rest on rosy assumptions — no new military or economic crises and creditors willing to accept record-low interest rates from a government heading towards a debt crisis. The cause of this coming debt deluge is no mystery: Social Security and Medicare are projected to run a staggering $82 trillion cash deficit over the next 30 years. We are adding 74 million retiring baby boomers to a system that provides Medicare recipients with benefits three times as large as their lifetime contributions and pays Social Security benefits typically exceeding lifetime contributions.

The massive increase in entitlement spending means that these programs will soon run out of money. Schoenbrod furthers: the Social Security trust fund is currently in deficit yet will receive enough general revenue transfers from its trust fund to pay full benefits until 2034. Medicare's trust fund will go belly up in 2026.

When time and money runs out, these programs will face massive cuts that will damage people's lives and the economy. Using just the example of social security, Gary Koenig finds in a 2013 Public Policy Institute report: without any changes to the program, social Security benefits will have to be reduced across the board by about 25 percent beginning in 2033. Reducing benefits would have a serious impact on the economy by damaging employment, retail and other spending. Reducing benefits by 25 percent across the board could cost the U.S. economy about 2.3 million jobs and about $349 billion in economic output.

The U.S. government needs to prioritize reducing the debt and putting these programs on surer footing, and we need to start now. David Wessel at the Brookings Institute explains in 2019: The longer we wait to put the federal budget on a sustainable course, the bigger and more abrupt the changes in government benefits and taxes will have to be. Changes are inevitable; the sooner we start, the more gradual and gentle they can be. One political reality: Congress, with good reason, is reluctant to cut benefits abruptly for current retirees and other beneficiaries; major changes to Social Security, for instance, are phased in over decades. This means that the blow would be softened if we started now, rather than waiting.

Contention two is crowding out

The CBO Explains in 2018:
Large federal budget deficits over the long term would reduce investment, If the government borrowed more money, a greater amount of household and business saving would be used to buy Treasury securities, thus crowding out private investment. With less investment in capital goods—such as factories and computers—workers would be less productive. Because productivity growth is the main driver of growth in people's real compensation, decreased investment also would reduce average compensation per hour, making people less inclined to work.

This Trend is empirically confirmed by Huang of the University of Geneva in 2017,

Using data for nearly 550,000 firms in 69 countries over 1998-2014, we show that higher levels of government debt are associated with lower private investment.

Lower investment and consumer consumption will have large negative effects on the economy. According to the St Louis Fed in 2017: household spending fuels 83% of total economic growth.

The CBO implicates the effects of crowding out to the US economy in 2010, writing real GDP per person would be about 6 percent lower in 2025 and 15 percent lower in 2035 than it would be under the stable economic conditions with no crowding out.

This is detrimental for employment, as Sanchez of the St. Louis Fed writes
a 1 percent decrease in GDP has been associated with a slightly less than 2-percentage-point increase in the unemployment rate.

Thus, we affirm.

FRONTLINES

R/T Infinite Borrowing

High Debt → less foreign debt buyers; crowding out etc (Goodkind - Newsweek)

Nicole Goodkind, 5-2-2018, "U.S. debt is growing and foreigners are buying less: Here's why that could be disastrous for the economy," Newsweek, https://www.newsweek.com/trump-tax-cuts-debt-china-907763 (NK)

A**merica is taking on record amounts of debt to pay for tax cuts and spending increases, but foreign investors, who currently hold about 43 percent of government debt, are getting skittish about purchasing it**. The Treasury announced Monday that it had racked up a record amount of debt in the first three months of 2018, borrowing about $488 billion, or $47 billion more than initial estimates. But **as the U.S. takes on these unprecedented levels of debt during economic boom times, a potential crisis looms: Foreign investment in U.S. debt is currently at its lowest point since November 2016 and has been decreasing steadily since 2008, when foreigners owned about 55 percent of American debt. Foreign ownership of federal debt is essential to the country's economic well-being**, said Andrea Dicenso, a portfolio manager and strategist at Loomis, Sayles & Co. "**We cannot exist at these growth rates with these deficit projections without foreign participation,**" she told The Wall Street Journal. **If fewer foreigners buy U.S. debt, American investors will be forced to pick up the slack and buy debt instead of active investments, a problem called "crowding out." "If foreigners buy less debt, Americans buy more, and they're buying at the expense of making productive investments in businesses and startups,"** explained Marc Goldwein, senior policy director for the nonpartisan Committee for a Responsible Federal Budget. "**As a result of the dollars diverged to the treasury from other investments, our economy experiences less GDP [gross domestic product] growth, and wage growth slows**." Recent Republican tax cuts will cost $1.9 trillion over the next 10 years, and the omnibus spending bill cost another $1.3 trillion, and because of this increase in federal spending, the government is now on track to run a deficit of more than $1 trillion by 2020. **At a certain point, if that status quo is sustained, foreign unwillingness to buy U.S. debt will move beyond increased domestic purchasing and into panic territory,** said Goldwein. **"You could see a big jump in interest rates that happens quite rapidly**." **If the United States has to offer five percent returns on its debt instead of 2 percent to interest potential buyers, outstanding debt will become less valuable to investors. Just like the quick sell-off of housing debt led, in part, to the financial crisis of 2008, "a sell-off of debt could cause financial crisis," said Goldwein. "But who's big enough to bail out the U.S. federal government?**" The United States is currently the wealthiest nation in the world and is in a good position to take on more debt if it needs to, but this could be a "the bigger they are the harder they fall" situation, said Goldwein. "It's not likely, but if [a large debt sell-off] does happen it would be really bad and could make the recent financial crisis look modest in comparison."

Dollar Heg

Other countries like the EU and China want to move away from dollar because it allows the US to bully other countries Ex. Iran sanctions, which is why a moody's analysis concludes that in the long term the dollars dominance is likely to wain (Nelson - Quartz)

Nelson, Quartz, 2018, "The dollar's dominance is slipping as resistance to Trump threatens its supremacy" "https://qz.com/1408761/the-dollars-dominance-is-slipping-amid-resistance-to-trump/ (NK)

For decades, **the US has enjoyed the "exorbitant privilege" of its reserve currency status.** American companies can borrow cheaply thanks to international demand for US debt that keeps interest rates low and the government doesn't have to worry about a balance-of-payment, or currency, crisis. In times of turmoil, money flows into the US and investors scramble for US Treasury bonds, deemed the world's safest asset. **<u>All of this is at stake for the US if there was a meaningful change to the international monetary order. For the rest of the world, it could be a relief</u>**. Right now, **<u>Trump's trade war with China</u>** has actually actually boosted US assets because people fear the economic consequences of the tariffs. And **<u>Trump's revival of sanctions against Iran</u>** have proven to be so successful precisely because so many companies use the US financial system and have chosen to abandon their business with Iran rather than face Trump's secondary sanctions. **<u>While the dollar still the dominates, the latest data from the International Monetary Fund shows that its popularity is slipping.</u>** In the second quarter of 2018, 62.3% of the world's $10.5 trillion in allocated reserves were in US dollars, the smallest share since 2013. It's down from 62.5% in the previous quarter and 63.8% the year before. **<u>The decreases are small but part of a downward trend since the peak of nearly 73% in 2001</u>**. The share of reserves allocated to the Chinese yuan climbed in the past quarter from 1.4% to 1.8%, as **<u>European central banks started shifting US dollar reserves into the yuan</u>**. **<u>The increase yuan reserves is meaningful, according to Steven Englander, the head of global G10 foreign-exchange research at Standard Chartered, because it happened even as the currency depreciated by more than 5%</u>**. It implies that more central bank reserve managers want the yuan as the currency becomes more important in trade and the Chinese government's efforts to internationalize its currency are paying off. "This buying is probably long-term in nature," he wrote in a note to clients. A **<u>long-term shift away from the US dollar is what Jean-Claude Juncker, president of the European Commission, is hoping to instill as part of his legacy</u>**. Last month, in his final state of the union speech (pdf), Juncker said the commission would present initiatives to strengthen the international role of the euro by the end of the year. "The euro must become the face, the instrument of a new, more sovereign Europe," he said. The euro still has a long way to go to rival the dollar. Over the past decade its share in currency reserves has fallen from 26% to 20%, amid a sovereign debt crisis. But it is still early days for the shared currency. The dollar has been dominant for about seven decades but it's been around for more than two centuries. The euro is is less than 20 years old. **<u>The dollar will remain the de facto global reserve currency for "the foreseeable future" but further ahead there are reasons to see the dollar's dominance waning, according to analysts at Moody's</u>**. **<u>The increase in intra-regional trade and new reserve currencies like the yuan means countries won't need to hold so much money in currencies from far afield</u>**. "Over time, this could presage less of a need to use the US dollar as the common denominator," they wrote. **<u>If European institutions become stronger and more united, the euro's appeal would increase too</u>**. To speed the transition, major central banks—such as the European Central Bank, the Bank of Japan, and the Bank of England—would need to significantly increase their yuan reserves and do so by buying far more Chinese government bonds. Foreigners own just 1.7% of China's local currency debt, according to Moody's. That said, **<u>Trump's isolationist policies are already spurring other governments to look for more ways to quickly insulate themselves from the dollar and the power it gives the US president</u>**.

Crowding Out

R/T Crowding in

Higher debt also crowds out public investment; the fastest growing part of the budget is interest payments, and is projected to be the largest by 2048. At this point, interest costs will be more than 2x what the fed gov has spent on education, infrastructure and education combined (Peterson Foundation)

Peter G Peterson Foundation, "The Fiscal and Economic Impacts"
https://www.pgpf.org/the-fiscal-and-economic-challenge/fiscal-and-economic-impact (NK)

However, if we fail to act, the opposite is also true. If our long-term fiscal challenges remain unaddressed, our economic environment weakens as confidence suffers, access to capital is reduced, interest costs crowd out key investments in our future, the conditions for growth deteriorate, and our nation is put at greater risk of economic crisis. If our long-term fiscal imbalance is not addressed, our future economy will be diminished, with fewer economic opportunities for individuals and families, and less fiscal flexibility to respond to future crises. **The following summarizes several of the negative ramifications of our growing debt: Reduced Public Investment. As the federal debt increases, the government will spend more of its budget on interest costs, increasingly crowding out public investments**. Over the next 10 years, the Congressional Budget Office (CBO) estimates that interest costs will total $6.9 trillion under current law. **In just under a decade, interest on the debt will be the third largest "program" in the federal budget — and it is on pace to become the single largest by 2048**. Interest costs, however, are not investments in programs that build our future. Instead, they are largely about the past. **And as more federal resources are diverted to interest payments, fewer will be available to invest in areas that are important to economic growth**. Although interest rates are currently low, we can't expect that situation to last forever. As economic growth improves, interest rates are likely to rise, and the federal government's borrowing costs are projected to increase markedly. **By 2048, CBO projects that interest costs alone could be more than twice what the federal government has historically spent on R&D, nondefense infrastructure, and education combined**

Taking into account the extra spending from crowding in, the CBO still estimates that crowding out would cause a 36 cent decline in investment per each dollar increase in the deficit (CBO)

CBO long Term Budget Outlook, 2010, https://www.cbo.gov/sites/default/files/111th-congress-2009-2010/reports/06-30-ltbo.pdf (NK)

In the first case, CBO assessed the impact on the economy if private saving and capital inflows from other countries were to respond to changes in deficits according to simple rules that reflect how they have behaved in the past.19 Specifically, **CBO assumed that for each $1 increase in the deficit, consumption would fall**—and therefore, other things being equal, private saving would rise—**by 40 cents**. On net, **those changes in government and private saving would cause national saving to fall by 60 cents.** In addition, **CBO assumed that capital inflows would increase by 24 cents** (40 percent of the 60-cent change in national saving), **leading domestic investment to decline, all else being equal, by 36 cents**. The analysis also incorporated the channels through which crowding out reduces tax revenue (by reducing GDP) and raises net interest payments (by raising interest rates), thereby increasing federal borrowing further and causing additional crowding out.20

Chinese Weaponization

R/T China won't do it; harms their own economy

1. China wouldn't have to sell off much debt to create fears

Seeking Alpha 18 Schiffgold, 9-23-2018, "Bond Yields Climbing: Could The Chinese Weaponize U.S. Debt?," Seeking Alpha, https://seekingalpha.com/article/4207515-bond-yields-climbing-chinese-weaponize-u-s-debt //DF

Yields have been on the rise this week in the midst of a bond market sell-off. Two-year borrowing costs hit their highest level in a decade on Wednesday. The yield on the 2-year Treasury climbed to 2.816%. Meanwhile, the 10-year Treasury yield hit a four-month high of 3.07%. What's going on here? The most obvious reason for falling bond prices and rising yields is the enormous amount of debt the US Treasury is currently dumping on the market. Despite the "strong economy," the US government is borrowing money like it's in the midst of a deep recession. To cover the growing federal deficit, the Treasury Department announced earlier this summer that it would raise $329 billion through credit markets during the July-September period. The borrowing estimate for the third quarter ranked as the highest since the same period in 2010 - at the height of the Great Recession. It comes in as the fourth-largest level of borrowing on record for the July-September quarter. But there could be another reason for the recent bond sell-off - the ongoing trade war. There is some fear the Chinese could weaponize their massive holdings of US debt and use it to gain the upper hand in the escalating tariff battle. This week, President Trump announced a 10% tariff on another $200 billion in Chinese imports. The Chinese retaliated, levying tariffs on $60 billion in US products. You'll notice that the Chinese are starting to have a difficult time keeping up with this tariff tit-for-tat. Could the country use its huge holdings of US debt as a weapon in the trade war? Some analysts think it could. The Chinese aren't currently dumping US debt, but they aren't buying either. China's holdings of US Treasuries have fallen slightly over the past several months, hitting a six-month low of $1.17 trillion in July. But some analysts say the Chinese could start aggressively selling Treasuries on the market in order to boost US borrowing cost as they run out of tariff raising options. A MarketWatch report verbalized this fear. Some investors fear China will use other means than tariffs to retaliate against the US, with some suggesting the second largest economy could sell its Treasury holdings to push the US's borrowing costs higher." Weaponizing US debt is the ace up China's sleeve. The Chinese can't out-tariff Trump. The US imports far more products than the Chinese. In other words, there is a lot more stuff coming into the US from China than vice versa. But that $1.17 trillion in Treasury holding does give the Chinese some leverage. China holds more US debt than any other country. If it started dumping all of the debt on the market, interest rates would soar and the dollar would plunge. This is not a good scenario for an economy built on piles of debt. A lot of pundits call this a nuclear option. It would be a disaster for the US economy. But it also comes with a significant amount of risk for the Chinese. A fire sale on Treasuries would cut into Chinese reserves and potentially destabilize the yuan. But China wouldn't have to sell everything to have a huge impact on US interest rates. **Even dumping a relatively small percentage of its holdings would push rates up, and the debt-fueled US economy has very little tolerance for higher interest rates.** Just consider the enormous federal debt the US Treasury is trying to finance. Last month, the US government set a spending record. Add to that piles of personal and corporate

2. China is willing to suffer short-term economic harm to gain a long-term advantage over the US

Sorkin 18 Andrew Ross Sorkin, 10-9-2018, "The Unknowable Fallout of China’s Trade War Nuclear Option," NYT, https://www.nytimes.com/2018/10/09/business/dealbook/china-trade-war-nuclear-option.html //DF

If China were to undertake such a maneuver, it would do so at a delicate time for the United States economy: The rising deficit has increased the Treasury’s borrowing needs. There is more debt to be purchased, and the Federal Reserve is raising interest rates, making that debt more expensive. It’s not clear how much China could drive up rates by shedding Treasuries, but it would certainly add to the momentum already present. And it is worth remembering that **Beijing’s endgame is not necessarily to ensure the financial health of its country this year or the next. If China were to suffer short-term pain to gain a real and lasting advantage over the United States** — or at least not lose any advantages it does have — **it might be willing to struggle a bit today**. “The negotiation between the two great powers isn’t about how many soybeans or Boeing airplanes they buy by the end of the year,” said Kevin Warsh, a former governor of the Federal Reserve. “We are at a pivotal moment in history. The actions of the U.S. and Chinese governments in the next 12 months will set the course for the relationship of the two great powers of the 21st century.” And the war of words is only getting sharper. Last week, Vice President Mike Pence accused China of using “political, economic and military tools, as well as propaganda, to advance its influence and benefit its interests in the United States.” And on Monday, China’s foreign minister, Wang Yi, admonished the Trump administration for “ceaselessly elevating” trade tensions and “casting a shadow” over relations between the two countries as he sat directly across from Secretary of State Mike Pompeo.

3. It is easy for brinkmanship games to spiral out of control, irrationally so

Sorkin 18 Andrew Ross Sorkin, 10-9-2018, "The Unknowable Fallout of China's Trade War Nuclear Option," NYT, https://www.nytimes.com/2018/10/09/business/dealbook/china-trade-war-nuclear-option.html //DF

"Even if it could sell its more than a trillion dollars of Treasurys without pushing the market against it, where would it park the funds?" Marc Chandler, global head of currency strategy for Brown Brothers Harriman, wrote in a note to investors. "It will not be able to secure the liquidity, safety and returns that are available in the U.S." But **brinkmanship does not breed rational thought. The escalation of hostilities, even economic ones, raises both stakes and tempers alike, which is a dangerous combination. And in this case, there is no proving ground. There is no predictable math, no scale model**. If China were to use its nuclear option and the markets didn't react, it would lose influence in stark fashion. If it worked — but was more effective than expected — China could inflict unintended damage on its own economy.

R/T China won't do it; capital outflow

China can keep capital in the country through controls

Keoun 18 Bradley Keoun, 8-15-2018, "China Set to 'Weaponize' Yuan to Fight Trump's Trade War: Report," TheStreet, https://www.thestreet.com/markets/china-might-be-ready-to-weaponize-currency-to-fight-trump-14684505 //DF

In the past three months, China's government has allowed its tightly-controlled currency, the yuan, to weaken by about 9% to 6.93 per dollar- a move that softens the effects of Trump's tariffs by making China's exports cheaper, and thus still competitive in U.S. markets. China's main reason for avoiding a major devaluation so far was that it could spark large capital outflows from the country, as foreign investors seek to get their money out before a further erosion in the value of Chinese assets, according to TS Lombard. **But the government has imposed capital controls to keep money from flowing out, providing officials with a source of confidence as they look for ways to push back against Trump and his trade war, according to the economists**. As recently as June, China's odds of undertaking a large-scale currency devaluation stood at just 30%, they wrote. Now, a 15% slide in the yuan versus the dollar doesn't seem so remote.

Recessions

R/T Reserve Currency

Trump Policy is causing doubts of the dollars security and is catalyzing movements away from it (Gutscher - Bloomberg)

Cecile Gutscher, 9-27-2018, "JPMorgan's Marko Kolanovic Says Dollar Hegemony Is Now at Risk," Bloomberg, https://www.bloomberg.com/news/articles/2018-09-27/jpmorgan-s-marko-kolanovic-says-dollar-hegemony-is-now-at-risk (NK)

A backlash against the world's reserve currency may be brewing as rivals to America look to weaken the dollar's hold over the global financial system, says Marko Kolanovic, macro-market wiz at JPMorgan Chase & Co. President **Donald's Trump's isolationist foreign policy is a "catalyst for long-term de-dollarization**" among countries from Europe and Asia to the Middle East that have long lamented the hegemony of the U.S. currency, he wrote in a note co-authored with Bram Kaplan. "W**ith the current U.S. administration policies of unilateralism, trade wars, and sanctions increasingly affecting both friends and foes, the question arises whether the rest of the world should diversify away from the risks of the U.S. dollar and dollar-centric finance,**" said the quantitative and derivatives strategists. America looked increasingly isolated on the international stage this week, with Trump adopting an abrasive stance at the United Nations. Europe, China and Russia also said they're seeking to sidestep U.S sanctions against Iran through a mechanism that would allow some trade to continue unhindered. Whether geo-political rivals take material action to undercut the dollar's privileged position in international finance is anyone's guess. But Kolanovic says it's worth diversifying risk exposures outside American borders regardless of Trump's antics, citing the secular nature of the threat.

R/T Tax cuts / interest Rates cut / spending increase for stimulus

Int rates too low, big tax cuts and spending increases already (Aaron - Brookings)

Henry J. Aaron, 4-12-2018, "Tax and spending legislation disarms us against next recession," Brookings, https://www.brookings.edu/opinions/tax-and-spending-legislation-disarms-us-against-next-recession/ (NK)

To be sure, the economy is currently strong. But economic expansions don't last forever. The current one is nearly nine years old and is the second longest on record. Sooner or later, another recession will come. Customarily, **two tools are used to combat recessions—monetary policy or fiscal policy—if they are available. Right now, neither is. And that means that the next recession will be longer and deeper than it has to be.** Monetary policy is now largely sidelined. In 2008 and 2009 the Federal Reserve (FED) aggressively drove the interest rate it controls to zero and kept it there. That action and others helped prevent a major recession from metastasizing into a catastrophic depression. **Continued low interest rates have helped sustain economic recovery**. The FED's managers are currently trying gradually to boost interest rates, partly to prevent the current economic expansion from getting out of hand and partly to restore its own capacity to lower rates when the next recession comes along. Eventually, the FED will be better positioned to confront a recession than it is today. **For now, the FED's strongest weapon is largely sidelined if recession strikes. The situation with respect to fiscal policy is even more disturbing. Congress's action to cut taxes and raise spending at a time when the economy is already near full employment could cause the economy to overheat and weakens the ability to use fiscal policy to fight the next recession**. To appreciate why, it helps to look back to 2007, just before the financial meltdown triggered the Great Recession.

R/T Lawmakers Don't Care about the debt

The ones who aren't in power do care

Schwartz 18 Nelson D. Schwartz, 9-25-2018, "As Debt Rises, the Government Will Soon Spend More on Interest Than on the Military," NYT, https://www.nytimes.com/2018/09/25/business/economy/us-government-debt-interest.html //DF

But Washington doesn't want to hear about the potential problems Rather than simply splitting along party lines, lawmakers' attitudes toward the deficit also depend on which party is in power. Republicans pilloried the Obama administration for proposing a large stimulus in the depths of the recession in 2009 and complained about the deficit for years. In 2013, Senator Mitch McConnell of Kentucky called the debt and deficit "the transcendent issue of our era." By 2017, as Senate majority leader, he quickly shepherded the tax cut through Congress. Senator James Lankford, an Oklahoma Republican who warned of the deficit's dangers in the past, nevertheless played down that threat on the Senate floor as the tax billed neared passage. "I understand it's a risk, but I think it's an appropriate risk to be able to say let's allow Americans to keep more of their own money to invest in this economy," he said. He also claimed the tax cuts would pay for themselves even as the Congressional Budget Office estimated that they would add $250 billion to the deficit on average from 2019 to 2024. In an interview, Mr. Lankford insisted that the jury was still out on whether the tax cuts would generate additional revenue, citing the strong economic growth recently. While the Republican about-face has been much more striking, Democrats have adjusted their position, too. Mr. Warner, the Virginia Democrat, called last year's tax bill "the worst piece of legislation we have passed since I arrived in the Senate." In 2009, however, when Congress passed an $800 billion stimulus bill backed by the Obama administration, he called it "a responsible mix of tax cuts and investments that will create jobs." The difference, Mr. Warner said, was that the economy was near the precipice then. "There was virtual unanimity among economists that we needed a stimulus," he said. "But a $2 trillion tax cut at the end of a business cycle with borrowed money won't end well."

R/T Recession to soon

We cannot predict recessions

TheHill, 10-5-2018, "Economists predict a 2020 recession; don't take it as gospel," https://thehill.com/opinion/finance/410073-economists-predict-a-2020-recession-dont-take-it-as-gospel (NK)

Economists historically have had a terrible record of accomplishment in predicting recessions. This could be due in large part to the conflicting signals that oftentimes accompany an economic peak. For this reason alone, we should be circumspect about a 2020 recession. Lately, the profession has become more pessimistic. According to a recent National Association of Business Economists (NABE) survey, two-thirds of economists queried expect the onset of recession by the end of 2020. The cause? The most prevalent downside risk cited was international trade, where 41 percent of forecasters worried that th U.S.-China bilateral retaliation could cause a recession. What is second? It is the actions taken by the Federal Reserve, but, here, it only accounted for 18 percent of the worries. There are many other possible downside scenarios, such as a hard landing in China, but NABE did not highlight them. So is the economists' consensus right? The Treasury yield curve is telling us yes because it is on track to invert within the next quarter or two, and after that happens, a 2020 recession is a real possibility. After all, the yield curve has a relatively unblemished track record forecasting recessions. The yield curve may soon be on the same side as the consensus of economists. However, there are a couple of other factors for investors to consider. For starters, recessions typically do not occur when nearly everyone expects them. This is largely due to psychology. Business cycles often end after periods of excessive optimism created during an expansion. If, however, individuals and businesses are more cautious in their investing and spending plans, it is likelier the economic cycle lasts longer. The fact that cumulative real GDP growth on a per capita basis has massively lagged previous business cycles tells us that households and firms have not been overly optimistic in their economic and financial decision-making. If they were, we would have experienced faster growth over this expansion. Then there is the aforementioned ability of economists to predict economic turning points. It is not very good. This is evident from the Anxious Index, a series created by the Philadelphia Fed that measures economists' probability of a contraction in real GDP in the ensuing quarter. **Collectively, economists simply do not know when the economy is going to shrink. In the last business cycle, only 17 percent of economists were "anxious" about negative GDP in the fourth quarter of 2007, which happened to mark the peak in the economy. The recession began in the first quarter of 2008. Then, in the third quarter of 2008, when Lehman Brothers went bankrupt, only 47 percent of economists thought growth would be negative the next quarter**. That was not a very prescient call considering the fact that growth fell at a stunning 8-percent annualized rate. This actually leads to our final point

Economists just don't know what's gonna happen

Elliot 18 Larry Elliott, 9-16-2018, "An economic recovery based around high debt is really no recovery," Guardian, https://www.theguardian.com/business/2018/sep/16/an-economic-recovery-based-around-high-debt-is-really-no-recovery-lehman //DF

As a profession, economists are absolutely hopeless at forecasting recessions. That is true not only in the years before a severe downturn. It happens when the storm is about to break. Back in 2008, the Bank of England failed to predict the biggest postwar slump in the UK's history even after it had started. This less than impressive record should act as a cautionary note in the current circumstances when **the 10th anniversary of the collapse of Lehman Brothers has generated a thriving cottage industry devoted to predicting when the next crisis will occur. The honest answer is that nobody really knows.** Meteorology has improved in the past 40 years, economic forecasting has not. When a weather forecaster says a hurricane is imminent, the public does well to take notice. When an economic forecaster gives a similar warning, the chances are that it is already too late. This might be about to change. Just as satellite technology has made weather forecasting far more accurate, so machine-learning algorithms could bring economic forecasting into the 21st century. Rickard Nyman and Paul Ormerod have compared economic forecasting by humans and machines in both the US and the UK, and come up with some stark conclusions. At the start of 2008 the survey of professional forecasters in the US failed to predict that within a year their country would be in a deep recession. Had US policymakers relied on machine-learning algorithms they would have been much better prepared for the trouble ahead. Even more impressive results using machine learning were obtained for the UK.

R/T Debt Reduction Tanks Economy

Debt reduction does not have to tank the economy, ex. Clinton. It would mean things like lower interest rates and a more stable private sector (Galston - Brookings)

William A. Galston and Maya Macguineas, 9-30-2010, "The Future Is Now: A Balanced Plan to Stabilize Public Debt and Promote Economic Growth," Brookings, https://www.brookings.edu/research/the-future-is-now-a-balanced-plan-to-stabilize-public-debt-and-promote-economic-growth/ (NK)

Some believe that fiscal discipline would reduce the rate of economic growth. Again, we disagree. The e**vidence from the United States in the 1990s** as well as from many European countries in recent decades suggests that **implemented prudently, a plan for fiscal restraint could actually promote long-term economic growth.** The reasons are straightforward: n**ot only would interest rates be lower than they otherwise would be, but in addition, the private sector would respond to a more stable and predictable economic climate by making long-term commitments that would not occur in less favorable circumstances.** A final area of disagreement: many political leaders, policy experts, interest groups, and ordinary citizens believe that the fiscal stabilization we recommend will necessarily reduce protections for the most vulnerable members of our society and could undermine the broad-based coalitions needed to sustain core programs of the New Deal and Great Society.

R/T Tax Cuts Reduce the Deficit

Trump's tax cuts produced far too little economic growth to offset the increases in the deficit

Dawsey 18 Josh Dawsey, 11-25-2018, "Trump demands action to reduce deficit, pushes new deficit spending," Washington Post, https://www.washingtonpost.com/politics/trump-demands-action-to-reduce-deficit-and-pushes-new-deficit-spending/2018/11/25/86bdf120-d88c-11e8-9559-712cbf726d1c_story.html?utm_term=.fd0a0e6ab553 //DF

As they prepared a tax bill in 2017, Republicans initially suggested their plan would offset the cuts with tax increases elsewhere, but they abandoned that commitment early in the process. Trump in December signed a law that nonpartisan analyses suggest will add $1.5 trillion to deficits over the next decade. That figure is projected to jump to more than $2 trillion if the law's temporary cuts to income tax rates are made permanent. Many Republicans have said the tax cuts will pay for themselves by producing a massive jump in economic growth — a claim rejected at the time by many economists across the political spectrum. Growth has increased moderately since the cuts took effect, but the increases have fallen well short of the level needed to prevent the cuts from adding to deficits. Trump also signed a bipartisan $1.3 trillion budget bill in March that added new funding for the government's domestic and military programs. The president criticized the bill at the time and said he would not sign another mass budget measure. With Democrats set to take control of the House in January, a future deficit-reduction deal would have to be bipartisan, and Hill veterans see that as a stretch.

R/T Debt Not lots of GDP

The national debt is around 105% of GDP

Ghilarducci 18 Teresa Ghilarducci, 9-23-2018, "Why We Should Control The Federal Debt Before The Next Recession," Forbes, https://www.forbes.com/sites/teresaghilarducci/2018/09/23/why-we-should-control-the-federal-debt-before-the-next-recession/#6b029801d33b //DF

National debt is now 105% of GDP. Should we worry? Debt alone is not a problem. During WWII, war-related debt was at a all-time high: 118% of GDP. And, debt levels naturally rise in recessions. So, not all debt is bad. But economists worry when borrowing fuels consumption and not investment. Increase debt to build schools, railroads, health systems, create anti-recession spending, and to fight fascism. Good debt makes us richer. But debt used to cut taxes for corporate stock buybacks and affluent household spending, which yields little research and development and other productive investment is bad debt. Bad debt makes us poorer.

R/T Social Program Cuts

Debt servicing will take over medicaid by 2021 - the more debt we are in the less we are able to fund social programs because it diverts spending (Elis - The Hill)

TheHill, 3-15-2018, "US could spend more on servicing debt than defense by 2024: study," https://thehill.com/policy/finance/378607-us-could-spend-more-on-servicing-debt-than-defense-by-2024-study (NK)

<u>The amount of money the U.S. government spends servicing its debt would surpass defense spending by 2024 and Medicaid spending by 2021, according to a study by the Committee for a Responsible Federal Budget (CRFB</u>). The government last year spent $263 billion on interest payments. That figure amounts to about 1.4 percent of GDP, less than the historical average of 2 percent of GDP. Under current law, however, increased spending and wide-ranging tax cuts will significantly grow the deficit, leading annual interest payments alone to grow to $965 billion by 2028. At 3.3 percent of GDP, that would be the highest level of spending devoted to interest payments on record, CRFB noted.

Debt is the fastest growing portion of our spending (Sherman - BBC)

Natalie Sherman, 12-1-2017, "Does the US debt of $20tn matter?," BBC News, https://www.bbc.com/news/business-41248503 (NK)

More than half the 2016 budget was spent on retirement and healthcare programmes. As the US population ages, that's expected to grow. T**<u>he debt itself is fuelling the fastest-growing spending item: the Congressional Budget Office expects annual net interest payments, which totalled about $240bn in 2016, to hit $770bn in 2027</u>**. The US ran an average budget deficit of 2.8% of GDP between 1967 and 2016. But that increased in recent years, spurred by the Great Recession a decade ago, when tax revenue dried up and the government increased its spending to try to spur a rebound.

<u>R/T Reduce Later</u>

The longer we wait to reduce the debt, the greater the cost (Peterson Institute)

Peterson Institute, July 2018, “CBO Warns: Historic Debt Levels Threaten Economy”, https://www.pgpf.org/analysis/2018/07/cbo-warns-historic-debt-levels-threaten-economy (NK)

CBO projects that interest and Social Security will be of equal size as a percentage of GDP at the end of the 30-year projection period. However, since interest is projected to be growing faster at that point, it would surpass Social Security shortly after 2048 and become the largest category of the budget. Rising debt will harm our economy and slow the growth of productivity and wages. **<u>To stabilize the debt, changes should be enacted as soon as possible. On our current path, waiting just five years raises the cost of stabilization by 21 percent.</u>** By acting now policymakers can lay a strong fiscal foundation for economic growth. CBO’s report concludes that addressing our fiscal challenges would provide significant benefits, stating:

R/T Borrow out of Recession

A) Global debt is too high, which means there is just less to borrow B) borrowing will increasingly have to go to servicing the debt which makes people reluctant to invest as its not productive investment

Robert J Samuelson., July 2018, "The $247 Trillion Debt Bomb," Washington Post, https://www.washingtonpost.com/opinions/the-247-trillion-global-debt-bomb/2018/07/15/64c5bbaa-86c2-11e8-8f6c-46cb43e3f306_story.html?utm_term=.528d3de468b1 (NK)

The untold story of the world economy — so far at least — is the potentially explosive interaction between the spreading trade war and the overhang of **<u>global debt, estimated at a staggering $247 trillion. That’s “trillion” with a “t.” The numbers are so large as to be almost incomprehensible.</u>** Households, businesses and governments borrow on the assumption that they will service their debts either by paying the principal and interest or by rolling over the debts into new loans. But this works only if incomes grow fast enough to make the debts bearable or to justify new loans. When those ingredients go missing, delinquencies, defaults and (at worse) panics follow. Here’s where the trade war and debt may intersect disastrously. Since 2003, global debt has soared. As a share of the world economy (gross domestic product), the increase went from 248 percent of GDP to 318 percent. In the first quarter of 2018 alone, global debt rose by a huge $8 trillion. **<u>The figures include all major countries and most types of debt: consumer, business and government.</u>** But to service these debts requires rising incomes, while an expanding trade war threatens to squeeze incomes. The resort to more tariffs and trade restrictions will make it harder for borrowers to pay their debts. At best, this could slow the global economy. At worst, it could trigger another financial crisis. Note that **the danger is worldwide. It's not specific to the United States**. In a new report, the Institute of International Finance (IIF), an industry research and advocacy group, says the debts of some "emerging market" countries (Turkey, South Africa, Brazil, Argentina) seem vulnerable to rollover risk: the inability to replace expiring loans. In 2018 and 2019, about $1 trillion of dollar-denominated emerging-market debt is maturing, the IIF says. Debt can either stimulate or retard economic growth, depending on the circumstances. **Now we're approaching a turning point**, according to Hung Tran, the IIF's executive managing director**. If debt growth is not sustainable, as Tran believes, new lending will slow or stop. Borrowers will have to devote more of their cash flow to servicing existing debts.** At a briefing, Tran described the change this way: "[We had] a Goldilocks economy, with decent economic growth. Inflation was nowhere to be seen, allowing central banks [the Federal Reserve, the European Central Bank] to be more accommodative [i.e., keeping interest rates low]. You could always roll over your debt. However, the probability of this continuing is much less now. . . . Trade tensions are on the rise, and **this has already impacted [business confidence] and the willingness to invest."**

R/T Can't predict Recessions

This may be true, but they are still inevitable, and the next one seems to be on the horizon (Williams - USA Today)

Sean Williams,, 9-5-2018, "6 signs we're closer to the next recession than you think," USA TODAY, https://www.usatoday.com/story/money/markets/2018/09/05/recession-signs-getting-closer/37630241/ (NK)

And since the market bottomed out in March 2009, investors have witnessed all three major stock indexes at least quadruple in value at one point. It's been a truly unique ride – and chances are it's going to come to an end sooner rather than later. To be perfectly clear, **trying to predict when recessions will occur is pure guesswork.** Top market analysts have called for pullbacks in the market, unsuccessfully, in pretty much every year since the Great Recession ended. But t**he economic cycle doesn't lie: recessions are inevitable. And in my estimation, we're probably closer to the next recession than you realize.**

Retirement: 4 ways to protect yourself from a market downturn early on Columnist: Who gets credit for the record run in stocks? How can I be so certain? Well, I can't. Remember, I just noted there's virtually no certainty when it comes to predicting when recessions will occur. There are, however, six warning signs that suggest a recession could be, in relative terms, around the corner.

EXTRAS

No Author, xx-xx-xxxx, "," No Publication, https://www.brookings.edu/wp-content/uploads/2016/06/united-states-economy-why-weak-recovery-baily-bosworth.pdf

The problem, of course, is that the recovery was not sustained and growth slid down again. The theory of fiscal stimulus is that it jumpstarts a recovery and that sustaining the recovery depends on whether or not there is a change in the expectational equilibrium for private sector participants. That did not happen after the Great Recession. Japanese observers may again have a sense of déjà vu because Japan has run large budget deficits ever since its crisis in 1990 and yet economic growth has been sluggish. What went wrong? There are two clear examples where expansionary fiscal policy has shifted the US economy back to sustained growth and full employment after a deep recession. The first was the result of massive spending on war preparations and then World War II itself, when, the economy finally moved out of the Great Depression and was able to sustain strong economic growth. The favorable growth pattern continued after the war, even though the process of demobilization slowed things down for a few years. Second, President Reagan instituted very large and sustained income tax cuts that contributed to the rapid recovery of the economy after 1982. These tax cuts were seen as permanent by most people at the time. **A problem with the Obama stimulus, then, was that it was too small and too short-lived to overcome the severity of the Great Recession**. Lawrence Summers warned about the danger of a stimulus that was too small and too short-run in speeches prior to the start of the Obama Administration. Others inside and outside the administration pushed for a larger stimulus. In the event, the actual stimulus package was a product of the political process. **<u>The emerging large budget deficits were troubling to Congress and the American people, which kept the size of the stimulus package down.</u>** And the design of the stimulus spending itself was largely left to Members of Congress, spreading the money thinly around on a geographic basis. Americans decided they were not getting value for money from the increased government spending, something that is unpopular in any case. In addition, the stimulus package came on top of the very unpopular TARP legislation.