# SV – Blake Affirmative v1

#### We affirm that the United States federal government should prioritize reducing the federal debt over promoting economic growth.

## Our Sole Contention is the Coming Recession

#### Nouriel Roubini indicates in 2018 that:

Nouriel Roubini, 9-13-2018, "We are due a recession in 2020 – and we will lack the tools to fight it," Guardian, https://www.theguardian.com/business/2018/sep/13/recession-2020-financial-crisis-nouriel-roubini, Date Accessed 12-10-2018 // JM

As we mark the 10th anniversary of the [last economic] collapse of Lehman Brothers, there are still ongoing debates about the causes and consequences of the financial crisis, and whether the lessons needed to prepare for the next one have been absorbed. But looking ahead, the more relevant question is what actually will trigger the next global recession and crisis, and when. The current global expansion will likely continue into next year, given that the US is running large fiscal deficits, China is pursuing loose fiscal and credit policies, and Europe remains on a recovery path. But by 2020, the conditions will be ripe for a financial crisis, followed by a global recession. There are 10 reasons for this. First, the fiscal-stimulus policies that are currently pushing the annual US growth rate above its 2% potential are unsustainable. By 2020, the stimulus will run out, and a modest fiscal drag will pull growth from 3% to slightly below 2%. Second, because the stimulus was poorly timed, the [US economy](https://www.theguardian.com/business/useconomy) is now overheating, and inflation is rising above target. The US Federal Reserve will thus continue to raise the federal funds rate from its current 2% to at least 3.5% by 2020, and that will likely push up short- and long-term interest rates as well as the US dollar. Meanwhile, inflation is also increasing in other key economies, and rising oil prices are contributing additional inflationary pressures. That means the other major central banks will follow the Fed toward monetary-policy normalisation, which will reduce global liquidity and put upward pressure on interest rates. Third, the Trump administration’s trade disputes with China, Europe, Mexico, Canada and others will almost certainly escalate, leading to slower growth and higher inflation. Fourth, other US policies will continue to add stagflationary pressure, prompting the Fed to raise interest rates higher still. The administration is restricting inward/outward investment and technology transfers, which will disrupt supply chains. It is restricting the immigrants who are needed to maintain growth as the US population ages. It is discouraging investments in the green economy. And it has no infrastructure policy to address supply-side bottlenecks. Fifth, growth in the rest of the world will likely slow down – more so as other countries will see fit to retaliate against US protectionism. China must slow its growth to deal with overcapacity and excessive leverage; otherwise a hard landing will be triggered. And already-fragile emerging markets will continue to feel the pinch from protectionism and tightening monetary conditions in the US. Sixth, Europe, too, will experience slower growth, owing to monetary-policy tightening and trade frictions. Moreover, populist policies in countries such as Italy may lead to an unsustainable debt dynamic within the eurozone. The still-unresolved “doom loop” between governments and banks holding public debt will amplify the existential problems of an incomplete monetary union with inadequate risk-sharing. Under these conditions, another global downturn could prompt Italy and other countries to [exit the eurozone altogether](https://www.project-syndicate.org/commentary/italy-new-election-euro-crisis-by-nouriel-roubini-and-brunello-rosa-2018-06). Seventh, US and global equity markets are frothy. Price-to-earnings ratios in the US are 50% above the historic average, private-equity valuations have become excessive, and government bonds are too expensive, given their low yields and negative term premia. And high-yield credit is also becoming increasingly expensive now that the US corporate-leverage rate has reached historic highs. Moreover, the leverage in many emerging markets and some advanced economies is clearly excessive. Commercial and residential real estate is far too expensive in many parts of the world. The emerging-market correction in equities, commodities, and fixed-income holdings will continue as global storm clouds gather. And as forward-looking investors start anticipating a growth slowdown in 2020, markets will reprice risky assets by 2019. Eighth, once a correction occurs, the risk of illiquidity and fire sales/undershooting will become more severe. There are reduced market-making and warehousing activities by broker-dealers. Excessive high-frequency/algorithmic trading will raise the likelihood of “flash crashes.” And fixed-income instruments have become more concentrated in open-ended exchange-traded and dedicated credit funds. In the case of a risk-off, emerging markets and advanced-economy financial sectors with massive dollar-denominated liabilities will no longer have access to the Fed as a lender of last resort. With inflation rising and policy normalisation underway, the backstop that central banks provided during the post-crisis years can no longer be counted on. Ninth, Trump was already attacking the Fed when the growth rate was recently 4%. Just think about how he will behave in the 2020 election year, when growth likely will have fallen below 1% and job losses emerge. The temptation for Trump to “[wag the dog](https://www.project-syndicate.org/commentary/trump-populist-plutocracy-by-nouriel-roubini-2017-12)” by manufacturing a foreign-policy crisis will be high, especially if the Democrats retake the House of Representatives this year. Since Trump has already started a trade war with China and wouldn’t dare attack nuclear-armed North Korea, his last best target would be Iran. By provoking a military confrontation with that country, he would trigger a stagflationary geopolitical shock not unlike the oil-price spikes of 1973, 1979 and 1990. Needless to say, that would make the oncoming global recession even more severe. Finally, once the perfect storm outlined above occurs, the policy tools for addressing it will be sorely lacking. The space for fiscal stimulus is already limited by massive public debt. The possibility for more unconventional monetary policies will be limited by bloated balance sheets and the lack of headroom to cut policy rates. And financial-sector bailouts will be intolerable in countries with resurgent populist movements and near-insolvent governments. In the US specifically, lawmakers have constrained the ability of the Fed to provide liquidity to non-bank and foreign financial institutions with dollar-denominated liabilities. And in Europe, the rise of populist parties is making it harder to pursue EU-level reforms and create the institutions necessary to combat the next financial crisis and downturn. Unlike in 2008, when governments had the policy tools needed to prevent a free fall, the policymakers who must confront the next downturn will have their hands tied while overall debt levels are higher than during the previous crisis. When it comes, the next crisis and recession could be even more severe and prolonged than the last.

#### Unfortunately, Jeffrey Frankel furthers in 2018 that:

Jeffrey Frankel, Financial Express, 8-30-2018, "The depth of the next US recession," https://www.financialexpress.com/opinion/the-depth-of-the-next-us-recession/1296717/, Date Accessed 12-12-2018 // JM

The United States economy is doing well. But the next recession—and there is always another recession—could be very bad. The US Bureau of Economic Analysis estimates that GDP growth in the second quarter of 2018 reached 4.1%—the highest since the 4.9% seen under President [Barack Obama](http://www.financialexpress.com/tag/barack-obama/) in 2014. Another year of growth will match the record ten-year expansion of the 1990s. Add to that low unemployment, and things are looking good. But this cannot continue forever. Given massive global corporate debt and a soaring US stock market—the cyclically adjusted price-to-earnings ratio is high by historical standards—one possible trigger for a downturn in the coming years is a negative shock that could send securities tumbling. That shock could be homegrown, coming in the form, say, of renewed inflation or of the continued escalation of the trade war that US President Donald Trump has started. The shock could also come from abroad. For example, the current financial and currency crisis in Turkey could spread to other emerging markets. The euro crisis is not truly over, despite the completion of Greece’s bailout programme, with Italy, in particular, representing a major source of risk. Even China is vulnerable to slowing growth and high levels of debt. Whatever the immediate trigger, the consequences for the US are likely to be severe, for a simple reason: the US government continues to pursue pro-cyclical fiscal, macro-prudential, and even monetary policies. While it is hard to get counter-cyclical timing exactly right, that is no excuse for [a] pro-cyclical policy, an approach that puts the US in a weak position to manage the next inevitable shock. During economic upswings, the budget deficit usually falls, at least as a share of GDP. But with the US now undertaking its most radically pro-cyclical fiscal expansion since the late 1960s, and perhaps since World War II, the Congressional Budget Office projects that the federal government’s fast-growing deficit will exceed $1 trillion this year.

#### This pro-cyclical policy, that is a fiscal policy that relies on promoting economic growth, was only able to work in 2008 because Teresa Ghilarducci explains in 2018 that in:

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/, Date Accessed 12-10-2018 // WS

And high debt levels can leave little room to maneuver. The [IMF predicts that](https://www.imf.org/en/Publications/FM/Issues/2018/04/06/fiscal-monitor-april-2018) among rich nations, only the U.S. will increase its debt-to-GDP ratio in the next five years, the wrong direction during an economic expansion. During an expansion, especially the current nearly record-setting long one, debt should be falling, not rising. In Q3 of 2008, the government had [a] collected revenue from the booming economy; the debt-to-GDP ratio was [of] 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](https://www.health.ny.gov/regulations/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.](https://twitter.com/intent/tweet?url=http%3A%2F%2Fwww.forbes.com%2Fsites%2Fteresaghilarducci%2F2018%2F09%2F23%2Fwhy-we-should-control-the-federal-debt-before-the-next-recession%2F&text=Government%20deficits%20before%20a%20recession%20is%20even%20more%20dangerous.) 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](https://www.forbes.com/sites/teresaghilarducci/2018/08/31/early-recession-warnings-are-flashing-red-orange/#6fbea7f67dd4). The [Congressional Budget Office (CBO)](https://www.cbo.gov/publication/54442) issues a monthly report on deficits and debt. Compared to fiscal year 2017, the deficit for the first 11 months of the fiscal year rose by $222 billion, an adjusted 22.8% over last year. A steep rise in the deficit while the economy is growing will cause debt to rise even more in the next recession and eventually fuel increasing tax rates while boomers are retiring.

#### Thus, Christiane Nickel empirically shows:

Christiane Nickel, 9-7-2013, "Fiscal stimulus in times of high public debt: Reconsidering multipliers and twin deficits," No Publication, https://voxeu.org/article/fiscal-stimulus-times-high-public-debt-reconsidering-multipliers-and-twin-deficits, Date Accessed 12-12-2018 // JM

To summarise our findings, we focus on three points: First, the impact of government consumption is highly dependent on the initial debt ratio. Second, it becomes far more self-reversing pattern at higher debt ratios (beyond approximately 60%). This can be seen in the increasingly hump-shaped cumulative impulse responses (Chung and Leeper 2007, Corsetti et al. 2012). The hump indicates that the shock initially provides stimulus but this can turn into a contractionary force as time passes. Third, while the overall effect on real GDP is expansive even at very long horizons, the higher the debt ratio, the less this is the case. Eventually, at debt ratios beyond 90%, the overall effect [of fiscal stimulus packages] on real GDP becomes significantly negative (see Ilzetzki et al. 2010). The cumulative response of private investment turns increasingly negative as government indebtedness increases. In particular, the cumulative effect on private investment turns negative for the first time at debt ratios of approximately 57%. Moreover, at low debt-to-GDP (less than 40%) ratios the overall effect on the trade balance is negative (see Corsetti and Müller 2006). However, at very high debt-to-GDP ratios (more than 85%) the cumulative effect on the trade balance becomes significantly positive at longer horizons after the shock (see Kim and Roubini 2008)

#### This is why Frankel concludes that:

Jeffrey Frankel, Financial Express, 8-30-2018, "The depth of the next US recession," https://www.financialexpress.com/opinion/the-depth-of-the-next-us-recession/1296717/, Date Accessed 12-12-2018 // JM

America’s deficit is being blown up on both the revenue and expenditure sides. Although a reduction in the corporate tax rate was needed, the tax bill that Congressional Republicans enacted last December was nowhere near revenue-neutral, as it should have been. Like the Republican-led governments of Ronald Reagan and George W Bush, the Trump administration claims to favour small government, but is actually highly profligate. As a result, when the next recession comes, the US will lack fiscal space to respond. The Trump administration’s embrace of financial deregulation is also pro-cyclical and intensifies market swings. The Trump administration and the Republican-controlled [Congress](http://www.financialexpress.com/tag/congress/) have gutted Obama’s fiduciary rule, which would have required professional financial advisers to put their clients’ interests first when advising them on assets invested through retirement plans. They have also rolled back sensible regulations of housing finance, including risk-retention rules, which force mortgage originators to keep some “skin in the game”, and requirements that borrowers make substantial down payments, which work to ensure ability to pay. The White House and Congress have also been acting to gut the 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act, which strengthened the financial system in several ways, including by imposing higher capital requirements on banks, identifying “systemically important financial institutions”, and requiring more transparency in derivatives. The Consumer Financial Protection Bureau—established by Dodd-Frank to protect borrowers with payday, student, and car loans—is also now being curtailed. Like most major legislations, Dodd-Frank could be improved. Compliance costs were excessive, especially for small banks, and the original threshold for stress-testing “too big to fail” institutions—$50 billion in assets—was too low. But the current US leadership is going too far in the other direction, including by raising the threshold for stress tests to $250 billion and letting non-banks off the hook, which increases the risk of an eventual recurrence of the 2007-2008 financial crisis. Now is the right point in the cycle to raise banks’ capital requirements as called for under Dodd-Frank. The cushion would minimise the risk of a future banking crisis. Other countries do macro-prudential policy better. Europeans have applied the counter-cyclical capital buffer to their banks. Some Asian countries raise banks’ reserve requirements and homeowners’ loan-to-value ceilings during booms, and lower them during financial downturns. When it comes to monetary policy, the US Federal Reserve has been doing a good job; but its independence is increasingly under attack from Republican politicians. If this assault succeeds, counter-cyclical monetary policy would be impaired. In the past, the Fed has moderated recessions by cutting short-term interest rates by around 500 basis points. But, with those rates currently standing at only 2%, such a move is impossible. That is why, as Martin Feldstein recently pointed out, the Fed should be “raising the rate when the economy is strong”, thereby giving “the Fed room to respond in the next economic downturn with a significant reduction”. Most Fed critics disagree. In 2010, they attacked the Fed for its monetary easing, even though unemployment was still above 9%. Now Trump says he is “not thrilled” about the Fed raising interest rates, even though unemployment is below 4%. This is tantamount to advocating pro-cyclical monetary policy. As we approach the tenth anniversary of the global financial crisis, we should recall how we got there. In 2003-2007, the US government pursued fiscal expansion and financial deregulation—an approach that, even at the time, was recognised as likely to constrain the government’s ability to respond to a recession. If the US continues on its current path, no one should be surprised if history repeats itself.

#### Elizabeth Schulze furthers 2018 that:

Elizabeth Schulze, 7-26-2018, "3 charts that show why the US should stop ignoring its debt problem," CNBC, https://www.cnbc.com/2018/07/26/3-charts-that-show-why-the-us-should-stop-ignoring-its-debt-problem.html, Date Accessed 12-9-2018 // JM

In June, the Congressional Budget Office [estimated](https://www.cbo.gov/system/files?file=115th-congress-2017-2018/reports/53651-outlook.pdf) federal debt held by the public will rise from 78 percent of GDP at the end of this year to 96 percent in 2028. That would mark the highest percentage since 1946. The report warned such high and rising debt due to higher spending and lower revenues would have "serious negative consequences for the budget and the nation." "As debt gets higher, it becomes harder and harder to stimulate the economy to generate growth," said Sonja Gibbs, senior director of the Capital Markets and Emerging Markets Policy Department of the Institute of International Finance, to CNBC via telephone. The United States is, of course, not the only country with sky-high debt levels. In April, the International Monetary Fund (IMF) sounded the alarm on global debt, saying debt-to-GDP ratios in advanced economies are at levels not seen since World War II. Gibbs said it has been easy for investors to ignore public debt in the short term. "It's a problem that people can sort of close their eyes and say 'that's not affecting my opportunity set of investments here and now'," she said. But the IMF warned that now is the time for investors and policymakers to pay attention to growing debt, singling out the United States. The Fund said the revised tax code and spending agreements will mean the U.S. is the only advanced economy where the debt-to-GDP ratio will increase over the next five years.

#### Thus, now is not the time to promote economic growth, but instead prioritize debt. There are two reasons why there is no other option besides prioritizing debt.

#### First, losing ability for government spending. Jason Reed indicates in 2018 that:

Jason Reed, University Of Notre Dame, 4-1-2018, "Looming 'debt hangover' will crush the economy," CNBC, https://www.cnbc.com/2018/04/10/looming-debt-hangover-will-crush-the-economy.html, Date Accessed 12-10-2018 // WS

Currently, the publicly held U.S. national debt is 75 percent of GDP. That number may be shocking, but many economists would agree that a 75 percent debt-to-GDP ratio is not as bad as it looks. But that ratio could double by 2047, putting the U.S. in between what Greece and Italy are experiencing now. Currently, the publicly held U.S. national debt is 75 percent of GDP. That number may be shocking, but many economists would agree that a 75 percent debt-to-GDP ratio is not as bad as it looks. Before the 2008 recession, the publicly held U.S. national debt was roughly 35 percent of GDP. Why did the debt grow by 40 percentage points over the last 10 years? Government spending. The government spent their way out of the recession. A group of economists at the White House and in the Federal Reserve encouraged fiscal and monetary authorities to continue issuing debt and deficit spending, or borrowing to spend. It worked, although there are also some who argued we did not actually spend enough. The U.S. is now experiencing low unemployment rates, and one of the longest sustained periods of growth in our history. However, the [Congressional Budget Office](https://www.cbo.gov/publication/52480) said on Monday that by 2047, if we maintain our current trajectory of fiscal policy, our debt-to-GDP ratio will hover around 150 percent. That would put the U.S. in between what Greece and Italy are experiencing now. This number is bad news for the U.S. economy. The World Bank estimates that for every percentage point above a U.S. debt-to-GDP ratio of 77 percent, the annual growth in the economy would decline by 17 basis points. That is a loss of over 12 percent of GDP growth during the next 30 years. It would be as if the U.S. economy just stopped growing for over 4 years. Yet, that is not the only consequence of our current fiscal issues. Congress will have less flexibility to implement expansionary fiscal policy during economic downturns; investors would likely need higher interest rates to compensate for the risk of investing in an increasingly volatile economy. This cycle of increased net interest payments, followed by even higher interest rates, results in net interest payments eclipsing other mandatory spending programs by 2047. Not to mention that Social Security, and Medicare would require an enormous amount of monetary capital to maintain short-term solvency.

#### Second, interest payments. Shawn Tully indicates:

Shawn Tully, 3-15-2018, "How Debt Could Blow Up the Trump Economy," Fortune, http://fortune.com/2018/03/15/us-national-debt-trump-tax-cuts/, Date Accessed 12-10-2018 // WS

By 2028, America’s government debt burden could explode from this year’s $15.5 trillion to a staggering $33 trillion—more than 20% bigger than it would have been had Trump’s agenda not passed. At that point, interest payments would absorb more than $1 in $5 [20%]of federal revenue, crippling the government’s capacity to bolster the economy, and constraining the private sector too. Contrary to the claims of the President and his supporters, the U.S. can’t grow fast enough to shed this burden; indeed, Trump’s agenda on immigration and trade looks likely to stunt that growth. (More on that later.) “This is almost like climate change,” says Mark Zandi, chief economist at Moody’s Analytics. “It doesn’t do you in this year, or next year, but you’ll see the ill effects in a day of reckoning.” In the absence of decisive, quick action to tackle this slow-motion crisis, the best-case scenario for the next few years is that America becomes a much riskier place to do business. A high debt load will limit our flexibility to keep the economy on an even course. “Countries with high debt don’t respond aggressively to downturns,” says Harvard economist Kenneth Rogoff. If the U.S. slips into recession, we’ll lack the option of lowering taxes or increasing spending on infrastructure, for example, as tools to revive growth. And as the debt load grows, efforts by the Federal Reserve to stimulate the economy with lower rates would be more likely to feed runaway inflation. “Then, investors will dump Treasuries,” says John Cochrane, an economist at the Hoover Institution. “That will drive rates far higher, and make the budget picture even worse.”

#### Without fiscal capacity due to a high debt-to-GDP ratio, there will be two impacts. First, it will decrease future GDP growth. James McBride argues in 2018 that:

James McBride and Jonathon Masters, 5-31-2018, Council on Foreign Relations, “The National Debt Dilemma”, <https://www.cfr.org/backgrounder/national-debt-dilemma>, Date Accessed 12-11-2018, // SDV

Economists say there are a number of risks associated with rising U.S. debt. It could divert investment from vital areas. Servicing an ever-growing debt, especially if interest rates rise significantly, will consume resources that could rob spending from sectors such as infrastructure, education, and basic research. It could shrink the U.S. global footprint. Without legislative action, interest on the debt and mandatory government programs, such as Medicare, will claim a growing piece of the budget pie, leaving fewer dollars for U.S. military, diplomatic, and humanitarian operations around the world. It could become a drag on the economy. Some experts argue that [there is a tipping point](http://www.economist.com/news/finance-and-economics/21576362-seminal-analysis-relationship-between-debt-and-growth-comes-under) beyond which large accumulations of government debt begin to slow growth. They posit that this could be a result of investors becoming more pessimistic about the economy as debt levels rise, which could rapidly drive up interest rates and thereby reduce private investment. It could precipitate a fiscal crisis. Many experts warn that if U.S. debt continues to rise, investors will eventually lose confidence in Washington’s ability to right its fiscal ship and become unwilling to finance U.S. borrowing without much higher interest rates. If many investors begin fleeing to alternatives, it may become prohibitively expensive for Washington to attract new buyers of debt, resulting in even larger deficits and increased borrowing, or what is sometimes called a debt spiral. A fiscal crisis of this nature could necessitate sudden and economically painful spending cuts or tax increases. It could [and] hamper[s] the country’s ability to navigate future economic crises. In the view of some experts, massive debt accumulation could [undermine U.S. global leadership](https://www.cfr.org/report/strategic-implications-us-debt) by eroding Washington’s ability to respond to future crises. Another major financial crisis, like that of 2008–2009, could require new large-scale stimulus spending, a response that would be difficult given the U.S. debt load. It could also constrain the nation’s ability to mobilize for an unexpected military conflict, weaken its global aid commitments, or siphon funds from the national security budget. Finally, it could leave the country vulnerable to foreign governments, especially China, that hold large chunks of U.S. debt and could potentially use the threat of a sell-off as leverage. I think it's clear, if you do simple arithmetic, that the fiscal path that the nation is on is simply not sustainable. Erskine Bowles, Co-chair, National Commission on Fiscal Responsibility “I think it's clear, if you do simple arithmetic, that the fiscal path that the nation is on is simply not sustainable,” said Erskine Bowles, the Democratic co-chair of President Obama’s bipartisan National Commission on Fiscal Responsibility, otherwise known as the Simpson-Bowles commission, at a [2012 CFR event](https://www.cfr.org/event/hbo-history-makers-series-erskine-bowles). “And if I had to give you an analogy, I would say that the deficits are truly like a cancer, and over time they are going to destroy our country from within,” he said. However, a few economists, including Nobel laureate Paul Krugman, maintain that some of the debt concerns are overblown and suggest that Washington still has decades to tackle the problem. They say entitlement spending and health-care costs are not growing as [quickly as predicted](https://krugman.blogs.nytimes.com/2016/10/22/debt-diversion-distraction/) and that the cost of actually financing the debt—in terms of interest payments as a portion of GDP—is [at its lowest level](https://fred.stlouisfed.org/series/FYOIGDA188S) since the 1970s. Jared Bernstein, a senior fellow at the Center on Budget and Policy Priorities, [warned at a CFR meeting](https://www.cfr.org/event/twenty-one-trillion-and-counting-how-did-we-get-here) in May 2018 about a “deficit attention disorder” that focuses too much on the issue. “We’ve been so outspoken about the downsides of these deficits, and they haven’t materialized,” he said.

#### Reed quantifies that:

Jason Reed, University Of Notre Dame, 4-1-2018, "Looming 'debt hangover' will crush the economy," CNBC, https://www.cnbc.com/2018/04/10/looming-debt-hangover-will-crush-the-economy.html, Date Accessed 12-10-2018 // WS

Currently, the publicly held U.S. national debt is 75 percent of GDP. That number may be shocking, but many economists would agree that a 75 percent debt-to-GDP ratio is not as bad as it looks. But that ratio could double by 2047, putting the U.S. in between what Greece and Italy are experiencing now. Currently, the publicly held U.S. national debt is 75 percent of GDP. That number may be shocking, but many economists would agree that a 75 percent debt-to-GDP ratio is not as bad as it looks. Before the 2008 recession, the publicly held U.S. national debt was roughly 35 percent of GDP. Why did the debt grow by 40 percentage points over the last 10 years? Government spending. The government spent their way out of the recession. A group of economists at the White House and in the Federal Reserve encouraged fiscal and monetary authorities to continue issuing debt and deficit spending, or borrowing to spend. It worked, although there are also some who argued we did not actually spend enough. The U.S. is now experiencing low unemployment rates, and one of the longest sustained periods of growth in our history. However, the [Congressional Budget Office](https://www.cbo.gov/publication/52480) said on Monday that by 2047, if we maintain our current trajectory of fiscal policy, our debt-to-GDP ratio will hover around 150 percent. That would put the U.S. in between what Greece and Italy are experiencing now. This number is bad news for the U.S. economy. The World Bank estimates that for every percentage point above a U.S. debt-to-GDP ratio of 77 percent, the annual growth in the economy would decline by 17 basis points. That is a loss of over 12 percent of GDP growth during the next 30 years. It would be as if the U.S. economy just stopped growing for over 4 years. Yet, that is not the only consequence of our current fiscal issues. Congress will have less flexibility to implement expansionary fiscal policy during economic downturns; investors would likely need higher interest rates to compensate for the risk of investing in an increasingly volatile economy. This cycle of increased net interest payments, followed by even higher interest rates, results in net interest payments eclipsing other mandatory spending programs by 2047. Not to mention that Social Security, and Medicare would require an enormous amount of monetary capital to maintain short-term solvency.

#### Salim Furth terminalizes in 2013 that:

Salim Furth 13, Senior Policy Analyst in Macroeconomics in the Center for Data Analysis at The Heritage Foundation., "High Debt Is a Real Drag", 2-22-2013, Heritage Foundation, http://www.heritage.org/debt/report/high-debt-real-drag, Date Accessed 12-10-2018 // JM

Three teams of economists have separately shown that high government debt has a negative effect on long-term economic growth. When government debt grows, private investment shrinks, lowering future growth and future wages. Estimates across advanced economies show that debt drag reaches large and statistically significant levels as debt grows, with the worst effects occurring after debt reaches 90 percent of gross domestic product (GDP). With U.S. federal, state, and local government debt at 84 percent of GDP and rising, policymakers should begin taking debt drag into account when considering new deficit spending. Descriptive Statistics Two studies—one by Manmohan Kumar and Jaejoon Woo of the International Monetary Fund (IMF)[1] and one by Carmen Reinhart, Vincent Reinhart, and Kenneth Rogoff published by the National Bureau of Economic Research[2]—illustrate that once countries reached higher-debt status, they tended to suffer lower subsequent growth. Looking at annual data, Reinhart, Reinhart, and Rogoff show that annual growth after inflation averaged 3.5 percent among countries with central government debt below 90 percent of GDP in the previous year and 2.3 percent among countries with debt above 90 percent of GDP. Kumar and Woo look at five-year averages and report that high-debt advanced economies grew 1.3 percentage points slower annually than their low-debt (below 30 percent) counterparts. Kumar and Woo note that the negative effects of debt build steadily as debt grows from 30 percent to 90 percent. At intermediate debt levels, debt drag is already substantial.[3] Another study—by Stephen Cecchetti, Madhusudan Mohanty, and Fabrizio Zampolli of the Bank for International Settlements[4]—shows that total public debt in 18 advanced economies almost doubled as a share of GDP from 1980 to 2010. In addition, public, household, and corporate debt all increased by about the same degree. These authors found about the same negative effects on economic growth from high debt levels. Different Methods, Similar Results What makes these results especially compelling is that the different author groups used different statistical and methodological approaches yet found very similar results. Kumar and Woo use growth regressions to find that “on average, a 10 percentage point increase in the initial debt-to-GDP ratio is associated with a slowdown in annual real per capita GDP growth” of 0.19 percentage points per year in advanced economies with debt greater than 90 percent of GDP. Cecchetti, Mohanty, and Zampolli use a different econometric approach but arrive at substantially the same conclusion: At high debt levels, a 10 percentage point increase in initial debt-to-GDP ratio is associated with 0.18 percentage points less GDP growth over the next five years. They also use an econometric technique to find the best cutoff level above which debt is harmful: They find that 84 percent of GDP is the best cutoff. At debt levels less than 84 percent of GDP, the evidence is less clear, and neither study can make statistically significant conclusions. Kumar and Woo estimate that at debt levels between 60 percent and 90 percent of GDP, the effect of 10 percentage points of debt on GDP growth is around –0.16 percentage point per year. Confirming Economic Theory Reinhart, Reinhart, and Rogoff take a descriptive approach, detailing each of 26 episodes of extended “debt overhang.”[5] They find that government debt overhang tends to last a long time—20 of the episodes they study lasted more than a decade. And many debt-overhang episodes featured slow growth despite low interest rates on government debt, suggesting that high government debt hurts growth even in the absence of a crisis. Kumar and Woo use growth accounting to show that “the adverse effects on growth of initial debt largely reflect a slowdown in labor productivity growth mainly due to reduced investment,”[6] which leads to “slower growth of capital per worker.” This confirms economic theory: When savings are invested in government bonds, they cannot also be invested in productive capital. One of the principal determinants of wages is average capital per worker. Production uses both capital and labor, and deepening capital investment makes labor relatively scarcer and more productive. A scarcer, more productive factor of production commands a higher wage. Thus, when government borrowing crowds out private investment, the economy invests in less capital per worker, causing workers to be less productive and earn lower wages. Policy Implications To put these economists’ estimates in context, a 0.2 percentage point drop in annual GDP growth over the next 10 years would cost Americans $1.9 trillion in income.[7] In the United States, total government debt has risen dangerously close to the threshold level above which debt consistently hurts growth. The IMF estimates that U.S. general government debt reached 84 percent of GDP in 2012.[8] With large federal deficits projected into the future and many state governments in poor fiscal shape, the U.S. is blowing past the threshold estimated by Cecchetti, Mohanty, and Zampolli and into the danger zone. Kumar and Woo estimate the debt drag between 60 percent and 90 percent at 0.16 percentage points in lost GDP. If this estimate is accurate, then the large deficits of the past few years have been very costly for Americans. From 2007 to 2012, general government debt leapt from 48 percent of GDP to 84 percent. Debt added from 2009 to 2011 has already cost Americans $200 billion in foregone growth.[9] Higher debt will cost Americans $2.4 trillion over the next five years. Higher debt will cost Americans $9 trillion over the next ten years. A Moment on the Lips… Policymakers should take the long-term contractionary effects of debt into account when calculating the costs and benefits of government spending. For instance, Cecchetti, Mohanty, and Zampolli’s estimate implies that an additional, one-time $100 billion expenditure in 2013 would cumulatively shave $27 billion off GDP over the next five years and $102 billion off GDP over the next 10 years. High national debt can seriously slow economic growth. Slow growth is in important respects worse than a recession—it lowers incomes and well-being permanently, not just temporarily. Among the unpleasant features of debt is that it is easy to grow and difficult to shrink. Thus, a one-time increase in government debt is typically a permanent addition, and the drag effects on the economy are long-lasting. Short-term policies can dramatically affect long-term growth.

#### Second, the inability to recover in a recession quickly turns into a depression worse than anything imaginable. John Byrne indicates in 2018 that when:

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/, Date Accessed 12-12-2018 // JM

Ten years ago, it was too-easy credit that brought financial markets to their knees. Today, it could be a global debt of $247 trillion that causes the next crash. After a decade of escalating US household debt brought on by low wages and the national debt more than doubling over the same time frame, to $21 trillion, debt could soon put the brakes on this economic recovery, analysts warn. “We think the major economies are on the cusp of this turning into the worst recession we have seen in 10 years,” said Murray Gunn, head of global research at Elliott Wave International. And in a note, he added: “Should the [US] economy start to shrink, and our analysis suggests that it will, the high nominal levels of debt will instantly become a very big issue.” The economic stats: US household debt of $13.3 trillion now exceeds the 2008 peak. That’s due in part to mortgage lending, which is hovering near its decade-ago level of $9 trillion-plus. Student loans outstanding have skyrocketed from $611 billion in 2008 to around $1.5 trillion today. Auto loans, at nearly $1.25 trillion, have exceeded the 2008 total, while credit card balances are just as high now as before the Great Recession. Meanwhile, global debt — a result of central bankers flooding economies with cheap money to lift them out of a funk — is now $247 trillion, up from $177 trillion in 2008. That is close to 2½ times the size of the global economy. “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. “I think we are going to have a dollar crisis — you think the Turkish lira looks bad now, wait till you see when the dollar is imploding and we have a sovereign debt crisis in the US,” he told The Post. “The US government is going to be given a choice between defaulting on the debt, or else massive runaway inflation.” Earlier this year, Goldman Sachs said the fiscal outlook for the US was “not good,” and could threaten the nation’s economic security during the next recession. Schiff dismisses the latest batch of positive indicators, including the lowest unemployment rate in a generation, soaring business confidence spurred by President Trump’s tax cuts and the Dow hitting record highs. “Obviously, there is a whole lot of optimism — but there is a very good chance the [next] US economy is in recession within the next two years. This is already the second-longest economic expansion in history,” Schiff said, adding that recent dips in new housing starts and auto sales may be red flags. Gunn sees a brutal deflationary spiral ahead in the next downturn. “People will look to central banks to help them out, but the authorities will be found wanting,” Gunn warned. “Our prediction is that central banks will go from being feted for ‘saving the world’ in 2008 to being vilified for being impotent in the coming deflationary crash.”

# Other

#### This drop in GDP has 2 impacts. First is employment as Tejvan Pettinger writes in 2016 that

Tejvan Pettinger, 9-11-2016, "Negative Impact of Economic Recession," Economics Help, https://www.economicshelp.org/blog/5618/economics/negative-impact-of-economic-recession/, Date Accessed 12-11-2018 // WS

Not everyone is affected equally by a recession. A fall in GDP will cause a rise in unemployment. This is because: Some firms will go bankrupt meaning all workers lose their jobs. [and] In an effort to reduce costs, firms will cut back on hiring new workers. Therefore, unemployment often affects young people the most. In this recession, unemployment in the UK has risen to over 2.6 million, though given the depth of the recession, you might have expected it to be even more (e.g. in 1980s, unemployment rose to over 3 million). However, in Europe, many countries in recession have seen a catastrophic rise in unemployment. With rates of over 20% in countries such as Greece, Spain and Portugal. A recession [this also ]leads to lower investment and therefore can damage the long-term productive capacity of the economy. If the recession is short, this lost output may be quite limited – economies can bounce back. But, in a prolonged recession, this lost output becomes greater.

## Framing

James Haley, August 2018, “Fiscal Space What Is It? Who Has It? When to Use It?”, CIGI Papers No. 181 , <https://www.cigionline.org/sites/default/files/documents/Paper%20no.181web.pdf>, Date Accessed 12-12-2018 // JM

#### Fiscal space represents an important innovation in that it provides clear guidance on possible danger zones with respect to debt accumulation. That said, several caveats apply to the concept. Most important, estimates of fiscal space are based on policy reactions in the future that mirror the past. While this condition need not hold, the methodology still bears fruit in terms of assessing fiscal risks. Ostry et al. (2010, 3) note, “this debt limit is not an absolute and immutable barrier, but it does define a critical

point above which the country’s historical fiscal response to rising debt becomes insufficient to maintain debt sustainability.” At the same time, the fiscal space concept does not define maximum sustainable debt. Higher debt loads are feasible — although not advisable — but require an associated commitment to fiscal adjustment beyond the historical track record. Moreover, the fiscal space approach focuses on solvency, not liquidity.18 In practice, investors may refuse to roll over debt as it matures, precipitating a liquidity crisis, even in the absence of threats to long-term solvency.

James Haley, August 2018, “Fiscal Space What Is It? Who Has It? When to Use It?”, CIGI Papers No. 181 , <https://www.cigionline.org/sites/default/files/documents/Paper%20no.181web.pdf>, Date Accessed 12-12-2018 // JM

Recent policy debates on fiscal policy have balanced short-term stabilization objectives against potential longer-term consequences of excessive debt burdens.22 This is wholly appropriate. There are very real costs — economic, social and political — associated with the willful failure to return to full employment after a shock. These costs should be evaluated; so too the effects of fiscal excesses that result in excessive tax burdens or public debt crises, both of which impair long-term growth. To assess this debate, we compare estimates of fiscal space with those for MSD.

## Banking Crisis

Thomas Mayer, Summer 2018, “Is the World Ready For the Next Downturn?”, <http://www.international-economy.com/TIE_Su18_ReadyDownturnSymp.pdf>, Date Accessed 12-12-2018 // JM

The present upswing in the business cycle is the second-oldest since World War II. In the past, old upswings featured high interest rates and low public debt. This time is different: interest rates are low and debt is high. As a consequence, there is little room for normal stabilization policy to soften the eventual downturn in the cycle. We need to brace ourselves for an economic crisis, in which central banks will have to monetize large parts of outstanding debt to avoid debt deflation. The price could be a loss of confidence in fiat money. The problem we are now facing is the result of central banks’ reliance on Keynesian macroeconomic theory for the pursuit of an inflation target. In the Keynesian model, money drops from heaven and savings are always equal to investment. This is a wrong representation of the real world. Money is created by banks for borrowers when they extend credit to them. Borrowers demand credit when the market interest rate declines below their expected return from the use of the borrowed money. With the new money, borrowers can buy capital goods for investment purposes without any new real savings. The increase of investment over saving, financed by new money, induces a credit-driven economic upswing. When excess demand leads to price inflation and higher interest rates, the upswing turns into a downswing, in which falling investment and credit demand induce a monetary contraction. It is the central banks’ fiddling with interest rates in the pursuit of their inflation targets that creates continuous disequilibria between real savings and investment, which are balanced by monetary expansion and contraction. Thus, the policy of inflation targeting of central banks is built upon theory, which is blind to the mechanics of money creation and the saving-investment disequilibria associated with it. It also lacks empirical support for the assumed simple relationship between unemployment and inflation in the Phillips Curve. As long as Keynesian economics is the shared mental model of most economists and almost all central bankers and politicians, we proceed from one financial crisis to another. The list is already fairly long: the stock market crash of 1987, the savings and loan crisis of the early 1990s, the bond market crash of 1994, the emerging market crisis of 1998, the dot.com crash of 2000–2003, and the financial crisis of 2007–2008. The list will only end when economists and policymakers realize the flaws of Keynesian economics. In the meantime, investors need to position themselves for the next turn in the credit cycle. The last downturn included a banking crisis. The next downturn may well bring a central banking crisis, as confidence in fiat money could be lost.