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

Long term stability necessitates a reduction of debt. The current path of rising debt destabilizes the economy by increasing the chance of a debt-induced recession, blocking a stimulus package, and ultimately hindering economic growth.

C1: Recessions

The national debt is skyrocketing to unsustainable levels. Davenport of the Hoover Institution, writing in Forbes finds in 2018 that (QUOTE)"**We are creating our own bed of instability when the government spends a lot more than it takes in (nearly $1 trillion this year), and one day the bed will begin to collapse"**[1] (UNQUOTE)

Critically, the only thing ensuring the debt doesn't have adverse effects on the economy is Foreign Investment, since a large percentage of our debt is held by foreign countries. Goodkind of Newsweek finds in 2018 that (QUOTE) "**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."[2] (UNQUOTE)

However, continuing with the status quo and not addressing the debt issue causes a debt selloff because of perceived Instability

As debt continues to rise, foreign banks are becoming concerned that we can't pay them back. Without voting pro and addressing the debt, these foreign investors will sell it off, as Tully 2018 of Fortune finds that (QUOTE) "**One danger is that foreign investors, alarmed both by our crushing debt and the absence of plans to tame it, could dump our Treasuries, pushing interest rates higher"**[3] (UNQUOTE)

A debt sell off would cause a recession because it would make it impossible to take on more debt to finance programs, and cause concerns about the instability of the US economy, making investors pull out of markets. That is why Goodkind previously cited explains that (QUOTE) "**Just like the quick sell-off of**

[1] Davenport 2018 (David Davenport, fellow at the Hoover Insitution, "Five Reasons Why You Should Worry About The Federal Debt", *Forbes*, February 28th 2018, https://www.usatoday.com/story/news/politics/2018/10/16/government-spending-how-rising-federal-debt-deficit-impact-americans/1589889002/. DOA: November 25th 2018) TG

[2] Goodkind 2018 (Nicole Goodkind is a political reporter with a focus on Congress "U.S. DEBT IS GROWING AND FOREIGNERS ARE BUYING LESS: HERE'S WHY THAT COULD BE DISASTROUS FOR THE ECONOMY", *Newsweek*, May 2nd 2018, https://www.newsweek.com/trump-tax-cuts-debt-china-907763. DOA: November 25th 2018) TG

[3] Tully 2018 (Shawn Tully, Senior Editor-at-Large for Fortune, "How Debt Could Blow Up the Trump Economy", Fortune, March 15th 2018, http://fortune.com/2018/03/15/us-national-debt-trump-tax-cuts/. DOA: November 25th 2018) TG

housing debt led, in part, to the financial crisis of 2008, "a sell-off of debt could cause financial crisis," said Goldwein.**."[4]** (UNQUOTE).

There are 2 impacts:

1. Global Poverty

US recessions often spread to the rest of the world, as Kose of the World Bank, writing in Vox EU in 2017 finds (QUOTE) "Although it is difficult to establish empirically whether the US economy leads business and financial cycle turning points in other economies, **recent research indicates that the US appears to influence the timing and duration of recessions in many major economies** (Francis et al. 2015).[5] (UNQUOTE).

The last recession sent millions of people into poverty, as Verick 2010 of the International Labor Office quantifies that (QUOTE) "In comparison, **the World Bank estimates that the Great Recession** of 2008-2009 has **resulted in an increase in poverty of 64 million people** (by 2010) (World Bank 2010)."[6] (UNQUOTE)

2. Recession Recovery

The primary way in which countries come back from recessions is a stimulus package, in which the government borrows money to fund job creating programs like infrastructure development. Gimein of Time Money in 2016 finds that (QUOTE) **"**In Blinder and Zandi's analysis—Blinder is a Democrat, Zandi a Republican and former adviser to John McCain's campaign—**the fiscal stimulus reduced the unemployment rolls by as much as 3 million** and kept the economy from contracting around 2%. Overall role: Substantial.**"[7]** (UNQUOTE)

Problematically, high debt crowds out recession recovery through limiting Borrowing capacity. Since foreign investors no longer want to buy our debt, we cannot borrow when the economy tanks. For that reason, Panetta, Chairman of The Panetta Institute for Public Policy 2018 finds (QUOTE) "**Growing interest payments and rising debt could** weaken U.S. international leadership and **mean less fiscal space to** protect the country, make important investments, fund new priorities, or **respond to the next recession, crisis, or emergency**.[8] (UNQUOTE)

---

[4]Goodkind 2018 (Nicole Goodkind is a political reporter with a focus on Congress "U.S. DEBT IS GROWING AND FOREIGNERS ARE BUYING LESS: HERE'S WHY THAT COULD BE DISASTROUS FOR THE ECONOMY", *Newsweek*, May 2nd 2018, https://www.newsweek.com/trump-tax-cuts-debt-china-907763. DOA: November 25th 2018) TG

[5]**Kose et al 17** (M. Ayhan Kose et al, World Bank Director Development Prospects Group, 2-27-2017, "Understanding the global role of the US economy," No Publication, https://voxeu.org/article/understanding-global-role-us-economy DOA 11/29/18) MDS

[6]Verick 2010 (Sher Verick at the International Labour Office (ILO) and IZA, Iyanatul Islam at the International Labour Office (ILO) and Griffith University, "The Great Recession of 2008-2009: Causes, Consequences and Policy Responses", *IZA*, May 2010, http://ftp.iza.org/dp4934.pdf. DOA: June 19th 2018) TG

[7]**Gimein 16** (Mark Gimein, writer for Time Money, 1-13-2016, "Who Really Dug Us Out of the Great Recession?," Money, http://time.com/money/4176949/who-really-dug-us-out-of-the-great-recession/ DOA 12/3/18) MDS

[8]**Amadeo 18** (Kimberly Amadeo, 20 years senior-level corporate experience in economic analysis and business strategy. She received an M.S. in Management from the Sloan School of Business at M.I.T., 11-23-2018, "The Difference Between the Deficit Versus the Debt," Balance, https://www.thebalance.com/deficit-vs-debt-how-they-affect-each-other-and-economy-3305779 DOA 11/26/18) MDS

Contention 2 is Private Investment.

Government debt is driven by government spending, and higher government spending directly trades off with more-productive private investment when the economy is doing well.
Mitchell and Debnam of the Mercatus center write in 2010, quote: **"The resources that government spends must be obtained from the private sector through borrowing or taxation."**
Unquote.

When the economy is doing well, they find that quote Moreover, **when government borrows, competition in the market for loanable funds increases, raising the price of borrowing,** or the interest rate, **for private investors. For firms, this means an increase in the cost of doing business. Companies and projects that would have otherwise been profitable are no longer able to be so** at the higher interest rate.
Unquote.

Tom Rogan, senior fellow at the Steamboat institute, explains the well-known reality in 2017 that quote: **government is manifestly less productive than the private sector. It wastes a lot of money on things that do not boost economic productivity.** Unquote. For example, the government spends most of its money on entitlements and interest payments, none of which increase economic growth whatsoever. Because the private sector would have used these resources better in these good economic times, Nobel prize winning economist Paul Krugman explains that quote
But running big deficits is no longer harmless, let alone desirable. The way it was: **Eight years ago, with the economy in free fal**l, I wrote that **we had entered an era of "depression economics," in which the usual rules of economic policy no longer applied**, in which virtue was vice and prudence was folly. In particular, **deficit spending was essential to support the economy**, and attempts to balance the budget would be destructive. **This diagnosis — shared by most professional economists** — didn't come out of thin air; it **was based on well-established macroeconomic principles.** Furthermore, the predictions that came out of those principles held up very well. In the depressed economy that prevailed for years after the financial crisis, government borrowing didn't drive up interest rates, money creation by the Fed didn't cause inflation, and nations that tried to slash budget deficits experienced severe recessions. But **these predictions were always** conditional, **applying only to an economy far from full employment.** That was the kind of economy President Obama inherited; **but** the **Trump**-Putin administration **will**, instead, **come into power at a time when full employment has been more or less restored**. How do we know that we're close to full employment? The low official unemployment rate is just one indicator. What I find more compelling are two facts: Wages are finally rising reasonably fast, showing that workers have bargaining power again, and the rate at which workers are quitting their jobs, an indication of how confident they are of finding new jobs, is back to pre-crisis levels. **What changes once we're close to full employment? Basically, government borrowing once again competes with the private sector for a limited amount of money. This means that deficit spending no longer provides much if any economic boost, because it drives up interest rates and "crowds out" private investment**. Now, government borrowing can still be justified if it serves an important purpose: Interest rates are still very low, and borrowing at those low rates to invest in much-needed infrastructure is still a very good idea, both because it would raise productivity and because it would provide a bit of insurance against future downturns. But while candidate Trump talked about increasing public investment, there's no sign at all that congressional Republicans are going to make such investment a priority. No, they're going to blow up the deficit mainly by cutting taxes on the wealthy. And that won't do anything significant to boost the economy or create jobs. In fact, **by crowding out investment it will** somewhat **reduce long-term economic growth**. Meanwhile, it will make the rich richer, even as cuts in social spending make the poor poorer and undermine security for the middle class. But that, of course, is the intention. Again, none of this implies an economic catastrophe. If such a catastrophe does come, it will be thanks to other policies, like a rollback of financial regulation, or from outside events like a crisis in

China or Europe. And because stuff does happen, and a lot depends on how the U.S. government responds when it does, we should be concerned that the incoming administration only seems to take economic advice from people who have consistently been wrong about, well, everything. But back to deficits: the crucial point is not that Republicans were hypocritical. It is, instead, that their hypocrisy made us poorer. They screamed about the evils of debt at a time when bigger deficits would have done a lot of good, and are about to blow up deficits at a time when they will do harm.

Our misguided decision to continue running up the deficit even in good economic times has dramatically reduced our economic potential. Regarding out debt to GDP ratio, Amadeo of the Balance writes in 2018 quote, **The World Bank compares countries based on their total debt-to-gross domestic product ratio. It considers a country to be in trouble if that ratio is greater than 77 percent. The U.S. ratio is already 101 percent.**
Unquote.
Crucially, she concludes
A study by the World Bank found that if the debt-to-GDP ratio exceeds 77 percent for an extended period of time, it slows economic growth. Every percentage point of debt above this level costs the country 1.7 percent in economic growth. The first sign of trouble is when interest rates start to rise significantly.

Bolstering *long term* growth is crucial in the fight against poverty, as Ferrara of the National Center for Policy Analysis **Sustained, rapid economic growth is also the ultimate solution to poverty, as after a couple of decades or so of such growth, the poor would climb to the same living standards as the middle class of today.**

High debts set the market up for a collapse due to increased instability

Davenport 2018 (David Davenport, fellow at the Hoover Institution, “Five Reasons Why You Should Worry About The Federal Debt”, *Forbes*, February 28th 2018, https://www.usatoday.com/story/news/politics/2018/10/16/government-spending-how-rising-federal-debt-deficit-impact-americans/1589889002/. DOA: November 25th 2018) TG

Second, an economic reckoning will come from the explosive growth in federal spending and debt. *No one really knows how much federal debt is too much. Unfortunately some kind of major economic correction will be the signal that we have gone too far. Other countries will quit buying our debt, or will discount it heavily. The stock and bond markets will lose confidence in our reckless fiscal policy and send prices plunging. We are creating our own bed of instability when the government spends a lot more than it takes in (nearly $1 trillion this year), and one day the bed will begin to collapse.* Third, spending today and putting it on the tab of the next generation is immoral. Baby Boomers have already made a huge generational transfer of the costs of college, weighing their children down with decades of student debt. Now we are also asking them to pay for our Social Security and Medicare benefits, along with the cost of our collapsing infrastructure and our national defense. Presidents Calvin Coolidge and Herbert Hoover of the 1920s understood that public debt was a moral question, but today it’s just a tool of economic policy. It’s a way to open the faucet and try to get more bounce in the economy. But the tab goes forward to our children in a way that is simply wrong.

Foreign debt ownership is on the decline

Goodkind 2018 (Nicole Goodkind is a political reporter with a focus on Congress "U.S. DEBT IS GROWING AND FOREIGNERS ARE BUYING LESS: HERE'S WHY THAT COULD BE DISASTROUS FOR THE ECONOMY", *Newsweek*, May 2nd 2018, https://www.newsweek.com/trump-tax-cuts-debt-china-907763. DOA: November 25th 2018) TG

America 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.

Foreign debt ownership is on the decline

Goodkind 2018 (Nicole Goodkind is a political reporter with a focus on Congress "U.S. DEBT IS GROWING AND FOREIGNERS ARE BUYING LESS: HERE'S WHY THAT COULD BE DISASTROUS FOR THE ECONOMY", *Newsweek*, May 2nd 2018, https://www.newsweek.com/trump-tax-cuts-debt-china-907763. DOA: November 25th 2018) TG

America 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.

High debts could limit foreign investments and force US companies to pull back

Tully 2018 (Shawn Tully, Senior Editor-at-Large for Fortune, “How Debt Could Blow Up the Trump Economy”, *Fortune*, March 15th 2018, http://fortune.com/2018/03/15/us-national-debt-trump-tax-cuts/. DOA: November 25th 2018) TG

Rather than celebrating, Cote warns, CEOs should be planning for an ultra-risky future where the worsening financial climate could cut deep into their profits. *One danger is that foreign investors, alarmed both by our crushing debt and the absence of plans to tame it, could dump our Treasuries, pushing interest rates higher*. “A one point rise in rates adds $200 billion every year to the debt,” says Cote. *A jump in yields would also raise the threshold at which new investments become profitable, forcing companies to retrench. Corporate leaders may also fret that the only solution to our debt woes is a jolting rise in taxes. “That would have a huge impact on how businesses view the investment climate,” Cote says. “Companies will get worried and pull back on investment and wait and see.” But to wait and see, he predicts, is to court stagnation and deterioration. That kind of stasis would turn the good economic news of President Trump’s first year into a short story.*

A sell off of debt could cause a financial crisis

Goodkind 2018 (Nicole Goodkind is a political reporter with a focus on Congress “U.S. DEBT IS GROWING AND FOREIGNERS ARE BUYING LESS: HERE’S WHY THAT COULD BE DISASTROUS FOR THE ECONOMY”, *Newsweek*, May 2nd 2018, https://www.newsweek.com/trump-tax-cuts-debt-china-907763. DOA: November 25th 2018) TG

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.” There is also worry that China, the largest foreign holder of U.S. bonds, may put additional pressure on the U.S. in the face of President Donald Trump’s threats of a trade war*. Last month Cui Tiankai, Chinese ambassador to the U.S., told Bloomberg that China had not ruled out scaling back purchases of American debt as retaliation. China currently has about $1.8 trillion in American holdings.

US recessions are always connected to global recessions, with recent research concluding there is a causal link

Kose et al 17 (M. Ayhan Kose et al, World Bank Director Development Prospects Group, 2-27-2017, "Understanding the global role of the US economy," No Publication, https://voxeu.org/article/understanding-global-role-us-economy DOA 11/29/18) MDS

Because of its size and interconnectedness, developments in the US economy are bound to have important effects around the world. The US has the world's single largest economy, accounting for almost a quarter of global GDP (at market exchange rates), one-fifth of global FDI, and more than a third of stock market capitalisation. It is the most important export destination for one-fifth of countries around the world. The US dollar is the most widely used currency in global trade and financial transactions, and changes in US monetary policy and investor sentiment play a major role in driving global financing conditions (World Bank 2016).¶ At the same time, the global economy is important for the US as well. Affiliates of US multinationals operating abroad, and affiliates of foreign companies located in the US account for a large share of US output, employment, cross-border trade and financial flows, and stock market capitalisation. Recent studies have examined the importance of global growth for the US economy (Shambaugh 2016), the global impact of changes in US monetary policy (Rey 2013), or the global effect of changing US trade policies (Furman et al. 2017, Crowley et al. 2017).¶ It is likely that there will be shifts in US growth, monetary and fiscal policies, as well as uncertainty in US financial markets. What will be the global spillovers? Our recent work (Kose et al. 2017) attempts to answer these questions:¶ How synchronised are US and global business cycles?¶ How large are global spillovers from US growth and policy shocks?¶ How important is the global economy for the US?¶ How synchronised are US and global business cycles?¶ Business cycles in the US, other advanced economies (AEs), and emerging market and developing economies (EMDEs) have been highly synchronous (Figure 1.A). This partly reflects the strength of global trade and financial linkages of the US economy with the rest of the world, but also that global shocks drive common cyclical fluctuations. This was particularly the case at the time of the 2008-09 Global Crisis. It is not a new phenomenon, however. Although **the four recessions the global economy experienced since 1960** (1975, 1982, 1991, and 2009) were driven by many problems in many places, they **all** *overlapped with severe recessions in the US* (Kose and Terrones 2015).¶ **Other countries tend to be in the same business cycle phase as the US roughly 80% of the time** (Figure 1.B). The degree of synchronisation with US financial cycles is slightly lower, but still significant – credit, housing, and equity price cycles are in the same phase about 60% of the time. Although it is difficult to establish empirically whether the US economy leads business and financial cycle turning points in other economies, **recent research indicates that the US appears to influence the timing and duration of recessions in many major economies** (Francis et al. 2015).

Millions went into poverty because of the recession

Verick 2010 (Sher Verick at the International Labour Office (ILO) and IZA, Iyanatul Islam at the International Labour Office (ILO) and Griffith University, "The Great Recession of 2008-2009: Causes, Consequences and Policy Responses", *IZA*, May 2010, http://ftp.iza.org/dp4934.pdf. DOA: June 19th 2018) TG

In addition to this phenomenon, during 2007 and the early part of 2008, many developing countries were buffeted by food and energy price shocks that impaired the fiscal and current balances of the affected economies, led to food riots and protests in many countries and pushed millions into poverty.14 This process was also an outcome of the global boom and the surging demand for goods in China, India and other fast-growing emerging economies. This situation was more pronounced for the non-oil or mineral exporters, but even within countries benefiting from the commodity bonanza, the poor were suffering from skyrocketing inflation without seeing much of the returns from the exports. The 2007-2008 food and energy price shocks appears to have pushed more than 100 million people in the developing world into transient episodes of poverty.15 In comparison, *the World Bank estimates that the Great Recession of 2008-2009 has resulted in an increase in poverty of 64 million people* (by 2010) (World Bank 2010). The food and oil crisis was (and is), therefore, arguably a much greater concern for low and middle-income countries than the global financial crisis that affected rich, highly globalized economies more severely

Congress passed a bill that spent $800b to stimulate the economy and it really helped minimize the effect of the recession

Gimein 16 (Mark Gimein, writer for Time Money, 1-13-2016, "Who Really Dug Us Out of the Great Recession?," Money, http://time.com/money/4176949/who-really-dug-us-out-of-the-great-recession/ DOA 12/3/18) MDS

Congress, with a new Democratic majority, **passed the 2009 stimulus bill**—**more formally known as the American Recovery and Reinvestment Act**—less than 30 days after taking office. **The Act provided for roughly $800 billion in government spending** (most of it) **and tax cuts** (less) **to jumpstart the economy**. Though this was generally seen as a "stimulus" bill, really it was as much about creating a safety net as a stimulus. Infrastructure spending was certainly in there, but **the single biggest category of increased spending** (you can see this analysis by economists Alan Blinder and Mark Zandi) **was for expanded unemployment insurance**, to the tune of about $54 billion a year. Meanwhile, the tax cut part was smaller than you might think; of the cuts, $69 billion came from tweaking the alternative minimum tax, a pretty standard adjustment that would have been done anyway. So the Act was driven by Democratic priorities, passed in a close-to-party-line vote, and overall achieved most of what was promised. In Blinder and Zandi's analysis—Blinder is a Democrat, Zandi a Republican and former adviser to John McCain's campaign—**the fiscal stimulus reduced the unemployment rolls by as much as 3 million and kept the economy from contracting around 2%. Overall role: Substantial.**

Deficit spending helps the economy in the short term by stimulating growth, but hurts the economy in the long term

Amadeo 18 (Kimberly Amadeo, 20 years senior-level corporate experience in economic analysis and business strategy. She received an M.S. in Management from the Sloan School of Business at M.I.T., 11-23-2018, "The Difference Between the Deficit Versus the Debt," Balance, https://www.thebalance.com/deficit-vs-debt-how-they-affect-each-other-and-economy-3305779 DOA 11/26/18) MDS

Initially, deficit spending and the resultant debt boost economic growth, especially in a recession. Deficit spending pumps liquidity into the economy. Whether the money goes to jet fighters, bridges, or education, **it ramps up production and creates jobs.** Not every dollar creates the same number of jobs. For example, military spending creates 8,555 jobs for every $1 billion spent. That's less than half the jobs created by $1 billion spent on construction. For that reason, the military is not the best unemployment solution. **In the long run, debt can damage the economy because of higher interest rates.** Other issues occur if the U.S. government lets the value of the dollar fall. One effect is that the debt repayment will be in cheaper dollars. As this happens, foreign governments and investors become less willing to buy Treasury bonds, which forces interest rates even higher. Rising debts and deficits may endanger Social Security. As the government devotes more of its revenues to pay the mandatory cost of Social Security, it has less money on hand to stimulate the economy, which can further slow growth.

Ideally, we run a surplus during booms and deficits during busts, and borrowing could crowd out private sector spending

Mitchell and Debnam 2010 (Matthew D. Mitchell Director of the Equity Initiative at the Mercatus Center, and Jakina R. Debnam, fellow at the Mercatus Center, "In the Long Run, We're All Crowded Out", *Mercatus Center*, September 2010, https://www.mercatus.org/publication/long-run-we-re-all-crowded-out. DOA: January 2nd 2019) TG

The Keynesian Solution: Run a Deficit ***The short-run stimulative impact of government spending is a topic of intense academic and political debate***. Those who ascribe to a Keynesian view of the economy argue that government spending can provide a powerful boost to economic growth; others argue that government spending has a relatively weak stimulative effect.2 ***The resources that government spends must be obtained from the private sector through borrowing or taxation***.3 ***If the private sector would have otherwise employed these resources, then government spending creates a cost that must be weighed against whatever benefit comes from spending***. Typically, Keynesians acknowledge the economic costs of taxation and therefore do not think stimulus spending should be financed with taxes.4 Instead, the Keynesian prescription is for government to borrow money and to run deficits during an economic downturn. Then, once the economy begins to grow again, Keynesians counsel surpluses to pay for the debt that was accumulated during the recession. The Keynesian economist Brad DeLong puts it this way***: We want to run a budget that is in surplus during boom, in deficit during recession, that borrows in order to fund investments that benefit the future, and that runs surpluses and pays down debt in order to fund future expenditures that benefit today's taxpayers. Indeed, deficit-financed spending has been policy makers' tool of choice during the most recent recession***.6

The government competes with firms for investment, meaning there can be a tradeoff

Mitchell and Debnam 2010 (Matthew D. Mitchell Director of the Equity Initiative at the Mercatus Center, and Jakina R. Debnam, fellow at the Mercatus Center, "In the Long Run, We're All Crowded Out", *Mercatus Center*, September 2010, https://www.mercatus.org/publication/long-run-we-re-all-crowded-out. DOA: January 2nd 2019) TG

How Does Crowding Out Happen? *Government borrowing can crowd out private spending and investment in a number of ways. Consider first the most-extreme case in which government borrowing has the exact same effect on the economy as government taxation. Borrowed money must eventually be paid back. And because of this, some taxpayers may view government borrowing as delayed taxation. If so, these taxpayers will spend less today to save in anticipation of paying higher taxes in the future*. Accordingly, deficit-financed spending is equivalent totax-financed spending: it induces people to spend less and save more.11 In the extreme version of this theory, there is 100 percent crowding out: households and firms reduce their current consumption and investment by the full amount of the borrowed money. In this sense, government cannot stimulate the economy by borrowing and spending. *Though there is little empirical evidence for the extreme version of this theory in which deficit-financed spending is 100 percent crowded out by private reductions in consumption, few economists endorse the opposite extreme that there is zero crowding o*ut.*12 When government borrows to finance its spending, it competes with private entrepreneurs who are borrowing to finance their own activities. Capital used by the government is capital that cannot be used by private businesses. Moreover, when government borrows, competition in the market for loanable funds increases, raising the price of borrowing, or the interest rate, for private investors*. For firms, this means an increase in the cost of doing business. Companies and projects that would have otherwise been profitable are no longer able to be so at the higher interest rate.13 *Lastly, borrowing may have longer-term effects on the nation's capital stock, and through that, on its future national income.* This can happen when increased borrowing is financed in part or in whole by international capital inflows (foreign lending). In this case, domestic production may not decline in the short run and interest rates may not increase in the short run. But because the nation must eventually repay its foreign debts, future national income is less than it otherwise would be.14

Government spending can trade off with growth if it hurts the private sector

Mitchell and Debnam 2010 (Matthew D. Mitchell Director of the Equity Initiative at the Mercatus Center, and Jakina R. Debnam, fellow at the Mercatus Center, “In the Long Run, We’re All Crowded Out”, *Mercatus Center*, September 2010, https://www.mercatus.org/publication/long-run-we-re-all-crowded-out. DOA: January 2nd 2019) TG

What is Crowding Out? *Though the costs of borrowing may be less-conspicuous than the costs of taxing, they are no less real. Economists use the term “crowding out” to refer to the contraction in economic activity associated with deficit-financed spending.*[7] *As a result of crowding out, government spending yields less economic growth and this must be weighed against whatever positive impact results from government spending*.[8] In his General Theory, Keynes himself discussed the potential for crowding out to dominate the growth spurred by government spending.[9] He points out: If, for example, a Government employs 100,000 additional men on public works, and if the multiplier... is 4, it is not safe to assume that aggregate employment will increase by 400,000. For the new policy may have adverse reactions on investment in other directions The method of financing the policy and the increased working cash, required by the increased employment and the associated rise of prices, may have the effect of increasing the rate of interest and so retarding investment in other directions.[10]

Deficit spending was fine and necessary 10 years ago, but now when we have a really good economy, spending doesn't actually do anything and hurts econ growth

Krugman 17 (Paul Krugman, Nobel Prize winning economist and Op-Ed writer for the NTY, 1-9-2017, "Deficits Matter Again," The New York Times, https://www.nytimes.com/2017/01/09/opinion/deficits-matter-again.html DOA 11/29/18) MDS

But running big deficits is no longer harmless, let alone desirable. The way it was: **Eight years ago**, with the economy in free fall, I wrote that we had entered an era of "depression economics," in which the usual rules of economic policy no longer applied, in which virtue was vice and prudence was folly. In particular, **deficit spending was essential to support the economy**, and attempts to balance the budget would be destructive. This diagnosis — shared by most professional economists — didn't come out of thin air; it was based on well-established macroeconomic principles. Furthermore, the predictions that came out of those principles held up very well. **In the depressed economy** that prevailed for years after the financial crisis, **government borrowing didn't drive up interest rates, money creation** by the Fed **didn't cause inflation**, and nations that tried to slash budget deficits experienced severe recessions. But these predictions were always conditional, applying only to an economy far from full employment. That was the kind of economy President Obama inherited; **but the Trump-Putin administration will, instead, come into power at a time when full employment has been more or less restored**. How do we know that we're close to full employment? The low official unemployment rate is just one indicator. What I find more compelling are two facts: Wages are finally rising reasonably fast, showing that workers have bargaining power again, and the rate at which workers are quitting their jobs, an indication of how confident they are of finding new jobs, is back to pre-crisis levels. What changes once we're close to full employment? Basically, government borrowing once again competes with the private sector for a limited amount of money. **This means that deficit spending no longer provides much if any economic boost, because it drives up interest rates and "crowds out" private investment**. Now, government borrowing can still be justified if it serves an important purpose: Interest rates are still very low, and borrowing at those low rates to invest in much-needed infrastructure is still a very good idea, both because it would raise productivity and because it would provide a bit of insurance against future downturns. But while candidate Trump talked about increasing public investment, there's no sign at all that congressional Republicans are going to make such investment a priority. No, they're going to blow up the deficit mainly by cutting taxes on the wealthy. And that won't do anything significant to boost the economy or create jobs. In fact, **by crowding out investment it will somewhat reduce long-term economic growth**. Meanwhile, it will make the rich richer, even as cuts in social spending make the poor poorer and undermine security for the middle class. But that, of course, is the intention. Again, none of this implies an economic catastrophe. If such a catastrophe does come, it will be thanks to other policies, like a rollback of financial regulation, or from outside events like a crisis in China or Europe. And because stuff does happen, and a lot depends on how the U.S. government responds when it does, **we should be concerned that the incoming administration only seems to take economic advice from people who have consistently been wrong about, well, everything.** But back to deficits: the crucial point is not that **Republicans** were hypocritical. It is, instead, that their hypocrisy made us poorer. They screamed about the evils of debt at a time when bigger deficits would have done a lot of good, and **are about to blow up deficits at a time when they will do harm.**

High debt reduces overall consumption and productivity per the crowd-out effect

The CBO 2018 (The Congressional Budget Office of the United States, well-respected government agency specializing in economic forecasting, "The 2018 Long-Term Budget Outlook", June 2018. https://www.cbo.gov/system/files?file=2018-06/53919-2018ltbo.pdf DoA 12/26/18) JJ

Less National Saving and Lower Income *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.

1. **Turn – High government spending hurts economic growth.**

Rogan 17 (Tom Rogan, senior fellow with the Steamboat Institute, writes for the Guardian, June 30, 2017, "Here's why the national deficit is bad for you," Washington Examiner, https://www.washingtonexaminer.com/heres-why-the-national-deficit-is-bad-for-you DOA 11/29/18) MDS

The federal deficit is a problem that matters. Most of the time, when we hear "the deficit is a problem," it comes without supporting facts. We simply apply the same rationale as we would with our household expenditures. Namely, that if we spend too much, we're going to have a problem. We'll have to pay back our overspend with interest, and correspondingly we'll have less money to spend on things we need in the future. To some degree, the household example bears similarity to the fiscal considerations of national deficit and debt. It's just much more serious at the national level. Where we, as individuals, can make prudent financial choices to mitigate our personal debts, uncontrolled government deficits affect all of us. Here's why the national deficit matters for Americans. First off, there's the interest rate issue. On paper, because U.S. interest rates are historically low, this would seem to be a good time for government to borrow money for investments. President Trump often makes that case. And even at the lower end of projections, medium term U.S. economic growth significantly exceeds the cost of borrowing. That means current interest rates should be easily offset by future economic growth. Correspondingly, current government borrowing should pay for itself. But there's a catch: That argument assumes government borrowed money will be spent boosting the economic potential of the nation. It's a big assumption. After all, *government is manifestly less productive than the private sector. It wastes a lot of money on things that do not boost economic productivity.* **Moreover, interest rates are not static, and as long as the government runs deficits, anything borrowed at today's rates will be refinanced at tomorrow's. The Federal Reserve believes its quantitative easing has lowered long term borrowing interest rates by about 1 percent. But as the Federal Reserve unwinds that borrowing, interest rates will rise. The Congressional Budget Office gives some context as to why this matters. Last summer, the CBO projected that if current spending plans hold firm, net interest payments on the debt will more than quadruple in relation to the economy, from 1.4 percent of GDP today to 5.8 percent of GDP in 2046. As I've noted, "To put that in perspective, had the U.S. spent an extra 4.4 percent GDP on debt service in 2015, it would have added $790 billion to the federal budget deficit." By 2026, just nine years from now, the CBO projects government interest rate payments will double as a percentage of GDP. That amounts to hundreds of billions of additional dollars spent simply on paying off debt interest. That's money that cannot be spent on education, highways, the military, or any other government priority. And that's just the start. Another problem is that as deficits and interest payments rise, national saving declines. And that decline means reduced private investment opportunity. If we accept, as the vast majority of economists do, that effective investment is the key to boosting productivity and thus wages and living standards, the debt's role in crowding out investment is a big problem. Then there's the issue of the dollar as the world's reserve currency. At present, foreign entities hold around 40 percent of all publicly held Federal debt (that is, not counting the IOUs held in Social Security and other entitlement program trust funds). But as the deficit grows and we avoid resolving its cost drivers (an aging population joined to unaffordable entitlements), American debt will become more risky to hold. This week we got more bad news in this regard. We found out that the nation's birth rate is also declining. That means fewer workers to pay for more elderly citizens. As the prospect of a default grows — even if it remains remote — foreign investors will abandon the dollar. And the consequence will be an immediate and serious decline in the wealth of American families. Don't believe me? Consider what Brexit has done to the British pound. Just before Brexit, one British pound was worth $1.49. Today, one British pound is worth just $1.30. In dollar terms, Britons are now 13 percent less wealthy than prior to Brexit. How would you feel if you were 13 percent poorer? The deficit and the debt matter. If we wish to leave a better nation to our children, we need to get a grip and reduce long-term spending.**

Our ratio is 101 %

Amadeo 2018 (Kimberly Amadeo, 20 years senior-level corporate experience in economic analysis and business strategy. She received an M.S. in Management from the Sloan School of Business at M.I.T., 10-23-2018, "Trump and the National Debt", *Balance*, https://www.thebalance.com/trump-plans-to-reduce-national-debt-4114401, Accessed 01/07/2018) IW

But sovereign debt is different. **The World Bank compares countries based on their total debt-to-gross domestic product ratio. It considers a country to be in trouble if that ratio is greater than 77 percent. The U.S. ratio is already 101 percent.** That's $19 trillion in debt divided by $18 trillion GDP. **So far, it hasn't discouraged investors. America is the safest economy in the world. That's because it has the largest free market economy. Its currency is the world's reserve currency. Even during a U.S. economic crisis, investors purchase U.S. Treasurys in a flight to safety**. That's one reason why interest rates plunged to 200-year lows after the financial crisis. Those falling interest rates meant America's debt could increase, but interest payments remained stable at around $266 billion.

Every % slows down growth by 1.7% and deficit spending fails

Amadeo 2018 (Kimberly Amadeo, 20 years senior-level corporate experience in economic analysis and business strategy. She received an M.S. in Management from the Sloan School of Business at M.I.T., 10-23-2018, "Trump and the National Debt", *Balance*, https://www.thebalance.com/trump-plans-to-reduce-national-debt-4114401, Accessed 01/07/2018) IW

The national debt doesn't affect you directly until it reaches tipping point. A study by the World Bank found that **if the debt-to-GDP ratio exceeds 77 percent for an extended period of time, it slows economic growth. Every percentage point of debt above this level costs the country 1.7 percent in economic growth. The first sign of trouble is when interest rates start to rise significantly. That's because investors need a higher return to offset the greater perceived risk. Investors begin to doubt that the debt can be paid off. The second sign is when the U.S. dollar starts to lose value. You will notice that as inflation.** Imported goods will cost more. Gas and grocery prices will rise. Travel to other countries will also become much more expensive. **As interest rates and inflation rises, the cost of providing benefits and paying the interest on the debt will skyrocket. That leaves less money for other services**, like the Justice Department. At that point, the government will be forced to cut services or raise taxes. That will slow economic growth. **At that point, continued deficit spending will no longer work.**

Economic growth makes income inequality irrelevant

Ferrara 2014 (Peter Ferrara, Director of Entitlement and Budget Policy for the Heartland Institute, Senior Advisor for Entitlement Reform and Budget Policy at the National Tax Limitation Foundation, General Counsel for the American Civil Rights Union, and Senior Fellow at the National Center for Policy Analysis. Harvard College and Harvard Law graduate, January 14 2014, "Why Economic Growth Is Exponentially More Important Than Income Inequality", *Forbes*, https://www.forbes.com/sites/peterferrara/2014/01/14/why-economic-growth-is-exponentially-more-important-than-income-inequality/2/#2c237191357d, Accessed 02/12/2018) IW

America would by then have leapfrogged another generation ahead of the rest of the world. **Achieving and sustaining such economic growth should be the central focus of national economic policy, for it would solve every problem that plagues and threatens us today. Such booming economic growth would produce surging revenues that would make balancing the budget so much more feasible. Surging GDP would reduce the national debt as a percent of GDP** relatively quickly, particularly with balanced budgets not adding any further to the debt. **Sustained, rapid economic growth is also the ultimate solution to poverty, as after a couple of decades or so of such growth, the poor would climb to the same living standards as the middle class of today.**