# SV – Emory AFF v1

#### **Since the resolution doesn’t provide a timeframe of action, but rather poses a question about fiscal policy – the debate should be about the current state of the economy. This means that neither team has to defend that their advocacy is permanent but rather that it is what is needed now in our fiscal climate.**

#### For this reason, we affirm that the United States federal government should prioritize reducing the federal debt over promoting economic growth.

## Our Sole Contention is the 2020 recession

#### Margot Roosevelt argued in December that:

Margot Roosevelt 12-5-18, “UCLA economists predict the U.S. economy will downshift in 2019 and 2020.” The Los Angeles Times, <https://www.latimes.com/business/la-fi-economic-forecast-ucla-20181205-story.html>. Date Accessed 12-5-18 // AO

The United States is “playing with fire” in launching a trade war with China and its economic growth will plummet over the next two years as the stimulus of tax cuts and spending increases wanes and interest rates rise, according to a new forecast from the UCLA Anderson School of Management. “The economy is in the process of downshifting from the 3% growth in real GDP this year to 2% in 2019 and 1% in 2020,” warned senior economist David Shulman, author of the group’s national forecast. And President Trump’s repeated predictions that the economy will grow at 4% to 6%? “It's not going to happen,” Shulman said. “We think it is going to slow a lot more than what the president’s people are saying. “Typically administrations — whether they’re Republican or Democratic — are more optimistic than other forecasters. But the Trump administration has exaggerated more than other administrations.” Along with a shrinking gross domestic product, job growth is likely to sink from the 190,000 average monthly gain this year to 160,000 a month next year, and a far weaker 40,000 a month in 2020, according to the UCLA outlook. Unemployment is predicted to decline to 3.5% for most of 2019, from the current 3.7%, then gradually grow to 4% by the end of 2020. UCLA’s quarterly report, one of the most widely watched economic outlooks for California and the nation, will be presented Wednesday at a campus conference featuring financial experts from industry and academia. The forecast, while more bearish than some, Shulman noted, roughly correlates with other private economists’ assessments. “Growth is likely to slow significantly next year,” Goldman Sachs said in its 2019 outlook, issued last month. “We expect tighter financial conditions and a fading fiscal stimulus to be the key drivers of the deceleration.” J.P. Morgan’s economic update this month warned of several risks. “Trade tensions may result in a slowdown in global growth,” it said. “The Federal Reserve may tighten monetary policy too aggressively. Weak labor force growth could hinder economic growth in the future.” The forecast’s California section, drafted by economists Jerry Nickelsburg and William Yu, predicts the state’s unemployment rate will rise to an average of 4.5% in 2020, from 4.1% last month. Payroll growth is expected to slow from 2% this year to 1.5% next year and 0.9% in 2020. “We are at full employment, so we are running out of workers,” Nickelsburg said. “You don’t have a large pool of unemployed people to draw on.” And the fact that payroll employment is growing faster than the labor force may mean that companies are converting contract workers into payroll employees to retain them, he added. California’s personal income growth, adjusted for inflation, is forecast to be in the upper 3% range in 2019 and will cool to just below 3% in 2020. Home building will accelerate to about 140,000 units annually by the end of the forecast horizon in 2020, from 125,100 this year. Shulman, a former managing director at Lehman Bros. and a former Salomon Bros. research director and equity strategist, sees “financial turbulence ahead” for Wall Street. “The recent volatility in stock prices appears to signal that the era of benign financial markets we have been used to for the past several years is coming to an end,” he wrote. The most serious risks? “Over-leveraged corporations and escalating trade tensions, especially with China,” he said. “While the zero and low-interest rate policy of the Federal Reserve helped pull the economy out of the Great Recession and later stimulated growth, it induced corporations to leverage up,” or take on debt. “For example, AT&T borrowed $190 billion to finance its acquisitions of Time Warner and DirecTV. And AT&T was far from alone, with such debt-financed acquisitions made by Bayer, Verizon Communications, Abbott Laboratories, Walgreens Boots Alliance, CVS and Broadcom.” The debt-financed buying spree “has the potential to trigger the next recession,” Shulman said. “Note that the last three recessions had their origins in the financial markets. The 1990 recession was caused by overzealous lending in commercial real estate and the overbuilding of shopping centers. In 2001, it was too much stock-market exuberance in technology and telecom shares. In 2007, it was the mortgage market. This time the issue is corporate credit.” Trump can take credit for a booming economy this year, Shulman said, “but we are going to pay for it with deficits of trillions of dollars as far as the eye can see. The stimulus of tax cuts and spending increases was overdone and its effects will wane next year. The whole economy will pay for it with higher debt service on the deficit.” On the trade front, he added, “Trade wars have a way of escalating. A tariff war means slower growth and higher prices, which is a formula for stagflation. It is not a happy picture, and it can end with inflation and recession.”

#### These recessions are an inevitable part of the business cycle as the CFRB writes in 2016 that

Committee for a Responsible Federal Budget, 9-7-2016, “Running on Empty? Fiscal Space and the next Recession”, <http://www.crfb.org/papers/running-empty-fiscal-space-and-next-recession>, Date Accessed 12-10-2018 // SDV

Since 1970, there has been a recession every 5 1/2 years on average. Though it is impossible to predict the timing of the next recession, the fact that one has not occurred in the last 7 [10] years suggests one is likely on the horizon. Unless there is a dramatic reduction in debt, we will enter the next recession with the highest debt level in nearly 70 years (and higher than any time prior to World War II). This has led to [legitimate concerns](https://www.brookings.edu/events/are-we-ready-for-the-next-recession/) about the available “fiscal space” in the United States, or the federal government’s financial capacity to respond to emergencies. While there is not a single definition of fiscal space and it is impossible to know the precise amount, the United States clearly has less fiscal space today than it did a decade ago and is projected to have less in the years to come. As a result, the United States is more poorly equipped to handle the next recession than it was to handle the most recent one. This reality is even more troubling because the Federal Reserve has [less monetary space](http://www.federalreserve.gov/newsevents/speech/fischer20160103a.htm) due to already-low interest rates and a very large Federal Reserve balance sheet. Our simulations show that in ten years, a recession could lift debt levels to within 8 to 17 percentage points of GDP of the country’s all-time record high debt levels set after World War II, leaving less capacity for fiscal stimulus than was available during the Great Recession. In order to create the necessary fiscal space, policymakers should enact an agenda that slows the growth of federal debt while accelerating economic growth.

#### However in our current time of economic growth, Financial Times indicates that it’s NOW the time to prioritize reducing our debt. They argue that the latest:

Financial Times, 4-19-2018, "A wasted opportunity to reduce government debt," Financial Times, https://www.ft.com/content/5b1c2ef6-43d1-11e8-803a-295c97e6fd0b, Date Accessed 1-25-2019 // JM

A decade after the global financial crisis and the world has loaded up on debt again. That is the worried tone of a report launched this week by the IMF, which said that public and private sectors together were now the equivalent of 12 per cent of gross domestic product deeper in debt than the previous peak in 2009. Given what happened next, it is natural to be concerned. In reality, the picture is a bit more nuanced. The composition of the rise in borrowing gives a little cause for comfort, as does the fact that the ratio of total debt to GDP has now been stable for a couple of years. But the fund is right to argue that now would be an excellent time for those economies with robust growth to consolidate their long-term fiscal positions, not least to put them in a better place to respond if there is another downturn and monetary policy is unable to respond adequately on its own. Sadly, in the case of the world’s largest economy, the authorities are hurtling off in precisely the wrong direction. As the report points out, global debt levels are at historic highs, totalling $164tn or 225 per cent of GDP, the highest ratio since governments borrowed hugely to fund the second world war. By and of itself, that is not necessarily disastrous. Debt relative to income is likely to drift up over time as financial systems become more sophisticated. But the experience of the crisis is that large debt burdens taken on at a time of easy money are sustainable until suddenly they are not. Much of the increase has been driven by governments and non-financial corporations, more easily able to cope with shocks, than by households. This should increase stability. Still, a sharp increase in long-term interest rates would push debt servicing costs higher. For some developing countries, the levels of government debt have themselves become a problem. The number of low-income nations classified by the IMF as in debt distress has doubled from a year ago, with several already facing debt restructuring. The total for middle-income countries is dominated by China, where the ratio of government debt to GDP has increased by more than a third over the past five years. That comes alongside a massive rise in private borrowing. The Beijing authorities continue to face a very difficult balancing act in reducing leverage without tipping the economy into recession. But perhaps the most obvious case for a course correction comes in the advanced economies and particularly the US. Despite being nearly nine years into a recovery, the US Congress and the White House late last year managed to pass a package of tax cuts. Unsurprisingly, given the Republican control of both the executive and the legislature, the measures were aimed largely at corporations and the rich. Although there were positive elements in the package, the overall fiscal impact marks it as an act of folly. To the extent that the tax cuts are spent, they will give an unnecessary procyclical boost to the economy and risk driving interest rates higher. Even if they are not, they will drive the US deficit higher by more than 10 per cent over the coming decade, giving the government that much less room to respond to future recessions with fiscal stimulus. Though economic predictions are always fraught with danger, especially where China is involved, the world does not seem to be teetering on the brink of a debt crisis. But it is all too clear that some of the advanced economies and particularly the US are failing to prepare properly for when the next crash comes. The opportunity of a relatively benign global economic environment is going to waste.

#### Thus, a prioritization of debt reduction is needed WHILE TIME IS STILL LEFT TO DO SO. Shawn Tully explained earlier this month that:

Shawn Tully, 1-5-2019, "America's Disastrous New Normal: A Booming Economy and Soaring Deficits," Fortune, http://fortune.com/2019/01/05/us-economy-deficit-government/, Date Accessed 1-25-2019 // JM

The U.S. is currently experiencing a disastrous “new normal”: [The economy is booming at the same time that government debt and deficits are exploding](http://fortune.com/2018/10/16/republican-campaign-elections-tax-cut-deficit/). That scenario is a radical departure from the normally healthy, self-correcting interplay between economic growth and budget shortfalls—and its likely long-term consequences are worth losing sleep over. In almost every other period in recent history, U.S. deficits have been counter-cyclical. When growth weakens, unemployment rises, so that fewer people are paying taxes. Falling profits shrink revenues from corporate levies, and the government frequently enacts emergency spending measures to recharge the economy. The shrinking tax receipts and temporary outlays swell the deficit. When the economy revives, in contrast, an expanding workforce and a surge in earnings lifts revenues and narrows the budget gap. What’s remarkable is that the countervailing forces have held debt and deficits in a relatively tight range, keeping our fiscal course well outside the danger zone. The gap between outlays and revenues generally fluctuates, from deficits seldom exceeding 4% of GDP to occasional surpluses, so that over the long-term, annual shortfalls have averaged around 2%. The U.S. economy has been able to handle those modest deficits with ease. So long as GDP growth matched or exceeded 2%, federal debt as a share of national income remained constant, or even declined. Today, that trend is reversing. Growth and deficits are moving upward in tandem, something that’s happened only briefly in the past. In 2018, GDP expanded at a robust 3.1%, and the Congressional Budget Office forecasts a decent 2.4% reading for 2019. [Yet the agency predicts that the deficit will jump by 46% to $970 billion in 2020](http://fortune.com/2018/06/27/cbo-report-national-debt-rise-tax-bill-spending/), rising to 4.6% of GDP, and that the shortfall will grow to 7.1% of GDP by 2028 if Congress extends tax reductions that are scheduled to sunset, a likely outcome. A December 13 report from the non-partisan Committee for a Responsible Budget (“[The Deficit Has Never Been This High When the Economy Was This Strong](http://www.crfb.org/blogs/deficit-has-never-been-high-when-economy-was-strong)“) points out that past periods of big deficits were usually accompanied by high unemployment and a large “output gap,” meaning that the economy was operating far below its potential because a big share of the workforce, and swaths of manufacturing capacity, stood idle. The CRFB notes that at the time of the 1992 recession, the unemployment rate was 7.4%, the output gap reached 3.5%, and GDP had contracted slightly the previous year, factors that drove the deficit up to 4.5% of GDP. In 2009, the U.S. had a jobless reading of 8.5%, an output gap of 5.9%, and a no-growth economy that pushed deficits to 9.8% of GDP, a number inflated by a wave of emergency spending. By contrast, today a record-low 3.4% of the workforce is unemployed, the economy is operating above potential, and growth last year exceeded 3%. Yet the deficit is projected to jump from 3.9% this year to 4.6% next year, with higher numbers to come. “Those numbers show that fast growth cannot wash away the deficit, and that deficits will keep getting bigger even at 3% growth,” says Marc Goldwein, CRFB’s senior policy director. What’s really scary, says Goldwein, is that the CBO projects that the rate of U.S. economic expansion will drop below 2% by 2020, and stay in the sub-2% range for the next eight years. As he points out, growth in the range the CBO projects [this] would drive deficits to over $1.5 trillion by 2028, and push the ratio of total outstanding federal debt to GDP to around 100%, an extremely dangerous number.

#### This is why the Peterson Foundation finds in 2018 that:

Peterson Foundation, 2018, "CBO Warns: Fiscal Outlook Remains Unsustainable," , https://www.pgpf.org/analysis/2017/03/as-policymakers-consider-changes-cbo-warns-fiscal-outlook-remains-unsustainable, Date Accessed 1-25-2019 // WS

With federal debt on an unsustainable path, now is the time to make sensible decisions that will improve America’s long-term fiscal outlook. By taking action now, Congress and the President can lay a better foundation for future generations that allows greater investment, promotes stronger economic growth, and assures a more secure safety net. Taking action now would provide time for reforms to be implemented gradually, giving Americans time to adjust to the policy changes. The longer we wait, the more difficult it will be. Under current law, CBO estimates that for federal debt in 2047 to be no higher than its current share of GDP (77%), [right now] we would need to cut noninterest spending or raise revenues by 1.9 percent of GDP per year starting in 2018. However, if we waited 5 years to act, the size of these required reforms would grow by 21 percent.

#### Unfortunately, the alternative to reducing the debt is prioritizing economic growth. This makes recessions worse through interest payments. Shawn Tully indicates in 2018 that:

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 – this evidence was edited for ableist language that we do not condone.

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 [~~harming] 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.”

#### There are two impacts to high interest payments. First is a reduction in government investment. The Peter Peterson Foundation writes in 2018 that

Peter Peterson, 10-10-2018, "The Fiscal &amp; Economic Impact of the National Debt, https://www.pgpf.org/the-fiscal-and-economic-challenge/fiscal-and-economic-impact, Date Accessed 1-3-2019 // WS

Reduced Public Investment. As the federal debt increases, the government will spend more of its budget on interest costs, increasingly crowding out public investments. Over the next 10 years, the Congressional Budget Office (CBO) estimates that interest costs will total $6.9 trillion under current law. In just under a decade, interest on the debt will be the third largest “program” in the federal budget — and it is on pace to become the single largest by 2048. Interest costs, however, are not investments in programs that build our future. Instead, they are largely about the past. And as more federal resources are diverted to interest payments, fewer will be available to invest in areas that are important to economic growth. Although interest rates are currently low, we can’t expect that situation to last forever. As economic growth improves, interest rates are likely to rise, and the federal government's borrowing costs are projected to increase markedly. By 2048, CBO projects that interest costs alone could be more than twice what the federal government has historically spent on R&D, nondefense infrastructure, and education combined. Reduced Private Investment. Federal borrowing competes for funds in the nation’s capital markets, thereby raising interest rates and crowd[s]ing out new investment in business equipment and structures. [which means]Entrepreneurs face a higher cost of capital, potentially stifling innovation and slowing the advancement of new breakthroughs that could improve our lives. At some point, investors might begin to doubt athe government’s ability to repay debt and could demand even higher interest rates, further raising the cost of borrowing for businesses and households. Over time, lower confidence and reduced investment would slow the growth of productivity and wages of American workers.

#### Put simply, Tully concludes in 2019 that:

Shawn Tully, 1-5-2019, "America's Disastrous New Normal: A Booming Economy and Soaring Deficits," Fortune, http://fortune.com/2019/01/05/us-economy-deficit-government/, Date Accessed 1-25-2019 // JM

As Goldwein acknowledges, the U.S. could keep piling on seemingly unsustainable debt and deficits for years, without triggering a financial crisis. “You don’t know if a crisis will come next year, or far in the future,” he says. “What you do know is that even now, the deficits are curbing growth.” The U.S. must issue gigantic volumes of Treasury bills and bonds to fund the deficits, and many investors and companies purchase those safe securities instead of channeling that money into entrepreneurial ventures, or providing private enterprises with fresh capital for new plants and data centers. Each year, Goldwein says, deficits divert an estimated $5 trillion a year that could be spurring private enterprises into Treasuries, slightly lowering growth year after year in a cycle that will make the U.S. economy significantly smaller in a decade than if deficits were shrinking. Big and growing deficits pose a second near-term threat, even if the U.S. avoids a funding crisis. Growing interest payments will crowd out spending that’s needed for social programs. “Government interest payments next year will exceed everything the federal government spends on children, including child tax credits, school lunches and the like,” says Goldwein. “That means we’ll spend more for the past generation than investing in the future generation.” By 2028, the CBO projects, interest on the debt could reach $1 trillion, or more than one dollar in eight of all spending, versus one in thirteen in 2018.

#### Second, is an inability to create stimulus packages during a recession. Jason Reed argues 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.

#### This is way past the threshold as 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)

#### Jeffrey Frankel furthers in 2018 that without this needed stimulus package:

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.

#### 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.”

## Extra Cards

#### This results in a brutal downward economic spiral as Mary Hill writes in 2018 that

Mary Hall, 6-4-2018, "Why does unemployment rise during a recession?," https://www.investopedia.com/ask/answers/032515/why-does-unemployment-tend-rise-during-recession.asp, Date Accessed 1-3-2019 // WS

A recession has a domino effect, where increased unemployment leads to less growth and a drop in consumer spending, affecting businesses, which lay off workers due to losses. A recession occurs when there are two or more consecutive quarters of negative [gross domestic product (GDP)](https://www.investopedia.com/terms/g/gdp.asp) growth. In other words, economic growth slows during a recession. Attributes of an economy experiencing a period of recession include a fall in sales and revenues of corporations, [this results in] a fall in stock prices, falling incomes and a high [unemployment rate](https://www.investopedia.com/terms/u/unemploymentrate.asp). When an economy is facing [recession](https://www.investopedia.com/terms/r/recession.asp), business sales and revenues decrease, which cause businesses to stop expanding. When demand is not high enough, businesses start to report losses and first try to reduce their costs by lowering wages or keeping wages where they are and ceasing to hire new workers, which increases the unemployment rate. A decrease in the GDP causes firms that aren't recession-proof to report losses and can cause some companies to go bankrupt, resulting in massive [layoffs](https://www.investopedia.com/terms/l/layoff.asp) that also increase unemployment. Recession effects can snowball and worsen the situation. When there are massive layoffs and no jobs being created, consumers tend to save money, tightening the [money supply](https://www.investopedia.com/terms/m/moneysupply.asp). When there is a tightened money supply, unemployed workers and workers with low wages tend to save more and spend less, decreasing the demand for goods and services and decreasing consumer spending. This drop in demand lowers the growth rate of companies and the economy, which, in turn, leads to greater losses in non-recession-proof business and higher unemployment. (For related reading, see: [Types of Unemployment](https://www.investopedia.com/exam-guide/cfa-level-1/macroeconomics/unemployment.asp).)

#### Frontline to world reserve currency

The Standard, 6-27-2018, "US dollar losing status as world reserve currency," Standard, https://www.thestandard.co.zw/2018/06/27/us-dollar-losing-status-world-reserve-currency/, Date Accessed 1-24-2019 // WS

Aggressive foreign economic policy and the huge US national debt have led to “de-dollarization” in the world and it reversing the trend could prove difficult in the long term. With 70% of all transactions in world trade being in the US$ , 20% in euros, the rest is shared by Asian currencies, in particular, the Chinese yuan. In March, China dealt a powerful blow to the dollar in the global energy market, opening a trade in oil futures for yuan, the third most important currency in the International Monetary Fund basket, and the attempt was crowned with absolute success. While the dollar is used as the currency of the contract for the trade in raw materials, the yuan may well push it out of one of the fastest growing oil markets in the world. And it’s not just about hydrocarbons. Like other countries, Turkey did not keep all of its gold- part, ingots weighing 28.7 tonness, deposited in American Federal Reserve System. Now Ankara has taken everything out by placing a gold reserve in the depositories on the territory of the country, as well as Switzerland and England banks. The same is done by other countries. Germany completed the programme of exporting its gold reserves from the US, returning 300 tons of ingots to its homeland. About 100 tonnes of gold were repatriated by the Netherlands. The outflow of gold from the Federal Reserve System, which began in 2014, continues almost without interruption. The reasons are obvious: the growth of the rates of the Federal Reserve System, the pressure on the euro and other currencies provided by the United States, the strengthening of geopolitical risks. The world seeks to reduce dependence on the dollar. According to the forecasts of the World Bank, the dollar will cease to play a major role in the world financial system. It will be replaced by a system of three currencies: the euro, the dollar and, most likely, the yuan. It is worth remembering that the dollar as a world reserve currency replaced in 1944 [the dollar replaced] the British pound. [because] The UK accumulated excessive debts, and the pound collapsed. The debt of the US has already exceeded 20 trillion dollars and is growing steadily, but the printing press continues to work. As the well-known investor Jim Rogers pointed out at the St. Petersburg International Economic Forum “that is why the American currency is less attractive on the market”. According to his estimates, the dollar will lose the status of the world reserve currency by 2030.

#### Shobhit Seth indicates in 2017 that:

Shobhit Seth, 12-15-2017, "Why Entrepreneurs Are Important for the Economy," Investopedia, <https://www.investopedia.com/articles/personal-finance/101414/why-entrepreneurs-are-important-economy.asp>, Date Accessed 1-31-2018 // WS

Entrepreneurial ventures generate new wealth. Existing businesses may remain confined to the scope of existing markets and may hit the glass ceiling in terms of income. New and improved products, services or technology from entrepreneurs enable new markets to be developed and new wealth to be created. Additionally, increased employment and higher earnings contribute to [and] better national income in the form of higher tax revenue and higher government spending. This revenue can be used by the government to invest in other, struggling sectors and [human capital](https://www.investopedia.com/terms/h/humancapital.asp).

Jeffry Bartash, 6-12-2018, "Consumer inflation rising at fastest pace in 6 years, CPI shows," MarketWatch, https://www.marketwatch.com/story/consumer-inflation-rising-at-fastest-pace-in-6-years-cpi-shows-2018-06-12, Date Accessed 1-24-2019 // WS

[Consumer inflation rising at fastest pace in 6 years](https://www.marketwatch.com/story/consumer-inflation-rising-at-fastest-pace-in-6-years-cpi-shows-2018-06-12) The numbers: A measure that tracks consumer prices shows the cost of living is increasing at the fastest pace in six years, reflecting a strong U.S. economy and ultra-tight labor market that’s stoking inflation. The consumer price index increased 0.2% in May, [the government said Tuesday](https://www.bls.gov/news.release/cpi.nr0.htm), in line with Wall Street’s forecast. The report came out one day before a Federal Reserve meeting in Washington that’s expected to result in another increase in U.S. interest rates. A more closely followed measure that strips out food and energy also rose 0.2% last month. It’s known as the core rate of inflation. The consumer price index has risen 2.8% in the past 12 months, up from 2.5% in April. That’s the fastest rate since early 2012. The yearly increase in the core rate edged up to 2.2%.

#### worse in two ways. First, increases the amount of recessions. Robert Ducker explained this month that:

Robert Ducker, 1-6-2019, "US economy risks overheating," Times of Malta, https://www.timesofmalta.com/articles/view/20190106/business-news/us-economy-risks-overheating.698516, Date Accessed 1-24-2019 // WS

The US economy has advanced through the cycle at a faster rate than the other major economies. The real economic growth rate recorded in the third quarter of 2018 of [was around] 3.0 per cent and the estimates for the upcoming years are above potential GDP of 2.0 per cent (Source: US Congressional Budget Office) apart from 2020. Additionally, the current unemployment rate is 0.8 percentage points below the Fed’s long-run estimate of 4.6 per cent. This is a sizeable gap by histori­cal standards, with the average gap since 1960 at -0.5 percentage points; actual unemployment has historically been above the long-run estimate on average. You would have to go back to the period between 1998 and 2001 to find a similar gap. The tight labour market indicates higher wages and higher price levels. The Core PCE price inflation has softened since the summer, currently at 1.8 per cent, which is still close to the two per cent target, with the tariffs possibly leading to higher goods pricing in the near term. All of the above suggests that the US economy needs to slow down slightly to avoid overheating. The impact from fiscal poli­cy is likely to diminish in 2019, but the low unemployment rates and high consumer confidence should continue to be tailwinds. This is where the Federal Reserve comes in.

#### Unfortunately, continuing to prioritize growth guarantees overheating because the supply of goods does not match the new increase in demand and spending. This causes inflation. Jeffry Bartish finds that this is starting to happen now as he writes in 2018 that

Jeffry Bartash, 6-12-2018, "Consumer inflation rising at fastest pace in 6 years, CPI shows," MarketWatch, https://www.marketwatch.com/story/consumer-inflation-rising-at-fastest-pace-in-6-years-cpi-shows-2018-06-12, Date Accessed 1-24-2019 // WS

[Consumer inflation [is] rising at fastest pace in 6 years](https://www.marketwatch.com/story/consumer-inflation-rising-at-fastest-pace-in-6-years-cpi-shows-2018-06-12) The numbers: A measure that tracks consumer prices shows the cost of living is increasing at the fastest pace in six years, reflecting a strong U.S. economy and ultra-tight labor market that’s stoking inflation. The consumer price index increased 0.2% in May, [the government said Tuesday](https://www.bls.gov/news.release/cpi.nr0.htm), in line with Wall Street’s forecast. The report came out one day before a Federal Reserve meeting in Washington that’s expected to result in another increase in U.S. interest rates. A more closely followed measure that strips out food and energy also rose 0.2% last month. It’s known as the core rate of inflation. The consumer price index has risen 2.8% in the past 12 months, up from 2.5% in April. That’s the fastest rate since early 2012. The yearly increase in the core rate edged up to 2.2%.

#### This is problematic as overheating increases the frequency of recessions as the CSR writes in 2018 that

CSR, 2-2-2018, "What Causes a Recession?," https://www.everycrsreport.com/reports/IN10853.html, Date Accessed 1-24-2019 // WS

What will bring this economic expansion to an end? In the [words](https://www.federalreserve.gov/mediacenter/files/FOMCpresconf20151216.pdf)of Janet Yellen, "it's a myth that expansions die of old age." Instead, a look at the historical record points to a few culprits that have killed off expansions since the end of World War II—an overheating economy that results in accelerating price inflation, a financial bubble, or an external "shock" to the economy, such as an oil price spike. The longer an expansion lasts, the more likely it will fall victim to one of these killers. What preceded this expansion—the "[Great Recession](https://www.federalreservehistory.org/essays/great_recession_of_200709)"—could potentially make this business cycle unique, however. The recessions beginning in 1957, 1969, and 1973 fit the classic overheating story well. The rest featured too high of an unemployment rate or too small of a run-up in inflation before the recession. For example, unemployment was above 7% when the 1981-1982 recession started. Does today's economy show signs of classic overheating? To date, this expansion has featured a very low unemployment rate, but has not featured rising inflation. In the six previous expansions, the unemployment rate has only fallen as low as the current rate (4.1%) once—from 1999 to 2000. In that case, the economy entered a recession 18 months later. Thus, today's low unemployment rate is not necessarily signaling an immediate recession. The last two recessions were arguably caused by overheating of a different type. While neither featured a large increase in price inflation, both featured the rapid growth and subsequent bursting of asset bubbles. The 2001 recession was preceded by the "dot-com" stock bubble, and the 2007-2009 recession was preceded by the housing bubble. The rapid rise in the stock market in 2017 and recent increases in [stock market valuation metrics](https://www.frbsf.org/economic-research/publications/economic-letter/2018/january/valuation-ratios-for-households-and-businesses/?utm_source=mailchimp&utm_medium=email&utm_campaign=economic-letter) have led some observers to question whether there is currently a bubble. Unfortunately, it is difficult to accurately identify bubbles and to predict when they will cause problems for the broader economy. Because stock prices are volatile, large increases and declines over, say, 12-month periods are not uncommon, and the latter do not always coincide with recessions, as shown