Frontlines January

A2A2 General

https://www.forbes.com/sites/simonmoore/2018/08/14/four-major-recession-indicators-to-watch-and-what-they-signal-now/#66a9812b50e4

- Recession imminent
    - Yield curve
        - 1) According to Forbes, not negative yet, 2) prone to false alarms, similar to what happened in 1984 and 1994.
        - Cox '18 of CNBC writes that recession predictors are looking at the wrong yield curve; when looking at the spread between the 3-month and 18-month treasuries, the yield curve is not inverting, and the gap is actually widening, indicating that a recession is not imminent. Prefer this spread because these are the treasuries that reflect monetary policy.
    - Stock market
        - Hyperactive indicator and prone to false alarms
    - Other trade wars
        - Ip '18 of the Wall Street Journal writes that Trump's actions have only affected 12% of America's total imports and haven't systemically changed anything; both KORUS and NAFTA were re-negotiated into agreements that pretty much mirrored the agreements from before.
    - China trade war
        - Delink; Rapoza '18 of Forbes writes that because China relies more on exports than the U.S., China would be forced to retaliate creatively even if the U.S. imposed tariffs on everything made in China, which is why there are virtually no effects to the U.S. economy now. Indeed, Bishop '18 of RBC Wealth Management continues that this is why America's economy has seen robust growth even through Brexit in 2016 and China's slow-down in 2015.
        - Delink; Xin '19 of the South China Morning Post writes that the trade war is expected to end completely by March, with new vice-managerial meetings between China and the U.S. Indeed, he continues that China has already made a host of concessions, rolling back additional tariffs on U.S. car imports, resuming purchase of U.S. soybeans, and playing down its Made in China 2025 strategy.
    - Global slowdown
        - Bishop '18 of RBC Wealth Management writes that America's economy has grown without slowing despite traumatic global events like the slowdown of the Chinese economy in 2015 and Brexit, indicating that America is insulated from global events due to strong domestic growth.

Bishop, Craig. "Does the "late cycle" of the U.S. economy have an expiration date?." RBC Wealth Management. Sept. 2018.
https://www.rbcwealthmanagement.com/us/en/research-insights/does-the-late-cycle-of-the-us-economy-have-an-expiration-date/detail/ //RJ

The current environment, which **features fast-changing trade disputes, the imposition of tariffs, uneven growth across various regions, and geopolitical concerns**, poses a number of challenges for the global economy. **The question**, in our view, **is** not so much whether any one or all of these would cause the U.S. economy to dip into a recession, but **whether they might accelerate the economy's path through the cycle lifespan.** So far, **the answer has been "no." The U.S. economy has displayed a high degree of resiliency in recent years as economic performance was unaffected by events in China in late 2015 and Brexit in 2016.** For the most part, the same can be said for all the developed economies and many emerging ones as well.

- Unemployment
    - Need to see rising unemployment, just isn't the case. Not sufficient to say that it has flatlined.
- Labor shortages
    - Lazear of the WSJ points out 2 indications the labor market still has room to grow. First, the 3-month average from July to September of jobs created exceeds the amount of workers in the population. Second, if there were truly labor shortages, companies would be raising wages to compete for limited workers, but rises in wages are inconsistent with that trend, proving labor shortages aren't happening.

Ip, Greg. "Trump Didn't Kill the Global Trade System. He Split It in Two." Wall Street Journal. Dec. 2018. https://www.wsj.com/articles/trump-hasnt-killed-the-global-trade-system-instead-he-split-it-in-two-11545842217 //RJ

Today, Korus and Nafta have been replaced by updated agreements (one not yet ratified) **that look much like the originals. South Korea accepted quotas on steel. Mexico and Canada agreed to higher wages, North American content requirements and quotas for autos. These** represent a step back from free trade toward managed trade, but they **will have little practical effect:** The limits on how many cars Mexico and Canada can ship duty-free to the U.S., for example, exceed current shipments. Mr. Trump hasn't stopped threatening auto tariffs, but for **now his officials have elected instead to seek broader tariff reductions with Japan and the European Union.** Meanwhile, the U.S. trade deficit that incenses Mr. Trump has grown during his presidency, especially with China and Mexico, as a strong American economy sucks in imports. His exhortations to manufacturers to bring jobs back to the U.S. have largely fallen on deaf ears. Douglas Irwin, an economist and trade historian at Dartmouth College, calls these results the "status quo with Trumpian tweaks: a little more managed trade sprinkled about for favored industries. It's not good, but it's not the destruction of the system." Mr. **Trump's actions so far affect only 12% of U.S. imports**, according to Chad Bown of the Peterson Institute for International Economics. **In 1984, 21% of imports were covered by similar restraints, many imposed by Mr. Reagan, such as on cars, steel, motorcycles and clothing.** This is testament to something Mr. Irwin has identified in two centuries of American trade policy: **Both protectionism and free trade breed powerful constituencies invested in the status quo.** Mr. **Trump's protectionist instincts go only so far when Congress, business and the national security establishment don't share them.**

Bishop, Craig. "Does the "late cycle" of the U.S. economy have an expiration date?." RBC Wealth Management. Sept. 2018. https://www.rbcwealthmanagement.com/us/en/research-insights/does-the-late-cycle-of-the-us-economy-have-an-expiration-date/detail/ //RJ

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Rapoza, Kenneth. "In U.S., Trump's China Trade War Has Few Casualties." Forbes. Aug. 2018. https://www.forbes.com/sites/kenrapoza/2018/08/02/trumps-china-trade-war-casualties-are-few/#461edf28518c //RJ

It's not easy finding someone struggling because of the China trade war here at home. A few privately held machine tool companies are having a hard time because of tariffs on steel and aluminum. It's been well reported elsewhere. Soy farmers are worried that China won't buy their beans. They'll know more when the harvest starts in October about how they'll redirect exports. Meanwhile, China is either dipping into its own supply or buying more expensive soybeans from Brazil. China is importing inflation at a time when their central bank is considering cutting interest rates. On Wednesday, Trump upped the ante on his proposed $200 billion in more China tariffs. It was 10%; now the duty will be 25%. The market reacted by pushing the China A-shares lower. After a 4% slide on Wednesday, the XTrackers China A-Shares (ASHR) exchange-traded fund was down another 2.4% this morning. Besides good corporate earnings and a generally solid global economy, Wall Street has other things to worry about besides trade tariffs. The Fed is one. The end of QE is another. **For most in the market, they see a healthy economy, especially as it relates to consumption. That holds true not only for the U.S. but also for China.** "You have rising income, rising labor participation, rising confidence, and all of that consumer spending accounts for two thirds of our GDP," says Scott Clemons, chief investment strategist for Brown Brothers Harriman in New York. "**Our starting position is much stronger than the Chinese because trade doesn't matter as much to the American economy**," he says. **Assuming the worst-case scenario that the U.S. imposes tariffs on everything Made in China, China would have to be creative in how it retaliates. To date, it has retaliated with in-kind tariffs.** The U.S. has around $50 billion of tariffed China goods, and China has the same amount. **But exports are a much greater part of the Chinese economy than personal consumption. Only about 39% of China's GDP is derived from consumers.** China learned a lesson in the Great Recession of 2008-2009. Xi Jinping realized that his economy was overreliant on exports, particularly those heading to the U.S. He said that model was unsustainable and quickly moved to promote China's entrepreneurs, especially those involved in new technology. In a short time, the likes of Baidu and Tencent and Alibaba became Asian tech titans. **The U.S. is far ahead.** "**The reason the U.S. stock market has been so insulated from the trade war is that the economy, to some degree, is protected from tariffs because of personal consumption**," he says.

Xin, Zhou. "China, US will 'come up with something' to defuse trade war, Hong Kong scholar predicts." South China Morning Post. 7 Jan. 2019. https://www.scmp.com/economy/china-economy/article/2180980/china-us-will-come-something-defuse-trade-war-hong-kong //RJ

Beijing and Washington are expected to reach a "concrete" trade agreement before March's deadline to de-escalate trade tensions between the world's two biggest economies, according to a Hong Kong scholar with close ties to Beijing. Lawrence J. Lau, an economics professor at the Chinese University of Hong Kong and former member of China's top political advisory body, previously correctly predicted a "truce"would follow the meeting between Chinese President Xi Jinping and US President Donald Trump in Argentina last month. Lau made the latest comments a day before **China announced a vice-ministerial level delegation from the United States led by deputy US trade representative Jeffrey Gerrish would fly to Beijing for two days of face-to-face talks on Monday and Tuesday.** "I am pretty confident that they will come up with something," Lau said, with the 90-day trade war truce agreed between Xi and Trump set to expire on March 1. "There will be something concrete at the end … and if there's a settlement, there shouldn't be any [additional] tariffs." In addition to promises of buying more energy and agricultural products from the US, China may also make other commitments to soothe American concerns, Lau said. These may include China reaffirming the agreement reached with the previous Obama administration that Beijing will prohibit state-sponsored cyber theft of intellectual property and trade secrets for commercial purposes. **In late November, Lau predicted that**

Xi and Trump would agree to a truce in the form of a framework deal when they meet in Buenos Aires on December 1 on the sidelines of the G20 summit, and that proved to be largely in line with what followed. China has since made a number of concessions, including rolling back additional tariffs on US car imports, resuming purchases of US soybeans, downplaying its "Made in China 2025" strategy, and proposing amendments to the foreign investment law that will make it illegal to force technology transfers to Chinese partners.

Cox, Jeff. "The bond market's recession signal may be wrong this time." CNBC. July 2018. https://www.cnbc.com/2018/07/16/the-bond-market-raises-recession-fears-but-dont-expect-one.html //RJ

Economists at TS Lombard think the **recession prognosticators actually are watching the wrong yield curve**. They say that **rather than looking at the spread between 2s and 10s, the more meaningful pair is the three-month bill's spot price and its 18-month forward**, or the market-implied price. **That gap "is rising, suggesting a recession is not imminent**," the firm said in a note. **The reason TS Lombard prefers that spread as a gauge is that it reflects monetary policy "and therefore inverts when the market anticipates an easier monetary stance in response to the likelihood for onset of recession**." As things stand, the Fed is indicating that it will continue to raise rates, or tighten policy, something it would not do if it was anticipating a substantial slowdown in growth. Of course, all that could change if the Fed is wrong, as it has been before in its economic expectations, but **economists are urging caution in overestimating the likelihood of a recession**. "While the fast speed of [the yield curve] adjustment and the short distance to zero are notable, it is important to remember the lessons from history and not over-interpret this move," Oleg Melentyev, credit strategist at Bank of America Merrill Lynch, said in a note. "The yield curve proceeded to fully flatten by Dec 2005, before turning meaningfully inverted in 2006," he added. "The financial conditions remained loose through mid-2007, and the credit contraction did not ensue until later that year. In other words, there could be a considerable distance in time between the yield curve at +25bps and a tightening in financial conditions first, the credit cycle turning second, and the economy going into recession third, absent of a policy mistake shortening this distance." Indeed, Cleveland Fed President Loretta Mester, one of the central bank's most hawkish members, said in a recent speech that the yield curve is "just one among several important indicators" she uses as a guide for setting policy.

Edward P. Lazear [WSJ], 1-2-2019, https://www.wsj.com/articles/americas-economy-isnt-overheating-1539125398

First, consider the rate of job creation. Jobs must be created every month to keep up with population growth. Throughout a business cycle, labor economists can determine whether the number of new jobs is sufficient to keep pace with the added population using the employment-to-population ratio. **The U.S. EPOP currently stands at 60.4%. It's always well below 100% because some people are retired, at home or in school. Population growth over the past year has averaged 227,000 a month, so the U.S. economy must create 137,000 jobs monthly—60.4% of the population change—to keep up. September saw 134,000 new jobs created—almost exactly the full-employment number. But the three-month average is 190,000 jobs created a month. (The three-month average is more accurate because of month-to-month volatility; monthly numbers have an average error of about 75,000.) Because 190,000 significantly exceeds the 137,000 threshold, the U.S. labor market is creating jobs at a rate faster than required to absorb the added population. This suggests the U.S. isn't yet at full employment.** When the economy is at full employment, job creation is just large enough to keep up with population growth, neither increasing nor decreasing unemployment rates or EPOP. When the economy is recovering, job growth exceeds population growth, which makes up for jobs lost during a recession. The current rate of job creation points to a labor market still in the recovery phase. **<u>Finally, the rate of wage growth indicates that the labor market isn't overheated. When the economy runs out of workers, labor demand drives increased wages rather than employment as employers compete with each other for the scarce labor. Absent labor-market slack, wages tend to grow at rates above those consistent with target inflation and productivity increases. Wage growth at rates consistent with productivity growth isn't inflationary, since additional output from increased productivity reduces upward pressure on prices. U.S. productivity growth has averaged 1.3% over the past four quarters. Add the Fed's 2% target inflation figure to get 3.3%. This exceeds the 2.8% actual rate of wage growth over the past 12 months. If the economy were overheating, wages would be growing at a faster rate.</u>** Despite the low unemployment rate of 3.7%, the U.S. labor market has some room to expand before it hits full employment. That's good news: The Fed need not worry that the tight labor market is indicative of an overheated economy—yet.

- House prices
    - Lagging indicator, house prices don't fall until we're actually in a recession. Furthermore, house prices are increasing around 6% per year. Actually need to decrease before it becomes and indicator.

A2A2 Aff

- Debt reduction impossible
    - Buying back treasury bonds (which is how we finance our deficit)
    - Hike taxes on the wealthy - for instance, new poll shows that majority of Americans would support raising taxes on the wealthy to a 70% rate
    - Cut the military budget, restructuring programs like social security into means tested welfare, which are changes even Democrats are starting to see, because of our aging population

Eric Levitz, 1-15-2019, "Poll: Majority Backs AOC's 70 Percent Top Marginal Tax Rate," Intelligencer, http://nymag.com/intelligencer/2019/01/poll-large-majority-backs-aocs-70-top-marginal-tax-rate.html

Meanwhile, as far as plans for class war go, Ocasio-Cortez's was more "Jimmy Carter" than "Jacobin." As recently as 1980, the U.S. taxed all incomes above $216,000 (or $658,213 in today's dollars) at 70 percent rate. And recent research on optimal taxation has suggested that the ideal top marginal rate might be closer to 80 percent.

These facts led certain bloggers to describe the congresswoman's idea as a "moderate policy."

And now, a new poll has confirmed that such bloggers are, in fact, profoundly wise.

Over the weekend, pollsters from the Hill–HarrisX asked voters, “Would you favor or oppose a tax proposal that would apply a 70% rate to the 10 millionth dollar and beyond for individuals making $10 million a year or more in reportable income?” — and 59 percent said yes.

https://www.theatlantic.com/politics/archive/2013/01/a-plan-to-cut-social-security-and-medicare-that-even-liberals-can-love/266946/

Brad Mcmillan, xx-xx-xxxx, "Is The Deficit A Solvable Problem?," Forbes,

https://www.forbes.com/sites/bradmcmillan/2018/07/23/is-the-deficit-a-solvable-problem/#259ef05b3945

Raise revenue. To balance the 2017 budget by raising revenue, we would have to raise tax rates and charges by 21 percent across the board. In other words, the tax bill of every person and company would have to rise by 21 percent. Failing that, we could decide to focus on revenue increases.

- Multiplier effect gov spending
    - Government isn’t investing in good areas -- no type of government spending helps a company expand production - not expanding in a way that solves overheating
- Interest rates squo low
    - Cebula ‘14 of Jacksonville University - over the entire period from 1971 to 2012, deficits had a statistically significant effect on interest rates, 1% increase deficit = .24% increase in interest rates
- Deficit spending expands economic growth which lowers interest rates bc people are more willing to take on risks
    - They need to win that deficit spending expands economic growth first, but our argument short-circuits there’s because they never achieve the higher levels of economic growth because of crowding out
- Govt spending > private sector (full employment)
    - Two reasons public sector spending is less efficient;
        1. Stratmann ‘10 of George Mason University - lobbying influences where the government allocates money because policymakers allocate budgets to maximize their own votes; up to 80% of differences in money allocation after Great Depression could be accounted for bc of this rent-seeking.

2. Boccia from case - government spending is immediate consumption which trades off with private INVESTMENT which is key to the long-term expansion of our economy

- Govt spending goes to the poor
    - Dubay '11 of Heritage Foundation - this government crowd-out costs us 1 mil jobs per year; that's key because job creation creates a cascade effect no matter what type of jobs are made because underemployed people move up, allowing currently unemployed people to fill the now opened positions
        - (Garcia '18 of NPR - 33% of college graduates are underemployed, Bershidsky '18 of Bloomberg - underemployment puts a drag on wage growth which is why wage growth now is so low)
- Growth is slowing down (uniqueness response to overheating)
    - It isn't. Larry DeBoer from Purdue writes less than ten days ago that the U.S. economy is at capacity. Thus, any more growth, and we pop the economy over the edge.

A2A2 Neg

- Clinton 30% no recession
    - The recession in 2000 was literally caused by the .com bubble, which happened after private citizens hiked their borrowing and speculation way too much.
- Recession inevitable
    - block file
- Bubbles good
    - (if going for warrant 1) the bubbles that are formed are not bubbles of investment but of private credit, which inevitably traps us into a recession
    - (if going for warrant 2) bubbles are only good when there is a safe foundation for the economy so when they pop we don't lose a lot of our output instantly
    - More specifically, Toscano 12 finds that during the 08 recession, the bubble sectors accounted for over 100% of San Diego's unemployment
        - Even though bubbles might increase productivity during the frenzy, because the jobs and assets created are based on overvalued amounts, after the crash, this overhyped productivity is useless
- Artificial delays hurt recessions further
    - There's no warrant - lie
    - Longer period of growth gives people more time to get more time to more easily recover from recession
    - Spec 08 Recession: Our link is 50 times stronger since it is about bubbles
- Other countries run budget surpluses
    - We have more private investment

- Tax cut implementation
    - That's not debt reduction
- Corporate borrowing increases
    - It's not about the total quantity of debt but it's about the spike in debt
- Fed decreasing interest rates
    - Not true
- Wouldn't buy back bonds - reduce spending or increase taxes
    - The way we have less money to spend is by reducing the supply of bonds
        - We deficit spend w bonds => reducing spending reduces bonds
- Hike interest rates when buyback = regulate econ
    - Offense for us and link into aff
    - This leads to recession
    - Everytime we spike interest rates quickly => recession
        - Private assets become worth nothing cuz only investment in bonds

    - Toscano, Rich. "Why Bubbles are Bad." Pacific Capital Associates. Apr. 2012. https://www.voiceofsandiego.org/topics/news/why-bubbles-are-bad/
    - Why Bubbles Are Bad
    Many of the jobs that disappeared during the recession could only have existed in the presence of a huge housing bubble. That's why those jobs have accounted for virtually all of San Diego's employment losses since the bubble started to burst — and why those jobs won't be coming back. I've often discussed how the three industries that I refer to as the "housing bubble beneficiary sectors" took the brunt of the recessionary job losses. In this post, I have updated some graphs showing the enormous degree to which this is the case. The bubble beneficiary sectors, so named because they grew like weeds as a result of the housing boom, are: construction, finance (which includes real estate transactions), and retail (not directly related to housing like the other two, but a bubble beneficiary nonetheless as a result of vigorous home equity-financed consumer spending). In the graphs below, I have grouped these three sectors together as the "Housing Bubble Sectors" and charted the change in their size alongside that of the non-bubble private sector industries and government. I took these graphs all the way back to the beginning of 2007 because the bubble sectors started to deflate alongside the housing bubble even before the recession officially began in December of that year. In order to avoid seasonality problems, I started and ended the graphs on the same month (January 2007 through January 2012). This first graph shows the number of jobs lost in each of these three categories: In the five years since

January 2007, the non-bubble private sector has lost 5,400 jobs, and government employment has actually risen by 9,600 jobs. The housing bubble sectors, in contrast, lost 62,700 jobs. Since employment actually rose in aggregate between the government and non-bubble private sector categories, **this means that the bubble sectors accounted for over 100 percent of the decline in San Diego employment since that time**. Housing bubble sector jobs accounted for less than 25 percent of San Diego employment as of January 2007, so in order for the bubble sectors to cause all the region's job losses, they had to take a huge hit in terms of size. This is represented in the next graph, which shows the percent change in size in each of the three employment categories: Since our starting point at the beginning of 2007, government employment grew by 3.5 percent and the non-bubble private sector shrank by .7 percent. The bubble sector industries — construction, finance/real estate, and retail — fell between them by a brutal 19.8 percent. The reason why we are nowhere near getting back to 2007 levels of employment is that **those housing bubble beneficiary jobs** are not coming back. They **were created during an unsustainable frenzy of home building, real estate transactions, mortgage borrowing, and debt-financed overconsumption. The construction, retail, and finance sectors grew to sizes that were far too large to be supported in the absence of a housing bubble. Those excess jobs are gone for good, now that the bubble is no longer with us. They never should have existed to begin with. We would have been far better off if all the labor and resources that were squandered on the housing bubble were instead put to uses that could have generated a sustainable increase in society's long-term prosperity. As a bonus, we would have avoided a big crash, too. And that's why bubbles are bad.**

Bubbles Now -- IN blockfile

DeBoer, Larry, Professor at Purdue University, January 4, 2019, U.S. Economy Operating near Capacity Slows Growth Potential"

http://www.farmers-exchange.net/detailPage.aspx?articleID=18454

Since March 2018 there have been more job openings in the U.S. economy than there are people searching for work. The limit on job growth is the availability of potential employees, not job opportunities. The U.S. economy has reached capacity.

Real GDP growth is limited by the growth of the labor supply and the growth of labor productivity. Both have grown slowly since the Great Recession ended. Baby boomer retirement has reduced average labor force growth to .5 percent per year, though it's been somewhat faster over the past year, at 1 percent. *Productivity, measured as real gross domestic product per worker, has grown .9 percent per year since the recession. Productivity also has been edging upward lately, averaging 1.1 percent in the past year.*

At capacity, employment can only grow as fast as the labor force plus productivity. So, *we should expect real GDP growth of 1.4 percent based on rates of growth since the recession, or 2.1 percent using more recent growth rates.*

Real GDP has grown faster than that, 3 percent over the past year. That's the highest annual growth rate during this expansion. The drop in the unemployment rate from 4.1 percent in December 2017 to 3.7 percent in November 2018 made this possible. When unemployment falls, employment grows faster than the labor force.

Consumer demand and the Federal budget deficit are the main reasons for the faster growth. Consumers increased their spending by 3 percent above inflation. Pay rose (modestly), home values increased and taxes were cut. *The Federal budget deficit increased from 3.4 percent to 4.7 percent of GDP. The increase is due to the December 2017 tax cut, and rising Social Security and Medicare spending for retired boomers.*

Businesses stepped up their hiring to meet the added demand, driving the unemployment rate to a 50-year low. It's unlikely that the unemployment rate can fall much further and therefore employment growth will be limited by the growth in the labor force.

The labor force grows faster if labor force participation increases, and it has been rising. Participation has increased from 59.6 percent of the population last December to 60.6 percent now. This is lower than the 63.4 percent participation rate at the peak of the last expansion, and lower still than the 64.7 percent peak at the end of the 1990s.

Stratmann of George Mason University, 6-10-2010, "Does Government Spending Affect Economic Growth?," Mercatus Center,
https://www.mercatus.org/publication/does-government-spending-affect-economic-growth
In addition to this information problem, the political process itself can stunt economic growth. For example, Professor Emeritus of Law at George Mason University Gordon Tullock suggests that politicians and bureaucrats try to gain control of as much of the economy as possible.5 Moreover, demand for government resources by the private sector leads to misallocation of resources through "rent seeking"—the process by which industries and individuals lobby the government for money. Rather than spend money where it is most needed, legislators instead

allocate money to favored groups.6 Though this may yield a high political return for incumbents seeking reelection, this process does not favor economic growth.

The data support the theory. A 1974 paper by Stanford's Gavin Wright found that political attempts to maximize votes explained between 59 and 80 percent of the difference in per capita federal spending to the states during the Great Depression.7 Ultimately, spending under the Democratic Congress and the president was much more concentrated in Western states, where elections were much tighter than in the Democratically controlled South. Wright's analysis indicates that instead of allocating spending based purely on economic need during a crisis, the party in power may distribute funding based on the prospect of political returns.