# The Golden Overviews

## OV: Debt Doesn’t Matter

#### [DL] Kenny 18 of The Balance: Investors will always loan money to the U.S. by purchasing bonds because bonds are seen the safest investment in the world, as the U.S. has always paid them back and never defaulted.

Thomas Kenny, 12-6-2018, "Here Is a Look at How Safe U.S. Treasuries and Government Bonds Are," Balance, https://www.thebalance.com/how-safe-are-u-s-treasuries-417129

**U.S. Treasuries are generally considered one of the safest – if not the safest – investments in the global financial markets.** While this is true, it depends on how you invest. If you approach Treasuries in the wrong way, they can, in fact, be quite risky. Why Treasuries Are Considered Safe There are two kinds of risk in the bond market: credit risk and interest rate risk. Credit risk is the risk that an issuer will default, while interest rate risk accounts for the impact of changes in prevailing rates. **Treasuries are risk-free is in the first instance: credit risk. Despite concerns about the United States’ fiscal health, U.S. government bonds are seen as being among the world’s safest in terms of the likelihood that their interest and principal being paid on time. The United States has never defaulted on its debt in the modern era,** although there were some cases of restructuring in the 1800s.

#### [DL] Harvey 12 of TCU: There is a 0% chance of the US being forced to default on debt since the U.S. only owes money in USD, so we can always print more money.

John T. Harvey 12, Sep 10, 2012 [ Harvey is a professor of Economics at Texas Christian University]” It Is Impossible for The US to Default,” Forbes, https://www.forbes.com/sites/johntharvey/2012/09/10/impossible-to-default/#12dce58e1180

With so many economic, political, and social problems facing us today, there is little point in focusing attention on something that is not one. The false fear of which I speak is the chance of US debt default. There is no need to speculate on what that likelihood is, I can give you the exact number: **there is 0% chance that the US will be forced to default on the debt**. We could choose to do so, just as a person trapped in a warehouse full of food could choose to starve, but we could never be forced to. This is not a theory or conjecture, it is cold, hard fact. **The reason the US could never be forced to default is that every single bit of the debt is owed in the currency that we and only we can issue: dollars. Unlike Greece, we don’t have to try to earn foreign exchange via exports or beg for better terms**. There is simply no level of debt we could not repay with a keystroke.

#### [DL] Prasad 14 of the IMF: Since the U.S. economy is so strong, investors have so much investment into financial assets in U.S. dollars that they want to prevent the value of the currency from devaluing. Thus, they will always keep lending the U.S. money and prevent a crash.

https://www.imf.org/external/pubs/ft/fandd/2014/03/prasad.htm

By contrast, **because financial assets denominated in U.S. dollars, especially U.S. government securities, remain the preferred destination for investors interested in the safekeeping of their investments, the dollar’s position as the predominant store of value in the world is secure for the foreseeable future.­**

**Official and private investors around the world have become dependent on financial assets denominated in U.S. dollars, especially because there are no alternatives that offer the scale and depth of U.S. financial markets. U.S. Treasury securities, representing borrowing by the U.S. government, are still seen as the safest financial assets in global markets. Now that foreign investors, including foreign central banks, have accumulated enormous investments in these securities as well as other dollar assets, they have a strong incentive to keep the value of the dollar from crashing**. Moreover, there are no alternative currencies or investments that provide a similar degree of safety and liquidity in the quantities demanded by investors. Therein lies the genesis of the “dollar trap.”

#### [DL] Seth 18 of Investopedia: China makes profit from lending us debt, so they will never stop lending us money.

Shobhit Seth 18 of Investopedia [Shobhit Seth, 12-21-2018, Investopedia, "Why China Buys U.S. Treasury Bonds", (), accessed 1-24-2019, https://www.investopedia.com/articles/investing/040115/reasons-why-china-buys-us-treasury-bonds.asp] //AT

China has been steadily accumulating US treasury securities for decades. Additionally, [trade data](http://www.census.gov/foreign-trade/balance/c5700.html) from the US Census Bureau shows that China has been running a big [trade surplus](https://www.investopedia.com/terms/t/trade-surplus.asp) with the US since 1985. This means that China sells more goods and services to the US than the US sells to China. The question is, is China, the world’s largest manufacturing hub and an export-driven economy with a burgeoning population, trying to “buy out’ the US markets through its debt accumulation, or is it a case of forced acceptance? This article discusses the business behind the continuous Chinese buying of US debt. China is primarily a manufacturing hub and an export-driven economy. Chinese exporters receive US dollars for their goods sold to the US, but they need Renminbi (RMB or Yuan) to pay their workers and store money locally. They sell the dollars they receive through exports to get RMB, which increases the USD supply and raises demand for RMB. China's central bank (People’s Bank of China – PBOC) carried out active interventions to prevent this imbalance between the US dollar and Yuan in local markets. It buys the available excess US dollars from the exporters and gives them the required Yuan. [PBOC](https://www.investopedia.com/terms/p/peoples-bank-china-pboc.asp) can print Yuan as needed. Effectively, this intervention by the PBOC creates a scarcity of US dollars which keeps the USD rates higher. China hence accumulates USD as forex reserves.

#### [DL] Tully 18 of Forbes: The U.S. can always tap into a deep pool of huge savings to finance its deficits.

Tully 18 of Fortune [Shawn Tully, 2-16-2018, Fortune, "Can America's Economy Keep Up With Its Debt?", (), accessed 1-25-2019, http://fortune.com/2018/02/16/us-debt-deficit-economic-growth/] //AT

Moody’s stresses that the dollar’s central, essential role in the global economy will help the U.S. address some of these problems. Because foreign nations park their export earnings in dollars, the U.S. can always tap a deep pool of savings to sell its bonds and finance its deficits. The greenback cushions the U.S. against shocks that can ravage competing nations. In a global crisis, investors and governments seek in Treasuries and other dollar assets as a safe haven. Put simply, the U.S. benefits from a big edge because it can always borrow, and usually at excellent rates. The report also evokes America’s unmatched scale and economic diversity. The U.S. boasts one of the world’s most flexible labor markets. We supply most of the energy and food consumed at home, providing a cushion against swings in global commodity prices. The U.S. benefits from a great entrepreneurial spirit, and harbors the world’s largest service sector, encompassing five of the world’s biggest tech companies. Thanks to the potent dollar and its economic might, the U.S. is a special case, says Carlson. Its ability to shoulder mountainous debt is far greater than that of competing nations.

## OV: Econ Reduces Debt

#### [DL] Panizza 12 of the CEPR: Not a single economic study provides actual proof of causation between economic growth reduction and high debt; only correlation.

Ugo Panizza, 4-1-2012, CEPR, "Is high public debt harmful for economic growth? New evidence", (), accessed 1-24-2019, https://voxeu.org/article/high-public-debt-harmful-economic-growth-new-evidence //AD

Do high levels of public debt reduce economic growth? This is an important policy question. A positive answer would imply that, even if effective in the short-run, expansionary fiscal policies that increase the debt-to-GDP ratio may reduce long-run growth, and thus partly (or fully) negate the positive effects of the fiscal stimulus. Most policymakers do seem to think that debt reduces growth. This view is in line with the results of a growing empirical literature which shows that there is a negative correlation between public debt and economic growth, and finds that this correlation becomes particularly strong when public debt approaches 100% of GDP (Reinhart and Rogoff 2010a, 2010b; Kumar and Woo 2010; Cecchetti et al. 2011). Debt and growth, what causes what? Correlation, however, does not imply causation. The link between debt and growth could be driven by the fact that it is low economic growth that leads to high levels of public debt (Krugman 2010).[1](https://voxeu.org/article/high-public-debt-harmful-economic-growth-new-evidence#fn)Establishing the presence of a causal link going from debt to growth requires finding what economists call an ‘instrumental variable’.[2](https://voxeu.org/article/high-public-debt-harmful-economic-growth-new-evidence#fn) In a new paper (Panizza and Presbitero 2012), we propose a novel instrument variable that allows us to reject the notion that debt causes slower growth in OECD countries. We do confirm the oft-noted negative correlation between debt and growth, but show that debt does not have a causal effect on growth (see Figures 8 and 9 in our paper). The discussion of the instrument is somewhat technical, so we omit it here; interested readers can find all the details in Section 2 of our paper. To answer the question "Do high levels of public debt reduce economic growth?" we follow the econometric procedure of trying to reject the proposition that “debt has no growth effects”. Our research shows that this proposition cannot be rejected, so it may well be that it is true. We cannot, however, be sure. Think of a murder trial where the jury finds the man has not been proven guilty “beyond a reasonable doubt”. This certainly suggests that he is innocent, but establishing innocence is not what the trial was about, so technically, we cannot claim that the jury declared him innocent. Indeed, none of the papers in the literature on debt-growth links can make a strong claim the debt has a causal effect on economic growth. In this light, we refer readers back to Mark Twain’s wisdom. There is a value in assessing the degree of our economic ignorance. Policy implications: Responsible fiscal stance and lenders of last resort We believe that our findings are important for the current debate on fiscal policy (see the Vox Debate started by Corsetti 2012). There might be many good (or bad) reasons for fiscal austerity, even during recessions. We do not want to enter that debate here. However, we do not find any evidence that high public debt hurts future growth in advanced economies. Therefore, given the state of our current knowledge, we believe that the debt-growth link should not be used as an argument in support of fiscal consolidation. The fact that we do not find a negative effect of debt on growth does not mean that countries can sustain any level of debt. There is clearly a level of debt beyond which debt becomes unsustainable, and a debt-to-GDP ratio at which debt overhang, with all its distortionary effects, kicks in. What our results seem to indicate, however, is that the advanced economies in our sample are still below the country-specific threshold at which debt starts having a negative effect on growth. We believe that there is a subtle channel through which high levels of public debt can have a negative effect on growth. In the presence of multiple equilibria, a fully solvent government with a high level of debt may decide to put in place restrictive fiscal policies aimed at reducing the probability that a change in investors’ sentiments would push the country towards the bad equilibrium. These policies, in turn, may reduce growth (Perotti 2012), especially if implemented during a recession (such policies may even be self-defeating and increase the debt-to-GDP ratio, DeLong and Summers 2012, UNCTAD 2011).[3](https://voxeu.org/article/high-public-debt-harmful-economic-growth-new-evidence#fn) In this case, it would be true that debt reduces growth, but only because high debt leads to panic and contractionary policies. While such an interpretation justifies long-term policies aimed at reducing debt levels, it also implies that countries should not implement restrictive policies in the middle of a recession. These policies are the reason for the negative effect of debt on growth. Yet, policymakers under pressure from market participants might not have an alternative. This is why we need prudent fiscal policies and lenders of last resort that can rule out multiple equilibria (De Grauwe 2011). Conclusion Our reading of the empirical evidence on the debt-growth link in advanced economies is: There are many papers that show that public debt is negatively correlated with economic growth. There is no paper that makes a convincing case for a causal link going from debt to growth. Our new paper suggests that such a causal link does not exist (more precisely, our paper does not reject the null hypothesis that there is no impact of debt on growth).

#### [IT] Summers 16 of Harvard: For every $1 increase in GDP, tax revenues increase by 25 cents, and a 1% growth in the economy yields $60 billion in revenue.

Summers, Lawrence. “Could Faster Growth Solve Our Debt Woes?” Committee for a Responsible Federal Budget, 24 May 2016, www.crfb.org/blogs/could-fastergrowth- solve-our-debt-woes.

A number of commentators have suggested recently that our budget problems could be solved if only we focused more on promoting economic growth. Economic growth, they argue, would generate more revenue and thus make painful tax increases and spending cuts unnecessary. We've taken on this claim before, demonstrating that even a significant improvement in long-term growth would not be enough to prevent debt from growing faster than the economy. Over the medium term, the story is similar. Still, while faster growth cannot solve our medium-term debt problems, it certainly can help. Rules of Thumb for Growth and Deficits The actual impact of economic growth on budget deficits will depend on the source of the growth, but a broad rule of thumb suggests that **every dollar increase in GDP will produce** 20 to **25 cents more in revenue. For 2023**, when GDP is projected to be nearly $27 trillion, **a one percent increase in the size of the economy will yield about $60 billion in revenue.**

#### [IT] The CRFB 13: A 0.1% increase in the annual growth rate results in 315 billion dollars in deficit reduction.

Committee for a Responsible Federal Budget, 10-28-2013, "Could Faster Growth Solve Our Debt Woes?," http://www.crfb.org/blogs/could-faster-growth-solve-our-debt-woes

Faster economic growth can help improve debt projections in at least two ways. First, **faster growth produces more revenue -- enough to result in $315 billion of deficit reduction for every 0.1 percentage point increase in the annual growth rate.** But in addition, faster growth increases the economy's capacity to carry debt. Thought of another way: when we measure debt as a share of GDP, a higher GDP can help lower debt-to-GDP the same as lower nominal debt levels can lower the ratio. As a result, even small improvements in growth can help slow debt accumulation. If growth were 0.1 percentage point higher annually, for example, debt levels would reach 71 percent of GDP by 2023, compared to 73 percent under the CRFB Realistic Baseline. Even just a faster economic recovery that brings GDP back to its potential sooner would bring debt levels to 72 percent of GDP by 2023.

#### [DL] Smith 16 of Bloomberg: The economy is growing faster than the public debt by 0.4%. Smith concludes that the deficit is perfectly sustainable as long as we promote economic growth.

Noah Smith, 4-18-2016, Bloomberg, "America Isn't Going Broke", (), accessed 1-24-2019, https://www.bloomberg.com/opinion/articles/2016-04-18/america-is-nowhere-close-to-having-a-debt-crisis //AD

**Also, some of these writers are saying that the debt is growing faster than the economy. This was true during the years of the Great Recession, but it’s no longer the case. The federal debt held by the public is now growing at about a 3 percent rate, while the economy is growing at about a 3.4 percent rate (these are both in nominal terms). In other words, the U.S. deficit is now perfectly sustainable.** This represents a remarkable -- possibly even excessive -- display of fiscal responsibility by the U.S. government. During the Great Recession, when millions were out of work, the government ran big deficit in an effort to stimulate the economy.

# AT: Aff

## AT: Bond Market Crash

#### [DL] Kenny 18 of The Balance: Bonds are the most stable investment because they have consistent returns, which is why the probability for crashing is nearly non-existent.

Thomas Kenny 18 of Balance [Thomas Kenny, 9-17-2018, Balance, "Don't Bet on a Bond Market Crash", (), accessed 1-20-2019, https://www.thebalance.com/will-the-bond-market-crash-dont-bet-on-it-416940] //AT

Bond Market Crashes Are Rare to Non-existent A look back through the return history of [investment-grade bonds](https://www.thebalance.com/stocks-and-bonds-calendar-year-performance-1980-2013-417028) shows a track record of stability over last 30-plus years. Skeptics will note that this period largely incorporates a bond bull market, and that’s true. So what does a bear market look like? Investors might recall that the late 1970s was a period marked by soaring inflation—the worst possible condition for the bond market. Bonds responded unfavorably, but losses were modest even in this case. According to a database kept by Aswath Damodaran of NYU’s Stern School of Business, the 10-year [U.S. Treasury note](https://www.thebalance.com/government-bond-types-417132) produced the following total returns in each calendar year during this time, from 1977 through 1980: 1.29 percent - 0.78 percent 0.67 percent - 2.99 percent Granted, yields were higher then. There was a larger [yield cushion](https://www.thebalance.com/how-to-protect-against-rising-rates-417020) to offset price declines. But these numbers show that no crash occurred even in the unfavorable conditions of that time period. Investors more than made up for this period of weakness with the strong returns that occurred in subsequent years.

## AT: Crowding Out

#### [DL] Rosenberg 18 of Fiscal Times tells you that there has been little evidence of “crowding out” occurring in the US because the pool of savings in the US is very large and substantial global savings are recycled into Treasuries.

Yuval Rosenberg, 9-14-2018, Fiscal Times, "Why the Markets Aren’t Freaking Out About Soaring US Debt", (), accessed 1-24-2019, http://www.thefiscaltimes.com/2018/09/14/Why-Markets-Aren-t-Freaking-Out-About-Soaring-US-Debt //AD

CB18 Praveen Korapaty, chief interest rates strategist at Goldman Sachs: “ **[O]ne could theoretically argue that substantial government debt should lead to a ‘crowding out’ in interest rates. … In practice, there has been little evidence of this occurring either in the US** or Japan. … Part of **the reason we don’t observe crowding out is that the pool of savings is actually quite large : in the case of the US, the dollar is the reserve currency, so substantial global savings are recycled into Treasuries.”**

**[T] Kahn 19 of UMich tells you that increased government borrowing actually raises the return on safe assets by creating safe debt which causes the opposite of the crowding out effect.**

R. Jay Kahn (Contact Author), 1-13-2019, No Publication, "Corporate Demand for Safe Assets and Government Crowding-In by R. Jay Kahn :: SSRN", (), accessed 1-24-2019, https://papers.ssrn.com/sol3/papers.cfm?abstract\_id=3286717 //AD

This paper quantifies a channel through which government borrowing can increase corporate investment. I present and estimate a general equilibrium model where long-lived corporations make endogenous corporate financing and investment decisions. The government affects these decisions through its issuance of safe debt. In the model, **firms use safe assets to retain their earnings and avoid future financing costs. When the corporate sector is limited in its ability to create safe assets by the pledgeability of their capital, safe assets are scarce**: a liquidity premium emerges, and the return on safe assets falls below the return on the firm in equilibrium. **When safe assets are scarce, low interest rates on safe assets mean firms rely more on costly financing, resulting in lower investment**. In this setting, **in contrast to the common crowding-out story, increasing government borrowing raises the return on safe assets , making safe assets more available to firms and allowing them to better retain earnings in order to invest in the future.** This channel is quantitatively important: estimating the model from data on the panel of public firms using structural methods, I find that **a 1% increase in government borrowing increases the return on safe assets by 60 basis points and increases aggregate investment by 13 basis points**. I explore the equilibrium consequences of a variety of standard corporate financing frictions through the lens of my model and validate its mechanism empirically by turning to the long time series of corporate cash holding, government borrowing, and spreads of corporate bonds over government bonds.

## AT: Interest Rates Rise

#### [DL] Interest rates empirically don’t rise with the deficit. We have the highest debt in history, and yet we have extremely low interest rates.

Barry Ritholtz 18 of Bloomberg [Barry Ritholtz, 8-21-2018, Bloomberg, "Living With the Lowest Interest Rates in History", (), accessed 1-20-2019, https://www.bloomberg.com/opinion/articles/2018-08-21/living-with-the-lowest-interest-rates-in-history] //AT

How low are interest rates? They are “the lowest in history, from the Code of Hammurabi to Babylon civilization, Greek and Roman civilization, the Middle Ages, Renaissance, and early modern history, right up until the present. I can assure listeners that the rates we have now are the lowest in human history.” So says this week's guest on Masters in Business, Richard Sylla, professor emeritus of economics at New York University’s Stern School of Business, and author of several books, most notably “[A History of Interest Rates](https://www.amazon.com/exec/obidos/ASIN/0471732834/thebigpictu09-20).” He says rates during the past decade simply have no precedent.

Michael Collins, 18 of USA TODAY [Michael Collins, 3-2-2018, USA TODAY, "Tax cuts, spending helping push national debt to historic high, new report says", (), accessed 1-20-2019, https://www.usatoday.com/story/news/politics/2018/03/02/exclusive-tax-cuts-spending-helping-push-national-debt-levels-not-seen-since-world-war-ii-new-report/386937002/] //AT

WASHINGTON – Get ready for the return of trillion-dollar budget deficits and record-high debt. A report released Friday concludes that recent tax-and-spending legislation passed by Congress is helping to drive up the federal deficit and push the national debt as a percentage of annual economic output to levels not seen since just after World War II. Trillion-dollar deficits will return permanently by next year — three years earlier than projected — and debt will exceed the size of the economy within a decade, according to the analysis by the non-partisan Committee for a Responsible Federal Budget.

#### [DL] Tamny 17 of Forbes: There is no clear correlation between deficits and interest rates. Interest rates are only raised to prevent inflation, which is why some countries with low debt-to-GDP ratios have high interest rates and high debt-to-GDP ratios have low interest rates. Nassar 15 of Louisiana Tech: In an analysis of five developed countries including the U.S., there was no actual correlation between deficit spending and interest rates; they had an inverse relationship. The only effect on long term interest rates was actually inflation.

John Tamny, xx-xx-xxxx, Forbes, "Ignore The Endless Talk Of Doom, Budget Deficits Really Don't Matter", (), accessed 1-24-2019, https://www.forbes.com/sites/johntamny/2017/09/24/forget-the-protests-of-conservatives-deficits-really-dont-matter/#5e74b7523707 //AD

Williamson concludes that “Deficits and public debt are a drag on the economy, hoovering up investable capital and putting upward pressure on interest rates.” Here he’s plainly mistaken. **As the last forty years once again remind us, there’s no clear correlation between deficits and interest rates**. Importantly, this isn’t just a U.S. thing for those who naively believe the Federal Reserve has uniquely driven down yields on U.S. Treasuries. As Duke professor Richard Salsman has pointed out, in 1980 the G-7 nations in aggregate had debt/GDP ratios of 37 percent, and the average interest rate on their 10-year government bonds was 11.9 percent. By 2015, the debt/GDP ratio of those same countries was 115 percent, but average yields on their 10-years was 1.3 percent.

Nassar 15 of Louisiana Tech [Raja Nassar, 2015, Louisiana Tech, " EMPIRICAL INVESTIGATION OF THE RELATIONSHIP BETWEEN LONG TERM INTEREST RATE AND GOVERNMENT DEBT AND DEFICIT SPENDING", (), accessed 1-24-2019, http://www.alliedacademies.org/articles/collaborative-problem-solving-promotes-students-interest.pdf] //AT

Results of the time series analysis and the Granger causation test for the 5 countries showed an overwhelming support for the argument that debt and deficit have no effect on increasing the long term interest rate. It is seen that when debt or deficit had a significant effect on long term interest rate it was to decrease the rate rather than to increase it. In all the results, except for Japan, there was as expected, a positive and significant effect of inflation on bond rate.

#### [DL] Ezrati 18 of Forbes: The Fed recently announced that policy makers no longer want to raise interest rates.

Milton Ezrati, 12-10-2018, Forbes, "Fed Says Two Welcome Things; Most Missed One Of Them", (), accessed 1-24-2019, https://www.forbes.com/sites/miltonezrati/2018/12/10/fed-says-two-welcome-things-most-missed-one-of-them/#d15f7be1d3c9 //ADLate last month, **the Federal Reserve (Fed) made two important announcements. One created a lot of buzz. It indicated that policy makers have abandoned their former determination to raise interest rates.** Investors were much relieved, so much so that in just hours after the Fed announcement, stocks rose 2.5%.

#### [DL] Kruger 19 of the Wall Street Journal: The Fed wants to cut interest rates in 2020.

Daniel Kruger and Nick Timiraos, 1-24-2019, WSJ, "Investors Are Betting That the Fed Hits Pause on Rate Hikes", (), accessed 1-24-2019, https://www.wsj.com/articles/investors-are-betting-that-the-fed-hits-pause-on-rate-hikes-11546449520 //AD

**Fed officials last raised rates by a quarter-percentage point to a range between 2.25% and 2.5% when they met Dec. 19. They also projected two more rate increases, but those boosts rely on a forecast that the economy will grow 2.3% this year, still above the 1.8% pace officials deem is likely over the long run.** If the economy looked likely to slow to a growth rate closer to the lower long-run trend, that would remove the impetus for rate increases this year. Signs that growth is likely to decline by more than officials project raise the chance that the Fed pauses in March from its recent quarterly pace of increases.In the two weeks since Fed officials last met, stocks have fallen, yields on corporate debt have widened relative to those on safer government bonds and other measures of financial conditions have tightened considerably.By raising costs for businesses and households to borrow and invest, tighter conditions could slow growth more than central-bank officials anticipated. **Fed officials made relatively modest changes to their growth projection: Their median growth forecast for 2019 edged down to 2.3% from the 2.5% they had projected in September. Because financial conditions had also tightened, the downward revision was enough to reduce the median projection by analysts of fed-funds rate increases in 2019 to two from three.** This sets up a tension between the central bank—which must manage rates in keeping with its twin goals of stable prices and full employment—and investors, many of whom would prefer looser monetary policy.The Fed’s rate increases have also attracted criticism from President Trump. Mr. Trump said stocks had faced a “little glitch” last month but predicted they would recover at a cabinet meeting Wednesday. “We need a little help from the Fed,” he said.Meanwhile, **a key bond-yield indicator tracked by Fed economists is signaling rates could be cut in 2020.**

#### [LT] Lower interest rates come directly in our world. Oyedele 18 of Business Insider explains that when the Fed wants to grow the economy, they lower interest rates because it lowers the cost of loans and encourages spending. In fact, during the 2008 recession, the Fed lowered interest rates to nearly zero and encouraged spending.

Akin Oyedele 18 of Business Insider [Akin Oyedele, 12-19-2018, Business Insider, "Here's how the Fed raises interest rates and why it matters", (), accessed 1-25-2019, https://www.businessinsider.com/how-the-fed-raises-interest-rates-2017-12] //AT

From Washington, the Fed adjusts interest rates with the hope of spurring all sorts of other changes in the economy. If it wants to encourage consumers to borrow so spending can increase, which should boost economic growth, it cuts rates and makes borrowing cheap. After the Great Recession, it kept rates near zero to achieve just that. To accomplish the opposite and cool the economy, it raises rates so an extra credit card seems less desirable. The Fed often adjusts rates in response to inflation — the increase in prices that happens when people have more to spend than what's available to buy.

### AT: Investors Demand

#### [DL] Amadeo 18 of The Balance: The U.S. has such a good economy that it could run up a debt-to-GDP ratio of 200 like Japan and still survive due its good economy, and investors will still trust the U.S. to pay them back.

Kimberly Amadeo, The Balance, "Top 10 Reasons the U.S. Economy Won't Collapse", 11-18-18, <https://www.thebalance.com/us-economy-wont-collapse-3980688>

The [U.S. debt](https://www.thebalance.com/the-u-s-debt-and-how-it-got-so-big-3305778) is $21 trillion, more than the economy produces in a year, but although the [debt-to-GDP ratio](https://www.thebalance.com/debt-to-gdp-ratio-how-to-calculate-and-use-it-3305832) is in the danger zone, it's not enough to cause a collapse. First, the United States prints its money. That means it is in control of its currency. Lenders feel safe that the U.S. government will pay them back. In fact, the **United States could run a much higher debt-to-GDP ratio than it does now and still not face economic collapse**. Japan is another strong economy that controls its currency**. It has had a debt-to-GDP ratio above 200 percent for years**. **Its economy** **is** sluggish but **in no danger of collapse**

## AT: Income Inequality

#### [DL] Strain 18 of Bloomberg: The U.S. has enjoyed economic growth in the past 6 years, and yet income inequality has stabilized in the long run since then.

Michael R. Strain, 6-6-2018, "Yes, Income Inequality Has Stopped Growing," Bloomberg, <https://www.bloomberg.com/opinion/articles/2018-06-06/yes-income-inequality-has-stopped-growing//SC>

Growth in income inequality has markedly slowed in the past decade. Yes, that’s right. Though few seem to care or have no ced, this trend has important implica ons for economic policy. A recent report from the nonpar san Congressional Budget Office has analyzed the data over the last four decades. From 1979 through 2007, inequality increased significantly, no ma􀂂er how income was measured — whether or not it was based on market income (the sum of employment, business and capital income), or if it included government social insurance and safety-net payments, or if it subtracted federal tax payments. Depending on the income measure, the CBO found that inequality increased in this period between 23 percent and 31 percent. ADVERTISING But from 2007 through 2014, the figure stabilized. Looking at market income, inequality increased by only 3 percent. **Once you add in cash payments and in-kind transfers from government safety net programs, inequality actually fell over this period**. Another measure of inequality is more straigh􀁿orward than the “Gini coefficient” used by the CBO, and considers only labor-market earnings. It begins by ranking workers by how much they usually earn each week. Take the worker who earns more than 90 percent of all workers. Now take the worker who only earns more than 10 percent of workers. Compare their earnings. If the rich are ge ng richer, then “ninth decile” workers will earn increasingly more than “tenth decile” workers. This is exactly what was happening un l recently. In the late 1990s, the ninth-decile workers earned about 4.5  mes as much as the tenth-decile workers. This shot up to 5.2  mes as much by 2012. But **over the past six years, inequality has stabilized , echoing the findings in the CBO report.** 1 It is striking how at odds this reality of years of slowing inequality is with the public conversa on about inequality. Public opinion surveys do not show a decline in concern about inequality that corresponds with its stabiliza on. And the poli cal le􀁛 shows no signs of lessening its focus on inequality, both as a poli cal issue and as a challenge for public policy.

## AT: Inflation

#### [DL] Strain 18 of Bloomberg: Even if the U.S. printed out more money, it wouldn’t inflate if it just went into interest payments; only if they went into the actual domestic economy.

Strain, Michael. “The Right Is Wrong to Lose Faith in Economic Growth”. Bloomberg. Nov 23 2018. https://www.bloomberg.com/opinion/articles/2018-11-23/rightwing- populists-are-wrong-about-economic-growth

“While private households, businesses, or even state and local governments must bring in dollars before they can spend them, the federal government must spend dollars before it can tax them. This is more intuitive than it sounds. Since the government literally prints dollars for circulation, it must provide money before it can take it back. (If you don't believe me, here's former New York Federal Reserve Chairman Beardsley Ruml, making the same point way back in 1946.) When one line item in the federal budget grows, it doesn't "crowd out" other priorities because the government can never run out of dollars. "But what about inflation?" you might ask. That is the proper question: The inflation level, not the risk of a debt crisis, is what actually determines the government's room to spend on public priorities. When inflationary pressure is too great, the U.S. can relieve it by raising taxes or hiking interest rates to remove money from the economy. But simply introducing new dollars into the economy does not necessarily lead to price increases. Where the money goes is crucial. To create inflation, new dollars must go into new spending and consumer demand. Interest payments on the national debt are extremely unlikely to do that. The key thing to understand here is that most U.S. government debt is denominated in treasury bonds, which are pretty much the most liquid asset in the world. If you own a treasury bond,

#### [DL] Vague 16 of Institute for New Economic Thinking: In an empirical analysis, there is little correlation between national debt and inflation, and countries experiencing high debt levels do not necessarily inflate.

Vague, Richard. “Rapid Money Supply Growth Does Not Cause Inflation.”, Institute for New Economic Thinking, Dec 2 2016, https://www.ineteconomics.org/perspectives/blog/rapid-money-supply-growthdoes- not-cause-inflation

“Although less often discussed than money supply growth, economic commentators also often mention high rapid government debt growth as a cause of inflation. A more recent variant of this is the case when a central bank is active in purchasing government debt or bank loans—what is commonly called quantitative easing—with the result of high balance sheet growth. Some economists have We followed the method used above in assessing whether rapid government debt growth leads to inflation. We defined a period of rapid government debt growth in two argued that this too will bring inflation. Some also suggest that rapidly declining or low interest rates are a cause of high inflation. We tested all three of these theories. ways. One was to define it as 20-percentage point growth in government debt to GDP in a five-year period, and the second was to define it as 200 percent nominal growth in government debt growth in a five-year period. We defined high inflation as a period of five consecutive years of inflation of five percent or more. Then we reviewed the data for each country to see how many times high inflation followed high government debt growth, and how many times high inflation occurred that was not preceded by rapid government debt growth. Our results on government debt were as follows. In case 10, of the 47 instances wheregovernment debt growth was at least 20 percentage points in five years, six were followed by periods of high inflation, while 41 were not. By contrast, there were 25 instances of high inflation that were not preceded by this level of rapid government debt growth. In case 11, of the 85 instances where nominal government debt was at least 60 percent in five years, 17 led to high inflation, 68 did not. There were 9 cases of high inflation that were not preceded by a public debt boom. In case 12, of the 40 instances where nominal government debt growth was at least 200 percent in five years, eight were followed by periods of high inflation; 32 were not. There were 23 instances of high inflation that were not preceded by this level of high government debt growth.”

## AT: Recession by 2020

### AT: Bubbles

### AT: Overheating

#### [DL] Davis 19 of KCS: The world’s economy, including the U.S., has started to slow down, and economic growth will diminish in 2019.

Think low for 2019. Low gas prices. Low unemployment. Low interest rates. But one thing’s higher — the odds we will land in a recession. Forecasts focus on when — not whether — the next U.S. recession is coming. The hand wringing mostly is about the United States’ trade war with China, the Federal Reserve’s plan for interest rate hikes, oil’s plunging price tag and Wall Street’s sudden year-end fire sale on stocks. As for good news, economists largely agree a recession is not in the cards this year despite all their buzz about a coming downturn. “The economy’s not falling apart, not by any stretch of the imagination,” said Mark Vitner, senior economist at Wells Fargo Securities Economics Group. So why all the talk? Because much of the rest of the world economy already has begun to slow, and that is adding to the slow down in the U.S. economy expected this year. Forecasters put off the next recession until 2020 largely because the U.S. economy currently enjoys a brisk pace of growth. Even without a recession, this year might hurt. “This is going to feel like a fairly sharp slowdown in 2019,” warned economist Scott Anderson at the Bank of the West.

### AT: Trade Policy

## AT: Spending Cuts

#### [DL] Davison 18 of Bloomberg: Since the Democrats have a majority of the House of Representatives, and the Democrats want to raise taxes instead of slashing government programs, the U.S. is most likely to resort to tax rates to reduce the national debt instead of reducing government programs.

Laura Davison 18 of Bloomberg [Laura Davison, 8-23-2018, Bloomberg, "Here’s What May Happen to Your Taxes If&nbsp;Democrats Win the House", (), accessed 1-18-2019, https://www.bloomberg.com/news/articles/2018-08-23/overhauling-the-tax-overhaul-here-s-what-democrats-are-planning] //AT

Republicans thought the historic overhaul that slashed taxes would be one of their main campaign [selling points](https://www.bloomberg.com/politics/articles/2018-06-22/gop-leaders-want-to-celebrate-tax-cuts-but-few-are-listening) ahead of November elections. Instead, Democrats are talking more about the law -- and how they want to undo it. In their bid to retake control of Congress, many Democratic candidates are pointing to the $1.5 trillion tax cut -- and what they say are its exclusive benefits for corporations and wealthy individuals -- as a roadblock to expanding benefits like Social Security and Medicare. Chipping away at some of the law’s costly provisions will help to fund those programs, they say. “Democrats are able to go on the offense rather than be on defense,” said Celinda Lake, a Democratic pollster. While Democrats are campaigning against the tax cut, Republicans have been quietly shelving it and focusing more on cultural and social issues such as immigration. Polls consistently show less than half of Americans approve of the tax cut. There isn’t a formal list of agreed-upon tax policy changes, but some specific targets are emerging from discussions taking place within Democratic circles, including raising the corporate rate above 21 percent and changing the treatment of capital gains and carried interest. Other proposals, like repealing the new cap for state and local tax deductions and modifying the tax break for business owners, are proving to be more divisive. [Read more about the huge stakes for Trump in the midterm elections](https://www.bloomberg.com/news/articles/2018-07-19/the-huge-stakes-for-trump-in-the-midterm-elections-quicktake) So far, Democratic leaders have urged candidates to campaign on the issues they think will resonate in their districts, which has led to a wide array of messages. Representative Richard Neal of Massachusetts, the top Democrat on the tax-writing House Ways and Means Committee, has been hesitant to put out an economic plan while in the minority. And the House’s agenda will also be shaped by whomever serves as speaker, if Democrats regain control. Polling, fundraising and voter turnout in primaries indicate Democrats have a good shot of taking control of the House but have a much tougher road gaining a Senate majority. If Congress is split, any tax legislation House Democrats pass would likely die in the Senate or face a veto from President Donald Trump. But a House Democratic tax plan could serve as a blueprint for the changes the party would push for if it regains the Senate or wins back the White House in 2020. Here are some of the tax provisions on the Democrats’ radar: Increase Corporate Tax Rate Democrats are finding success -- particularly among blue collar workers over 50 -- by tying the corporate tax cuts to future reductions in Medicare, Medicaid and Social Security, Lake said. Slashing the corporate tax rate to 21 percent from 35 percent is estimated to cost $1.3 trillion over the next decade, according to [estimates](https://www.jct.gov/publications.html?func=startdown&id=5053) from the nonpartisan Joint Committee on Taxation. Increasing the rate, by at least a few percentage points, is likely to figure in Democrats’ sights as a way to offset the costs of other investments. In an infrastructure plan released in March, Senate Democrats called for a 25 percent corporate rate. More moderate House Democrats, including Neal, have said they’re supportive of a rate in the mid-to-high 20s. Representative John Delaney, a Maryland Democrat who is running for president in 2020, has called for increasing the corporate rate to 23 percent and to use additional revenue to fund infrastructure.

#### [DL] Starr 17 of Breitbart: In 2017, the government wasted $417 billion on trivial areas, such as a chimpanzee habitat or Shakespeare adaptation. The most likely government cut is going to be in these areas first.

Penny Starr 17 of Breitbart [Penny Starr, 12-31-2017, Breitbart, "Annual Report: Top 11 of 100 Outrageous Ways Federal Government Wasted $473 Billion in Taxpayer Money", (), accessed 1-20-2019, https://www.breitbart.com/politics/2017/12/31/11-outrageous-ways-federal-government-wasted-473-billion-in-taxpayer-money/] //AT

The report provides examples of waste and mismanagement that took place over eleven months, including newly documented past waste and ongoing wasteful practices. The total wasted dollars dug up for the report: $473 billion. Lankford wrote in the introductory remarks in the report: Included in ‘Federal Fumbles’ is just a sampling of instances where federal agencies or departments have wasted or inefficiently used billions of your dollars. The program and grant funding discussed in this book has already been allocated or spent and cannot be recovered. But highlighting it here provides lessons for agencies and hopefully encourages Congress to utilize its oversight and legislative authority to prevent future waste and misuse of federal tax dollars. Lankford said the report should be utilized by members of Congress to curtail the waste and make sure federal agencies “are doing the right thing, the right way.” “Americans rightly expect great things from their leaders in Washington,” Lankford said. “I offer this book as a guide for elected officials of both parties to identify areas of improvement so we may come together to do the work our constituents expect and our country deserves.” “There are certain things we wanted to be able to put into perspective with this,” Lankford said at the time the report was released. “This is the to-do list for next year.” The report is based on government oversight agencies, including inspectors general for each federal agency and the Government Office of Accountability (GOA). Unused Vehicles: $1.6 Billion — The Departments of Defense, Homeland Security, Agriculture, Justice, Interior and other agencies purchased an estimated 64,500 passenger vehicles, with $25,600 as the average cost for one vehicle. A GOA review of three agencies revealed there is no way to confirm if any of the vehicles were used. Trolley Expansion: $1.04 Billion — Last year the Department of Transportation awarded a $1.04 billion grant to extend a trolley line in San Diego, California, by 10.9 miles. The report noted that a billion dollars could pay for hundreds of miles of four-lane highways across the country. Lost Military Equipment: $1 Billion — The Office of Inspector General at the Department of Defense reported that the agency could not account for more than $1 billion in military equipment, including weapons and military vehicles. Congress appropriated the money for fiscal years 2015 and 2016 to supply equipment to security forces in Iraq. Chimpanzee Habitat: $52 Million — Over the past 17 years the National Institutes of Health (NIH) has spent more than $52 million to support the Chimpanzee Biomedical Research Resource, despite the fact that the 139 chimpanzees housed through the program are no longer used for biomedical research. Unused Software: $12 Million — The Internal Revenue Service spent $12 million in 2014 to purchase a two-year subscription to a cloud-based email software to replace its old system. The IG for the Treasury Department said because the software lacked compatibility and other requirements, it was never used. Fish Research: $2.6 million — Since 2003 the National Science Foundation (NSF) has paid $2.6 million to study the stickleback fish in various habitats, including one to determine how it adapted to murky water in Iceland. Language Studies: $1,109,792 Million — NSF awarded grants totaling more than $1.1 million dollars to study languages, including the Seenku language from the West African country of Burkina Faso, the four languages of New Guinea and the languages spoken in Nepal’s Manang district. Mexican Plant Study: $210,968 — The NSF funded a five-year study on native plants from Mexico to determine their role in the indigenous plant trade market. Higher Ed Aid: $138,000 — The Department of Energy (DOE) helps employees pay for educational courses to improve job skills. DOE paid one engineer $138,000 to take courses unrelated to his job, and he subsequently quit. Chinese Culture Tour: $100,000 — In 2016 the National Endowments for the Arts (NEA) awarded $100,000 to pay for Chinese troupes to perform in communities across the United States. Shakespeare Adaptation: $30,000 — An NEA grant was awarded to pay for the production of Doggie Hamlet. Included in the cast were humans, sheep, and dogs but no lines from Hamlet were used in the production.

### AT: Army Corps of Engineers

#### [DL] Ichniowski 17 of ENR: The Trump administration simply does not want to cut the ACE.

<https://www.enr.com/articles/42262-appropriators-oppose-trump-budget-cut-for-army-corps>

**Signals are strong that Congress will reject President Trump’s proposed sharp spending cut in fiscal year 2018 for the Army Corps of Engineers civil-works program**, which includes funds for river locks and dams, flood control and environmental restoration projects.

### AT: Education

#### [DL] Galston 17 of Brookings: There is bipartisan agreement for spending in education, making it unlikely that education will ever be cut.

<https://www.brookings.edu/blog/fixgov/2017/04/28/bipartisan-support-for-spending-complicates-life-for-gop/>

Notably, there are three **areas where majorities of both Republicans and Democrats now support increased spending: education**, veterans’ benefits and services, and infrastructure. Despite intense partisan polarization, which has not diminished during the early phase of the Trump administration, the opportunity for bipartisan agreement in these areas seems clear. And because President Trump emphasized two of these three issues—veterans and infrastructure—during his campaign, his leadership during the debate over the budget for Fiscal Year 2018 could prove decisive.

#### [DL] The Foundation for Economic Education: Most funding for education comes from the states, not the federal government.

<https://fee.org/articles/government-spending-on-education-is-higher-than-ever-and-for-what/>

Historically, **states have provided most of the money for higher education, “65 percent more than the federal government on average from 1987 to 2012,**” according to an analysis by the Pew Charitable Trusts.

### AT: EPA

#### [DL] Cama 18 of The Hill: Both Democrats and Republicans are rejecting Trump’s projected EPA cuts, meaning the EPA has bipartisan support now.

Cama 18 of The Hill [Timothy Cama, 3-21-2018, TheHill, "Spending bill rejects Trump’s proposed EPA cut", (), accessed 1-20-2019, https://thehill.com/policy/energy-environment/379679-spending-bill-rejects-trumps-proposed-epa-cut] //AT

The $1.3 trillion government-wide spending bill released late Wednesday rejects [President Trump](https://thehill.com/people/donald-trump)’s proposal to slash the Environmental Protection Agency (EPA) budget by 31 percent. Senior lawmakers negotiating the omnibus appropriations bill instead chose to give the agency $8.1 billion for fiscal 2018, keeping it at the same funding level as 2017. The bill still needs to pass both chambers of Congress and get President Trump’s signature before Friday at midnight in order to prevent a government shutdown. “The American people support investments in clean air and water, public lands, parks, and the arts and humanities, which are vital to the health and well-being of our communities and our economy,” Sen. [Tom Udall](https://thehill.com/people/tom-udall) (N.M.), the top Democrat on the Appropriations Committee subcommittee responsible for the EPA, said in a statement. “Together, we rejected the Trump administration’s proposal to make massive and dangerous budget cuts, and instead, we restored funding for the EPA,” Udall said. The funding level represents a victory for Democrats, who had argued that Trump’s cuts would be disastrous. But much of the GOP also opposed the 31 percent proposed cut. The bill includes a handful of new policy provisions for the EPA, including one to exempt farms from having to report their air pollution to the EPA and a requirement that the agency treat wood burning as a carbon-neutral and renewable electricity source. But the legislation also avoided a number of other policy riders that had Republican support or were in previous versions of the legislation. Lawmakers removed a provision that would have let the EPA skip the usual regulatory processes like gathering public comment as it works to repeal the Obama administration’s Clean Water Rule. In addition to the $8.1 billion for EPA in the main section of the bill, lawmakers tacked on an additional $763 million in another part of the bill for various EPA programs related to water infrastructure and to cleaning up polluted Superfund sites.

### AT: Medicare

#### [LT/NU] Keeler 18 of Brookings: Medicare will run out of funding by 2026.

Dan Keeler 18 of Brookings [Dan Keeler, 6-27-2018, Brookings, "How the ballooning federal debt threatens U.S. defense", (), accessed 1-5-2019, https://www.brookings.edu/blog/order-from-chaos/2018/06/27/how-the-ballooning-federal-debt-threatens-u-s-defense/] //AT

The largest programs in the mandatory spending category—Social Security, Medicare, and interest on the national debt—are all in some form of unsustainable crisis. This year, trustees from the Social Security and Medicare funds reported they will begin tapping into reserves in order to meet spending requirements. Trustees [indicate](https://www.wsj.com/articles/the-social-security-trust-fund-goes-bust-1528411768) that the Medicare fund will run out of dollars in 2026. Social Security is in slightly better shape, and [will be solvent](https://www.ssa.gov/oact/tr/2018/tr2018.pdf) until 2034. After that, the federal government will have to find other means to fund those programs or apply draconian cuts to benefits.

### AT: Social Security

#### [LT/NU] Keeler 18 of Brookings: Social security will run out of funding by 2034.

Dan Keeler 18 of Brookings [Dan Keeler, 6-27-2018, Brookings, "How the ballooning federal debt threatens U.S. defense", (), accessed 1-5-2019, https://www.brookings.edu/blog/order-from-chaos/2018/06/27/how-the-ballooning-federal-debt-threatens-u-s-defense/] //AT

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## AT: China

#### [DL] Samuelson 18 of MarketPlace: China won’t sell US debt because doing so would cause a huge loss of Chinese capital. However, even if they did sell off the debt, China holds less than 5% of our total debt, an insignificant amount.

Tracey Samuelson , MarketPlace, "Would China weaponize its U.S. debt as a trade war tactic?", 10-17-18, <https://www.marketplace.org/2018/10/17/economy/wouldchina-weaponize-its-us-debt-trade-war-tactic>

While **China’s holdings** are significant, they **amount to less than 5 percent of the U.S. total debt**. What’s more, the country hasn’t been adding much to its reserves in recent years. **Selling its current supply would be an aggressive move that China would not undertake unless provoked**, said Wing Woo, an economic professor at the University of California-Davis. China wouldn’t ins gate a sale “unless they are outraged by some American ac ons which they view as excessive,” he said. “**A fire sale means that the price of bonds will be lower. The Chinese would suffer big capital losses”.**

#### [DL] Schwartz 19 of NPR: China is unlikely to attack the US financially since the two countries very recently concluded successful trade negotiations.

Matthew S. Schwartz, 1-9-2019, NPR.org, "U.S.-China Trade Talks Wrap Up After Extending To 3rd Day", (), accessed 1-24-2019, https://www.npr.org/2019/01/09/683497610/us-china-trade-talks-wrap-up-after-extending-to-third-day //AD

**After extending to an unexpected third day, trade talks between U.S. and Chinese officials have concluded**, a spokesman for the Chinese foreign ministry announced Wednesday morning. Delegates to the talks have not yet revealed what specifically was discussed, or if anything was agreed to. In a Tweet Tuesday morning, **President Trump said the talks were "going very well!" Productive talks could be a boon to the economies of both countries, which spent most of 2018 mired in a trade war** that imposed hundreds of billions of dollars in tariffs on each other's goods. Over dinner in Argentina last month, Trump and Chinese President Xi Jinping agreed to a 90-day tariff truce so that negotiations could take place. If the talks were successful, they could lead to discussions in Washington, D.C., between senior officials of both countries, NPR has reported. **"Asian stocks jumped after trade talks were extended for an unscheduled third day, fueling hopes that the world's two largest economies may soon reach a trade deal**, putting an end to months of tariffs on each other's goods," reports NPR's Shanghai-based correspondent Rob Schmitz. The Asian markets reached nearly one-month highs on speculation that the world's two largest economies were hammering out a deal, Schmitz said.

## AT: Debt Crisis

### AT: Emerging Market Debt Crisis

#### [DL] Mihm 18 of Bloomberg states that the Fed is not to blame for the 1990s emerging market debt crisis because capital inflows to these markets fluctuated unevenly to the point where no correlation could be observed. he concludes that commodity price volatility and growth differential were the actual culprits of the debt crisis.

Stephen Mihm, 9-18-2018, Bloomberg, "Don’t Blame the Fed for the Emerging-Markets Meltdown", (), accessed 1-24-2019, https://www.bloomberg.com/opinion/articles/2018-09-18/emerging-markets-fed-s-rate-increases-didn-t-cause-the-meltdown //AD

The ensuing years present a similarly complicated picture. **Beginning around 1987, private inflows of capital to emerging markets turned positive, increasing at a steady pace for more than eight years. This happened as the Fed both increased rates and then cut them. It’s hard to see an obvious correlation.** More recent history is equally ambiguous. The global financial crisis that hit in 2008 prompted an unprecedented response from the Fed, as it slashed rates to near zero and instituted quantitative easing. In the popular imagination, these unorthodox policies drove huge amounts of capital to emerging markets in search of higher yields.But that’s not what happened. **Before 2008, the Fed had gradually hiked rates, eventually hitting a high of 5.25 percent in 2006. Yet during that same period, the flow of private capital into emerging economies actually increased. One study observed that capital flows to emerging economies “peaked** before the loosening of advanced economy monetary policies” instituted in the wake of the crash.The flows did plummet after the crash, but the Fed had no role. They rose again, peaked in 2010, and then began falling, well before the U.S. central bank took its first steps toward raising rates.But **if the Fed isn’t to blame, what does cause capital to flow out of emerging markets? A recent statistical analysis that evaluated a number of possible culprits concluded that the fluctuation in capital flows to emerging-market economies is largely driven by two factors: commodity prices and the so-called “growth differential.”**

#### [DL] Mourdoukoutas 18 of Forbes tells you that rising commodity prices have helped emerging market economies improve their deficits and reduce reliance on foreign capital meaning that increasing interest rates won’t hurt these markets.

Panos Mourdoukoutas, 3-19-2018, Forbes, "Higher U.S. Interest Rates Won't Cause Another Emerging Markets Financial Crisis", (), accessed 1-24-2019, https://www.forbes.com/sites/panosmourdoukoutas/2018/03/19/higher-us-interest-rates-wont-cause-another-emerging-markets-financial-crisis/#74addeb37513 //AD

That shouldn’t be the case this time around. **The rise in U.S. interest rates comes at a time of rising commodity prices** , as reflected in the Powershares DB Commodity Index Tracking Fund, up 21.48% in the last two years. **The rising in commodity prices has helped commodity exporting emerging market economies improve their current account deficits, reducing their reliance on foreign capital to finance them**. Brazil is a case in point. The country’s current account deficit has been improving recently, reaching USD 4310 million in January of 2018, lower than a USD 5085 million deficit a year earlier and market expectations of a USD 4991 million shortfall. Meanwhile, Brazil’s Foreign Exchange Reserves increased to 377035 USD Million in February from 375701 USD Million in January of 2018, and close to the all- me high of 381843 USD Million in August of 2017. South Africa is another case in point. Its current account deficit narrowed to ZAR 108.9 billion in the third quarter of 2017 from a revised ZAR 110.7 billion in the previous period. That has helped South Africa avert a crisis, as the country’s foreign capital reserves have been declining, down by USD 450 million to USD 50.05 billion in February of 2018, the lowest level since October 2017. Financial markets have taken no ce. iShares MSCI Brazil are up 64.10% in the last two years, while iShares MSCI South Africa are up 37.79%.

## AT: Inflation

#### [DL] Vague 16 of INET finds that out of 47 instances of government debt growth, only 6 were followed by periods of high inflation.

Richard Vague, 12-2-2016, Institute for New Economic Thinking, "Rapid Money Supply Growth Does Not Cause Inflation", (), accessed 1-24-2019, https://www.ineteconomics.org/perspectives/blog/rapid-money-supply-growth-does-not-cause-inflation //AD

Our results on government debt were as follows. In case 10, **of the 47 instances where government debt growth was at least 20 percentage points in five years, six were followed by periods of high inflation, while 41 were not**. By contrast, there were 25 instances of high inflation that were not preceded by this level of rapid government debt growth. In case 11, of the 85 instances where nominal government debt was at least 60 percent in five years, 17 led to high inflation, 68 did not. There were 9 cases of high inflation that were not preceded by a public debt boom. In case 12, of the 40 instances where nominal government debt growth was at least 200 percent in five years, eight were followed by periods of high inflation; 32 were not. There were 23 instances of high inflation that were not preceded by this level of high government debt growth.

#### [DL] Henderson 99 of CATO tells you that it is not possible for increased economic growth to increase inflation. If more goods are produced, their prices will naturally be lower meaning that increased growth can only cause inflation to drop.

David R. Henderson, Nov/Dec 1999, Cato Institute, "Policy Report: Does Growth Cause Inflation?", (), accessed 1-24-2019, https://www.cato.org/policy-report/novemberdecember-1999/does-growth-cause-inflation //AD

**“For the last few years, the claim that an increase in economic growth leads to an increase in inflation and that decreased growth reduces inflation has been a mantra**. That is the conventional wisdom in Washington and, to a lesser extent, on Wall Street. On October 12, for example, Federal Reserve Board governor Laurence Meyer stated, “Tightening monetary policy slows spending growth, opens up some slack temporarily in labor and product markets, and allows the slack to reduce inflation.” **Yet**, taken literally, **that claim cannot be true. All other things being equal, an increase in economic growth must cause inflation to drop**. Here’s why. The seat-of-the-pants explanation of inflation is that it is caused by too much money “chasing” too few goods. **It follows that the more goods that are produced, the lower the prices of goods. This connection between the level of production and the level of prices also holds for the rate of change of production** (that is, the rate of economic growth) **and the rate of change of prices** (that is, the inflation rate).”