# NC – Inflation/Speculation

We negate

Resolved: The United States should replace means-tested welfare programs with a universal basic income.

## Contention One is Redirecting Benefits.

**Dodge** explains in **2016** that a UBI would leave low-income families worse off because federal dollars that are currently targeted toward the poor would be transferred to a universal program shared by the middle class and wealthy too. **Matthews** quantifies in **2017** that low and middle income people would lose $18,000 to $28,000 in benefits, thus outweighing the effect of the UBI. **The Wharton School at the University of Pennsylvania** continues in **2019** that redistributing income upward would increase poverty and inequality rather than reduce them.

Moreover, the **OECD** writes in **2014** that reducing income inequality would boost economic growth. Countries where income inequality is decreasing grow faster than those with rising inequality.

## Contention Two is Disrupting the Economy.

### Sub Point A is Inflation.

A universal basic income would lead to inflation and higher consumer prices in 2 ways.

First is because of market expectations.

**Noguchi** explains in **2018** that the infusion of unearned cash in the form of a universal basic income would move more cash into the hands of those most likely to spend it. This would put upward pressure on prices and summon fears of inflation across the board. This is problematic as **Archetto** explains in **2018** that if everyone suddenly had an extra $12,000 a year and everyone knew that everyone had an extra $12,000 a year, prices would shoot up. With the knowledge that people can afford higher prices, businesses would certainly charge more for their products.

Second is due to tax hikes.

**Jaeger** quantifies in **2018** that a UBI would cost the government $3.8 trillion to fund. Crucially, according to **Lant** in **2017**, existing means-tested welfare programs only cost $1 trillion. Because of this, **Jaeger** continues that even with the abolishing of welfare, funding a UBI would require an increase in taxes in one form or the other.

This would most likely happen through a value-added tax.

This is problematic as the **Tax Policy Center** writes in **2016** that a value-added tax taxes goods at every stage of production and sale. Because of this, businesses pass along higher prices to consumers, thus causing inflation. **Flassbeck** corroborates in **2017** that this inflation would ensure that money received through a UBI would be insufficient for a decent living.

Empirically, **Forbes** finds in **2019** that VAT implementation in India lead to drastic price increases of essential products such as food and medicine, resulting in public outcry.

The impact is increasing interest rates.

**Seeking Alpha** explains in **2017** that if inflation rises faster than expected the Fed would hike interest rates aggressively which would plunge the economy into a recession. **Kolakowski** corroborates that the Fed is increasingly concerned today about keeping inflation in check, and any miscalculation that raises interest rates too high, too fast could spark a recession. **Butler** furthers in **2019** that when the Fed raises rates, the cost of borrowing goes up leading banks to raise their own interest rates for businesses and consumes resulting in a slowing economy as people borrow and spend less. Even more **Colombo** explains in **2018** that “soft landings” after rate hike cycles are as rare as unicorns as virtually all rate hike cycles result in recession or financial crises.

### Subpoint B is Speculation.

**Noguchi** explains in **2018** that the implementation of a UBI would have the impact of summoning widespread fears of inflation. This is problematic because whether or not real inflation occurs, the fear of it can have adverse consequences.

**Global Pimco** warrants that inflation poses a “stealth” threat to investors because it chips away at investment returns. Inflation prevents long term gains because returns must first keep up with the rate of inflation to increase real purchasing power. For example, an investment that returns 2% before inflation in an environment of 3% inflation will actually produce a negative return of -1% when adjusted for inflation.

This is problematic as **Warr** explains in **2018** that just the threat of inflation can cause trouble among investors as they begin to realize that things may be about to slow down. When investors begin exiting markets, everyone begins following causing the market to tank. This is why a market can appear to be doing great and then suddenly tank at the first hint of inflation.

Moreover, **Amadeo** explains in **2018** that a stock market crash would easily kick-start a recession, as it would signal a massive loss of confidence in the economy.

The impact to both arguments is increasing poverty.

Another financial crisis or recession would be devastating as a **Tufts University** study concluded that because the US economy is so integral to the world economy, the 2008 recession pushed between 50 to 100 million people into poverty worldwide.

Thus, we negate.

# CARDS

## C1 Redirecting Benefits

#### Lee ‘14

Lee, Michelle Ye Hee. Dec 5 2014. “Do ‘welfare’ recipients get $35,000 in benefits a year?.” Washington Post. <https://www.washingtonpost.com/news/fact-checker/wp/2014/12/05/grothman-single-parents-welfare/>

The state with the highest total value of welfare benefits was Hawaii, at $49,175. The lowest was Mississippi, at $16,984. Welfare packages in only 10 states, plus Washington, D.C., exceeded Grothman’s threshold of $35,000. Hawaii may be distorted by the high cost of living, researchers said. The rest of the states were below Grothman’s mark, including his own state. It’s correct that a single parent can receive $35,000 in benefits, if he or she lives in one of the 10 states listed in the Cato report, or Washington, D.C. But the median welfare package, which would have been the relevant number to use, is about $28,800 — lower than Grothman’s figure.

#### Dodge ‘16

Dodge, Joel. Sept 23 2016. “The progressive case against a universal basic income.” <https://qz.com/789889/a-universal-basic-income-could-wind-up-hurting-the-poor-and-helping-the-rich/>

Given the sheer political unlikelihood of massively increased taxation, many liberals fear that a basic income would inevitably come at the expense of the safety net programs they have spent generations defending. Greenstein [argues](http://www.cbpp.org/poverty-and-opportunity/commentary-universal-basic-income-may-sound-attractive-but-if-it-occurred) that a basic income would leave low-income families worse off because federal dollars that are currently targeted toward the poor would be transferred to a universal program shared by the middle class and wealthy, too. A [recent discussion](https://www.aei.org/events/in-our-hands-a-plan-to-replace-the-welfare-state-2/) at the American Enterprise Institute distilled the emerging liberal discomfort with basic income. The talk featured Charles Murray, a prominent conservative social scientist, and Jared Bernstein, a liberal economist and former adviser to US vice president Joe Biden. Murray endorsed a basic income in a [2006 book](https://www.amazon.com/Our-Hands-Replace-Welfare-State/dp/0844742236), which proposed to scrap all existing safety-net programs in favor of a $10,000 yearly grant to each American adult. Bernstein objected, anticipating that the poor would be made worse off, and defending the safety net’s gains in fighting poverty. Murray’s basic income looks a lot like a $10,000 Trojan horse. He explicitly rejects any additional government support for families with children, and would refuse any further public aid to those who fall in need after exhausting their income grant. Those with such misfortune, Murray says, must depend on charity.

#### Mathews ’17

Mathews, Dylan. May 30 2017. “What happens if you replace every social program with a universal basic income.” Vox. https://www.vox.com/policy-and-politics/2017/5/30/15712160/basic-income-oecd-aei-replace-welfare-state

By contrast, more or less everyone over the age of 65 would lose out — big time. The poorest seniors would lose more than $34,000 worth of benefits in exchange for the UBI. Low- and middle-income people would lose $18,000 to $28,000 each. The rich would lose out for the same reason poor non-seniors would

#### Wharton Upenn ‘19

Wharton Public Policy Initiative. Sept 20 2019. “A Closer Look At The Universal Income.” https://publicpolicy.wharton.upenn.edu/live/news/3136-a-closer-look-at-universal-basic-income

Yang also proposes $500-$600 billion cuts to existing welfare programs, whereby citizens who opt-in to UBI forego their claims to food-stamps, disability benefits, etc. Funding UBI through consolidation of the welfare system may generate conservative support, but economists such as Robert Greenstein view such an approach as fundamentally harmful to the poor. He writes, “If you take the dollars targeted on people in the bottom fifth or two-fifths of the population and convert them to universal payments to people all the way up the income scale, you’re redistributing income upward. That would increase poverty and inequality rather than reduce them.”[[26]](https://publicpolicy.wharton.upenn.edu/live/news/3136-a-closer-look-at-universal-basic-income#_edn26)

#### Gunn ‘19

Gunn, Dwyer. Feb 15 2019. “A UNIVERSAL BASIC INCOME MIGHT HURT POOR PEOPLE MORE THAN HELP.” Pacific Standard. <https://psmag.com/economics/a-universal-basic-income-might-hurt-poor-people-more-than-help>

In [a new working paper](https://www.nber.org/papers/w25538), economists [Hilary W. Hoynes](https://gspp.berkeley.edu/directories/faculty/hilary-hoynes) and [Jesse Rothstein](https://eml.berkeley.edu/~jrothst/), both of whom have extensively studied the social safety net in America, take a look at the costs, distributional effects, and possible labor-market effects of UBI programs in advanced economies with existing social safety nets. They find, in line with many of the most prominent criticisms of the UBI, that such programs, if they were truly universal, would indeed be very expensive and, in comparison to the existing social safety net, would likely redirect spending to better-off families, potentially leaving low-income families worse off than they currently are. If a UBI in the U.S. were to replace other safety net programs, as some have proposed, such a program would also result in a big distributional shift. This chart, from the paper, illustrates the current distribution of federal safety net spending, by family type: Current U.S. safety net spending is also heavily targeted to lower-income families, as the chart below, also from the paper, makes clear: Indeed, one of the most compelling arguments against a UBI to emerge from this paper may be that, at the most likely funding levels, it would redistribute resources away from low-income families with children. As the first chart above illustrates, families with children already seem to be a low priority in the U.S., [despite strong evidence that investing in early childhood is sound policy](https://psmag.com/economics/the-case-for-investing-in-children-has-never-been-stronger).

#### Guy Standing ‘17

August 2017, Professorial Research Associate at SOAS University of London and a founder member and honorary co-president of the Basic Income Earth Network (BIEN), Basic Income: A Guide for the Open-Minded, p. 95

WHAT IS MEANT BY ‘ BASIC ’ ? The term ‘ basic ’ causes a lot of confusion . At the least , it means an amount that would enable someone to survive in extremis, in the society they live in . It could be more . However , the underlying purpose is to provide basic economic security , not total security or affluence . Total security would be neither feasible nor desirable . Deciding what constitutes basic security is a challenge , but intuitively it should be easy to understand . Basic security in terms of being able to obtain enough to eat and a place to live , an opportunity to learn and access to medical care surely constitutes what any ‘ good society ’ should provide , equally and as certainly as it can . Most advocates of a basic income believe it should be provided as a ‘ right ’ , meaning that it cannot be withdrawn at will . This issue is discussed further in Chapter 3 . Some argue that the basic income should be sufficient to ensure ‘ participation in society ’ . As a definition , this seems both unnecessary and too vague . However , it reflects a laudable wish for all to have adequate resources to enable them , in words associated with Alexis de Tocqueville , to go forth in society as citizens with equal status . A sensible pragmatic position is that the level of a basic income should be sufficient to advance in that direction . So , how high should the basic income be ? Some advocates believe it should be set at the highest amount that is sustainable , and as close as possible to an ‘ above - poverty ’ level . This is the libertarian view , discussed in Chapter 3 , which is often accompanied by claims that a basic income could then replace all state benefits and welfare services . Others , including this writer , believe that a basic income could start at a low level and be built up gradually , determined by the size of a fund set up for the purpose and the level and change in national income . Whatever level is set , however , a basic income need not – and should not – be a calculated means of dismantling the welfare state.

#### Coppola ‘17

Coppola, Frances. Oct 15 2017. “The IMF Gives A Cautious Wlecome to UBI.” Forbes. https://www.forbes.com/sites/francescoppola/2017/10/15/the-imf-gives-a-cautious-welcome-to-universal-basic-income/#5768b32d2b64

Group 3 countries present something of a challenge. Replacing inefficient and inadequate transfer systems with UBI could benefit a lot of people, but some existing beneficiaries would lose out, and there might be greater benefit from improving existing systems. For the United States, for example, the IMF’s model shows that people at the lower end of the income scale would benefit more from upgrading earned income tax credits (EITC) than from UBI. But for India, replacing the Public Distribution System (PDS) operational at the time of the evaluation (2011) with UBI would have substantially improved support of low-income groups. The IMF’s recommendation that for Group 2 and some Group 3 countries, improving existing systems would be better than replacing them with UBI comes as no surprise. A universal flat-rate payment can never be as efficient as well-functioning targeted transfer payments.

#### CNBC ‘17

Elizabet Schulze, December 27, 2017, CNBC, Why Some Countries are seriously considering Handing Out Free Money https://www.cnbc.com/2017/12/28/universal-basic-income-why-some-countries-are-seriously-considering-handing-out-free-money.html

There is plenty of debate over the costs of universal basic income. The 560 euros per month payment in Finland is roughly in line with the amount of unemployment assistance recipients would already receive from the government. Researchers in Finland said other benefits would need to be reduced to pay for a universal basic income across the country. Yet, in a 2017 report, the OECD found that reducing existing benefits to pay for basic income could actually have a negative impact on poverty levels. "Overall poverty rates (and gaps) can in fact increase significantly in countries that currently have tightly targeted systems of income support," the report said. Instead of replacing existing programs, some advocates say universal basic income should be an added benefit. "The better way is to see basic income as a transformation of what's already there," said Louise Haagh, chair of the advocacy group Basic Income Earth Network. Other basic income experiments are underway in the States.

#### OECD ‘14

<https://www.oecd.org/newsroom/inequality-hurts-economic-growth.htm>

Reducing income inequality would boost economic growth, according to new OECD analysis. This work finds that countries where income inequality is decreasing grow faster than those with rising inequality. The single biggest impact on growth is the widening gap between the lower middle class and poor households compared to the rest of society. Education is the key: a lack of investment in education by the poor is the main factor behind inequality hurting growth. “This compelling evidence proves that addressing high and growing inequality is critical to promote strong and sustained growth and needs to be at the centre of the policy debate,” said OECD Secretary-General Angel Gurría. “Countries that promote equal opportunity for all from an early age are those that will grow and prosper.” Rising inequality is estimated to have knocked more than 10 percentage points off growth in Mexico and New Zealand over the past two decades up to the Great Recession. In Italy, the United Kingdom and the United States, the cumulative growth rate would have been six to nine percentage points higher had income disparities not widened, but also in Sweden, Finland and Norway, although from low levels. On the other hand, greater equality helped increase GDP per capita in Spain, France and Ireland prior to the crisis. The paper finds new evidence that the main mechanism through which inequality affects growth is by undermining education opportunities for children from poor socio-economic backgrounds, lowering social mobility and hampering skills development. People whose parents have low levels of education see their educational outcomes deteriorate as income inequality rises.

## C2 Interest Rates

### 1 – Artificial High

#### Noguchi ‘18

Noguchim, Eri. Aug 16 2018. “A Universal Basic Income (UBI) may affect the labor market. So what?.” Roosevelt House: Public Policy Institute At Hunter College. http://www.roosevelthouse.hunter.cuny.edu/?forum-post=universal-basic-income-ubi-may-affect-labor-market

Of course, the UBI detractors would most likely chime in and respond that it is not the upward pressure on wages, per se, that is problematic, but rather the potential that increasing wages could overheat the economy by creating greater demand than supply, which is the principle driver of inflation. Paying higher wages to workers, combined with the infusion of unearned cash (and here the term “unearned” is solely meant to indicate that it is not tied to paid labor) in the form of a universal guaranteed basic income to all citizens regardless of their employment status, would, most likely, move more cash into the hands of those most likely to spend it, for both would disproportionately be allocated to those who find themselves on the lower rungs of the country’s income distribution continuum. And putting more cash in the hands of those most likely to spend it, that is not accompanied by an economy proportionately increasing the production of those goods and services a newly moneyed class is demanding, will most likely place an upward pressure on prices, which, of course, summons fears of inflation.

#### Archetto ‘18

Archetto, Greg. July 16 2018. “Implementation of a 'universal basic income' program would be a disaster.” The Hill. https://thehill.com/opinion/finance/397192-implementation-of-a-universal-basic-income-program-would-be-a-disaster

For example, in [Finland](https://www.economist.com/finance-and-economics/2018/04/26/the-lapsing-of-finlands-universal-basic-income-trial) — and a smattering of other countries — principalities and cities are currently experimenting with UBI using sample populations limited by age, employment status, and other factors, hardly "universal." So far no definitive results have been gleaned on UBI's efficacy, but in today's millennial parlance, let me "save you a click." In order to fully appreciate how UBI would work, you need to look at what it's implementation would do to an entire economy, not just a fraction of it. If everyone suddenly had an extra $10K a year, and everyone knew that everyone had an extra $10K a year, prices would go up and inflation would rise, thus negating the perceived gains of such a program. Think of it this way. If you walk into a store right now, the price of any product is based on the maximum amount of money it can command in exchange for it in relation to the number of customers needed to pay that price and keep it moving off the shelves at a predictable pace. In other words, supply and demand. However, this is based on the fact that the shop owner has no way of knowing the wealth level of every customer that walks into his store. Now, if Scrooge McDuck waddled in, the shop owner could assume his wealth, deduce that he could afford to pay more, and try to raise the prices on the fly. However, that would be tough because prices are usually clearly marked. But generally, that price is set using the knowledge that any single customer that walks in at any given time has a wealth baseline of $0 and an upper bound of, say, $112 billion. But, if you add in the knowledge that everybody that walks into your store, because of UBI, now has a wealth baseline of X+$10K, don't you think that shop owner would charge more for his products? He knows you can afford a higher price now. These price rises would then have reverberations throughout the economy. As prices went up, wages would need to follow, which would make prices go even higher in an upward inflationary spiral. This is essentially Milton Friedman's "[helicopter money](https://en.wikipedia.org/wiki/Helicopter_money)" analogy. It's the same reason why, if you as an American (or westerner for that matter) have ever visited a market in a third-world country, the shopkeepers immediately jack up the prices because they know you can afford to pay more. You might as well be wearing golden robes and a diamond tiara. UBI is a subsidy, plain and simple, and if we've learned anything about subsidies, it's that whenever you subsidize anything, you invariably raise its price, because you've lowered the cost to the consumer, and thus increased demand. If a Rube Goldberg machine is defined as something intentionally designed to perform a simple task in an indirect and over-complicated manner, then he'd award the concept of UBI a gold medal were he alive today.

### 2 – Tax Hikes

#### Jaeger ‘18

Max Jaeger, 12 July 2018, New York Post, <https://nypost.com/2018/07/12/universal-basic-income-would-cost-taxpayers-3-8t-per-year-study/>

Doling out a Universal Basic Income of $12,000 a year to every American citizen would cost taxpayers $3.8 trillion, according to a new study by investment management firm Bridgewater Associates. That’s roughly one-fifth of the nation’s entire annual economic production — or 78 percent of all the taxes collected for social programs, according to Bridgewater co-chairman Ray Dalio, who [published the study “Primer on Universal Basic Income” to LinkedIn](https://linkedin.com/pulse/primer-universal-basic-income-ray-dalio/) on Thursday. The premise of UBI is that every citizen receives regular, no-strings-attached payments from the government that, when paired with minimum-wage work, yield a livable income.

#### Jaeger ‘18

Jaeger, Max. July 12 2018. “Universal Basic Income would cost taxpayers $3.8T per year: study.” New York Post. https://nypost.com/2018/07/12/universal-basic-income-would-cost-taxpayers-3-8t-per-year-study/

UBI has been hotly debated, with proponents charging it will level out economic inequality and buffer against automation-related job losses, and detractors arguing it will be too costly and encourage laziness. Dalio didn’t pick a side, but instead ran the numbers to determine how much it would cost and how it could be paid for. The conclusion: It would not be cheap, and there’s likely no way to fund such a program without cutting existing social programs and raising taxes. “Even the most generous welfare states would struggle to cover the cost of a poverty-line basic income,” Dalio wrote. “Not to say it isn’t possible – just that incremental change in our social/taxation systems wouldn’t get you there.” In the “highly unlikely” event every penny of government social spending — except for infrastructure and education — was redirected toward UBI, it would only cover 92 percent of the $3.8 trillion-a-year price tag, Dalio wrote. If social income programs — such as disability, social security, pensions, welfare and unemployment benefits — were axed but health care and medical social spending preserved, the savings would account for 37 percent of the cost of UBI, researchers found. Basic income payments become more feasible if people on the upper end of the income spectrum receive little or none of the free money, according to Dalio. For instance, setting UBI payments on a sliding scale and withholding checks from anyone who earns $120,000 or more annually through work would reduce the overall cost of implementing UBI in the US by about half, Dalio said. “While this is technically not a Universal Basic Income, it may offer a compromise solution between securing the underlying goals of UBI and the constraints/concerns surrounding financing it,” he said. Cities in the US, Canada, Finland and the Netherlands have announced pilot programs to test the basic tenets of UBI. The city of Stockton, Calif., is testing the notion by giving 100 residents $500 a month for 18 months. The scheme is being funded with $1 million from the Economic Security Project — a pet project of Facebook co-founder Chris Hughes, [according to CNN](https://money.cnn.com/2018/07/09/technology/stockton-california-basic-income-experiment/index.html). Other tech-bro UBI supporters include Facebook co-founder Mark Zuckerberg and Tesla founder Elon Musk, Dalio noted.

#### Lant ’17

Karla Lant, 3 May 2017, Futurism, <https://futurism.com/heres-how-we-could-fund-a-ubi-program-in-the-united-states>

Paying everyone and not just a select few is likely to make the system more popular and longer-lasting. Society as a whole should benefit as workers will be more readily able to change jobs or take on new pursuits. But how would we pay for this? $1,000 a month for everyone would cost approximately $2.7 trillion annually, which represents around four to five times the size of [the defense budget](https://www.defense.gov/News/News-Releases/News-Release-View/Article/652687/department-of-defense-dod-releases-fiscal-year-2017-presidents-budget-proposal/) and 15 percent of the [GDP](http://www.tradingeconomics.com/united-states/gdp). In his book, Stern proposed paying for the $2.7 trillion as follows: Cancel most existing antipoverty programs, which cost about $1 trillion a year, including food stamps ($76 billion a year), housing assistance ($49 billion), and the Earned Income Tax Credit ($82 billion)

#### Tax Policy Center ‘16

“Who would bear the burden of a VAT?”. https://www.taxpolicycenter.org/briefing-book/who-would-bear-burden-vat

Although a value-added tax (VAT) taxes goods and services at every stage of production and sale, the net economic burden is like that of a retail sales tax. Sales taxes create a wedge between the price paid by the final consumer and what the seller receives. Conceptually, the tax can either raise the total price (inclusive of the sales tax) paid by consumers or reduce the amount of business revenue available to compensate workers and investors. Theory and evidence suggest that the VAT is passed along to consumers via higher prices. Either way, the decline in real household income is the same regardless of whether prices rise (holding nominal incomes constant) or whether nominal incomes fall (holding the price level constant). Because lower-income households spend a greater share of their income on consumption than higher-income households do, the burden of a VAT is regressive when measured as a share of current income: the tax burden as a share of income is highest for low-income households and falls sharply as household income rises. Because income saved today is generally spent in the future, the burden of a VAT is more proportional to income when measured as a share of income over a lifetime. Even by a lifetime income measure, however, the burden of the VAT as a share of income is lower for high-income households than for other households. A VAT (like any consumption tax) does not tax the returns (such as dividends and capital gains) from new capital investment, and income from capital makes up a larger portion of the total income of high-income households. Using a method more reflective of lifetime burdens, Eric Toder, Jim Nunns, and Joseph Rosenberg (2012) estimate that a 5 percent, broad-based VAT would be regressive at the bottom of the income distribution, roughly proportional in the middle, and then generally regressive at the top. The VAT would impose an average tax burden of 3.9 percent of after-tax income on households in the bottom quintile of the income distribution.

#### Forbes ‘19

YEC Council Post. May 8 2019. “Universal Basic Income: An Entrepreneur's Perspective.” Forbes. <https://www.forbes.com/sites/theyec/2019/05/08/universal-basic-income-an-entrepreneurs-perspective/#1dc2a2e05b4e>

However, from my experience as both an accountant and an entrepreneur, I believe that this VAT-driven method of implementing UBI will lead to inflation. Monetary Inflation And Cost-Push Inflation Before discussing that, here’s a common misconception around the current UBI debate. One of the most popular criticisms levied against UBI as a concept is the idea that implementing this policy would result in inflation. The logic is that with more money to go around, the intrinsic value of money itself will become weakened, causing prices to increase. In actuality, monetary inflation is not a guarantee with UBI so long as it doesn’t increase the physical amount of money being printed and added to circulation. This is the defense used by Yang; [according to his campaign website](https://www.yang2020.com/what-is-ubi/), the Freedom Dividend “has minimal changes in the supply of money because it is funded by a Value-added Tax.” However, the implementation of a UBI program such as the Freedom Dividend can still lead to inflation, just in a different form. From what I can see, the most likely form of inflation to manifest through the implementation of something like the Freedom Dividend is [cost-push inflation](https://www.investopedia.com/terms/c/costpushinflation.asp). This form of inflation comes about when the cost of production increases, which would occur as a result of VAT. This is the form of inflation I was referring to earlier: not traditional monetary inflation. A research paper from 2011 covering the effects of [VAT implementation in India](https://www.researchgate.net/publication/267791238_The_effect_of_value_added_taxes_on_the_Indian_society) confirms my fears of cost-push inflation. In it, several stories are cited of drastic price increases for essential products such as food, petrol and medicine. VAT implementation was given as a direct cause for all these scenarios, and public outcry was the result. Even if a monthly stipend were granted as a result of this inflation, the likelihood of similar public unrest in America is certainly a cause for concern.

#### Flassbeck ‘17

Heiner Flassbeck 2017 (Leibniz Information Centre for Economics, “Universal Basic Income Financing and Income Distribution – The Questions Left Unanswered by Proponents”, https://www.ceps.eu/system/files/IEForum22017\_3.pdf)

The introduction of a basic income without generating a rise in inflation is hardly imaginable. It would only be possible – and this is an absolutely essential condition – if the implementation of a UBI was the explicit result of state redistribution and if the redistribution measures are widely accepted by all powerful actors in the economy. This is basically unthinkable. For example, if the UBI were financed through higher VAT rates, this would clearly be inflationary, because companies would pass along the bulk of the higher taxes to customers. The consequences for those people relying fully on the UBI would be fatal. Their basic incomes would be insufficient for a decent living. Would the government then be obliged to step in and add conditional aid and social protection to the poorest? Imagining that one can achieve a massive redistribution of income without triggering adverse reactions through the markets is a dangerous illusion. Picture a monthly UBI of about €1,000 a month for a country like Germany. With a population of about 80 million people, the German government would need roughly €800 billion to finance the UBI. This additional revenue is more than the current tax total revenue in Germany, which stands at about €700 billion. Implementing a UBI would thus require a doubling of the tax current level. Some argue that the government would no longer pay social benefits and that the savings could be used to finance a UBI. But this is wrong. The government would indeed no longer be required to pay some €400 billion in social contributions, but it would also no longer receive social security contributions at a similar level. The social security systems in most countries, including Germany, have approximately balanced budgets. Some savings opportunities do exist, as the government normally subsidises pension systems, but the amounts are rather small given the overall burden of a UBI. On the other hand, totally un-solved is the question of health care. Health care contributions could not be covered by a UBI of €1,000 without pushing those fully dependent on UBI back into poverty. Hence, health care would either remain in the realm of the government, involving expenses of 10-15% of today’s GDP (roughly €300 billion), or a monthly UBI of €1,000 would clearly not be sufficient to allow for a decent and independent livelihood. But even a UBI of €1,000 would destroy the pillars of the system we are used to living in. Doubling government revenue by doubling tax rates would trigger a distributive struggle the likes of which we have never seen before. The ratio of taxes to GDP in most highly developed economies today is close to 25%. To raise the level of taxes and other contributions to 50% would be a revolutionary act. This act, however, would come with the acknowledgement that this is explicitly being done to allow quite a few people to avoid contributing anything tangible to the fabric of our societies anymore. The outcry of those who are expected to contribute as much as or even more than before would be ferocious. To be unmistakably clear: Given the distribution of power in our societies, it is preposterous to assert that the government would double its tax revenue without powerful groups – entrepreneurs, big companies and rich people – passing on the additional tax burden to customers and the powerless. It is cynical to talk about a UBI without talking about the distribution of power and the many different options available to powerful groups to avoid being taxed for this purpose. And if the powerful are indeed able to avoid significant extra payments and receive a UBI nevertheless, the overall effects on the distribution of income may be catastrophic. As said above, the most likely outcome is a spike in inflation, as an increase in the VAT rate will be the only tax measure accepted by the powerful groups. The negative effects of a bout of inflation on the distribution of income would fall on the poor and would immediately bring about a call for special and additional measure by the government to protect the poorest. Once that happens, Pandora’s box will be open, and many will ask for conditional measures to correct the dismal outcome of an unconditional basic income on the distribution of income.

### Impact

#### Kolakowski ‘19

Mark Kolakowski, Investopedia, 25 June 2019, <https://www.investopedia.com/investing/1929-stock-market-crash-could-happen-again/>

After the experience of 1929, the Fed has been indisposed to tighten monetary policy in an attempt to deflate asset bubbles. However, as economic growth reports improve, the Fed is increasingly concerned today about keeping inflation in check. Any miscalculation that raises interest rates too high, too fast could spark a recession and send both stock and bond prices tumbling downwards. (For more, see also: [How The Fed May Kill The 2018 Stock Rally](https://www.investopedia.com/news/how-fed-may-kill-2018-stock-rally/).)

#### Butler ‘19

Butler, Renee. July 15 2019. “What happens if interest rates increase too quickly?” Investopedia. https://www.investopedia.com/ask/answers/101615/what-happens-if-interest-rates-increase-too-quickly.asp

When the [U.S. Federal Reserve](https://www.investopedia.com/terms/f/federalreservebank.asp) raises the [federal funds rate](https://www.investopedia.com/terms/f/federalfundsrate.asp), the cost of borrowing goes up too, and this increase starts a series of cascading effects. In essence, banks raise their interest rates for consumers and businesses, and it costs more to buy a home or finance a company. In turn, the economy slows down as people spend less. However, this also keeps the cost of goods stable and curtails inflation. It serves as a signal that economic growth in the United States is expected to be firm as well. It all comes down to timing. The economy has to be robust enough to handle the increase in the cost of borrowing. If the Fed increases interest rates too quickly – before the economy is ready for it – the realized effect of the interest rate increase can be too much, and the measure could backfire. The economy would become strained and fall into a recession. Moreover, the effect of interest rates going up would not be felt only in the U.S. If interest rates rise too quickly, the comparative value of the dollar could go up, affecting world markets as well as domestic companies with businesses in other countries.

#### Amadeo ‘20

Amadeo, Kimberly. Jan 3 2020. “Fed Funds Rate, Its Impact, and How It Works.” The Balance. https://www.thebalance.com/fed-funds-rate-definition-impact-and-how-it-works-3306122

The fed funds rate is the interest rate [banks](https://www.thebalance.com/what-is-banking-3305812) charge each other to lend [Federal Reserve funds](https://www.thebalance.com/what-are-federal-reserve-funds-how-the-funds-market-works-3305841) overnight, but it's also a tool the nation's central bank uses to control U.S. [economic growth](https://www.thebalance.com/what-is-economic-growth-3306014) and a benchmark for interest rates on credit cards, mortgages, bank loans, and more. Arguably, that makes it the most important [interest rate](https://www.thebalance.com/what-are-interest-rates-and-how-do-they-work-3305855) in the world. The FOMC changes the fed funds rate to control [inflation](https://www.thebalance.com/what-is-inflation-how-it-s-measured-and-managed-3306170) and maintain [healthy economic growth](https://www.thebalance.com/what-is-the-ideal-gdp-growth-rate-3306017). The FOMC members watch [economic indicators](https://www.thebalance.com/top-usa-future-economic-trends-3305666) for signs of inflation or [recession](https://www.thebalance.com/what-is-a-recession-3306019). The key indicator of inflation is the [core inflation rate](https://www.thebalance.com/core-inflation-rate-3305918). The critical indicator for a recession is the [durable goods report](https://www.thebalance.com/durable-goods-orders-report-3305739). When the Fed raises rates, it's called [contractionary monetary policy](https://www.thebalance.com/contractionary-monetary-policy-definition-examples-3305829). A higher fed funds rate means banks are less able to borrow money to keep their reserves at the mandated level. (More on this below.) As a result, they lend less money out. The money they do lend will be at a higher rate because they are borrowing money at a higher fed funds rate. Because loans are harder to get and more expensive, businesses will be less likely to borrow. This will slow down the economy. When this happens, adjustable-rate mortgages become more expensive. Homebuyers can only afford smaller loans, which slows the housing industry. Housing prices go down. Homeowners have less equity in their homes and feel poorer. They spend less, thereby further slowing the economy. Meanwhile, a 0.25 percentage point increase in the fed funds rate, intended to [curb inflation](https://www.thebalance.com/what-is-being-done-to-control-inflation-3306095), could slow growth and prompt a decline in the markets. Stock analysts pore over every word uttered by anyone on the FOMC, trying to decode what the Fed will do.

#### Seeking Alpha ‘17

11-7-2017, "Fed Watch: 3 More Hikes And Done?," Seeking Alpha, <https://seekingalpha.com/article/4121729-fed-watch-3-hikes-done?page=2>

Policy normalization The Fed is currently implementing monetary policy normalization as outlined in the Policy Normalization Principles and Plans in 2014. Specifically, the Fed is committed to gradually increase its target range for the federal funds rate, initially from the zero-bounce level to "more normal levels". Essentially, it is in the process of removing the extraordinary stimulus enacted after the 2008 financial crisis. However, the Fed does not define these "more normal levels." Note, it does acknowledge that the policy normalization regime is data-dependent. Thus, the Fed is likely to continue to gradually increase interest rates, as long as economic data continues to support the monetary tightening. Ideally, the Fed would like to move the bar as high as possible, just to make sure that it retains sufficient ability to appropriately ease interest rates when the next recession arrives - without actually causing a recession. At the same time, the Fed's failure to increase interest rates to "more normal levels" before the next recession arrives, will severely limit its ability to fight that recession - without resorting to the alternative monetary policy measures. Thus, the Fed is facing a delicate task of reaching that "not too high - not too low" level for the federal funds rate. Key risk factor There are two key risk factors related to the Fed's policy normalization: 1) inflation rises faster than expected so the Fed hikes more aggressively, and thus causes a recession; or 2) weak economic data or asset market bubbles/busts prevent the Fed in completing the policy normalization process before the next recession arrives. Which one of these two risks is currently more important? Market expectations on future interest rate hikes Based on the Federal Funds futures, we can determine the market consensus expectations regarding the future interest rate hikes. Here is the chart showing the implied Fed Funds rates over the next two-three years: Based on Nov 2017 contract, the current Fed rate is 1.155%. The first 25 basis hike to 1.405% is expected by March 2018 contract expiration, although the January contract shows close to 100% probability for the first hike, which includes the Dec 2017 Federal Reserve meeting. The second 25 basis hike to 1.655% is expected by October 2018 contract expiration. The third 25 basis hike to 1.905% is expected by February 2020 contract expiration. The last available Federal Reserve Funds futures contract is October 2020, and it implies only 1.965%, which means vary small chance of the fourth hike. Market implications The current market consensus is that the Fed will fail to hike past the 2% level - which is clearly not "sufficiently high" or "normal". Thus, investors should focus on the "too low" risk, or the inability of the Fed to finalize the policy normalization process. The current market expectations are that: 1) the Fed will likely hike at the Dec 2017 meeting; 2) the Fed will hike again by October of 2018, so only once in 2018; 3) the Fed will not hike at all in 2019; 4) the Fed will hike one more time by October 2020. Overall, the Federal Funds futures imply that the Fed will not be able to hike beyond the 2% level by October 2020. More importantly, the clarity disappears after October 2018, given expectations of no further policy action in 2019. Based on these observations, it appears that market potentially sees a turbulent second half of 2018, and thereafter. Specifically, the October 2018 level of 1.65% is clearly insufficient for the Fed to counter the next recession. Further, the expected policy inactivity in 2019 potentially signals a recession sometimes in the second half of 2018. This is clearly in nightmare scenario for the Fed. Note, the last recession started with the federal funds rate above 5% and less than $1 trillion on the Fed's balance sheet. If the next recession comes with the federal funds rate below 2%, and more than $4 trillion on the Fed's balance sheet, the Fed will have to resort to negative interest rates and additional QE in response. Practically, this would be bearish for the stock market (SPY), bearish for the US Dollar (UUP) and highly bullish for gold (GLD) and silver (SLV). Key variable to follow The limiting factor on expected federal funds rate is the 10Y T-Bond yield (TLT). Specifically, the long term interest rates reflect expected longer term economic growth and inflation. Currently, the yield on 10Y T-Bond is 2.32%, which reflects anemic inflation and low long term economic growth. Rising short term interest rates, accompanied with falling or flat longer term interest rates, narrow and eventually invert the yield curve, and thus cause a recession. Thus, the Fed is currently limited at right around the 2% level. We will continue to follow the implied federal funds rate, as well as the yield on 10Y T-Bond, along with portfolio implications. Note, the Federal Funds futures can be volatile and the interpretation of the implied Federal Funds curve is subjective.

#### Colombo ‘18

Colombo, Jesse. Sept 27 2018. “How Interest Rate Hikes Will Trigger The Next Financial Crisis.” Forbes. <https://www.forbes.com/sites/jessecolombo/2018/09/27/how-interest-rate-hikes-will-trigger-the-next-financial-crisis/#63e362b76717>

On Wednesday, the U.S. Federal Reserve hiked its benchmark interest rate by a quarter-percentage point to 2% - 2.25%, which is the highest level since April 2008. As rates continue to climb off their post-Great Recession record lows, market participants and commentators are showing almost no signs of fear as the stock market is hitting records again and [complacency abounds](https://www.forbes.com/sites/jessecolombo/2018/08/30/these-three-indicators-show-dangerous-market-complacency/). Unfortunately, "soft landings" after rate hike cycles are as rare as unicorns and virtually all modern rate hike cycles have resulted in a recession, financial, or banking crisis. There is no reason to believe that this time will be any different.

#### Dam ‘19

Dam, Andrew Van. Aug 16 2019. “A recession will come. How bad will it be?” Washington Post. https://www.washingtonpost.com/us-policy/2019/08/16/recession-is-coming-how-bad-will-it-be/

There have been 11 recessions since World War II. On average, they [lasted 11.1 months](https://www.nber.org/cycles.html), according to the official scorekeepers at the National Bureau of Economic Research. The shortest was over in just 6 months (1980) and is often counted alongside a follow-up recession in 1981-1982, while the longest lasted 18 months (2007-2009). NBER’s standards are complicated, but a rule of thumb says we’re in a recession after the economy has contracted for two straight quarters. Indeed, averages show the economy typically shrinks about 1.4 percent over two quarters before growth resumes. Jobs take longer to bounce back. Unemployment tends to rise for 15 or 16 months before the labor market bottoms out. The unemployment rate increases about 2.4 percentage points, on average, over that time. The effect has ranged from a five-point jump during the Great Recession to a two-point rise in the recessions beginning in 1961 and 2001.

#### National Bureau of Economic Research ‘20

“Why Poverty Persists?” Jan 29 2020. Cites a study done by Hoynes, Page, and Stevens in 2006 titles “Poverty in America: Trends and Expectations.” https://www.nber.org/digest/jun06/w11681.html https://poverty.ucdavis.edu/sites/main/files/file-attachments/stevens\_2006jep.pdf

Specifically, they find that the unemployment rate, median wages, and wage inequality in the lower half of the wage distribution all are significant determinants of poverty rates. Overall, increasing the unemployment rate by 1 percentage point increases the poverty rate by 0.4 to 0.7 percentage points. Increasing the median wage by 10 percent decreases the poverty rate by about 2 percentage points. Increasing the ratio of the median wage to the average weekly wage in the 20 percentile of the wage distribution (a measure of inequality) by 10 percent increases the poverty rate by roughly 2.5 percentage points.

#### Tufts University

The financial crisis that commenced in 2007 and its aftermath have been widely referred to as the “Great Recession”—and with good reason. From its beginning until its nadir in 2009, it was responsible for the destruction of nearly $20 trillion worth of financial assets owned by U.S. households. During this time, the U.S. unemployment rate rose from 4.7 percent to 10 percent (not counting the discouraged and marginally attached workers discussed in Chapter 7). By 2010, college graduates fortunate enough to find a job were, on average, earning 17.5 percent less than their counterparts before the crisis—and experts were predicting that such a decline in earnings would persist for more than a decade. **The crisis also spread beyond U.S. borders. As consumption and income declined in the United States, many countries experienced a significant reduction in exports as well as a decline in the investments that they held in the United States. As a result, global GDP declined by 2 percent in 2009. It has been estimated that between 50 million and 100 million people around the world either fell into, or were prevented from escaping, extreme poverty due to the crisis.** Why did this happen? Why were its effects so long-lasting? What lessons can be learned for the future? These are complicated questions to which this chapter provides some answers.

## C3 Speculation

#### Noguchi ‘18

Noguchim, Eri. Aug 16 2018. “A Universal Basic Income (UBI) may affect the labor market. So what?.” Roosevelt House: Public Policy Institute At Hunter College. http://www.roosevelthouse.hunter.cuny.edu/?forum-post=universal-basic-income-ubi-may-affect-labor-market

Of course, the UBI detractors would most likely chime in and respond that it is not the upward pressure on wages, per se, that is problematic, but rather the potential that increasing wages could overheat the economy by creating greater demand than supply, which is the principle driver of inflation. Paying higher wages to workers, combined with the infusion of unearned cash (and here the term “unearned” is solely meant to indicate that it is not tied to paid labor) in the form of a universal guaranteed basic income to all citizens regardless of their employment status, would, most likely, move more cash into the hands of those most likely to spend it, for both would disproportionately be allocated to those who find themselves on the lower rungs of the country’s income distribution continuum. And putting more cash in the hands of those most likely to spend it, that is not accompanied by an economy proportionately increasing the production of those goods and services a newly moneyed class is demanding, will most likely place an upward pressure on prices, which, of course, summons fears of inflation.

#### Warr ‘18

Warr, Steven S. Feb 14 2018. “Why does inflation make stock prices fall?” The Conversation. <https://theconversation.com/why-does-inflation-make-stock-prices-fall-91874>

Pundits have [offered many reasons](https://www.theguardian.com/business/2018/feb/06/stock-markets-dow-jones-five-key-factors) for the biggest stock market swoon in two years. One of the most frequently blamed culprits was the [threat of inflation](https://www.theguardian.com/business/2018/feb/08/dow-jones-sinks-again-as-bond-yields-rise-and-higher-inflation-feared), which loosely means an increase in consumer prices over time. That threat became a little more real after the latest data, released on Feb. 14, showed [inflation in January](https://www.bloomberg.com/news/articles/2018-02-14/u-s-consumer-prices-rise-more-than-forecast-on-apparel-costs) rising more than expected, sending stocks and bonds lower. What would prompt something so seemingly banal to send investors into a state of craziness and even panic? A closer look at inflation – a topic [I’ve studied closely](https://scholar.google.com/citations?user=1E8KAEsAAAAJ&hl=en&oi=sra) – and how it affects markets offers some answers. It also hints that an economic slowdown is closer than you may think. For now, it’s mostly just the threat of inflation that’s causing trouble as investors begin to realize that the party is getting a little too crazy and that the Fed is going to step in and slow things down a bit. In other words, inflation is warning sign that an economic slowdown is coming – whether gradually executed by the Fed or abruptly by a spike in inflation. So if all of this is understood, why did the market crash? Investors, naturally, want to stay at the party as long as they can. It is only when they see others heading for the exits that they realize maybe it’s time they left too, prompting a rush to the door. Thus the market tanks. This is why a market can appear to be doing great and then suddenly fall at the first hint of inflation.

#### Global Pimco

Understanding Investing. Inflation.” https://global.pimco.com/en-gbl/resources/education/understanding-inflation

Inflation poses a “stealth” threat to investors because it chips away at real savings and investment returns. Most investors aim to increase their long-term purchasing power. Inflation puts this goal at risk because investment returns must first keep up with the rate of inflation in order to increase real purchasing power. For example, an investment that returns 2% before inflation in an environment of 3% inflation will actually produce a negative return (−1%) when adjusted for inflation.

#### Farley ‘18

Farley, Alan. Feb 28 2018. “The One Word That Keeps Making The Stock Market Sink.” Money.com. https://money.com/the-one-word-that-keeps-making-the-stock-market-sink/

After rebounding for several days following an early-February plunge, the Dow Jones industrial average fell nearly 300 points on Tuesday. The reason: Federal Reserve chairman Jerome [Powell told Congress](https://www.cnbc.com/2018/02/27/us-stock-futures-dow-data-earnings-and-politics-on-the-agenda.html) that “inflation is moving up to target” and that the Fed will keep raising rates this year — despite the recent market volatility — to keep inflation in check. For a stock market that looked like it was finally regaining its footing, Powell’s testimony reminded investors just why the Dow plummeted more than 3,000 points in the first place: growing fear that inflation is finally on the rise, which left some investors to wonder if they [could still make money investing in the stock market.](https://www.investopedia.com/investing/can-you-make-money-stocks/)

#### Hall ‘19

Hall, Mary. Nov 21 2019. “How Do Interest Rates Affect the Stock Market?” Investopedia. https://www.investopedia.com/investing/how-interest-rates-affect-stock-market/

The investment community and the financial media tend to obsess over interest rates—the cost someone pays for the use of someone else's money—and with good reason. When the Federal Open Market Committee (FOMC) sets the target for the federal funds rate—the rate at which banks borrow from and lend to each other—it has a ripple effect across the entire U.S. economy. This also includes the U.S. stock market. And, while it usually takes at least 12 months for any increase or decrease in interest rates to be felt in a widespread economic way, the market's response to a change is often more immediate. Credit becomes more expensive with higher rates, which negatively affects earnings and stock prices. The federal funds rate is used by the Federal Reserve (the Fed) to attempt to control [inflation](https://www.investopedia.com/terms/i/inflation.asp). By increasing the federal funds rate, the Fed basically attempts to shrink the supply of money available for purchasing or doing things, thus making money more expensive to obtain. Conversely, when it decreases the federal funds rate, it increases the money supply and encourages spending by making it cheaper to borrow. Other countries' central banks do the same thing for the same reason. When the Fed increases the discount rate, it does not directly affect the stock market. The only truly direct effect is that borrowing money from the Fed is more expensive for banks. But, as noted above, increases in the rate have a ripple effect. Because it costs them more to borrow money, financial institutions often increase the rates they charge their customers to borrow money. Individuals are affected through increases to credit card and mortgage interest rates, especially if these loans carry a variable interest rate. This has the effect of decreasing the amount of money consumers can spend. After all, people still have to pay the bills, and when those bills become more expensive, households are left with less [disposable income](https://www.investopedia.com/terms/d/disposableincome.asp). This means people will spend less discretionary money, which, in turn, affects businesses' revenues and profits. But businesses are affected directly as well because they also borrow money from banks to run and expand their operations. When the banks make borrowing more expensive, companies may not borrow as much and will pay higher rates of interest on their loans. Less business spending can slow the growth of a company—it may curtail expansion plans or new ventures, or even induce cutbacks. There may be a decrease in earnings as well, which, for a public company, usually affects its stock price negatively. If a company is seen as cutting back on its growth or is less profitable—either through higher debt expenses or less revenue—the estimated amount of future [cash flows](https://www.investopedia.com/terms/c/cashflow.asp) will drop. All else being equal, this will lower the price of the company's stock. If enough companies experience declines in their stock prices, the whole market, or the key indexes many people equate with the market—the Dow Jones Industrial Average, S&P 500, etc.—will go down. With a lowered expectation in the growth and future cash flows of a company, investors will not get as much growth from stock price appreciation, making stock ownership less desirable. Furthermore, investing in equities can be viewed as too risky compared to other investments. When the Fed raises the federal funds rate, newly offered [government securities](https://www.investopedia.com/terms/g/governmentsecurity.asp), such as Treasury bills and bonds, are often viewed as the safest investments and will usually experience a corresponding increase in interest rates. In other words, the risk-free rate of return goes up, making these investments more desirable. As the risk-free rate goes up, the total return required for investing in stocks also increases. Therefore, if the required risk premium decreases while the potential return remains the same or dips lower, investors may feel stocks have become too risky and will put their money elsewhere. Nothing has to actually happen to consumers or companies for the stock market to react to interest-rate changes. Rising or falling interest rates also affect investors' psychology, and the markets are nothing if not psychological. When the Fed announces a hike, both businesses and consumers will cut back on spending, which will cause [earnings](https://www.investopedia.com/terms/e/earnings.asp) to fall and stock prices to drop, and the market tumbles in anticipation. On the other hand, when the Fed announces a cut, the assumption is consumers and businesses will increase spending and investment, causing stock prices to rise. If expectations differ significantly from the Fed's actions, these generalized, conventional reactions may not apply. Let's say the word on the street is the Fed is going to cut interest rates by 50 basis points at its next meeting, but the Fed announces a drop of only 25 basis points. The news may actually cause stocks to decline because assumptions of a 50-basis-points cut had already been priced into the market.

# Other

## Extensions

Here is a list of historic recessions, banking, and financial crises that have occurred after interest rate hike cycles (this list corresponds with the chart above): Late-1970s/early-1980s rate hike cycle: [1980 recession](https://en.wikipedia.org/wiki/Early_1980s_recession_in_the_United_States#1980): A 6-month recession that concentrated in housing, manufacturing, and the automotive industry. [1981 - 1982 recession](https://en.wikipedia.org/wiki/Early_1980s_recession_in_the_United_States#1981%E2%80%931982): A 16-month recession in which 2.9 million jobs were lost. [U.S. savings and loans crisis](https://en.wikipedia.org/wiki/Savings_and_loan_crisis): 1,043 out of the 3,234 savings and loan associations failed as the interest rate at which they could borrow rose above the fixed interest rates on the loans that they had issued. In addition, savings and loan institutions were limited by interest rate ceilings, which caused them to lose deposits to higher-earning commercial bank accounts. U.S. housing market bust: Mortgage rates surged as high as 18%, which caused housing affordability to sink. As a result, existing-home sales [fell by 50%](http://mjperry.blogspot.com/2009/01/housing-market-1982-vs-2009.html) from 1978 to 1981, affecting the whole industry - including mortgage lenders, real estate agents, construction workers, etc. Automotive industry crisis: Similar to the situation in housing, higher interest rates made automobile financing much more expensive. As a result, automobile sales plunged, causing [310,000 jobs](https://en.wikipedia.org/wiki/Early_1980s_recession_in_the_United_States#1981%E2%80%931982) (or one-third) in the industry to be cut. [Latin American debt crisis](https://en.wikipedia.org/wiki/Latin_American_debt_crisis): Rising interest rates made it harder for heavily-indebted Latin American countries to pay back their debts. Mid-1980s rate hike cycle: Continental Illinois bank failure: In 1984, Continental Illinois became the [largest bank failure](https://en.wikipedia.org/wiki/Continental_Illinois) in U.S. history (until Washington Mutual's failure in 2008). Rising interest rates and bad loans to Texas and Oklahoma oil & gas producers strongly contributed to the bank's demise. Late-1980s rate hike cycle: [Early-1990s recession](https://en.wikipedia.org/wiki/Early_1990s_recession_in_the_United_States): An 8-month recession in which 1.623 million jobs were lost. U.S. savings and loans crisis: Higher interest rates and the U.S. real estate downturn caused a continuation of the savings and loans crisis that began in the early-1980s. U.S. real estate downturn: Rising interest rates caused a downturn in both [commercial](https://ftalphaville.ft.com/2016/10/06/2176679/yes-the-early-1990s-really-were-bad/) and [residential](http://livingstingy.blogspot.com/2012/01/real-estate-bubble-of-1989.html) real estate. Mid-1990s rate hike cycle: Emerging markets crisis/Mexican peso crisis: Low U.S. interest rates in the early-1990s made higher-yielding emerging markets assets more attractive to investors. As U.S. interest rates rose, Mexico and other emerging economies experienced painful readjustments and [currency devaluations](https://economics.rabobank.com/publications/2013/september/the-tequila-crisis-in-1994/). Orange County, California bankruptcy: [Bad bets](https://merage.uci.edu/~jorion/oc/case.html) on highly leveraged interest rate derivatives bankrupted the county as interest rates rose. Early-2000s rate hike cycle: [Early-2000s recession](https://en.wikipedia.org/wiki/Early_2000s_recession): An 8-month recession in which 1.59 million jobs were lost after the tech bubble burst. [Tech bubble bust](https://en.wikipedia.org/wiki/Dot-com_bubble): Higher interest rates helped burst the late-1990s tech bubble that was centered around internet-related companies, dot-coms, the telecom industry, etc. Mid-2000s rate hike cycle: [Great Recession](https://en.wikipedia.org/wiki/Great_Recession): An 18-month recession in which 8.8 million jobs were lost after the U.S. housing and credit bubble burst. [U.S. housing bubble](https://en.wikipedia.org/wiki/United_States_housing_bubble) bust/credit crunch: Low interest rates after the early-2000s tech bust led to the formation of a bubble in housing and credit. When interest rates rose again in the mid-2000s, housing prices and mortgage-backed securities plunged.

### Long term

1. Borrowing in a recession to pay for UBI prevents a recovery.
2. High interest rates mean people can’t borrow meaning low spending and investment – means locked in recession for a while and it would become a depression.

## F/L

### AT Inflation Doesn’t Happen Because Money in the Econ is the Same

1. Increase in corporate taxes to pay for a UBI would result in inflation because wealthy people save their money so much of the money given out is money that wasn’t really in circulation before.
2. It’s psychological – if shop owners and businesses believe that people have more money they will raise prices because they believe people can afford more – regardless of if the same amount of money is in circulation.
3. Experiments that have happened are ridiculously small and people know that they’re going to end so they don’t change much.

### AT No Inflation in Alaska

1) that was 1 to 2 thousand dollars per year – it’s not the same as 1,000 every month for every person.

Johnson ’19, <https://bigthink.com/politics-current-affairs/andrew-yang-tax>

"Everyone in the state gets between $1,000 and $2,000 a year from oil money," Yang said. "And because it's oil money, there's no stigma attached, it's not a rich to poor transfer, and it's wildly popular in a conservative state. [...] So what we have to do is we make it a right of citizenship for all Americans and do what they are doing in Alaska with oil money, with technology money for everyone around the country."

### AT Welfare System Is Ineffective at Reducing Poverty

#### Rector ‘18

Rector, Robert. April 5 2018.” Understanding the Hidden $1.1 Trillion Welfare System and How to Reform It.” The Heritage Foundation. https://www.heritage.org/welfare/report/understanding-the-hidden-11-trillion-welfare-system-and-how-reform-it

One common response to this question is that the welfare state is large and poverty is high because federal and state bureaucracies absorb most welfare spending, and very little reaches the poor. This is untrue. On average, administrative costs are less than 10 percent of means-tested cash, food, housing, and medical spending.23 More than 90 percent of this spending reaches low-income families as benefits. In reality, nearly all welfare spending reaches poor and low-income persons as tangible benefits and services. The government continues to report millions living in poverty in large measure because of substantial flaws in the techniques the government uses to measure income and poverty. The U.S. Census Bureau identifies a household as poor if its income falls below the specified federal poverty level. Yet in counting a family’s income, the Census Bureau ignores nearly all means-tested welfare. In particular, food stamps and other food aid, housing subsidies, health care benefits, the EITC, and other refundable credits are not counted as income. Of the $449 billion spent on cash, food, housing, and medical care for families with children in 2016, the Census Bureau counted only $14.7 billion (3.3 percent) as “income” for purposes of measuring child poverty.24 When calculating official poverty statistics for the entire population, the Census Bureau counted only around $56.5 billion (5 percent) of a total of over $1.1 trillion in means-tested expenditures as income.

### AT Speculation Never Happened

1. This is because a UBI has never