Blockument

A2: AFF

A2: Specific Advocacies

A2: Financial Transaction Tax

Link Defense Rhetoric

1. Delink; Kaeding '18 of the Tax Foundation writes that a financial transaction tax only encourages investors to invest offshore instead, which reduces government revenue and increases the debt because while the government was able to formally impose a capital gains tax on the transaction, that transaction now pays no government taxes. For example, in the 1980s, Sweden imposed a financial transaction tax, pushing 60% of stock trading offshore and reducing government revenues. This has two implications on their case:
   a. They don't have any solvency in preventing speculation because they only move the problem elsewhere.
   b. We aren't gaining government revenue, so we aren't reducing the debt.
2. Delink; Harts '15 of CNBC writes that even if we did increase revenue with a financial transaction tax, current proposals from Bernie Sanders indicate that the money would go towards funding college tuition. This means a financial transaction tax would not reduce the government debt.

Link Turn Rhetoric

1. Lock-In Turn; Kaeding '18 of the Tax Foundation writes that a financial transaction tax would encourage investors to hold onto assets longer than they should to avoid the tax, which actually increases economic volatility because investors don't abort bad economic decisions when they should.

Kaeding, Nicole. "Gillibrand's Financial Transaction Tax: A Retread of Bad Ideas." The Tax Foundation. June 2018. https://taxfoundation.org/gillibrands-financial-transactions-tax-retread-bad-ideas/ //RJ

The tax also violates another principle. Income should only be taxed once. Financial transactions taxes tax the act of trading itself, on top of existing capital gains, personal income, and corporate income taxes. For that reason, Gillibrand's proposal would distort economic decision-making and raise the cost of investment. According to a Congressional Budget Office (CBO) report from 2011 on a proposal to impose a .03 percent tax on financial transactions, such a tax would "raise the cost of financing new investment… [and] reduce output and employment." Furthermore, **the financial transactions tax may also hurt smaller investors the most, as transaction costs tend to be much bigger for small, individual investors than for large, institutional ones.**
A financial transactions tax would distort asset markets, as types of securities traded more frequently would be taxed much more than assets traded less frequently. This distortion would lead to investors holding certain assets longer than they should in order to avoid the tax. The tax also decreases liquidity and increases transaction costs. While supporters of the tax assert that making short-term investing less attractive will rein in speculation and limit volatility, the evidence for this claim is mixed at best. While the financial transactions tax might discourage speculation, it will also discourage transactions between well-informed investors; furthermore, **much of the research on the issue of volatility suggests that higher transaction costs correlate with more volatility, not less. Financial transactions taxes are also not surefire revenue generators. In the 1980s, Sweden imposed a financial transactions tax, and**, thanks to the relative mobility of capital markets, **60 percent of trades moved to different markets. Not only did this behavior mean that the financial transactions tax raised little revenue, it also drove down revenue for the capital gains tax, ultimately lowering total government receipts.** The tax might also worsen government finances in other ways. The CBO report on financial transactions taxes notes that the tax will increase the cost of financing state and local governments. More importantly, the tax would hurt state pension plans by both reducing their asset values and raising transaction costs. At a time when many states' pension plans are in dire financial straits, the new tax could worsen an already-serious problem.

Bill Harts, Ceo Of The Modern Markets Initiative, 8-1-2015, "Taxing Wall Street won't work. Here's why," CNBC, https://www.cnbc.com/2015/08/04/why-taxing-wall-street-wont-work-commentary.html

The goal is lofty, audacious and of perfect sound-bite length: Free college tuition for all, paid for exclusively by a "small" tax on "Wall Street speculators." The idea of a financial-transaction tax has been kicking around for a while but has gotten more notice since presidential candidates Bernie Sanders and Martin O'Malley have been calling for it. Sanders is calling for a 0.5-percent tax on stock trades, a 0.1-percent tax on bond traders and a smaller tax on derivatives (futures and options) trades.

*A2: Cut Military Spending

Recruitment DA

1. Johnson of the Heritage Foundation notes that the size of the American military has fallen by 100,000 troops, the smallest level it's ever been in 75 years due to spending cuts which began in 2011. Fortunately, increasing military spending leads to more personnel wages. According to Major Eisenhauer, insufficient troop compensation has been a growing concern over why combat jobs are undesirable. However, Altman of the Military Times explains that a Republican congressional majority will likely push through pay raises for military personnel as part of a spending overhaul. This is critical, because Bicksler concludes that every 10% increase in military wages increases high quality enlistments by 11.3%. For these two reasons, Dertouzos of RAND quantifies that every $100 million in military spending attracts 20,000 recruits.

   The impact is **decreasing reliance on PMC's.**

   Moher of the University of Colorado Boulder explains that largely due to budget cuts, the military has turned to Private Military Contractors which are independently financed, thus having little regulation. Stanley explains that for every 1000 troop increase in the United States military, the amount of private contractors hired decreases by 1400 troops. Decreasing reliance on private military contractors is crucial as Moher concludes that dependence on PMC's increases the propensity for conflict due to the fact PMC's will always lobby for it, because they are employed off of its existence.

Navy DA

1. Zachary Cohen of CNN explains that largely due to budget cuts, the U.S. Navy is at its smallest size since World War One. This is problematic as Sean Gallagher explains that if the U.S. doesn't increase spending on the Navy, we:

   A. Won't be able to respond as quickly to international conflicts, and…

   B. Risk a vacuum where other countries' navies fill the void.

   Gallagher quantifies that in order to be able to respond to international conflicts we will need at least 15% more ships. Fortunately, Capaccio of Bloomberg finds that President Donald Trump has promised to increase the naval fleet from 272 to 350 ships, and because funding is the only obstacle to this achievement, increasing spending would solve.

   The impact is combatting Chinese belligerence.

   Follet 16' of the EPI explains that China has claimed more than 80% of the South China Sea, sparking conflict with the U.S. and other countries in the region. Unfortunately, Rando 15' of CBN impacts that Chinese belligerence leads a high possibility of regional war which could go nuclear, killing 12 million Americans.

   Fortunately, increasing the amount of ships in the region by affirming de-escalates tensions in two ways.

First, by supporting allies

Randy of Forbes 13' explains that, increasing naval presence in the Pacific would allow the United States to better back our allies such as the Philippines, Taiwan, and Japan in the region. This is crucial as Leed of Rice University furthers in a statistical analysis that when a target state has an ally committed to its defense, the probability of conflict initiation decreases 28%.

Second, by protecting trade.

The Council on Foreign Relations notes, $1.2 trillion of U.S. trade flows through the South China Sea and the prerequisite to this trade is regional stability. Fortunately, Forbes furthers that a strong navy not only brings regional stability, but also the strength of the American economy is directly linked with the Navy's ability to maintain free trade. This is especially true, as Johnson of the Heritage Foundation finds that 95% of US trade is seaborne. Ultimately, Awad of Erasmus University empirically quantifies the impact writing that a 1% increase in trade leads to a decrease in the probability of conflict by 4.9%.

A2: Recession

A2: Business Cycle

Link Defense Rhetoric

1. Delink; Armbruster '18 of the CFA Institute writes that due to current economic conditions with stimulative long-term fiscal and monetary policies, our economy still has plenty of room to grow. Indeed, he furthers that present economic expansion will continue for at least 3 years, with the potential to continue with 9 more years of robust growth.
   a. Just because business cycles indicate that recessions are inevitable doesn't mean it has to be soon; Australia, for instance, hasn't had a recession since 1991.

Armbruster, Mark. "The U.S Economy: Eight More Years of Expansion?" CFA Institute. Sept. 2018. https://blogs.cfainstitute.org/investor/2018/09/26/the-us-economy-eight-more-years-of-expansion/

//RJ

During the current recovery, however, **real GDP sits just 23% above its nadir during the Great Recession** of 2008 and 2009. What's more, the recession of the early 1990s was mild by historical standards, but the recovery was much more robust than the current one by every measure we studied. This is not usually the case. **In the past, deep recessions have generally been followed by bercetchesteep recoveries**. **Why has this recovery**, which followed the worst recession since the Great Depression, **divxerged from the historical pattern?** Some have theorized that the housing market has not rebounded as quickly as in past recoveries or that policy uncertainty is to blame. Certainly, the regulatory environment shifted in the wake of the last recession. Large financial penalties were levied against those deemed to be at fault and has impacted corporations' willingness to spend and invest. But **things are turning around. During** those **early recovery years**, **policy uncertainty hit record highs**. **Currently, however, it is below its long-term average**, according to the baseline policy uncertainty index created by Scott R. Baker, Nick Bloom, and Steven J. Davis. This may be because of the recent regulatory rollbacks under the current administration. New residential construction has also trended up since 2011, according to US Census Bureau data. This suggests that **the present expansion**, while long in the tooth, **still has room to run**. In fact, our research indicates that **further growth at the average long-term rate for each of the indicators we studied could mean another three years of economic expansion. This assumes only average levels of economic recovery** are achieved during this business cycle. **If the US economy experiences an expansion like the more robust recovery of the 1960s, it could grow for an additional 8.8 years**. There are fundamental reasons for optimism. **Policy uncertainty is low. Monetary policy is accommodative. While short-term interest rates are rising, they are still well below the levels that create economic distortion. Longer-term fiscal policy is also stimulative. The corporate tax cuts, like low policy uncertainty, could spur further capital spending**, which could drive a virtuous circle of corporate activity that creates further economic growth. Finally, the United States may be taking growth from other nations.

A2: Yield Curve Inversion

Link Defense Rhetoric

1. Cox '18 of CNBC writes that recession predictors are looking at the wrong yield curve; when looking at the spread between the 3-month and 18-month treasuries, the yield curve is not inverting, and the gap is actually widening, indicating that a recession is not imminent. Prefer this spread because these are the treasuries that reflect monetary policy.

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

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

A2: China Trade War

Link Defense Rhetoric

1. Delink; Rapoza ‘18 of Forbes writes that because China relies more on exports than the U.S., China would be forced to retaliate creatively even if the U.S. imposed tariffs on everything made in China, which is why there are virtually no effects to the U.S. economy now. Indeed, Bishop ‘18 of RBC Wealth Management continues that this is why America’s economy has seen robust growth even through Brexit in 2016 and China’s slow-down in 2015.
2. Delink; Xin ‘19 of the South China Morning Post writes that the trade war is expected to end completely by March, with new vice-managerial meetings between China and the U.S. Indeed, he continues that China has already made a host of concessions, rolling back additional tariffs on U.S. car imports, resuming purchase of U.S. soybeans, and playing down its Made in China 2025 strategy.

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

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

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

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

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

Beijing and Washington are expected to reach a "concrete" trade agreement before March's deadline to de-escalate trade tensions between the world's two biggest economies, according to a Hong Kong scholar with close ties to Beijing. Lawrence J. Lau, an economics professor at the Chinese University of Hong Kong and former member of China's top political advisory body, previously correctly predicted a "truce"would follow the meeting between Chinese President Xi Jinping and US President Donald Trump in Argentina last month. Lau made the latest comments a day before **China announced a vice-ministerial level delegation from the United States led by deputy US trade representative Jeffrey Gerrish would fly to Beijing for two days of face-to-face talks on Monday and**

<u>Tuesday.</u> "I am pretty confident that they will come up with something," Lau said, with the 90-day trade war truce agreed between Xi and Trump set to expire on March 1. "There will be something concrete at the end … and if there's a settlement, there shouldn't be any [additional] tariffs." In addition to promises of buying more energy and agricultural products from the US, China may also make other commitments to soothe American concerns, Lau said. These may include China reaffirming the agreement reached with the previous Obama administration that Beijing will prohibit state-sponsored cyber theft of intellectual property and trade secrets for commercial purposes. **<u>In late November, Lau predicted that Xi and Trump would agree to a truce in the form of a framework deal when they meet in Buenos Aires on December 1 on the sidelines of the G20 summit, and that proved to be largely in line with what followed. China has since made a number of concessions, including rolling back additional tariffs on US car imports, resuming purchases of US soybeans, downplaying its "Made in China 2025" strategy</u>**, and proposing amendments to the foreign investment law that will make it illegal to force technology transfers to Chinese partners.

A2: Trade Wars (Other Countries)

Link Defense Rhetoric

1. Ip '18 of the Wall Street Journal writes that Trump's actions have only affected 12% of America's total imports and haven't systemically changed anything; both KORUS and NAFTA were re-negotiated into agreements that pretty much mirrored the agreements from before.

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

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

A2: Overheating

Link Defense Rhetoric

1. Underemployment Delink; Lazear '18 of the Wall Street Journal writes that in order for the economy to overheat, wage growth has to dramatically outpace productivity, thus driving high levels of inflation. However, Lazear writes that our wage growth is far from high enough to overheat the economy.
    a. This is because Garcia '18 of NPR writes that 33% of college graduates are underemployed, and Bershidsky '18 of Bloomberg writes that this underemployment is stagnating wage growth. Thus, our economy still has a lot more room to grow. As new jobs are created, underemployed workers are able to move into higher positions, leaving more jobs open for those unemployed.
    b. At the same time, Lazear '18 continues that our productivity is high as well, at 3.3% over the past year, matching increased wage growth. This means that demand is being matched by more productivity, and our economy is not overheating.

Lazear, Edward. “America’s Economy Isn’t Overheating.” Wall Street Journal. October 2018. https://www.wsj.com/articles/americas-economy-isnt-overheating-1539125398 //RJ

Finally, **the rate of wage growth indicates that the labor market isn’t overheated**. **When the economy runs out of workers, labor demand drives increased wages rather than employment as employers compete with each other for the scarce labor. Absent labor-market slack, wages tend to grow at rates above those consistent with target inflation and productivity increases. Wage growth at rates consistent with productivity growth isn’t inflationary, since additional output from increased productivity reduces upward pressure on prices. U.S. productivity growth has averaged 1.3% over the past four quarters. Add the Fed’s 2% target inflation figure to get 3.3%.** This exceeds the 2.8% actual rate of wage growth over the past 12 months. **If the economy were overheating, wages would be growing at a faster rate. Despite the low unemployment rate of 3.7%, the U.S. labor market has some room to expand before it hits full employment.** That’s good news: The Fed need not worry that the tight labor market is indicative of an overheated economy—yet.

Garcia-Navarro, Lulu. “How Underemployment Is Affecting The Job Market.” NPR. July 2018. https://www.npr.org/2018/07/15/629212924/the-call-in-underemployment //RJ

While unemployment has hit record lows, there's another number that also gets a lot of attention — underemployment. Around 33 percent of college graduates are underemployed. Underemployment measures the number of workers placed in jobs that are below their qualifications from a bachelor's degree and beyond. But the effects can be different, depending on the field of work. Julia Fallon is about to graduate from her paralegal certification program in a few weeks. She received her bachelor's in American Sign Language interpretation, but couldn't find stable work. She says her biggest frustration now is not the lack of jobs for paralegals, but the pay. "I've been astonished at the low-balling that is going on even for attorneys, let alone paralegals, which at the beginning of the program I was told would be much better paying than what I'm actually looking at," Fallon says. Like Fallon, Josh Borchard also decided to change careers. He graduated with his master's degree in space studies and planetary sciences, but after years of working odd jobs and barely making ends meet, he decided to go back to get his teaching license. "I worked three years off and on doing odd jobs — research jobs all the way to working retail," Borchard says. "I'm almost 30 years old now, and I have never made more than about $25,000 a year."

Bershidsky, Leonid. “Underemployment is the New Unemployment.” Bloomberg. Sept. 2018. https://www.bloomberg.com/opinion/articles/2018-09-26/unemployment-numbers-hide-the-effects-of-underemployment //RJ

Some major Western economies are close to full employment, but **only in comparison to their official unemployment rate. Relying on that benchmark alone is a mistake**: Since the global financial crisis, **underemployment has become the new unemployment**. In **a recent paper**, David Bell and David Blanchflower **singled out underemployment as a reason why wages in the U.S.** and Europe **are growing slower than they did before the global financial crisis**, despite unemployment levels that are close to historic lows. In some economies with lax labor market regulation — the U.K. and the Netherlands, for example — more people are on precarious part-time contracts than out of work. That could allow politicians to use just the headline unemployment number without going into details about the quality of the jobs people manage to hold down.

A2: Global Slowdown Now

Link Defense Rhetoric

1. Bishop '18 of RBC Wealth Management writes that America's economy has grown without slowing despite traumatic global events like the slowdown of the Chinese economy in 2015 and Brexit, indicating that America is insulated from global events due to strong domestic growth.

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

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

A2: Asset Bubbles

Link Defense Rhetoric

1. Delink; Strubel '18 of Seeking Alpha writes that the only types of bubbles that matter are those that threaten the economy as a whole, indicating that these bubbles have to exist across different sectors of the economy. Of these bubbles,
    a. Household Debt: while pundits claim that household debt is at an all-time high, when we consider it relative to GDP, household debt is actually on the decline, indicating that there isn't a bubble right now.
    b. Stock Market Valuations: while people say that stock market valuations have risen sharply, this is because the stock market has shifted increasingly towards tech-based companies with higher profit margins, thus logically increasing valuations, and there isn't an actual bubble.
    c. For other bubbles, he continues that even if there were asset bubbles in other sectors, these bubbles are too small to bring down the economy as a whole.

Strubel Investment Management. “There’s a Bubble in Bubble.” Seeking Alpha. Dec. 2018. https://seekingalpha.com/article/4229115-u-s-economy-going-recession //RJ

Ever since the economic recovery began pundits have been seeing bubbles everywhere. There are no signs of a bubble for any of the three most common allegations - household debt, government debt, stock valuations. While there may be bubbles in tiny markets or small asset classes, nothing appears serious. Ever since the housing bubble, subprime crash, Great Recession, or whatever you want to call it, it seems like every one has been tripping over themselves trying to call the next bubble. **Over the past decade we’ve had calls for bond market bubble, interest rate bubbles, stock market bubbles, housing market bubbles, student debt bubbles, government debt bubbles, and on and on.** I’d say that about a decade into the current economic expansion, we have a bubble in people calling for bubbles! In this article, I want to go over three of the most common “bubble” calls and why they are not in fact bubbles. **One of the most frequent “chart crimes” I come across is people using the chart below to show that we have a new household debt bubble forming.** The chart clearly shows household debt exceeding its pre-crisis peak. The problem is that the chart lacks any context. **Inflation, a growing economy, and increasing household formation mean that over time the aggregate amount of household debt is going to grow.** Even if households are reducing debt in real terms, the aggregate measure can still show growth. And in fact, that is what we have. **Below is the same chart, just this time divided by GDP.** We can now see that **household debt is actually falling.** Yes, it’s leveled off a bit but **we are not in the midst of another bubble.** The federal debt now stands at a record $15T (or $100T if you are bad at accounting). Surely, we must be in the midst of a debt bubble. Heck, it’s even growing when you show it as a percent of GDP (chart below). Well, for the US, and any country whose debt is denominated in a currency it controls, the national debt is basically meaningless. It’s simply an accounting identity that corresponds to the national savings. Not only that, sovereign debt has no real predictive value. It’s an accounting of what has happened in the past. The current level of debt (or perhaps more accurately private sector savings) is the result of deficit spending that has already occurred. If this was going to cause some great calamity, say high inflation, it would have already happened. While there are limits on debt and deficits relating to inflation that isn’t something that is worth worrying about while we still have substantial labor market slack, no-to-low wage growth, and spare industrial capacity. It seems as though as soon as the market recovered to near its pre-recession mark **there have been constant warnings about a stock market bubble.** Given that the market has not traded too far out of its historical forward P/E range, the most pointed to sign of a bubble seems to be the CAPE ratio, Shiller PE, PE10, or cyclically adjusted PE ratio (all referring to the same market price divided by the last decade's earnings per share average). A chart of the market’s CAPE ratio dating back to the late 1800s is below. As you can see, we are well above the historical average. The thing is the historical average is pretty much worthless. **The market today is vastly different than the market of history.** In 1896 when the Dow Jones Average was first created, it included twelve stocks divided equally among utility companies, materials companies, industrial companies, and consumer goods companies (there’s room for argument that some of the stocks could be classified differently but the gist of the breakdown is similar). **There was no technology sector, no real estate sector, no financial sector, and no healthcare sector.** Later on the index was expanded and other indexes were formed as well. But even as recently as the 1950s the stock market was radically different. The graphic below shows the changes in sector weightings for the S&P 500 over the decades. **The stock market of the 1950s was mostly railroads, utilities, and industrial companies.** By the 1970s financial companies started to have a significant presence but we still were lacking technology stocks in any size. **Fast forward to today and the dominant sectors of yesterday make up a minority of the index. A software company with high profit margins and high returns on capital is going to be valued much differently than a regulated utility or a capital-intensive railroad.** Perhaps more important is that the stock market is not the economy. The aggregate level of after-tax corporate profit in the economy last quarter was around $1.8B. The S&P 500 accounted for just around $280B of after-tax profit or about 16% of the entire corporate sector's profit. What’s happening in the corporate sector as a whole is not always going to be reflected exactly in the stock market. **The make-up of the market** (and its indices) **varies greatly and margins and returns on capital of publicly traded companies might vary substantially from time period to time period** depending on the number and types of companies that are public and their inclusion (or exclusion) from an index. **Even if corporate America doesn’t change drastically, the stock market can change depending on what portion of the corporate sector it represents**. **While we don’t see any major bubbles out there that isn’t to say there aren’t minor bubbles here or there.** **Bitcoin and other cryptocurrencies could be a bubble, but none of that is large enough to bring down the economy**. **Student debt is of course growing** and causing lots of real economic problems**, but again not enough to slow down the economy**. **The market and the economy have also weathered things like the bursting of the Chinese A-share bubble in 2015.** Individual curated monthly subscription services, meal kits, and electric scooters are all seemingly ubiquitous. We may have a bubble in all three but a few thousand broken scooters littering the streets of San Francisco and no more random boxes of dog treats aren't going to crash your 401(k). **For now, the current economic expansion looks to continue its slow, steady pace despite the calls for bubbles everywhere.**

A2: Corporate Buyback Bubble

Link Defense Rhetoric

1. Delink; Droke '18 of Seeking Alpha writes that the number of shares in publicly traded companies is decreasing, not increasing. However, during economic bubbles, the number of shares rises as investors' appetites for equities rises rapidly, indicating that there simply isn't a corporate buyback bubble right now.

Droke, Clif. “There is No Buyback Bubble.” Seeking Alpha. Jun. 2018. https://seekingalpha.com/article/4181746-buyback-bubble //RJ

Another self-evident proof that the corporate buyback trend isn’t contributing to a bubble is that the buybacks are resulting in a supply reduction of shares in publicly traded companies, a fact that the Washington Post article specifically mentions. **With a diminished supply of corporate shares, the likelihood of a collapse is also diminished. One of the hallmarks of a bubble is the expansion, not contraction, of public shares.** As the public’s appetite for equities increases during a true bubble, the purveyors of equities do everything they can to increase share counts. This includes stock splits, IPOs, and basically issuing new shares any way they can. **The resulting increase in the supply of stocks contributes to the collapse when the bubble reaches the outer limit of its expansion. When participants realize the bubble has burst, there’s a rush to the exits as stocks are dumped onto the market which only feeds the downside momentum of share prices. With so little of the public involved in the stock market, and with a diminished supply of stocks**, how can there be anything like the housing market bubble of the early-to-mid 2000s or the Internet stock bubble of the 1990s? The answer to that question is obvious. **There is no bubble right now in the U.S. financial market.** Instead, the fundamental and technical condition of the stock market is far stronger today than it was during the previous bubbles just mentioned. **But let’s play devil’s advocate for a moment. Let’s assume that a credit-driven bubble actually exists right now.** How can we know when it’s vulnerable to bursting? **During the run-up to the housing bubble collapse in 2007, one of the most obvious signs that the U.S. stock market was vulnerable to collapse was the fact that stocks making new 52-week lows were increasing for weeks and months on end.** Not only were the number of NYSE stocks making new 52-week lows well above 40 for a period of months - a sign of an unhealthy market - but the all-important rate of change (momentum) of the new highs-new lows figure was declining for most of 2007. Shown below is what the momentum of the 52-week new highs-new lows indicator looked like during the fateful months of 2007 immediately prior to the credit crash. **Now compare this indicator with the current 52-week new highs and lows shown below.** The following graph reflects the current internal condition of the stock market. As you can see, **it’s clearly rising and is the picture of excellent health. It stands in total contrast to the 2007 bearish internal trend which was characteristic of a bubble about to implode.** The 52-week new highs and lows is always the first place investors should look for signs of weakness in the broad equity market since the highs and lows reflect incremental demand for stocks better than any other indicator. And incremental demand is what determines the overall direction of stock prices in the foreseeable future. In conclusion, the media’s latest attempt at scaring investors into believing that another bubble is upon us is without foundation. When the U.S. stock market is truly beset with another bubble, it will be plain to see without the need for explication. Widespread participation and unrestrained enthusiasm for equities are the indisputable hallmarks of a true financial market bubble. Without these attributes, bubbles simply don’t exist.

A2: Corporate Debt Bubble

Link Defense Rhetoric

1. Delink; Academy Securities '18 writes that companies have suspended buyback programs to focus on debt reduction and bond issuance has dropped 20% in 2018, indicating that there is no corporate debt problem right now. This is because companies are currently aware of what they need to do to maintain their credit ratings; the only world in which a private borrowing frenzy happens is when the money supply shrinks and companies are forced to borrow.

Academy Securites. “Debt is a 4-Letter Word -- For Now.” Nov. 2018. http://www.academysecurities.com/wordpress/wp-content/uploads/2018/11/Debt-is-a-4-Letter-Word-For-Now-11.19.pdf //RJ

The pervasive view suddenly seems to be that companies have willy-nilly exploded their balance sheets to buy back stock and pay dividends and to overpay for M&A activity. Really? **Here is the reality** - people who are shorting credit at the lows of the year have to contend with having outstanding, including any swaps. They are likely to feel a more immediate effect from rate hikes and LIBOR rising faster than other benchmark rates than from spread widening (the rate hikes affect all companies depending on their exposure to floating rate debt). • **Companies are in constant communication with the rating agencies and are well aware of what they need to do to maintain their ratings.** • We are seeing dividend cuts, in some cases taking the dividend to almost zero for some companies that have been in the news about their debt. • **We are seeing companies suspend buyback programs to focus on debt reduction**. • **We are seeing some companies on the cusp of IG/High Yield initiate tender offers to repay debt.** • **We have seen IG issuance drop 20% in the second half of 2018 versus the same period in 2017** as companies deal with higher interest rates and increased investor scrutiny over debt. • Much of the debt issued over the past few years is owned by pension funds and insurance companies – neither of whom tend to sell bonds. Unlike in 2007 when CPDO, LSS, CDO^2 and SIVs all combined to created forced selling, we just don't see that 'knock on' effect like we had in the past. • **Virtually every commodity or energy company we talk to, has become more conservative in the aftermath of 2016** (where the IG companies that got downgraded mostly became great buying opportunities). This again I think highlights how serious companies are about their credit ratings (at the IG level). • Many bonds trade below par, in some cases well below par, just because interest rates have moved so much. Those long dated, low dollar price bonds are interesting as they shift the risk/reward dynamic for a bond investor very favorably.

A2: Automation Bubble

Link Defense Rhetoric

1. Briggs '18 of Robo Global writes that automation is fundamentally different and not a bubble because automation companies are already returning tangible returns and thus much less speculative.

Briggs, Travis. "REMEMBER THE TECH BUBBLE? TO AVOID A REPEAT PERFORMANCE IN ROBOTICS & AI, DIVERSIFICATION IS KEY." Robo Global. July 2018. https://www.roboglobal.com/remember-the-tech-bubble-to-avoid-a-repeat-performance-in-robotics-ai-diversification-is-key/ //RJ

The good news is that, **though the high-flying nature of RAAI stocks can feel much like the dot-com bubble of years past, there are key differences that set the two markets apart.** First, in the early 2000s, **many dot-com companies were much more speculative than investors chose to believe**. Built up by VC investors, many had no tangible deliverable, no profits, and negative operating margins. It was a house of cards that was bound to come crashing down, and crash it did. **In contrast, today's RAAI companies are highly tangible.** Yes, they are benefitting from some of the world's most innovative ideas, but in this case, those ideas are already delivering on their promise: Intuitive Surgical, the global leader in surgical robotics that are increasingly used in a rapidly broadening range of procedures, saw its market capitalization expand from $1B to $50B in the past 15 years. Today, the company is on track to generate more than $1.5B in operating profits this year, with 70% of its revenue recurring in nature. Nvidia, whose graphics processing units have become the de facto standard to train artificial intelligence in datacenters and to power autonomous driving systems, boosted its valuation by more than 10x in the past three years. In 2Q18 alone, revenue grew more than 65%, compared to its already impressive 18% average growth in the past 5 years. Ocado, the UK-based online grocer that developed cutting-edge warehouse automation technology, already doubled its share price in 2018. Adding more fuel to the fire, the company just announced a game-changing partnership with Kroger to deploy robotics-automated order fulfilment technology in 20 US grocery facilities. Brooks Automation, a leading provider of automation and cryogenic solutions, saw its shares more than triple in price in the past two years. Its booming life science systems business that automates bio sample management in pharma, biotech, and research organizations has set it on a clear trajectory for significantly faster growth. These are just a handful of the most stunning examples among a long and growing list of technology and applications providers who are already putting the power of robotics, automation, and AI to work in the real world—and delivering real-world returns as a result. And yet, as is true in any sector, investing in RAAI can still put your portfolio at risk if you invest only in the largest market-cap firms within this vast landscape. Unfortunately, that's precisely how many investors are currently attempting to capture this tremendous growth. As we've seen time and time again, when it comes to new technology, today's biggest winners may not be at the top of the charts tomorrow. Blackberry, AOL, and Betamax were all Wall Street darlings until, almost overnight, they weren't. Even Apple has seen its dark days. So how to you choose stocks in a complex, global sector that can be difficult, at best, to understand and navigate. When we developed the first RAAI index back in 2013, we faced that challenge head on. Since the beginning, we've relied on the strength of our research and advisory team—a growing panel of many of the world's top industry innovators, academics, and entrepreneurs who specialize in robotics and AI. Their knowledge, insights, and guidance help us better understand which technologies and applications are poised for growth, which are likely to falter, and why. Rather than relying only on the largest-cap players, the ROBO Global Robotics & Automation Index uses a modified equal-weighted strategy to ensure diversification across the entire value chain, across geographies, and across a variety of business models. From equipment makers to software and services providers, these companies specifically help in weaker market regimes. This approach also offers greater exposure to small-cap and mid-cap companies that, in many cases, are not well covered by Wall Street. The index is also designed to include companies in every area of RAAI. From IOT, to smart homes, to Industry 4.0, and covering growing sectors such as logistics automation, healthcare, food and agriculture, security and surveillance, 3D printing, and more. **A stock 'bubble' is often defined as investing in hot stocks that, ultimately, fail to deliver returns over the long term. As a whole, robotics, automation, and AI offer solid, tangible technologies and applications that are already driving growth and disrupting the norm. Earnings are steady and growing. Demand is increasing at a rapid pace. Even in a downturn, RAAI should weather the storm well and continue to outpace global indices for years to come.**

A2: Social Spending Crowd-Out

A2: Political Gridlock during Recession

Link Defense Rhetoric

1. Lowrey '18 of the Atlantic writes that since the recovery after the 2008 crisis, the view of policymakers has changed in Washington towards caring less and less about high government debt. Lowrey gives two reasons for this:
    a. The general populace cares a lot less about the debt now, with the percentage of voters who viewed the debt as an important issue falling by 24%. As a result, politicians don't care about passing larger deficits anymore.
    b. The majority of the hype after the 2008 crisis about how the deficit would hurt the American economy proved to be wrong, resulting in policymakers rethinking their narrative on the debt.

Lowrey, Annie. "Why Don't Republicans Fret About the Debt Anymore?" The Atlantic. Jan. 2018. https://www.theatlantic.com/business/archive/2018/01/state-union-debt-deficit/551978/ //RJ

The omission was a sign of the remarkable volte-face the Republican Party has taken on the country's fiscal situation in just a few years. **Republicans spent the early years of the recovery obsessed with the national debt, castigating Democrats for their supposed irresponsibility, warning about the dangers of the almighty bond market, and helping to construct complicated mechanisms to slash federal outlays. They are now spending what might very well be the late years of the recovery ignoring it**, having passed a tax plan that will add more to the debt than President Obama's stimulus package did and having forgotten their once-urgent plans to make cuts to Social Security and Medicare. It might be nothing more than politics. Shaming the other guy for doing something, and then doing it oneself as soon as one gets into power: It is cynical, it is hypocritical, it is Washington. But **it** also **reflects a profound change in policymakers' understanding of deficits and debt. Maybe it is not that Republicans should be more obsessed with the debt now. Maybe it is that nobody in Washington should have been so obsessed with the deficit back then.** Back then, in this case, means 2010 through 2014, give or take. Congress passed a trillion-dollar stimulus to help wrest the country back from free fall, and the economy entered a sluggish recovery from the pain of the recession. Shortly after, Republicans started whipping up concern over the country's fiscal situation, even as many economists from across the political spectrum argued that workers needed more help from deficit-financed stimulus. Democrats, in many cases, agreed with their colleagues across the aisle, expressing deep concern over the long-term fiscal situation. Next came a commission, endless budget negotiations, a tax increase, struggles with the debt ceiling, sequestration, a government shutdown. **More than anything else, there was obsession. Obsession with the idea that the bond market would punish the United States like it punished Greece, making the country's debt burden unsustainable, and soon. Obsession with the idea of frivolous budgetary irresponsibility.** "In this generation, a defining responsibility of government is to steer our nation clear of a debt crisis while there is still time," Paul Ryan, now the speaker of the House, warned, adding that "President Obama has added more debt than any other president before him, and more than all the troubled governments of Europe combined." Sure, Republicans still cast themselves as the party of budgetary responsibility today. "We must impose firm caps on future debt, accelerate the repayment of the trillions we now owe in order to reaffirm our principles of responsible and limited government, and remove the burdens we are placing on future generations," the party's 2016 platform reads. And while President Trump has never been much of a budget hawk, he did campaign on a promise to not just reduce the annual deficit, but to balance the budget outright and "relatively quickly." **But how things have changed.** President Trump and congressional Republicans pushed through a package of tax cuts financed almost entirely through deficit spending—tax cuts that benefit corporations and the rich at the expense of the middle class and the working poor, no less. Absent any other budgetary changes, the legislation will add an estimated $1.8 trillion to the country's debt over the next 10 years. It is likely that the country's annual budget deficit will top $1 trillion next year, even if the unemployment rate remains low and the economy keeps growing. With the tax cuts now law, Republicans are seeking to increase deficits even further. Gone are the promises to tackle entitlement reform, or to seek huge cuts from programs across the government. Instead, Republicans are pushing to shunt more money to military operations. "Around the world, we face rogue regimes, terrorist groups, and rivals like China and Russia that challenge our interests, our economy, and our values," President Trump said, to rapturous applause, during Tuesday's address. "For this reason, I am asking the Congress to end the dangerous defense sequester and fully fund our great military." (Democrats are negotiating over the increase, and are pushing for more money for the opioid epidemic and disaster relief.) **The rhetoric has changed too, with Republicans no longer talking about the deficit and the debt in the heated, worried way they once did. During the 2016 GOP debates, the fiscal situation came up far less often than it did in 2012, and with far less urgency too. The Senate Budget Committee held no dedicated hearings on the debt, the deficit, fiscal stability, or balanced budgets in 2017, unlike in many years past.** And, as a great FiveThirtyEight analysis has found, **mentions of the deficit during congressional proceedings peaked at more than 8,000 in 2011 and fell to just more than 1,500 by 2015.** For their part, administration officials refer to it infrequently, and often with little sense of outrage or concern. "The president is very much concerned about the rate of increase of the debt," Steven Mnuchin, the Treasury secretary, said at a hearing of the Senate Banking Committee this week. "Over time, we need to figure out where we can have government savings to deal with the deficit." So what happened? How did the same Republicans who balked at a stimulus to get the country out of a recession rubber-stamp a bigger stimulus to fuel the best economy since the 1990s? How are the same Republicans who helped to construct an automatic mechanism to slash spending now lifting caps, spending more, and leaving entitlement programs untouched? I asked both Democratic and Republican aides those questions, and got mostly shrugs. In some sense, President Trump is just doing what Presidents George W. Bush and Ronald Reagan did before him, aided by Republicans in Congress. Both swore to balance the budget or to bring down the debt. Both signed legislation that increased deficits instead, primarily through tax cuts and increased military spending. Many Democrats, for their part, now believe that Republicans exploited their sincere concern over the long-term fiscal situation to score short-term political points—with some Democrats privately vowing not to worry about paying for things once they are back in power. "Republicans never really cared about the budget deficit. It was always a political tactic. With their own tax cut, they said, 'Go ahead and finance it with massive deficit spending,'" Jared Bernstein, an Obama economic adviser, told me. Democrats struggled to ensure everything they did was paid for, while, Bernstein argues, "Republican fiscal irresponsibility has enabled them to provide all kinds of goodies to their donor base."

But **Washington's understanding of the economic situation has changed**, too, as Bernstein admits. It now seems clear that **the degree of deficit panic whipped up in the post-crisis years overestimated the risk of a bond-market reaction, overstated the risk of the government crowding out private investment, and underestimated the capacity of the United States government to run deficits and build up debts—as well as overestimating how much voters ever really cared about the deficit.** "If you go around yelling about pressure on interest rates and public borrowing crowding out private, you don't have a lot to point to in terms of data," Bernstein told me. "You have virtually nothing in terms of data. That's not just here. That's in Japan, other advanced economies as well." **<u>The risk that the country would not be able to fight a future recession due to its heavy debt burden might have been overinterpreted, as well.</u>** "It's something the left has invented because they lost the tax war," Doug Holtz-Eakin, the former director of the Congressional Budget Office and a Republican economic analyst, told me. **<u>The country has room to expand its budget deficits even now</u>**, he said. "If we were in a position where additional tax cuts or spending would be beneficial in a rapid way to help a falling economy, markets would reward, not punish, you for that." Plus, **<u>broad segments of the public seem uninterested in punishing even archconservative politicians who increase the debt, despite the promises of the Tea Party. Indeed, the many seem not to care much about the debt at all, now that Washington has stopped talking about it. The share of Americans who say that they see the deficit as a top priority has fallen to 48 percent today from 72 percent in 2013</u>**, according to a survey by the Pew Research Center. Corporate executives used to travel to Washington to express their concern over the country's fiscal future. But on the tax legislation, they mostly remained mum. "Voters, frankly, after these huge deficits, are saying, 'Well, how much do deficits really matter?'" Rick Santorum, the former Republican presidential candidate, told [the Associated Press] last September. "We're not Greece yet, right?"

A2: Spending Cuts Now > Later

Link Defense Rhetoric

1. The Mandel evidence from the top of our case specifically indicates that because of the automation boom that's incoming, government revenues will increase by $1.9 trillion by 2031, which is why the Tamny evidence indicates that our growing economy will dwarf the debt anyways, which means we won't need to cut spending later.
2. Barrett '18 of the International Monetary Fund writes that the largest possible amount for interest costs to rise in the long-run is 2% for the U.S. That's why Kogan '15 of the Center for Budget Policies and Priorities writes that for the entire history of the U.S., our economic growth has outpaced our interest costs, indicating that we will never have to cut spending later.

Tamny, John. "Ignore The Endless Talk Of Doom, Budget Deficits Really Don't Matter." Forbes. Sept. 2017. https://www.forbes.com/sites/johntamny/2017/09/24/forget-the-protests-of-conservatives-deficits-really-dont-matter/#3602310a3707 //RJ

At the same time, **the substantial decline of Treasury yields is a certain signal from one of the deepest markets in the world that investors are not remotely worried about Treasury's ability to pay back the $20 trillion owed**, or hundreds of trillions if we factor in the entitlement math of our most ardent deficit hysterics. Thinking about the hand wringers who are convinced the U.S. as we know it is set to end thanks to existing and looming Treasury debt, and paraphrasing Ken Fisher, **the markets have already priced the allegedly dire federal debt scenarios swimming through their heads**. **And having priced all that the U.S. Treasury owes, those same investors have aggressively bid up future dollar income streams that will be paid out by that same U.S. Treasury. In short, federal debt is the least of the U.S.'s problems. As evidenced by plummeting yields on the 10-year over the decades, investors figure that future debt servicing will be exceedingly easy.** As for reasons why, the speculation from here is that **we're on the verge of a staggering productivity boom thanks to amazing advances in technological pursuits of the automation and robotics variety.** Figure that if the discovery of dirty, prosaic coal rendered American workers twenty times more productive, imagine what internet, automation and robotic advances will mean for our future output. It's just a guess, but **these surges in our individual capacity to create will unleash stunning wealth creation on a level that we can't presently contemplate such that Treasury debts will become exceedingly small.**

Mandel, Michael. "The Coming Productivity Boom." Chief Economist at the Progressive Policy Institute and senior fellow at the University of Pennsylvania's Wharton School. March 2017. http://www.techceocouncil.org/clientuploads/reports/TCC%20Productivity%20Boom%20FINAL.pdf //RJ

A simple comparison of potential growth rates tells the story. **At the current expected growth rate of 2% annually, the country will struggle to meet its obligations and invest in the future. But if growth accelerates to 2.7% annually, as this paper's analysts project, it will add a cumulative $8.6 trillion in wages and salaries over the next 15 years** (measured in 2016 dollars). And while Americans will have more to spend on meeting their needs, **the government will have more funding to help out. Federal revenues will go up by an added $3.9 trillion without any increase in federal taxes as a share of GDP**. Some of that will go to cutting the debt, while still **leaving additional revenue for other needs, such as infrastructure and security.** (These figures are based on projections and analysis developed in this paper.)

Mandel, Michael. "The Coming Productivity Boom." Chief Economist at the Progressive Policy Institute and senior fellow at the University of Pennsylvania's Wharton School. March 2017. http://www.techceocouncil.org/clientuploads/reports/TCC%20Productivity%20Boom%20FINAL.pdf //RJ

The diffusion of information technology into the physical industries is poised to revive the economy, create jobs, and boost incomes. **Far from nearing its end, the Information Age may give us its most powerful and widespread economic benefits in the years ahead.** Aided by improved public policy focused on innovation, **we project a significant acceleration of productivity across a wide array of industries**, leading to more broad-based economic growth. • **The 10-year productivity drought is almost over. The next waves of the information revolution**—where we connect the physical world and infuse it with intelligence—**are beginning to emerge. Increased use of** mobile **technologies**, cloud services, artificial intelligence, big data, inexpensive and ubiquitous sensors, computer vision, virtual reality, robotics, 3D additive manufacturing, and a new generation of 5G wireless **are**

on the verge of transforming the traditional physical industries—healthcare, transportation, energy, education, manufacturing, agriculture, retail, and urban travel services. ● At 2.7%, productivity growth in the digital industries over the last 15 years has been strong. ● On the other hand, productivity in the physical industries grew just 0.7% annually, leading to anemic economic growth over the last decade. ● The digital industries, which account for around 25% of U.S. private-sector employment and 30% of private-sector GDP, make 70% of all private-sector investments in information technology. The physical industries, which are 75% of private-sector employment and 70% of private-sector GDP, make just 30% of the investments in information technology. ● This "information gap" is a key source of recent economic stagnation and the productivity paradox, where many workers seem not to have benefited from apparent rapid technological advances. Three-quarters of the private sector—the physical economy—is operating well below its potential, dragging down growth and capping living standards. ● In particular, the crucial manufacturing sector, outside the computer and electronics industry, has barely boosted its capital stock of IT equipment and software over the past 15 years. Not surprisingly, productivity growth in manufacturing has slowed to a crawl in recent years. ● Information technologies make existing processes more efficient. More importantly, however, creative deployment of IT empowers entirely new business models and processes, new products, services, and platforms. It promotes more competitive differentiation. The digital industries have embraced and benefited from scalable platforms, such as the Web and the smartphone, which sparked additional entrepreneurial explosions of variety and experimentation. The physical industries, by and large, have not. They have deployed comparatively little IT, and where they have done so, it has been focused on efficiency, not innovation and new scalable platforms. That's about to change. ● **Healthcare, energy, and transportation**, for example, **are evolving into information industries.** Smartphones and wearable devices will make healthcare delivery and data collection more effective and personal, while computational bioscience and customized molecular medicine will radically improve drug discovery and effectiveness. Artificial intelligence will assist doctors, and robots will increasingly be used for surgery and eldercare. The boom in American shale petroleum is largely an information technology phenomenon, and it's just the beginning. Autonomous vehicles and smart traffic systems, meanwhile, will radically improve personal, public, and freight transportation in terms of both efficiency and safety, but they also will create new platforms upon which entirely new economic goods can be created. **Manufacturing may be on the cusp of transformation—not just by robotics and 3D printing, but by the emergence of smart manufacturing more broadly**: a fundamental rethinking of the production and design processes that substantially boost productivity and demand. **That, in turn, could create a new set of manufacturing-related jobs and allow American factories to compete more effectively against low-wage rivals**. ● **Far from a jobless future, a more productive physical economy will make American workers more valuable and employable. It also will free up resources to spend on new types of goods and services. Artificial intelligence and robots will not only perform many unpleasant and super-human tasks but also will complement our most human capabilities and make workers more productive than ever.** Humans equipped with boundless information, machine intelligence, and robot strength will create many new types of jobs. ● **Employment growth in the digital sector has modestly outpaced employment growth in the physical sector, despite the big edge in productivity growth for digital industries.** This suggests that **we can both achieve higher living standards and create good new jobs. The notion that automation is the key enemy of jobs is wrong**. Over the medium and long terms, productivity is good for employment. ● How much could these IT-related investments add to economic growth? Our assessment, based on an analysis of recent history, suggests **this transformation could boost annual economic growth by 0.7 percentage points over the next 15 years.** That may not sound like much, but **it would add $2.7 trillion to annual U.S. economic output by 2031**, in 2016 dollars. **Wages and salary payments to workers would increase by a cumulative $8.6 trillion** over the next 15 years. **Federal revenues over the period would grow by a cumulative $3.9 trillion**, helping to pay for Social Security and Medicare. **State and local revenues would rise by a cumulative $1.9 trillion, all without increasing the tax share of GDP**. ● Expanding the information revolution to the physical industries will require an entrepreneurial mindset—in industry and in government—to deploy information technology in new ways and reorganize firms and sectors to exploit the power of IT. Some of these technological transformations are already underway. **Public policy, however, will either retard or accelerate the diffusion of information into the physical industries. Better or worse policy will, in significant part, determine the rate at which more people enjoy the miraculous benefits of rapid innovation, both as workers and consumers.**

Mandel, Michael. "The Coming Productivity Boom." Chief Economist at the Progressive Policy Institute and senior fellow at the University of Pennsylvania's Wharton School. March 2017. http://www.techceocouncil.org/clientuploads/reports/TCC%20Productivity%20Boom%20FINAL.pdf //RJ

That means **there is real potential for big gains in productivity without losing the benefits of job growth: Three-quarters of the private sector is operating well below its potential.** That's going to change, as more and more companies in the physical industries adopt digital technologies such as cloud computing, Internet of Things (IoT), artificial intelligence (AI), robotics, 3D printing, and widespread use of machine-to-machine (M2M) mobile communications.

Lewis, Nathan. "Raise Taxes and Cut Government Spending to Reduce Debt? Not Really." Forbes. Oct. 2012. https://www.forbes.com/sites/nathanlewis/2012/10/21/raise-taxes-and-cut-government-spending-to-reduce-debt-not-really/#12f4dc043889 //RJ

At some point, the U.S. government will have to deal with its exploding debt load. Typically, we hear that the solution involves "some combination of reduced spending and higher taxes." Proponents often claim that this solution is "mathematically inevitable." Oh really? **There are** two **great examples in history of governments that got out of huge debt commitments without either defaulting or devaluing the currency, which is essentially another form of default**. **One was** Britain after the Napoleonic Wars, ending in 1815; the other was **the United States, after World War II.** This was quite unusual. Most governments, when faced with excessive debts, have defaulted either legally or via currency devaluation. **After World War II, the U.S. government had a debt/GDP ratio of about 125%. In 1970, this had fallen to 25%.** During this entire period, the dollar was pegged to gold at $35/oz. under the Bretton Woods system. Did **spending** go down during this period? It did immediately after the war, dropping from $93 billion in 1945 to $30 billion in 1948. Then, it **went up, reaching $195 billion in 1970. Did taxes go up? No, they did not.** Immediately after the war's end, wartime tax rates were reduced slightly. The Revenue Act of 1945 repealed an excess profits tax, and reduced income and corporate tax rates. Tax rates were reduced further in the Revenue Act of 1948, although they went up slightly in the early 1950s. A fairly large tax rate reduction took place in 1964. The overall trend was a modest decrease in tax rates. **Was the debt paid off? Nope.** In 1948, the federal Government had gross debt outstanding of $252 billion. In 1970, it was $381 billion. Apparently, when "mathematically inevitable" meets reality, reality wins. So, what happened? Mostly, **GDP increased, so that the debt/GDP ratio declined as a result of the expanding denominator.** GDP was $233 billion in 1947 and $1,103 billion in 1970.

Barrett, Philip. "Interest-Growth Differentials and Debt Limits in Advanced Economies." International Monetary Fund. Apr. 2018. https://www.imf.org/en/Publications/WP/Issues/2018/04/11/Interest-Growth-Differentials-and-Debt-Limits-in-Advanced-Economies-45794 //RJ

Overall, the message of Figure 8 is clear. Point estimates of the long-run interest-growth differential are negative. This is robust across countries, periods, and estimation methods. This represents a very serious challenge to models of debt sustainability; if true it means that debt limits are not finite. However, upper bounds of confidence sets for this average are positive. **For countries with long, unbroken datasets and few extreme events** (UK, **USA**, France) we can be more precise: both VAR-based and spectral estimates agree that **the largest plausible value for the interest-growth differential over the long run is somewhere between 0 and 2 percent per year**. Appendix B.2 shows that **these basic findings are also robust to using alternative interest rate measures**. So conservative estimates of sustainable debt levels should a) feature long-run differentials that are somewhere in this range, and b) explain clearly the sensitivity of the results to the assumed long-run differential. This is the exercise that we pursue in the next section.

Kogan, Richard. "Difference Between Economic Growth Rates and Treasury Interest Rates Significantly Affects Long-Term Budget Outlook." Center on Budget Policy and Priorities. Feb. 2015. https://www.cbpp.org/research/federal-budget/difference-between-economic-growth-rates-and-treasury-interest-rates //RJ

Growth has exceeded interest rates on average over the last two centuries, and has done so by greater margins in recent decades. From 1792 through 2025 — with our time period extending 10 years into the future for reasons explained in footnote 3 — annual growth has exceeded interest rates by an average of 0.9 percent.[3] To be sure, that average is driven significantly by the periods of major wars, in which economic growth has exceeded interest rates by very large margins. In 1942, for example, nominal gross domestic product (GDP) grew 27 percent while the nominal interest rate was 2 percent, yielding a difference of 25 percent. During the War of 1812, the Civil War, and the two World Wars, economic growth has exceeded interest rates by an average of 12.4 percent; in general, the large increases in government spending that major wars require lead to rapid, though temporary, increases in economic growth. The Great Depression, which sent the economy plummeting, significantly affected the relationship between economic growth and interest rates in the other direction. From 1930 through 1933, when the economy shrank but interest rates couldn't fall below zero, interest rates greatly exceeded economic growth — by almost 23 percent, for example, in 1932. The very rapid economic recovery under the New Deal reversed the relationship once more, with economic growth exceeding interest rates (by an average of 6.5 percent from 1934 through 1938), much as during major wars. Nevertheless, if we exclude war years and the abnormal Great Depression era, economic growth still exceeds interest rates on average over the nation's history, though by a less striking 0.2 percent.[4] (See Table 1 and Figure 1.)

Wray, L. Randall. "Deficit Hysteria Redux? Why We Should Stop Worrying About U.S. Government Deficits." Levy Economics Institute of Bard College. 2010. https://www.econstor.eu/bitstream/10419/54259/1/631375910.pdf //RJ

When federal government debt is held by the public, the government liability is exactly offset by nongovernment sector assets, and **interest payments by the government generate income for the nongovernment sector**. Even on the orthodox claim that today's deficits lead to debt that must be retired later, those **future higher taxes that are said to be required to service and pay off tomorrow's debt represent "redistribution" from taxpayers to bondholders**. This might be undesirable (perhaps bondholders are wealthier than taxpayers), but the "redistribution" takes place at the time the payment is made. **While it is often claimed that deficit spending today burdens our grandchildren, in reality we leave them with government bonds that represent net financial assets and wealth**. If the decision is made to raise taxes and retire the bonds in, say, 2050, the extra taxes are matched by payments made directly to bondholders in 2050. (We deal with foreign holdings of government bonds below.) Although **this decision to raise taxes** in an effort to retire the debt will burden taxpayers in 2050, it **is not a necessary decision. If taxes are not increased later, we simply leave future generations with Treasury debt that is a net asset in their portfolios, and any payment of interest provides net income to bondholders.** Obviously, it will be up to future generations to decide whether they should raise taxes by an amount equal to those interest payments, or by a greater amount in an attempt to retire the debt. Even if we want to, we cannot put those burdens on future generations because we cannot dictate the fiscal stance to be taken in 2050. In short, **our deficits today do not necessarily commit future generations to raising taxes**.

A2: Interest Payments

Link Defense Rhetoric

1. Delink; The Mandel evidence from the top of our case specifically indicates that because of the automation boom that's incoming, government revenues will increase by $1.9 trillion by 2031, which is why the Tamny evidence indicates that our growing economy will dwarf the debt anyways, which means we won't need to cut spending later.
2. Delink; Barrett '18 of the International Monetary Fund writes that the largest possible amount for interest costs to rise in the long-run is 2% for the U.S. That's why Kogan '15 of the Center for Budget Policies and Priorities writes that for the entire history of the U.S., our economic growth has outpaced our interest costs, indicating that we will never have to cut spending later. Their evidence about crowding out our budget assumes that the budget doesn't get larger as time goes on, but because our economy is growing faster, the budget is able to grow faster as well.
3. Delink; Spross '18 of the Week writes that interest payments will never crowd out other budgetary items because the government can simply print more money to pay off the interest costs. This doesn't cause inflation, because Conover '13 of the American Enterprise Institute writes that when the Federal Reserve prints more money, it is buying back bonds, thus not increasing the total money supply but simply liquidating assets.
4. Delink; Ebby '18 of the University of Pennsylvania writes that when the government debt rises rapidly, the government refinances its debt towards long-term bonds and reshapes its maturity structure. When the government does so, it rolls over the bonds on prevailing interest rates. This means that the government is constantly able to finance its debt at the low-interest rates of today.

Link Turn Rhetoric

1. In order to reduce interest payments, the government must reduce the principal amount of debt, not just reduce the deficit. This means that any cuts in spending will be greater in an affirmative world because you're cutting not just the interest payments but also the debt, while in our world cuts would only need to compensate for higher interest costs.

Tamny, John. "Ignore The Endless Talk Of Doom, Budget Deficits Really Don't Matter." Forbes. Sept. 2017. https://www.forbes.com/sites/johntamny/2017/09/24/forget-the-protests-of-conservatives-deficits-really-dont-matter/#3602310a3707 //RJ

At the same time, **the substantial decline of Treasury yields is a certain signal from one of the deepest markets in the world that investors are not remotely worried about Treasury's ability to pay back the $20 trillion owed**, or hundreds of trillions if we factor in the entitlement math of our most ardent deficit hysterics. Thinking about the hand wringers who are convinced the U.S. as we know it is set to end thanks to existing and looming Treasury debt, and paraphrasing Ken Fisher, **the markets have already priced the allegedly dire federal debt scenarios swimming through their heads**. **And having priced all that the U.S. Treasury owes, those same investors have aggressively bid up future dollar income streams that will be paid out by that same U.S. Treasury. In short, federal debt is the least of the U.S.'s problems. As evidenced by plummeting yields on the 10-year over the decades, investors figure that future debt servicing will be exceedingly easy.** As for reasons why, the speculation from here is that **we're on the verge of a staggering productivity boom thanks to amazing advances in technological pursuits of the automation and robotics variety.** Figure that if the discovery of dirty, prosaic coal rendered American workers twenty times more productive, imagine what internet, automation and robotic advances will mean for our future output. It's just a guess, but **these surges in our individual capacity to create will unleash stunning wealth creation on a level that we can't presently contemplate such that Treasury debts will become exceedingly small.**

Mandel, Michael. "The Coming Productivity Boom." Chief Economist at the Progressive Policy Institute and senior fellow at the University of Pennsylvania's Wharton School. March 2017. http://www.techceocouncil.org/clientuploads/reports/TCC%20Productivity%20Boom%20FINAL.pdf //RJ

A simple comparison of potential growth rates tells the story. **At the current expected growth rate of 2% annually, the country will struggle to meet its obligations and invest in the future. But if growth accelerates to 2.7% annually, as this paper's analysts project, it will add a cumulative $8.6 trillion in wages and salaries over the next 15 years** (measured in 2016 dollars). And while Americans will have more to spend on meeting their needs, **the government will have more funding to help out. Federal revenues will go up by an added $3.9 trillion without any increase in federal taxes as a share of GDP**. Some of that will go to cutting the debt, while still **leaving additional revenue for other needs, such as infrastructure and security.** (These figures are based on projections and analysis developed in this paper.)

Mandel, Michael. "The Coming Productivity Boom." Chief Economist at the Progressive Policy Institute and senior fellow at the University of Pennsylvania's Wharton School. March 2017. http://www.techceocouncil.org/clientuploads/reports/TCC%20Productivity%20Boom%20FINAL.pdf //RJ

The diffusion of information technology into the physical industries is poised to revive the economy, create jobs, and boost incomes. **Far from nearing its end, the Information Age may give us its most powerful and widespread economic benefits in the years ahead.** Aided by improved public policy focused on innovation, **we project a significant acceleration of productivity across a wide array of industries**, leading to more broad-based economic growth. • **The 10-year productivity drought is almost over.** **The next waves of the information revolution**—where we connect the physical world and infuse it with intelligence—**are beginning to emerge.** **Increased use of** mobile **technologies**, cloud services, artificial intelligence, big data, inexpensive and ubiquitous sensors, computer vision, virtual reality, robotics, 3D additive manufacturing, and a new generation of 5G wireless **are**

on the verge of transforming the traditional physical industries—healthcare, transportation, energy, education, manufacturing, agriculture, retail, and urban travel services. ● At 2.7%, productivity growth in the digital industries over the last 15 years has been strong. ● On the other hand, productivity in the physical industries grew just 0.7% annually, leading to anemic economic growth over the last decade. ● The digital industries, which account for around 25% of U.S. private-sector employment and 30% of private-sector GDP, make 70% of all private-sector investments in information technology. The physical industries, which are 75% of private-sector employment and 70% of private-sector GDP, make just 30% of the investments in information technology. ● This "information gap" is a key source of recent economic stagnation and the productivity paradox, where many workers seem not to have benefited from apparent rapid technological advances. Three-quarters of the private sector—the physical economy—is operating well below its potential, dragging down growth and capping living standards. ● In particular, the crucial manufacturing sector, outside the computer and electronics industry, has barely boosted its capital stock of IT equipment and software over the past 15 years. Not surprisingly, productivity growth in manufacturing has slowed to a crawl in recent years. ● Information technologies make existing processes more efficient. More importantly, however, creative deployment of IT empowers entirely new business models and processes, new products, services, and platforms. It promotes more competitive differentiation. The digital industries have embraced and benefited from scalable platforms, such as the Web and the smartphone, which sparked additional entrepreneurial explosions of variety and experimentation. The physical industries, by and large, have not. They have deployed comparatively little IT, and where they have done so, it has been focused on efficiency, not innovation and new scalable platforms. That's about to change. ● **Healthcare, energy, and transportation**, for example, **are evolving into information industries.** Smartphones and wearable devices will make healthcare delivery and data collection more effective and personal, while computational bioscience and customized molecular medicine will radically improve drug discovery and effectiveness. Artificial intelligence will assist doctors, and robots will increasingly be used for surgery and eldercare. The boom in American shale petroleum is largely an information technology phenomenon, and it's just the beginning. Autonomous vehicles and smart traffic systems, meanwhile, will radically improve personal, public, and freight transportation in terms of both efficiency and safety, but they also will create new platforms upon which entirely new economic goods can be created. **Manufacturing may be on the cusp of transformation—not just by robotics and 3D printing, but by the emergence of smart manufacturing more broadly**: a fundamental rethinking of the production and design processes that substantially boost productivity and demand. **That, in turn, could create a new set of manufacturing-related jobs and allow American factories to compete more effectively against low-wage rivals**. ● **Far from a jobless future, a more productive physical economy will make American workers more valuable and employable. It also will free up resources to spend on new types of goods and services. Artificial intelligence and robots will not only perform many unpleasant and super-human tasks but also will complement our most human capabilities and make workers more productive than ever.** Humans equipped with boundless information, machine intelligence, and robot strength will create many new types of jobs. ● **Employment growth in the digital sector has modestly outpaced employment growth in the physical sector, despite the big edge in productivity growth for digital industries.** This suggests that **we can both achieve higher living standards and create good new jobs. The notion that automation is the key enemy of jobs is wrong**. Over the medium and long terms, productivity is good for employment. ● How much could these IT-related investments add to economic growth? Our assessment, based on an analysis of recent history, suggests **this transformation could boost annual economic growth by 0.7 percentage points over the next 15 years.** That may not sound like much, but **it would add $2.7 trillion to annual U.S. economic output by 2031**, in 2016 dollars. **Wages and salary payments to workers would increase by a cumulative $8.6 trillion** over the next 15 years. **Federal revenues over the period would grow by a cumulative $3.9 trillion**, helping to pay for Social Security and Medicare. **State and local revenues would rise by a cumulative $1.9 trillion, all without increasing the tax share of GDP**. ● Expanding the information revolution to the physical industries will require an entrepreneurial mindset—in industry and in government—to deploy information technology in new ways and reorganize firms and sectors to exploit the power of IT. Some of these technological transformations are already underway. **Public policy, however, will either retard or accelerate the diffusion of information into the physical industries. Better or worse policy will, in significant part, determine the rate at which more people enjoy the miraculous benefits of rapid innovation, both as workers and consumers.**

Mandel, Michael. "The Coming Productivity Boom." Chief Economist at the Progressive Policy Institute and senior fellow at the University of Pennsylvania's Wharton School. March 2017. http://www.techceocouncil.org/clientuploads/reports/TCC%20Productivity%20Boom%20FINAL.pdf //RJ

That means **there is real potential for big gains in productivity without losing the benefits of job growth: Three-quarters of the private sector is operating well below its potential.** That's going to change, as more and more companies in the physical industries adopt digital technologies such as cloud computing, Internet of Things (IoT), artificial intelligence (AI), robotics, 3D printing, and widespread use of machine-to-machine (M2M) mobile communications.

Lewis, Nathan. “Raise Taxes and Cut Government Spending to Reduce Debt? Not Really.” Forbes. Oct. 2012. https://www.forbes.com/sites/nathanlewis/2012/10/21/raise-taxes-and-cut-government-spending-to-reduce-debt-not-really/#12f4dc043889 //RJ

At some point, the U.S. government will have to deal with its exploding debt load. Typically, we hear that the solution involves “some combination of reduced spending and higher taxes.” Proponents often claim that this solution is “mathematically inevitable.” Oh really? **There are** two **great examples in history of governments that got out of huge debt commitments without either defaulting or devaluing the currency, which is essentially another form of default**. **One was** Britain after the Napoleonic Wars, ending in 1815; the other was **the United States, after World War II.** This was quite unusual. Most governments, when faced with excessive debts, have defaulted either legally or via currency devaluation. **After World War II, the U.S. government had a debt/GDP ratio of about 125%. In 1970, this had fallen to 25%.** During this entire period, the dollar was pegged to gold at $35/oz. under the Bretton Woods system. Did **spending** go down during this period? It did immediately after the war, dropping from $93 billion in 1945 to $30 billion in 1948. Then, it **went up, reaching $195 billion in 1970. Did taxes go up? No, they did not.** Immediately after the war’s end, wartime tax rates were reduced slightly. The Revenue Act of 1945 repealed an excess profits tax, and reduced income and corporate tax rates. Tax rates were reduced further in the Revenue Act of 1948, although they went up slightly in the early 1950s. A fairly large tax rate reduction took place in 1964. The overall trend was a modest decrease in tax rates. **Was the debt paid off? Nope.** In 1948, the federal Government had gross debt outstanding of $252 billion. In 1970, it was $381 billion. Apparently, when “mathematically inevitable” meets reality, reality wins. So, what happened? Mostly, **GDP increased, so that the debt/GDP ratio declined as a result of the expanding denominator.** GDP was $233 billion in 1947 and $1,103 billion in 1970.

Spross, Jeff. “America is going to pay a lot of interest soon. But don’t fear a debt crisis.” The Week. Oct. 2018. https://theweek.com/articles/798463/america-going-pay-lot-interest-soon-but-dont-fear-debt-crisis //RJ

The standard argument you hear is that federal interest payments will crowd out other priorities in the national budget. **"The heavy burden of interest payments could make it harder for the government to repair aging infrastructure or take on other big new projects," warned The New York Times. The paper even suggested the interest burden could force the government to cut spending and raise taxes in the next recession, despite the economy needing additional stimulus to recover. "There will eventually be another recession, and this increases the chances we will have to slam on the brakes when the car is already going too slowly," Jeffrey Frankel, a Harvard economist, told the Times.** **It's difficult to overemphasize how utterly wrong this is. The U.S. government controls the supply of U.S. dollars. 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.**

Conover, Steve. “Money Printing Isn’t Inflationary.” American Enterprise Institute. May 2013. https://www.aei.org/publication/money-printing-isnt-always-inflationary/ //RJ

The false but popular view of Fed money-printing is that the creation of new money does nothing but dilute the public’s existing money supply. In fact, **the Fed creates new money** (a financial asset) **and uses it to purchase bonds** (financial assets) from the public. **Money printing by the Fed is not a dilution of the public’s financial assets. Instead, it’s a zero-sum asset swap: although new money comes from the Fed, existing bonds of the same value are bought by the Fed, and the net change in the public’s financial assets is zero.** **What the new base money does change is banks’ ability to make new loans — but if banks’ increased ability to lend to entrepreneurs and businesses is not accompanied by an increased desire to lend to them, then public borrowing, spending, and investing**

won't increase. In that case (which has been our situation for several years), **Fed money-printing ends up generating little** if any boost to economic activity or **inflation pressure.**

Ebby, Denis. "When Debt Rises, the Treasury Rebalances to Long-Term Securities." University of Pennsylvania. Aug. 2018. http://budgetmodel.wharton.upenn.edu/issues/2018/8/15/when-debt-rises-the-treasury-rebalances-to-long-term-securities //RJ

The maturity structure of federal debt determines how much federal debt is being paid off or retired each year, which determines the speed with which changes to interest rates affect total interest paid on the federal debt. Retired debt is typically rolled over into new debt at prevailing interest rates. When more debt is retired and rolled into new debt, changes to interest rates are passed through faster to interest paid by the federal government. To inform our projections about the maturity structure of federal debt, we analyze historical debt maturity structure by using U.S. Treasury records dating back to 1953. We find that the maturity structure changes significantly in the few years following 1982 and 2007, but is relatively stable in other years. Beginning in those two years, the federal government moves away from issuing short-term (one-year or less) debt and shifts toward long-term borrowing. As shown in Figure 1, the federal government decreased its concentration of debt obligations in short-term debt (Treasury bills with one-year or less maturity) from around 45 percent of all federal debt in 1982 to around 35 percent in 1987. The decrease in the short-term debt composition of public debt can be attributed to the U.S. Treasury's preference for new 20- and 30-year debt. In 2007, we observe another decline in short-term debt composition of public debt from 35 percent to 25 percent in 2012. In 2007, the Treasury shifted away from short-term debt to both medium- and long-term securities. Securities due in three to ten years more than tripled between 2007 and 2012. Furthermore, the U.S. Treasury was issuing more than $150 billion of 30-year debt in 2012, compared to $0, $26 billion, and $38 billion in 2005, 2006, and 2007, respectively. **The decreases in the proportion of short-term debt starting in 1982 and 2007 are coincident with sudden, large increases in public debt.** As shown in Figure 2, **the debt as a share of GDP increased from 25 percent in 1981 to 40 percent in 1987 following the Economic Recovery Tax Act of 1981. Likewise, decreased tax revenues and increased spending during the 2008 financial crisis contributed to a substantial increase in federal debt from 2007 to 2012.** Between those years, debt as a share of GDP increased from 35 percent to 70 percent. **Large increases in debt held by the public give the Treasury a chance to reshape the maturity structure. In both cases, the Treasury had to refinance existing short-term debt that was coming due and issue new debt to cover the larger deficits. In both instances, the U.S. Treasury borrowed larger shares of medium- and long-term debt.**

A2: Policymaker Inflexibility

Link Defense Rhetoric

1. Ausherback '17 of Berkeley University writes that policymakers will always have flexibility for fiscal stimulus because the stimulus pays for itself by raising revenues, indicating that this is never a problem.
2. Delink; The Mandel evidence from the top of our case specifically indicates that because of the automation boom that's incoming, government revenues will increase by $1.9 trillion by 2031, which is why the Tamny evidence indicates that our growing economy will dwarf the debt anyways, which means we won't need to cut spending later.
3. Delink; Spross '18 of the Week writes that interest payments will never constrain our budget because the government can simply print more money to pay off the interest costs. This doesn't cause inflation, because Conover '13 of the American Enterprise Institute writes that when the Federal Reserve prints more money, it is buying back bonds, thus not increasing the total money supply but simply liquidating assets.
    a. This means that we can always just print more money during a recession to increase our budget, which is what we did in 2008 with our quantitative easing program.
4. Delink; Roche '18 of Seeking Alpha writes that our deficit is just 3.5% of our GDP, which is significantly lower than during the past crisis when our deficit was at 10% of the GDP, indicating that we still have a high level of policy flexibility during the next recession. Indeed, he continues that even if rates rise dramatically, it would still be around the interest costs during the 80s and 90s, when we had no problem with our deficit.
5. Use the evidence about gridlock -- says policymakers don't care about debt

Ausherback of UC Berkley, 2017 **https://equitablegrowth.org/when-the-next-recession-hits-how-will-fiscal-stimulus-affect-government-debt-sustainability/**

There's a strain of thinking that argues any options for fighting the next recession are bound by the response to the past recession and other previous policy decisions. Take, for example, fiscal policy. **Because the U.S. debt-to-Gross Domestic Product ratio rose from about 35 percent before the start of the past recession in late 2007 to roughly 75 percent in the first quarter of 2017, does this higher level of debt bind the hands of policymakers for the next time they might consider a fiscal stimulus program?Not really, says a new research paper released last weekend at the Federal Reserve Bank of Kansas City's Economic Policy Symposium, better known by the meeting's location in Jackson Hole. Economists Alan J. Auerbach and Yuriy Gorodnichenko of the University of California, Berkeley** look at how higher government debt burdens might make future government stimulus programs quite costly. In other words, they **investigate how much of an impact a stimulus program would have on being able to spend money in the future while servicing existing government debt.** Unlike many other studies of this question, these two economists don't try to parse out the exact steps through which government spending would affect the sustainability of government debt. Instead, using a dataset covering 20 major countries that are members of the Organisation for Economic Co-operation and Development over a number of years from the 1980s to 2017, they measure how much an economic shock in the past changes the movement of a variable over time—in this case, interest rates and debt-to-GDP ratios, among others. The two economists find little evidence that short- and long-term interest rates increase after a fiscal shock, and that debt-to-GDP ratios don't change that much either. But there's another important finding. Auerbach and Gorodnichenko note that these results differ depending upon when the fiscal stimulus happens. If the shock occurs when an economy is already in recession, then the effects are still quite muted. But if spending is increased when the economy is near full potential, then the increase in interest rates and debt-to-GDP ratio will be larger. How much these measures of sustainability would react to a stimulus plan today depends on how far U.S. GDP is from its potential. **Any successful future fiscal stimulus efforts may well depend on whether a high debt-to-GDP ratio will influence or impact the sustainability of future government borrowing. Auerbach and Gorodnichenko find that the cost of borrowing goes up slightly more when initial debt loads are higher, but the difference isn't all that much. It seems unlikely that in the face of a recession even countries with high debt-to-GDP ratios would see large increases in the cost of borrowing if they spend to stimulate the economy. Policymakers who view the current debt-to-GDP ratio with trepidation, fearing that any attempt to increase spending during the next recession would result in unsustainable government debt levels, should take heart. As Equitablog's own Brad DeLong and former U.S. Treasury Secretary Lawrence H. Summers have argued, strong government stimulus during a downturn might actually pay for itself. Fears of "bond vigilantes," who would ostensibly flee U.S. government debt in the wake of a new stimulus program, are overblown**. If anything, the fear should be that the government doesn't spend enough to generate a strong recovery.

Tamny, John. "Ignore The Endless Talk Of Doom, Budget Deficits Really Don't Matter." Forbes. Sept. 2017. https://www.forbes.com/sites/johntamny/2017/09/24/forget-the-protests-of-conservatives-deficits-really-dont-matter/#3602310a3707 //RJ

At the same time, **the substantial decline of Treasury yields is a certain signal from one of the deepest markets in the world that investors are not remotely worried about Treasury's ability to pay back the $20 trillion owed**, or hundreds of trillions if we factor in the entitlement math of our most ardent deficit hysterics. Thinking about the hand wringers who are convinced the U.S. as we know it is set to end thanks to existing and looming Treasury debt, and paraphrasing Ken Fisher, **the markets have already priced the allegedly dire federal debt scenarios swimming through their heads**. **And having priced all that the U.S. Treasury owes, those same investors have aggressively bid up future dollar income streams that will be paid out by that same U.S. Treasury. In short, federal debt is the least of the U.S.'s problems. As evidenced by plummeting yields on the 10-year over the decades, investors figure that future debt servicing will be exceedingly easy.** As for reasons why, the speculation from here is that **we're on the verge of a staggering productivity boom thanks to amazing advances in technological pursuits of the automation and robotics variety.** Figure that if the discovery of dirty, prosaic coal rendered American workers twenty times more productive, imagine what internet, automation and robotic advances will mean for our future output. It's just a guess, but **these surges in our individual capacity to create will unleash stunning wealth creation on a level that we can't presently contemplate such that Treasury debts will become exceedingly small.**

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A simple comparison of potential growth rates tells the story. **At the current expected growth rate of 2% annually, the country will struggle to meet its obligations and invest in the future. But if growth accelerates to 2.7% annually, as this paper's analysts project, it will add a cumulative $8.6 trillion in wages and salaries over the next 15 years** (measured in 2016 dollars). And while Americans will have more to spend on meeting their needs, **the government will have more funding to help out. Federal revenues will go up by an added $3.9 trillion without any increase in federal taxes as a share of GDP**. Some of that will go to cutting the debt, while still **leaving additional revenue for other needs, such as infrastructure and security.** (These figures are based on projections and analysis developed in this paper.)

Mandel, Michael. "The Coming Productivity Boom." Chief Economist at the Progressive Policy Institute and senior fellow at the University of Pennsylvania's Wharton School. March 2017. http://www.techceocouncil.org/clientuploads/reports/TCC%20Productivity%20Boom%20FINAL.pdf //RJ

The diffusion of information technology into the physical industries is poised to revive the economy, create jobs, and boost incomes. **Far from nearing its end, the Information Age may give us its most powerful and widespread economic benefits in the years ahead.** Aided by improved public policy focused on innovation, **we project a significant acceleration of productivity across a wide array of industries**, leading to more broad-based economic growth. ● **The 10-year productivity drought is almost over.** **The next waves of the information revolution**—where we connect the physical world and infuse it with intelligence—**are beginning to emerge.** **Increased use of** mobile **technologies**, cloud services, artificial intelligence, big data, inexpensive and ubiquitous sensors, computer vision, virtual reality, robotics, 3D additive manufacturing, and a new generation of 5G wireless **are on the verge of transforming the traditional physical industries**—healthcare, transportation, energy, education, manufacturing, agriculture, retail, and urban travel services. ● At 2.7%, productivity growth in the digital industries over the last 15 years has been strong. ● On the other hand, productivity in the physical industries grew just 0.7% annually, leading to anemic economic growth over the last decade. ● The digital industries, which account for around 25% of U.S. private-sector employment and 30% of private-sector GDP, make 70% of all private-sector investments in information technology. The physical industries, which are 75% of private-sector employment and 70% of private-sector GDP, make just 30% of the investments in information technology. ● This "information gap" is a key source of recent economic stagnation and the productivity paradox, where many workers seem not to have benefited from apparent rapid technological advances. Three-quarters of the private sector—the physical economy—is operating well below its potential, dragging down growth and capping living standards. ● In particular, the crucial manufacturing sector, outside the computer and electronics industry, has barely boosted its capital stock of IT equipment and software over the past 15 years. Not surprisingly, productivity growth in manufacturing has slowed to a crawl in recent years. ● Information technologies make existing processes more efficient. More importantly, however, creative deployment of IT empowers entirely new business models and processes, new products, services, and platforms. It promotes more competitive differentiation. The digital industries have embraced and benefited from scalable platforms, such as the Web and the smartphone, which sparked additional entrepreneurial explosions of variety and experimentation. The physical industries, by and large, have not. They have deployed comparatively little IT, and where they have done so, it has been focused on efficiency, not innovation and new scalable platforms. That's about to change. ● **Healthcare, energy, and transportation**, for example, **are evolving into**

information industries. Smartphones and wearable devices will make healthcare delivery and data collection more effective and personal, while computational bioscience and customized molecular medicine will radically improve drug discovery and effectiveness. Artificial intelligence will assist doctors, and robots will increasingly be used for surgery and eldercare. The boom in American shale petroleum is largely an information technology phenomenon, and it's just the beginning. Autonomous vehicles and smart traffic systems, meanwhile, will radically improve personal, public, and freight transportation in terms of both efficiency and safety, but they also will create new platforms upon which entirely new economic goods can be created. **Manufacturing may be on the cusp of transformation—not just by robotics and 3D printing, but by the emergence of smart manufacturing more broadly**: a fundamental rethinking of the production and design processes that substantially boost productivity and demand. **That, in turn, could create a new set of manufacturing-related jobs and allow American factories to compete more effectively against low-wage rivals**. • **Far from a jobless future, a more productive physical economy will make American workers more valuable and employable. It also will free up resources to spend on new types of goods and services. Artificial intelligence and robots will not only perform many unpleasant and super-human tasks but also will complement our most human capabilities and make workers more productive than ever.** Humans equipped with boundless information, machine intelligence, and robot strength will create many new types of jobs. • **Employment growth in the digital sector has modestly outpaced employment growth in the physical sector, despite the big edge in productivity growth for digital industries.** This suggests that **we can both achieve higher living standards and create good new jobs. The notion that automation is the key enemy of jobs is wrong**. Over the medium and long terms, productivity is good for employment. • How much could these IT-related investments add to economic growth? Our assessment, based on an analysis of recent history, suggests **this transformation could boost annual economic growth by 0.7 percentage points over the next 15 years.** That may not sound like much, but **it would add $2.7 trillion to annual U.S. economic output by 2031**, in 2016 dollars. **Wages and salary payments to workers would increase by a cumulative $8.6 trillion** over the next 15 years. **Federal revenues over the period would grow by a cumulative $3.9 trillion**, helping to pay for Social Security and Medicare. **State and local revenues would rise by a cumulative $1.9 trillion, all without increasing the tax share of GDP**. • Expanding the information revolution to the physical industries will require an entrepreneurial mindset—in industry and in government—to deploy information technology in new ways and reorganize firms and sectors to exploit the power of IT. Some of these technological transformations are already underway. **Public policy, however, will either retard or accelerate the diffusion of information into the physical industries. Better or worse policy will, in significant part, determine the rate at which more people enjoy the miraculous benefits of rapid innovation, both as workers and consumers.**

Mandel, Michael. "The Coming Productivity Boom." Chief Economist at the Progressive Policy Institute and senior fellow at the University of Pennsylvania's Wharton School. March 2017. http://www.techceocouncil.org/clientuploads/reports/TCC%20Productivity%20Boom%20FINAL.pdf //RJ

That means **there is real potential for big gains in productivity without losing the benefits of job growth: Three-quarters of the private sector is operating well below its potential.** That's going to change, as more and more companies in the physical industries adopt digital technologies such as cloud computing, Internet of Things (IoT), artificial intelligence (AI), robotics, 3D printing, and widespread use of machine-to-machine (M2M) mobile communications.

Lewis, Nathan. "Raise Taxes and Cut Government Spending to Reduce Debt? Not Really." Forbes. Oct. 2012. https://www.forbes.com/sites/nathanlewis/2012/10/21/raise-taxes-and-cut-government-spending-to-reduce-debt-not-really/#12f4dc043889 //RJ

At some point, the U.S. government will have to deal with its exploding debt load. Typically, we hear that the solution involves "some combination of reduced spending and higher taxes." Proponents often claim that this solution is "mathematically inevitable." Oh really? **There are** two **great examples in history of governments that got out of huge debt commitments without either defaulting or devaluing the currency, which is essentially another form of default**. **One was** Britain after the Napoleonic Wars, ending in 1815; the other was **the United States,**

after World War II. This was quite unusual. Most governments, when faced with excessive debts, have defaulted either legally or via currency devaluation. **After World War II, the U.S. government had a debt/GDP ratio of about 125%. In 1970, this had fallen to 25%.** During this entire period, the dollar was pegged to gold at $35/oz. under the Bretton Woods system. Did **spending** go down during this period? It did immediately after the war, dropping from $93 billion in 1945 to $30 billion in 1948. Then, it **went up, reaching $195 billion in 1970. Did taxes go up? No, they did not.** Immediately after the war's end, wartime tax rates were reduced slightly. The Revenue Act of 1945 repealed an excess profits tax, and reduced income and corporate tax rates. Tax rates were reduced further in the Revenue Act of 1948, although they went up slightly in the early 1950s. A fairly large tax rate reduction took place in 1964. The overall trend was a modest decrease in tax rates. **Was the debt paid off? Nope.** In 1948, the federal Government had gross debt outstanding of $252 billion. In 1970, it was $381 billion. Apparently, when "mathematically inevitable" meets reality, reality wins. So, what happened? Mostly, **GDP increased, so that the debt/GDP ratio declined as a result of the expanding denominator.** GDP was $233 billion in 1947 and $1,103 billion in 1970.

Barrett, Philip. "Interest-Growth Differentials and Debt Limits in Advanced Economies." International Monetary Fund. Apr. 2018. https://www.imf.org/en/Publications/WP/Issues/2018/04/11/Interest-Growth-Differentials-and-Debt-Limits-in-Advanced-Economies-45794 //RJ

Overall, the message of Figure 8 is clear. Point estimates of the long-run interest-growth differential are negative. This is robust across countries, periods, and estimation methods. This represents a very serious challenge to models of debt sustainability; if true it means that debt limits are not finite. However, upper bounds of confidence sets for this average are positive. **For countries with long, unbroken datasets and few extreme events** (UK, **USA**, France) we can be more precise: both VAR-based and spectral estimates agree that **the largest plausible value for the interest-growth differential over the long run is somewhere between 0 and 2 percent per year**. Appendix B.2 shows that **these basic findings are also robust to using alternative interest rate measures**. So conservative estimates of sustainable debt levels should a) feature long-run differentials that are somewhere in this range, and b) explain clearly the sensitivity of the results to the assumed long-run differential. This is the exercise that we pursue in the next section.

Kogan, Richard. "Difference Between Economic Growth Rates and Treasury Interest Rates Significantly Affects Long-Term Budget Outlook." Center on Budget Policy and Priorities. Feb. 2015. https://www.cbpp.org/research/federal-budget/difference-between-economic-growth-rates-and-treasury-interest-rates //RJ

Growth has exceeded interest rates on average over the last two centuries, and has done so by greater margins in recent decades. From 1792 through 2025 — with our time period extending 10 years into the future for reasons explained in footnote 3 — annual growth has exceeded interest rates by an average of 0.9 percent.[3] To be sure, that average is driven significantly by the periods of major wars, in which economic growth has exceeded interest rates by very large margins. In 1942, for example, nominal gross domestic product (GDP) grew 27 percent while the nominal interest rate was 2 percent, yielding a difference of 25 percent. During the War of 1812, the Civil War, and the two World Wars, economic growth has exceeded interest rates by an average of 12.4 percent; in general, the large increases in government spending that major wars require lead to rapid, though temporary, increases in economic growth. The Great Depression, which sent the economy plummeting, significantly affected the relationship between economic growth and interest rates in the other direction. From 1930 through 1933, when the economy shrank but interest rates couldn't fall below zero, interest rates greatly exceeded economic growth — by almost 23 percent, for example, in 1932. The very rapid economic recovery under the New Deal reversed the relationship once more, with economic growth exceeding interest rates (by an average of 6.5 percent from 1934 through 1938), much as during major wars. Nevertheless, if we exclude war years and the abnormal Great Depression era, economic growth still exceeds interest rates on average over the nation's history, though by a less striking 0.2 percent.[4] (See Table 1 and Figure 1.)

Spross, Jeff. "America is going to pay a lot of interest soon. But don't fear a debt crisis." The Week. Oct. 2018. https://theweek.com/articles/798463/america-going-pay-lot-interest-soon-but-dont-fear-debt-crisis //RJ

The standard argument you hear is that federal interest payments will crowd out other priorities in the national budget. **"The heavy burden of interest payments could make it harder for the government to repair aging infrastructure or take on other big new projects," warned The New York Times. The paper even suggested the interest burden could force the government to cut spending and raise taxes in the next recession, despite the economy needing additional stimulus to recover. "There will eventually be another recession, and this increases the chances we will have to slam on the brakes when the car is already going too slowly,"**

Jeffrey Frankel, a Harvard economist, told the Times. **It's difficult to overemphasize how utterly wrong this is. The U.S. government controls the supply of U.S. dollars. 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.**

Conover, Steve. "Money Printing Isn't Inflationary." American Enterprise Institute. May 2013. https://www.aei.org/publication/money-printing-isnt-always-inflationary/ //RJ

The false but popular view of Fed money-printing is that the creation of new money does nothing but dilute the public's existing money supply. In fact, **the Fed creates new money** (a financial asset) **and uses it to purchase bonds** (financial assets) from the public. **Money printing by the Fed is not a dilution of the public's financial assets. Instead, it's a zero-sum asset swap: although new money comes from the Fed, existing bonds of the same value are bought by the Fed, and the net change in the public's financial assets is zero. What the new base money does change is banks' ability to make new loans — but if banks' increased ability to lend to entrepreneurs and businesses is not accompanied by an increased desire to lend to them, then public borrowing, spending, and investing won't increase.** In that case (which has been our situation for several years), **Fed money-printing ends up generating little** if any boost to economic activity or **inflation pressure.**

Roche, Cullen. "2 Thoughtful Concerns on the U.S. National Debt." Seeking Alpha. Apr. 2018. https://seekingalpha.com/article/4160407-2-thoughtful-concerns-u-s-national-debt //RJ

This has become a common concern in recent years as the Fed has expanded its balance sheet and cut rates and deficits have remained moderately high. **The concern is that the USA has no policy ammunition left.** This might be true on the Fed's side, but it is less so on the Treasury's side. After all, **the deficit is just 3.5% of GDP as of now. It ballooned to over 10% of GDP during the crisis and was as high as 27% during the 1940s. We know that a deficit of 10% of GDP didn't cause high inflation in 2009, so it's safe to assume we have quite a bit of policy flexibility here. If the US economy were to enter a recession the deficit would naturally expand to some degree as tax receipts decline and spending increases automatically, but there's no reason to think that we wouldn't have some flexibility to expand the deficit with some discretion as well.** As I explained a few weeks ago, the interest expenses on the national debt do not pose an unusual threat to the budget: "**the average weighted maturity of the national debt is way below what a 5% Bond would be the equivalent of. As of the end of last year the average weighted maturity of the public debt was about 5.8 years. That was about 1.2% last year or about $265B.** With rates having jumped this figure is closer to about a 2.8% interest rate or about $410B per year. So **let's assume rates jump to an average that would result in the equivalent of a 5% rate on the public debt.** In that case we'd end up paying about $733B in annual interest. To put this in perspective, that would be about 17% of current federal expenditures. **That would be a big jump from where we are, but not much higher than where this level was for most of the 1980s and 1990s."** I don't see the big fuss here. **The USA didn't go bankrupt or have trouble financing the national debt in the 80s and 90s, so why would a surge in interest expenses be any different this time?**

A2: Interest Rates Higher

A2: Crowds Out Private Investment

Bubbles DA

1. Our case controls the internal link to this argument; Goldstein '13 of the Wharton School of Business writes that economic bubbles crowd out productive investments in other sectors by driving up interest rates and siphoning investment away, thus putting this money into overvalued assets instead.

Government Spending Better DA

1. Hall '14 of PIRSU explains that the private sector has an incentive to cut pay and jobs in order to make higher profit margins, indicating that the private sector is socially inefficient for society. Thus, government spending is inherently better because it ensures that every person has safety nets or jobs to fall back on.

Goldstein, Itay. "Do Asset Price Bubbles Have Negative Real Effects?" Wharton School of Business at the University of Pennsylvania. April 2013. https://pdfs.semanticscholar.org/fe9d/f9a06497f48fc345e5dcc767deed7ec8b01e.pdf //RJ

Based on these effects, an asset-price bubble can be beneficial in alleviating firms' credit constraints, providing them more liquidity, and enabling them to invest more in productive real investments. However, **bubbles** might also **have a negative effect on productive real investments**. The classic theory of rational bubbles (e.g., Tirole (1985)) predicts that **they** might **crowd out productive real investments by increasing interest rates and making firms want to invest less. Moreover, in the presence of credit constraints, the increase in interest rates following a bubble might aggravate the credit rationing for financially-constrained firms** (i.e., firms with severe moral hazard problems and lack of internal capital) **reducing productive investments further.** This effect is denoted as the leverage effect by Farhi and Tirole (2012). They analyze the negative effect that asset-price bubbles might have on investment and efficiency due to the leverage effect and contrast it with the positive effect that asset-price bubbles may have due to the liquidity effect discussed above. They provide results on which firms are more likely to benefit from a bubble and when.

Goldstein, Itay. "Do Asset Price Bubbles Have Negative Real Effects?" Wharton School of Business at the University of Pennsylvania. April 2013. https://pdfs.semanticscholar.org/fe9d/f9a06497f48fc345e5dcc767deed7ec8b01e.pdf //RJ

However, these arguments are leaving out the potentially negative effect of asset-price increases. **An increase in activity and asset value in one sector, such as mortgage lending, may crowd out resources from other sectors and activities, such as borrowing and investment by commercial firms**. The classic theory of rational bubbles (e.g., Tirole (1985)) says that **bubbles, by increasing interest rates, will crowd out real investment.** Moreover, in the recent paper by Farhi and Tirole (2012), this effect is stronger when firms are financially constrained. Banks may substitute away from lending to commercial firms and focus on investing in bubbly assets (e.g., mortgages and real-estate). Similarly, Bleck and Liu (2012) consider the relationship between liquidity injections, asset prices, and economic growth in a model with two sectors. They find that **if too much liquidity is injected into the economy, the sector receiving the liquidity can overheat and "crowd-out" the other sector.** Based on such arguments, the focus on increasing asset prices, and in particular real-estate prices, may be wrong as the potential harm to commercial firms' borrowing and investment will hurt the economy as a whole.

Hall, David. "Public and Private Sector Efficiency." PSIRU. Sept. 2014. https://www.epsu.org/sites/default/files/article/files/Public%20and%20Private%20Sector%20efficiency%20EN%20fin.pdf //RJ

The comparative efficiency of the public and private sector is an important part of the arguments over privatisation and outsourcing, for two major reasons. **Firstly, the empirical evidence undermines a fundamental part of the argument for privatisation and use of the private sector. If private companies are no more efficient on a technical level, then the usual case for privatisation collapses.** This is because privatisations, outsourcing and PPPs are at a clear disadvantage in relation to most other economic criteria. **The biggest single disadvantage is that the cost of investment finance is nearly always significantly more expensive with private operators, because of higher profits for shareholders, and lower credit ratings – which means private companies pay higher interest rates**. **Unless the private sector can deliver real substantial savings from efficiency, then it is invariably worse value.** This has been very clearly summarised by the International Monetary Fund (IMF), in a 2004 policy paper which is concerned with PPPs, but the argument applies in the same way to outsourcing and privatisation by sale, and so these terms have been added to the following quote: "when [outsourcing, privatisation or] PPPs result in private borrowing being substituted for government borrowing, financing costs will in most cases rise. Then the key issue is whether [outsourcing, privatisation or] PPPs result in efficiency gains that more than offset higher private sector borrowing costs…… much of the case for [outsourcing, privatisation or] PPPs rests on the relative efficiency of the private sector. While there is an extensive literature on this subject, the theory is ambiguous and the empirical evidence is mixed…. It cannot be taken for granted that [outsourcing, privatisation or] PPPs are more efficient than public investment and government supply of services…"1 **Secondly, efficiency**

is not the same as cutting costs. Lower costs may simply mean lower quality of service; or they may mean that the company is taking its profits by cutting the jobs, pay and conditions of its workers, without improving systems of work. This does not increase efficiency, it just redistributes in come to the company at the expense of others. Assessing even technical efficiency requires considering results as well as inputs.2

*A2: Crowds Out Green Technology

*A2: Hurts Small Businesses

A2: Emerging Markets

*A2: Currency Depreciation

Link Defense Rhetoric

1. Delink; Vaishampayan '18 of Wall Street Journal writes that the dollar has been weakening relative to emerging market currencies, so investors are staying in emerging markets, preventing any capital flight and higher interest rates in other countries.
2. Delink; Bloomberg '18 writes that due to a de-escalation of tensions in the U.S.-China Trade War, a more dovish Federal Reserve, and a market correction to the overreaction in 2018, emerging markets are set to rally in 2019 at 4% growth.

Link Turn Rhetoric

1. Turn; Guilford '18 of Quartz writes that higher fiscal deficits drive up demand for foreign imports because domestic productive capacity is limited. Thus, any further injection of money into the economy only raises net imports. When this happens, she continues that this deficit would pressure the dollar to weaken, loosening the burden for dollar-denominated debt.
2. Turn; Wu '11 of Fordham University writes the uncovered interest rate parity predicts that high interest rate currencies tend to depreciate. This is because Cavallo '08 of the Federal Reserve Bank of San Francisco writes that the difference in interest rates between the two countries reflects the rate of depreciation against the low-interest-rate currency in order to ensure that investors cannot make money simply by jumping between currencies.

Bloomberg News. "Hasenstab: Argentina to lead emerging-market rebound in 2019." Dec. 2018. https://businessmirror.com.ph/2018/12/26/hasenstab-argentina-to-lead-emerging-market-rebound-in-2019/?fbclid=IwAR2xlBe3wuIQRyKsR6AMKmiRZUH2uAxpOtYxFc0rtMvnN3ShRzg4gwJPYmQ //RJ

AN emerging-market money manager known for making contrarian bets said Argentina, home to the world's worst-performing currency this year, looks primed to lead a developing-nation rebound in early 2019. Franklin Templeton's Michael Hasenstab, who oversees the $35-billion Templeton Global Bond Fund, also ranked Brazil and India among the top 3 opportunities. He sees Brazil's newly elected leader Jair Bolsonaro, as well as India's Narendra Modi, as dramatic upgrades from their predecessors. Politics also drives his taste for Argentina, where he expects President Mauricio Macri to win reelection next year and continue to pursue policies aimed at limiting inflation, curbing the budget deficit, stabilizing the currency and stoking economic growth. While Macri has faced his share of tests recently amid a market sell-off, high inflation and an economic contraction, his approval rating is holding up fairly well while his political adversary, former President Cristina Fernandez de Kirchner, has been indicted on corruption allegations. "He remains quite popular considering the country is going into a recession," Hasenstab said in an interview. "I think that says a lot. It's because people were so exhausted and frustrated and impoverished by the past regime that they still want change." The money manager's optimism toward some of the developing world's weakest links comes during a year in which equities slid into a bear market, every emerging-market currency fell against the dollar and sovereign yields soared to a nine-year high. Hasenstab has a reputation for making big bets on distressed countries. The strategy paid off handsomely when he scooped up Irish bonds during the European debt crisis, yet backfired in war-torn Ukraine a few years later.

Hasenstab said **investors overreacted this year to Fed tightening, which is already priced in to assets.** Meantime, **it's quite possible the United States and China could reach a trade truce in 2019, helping fuel a rally in developing-nation assets next year.**

"The base case is you see a lot of fanfare, and if it follows the Mexico-Canada example, then it gets resolved within a year or so," Hasenstab said. "Eventually we'll get a resolution.

"EM assets are set up for some decent appreciation given they've priced in a lot of these adjustments. A more dovish Fed is only more positive for EM. Given what's already being priced into EM, they look to have pretty good value in the first part of the year.

"**We're set up for a move toward 4 percent, if not higher.** The variable will be how financial markets absorb the rise in interest rates. It's unlikely that the next 50 to 75 basis points, if it can happen in a reasonably managed fashion, that both the real sector and financial markets can absorb those adjustments.

Vaishampayan, Saumya. "As Fed Raises Interest Rates, Emerging Markets Aren't Following Suit" Wall Street Journal, March 2018, https://www.wsj.com/articles/as-fed-raises-interest-rates-emerging-markets-arent-following-suit-1521713841 //MS

The Federal Reserve may be set on raising interest rates at least two more times this year, but many of its emerging market peers are in no rush to follow. Central banks in the Philippines, Taiwan and

Indonesia held interest rates steady on Thursday following the Fed's unanimous decision overnight to lift its benchmark rate by a quarter-percentage point to a range of 1.5% to 1.75%. And while China's central bank raised its de facto benchmark interest rate, the adjustment was just 0.05 percentage point. **The relative lack of response to U.S. rate rises is unusual**. The last time the Fed embarked on an interest-rate tightening cycle from 2004 to 2006, rate-setters in leading emerging markets like Brazil, India, Indonesia and Malaysia all followed suit in that period—albeit not by the same magnitude. But **this time around, more emerging-market central banks have pushed through interest rate cuts—rather than increases—since the Fed started raising rates in December 2015**, according to Capital Economics. **Central banks in Peru, Colombia, Brazil and Russia have all lowered rates so far in 2018**. "The most striking thing remains how few central banks have followed in the Fed's footsteps," Capital Economics wrote in a note. **The reluctance to follow the Fed is** partly **due to domestic factors**. **Inflation has been manageable across many emerging markets, giving central banks little spur to tighten monetary conditions.** And while emerging countries have been recording healthy export-led growth, that could be under threat if the global economy moderates later this year—as some analysts forecast. "**Nobody can afford to do three hikes in Asia this year**," said Edmund Goh, Asian fixed income investment manager at Aberdeen Standard Investments. **Another key factor? The dollar's continued weakness**. **Investors typically send cash to countries where interest rates are rising, attracted by the potential for higher returns. In turn, that boosts the value of those countries' currencies. But even as the Fed raised rates on Wednesday, the WSJ Dollar Index, which measures the U.S. currency against a basket of 16 others, notched its largest one-day drop in roughly two months. The dollar index has lost more than 7% in the past 12 months.** While the Fed's rate increases have been well-telegraphed, investors have become more excited about the possibility for tighter monetary policy in Europe and Japan, helping to push their currencies up versus the dollar. **For emerging markets, the dollar's decline has been significant. In the past, fear that money would flee such countries when the Fed hikes rates has forced their central banks to match U.S. moves. Emerging-market currencies, though, notched hefty gains against the greenback in 2017, and many have continued this year**. The Thai baht, Malaysian ringgit and South African rand have all gained roughly 4% against the dollar in 2018. **As long as the dollar's slump continues, analysts believe investors will be content to keep their funds in emerging markets, buoying their currencies**. "**If there is no capital exodus, then there is no need for Asian central banks to hike rates to keep that capital**," said Aidan Yao, senior emerging Asia economist at AXA Investment Managers in Hong Kong.

Guilford, Gwynn. "Trump's biggest obstacle to fixing the trade deficit? His own tax cuts." Quartz. Feb. 2018. https://qz.com/1209387/trumps-biggest-obstacle-to-fixing-the-trade-deficit-his-own-tax-cuts/
//RJ

The decrease in revenue from tax cuts, alongside hopped-up spending bill Trump just signed, will drive up the US fiscal deficit. All else equal, that means a widening of America's current account deficit—a measure of an economy's excess of investment over savings that includes the trade deficit as well as other measures. Using the IMF's coefficient, Setser estimates that **these changes could increase the US current account deficit to 4% of GDP, up an extra percentage point.** The current account deficit increase could, however, be even bigger. Setser suspects that **the US economy is currently operating pretty close to full capacity.** One sign of that is the fact that the unemployment rate hovering just above 4%. That will mean **any additional demand created by the spending stimulus will drive up Americans' net imports. That, naturally, benefits other countries.** Plus, Americans will have to borrow more to pay for those additional foreign goods. If that happens, "the US would get stuck with the debt while the United States' big trading partners would get the stimulus," writes Setser. "A poorly timed fiscal expansion thus could end up making China, Korea, Japan, Germany, and the other big exporting economies great." (In fact, **that seems to be what happened in the fourth quarter of 2017**, he notes. **Though domestic demand picked up, it didn't boost US output that much, since more than half of the GDP growth generated by increased demand was spent on imports**. This explains why, despite that jump in domestic demand, overall growth slid.)

Guilford, Gwynn. "Here's something weird: The dollar is, like, totally ignoring the Fed's rate hikes." Quartz. Sept. 2018. https://qz.com/1378352/fed-rate-hikes-dont-affect-the-us-dollar-the-way-we-think/ //RJ

There's also the strong likelihood that **Trump's fiscal policies will widen the US's budget and current account deficits. A growing negative balance on both accounts**—a phenomenon economists sometimes call "twin deficits"—**might** in theory **pressure the dollar to weaken** (though the dollar's global reserve currency status muddies the logic somewhat). Plus, there are two sides to every currency story. For example, the dollar's slide versus the euro could be driven, too, by the prospect that the ECB will start hiking rates in the next year or so. **The revaluation of the dollar should ease the pressure on emerging market economies saddled with dollar-denominated debt.** And by making US exports more competitive, it might also calm geopolitical tensions, assuaging Trump's currency angst. So if SocGen turns out to be right about the lessening of Fed influence over the dollar, regardless of the reasons, it sure would cut the global economy a blessed bit of slack.

Cavallo, Michele. "Interest Rates, Carry Trades, and Exchange Rate Movements." Federal Reserve Bank of San Francisco. Nov. 2006. https://www.frbsf.org/economic-research/publications/economic-letter/2006/november/interest-rates-carry-trades-and-exchange-rate-movements/ //RJ

According to economic theory, an investment strategy based on exploiting differences in interest rates across countries should yield no predictable profits. **Consider two countries, one with a high interest rate, and the other with a low interest rate. According to another equilibrium condition of international financial markets called the "uncovered interest parity," the difference in interest rates between the two countries simply reflects the rate at which investors expect the high-interest-rate currency to depreciate against the low-interest-rate currency.** When this depreciation occurs, investors who borrowed a given amount in the low-interest-rate currency and then lent it in the high-interest-rate currency will find that their return is worth less. **The uncovered interest parity condition implies, indeed, that investors should expect to receive no profits, as they should expect the return from lending in the high-interest-rate currency to be worth ultimately as much as the cost of borrowing in the low-interest-rate currency.**

Wu, Liuren. “Uncovered interest-rate parity over the past two centuries.” Journal of International Money and Finance. Fordham University. 2011. https://pdfs.semanticscholar.org/b356/8d7e0310d33d0aef867d9ad800396c90bec8.pdf //RJ

Uncovered interest-rate parity is one of three theoretical relations that are used repeatedly in analytical work in international finance and international monetary economics. Stated in its simplest form, the conclusion to which UIP gives rise is that **countries with high nominal interest rates relative to interest rates abroad are countries with depreciating currencies**. The problem, however, is that over the past several decades we have often seen the exact opposite taking place. In this paper, **we attribute these widely documented UIP failures to the coincidence of two empirical artifacts: (1) the unique features of the late 1970s and the 1980s and (2) the noise surrounding small UIP deviations.** Each in its own way gives rise to expectation problems. The first because of what appear to be imperfectly foreseen regime changes; the second because of signal-extraction problems of an errors-in-variable variety. **We control for both** by constructing an ultra-long time series spanning two centuries and by running regressions conditional on large deviations from UIP. We find that **traditional forward-premium regressions yield positive slope estimates over the whole sample period and that these estimates only become negative when the 1980s make up a major portion of the sample period.** When we estimate an alternative regression based on holding-period returns on foreign versus domestic bonds, **the null hypothesis of UIP can no longer be rejected over the whole sample period.** We also find that **large interest-rate differentials have stronger forecasting powers for currency movements than small interest-rate differentials**. Finally, an historical account of expected and realized regime changes illustrates how the expectation hypothesis underlying UIP holds over the very long haul but can be deviated from for long periods of time, due either to failures of expectations to adjust quickly enough to regime and other broad-based policy changes or to anticipations over extended periods of large events that in the end never actually materialize.

A2: Interest Rate Spillover

Link Defense Rhetoric

1. Delink; Vaishampayan ’18 of Wall Street Journal writes that the dollar has been weakening relative to emerging market currencies, so investors are staying in emerging markets, preventing any capital flight and higher interest rates in other countries.
2. Delink; Spiro ‘18 of the South China Morning Post writes that inflows into emerging markets reached a record high across the board last year despite three interest rate hikes. Thus, he continues that the reduced investment in specific emerging markets is due to domestic factors, not external ones.
3. Delink; Vaishampayan ’18 of Wall Street Journal writes that emerging markets don’t raise interest rates when America does anymore because low inflation makes hikes impossible. That’s why Mihm ’18 of Bloomberg writes that historically, the correlation between higher interest rates in America and higher interest rates elsewhere is extremely limited.

Link Turn Rhetoric

1. Turn; Mihm ’18 of Bloomberg writes that 2/3 of the changes in capital flows to emerging markets is determined by if emerging markets are growing much faster than the U.S. Thus, higher interest rates in America slow down the economy, increasing investment into emerging markets.

Vaishampayan, Saumya. “As Fed Raises Interest Rates, Emerging Markets Aren’t Following Suit“ Wall Street Journal, March 2018, https://www.wsj.com/articles/as-fed-raises-interest-rates-emerging-markets-arent-following-suit-1521713841 //MS

The Federal Reserve may be set on raising interest rates at least two more times this year, but many of its emerging market peers are in no rush to follow. Central banks in the Philippines, Taiwan and Indonesia held interest rates steady on Thursday following the Fed’s unanimous decision overnight to lift its benchmark rate by a quarter-percentage point to a range of 1.5% to 1.75%. And while China’s central bank raised its de facto benchmark interest rate, the adjustment was just 0.05 percentage point. **The relative lack of response to U.S. rate rises is unusual**. The last time the Fed embarked on an interest-rate tightening cycle from 2004 to 2006, rate-setters in leading emerging markets like Brazil, India, Indonesia and Malaysia all followed suit in that period—albeit not by the same magnitude. But **this time around, more emerging-market central banks have pushed through interest rate cuts—rather than increases—since the Fed started raising rates in December 2015**, according to Capital Economics. **Central banks in Peru, Colombia, Brazil and Russia have all lowered rates so far in 2018**. “The most striking thing remains how few central banks have followed in the Fed’s footsteps,” Capital Economics wrote in a note. **The reluctance to follow the Fed is** partly **due to domestic factors**. **Inflation has been manageable across many emerging markets, giving central banks little spur to tighten monetary conditions.** And while emerging countries have been recording healthy export-led growth, that could be under threat if the global economy moderates later this year—as some analysts forecast. “**Nobody can afford to do three hikes in Asia this year**,” said Edmund Goh, Asian fixed income investment manager at Aberdeen Standard Investments. **Another key factor? The dollar’s continued weakness**. **Investors typically send cash to countries where interest rates are rising, attracted by the potential for higher returns. In turn, that boosts the value of those countries’ currencies. But even as the Fed raised rates on Wednesday, the WSJ Dollar Index, which measures the U.S. currency against a basket of 16 others, notched its largest one-day drop in roughly two months. The dollar index has lost more than 7% in the past 12 months.** While the Fed’s rate increases have been well-telegraphed, investors have become more excited about the possibility for tighter monetary policy in Europe and Japan, helping to push their currencies up versus the dollar. **For emerging markets, the dollar’s decline has been significant. In the past, fear that money would flee such countries when the Fed hikes rates has forced their central banks to match U.S. moves. Emerging-market currencies, though, notched hefty gains against the greenback in 2017, and many have continued this year**. The Thai baht, Malaysian ringgit and South African rand have all gained roughly 4% against the dollar in 2018. **As long as the dollar’s slump continues, analysts believe investors will be content to keep their funds in emerging markets, buoying their currencies**. “**If there is no capital exodus, then there is no need for Asian central banks to hike rates to keep that capital**,” said Aidan Yao, senior emerging Asia economist at AXA Investment Managers in Hong Kong.

Spiro, Nicholas. “Emerging markets’ dollar flight: the Fed is not to blame, and it knows it.” South China Morning Post. June 2018. https://www.scmp.com/comment/insight-opinion/united-states/article/2150181/emerging-markets-dollar-flight-fed-not-blame //RJ

Yet, while Patel is right to argue that the sharp declines in emerging market asset prices have little to do with Fed rate increases – **inflows into emerging market bond and equity funds reached a record high of almost US$200 billion last year despite three rate hikes** – he fails to mention the role of **domestic factors**, which **are more important than external ones in explaining much of the current selling pressure.** While this year’s surge in the dollar and Treasury yields may have triggered the turmoil in emerging markets, **it is the common vulnerabilities in several leading developing economies which account for the bulk of the price declines in the past two months, causing the entire asset class to come under strain**. As was the case during the so-called taper tantrum in 2013, **markets are penalising countries with large current account deficits or a heavier**

reliance on external sources of financing. This is why Argentina and Turkey, which are running current account shortfalls of between 5 and 6 per cent of gross domestic product, **have been hardest hit**, with their currencies losing a staggering 36 per cent and 18 per cent respectively against the dollar so far this year. **Moreover, vulnerabilities tend to beget more vulnerabilities, drawing attention to other areas of weakness in emerging markets.** The latest country to come under severe strain is Brazil. While its current account deficit is less than 1 per cent of GDP, its government's poor handling of a national truckers' strike accounts for most of the nearly 12 per cent fall in the real, Brazil's currency, since early April. The government reimposed controls on petrol prices, reminding markets of Brazil's populist past, just as a presidential election campaign gets under way in which populist candidates are the front runners. South Africa, which runs a larger current account deficit, is also suffering mainly because of homegrown problems. Last Tuesday, a report by the country's statistics office revealed that, in the first quarter of this year, South Africa's economy contracted at its sharpest pace in almost a decade, puncturing the optimism generated by the departure of former president Jacob Zuma earlier this year. **These country-specific weaknesses have become more apparent as financial conditions begin to tighten.** They also exonerate the Fed from most of the blame for the current turmoil in emerging markets, making it less likely that America's central bank will feel compelled to delay the withdrawal of stimulus.

Mihm, Stephen. "Don't Blame the Fed for the Emerging-Markets Meltdown." Bloomberg. Sept. 2018. https://www.bloomberg.com/opinion/articles/2018-09-18/emerging-markets-fed-s-rate-increases-didn-t-cause-the-meltdown?fbclid=IwAR03sqcTVw0FCfitiuckgi4V9QobLWrXd3FWA_ZqfMqXRUeMQl5qe8Sa6ms //RJ

But **some commentators blame the Federal Reserve's rate hikes for fueling the capital flight from the world's riskier economies, and drawing investors chasing yield to the U.S.** The meltdown may be far from over, though **the Fed probably won't have much to do with it**. **The historical record shows that the relationship between emerging-market economies and U.S. monetary policy has never been a straightforward matter of cause and effect. It's far more complicated.** Mexico in the 1980s is the textbook case of the Fed kicking an emerging economy over a cliff. Between 1979 and 1981, the central bank raised rates from 10.25 percent to 20 percent. Mexico had plenty of short-term dollar liabilities that couldn't be rolled over because of the soaring U.S. rates, triggering a crisis. What's often forgotten is that **factors other than the Fed**, such as declining oil prices that hit Mexico hard, **played a significant role**. But even if Fed Chair Paul Volcker contributed to the crisis, this episode was an anomaly. **Annual net capital flows to emerging markets actually increased after Volcker initiated his rate-raising campaign — and they continued increasing until late 1981. Only then did capital flows begin a slow decline that lasted the remainder of the decade. But this trend did not coincide with further tightening from the Fed because the central bank had begun reducing rates.** Simply put, this earlier era provides little evidence in support of the idea that Fed policy drives capital to emerging economies when interest rates are low and draws it out when rates are high. 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." High commodity prices are good for emerging markets, attracting capital. But when prices decline, investors withdraw money and put it elsewhere. The same holds for the "growth differential," the gap**

between growth rates in advanced versus emerging markets. When the gap narrows, emerging markets lose their appeal, and capital flows out. These forces account for two-thirds of the changes in capital flows. And they're likely driving much of the recent shift out of emerging markets.

*A2: EM Default Risks

Link Defense Rhetoric

1. Seeking Alpha '17 writes that only 15% of EM debt is dollar-denominated.

Turkey Collapse Defense Rhetoric

1. Bremmer '18 of TIME writes that if a crisis happens in a single country, investors are spooked and thus sell shares of all emerging markets at once. This means that if a single country will have a default with or without high levels of U.S. debt, their impacts are still triggered. There are two reasons Turkey is going to collapse anyways.
    a. A trade war; Partington '18 of the Guardian writes that Trump's tariffs on Turkish metals has caused the lira to fall by 20% relative to the dollar, prompting counter tariffs from Erdogan that caused the lira to fall even further.
    b. Central mismanagement; Hakura '18 of TIME writes that the Turkish President will prioritize short-term growth over macroeconomic stability, forgoing interest rate hikes to curb inflation and hiring inexperienced inner circle members.

Argentinian Collapse Defense Rhetoric

1. Bremmer '18 of TIME writes that if a crisis happens in a single countrie, investors are spooked and thus sell shares of all emerging markets at once. This means that if a single country will have a default with or without high levels of U.S. debt, their impacts are still triggered. Cohen '18 of Reuters gives three reasons that Argentina is going to collapse anyways.
    a. The peso has long been over-valued and the peso bubble popped, dropping valuations.
    b. Macri's government spiked utility prices to reduce government subsidies which has driven up high levels of inflation.
    c. Soybeans and Corn have experienced the worst drought in decades, causing a recession and currency crisis.

Partington, Richard. "Turkey's Economic Crisis Deepens as Trump Doubles Tariffs." *The Guardian*, The Guardian, 13 Aug. 2018, https://www.theguardian.com/world/2018/aug/10/turkeys-economic-crisis-deepens-as-trump-doubles-tariffs?fbclid=IwAR2BtPwV9HJmSE5894IUJrIthrKmni6MG3tJblzVnx5PECRYLQs6Hf5ULZk.

Turkey's unfolding economic crisis has deepened further after Donald Trump announced he was **doubling US import tariffs on Turkish steel and aluminium, stoking the country's currency freefall and rattling financial markets.**
The Turkish lira plunged by more than 20% against the dollar after the president announced the move, amid a widening dispute between Washington and Ankara over the imprisonment of the US pastor Andrew Brunson.
Even before Trump's tweet, the lira had plunged 14% as investors rushed for the exits, choosing to buy the dollar, yen and other assets seen as safe havens during times of financial market volatility.
The lira has been under sustained pressure on foreign exchanges, dropping by almost 50% against the dollar in the past 12 months and hitting a succession of record lows this week.

Shareholders Unite (2017) *How Dangerous Is Emerging Markets Dollar Debt?*, *Seeking Alpha*. Seeking Alpha. Available at: https://seekingalpha.com/article/4087450-dangerous-emerging-markets-dollar-debt (Accessed: January 22, 2019).

Global debt levels have surged to a record $217 trillion, driven by a $3 trillion borrowing spree in the developing world, the Institute of International Finance said, warning of risks to emerging markets from short-term debt repayments. The IIF, one of the most authoritative trackers of capital flows, said in a note late on Tuesday that global debt amounted to 327 percent of the world's annual economic output (GDP) by the first quarter of 2017 and the rise was driven principally by emerging market borrowing. While advanced economies continued to deleverage, cutting total public and private debt by over $2 trillion in the past year, the report found total debt in developing countries had risen by $3 trillion to $56 trillion. This amounted to 218 percent of their combined GDP, five percentage points above the first 2016 quarter. China accounted for $2 trillion of this rise, with its debt now at almost $33 trillion, led by households but also company borrowing the IIF said... **The IIF report found that emerging markets had over $1.9 trillion of emerging bonds and loans falling due by end-2018, and 15 percent of this was denominated in dollars**. The biggest redemptions were in China, Russia, Korea and Turkey, it said. Emerging hard currency-denominated debt rose by $200 billion in the past year - growing at its fastest pace since 2014 - and 70 percent of this has been in dollars, the report found. "Rollover risk is high," the IIF added.

Fadi Hakura. "Turkey Is Heading for Economic Meltdown." *Time*, Time, 20 July 2018, http://time.com/5343999/turkey-erdogan-economic-crisis/?fbclid=IwAR0sYurBgXwWSoBe3CAuczkyIVhOip8iCKPqzvls41pvKsl3vwqHIT6LHis.
Fifteen days after Turkey's parliamentary and presidential elections, Turkish President Recep Tayyip Erdoğan appointed a new government under radically enhanced executive powers granted by the constitution. He chose 16 loyalists and partisan figures to ensure that he remains front and center in decision-making and policy formation.
Most notably, Erdoğan **sacrificed the former deputy prime minister and ex-Merrill Lynch chief economist Mehmet *Şimşek* in favour of his inexperienced son-in-law Berat Albayrak as finance and treasury ministerto manage the fragile economy.** Whether he has the competence to placate jittery financial markets and foreign investors is debatable.
Erdoğan will prioritize short-term growth at all costs to the detriment of macroeconomic and financial stability. That entails foregoing interest rate hikes needed to contain runaway double-digit inflation and to support a plummeting lira that depreciated nearly 20 per cent this year. It also means loosening the purse strings, flooding the markets with cheap credit and sponsoring rampant construction and mega-infrastructure projects.

True to his promise, he has appropriated to himself, by presidential decree, the right to hire the central bank governor, deputies and monetary policy committee members for a four-year term. This completes the politicization of the once-respected and independent central bank and is in line with his unorthodox monetary views that higher interest rates equates with higher inflation.

Cohen, Luc. “Argentina’s Economic Crisis Explained in Five Charts.” *U.S.*, Reuters, 28 Aug. 2018, https://www.reuters.com/article/us-argentina-economy/argentinas-economic-crisis-explained-in-five-charts-idUSKCN1LD1S7?fbclid=IwAR1kWdfFvOez7tFz0i6eHimjpyOp7QVDJWB30cGP7BcfJBaCCqsyJ6U7nJI.
Economists had long argued that Argentina’s **peso currency was overvalued**, and the government acknowledged that it would depreciate gradually over the years. But **no one expected the speed with which the peso plunged against the dollar in April, due to investor concerns about the government’s ability to control inflation and interest rate hikes by the U.S. Federal Reserve, which strengthened the dollar worldwide**. The **depreciation made Argentina’s dollar debts more expensive for the government, prompting it to turn to the International Monetary Fund (IMF) for a $50 billion loan.**

Macri’s government has reduced that practice, but **his hikes to utility prices as part of an effort to reduce subsidies and close the fiscal deficit have kept inflation high**. The **rapid drop in the exchange rate has prompted inflation to accelerate in recent months.**

The worst drought in decades slashed the harvests of soybeans and corn, the backbone of Argentina’s economy. The economy has now contracted for three straight months, with the agricultural sector leading the way to what economists are certain will be a recession. The economy fell by 6.7 percent in June, the worst monthly fall since the global financial crisis of 2009.

Gallas, Daniel. “Why Confidence in Argentina’s Economy Is Dwindling.” *BBC News*, 30 Aug. 2018, https://www.bbc.com/news/world-latin-america-44107630?fbclid=IwAR0IBMSCYFZix8GK0afm3AamQ-P8XQ_52k94eLE6J2jT0jaei9qU1rIk7Lw.
Argentina's economy began to stabilise under President Néstor Kirchner, who governed from 2003 to 2007, but **became more shaky again under his wife and successor in office, Cristina Fernández de Kirchner.**
Her government, which was in power from 2007 until 2015, raised public spending, nationalised companies and heavily subsidised many items of daily life ranging from utilities to football transmissions on television.
Most importantly it controlled the exchange rate, which created all sorts of practical problems, such as giving rise to a black market for dollars and heavily distorting prices.

A2: Investment Flows

Link Defense Rhetoric

1. Delink; Vaishampayan '18 of Wall Street Journal writes that the dollar has been weakening relative to emerging market currencies, so investors are staying in emerging markets, preventing any capital flight and higher interest rates in other countries.
2. Delink; Spiro '18 of the South China Morning Post writes that inflows into emerging markets reached a record high across the board last year despite three interest rate hikes. Thus, he continues that the reduced investment in specific emerging markets is due to domestic factors, not external ones.
3. Delink; Bloomberg '18 writes that due to a de-escalation of tensions in the U.S.-China Trade War, a more dovish Federal Reserve, and a market correction to the overreaction in 2018, emerging markets are set to rally in 2019 at 4% growth.

Link Turn Rhetoric

1. Turn; Mihm '18 of Bloomberg writes that 2/3 of the changes in capital flows to emerging markets is determined by if emerging markets are growing much faster than the U.S. Thus, higher interest rates in America slow down the economy, increasing investment into emerging markets.

Bloomberg News. “Hasenstab: Argentina to lead emerging-market rebound in 2019.” Dec. 2018. https://businessmirror.com.ph/2018/12/26/hasenstab-argentina-to-lead-emerging-market-rebound-in-2019/?fbclid=IwAR2xlBe3wuIQRyKsR6AMKmiRZUH2uAxpOtYxFc0rtMvnN3ShRzg4gwJPYmQ //RJ

AN emerging-market money manager known for making contrarian bets said Argentina, home to the world’s worst-performing currency this year, looks primed to lead a developing-nation rebound in early 2019. Franklin Templeton’s Michael Hasenstab, who oversees the $35-billion Templeton Global Bond Fund, also ranked Brazil and India among the top 3 opportunities. He sees Brazil’s newly elected leader Jair Bolsonaro, as well as India’s Narendra Modi, as dramatic upgrades from their predecessors. Politics also drives his taste for Argentina, where he expects President Mauricio Macri to win reelection next year and continue to pursue policies aimed at limiting inflation, curbing the budget deficit, stabilizing the currency and stoking economic growth. While Macri has faced his share of tests recently amid a market sell-off, high inflation and an economic contraction, his approval rating is holding up fairly well while his political adversary, former President Cristina Fernandez de Kirchner, has been indicted on corruption allegations. “He remains quite popular considering the country is going into a recession,” Hasenstab said in an interview. “I think that says a lot. It’s because people were so exhausted and frustrated and impoverished by the past regime that they still want change.” The money manager’s optimism toward some of the developing world’s weakest links comes during a year in which equities slid into a bear market, every emerging-market currency fell against the dollar and sovereign yields soared to a nine-year high. Hasenstab has a reputation for making big bets on distressed countries. The strategy paid off handsomely when he scooped up Irish bonds during the European debt crisis, yet backfired in war-torn Ukraine a few years later.
Hasenstab said **investors overreacted this year to Fed tightening, which is already priced in to assets.** Meantime, **it’s quite possible the United States and China could reach a trade truce in 2019, helping fuel a rally in developing-nation assets next year.**
“The base case is you see a lot of fanfare, and if it follows the Mexico-Canada example, then it gets resolved within a year or so,” Hasenstab said. “Eventually we’ll get a resolution.
“EM assets are set up for some decent appreciation given they’ve priced in a lot of these adjustments. A more dovish Fed is only more positive for EM. Given what’s already being priced into EM, they look to have pretty good value in the first part of the year.
“**We’re set up for a move toward 4 percent, if not higher.** The variable will be how financial markets absorb the rise in interest rates. It’s unlikely that the next 50 to 75 basis points, if it can happen in a reasonably managed fashion, that both the real sector and financial markets can absorb those adjustments.

Vaishampayan, Saumya. “As Fed Raises Interest Rates, Emerging Markets Aren’t Following Suit“ Wall Street Journal, March 2018, https://www.wsj.com/articles/as-fed-raises-interest-rates-emerging-markets-arent-following-suit-1521713841 //MS

The Federal Reserve may be set on raising interest rates at least two more times this year, but many of its emerging market peers are in no rush to follow. Central banks in the Philippines, Taiwan and

Indonesia held interest rates steady on Thursday following the Fed's unanimous decision overnight to lift its benchmark rate by a quarter-percentage point to a range of 1.5% to 1.75%. And while China's central bank raised its de facto benchmark interest rate, the adjustment was just 0.05 percentage point. The relative lack of response to U.S. rate rises is unusual. The last time the Fed embarked on an interest-rate tightening cycle from 2004 to 2006, rate-setters in leading emerging markets like Brazil, India, Indonesia and Malaysia all followed suit in that period—albeit not by the same magnitude. But this time around, more emerging-market central banks have pushed through interest rate cuts—rather than increases—since the Fed started raising rates in December 2015, according to Capital Economics. Central banks in Peru, Colombia, Brazil and Russia have all lowered rates so far in 2018. "The most striking thing remains how few central banks have followed in the Fed's footsteps," Capital Economics wrote in a note. The reluctance to follow the Fed is partly due to domestic factors. Inflation has been manageable across many emerging markets, giving central banks little spur to tighten monetary conditions. And while emerging countries have been recording healthy export-led growth, that could be under threat if the global economy moderates later this year—as some analysts forecast. "Nobody can afford to do three hikes in Asia this year," said Edmund Goh, Asian fixed income investment manager at Aberdeen Standard Investments. Another key factor? The dollar's continued weakness. Investors typically send cash to countries where interest rates are rising, attracted by the potential for higher returns. In turn, that boosts the value of those countries' currencies. But even as the Fed raised rates on Wednesday, the WSJ Dollar Index, which measures the U.S. currency against a basket of 16 others, notched its largest one-day drop in roughly two months. The dollar index has lost more than 7% in the past 12 months. While the Fed's rate increases have been well-telegraphed, investors have become more excited about the possibility for tighter monetary policy in Europe and Japan, helping to push their currencies up versus the dollar. For emerging markets, the dollar's decline has been significant. In the past, fear that money would flee such countries when the Fed hikes rates has forced their central banks to match U.S. moves. Emerging-market currencies, though, notched hefty gains against the greenback in 2017, and many have continued this year. The Thai baht, Malaysian ringgit and South African rand have all gained roughly 4% against the dollar in 2018. As long as the dollar's slump continues, analysts believe investors will be content to keep their funds in emerging markets, buoying their currencies. "If there is no capital exodus, then there is no need for Asian central banks to hike rates to keep that capital," said Aidan Yao, senior emerging Asia economist at AXA Investment Managers in Hong Kong.

Spiro, Nicholas. "Emerging markets' dollar flight: the Fed is not to blame, and it knows it." South China Morning Post. June 2018. https://www.scmp.com/comment/insight-opinion/united-states/article/2150181/emerging-markets-dollar-flight-fed-not-blame //RJ

Yet, while Patel is right to argue that the sharp declines in emerging market asset prices have little to do with Fed rate increases – inflows into emerging market bond and equity funds reached a record high of almost US$200 billion last year despite three rate hikes – he fails to mention the role of domestic factors, which are more important than external ones in explaining much of the current selling pressure. While this year's surge in the dollar and Treasury yields may have triggered the turmoil in emerging markets, it is the common vulnerabilities in several leading developing economies which account for the bulk of the price declines in the past two months, causing the entire asset class to come under strain. As was the case during the so-called taper tantrum in 2013, markets are penalising countries with large current account deficits or a heavier reliance on external sources of financing. This is why Argentina and Turkey, which are running current account shortfalls of between 5 and 6 per cent of gross domestic product, have been hardest hit, with their currencies losing a staggering 36 per cent and 18 per cent respectively against the dollar so far this year. Moreover, vulnerabilities tend to beget more vulnerabilities, drawing attention to other areas of weakness in emerging markets. The latest country to come under severe strain is Brazil. While its current account deficit is less than 1 per cent of GDP, its government's poor handling of a national truckers' strike accounts for most of the nearly 12 per cent fall in the real, Brazil's currency, since early April. The government reimposed controls on petrol prices, reminding markets of Brazil's populist past, just as a presidential election campaign gets under way in which populist candidates are the front runners. South Africa, which runs a larger current account deficit, is also suffering mainly because of homegrown problems. Last Tuesday, a report by the country's statistics office revealed that, in the first quarter of this year, South Africa's economy contracted at its sharpest pace in almost a decade, puncturing the optimism generated by the departure of former president Jacob Zuma earlier this year.

These country-specific weaknesses have become more apparent as financial conditions begin to tighten. They also exonerate the Fed from most of the blame for the current turmoil in emerging markets, making it less likely that America's central bank will feel compelled to delay the withdrawal of stimulus.

Mihm, Stephen. "Don't Blame the Fed for the Emerging-Markets Meltdown." Bloomberg. Sept. 2018. https://www.bloomberg.com/opinion/articles/2018-09-18/emerging-markets-fed-s-rate-increases-didn-t-cause-the-meltdown?fbclid=IwAR03sqcTVw0FCfitiuckgi4V9QobLWrXd3FWA_ZqfMqXRUeMQl5qe8Sa6ms //RJ

But **some commentators blame the Federal Reserve's rate hikes for fueling the capital flight from the world's riskier economies, and drawing investors chasing yield to the U.S.** The meltdown may be far from over, though **the Fed probably won't have much to do with it**. **The historical record shows that the relationship between emerging-market economies and U.S. monetary policy has never been a straightforward matter of cause and effect. It's far more complicated.** Mexico in the 1980s is the textbook case of the Fed kicking an emerging economy over a cliff. Between 1979 and 1981, the central bank raised rates from 10.25 percent to 20 percent. Mexico had plenty of short-term dollar liabilities that couldn't be rolled over because of the soaring U.S. rates, triggering a crisis. What's often forgotten is that **factors other than the Fed**, such as declining oil prices that hit Mexico hard, **played a significant role**. But even if Fed Chair Paul Volcker contributed to the crisis, this episode was an anomaly. **Annual net capital flows to emerging markets actually increased after Volcker initiated his rate-raising campaign — and they continued increasing until late 1981. Only then did capital flows begin a slow decline that lasted the remainder of the decade. But this trend did not coincide with further tightening from the Fed because the central bank had begun reducing rates.** Simply put, this earlier era provides little evidence in support of the idea that Fed policy drives capital to emerging economies when interest rates are low and draws it out when rates are high. 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." High commodity prices are good for emerging markets, attracting capital. But when prices decline, investors withdraw money and put it elsewhere. The same holds for the "growth differential," the gap between growth rates in advanced versus emerging markets. When the gap narrows, emerging markets lose their appeal, and capital flows out. These forces account for two-thirds of the changes in capital flows. And they're likely driving much of the recent shift out of emerging markets.**

A2: Debt Crisis Risks

A2: Chinese Sell-off

Link Defense Rhetoric

1. Delink; Amadeo ‘18 of the Balance writes that China has no incentive to sell-off American debt because it’d crash China’s economy as well due to the interconnectedness of the two countries.
2. Delink; Light ‘18 of CBS News writes that China would never sell off America’s treasuries because it uses these treasuries to maintain financial stability inside their own financial markets.
3. Delink; Zhou ‘18 of the South China Morning Post writes that China actually needs to buy more US Treasuries because it needs to liquify its assets so it can pay off rising foreign debt repayments.

Amadeo, Kimberley. “Top 10 Reasons Why the U.S. Economy Won't Collapse.” The Balance. Dec. 2018. https://www.thebalance.com/us-economy-wont-collapse-3980688 //CM

The U.S. debt is $21 trillion, more than the economy produces in a year, but although the debt-to-GDP ratio 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. The United States won't default on its debt. Most members of Congress realize a debt default would destroy America's credibility in the financial markets. The tea party Republicans in Congress were a minority that threatened to default during the 2011 debt ceiling crisis and in 2013**. China and Japan are the biggest owners of the U.S. debt, but they have no incentive to create a collapse. The United States is their largest market. If it fails, so do their economies. Furthermore, China is not selling all of its dollar holdings. It has remained above $1 trillion since 2013.** For more, see U.S. Debt to China. If anything, the dollar would slowly decline instead of collapse. It fell 40 percent between 2002 and 2008. It has gotten stronger since then because of the financial crisis. Investors flock to ultra-safe U.S. Treasurys and the U.S. dollar as a safe haven. The dollar won't be replaced as the world's global currency. The doomsayers point to gold, the euro, or Bitcoin as a replacement for the dollar.

Light, Larry. “Why China won't dump its huge U.S. Treasury bond hoard.” CBS News. 12 Jan 2018. https://www.cbsnews.com/news/china-wont-dump-us-treasury-bonds/

Does China have a chain around America's neck because it owns so much U.S. government debt? The world's second-biggest economy also is the world's largest holder of U.S. Treasury bonds. And for years that has troubled a lot of people. They worry that Beijing may dump its vast Treasury holdings to punish the world's biggest economy, the U.S. But despite the heebie-jeebies over China, seen this week in a brief bond market spasm, **it's highly doubtful** -- though hardly impossible -- **that this rival power would weaponize its Treasury** trove to harm America. Periodically, mini-panics erupt over that possibility, although they have so far come to nothing. The reason: **For its own internal financial stability, China needs to hold a lot of Treasurys, regarded as the safest financial asset on earth. "China likes the depth and transparency of the Treasury market,"** said Joseph LaVorgna, chief economist for the Americas at Natixis, the French investment bank.

Xin, Zhou. “Yes, Beijing will stick to US government bonds, no matter what happens on the trade front.” South China Morning Post. June 2018. https://www.scmp.com/news/china/economy/article/2149385/yes-beijing-will-stick-us-government-bonds-no-matter-what-happens

The investment is one of the most liquid and secure places for Beijing to park its massive pile of foreign exchange, so much so that China is now the US' biggest foreign creditor with about 8 per cent of the outstanding debt. The real figure could be much higher when Beijing's proxy investors are factored in. As China and the United States edge towards a trade war, some commentators have suggested that Beijing's stockpile is so big that it gives it a “nuclear option” – the power to retaliate by using a sell-off of the debt to send shock waves through the US financial system. But analysts said **China was still unlikely to dump its vast holdings of US bonds and its appetite for the debt would increase in years to come as two big shifts take place: as China's foreign reserves shrink and its foreign debt repayment obligations grow.**

Xin, Zhou. “Yes, Beijing will stick to US government bonds, no matter what happens on the trade front.” South China Morning Post. June 2018. https://www.scmp.com/news/china/economy/article/2149385/yes-beijing-will-stick-us-government-bonds-no-matter-what-happens

On top of that, the liquidity of US Treasuries can help China counter weaknesses in its own fundamentals, providing a stable asset with global value as the country's foreign debt keeps rising and

__its international payment fundamentals worsen.__ China's foreign exchange reserves – its holdings of cash, bank deposits, bonds, and other financial assets denominated in currencies other than the yuan – have on the surface remained steady over the past year and half, hovering at around US$3.1 trillion. **__But the amount of China's foreign debt – the loans it owes other countries or institutions of other countries – reached US$1.7 trillion as the end of 2017, up US$300 billion from a year earlier__**, according to SAFE data. China's central bank has been borrowing from other countries through currency swaps with foreign central banks, although it's unknown whether the borrowed money was billed into the country's reserves. According to the first quarter monetary policy report, the People's Bank of China borrowed US$222 billion worth of foreign currencies from other central banks but only lent 411 billion yuan (US$65 billion) in return. All that means **__China has to put a bigger share of its reserves in liquid assets, not shiny buildings in London, to cope with repayment needs__**. In a sign that China's international payment fundamentals are worsening, the first quarter gave China its first quarterly current account deficit since joining the World Trade Organisation in 2001, which means it now buys more goods and services than it sells to the rest of the world. China's bilateral trade surplus with the US is bigger than the country's overall surplus. Thus China would have a trade deficit if US President Donald Trump's demand for balanced US-China trade became a reality. **__Offloading US Treasuries would strip China of its major buffer against capital outflows, putting the world's second-largest economy into a dangerously unstable financial position.__**

*A2: Losing Reserve Currency Status

Link Defense Rhetoric

1. Sonenshine of the Street writes days ago that fears of a slowing economy in China is causing a flight to quality treasury bonds, which is why treasury yields are at their lowest level in a year. This indicates that people are fleeing investing in Chinese debt and into the U.S. dollar, which strengthens the U.S. dollar as a result.

Sonenshine, Jacob. "Ten-Year Treasury Yield at Lowest Level in a Year as Investors Flee for Safety." The Street. Jan. 2019. https://www.thestreet.com/markets/10-year-treasury-yield-at-lowest-level-in-a-year-as-investors-pile-into-safety-14824166 //RJ

Ever since Federal Reserve Chairman Jerome Powell struck a more dovish tone late in 2018, **U.S. Treasury yields have fallen considerably. But yields are now far lower than most expected them to be by this point**. **The 10-year Treasury note's yield hit its lowest level since Jan.16, 2018**, when it was at 2.538%. The 10-year yield briefly hit 2.564% Thursday morning, before settling at roughly 2.58%. Meanwhile, the one-year Treasury yield is at 2.566%, causing the two yields to be dangerously close to inverting. Bond yields fall as bond prices rise. "**This is a classic flight to quality**," Charlie Ripley, assistant vice president of capital markets and trading at Allianz investment Management, told TheStreet. Fears of slowing global economic growth have hit markets recently, and **Thursday investors are particularly concerned about demand in the Chinese economy,** as Apple Inc. (AAPL - Get Report) said sales in China will likely come in lower than initially expected.

*A2: Decreased Foreign Demand Default

Link Defense Rhetoric

1. Delink; Ader '18 of Bloomberg writes that while the share of our debt owed to foreigners is declining, that isn't because of declining foreign demand. Instead, he finds that domestic demand for our debt has risen sharply, which is why the **share** of foreign debt has diminished.

Ader, David. "Foreigners Like U.S. Debt as Much as They Ever Have." Bloomberg. Oct. 2018. https://www.bloomberg.com/opinion/articles/2018-10-31/bear-market-in-bonds-tempered-by-foreign-demand //RJ

There is no shortage of the threats that could push interest rates even higher from here, from the rapidly expanding U.S. budget deficit to the Federal Reserve's hawkish leanings to even the European Central Bank's plan to start tapering its bond purchases by the end of the year. Also, some would argue that the economy is doing well enough to provoke at least a bit more inflation. And then **there's the crowd that says foreigners are shying away from U.S. debt. The last one is a good argument that falls flat when encountering a broad array of evidence suggesting that foreigners have been buying, are likely to continue to buy, but are being crowded out by other buyers.** The upshot is that while $1 trillion budget deficits for the foreseeable future are scary for a variety of sound reasons, **the lack of demand, especially on the foreign front, isn't one of them. That should reassure markets, especially after the U.S. Treasury Department said Monday that government borrowing this year will more than double from 2017 to $1.34 trillion as the Trump administration finances a rising budget deficit.** First consider the motivation, the Fed is hiking, which has and will give support to the dollar. Also, the very high rates in the U.S. relative to the rest of the developed world remain a very compelling enticement. Second, Europe's gopolitical woes, from Brexit to Italy's budget and German politics, hardly make for a confident currency or bond stance. And strange as this may sound — relatively speaking — President Donald Trump's penchant for creating geopolitical jitters hasn't inhibited foreign investors — or domestic buying for that matter — which I'll suggest is something of a surprise. His trade policy is inflaming domestic inflation, but between that and the deficit-boosting tax plan, it seems reasonable for the Fed to counter with a return to neutral rates or beyond via more tightening, which should further bolster the dollar's appeal to foreign investors. **Let's look at this in terms of flows. The chart below shows who owns Treasuries. Foreign ownership is flat at $6.2 trillion, or 47.8 percent of privately held debt. Although that's down from 59 percent in 2014, foreign ownership is flat in nominal terms. This is mainly due to rising demand a category of buyers dubbed "other" as well as purchases by mutual funds and governmental entities including the Fed. Foreigners are not shying away; others have just been more assertive.**

A2: Interest Payment Default

Link Defense Rhetoric

1. Delink; The Mandel evidence from the top of our case specifically indicates that because of the automation boom that's incoming, government revenues will increase by $1.9 trillion by 2031, which is why the Tamny evidence indicates that our growing economy will dwarf the debt anyways, which means we won't need to cut spending later.
2. Delink; Barrett '18 of the International Monetary Fund writes that the largest possible amount for interest costs to rise in the long-run is 2% for the U.S. That's why Kogan '15 of the Center for Budget Policies and Priorities writes that for the entire history of the U.S., our economic growth has outpaced our interest costs, indicating that we will never have to cut spending later. Their evidence about crowding out our budget assumes that the budget doesn't get larger as time goes on, but because our economy is growing faster, the budget is able to grow faster as well.
3. Delink; Spross '18 of the Week writes that interest payments will never be a problem because the government can simply print more money to pay off the interest costs. This doesn't cause inflation, because Conover '13 of the American Enterprise Institute writes that when the Federal Reserve prints more money, it is buying back bonds, thus not increasing the total money supply but simply liquidating assets.
4. Delink; Ebby '18 of the University of Pennsylvania writes that when the government debt rises rapidly, the government refinances its debt towards long-term bonds and reshapes its maturity structure. When the government does so, it rolls over the bonds on prevailing interest rates. This means that the government is constantly able to finance its debt at the low-interest rates of today.

Tamny, John. “Ignore The Endless Talk Of Doom, Budget Deficits Really Don't Matter.” Forbes. Sept. 2017. https://www.forbes.com/sites/johntamny/2017/09/24/forget-the-protests-of-conservatives-deficits-really-dont-matter/#3602310a3707 //RJ

At the same time, **the substantial decline of Treasury yields is a certain signal from one of the deepest markets in the world that investors are not remotely worried about Treasury's ability to pay back the $20 trillion owed**, or hundreds of trillions if we factor in the entitlement math of our most ardent deficit hysterics. Thinking about the hand wringers who are convinced the U.S. as we know it is set to end thanks to existing and looming Treasury debt, and paraphrasing Ken Fisher, **the markets have already priced the allegedly dire federal debt scenarios swimming through their heads**. **And having priced all that the U.S. Treasury owes, those same investors have aggressively bid up future dollar income streams that will be paid out by that same U.S. Treasury. In short, federal debt is the least of the U.S.'s problems. As evidenced by plummeting yields on the 10-year over the decades, investors figure that future debt servicing will be exceedingly easy.** As for reasons why, the speculation from here is that **we're on the verge of a staggering productivity boom thanks to amazing advances in technological pursuits of the automation and robotics variety.** Figure that if the discovery of dirty, prosaic coal rendered American workers twenty times more productive, imagine what internet, automation and robotic advances will mean for our future output. It's just a guess, but **these surges in our individual capacity to create will unleash stunning wealth creation on a level that we can't presently contemplate such that Treasury debts will become exceedingly small.**

Mandel, Michael. “The Coming Productivity Boom.” Chief Economist at the Progressive Policy Institute and senior fellow at the University of Pennsylvania's Wharton School. March 2017. http://www.techceocouncil.org/clientuploads/reports/TCC%20Productivity%20Boom%20FINAL.pdf //RJ

A simple comparison of potential growth rates tells the story. **At the current expected growth rate of 2% annually, the country will struggle to meet its obligations and invest in the future. But if growth accelerates to 2.7% annually, as this paper's analysts project, it will add a cumulative $8.6 trillion in wages and salaries over the next 15 years** (measured in 2016 dollars). And while Americans will have more to spend on meeting their needs, **the government will have more funding to help out. Federal revenues will go up by an added $3.9 trillion without any increase in federal taxes as a share of GDP**. Some of that will go to cutting the debt, while still **leaving additional revenue for other needs, such as infrastructure and security.** (These figures are based on projections and analysis developed in this paper.)

Mandel, Michael. “The Coming Productivity Boom.” Chief Economist at the Progressive Policy Institute and senior fellow at the University of Pennsylvania's Wharton School. March 2017. http://www.techceocouncil.org/clientuploads/reports/TCC%20Productivity%20Boom%20FINAL.pdf //RJ

The diffusion of information technology into the physical industries is poised to revive the economy, create jobs, and boost incomes. **Far from nearing its end, the Information Age may give us its most powerful and widespread economic benefits in the years ahead.** Aided by improved public policy focused on innovation, **we project a significant acceleration of productivity across a wide array of industries**, leading to more broad-based economic growth. • **The 10-year productivity drought is almost over.** **The next waves of the information revolution**—where we connect the physical world and infuse it with intelligence—**are beginning to emerge.** **Increased use of** mobile **technologies**, cloud services, artificial intelligence, big data, inexpensive and ubiquitous sensors, computer vision, virtual reality, robotics, 3D additive manufacturing, and a new generation of 5G wireless **are**

on the verge of transforming the traditional physical industries—healthcare, transportation, energy, education, manufacturing, agriculture, retail, and urban travel services. ● At 2.7%, productivity growth in the digital industries over the last 15 years has been strong. ● On the other hand, productivity in the physical industries grew just 0.7% annually, leading to anemic economic growth over the last decade. ● The digital industries, which account for around 25% of U.S. private-sector employment and 30% of private-sector GDP, make 70% of all private-sector investments in information technology. The physical industries, which are 75% of private-sector employment and 70% of private-sector GDP, make just 30% of the investments in information technology. ● This "information gap" is a key source of recent economic stagnation and the productivity paradox, where many workers seem not to have benefited from apparent rapid technological advances. Three-quarters of the private sector—the physical economy—is operating well below its potential, dragging down growth and capping living standards. ● In particular, the crucial manufacturing sector, outside the computer and electronics industry, has barely boosted its capital stock of IT equipment and software over the past 15 years. Not surprisingly, productivity growth in manufacturing has slowed to a crawl in recent years. ● Information technologies make existing processes more efficient. More importantly, however, creative deployment of IT empowers entirely new business models and processes, new products, services, and platforms. It promotes more competitive differentiation. The digital industries have embraced and benefited from scalable platforms, such as the Web and the smartphone, which sparked additional entrepreneurial explosions of variety and experimentation. The physical industries, by and large, have not. They have deployed comparatively little IT, and where they have done so, it has been focused on efficiency, not innovation and new scalable platforms. That's about to change. ● Healthcare, energy, and transportation, for example, are evolving into information industries. Smartphones and wearable devices will make healthcare delivery and data collection more effective and personal, while computational bioscience and customized molecular medicine will radically improve drug discovery and effectiveness. Artificial intelligence will assist doctors, and robots will increasingly be used for surgery and eldercare. The boom in American shale petroleum is largely an information technology phenomenon, and it's just the beginning. Autonomous vehicles and smart traffic systems, meanwhile, will radically improve personal, public, and freight transportation in terms of both efficiency and safety, but they also will create new platforms upon which entirely new economic goods can be created. Manufacturing may be on the cusp of transformation—not just by robotics and 3D printing, but by the emergence of smart manufacturing more broadly: a fundamental rethinking of the production and design processes that substantially boost productivity and demand. That, in turn, could create a new set of manufacturing-related jobs and allow American factories to compete more effectively against low-wage rivals. • Far from a jobless future, a more productive physical economy will make American workers more valuable and employable. It also will free up resources to spend on new types of goods and services. Artificial intelligence and robots will not only perform many unpleasant and super-human tasks but also will complement our most human capabilities and make workers more productive than ever. Humans equipped with boundless information, machine intelligence, and robot strength will create many new types of jobs. • Employment growth in the digital sector has modestly outpaced employment growth in the physical sector, despite the big edge in productivity growth for digital industries. This suggests that we can both achieve higher living standards and create good new jobs. The notion that automation is the key enemy of jobs is wrong. Over the medium and long terms, productivity is good for employment. ● How much could these IT-related investments add to economic growth? Our assessment, based on an analysis of recent history, suggests this transformation could boost annual economic growth by 0.7 percentage points over the next 15 years. That may not sound like much, but it would add $2.7 trillion to annual U.S. economic output by 2031, in 2016 dollars. Wages and salary payments to workers would increase by a cumulative $8.6 trillion over the next 15 years. Federal revenues over the period would grow by a cumulative $3.9 trillion, helping to pay for Social Security and Medicare. State and local revenues would rise by a cumulative $1.9 trillion, all without increasing the tax share of GDP. ● Expanding the information revolution to the physical industries will require an entrepreneurial mindset—in industry and in government—to deploy information technology in new ways and reorganize firms and sectors to exploit the power of IT. Some of these technological transformations are already underway. Public policy, however, will either retard or accelerate the diffusion of information into the physical industries. Better or worse policy will, in significant part, determine the rate at which more people enjoy the miraculous benefits of rapid innovation, both as workers and consumers.

Mandel, Michael. "The Coming Productivity Boom." Chief Economist at the Progressive Policy Institute and senior fellow at the University of Pennsylvania's Wharton School. March 2017. http://www.techceocouncil.org/clientuploads/reports/TCC%20Productivity%20Boom%20FINAL.pdf //RJ

That means there is real potential for big gains in productivity without losing the benefits of job growth: Three-quarters of the private sector is operating well below its potential. That's going to change, as more and more companies in the physical industries adopt digital technologies such as cloud computing, Internet of Things (IoT), artificial intelligence (AI), robotics, 3D printing, and widespread use of machine-to-machine (M2M) mobile communications.

Lewis, Nathan. "Raise Taxes and Cut Government Spending to Reduce Debt? Not Really." Forbes. Oct. 2012. https://www.forbes.com/sites/nathanlewis/2012/10/21/raise-taxes-and-cut-government-spending-to-reduce-debt-not-really/#12f4dc043889 //RJ

At some point, the U.S. government will have to deal with its exploding debt load. Typically, we hear that the solution involves "some combination of reduced spending and higher taxes." Proponents often claim that this solution is "mathematically inevitable." Oh really? **There are** two **great examples in history of governments that got out of huge debt commitments without either defaulting or devaluing the currency, which is essentially another form of default**. **One was** Britain after the Napoleonic Wars, ending in 1815; the other was **the United States, after World War II.** This was quite unusual. Most governments, when faced with excessive debts, have defaulted either legally or via currency devaluation. **After World War II, the U.S. government had a debt/GDP ratio of about 125%. In 1970, this had fallen to 25%.** During this entire period, the dollar was pegged to gold at $35/oz. under the Bretton Woods system. Did **spending** go down during this period? It did immediately after the war, dropping from $93 billion in 1945 to $30 billion in 1948. Then, it **went up, reaching $195 billion in 1970. Did taxes go up? No, they did not.** Immediately after the war's end, wartime tax rates were reduced slightly. The Revenue Act of 1945 repealed an excess profits tax, and reduced income and corporate tax rates. Tax rates were reduced further in the Revenue Act of 1948, although they went up slightly in the early 1950s. A fairly large tax rate reduction took place in 1964. The overall trend was a modest decrease in tax rates. **Was the debt paid off? Nope.** In 1948, the federal Government had gross debt outstanding of $252 billion. In 1970, it was $381 billion. Apparently, when "mathematically inevitable" meets reality, reality wins. So, what happened? Mostly, **GDP increased, so that the debt/GDP ratio declined as a result of the expanding denominator.** GDP was $233 billion in 1947 and $1,103 billion in 1970.

Spross, Jeff. "America is going to pay a lot of interest soon. But don't fear a debt crisis." The Week. Oct. 2018. https://theweek.com/articles/798463/america-going-pay-lot-interest-soon-but-dont-fear-debt-crisis //RJ
The standard argument you hear is that federal interest payments will crowd out other priorities in the national budget. "The heavy burden of interest payments could make it harder for the government to repair aging infrastructure or take on other big new projects," warned The New York Times. The paper even suggested the interest burden could force the government to cut spending and raise taxes in the next recession, despite the economy needing additional stimulus to recover. "There will eventually be another recession, and this increases the chances we will have to slam on the brakes when the car is already going too slowly," Jeffrey Frankel, a Harvard economist, told the Times. **It's difficult to overemphasize how utterly wrong this is. The U.S. government controls the supply of U.S. dollars. 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.**

Conover, Steve. "Money Printing Isn't Inflationary." American Enterprise Institute. May 2013. https://www.aei.org/publication/money-printing-isnt-always-inflationary/ //RJ

The false but popular view of Fed money-printing is that the creation of new money does nothing but dilute the public's existing money supply. In fact, **the Fed creates new money** (a financial asset) **and uses it to purchase bonds** (financial assets) from the public. **Money printing by the Fed is not a dilution of the public's financial assets. Instead, it's a zero-sum asset swap: although new money comes from the Fed, existing bonds of the same value are bought by the Fed, and the net change in the public's financial assets is zero. What the new base money does change is banks' ability to make new loans — but if banks' increased ability to lend to entrepreneurs and businesses is not accompanied by an increased desire to lend to them, then public borrowing, spending, and investing**

won't increase. In that case (which has been our situation for several years), **Fed money-printing ends up generating little** if any boost to economic activity or **inflation pressure.**

Ebby, Denis. "When Debt Rises, the Treasury Rebalances to Long-Term Securities." University of Pennsylvania. Aug. 2018. http://budgetmodel.wharton.upenn.edu/issues/2018/8/15/when-debt-rises-the-treasury-rebalances-to-long-term-securities //RJ

The maturity structure of federal debt determines how much federal debt is being paid off or retired each year, which determines the speed with which changes to interest rates affect total interest paid on the federal debt. Retired debt is typically rolled over into new debt at prevailing interest rates. When more debt is retired and rolled into new debt, changes to interest rates are passed through faster to interest paid by the federal government. To inform our projections about the maturity structure of federal debt, we analyze historical debt maturity structure by using U.S. Treasury records dating back to 1953. We find that the maturity structure changes significantly in the few years following 1982 and 2007, but is relatively stable in other years. Beginning in those two years, the federal government moves away from issuing short-term (one-year or less) debt and shifts toward long-term borrowing. As shown in Figure 1, the federal government decreased its concentration of debt obligations in short-term debt (Treasury bills with one-year or less maturity) from around 45 percent of all federal debt in 1982 to around 35 percent in 1987. The decrease in the short-term debt composition of public debt can be attributed to the U.S. Treasury's preference for new 20- and 30-year debt. In 2007, we observe another decline in short-term debt composition of public debt from 35 percent to 25 percent in 2012. In 2007, the Treasury shifted away from short-term debt to both medium- and long-term securities. Securities due in three to ten years more than tripled between 2007 and 2012. Furthermore, the U.S. Treasury was issuing more than $150 billion of 30-year debt in 2012, compared to $0, $26 billion, and $38 billion in 2005, 2006, and 2007, respectively. **The decreases in the proportion of short-term debt starting in 1982 and 2007 are coincident with sudden, large increases in public debt.** As shown in Figure 2, **the debt as a share of GDP increased from 25 percent in 1981 to 40 percent in 1987 following the Economic Recovery Tax Act of 1981. Likewise, decreased tax revenues and increased spending during the 2008 financial crisis contributed to a substantial increase in federal debt from 2007 to 2012.** Between those years, debt as a share of GDP increased from 35 percent to 70 percent. **Large increases in debt held by the public give the Treasury a chance to reshape the maturity structure. In both cases, the Treasury had to refinance existing short-term debt that was coming due and issue new debt to cover the larger deficits. In both instances, the U.S. Treasury borrowed larger shares of medium- and long-term debt.**

A2: Credit Downgrade

Link Defense Rhetoric

1. Delink; Burton '13 of MarketWatch writes that after 2011's downgrading of the debt, the stock market and bond market immediately bounced back, which is why there wasn't a recession during this time period.

Link Turn Rhetoric

1. Turn; Cox '18 of CNBC writes that all of the ratings agencies reaffirmed confidence in our treasuries, giving it a AAA rating because of strong economic growth allowing America to pay off our debt. However, if a recession happens, this would change because the reason rating agencies have faith in America is because of our strong growth.

Burton, Jonathan. “U.S. default could pay off for bond investors.” MarketWatch. Oct. 2013. https://www.marketwatch.com/story/us-default-could-pay-off-for-bond-investors-2013-10-16 //RJ

The U.S. Treasury evidently has enough cash to make payments through October, according to many objective estimates. **After that, though, all bets are off. Important obligations** — perhaps even military pay or disability benefits — **would be deferred and both U.S. and global economic growth would take a hit.** So could stocks. Yet higher-quality bonds, perversely including Treasurys, could benefit as investors seek the most stable and safe assets. “Default” in this case reflects a government that is unwilling to meet its obligations on time. Indeed, **the intransigence** of some U.S. lawmakers **to raise the Treasury’s borrowing limit** in an orderly fashion **should be giving bond investors fits. Instead, the bond market has mostly viewed this high-stakes political drama with a big, fat yawn. So-called bond vigilantes, who normally put governments that mismanage their finances on the firing line, are nowhere to be found.** The only bond category to suffer real damage so far is one-month Treasury bills that come due in October and November. Yields have risen sharply and prices, accordingly, have tumbled out of fear that these payments would be delayed. **Even stock investors, who really have something to worry about in the event of a default, are putting their full faith and credit in the belief that the same lawmakers who created this mess will get us out of it. Stock and bond investors alike are convinced that a Treasury default can’t happen here** — Congress came to a similar risky brink in 2011 and made a last-ditch deal; they’ll blink again. Or so the thinking goes. “Been there; done that,” says Paul Nolte, managing director at investment manager Dearborn Partners in Chicago. “We saw the movie and we know the ending.” And why not be complacent? In 2011 another unthinkable happened: **U.S. debt was downgraded for the first time, to AA from AAA by Standard & Poor’s** — even after Congress brokered a compromise that raised the debt limit and cut spending. **Since then the U.S. economy has improved and stocks have been on a tear. Bonds haven’t done shabbily either.**

Cox, Jeff. “With debt at $21 trillion and growing, ratings agencies still give US highest marks.” CNBC. Apr. 2018. https://www.cnbc.com/2018/04/26/ratings-agencies-still-give-u-s-highest-marks.html //RJ

The $21 trillion debt the U.S. has amassed on its balance sheet isn’t weighing on the minds of credit rating agencies. Moody’s and Fitch in recent days have reaffirmed the nation’s top-notch credit standing, reasoning that even with the massive pile of IOUs, the nation has sufficient resources to keep its standing. “**The affirmation of the US’ Aaa rating reflects the US’ exceptional economic strength, the very high strength of its institutions and its very low exposure to credit-related shocks given the unique and central roles of the US dollar and US Treasury bond market in the global financial system,**” Moody’s analysts said in a report Wednesday afternoon. Those relatively glowing remarks come even as the debt tally continues to rise. Total public debt outstanding was at $21.06 trillion as of Tuesday, a 2.8 percent rise since the beginning of the year. Of that total, $15.34 trillion is owed by the public. There have been multiple warnings lately about the surging level — the Congressional Budget Office said the U.S. would be running a $1 trillion budget deficit within the next couple of years, and Federal Reserve Chairman Jerome Powell has said repeatedly that the nation is on an unsustainable fiscal path. However, **the ratings agencies say the country has sufficient buffers to withstand debt pressures. “The U.S. sovereign rating is supported by structural strengths including the size of the economy, high per capita income, and a dynamic business environment,”** Charles Seville, senior director at Fitch Ratings, wrote in a report earlier this month. “While there has been a recent loosening in fiscal policy, Fitch considers debt tolerance to be higher than that of other sovereigns.” Both Fitch and Moody’s reaffirmed “AAA” and “Aaa” ratings, respectively, both of which reflect top-quality debt.

A2: NEG

A2: Specific Advocacies

A2: Infrastructure

De-links:

1. Infrastructure quality is good
   Gottfried '18 of the Wall Street Journal finds that private investment in all types of infrastructure important for growth, like digital and energy, is booming and has been extremely productive. The only thing the private sector has been precluded from investing in are the publicly controlled assets of toll roads and bridges. Indeed, Soltas '13 of Bloomberg writes that in the past two decades, the number of deficient bridges has declined by 16% and the number of deficient roads has declined to less than 5%.

2. Corruption creates mal-investment
   Rugy '17 of Mercatus Center continues that most federal infrastructure spending suffers from malinvestment due to bad incentives, wasting resources on inefficient uses or for political gains. Infrastructure spending gets concentrated in regions with population flight, or with existing high quality infrastructure.

3. There are no employment or productivity gains

   Hitt '18 of the Hill writes that there are over 200,000 unfilled construction jobs in the status quo, with 86% of construction companies being unable to find qualified workers. Thus, Horowitz '18 of 538 writes that a $1 increase in infrastructure spending now would lead to less than $1 increase in economic growth.

4. Infra spending is non-unique
   Kelly '18 of RealClearPolitics writes that the GAIIN Act is a bipartisan legislation that prompts the federal government to sell debt and lease assets, taking 50% of the revenue to spend on infrastructure and the other 50% to reduce the national debt. This puts them in a double bind. Either
   a. This legislation will pass for the same reasons they establish infrastructure bills will, because of bipartisanship, and reducing the debt and spending on infrastructure can happen simultaneously or
   b. It won't pass and their probability link on bipartisanship isn't true.

Municipal Bonds DA

1. Higher government debt will hurt municipal bond investment:

    Samuelson of MIT explains that to finance the national debt, the government sells government bonds that crowds out investment that can be used elsewhere. Problematically, this crowds out municipal bonds because Hudson ‘16 of Seeking Alpha writes that municipal bonds serve as a primary alternative to government bonds. Municipal bonds are always better than federal investment.While Rugy ‘17 of Mercatus finds federal spending suffers from mal-investment, municipal bonds are handled by local politicians with deeper ties to and interests in their immediate communities. Oyakojo ‘15 of the American Society for Public Administration writes that over 9 years, municipal bonds funded $1.65 trillion in infrastructure projects.

Trump Specific Link Defense

1. Levitz ‘18 of Intelligencer writes that Democrats refuse to vote for a bill that cuts social spending, reduces environmental regulation, and shifts infrastructure spending away from blue cities. Indeed, Wagner ‘18 of the Washington Post writes that neither Senate Minority Leader Chuck Schumer nor the House Speaker Nancy Pelosi would be willing to vote for the infrastructure plan unless it addresses climate change policy.
1. The LA Times Editorial Board ‘18 writes that Trump’s Infrastructure Plan doesn’t actually increase the amount of funding going into infrastructure because the funding for the plan comes by cutting the budget of other infrastructure programs like the Department of Transportation.

Gottfried, Miriam, Investment in Infrastructure Is Booming, the Wall Street Journal, 2018

Private-equity firms are on track to raise a record amount for infrastructure investing in 2018, as money managers bet on the growing need to upgrade and expand the world's railroads, natural-gas pipelines and data centers.The firms collectively raised $68.2 billion in the first three quarters of the year, up 18% over the same period in 2017 and already surpassing the $66.2 billion they amassed in all of 2016, according to data from Preqin. Leading the charge are KKRKKR +2.64% & Co., Stonepeak Infrastructure Partners and I Squared Capital, which each raised a roughly $7 billion investment vehicle this year. The numbers are set to swell even more as the total doesn't include the $5 billion raised so far by Blackstone GroupBX +2.63% LP in the initial phase of its planned $40 billion infrastructure fund. Meanwhile, two infrastructure powerhouses, Global Infrastructure Partners and Brookfield Infrastructure Partners, which raised $15.8 billion and $14 billion funds, respectively, in 2016, are already targeting new pools of roughly $20 billion each. Institutional investors such as pension funds have been allocating more money to infrastructure, attracted by its reputation for steady returns, which typically fall between safer fixed-income securities and riskier private equity. That is especially appealing with interest rates still near historically low levels and equity prices close to all-time highs. Achieving those returns, however, is no slam-dunk. There is now a lot of cash chasing a limited number of opportunities, which has led to worries that infrastructure funds will struggle to find places to put their billions to work or pay too dearly to do so. But private-equity officials argue that technological change in telecommunications and energy and the need to upgrade aging railways and other transportation assets create more than enough demand for their capital. **The U.S. is the largest market for energy-infrastructure assets, which by and large aren't owned by the government. The energy industry's fracking revolution and the country's shift to being a net exporter of natural gas, as well as the boom in green-energy projects, have created new opportunities for investment. KKR said in July it hadagreed to acquireDiscovery Midstream Partners, which gathers and processes natural gas, for about $1.2 billion through a newly formed joint venture with energy companyWilliamsCos.The digital revolution, meanwhile, has attracted attention to U.S. telecommunications assets like cell towers and data centers. In June, Brookfieldagreed to buy31 ofAT&TInc.'sdata centers in a deal worth $1.1 billion.** The firms with the largest funds argue that their growing scale creates new opportunities by giving them access to deals smaller funds couldn't do. BlackstoneBX 2.63% is looking at assets that enable it to invest at least $1 billion, including a number of publicly traded companies, according to a person familiar with the buyout firm's strategy. The fundraising spree comes despite a lack of progress on infrastructure legislationin Washington. President Trump campaigned on the promise of a $1 trillion plan for U.S. infrastructure and rolled out a proposalearlier this year. The initiative faced congressional oppositionfrom the outset in large part because it would require states and cities to come up with their own money for improving highways, airports and water systems. The White House has since shifted its focus to other priorities such as trade. In July, Stonepeak announced that DJ Gribbin, formerly Mr. Trump's top infrastructure adviser, would join the firm as a senior operating partner. Funds such as those run by Stonepeak and Blackstone, which are primarily concentrated on North America, say they will likely focus more on energy and telecom than on transportation, much of which falls into the public-asset category. **In the U.S., privatizing public assets like toll roads, bridges and airports haslong been difficultbecause of cheap funding alternatives such as municipal debt and the challenges of navigating local politics. But other spheres of the infrastructure market are flourishing, deal makers say.** "If you want to privatize a toll road in a major urban city in the U.S., that becomes a very difficult transaction to do," said Robert Palter, co-leader of the global capital projects and infrastructure practice at consulting firm McKinsey & Co. "If you talked about a different variety of infrastructure such as acquiring private ports or railroads, those are deals that are getting done." Governments outside the U.S. are more open to private capital, giving firms such as GIP, Brookfield and KKR with global funds the opportunity to privatize assets there. GIP bought three U.K. airports, two of which it still owns, and transformed their terminals into shopping malls. Many large transportation deals abroad involve assets that are not government owned. In April, GIP purchased Italy's second-largest high-speed train operator, known as Italo, for €1.98 billion ($2.3 billion) There have been some examples of U.S. public-private partnerships. Carlyle GroupLP is investing in the redevelopment and expansion of Terminal 1 at New York's John F. Kennedy Airport, for example. Some are still holding out hope that the funds will be put to use fixing America's problem-plagued public-transportation systems. "In the end, the reality is that U.S. infrastructure is still woefully maintained," said Mark Weisdorf, the former chief executive of the infrastructure-investments platform at J.P. Morgan Asset Management, who now runs a strategic-consulting firm. "Eventually stuff gives and things happen. That catalyst may still come."

Rugy, Veronique, Federal Infrastructure Spending Is a Bad Deal, Mercatus Center, George Mason University, 2017 https://www.mercatus.org/[node:]/commentary/federal-infrastructure-spending-bad-deal

In his first address as president-elect, Donald Trump repeated his campaign promise to invest in America's infrastructure. "We are going to fix our inner cities and rebuild our highways, bridges, tunnels, airports, schools, hospitals," he said. "We're going to rebuild our infrastructure, which will become, by the way, second to none. And we will put millions of our people to work as we rebuild it." His plan is for the federal government to entice private investors with $137 billion in tax credits. The idea is that this will unleash up to $1 trillion worth of infrastructure investment over 10 years, spur economic growth, and create countless American jobs. Politicians' love affair with infrastructure spending isn't new. Hillary Clinton, Bernie Sanders, Barack Obama, George W. Bush, and many before them have paid their respects to the idea. Economists have long recognized that roads, bridges, airports, and canals are the conduits through which goods are exchanged, and as such, infrastructure can play a productive role in economic growth. But not all infrastructure spending is equal. **Ample literature shows**, in fact, that it's **[infrastructure spending is]a particularly bad vehicle for stimulus and does not,** in practice,**boost short-term jobs or economic growth**. To work that way, government spending would have to be used quickly to put the unemployed to work on shovel-ready projects. **But as Obama discovered in 2009**when he tried to spend $47 billion from the American Recovery and Reinvestment Act on infrastructure, **there aren't that many shovel-ready projects lying around**. And since **job seekers rarely have the skills needed to start building a bridge or highway right away, employers are forced to poach workers from their existing jobs. Publicly funded infrastructure projects often aren't good investments in the long term, either**. **Most spending orchestrated by the federal government suffers from terrible incentives that lead to malinvestment**—resources wasted in inefficient ways and on low-priority efforts. **Projects get approved for political reasons and are either totally unnecessary or harmed by cost overruns and corruption**. For example, we know that infrastructure investment produces the highest returns when it supports already-expanding cities and regions. Yet politicians' tendency is to spend in declining areas, where dollars can't help as many people, such as Detroit and Cleveland. **Government statistics show that our infrastructure isn't actually crumbling**. While conditions vary from state to state, the most recent data on highway quality (from 2012) classify **80 percent of urban highways as either good or acceptable**. **For rural highways, the figure is almost 97 percent.Meanwhile, the quality of bridges has improved as well.** **In 2004, 5.7 percent of bridges were classed as structurally deficient, meaning that the bridge isn't unsafe but that it could suffer from a reduction in its load-carrying activities. By 2014 that number had declined to 4.2 percent.** Still, our infrastructure could use some work. Recently, in a debate at the Aspen Ideas Festival with former National Economic Council Director Lawrence Summers, the economist Robert Barro noted that he was "glad that Larry and I can agree that fixing potholes is the most productive activity in government." Unfortunately, the political process is biased against dull but valuable projects, such as basic road maintenance, and biased in favor of flashy or grandiose projects, such as high-speed rail, the Big Dig, and the Bridge to Nowhere. The process also systematically overestimates the benefits and underestimates the price of infrastructure projects. On the bright side, Trump wants to address the "mountain of red tape" that slows down construction projects. His plan would link spending to reforms that "streamline permitting and approvals, improve the project delivery system, and cut wasteful spending on boondoggles." He shouldn't stop there. A new report by Michael Sargent at the Heritage Foundation encourages the president-elect to reduce the federal role in highway construction and mass transit. I would go further: He should put an end to the whole idea that infrastructure should be centrally planned, taxpayer-funded, and the responsibility of the federal (as opposed to state or local) government. The current system obliterates the discipline that comes from knowing a project needs to pay for itself to survive. User fees should become our preferred option for funding infrastructure. That change kills two birds with one stone: It lessens the need for massive federal expenditures, and it gives the private sector an incentive to spend money on crucial but not exactly sexy maintenance tasks. As Aquamarine Investment Partners founder and CEO Joel Moser recently explained in Forbes, "No one will invest in the replacement of defective bridges that have no tolls, regardless of the tax abatement, unless a revenue stream is attached to those assets." Innovations can provide "many creative ways to link revenue streams to currently non-tolled assets," he adds. EZPass and cellphone technology could be used to pay for all roads. Alternatively, leasing contracts—such as the one between Australian investment consortium IFM Investors and the Indiana government covering the Indiana Toll Roads—would work well too. If Trump wants the United States to have "world-class" infrastructure, the surest way is through market-based reforms that increase competition while reducing subsidies and regulations. Embrace real privatization, not federally directed private investments.

Horowitz of FivethirtyEight, Feb. 2018. https://fivethirtyeight.com/features/america-may-finally-be-ready-to-fix-its-infrastructure-too-bad-the-timing-stinks/

But fixing America's infrastructure will cost trillions, which is one reason Washington has been kicking this can down the unpaved road for years. And while inking an infrastructure deal is tricky under the best of circumstances, now is a particularly bad time — because the economy is just too strong.

Costly repairs make more sense when the economy is faltering and Americans are desperate for work. In that environment, infrastructure spending has a supersized impact: Not only does it improve America's bridges and transit systems, but it also provides jobs for people whose skills might otherwise go to waste.

However, in today's economic climate, where unemployment is nearing a 50-year low, even a massive infrastructure bill would likely generate only a trivial number of new jobs. Instead, the government would have to fill its construction crews by poaching private-sector workers, which could potentially create an inflation-generating war for scarce workers and neutralize many of the economic benefits commonly associated with large-scale government spending.

By contrast, when the government hires people who already have jobs, there's no real infusion of money, just a different name atop the paychecks. And that seems to be the situation that government programs face at the dawn 2018.

Jason Furman, who served as a top economic advisor to President Obama, estimates that even a substantial infrastructure program would create approximately zero new jobs. Along the same lines, Harvard economist Gabriel Chodorow-Reich thinks each dollar of infrastructure spending in today's economy would likely produce less than $1 in economic output in the short term because the benefits of government spending are more than offset by the costs of taking that money out of the hands of the high-performing private sector, whether through taxes or borrowing.

What's critical, though, is that the Federal Reserve disagrees. According to its published projections, Fed members think the current unemployment rate is already below its stable, long-term level of roughly 4.6 percent. Any infrastructure plan that threatened to push the unemployment rate further below this sustainable level would only exacerbate concerns some Fed members have already expressed that the economy risks overheating. And that would likely bring faster interest rate hikes explicitly designed to slow the economy and stabilize unemployment.

But if pay did start to rise, odds are inflation would, too — which could prove self-defeating. Rising inflation would likely trigger an aggressive response from the Fed, which has an explicit mandate to keep inflation under control. That would mean faster interest-rate hikes as part of a concerted effort to blunt inflation and moderate those wage gains.

But even a targeted plan could bump up against some significant constraints. Traditionally, for instance, infrastructure spending has provided a particular boon to workers without a college degree — because the jobs these programs provide are tilted toward blue-collar fields like construction and transportation. But employers in those industries are already struggling to find qualified workers, according to a recent analysis from the Federal Reserve. And this is reflected in the fact that the strongest wage gains of the past year have actually gone to low-wage workers and those without a college degree. The arrival of hefty government contracts seems as likely to exacerbate the shortage as it is to create new opportunities.

Plumer of the Washington Post (2013) <https://www.washingtonpost.com/news/wonk/wp/2013/03/19/good-news-americas-infrastructure-is-now-5-percent-less-shoddy/>.**

***The gloomy bit: America's infrastructure only warrants a D+, with the ASCE estimating that we'll need to spend an extra $1.6 trillion between now and 2020 to patch things up. Yet experts say we should approach this figure skeptically*. The ASCE is very good at pointing out engineering deficiencies in our infrastructure — but not so good on whether it's actually beneficial to upgrade." We need this report to point out problems," says Joshua Schank of the Eno Center on Transportation. "But if you're thinking about policy, you have to think more broadly than that." *Indeed, it's worth noting that the ASCE always gives U.S. infrastructure poor grades. From reading past reports, you'd get the impression that it's a miracle the United States is even a functioning country. And it's hardly surprising that an engineering group is in favor of trillions in additional spending on civil-engineering projects. So perhaps the most notable part of this year's report is that ASCE thinks our infrastructure is actually getting better in some areas. For the first time in 15 years, the grade for U.S. infrastructure rose, from a D to a D+. And six areas have seen improvementsince 2009, including roads, bridges, rail, drinking water, solid waste disposal and wastewater treatment*.**

Hitt, Todd. Apr. 2018. The Hill. https://thehill.com/blogs/congress-blog/labor/382757-the-infrastructure-bill-and-our-labor-shortage-crisis

Some two thirds of construction contractors report having a hard time finding skilled workers, according to a survey earlier this year by the Associated General Contractors, a trade group. The shortages were most pronounced in the South and Midwest, where three-quarters reported having a hard time filling skilled job openings*. At the construction season peak last summer, there were more than 200,000 unfilled industry jobs. According to the Associated General Contractors of America, 86 percent of construction companies can't find qualified workers.* Eighty percent can't fill hourly jobs and half can't fill salaried positions. The manufacturing industry, which supplies the tools contractors need to build, faces a similar crisis. In January, there were 427,000 jobs open in manufacturing.

Marohn, Charles, Strong Towns, January 3, 2017, "Five Ways Federal Infrastructure Spending Makes Cities Poorer"

https://www.strongtowns.org/journal/2017/1/2/five-ways-federal-infrastructure-spending-makes-cities-poorer

3. Federal infrastructure spending prioritizes new construction. What cities need most is maintenance.

Gresham's law states that bad money drives out good. This can be seen in local infrastructure spending decisions. **Too often, cities that have more infrastructure than they have tax base to sustain are induced into moving money from maintenance and into new construction** *as a local match for federal infrastructure programs.* **The good money -- maintenance -- is chased out by the bad money -- new construction -- accelerating the critical declines in existing systems while** *perversely* **adding even more infrastructure to maintain.**

It would be really easy to say that politicians love ribbon cuttings and, since there are no good photo opportunities for filling potholes and replacing leaky pipes, politicians prefer new construction to maintenance. There is some truth to this, but what we actually are seeing is the inertia of an economy that doesn't quite have the incentives to pivot from the old, failing model.

Our economy is based on growth. All our pension promises, public debt payments and entitlement spending rely on aggressive levels of future growth. We used to be able to create this growth through infrastructure investments; build an interchange and a frontage road and get the big box stores, strip malls and housing subdivisions that result. Our entire economy -- from local zoning codes to bank financing programs to insurance underwriting to auto sales and on and on -- is oriented around repeating this simple formula, despite the diminishing returns.

What we have not figured out -- and what we won't figure out with another flood of federal infrastructure spending -- is how to translate maintenance into growth. How do we go out and fill potholes and fix leaking pipes and have that result in additional wealth in our neighborhoods? *This is a daunting challenge that requires us to rethink -- from bottom to top -- how we develop our places*. **We need to modernize our zoning codes, building standards, housing incentives, insurance programs, etc. There are a lot of people trying to do this, but they get cast aside every time the federal gravy train rolls into town.**

Soltas of Bloomberg (2013)

<http://www.bloombergview.com/articles/2013-04-08/the-myth-of-the-falling-bridge>.**

Is the U.S. reducing its infrastructure spending? It's been pretty steady. Total public construction spending has varied between 1.7 percent and 2.3 percent of GDP for the last 20 years, according to the U.S. Census Bureau. By the Congressional Budget Office's slightly different measure, infrastructure spending has been between 2.3 percent and 3.1 percent of GDP since 1956. Is the quality of infrastructure worsening? Just the opposite. Believe it or not, infrastructure has improved significantly over the last two decades. In its report for 2010, the Federal Highway Administration said that 57 percent of all vehicle-miles were traveled on federal highways with ratings of "good" or higher -- according to a measure of road quality pleasingly known as the International Roughness Index. That was up from 48 percent in 2000.The percentage of roads in bad condition has also declined: In 1989 6.6 percent of rural and urban interstates were rated "poor"; now only 1.9 percent of rural interstates and 5.4 percent of urban ones earn that grade. Despite warnings from President Barack Obama, America's bridges have never been safer. The highway administration rated 21.9 percent of its bridges "deficient" in 2009, as compared to 37.8 percent in 1989.And contrary to Obama's implication, the *word "deficient" does not mean unsafe, at least as the highway administration uses it.* A bridge is "deficient" when it would benefit from expansion and renovation in line with usage. Traffic congestion has diminished. In 1989, 52.6 percent of urban interstates were rated "congested" according to a comparison of peak volume to planned capacity. In 2009, the figure was 26.3 percent. *Now, advocates for more infrastructure spending might believe that no road should have a pothole or ever be congested. But there's a big pothole in that reasoning, called trade-offs. Timing aside, America seems to be spending about the right amount on infrastructure, just as it always has, just like most other developed nations*.

Marohn, Charles, Strong Towns, January 3, 2017, "Five Ways Federal Infrastructure Spending Makes Cities Poorer"

https://www.strongtowns.org/journal/2017/1/2/five-ways-federal-infrastructure-spending-makes-cities-poorer

The United States Congress seems poised to spend a trillion dollars or more on infrastructure in a bipartisan consensus to stimulate the economy. Without major changes in our approach, this spending is going to make our cities poorer, weaken our country and -- once the temporary stimulus has passed -- leave America in worse financial shape. ***Here are five ways a federal infrastructure program will make our cities, towns and neighborhoods poorer.***

1. The National Economy might grow today, but cities take on the long term liabilities.

Policymakers generally believe that infrastructure spending is a common sense way to create economic growth. The federal government invests in infrastructure, this creates jobs during the construction that then helps the private sector be more competitive. All of this grows the economy and improves the Gross Domestic Product (GDP). It's simple. What's not to love?

***Since World War II, what we've seen time and again is that the federal government will pay to build things and then state and local governments are tasked with maintaining them. The transactions create GDP growth, but they leave cities with long term promises that they cannot keep. Those promises don't come due for decades*, which makes the ribbon cuttings all the more seductive to local officials.**

John Maynard Keynes suggested that, in a depressed economy, the government should pay people to dig holes in the ground and then fill them back up. If the federal government just did that, we'd finish where we started. *When a federal program instead pays to build a new bridge, we now have another bridge to maintain.*

Our cities are drowning in unproductive liabilities. The last thing they need is more.

2. Federal infrastructure spending goes primarily to the least financially productive parts of the American development pattern.

Productivity is a measure of outputs to inputs. For infrastructure, how much do we get back for each dollar spent?

In the early days of constructing the interstate system, the return on our national infrastructure investments was very high. We were connecting places remote from each other and transforming the entire economy in the process. Those returns have steadily diminished, for obvious reasons: a community's fifth interchange, sixth mile of frontage road or seventh river crossing cannot possibly be as transformative as the first, despite costing magnitudes more.

Joe Minicozzi and the team at Urban 3 have done the most thorough job today of documenting the productive parts of the American development pattern (wealth per acre). *In hundreds of cities across the country that have been modeled, the trend is clear: the newer the development the higher the cost and the lower the financial productivity*.

Control of both houses of Congress is now aligned with suburban and exurban development interests, areas with the highest cost and lowest returning infrastructure investments. Small towns and urban areas -- particularly when they are making better use of existing infrastructure -- present far higher returning alternatives.

3. Federal infrastructure spending prioritizes new construction. What cities need most is maintenance.

Gresham's law states that bad money drives out good. This can be seen in local infrastructure spending decisions. Too often, cities that have more infrastructure than they have tax base to sustain are induced into moving money from maintenance and into new construction as a local match for federal infrastructure programs. The good money -- maintenance -- is chased out by the bad money -- new construction -- accelerating the critical declines in existing systems while perversely adding even more infrastructure to maintain.

It would be really easy to say that politicians love ribbon cuttings and, since there are no good photo opportunities for filling potholes and replacing leaky pipes, politicians prefer new construction to maintenance. There is some truth to this, but what we actually are seeing is the inertia of an economy that doesn't quite have the incentives to pivot from the old, failing model.

Our economy is based on growth. All our pension promises, public debt payments and entitlement spending rely on aggressive levels of future growth. We used to be able to create this growth through infrastructure investments; build an interchange and a frontage road and get the big box stores, strip malls and housing subdivisions that result. Our entire economy -- from local zoning codes to bank financing programs to insurance underwriting to auto sales and on and on -- is oriented around repeating this simple formula, despite the diminishing returns.

What we have not figured out -- and what we won't figure out with another flood of federal infrastructure spending -- is how to translate maintenance into growth. How do we go out and fill potholes and fix leaking pipes and have that result in additional wealth in our neighborhoods? *This is a daunting challenge that requires us to rethink -- from bottom to top -- how we develop our places*. We need to modernize our zoning codes, building standards, housing incentives, insurance programs, etc. There are a lot of people trying to do this, but they get cast aside every time the federal gravy train rolls into town.

4. Federal infrastructure spending induces local governments to take on unproductive debt.

The Transportation Investment Generating Economic Recovery (TIGER) grant program is one of the most popular federal infrastructure spending programs ever. The discretionary grants are awarded on a competitive basis based on criteria, one of the most important being the following:

(i) Jurisdictional and Stakeholder Collaboration. DOT will consider the extent to which projects involve multiple partners in project development and funding, such as State and local governments, other public entities, and/or private or nonprofit entities.

In other words: Who else is stepping up with money? Local governments -- already strapped for cash and weighed down by liabilities -- must frequently agree to take on additional debt as their local contribution. This happens with TIGER and nearly all other federal infrastructure programs.

Productive debt is debt that can be paid back with the proceeds collected from the project. Local governments generally rely on property and sales tax, but federal projects rarely add enough to the local tax base to extinguish the debt while sales tax revenue from a project, if there is any, ends with the project. It's really hard for local governments to turn down large dollar amounts, but it is comparatively simple to increase the local debt burden.

5. Federal infrastructure spending blinds local governments to better projects they could do themselves right now.

The primary lesson of the Great Depression and World War II was that, if we focus our resources and energy on a task, Americans can do amazing things. We put this lesson to work after the war building the interstates and suburbia. When the two 70-year-old presidential candidates in our most recent election spoke nostalgically about what America used to be, this is the time period they were speaking of.

America is a very different and more complex country today, but the inertia of those post-war systems is overwhelming. We're still trying to fund highways, bridges and interchanges in a country that really needs better sidewalks, crosswalks and street trees. *When we look for the highest returning investments, they are almost all small. We desperately need to make better use of the infrastructure we've already built. That is fine grained work not well-suited for a federal program*.

The way we have structured our governments, cities sit at the bottom of the food chain. Their bureaucracies are oriented up that chain, looking to the programs of state and federal governments for solutions. Instead, they need to be reoriented to the neighborhoods in their own communities. Local officials must humble themselves to ask one simple question day after day after day: What is the next smallest thing we can do right now to make this place better? If local governments did that, the result would transform America. The allure of federal programs is the biggest obstacle to making this critical shift and having the needs of cities, towns and neighborhoods drive our national agenda.

Later this week, we're going to look at ways a federal infrastructure bill could be structured to strengthen our cities, towns and neighborhoods.

Rugy, Veronique. "Federal Infrastructure Spending Is A Bad Deal." *Reason.com*. N. p., 2017. Web. 5 Jan. 2019.

https://reason.com/archives/2017/02/09/federal-infrastructure-spendin

But not all infrastructure spending is equal. Ample literature shows, in fact, that **it's a particularly bad vehicle for stimulus and does not, in practice, boost short-term jobs or economic growth.** To work that way, government spending would have to be used quickly to put the unemployed to work on shovel-ready projects. But as Obama discovered in 2009 when he tried to spend $47 billion from the American Recovery and Reinvestment Act on infrastructure, there aren't that many shovel-ready projects lying around. And **since job seekers rarely have the skills needed to start building a bridge or highway right away, employers are forced to poach workers from their existing jobs. Publicly funded infrastructure projects often aren't good investments in the long term, either**. **Most spending orchestrated by the federal government suffers from terrible incentives that lead to *malinvestment*—resources wasted in inefficient ways and on low-priority efforts**. Projects get approved for political reasons and are **either totally unnecessary or harmed by cost overruns and corruption**. For example, we know that infrastructure investment produces the highest returns when it supports already-expanding cities and regions. Yet politicians' tendency is to spend in declining areas, where dollars can't help as many people, such as Detroit and Cleveland.

Samuelson, Paul. "Economics 19e." Founder of MIT's Economics Department. N.d. PDF. //RJ

The effect of government debt is that people will accumulate government debt instead of private capital, and the nation's private capital stock willbe displaced by public debt. To illustrate this point, suppose that people desire to hold exactly 1000 units of wealth for retirement and other purposes. **As the government debt increases, people's holdings of other assets will be reduced dollar for dollar**. This occurs **because as the government sells its bonds, other assets must be reduced, since total desired wealth holdings are fixed**. **But these other assets ultimately represent the stock of private capital; stocks, bonds, and mortgages are the counterparts of factories, equipment, and houses.** In this example, if the government debt goes up 100 units, we would see that people's holdings of capital and other private assets fall by 100 units. This is the case of 100 percent displacement (which is the long-run analog of 100 percent crowding out).

Robert Bullard, Professor at San Francisco School of Law, "Addressing Urban Transportation Equity in the United States," 2003. //AGA

In the United States, all communities do not receive the same benefits from transportation advancements and investments.' Despite the heroic efforts and the monumental social and economic gains made over the decades, transportation remains a civil rights issue.' Transportation touches every aspect of where we live, work, play, and go to school, as well as the physical and natural world. Transportation also plays a pivotal role in shaping human interaction, economic mobility, and sustainability.3 Transportation provides access to opportunity and serves as a key component in addressing poverty, unemployment, and equal opportunity goals while ensuring access to education, health care, and other public services.' Transportation equity is consistent with the goals of the larger civil rights movement and the environmental justice movement.5 For millions, transportation is defined as a basic right.6 Transportation is basic to many other quality of life indicators such as health, education, employment, economic development, access to municipal services, residential mobility, and environmental quality.7 The continued residential segregation of people of color away from suburban job centers (where public transit is inadequate or nonexistent) may signal a new urban crisis and a new form of "residential apartheid."'8 Transportation investments, enhancements, and financial resources have provided advantages for some communities, while at the same time, other communities have been disadvantaged by transportation decision making. […] The successful Baton Rouge bus boycott occurred two years before the famous 1954 Supreme Court decision in Brown v. Board of Education declared "separate but equal" unconstitutional. 16 On December 1, 1955, in Montgomery, Alabama, Rosa Parks ignited the modern civil rights movement. 7 Mrs. Parks refused to give up her bus seat to a white man in defiance of local Jim Crow laws.'" Her action sparked new leadership around transportation and civil rights.19 Mrs. Parks summarized her feelings about resisting Jim Crow in an interview with sociologist Aldon Morris in 1981: "My resistance to being mistreated on the buses and anywhere else was just a regular thing with me and not just that day." 20 Transportation was a central theme in the "Freedom Riders"' campaign in the early 1960s.21 John Lewis and the young Freedom Riders exercised their constitutional right of interstate travel at the risk of death.22 Greyhound buses were attacked and some burned in 1961.23 Nevertheless, the Freedom Riders continued their quest for social justice on the nation's roads, highways, and urban streets.24 While some progress has been made since Just Transportation: Dismantling Race and Class Barriers to Mobility in 1997,25 much remains the same. Discrimination still places an extra "tax" on poor people and people of color who need safe, affordable, and accessible public transportation. Many of the barriers that were chronicled in Just Transportation have not disappeared overnight or evaporated with time.26 II. FOLLOW THE DOLLARS Transportation spending programs do not benefit all populations equally.27 Follow the transportation dollars and one can tell who is important and who is not. The lion's share of transportation dollars is spent on roads, while urban transit systems are often left in disrepair. Nationally, 80% of all surface transportation funds is earmarked for highways and 20% is earmarked for public transportation. 9 Public transit has received roughly $50 billion since the creation of the Urban Mass Transit Administration over thirty years ago, while roadway projects have received over $205 billion since 1956.31 On average, states spend just $0.55 per person of their federal transportation funds on pedestrian projects, less than 1% of their total federal transportation dollars.32 Average spending on highways came to $72 per person.33 Generally, states spend less than 20% of federal transportation funding on transit.34 The current federal funding scheme is bias against metropolitan areas. The federal government allocated the bulk of transportation dollars directly to state departments of transportation. 36 Many of the road-building fiefdoms are no friend to urban transit. Just under 6% of all federal highway dollars are sub-allocated directly to the metropolitan regions. Moreover, thirty states restrict use of the gasoline tax revenue to fund highway programs only.38 Although local governments within metropolitan areas own and maintain the vast majority of the transportation infrastructure, they receive only about 10% of every dollar they generate.39

Joshua Hudson, CFA and writer for Seeking Alpha, “Municipal Bonds Provide A High Quality Income Alternative To Treasuries,” 10/31/2016, https://seekingalpha.com/article/4017044-municipal-bonds-provide-high-quality-income-alternative-treasuries. //AGA

Summary **The municipal market provides a high quality alternative to treasuries for fixed income investing**. Tax-exempt municipal bonds provide tax-free income, effectively increasing yield. There are multiple ways to add municipal bonds to your portfolio. The municipal bond market is a great way to add fixed income to a portfolio as an alternative to treasuries. Since the great recession, the municipal or "muni" market has grown to $3.8 trillion in debt outstanding. According to SIFMA, 42% of this debt was held by individual investors, 26% by mutual funds, 14% by banks, 13% by insurance companies, and the rest by other, possibly foreign, investors. This article will explore the benefits of investing in this interesting market. What is the muni market? In the most basic sense, **the municipal market supports the development of municipalities which includes state and local entities**. The local school board may need to build a new school in order to accommodate all of the students in the area. They will most likely access the muni market to finance their new school. To do this, they will issue a series of muni bonds. **The muni market has helped finance roads, bridges, schools, water and sewer systems, stadium projects, museum districts, art collections, universities, and all sorts of projects that benefit our communities and society**. If you participate in this market, you are helping to finance the growth and infrastructure of our nation in $1,000 increments at a time.

Oh, Sunny. "Fitch says rising budget deficits could call U.S.'s credit rating into question." MarketWatch. Apr. 2018. https://www.marketwatch.com/story/fitch-says-rising-budget-deficits-could-call-uss-credit-rating-into-question-2018-04-05 //RJ

The U.S.'s gold-plated credit rating could be called into question if policy makers entertain further deficit-widening measures in the roughly ninth year of economic expansion, warn analysts at Fitch Ratings. The credit-ratings firm affirmed the U.S.'s triple-A grade on the back of a strong economy and the dollar's reserve-currency status, but cautioned that the U.S. would need to make changes to stave off further scrutiny over its sovereign debt rating. Fitch and Moody's have branded the U.S. debt as pristine, even as S&P downgraded the U.S.'s debt back in 2011. "While there has been a recent loosening in fiscal policy, Fitch considers debt tolerance to be higher than that of other sovereigns. However, rising deficits and debt could eventually test these credit strengths, in the absence of reform," the analysts at Fitch said. The ratings firm specifically homed in on the tax cuts passed in December 2017, and the lift to defense and nondefense spending caps for the next two fiscal years. The climbing budget shortfalls would push the Treasury Department to issue more than a trillion dollars worth of bonds in the fiscal year of 2018. **With the U.S. economy on its second-longest expansion, the concern is the government won't have the fiscal wherewithal to prop up the economy when the next recession arrives. Fitch forecast the general government deficit to hit 5% of GDP in 2018 and 6% in 2019. Their long-term analysis also hinted that government debt levels could surge to 129% of GDP by 2027, upping the forecast by an additional 16% since their last review of the U.S. sovereign credit. If debt levels rise faster than forecast, it could lead Fitch to downgrade the U.S. status to negative from stable, a sign that a ratings downgrade could be on its way.** These projections assume higher borrowing costs, slower growth and a widening deficit will contribute to the deterioration of the U.S.'s public finances.

Bussing-Burks, Marie. "Deficit: Why Should I Care?" University of Southern Indiana. 2011. https://books.google.com/books?id=73vMOrNjn6gC&pg=PA78&lpg=PA78&dq=a+debt+downgrade+could+be+devastating&source=bl&ots=E38KYtnjgo&sig=ACfU3U2udLeq0d8Fj6lvkT4-Z5XI4J-LOA&hl=en&sa=X&ved=2ahUKEwjJsaX-q4PgAhVBPN8KHb4CBmU4ChDoATAGegQIBBAB#v=onepage&q&f=false //RJ

According to S&P, "The downgrade reflects our opinion that the fiscal con-solidation plan that Congress and the Administration recently agreed to falls short of what, in our view, would be necessary to necessary to stabilize the government's medium-term debt dynamics:" The rating agency is concerned about long-term fiscal and economic challenges. **Any additional downgrade could pack a severe blow to our national ego, as the United States has always held stellar ratings and historically reigned as the world's largest powerhouse economy.** S&P analyzes 128 sovereign nations, and only a dozen or so hold its top rating, including England, Canada, and Germany. But **the United States is at risk of being downgraded again unless it enacts an aggressive deficit-reduction plan.** As of this writing, there has been a lot of talk and political maneuvering regarding a plan, but U.S policymakers have yet to agree on a formalized plan. The issue at stake here is that **many investment firms and institutions pre-fer top-rated bonds. With any downgrade, there could be a huge sell-off of U.S. government bonds. To sell future Treasuries, investors would need to be enticed with a higher interest rate.** Remember the risk-return trade-off dis-cussed in Chapter 5 to accept more risk, investors must be compensated with a higher interest rate. **This would**

mean higher interest payments must be added to the national budget each year. Plus, if a downgrade does come, the U.S. dollar may weaken as well, as more people may want to sell the currency than buy it.

Marte, Jonnelle. "The Ripple Effects of the Downgrade." MarketWatch. Aug. 2011. https://www.marketwatch.com/story/what-does-the-downgrade-mean-for-bonds-1312664759999 //RJ

The S&P downgrade creates a unique situation where some states are rated higher than the U.S. Treasury. (Congratulations, Florida!) **Typically, Treasurys are considered safer than municipal bonds because the federal government has the ability to print more money to make good on its debt while state and local governments have to find room in the budget. But now those highly-rated states could also be downgraded, in part because such a rating might be hard to justify if the federal government has lost its top-notch rating**, says Valeri. **States that are heavily dependent on federal funding are also vulnerable for a downgrade**, analysts say. In the near term, such **downgrades could mean price declines for municipal bonds**, says Valeri. **They would also mean higher borrowing costs for states and local governments, making them more vulnerable to budget deficits, layoffs and further downgrades.**

Oyakojo, Michael. "Financing Infrastructure Projects with Municipal Bonds." American Society for Public Administration. 2015. https://patimes.org/financing-infrastructure-projects-municipal-bonds/ //RJ

In economics, the "benefits received" principle justifies the use of municipal bonds to finance infrastructure projects. In February 2013, Thompson Reutersreported that **states and local governments in the United States financed more than $1.65 trillion of infrastructure investment between 2003 and 2012 through the tax-exempt bond market.** The top five infrastructure projects financed with tax-exempt municipal bonds during the 10-year period include schools ($514.1 billion), hospitals ($287.9 billion), water and sewer projects ($257.9 billion), highways ($178 billion) and public power projects ($147 billion). The initial municipal bond offering commences with the identification of an infrastructure project and the authority to issue municipal bond. Depending on the municipality, the selection of a capital project is influenced by societal need, regulations, legal mandate, health and safety concerns, environment and/or climate impacts. The project's proposal is included in the capital budgeting plan for consideration and ratification by the municipal's legislature. The proposal details the viability, including the justification for bond issue. If satisfied, the legislature approves the project as part of the capital budget and authorizes financing through bond issuance. In some municipality, the constitution and the law require voters' approval of the bond issuance through election.

Mike Kelly, Congressional Representative writing in Real Clear Politics, "Bipartisan Bill Would Boost Infrastructure, Trim Debt," 09/18/2018, https://www.realclearpolitics.com/articles/2018/09/18/bipartisan_bill_would_boost_infrastructure_trim_debt_138088.html. //AGA

A proper infrastructure renaissance throughout America should include the construction of world-class airports, bridges, broadband, highways, railways, and more. But with sky-high debt and deficits,

Congress cannot ignore the consequences of the nation's long-term budget crisis, which hundreds of billions of dollars in new federal spending would only accelerate. In 1986, President Reagan and the Democratic-controlled Congress faced a similar dilemma when they passed major tax reform legislation. To help cover the budget shortfall, they turned to a bipartisan plan that required federal agencies to monetize their debt by selling it to the private market. This model is viable today and provides an opportunity for Republicans and Democrats to come together and deliver infrastructure-related results for lower- and middle-income Americans of diverse political and racial backgrounds. **Currently, federal agencies hold more than $2 trillion in debt and lease assets. The sale of a portion of these assets, if expedited, could raise a significant amount of money for infrastructure projects**. Rather than languishing in Washington, we believe this money could be used for the good of our constituents and fellow citizens throughout our country. Passage of **the GAIIN Act would take the first step toward making optimal use of these assets by** directing the Office of Management and Budget to identify all distressed debt currently held by the Department of Agriculture and then **directing the Treasury Department to package it for sale to the private market. It would then require that 50 percent of the revenue received be spent on infrastructure projects in communities below the poverty line and the other 50 percent be applied toward reduction of the national debt**. By building new highways, byways, and bridges near factories, farms, and inner cities, we can begin the long, necessary process of ensuring that all Americans have an equal opportunity to succeed. It presents a superb opportunity to put aside our political differences for the forgotten men, women, and children whose communities have been ignored for too long. **Reviving America's poorest cities and towns is a moral, fiscal, and economic imperative. It is rare than one piece of legislation can meet this objective on its own**, **let alone bring together conservative Republicans and progressive Democrats from minority communities**. **Even rarer is a bill that attracts the co-sponsorship of lawmakers in the House Freedom Caucus, the Black Congressional Caucus, and the Progressive Caucus just a few months before an election. But the GAIIN Act is that kind of bill.**

Yonah Freemark, PhD Candidate in Urban Studies at MIT, quoted by journalist Karen Hao, "Trump's leaked infrastructure plan would deepen urban inequality in the US," 1/24/2018, https://qz.com/1186972/trumps-leaked-infrastructure-plan-favors-rich-cities-and-neighborhoods/. //AGA

During his 2016 presidential campaign, Donald Trump pledged that, if elected, he would implement a $1 trillion plan to rebuild America's crumbling infrastructure. He promised to reinvest in inner cities and rejuvenate economically impoverished urban areas. But **a draft of Trump's infrastructure plan leaked** this week (Jan. 22) to Axios **neglects poorer neighborhoods and cities, and instead outlines funding principles that would use national resources to fuel development in already-wealthy metro areas. "Basically the whole structure [of this proposal] is oriented around cities that are not only wealthy but also economically healthy**," says *Yonah Freemark, a transportation and urbanism expert and PhD student at MIT*. "But for cities that are not economically healthy, it will be very hard to make this kind of funding stream work for them." The leaked document, which remains unverified by the White House, restricts federal funding to covering only 20% of any total infrastructure project cost. That aligns with Trump's 2018 budget draft from last May, which called for $200 billion of federal "seed" money to be allocated over 10 years to spur $1 trillion of total spending on infrastructure. The clearest evidence of the plan's preference to support wealthier cities is the proposed criteria for evaluating whether a project should receive federal funds: The ability for a project to secure non-federal financing is given a weight of 70% while the potential economic and social returns of the project is weighted at just 5%. This is a "radically different approach" than how projects were evaluated under the Obama administration, says Freemark. Under Obama, a project was assessed mostly on its merits, such as whether it would address poverty or improve the environment. Trump's proposed plan nearly eliminates merit as a consideration. "In my mind that sounds to me like infrastructure for infrastructure's sake," he says. "It isn't really about the public interest. It's about making money." To qualify for a piece of the federal pie, cities would have to come up with non-federal funds from one of two sources: either their own revenue from state and local taxes or outside investment from willing private partners. Both options disadvantage poorer cities. "If you're in a place like Detroit where the market is not in great condition and there isn't, for example, much traffic congestion," says Freemark, "then it could be difficult to attract private companies to pay for the new toll roads if they don't feel like people are going to pay the toll." Essentially, cities already capable of covering 80% of its projects' costs are more likely to win federal support. "It's like a redistribution of the national resources toward cities that already have more money," Freemark says. **Trump's proposed plan also privileges high-income neighborhoods over low-income ones within a given city, Freemark says**. The leaked document requires transit projects to have a high return on investment as a condition for receiving federal support. In practice this means that if a city wanted federal money for a new subway line, it would need to show that the line would boost the area's property values enough to cover the project's cost. **This requirement disincentivizes transit development in low-income neighborhoods where property values are not increasing. Those are often the neighborhoods that need public transit the most, says Freemark, to connect residents to better economic opportunities.**

Levitz, Eric. "Trump's Infrastructure 'Plan' Is Shoddily Built – and Sure to Collapse." Intelligencer. Feb. 2018. http://nymag.com/intelligencer/2018/02/trumps-infrastructure-plan-is-badly-built-sure-to-collapse.html //RJ

And **the White House proposal is every bit as unworkable in political terms** as it is in policy ones. **The administration needs significant support from Senate Democrats to pass any infrastructure bill into law.** And yet, Trump's plan calls for the federal government to fund its $200 billion share of the package entirely through spending cuts. The White House did not specify the targets of this austerity in its briefing with the Times, but previous reports suggest that the money would come from cuts to funding for social welfare programs and, of all things, mass transit. Meanwhile, the plan stipulates that rural communities would receive a disproportionate share of the federal funds, and calls for scrapping various regulations that impede development — including some meant to protect the environment. Even if the president had copied the Democratic Party's official infrastructure plan verbatim, Chuck Schumer's caucus might be reluctant to vote for it. The Donkey Party has a shot at winning a wave election this November, and, thus, has little incentive to help Trump pass a popular, bipartisan bill before then. Thus, **the idea that nine Senate Democrats would vote for an infrastructure package that cuts social spending and transit funding** (a.k.a. infrastructure funding for urban areas, where Democrats live), **reduces environmental regulation, and steers a disproportionate share of its funds to (predominantly red) rural areas is utterly delusional.**

Wagner, John. "Schumer, Pelosi want climate-change measures in any infrastructure deal with Trump." Washington Post. Dec. 2018. https://www.washingtonpost.com/powerpost/schumer-pelosi-want-climate-change-measures-in-any-infrastructure-deal-with-trump/2018/12/07/62aa868a-fa20-11e8-863c-9e2f864d47e7_story.html?noredirect=on&utm_term=.c53fa9d00c98 //RJ

Democratic congressional leaders are insisting that any deal cut with President Trump on legislation to rebuild the nation's ailing infrastructure include provisions intended to promote clean energy and combat climate change. With Democrats poised to take control of the House in January, Trump has suggested that investing in infrastructure could be a shared priority, given the Democratic Party has long advocated public spending as a means to create jobs. In an op-ed published Thursday night in The Washington Post, **Senate Minority Leader Charles E. Schumer (D-N.Y.) said that** he sees potential for compromise with Trump but "**if the president wanted to earn Democratic support in the Senate, any infrastructure bill would have to include policies and funding that help transition our country to a clean-energy economy and mitigate the risks the United States already faces from climate change.**" Rep. **Nancy Pelosi** (D-Calif.), **whom Democrats have nominated to be speaker next year, echoed those sentiments in a statement Friday morning**, saying "when Democrats take the gavel, we will rebuild America with clean energy, smart technology and resilient infrastructure."

The Los Angeles Times Editorial Board. "Trump's infrastructure plan isn't a plan. It's a fantasy." Los Angeles Times. Feb. 2018. https://www.latimes.com/opinion/editorials/la-ed-trump-infrastructure-20180213-story.html //RJ

Trump's long-awaited plan was supposed to be an ambitious effort to build, as he put it, "**the best, fastest and most reliable infrastructure in the world.**" It was also a rare opportunity for bipartisan cooperation; Democrats and Republicans generally agree that crumbling roads and bridges are bad, and together they have been drawing up multibillion-dollar infrastructure spending plans for decades. **But the Trump framework is short on funding and pragmatism. The plan calls for $200 billion in federal spending over a decade**, but much of that money is set aside for rural communities and loan programs. **One hundred billion dollars would go to competitive grants, providing a mere $10 billion a year for roads, railroads, airports, water treatment plants, flood control systems and contaminated land cleanups. That's barely enough money to make a dent in the estimated $2 trillion of needed transportation, water and energy system upgrades.** By way of comparison, the federal government spent $96 billion on transportation and water projects alone in 2014. **The $200 billion wouldn't be new money. It would be paid for by cutting other infrastructure-funding programs. Trump's budget**, which was also released Monday, **would slash funding for the Department of Transportation and the Environmental Protection Agency**, among other agencies.

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https://reason.com/archives/2017/02/09/federal-infrastructure-spendin

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Joshua Hudson, CFA and writer for Seeking Alpha, “Municipal Bonds Provide A High Quality Income Alternative To Treasuries,” 10/31/2016, https://seekingalpha.com/article/4017044-municipal-bonds-provide-high-quality-income-alternative-treasuries. //AGA

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Oh, Sunny. “Fitch says rising budget deficits could call U.S.’s credit rating into question.” MarketWatch. Apr. 2018. https://www.marketwatch.com/story/fitch-says-rising-budget-deficits-could-call-uss-credit-rating-into-question-2018-04-05 //RJ

The U.S.’s gold-plated credit rating could be called into question if policy makers entertain further deficit-widening measures in the roughly ninth year of economic expansion, warn analysts at Fitch Ratings. The credit-ratings firm affirmed the U.S.’s triple-A grade on the back of a strong economy and the dollar’s reserve-currency status, but cautioned that the U.S. would need to make changes to stave off further scrutiny over its sovereign debt rating. Fitch and Moody’s have branded the U.S. debt as pristine, even as S&P downgraded the U.S.’s debt back in 2011. “While there has been a recent loosening in fiscal policy, Fitch considers debt tolerance to be higher than that of other sovereigns. However, rising deficits and debt could eventually test these credit strengths, in the absence of reform,” the analysts at Fitch said. The ratings firm specifically homed in on the tax cuts passed in December 2017, and the lift to defense and nondefense spending caps for the next two fiscal years. The climbing budget shortfalls would push the Treasury Department to issue more than a trillion dollars worth of bonds in the fiscal year of 2018. **With the U.S. economy on its second-longest expansion, the concern is the government won’t have the fiscal wherewithal to prop up the economy when the next recession arrives. Fitch forecast the general government deficit to hit 5% of GDP in 2018 and 6% in 2019. Their long-term analysis also hinted that government debt levels could surge to 129% of GDP by 2027, upping the forecast by an additional 16% since their last review of the U.S. sovereign credit. If debt levels rise faster than forecast, it could lead Fitch to downgrade the U.S. status to negative from stable, a sign that a ratings downgrade could be on its way.** These projections assume higher borrowing costs, slower growth and a widening deficit will contribute to the deterioration of the U.S.’s public finances.

Bussing-Burks, Marie. “Deficit: Why Should I Care?” University of Southern Indiana. 2011. https://books.google.com/books?id=73vMOrNjn6gC&pg=PA78&lpg=PA78&dq=a+debt+downgrade+could+be+devastating&source=bl&ots=E38KYtnjgo&sig=ACfU3U2udLeq0d8Fj6lvkT4-Z5XI4J-LOA&hl=en&sa=X&ved=2ahUKEwjJsaX-q4PgAhVBPN8KHb4CBmU4ChDoATAGegQIBBAB#v=onepage&q&f=false //RJ

According to S&P, "The downgrade reflects our opinion that the fiscal con-solidation plan that Congress and the Administration recently agreed to falls short of what, in our view, would be necessary to necessary to stabilize the government's medium-term debt dynamics:" The rating agency is concerned about long-term fiscal and economic challenges. **Any additional downgrade could pack a severe blow to our national ego, as the United States has always held stellar ratings and historically reigned as the world's largest powerhouse economy.** S&P analyzes 128 sovereign nations, and only a dozen or so hold its top rating, including England, Canada, and Germany. But **the United States is at risk of being downgraded again unless it enacts an aggressive deficit-reduction plan.** As of this writing, there has been a lot of talk and political maneuvering regarding a plan, but U.S policymakers have yet to agree on a formalized plan. The issue at stake here is that **many investment firms and institutions pre-fer top-rated bonds. With any downgrade, there could be a huge sell-off of U.S. government bonds. To sell future Treasuries, investors would need to be enticed with a higher interest rate.** Remember the risk-return trade-off dis-cussed in Chapter 5 to accept more risk, investors must be compensated with a higher interest rate. **This would mean higher interest payments must be added to the national budget each year. Plus, if a downgrade does come, the U.S. dollar may weaken as well, as more people may want to sell the currency than buy it.**

Marte, Jonnelle. “The Ripple Effects of the Downgrade.” MarketWatch. Aug. 2011. https://www.marketwatch.com/story/what-does-the-downgrade-mean-for-bonds-1312664759999 //RJ

The S&P downgrade creates a unique situation where some states are rated higher than the U.S. Treasury. (Congratulations, Florida!) **Typically, Treasurys are considered safer than municipal bonds because the federal government has the ability to print more**

money to make good on its debt while state and local governments have to find room in the budget. But now those highly-rated states could also be downgraded, in part because such a rating might be hard to justify if the federal government has lost its top-notch rating, says Valeri. **States that are heavily dependent on federal funding are also vulnerable for a downgrade**, analysts say. In the near term, such **downgrades could mean price declines for municipal bonds**, says Valeri. **They would also mean higher borrowing costs for states and local governments, making them more vulnerable to budget deficits, layoffs and further downgrades.**

Oyakojo, Michael. "Financing Infrastructure Projects with Municipal Bonds." American Society for Public Administration. 2015. https://patimes.org/financing-infrastructure-projects-municipal-bonds/ //RJ

In economics, the "benefits received" principle justifies the use of municipal bonds to finance infrastructure projects. In February 2013, Thompson Reutersreported that **states and local governments in the United States financed more than $1.65 trillion of infrastructure investment between 2003 and 2012 through the tax-exempt bond market.** The top five infrastructure projects financed with tax-exempt municipal bonds during the 10-year period include schools ($514.1 billion), hospitals ($287.9 billion), water and sewer projects ($257.9 billion), highways ($178 billion) and public power projects ($147 billion). The initial municipal bond offering commences with the identification of an infrastructure project and the authority to issue municipal bond. Depending on the municipality, the selection of a capital project is influenced by societal need, regulations, legal mandate, health and safety concerns, environment and/or climate impacts. The project's proposal is included in the capital budgeting plan for consideration and ratification by the municipal's legislature. The proposal details the viability, including the justification for bond issue. If satisfied, the legislature approves the project as part of the capital budget and authorizes financing through bond issuance. In some municipality, the constitution and the law require voters' approval of the bond issuance through election.

Mike Kelly, Congressional Representative writing in Real Clear Politics, "Bipartisan Bill Would Boost Infrastructure, Trim Debt," 09/18/2018, https://www.realclearpolitics.com/articles/2018/09/18/bipartisan_bill_would_boost_infrastructure_trim_debt_138088.html. //AGA

A proper infrastructure renaissance throughout America should include the construction of world-class airports, bridges, broadband, highways, railways, and more. But with sky-high debt and deficits, Congress cannot ignore the consequences of the nation's long-term budget crisis, which hundreds of billions of dollars in new federal spending would only accelerate. In 1986, President Reagan and the Democratic-controlled Congress faced a similar dilemma when they passed major tax reform legislation. To help cover the budget shortfall, they turned to a bipartisan plan that required federal agencies to monetize their debt by selling it to the private market. This model is viable today and provides an opportunity for Republicans and Democrats to come together and deliver infrastructure-related results for lower- and middle-income Americans of diverse political and racial backgrounds. **Currently, federal agencies hold more than $2 trillion in debt and lease assets. The sale of a portion of these assets, if expedited, could raise a significant amount of money for infrastructure projects**. Rather than languishing in Washington, we believe this money could be used for the good of our constituents and fellow citizens throughout our country. Passage of **the GAIIN Act would take the first step toward making optimal use of these assets by** directing the Office of Management and Budget to identify all distressed debt currently held by the Department of Agriculture and then **directing the Treasury Department to package it for sale to the private market. It would then require that 50 percent of the revenue received be spent on infrastructure projects in communities below the poverty line and the other 50 percent be applied toward reduction of the national debt**. By building new highways, byways, and bridges near factories, farms, and inner cities, we can begin the long, necessary process of ensuring that all Americans have an equal opportunity to succeed. It presents a superb opportunity to put aside our political differences for the forgotten men, women, and children whose communities have been ignored for too long. **Reviving America's poorest cities and towns is a moral, fiscal, and economic imperative. It is rare than one piece of legislation can meet this objective on its own**, **let alone bring together conservative Republicans and progressive Democrats from minority communities**. **Even rarer is a bill that attracts the co-sponsorship of lawmakers in the House Freedom Caucus, the Black Congressional Caucus, and the Progressive Caucus just a few months before an election. But the GAIIN Act is that kind of bill.**

Yonah Freemark, PhD Candidate in Urban Studies at MIT, quoted by journalist Karen Hao, "Trump's leaked infrastructure plan would deepen urban inequality in the US," 1/24/2018, https://qz.com/1186972/trumps-leaked-infrastructure-plan-favors-rich-cities-and-neighborhoods/. //AGA

During his 2016 presidential campaign, Donald Trump pledged that, if elected, he would implement a $1 trillion plan to rebuild America's crumbling infrastructure. He promised to reinvest in inner cities and rejuvenate economically impoverished urban areas. But **a draft of Trump's infrastructure plan leaked** this week (Jan. 22) to Axios **neglects poorer neighborhoods and cities, and instead outlines funding principles that would use national resources to fuel development in already-wealthy metro areas. "Basically the whole structure [of this proposal] is oriented around cities that are not only wealthy but also economically healthy**," says *Yonah Freemark, a transportation and urbanism expert and PhD student at MIT*. "But for cities that are not economically healthy, it will be very hard to make this kind of funding stream work for them." The leaked document, which remains unverified by the White House, restricts federal funding to covering only 20% of any total infrastructure project cost. That aligns with Trump's 2018 budget draft from last May, which called for $200 billion of federal "seed" money to be allocated over 10 years to spur $1 trillion of total spending on infrastructure. The clearest evidence of the plan's preference to support wealthier cities is the proposed criteria for evaluating whether a project should receive federal funds: The ability for a project to secure non-federal financing is given a weight of 70% while the potential economic and social returns of the project is weighted at just 5%. This is a "radically different approach" than how projects were evaluated under the Obama administration, says Freemark. Under Obama, a project was assessed mostly on its merits, such as whether it would address poverty or improve the environment. Trump's proposed plan nearly eliminates merit as a consideration. "In my mind that sounds to me like infrastructure for infrastructure's sake," he says. "It isn't really about the public interest. It's about making money." To qualify for a piece of the federal pie, cities would have to come up with non-federal funds from one of two sources: either their own revenue from state and local taxes or outside investment from willing private partners. Both options disadvantage poorer cities. “If you’re in a place like Detroit where the market is not in great condition and there isn’t, for example, much traffic congestion,” says Freemark, “then it could be difficult to attract private companies to pay for the new toll roads if they don’t feel like people are going to pay the toll.” Essentially, cities already capable of covering 80% of its projects’ costs are more likely to win federal support. “It’s like a redistribution of the national resources toward cities that already have more money,” Freemark says. **Trump’s proposed plan also privileges high-income neighborhoods over low-income ones within a given city, Freemark says**. The leaked document requires transit projects to have a high return on investment as a condition for receiving federal support. In practice this means that if a city wanted federal money for a new subway line, it would need to show that the line would boost the area’s property values enough to cover the project’s cost. **This requirement disincentivizes transit development in low-income neighborhoods where property values are not increasing. Those are often the neighborhoods that need public transit the most, says Freemark, to connect residents to better economic opportunities.**

Sherman, Erik, Infrastructure Spending Will Be Difficult With Massive State And Local Debt, Forbes, February, 2018
https://www.forbes.com/sites/eriksherman/2018/02/17/infrastructure-spending-will-be-difficult-with-massive-state-and-local-debt/#6b06af6a6c9c

But that brings us to the third consideration: cost. **The administration wanted a $1.5 trillion investment but with only $200 billion coming from the federal government — which already is in a financial mess that Republican politicians are using to justify proposed cuts to Medicare and Medicaid. The remaining $1.3 trillion is supposed to come primarily from state and local government as well as private companies.**
But the federal government is not the only one in debt. **According to federal figures, state and local governments currently have estimated combined debt of $3.1 trillion. It ranges from a low of $2.0 billion for Wyoming to California's high of $429.2 billion**. Eight different states — Massachusetts, New Jersey, Pennsylvania, Florida, Illinois, Texas, New York, and California — have combined state and local indebtedness of at least $100 billion each.

A2: Austerity

A2: General Cuts

Social Spending Crowd Out DA

1. The Peterson Foundation writes that the Federal Reserve is increasing interest rates in the status quo, which is especially damaging because it dramatically increases the amount of interest payments that the government has to pay. That's problematic, because Coats '16 of the Hill writes that in 10 years, these interest payments, alongside mandatory spending, will make up 99% of the federal budget, thus precluding the ability for our government pay for discretionary spending items like welfare.

Inevitable Austerity DA

1. Black '18 of Business Insider writes that our national debt is rising 36% faster than economic growth, indicating that our debt levels are unsustainable. Thus, the Peterson Foundation '18 writes that austerity cuts are inevitable, but waiting five years would force cuts 21% higher than if we enacted them now. This link turns their case because it means that we're going to need cuts anyways, but cutting now is a lot less severe.

Peter G. Peterson Foundation, "The Fiscal & Economic Impact." N.d. https://www.pgpf.org/the-fiscal-and-economic-challenge/fiscal-and-economic-impact //RJ

Reduced Public Investment. **As the federal debt increases, the government will spend more of its budget on interest costs, increasingly crowding out public investments**. Over the next 10 years, CBO estimates that **interest costs will total $5.2 trillion under current law**. **In just under a decade, interest on the debt will be the third largest "program" in the federal budget**. It will be the second largest in 2046 and the single largest in 2048. Yet those **interest costs are not investments in programs that build our future**. **Instead, they are largely about the past**. And **the more that resources are diverted to interest payments, the less that will be available for the federal government to invest in areas that are important to economic growth**. Although interest rates are currently low, we can't expect these conditions to last forever. As economic growth improves, interest rates are likely to rise, and the federal government's borrowing costs are projected to increase markedly. By 2047, CBO projects that interest costs alone could be more than two times what the federal government has historically spent on R&D, nondefense infrastructure, and education combined.

Peter G. Peterson Foundation, "The Fiscal & Economic Impact." N.d. https://www.pgpf.org/the-fiscal-and-economic-challenge/fiscal-and-economic-impact //RJ

Reduced Private Investment. **Federal borrowing competes for funds in the nation's capital markets, raising interest rates and crowding out new investment in business equipment and structures. Entrepreneurs face a higher cost of capital, potentially stifling innovation and slowing the advancement of new breakthroughs that could improve our lives**. At some point, investors might begin to doubt the government's ability to repay debt and could demand even higher interest rates, further raising the cost of borrowing for businesses and households. Over time, lower confidence and reduced investment would slow the growth of productivity and wages of American workers.

Coats, Dan. "Take steps today to reduce national debt." The Hill. April 2016. https://thehill.com/opinion/op-ed/275274-take-steps-today-to-reduce-national-debt //RJ

Despite all the financial obligations that will eventually come due in the "beyond" years, the president never addressed the topics of fiscal sustainability and debt reduction. This omission was glaring, given how our national debt has risen sharply over the past seven years, from $10.6 trillion when Obama took office to over $19 trillion today. **This accumulation of staggering levels of debt is nothing short of reckless, and the current trajectory for federal spending obligations, deficits and debt will only get worse over time**. According to a recently released report by the nonpartisan Congressional Budget Office, **in 10 years spending on mandatory spending programs and interest on the debt will consume nearly 99 percent of all federal revenue**. **This will crowd out funding for other important priorities like national defense and medical research**. Clearly **this path is unsustainable**.

Simpson, Stephen. "How Debt Limits A Country's Options." Investopedia. Oct. 2012. https://www.investopedia.com/articles/economics/12/debt-limits-country-options.asp //RJ

Debt has to be repaid; while collectors may not show up at a nation's borders, **a failure to repay prior debts will typically**, at a minimum, **result in significantly higher borrowing costs**, and the availability of credit may vanish altogether. What **this means**, then, is **that interest payments on debt are basically non-negotiable spending items**. **The U.S. faced this problem** in 2012. Interest on the national debt is likely to take up more than 6% of the 2013 federal budget. That's a quarter-trillion dollars that could be spent elsewhere or returned to citizens as lower tax rates. What's more, some readers may agree that the actual figure is higher than 6% - Social Security benefit obligations are not debts like T-bills or bonds, but they are balance sheet liabilities and many analysts argue that pension benefits (which are what Social Security benefits basically are), should be included in corporate liquidity analysis.

Ghilarducci, Teresa. "Why We Should Control the Federal Debt Before the Next Recession." Forbes. Sep. 2018. https://www.forbes.com/sites/teresaghilarducci/2018/09/23/why-we-should-control-the-federal-debt-before-the-next-recession/#4cf43905d33b //RJ

And **<u>high debt levels can leave little room to maneuver</u>**. The [IMF predicts that](#) among rich nations, **<u>only the U.S. will increase its debt-to-GDP ratio in the next five years, the wrong direction during an economic expansion</u>**. During an expansion, especially the current nearly record-setting long one, debt should be falling, not rising. In Q3 of 2008, the government had collected revenue from the booming economy; the debt-to-GDP ratio was a low 64%. When the Great Recession hit, the government had room to borrow to finance our fiscal lifesavers, including the American Recovery and Reinvestment Act ([ARRA](#)) and TARP, which helped keep the deep recession from turning into a global depression. Government deficits before a recession are even more dangerous. Fueling a large federal deficit before a recession is a big mistake. **<u>If the economic downturn hit now the government would have less ammo to fight it. Interest payments alone will take up an ever-higher share of the budget as the debt ratio grows. And as the Federal Reserve continues to raise interest rates, the interest share will grow even faster, again leaving little room to increase spending when the next recession comes</u>**. The [Congressional Budget Office (CBO)](#) issues a monthly report on deficits and debt. Compared to fiscal year 2017, the deficit for the first 11 months of the fiscal year rose by $222 billion, an adjusted 22.8% over last year. A steep rise in the deficit while the economy is growing will cause debt to rise even more in the next recession and eventually fuel increasing tax rates while boomers are retiring.

Schwartz, Nelson. "As Debt Rises, the Government Will Soon Spend More on Interest Than on the Military." The New York Times. Sep. 2018. https://www.nytimes.com/2018/09/25/business/economy/us-government-debt-interest.html //RJ

The federal government could soon pay more in interest on its debt than it spends on the military, Medicaid or children's programs. The run-up in borrowing costs is a one-two punch brought on by the need to finance a fast-growing budget deficit, worsened by tax cuts and steadily rising interest rates that will make the debt more expensive. **<u>With less money coming in and more going toward interest, political leaders will find it harder to address pressing needs like fixing crumbling roads and bridges or to make emergency moves like pulling the economy out of future recessions. Within a decade, more than $900 billion in interest payments will be due annually, easily outpacing spending on myriad other programs</u>**. Already the fastest-growing major government expense, the cost of interest is on track to hit $390 billion next year, nearly 50 percent more than in 2017, according to the Congressional Budget Office.

Black, Simon. "The U.S.' National Debt is Rising 36% Faster than the Economy." Business Insider. Mar. 2018. https://www.businessinsider.com/the-national-debt-is-rising-much-faster-than-the-economy-2018-3 //RJ

One important point to make is that debt growth is VASTLY outpacing GDP growth. And this is critical to understand. Last year, for example, the US economy grew by 2.5% in 'real' terms, i.e. stripping out inflation. Even if you include inflation in the calculation, the size of the US economy increased by 4.4%. Yet the national debt grew by 6%. Now that might not seem like a big difference. But it is. **<u>On a proportional basis, the national debt expanded 36% faster than the US economy (even if you include inflation). Over the course of several years, that effect compounds into something that's quite nasty.</u>**

Peter G. Peterson Foundation. "CBO Warns: Historic Debt Levels Threaten Economy." July 2018. https://www.pgpf.org/analysis/2018/07/cbo-warns-historic-debt-levels-threaten-economy //RJ

With federal debt on a perilous path, now is the time to make sensible decisions that will improve America's long-term fiscal outlook. By taking action now, Congress and the President can lay a better foundation for future generations that allows greater investment, promotes stronger economic growth, and assures a more secure safety net. **<u>Taking action now would provide time for reforms to be implemented gradually, giving Americans an opportunity to adjust to the policy changes. The longer</u>**

we wait, the more difficult it will be. Under current law, CBO estimates that **for federal debt in 2048 to be no higher than its current share of GDP (78 percent), we would need to cut noninterest spending or raise revenues by 1.9 percent of GDP per year starting in 2019**. **However, if we waited 5 years to act, the size of these required reforms would grow by 21 percent.** In the short term, **putting the debt on a sustainable path will reassure financial markets, boost economic confidence, reduce uncertainty, and ease fiscal burdens on future taxpayers.** Policymakers can help maintain a strong economy by agreeing on a comprehensive plan to stabilize the debt. **Over the long term, a stable fiscal policy would raise wages, bolster family incomes, and enable a more prosperous future.** No American wants a future in which our economy is saddled with debt, starved of investment, and struggling to grow. Lawmakers should chart a stable, sustainable fiscal course that ensures widespread prosperity and opportunity for generations to come.

A2: Education

Link Defense Rhetoric

1. Leachman '16 of the Center on Budget and Policy Priorities reports that the federal government only provides 9% of the total money allocated towards education which means national education cuts wouldn't affect anything.

Leachman, Michael, Center on Budget and Policy Priorities, January 25, 2016, "Most States Have Cut School Funding, and Some Continue Cutting"
https://www.cbpp.org/research/state-budget-and-tax/most-states-have-cut-school-funding-and-some-continue-cutting

K-12 schools in every state rely heavily on state aid. On average, some 46 percent of school revenues in the United States come from state funds. **Local governments provide another 45 percent; the rest comes from the federal government.** (See Figure 1.) States typically distribute most of their funding through a formula that allocates money to school districts. **Each state uses its own formula.** Many states, for instance, target at least some funds to districts with greater student need (e.g., more students from low-income families) and less ability to raise funds from property taxes and other local revenues, although typically this targeting doesn't fully equalize educational spending across wealthy and poor school districts.[4]

A2: Foreign Aid

Link Defense Rhetoric

1. Two reasons Trump will never cut aid
   a. Thrush '18 of the NYT writes that Trump is embracing a massive expansion of foreign aid because he wants to counter China's growing geopolitical influence in Africa and Latin America.
   b. Solomon of the Financial Post writes two days ago that Trump uses threats of foreign aid cuts to bribe countries to do his bidding. Cutting holistically would jeopardize this leverage. For example, Trump used an aid cut of 200 million dollars to Palestinians to try and force them to come to peace talks.
2. (If they read the voter support link) Delink- Per a 2018 Brookings analysis, 70% of voters didn't want to cut spending.

Predatory Loans DA Rhetoric

1. Foreign aid cripples recipient nation's economies through predatory loans: Malik '18 of The Guardian explains that a high proportion of foreign aid is given through loans, making the recipient nation become indebted, paying back more in interest payments to the US than they were given.

Corruption DA

1. Deaton '15 of Princeton University writes that foreign aid makes regimes less accountable to the people because they no longer rely on them as much as a source of revenue. As such, they hold no incentive to please their constituents, creating unrest and an incentive to revolt, citing Rwanda, Ethiopia, and Somalia as examples of countries where aid created a divide between the government and people, facilitating conflict and oppression.

Military Spending DA

1. Kono '13 of UC Davis writes that the foreign aid that has flowed into many developing nations has simply fallen into military coffers and not actually helping the people. This approach makes a lot of sense to a corrupt leader, since they retain control through coercion and will always prioritize giving resources to their small groups of supports and military establishments. That's why Collier '07 of Oxford University writes that a 1% increase in foreign aid results in a 3.3% increase in military spending. This plays out in real life; he continues that 40% of African military spending is financed by aid. Thus, Bluhm '16 of the Swiss Economic Institute writes that a 1% increase in aid increases the probability of escalation of conflict by 1.4%.

Adva Saldinger, About The, 3-22-2018, "Congress again rejects steep cuts to US foreign assistance in new budget," Devex, https://www.devex.com/news/congress-again-rejects-steep-cuts-to-us-foreign-assistance-in-new-budget-92403

Congress released a budget on Wednesday night that largely maintained U.S. foreign aid funding at fiscal year 2017 levels, and once again rejected the steep cuts proposed by the Trump administration. The bill provides $54 billion in funding for state and foreign operations, which is $3.4 billion, or about 6 percent, below the fiscal year 2017 levels. The cuts come in part from a reduction in U.S. spending on United Nations international peacekeeping missions, and because there were supplemental funds provided last year to scale counter-ISIS operations. **The Trump administration had proposed roughly 33 percent cuts to foreign aid funding in its fiscal year 2019 request released last month.**

Thrush of the New York Times, 2018,
https://www.nytimes.com/2018/10/14/world/asia/donald-trump-foreign-aid-bill.html
[DOUBLING IN BROOKINGS]

President Trump, seeking to counter China's growing geopolitical influence, is embracing a major expansion of foreign aid that will bankroll infrastructure projects in Africa, Asia and the Americas — throwing his support behind an initiative he once sought to scuttle. With little fanfare, Mr. Trump signed a bill a little over a week ago that created a new foreign aid agency — the United States International Development Finance Corporation — and gave it authority to provide $60 billion in loans, loan guarantees and insurance to companies willing to do business in developing nations. The move was a significant reversal for Mr. Trump, who has harshly criticized foreign aid from the opening moments of his presidential campaign in 2015. China has spent nearly five years bankrolling a plan to gain greater global influence by financing big projects across Asia, Eastern Europe and Africa. Now, Mr. Trump wants to fight fire with fire. "I've changed, and I think he's changed, and it is all about China," said Representative Ted Yoho, Republican of Florida, who helped sell the plan to other conservative Republicans in the House Freedom Caucus, which has historically opposed foreign aid programs.

Solomon, Lawrence. "Lawrence Solomon: 'Isolationist' Trump Is Using America's Economic Power to Change the World." *Financial Post*, 25 Jan. 2019, https://business.financialpost.com/opinion/lawrence-solomon-isolationist-trump-is-using-americas-economic-power-to-change-the-world

All told, Trump has some 30 economic sanction programs in place and is threatening more, including against Turkey, a NATO ally, if it attacks the Kurds in Syria. Last year the U.S. did impose sanctions on Turkey for imprisoning an American pastor, Andrew Brunson — the first time the U.S. had ever imposed sanctions on a NATO ally. Trump has made another threat, too, to discipline a NATO ally: He threatens to sanction the Nord Stream 2 pipeline designed to bring Russian gas to Germany, to prevent Germany from becoming overly dependent on Russian gas.

Trump also employs foreign aid to discipline countries and organizations in need of persuasion, among them Pakistan and Central American nations. When other presidents have done this, **it has been widely known as "chequebook diplomacy,"** because **the U.S. would pull out its chequebook to bribe other countries to do its bidding. Trump-style chequebook diplomacy works in the opposite way — those that don't comply**

see their funding cut back or cut off, as Trump has done to the Palestinian Authority and the United Nations Relief and Work Agency,.

Brookings Institute (2018) **https://www.brookings.edu/research/american-public-support-for-foreign-aid-in-the-age-of-trump/**

In a May 2017 University of Maryland Program for Public Consultation (PPC) survey, respondents were presented the discretionary budget broken into 31 line items and given the opportunity to adjust each line item as they saw fit, as well as to increase or decrease revenues from a variety of sources. They were also shown how the amount of the budget deficit would change as they made changes—up or down—to the line items. Respondents were not told that they should lower the deficit—in fact, they were told there is a debate about whether doing so is important—nonetheless, most respondents did reduce the deficit, with a majority reducing it by at least $212 billion. Still, the $5 billion line item of *humanitarian assistance* (which was described as, "Food aid to malnourished people, assistance in the event of disasters, aid to refugees from political conflict") *was only reduced by 32 percent of respondents* (47 percent Republicans), *while the same number increased it. Thus, on balance, there was no change. Similarly, a Kaiser Foundation poll asked, "If you were making up the budget for the federal government this year," how they would treat "economic assistance to needy people around the world?" Just 3 in 10 reduced such spending*.

Carol Morello, March 21

https://www.washingtonpost.com/world/national-security/head-of-usaid-defends-big-cuts-in-foreign-aid-budget/2018/03/21/a34cbf26-2d27-11e8-8ad6-fbc50284fce8_story.html?noredirect=on&utm_term=.41a162b06a68

Lawmakers from both parties denounced the Trump administration's proposal to cut foreign aid, saying it would hurt U.S. efforts to fight terrorism and health epidemics and make military deployments more likely. The criticisms arose as Mark Green, the administrator of the United States Agency for International Development, testified Wednesday before the House Foreign Affairs Committee about a proposed 33 percent cut in his budget, to $16.8 billion next year. "You're a great pick for the job," said Rep. Eliot L. Engel (N.Y.), the top Democrat on the committee. "But with a 33 percent cut to the budget, no one could do the job effectively." Chairman Edward R. Royce (R-Calif.) said the budget would "hamstring" USAID efforts at a time when 70 million people worldwide have been uprooted by conflicts and famine.

Paldam '07, University of Arhaus

http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.626.2579&rep=rep1&type=pdf

The aid effectiveness literature (AEL) consists of empirical macro studies of the effects of development aid. By the end of 2004, it had reached 97 econometric studies of three families, which have been analyzed in one study for each family using meta-analysis. The AEL is an ideal subject for meta-analysis as it uses only a few formally similar models which try to catch precisely the same effects. Also, it is an area with strong beliefs

– often generated by altruism – and interests. **In this survey of the AEL, we shows that when the whole of the literature is examined, a clear pattern emerges in the results: after 40 years of development aid, the evidence indicates that aid has not been effective.** We show that the distribution of results is significantly asymmetrical in a way that reflects the reluctance of the research community to publish negative results. The Dutch Disease effect of aid has been ignored but is a plausible explanation for aid ineffectiveness.

Simmons '17, LA Times

https://www.latimes.com/world/la-fg-global-aid-true-false-20170501-htmlstory.html

The amount is actually about 1%. The current projected spending for fiscal year 2017 is $4 trillion. The **Obama administration had planned for $41.9 billion in foreign aid** for this year. Polls show that Americans typically believe that the U.S. spends 25% to 27% on foreign aid.

Malik '18, The Guardian

https://www.theguardian.com/commentisfree/2018/sep/02/as-a-system-foreign-aid-is-a-fraud-and-does-nothing-for-inequality

Half of all international development aid is "tied", meaning that recipient countries must use it to buy goods and services from the donor nation. As the USAid website used to boast (until the paragraph became too embarrassing and was deleted in 2006): "The principal beneficiary of America's foreign assistance programmes has always been the United States. Close to 80% of the US Agency for International Development's contracts and grants go directly to American firms." Aid has "created new markets for American industrial exports and meant hundreds of thousands of jobs for Americans". Long before Trump entered the White House, USAid was "putting America first".

A high proportion of foreign aid is in the form of loans, which cripple developing countries through the accumulation of debt. Many rich nations receive more in interest payments from recipient countries than they give in "aid". Especially since the 2008 financial crash, western governments have exploited their ability to borrow money at low rates by setting up aid programmes lending to poor countries at much higher rates, minting money on the backs of the poor. This is not aid, it's a scandal.

Angus Deaton '15, Priceton University

https://www.weforum.org/agenda/2015/10/does-foreign-aid-always-help-the-poor/

Think of it this way: In order to have the funding to run a country, a government needs to collect taxes from its people. Since the people ultimately hold the purse strings, they have a certain amount of control over their government. If leaders don't deliver the basic services they promise, the people have the power to cut them off.

Deaton argued that **foreign aid can weaken this relationship, leaving a government less accountable to its people**, the congress or parliament, and the courts.

"My critique of aid has been more to do with countries where they get an enormous amount of aid relative to everything else that goes on in that country," Deaton said in an interview with Wonkblog. "For instance, **most governments depend on their people for taxes in order to run themselves and provide services to their people. Governments that get all their money from aid don't have that at all, and I think of that as very corrosive**."

Like revenue from oil or diamonds, **wealth from foreign aid can be a corrupting influence on weak governments, "turning what should be beneficial political institutions into toxic ones,"** Deaton writes in his book "The Great Escape: Health, Wealth, and the Origins of Inequality." **This wealth can make governments more despotic, and it can also increase the risk of civil war, since there is less power sharing, as well as a lucrative prize worth fighting for.**

Deaton and his supporters offer dozens of examples of **humanitarian aid being used to support despotic regimes and compounding misery, including in Zaire, Rwanda, Ethiopia, Somalia, Biafra, and the Khmer Rouge on the border of Cambodia and Thailand.** Citing Africa researcher Alex de Waal, Deaton writes that "aid can only reach the victims of war by paying off the warlords, and sometimes extending the war."

(Kenneth Cox – University of Wales)
Kenneth Cox (University of Wales).People Policy: Australia's Population Choices. Accessed 6/17/2017. Published 1998.
https://books.google.com/books?id=HI7yXWjYYokC&pg=PA160&lpg=PA160&dq=%22the+high+opportunity+cost+of+resettling+refugees+should+be+noted%22&source=bl&ots=3TbCYWAMY1&sig=-GOQ9LvCz5qEwT62U6TGN39GU-w&hl=en&sa=X&ved=0ahUKEwiNgMrmtMnUAhVKGT4KHenmAIoQ6AEIKDAA#v=onepage&q=%22the%20high%20opportunity%20cost%20of%20resettling%20refugees%20should%20be%20noted%22&f=false.

Simone Dietrich, 2012, "Bypass or Engage? Explaining Donor Delivery Tactics in Foreign Aid Allocation", Princeton University, http://simone-dietrich.com/content_images/file/bypass%20final.pdf — SP

I operationalize the decision to bypass in two different ways: My main measure of bypass is continuous and captures the proportion of aid delivered through non-state development actors. When donors allocate funds to a particular country, what proportion of the assistance goes to non-state actors? Figure 1 presents the proportion of non-state aid each donor country allocates (y-axis) across the full volume of aid flows in 2009. Among OECD donors, Finland channels the greatest proportion of aid through bypass actors, nearly 70 percent, followed by Norway and Ireland. Italy pursues bypass tactics with nearly half of its bilateral funds, soon followed by the United States, which outsources more than 30 percent of its bilateral funds. At the left side on the bypass axis are Greece and France which send less than 10 percent of their aid through bypass channels.
Local NGOs are important development partners for donors. Their issue focus and local knowledge about what types of projects are needed most make them attractive to donors who seek to deliver services effectively. Examples of local/regional NGO success stories in foreign aid delivery across the developing world include Love Live in South Africa, The AIDS Support Organization in Uganda, and the Grameen Bank in Bangladesh (see also Radelet 2004). Not all NGOs are equally virtuous and capable, however. In poorly governed countries, NGOs may not necessarily be a viable alternative for better service delivery.12 To mitigate potential implementation problems of aid delivered through local NGOs, donors resort to funding international NGOs such as Oxfam, Doctors Without Borders or Care International. Like their local counterparts, international NGOs are issue-focused and typically have better knowledge of local capacities than donor officials in donor countries. Given their increased knowledge of local conditions and their dependence of funding on donor governments, international NGOs may be in a better position than donor agency officials to select local implementation partners that can help deliver aid more effectively than the recipient government.

Abigail Payne, University of Toronto, "Does the government crowd-out private donations?", December 21, **1998**
During the 1980s, government grants to non-profit organizations declined dramatically and the price of private donations increased. Given there are different costs associated with government grants and private donations to non-profits, it is important to study the relationship between these two sources and determine whether **government grants `crowd-out' private donations.** I take a fresh look at the issue of crowd-out and improve upon the literature by exploiting a panel data set that links private donations to non-profit firms with the government grants they received. I study 430 non-profit shelter, human services, and other similar types of organizations that were in operation between 1982 and 1992. I find private donations to these non-profits effectively do not change with changes in government grants after controlling for firm

heterogeneity and political and economic factors under an OLS specification. In a 2SLS specification, **after controlling for possible endogeneity of the government grants the estimated crowd-out is significantly different from zero and one dollar; on average, the estimated crowd-out is ~50 cents.**

Daniel Kaufman, 2012, "By The People? Foreign Aid and Donor-Country Democracy", Brookings Institution, http://www.pedrovicente.org/aid.pdf

We begin by testing for crowding out. The traditional argument states that increased government expenditure on foreign aid reduces private donations, as people optimally withdraw their direct contributions once they are obliged to donate to charities through involuntary taxes (Warr, 1982, Bergstrom et al., 1986). However, empirical evidence from Andreoni and Payne (2011a) presents a more complex picture. Using a panel of US charitable organisations, they observe that government grants crowd out private donations by around 76%; that is, each marginal dollar received from the government leads to a reduction in revenues from private donors by 76 cents. They decompose the crowding out of donations into two channels: the classic (direct) channel, as described above; and the fundraising (indirect) channel, through which government grants to charities reduce their fundraising activities, and, as a consequence, private donations. They find no evidence of classic crowding out. Rather, they find that indirect crowding out is around 80%, whereas the direct effect of government grants is a crowding in of 4%. In effect, a $1000 government grant to a charity causes individuals to donate a further $40, while simultaneously causing the charity to forego fundraising activities that would have yielded $800 of private revenues.17 Furthermore, the crowding-out estimate is an upper bound, as it does not account for the fall in costs associated with less fundraising activities. Accounting for this leads the authors to revise the indirect effect from 80% to 66%, resulting in *an overall crowding out effect of around 62%.*

(Raj Desai – Georgetown University)
Raj Desai (Georgetown University). The California Consensus: Can Private Aid End Global Poverty? Accessed 6/3/2017. Published 08/2008. https://www.brookings.edu/wp-content/uploads/2016/06/08_private_aid_kharas.pdf.

Indeed, the strength of the new private-aid movement stems from the 'power of many', the notion that the thousands of international NGOs, tens of thousands of developing-country NGOs and hundreds of thousands of community-based organisations in developing countries provide a network of knowledge and resources that can be tapped in powerful new ways. Private aid is less sus- ceptible to 'leakage' due to corruption and bribes, and because it usually avoids governmental recipients and is transferred directly to front-line NGOs and development projects, it avoids the thorny problems associated with poorly functioning public sectors in developing countries. Smaller por- tions of private aid are spent on overhead and administrative costs, and on technical assistance and other purposes that typically fund contractors, advisers and consultants in rich countries.

Raj Desai, Brookings Institute, "California Consensus", September **2008**

Early twentieth-century global philanthropy focused primarily on health and disease, including the eradication of yellow fever, the professionali-sation and training of public health workers, and the spread of Western medicine to non-Western lands. Post-Second World War philanthropy, on the other hand, **broadened to encompass educational needs, birth control, maternal health and agriculture. Private development aid may soon eclipse official aid,** a development that many of those disappointed with the spotty performance of such assist- ance would welcome: 'Turn all foreign assistance over to the private sector' trumpeted a *Wall Street Journal* article in July 2007.4 Development activists (and an alliance of left-leaning NGOs, conservative groups, and other aid critics) have long argued that the global 'foreign aid' regime is ine ective – even harmful – and increasingly irrelevant given the needs of the poorest around the world. These claims are supported to some extent by official-aid statistics. Of the more than $100bn in official foreign aid disbursed by rich countries to poor ones in 2005, over $60bn was used for debt relief, tech- nical cooperation, emergency or humanitarian relief, and food aid. Of the remaining $40bn directed at actual development projects and programmes, perhaps half reached its intended beneficiaries, the rest being spent on administrative costs, side payments to politicians or local elites in recipient countries, or routine bribes to bureaucrats. In other words, only $20bn actu- ally reached the poor. Of that, a mere $5–6bn was allocated for the poorest continent, Africa.

(Nadia Masud – University of Oxford)

Nadia Masud (University of Oxford). Does Foreign Aid Reduce Poverty? Empirical Evidence from Nongovernmental and Bilateral Aid. Accessed 6/18/2017. Published 2005. https://pdfs.semanticscholar.org/6bb6/7cf71abea7d64285937759dd579670e4701b.pdf.

In trying to assess the effectiveness of foreign assistance, most studies focus on the impact of aid flows on GDP growth and other macroeconomic variables, such as investment or public consumption, implicitly referring to the notion that aid is meant to bridge the savings- investment gap that poor countries face. There has been much less research conducted on the impact of foreign aid on the evolution of human development indicators (HDIs). This is surprising, because the objectives announced by the donor community have evolved from intensive industrialization programs advocated in the 1950s to more recent poverty-reducing objectives such as the Millennium Developments Goals (MDGs) (see Appendix D for a detailed description of these goals). If the donors' objective is to reach the MDGs, then assessing their assistance's effectiveness should examine whether aid flows have a positive impact on selected HDIs. This paper investigates the hypothesis that aid is meant to improve HDIs and assesses whether foreign aid can help recipient countries to reach some of the MDGs. We follow Boone (1996) and conduct an empirical study of the effects of aid on two human development indicators, infant mortality and education. We will use two measures of foreign aid, official bilateral aid flowing from a donor government to a recipient one, which is the standard measure in the literature, and aid projects led by international non-governmental organizations (NGOs) in developing countries. We choose the latter measure of aid for two reasons: first, as NGOs play an increasingly prominent role in the development scene and channel a growing share of development assistance, it becomes necessary to verify whether NGOs are effective in reducing poverty. So far, evaluations of NGO aid have been conducted solely at the project level. Second, as NGOs have been shown to allocate aid according to the "right" incentives and distribute aid directly at the grassroots level, this type of aid flow should avoid the two pitfalls of misallocation and misuse commonly attributed to official bilateral aid. Our results show that NGO aid reduces infant mortality and does so more effectively than official bilateral aid. The impact on illiteracy is less significant. We also test whether foreign aid reduces government efforts in achieving developmental goals and find some evidence of a substitution effect between bilateral aid and public social sector expenditures while NGO aid does not affect social spending in the recipient country. The remainder of the paper is organized as follows. Section II presents the literature on aid effectiveness. Section III introduces the MDGs, some selected HDIs, and some other variables of interest. Section IV describes our data set and the econometric methods we use. Section V presents the effectiveness of NGO aid on infant motality and on adult illiteracy.

Daniel Kono of UC Davis, 2013, https://www.researchgate.net/publication/258180521_The_Uses_and_Abuses_of_Foreign_Aid_Development_Aid_and_Military_Spending

Between 1960 and 2010, rich countries gave poor ones more than three trillion dollars in development aid.1 The return on this investment has been poor: on average, for-eign aid has failed to promote savings, investment, and growth in recipient countries (Doucouliagos and Paldam 2009). For example, while sub-Saharan Africa received $714 billion in development aid from 1960 to 2006 (Easterly 2008, 14), its per capita income grew by less than 1 percent per year over this period,2 and its poverty rate has scarcely changed (Chen and Ravallion 2004). These grim statistics beg the question: Why has develop-ment aid failed to achieve its goals?One possible answer is that it is simply not used for its intended purpose. Research shows that aid is fungible (Feyzioglu, Swaroop, and Zhu 1998): that is, aid given for one purpose allows governments to shift resources to other uses. If these other uses do not encourage economic growth or development, neither will aid. A recent New York Times article on Uganda illustrates this point.3 Although Uganda has received considerable foreign aid designated for health care, its hospitals remain starved for resources. This is because foreign aid has allowed the government to cut its own health care spending: specifically, for each additional aid dollar received, Uganda cut its health care spending by 57 cents (IHME 2010). Although it is not clear where the budgetary savings went, a concurrent rise in military spending suggests that Uganda exploited its development aid to reallocate funds from health care to the military.

Because foreign aid increases government revenue, it also boosts societal demands for a revenue share. Different govern-ments respond to these demands in different ways. Autocratic governments maintain power by channeling resources to a small group of supporters while repressing popular demands. Because repression requires costly coercive forces, this strategy requires autocrats to spend foreign aid on the military.

The 2SLS results are similar to our previous ones. Again, we focus on the LRMs. The aid/GNI LRMs remain significant and positive but are larger than before: now, a 1 percent increase in aid/GNI increases military spending/GNI by 0.45, 0.32, and 0.45 percent,

A growing body of research shows that development aid has failed to promote development, at least under auto-cratic regimes. Although explanations for this failure vary, a common theme is that recipients have not used aid for its intended purpose. We provide concrete evidence of such misuse, showing that autocratic recipients have sys-tematically diverted development aid toward military spending. This is undesirable on both economic and political grounds. Military spending does not promote economic development (Dunne and Uye 2009); hence aid diverted to the military is, from a developmental standpoint, wasted. Moreover, in many autocratic coun-tries, the military is used to repress domestic dissent. Such repression is undesirable in its own right and may also have economic feedback effects: as Isham, Kaufmann, and Pritchett (1997) demonstrate, aid-funded projects perform better when civil liberties are strong. Our results thus shed light on why development aid does not promote development in autocracies.

Collier of Oxford University, 2007, http://sci-hub.tw/https://onlinelibrary.wiley.com/doi/abs/10.1111/j.1468-0084.2006.00439.x

The coefficient shows that on average a 1 percentage point increase in aid as a share of GDP would increase military spending by 3.3%. As military spending, in our sample, averaged 3.355 percentage points of GDP, this implies that on average around 11.4% of development aid leaks into military budgets. While this is quite a modest level of leakage, it would imply that for large aid recipients a substantial part of their military budgets are inadvertently financed by aid. For example, on average, African countries receive a net aid inflow of 11.1 percentage points of their GDP and spend 3.17 percentage points of GDP on the military. Hence, to the extent that they conform to the global pattern of aid leakage, around 40% of African military spending is inadvertently financed by aid. A 1% increase in the spending of neighbours raises own expenditure by 0.1%. The ARM is thus 1.11. That the ARM is greater than unity suggests that where common exogenous influences are important, there is a difference between the uncoordinated (arms race) level of military expenditure and the level that would be chosen through coordination. There are several circumstances in which neighbouring countries indeed face a common exogenous increase in their military spending.

This exogenous increase is augmented by the ARM, so that the equilibrium increase is 44%. In turn, this has implications for the cost of warfare: in the absence of negotiated reductions in postconflict military spending, much of the true cost of an international war might accrue after it is over. As an illustration, the brief war between Ethiopia and Eritrea in 2000 has currently left a legacy of military spending far above international norms in both countries. If these high levels of spending persist, their present value could easily exceed the costs incurred during the war.The ARM would then increase this further to 44%. Equivalently, almost half of current African military spending is either financed by aid or induced by the arms race triggered by this additional finance.

We have found that the level of military expenditure chosen by a government is influenced both by aid and by the level of spending chosen by neighbouring governments. Where aid is common across a region, as in Africa, it thereby inadvertently has the effect of escalating a regional arms race. Taking the two effects together, we estimate that in Africa military spending is almost double its level in the absence of aid.

Bluhm of the Swiss Economic Institute, 2016 https://www.uni-heidelberg.de/md/awi/forschung/dp619.pdf

A one percentage point increase in the ratio of foreign aid to GDP leads to about a 1.4 percentage point increase in the probability of transitioning from small conflict to armed conflict. The same increase in aid also significantly increases the likelihood of remaining in a small conflict (by about 1.4 percentage points) and makes a transition to peace much less likely (about -2.9 percentage points).

The effect size is best understood in conjunction with a typical change in aid flows. The average aid to GDP ratio in our sample is about 5% and the within standard deviation is also close to 5% (when we exclude recipients who receive more than half their GDP in foreign aid, e.g., Liberia 2008, Palau 1994, 1995). Afghanistan, for example, experienced a three standard deviation increase in its aid to GDP ratio in 2002 when the share of aid to GDP increased from about 9% to 24%. At the same time, it turned from small conflict to armed conflict. Consistent with this observation, our model predicts an increase in the probability of transitioning from small conflict to armed conflict of about 20 percentage points. Aid increases of this magnitude are rare (only in about 3% of the sample they exceed five percentage points). Changes around one percentage point are more common (about 14% of the sample). In Uganda, for example, aid increased by about one percentage point on two occasions. In both cases (1981 and 2002), the country experienced an escalation of conflict.

A2: Speculation

A2: Creates Private Debt

Link Defense Rhetoric

1. Delink; there isn't a total decrease in the money supply when we run a budget surplus to reduce the debt because the money is re-injected into the economy in the form of principle & interest payments.

Link Turn Rhetoric

1. Turn; Samuelson of MIT explains that in order to finance the national debt, the government must acquire capital from lenders by selling bonds. Thus, the government constrains the total money supply for the private sector because it draws away money from the private sector.
2. Turn; Mitchell '10 of George Mason University describes that when the government borrows more money through deficit spending, it competes with private entities who are also borrowing to finance their own companies. He continues that when the government borrows, lenders raise interest rates on corporate loans, because they need a higher return to compete with the safer government treasuries. Indeed, Laubach '03 of the Federal Reserve quantifies that every 1% of GDP increase of government deficit spending prompts overall interest rates to rise by 0.25%.
   a. The implication is that even if there is less private debt in our world, the private debt has much higher interest rates in theirs, indicating that the debt is much more dangerous during times of recessions.
3. Turn; paying off our debt results in a smaller total money supply because our government has to pay interest payments to foreign holders every year, pushing money out of our money supply every year.

Samuelson, Paul. “Economics 19e.” Founder of MIT’s Economics Department. N.d. PDF. //RJ

The effect of government debt is that people will accumulate government debt instead of private capital, and the nation’s private capital stock willbe displaced by public debt. To illustrate this point, suppose that people desire to hold exactly 1000 units of wealth for retirement and other purposes. **As the government debt increases, people’s holdings of other assets will be reduced dollar for dollar**. This occurs **because as the government sells its bonds, other assets must be reduced, since total desired wealth holdings are fixed**. **But these other assets ultimately represent the stock of private capital; stocks, bonds, and mortgages are the counterparts of factories, equipment, and houses.**In this example, if the government debt goes up 100 units, we would see that people’s holdings of capital and other private assets fall by 100 units. This is the case of 100 percent displacement (which is the long-run analog of 100 percent crowding out).

Mitchell, Matthew. “In the Long Run, We’re All Crowded Out.” George Mason University. Sept. 2010. https://www.mercatus.org/publication/long-run-we-re-all-crowded-out#end24//RJ

When government borrows to finance its spending, it competes with private entrepreneurs who are borrowing to finance their own activities. Capital used by the government is capital that cannot be used by private businesses. Moreover, **when government borrows, competition in the market for loanable funds increases, raising the price of borrowing, or the interest rate, for private investors. For firms, this means an increase in the cost of doing business.**Companies and projects that would have otherwise been profitable are no longer able to be so at the higher interest rate.[13]Lastly, **borrowing may have longer-term effects on the nation’s capital stock**, and through that, on its future national income. **This can happen when increased borrowing is financed in part or in whole by international capital inflows**(foreign lending). In this case, domestic production may not decline in the short run and interest rates may not increase in the short run. But **because the nation must eventually repay its foreign debts, future national income is less than it otherwise would be**.[14]

Laubach, Thomas. “New Evidence on the Interest Rate Effects of Budget Deficits and Debt.” Board of Governors of the Federal Reserve System. May 2003. https://www.federalreserve.gov/pubs/feds/2003/200312/200312pap.pdf//RJ

Estimating the effects of government debt and deficits on Treasury yields is complicated by the need to isolate the effects of fiscal policy from other influences. To abstract from the effects of the business cycle, and associated monetary policy actions, on debt, deficits, and interest rates, this paper studies the relationship between long-horizon expected government debt and deficits, measured by CBO and OMB projections, and expected future long-term interest rates. The estimated effects of government debt and deficits on interest rates are statistically and economically significant: **a one percentage point increase in the projected deficit-to-GDP ratio is estimated to raise long-term interest ratesby roughly 25 basis points**. Under plausible assumptions these estimates are shown to be consistent with predictions of the neoclassical growth model.

A2: Speculative Bubble Formation

Link Turn Rhetoric

1. Turn; Burr '13 of P&I writes that equity in large companies is actually less risky than government bonds right now because rising interest rates would suddenly lead to a rapid decrease in value of old bonds, thus harming overall financial stability. The implication is that a decrease in treasuries would not increase stability in the market because its alternatives are just as safe, if not more safe, than the bonds right now.

Credit Downgrade DA

1. Burks '11 of the University of Southern Indiana writes that absent an aggressive debt-reduction plan, America's debt is at risk of being downgraded a second time, which would spark a huge sell-off of U.S. Treasury bonds that would dramatically hike interest rates and payments, making our debt much harder to service. Indeed, Oh '18 of MarketWatch writes that Fitch, one of the largest credit agencies in America, has already threatened to downgrade America's credit rating because of fiscal irresponsibility. This indicates that letting the debt continue to rise rapidly only puts the Treasury's safe haven status in peril, triggering all of their impacts, while simultaneously amplifying all of our impacts.

Financial Markets Overheating DA

1. Inman '17 of the Guardian writes that financial markets are at risk of overheating due to asset over-valuations and high private credit, which could result in huge losses for millions. Fortunately, Driessen '17 of the Congressional Research Service writes that reducing the national debt at the top of the business cycle can check back on overheating by temporarily slowing down growth, thus preventing current speculation.

Burr, Barry. “Equities could be safer move than bonds, experts say.” Pensions and Investments. Apr. 2013. https://www.pionline.com/article/20130415/PRINT/304159971/equities-could-be-safer-move-than-bonds-experts-say?fbclid=IwAR2fLnP4RYVl6TxtHPdFG86rszWGZiB5qYzWJld-TdldOz8-hdNga9nDhgs //RJ

In today's market, fixed-income investments intended to reduce investment risk and match payment needs of liabilities are expensive and might add duration risk. In the longer term, dividend stocks of blue-chip multinational companies could become more reliable low-risk investments as rising deficits make the debt of governments less appealing. The fear of volatility from the financial market crisis that drove pension fund executives to risk-reducing strategies of bonds now threatens to put them at risk when interest rates rise. “If (investors) want to buy payment certainty they have to pay the market price for it,” Keith Ambachtsheer, president of KPA Advisory Services, a Toronto-based pension management consulting firm, and director of the Rotman International Centre for Pension Management, University of Toronto, said in an interview. And that has become expensive, he added. Horace W. “Woody” Brock, president of Strategic Economic Decisions Inc., a San Diego-based economic and investment research firm whose clients include pension funds, said in an e-mail: “The time for an all-bond strategy is over for two reasons. First, **rates will slowly rise, and capital losses will ensue**, if gradually. Second, equities are attractive for reasons that transcend and indeed vitiate concerns over their "riskiness."” James Paulsen, chief investment strategist at Wells Capital Management Inc., Minneapolis, said in an interview: “**The profile on bonds is very, very risky. ... It looks like a very bad risk-reward profile. One thing we have not had in this recovery is a sustained, noticeable, painful upward move in bond yields.** (Bond prices) haven't fallen, not for any meaningful amount.” “I think that we are going to get that,” he added.

Cohen, Benjamin. “When even US Treasuries are no longer safe havens, market volatility is here to stay.” South China Morning Post. 09 Jan. 2019. https://www.scmp.com/comment/insight-opinion/united-states/article/2181285/when-even-us-treasuries-are-no-longer-safe //RJ

With equities slumping, exchange-rate volatility increasing and political risks intensifying, financial markets around the world have hit a rough patch. In times like these, international investors generally grow cautious and prioritise safety over returns, so money flees to safe havens that provide secure, liquid investment-grade assets on a sufficiently large scale. But there are no obvious safe havens today. For the first time in living memory, investors lack a quiet port where they can take shelter from a storm. **Historically, the safe haven par excellence was the United States, in the form of Treasury bonds** backed by the “full faith and credit” of the US government. As one investment strategist put it back in 2012, “When people are worried, all roads lead to Treasuries.” The bursting of the US housing bubble in 2007 offers a case in point. No one doubted the US was the epicentre of the global financial crisis. But rather than flee the US, capital actually flooded into it. In the last three months of 2008, net purchases of US assets reached US$500 billion. To be sure, some of the dollar claims were added to portfolios because foreign banks and institutional investors were meeting funding needs with greenbacks, after interbank and other wholesale short-term markets seized up. But that was hardly the only reason why portfolio managers piled into the US. Much of the increased demand was due to sheer fear. At a time when nobody knew how bad things might get, **the US was widely seen as the safest bet. But this was before the arrival of US President Donald Trump, who has managed to undermine confidence in the dollar to an unprecedented degree. In addition to abandoning any notion of fiscal responsibility, Trump has spent his first two years in office attacking international institutions and picking fights with US allies.** To be sure, even before Trump, confidence in the dollar suffered a blow in 2011, when Standard & Poor’s downgraded the US debt rating by one notch in response to a near-shutdown of the government. That episode was triggered by a stand-off between then president Barack Obama and congressional Republicans over a routine proposal to raise the federal debt ceiling. Today, **investors have even more reason to worry about the US government’s credit rating. In 2018 alone, the US government was shut down three times, and it remains in a partial shutdown to this day, owing to Trump’s demand for funds to build a “big, beautiful wall” on the border with Mexico.**

Oh, Sunny. “Fitch says rising budget deficits could call U.S.’s credit rating into question.” MarketWatch. Apr. 2018. https://www.marketwatch.com/story/fitch-says-rising-budget-deficits-could-call-uss-credit-rating-into-question-2018-04-05 //RJ

The U.S.'s gold-plated credit rating could be called into question if policy makers entertain further deficit-widening measures in the roughly ninth year of economic expansion, warn analysts at Fitch Ratings. The credit-ratings firm affirmed the U.S.'s triple-A grade on the back of a strong economy and the dollar's reserve-currency status, but cautioned that the U.S. would need to make changes to stave off further scrutiny over its sovereign debt rating. Fitch and Moody's have branded the U.S. debt as pristine, even as S&P downgraded the U.S.'s debt back in 2011. "While there has been a recent loosening in fiscal policy, Fitch considers debt tolerance to be higher than that of other sovereigns. However, rising deficits and debt could eventually test these credit strengths, in the absence of reform," the analysts at Fitch said. The ratings firm specifically homed in on the tax cuts passed in December 2017, and the lift to defense and nondefense spending caps for the next two fiscal years. The climbing budget shortfalls would push the Treasury Department to issue more than a trillion dollars worth of bonds in the fiscal year of 2018. **With the U.S. economy on its second-longest expansion, the concern is the government won't have the fiscal wherewithal to prop up the economy when the next recession arrives. Fitch forecast the general government deficit to hit 5% of GDP in 2018 and 6% in 2019. Their long-term analysis also hinted that government debt levels could surge to 129% of GDP by 2027, upping the forecast by an additional 16% since their last review of the U.S. sovereign credit. If debt levels rise faster than forecast, it could lead Fitch to downgrade the U.S. status to negative from stable, a sign that a ratings downgrade could be on its way.** These projections assume higher borrowing costs, slower growth and a widening deficit will contribute to the deterioration of the U.S.'s public finances.

Bussing-Burks, Marie. "Deficit: Why Should I Care?" University of Southern Indiana. 2011. https://books.google.com/books?id=73vMOrNjn6gC&pg=PA78&lpg=PA78&dq=a+debt+downgrade+could+be+devastating&source=bl&ots=E38KYtnjgo&sig=ACfU3U2udLeq0d8Fj6lvkT4-Z5XI4J-LOA&hl=en&sa=X&ved=2ahUKEwjJsaX-q4PgAhVBPN8KHb4CBmU4ChDoATAGegQIBBAB#v=onepage&q&f=false //RJ

According to S&P, "The downgrade reflects our opinion that the fiscal con-solidation plan that Congress and the Administration recently agreed to falls short of what, in our view, would be necessary to necessary to stabilize the government's medium-term debt dynamics:" The rating agency is concerned about long-term fiscal and economic challenges. **Any additional downgrade could pack a severe blow to our national ego, as the United States has always held stellar ratings and historically reigned as the world's largest powerhouse economy.** S&P analyzes 128 sovereign nations, and only a dozen or so hold its top rating, including England, Canada, and Germany. But **the United States is at risk of being downgraded again unless it enacts an aggressive deficit-reduction plan.** As of this writing, there has been a lot of talk and political maneuvering regarding a plan, but U.S policymakers have yet to agree on a formalized plan. The issue at stake here is that **many investment firms and institutions pre-fer top-rated bonds. With any downgrade, there could be a huge sell-off of U.S. government bonds. To sell future Treasuries, investors would need to be enticed with a higher interest rate.** Remember the risk-return trade-off dis-cussed in Chapter 5 to accept more risk, investors must be compensated with a higher interest rate. **This would mean higher interest payments must be added to the national budget each year. Plus, if a downgrade does come, the U.S. dollar may weaken as well, as more people may want to sell the currency than buy it.**

Marte, Jonnelle. "The Ripple Effects of the Downgrade." MarketWatch. Aug. 2011. https://www.marketwatch.com/story/what-does-the-downgrade-mean-for-bonds-1312664759999 //RJ

The S&P downgrade creates a unique situation where some states are rated higher than the U.S. Treasury. (Congratulations, Florida!) **Typically, Treasurys are considered safer than municipal bonds because the federal government has the ability to print more money to make good on its debt while state and local governments have to find room in the budget. But now those highly-rated states could also be downgraded, in part because such a rating might be hard to justify if the federal government has lost its top-notch rating**, says Valeri. **States that are heavily dependent on federal funding are also vulnerable for a downgrade**, analysts say. In the near term, such **downgrades**

could mean price declines for municipal bonds, says Valeri. **They would also mean higher borrowing costs for states and local governments, making them more vulnerable to budget deficits, layoffs and further downgrades.**

Inman, Phillip. "Financial markets could be over-heating, warns central bank body." The Guardian. Dec. 2017. https://www.theguardian.com/business/2017/dec/03/financial-markets-overheating-financial-crisis-bis //RJ

Investors are ignoring warning signs that **financial markets could be overheating and consumer debts are rising to unsustainable levels**, the global body for central banks has warned in its quarterly financial health check. The Bank for International Settlements (BIS) said the situation in the global economy was similar to the pre-2008 crash era when investors, seeking high returns, borrowed heavily to invest in risky assets, despite moves by central banks to tighten access to credit. The BIS, known as the central bankers' bank, said attempts by the US Federal Reserve and the Bank of England to choke off risky behaviour by raising interest rates had failed so far and unstable financial bubbles were continuing to grow. Claudio Borio, the head of the BIS, said central banks might need to reconsider changing the way they communicated base interest rate rises or the speed at which they were increasing rates to jolt investors into recognising the need to calm asset markets. **"The vulnerabilities that have built around the globe during the long period of unusually low interest rates have not gone away. High debt levels, in both domestic and foreign currency, are still there. And so are frothy valuations**. "What's more, the longer the risk-taking continues, the higher the underlying balance sheet exposures may become. Short-run calm comes at the expense of possible long-run turbulence," he said. The warning came as Neil Woodford, one of the UK's most high-profile fund managers, said **stock markets were in danger of crashing, resulting in huge losses for millions of people**. The founder of Woodford Investment Management, which manages £15bn worth of assets, told the Financial Times that investors were at risk of the market experiencing a repeat of the dotcom crash of the early 2000s. Woodford said he was concerned that historically low levels of interest rates in most developed nations over the last decade were pushing asset prices to unsustainable levels.

Driessen, Grant. "Deficits and Debt: Economic Effects and Other Issues." Congressional Research Service. Nov. 2017. https://fas.org/sgp/crs/misc/R44383.pdf?fbclid=IwAR2s-qyOm2i75H0eUEsRLF9sVkBMxWrAwnS4x57ZDeru_njA3mv3CUjEVF0//RJ

The government may choose to generate short-run budget deficits for a few reasons. Deficit financing, or payment for federal government activity at least partly through debt increases, increases the total level of spending in the economy. Most economists believe that the implementation of deficit financing can be used to generate a short-term stimulus effect, either for a particular industry or for the entire economy. In this view, increases in expenditures and tax reductions can be used to generate employment opportunities and consumer spending and reduce the intensity of stagnant economic periods. Deficit financing is a less effective countercyclical strategy when it leads to "crowding out." Crowding out occurs when government financing merely replaces private sector funding instead of inducing new economic activity, and is more likely to occur in periods of robust economic growth. **Deficit reduction when the economy is operating near or at full potential can help prevent the economy from overheating and avoid "crowding out" of private investment, which could have positive implications for intergenerational equity and long-term growth. Deficit financing may also be used as part of a structurally balanced budget strategy, which alters government tax and spending levels to smooth the effect of business cycles.** Smoothing budgetary changes may reduce the economic shocks deficits induce among businesses and households. Governments may also use federal deficits or surpluses to spread the payment burden of longterm projects across generations. This sort of intergenerational redistribution is one justification for the creation of long-run trust funds, such as those devoted to Social Security. Although there are some cases where deficit financing may be advisable, **the long-run generation of consistent deficits causes publicly held debt accumulation that may inhibit economic growth. Deficit financing tends to crowd out greater levels of private investment in better economic conditions. Increases in real debt may also generate crowding out that could reduce future economic productivity**. In extreme cases, large or rapidly increasing debt levels may also have unintended macroeconomic effects. If potential buyers of U.S. debt issuances lose confidence in the ability of the federal government to repay its debt, ensuing increases in the supply of money through debt financing (known as debt monetization) may lead to rising interest costs or price inflation. Such a scenario could harm economic output and increase the chances of a recession. The concept of "fiscal space" refers to the amount of room available for additional government borrowing. Persistent deficits face a long-term binding constraint—the willingness of investors to finance them. If deficits are too large, publicly held debt would grow more quickly than the economy. At some point, debt would become so large that investors would no longer be willing to finance deficits and such fiscal space would be exhausted. There is great uncertainty about when investors would stop financing federal borrowing. The amount of fiscal space available is a function of both the current size of the debt and how fast it is increasing relative to GDP, which depends on the size of deficits, the government's borrowing rate, and how quickly the economy is growing. Because the reaction of investors to future increases in the debt is unknown, it is difficult to estimate when fiscal space will run out—although for the federal government it is likely not imminent, given the presence of relatively low interest rates. Recent international experiences speak to the complexity of fiscal space. Both Greece and Japan experienced rapid growth in government debt in the past decade. Organization for Economic CoOperation and Development data on general government debt (including municipal government debt) indicate that Greek debt rose from 115% of GDP in 2006 to 182% of GDP in 2015, while Japanese debt rose from 180% of GDP to 234% of GDP over the same time period. A loss in market confidence in Greek debt led to a severe recession, with GDP contracting by 9 percentage points in 2011 and long-term interest rates reaching 22% in 2012. Japanese borrowing was viewed to be more sustainable despite being higher, with relatively flat GDP levels and long-term interest rates close to zero in recent years. Among 31 OECD countries, the United States had the 6 th -largest level of general government debt (126% of GDP, including debt from state and local governments) in 2015, the most recent year for which full data are available.

A2: Miscellaneous

A2: Modern Monetary Theory

Link Defense Rhetoric

1. Smith '19 of the National Review writes that if America printed money infinitely, it would result in a crash of the international exchange rate for the dollar, which would prompt foreign bondholders to pull out of U.S. debt, thus pushing us closer to default.
2. Palley '13 of the New America Foundation writes that printing money requires an institutional arrangement where the Federal Reserve must be willing to provide the government the printed dollars to finance spending. Unfortunately, many countries separate the Federal Reserve and the central fiscal authority, preventing perfect synchronization for MMT.

Smith, Karl. "The Uses and Abuses of Modern Monetary Theory." National Review. Jan. 2019. https://www.nationalreview.com/2019/01/modern-monetary-theory-abuses-and-uses/ //RJ

When a country prints money in an attempt to fund the government, the international exchange value of its currency collapses. If the country owes debt denominated in a foreign currency, that debt becomes more difficult to pay down as its own currency falls. **Then the country has to print even more money to meet its debt payments, which of course causes the exchange value of its currency to fall further, creating a vicious circle that ends in hyperinflation.** Modern Monetary Theorists argue that this can't happen to the United States because all of our debt is in the form of Treasury bonds that are denominated in dollars. If the international exchange value of the dollar falls, that does not change the value of our debt. **It does**, however, **mean that foreigners will be repaid in a currency that will be worth much less to them. Foreign bondholders are not stupid; they would regard this as a type of unofficial default. After experiencing this type of default through currency devaluation, they would be much less willing to buy Treasury bonds or indeed any type of American security again.** This is precisely the situation that Italy, Spain, and Greece found themselves in during the 1980s. Both countries had regularly devalued their currency as a way to get out from underneath foreign debts and were increasingly locked out of international markets. The euro was created, at least in part, in an effort to solve this. It could ultimately be printed only with the authority of the European Central Bank, meaning that neither Italy, Spain, Greece, nor any other member country could avert a debt crisis by devaluing its currency. Instead, they would have to raise taxes to meet their obligations. That brings us to the second argument MMT advocates invoke when arguing that we should not worry about excessive debt leading to inflation: If inflation becomes a problem, the federal government can simply raise taxes, slowing down the economy which, in turn, will cool inflation. But **there are two problems with this approach. First, it is political suicide. At a time when consumers are facing ever-rising prices, it would seem cruel beyond measure to slap them with a tax increase.** Very few governments would have the nerve to do this. If anything, history shows us that governments will instead resort to spending money on subsidies to ease the burden of rapidly rising prices. Second, committing to this approach would risk an economic calamity. In 1973, OPEC placed an embargo on the United States that resulted in the price of oil quadrupling overnight. The sharply rising price of oil led both to a slowing economy and an increase in inflation — a dangerous mix. A slowing economy lowers tax revenues, making it more difficult for the government to meet its debt payments. Suppose, at a time when the economy was slowing but inflation was rising, the U.S. government had firmly committed itself to MMT principles and refused to waver. In that case, it would not be able to resort to money printing because inflation was rising. Instead, it would be obligated to raise taxes both to meet its debt payments and to slow the rate of inflation. Sharp increases in taxes during a recession, however, can be self-defeating. This is exactly the situation that Greece, and to a lesser extent Italy and Spain, found themselves in during the Great Recession. The crises lowered revenue, which worsened their budget deficits. As a result, the government was forced to raise taxes and lower spending during the recession. This caused the economy to contract further, which caused tax revenue to fall so much that the budget deficit actually rose. In the case of Greece, this self-defeating cycle of higher taxes and lower revenues caused the government to ultimately default on its debts anyway. That, of course, worsened the economic crisis the country was already facing.

Palley, Thomas. "Money, fiscal policy, and interest rates: A critique of Modern Monetary Theory." Schwartz Economic Growth Fellow at the New America Foundation. January 2013. http://www.thomaspalley.com/docs/articles/macro_theory/mmt.pdf //RJ

Finally, the government budget restraint shows the accounting whereby governments that issue sovereign money can, in principle, finance spending by **printing money**. However, that also **requires a particular institutional arrangement between the fiscal authority and the central bank.** This institutional issue has been raised by Lavoie (2011) and Fiebiger (2012), and Lavoie terms it the "consolidation" assumption. **Simple T-accounting shows that the central bank must be willing to provide the government with the initial money balances to finance its spending.** In effect, that implies the fiscal authority and central bank act as if they were a consolidated single actor.6 In my view, this is not the main issue in the critique of MMT, but it is still an important issue. **Many countries have chosen to separate their central bank and fiscal authority.** That separation involves complete and total independence in the case of the European Central Bank (ECB). As regards the U.S. Federal Reserve, there is arms-length decision making independence but the Federal Reserve is accountable to Congress. The pendulum, regarding the degree of independence, shifts with the political and economic times. Over the last thirty years, spurred by the political and intellectual dominance of neoliberal economic ideas, it has swung toward increased independence. In the 1960s and 1970s the Bank of England was directly under the control of the Chancellor of the Exchequer. In the 1990s that arrangement was changed and the Bank was given armslength decision making independence, subject to being accountable to the Chancellor and aiming for targets that are mutually agreed with the Chancellor.

A2: Automation

Link Defense Rhetoric

1. There are two reasons that automation is not resulting in higher productivity:
    a. Thompson '17 of the Atlantic writes that companies are investing less and less into technology, with the lowest levels of growth in tech investment post-World War II.
    b. Avent '17 of Medium writes that automation drives down the value of workers, thus reducing real wages of workers. Paradoxically, this reduces the incentive for companies to shift to automation because labor is so cheap.
2. Harris '18 of the Harvard Business Review writes that because automation displaces workers, it reduces total consumption as these people lose real incomes and redistributes this money towards the rich. This prompts a slow-down in the economy that delinks us from any economic growth.

Private Investment DA

1. Mitchell '10 of George Mason University describes that when the **government** borrows more money through deficit spending, it competes with private entities who are also borrowing to finance their own companies. He continues that when the government borrows, lenders raise interest rates on corporate loans, because they need a higher return to compete with the safer government treasuries. Indeed, Laubach '03 of the Federal Reserve quantifies that every 1% of GDP increase of government deficit spending prompts overall interest rates to rise by 0.25%. That's problematic, as now it is more expensive for companies to borrow so they can expand, reducing the amount of investment on a whole. Sousa '11 of the International Monetary Fund quantifies that for every 1% increase in government spending, the amount of private investment decreases by 1.8% after 4 years, ultimately indicating that the country actually suffers economically with higher levels of spending. This controls the internal link to automation, because Spence '15 of the Japan Times writes that current automation is not triggering higher productivity because high levels of government debt is resulting in corporate underinvestment.

Surowiecki, James. “Chill: Robots Won’t Take All Our Jobs.” *WIRED*, WIRED, 16 Aug. 2017, https://www.wired.com/2017/08/robots-will-not-take-your-job/.
https://www.wired.com/2017/08/robots-will-not-take-your-job/
Take productivity, which is a measure of how much the economy puts out per hour of human labor. Since automation allows companies to produce more with fewer people, a great wave of automation should drive higher productivity growth. **Yet, in reality, productivity gains over the past decade have been, by historical standards, dismally low.** Back in the heyday of the US economy, from 1947 to 1973, labor productivity grew at an average pace of nearly 3 percent a year**. Since 2007, it has grown at a rate of around 1.2 percent, the slowest pace in any period since World War II**. And over the past two years, productivity has grown at a mere 0.6 percent—the very years when anxiety about automation has spiked. That’s simply not what you’d see if efficient robots were replacing inefficient humans en masse. As McAfee puts it, “Low productivity growth does slide in the face of the story we tell about amazing technological progress.”

Now, it’s possible that some of the productivity slowdown is the result of humans shifting out of factories into service jobs (which have historically been less productive than factory jobs). **But even productivity growth in manufacturing, where automation and robotics have been well-established for decades, has been especially paltry of late**. “I’m sure there are factories here and there where automation is making a difference,” says Dean Baker, an economist at the Center for Economic and Policy Research. **“But you can’t see it in the aggregate numbers**.”

Nor does the job market show signs of an incipient robopocalypse. Unemployment is below 5 percent, and employers in many states are complaining about labor shortages, not labor surpluses. And while millions of Americans dropped out of the labor force in the wake of the Great Recession, they’re now coming back—and **getting jobs**. Even more strikingly, **wages for ordinary workers have risen as the labor market has improved**. Granted, the wage increases are meager by historical standards, but **they’re rising faster than inflation and faster than productivity**. That’s something that wouldn’t be happening if human workers were on the fast track to obsolescence.

Thompson, Derek. “So, Where Are All Those Robots.” The Atlantic. May 2017.
https://www.theatlantic.com/business/archive/2017/05/so-where-are-all-those-robots/528666/ //RJ

1. The U.S. economy is in a productivity recession. Most people agree that **if automation were replacing workers, there would be an enormous productivity boom coinciding with massive job losses or a long period of miserably low wage-growth. Instead, the modern economy is showing the exact opposite of that.** Unemployment is low. Wages are rising even faster than productivity—an extraordinarily rare occurrence in the last four decades. This isn’t what the end of work was ever supposed to look like. 2. **Companies don’t seem to be investing in technology nearly as much as they used to.** **The growth in capital investment—one measure of how much companies spend on new equipment and technology—is at its lowest rate in 60 years**. “Capital investment in the workplace has grown more slowly since 2002 than in any other postwar period,” write Lawrence Mishel, the longtime president of the Economic Policy Institute (EPI), and Josh Bivens, the director of research there, in a compelling new paper. “This is the opposite of what we would expect with a looming robot apocalypse based on

automation." Software may be eating the world, in some people's estimation. But by Mishel and Bivens's count, new investment in information technology and software has never been lower on record.

Avent, Ryan. "The Productivity Paradox." Medium. Mar. 2017. https://medium.com/@ryanavent_93844/the-productivity-paradox-aaf05e5e4aad //RJ

We all sort of know this: that **whether and how companies decide to develop and use technologies depends on the costs they face.** But we often forget it when it comes to debates about robots and automation. **Today, labour costs are relatively low.** In real terms, **wage growth has been close to imperceptible for most of the workforce since 2000**, and in some cases going back much earlier. The real value of the minimum wage in America is quite low relative to what it was a half century ago. Now: it is also true that the cost of computing power and data storage has fallen, a lot. Perhaps unsurprisingly, the "capital share" of income has fallen by more in recent decades than the "labour share". One could argue that because the cost of technology has fallen by more than the cost of labour, we ought to have seen mass automation if in fact digital technology is all it's cracked up to be. But the scarce factor isn't capital equipment. What is expensive is the intangible capital that's needed to overhaul production in ways that use cheap computing power to eliminate lots of jobs. It is complicated to figure out how to get these systems working and operating in a way that generates profits. **While labour is cheap, firms face little pressure to make those massive investments in intangible capital in order to automate key processes.** Returning to the industrial parallel, it was not the case that James Watt developed his steam engine and everyone said "great, this technology is clearly superior to everything else and we will therefore use it all across the economy". Rather, it was used in a small number of contexts in which the economics (expensive labour, cheap energy) pushed business owners to experiment. Then, over time, engineers improved the technology and firms built up a wealth of knowledge about how to use it to make a buck. Then eventually the technology was so good that it began to be adopted in places where labour costs were not all that high. **Cheap labour is reducing the incentive to push new technologies along a similar path. The digital revolution is partly responsible for low labour costs. The digital revolution has created an enormous rise in the amount of effective labour available to firms. It has created an abundance of labour.** If you're a company and your workforce is demanding higher pay or being difficult, you have many ways to get the labour you need without adding to your wage bill. You can move work abroad. **Technology enabled the growth of global supply chains, which helped bring billions of low-wage workers into the global labour force.** You can restructure your business in ways which allow fewer, more skilled workers to use technology to do tasks which previously required lots of less-skilled workers; or you can restructure your business in ways that reduce the bargaining power of your employees, or reduce your obligations to them. And, of course, you can automate. How does automation contribute to this abundance of labour? Well, there's a long-run story in which the march of progress means that technology is increasingly capable of substituting for human workers across a broad range of tasks. If firms are indifferent between using people and machines, and if machines (or code) is abundant, then the effect of progress is to create a single mass pool of "labour" (meaning people and people-like machines) that is super abundant. But **there's a more straightforward and important way in which automation adds to abundance now. When a machine displaces a person, the person doesn't**

immediately cease to be in the labour force. It is not the case that in period one the economy produces x using y workers and in period two it produces x using y-1 workers and therefore productivity goes up. No, that displaced worker probably has all sorts of bills to pay and must therefore find another job. In some cases workers can transition easily from the job from which they've been displaced into another. But often that isn't possible. Generally speaking, the workers displaced by technology will tend to be those without much in the way of exceptional skills or training. **Such workers find themselves competing for work with many other people with modest skill levels, and with technology: adding to the abundance of labour.**

Harris, Karen. "Why the Automation Boom Could Be Followed by a Bust." Harvard Business Review. Mar. 2018. https://hbr.org/2018/03/why-the-automation-boom-could-be-followed-by-a-bust //RJ

The magnitude of the investment in automation in the coming decade is likely to be greater in scale than in previous periods because it will primarily affect the service sector, and it will spread through advanced economies as well as parts of the developing world. An $8 trillion investment boom would result in average annual US growth of about 3% and roughly 60% more economic output in 2030 than in 2015. **Typically, in an investment boom of this kind, supply growth creates the demand for more supply — a virtuous cycle of growth.** In the early 2020s, rapid investment in automation would likely offset a little more than half the negative impact of automation on employment, easing the demand constraint on growth and potentially mitigating the immediate displacement of millions of workers. But by the end of the 2020s, automation could eliminate 20% to 25% of current US jobs — 40 million workers — hitting middle- to low-income workers the hardest. **At the same time, many of the companies that invested heavily in automation will be saddled with assets that are out of step with demand. That's the crucial pivot between boom and bust. As the investment wave recedes, it risks leaving in its wake deeply unbalanced economies in which income is concentrated among those most likely to save and invest, not consume**. **Growth at that point would become deeply demand-constrained, exposing the full magnitude of labor market disruption temporarily hidden from view by the investment boom. Consumers who have lost their jobs to automation will spend less, putting further downward pressure on demand.** By the late 2020s, unemployment and wage pressures may exceed levels following the Great Recession in 2009. **Income inequality, having grown steadily for a decade, could approach or exceed historical peaks, choking off economic growth**. **The benefits of automation, by contrast, will flow to about 20% of workers — primarily highly compensated, highly skilled workers — as well as to the owners of capital.** The growing scarcity of highly-skilled workers may push their incomes even higher relative to less-skilled workers. As a result, automation has the potential to significantly increase income inequality.

Mitchell, Matthew. "In the Long Run, We're All Crowded Out." George Mason University. Sept. 2010. https://www.mercatus.org/publication/long-run-we-re-all-crowded-out#end24//RJ

When government borrows to finance its spending, it competes with private entrepreneurs who are borrowing to finance their own activities. Capital used by the government is capital that cannot be used by private businesses. Moreover, **when government borrows, competition in the market for loanable funds increases, raising the price of borrowing, or the interest rate, for private investors. For firms, this means an increase in the cost of doing business.** Companies and projects that would have otherwise been profitable are no longer able to be so at the higher interest rate.[13] Lastly, **borrowing may have longer-term effects on the nation's capital stock**, and through that, on its future national income. **This can happen when increased borrowing is financed in part or in whole by international capital inflows** (foreign lending). In this case, domestic production may not decline in the short run and interest rates may not increase in the short run. But **because the nation must eventually repay its foreign debts, future national income is less than it otherwise would be**.[14]

Spence, Michael. "Automation doesn't always improve productivity." The Japan Times. 2015. https://www.japantimes.co.jp/opinion/2015/09/04/commentary/world-commentary/automation-doesnt-always-improve-productivity/#.XElM1s9KhPM/ //RJ

It seems obvious that if a business invests in automation, its workforce — though possibly reduced — will be more productive. So why do the statistics tell a different story? In advanced economies, where plenty of sectors have both the money and the will to invest in automation, growth in productivity (measured by value added per employee or hours worked) has been low for at least 15 years. And, in the years since the 2008 global financial crisis, these countries' overall economic growth has been meager, too — just 4 percent or less on average. One explanation is that the **advanced economies had taken on too much debt** and needed to de-leverage, **contributing to a pattern of public-sector underinvestment and depressing consumption and private investment as well.** But de-leveraging is a temporary process, not one that limits growth indefinitely. In the long term, overall economic growth depends on growth in the labor force and its productivity.

Samuelson, Paul. "Economics 19e." Founder of MIT's Economics Department. N.d. PDF. //RJ
The effect of government debt is that people will accumulate government debt instead of private capital, and the nation's private capital stock willbe displaced by public debt. To illustrate this point, suppose that people desire to hold exactly 1000 units of wealth for retirement and other purposes. **As the government debt increases, people's holdings of other assets will be reduced dollar for dollar**. This occurs **because as the government sells its bonds, other assets must be reduced, since total desired wealth holdings are fixed**. **But these other assets ultimately represent the stock of private capital; stocks, bonds, and mortgages are the counterparts of factories, equipment, and houses.** In this example, if the government debt goes up 100 units, we would see that people's holdings of capital and other private assets fall by 100 units. This is the case of 100 percent displacement (which is the long-run analog of 100 percent crowding out).

Laubach, Thomas. "New Evidence on the Interest Rate Effects of Budget Deficits and Debt." Board of Governors of the Federal Reserve System. May 2003. https://www.federalreserve.gov/pubs/feds/2003/200312/200312pap.pdf//RJ
Estimating the effects of government debt and deficits on Treasury yields is complicated by the need to isolate the effects of fiscal policy from other influences. To abstract from the effects of the business cycle, and associated monetary policy actions, on debt, deficits, and interest rates, this paper studies the relationship between long-horizon expected government debt and deficits, measured by CBO and OMB projections, and expected future long-term interest rates. The estimated effects of government debt and deficits on interest rates are statistically and economically significant: **a one percentage point increase in the projected deficit-to-GDP ratio is estimated to raise long-term interest ratesby roughly 25 basis points**. Under plausible assumptions these estimates are shown to be consistent with predictions of the neoclassical growth model.

Sousa, Ricardo. "The impact of government spending on the private sector: Crowding-out versus Crowding-in effects." International Monetary Fund. 2011. https://repositorium.sdum.uminho.pt/bitstream/1822/13098/6/DF_RMS%20-%20Kyklos_revised_20110619.pdf//RJ
Starting with the analysis of the effect of government consumption on private consumption (Panel A), we can immediately see that it is negative and statistically significant. The results also suggest that not only contemporaneous changes in the government consumption-GDP ratio matter, but also its past lags (specifically, the 2 nd and 3 rd ones). In particular, the cumulative effect of government spending on private consumption is about 1.9 %, of which about 1.2% captured by contemporaneous changes in the government consumption-GDP ratio and 0.7 % by its lags. This result can be interpreted as follows: **an increase of government consumption by 1 % of real GDP immediately reduces consumption by approximately 1.2%, with the decline continuing for about four years when the cumulative decrease in consumption has reached approximately 1.9 %.** The result is broadly robust to both country and time effects, and both to Fixed and Random effects specification

Sousa, Ricardo. "The impact of government spending on the private sector: Crowding-out versus Crowding-in effects." International Monetary Fund. 2011. https://repositorium.sdum.uminho.pt/bitstream/1822/13098/6/DF_RMS%20-%20Kyklos_revised_20110619.pdf//RJ

We find that the cumulative effect of government spending on private consumption (investment) is about 1.9 % (1.8 %), of which about 1.2 % (0.6 %) is captured by the contemporaneous change in the government consumption-GDP ratio and 0.7% (1.2%) by its lags. This result is interpreted as follows: **an increase of government consumption by 1% of real GDP immediately reduces consumption(investment) by approximately** 1.2% (**0.6%**), **with the decline continuing for about four years when the cumulative decrease in consumption has reached approximately** 1.9% (**1.8%**). The result is broadly robust to both country and time effects, and different econometric specifications