# Emory A2 PRO

## A2: Recession

### A2: Coming Soon

1. **Delink –** **Chang of CCN ‘19[[1]](#footnote-1)** finds that we are clear of recession for at least five years for a couple of reasons
   1. The repeated rate hikes in 2018 caused the stock market to tumble in December and fueled widespread fears of a recession. However the Federal Reserve’s indication that it won’t raise rates again has calmed Wall Street anxiety. This analysis furthers that even if they hike it one or two times more, there will be more transparency with the fed so it won’t spook the market
   2. The biggest risk in the global stock market is trade, specifically the scenario between the United States and China, however that will subside because both sides have too much to lose if they don’t fix the problem
2. **Link Turn**- **Erian of allianz[[2]](#footnote-2)** explains that recession is unlikely and the only way that it occurs is if the government makes a major policy mistake. He continues that the only way we slowdown is if we don’t push pro-growth policies.
3. **Mitigate -**Even if a recession occurs, it will be relatively minor. Two reasons
   1. **The economist[[3]](#footnote-3)** writes thatbanks are more resilient than they were during the 2008-2009 crisis, the probability of a crisis that bad is low
   2. **Schafer of CNBC[[4]](#footnote-4)** explains that banks are at their strongest position since before the great depression

### A2: Creating Room

1. **Gut Check –** The fiscal budgets have already been passed for 2019 and they say a recession is about to happen in 2020. There is absolutely no probability that we can reduce the debt enough in 1 year that we suddenly can afford all these stimulus packages again or be more aggressive with stimulus
   1. **Clarity of Impact –** we have no clue how much fiscal space they free up, how much of that will be actually used towards a stimulus package, and how much of their impact that stimulus package gives them access to. All in all, you have no clue what you are actually voting for with them.
2. **Durable Fiat[[5]](#footnote-5) –** AFF can’t solve for recession because it entails taking a huge amount of debt through stimulus. Nowhere in the debate space or resolution does it say that the AFF team can set up their solvency to Negate in the future. Don’t let them be abusive
3. **Mitigate -** Fed controls interest rates - **Oyedele ’18[[6]](#footnote-6)** explains that the Fed lowers rates in order to encourage consumption and borrowing to ultimately spur economic growth
4. There is never going to be a huge stimulus package because of republic ideology. **Zelizer of the Atlantic ’17[[7]](#footnote-7)** finds that Republicans have a strategy of running a deficit then using it as a justification of not spending more. They themselves tell you we did not have a stimulus in 2008 because republicans used this excuse. Since no side gains access to a stimulus, we should prefer the frequency of recessions as a voting issue as opposed to the severity, which is important because
   1. Their budget surplus is actually going to cause recessions, as **McCann ’18[[8]](#footnote-8)** finds that literally every time the government ran a budget surplus, it caused a recession, and **Weisenthal ’12[[9]](#footnote-9)** furthers and is really bad for them 1. Because he explains that when the government take in more money is essentially sucking money out of the economy, opposite of surplus. Also 2. Clinton running surplus caused household saving to decrease and debt to increase, causing the crash
5. **No Solvency – Collender of Forbes[[10]](#footnote-10)** reports that Trump promised that he isn’t going to pass any more fiscal stimulus packages other than the ones on his current agenda. This means that the infrastructure plan along with tax cuts is the only way to solve back for a recession.
   1. In fact, pull the trigger on our contention two because Collender furthers that Infrastructure projects take a while to jumpstart and the real positive economic impact will be felt in 2019-2020, which is when they predict the recession to happen. This means that we control the only political probability of a long term stimulus impact through Trump’s plan.

### A2: Yield Curve

1. **Brian Chappatta[[11]](#footnote-11) 18’** explains that the yield curve inversion won’t be that big of deal right now because the US is in a large period of economic expansion which means that the central bank can just leave interest rates steady.
2. **Jerome Powell[[12]](#footnote-12)** explains the fed has been flirting with inversion for a while, mainly because the fed wants to collect more data about the effect of interest’s rates on the economy. We have no risk of a full inversion.
3. **Amadeo of the Balance ’19** finds that the yield curve returned to normal a week after it became inverted late 2018. Their evidence is outdated

### A2: Trade War

1. **Delink –** Tensions are cooling. **Dopp of Bloomberg[[13]](#footnote-13)** explains as of **1 week ago** that Trump and China have called a truce, and Trump is looking into extending that truce.
2. **Delink –** Growth is high. **White and Weaver of Politico[[14]](#footnote-14)** write in **2018** that because the economy and corporate profits are strong, markets are racing despite the trade war.

### A2: Inflation

1. **Vague 16[[15]](#footnote-15)-** empirically, there is little to no correlation between inflation and debt. He studies over 80 cases of increased government growth and concludes that out of those 85 instances, only 6 resulted in higher interest rates.
2. **Mitigate- Faraglia of the Economic Journal[[16]](#footnote-16)** explains that when monetary and fiscal policies are controlled by a single authority i.e the federal government, debt and debt maturity have only a small impact on inflation.

### A2: Overheating

1. **Delink**- **Amadeo ’18 of MIT[[17]](#footnote-17)** finds in this past November that yearly economic growth has not exceeded 2.7%, which does not meet the 3% threshold for a bust that is established by the businesses cycle theory. We are by definition not overheating. Amadeo is better ev because she looks at yearly over just quarterly growth. In fact, **Amadeo in 2019[[18]](#footnote-18)** finds that growth will slow to 2.3% in 2019 and even more going forward.
2. **Delink. Lazear of The Wall Street Journal[[19]](#footnote-19)** gives three reasons why there won’t be overheating because there’s room to grow.
   1. Job growth is too high, and is keeping up with population growth meaning unemployment won’t change or spike inflation
   2. Current rate of employment still below full employment and is in recovery phase and there are still people to pull into the workforce
   3. Wage growth is consistent with productivity, meaning it is not inflationary- whenever the economy overheats, wages spike which hasn’t happened.

### (NEED) A2: Global Interconnectedness

## A2: Ways to Reduce Debt

### A2: Overall Austerity Measures

**1.** **TURN - Mitchell ’10[[20]](#footnote-20)** finds that a decrease in government spending by 1 percent of the GDP decreases the GDP by 1.55 percent, this is key because that means by reducing government spending and the deficit, they reduce GDP more, making the debt to gdp ratio worse- which is the real important thing

2. **TURN -** these measures hit the poorest the hardest, as **Oxfam ’13[[21]](#footnote-21)** finds that the bottom 10 percent see a 38 percent reduction in their net income

3. **TURN - Amadeo ’18[[22]](#footnote-22)** of the Balance explains that austerity measures slow economic growth making it more difficult for the government to obtain revenue. They are going to cause all the harms mentioned above while not even solving the issue

**4. TURN - Tyson ’12 of Al Jazeera[[23]](#footnote-23)** furthers that fiscal consolidation through decreased spending or increased revenue means lower output and employment, lower tax collection, higher deficit, and escalating debt-GDP ratio.

### A2: Cutting Defense

1. Not probable at all. Presidents favor military spending because it keeps U.S. hegemony high, maintains allies, and deters conflict- and Trump especially has expanded rather than contracted the budget and **Democrats are now agreeing to military spending[[24]](#footnote-24)**. **Larrison of the TAC[[25]](#footnote-25)** confirms that politicians are desperate to seem strong on military spending and fear it will be used against them if they vote against spending.
2. Historically never happened to reduce deficit
3. **Turn. Higgs of The Independent[[26]](#footnote-26)** explains that government military spending creates additions to the economy and increase employment for resources that would be unused. He furthers it creates a ‘multiplier effect’ that stimulates the economy.
4. **Delink**- Ev about Trump wanting to cut is outdated, as **Lii ’18 of Military Times[[27]](#footnote-27)** finds in December that Trump is falling victim to lobbying, and is now reversing his sentiment of cuts

### A2: Unnecessary Spending

1. **Amy ’07 of Holyoke[[28]](#footnote-28)** finds only a tiny fraction of the budget is wasteful, specifically 2 cents on a dollar, logically there is no way it will be enough to reduce the debt.

### A2: Cutting Entitlements

**1. It Will Happen- Capretta of the Hill ’18** explains that entitlement programs like SS are the largest expenses driving up the debt and it is impossible to address the debt without targeting these programs, and **Goodkind of Newsweek** explains that McConnell himself has said the only way to lower the deficit is to entitlement programs

2. **It Will Happen**- This is literally what Republicans are planning on doing, **Zelizer ’14 of the Atlantic[[29]](#footnote-29)** reports that by creating a fiscal issue through lower taxes conservatives create the reasoning behind the cuts they wanted to implement all along

**3. No Solvency - Horowitz 18[[30]](#footnote-30)-** social security cuts won’t do anything to reduce debt, finding that cutting spending would still allow debt to rise to 111% of the GDP. He furthers that spending on these programs has already fallen due to reprioritization of money and changing social programs.

**4. Turn –** **Kaufmann of The Nation[[31]](#footnote-31)** explains in 2017 that the social safety net pulls Americans out of poverty and prevents a job loss or unexpected family event from leaving you to die. He explains that entitlements have provided college educations, reduced infant mortality, and saved millions. Outweighs on scope and magnitude as 1 out of every two Americans will experience at least a year of poverty

### A2: Tax Increases

1. Uniqueness overwhelms the link - there have been multiple tax increases in the past, but none have drastically reduced the debt, which means
   1. they don’t solve and
   2. even if they do promote growth, it will take too long for there to be any significant result
2. Delink- **Trump will veto[[32]](#footnote-32)** any proposal to increase taxes – literally goes against his agenda
3. **Turn. Romer of The New York Times[[33]](#footnote-33)** writes that tax hikes damage the economy by reducing demand, meaning less money is pumped into the economy- which is why she finds that every 1 percent increase in taxes reduces GDP by 1 percent, meaning that the GDP to Debt Ratio is not improving.
4. **Turn- Lemov ’10[[34]](#footnote-34)** finds that when desperate for revenue, the government passes excise taxes, taxes on basic commodities like gasoline, because they are more stable and easier to pass. Problematically, the **Inst on Taxation and Economic Policy ’15[[35]](#footnote-35)** finds that these taxes are regressive, with poor families paying 8x more than wealthy families.

### A2: FTT

1. **Worstall of forbes[[36]](#footnote-36)** writes that because a FTT has to cut revenues from other taxes, no net revenue will be raised by the tax. If anything, the growth is predicted to be negative as **Worstall** finds that every 0.1 percent increase in the FTT rate leads to a 1.7 percent drop in GDP in the long term and reduce total revenue collections.
2. **Turn- Chilton of Fox business[[37]](#footnote-37):**  finds that the FTT causes investments to flee because of regulation which causes job losses and overall less economic growth because less revenue is being collected. Prefer this on probability- **Chilton** finds that European countries tanked after passing an FTT.
3. **The Financial times[[38]](#footnote-38)** finds three problems with an FTT
   1. Money will just be shifted into a market that will not be taxed
   2. The process of determining a fair tax rate takes too long
   3. The tax would just incentive investors to invest less as now every investment they make will be taxed

### A2: No Tradeoff on Growth

1. Delink- Asserting this delinks them from any impacts about truly reducing the debt, as **Amadeo ’18 of The Balance[[39]](#footnote-39)** finds that to actually truly cut the debt, Congress would have to cut spending or increase taxes to the point where growth decreases. They have to pick one or the other, they cannot advocate for both.

## A2: Debt Harms

### A2: Rising Interest Rates

1. **Spross** [[40]](#footnote-40)18- Even if there is a debt crisis later on, the US will be able to repay debt later by simply printing more money and it isn’t going to cause more inflation because the money wouldn’t go towards consumer demand or government spending, and treasury bonds are the most liquid asset in the world.
2. Delink. **Kogan at The Center on Budget Priorities[[41]](#footnote-41)** explains in a historical analysis on interest payments compared to economic growth, and found that economic growth has always exceeded interest payments, reducing debt. This is crucial as higher economic growth than interest payments means the debt will be paid back. That is also a **turn** as he projects that if economic growth expands its gap over interest rates, the debt gap almost completely disappears. Outweighs on probability- looks at past and finds analysis has been historically right. **Krugman of the New York times[[42]](#footnote-42)-** the growth rate in the us outpaces interest rates, the current growth rate is at 4% nominal growth and interest rates at 3%, no reason why their impacts trigger.
3. Historically not the case, as **Tamny ’17[[43]](#footnote-43)** finds from 1980 to 2017, the debt increased while the cost of borrowing has plummeted, and even further analyzes the last forty years and doesn’t even find correlation between the two, let alone any causal relationship. Furthered by **Salsman of Duke**, who finds even as some nations debt-GDP ratio increased by 78%, interest rates fell drastically
4. Delink. **Riedl of the Heritage Foundation[[44]](#footnote-44)** finds that the economy is so large and integrated that it can easily absorb the federal government’s demand for loans without increasing interest rates. He finds it would take a 29% increase in debt: GDP ratio to increase interest rates by 1%.
5. Fed controls interest rates - **Oyedele ’18[[45]](#footnote-45)** explains that the Fed lowers rates in order to encourage consumption and borrowing to ultimately spur economic growth
6. **Chang of CCN ‘19[[46]](#footnote-46)** finds that the fed is going to stop hiking interest rates for a while

### A2: Slows Growth

1. Makes no sense. **Schneider of NPR[[47]](#footnote-47)** finds that the US economy has a growth rate of 3% and is on set to reach the fastest annual growth in 13 years, however at the same time the national debt has reached an all-time high.
2. Still outweigh.
   1. Probability – there’s a 100% chance voting con promotes economic growth, since that’s inherent to the resolution. There are so many other factors that influence economic growth than just the federal debt.
   2. Timeframe – They’re just hoping that, sometime in the long term, some economic growth manifests. We say this economic growth needs to happen now, since every year you put it off, there’s less infra.
3. **Delink. Rivlin of The Brookings Institute[[48]](#footnote-48)** writes that weak economic growth reduces revenues and makes it harder to stabilize the ratio of debt to GDP.
4. **Turn. The CRFB[[49]](#footnote-49) from case** gives two ways in which growth can help improve debt projections.
   1. Faster growth produces more revenue, which is why they find every 0.1 percent increase in the annual growth rate reduces the deficit by 315 billion.
   2. It helps us carry more debt because a high GDP lowers the debt to GDP ratio. Thus, they find just a 0.1 percent increase in growth would decrease debt levels by 2% by 2023.
5. **Turn. Laffer for The Hill[[50]](#footnote-50)** explains that hitting a 3 percent growth allows for 3 trillion dollar spending reduction over 10 years- only sustained economic growth solves.

### A2: Crowding out Social Spending

1. If growth outpaces debt like it historically has, we will be fine

2. **Chandler of Forbes ’17[[51]](#footnote-51)** finds that CBO projections more than two years into the future in the domain it perhaps studies most -- federal deficits -- are little better than random guesses. accuracy deteriorates rapidly. By year 3, CBO projections have actually been no better than luck.

### A2: Crowding out Private Investment

1. **Yang 15[[52]](#footnote-52)-** Public debt itself doesn’t cause the crowding out of investment. instead, the way that policies are structured cause an increase or decrease in investment. If policies are shaped to promote economic growth, investment can increase even if debt rises.
2. **Jeff Stein 18’[[53]](#footnote-53)** gives you two responses
   1. The money that Is used to buy bonds comes from a different pool of potential investment than business dip into
   2. Pushing more bonds into the private markets creates more assets thus you can turn their argument because more people would “crowd in”
3. **Delink****-** **Firestone ’15 of NEP[[54]](#footnote-54)** finds that crowding out doesn’t make sense, as government bonds act as collateral for loans from banks, creating new bonds which can be used for investment into a private business that’s profitable. If anything, this turns their argument, because having collateral means you are more likely to make a risky investment into a business. This is furthered by **Fullwiler ’10 of the Levy Inst[[55]](#footnote-55)** finds increased deficit has added net financial assets rather than crowding out due to this use of collateral
4. **Turn**. Public investment is better than private investment because private investment only prioritizes where it’s profitable; public investment prioritizes those who need it most.
5. **Turn**. The money the government borrows is spent on programs like infrastructure development. This is key, as **Shetta of American University[[56]](#footnote-56)** notes that infrastructure encourages more private investment. For instance, if the government builds more roads to a town, in the long term, that town becomes a more attractive place to invest in.
6. **Turn- Traum ’10 of the HEC[[57]](#footnote-57)** finds that when government investment increases higher debt is associated with higher private investment. So long as the government keeps investing, we are all good

### A2: China

1. No Brightline- **Samuelsson of MarketPlace[[58]](#footnote-58)** explains that it would take an excessive American action for china to retaliate with a fire sale. Make them prove a Brightline as to what would force china to make this sale in the first place.
2. **Delink. David of CNBC[[59]](#footnote-59)** explains that the trade war has reached a 90 day holdoff and there are negotiations to diffuse tensions on disagreements, meaning China has no reason to strike back.
3. **Delink. Oh of Market Watch[[60]](#footnote-60)** explains that China would struggle to diversify their foreign exchange reserves away from the US bond market, which has better liquidity, safety and returns for China. Outweighs their argument on probability as he finds that the last time China tried to sell off its dollar reserves from 2014-2016 to boost its economy, it dropped by half a trillion dollars- they won’t risk their economy again.
4. No impact. three warrants.
   1. **Oh of Market Watch[[61]](#footnote-61)** continues that if China decided to sell the bonds, it would flare up trade jitters, put stocks under pressure, and thus cause investors to run back to bonds. He concludes this would lead to a net zero impact.
   2. **Lin of The South China Morning Post[[62]](#footnote-62)** writes that US can manage the impact as the Federal Reserve would buy out the US treasuries in China and the dollar depreciation would be shared by all countries.
   3. **Borzykowski of CNBC[[63]](#footnote-63)** finds in 2018 that other countries would simply buy the debt, meaning the U.S. loses nothing.

#### Yuan Takeover

**1. Smith ’18 of FT** finds that China is not going to take over for a few reasons

**a**. he says the only reason why we might be diminishing is because of harmful trump policy, that’s short term

b.the not only are a majority of currencies in the world anchored to the dollar and its success, and a majority of developing nations borrow in our currency

c.despite Chinese efforts the currency is not becoming as internationalized and its share of global payments is actually diminishing

d. the US’s current tolerance to running trade deficits and the transparency of our markets, in comparison to China who’s currency does not float freely and the financial markets are not as accessible to foreign markets

e.China’s currency is less predictable

### A2: Harms other nations

1. **Panos of Forbes[[64]](#footnote-64)** explains that any negative effect that could be seen by rising interest rates, will be balanced out by rising commodity rates for developing nations. This rise in commodity rates has historically allowed for countries to reduce their foreign dependence on private capital.
2. **Delink-** Their evidence on capital inflow is bad. **Mihm ’18 of Bloomberg[[65]](#footnote-65)** finds that these inflows were fluctuating so unevenly to the point where correlation could not even be determined accurately, let alone causation. For instance, in 2006 when the Fed hiked rates to a high of 5.25%, the inflow of capital actually PEAKED to emerging markets
3. **Turn.** A strong US dollar encourages other nations to adopt the US currency (dollarization[). **Chen '18 of Investopedia**](https://www.investopedia.com/terms/d/dollarization.asp) notes that dollarization is really good, because it helps nations like Zimbabwe and Ecuador from going into financial panic due to inflation or monetary policy mistakes.
4. **Turn.** [**Amadeo ‘18 of the Balance**](https://www.thebalance.com/world-currency-3305931) finds that the dollar's strength is the reason governments are willing to hold the dollar in their foreign exchange reserves. Should the strength of the dollar decrease, governments will probably shift to using currencies like the euro in their foreign exchange reserves. This is uniquely worse because several countries in Europe suffer from unsustainable debt to GDP ratios, as we saw disastrous effects of the Eurozone debt crisis of 2010
   1. **Delink.** [**Massa ‘11 of the Guardian**](https://www.theguardian.com/global-development/poverty-matters/2011/oct/21/eurozone-crisis-developing-countries)/ much of current increase in the debt burden in developing countries is originating from the European Debt Crisis, where several countries‘ skyrocketing deficits is causing investors to panic.
5. The investors who invest into buying these countries’ debts don’t see a change in the value of their currency, which means that their incentive will not change.

### A2: European Debt Crisis

**1. Delink-** They’ve been super prepared for a while now, because the Fed has been very open and forewarning about their actions and increases**. Spross ’18 of The Week[[66]](#footnote-66)** finds that as a result, the eurozone implemented stimulus packages that effectively prevent any interest rate increase from harming the continent.

### A2: Saudi Arabia

1. [**CNN Busines**s](https://www.cnn.com/2018/10/15/investing/saudi-arabia-us-debt-jamal-khashoggi/index.html) ---> can only weaponize if others dont buy, others will buy
2. [**Foreign Policy**](https://foreignpolicy.com/2018/10/24/the-pentagon-loves-saudi-arabia-in-sickness-and-in-health/) → US military loves Saudi Arabia, even under short term spike sin tensions saudi arabia knows we need them so they wont weaponize.
3. [**Marks of GMU**](http://csps.gmu.edu/2018/02/21/nuclear-nonproliferation-in-a-world-of-trump/) → if Saudi loses support in US = will nuclearize. [**Sokolaski**](https://foreignpolicy.com/2018/05/21/in-the-middle-east-soon-everyone-will-want-the-bomb/) **of FP** → Nuclear Arms Race. [Kroenig → 950%](http://www.matthewkroenig.com/Kroenig_Nuclear%20Stability.pdf)

## A2: Debt Matters

### **A2: Defaults**

#### General

1. De-Link as **Baum[[67]](#footnote-67)**explains that tax revenues exceed interest rates enough that the U.S will never have to default onto its own debt.
2. De-link the probability of defaulting because **Harvey[[68]](#footnote-68)**indicates that there is literally a 0% chance that the US will be forced to default on the debt because the debt is all held in the U.S dollar instead of a foreign exchange or keystroke.
3. Delink – **Harvey of TCU**[[69]](#footnote-69) explains this isn’t a real threat, as the U.S. has control over the dollar and isn’t beholden to foreign investors. Thus, he concludes that there is a 0% chance that the US would ever be forced to default on its debt.

#### Investors don’t trust us

* + - 1. **Delink –** even if we run up debt, it isn’t ever meaningful enough to scare investors, as America is an economic hegemon. **Mayhew of the University of Tennessee[[70]](#footnote-70)** explains in 2017 that people see U.S. bonds as the safest investments in the world.

#### Debt ceiling

**Delink –** **Williams of USA Today[[71]](#footnote-71)** explain that Congress will just raise the debt ceiling, as they always do.

**Delink –** even if we do hit the debt ceiling, **Elkin of WSP[[72]](#footnote-72)** explains in 2011 that we won’t default. We may go into a temporary government shutdown, but we would resolve the issue quickly and without disastrous consequences.

#### Greece

**Delink –** the U.S. won’t go out the same way as Greece. **Johnson of MIT[[73]](#footnote-73)** explains that a healthy economy and the ability to devalue the dollar to make debt easier to pay off means that the situation isn’t comparable.

### A2: Foreign investor flight

1. Foreign investment won’t decrease for 3 reasons-
   1. Investors investing in risky sectors will always want to hedge those risks by investing in America because we are a really stable bond market
   2. Countries like China want to peg their currencies by reinvesting US dollars back into the American bond market to depreciate the American dollar
   3. We’re still the safest investment in the world because there’s almost no chance the US will default on its debt payments
2. This is why **Ader of Bloomberg[[74]](#footnote-74)** reports that investment in US bonds has recently reached a 3-year high, even if our national debt has gotten higher.
   1. While the percentage foreign countries buy has gone down due to an increase in the category of buyers such as mutual funds, they are not shying away from buying debt.
3. According to **O’Brien of The Atlantic[[75]](#footnote-75)**, the U.S. has and can borrow money forever without paying back its debt entirely. The US is especially willing, as **Harrington of US News[[76]](#footnote-76)** finds that the US debt ceiling is meaningless as Congress simply raises the ceiling and the government borrows even when it hits it.
4. **Holland of the south china morning post[[77]](#footnote-77)** explains that china wont stop buying American debt, as their economy is dependent on the US dollar to make profit. The trend is proven by **Mcgregor of bloomberg[[78]](#footnote-78)** who writes that China has continued to buy more and more American debt since 2010.

## A2: Squo Bad

### A2: tax cuts bad

1. **Turn. The Tax Foundation[[79]](#footnote-79)**, analyzing the recent tax cuts, found that it will lead to a 3.7 percent increase in GDP over the long term, 2.9 percent increase in wages, and almost a million jobs- that’s concrete benefits that go to people at the bottom. Prefer this evidence-
   1. It’s a nonprofit, third party who did the analysis
   2. The evidence analyzes all situations of the tax cuts- it’s much more comprehensive when it comes to the conclusion.
2. **Turn. James of The Heritage Foundation[[80]](#footnote-80)** gives three reasons why tax cuts are better for the poor.
   1. A 13% tax cut lets the average household take home more than 17 thousand extra dollars over 10 years
   2. The poor get more cut- for example, in South Bronx where income is lower, their taxes were cut by a third
   3. It increases extra cash for companies who reinvest back in communities- for instance, Premera Blue Cross dedicated 40 million for reinvestment for the poor communities due to cuts.

### A2: Environment

#### General/warming

1. **The Union of Concerned Scientists[[81]](#footnote-81)** finds that to make a dent in climate change, we need to reduce emissions by up to 80 percent globally- which has zero probability. This means one, they have no solvency, and two, there’s no real impact to economic growth because we’ve gone too far already.
2. Even if we aren’t past the tipping point already, plenty of other factors like the continual climate emissions of developing economies and such will push us over the brink- even if the US isn’t the one who does so.
3. **Turn. Everett of The LEFRA[[82]](#footnote-82)** explains that as economic output leads to more investment and employment, it generates investment for technology to facilitate a shift to a low carbon and resource efficient growth path and allows countries to focus on environmental challenges they face.
4. **Turn**. Only economic growth solves. **McQuerry of The Houston Chronicle[[83]](#footnote-83)** writes that in a strong economy, small businesses grow as disposable income is high and there is consumer confidence for purchases. However McQuerry finds that if the economy falters, small businesses become overextended, have mass layoffs and failure. Crucially, **Morris of The SBA[[84]](#footnote-84)** writes that small businesses lead the way in green technology, as they are 16x more productive in creating green tech and have 2.5x as many patents. Only risk of solvency on the argument.
5. Link Turn- **–** **Adler of Case Western University[[85]](#footnote-85)** finds in 2013 that economic growth solves the issue of global warming in two ways.
   1. Economic growth frees up disposable income to focus on pro-environmental measures. In times of economic downturn, the last thing we’re focusing on is environmental legislation.
   2. Technological advancement leads to more resource efficient technology.

[The B point short circuits any arguments about increased production >> warming, because production is high in either world, it’s a question of how we’re producing.]

1. We still outweigh. Climate change still continues in their world- what matters is the solvency. **Weiner of Polytechnic University[[86]](#footnote-86)** explains that economic growth leads to technological and infrastructure advancement, saving people from the effects of warming.

#### CO2 emissions

1. A paper by **James Hansen of NASA in 2008[[87]](#footnote-87)** explains that because the amount of CO2 in the atmosphere is above 350 parts per million, even if we stopped releasing all CO2 right now, we are already past the point of no return.

#### Rem Waste

1. **Wang of Purdue[[88]](#footnote-88)** writes that New efficient and inexpensive technologies are being developed to extract REMs from waste coal ash. Wang argues the new technology could provide ways to utilize coal ash that not only satisfy the needs of REE in the U.S., but is beneficial to the environment and could create high-tech jobs. **Free[[89]](#footnote-89)** quantifies that these new methods could take up 40% of the market. This has two implications
   1. **Harler[[90]](#footnote-90)** explains that these new methods reduce the overall waste associated with REM production.
   2. **The ITRE[[91]](#footnote-91)** writes that this switch eliminates the radioactivity associated with REM product

### A2: Increases inequality

1. Turn- **Gordon[[92]](#footnote-92)** explains that Rising inequality curtails economic growth due to the increase in the dispairty of wages. However, the **Economist 13[[93]](#footnote-93) writes that** prioritizing economic growth helps the poorest 40% of those in america to escape poverty, affirming prevents this from happening
2. **No link- Iglesias of Vox[[94]](#footnote-94)** writes that interest rates are still relatively low, no reason why their impacts trigger
3. **Internal link defense –** Inequality doesn’t materially affect poverty. **Tanner of the Cato Institute[[95]](#footnote-95)** explains in 2016 that there is no clear relationship between inequality and, as the whole pie can grow with more resources to everyone.
4. **Poverty Reduction Advantage –** In the long term, growth reduces inequality. **Angelsen** **of the University of Massachusetts[[96]](#footnote-96)** explains in 2006 that while it’s true that, in short term, economic growth primarily benefits the most privileged, in the long term,
   1. more efficient technology lowers prices and creates new job opportunities, and
   2. and more people are trained in higher skilled positions, so that in the **long term**, economic growth reduces inequality.
   3. **Outweighs:**
      1. on uniqueness
      2. on timeframe

### A2: makes war likely

* + - 1. Growth prevents war in two ways.
         1. **Interdependence Advantage –** More economic growth increases interdependence, which prevents conflict because both actors have so much on the line. Which is why **Pickering of Kobe University[[97]](#footnote-97)** finds that the probability of conflict declines with economic growth.
         2. **Deterrence Advantage –** **Hubbard of Oxford University[[98]](#footnote-98)** finds that economic growth helps maintain America’s position of one of the foremost superpowers, deterring war.

### A2: government spending bad

1. [**Cardi ‘09 of UC Berkeley**](https://www.ncbi.nlm.nih.gov/pmc/articles/PMC2777733/) finds that Medicare reduces the chance of mortality by 20%. [**Goodkind ‘18 of Newsweek**](https://www.newsweek.com/deficit-budget-tax-plan-social-security-medicaid-medicare-entitlement-1172941)→ these are going to be cut first at the point where there are already calls to cut them now
2. **Delink.** [**Pettinger ‘17 of Greenes College**](https://www.economicshelp.org/blog/6011/economics/policies-to-reduce-budget-deficit/) reports that in Europe, cuts to government spending did not result in a decrease in federal debt. However, these spending cuts contributed to a decline in economic growth, leading to lower tax revenues and rising debt to GDP. Therefore, spending cuts were ineffective in reducing the deficit but also caused further economic problems.
3. [**Romer ‘11 of the New York Times**](https://www.nytimes.com/2011/07/03/business/economy/03view.html) → govt spending on basic research, education, and infrastructure increases productivity. But because these are really risky and have little return, no private investors will step up if the federal funding for this is cut, leading to a huge void in R&D. That’s why even if the government is inefficient, it’s still helping the economy. So for every decrease in government spending by 1% of GDP, 1.5% of GDP will be reduced
   1. [**Fox ‘18 of Bloomberg**](https://www.bloomberg.com/opinion/articles/2018-04-13/sorry-america-but-spending-is-too-high-and-taxes-are-too-low)→ Government spending accounts for an average of 19.3% of GDP in an analysis of the past 72 years.

### A2: Small Businesses

#### A2: Borrowing Costs

**1. Mitigate- Biery ’17 of UNC Chapel Hill[[99]](#footnote-99)** finds only 4.5% of small businesses use bank loans

**2.** **Turn- Blake ’18 of Forbes[[100]](#footnote-100)** finds higher interest rates help small businesses because higher rates means it is more profitable for banks to approve loans meaning a more competitive market that grants small businesses more opportunities to access capital, which is key as small businesses need a stable source of capital

#### A2: VC Funding

**1. Mitigate- Henry ’17 of Georgia Tech[[101]](#footnote-101)** finds ¾ of VC backed ventures fail anyway, so they do not have a large impact

**2. Delink- Prefer history, as Tomasz ’15 of Dartmouth[[102]](#footnote-102)** finds no correlation between rising interest rates and VC funding. In fact, between ’00 and ’09, investment peaked as interest rates rose

**3. Turn- If they argue there is a correlation, it’s in our favor, as Matanoza of Penn State[[103]](#footnote-103)** finds higher rates encourage increased vc equity over debt, finding a 1% increase in rates increased demand for VC funds 2.53%

**4. Delink- Khosravi of Mercer ’18[[104]](#footnote-104)** finds VC funds are at an all-time high, so the debt is not hampering investment

#### A2: innovation

**1. Non-Unique- Gordon ’16 of NW finds R and D[[105]](#footnote-105) is already well funded by the VC industry, make them prove why a marginal increase is super important in terms of weighing, especially when compared to the harms to the developing world we talk about**

**2. Weighing- Indeed, Gordon furthers that there is no reason to believe the next round of innovation will substantially change the lives of the American people, as we already developed the major innovations that would lead to increases in life expectancy**

## A2: Misc

### A2: Growth NU

**1. Delink- Applebaum ’18 of NY Times[[106]](#footnote-106)** explains that the pace of growth is slowing and approaching its end, as indicated by emerging weaknesses in major economic sectors. We allude to this as well in our first contention about the incoming recession. That means if you do not negate, economic growth will fall through and stay slumped.

### A2: Mergers

**1. Delink- Their argument does not hold true in history. If anything, it’s the reverse, as Zaidi of Durham[[107]](#footnote-107) finds it was during low rates when mergers historically thrived and high rates discourage mergers by**

**i. limiting the capacity to do so by making loans more expensive**

**ii. limiting the desirability because the internal rate of return is lower**

**2. Mitigate- Christensen ’11 of HBR[[108]](#footnote-108) finds that the failure rate of mergers and acquisitions is upwards of 90%**

### A2: P3

**1. Delink- Garvin ’08 of Virginia Tech[[109]](#footnote-109)** explains that even though P3s appear low cost, they entail expensive user fees, which is the only way governments convince private companies to get involved.

**This is key, as Slyke ’17 of Syracuse[[110]](#footnote-110)** explains that governments are already weighed down by a lack of knowledge and bureaucracy and corporations are greedy. This leads to bad deals that actually end

### A2: War

**1. Turn- Pickering ’14 of Kobe University[[111]](#footnote-111) finds that since economic growth increases interdependence in todays globalized economy, the probability of conflict declines with economic growth**

**2. Turn- Additionally, Hubbard ‘10 of Oxford[[112]](#footnote-112) finds that furthering the US’s role as the economic hegemon decreases the probability of violent conflict**

1. Samantha Chang, 1-14-2019, "No US Recession for at Least 5 Years: OppenheimerFunds Investment Boss," CCN, <https://www.ccn.com/no-us-recession-for-at-least-5-years-oppenheimerfunds-investment-boss/>

   **There’s no fear of an economic recession within the next five years**, so everyone anxious about bearish projections should calm down. That’s the advice of Krishna Memani, the chief investment officer at OppenheimerFunds. Memani says the US economy is slowing down a bit, but it will still increase north of 2%. Moreover, Memani says that fears of a US recession that will drag down the global economy is overblown. “There’s no recession imminent — I think five more years is what we are talking about,” Krishna told CNBC on January 14. “Valuations are meaningfully better.” Memani says **the Federal Reserve’s indication that it won’t raise rates again has calmed Wall Street anxiety.** As CCN reported, Fed chairman Jerome Powell hiked US interest rates a stunning four times in 2018. The Federal Reserve has hiked interest rates seven times during President Donald Trump’s two years in office. In contrast, the Fed increased rates just once during Barack Obama’s eight-year tenure. **The repeated rate hikes in 2018 caused the stock market to tumble in December and fueled widespread fears of a recession. Amid heavy backlash from all sides, Powell vowed to be more sensitive before raising rates so frequently.“The Fed has effectively backed off,” Memani observed. “That’s a good thing. Even if they tighten one or two times more, I think they will put more color around it to not spook the market.” Krishna Memani says the biggest risk in the global stock market is trade. However, he’s optimistic that the ongoing trade disputes between the United States and China will be resolved. Why? Because both sides have too much to lose if they don’t fix the problem.** [↑](#footnote-ref-1)
2. <https://www.foxbusiness.com/economy/us-recession-unlikely-market-volatility-to-continue-in-2019-el-erian-says>

   Despite recent concerns over the state of the U.S. economy, particularly after a wild week for stocks, Allianz Chief Economist Mohamed El-Erian said on Sunday that **a recession is unlikely to occur**. “It’s certainly not becoming a reality,” El-Erian told “Fox News Sunday. “**You would need either a major policy mistake** or a massive market accident **to push us into recession**. But **we will slow down unless we build on the pro-growth policies**.” [↑](#footnote-ref-2)
3. The Economist, "The Next Recession", 10-11-18, https://www.economist.com/lead ers/2018/10/11/the-next-recession

   The good news is that **banking systems are more resilient than a decade ago, when the crisis struck. The chance of a downturn as severe as the one that struck then is low.** Emerging markets are inflicting losses on investors, but in the main their real economies seem to be holding up. The trade war has yet to cause serious harm, even in China. If America’s boom gives way to a shallow recession as fiscal stimulus diminishes and rates rise, that would not be unusual after a decade of growth. [↑](#footnote-ref-3)
4. Leslie Shaffer, CNBC, "US banks are at their healthiest in decades: Richard Bove", 04- 06-16, https://www.cnbc.com/2016/04/06/amid-stress-test-us-banks-are- stronger-than-theyve-been-in-decades-richard-bove.html

   **Despite concerns about the safety of U.S. banks, they're the strongest they've been in decades**, storied bank analyst Richard Bove told CNBC's Squawk Box. "They do have the protections that basically other people seem to want them to have," said Bove, an equity analyst at Rafferty Capital Markets. "If you take a look at their capital as a percentage of assets**, you have to go back to 1938 during the bank holiday to find banks in stronger condition**."

   page66image14892224page66image14892416page66image14889536page66image14881088 [↑](#footnote-ref-4)
5. ### AT: make space for stimulus

   #### Interp- teams may only defend advocacies that garner offense from reducing debt

   #### Violation- They garner offense from reducing debt and increasing spending

   #### Standards

   1. extra T kills limits because the aff can then decide to defend an infinite amount of planks, which is unfair because the neg would have to prepout everything which explodes research burdens
   2. kills neg ground bc them having extra planks means the neg can’t garner offense from other strats
   3. the aff has a responsibility to be topical and logically they can only defend debt reduction because that’s what the topic delineates

   #### Voters

   1. Fairness- not fair for theam to be able to add planks
   2. Education- we stray off of the topic based off of ground that should be negs.

   Thus, drop the debater because it sets a precedent for future rounds but even then, dropping the argument still means a vote for us because dropping the arg would be dropping their advocacy which means they have no offense. [↑](#footnote-ref-5)
6. Akin Oyedele, 9-26-2018, "The Fed just raised interest rates again — here's how it happens and why it matters", Business Insider, https://www.businessinsider.com/how-the-fed-raises-interest-rates-2017-12 // ZS  
   From Washington, the Fed adjusts interest rates with the hope of spurring all sorts of other changes in the economy. If it wants to encourage consumers to borrow so spending can increase, which should boost economic growth, it cuts rates and makes borrowing cheap. After the Great Recession, it kept rates near zero to achieve just that. [↑](#footnote-ref-6)
7. Julian E. Zelizer, 4-7-2014, "Blowing Up the Deficit Is Part of the Plan," Atlantic, https://www.theatlantic.com/politics/archive/2017/12/blowing-up-the-deficit-is-part-of-the-plan/548720/ [↑](#footnote-ref-7)
8. David **McCann**, xx-xx-xxxx, "Modern Monetary Theory Says the Federal Government Doesn't Need Revenue.," CFO, http://ww2.cfo.com/the-economy/2018/11/the-federal-government-does-not-need-revenue/

   One thing a country should absolutely not do, according to Kelton, is aggressively try to pay down its debt. “Here’s a historical lesson,” she said. There have been seven times in U.S. history when the government ran surpluses and commenced paying down debt. Each time, the result was a severe recession or a depression. [↑](#footnote-ref-8)
9. Joe **Weisenthal**, 9-5-2012, "The Untold Story Of How Clinton's Budget Destroyed The American Economy," Business Insider, <https://www.businessinsider.com/how-bill-clintons-balanced-budget-destroyed-the-economy-2012-9?fbclid=IwAR3aBeSCEIDOFIQUQtuG4O6S8vjnBG-Vf_bp4-GTPSIzJZbScTHRO6TRMDg>

   **If the government is in surplus, it means that the government is taking in more cash than it's spending, which is the opposite of stimulus.** If the government is in surplus, it means that the government is taking in more cash than it's spending, which is the opposite of stimulus. **So the trade deficit was subtracting from GDP, and the government was sucking up more money from the private sector than it was pushing out.** [↑](#footnote-ref-9)
10. Stan Collender, xx-xx-xxxx, "Trump's Promised Economic Stimulus Won't Happen This Year," Forbes, <https://www.forbes.com/sites/stancollender/2017/02/26/trumps-promised-economic-stimulus-wont-happen-this-year/#4c2d543aba4c>

    Donald Trump’s insistence that his tax and spending plans will provide an immediate kick to the U.S. economy and Wall Street’s belief that the new administration’s budget policies will lead to a quick boost in corporate profits now need to be tempered with a big dose of economic reality: **The president’s promised fiscal stimulus isn’t going to be enacted or take effect any time soon.** If it happens at all, the soonest the economy will begin to feel the impact of a Trump stimulus is in federal fiscal year 2018, that is, starting 7 months from now on October 1. Infrastructure is another example. The Trump plan supposedly is for $1 trillion in new spending over the next 10 years. But in spite of all the talk about “shovel-ready,” the truth is that **infrastructure projects are notorious for how long they take to begin.** Here too, unless the new projects are a sharp departure from all previous experience with infrastructure, very little – as in almost none – will be started in 2017 and only a handful of projects will begin in 2018. **The biggest economic impact will start to be felt in 2019-2020.** [↑](#footnote-ref-10)
11. Brian Chappatta, Bloomberg, 12-3-2018, ["The U.S. Yield Curve Just Inverted. That’s Huge.," https://www.bloomberg.com/opinion/articles/2018-12-03/u-s-yield-curve-just-inverted-that-s-huge?fbclid=IwAR2E5ffZPnCQCLAeemduCqPgSe6KDWPIb8FxaaAXhX5sIxVkwCkMCqjfZ5M, DOA: 12-12-2018] // ZWS

    That this is the first portion to flip isn’t too surprising, considering how much scrutiny bond traders place on the Federal Reserve’s outlook for rate increases**. All it means is that the central bank will probably leave interest rates steady, or even cut a bit, in 2022 or 2023. I’d argue that’s not just possible, but probable, given that we’re already in one of the longest economic expansions in U.S. history.** [↑](#footnote-ref-11)
12. Jerome Powell, Bloomberg, 12-3-2018, ["The U.S. Yield Curve Just Inverted. That’s Huge.," https://www.bloomberg.com/opinion/articles/2018-12-03/u-s-yield-curve-just-inverted-that-s-huge?fbclid=IwAR2E5ffZPnCQCLAeemduCqPgSe6KDWPIb8FxaaAXhX5sIxVkwCkMCqjfZ5M, DOA: 12-12-2018] // ZWS

    Given the recent pivot from the most important Fed leaders — Jerome Powell, Richard Clarida and John Williams — **this flirtation with inversion among two-, three- and five-year Treasury notes probably isn’t going away**. The bond market is fast approaching the point where traders have to ask themselves whether a rate hike now increases the chance of a cut in a few years. Other questions include “What is neutral?” and “Can the Fed engineer a soft landing?” To say nothing about whether the assumed relationship between the labor market and inflation expectations is still intact. **Those are big questions without easy answers, and the first inversion of the U.S. yield curve offers only one clue. The Fed wants to be more data dependent going forward. Odds are the market will do the same.**  [↑](#footnote-ref-12)
13. Terrence Dopp, 12-4-2018, "Trump Says He May Extend Truce in China Trade War", Bloomberg, https://www.bloomberg.com/news/articles/2018-12-04/kudlow-walks-back-trump-tweet-announcing-car-deal-with-china // ZS  
    Donald Trump suggested Tuesday that he could extend a 90-day truce in his trade war with China, while his top White House economic adviser backtracked from the president’s announcement that Beijing had agreed to reduce tariffs on U.S.-made cars. The developments again called into question the extent of a trade agreement the White House said Trump had struck with Chinese President Xi Jinping over dinner at the Group of 20 summit on Saturday. [↑](#footnote-ref-13)
14. White & Weaver 18 (Ben White, Aubree Eliza Weaver, 7-11-2018, "Why markets are ignoring the trade war", POLITICO, https://www.politico.com/newsletters/morning-money/2018/07/11/why-markets-are-ignoring-the-trade-war-275587, accessed 7-11-2018) //ZS

    WHY MARKETS ARE IGNORING THE TRADE WAR— For the latest POLITICO Money podcast, I spoke with Richard Bernstein, former chief investment strategist at Merrill Lynch and now head of Richard Bernstein Advisors, about why markets are racing ahead even as President Trump executes a trade war with the Chinese. His answer? The economy and corporate profits are strong and Wall Street won’t care about trade wars until it threatens either of those things. “I wouldn’t say that Wall Street doesn’t care, I think that’s a bit strong. I would say that for where they are right now, the trade wars are taking a back seat to the fundamentals of the US economy. The US is really hitting on all eight cylinders right now and I think that’s the more important story for the stock market. But he’s not convinced markets will shrug off trade wars for long, especially if tariffs between China and the U.S. run into the hundreds of billions (more on which below). “Now of course if we start exacerbating the situation on trade it could move to the front seat pretty quickly. If there’s a rational approach, I think the markets can digest that. If it’s real scattershot and emotional I think the stock market has a lot of trouble with that. [↑](#footnote-ref-14)
15. Vague, Richard. “Rapid Money Supply Growth Does Not Cause Inflation.”, Institute for New Economic Thinking, Dec 2 2016, https://www.ineteconomics.org/perspectives/blog/rapid-money-supply-growth- does-not-cause-inflation

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

    page95image66128128 [↑](#footnote-ref-15)
16. http://www.crei.cat/wp-content/uploads/users/pages/ILDMI\_pub.pdf

    the impact of the debt level and the debt maturity on inflation in a model of monopolistic competition and sticky prices building on the work of Schmitt-Grohe and Uribe (2004), Siu (2004), Lustig et al. (2008) and Faraglia et al. (2012). We identify two key channels through which the government wants to use inflation for fiscal purposes, a real liability effect and an implicit profit tax. Using the computational method of Faraglia et al. (2012), we are able to consider incomplete market models with debt of up to 20 years maturity. **Our results suggest that when monetary and fiscal policies are jointly optimal in the sense that they are controlled by a single authority, debt and debt maturity have only a small impact on inflation**. The optimal policy does not call for using inflation to reduce the deficit or lower the level of debt but rather adjustments that follow shocks to the governments budget are accompanied by persistent increases in tax rates. This result holds even for maturities as long as 20 years. If monetary and fiscal policies are unco-ordinated, on the other hand, and the short-term interest rate is set according to a Taylor rule, our model assigns an important role to inflation. In response to shocks that lead to deficits, the government wants to engineer large and persistent increases in inflation. We show that the tax policy of the government is accomodative to the objective of output stability that is implicit in the Taylor rule. [↑](#footnote-ref-16)
17. Kimberly Amadeo, The Balance, "Top 10 Reasons the U.S. Economy Won't Collapse", 11-18-18, <https://www.thebalance.com/us-economy-wont-collapse-3980688>

    **Economic growth is slow but stable. Since the Great Recession, the economy has grown between 1.5 - 2.7 percent per year. According to business cycle theory, a bust only occurs after a boom. That's when GDP is more than 3 percent. It hasn't been that high since 2005** according to a review of GDP by [↑](#footnote-ref-17)
18. Kimberly Amadeo, 1-23-2019, "What Will the Economy Do in 2019 and Beyond?," Balance, https://www.thebalance.com/us-economic-outlook-3305669

    [**U.S. GDP growth**](https://www.thebalance.com/u-s-gdp-growth-3306008)**will slow to 2.3 percent in 2019 from 3 percent in 2018. It will be 2 percent in 2020, and 1.8 percent in 2021.** That's according to the most recent [forecast](https://www.federalreserve.gov/monetarypolicy/fomcprojtabl20181219.htm) released at the [Federal Open Market Committee meeting](https://www.thebalance.com/fomc-meetings-schedule-and-statement-summaries-3305975) on December 19, 2018. The projected slowdown in 2019 and beyond is a side effect of the [trade war](https://www.thebalance.com/trade-wars-definition-how-it-affects-you-4159973), a key component of [Trump's economic policies](https://www.thebalance.com/donald-trump-economic-plan-3994106).The [**unemployment rate**](https://www.thebalance.com/unemployment-rate-3305744) ends the year at 3.7 percent in 2018. It will fall to 3.5 percent in 2019, and rise slightly to 3.6 percent in 2020, and 3.8 percent in 2021. That's lower than the Fed's 6.7 percent target. But former [Federal Reserve](https://www.thebalance.com/the-federal-reserve-system-and-its-function-3306001) Chair [Janet Yellen](https://www.thebalance.com/janet-yellen-3305503) noted a lot of workers are part-time and would prefer full-time work. Also, most job growth is in low-paying retail and food service industries. Some people have been out of work for so long that they'll never be able to return to the high-paying jobs they used to have. [↑](#footnote-ref-18)
19. **Lazear**, Edward P. “Opinion | America's Economy Isn't Overheating.” **The Wall Street Journal**, Dow Jones & Company, 9 Oct. **2018**, www.wsj.com/articles/americas-economy-isnt-overheating-1539125398.

    The U.S. unemployment rate declined to 3.7%, a rate unseen in almost half a century, the Bureau of Labor Statistics reported Friday. Given the booming labor market, the Federal Reserve has reason to worry that the economy may be overheating. **Although we are getting close to the peak of the business cycle, three labor-market indicators suggest we’re not there yet: Job growth is too high, wage growth is too low, and the employment rate is still slightly below the level consistent with full employment.** First, consider the rate of job creation. Jobs must be created every month to keep up with population growth. Throughout a business cycle, labor economists can determine whether the number of new jobs is sufficient to keep pace with the added population using the employment-to-population ratio. The U.S. EPOP currently stands at 60.4%. It’s always well below 100% because some people are retired, at home or in school.Population growth over the past year has averaged 227,000 a month, so the U.S. economy must create 137,000 jobs monthly—60.4% of the population change—to keep up. September saw 134,000 new jobs created—almost exactly the full-employment number. But the three-month average is 190,000 jobs created a month. (The three-month average is more accurate because of month-to-month volatility; monthly numbers have an average error of about 75,000.) **Because 190,000 significantly exceeds the 137,000 threshold, the U.S. labor market is creating jobs at a rate faster than required to absorb the added population. This suggests the U.S. isn’t yet at full employment.** When the economy is at full employment, job creation is just large enough to keep up with population growth, neither increasing nor decreasing unemployment rates or EPOP. When the economy is recovering, job growth exceeds population growth, which makes up for jobs lost during a recession. **The current rate of job creation points to a labor market still in the recovery phase.** Another clue that full-employment hasn’t been achieved is that the EPOP remains below its full-employment level. The prerecession EPOP peak of 63.4% will not likely be reached because the population is aging and retirees depress the EPOP’s natural level. But a peak rate that accounts for demographic changes is closer to 61%, according to the Council of Economic Advisers and a National Bureau of Economic Research report. That’s still half a percentage point above where the U.S. is now. **More evidence that the economy isn’t at peak employment is that the employment rate of 25- to 34-year-olds, depressed throughout the economic recovery, is now growing.** It has risen by a full percentage point since January, suggesting **there are still people to pull back into the workforce.** 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.** [↑](#footnote-ref-19)
20. Bill, 2-25-2010, "Pushing the fantasy barrow," Bill Mitchell - Modern Monetary Theory, <http://bilbo.economicoutlook.net/blog/?p=8252>

    They modelled the output (income) effects of a permanent stimulus of 1 per cent of GDP (percent) using either a public spending injection and/or an equivalent tax cut (equal to 1 per cent of GDP). The two multipliers estimated were 1.55 for government spending and 0.98 for tax cuts, which are consistent with the usual approach. **So if government spending increases by 1 per cent of GDP the total increase in GDP will be 1.55 per cent.** Unable to cope with the reality that their New Keynesian anti-fiscal policy world was collapsing around them, some of the key ideologues such as Barro and John Taylor then had to trump up some alternative. [↑](#footnote-ref-20)
21. Oxfam, xx-xx-xxxx, "," No Publication, https://www.oxfam.org/sites/www.oxfam.org/files/cs-true-cost-austerity-inequality-uk-120913-en.pdf

    **When all austerity measures are taken into account, including cuts to public services and changes to taxes and welfare, the poorest tenth of the population are by far the hardest hit, seeing a 38 per cent decrease in their net income over the period 2010-15**.41 By comparison, the richest tenth will have lost the least, comparatively, seeing a 5 per cent fall in their income.42 There is also continuing evidence that the very richest are faring much better since the economic crisis. The super-rich – the top one per cent of earners – pocketed 10p of every pound of income earned in the UK in 2010-11, up from 7p in 1994-5. [↑](#footnote-ref-21)
22. Kimberly **Amadeo**, 12-27-2018, "Why Austerity Measures Usually Don't Work," Balance, <https://www.thebalance.com/austerity-measures-definition-examples-do-they-work-3306285>

    Austerity measures are reductions in [government spending](https://www.thebalance.com/current-u-s-federal-government-spending-3305763), increases in tax revenues, or both. These harsh steps are taken to lower [budget deficits](https://www.thebalance.com/budget-deficit-definition-and-how-it-affects-the-economy-3305820) and avoid a debt crisis. Governments are unlikely to use austerity measures unless forced to do so by the [bond](https://www.thebalance.com/what-are-bonds-and-how-do-they-work-3306235) holders or other lenders. **These measures act like**[**contractionary fiscal policy**](https://www.thebalance.com/contractionary-fiscal-policy-definition-purpose-examples-3305791)**.** **They slow economic growth.** **That makes it even more difficult to raise the revenue needed to pay off**[**sovereign debt**](https://www.thebalance.com/sovereign-debt-definition-importance-and-rankings-3306353)**.**  [↑](#footnote-ref-22)
23. No Author, 6-17-2012, "The Wrong Austerity Cure," No Publication, <https://www.globalpolicy.org/social-and-economic-policy/the-world-economic-crisis/general-analysis-2/51715-the-wrong-austerity-cure.html?itemid=id#1303>

    There is also a moral-hazard aspect to the austerity argument: easing repayment terms for spendthrift governments will only encourage reckless behavior in the future - forgiving past sins perpetuates sinning. Moreover, virtuous creditors should not bail out irresponsible borrowers, be they private or public. From this perspective, austerity is the necessary and just penance for reprobates such as Greece, Spain, and Italy. **But austerity is not working; indeed, it is counterproductive. In the short to medium run, fiscal consolidation - whether in the form of cutting government spending or increasing revenues - results in lower output and employment, which means lower tax collection, higher deficits, and escalating debt relative to GDP.** Savvy investors, like frustrated voters, recognize that low growth and high unemployment actually enlarge deficits and add to debt in the short run. That is why, after more than two years, interest rates are rising, not falling, in countries crushed by onerous austerity measures. In fact, there is no simple relationship between the size of a government's deficit or debt and the interest rate that it must pay. British government bonds now offer significantly lower interest rates than those of France, Italy, or Spain, even though the United Kingdom's fiscal position is considerably worse. Greece is caught in a classic debt trap, as the interest rate on its public debt has soared beyond its growth rate by a considerable margin; Spain is teetering on the brink. **Austerity in Europe has confirmed the International Monetary Fund's warning that overdoing fiscal consolidation weakens economic activity, undermines market confidence, and diminishes popular support for adjustment.** [↑](#footnote-ref-23)
24. https://www.theatlantic.com/international/archive/2018/02/democrats-defense-spending/553670/ [↑](#footnote-ref-24)
25. www.theamericanconservative.com/larison/expanding-the-military-budget-is-wasteful-and-unnecessary

    The reason the Pentagon’s budget is now on a long-term upswing is because the military has spent years loudly lobbying for such an increase while complaining about an alleged “readiness crisis.” The reason the Pentagon’s budget is now on a long-term upswing is because the military has spent years loudly lobbying for such an increase while complaining about an alleged “readiness crisis.” Complaining works, at least when the military does it, because politicians in both parties fear the military’s wrath. **Politicians are desperate to be seen as “strong” on military spending. Most fear that it will be used against them at the next election if they don’t vote for every increase, and so most of them supporting throwing more money at the Pentagon regardless of circumstances or need.** [↑](#footnote-ref-25)
26. http://www.independent.org/tii/news/011008Higgs.html, accessed 1/19/03  
    Keynesian economics rests on the presumption thatgovernment spending, whether for munitions or other goods, creates an addition to the economy’s aggregate demand**, which** brings into employment labor and other resources that otherwise would remain idle**. The economy gets not only the additional production** occasioned by the use of those resources **but still more output via a “multiplier effect**.” Hence the Keynesian claim that **even government spending to hire people to dig holes in the ground and fill them up again has beneficial effects;** even though the diggers create nothing of value, **the multiplier effect is set in motion as they spend their newly acquired income**for consumption goods newly produced by others. [↑](#footnote-ref-26)
27. Leo Shane Iii, 12-10-2018, "Trump changes his mind again on military spending, now wants a big boost next year," Military Times, <https://www.militarytimes.com/news/pentagon-congress/2018/12/10/trump-changes-his-mind-again-on-military-spending-now-wants-a-big-boost-next-year/>

    **WASHINGTON — President Donald Trump this week is expected to announce plans for a dramatic boost in military spending next fiscal year,**[**reversing course on previous pledges**](https://www.politico.com/story/2018/12/09/trump-pentagon-defense-spending-budget-1054068)**of a trimmed down defense budget, according to multiple news sources.** The move comes after intense lobbying from congressional Republicans and Defense Secretary Jim Mattis, who argued [Trump’s announced $700 billion military spending plan](https://www.defensenews.com/pentagon/2018/10/26/its-official-dod-told-to-take-cut-with-fy20-budget/) for fiscal 2020 was not only contrary to the administration’s national security build-up but potentially dangerous for the nation. [↑](#footnote-ref-27)
28. (Douglas J. Amy is a Professor of Politics at Mount Holyoke College. 2007. Governmentisgood.com. “A Guide to Rebutting Right-Wing Criticisms of Government” <http://www.governmentisgood.com/feature.php?fid=14>)  
    We think we know government, but we really do not. As¶ **Americans** we **have come to view government primarily through a set of negative stereotypes** – such as “**government is wasteful**,” “big government impinges on our freedoms,” “government undermines business,” and “**most government programs fail**.” These negative images are being constantly promoted by conservative politicians and pundits who are trying to justify their campaign to drastically reduce government**. But it turns out that these popular images of government are only tenuously rooted in reality. If we take a careful look at these typical conservative criticisms of government, we find that most of them are actually** exaggerated, misleading, or often simply **wrong**. **For example, many Americans have come to believe that the government wastes forty-eight cents of every tax dollar. In reality, studies show that the amount of waste is more like two cents for every dollar** – **hardly an alarming figure**.¶ Many of the articles on this website take on and refute these misleading stereotypes about government. What follows is a brief guide to the common right-wing criticisms of government and why they are largely off the mark. The left-hand column contains the complaint, and the right hand column contains a brief rebuttal and a link to the article that explains more fully why the complaint is flawed. As you make your way through these issues, I think you may find that much of what you think is wrong with government – and what conservatives keep telling you is wrong – is simply mistaken. This is not to say that there is nothing wrong with this government – only that it is not what conservatives say it is. [↑](#footnote-ref-28)
29. Julian E. Zelizer, 4-7-2014, "Blowing Up the Deficit Is Part of the Plan," Atlantic, <https://www.theatlantic.com/politics/archive/2017/12/blowing-up-the-deficit-is-part-of-the-plan/548720/>

    **Speaker of the House Paul Ryan has already announced that the GOP plans to cut federal health care and anti-poverty programs because of a deficit that his party is about to balloon**. “We’re going to have to get back next year at entitlement reform,” he said on a talk-radio show, “which is how you tackle the debt and the deficit.” This is exactly how what President Ronald Reagan’s budget director, David Stockman, called “starving the beast” works. **By creating a fiscal straitjacket through lower taxes, conservatives leave Washington with less money and raise the specter of deficits damaging the economy as a rationale to take away the benefits that millions of Americans depend on.** If they are not fiscally conservative right now, they can be when it comes time to talk about spending on the poor and disadvantaged. While the right usually encounters a fierce backlash whenever they try to retrench specific federal benefits, as the GOP recently discovered with their failed attempt to repeal and replace the Affordable Care Act, cutting budgets in the name of deficit reduction has traditionally offered a less toxic mechanism for achieving the same goal. [↑](#footnote-ref-29)
30. Evan Horowi􏰂 18, 1-11-2018, ”The GOP Plan To Overhaul Entitlements Misses The Real Problem,” FiveThirtyEight, h􏰀ps://fivethirtyeight.com/features/to-cut-the-debt- the-gop-should-focus-on-health-care-costs/

    This is exactly what you see for Social Security. The CBO expects total Social Security spending to leap up over the next decade but then se􏰀le at just over 6 percent of the GDP, at which point it will cease to be a major contributor to rising entitlement spend- ing or growing debts. **Social Security is thus a minor player in our long-term budget drama; if you cut the program to the bone, shrinking future payouts so that they won’t add a penny to the deficit, the federal debt would still reach 111 percent of the GDP in 2047**.4 Likewise, cuts to welfare and poverty-related entitlements like food stamps and unemployment insurance are unlikely to improve the debt forecast. In fact, spending on these entitlements has been dropping since the high-need years around the Great Recession and is expected to shrink further in the decades ahead — partly because pay- outs aren’t adjusted to keep up with economic growth, and partly because the birth rate has been falling and several programs are geared to families with children.5 [↑](#footnote-ref-30)
31. Kaufmann 17 (Greg Kaufmann is the former poverty correspondent to The Nation and a current contributor. He is a senior fellow at the Center of American Progress and editor of TalkPoverty.org. “The Republican Plan Isn’t Just About Taxes—It’s About Shredding the Safety Net.” 12/19, https://www.thenation.com/article/the-republican-plan-isnt-just-about-taxes-its-about-shredding-the-safety-net/)   
    The skids for these cuts have been greased by decades of lies about anti-poverty programs and their effectiveness. Conservatives usually refer to cutting the safety net as an attempt to reduce “waste, fraud, and abuse,” or end a “culture of dependence”—but in reality it’s simply looking squarely at our neighbors, demonizing them, and then turning our backs. The only thing missing is a spit in the eye for emphasis. The underlying problem is that Americans often buy into conservative rhetoric about “welfare” and the media are all too often complicit. A long history of racially coded language has painted people with low incomes as undeserving of assistance, and there is a persistent lack of education about what our safety net is, and whom it benefits. How many Americans know that more than one in two of us will experience at least a year of poverty or near-poverty during our working years? While conservatives say that people are living off their food stamps, few Americans know that the average benefit is $1.40 per person, per meal. The notion of supporting a family on that is absurd. The public also envisions extensive subsidized housing—it has no idea that only one in four families that qualify for federal rental assistance actually receives it, and that their average income is approximately $12,500 per year. They think people are getting “free cash,” but cash assistance (TANF) goes to only 23 of every 100 families in poverty nationwide, and the program is virtually nonexistent in many states. (It’s little surprise that a gutted TANF “block grant” is the model for what congressional conservatives would like to do with nutrition assistance, Medicaid, housing, and more—watch it lose value with inflation over the years, and watch fewer and fewer people receive it.) It also doesn’t matter a whit to conservatives what the evidence says about the kinds of things that make a difference in people’s lives. It doesn’t seem to matter that our anti-poverty programs cut poverty in half—that poverty would have been as high as nearly 30 percent in recent years without them; or that girls who had access to food stamps (SNAP) saw increases in their economic self-sufficiency as adults—including less welfare participation—compared to their disadvantaged peers who didn’t have access; or that a little assistance for children up to age 5 is associated with boosted educational performance, and increased work and earnings as adults; or that children under 13 who were able to use a housing voucher to move to a low-poverty neighborhood were 32 percent more likely to attend college and earned 31 percent more annually as young adults, compared to their peers in families that didn’t receive a voucher. Or even that expansion of Medicaid eligibility has reduced infant mortality and childhood deaths, and that children eligible for Medicaid are more likely to go on to graduate college. [↑](#footnote-ref-31)
32. **President Trump would veto any bill that increases taxes**, should Democrats win a House majority on Election Day, Trump's top economic adviser said Thursday. "President Trump would veto tax hikes," White House Economic Council Director Larry Kudlow said at a Washington Post event. Kudlow also said that he would personally oppose any tax increases in the context of a potential bipartisan deal to bring down the national debt. [↑](#footnote-ref-32)
33. **Romer**, CHRISTINA D. “Raising Taxes vs. Cutting Spending - Economic View.” **The New York Times**, The New York Times, 2 July **2011**, www.nytimes.com/2011/07/03/business/economy/03view.html.

    President Obama pressured Republicans last week to accept higher taxes, in addition to reduced spending, as part of a plan to pare the deficit. The economic evidence doesn’t support the anti-tax view. Both tax increases and spending cuts will tend to slow the recovery in the near term, but spending cuts will likely slow it more. Over the longer term, sensible tax increases will probably do less damage to economic growth and pro- ductivity than cuts in government investment. **Tax increases and spending cuts hurt the economy in the short run by reducing demand. Increase taxes, and Americans would have less money to spend. Reduce spending, and less government money would be pumped into the economy. Professional forecasters estimate that a tax increase equiva- lent to 1 percent of the nation’s economic output usually reduces gross domestic prod-uct by about 1 percent after 18 months.** A spending cut of that size, by contrast, reduces G.D.P. by about 1.5 percent — substantially more. [↑](#footnote-ref-33)
34. July Lemov 21,, 7-21-2010, "Getting High on Excise Taxes," No Publication, http://www.governing.com/topics/finance/high-excise-taxes.html

    **Excise taxes are more stable than sales taxes, and sometimes they are easier to pass -- depending on how many users the tax effects.** It's harder to raise the tax on beer than on cigarettes. In previous years, states could patch a hole in their budget by raising an excise tax, but states can't increase excise taxes to raise the kind of revenue they need now. [↑](#footnote-ref-34)
35. Institute on Taxation and Economic Policy, xx-xx-xxxx, "," No Publication, https://itep.org/wp-content/uploads/whopaysreport.pdf

    State personal income taxes are typically more progressive than the other taxes that states levy (e.g property, consumption). **Sales and excise taxes are the most regressive, with poor families paying almost eight times more of their income in these taxes than wealthy families, and middle-income families paying five times more**. Property taxes are typically regressive as well, but less so than sales and excise taxes [↑](#footnote-ref-35)
36. <https://www.forbes.com/sites/timworstall/2017/08/28/how-many-times-must-we-say-this-a-financial-transactions-tax-raises-no-revenue/#77214dd51a7b>

    **Worstall**, Tim. “How Many Times Must We Say This? A Financial Transactions Tax Raises No Revenue.” **Forbes**, Forbes Magazine, 28 Aug. **2017**, www.forbes.com/sites/timworstall/2017/08/28/how-many-times-must-we-say-this-a-financial-transactions-tax-raises-no-revenue/#138e14ad1a7b.

    **No net revenue will be raised by the specific proposals that have been put forward.** This will sound strange to those who can see that there will indeed be revenue coming from the tax, but that is because while **there will indeed be revenue from the tax itself there will also be falls in revenue from other taxes. The net effect of this is that there will be less revenue in total as a result of an FTT. But of course, do not just take our word for it. That of the European Commission should be sufficient: ‘With a tax rate of 0.1% the model shows drops in GDP (-1.76%) in the long-run**. It should be noted that these strong results are related to the fact that the tax is cumulative and cascading which leads to rather strong economic reactions in the model.’ (Vol. 1 (Summary), p. 50) Revenue estimates are as follows: ‘[A] stylised transaction tax on securities (STT), where it is assumed that all investment in the economy are financed with the help of securities (shares and bonds) at 0.1% is simulated to cause output losses (i.e. deviation of GDP from its longrun baseline level) of up to 1.76% in the long run, while yielding annual revenues of less than 0.1% of GDP.’ (Vol. 1 (Summary), p. 33) A reasonable estimate of the marginal rate of taxation for EU countries is 40-50% of any increase in GDP. That is, that from all of the various taxes levied, 40-50% of any increase in GDP ends up as tax revenues to the respective governments. Thus if we have a fall of 1.76% in GDP we have a fall in tax revenues of 0.7-0.9% of GDP. The proposed FTT is a tax which collects 0.1% of GDP while other tax collections fall by 0.7-0.9% of GDP. It is very difficult indeed to describe this as an increase in tax revenue. The underlying insight here is that the Laffer Curve really is true. There're tax rates which, when we go above them, decrease, not increase, total revenue collected. A detail which we need to be aware of being that the peak of the curve is different for different forms and styles of taxation. We can load the tax onto cigarettes because demand is relatively inelastic with respect to price. This is not, as the EU has pointed out, true of stock and other financial trading. Even a tax of 0.01% is above the Laffer Curve peak**. A financial transactions tax is a lovely idea but it does have one rather large failure in that it doesn't in fact gain any extra tax revenue, far from it--it reduces total collections.** [↑](#footnote-ref-36)
37. <https://www.foxbusiness.com/markets/financial-transaction-tax-a-failure-in-the-making>

    **Chilton**, Bart. “Financial Transaction Tax: A Failure In The Making.” **Fox Business**, Fox Business, 9 Feb. **2018**, www.foxbusiness.com/markets/financial-transaction-tax-a-failure-in-the-making.

    Here's what has actually transpired. **Nations, sovereign entities and geographies that have instituted a FTT have lost trading revenue and jobs as their markets migrate to FTT-free zones.** With less trading, there are correspondingly less—you guessed it—revenues. There are no magic revenue beans which equates to no additional bucket-o-cash; ergo no free college. If that weren’t enough, **jobs and economic activity related to trading were lost to other jurisdictions**. The third tragic lesson for those in search of seemingly “easy revenue” hits: the trading won’t be coming back. Gone, gone, the damage done. [↑](#footnote-ref-37)
38. <https://www.ft.com/content/b9b40fee-9236-11e2-851f-00144feabdc0>

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    <https://www.ft.com/content/b9b40fee-9236-11e2-851f-00144feabdc0>  
      
    There are some lessons to be learnt from the Swedish experience. **First**, on open financial markets it is easy to move transactions to untaxed markets. The intensified use of automatic trading makes it easier to do so, which erodes the tax base. S**econd**, it is legally problematic to determine what constitutes a taxable transaction. This makes tax inspection difficult – and will increase trades in the financial instruments that are untaxed. Third, it is unlikely to make much money. If the tax improves the efficiency of the market, the tax base will shrink as a result of the decline in trading. Even if the volume of transactions is not affected by the tax, the tax may not necessarily generate much since transactions may move to untaxed instruments. [↑](#footnote-ref-38)
39. Kimberly Amadeo, U.S. Economy expert for The Balance, September 10, 2018, “Will the U.S. Debt Ever Be Paid Off?,” The Balance, <https://www.thebalance.com/will-the-u-s-debt-ever-be-paid-off-3970473> (accessed 12/6/18)

    There are only three ways to decrease the debt. The first is to cut spending. Sequestration tried to force the government to cut discretionary spending by 10 percent. No one in Congress thought it was a good idea. Members adopted it to force themselves to come up with something better. The Simpson-Bowles report recommended many good ways to cut the debt. But Congress ignored it. Even with sequestration, the debt continued to grow. To truly cut the debt, Congress would have to cut spending so severely that it would slow economic growth. That's because government spending is a component of gross domestic product. The second is to raise taxes. That could also slow growth. That's especially true if the tax rate is more than 50 percent, according to the Laffer Curve. If Congress raises the tax rate beyond that level, then the additional revenue generated will be lower than before. That's because that tax rate is enough to curb incentives to grow businesses and income. [↑](#footnote-ref-39)
40. Spross, Jeff. “America is going to pay a lot of interest soon. But don't fear a debt crisis.”, The Week, Oct 1 2018, https://theweek.com/articles/798463/america-going- pay-lot-interest-soon-but-dont-fear-debt-crisis

    “**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.** "But what about inflation?" you might ask. **That is the proper question: The inflation level, not the risk of a debt crisis, is what actually determines the government's room to spend on public priorities.** When inflationary pressure is too great, the U.S. can relieve it by raising taxes or hiking interest rates to remove money from the economy. **But simply introducing new dollars into the economy does not necessarily lead to price increases. Where the money goes is crucial. To create inflation, new dollars must go into new spending and consumer demand. Interest payments on the national debt are extremely unlikely to do that**. The key thing to understand here is that **most U.S. government debt is denominated in treasury bonds, which are pretty much the most liquid asset in the world.** If you own a treasury bond, but you'd rather have cash, you will have no trouble finding a buyer. That means pretty much anyone who owns a treasury bond prefers it to cash because they're looking to save it. And since owning a treasury bond is the prerequisite for receiving federal interest payments, people are almost certainly going to save those payments as well.

    [↑](#footnote-ref-40)
41. **Kogan**, Richard. “Difference Between Economic Growth Rates and Treasury Interest Rates Significantly Affects Long-Term Budget Outlook.” **Center on Budget and Policy Priorities**, 11 Oct. **2017**, [www.cbpp.org/research/federal-budget/difference-between-economic-growth-rates-and-treasury-interest-rates](http://www.cbpp.org/research/federal-budget/difference-between-economic-growth-rates-and-treasury-interest-rates). **[Also indctis/acconts for interest rates equaling-CBO]**

    **We analyze U.S. data for the 223 years since 1792 and find that, on average, economic growth has exceeded interest rates, helping to shrink the burden of existing debt.  Economic growth also exceeded interest rates during the economic slump of recent years.**  The Congressional Budget Office (CBO) projects, however, that the average interest rate on government debt will gradually rise, will equal the economic growth rate by 2025, and will exceed it thereafter.  Our own long-term projections, and those of many other analysts, are based on CBO’s long-term assumptions about economic growth and interest rates.  **If, however, economic growth and interest rates behave more as they have throughout U.S. history, with the former exceeding the latter on average, then — all else being equal — the long-term budget outlook may be somewhat less challenging than we, CBO, and others currently project.**

    But, as Table 2 shows, **if interest rates are 0.3 percentage points lower than we assume, so that economic growth exceeds interest rates by an average of 0.2 percent after 2024, the fiscal gap through 2040 falls by one fifth; if economic growth exceeds interest rates by an average of 1.3 percent, the fiscal gap almost disappears.** In short, if the future relationship between economic growth and interest rates more closely aligns with the historical relationship, the long-term budget outlook may be somewhat less challenging than we, CBO, and some others assume.

    But for the U.S., expensive debt is nothing new. **In the 1990s, interest rates were much higher, so although the U.S. carried a smaller debt, Americans paid much more to service it.** **Today's interest expenses are still below their historical highs**, noted Mark Weisbrot, co-director of the Center on Economic and Policy Priorities. Even if interest rates increase dramatically, it would only bring interest payments to the relative level they had in the 1990s. [↑](#footnote-ref-41)
42. Paul Krugman. “On the Debt Non-Spiral”. New York Times. Sept 11 2018. https://www.nytimes.com/2018/09/11/opinion/on-the-debt-non- spiral.html?rref=collection%2Fsectioncollection%2Fopinion-columnists

    “**The usual scare story about debt warns about a debt spiral: deficits mean higher debt, which means higher interest payments, which means bigger deficits, which means faster growth in debt, and so on until confidence collapses. But this kind of debt spiral can only happen if the interest rate on the debt is higher than the economy’s growth rate. And this hasn’t been true for a while.** Here’s the average interest rate paid on federal debt: These days **that rate is well below 3 percent even when the economy is near full employment.** Meanwhile, we think the U.S. economy has an underlying growth rate of maybe 2 percent, plus 2 percent inflation – which means 4 percent nominal growth. **What this means is that debt doesn’t spiral. On the contrary, it tends to fall as a share of GDP unless the government runs large primary deficits.** I’m not saying that we shouldn’t worry about debt at all, because there may be future contingencies when real interest rates rise and debt becomes an issue. **But debt is way, way down on the list of things to worry about – absolutely trivial compared with, say, crumbling infrastructure**, which should be fixed without worrying about paying as you go.**”**  [↑](#footnote-ref-42)
43. John **Tamny 17**, Political Economy editor at Forbes, editor of RealClearMarkets.com, a Senior Fellow in Economics at Reason Foundation, plus a senior economic advisor to Toreador Research & Trading, 9-24-2017, "Ignore The Endless Talk Of Doom, Budget Deficits Really Don't Matter," Forbes, https://www.forbes.com/sites/johntamny/2017/09/24/forget-the-protests-of-conservatives-deficits-really-dont-matter/2/#5c6c20e58530

    U.S. federal debt added up to $908 billion in 1980, but today, nearly 40 years later, the number comes in around $20 trillion. That the amount owed by U.S. taxpayers has soared over twenty-fold would, in a static world, correlate with a huge increase in borrowing costs for the U.S. Treasury. **Except borrowing costs haven’t risen. While the yield on 10-Year U.S. Treasuries was 10.8 percent in 1980, as of today the yield has declined to 2.27%. Yes, you read that right, amid soaring federal debt the cost of government borrowing has plummeted….** While Williamson and supply-siders can argue endlessly about the cause of surging federal revenues since 1980, what can’t be denied is that they’ve grown substantially. And alongside the increase, so have deficits and debt increased. But what if federal revenues were the same today as they were in 1980? If so, simple math logic tells us that federal deficits and debt would be quite a bit lower. Williamson views tax cuts as some form of “free lunch” given his belief that supply-siders overstate the revenue implications of reduced penalization of work, but even if they do overstate the revenue implications, he should uniquely be pleased given his dislike of deficits. Indeed, rising revenues are what enable the government borrowing that Williamson bemoans, as the last forty years reveal in bright colors. Williamson concludes that “Deficits and public debt are a drag on the economy, hoovering up investable capital and putting upward pressure on interest rates.” Here he’s plainly mistaken. **As the last forty years once again remind us, there’s no clear correlation between deficits and interest rates. Importantly, this isn’t just a U.S. thing for those who naively believe the Federal Reserve has uniquely driven down yields on U.S. Treasuries. As Duke professor Richard Salsman has pointed out, in 1980 the G-7 nations in aggregate had debt/GDP ratios of 37 percent, and the average interest rate on their 10-year government bonds was 11.9 percent. By 2015, the debt/GDP ratio of those same countries was 115 percent, but average yields on their 10-years was 1.3 percent.** [↑](#footnote-ref-43)
44. **Riedl**, Brian. “Why America's Debt Burden Is Declining.” **The Heritage Foundation**, 7 Feb. **2005**, www.heritage.org/budget-and-spending/report/why-americas-debt-burden-declining.

    The second issue is whether or not increasing the debt ratio really causes higher interest rates. In theory, higher demand for a good or service will cause higher prices. Money is no different: An increase in the demand for borrowing money will increase the price of borrowing money (i.e., the interest rate). This is true regardless of whether the borrower is a government, a corporation, or an individual. The more important question is by how much the interest rate will increase, and that depends on how much is being borrowed and whether the market is large enough to absorb that amount. Today's global economy is so large and integrated-trillions of dollars move around the globe each day-that it can easily absorb the federal government's borrowing without triggering a substantial increase in interest rates. Harvard economist Robert Barro[[4]](https://www.heritage.org/budget-and-spending/report/why-americas-debt-burden-declining" \l "_ftn4" \o ") studied the economies of 12 major industrialized countries and found thA2: Not surprisingly, real interest rates can be influenced by the debt ratio, not the annual change in budget deficits. Overall debt-to-GDP ratios across the 12 countries matter more than what happens in one country. If one country borrows to finance its debt, capital seekers can still find cheap capital in other countries, thus averting the shortage that would raise interest rates. An increase of 1 percentage point in America's debt-to-GDP ratio raises interest rates by approximately 0.05 percentage point. If all 12 countries increased their ratios by 1 percentage point, interest rates would increase by approximately 0.1 percentage point. In other words, raising interest rates by just 1 percent would require all 12 nations to raise their debt ratios by a full 10 percentage points. If just the United States incurred all new debt, the effect on interest rates would be much smaller. Research by the American Enterprise Institute's Eric Engen and Columbia University economist (and former chairman of the Council of Economic Advisers) Glenn Hubbard shows that a 1 percentage point increase in the U.S. debt ratio increases long-term interest rates by approximately 0.035 percent. In other words, it would take a 29 percent increase in the U.S. debt ratio-totaling $3.3 trillion in new debt-to raise long-term interest rates by just 1 percentage point.[[5]](https://www.heritage.org/budget-and-spending/report/why-americas-debt-burden-declining" \l "_ftn5" \o ") [↑](#footnote-ref-44)
45. Akin Oyedele, 9-26-2018, "The Fed just raised interest rates again — here's how it happens and why it matters", Business Insider, https://www.businessinsider.com/how-the-fed-raises-interest-rates-2017-12 // ZS  
    From Washington, the Fed adjusts interest rates with the hope of spurring all sorts of other changes in the economy. If it wants to encourage consumers to borrow so spending can increase, which should boost economic growth, it cuts rates and makes borrowing cheap. After the Great Recession, it kept rates near zero to achieve just that. [↑](#footnote-ref-45)
46. Samantha Chang, 1-14-2019, "No US Recession for at Least 5 Years: OppenheimerFunds Investment Boss," CCN, <https://www.ccn.com/no-us-recession-for-at-least-5-years-oppenheimerfunds-investment-boss/>

    **There’s no fear of an economic recession within the next five years**, so everyone anxious about bearish projections should calm down. That’s the advice of Krishna Memani, the chief investment officer at OppenheimerFunds. Memani says the US economy is slowing down a bit, but it will still increase north of 2%. Moreover, Memani says that fears of a US recession that will drag down the global economy is overblown. “There’s no recession imminent — I think five more years is what we are talking about,” Krishna told CNBC on January 14. “Valuations are meaningfully better.” Memani says **the Federal Reserve’s indication that it won’t raise rates again has calmed Wall Street anxiety.** As CCN reported, Fed chairman Jerome Powell hiked US interest rates a stunning four times in 2018. The Federal Reserve has hiked interest rates seven times during President Donald Trump’s two years in office. In contrast, the Fed increased rates just once during Barack Obama’s eight-year tenure. **The repeated rate hikes in 2018 caused the stock market to tumble in December and fueled widespread fears of a recession. Amid heavy backlash from all sides, Powell vowed to be more sensitive before raising rates so frequently.“The Fed has effectively backed off,” Memani observed. “That’s a good thing. Even if they tighten one or two times more, I think they will put more color around it to not spook the market.” Krishna Memani says the biggest risk in the global stock market is trade. However, he’s optimistic that the ongoing trade disputes between the United States and China will be resolved. Why? Because both sides have too much to lose if they don’t fix the problem.** [↑](#footnote-ref-46)
47. **Schneider**, Avie. “U.S. Economy Grew At A 3.5 Percent Rate In 3rd Quarter.” **NPR**, NPR, 26 Oct. **2018**, [www.npr.org/2018/10/26/660489729/will-headwinds-appear-in-u-s-economic-growth-benchmark](http://www.npr.org/2018/10/26/660489729/will-headwinds-appear-in-u-s-economic-growth-benchmark).

    **The economy expanded at a 3.5 percent annual rate in the third quarter**, the Commerce Department said Friday. That's slower than the second quarter's blockbuster 4.2 percent, but **it puts the economy on pace for the fastest annual growth in 13 years.** Private analysts had estimated a 3.4 percent growth rate in gross domestic product for the third quarter. [↑](#footnote-ref-47)
48. **Rivlin**, Alice M. “Growing the Economy and Stabilizing the Debt.” Brookings.edu, **The Brookings Institution**, 28 July **2016**, www.brookings.edu/testimonies/growing-the-economy-and-stabilizing-the-debt/.

    **Weak economic growth—or worse, sliding back into recession—will reduce revenues and make it much harder to reduce or even stabilize the ratio of debt to GDP.** But the prospect of debt growing faster than the economy for the foreseeable future reduces consumer and investor confidence, raises a serious threat of high future interest rates and unmanageable federal debt service, and reduces likely American prosperity and world influence. Stabilizing and reducing future debt does not require immediate austerity—on the contrary, excessive budgetary austerity in a still-slow recovery undermines both goals—but it does require a firm plan enacted soon to halt the rising debt/GDP ratio and reduce it over coming decades. Financial markets will not provide advance warning of when such a plan is required to avert negative market reactions.” [↑](#footnote-ref-48)
49. “Could Faster Growth Solve Our Debt Woes?” **Committee for a Responsible Federal Budget**, 24 May **2016**, www.crfb.org/blogs/could-faster-growth-solve-our-debt-woes.

    **Faster economic growth can help improve debt projections in at least two ways. First, faster growth produces more revenue -- enough to result in $315 billion of deficit reduction for every 0.1 percentage point increase in the annual growth rate. But in addition, faster growth increases the economy's capacity to carry debt**. Thought of another way: when we measure debt as a share of GDP, **a higher GDP can help lower debt-to-GDP the same as lower nominal debt levels can lower the ratio. As a result, even small improvements in growth can help slow debt accumulation. If growth were 0.1 percentage point higher annually, for example, debt levels would reach 71 percent of GDP by 2023, compared to 73 percent** under the CRFB Realistic Baseline. Even just a faster economic recovery that brings GDP back to its potential sooner would bring debt levels to 72 percent of GDP by 2023. [↑](#footnote-ref-49)
50. We recently recalculated the CBO forecast assuming that we do get to 3 percent growth on a sustained basis. After President Reagan’s tax cuts took effect, we had nearly 5 percent annual growth, and Trump has done even on the deregulation front. The long-term growth rate of the U.S. economy for the past century, which includes good times and very bad times, is still 3.3 percent. We are not shooting for the moon here. **With 3 percent real GDP growth, instead of the debt trend getting worse every year, it** will get better. With 1.9 percent annual growth, we will have an economy that reaches roughly $30 trillion by 2040. But **with 3 percent growth, the economy grows to just shy of $38 trillion. Over just 10 years, a 3 percent growth rate expands the economy and spins off $3 trillion more annual tax revenues and spending reductions.** That’s nearly the entire annual GDP of Michigan, Ohio and Indiana combined [↑](#footnote-ref-50)
51. Just guessing. Chandler 17 of Forbes writes that  
    Seth Chandler, 7-18-2017, "CBO Budget Projections: After Two Years No Better Than Throwing Darts," Forbes, <https://www.forbes.com/sites/theapothecary/2017/07/18/cbo-budget-projections-after-two-years-no-better-than-throwing-darts/#61e24b2467a2>, 1-22-2019, DJK  
    The latest Senate Republican healthcare reform plan, like its House predecessor, appears now to have failed. It did so for many reasons, some good and some not so good. Among the not-so-good reasons the proposal failed were the projections of the Congressional Budget Office. As I show here, CBO projections more than two years into the future in the domain it perhaps studies most -- federal deficits -- are little better than random guesses. Look at the chart below. It shows the deterioration of CBO predictive accuracy when it comes to the federal budget deficit. The circular markers show how accurate these predictions have been since 2009 in forecasting how large the federal budget deficit would be. As one can see, although CBO estimates are very good for the same year in which they are made, accuracy deteriorates rapidly. By year 3, CBO projections have actually been no better than luck. [↑](#footnote-ref-51)
52. Traum, Nora, and Shu-Chun S. Yang. "When does government debt crowd out investment?." Journal of Applied Econometrics 30.1 (2015): 24-45. http://www4.ncsu.edu/~njtraum/CrowdingOut.pdf

    “Two key factors drive the investment response to rising government debt: the source of policy changes that give rise to debt growth and distortionary debt financing. In the short run, **the effect of government debt is mainly determined by the type of fiscal or monetary policy shock that triggers a debt expansion. Higher government debt can crowd *in* investment if the debt is generated by a reduction in capital tax rates or by an increase in productive government investment, because both raise the net return to capital.** Over a longer horizon, distortionary financing plays an important role in the negative investment response following a debt expansion. After World War II, many economists were concerned about the impact of government debt [e.g., Domar (1944), Leland (1944), Wallich (1946), and the references therein]. Since then, a conventional view has emerged, suggesting that government borrowing is expansionary in the short run but contractionary in the long run.2 **Keynesian theory argues that when prices and wages are sticky, higher debt that is caused by deficit-financed tax cuts or spending increases adds to aggregate demand, leading income and output to increase.** However, the deficits reduce public saving. If private saving and capital inflows do not increase enough to fully offset government borrowing, interest rates rise over time. Consequently, investment is crowded out, and capital and output eventually decline, negating the short-run expansionary benefits” [↑](#footnote-ref-52)
53. Jeff Stein, Washington Post, 2018, ["Analysis," https://www.washingtonpost.com/news/wonk/wp/2018/04/20/these-economists-say-1-trillion-deficit-is-just-a-good-start/?utm\_term=.a4deebf9bba0, DOA: 11-28-2018] // ZWS

    The deficit owls say the **government borrowing comes out of a different pool of potential investment than businesses dip into**. **The deficit hawks believe in what the owls derisively refer to as the “loanable funds market” theory — the idea that there’s a fix pool of investment that can be swallowed up by government deficit financing**. But the deficit owls say **that bigger government deficits increase the available capital in the private sector by pushing bonds — a kind of asset — into the market. “When they spend more than they take in they create ‘crowding in,’ putting more money in the private sector**,” said Stephanie Kelton, an economist at Stony Brook University and a former adviser to Sen. Bernie Sanders (I-Vt.). “This money ends up somewhere.” [↑](#footnote-ref-53)
54. **Firestone**

    **Joe Firestone, 4-8-2015, "When Will the Senate Budget Committee Majority Ever Learn About Sector Financial Balances?," New Economic Perspectives,** <http://neweconomicperspectives.org/2015/04/when-will-the-senate-budget-committee-majority-ever-learn-about-sector-financial-balances.html>

    **Second, even if it were the case that people who wanted to invest in private businesses were holding government bonds, rather than reserves, that would not stop them from making investments if they found a venture that was likely to add to their wealth.** **This is true because government bonds make excellent collateral for loans from banks creating new deposits which can then be used for investment.** In addition, if the investor doesn’t want to use bonds as collateral, even though they are leverageable multiple times, government bonds are also very liquid. So holders of government bonds can easily sell them to gain liquidity at any time. [↑](#footnote-ref-54)
55. **Fullwiler, xx-xx-2010, "," No Publication, http://cas2.umkc.edu/economics/people/facultyPages/wray/papers/Working%20Papers/Fullwiler%20Kelton%20Wray%20MMT.pdf**

    **Regarding (iii), the private sector’s net financial wealth has been increased by the amount of the deficit.** That is, the different sequencing of the Treasury’s debt operations does not change the fact that deficits add net financial assets rather than “crowding out” private sector financial resources. **Indeed, primary dealers finance their purchases of bonds at auction in the repo market, mostly using Treasuries as collateral, while the newly issued bond will likely serve as collateral for further credit creation in financial markets.** Far from “crowding out,” bonds can actually enable further credit creation than would occur in their absence. [↑](#footnote-ref-55)
56. http://meea.sites.luc.edu/volume16/pdfs/Shetta-Kamaly.pdf

    Inspired by the work of Barro (1991), a number of studies have argued that certain type of public spending such as public investment could be conducive to private investment and growth. As indicated by Saleh (2003), it is argued that public capital crowds out or crowds in private capital, depending on the relative strength of two opposing forces: (1) as a substitute in production for private capital, public capital tends to crowd out private capital; and (2) by raising the return to private capital, public capital tends to crowd in private capital. Furthermore, Aschauer (1989a, 1989b) argues, on the one hand, that higher public investment raises the national rate of capital accumulation above the level chosen (in a presumed rational fashion) by private sector agents; therefore, public capital spending may crowd out private expenditures on capital goods on an ex ante basis as individuals seek to re-establish an optimal intertemporal allocation of resources. On the other hand, public capital, particularly infrastructure capital such as highways, water systems, sewers, and airports, are likely to bear a complementary relationship with private capital. Hence, higher public investment may raise the marginal productivity of private capital and, thereby, “crowd-in” private investment. [↑](#footnote-ref-56)
57. **Traum of HEC Montreal,**<https://pdfs.semanticscholar.org/2db1/4bee7fb11edba79afb3eb5ce7237e7e9f0dd.pdf>

    Although all the expansionary fiscal shocks cause government debt to grow, investment can rise or fall, depending on the type of shock. **When government investment increases or the capital tax rate decreases, higher debt is associated with higher private investment**, as shown by the solid lines in the second and third columns of Figure 3. An increase in productive government investment implies a higher stock of future public capital, which raises the marginal product of private capital (EtRˆK t+1 in equation (26)). A reduction in the capital tax rate directly increases the after-tax rate of return for investment. Because the tax shock is persistent, this lowers expectations of future capital tax rates. In the conventional view crowding out results from decreases in national saving, which drives up the real interest rate and lowers investment. ​ [↑](#footnote-ref-57)
58. Tracey Samuelson, MarketPlace, "Would China weaponize its U.S. debt as a trade war tactic?", 10-17-18, https://www.marketplace.org/2018/10/17/economy/would- china-weaponize-its-us-debt-trade-war-tactic

    While China’s holdings are significant, they amount to less than 5 percent of the U.S. total debt. What’s more, the country hasn’t been adding much to its reserves in recent years. **Selling its current supply would be an aggressive move that China would not undertake unless provoked,** said Wing Woo, an economic professor at the University of California-Davis. **China wouldn’t instigate a sale “unless they are outraged by some American actions which they view as excessive**,” he said. “**A fire sale means that the price of bonds will be lower. The Chinese would suffer big capital losses**.” [↑](#footnote-ref-58)
59. **David**, Javier E. “US, China Call a 90-Day Truce in Trade War as Trump, Xi Agree to Continue Wide Ranging Talks.” CNBC, **CNBC**, 3 Dec. **2018**, www.cnbc.com/2018/12/01/us-china-wont-impose-additional-tariffs-after-january-1-report.html.

    **Chinese President Xi Jinping and U.S. President Donald Trump put their bilateral trade war on pause momentarily, striking an agreement to hold off on slapping additional tariffs on each other’s goods** after January 1, as talks continue between both countries. In a White House readout of a dinner at the G-20 summit in Argentina, Xi and Trump discussed a range of nettlesome issues — among them the trade dispute that has left over $200 billion worth of goods hanging in the balance. “President Trump has agreed that on January 1, 2019, he will leave the tariffs on $200 billion worth of product at the 10 percent rate, and not raise it to 25 percent at this time,” the statement read. **Over the next 90 days, American and Chinese officials will continue to negotiate lingering disagreements on technology transfer, intellectual property and agriculture.** [↑](#footnote-ref-59)
60. **Oh**, Sunny. “Here's Why China Selling U.S. Treasurys ‘Might Be the Least Effective Retaliatory Measure," Says SocGen.” **MarketWatch**, MarketWatch, 19 June **2018**, www.marketwatch.com/story/why-chinas-treasury-hoard-isnt-much-of-a-weapon-in-trade-spat-with-us-2018-04-06.

    Analysts and economists insist, however, **China would struggle to diversify their foreign-exchange reserves away from the U.S. bond market,** with its depth and liquidity making it prized among foreign central bankers looking to stock up on haven assets that can be quickly sold if they need to stabilize their own currencies. “**Even if it could sell its more than a trillion dollar of Treasurys without pushing the market against it, where would it park the funds? It will not be able to secure the liquidity, safety and returns that are available in the US**,” said Marc Chandler, global head of currency strategy for Brown Brothers Harriman, in a note dated June 19. [↑](#footnote-ref-60)
61. **Oh**, Sunny. “Here's Why China Selling U.S. Treasurys ‘Might Be the Least Effective Retaliatory Measure," Says SocGen.” **MarketWatch**, MarketWatch, 19 June **2018**, www.marketwatch.com/story/why-chinas-treasury-hoard-isnt-much-of-a-weapon-in-trade-spat-with-us-2018-04-06.

    Moreover**, the decision to run down China's stock of U.S. government paper would be seen by investors as an escalation of already simmering trade tensions**, adding to fears the current war of words between the White House and Beijing could flare-up into concrete action. The tariffs and counter measures listed by Washington and Beijing have yet to be implemented and are still up for negotiation. **A further flare-up in trade jitters could put stocks under pressure, spurring investors to run to the safety of bonds, “countering any efforts to impact the Treasury market,”** said the analysts at Société Générale. [↑](#footnote-ref-61)
62. **Lin**, Zhang. “Why the Trade War Won't Prompt Beijing to Dump Its US Treasuries.” **South China Morning Post**, South China Morning Post, 18 Aug. **2018**, www.scmp.com/news/china/economy/article/2160270/why-trade-war-wont-prompt-beijing-dump-its-us-treasuries.

    Meanwhile, US government departments, including social security funds, hold five times more US government bonds than China. Even if Beijing decides to sell, **the US has enough ways to manage the impact. For instance, the Federal Reserve can just buy the US Treasuries from China in a balance sheet expansion, and the following cost of dollar depreciation will be shared by all the creditor countries.** As the issuer of the world’s primary reserve currency, the US can exert its privilege. [↑](#footnote-ref-62)
63. Bryan Borzykowski, 4-1-2018, "China's $1.2 trillion weapon that could be used in a trade war with the US," CNBC, <https://www.cnbc.com/2018/04/05/chinas-1-point-2-trillion-weapon-that-could-be-used-in-a-us-trade-war.html//ZS>   
    President Xi Jinping would have to be mighty angry to dump treasuries in droves, because a sell off would have a negative impact on its own financial affairs. "It's like holding a gun to your own head and saying I have a hostage," says Reinhart. If China were to sell its bond holdings, it would likely have to sell it at least some of the treasuries it purchased at a loss. If other countries sold, too, and prices plummet then it could lose billions. "It will inflict capital losses on itself," says Reinhart. The [U.S. dollar](https://www.cnbc.com/quotes/) would also fall, which would then make this trade-related provocation somewhat moot, adds Mark Zandi, chief economist at Moody's Analytics. A lower greenback would make U.S. exports more attractive, which would then hurt China's own export market. "It would negate some of the impact," he says. "Rates might spike, but the dollar would fall and what's the net impact of that? It doesn't feel like it's a winning strategy." As well, it's not certain that selling treasuries would have much of an impact, says Mills. If other countries step into buy those treasuries, then interest rates could remain stable. As of right now, U.S. bonds are still seen as a safe asset that people and countries buy when the global economy goes awry. If that stays the case then there's no reason why demand wouldn't materialize. "It's not like demand for U.S. Treasurys has broadly fallen," said Mills. "I would think that if they did start to sell, there would be a fair bit of demand from other countries and U.S. companies, especially as rates slowly increase, which makes them more attractive holdings. [↑](#footnote-ref-63)
64. Panos Mourdoukoutas, Forbes, "Higher U.S. Interest Rates Won't Cause Another Emerg ing Markets Financial Crisis", 03-19-18, https://www.forbes.com/sites/panosmourdoukoutas/2018/03/19/higher-us- interest-rates-wont-cause-another-emerging-markets-financial- crisis/#4ada2efd7513

    That shouldn’t be the case this time around. **The rise in U.S. interest rates comes at a time of rising commodity prices**, as reflected in the Powershares DB Commodity Index Tracking Fund, up 21.48% in the last two years. **The rising in commodity prices has helped commodity exporting emerging market economies improve their current account deficits, reducing their reliance on foreign capital to finance them. Brazil is a case in point. The country’s current account deficit has been improving recently, reaching USD 4310 million in January of 2018, lower than a USD 5085 million deficit a year earlier and market expectations of a USD 4991 million shortfall**. Meanwhile, Brazil’sForeign Exchange Reserves increased to 377035 USD Million in February from 375701 USD Million in January of 2018, and close to the all-time high of 381843 USD Million in August of 2017. South Africa is another case in point. Its current account deficit narrowed to ZAR 108.9 billion in the third quarter of 2017 from a revised ZAR 110.7 billion in the previous period. That has helped South Africa avert a crisis, as the country’s foreign capital reserves have been declining, down by USD 450 million to USD 50.05 billion in February of 2018, the lowest level since October 2017. Financial markets have taken notice. iShares MSCI Brazil are up 64.10% in the last two years, while iShares MSCI South Africa are up 37.79%. [↑](#footnote-ref-64)
65. <https://www.bloomberg.com/opinion/articles/2018-09-18/emerging-markets-fed-s-rate-increases-didn-t-cause-the-meltdown>

    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.”** [↑](#footnote-ref-65)
66. **Jeff Spross**, The Week, "America is going to pay a lot of interest soon. But don't fear a  debt crisis.", 10-01-18, <https://theweek.com/articles/798463/america-goingpay->lot-interest-soon-but-dont-fear-debt-crisis

    **The eurozone is so awash in stimulus that a rate increase by the Federal Reserve**, expected on Wednesday, **is not likely to create many ripples on the Continent**, economists say. The larger question for Europe is why the eurozone’s economy is not responding more to the help it is getting not only from its own central bank but also, inadvertently, from the Fed. The prospect of higher interest rates in the United States, along with efforts by the European Central Bank to push down rates in the eurozone, has already prompted investors to sell euros and buy dollars. For much of the year, in large part because of the Fed, the euro has hovered near lows last seen in 2003. That is a boon for European exports because it makes products priced in euros cheaper for foreign buyers. But **because the Fed has signaled its intentions so clearly, not much is likely to change for the eurozone on Wednesday unless there is a surprise** — for example, a statement by the United States’ central bank pointing to faster interest rate increases than investors are expecting. [↑](#footnote-ref-66)
67. Caroline **Baum**, 10-20-**2015**, "No, the U.S. will not default on its debt, no matter what," **MarketWatch**, <https://www.marketwatch.com/story/no-the-us-will-not-default-on-its-debt-no-matter-what-2015-10-20>

    Look what happened during the 2013 debt-limit showdown. **Lew and President Barack Obama tried to use the threat of default to their political advantage: to get the Republicans to stop holding the debt limit hostage to other priorities; and to get the public to blame the Republicans.** The strategy succeeded, even as it raised the Treasury’s cost of borrowing. Yields on the shortest T-bills TMUBMUSD01M, +0.32% jumped as much as 30 basis points as money-market mutual funds dumped their holdings, hoping to avoid a repeat of 2008 when the Reserve Fund “broke the buck.” Perhaps that explains why Lew has been more reserved this time around. Even so, yields on bills maturing in November have started to inch up. Opinion Journal: The Republican Leadership Debacle Opinion Journal: The Republican Leadership Debacle The U.S. Treasury can’t cover all its monthly payments with incoming monthly revenue. **But it can avoid default, defined by credit-rating agencies Moody’s and Standard and Poor’s as a failure to make timely payment of principal and interest.** **In any given month, the tax revenue flowing into the Treasury far exceeds interest payments** — by a lot. Last month, for example, the Treasury took in $365 billion in tax receipts and made $21 billion in interest payments. For fiscal 2015, which ended Sept. 30, those figures are $3.2 trillion in tax receipts versus $402 billion in net interest. The U.S. government’s ability to service its debt — the principal can be rolled over — should not be an issue. But Treasury has made it one, claiming in 2011 and 2013 that it lacks the authority to prioritize debt payments, something households do all the time. Confronted with insufficient funds for both the monthly mortgage payment and credit-card interest, guess what they do? They pay the mortgage because the consequences of missing a payment are much more serious. Treasury publicly denies it has the authority to pick and choose among 80 million monthly payments, saying its computerized system would have to be re-programmed. [↑](#footnote-ref-67)
68. John T. **Harvey**, 09-10-**2012**, "It Is Impossible For The US To Default," **Forbes**, https://www.forbes.com/sites/johntharvey/2012/09/10/impossible-to-default/#4cf52acf1180

    With so many economic, political, and social problems facing us today, there is little point in focusing attention on something that is not one. The false fear of which I speak is the chance of US debt default. There is no need to speculate on what that likelihood is, I can give you the exact number: **there is 0% chance that the US will be forced to default on the debt. We could choose to do so, just as a person trapped in a warehouse full of food could choose to starve, but we could never be forced to. This is not a theory or conjecture, it is cold, hard fact. The reason the US could never be forced to default is that every single bit of the debt is owed in the currency that we and only we can issue: dollars. Unlike Greece, we don’t have to try to earn foreign exchange via exports or beg for better terms. There is simply no level of debt we could not repay with a keystroke**. Don’t take my word for it. Here are just a few folks from across the political spectrum and in different walks of life saying the same thing: "The United States can pay any debt it has because we can always print money to do that. So there is zero probability of default." Alan [↑](#footnote-ref-68)
69. John T. Harvey, a professor of Economics at Texas Christian University**,** Forbes, 09-12-2012 ["It Is Impossible For The US To Default" https://www.forbes.com/sites/johntharvey/2012/09/10/impossible-to-default/#483f59301180 7-22-2018]EJ  
    With so many economic, political, and social problems facing us today, there is little point in focusing attention on something that is not one. The false fear of which I speak is the chance of US debt default. There is no need to speculate on what that likelihood is, I can give you the exact number: there is 0% chance that the US will be forced to default on the debt. We could choose to do so, just as a person trapped in a warehouse full of food could choose to starve, but we could never be forced to. This is not a theory or conjecture, it is cold, hard fact. The reason the US could never be forced to default is that every single bit of the debt is owed in the currency that we and only we can issue: dollars. Unlike Greece, we don’t have to try to earn foreign exchange via exports or beg for better terms. There is simply no level of debt we could not repay with a keystroke. [↑](#footnote-ref-69)
70. Anne Mayhew [Professor Emerita of Economics, University of Tennessee], November 2017, http://www.scholarsstrategynetwork.org/brief/why-there-nothing-scary-about-us-national-debt // ZS  
    The simple answer to “where will the money come from?” is that it comes from people who crave the chance to purchase U.S. Treasuries as a safe and secure investment in a world of great uncertainty. Eager lenders trust America’s economic prospects and ability to repay with interest for a long time to come. Trusted public debt can, in short, be a very good thing. When government spends and jobs are plentiful and businesses thrive, the economy grows and so do incomes. Private and governmental loans are made and repaid, and trust is abundant – setting the whole fruitful cycle in motion once again. [↑](#footnote-ref-70)
71. Ashley M. Williams [], 2-7-2014, "We hit the debt ceiling: What does it mean for me?", USA TODAY, https://www.usatoday.com/story/news/nation-now/2014/02/07/debt-ceiling-questions-impact/5279859/ // ZS  
    2. Has this happened before? Raising the debt ceiling is pretty routine; Congress has voted to raise the debt ceiling 19 times since 1993. Actually crossing the debt deadline has happened three times in the past three years, forcing the government to move money around to avoid hitting the ceiling. [↑](#footnote-ref-71)
72. Elkin 11 Larry, financial analyst, Wall street Pit, Insane Chatter, 1/5, http://wallstreetpit.com/55801-insane-chatter Austan Goolsbee, Obama’s chief economic adviser, went so far as to warn on television this week that failing to raise the debt ceiling would trigger “the first default in history caused purely by insanity.” **A lot of bad things are likely to happen if government borrowing abruptly slams into the ceiling, but Goolsbee is both wrong and alarmist when he claims that default would automatically follow.** As for insanity, well, perhaps Goolsbee can tell us exactly what meds were necessary to bring Obama back to free-spending reality after his apparent breakdown less than five years ago. Or maybe Goolsbee can muster enough candor to acknowledge that this controversy is not about much more than posturing, on both sides. The debt ceiling currently rests at $14.3 trillion, where Congress pegged it last February. If the government wishes to borrow more than $14.3 trillion, Congress must approve another increase. Currently, the Treasury’s total borrowing is around $13.9 trillion. That leaves about $400 billion of borrowing potential, which not very long ago would have provided a lot of breathing room. At the current rate of deficit spending, the Treasury will hit the limit in a few months. While Republican House Speaker John Boehner has expressed support for raising the ceiling, newly elected Tea Party Republicans are putting up a fight. They want to show budget-conscious supporters that they mean business. Meanwhile, last month, Obama’s debt-reduction panel failed to agree on a plan, proposed by its chairmen, that would have reduced the annual deficit to about $400 billion in 2015, leaving Democrats without a clear plan to get spending under control once the ceiling goes up. Of course, some relatively minor near-term reductions aside, at present Republicans have no such plan either, apart from a long-term proposal by new House Budget Chairman Paul Ryan, R-Wisc., that has not gotten much support from either party. **This is not the first time a budget debate has turned into a debt ceiling standoff**. In 1995 congressional Republicans, led by then-Speaker of the House Newt Gingrich, responded to Clinton’s veto of their budget by holding up an increase in the limit. **Clinton still refused to budge, sending the government into a “shutdown,” during which workers were furloughed and non-essential services were put on hold**. In the end, the public saw Gingrich as the bad guy. The debt ceiling increase was eventually approved, and a strong economy produced surging tax revenues that soon brought the federal budget into surplus. Boosted by his successful showdown with Gingrich, Clinton easily won reelection in 1996. A modern reenactment of this face-off, however, could turn out quite differently. Economic growth is not going to make our current enormous deficit go away. Clinton did not have to contend with two wars, a nearly double-digit unemployment rate, and an unresolved mortgage crisis. Also, in the mid-1990s, the baby boomers were entering the peak earning years of their careers and the stock market was surging, both of which helped drive up federal income tax revenues. Now the stock market is trying to recover from a historic crash, while the boomers are beginning to turn 65, at which point many will sign up to spend the rest of their lives on the government dole. Only spending restraint, including unpopular cuts in Social Security, Medicare and other entitlements, can slow or stop the growth of the federal debt heap. Refusing to raise the debt ceiling is one way to achieve that spending restraint, but it is also the harshest way – which is why, except possibly for a brief period when somebody wants to make a point (as in 1995), the ceiling is certain to be increased. **What would happen if the ceiling remained unchanged? Not** the **government default** that Goolsbee predicted. **There was no default in 1995. Maturing debt can be replaced with new debt without breaching the ceiling**. But because incremental borrowing would be prohibited, **the government could not spend more money than it takes in through taxes or other revenue sources.** The budget would have to be instantly balanced. Given the massive scale of today’s deficits, this would mean considerably more disruption than occurred during the last so-called “shutdown” in 1995. But **it would not mean default,** unless Goolsbee intends to imply that the Treasury would rather stiff its creditors than, say, curtail unemployment benefits for Americans who expect to receive them. This would be **an Argentina-style breach of faith** that, until recently, was utterly inconceivable for the world’s leading economic power. Now, it **is** merely **very unlikely.** When the president’s top economic guru puts stiffing the creditors on the table and declares that this is the inevitable result of the administration not getting what it wants, you can’t completely dismiss the possibility. [↑](#footnote-ref-72)
73. “No one knows because there is no other country in the world quite like the United States—and there never has been one, either, for several reasons. Two centuries of fiscal responsibility count for something. So do a generally healthy economy and the ability to borrow money in our own currency (which means that, unlike Greece, we have the option of devaluing the dollar to make the debt easier to pay off55). But what really matters is our unique status as the world’s safe haven in a financial storm and the dollar’s unique status as the world’s reserve currency.” [↑](#footnote-ref-73)
74. https://www.bloomberg.com/opinion/articles/2018-10-31/bear-market-in-bonds-tempered-by-foreign-demand

    Yes, the latest Treasury International Capital, or TIC, report from earlier this month showed that overall holdings of U.S Treasuries by America’s two biggest foreign creditors — China and Japan — were down in in August, that’s a half-empty view. Although they cut their holdings of Treasury bills, China and Japan actually bought Treasury notes and bonds, which seems like a bullish view. China bought almost $9.44 billion of notes and bonds, while Japan purchased $4.45 billion in its most active month since June 2017. **Overall, foreign investors bought a whopping $63.1 billion of coupon-bearing Treasuries in August, the most in more than three years.**

    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.** [↑](#footnote-ref-74)
75. **O'Brien**, Matthew. “Why the U.S. Government Never, Ever Has to Pay Back All Its Debt.” **The Atlantic**, Atlantic Media Company, 1 Feb. **2013**, www.theatlantic.com/business/archive/2013/02/why-the-us-government-never-ever-has-to-pay-back-all-its-debt/272747/.

    There's only one thing you need to know about the government. It's not a household. **The government, unlike us, doesn't need to pay back its debts** before it dies, because it doesn't die (barring secession or a sneak attack from across the world's longest unprotected border -- a most unworthwhile initiative). In other words**, the government can just roll over its debts in perpetuity.** That's the point Michael Kinsley misses when he says we "can't borrow forever," in an otherwise fine column trying to convince unemployment and deficit hawks that they actually agree on a "barbell" approach -- stimulus now, austerity later -- to fiscal policy. **We can, and in fact have, borrowed forever. And that doesn't mean our debt burden will go up forever either.** As you can see in the chart below, the government dramatically decreased its debt-to-GDP ratio in the three decades following World War II, despite mostly running deficits during the time. [↑](#footnote-ref-75)
76. **Harrington**, James R. “The Great Debt Ceiling Show.” **U.S. News & World Report**, U.S. News & World Report, 26 Sept. **2017**, www.usnews.com/opinion/economic-intelligence/articles/2017-09-26/the-debt-ceiling-has-no-real-effect-on-federal-spending.

    The bottom line is that the debt ceiling is even more of a farce than is generally believed, which is saying something. Not **only is the ceiling meaningless in that it does not actually constrain spending, as Congress can alter the ceiling whenever it chooses to do so, the debt ceiling is further meaningless because it appears that the government goes right on borrowing even after it hits the ceiling anyway.** The spending behavior of the federal government never actually changes. The Debt Ceiling Show is nothing but smoke and mirrors.

    *Countries will always lend America money as a way of obtaining dollars for themselves, because they can buy bonds with their own currency and receive dollars when paid back.*  [↑](#footnote-ref-76)
77. Tom Holland, South China Morning Post, "THE ONLY GAME IN TOWN? WHY  
    CHINA WILL KEEP BUYING US TREASURY DEBT", 12-15-18, https://www.scmp.com/week-asia/opinion/article/2128056/only-game-town- why-china-will-keep-buying-us-treasury-debt

    **China buys US Treasury debt** – lending money to the US government – **because its export industries earn enormous sums of foreign currency.** Over the 12 months to November, China ran a trade surplus of US$416 billion. And **despite Beijing’s efforts to denominate more of China’s international trade in yuan, the bulk of those earnings came in the form of US dollars.**  [↑](#footnote-ref-77)
78. Sarah McCregor and Katherine Greifeld, Bloomberg, "China Holdings of U.S. Debt Rose in 2017 by Most in Seven Years", 02-15-18, https://www.bloomberg.com/news/articles/2018-02-15/china-2017-holdings-of- u-s-treasuries-rise-most-in-seven-years

    **China increased its holdings of U.S. Treasuries last year by the most since 2010, in a signal its demand for American debt remains resilient.** The value of China’s holdings of U.S. bonds, notes and bills **rose by $126.5 billion to $1.18 trillion in December from a year earlier**, according to Treasury Department data released Thursday in Washington. China remains the largest non-U.S. holder of debt followed by Japan, whose holdings fell for the fifth straight month in December, to $1.06 trillion after ending 2016 at $1.09 trillion. [↑](#footnote-ref-78)
79. **Tax Foundation.** “Details & Analysis of the Senate Tax Cuts and Jobs Act.” Tax Foundation, Tax Foundation, 14 Nov. **2018**, taxfoundation.org/details-analysis-2017-senate-tax-cuts-and-jobs-act/.

    According to the Tax Foundation’s Taxes and Growth Model, **the plan would significantly lower marginal tax rates and the cost of capital, which would lead to a 3.7 percent increase in GDP over the long term, 2.9 percent higher wages, and an additional 925,000 full-time equivalent jobs.** The Senate’s version of the Tax Cuts and Jobs Act is a pro-growth tax plan, which, when fully implemented, would spur an additional $1.26 trillion in federal revenues from economic growth. These new revenues would reduce the cost of the plan substantially. Depending on the baseline used to score the plan, current policy or current law, the new revenues could bring the plan closer to revenue neutral. On a static basis, the plan would lead to 1.2 percent higher after-tax income on average for all taxpayers and 4.5 percent higher after-tax income on average for the top 1 percent in 2027. When accounting for the increased GDP, after-tax incomes of all taxpayers would increase by 4.4 percent in the long run. [↑](#footnote-ref-79)
80. **James**, Kay Coles. “Tax Cuts Only Help the Wealthy, Right? American Paychecks Show Otherwise.” **The Heritage Foundation**, 24 June **2018**, www.heritage.org/taxes/commentary/tax-cuts-only-help-the-wealthy-right-american-paychecks-show-otherwise.

    This year alone, **the average household** in Washington State’s 5th District **will see a tax cut of 13 percent and an increase in take-home pay of more than $17,000 over the next 10 years,** according to a new study from The Heritage Foundation. President Donald Trump promised a tax cut for the middle class, and that’s just what Congress delivered. Meanwhile, residents of New York’s 15th District, one of the lowest income districts in America, saw their income taxes cut by about 30 percent. **Next time you hear someone say that Trump’s tax cut benefits only the wealthy, remind them of the folks in South Bronx who will see their 2018 tax bill cut by a third.** The benefits of tax reform are just getting started, and we want to keep that momentum going. Each year the new tax law is in place, American workers and their families will reap larger rewards. **More than 650 companies are using the tax cuts for employee bonuses, pay increases, charitable contributions, and new investments. For example, Premera Blue Cross announced it is dedicating $40 million to community reinvestment.** Hope House—a women’s shelter in Eastern Washington—will receive $1 million to help more women find permanent homes, according to a recent story. [↑](#footnote-ref-80)
81. <https://www.ucsusa.org/sites/default/files/legacy/assets/documents/global_warming/emissions-target-fact-sheet.pdf>

    If we assume the world’s developing nations pursue the most aggressive reductions that can reasonably be expected of them, **the world’s industrialized nations will have to reduce their emissions an average** of 70 to **80 percent below 2000 levels by 2050.** In addition, industrialized nations’ cumulative emissions over this period must be no more than 700 GtCO2eq (approximately 40 percent of the global budget). [↑](#footnote-ref-81)
82. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\_data/file/69195/pb13390-economic-growth-100305.pdf

    Despite short-term downturns and setbacks, the long-term trend in **economic output** over the last 200 years has been unambiguously upwards. It **has led to rising levels of employment and income, and remains a key factor in generating the necessary level of investment, both public and private, in technology and infrastructure to facilitate the shift to a low carbon and resource efficient growth path**. Economic growth has also provided developing countries the opportunity to improve the quality of life of their citizens, **and to rise to meet the environmental challenges they face.** Investment, aid and demand for imports from advanced economies all have an important role in supporting economic growth and development across the world. [↑](#footnote-ref-82)
83. **McQuerrey**, Lisa. “The Economy's Effects on Small Businesses.” Small Business - Chron.com, **Chron**.com, 29 June **2018**, smallbusiness.chron.com/economys-effects-small-businesses-10269.html.

    **In a strong economy**, nearly all businesses enjoy greater prosperity. **Disposable income is high, unemployment is low and consumer confidence prompts people to pump their money back into the economy** through the purchase of essential and nonessential goods and services. The **impact of a strong economy on a small business is two-fold: as business increases, so too does the need for a small business to keep pace** with demand by hiring additional employees, expanding retail space or adding new product lines. While this may be viewed as a positive, the downside is that if **the economy starts to falter, many small businesses find themselves overextended, which can result in mass layoffs and business failures.** [↑](#footnote-ref-83)
84. **Morris**, Patrick. “Small Businesses Lead the Way in Green Technology Innovation | The U.S. Small Business Administration.” **Small Business Administration**, 10 Oct. **2011**, www.sba.gov/advocacy/small-businesses-lead-way-green-technology-innovation.

    Washington, D.C. –When it comes to **green technology innovation, U.S. small business is leading the way** according to a report released today by the SBA Office of Advocacy. The report titled Analysis of Small Business Innovation in Green Technologies was released by Chief Counsel Winslow Sargeant at the World Green Energy Symposium in Philadelphia. The study was designed to highlight differences in the patent activity of small and large firms in green technologies and industries. **“Small businesses are leading the way in green technology innovation as they have with innovation over all,”** said Sargeant. “It is important that government help foster innovation which leads to commercialization. At Advocacy, we support this process by helping to reduce the regulatory burden on small business.” The report found that while small firms account for about 8 percent of all U.S. patents, they account for 14 percent of green technology patents. Small firms account for more than 32 percent of the patents in both smart grids and solar energy, and 15 percent of patents in batteries and fuel cells. Also eighty percent of the “prolific” inventors—those with five or more recent green patents with a citation index of 1 or more—from small green technology firms had previously worked at large companies, or large government or university labs. Small innovative firms in this study are even more productive, measured in terms of patents per employee, than was shown in previous studies. **The current study finds that small innovative firms are 16 times more productive than large innovative firms in terms of patents per employee. Small firms’ green technology patents are cited 2.5 times as often as large firms in other patent applications** [↑](#footnote-ref-84)
85. Adler 3-16-13 – Jonathan H. Adler, Johan Verheij Memorial Professor of Law and Director of the Center for Business Law & Regulation, Case Western Reserve University School of Law; Senior Fellow, Property & Environment Research Center. Case Research Paper Series in Legal Studies, Working Paper 2013-9, March 16, 2013, CONSERVATIVE PRINCIPLES FOR ENVIRONMENTAL REFOZS, online   
    Green through Growth Conservatives should not only seek to constrain government programs¶ that cause or increase environmental harm, but they should also seek to¶ harness competitive markets and economic growth for the environmental¶ benefits they can provide. Economic growth is essential to environmental¶ protection. Market-driven competition not only spurs such growth, it also¶ creates tremendous incentives for more efficient resource use and¶ technological innovation.¶ As a general rule, increases in societal wealth correlate with increases¶ in the demand for environmental quality and the means to protect¶ environmental concerns.71 As people get wealthier, they have greater¶ levels of disposable income to devote to environmental concerns. Surveys¶ find that public support for environmental measures, both public and¶ private, correlates with changes in personal income. Thus, it is no surprise¶ that donors of and members to environmentalist groups are predominantly¶ drawn from upper-income groups.72 There is also evidence that wealthier¶ communities are more likely to support measures to preserve natural¶ resources and are more willing to forego development for environmental¶ reasons.73¶ Economic growth also fuels technological advances, such as the¶ development of less resource-intensive technologies. At the same time,¶ wealth accumulation provides for the resources necessary to deploy¶ advanced technologies that help meet human needs more efficiently and¶ with less environmental impact.74¶ In a competitive economy, businesses face constant pressure to¶ economize on resource use to reduce costs. This, too, can feed¶ environmentally beneficial innovation. Market-oriented economies¶ generally experience more efficient resource use. In the¶ telecommunications industry, for example, copper wire was gradually¶ replaced by fiber optics (made from sand), which was in turn supplanted by¶ wireless technologies. Each of these steps was the result of competitive¶ market-driven innovation, but each produced tremendous environmental¶ benefits as well.75 [↑](#footnote-ref-85)
86. https://www.sciencedirect.com/science/article/pii/S0160791X0100032X?via%3Dihub

    **How much the world will be able to afford, and how much scarcity can be overcome, depends on economic growth.** Our ability to cope with the long-term effects of growth, such as global warming and other negative externalities, scarcity of resources, such as water, and other long-term price changes already underway, depends on wherewithal and economic growth. Population growth levels off while food remains ample only when less-developed countries become industrialized and literate; the developed countries have all been through this “demographic transition” 10 and most are now more concerned about population decrease than increase. In order to manage the transition to the “just and ecologically sustainable society” Dr. Trainer calls for, the world will need a great deal more economic development and technological improvement. At the same time, market failures such as externalities deserve much more attention. Institutional arrangements that will structure incentives, such as making better use of markets to set appropriate prices, are at the heart of the sustainability problem. To construct these arrangements we will also need a great deal more moral improvement and political development. **In order to achieve the worldwide alleviation of poverty and ignorance that sustainability will require we need to use economic growth to help overcome our limits to generosity and fairness.** These goals are still very far away. It is much too early to call for zero growth. [↑](#footnote-ref-86)
87. Ross Koningstein, November 18, 2014, “What It Would Really Take to Reverse Climate Change”, IEEE Spectrum, <https://spectrum.ieee.org/energy/renewables/what-it-would-really-take-to-reverse-climate-change>, accessed July 13, 2018. AM

    “**A 2008 paper by James Hansen [PDF], former director of NASA’s Goddard Institute for Space Studies and one of the world’s foremost experts on climate change, showed the true gravity of the situation**. In it, Hansen set out to determine what level of atmospheric CO2 society should aim for “if humanity wishes to preserve a planet similar to that on which civilization developed and to which life on Earth is adapted.” **His climate models showed that exceeding 350 parts per million CO2 in the atmosphere would likely have catastrophic effects. We’ve already blown past that limit. Right now, environmental monitoring shows concentrations around 400 ppm. That’s particularly problematic because CO2 remains in the atmosphere for more than a century; even if we shut down every fossil-fueled power plant today, existing CO2 will continue to warm the planet**.” [↑](#footnote-ref-87)
88. <https://phys.org/news/2017-10-inexpensive-billion-recover-rare-earth.html>

    New efficient and inexpensive technologies being developed at Purdue University could allow the extraction of rare earth elements, critical components of many electronics and green products, from waste coal ash.

    Read more A2: <https://phys.org/news/2017-10-inexpensive-billion-recover-rare-earth.html#jCp> [↑](#footnote-ref-88)
89. <https://scienceline.org/2014/03/the-future-of-rare-earth-recycling/>

    But there’s another option that has been getting a lot of attention lately: recycling. While there are many challenges ahead, some experts think that recycled rare earths from scrap materials and discarded products may eventually be able to meet up to 40 percent of global demand. That could be a boon for the U.S. and other Western nations, since China now dominates the world market for rare earths and can effectively control their supply and price. [↑](#footnote-ref-89)
90. <http://www.recyclingtoday.com/article/rare-earth-metals-recycling/>

    He says receiving the award in the Additively Manufactured High-Performance Magnet category will allow Momentum to continue to push the boundaries of magnet manufacturing. “3D printed magnets have the potential to make a profound difference in industries ranging from electric vehicles to medical devices,” he says.

    “Additionally, we will be able to reduce the waste of rare-earth elements experienced in conventional magnet manufacturing, which will ultimately enhance U.S. energy security,” Bryant says. [↑](#footnote-ref-90)
91. http://www.europarl.europa.eu/RegData/etudes/STUD/2015/518777/IPOL\_STU(2015)518777\_EN.pdf

    in general, REE recycling has significant advantages over the mining of rare earths including savings in energy, water and chemicals consumption, along with a significant reduction of emissions, effluents and solid waste generation resulting from the extraction and processing of rare earth ores. **REE recyclates do not contain radioactive thorium and uranium, unlike the primary mined rare-earth ores**. Therefore, radioactive tailing stockpiles and mining health problems can be, at least partially, avoided. There are also possible benefits from avoiding land allocation for the mine and for radioactive waste streams and transportation.50 Furthermore, recycling helps address the so called “balance problem”51, namely the fact that certain REEs with high level of demand (e.g. Europium, Dysprosium) are present in small quantities in REE ores along with other REEs that have low demand. This means that in order to meet the demand for the former, the latter are produced in excess and are stockpiled. [↑](#footnote-ref-91)
92. #### Rising inequality curtails economic growth

    **Gordon, Department of Economics Northwester, 2012** (Robert, “IS U.S. ECONOMIC GROWTH OVER? FALTERING INNOVATION CONFRONTS THE SIX HEADWINDS” Working Paper 18315 August 2012 [http://www.nber.org/papers/w18315 accessed tm 7-16](http://www.nber.org/papers/w18315%20accessed%20tm%207-16))

    **The most important quantitatively in holding down the growth of our future income is rising inequality. The growth in median real income has been substantially slower than all of these growth rates of average per-capita income discussed thus far**. The Berkeley web site of Emmanuel Saez provides the startling figures. From 1993 to 2008, the average growth in real household income was 1.3 percent per year. But for the bottom 99% growth was only 0.75, a gap of 0.55 percent per year. **The top one percent of the income distribution captured fully 52% of the income gains during that 15-year period. If what we care about when we talk about “consumer well being” is the bottom 99 percent, then we must deduct 0.55 percent from the average growth rates of real GDP per capita presented here and elsewhere.** [↑](#footnote-ref-92)
93. **The Economist 13** (Offers authoritative insight and opinion on international news, politics, business, finance, science, technology and the connections between them, “A dollar a day”, <http://www.economist.com/blogs/feastandfamine/2013/09/poverty-growth-and-world-bank>, September 17th 2013, accessed 7/17/15, ASX)

    **In 1991, David Dollar and Aart Kraay, both of the World Bank, published an influential paper, “Growth is good for the Poor”. It established, as an empirical matter, that when average incomes rise, the average incomes of the poorest fifth of society rise proportionately.** The implication was **that economic growth and its determinants—macroeconomic stability, rule of law, openness to trade and so on—benefit the poorest fifth as much as they do everyone else.** This was the heyday of the "Washington consensus". The term had been coined by John Williamson of the Institute for International Economics only two years before. **And the study helped confirm the then-widespread view that, as a guideline for policymakers, poor countries ought to concentrate on getting the basics of growth right**, rather than on specific measures aimed at helping the poorest. They could do that too, of course. But the impact was not all that great. When Messrs Dollar and Kraay examined four interventions—primary education, social spending, agricultural productivity and improvements in formal democratic institutions—they found little evidence that these disproportionately benefited the poor. Now, Messrs Dollar and Kraay, together with Tatjana Kleineberg, have revisited their study. **Using a larger and more detailed data set (118 countries not 92), they find that just over three-quarters of the improvement in the incomes of the poorest 40% is attributable to improvements in average incomes—ie, it comes mainly from growth.** The title of the new paper says it all: “Growth still is good for the poor”. But the context is very different from what it was in the early 1990s. Now, the talk is all about income inequality, people being trapped in poverty and the need to help the poorest directly. Barack **Obama**, David Cameron, t**he World Bank and dozens of non-governmental organizations,** for example**, have signed up to the idea that extreme poverty can be eradicated by 2030** (in practice, this means reducing to about 3% the share of the world’s population subsisting on $1.25 a day or less). With hundreds of development agencies gathering in New York on September 25th to talk about "sustainable development goals" to replace the millennium goals that expire in 2015, the air is thick with talk about the problem of inequality and about how the poorest can be trapped by "business as usual". Does this mean the new paper contradicts—and possibly undermines—the post-Washington consensus? The World Bank itself has what it calls a new "overarching mission" which fits the mood of the sustainable-development goals**. It commits the bank to "end extreme poverty and promote shared prosperity"**. It is hard to resist discerning some tension—a difference in emphasis, at least —between the aim of "promoting shared prosperity" and this sentence from the new paper: "**historical experience in a large sample of countries does not provide much guidance on which combinations of macroeconomic policies and institutions might be particularly beneficial for promoting ‘shared prosperity’ as distinct from simply ‘prosperity’**." If it is hard to know how to promote "shared prosperity", why not just concentrate on prosperity pure and simple? Other non-governmental organizations have gone further than the World Bank. Save the Children, a charity, argues in a new paper ("Getting to Zero: how tackling inequality and governance could move us closer to finishing the job of the MDGs") that "**governments must get serious about addressing income inequality and improving governance." But if economic growth produces four-fifths of the improvement in the incomes of the poorest, would it not be better to concentrate on that?** UPDATE (18th September). Laurence Chandy of the Brookings Institution, and co-author of a study that **argued it was possible almost to eradicate extreme poverty,** has an interesting new paper describing the two basic approaches to reducing poverty as inclusive growth versus global social safety net. He argues both are needed. [↑](#footnote-ref-93)
94. Yglesias, Matthew. “A House Republican Explains Why Deficits Don't Matter Anymore.” Vox.com, Vox Media, 28 Sept. 2017, www.vox.com/policy-and- politics/2017/9/28/16378854/mark-walker-deficit.

    **In truth, even though the national debt is large in absolute terms and projected to grow in future years, there’s little reason to believe it’s a big problem currently. Interest rates remain fairly low, and to the extent that they’re not super-duper low it’s because the Federal Reserve is slowly but surely trying to raise them, even though there’s no sign of inflation. Taking on more debt to finance a tax cut for the rich may not be a good idea, but it’s also probably not going to cause any big problems.** But the benign nature of the debt situation was even more true two or five or eight years ago when interest rates were rock-bottom, unemployment was sky-high, and putting people back to work with new spending or low payroll taxes was absolutely vital. [↑](#footnote-ref-94)
95. Michael D. Tanner [Cato Institute senior fellow, Michael Tanner heads research into a variety of domestic policies with a particular emphasis on poverty and social welfare policy, health care reform, and Social Security.], 9-7-2016, https://www.cato.org/publications/policy-analysis/five-myths-about-economic-inequality-america // ZS  
    There is little demonstrable relationship between inequality and poverty. Poverty rates have sometimes risen during periods of relatively stable levels of inequality and declined during times of rising inequality. The idea that gains by one person necessarily mean losses by another reflects a zero-sum view of the economy that is simply untethered to history or economics. The economy is not fixed in size, with the only question being one of distribution. Rather, the entire pie can grow, with more resources available to all. Comparing the Gini coefficient, the official poverty measure, and two additional poverty measures (one based on income and accounting for taxes and transfers, and one based on consumption) developed by economists Bruce D. Meyer of the University of Chicago and James X. Sullivan of Notre Dame reveals no clear relationship between poverty and inequality (Figure 9).[62](https://www.cato.org/publications/policy-analysis/five-myths-about-economic-inequality-america#cite-62) While the Gini coefficient has increased almost without interruption, the official poverty rate has fluctuated mostly in the 13-15 percent range and the two measures from Meyer and Sullivan have both decreased markedly since 1980.[63](https://www.cato.org/publications/policy-analysis/five-myths-about-economic-inequality-america#cite-63) Again, the mid-1990s was an interesting period because the inequality was markedly higher than previously, but both the supplemental poverty measure (SPM) and the official rate saw significant decreases. [↑](#footnote-ref-95)
96. Angelsen, A. & Wunder, S. (2006). Umb.no. Retrieved 6 December 2018, from <http://www.umb.no/statisk/ior/angelsen_wunder__poverty_inequality_growth.pdf> // ZS   
    Economic growth usually changes the income distribution in a country – the extra pieces of the growing cake are not distributed to all members of society in shares equal to their initial shares of the cake. **Economic growth is often** due to, and/or **accompanied by, new market opportunities. At the beginning of an economic development process, higher market contact often increases inequality as individual actors respond variably to favourable prices or other newly emerging opportunities, because of specific skills and asset they possess, but also because of individual differences in risk aversion, entrepreneurial spirit, and luck. These variable outcomes may also impact the social coherence of communities and ultimately have certain negative welfare effects.** Obviously, this is what many observe at the micro-level, justifying their scepticism towards economic growth. In contrast, **the following income equalising factors** may **start to work over time: more people acquire the necessary skills or assets; new technologies spread to more producers; more efficient markets eliminate price differentials across locations; demand for unskilled labour increases and the higher income has local multiplier effects** (e.g., increased demand for locally produced commodities), **insurance mechanisms are put in place to better distribute risks.** These are some of the micro-level mechanisms that have justified the hypothesis that inequality follows an inverse U-curve over time – inequality rises in the initial development phase but then declines. Similarly, there are macro-level processes that can ‘drive’ such a development in inequality over time. Imagine a country with a large, low wage traditional sector employing 99 % of the labour force and a tiny, high wage modern sector ‘island’, accounting for 1 % of employment. Imagine 10 also, that the wages in each sector remain fixed, so that economic growth in this dualistic economy can only be achieved by modern sector enlargement, and 3 % of the total labour force is transferred each year from the traditional to the modern sector. It can be shown that national income inequality (e.g., measured by the Gini coefficient) in this trend scenario will follow an inverted U-curve, i.e. the curve will rise initially and then start to fall (Williamson 1985).This dualistic process of modern sector enlargement has high relevance for most developing countries. The inverse U-curve can also be supported by other societal trends during the process of economic development**. In the early stages of development, skills and higher education are limited to a small group of people, who benefit the most from economic growth. Over time, the greater spread of skills and secondary and tertiary education will have an income equalising effect. Similarly, the development of insurance markets tends to improve risk management. Sharing risk between economic agents becomes another equalising force.**  [↑](#footnote-ref-96)
97. Gleditsch and Pickering ’14Kristian Skrede Gleditsch is a Professor of Government @ the University of Essex and a research associate @ the International Peace Research Institute, Steve Pickering is an Assistant Professor @ Kobe University in Japan and a recipient of the Cedric Smith Prize for Peace and Conflict Research in 2009, The Economic History Review, Vol. 67, Issue 1, pp. 214-230, February, “Wars are becoming less frequent: a response to Harrison and Wolf”, http://onlinelibrary.wiley.com/doi/10.1111/1468-0289.12002/full   
    Furthermore, **Harrison and Wolf's discussion of the costs of war focuses solely on expenditure on destructive capacity and completely neglects the costs of war in terms of the destruction caused by war and the opportunity costs of violent conflict.** Any serious analysis of conflict must consider how the full costs of war shape the incentives of actors, and their incentives to reach alternative solutions to contentious issues without the use of violence.44 From a bargaining perspective, all wars must eventually come to an end, and if war is costly then the parties should have an incentive to reach an agreement reflecting the likely settlement after a war, without paying the costs of fighting the war. There is no reason to suspect that states no longer have contentious issues—indeed, one might expect that these have increased with greater interaction and globalization. However, **development, democratization, and capitalism may have made it easier for states to reach agreement, and avoid escalation to war, and more costly to fail to reach agreement.** For example, existing research at the dyadic level suggests that **democratic states are more likely to settle their disputes peacefully, possibly since they can externalize their internal dispute resolution mechanisms or delegate dispute arbitration to international institutions**.45 Moreover, states with more trade and more extensive economic relations are likely to have higher opportunity costs from escalation to war and may have more opportunities to signal intent and reach resolution by means other than military force**.**46 The trend towards a decline in war may also be facilitated by important global macro-trends such as increases in education and urbanization, which have been shown to foster attitudes that make people less likely to glorify violence and more likely to seek rational compromise**.**47¶ We agree with Harrison and Wolf that much remains to be discovered about war and why it has changed over time, and that much additional research is needed. However, it would be a mistake to start this line of research with a false premise, misleadingly presented as an empirical fact. [↑](#footnote-ref-97)
98. **Hubbard 10** – Hegemonic Stability Theory: An Empirical Analysis By: Jesse Hubbard Jesse Hubbard Program Assistant at Open Society Foundations Washington, District Of Columbia International Affairs Previous National Democratic Institute (NDI), National Defense University, Office of Congressman Jim Himes Education PPE at University of Oxford, 2010

    **Regression analysis of this data shows** that Pearson’s r-value is -.836. **In the case of American hegemony, economic strength is a better predictor of violent conflict than even overall national power**, which had an r-value of -.819. The data is also well within the realm of statistical significance, with a p-value of .0014. While the data for British hegemony was not as striking, the same overall pattern holds true in both cases. During both periods of hegemony, hegemonic strength was negatively related with violent conflict, and yet use of force by the hegemon was positively correlated with violent conflict in both cases. Finally, in both cases, economic power was more closely associated with conflict levels than military power. Statistical analysis created a more complicated picture of the hegemon’s role in fostering stability than initially anticipated. VI. Conclusions and Implications for Theory and Policy To elucidate some answers regarding the complexities my analysis unearthed, I turned first to the existing theoretical literature on hegemonic stability theory. The existing literature provides some potential frameworks for understanding these results. Since economic strength proved to be of such crucial importance, reexamining the literature that focuses on hegemonic stability theory’s economic implications was the logical first step. As explained above, the literature on hegemonic stability theory can be broadly divided into two camps – that which focuses on the international economic system, and that which focuses on armed conflict and instability. This research falls squarely into the second camp, but insights from the first camp are still of relevance. Even Kindleberger’s early work on this question is of relevance. Kindleberger posited that the economic instability between the First and Second World Wars could be attributed to the lack of an economic hegemon (Kindleberger 1973). But economic instability obviously has spillover effects into the international political arena. Keynes, writing after WWI, warned in his seminal tract The Economic Consequences of the Peace that Germany’s economic humiliation could have a radicalizing effect on the nation’s political culture (Keynes 1919). Given later events, his warning seems prescient. In the years since the Second World War, however, the European continent has not relapsed into armed conflict. What was different after the second global conflagration? Crucially, the United States was in a far more powerful position than Britain was after WWI. As the tables above show, Britain’s economic strength after the First World War was about 13% of the total in strength in the international system. In contrast, the United States possessed about 53% of relative economic power in the international system in the years immediately following WWII. The U.S. helped rebuild Europe’s economic strength with billions of dollars in investment through the Marshall Plan, assistance that was never available to the defeated powers after the First World War (Kindleberger 1973). The interwar years were also marked by a series of debilitating trade wars that likely worsened the Great Depression (Ibid.). In contrast, when Britain was more powerful, it was able to facilitate greater free trade, and after World War II, **the United States played a leading role in creating institutions like the GATT that had an essential role in facilitating global trade** (Organski 1958). The possibility that economic stability is an important factor in the overall security environment should not be discounted, especially given the results of my statistical analysis. Another theory that could provide insight into the patterns observed in this research is that of preponderance of power. Gilpin theorized that **when a state has the preponderance of power in the international system, rivals are more likely to resolve their disagreements without resorting to armed conflict** (Gilpin 1983). The logic behind this claim is simple – it makes more sense to challenge a weaker hegemon than a stronger one. This simple yet powerful theory can help explain the puzzlingly strong positive correlation between military conflicts engaged in by the hegemon and conflict overall. It is not necessarily that military involvement by the hegemon instigates further conflict in the international system. Rather, this military involvement could be a function of the hegemon’s weaker position, which is the true cause of the higher levels of conflict in the international system. Additionally, it is important to note that **military power is,** in the long run, **dependent on economic strength**. Thus, it is possible that **as hegemons lose relative economic power, other nations are tempted to challenge them even if their short-term military capabilities are still strong**. This would help explain some of the variation found between the economic and military data. The results of this analysis are of clear importance beyond the realm of theory. As the debate rages over the role of the United States in the world, hegemonic stability theory has some useful insights to bring to the table. What this research makes clear is that a strong hegemon can exert a positive influence on stability in the international system. However, this should not give policymakers a justification to engage in conflict or escalate military budgets purely for the sake of international stability. If anything, **this research points to the central importance of economic influence in fostering international stability**. To misconstrue these findings to justify anything else would be a grave error indeed. Hegemons may play a stabilizing role in the international system, but this role is complicated. **It is economic strength, not military dominance that is the true test of hegemony**. **A weak state with a strong military is a paper tiger** – it may appear fearsome, but it is vulnerable to even a short blast of wind. [↑](#footnote-ref-98)
99. #### Biery

    [file:///Users/jscmedley/Desktop/A2-%20Small%20Biz%20(control-f%2021.9).htm](file:///C:\Users\jscmedley\Desktop\A2-%20Small%20Biz%20(control-f%2021.9).htm)

    8. Bootstrappers. **Business owners more often use personal and family savings to finance expansions (21.9 percent of small firms) than they use business loans from financial institutions (4.5 percent)**. Business profits and assets (5.7 percent) and business credit cards from banks (3.3 percent) are other popular sources of capital. [↑](#footnote-ref-99)
100. #### Blake

     <https://www.forbes.com/sites/brockblake/2018/06/30/rising-interest-rates-small-business/#7cf769d133ec>

     So what does this mean for small business owners? Could rising interest rates really have a positive effect on your business? Let’s start with the best news: **rising interest means an improved economy and more profitable deals for banks, which translates to greater incentive to approve loan requests. Higher rates create a more competitive lending market, and this changing rate environment could grant small businesses more opportunities to access capital as banks and lenders begin to offer more funding options.**

     We know that **one of the most significant challenges for small business owners is maintaining healthy cash flow**. If you were planning to apply for a business loan to give your business more flexible cash flow, now would be a good time for it, before the next Fed rate hike kicks in. Planning ahead for 2019 by proactively seeking financing will also give you more breathing room to weigh your options, instead of scrambling for the first deal you can find. [↑](#footnote-ref-100)
101. #### Henry

     <https://www.entrepreneur.com/article/288769>

     According to an article in FastCompany, "Why Most Venture Backed Companies Fail," **75 percent of venture-backed startups fail.** This statistic is based on a Harvard Business School study by Shikhar Ghosh. In a study by Statistic Brain, Startup Business Failure Rate by Industry, the failure rate of all U.S. companies after five years was over 50 percent, and over 70 percent after 10 years. [↑](#footnote-ref-101)
102. #### Tomasz

     file:///Users/jscmedley/Desktop/A2%20VC%20Investment.htm

     In the last 35 years, the federal funds rate has varied from as high as 16% in 1981 to as low as 0.09%. throughout those cycles, venture capital has flourished from a cottage industry into $100B per year asset class. VCs are on track to invest as much capital this year as during the height of the dot com era. But, **is there any observable relationship between the federal funds rate and the startup ecosystem?**

     The chart above shows the federal funds rate starting in 2000 through 2015, compared to the dollars in billions of venture capital investment. **From 2000 through 2009, the federal funds rate and venture investment paralleled each other. At the height of the bubble, interest rates were relatively high.** [↑](#footnote-ref-102)
103. #### Matanova

     <https://efmaefm.org/0EFMAMEETINGS/EFMA%20ANNUAL%20MEETINGS/2017-Athens/papers/EFMA2017_0125_fullpaper.pdf>

     We investigate the relationship between interest rates and VC activity with a comprehensive dataset of 273,067 VC investments spanning 35 years in the 20 major VC markets worldwide. We find that low interest rates boost VC fundraising around the world even after controlling for various macroeconomic variables. The economic magnitude of this effect is significant. A one percent increase in interest rates reduces VC fundraising by $647 mil in the following year. This equals to 3.2% of the average amount fundraised in a year. In addition, we find that higher interest rates boost VC demand. The magnitude of this effect is also significant: a **one percent increase in interest rates increases VC demand by 2.53% in the following year.** Finally, we investigate the determinants of VC investments by running a model in which we concurrently consider the demand for VC (measured by internet searches for VC) and the supply of VC (measured by the level of VC equity available for investment). We find a strong interplay between interest rates, VC demand-supply, and VC investments. We find that when there is high demand but low supply, interest rates have a negligible effect on investments. However, when there is high supply and low demand (hence when entrepreneurs can choose), investments significantly increase with the increase in interest rates.

     On the demand side **we expect higher interest rates to encourage entrepreneurs to raise VC rather than debt. We expect that, everything being equal, the higher the lending interest rates, the higher the demand for VC.** This effect is strong and significant. However, when we add a measure of banking lending capacity (banking sector leverage), the effect loses significance (keeping the same sign). We interpret this finding with the fact that, to disentangle the dynamics triggering VC investments, it is important to concurrently consider VC demand and supply. [↑](#footnote-ref-103)
104. #### Khosravi

     <https://www.forbes.com/sites/bijankhosravi/2018/06/03/early-stage-startups-are-struggling-while-vc-investment-dollars-are-at-all-time-high/#725301d4468b>

     Early Stage Startups Are Struggling, While **VC Investment Dollars Are At All Time High**

     It’s a mixed bag for startups and funding this year, according to the Q1 2018 PwC/CB Insights MoneyTree™ Report. **Since the beginning of the year, the US has seen more than $21B in funding across more than 1,200 deals**. Although deals were up since the end of 2017, the money was divided among fewer companies. Unfortunately for young companies, first venture rounds were on the decline. They were at their lowest rate in about a year and correlated to a pullback in VC investment at the seed and early stage. [↑](#footnote-ref-104)
105. Robert J. Gordon, September/October 2016, "American Growth Has Slowed Down. Get Used to It.", POLITICO Magazine, https://www.politico.com/magazine/story/2016/09/economic-growth-jobs-recession-slowed-technology-214220 // ZS  
     What can be done about slow economic growth? My findings cast doubt on some favorite prescriptions, like investing more in infrastructure and research. Research and development is already well-funded by America’s flourishing venture capital industry, and besides, there’s no reason to believe that the next round of innovations will have the impact of the big changes that came before 1970. [↑](#footnote-ref-105)
106. Binyamin Appelbaum, 11-28-2018, "For the American Economy, Storm Clouds on the Horizon", No Publication, https://www.nytimes.com/2018/11/28/us/politics/us-economy-health-recession.html

     WASHINGTON — Emerging signs of w eakness in major economic sectors, including auto manufacturing, agriculture and home building, are prompting some forecasters to warn that one of the longest periods of economic growth in American history may be approaching the end of its run. The economy has been a picture of health, expanding at a 3.5 percent annual pace during the third quarter and driving the unemployment rate to 3.7 percent, the lowest level in almost half a century. But General Motors’ plan to cut 14,000 jobs and shutter five factories reinforces other recent indications that the better part of the expansion is now in the rearview mirror. “We’re in the 10th year of the expansion and there are some soft points,” said Ellen Hughes-Cromwick, a former chief economist at Ford Motor Co. and the Commerce Department who is now on the faculty at the University of Michigan. “The auto sales cycle has peaked and the housing cycle also has peaked.” Ms. Hughes-Cromwick said higher interest rates, combined with rising inflation and faltering corporate confidence, could set the stage for a recession. In that scenario, she said, “I don’t really see how the economy can keep powering ahead.” The vast majority of prominent economic forecasters, including various arms of the federal government and all of the major Wall Street banks, still regard continued growth as the most likely outcome for the American economy in 2019. But there is a broad consensus that the pace of growth will slow as the sugar high provided by the Trump administration’s $1.5 trillion tax cut and spending increases begins to wear off. And some forecasters see a small, but growing, chance of a recession. President Trump’s chief economic adviser, Larry Kudlow, tried to play down such concerns on Tuesday, insisting that the overall health of the economy remained robust. “There’s a certain amount of pessimism I’m reading about, maybe it has to do with a mild stock market correction,” Mr. Kudlow said, before describing such pessimism as misplaced. He rattled off recent economic data — including the most recent jobs report, which he described as “very spiffy” — to highlight the strength of the American economy, before his conclusion: “We’re in very good shape.” Jerome H. Powell, the Federal Reserve’s chairman, has also taken an optimistic line, declaring in Texas recently that he was “very happy about the state of the economy.” The basic cause for concern is a widening gap between the evident strength of the economy this year and weakness in economic indicators that look ahead to coming years. That gap was highlighted Tuesday in the latest data on consumer confidence, which showed Americans remained pleased with their present circumstances, but were less confident that growth would continue. Investors are showing signs of concern about the ability of the corporate sector to maintain sky-high levels of profitability. Major stock indexes are roughly flat for the year. Some businesses are starting to worry, too. Farmers are facing large losses because they cannot sell crops to China during a trade war between Washington and Beijing. Sales of new and existing homes have declined in recent months as interest rates rise. Auto sales, also vulnerable to higher rates, have been falling since 2016. “This is a geriatric expansion,” said David Kelly, chief global strategist at JPMorgan Funds. Mr. Kelly noted that if economic growth continued through next summer, this would become the longest-running expansion of the American economy since at least the Civil War. It is proverbial among economists that expansions do not die of old age. But the end of Mr. Trump’s fiscal stimulus will most likely drop economic growth back toward an annual rate around 2 percent, leaving little margin for error. “It wouldn’t take much to go wrong to put us into a recession,” Mr. Kelly said. [↑](#footnote-ref-106)
107. #### Zaidi

     <https://www.thestreet.com/story/13606237/1/here-s-how-the-fed-s-interest-rate-decision-affects-m-amp-a-activity.html>

     **In December, the Federal Reserve raised rates for the first time in almost a decade after rates went to zero in 2008.** Even though the Great Recession officially ended in mid-2009, steps to revive the economy through appropriate monetary policy was needed at that time.

     So what happened in 2009?

     M&A activity was adversely affected by the recession and loss of corporate confidence. But **M&A activity picked up in 2012 due to low rates** and most importantly, improved economic conditions.

     Since the 1980s the United States has seen seven merger waves, with the seventh wave starting in 2012. Since 2000, the industry that saw the largest number of merger transactions was technology.

     **An increase in the federal funds rate increases the cost of borrowing and hence affects the value of merger deals, especially if a large portion of a deal is being financed through loans. If the company is highly leveraged and the cost of debt goes up, the internal rate of return is affected, lowering the valuation of the company.** [↑](#footnote-ref-107)
108. #### Christensen

     <https://hbr.org/2011/03/the-big-idea-the-new-ma-playbook>

     When a CEO wants to boost corporate performance or jump-start long-term growth, the thought of acquiring another company can be extraordinarily seductive. Indeed, companies spend more than $2 trillion on acquisitions every year. Yet **study after study puts the failure rate of mergers and acquisitions somewhere between 70% and 90%**. A lot of researchers have tried to explain those abysmal statistics, usually by analyzing the attributes of deals that worked and those that didn’t. What’s lacking, we believe, is a robust theory that identifies the causes of those successes and failures. [↑](#footnote-ref-108)
109. Garvin ‘8 (Michael J., Ph.D., P.E. is an Associate Professor of construction at Virginia Tech, November, 20, 2008, “Assessing the Effectiveness of Infrastructure Public–Private Partnership Programs and Projects”, http://pwm.sagepub.com/content/13/2/162.abstract)   
     **The P3 arrangements are often viewed by governments as a solution to infrastructure-funding shortfalls** (Orr, 2006). **This claim**, however**, is somewhat contentious as a government certainly has the capacity to utilize user fees, which are often an integral part of a P3 project, as the principal security for a project’s financial package while also offering its general creditworthiness as secondary security. One would expect that the cost of capital for such an arrangement would be lower than the cost that a private sponsor could obtain, even if taxexempt status is granted.** [↑](#footnote-ref-109)
110. David Van Slyke, 6-7-2017, "Trump's infrastructure plan: How "private" will he go?", Agenda, https://www.politico.com/agenda/story/2017/06/07/trumps-infrastructure-public-private-partnership-000454 // ZS  
     As President Donald Trump unveils elements of his infrastructure plan this week, Democrats are attacking it as a betrayal of basic government responsibilities. This “privatization,” as they call it, would sell out rural America and allow companies to exploit public assets like roads and bridges. **But a close look at Trump’s proposal—at least what we know of it so far—reveals a plan that rests not on privatization but on public-private partnerships.** The two ideas sound similar but are actually very different, and understanding the differences is critical to accomplishing Trump’s goal of modernizing and upgrading America’s infrastructure. The Trump administration has proposed using $200 billion in federal monies to leverage an additional $800 billion from the private sector. It’s an ambitious proposal, one that, if successful, could permanently change the landscape of America. The government can reap huge benefits from public-private partnerships—but only if they are structured correctly**. All too often, though, government officials lack the knowledge and experience necessary to negotiate good deals, ultimately costing taxpayers millions, if not billions, of dollars.**In their attacks, Democrats may be misusing the word “privatization” when describing Trump’s infrastructure plan but the risks they describe are very real. Traditionally, the term “privatization” means the outright sale of a public asset or service to a private company. It’s a permanent transfer of infrastructure, with no term limits or expectations of management oversight. The government accepts payment and walks away with its only roles being enforcement of rules and regulations. Well-structured privatization can be beneficial in some situations where there is no public interest (say, a parking garage) but officials should ask themselves hard questions about why it’s getting out of delivering a particular good or service, and whether there truly is no public interest in the asset. The history of privatizations is littered with failures. Take the privatization of British Rail in the 1990s. The operation of British Rail, after privatization, had many pieces franchised and outsourced to a range of vendors with no single systems integrator. This failure to integrate infrastructure and operations created a major breakdown in coordination and singular accountability oriented toward safety, reliability and affordability and caused many safety problems—including two fatal accidents. **The biggest cases of true privatization in the U.S. have never come to fruition—including the privatization of Amtrak, the U.S. Postal Service and Social Security—because the public and private sectors could never agree on the terms of sale without compromising important public interests around access, quality and affordability.** For instance, the U.S. government is responsible for delivering transportation and mail delivery services to the entire country, even in geographically remote and sparsely populated areas. But since most services are uneconomical, the private sector would agree only to a sale that included major concessions on fees and frequency of delivery—terms to which elected officials would be loath to agree to because of public protest. In fact, what most people in the United States really mean when they use the word “privatization” is deeper private-sector involvement in the production and delivery of traditionally government-provided goods and services. Privatization and PPPs are not the same thing. The former is an outright asset sale while the latter is a market-based arrangement that is limited in term—on average about 25 years—and relies on government and its private partners to accurately evaluate, negotiate and come to terms on ownership, structure and risk issues. With well-structured PPPs, the relationship begins at the point of transaction, and the parties are mutually dependent on each other for success. With privatization, the relationship ends at the point of transaction and both parties go their separate ways for the most part, aside from government regulation. If a PPP is a marriage, then privatization is a divorce. To support $1 trillion in infrastructure investment, the Trump administration is proposing to reward state and local governments who enter PPPs and other private-sector deals with up to $200 billion in federal funding. Transportation Secretary Elaine Chao announced last month that St. Louis Lambert International Airport would become part of a test program “designed to allow airports to generate access to sources of private capital for airport improvement and development.” The city has preliminary approval to negotiate a PPP in which private firms will lease and operate the airport for a term of up to 40 years. If executed well, the city stands to gain not just millions for the initial lease but also a share in any profits, including potential new profit sources identified by private sector partners with deep expertise in this area. Public-private partnerships allow government to leverage private sector expertise to cut infrastructure costs and speed up construction. It works toward a win-win outcome based on a mutual understanding that comes from a relationship built on aligned goals, clear rules and appropriate governance mechanisms. Private sector innovation and expertise can then be integrated with government’s desire to serve the public interest while improving cost, performance and accountability. **But government is often at a disadvantage in negotiating these agreements. Most government agencies, and especially nearly all municipal governments, lack the analytical capacity and market-based pricing expertise to accurately estimate the value of their existing infrastructure assets, attract enough competition and bring the concession to closure. Meanwhile, the private sector is very astute at discerning which infrastructure assets are worth buying, at what price, for what duration, and with what potential return on their investment over a fixed period of time.** Take, for example, the infamous case of [Chicago Parking Meters LLC](https://www.washingtonpost.com/blogs/govbeat/wp/2013/09/13/how-parking-meters-killed-privatization-of-midway-airport/?utm_term=.14573b63fbcd). The city of Chicago entered a 75-year deal with a private corporation for control of its 36,000 parking meters in exchange for $1.15 billion. After the rushed and poorly conceived deal, which aldermen had just one day to review and approve, the city’s inspector general estimated that government underpriced the value by about $1 billion. Further, the private company enacted profit-driven changes with direct implications on public access and affordability such as reducing the number of handicapped spaces, creating smaller overall spaces, instituting congestion pricing, and raising hourly costs—leading to public outrage, boycotts and vandalized meters. Consider also the indirect public harm to economic development that parking issues can have on a community. It’s a prime example of short-term thinking that believes we can offload public assets, many at the municipal level, and gain cash in the short term, without considerations for the longer-term implications of the important economic development role that high-quality, public infrastructure plays in communities and states all around the country and the impact of poorer service quality and potentially higher costs on the public. The best way for government officials to ensure that a public-private partnership benefits their constituents is to take the necessary time to understand the proposed deal, run the numbers and perform the due diligence. It's easy to rush into a desire to engage a PPP without considering the importance of public involvement. In the trade-off between the speed of decision-making and the necessity of citizen and stakeholder engagement, speed wins way more often than it should. **And that could get a lot worse under Trump**. Speaking to a Senate committee recently, [Chao was asked](http://www.cnn.com/2017/05/17/politics/chao-infrastructure-senate/) about the administration’s delays in releasing its infrastructure plan. She responded, “Obviously, the president is very impatient**.” In the world of public-private partnerships, though, impatience will lead only to bad deals for both the public and private partners with citizens potentially losing the most in terms of access, quality and affordability**. [↑](#footnote-ref-110)
111. Gleditsch and Pickering ’14Kristian Skrede Gleditsch is a Professor of Government @ the University of Essex and a research associate @ the International Peace Research Institute, Steve Pickering is an Assistant Professor @ Kobe University in Japan and a recipient of the Cedric Smith Prize for Peace and Conflict Research in 2009, The Economic History Review, Vol. 67, Issue 1, pp. 214-230, February, “Wars are becoming less frequent: a response to Harrison and Wolf”, http://onlinelibrary.wiley.com/doi/10.1111/1468-0289.12002/full   
     Furthermore, **Harrison and Wolf's discussion of the costs of war focuses solely on expenditure on destructive capacity and completely neglects the costs of war in terms of the destruction caused by war and the opportunity costs of violent conflict.** Any serious analysis of conflict must consider how the full costs of war shape the incentives of actors, and their incentives to reach alternative solutions to contentious issues without the use of violence.44 From a bargaining perspective, all wars must eventually come to an end, and if war is costly then the parties should have an incentive to reach an agreement reflecting the likely settlement after a war, without paying the costs of fighting the war. There is no reason to suspect that states no longer have contentious issues—indeed, one might expect that these have increased with greater interaction and globalization. However, **development, democratization, and capitalism may have made it easier for states to reach agreement, and avoid escalation to war, and more costly to fail to reach agreement.** For example, existing research at the dyadic level suggests that **democratic states are more likely to settle their disputes peacefully, possibly since they can externalize their internal dispute resolution mechanisms or delegate dispute arbitration to international institutions**.45 Moreover, states with more trade and more extensive economic relations are likely to have higher opportunity costs from escalation to war and may have more opportunities to signal intent and reach resolution by means other than military force**.**46 The trend towards a decline in war may also be facilitated by important global macro-trends such as increases in education and urbanization, which have been shown to foster attitudes that make people less likely to glorify violence and more likely to seek rational compromise**.**47¶ We agree with Harrison and Wolf that much remains to be discovered about war and why it has changed over time, and that much additional research is needed. However, it would be a mistake to start this line of research with a false premise, misleadingly presented as an empirical fact. [↑](#footnote-ref-111)
112. **Hubbard 10** – Hegemonic Stability Theory: An Empirical Analysis By: Jesse Hubbard Jesse Hubbard Program Assistant at Open Society Foundations Washington, District Of Columbia International Affairs Previous National Democratic Institute (NDI), National Defense University, Office of Congressman Jim Himes Education PPE at University of Oxford, 2010

     **Regression analysis of this data shows** that Pearson’s r-value is -.836. **In the case of American hegemony, economic strength is a better predictor of violent conflict than even overall national power**, which had an r-value of -.819. The data is also well within the realm of statistical significance, with a p-value of .0014. While the data for British hegemony was not as striking, the same overall pattern holds true in both cases. During both periods of hegemony, hegemonic strength was negatively related with violent conflict, and yet use of force by the hegemon was positively correlated with violent conflict in both cases. Finally, in both cases, economic power was more closely associated with conflict levels than military power. Statistical analysis created a more complicated picture of the hegemon’s role in fostering stability than initially anticipated. VI. Conclusions and Implications for Theory and Policy To elucidate some answers regarding the complexities my analysis unearthed, I turned first to the existing theoretical literature on hegemonic stability theory. The existing literature provides some potential frameworks for understanding these results. Since economic strength proved to be of such crucial importance, reexamining the literature that focuses on hegemonic stability theory’s economic implications was the logical first step. As explained above, the literature on hegemonic stability theory can be broadly divided into two camps – that which focuses on the international economic system, and that which focuses on armed conflict and instability. This research falls squarely into the second camp, but insights from the first camp are still of relevance. Even Kindleberger’s early work on this question is of relevance. Kindleberger posited that the economic instability between the First and Second World Wars could be attributed to the lack of an economic hegemon (Kindleberger 1973). But economic instability obviously has spillover effects into the international political arena. Keynes, writing after WWI, warned in his seminal tract The Economic Consequences of the Peace that Germany’s economic humiliation could have a radicalizing effect on the nation’s political culture (Keynes 1919). Given later events, his warning seems prescient. In the years since the Second World War, however, the European continent has not relapsed into armed conflict. What was different after the second global conflagration? Crucially, the United States was in a far more powerful position than Britain was after WWI. As the tables above show, Britain’s economic strength after the First World War was about 13% of the total in strength in the international system. In contrast, the United States possessed about 53% of relative economic power in the international system in the years immediately following WWII. The U.S. helped rebuild Europe’s economic strength with billions of dollars in investment through the Marshall Plan, assistance that was never available to the defeated powers after the First World War (Kindleberger 1973). The interwar years were also marked by a series of debilitating trade wars that likely worsened the Great Depression (Ibid.). In contrast, when Britain was more powerful, it was able to facilitate greater free trade, and after World War II, **the United States played a leading role in creating institutions like the GATT that had an essential role in facilitating global trade** (Organski 1958). The possibility that economic stability is an important factor in the overall security environment should not be discounted, especially given the results of my statistical analysis. Another theory that could provide insight into the patterns observed in this research is that of preponderance of power. Gilpin theorized that **when a state has the preponderance of power in the international system, rivals are more likely to resolve their disagreements without resorting to armed conflict** (Gilpin 1983). The logic behind this claim is simple – it makes more sense to challenge a weaker hegemon than a stronger one. This simple yet powerful theory can help explain the puzzlingly strong positive correlation between military conflicts engaged in by the hegemon and conflict overall. It is not necessarily that military involvement by the hegemon instigates further conflict in the international system. Rather, this military involvement could be a function of the hegemon’s weaker position, which is the true cause of the higher levels of conflict in the international system. Additionally, it is important to note that **military power is,** in the long run, **dependent on economic strength**. Thus, it is possible that **as hegemons lose relative economic power, other nations are tempted to challenge them even if their short-term military capabilities are still strong**. This would help explain some of the variation found between the economic and military data. The results of this analysis are of clear importance beyond the realm of theory. As the debate rages over the role of the United States in the world, hegemonic stability theory has some useful insights to bring to the table. What this research makes clear is that a strong hegemon can exert a positive influence on stability in the international system. However, this should not give policymakers a justification to engage in conflict or escalate military budgets purely for the sake of international stability. If anything, **this research points to the central importance of economic influence in fostering international stability**. To misconstrue these findings to justify anything else would be a grave error indeed. Hegemons may play a stabilizing role in the international system, but this role is complicated. **It is economic strength, not military dominance that is the true test of hegemony**. **A weak state with a strong military is a paper tiger** – it may appear fearsome, but it is vulnerable to even a short blast of wind. [↑](#footnote-ref-112)