# Emory AC FINAL

**We affirm Resolved: The United States federal government should prioritize reducing the federal debt over promoting economic growth.**

## We Observe

According **Amadeo of the Balance[[1]](#footnote-1)** in 2018, growth right now is between 2 to 3 percent, implicating that we are in a goldilocks economy, with growth being at a perfect amount.

On the flipside, the debt crisis has reached new heights. **Brandus of US News[[2]](#footnote-2) 18** reports that even the White House now admits that the federal deficit is growing much faster than expected, piling up so fast that the national debt itself will hit $33 trillion in fiscal year 2028.

The problem stems from how the United States is currently prioritizing fiscal policy. **Long of the Washington Post[[3]](#footnote-3) 18** explains that now growth is healthy, unemployment is extremely low, and confidence is strong. In times like these, the U.S. government has almost always narrowed the budget deficit — or even runs a surplus, as it did from 1998 to 2001.” But instead of improving the government’s budget situation, Congress is going the opposite direction and adding to it.

With this in mind

## Contention One is the Reality of Recession

**Foley of the Hill in 2018[[4]](#footnote-4)** cites a comprehensive JP Morgan economic model which predicts that the risk of a recession in the US is linear. The odds of a recession happening within one year is almost 28 percent, 60 percent over two years, and higher than 80 percent over three years. This is because **Koop of Bedel Financial in 2018[[5]](#footnote-5)** finds that the yield curve is flattening in the status quo, which means that short term borrowing costs are higher than long term borrowing costs. Unfortunately, **Phillips of New York Times ’18[[6]](#footnote-6)** finds that every recession in the past 60 years has been preceded by an inverted yield curve. At the minimum, recession is cyclical. **Financial Post ’17** writes that it’s the cyclical nature of such downturns to recur roughly every ten years or so.

This is important, as in times of recession, the government must step in and expend large amounts of capital to “jumpstart” the economy and get people back to work. Unfortunately, the ever-increasing debt makes it impossible for the government to step in and fix the economy.

**Ghilarducci of Forbes[[7]](#footnote-7)** writes that due to the fact the GDP to Debt ratio was low in 2008 the US had the ability to borrow crucial capital to finance stimulus packages that helped mitigate and significantly reduce the effects of the recession**. She** furthers that government deficits before a recession are even more dangerous because once a downturn hits, we would have less ammo to fight it.

It’s also the political perception. **Horowitz[[8]](#footnote-8)** writes that before 2001 and 2008, deficits were nonexistent This time, the U.S. is liable to enter its next recession with a substantial deficit, inflaming concerns that even necessary stimulus would be too dangerous. Indeed, the **Washington Post in 2018[[9]](#footnote-9)** finds that due to the high debt, politicians perceive we have little fiscal room for the next recession. This is why he concludes that reducing the debt now will create the perceived fiscal room before the next recession.

This is why **Capretta[[10]](#footnote-10)** finds that reducing debt is critical. Once the next recession inevitably hits, the response could be less robust and effective than it should be to adequately address the problem.

These fiscal bills were crucial as **Stone of US news in 2015[[11]](#footnote-11)** writes that without proper federal responses the 2008 recession would have been more 3x worse, 2x longer, and raised unemployment significantly higher. That’s billions of lost economic productivity, and millions losing their jobs, all of which was prevented by government intervention.

## Contention Two is Mo Money Mo Problems

**Healy ‘18[[12]](#footnote-12)** finds that because the national debt has reached $21 trillion, the cost of serving that debt will grow larger with higher interest rates” - creating a vicious cycle. In fact, treasury yields now exceed 3%. Even if rates don’t rise, the government’s cost to borrow continues to increase due to annual interest payments, and debt service will likely claim a larger share of the federal budget.

This is why the **CBO[[13]](#footnote-13) 15** forecasts the government’s annual interest payments on federal debt *more than doubling over the next decade* from 1.5 percent of GDP in 2018 to 3.1 percent of GDP in 2027. Even if rates don’t get higher, If the average real interest rate instead was just around 2.2 percent over the next decade, then federal interest payments could reach $1.2 trillion in 2027 meaning that the annual budget deficit would widen from $0.7 trillion in 2018 to $1.8 trillion in 2027. This is extremely problematic, as the **Peterson Foundation[[14]](#footnote-14)** finds that interest on debt will be the third largest “program” in the federal budget.

Overall, **Capretta explains in 2018[[15]](#footnote-15)** while it is not necessary to achieve balance in the near term, it is necessary to slow the rate of future spending growth to prevent federal debt from spiraling out of control. If we don’t make attempts to decrease our yearly deficits, there is one major ramification

### The Impact is crowding out social spending

This is devastating, as **MacGuineas of CNN 18** analyzes that because we are heading in a dangerous direction, in 2022, the Highway Trust Fund will run out of full funding. In 2026, the Medicare Hospital Insurance Trust Fund follows. In 2032, the Social Security trust fund surpluses run dry, and all beneficiaries regardless of age or income level will face a 21 percent across-the-board benefit cut. This is crucial, as **Thompson of the Atlantic 18** finds that 55% of all Americans receive benefits from these federal programs.

1. Kimberly **Amadeo**, 1-1-20**19**, "What Will the Economy Do in 2019 and Beyond?," **Balance**, <https://www.thebalance.com/us-economic-outlook-3305669>

   The U.S. economic outlook is healthy according to the key economic indicators. The most critical indicator is the gross domestic product, which measures the nation's production output. **The GDP growth rate is expected to remain between the 2 percent to 3 percent ideal range.** Unemployment is forecast to continue at the natural rate. There isn't too much inflation or deflation. **That's a Goldilocks economy.** [↑](#footnote-ref-1)
2. Paul **Brandus**,, 7-26-20**18**, "Donald Trump is solving his tariff problems the only way he knows how: paying them off," **USA TODAY**, https://www.usatoday.com/story/opinion/2018/07/26/donald-trump-trade-war-china-deficits-payoff-farmers-column/840426002/ [↑](#footnote-ref-2)
3. But wait: There’s more. Since even **the White House now admits that the federal deficit is growing much faster than expected** — it’ll hit a cool $1 trillion next year — we’ll have to borrow even more from foreigners, and that’s likely to include China. So to square the circle here: Trump hits China with tariffs. The Chinese hit back. Our farmers get hurt. Trump proposes to pay off the farmers with money … borrowed from China. **Our annual deficits are piling up so fast, the national debt itself could hit $33 trillion in fiscal year 2028 — which begins in just nine years.** Now Trump wants to add more in the form of bailouts for a bad policy? This is hardly, as he likes to describe himself, the work of a "stable genius." [↑](#footnote-ref-3)
4. <https://thehill.com/regulation/finance/412076-jpmorgan-says-us-economy-has-better-than-50-50-chance-of-recession-in-next>

   The U.S. economy could face serious problems in the next two years, according to a model tracked by JPMorgan Chase & Co.

   **The odds of a recession happening within one year is almost 28 percent**, Bloomberg first reported Thursday. **The probability of a U.S. recession reportedly rises over the next two years by more than 60 percent and reaches higher than 80 percent over the next three years.** JPMorgan’s model takes a variety of indicators into account, from “consumer and business sentiment to prime-age male labor participation, compensation growth, and durables and structures as a share of gross domestic product,” the publication noted. [↑](#footnote-ref-4)
5. Koop 7-16 (Jonathan, Portfolio Manager, Bedel Financial Consulting Inc, “Bond Yield Curve: Indicating Recession?” July 16, 2018. Inside Indiana Business, Online)//RB

   The bond market's yield curve is sending us warning signals of an impending recession. What exactly is the yield curve? Is it really an indicator of the health of our economy? Should you care what shape it's in - steep, flat, or inverted? Yes, investors should pay attention! Yield Curve Basics Let's start with the basics. The common yield curve is a graph that plots the current yield of each government-issued bond for its respective maturity - from one-month Treasury bills to 30-year Treasury Bonds. Picture a graph with the yield on the vertical axis and plots along the horizontal axis for each bond's maturity date. This visual representation compares the yields of short-term versus long-term government-issued debt at a particular point in time. Typically the yield curve is upward sloping to the right, with interest rates on short-term debt lower than interest rates on longer-term debt. This makes sense. The prices of bonds with longer maturities tend to be more volatile whenever interest rates change, making them more risky to hold over time. Furthermore, longer-term bonds are generally less liquid, and if you need to unload them prior to maturity you may have to sell at an amount below fair market value. For these reasons, a higher interest rate for longer-term bonds is justified and expected. The Shape of a Healthy Yield Curve So how can a yield curve be used to predict the state of the economy? A steep upward sloping yield curve signals that governments and businesses are willing to borrow money now to break ground on long-term capital investments, like improving infrastructure or building factories. The increased supply of long-term debt being issued pushes bond prices down and yields up to attract sufficient investor interest, creating the steep curve that is indicative of a healthy economy. A common method used to compare the health of the economy across time is to look at the difference between the yields of the 30- and two-year Treasury bonds – the larger the spread (i.e. the more long-term rates are higher than short-term rates), the more healthy the economic outlook. In the current bull market, this spread reached a high of over 400 basis points (bps) in February 2011 when the yields were 0.61 percent and 4.62 percent on the two-year and 30-year bonds, respectively. The Curve Is Flattening…Should I Panic? The yield curve “flattens” when investors believe economic growth is likely to slow, causing the spread between yields of long-term and short-term bonds to decrease. This happens when external factors cause investors’ demand for longer-term bonds to increase relative to supply, pushing their prices up and interest rates down. Conversely, rates on the short end of the curve are driven by the Federal Reserve’s policy, and if the Fed is steadily increasing interest rates the end result will likely be a flattening curve. An “inverted” curve (when long-term yields fall beneath short-term yields) is often an ominous sign. An inverted yield curve has proceeded the last nine U.S. recessions since 1955, so it’s an important indicator to monitor. However, while an inverted yield curve has historically been a good predictor of a downturn, timing the impending recession is challenging. Some recessions have taken up to 24 months to materialize once the curve inverted! The combination of the Fed’s increase in short-term rates and a decrease in long-term yields due to slower growth expectations has driven the yield curve spread down from its 2011 high of 400 bps to just 39 bps, as of July 9th. This is the smallest spread since the recovery began in 2009. [↑](#footnote-ref-5)
6. Matt Phillips, 6-25-2018, "What’s the Yield Curve? ‘A Powerful Signal of Recessions’ Has Wall Street’s Attention," No Publication, <https://www.nytimes.com/2018/06/25/business/what-is-yield-curve-recession-prediction.html>

   Every recession of the past 60 years has been preceded by an inverted yield curve, according to research from the San Francisco Fed. Curve inversions have “correctly signaled all nine recessions since 1955 and had only one false positive, in the mid-1960s, when an inversion was followed by an economic slowdown but not an official recession,” the bank’s researchers wrote in March. Even if it hasn’t happened yet, the move in that direction has Wall Street’s attention. [↑](#footnote-ref-6)
7. https://www.forbes.com/sites/teresaghilarducci/2018/09/23/why-we-should-control-the-federal-debt-before-the-next-recession/#6223bc5ed33b

   **And high debt levels** can **leave little room to maneuver.** The IMF predicts that among rich nations, only the U.S. will increase its debt-to-GDP ratio in the next five years, the wrong direction during an economic expansion. During an expansion, especially the current nearly record-setting long one, debt should be falling, not rising. **In Q3 of 2008, the government had collected revenue from the booming economy; the debt-to-GDP ratio was a low 64%. When the Great Recession hit, the government had room to borrow to finance our fiscal lifesavers, including the American Recovery and Reinvestment Act (ARRA) and TARP, which helped keep the deep recession from turning into a global depression.**

   [↑](#footnote-ref-7)
8. #### More specifically, Horowitz 18 of FiveThirtyEight writes that

   Evan Horowitz, 2-14-2018, "The Economy Is Soaring, And Now So Is The Deficit. That’s A Bad Combination.," FiveThirtyEight, https://fivethirtyeight.com/features/the-economy-is-soaring-and-now-so-is-the-deficit-thats-a-bad-combination/, 1-10-2019, DJK

   And this is just one potential issue. Perhaps the greater risk of rising deficits is that they make it harder for the U.S. to fight off the next recession, whenever it comes. Combating a recession generally requires a twofold approach: Rapid interest-rate cuts at the Federal Reserve to encourage borrowing and stimulus spending from Congress, both of which inject cash into the economy. But the Fed is in a weak position now. It can’t cut rates by 4 or 5 percentage points, as it has in recent recessions, because interest rates aren’t that far above zero right now — and the Fed’s own projections suggest they won’t get much higher, even over the long run. Congressional action is thus especially important, but here’s where deficits get in the way. When Congress passed stimulative tax cuts during the recession of 2001 and boosted direct spending with the American Recovery and Reinvestment Act in 2009, they were starting from a position of relative comfort, as pre-recession budget deficits were either small or nonexistent. This time around, the U.S. is liable to enter its next recession with a substantial deficit, inflaming concerns that even necessary stimulus would be just too dangerous. [↑](#footnote-ref-8)
9. https://www.washingtonpost.com/news/posteverything/wp/2018/07/05/the-question-isnt-when-is-the-next-recession-coming-its-what-are-we-going-to-do-about-it/?noredirect=on&utm\_term=.81763c0baa53 [↑](#footnote-ref-9)
10. James C., 6-28-2018, "Long-term deficits will weaken the economy and invite a crisis," AEI, <http://www.aei.org/publication/long-term-deficits-will-weaken-the-economy-and-invite-a-crisis/>

    From time to time, the federal government must respond to unexpected crises, such as international conflicts and natural disasters. Further, the public looks to the federal government to bolster the economy when events like the financial crash occur. The more the federal government borrows and spends when times are good, as they are today, the less room there will be to borrow and spend when times are bad, as they inevitably will be at some point. **If the government is already overextended when an unexpected crisis hits, the response could be less robust and effective than it should be to adequately address the problem.** [↑](#footnote-ref-10)
11. Chad Stone,, 10-23-2015, "It Could Have Been So Much Worse," US News & World Report, <https://www.usnews.com/opinion/economic-intelligence/2015/10/23/the-great-recession-would-have-been-much-worse-without-stimulus-tarp>

    In a nutshell, Blinder and Zandi estimate that without the full set of federal responses, the recession would have been more than three times deeper and lasted twice as long; we would have lost twice as many jobs and unemployment would have peaked at 16 percent rather than 10 percent; the budget deficit would have grown to 20 percent of GDP, reaching $2.8 trillion in fiscal 2011; and unemployment today would be 7.6 percent, not 5.1 percent. [↑](#footnote-ref-11)
12. Will Healy, 5-16-2018, "A Vicious Debt Cycle Could Send Interest Rates Much Higher", InvestorPlace, https://investorplace.com/2018/05/vicious-debt-cycle-interest-rates-higher/

    As a result, the cost of borrowing has risen as rates rise above record lows. Goldman Sachs believes the 10-year Treasury will reach 3.6% by the end of 2019. Higher Rates Will Become a Double-Edged Sword To be sure, rising rates also signal a healthy economy. With unemployment falling to 16-year lows, consumers show a willingness to spend. Higher interest rates also benefit savers since banks such as Bank of America Corp (NYSE:BAC), JPMorgan Chase & Co. (NYSE:JPM) and Citigroup Inc (NYSE:C) will have to pay higher interest rates to depositors. However, due to the recent tax cuts, the deficit has risen despite the improving economy. Goldman correctly points out that this serves as an unusual and dangerous phenomenon in an improving economy. Now that the national debt has risen to the $21 trillion level, the cost of servicing that debt will grow larger with higher interest rates. This poses a threat to the U.S. economy as rising interest payments will likely lead to even larger deficits. [↑](#footnote-ref-12)
13. As the economy heats up, the federal government’s borrowing costs are set to soar. The most recent budget projections from the Congressional Budget Office (CBO) show the government’s annual interest payments on federal debt more than doubling over the next decade — from 1.5 percent of GDP in 2018 to 3.1 percent of GDP in 2027. Moreover, interest rates could easily rise more rapidly than CBO projects (the agency will be updating its projections later this year). Higher borrowing costs threaten to make the government’s already daunting fiscal challenges even more intractable. The federal government ran very large budget deficits due to the financial crash and the deep recession of 2007 to 2009. After 2009, the economy grew at a sluggish pace and federal deficits remained higher than they would have been in a stronger recovery. From 2009 to 2016, the government ran a cumulative deficit of $7.3 trillion. At the end of 2016, federal debt reached 77 percent of annual GDP — up from 39 percent at the end of 2008. The recent deficits would have been even larger if not for the extraordinary low interest rates paid by the government on the national debt. The Federal Reserve, along with other central banks around the world, drove interest rates to historically low levels in order to provide a sustained monetary stimulus to the global economy. Among other things, the Federal Reserve purchased large amounts of federal debt as part of its quantitative easing program. In 2008, the federal government made $253 billion in net interest payments on debt that was $5 trillion at the end of fiscal year 2007, for a 5 percent average interest rate on the debt. The government made only $240 billion in interest payments in 2016, although the debt had more than doubled to $13.1 trillion at the end of fiscal year 2015, for a 1.8 percent average interest rate. The era of ultra-easy monetary policy appears to be ending, as it has become clear that the economy is now growing more rapidly than at any time since 2010. The Federal Reserve is widely expected to raise short-term borrowing costs at least three times in 2018. As monetary stimulus ends, and interest rates move toward more normal levels, the federal government will be required to pay higher rates on the funds it borrows. CBO projects a rise in the average real interest rate paid by the federal government, but to a level that would still be below what it was historically. In CBO’s projection, the average nominal rate paid on the debt would rise from 2.2 percent in 2018 to 3.5 percent in 2027. With inflation (as measured by the CPI) projected to rise to 2.4 percent in 2027 from 2.2 percent in 2018, CBO is envisioning an average real interest rate paid on federal debt of around 1 percent over the coming decade. By contrast, the average real interest rate on 10-year Treasury notes was just over 3 percent from 1990 to 2007. If the average real interest rate instead gradually rose to around 2.2 percent over the next decade, then federal interest payments could reach $1.2 trillion in 2027 — or more than $0.3 trillion above CBO’s current forecast. The annual budget deficit would widen from $0.7 trillion in 2018 to $1.8 trillion in 2027. CBO has cited several reasons why real interest rates [↑](#footnote-ref-13)
14. Peterson G Foundation, no date, "The Fiscal &amp; Economic Impact of the National Debt", No Publication, <https://www.pgpf.org/the-fiscal-and-economic-challenge/fiscal-and-economic-impact>

    *Reduced Public Investment*. As the federal debt increases, the government will spend more of its budget on interest *costs, increasingly crowding out public investments*. Over the next 10 years, CBO estimates that interest costs will total $5.2 trillion under current law. In just under a decade, interest on the debt will be the third largest “program” in the federal budget. It will be the second largest in 2046 and the single largest in 2048. Yet those interest costs are not investments in programs that build our future. Instead, they are largely about the past. And the more that resources are diverted to interest payments, the less that will be available for the federal government to invest in areas that are important to economic growth. Although interest rates are currently low, we can’t expect these conditions to last forever. As economic growth improves, interest rates are likely to rise, and the federal government's borrowing costs are projected to increase markedly. By 2047, CBO projects that interest costs alone could be more than two times what the federal government has historically spent on R&D, nondefense infrastructure, and education combined. [↑](#footnote-ref-14)
15. James C. Capretta 18, RealClearPolicy Contributor and holds the Milton Friedman chair at the American Enterprise Institute., 1-26-2018, "The Coming Challenge of Servicing Our National Debt," RealClearPolicy, https://www.realclearpolicy.com/articles/2018/01/26/the\_coming\_challenge\_of\_servicing\_our\_national\_debt.html

    The keys to limiting future deficits and debt are gradual changes in spending on the major entitlement programs, to lower their costs over the medium and long term. While it is not necessary to achieve balance in the near term, it is necessary to slow the rate of future spending growth to prevent federal debt from spiraling out of control. Social Security and Medicare should be modified for future entrants to encourage longer working lives, more reliance on private savings in retirement, and greater efficiency in how health services are delivered to patients. These changes can be put in place even as more protection is provided for those with modest lifetime incomes. Current beneficiaries can be fully protected from any changes in their benefits. Although it is possible that rising federal interest payments will prompt this kind of action in Congress, it does not seem likely. It is more probable that both parties will advocate steps this year that will make the problem worse, not better. It would be far better for the country if political leaders took steps now to head off a potential fiscal crisis that could come with rising debt. Fixing the problem after a crisis has started will be more painful. At the moment, though, neither party seems ready to face budgetary reality. [↑](#footnote-ref-15)