We Negate

Our Sole Contention is Investment

Gregory Daco explained at the beginning of December that:

Gregory Daco, TheHill, 12-5-2018, "Market plunge reveals growing investor pessimism in US economy," https://thehill.com/opinion/finance/419799-market-plunge-reveals-growing-investor-pessimism-in-us-economy, Date Accessed 12-11-2018 JM

Markets had a rough day Tuesday with the S&P 500 index **falling more than 3 percent, the Dow Jones** Industrial Average **shedding 800 points and the 10-year Treasury yield falling to 2.91 percent** – its lowest in three months. While there is, as always, a confluence of factors influencing market fluctuations, **excessive U.S. growth pessimism** and excessive post-Group of 20 (G20) trade optimism **carry a large portion of the blame**. While the G20 meeting between President Trump and Chinese President Xi Jinping was a success in that the threatened escalation of trade tensions was pushed back 90 days, conflicting post-meeting communication and Trump stating that he was a "Tariff Man" left many investors worried about rising protectionism. Indeed, beyond the political spin, it is difficult to foresee an imminent and substantial trade deal between the two economic giants. Addressing the structural issues related to forced technological transfers, intellectual property protection, industrial subsidies and market access in China will instead require lengthy negotiations and patience. But still, while 2019 will likely feature increased trade protectionism, October's 10-percent market correction and Tuesday's combined **decline in stocks** and Treasury yields **reveals excessive growth pessimism**. With the U.S. economy growing at a strong 3-percent pace, the labor market churning out more than 200,000 jobs monthly, the unemployment at a 50-year low and private-sector confidence near all-time highs, recession odds remain quite low — Oxford Economics puts the odds of an economic downturn in 2019 around 20 percent. Looking ahead, though, **this divergence between markets and the economy could persist**, driven by unsynchronized global growth, elevated and rising trade tensions, technology sector troubles, oil turbulences and the Federal Reserve's tightening of monetary policy. **On the global front**, there are similarities between the recent bout of temporary economic decoupling and the one that was present in 2014-2015. A fiscally-stimulated U.S. economy has largely been insulated from slower global momentum, which has led to both a strong dollar and ongoing monetary policy tightening — both seen as potential headwinds for stock prices. On the trade front, policy uncertainty remains extremely elevated in the wake of the Trump-Xi meeting. While the two leaders negotiated a three-month tariff time-out, President Trump subsequently tweeted that in the absence of a deal with China, he would "be charging major Tariffs against Chinese product being shipped into the United States," stocking renewed investor fears. Indeed, the most under-appreciated paradox in U.S. trade policy today is that increased protectionism is hurting the very companies the U.S. administration wants to protect from unfair trade practices. Most visibly, the imposition of tariffs on key inputs like semiconductors is leading to heightened cost for the tech sector and disrupting global supply chains. In addition, there is a less visible, but increasingly active effort by the Treasury Department's Committee on Foreign Investment (CFIUS) to scrutinize U.S. exports as well as foreign direct investment in certain new technology sectors, such as artificial intelligence and robotics. A request for notice published on the Federal Register last week gives businesses 30 days to comment on new export-control rules. These rules could have a severe impact on U.S. exports, business investment and GDP, if imposed. The energy sector has also come under pressure of late with Brent crude price falling nearly $25 to the low $60 per barrel since its early October peak. A combination of strong U.S. oil output due to smaller-than-expect transportation bottlenecks, firmer Organization of Petroleum Exporting Countries (OPEC) production owing in part to waivers granted for Iran's oil exports and weakened demand have helped push prices lower. With OPEC producers facing a dilemma of either cutting production to support prices but losing market share or maintaining production but losing revenues, the lead-up to Thursday's OPEC meeting remains turbulent for markets. All of these developments have made the Federal Reserve's monetary policy normalization process even more interesting going into 2019. Indeed, while the Fed's main focus remains the state of the economy, it is not indifferent to market movements, especially those that affect the economy. Balancing a desire to tighten monetary policy gradually to avoid rising inflation and the development of financial market imbalances with the need to avoid excessive tightening that risk stoking market instability is not an easy task. Last week's dovish Fed communications, including speeches by Fed Chairman Jerome Powell and Vice Chair Richard Clarida, is symptomatic of this difficult balancing act. How to communicate ongoing monetary policy normalization in the face of a strong but cooling economy without communicating excessive growth and recession pessimism will be the key challenge.

Ultimately, prioritizing reducing the debt admits the debt is a problem which crushes investor confidence - foreign investors will shift their investments away from the United States. Rebecca Nelson indicates that:

Rebecca Nelson, 10-28-2013, "Sovereign Debt in Advanced Economies: Overview and Issues for Congress", Congressional Research Service, https://fas.org/sgp/crs/misc/R41838.pdf, Date Accessed 12-14-2018

Some analysts,44 as well as some Members of Congress, have expressed concern that **the United States is headed towards a debt crisis similar to those experienced by some Eurozone countries**. They are concerned about loss of investor confidence and the loss of the United States' ability to borrow at reasonable interest rates. **Like these Eurozone countries**, it is argued, **the United States has been reliant on foreign investors to fund a large budget deficit, resulting in rising debt levels and increasing vulnerability to a sudden reversal in investor confidence**. Other economists argue that the U.S. debt position is much stronger than that of the Eurozone economies in crisis.45 Unlike individual Eurozone countries, the United States has a floating exchange rate and its currency is an international reserve currency, which can alleviate many of the pressures associated with rising debt levels.46 Additionally, they argue that the stronger levels of economic growth and the lower borrowing costs of the United States put U.S. debt levels on a more sustainable path over time. The United States also has a strong historical record of debt repayment that helps bolster its reputation in capital markets. Greece, by contrast, has been in a state of default about 50% of the time since independence in the 1830s.47 Bond market data indicate that investors do not view the United States in a similar light to Greece, Ireland, or Portugal. Figure 5 compares the spreads on Greek, Irish, Portuguese, U.S., and UK 10-year bonds (over 10-year German bonds) since 2008. Higher bond spreads indicate higher levels of risk. U.S. bond spreads have remained substantially lower than Greek, Irish, and Portuguese bond spreads throughout the Eurozone crisis. U.S. bond spreads have been much closer in value to UK bond spreads, even during the financial crisis that originated in the U.S. housing market. Additionally, one market research firm (S&P Capital IQ) estimates the likelihood of default over the next five years for a number of governments, and publishes the top 10 most and least risky sovereigns on a quarterly basis. For the third quarter of 2013, it estimated the likelihood of the United States defaulting on its debt over the next five years to be 3.07%, and ranks the United States as the ninth least-likely country to default. kets may perceive the United States favorably not because they believe the deficits are currently at sustainable levels but because they believe that the government will implement policies that reduce the deficit.

However, it is important to note that market perceptions can change quickly, and it can be difficult to predict when markets can lose confidence. Implications for the U.S. Economy **How other advanced economies address their debt levels has implications for the U.S. economy**. Most advanced economies are addressing high debt levels through fiscal austerity. **If large austerity packages in advanced economies slow growth in those countries, demand for U.S. exports could fall. Because advanced economies are major trading partners of the United States, this could impact U.S. exports. Slower growth rates in advanced economies could make investment there less attractive, and could lead to U.S. investors shifting their investment portfolios away from advanced economies and toward emerging markets**. Investors in those countries also could shift their portfolios away from U.S. debt. If any advanced economies do default, restructure their public debt, or use inflation to reduce the real value of their debt, U.S. investors could face losses on their investments. Figure 6 shows where U.S. banks have credit committed directly to borrowers overseas in general, not just to sovereign borrowers—also referred to as how heavily U.S. banks are "exposed" overseas. Direct U.S. bank exposure in general is more heavily concentrated among advanced economies than emerging and developing countries. As of June 2013, 71% ($2,299 billion of $3,222 billion) of U.S. bank exposure overseas was concentrated in advanced economies.48 Among advanced economies, U.S. banks were most exposed to the United Kingdom ($529 billion), Japan ($373 billion), France ($233 billion), German ($204 billion), and Canada ($127 billion) in June 2013.

Dan Ikenson furthers in 2018 that:

Dan Ikenson, 10-17-2018, "The Economic Bedrock Of Foreign Direct Investment," Forbes, https://www.forbes.com/sites/danikenson/2018/10/17/the-economic-bedrock-of-foreign-direct-investment/~~#66ea75be71a4 $$$, Date Accessed 12-14-2018 JM

Although the United States accounts for nearly a quarter of the global FDI stock, the U.S. share was much a much **larger** 37%, **as recently as 2000** Since then, the competition for FDI has been intensifying. **By growing their economies,** improving the education **and** skills of their workforces, strengthening the rule of law, **implementing reforms** to make their business climates more predictable, and adopting other best practices, **countries once considered too risky have started to become viable competitors for a growing share of that investment.**

These investors are the lifeblood of our economy. Foreign investors insulate the economy against a recession. Ikenson argues:

Dan Ikenson, 10-17-2018, "The Economic Bedrock Of Foreign Direct Investment," Forbes, https://www.forbes.com/sites/danikenson/2018/10/17/the-economic-bedrock-of-foreign-direct-investment/~~#66ea75be71a4 $$$, Date Accessed 12-14-2018 JM

What the OFII report shows is that **international companies contribute significantly to the U.S. economy, raising average economic performance across a wide range of pertinent metrics through their direct contributions, but also because their presence and participation in U.S. markets brings out the best in incumbent domestic firms**. The report presents new and compelling evidence that international companies increase U.S. economic growth, vitality, and diversity well beyond the levels that would obtain without their contributions, and that U.S. policies should be designed to attract more of these companies—and more of their intellectual and financial capital—to U.S. shores. **Foreign investment in the United States is a barometer of the faith of the rest of the world that the U.S. economy is safe and strong**, and will perform well, prospectively, relative to other economies. Meanwhile, investment is essential to economic growth and higher living standards. **To remain atop global value chains and at the technological frontier, the U.S. economy requires continuous inflows of fresh capital** to replenish the machinery, software, laboratories, research centers, and high-end manufacturing facilities that harness our human capital, animate new ideas, and create wealth. Over the years, **foreign companies have contributed significantly to the satisfaction of those capital requirements.** With the world's largest consumer market, relatively transparent business and regulatory environments, a skilled and productive workforce, an innovative culture, and deep and broad capital markets to commercialize that innovation, the United States has some big advantages in the global competition to attract investment.

This scenario is exactly the way that Neil Buchanon describes as:

Neil Buchanan, 2012, "Why We Should Never Pay Down the National Debt", George Washington University, https://scholarship.law.gwu.edu/cgi/viewcontent.cgi?article=1025andcontext=faculty_publications, Date Accessed 12-12-2018 JM

This means that concerns about the high levels of deficits in the aftermath of the 2008 recession are fundamentally misplaced. Even **a** decade or more of unusually high deficits should not be enough to cause financial markets to refuse to finance the federal government's borrowing needs. The danger is that financial markets will become convinced that the long-term, permanent debt situation will pass the point of no return. Even if that were to happen, however, all would not necessarily be lost. If the markets reacted in an orderly fashion, interest rates would rise, and the government could respond in a timely way to the warning signal that those increased interest rates would provide. The greatest worry, however, is that financial markets would not react in such a tidy way, but rather would spin out of control in a sudden, chaotic overreaction to some unforeseen triggering event (or even to the mere perception that something important has happened). Once such a cascade of events was under way, the entire financial system would be at risk, with disastrous consequences for the economy.39 In that **catastrophic situation, even well-run businesses would find it impossible to obtain financing for the most ordinary purposes, thereby freezing the economy and putting millions of people out of work**.40 **This grim possibility**—that financial markets will become so concerned about the government's long-term unwillingness to finance its operations that the entire economic system is suddenly brought to a halt—**can only become a reality if market participants come to believe that the government's long-term borrowing will become unmanageable.**41 Based on available forecasts of the federal government's likely spending and taxing levels, only health care costs pose a serious danger of creating the kind of systemic crisis that could bring down the economic system.42 The remainder of the federal government's finances, including Social Security payments during the retirement years of the Baby Boom generation, is entirely under control, with no indication that long-term borrowing needs would approach anything close to unsustainable levels.43

Luckily prioritization of economic growth is paired with deregulation to provide more financial certainty. Jeff Cox indicates in 2018 that:

Jeff Cox, 9-7-2018, "Trump has set economic growth on fire. Here is how he did it," CNBC, https://www.cnbc.com/2018/09/07/how-trump-has-set-economic-growth-on-fire.html, Date Accessed 12-11-2018 JM

Trump's economic program was very simple: an attack on taxes and regulations with an extra dose of spending on infrastructure and the military that would create a supply shock to a moribund economy. On the tax side, **the White House pushed through a massive $1.5 trillion reform plan that sliced the highest-in-the-world corporate tax from 35 percent to 21 percent and lowered rates for millions of taxpayers**, though the cuts for individuals will expire in 2025. **On**

deregulation, Trump ordered that **rules be pared back or eliminated across the board**. During his time in office, Congress has cut back on the Dodd-Frank banking reforms, particularly in areas affecting regional and community institutions, rolled back a multitude of environmental protections that he said were killing jobs and took a hatchet to dozens of other rules. (The left-leaning Brookings Institution think tank has a rolling deregulation tracker that can be viewed here.) **During the first year of his administration, "significant regulatory activity" had declined 74 percent from where it was in the same period of the Obama administration**, according to data collected by Bridget Dooling, research professor at GW's Regulatory Studies Center. **The** Dodd-Frank **rollbacks have been particularly helpful to community banks, whose share prices collectively are up more than 25 percent over the past year**. Small-cap stocks in general have strongly outperformed the broader market, gaining 23 percent over the past 12 months at a time when the S&P 500 is up 17 percent. The Federal Register, where business rules are stored and thus serves as a proxy for regulatory activity, was 19.2 percent smaller from Inauguration Day until Aug. 16 under Trump than during the same period for Obama. "**You can think of that as turning off the spigot of new regulations**," Dooling said in an interview. She said more aggressive movement appears to be on the way. Dooling said recent regulatory changes from the Environmental Protection Agency and the departments of Education and Labor will advance deregulation in an even "more meaningful way." **In addition to expected deregulation benefits, there's also anticipation that the true benefits of tax cuts have yet to kick in**, that **he attributes the bulk of new economic growth to deregulation rather than the tax cuts**, whose benefits he expects to come later. "It's still too early to tell. We haven't seen any of the multipliers yet from tax reform," said Jacob Oubina, senior U.S. economist at RBC Capital Markets. "**We have enough in terms of ammunition to put in 3 percent growth for the rest of this year and even all of 2019, but we haven't seen sort of this spike in activity yet**." There's been another interesting trend that is peculiar to the Trump economy: a drifting of benefits from urban centers to nonmetropolitan areas, which are seeing their first collective population growth since 2010. Trump's tax cuts "**should deliver greater tax relief to rural areas where there is a higher rate of small business owners who will benefit from the favorable pass-through tax rates**," Joseph Song, U.S. economist at Bank of America Merrill Lynch, said in a recent note to clients.

Empirically, we find that this certainty ensures long durations of economic expansion. Vitor Castro argues that:

Vitor Castro, October 2007, "THE DURATION OF ECONOMIC EXPANSIONS AND RECESSIONS: MORE THAN DURATION DEPENDENCE," University of Warwick, http://www4.fe.uc.pt/ceue/working_papers/vcastro_48.pdf, Date Accessed 12-12-2018 JM

The likelihood of an expansion ending is also affected by the behaviour of private investment, the price of oil and by external influences. The evidence provided by this study shows that **the duration of expansions tends to increase when private investment accelerates**, reflecting the idea that **when economic agents have confidence in the future path of the economy, they end up fulfilling that expectation by investing more**. The price of oil is another variable that is commonly related to the occurrence important recessions after WWII, especially in the 1970s. This paper finds empirical evidence regarding this relation and shows that when the price of oil increases the likelihood of an expansion ending increases significantly. In fact, as the energy resources that firms need to operate become more and more expensive – and oil is an important one – their profits tend to decrease, which, in turn, generates an economic slowdown and, possibly, a recession.

This extended economic expansion provides stability to our debt-to-GDP ratio in the long term. Jeffrey Dorfman concludes in 2017 that:

Jeffrey Dorfman, 12-22-2017, "Why Growth Matters," Forbes, https://www.forbes.com/sites/jeffreydorfman/2017/12/22/why-growth-matters/ $$$, Date Accessed 12-5-2018 WS

If there is little to no economic growth, people and **politicians devolve to fighting over who gets the biggest slices of the pie**. Rent-seeking and **crony capitalism reigns When economic growth is robust the pie gets bigger, making it easier for people to** be self-reliant and **not depend on the** ephemeral largesse of the **federal government** for their well-being. **And since what the government gives the government can take away, being self-reliant is far better**. That is why raising the rate of economic growth is so important.

This is why Rebecca Nelson concludes:

Rebecca Nelson, 10-28-2013, "Sovereign Debt in Advanced Economies: Overview and Issues for Congress", Congressional Research Service, https://fas.org/sgp/crs/misc/R41838.pdf, Date Accessed 12-14-2018 JM

Economic growth also allows governments to lower the size of their debt relative to the size of their economy (typically measured as gross domestic product [GDP]). It **can** also **lead to lower levels of government spending and increase tax revenues**, lowering the dollar value of sovereign debt as well. In the short run, economic stabilization is a necessary condition for sustained economic growth. Growth can be stimulated by pursuing expansionary fiscal and monetary policies or by pursuing structural reforms at the microeconomic level. Expansionary fiscal policies, however, lead to more debt, and "easy" monetary policies, such as lowering interest rates, may not be effective if firms and households are unwilling to borrow to increase investment and consumption. At the microeconomic level, **growth can be supported by a number of structural reforms that can increase the competitiveness of industries in the economy. Examples include removing barriers to labor mobility, privatizing state-owned companies, and liberalizing trade policy**. The IMF's program for Greece, for example, includes structural reforms aimed at encouraging growth. The benefit of growing out of debt is that it allows countries to address their debt problems without possibly painful fiscal cuts or alienating creditors. However, **the results of these reforms** tend to **manifest themselves over the long term**, and a country already in a debt crisis may have difficulty just "growing out of it" in the short term. Moreover, empirical evidence suggests that countries with high levels of debt have trouble growing.39 The uncertainty around growth as a strategy for short-term debt reduction is one reason why Greece's IMF program does not just include structural reforms; fiscal cuts are also a central component.

That's why Stan Collender concludes that the best way to reduce the debt:

Stan Collender, 6-3-2015, "You're Wrong If You Want To Reduce The National Debt," Forbes, https://www.forbes.com/sites/stancollender/2015/06/03/youre-wrong-if-you-want-to-reduce-the-national-debt/ $$$, Date Accessed 12-12-2018 JM

After consecutive budget surpluses the last 4 years (1998-2001) of the Clinton administration, the U.S. was looking at a projected $6.7 trillion surplus over the next decade when George W. Bush came into office. That unprecedented projected federal bounty turned out to be the budget equivalent of Big Foot: it wasn't then and has never since been seen. But that didn't stop the projected surplus from prompting a great deal of speculation about what it would mean to all but eliminate the national debt by the end of the decade. The only thing missing from that discussion **was the economics profession**, which almost completely failed to provide the analysis that would have guided U.S. policymakers. The question that needed to be answered was obvious: Would it have been better for the economy to use the multi-trillion dollar surplus to pay down the national debt, or should it have been used for tax cuts and spending increases that would have increased investment and growth? A decade and a half later, long after the promised surpluses never materialized and long before we will ever see them again, the economics profession is **finally providing the substantive answer to the question that should have been answered in early 2001**. As this blog post by David Wessel from the Wall Street Journal discusses, the International Monetary Fund has issued a report saying that, for the United States and several other countries, a budget surplus to pay down the debt makes no sense. According to the report, "the cure would seem to be worse than the disease." The IMF says that **the better way to deal with this is for the economy to grow and the existing debt to become a smaller and smaller percentage of GDP. This should be a huge blow to all those** (and you know who you are) **who perpetually insist that the national debt is a tool of the devil and the federal budget must always reduce or eliminate it**. The IMF is saying that **those individuals**, deficit scold groups and candidates that insist on fixing the debt **are just wrong because there's nothing to be fixed**. To the contrary, the spending and taxing policies needed to pay down the debt in most circumstances will do far more damage to the U.S. economy than reducing the borrowing. The IMF report should be thought of as a public rebuke of those who continually say the federal government must do what families do by balancing their budgets. The IMF is actually saying the federal government should do what homeowners do when their mortgage becomes less of a financial burden because their income increases, not because they have stopped making improvements on the house or paying college tuition to pay off the mortgage faster. As Wessel notes, the IMF says the U.S. and several other countries would be better off if the do what many families do by borrowing "at today's exceptionally low interest rates and live with their debt but allow the ratio of debt to GDP to decline over time."