Kelly and I affirm, that we should prioritize reducing the federal debt over promoting economic growth.

Currently, our debt is rising exponentially at uncontrollable rates. **Simon 18 of Business Insider** corroborates that the national debt has grown by a trillion dollars in 6 months alone, and **Bernanke of BIS** furthers that our debt will dangerously reach 150% of of GDP by 2030.

With that, our first contention is preventing a US debt crisis

Instead of using tax revenue to finance our budget and pay off previous debt, the federal government relies on even more borrowed money every year to pay back our debt. Problematically, **Collins 18 from USA Today** furthers that the more we borrow, the more interest we must pay, concluding that our current borrowing is both fiscally irresponsible and unsustainable. In fact, **Brixby** of Brookings finds that at this rate, *all federal revenue will be swallowed up by interest payments and mandatory spending by 2030, leaving no room for all discretionary spending, like military, education, and healthcare.*

Borrowing more by that time would be disastrous, or even impossible, as investors don't grow as fast as debt grows. Indeed, **Rennison** of Financial Times confirms a week ago that foreign investors' appetite for US debt has structurally shifted, reaching the lowest levels of the past 15 years. **SchiffGold** confirms last month that China and Japan, two leading investors, unprecedentedly decreased their investment over the past five months to the lowest levels since 2017, **Thus, Davies 17** concludes that the government is running out of places to borrow to the point that the yearly growth in demand of foreign investors to buy the debt has decreased by 85%.

Our impact is is Stimulus Packages. **Ross 15** explains that speculation and rapid returns are a necessary part of the capitalist market and thus periodic recessions are inevitable.

Problematically, not being able to borrow prevents the American government from spending on stimulus packages which governments use to pull us out of recessions. Unfortunately, **Blinder 15** finds without government stimulus in 2008 and the years that followed, the recession would have been twice as long and 10 million more jobs would have been lost.

Our second contention is preventing a developing world debt crisis

Growing debt is problematic as it leads to rising domestic interest rates treasuries. Indeed, **Gale 04** finds that each percent of GDP in projected future primary deficits raises interest rates by 0.7% Interest rates rise because of increased supply. **Hicks 18** writes that when supply of debt increases but demand stays the same,-- interest rates, or returns on treasuries and bonds, rise to attract more investors. **Schiffgold 18** confirms that currently, the huge increase in supply of treasuries has increased returns.

There are two ways rising treasury yields hurt developing countries.

First, **Blitz** of the Financial Times writes that emerging markets central banks are responding to higher US rates by hiking their own rates. This is because bonds of developing countries must compete with US bonds to attract investors. Rising interest rates increase debt over time, and the **JDC** explains that rising public debt weakens the ability of developing nations to provide necessities such as food, healthcare, and infrastructure. And promising more returns in the future puts the developing countries in a position where the amount they have to attract increases over time, increasing the probability of a debt crisis.

Second, **Amadeo** writes that treasury yields spill over into domestic interest rates for bonds and loans, concluding that it increases the value of the dollar as the bonds become more appealing. Thus, **Investopedia 18** writes that higher interest rates make investment in the US historically increases demand for the dollar, strengthening its value. The impact is a debt crisis, as **Investopedia** confirms that a stronger dollar means developing nations have to pay more back to the US due to altered exchange rates. Thus, **Nath** concludes that with high interest rates debt would become unmanageable for these countries

According to the **IMF** 15, these developing countries borrowed too much cheap debt from the US during the last financial crisis, so 30 countries currently at risk of a debt crisis. Thus, **Koepke 18** concludes that increasing interest rates in the US triples the chance of a foreign debt crisis, . Furthermore , **Rogoff 15** finds that a debt crisis scares away investors and depresses the economy, and economic collapse could ensue. **The JDC** finds that debt crises in the 90s caused decades of lost development in Africa, and within a decade, 125 million people were pushed into extreme poverty.

Cards

DEBT HAS GROWN BY TRILLION IN SIX MONTHS ALONE.

Black, Simon. "The US' National Debt Is Rising 36% Faster than the Economy." Business Insider, Business Insider, 21 Mar. 2018, www.businessinsider.com/the-national-debt-is-rising-much-faster-than-the-economy-2018-3.

Well, it happened again. **On Friday afternoon, the national debt of the United States hit another major milestone, soaring past $21 trillion for the first time ever**. Clearly that is an enormous number… **it's actually larger than the size of the entire US economy**, which is pretty incredible. But what's always been **the more important story about America's pile of debt is how rapidly it's growing. For example, in the span of a SINGLE DAY, from Thursday to Friday, the national debt grew by $73 BILLION.** In a day. To put that number in context, *$73 billion is larger than the size of most major companies like General Motors, Ford, and Southwest Airlines.* And **in the month of February alone, the national debt grew by an astounding $215 billion.** *$215 billion is larger than the GDP of New Zealand. Greece. Oregon. More than twice the size of the GDP of New Mexico.* Just in a single month. Most disturbingly, **the national debt has grown by more than $1 TRILLION… just in the last SIX MONTHS.** I'm scratching my head right now wondering- **where did they spend all that money? Was there a major economic crisis, wave of bank failures, or severe depression that required massive fiscal stimulus? Nope. It was just business as usual. Even better, the economy was supposedly doing totally awesome over the last six months. And yet, even with all that positivity, the government still managed to rack up an extra trillion dollars in debt.** One important point to make is that **debt growth is VASTLY outpacing GDP growth.** And this is critical to understand. **Last year**, for example, the US economy grew by 2.5% in 'real' terms, i.e. stripping out inflation. Even if you include inflation in the calculation, the size of the US economy increased by 4.4%. Yet the national debt grew by 6%. Now that might not seem like a big difference. But it is. On a proportional basis, **the national debt expanded 36% faster than the US economy (even if you include inflation).** Over the course of several years, that effect compounds into something that's quite nasty. At the end of 2008, for example, the size of the US economy was $14.5 trillion. A decade later, the size of the economy is $19.7 trillion, 36% greater. **Yet over the past ten years, the national debt has grown from $9.4 trillion to over $21 trillion- a growth rate of 123%!** It's really, really hard to pretend that this is good news. But that doesn't stop people from trying. We're constantly being told the same old nonsense that "the debt doesn't matter" because we owe it to ourselves. And, sure, **it's true that the US government owes a lot of this money to various institutions across America. Like Social Security. Or the US banking system. Or the Federal Reserve**. I find it difficult to see the good news here… as if it would somehow **[but how would it] be beneficial to default on (and hence bankrupt) Social Security. Or the US banking system. Or the Federal Reserve. Doing so would cause the most drastic financial catalysm ever before seen in the United States.**

Public debt will reach 150% of GDP by 2030

Bernanke, Ben S. “The Economic Outlook and Macroeconomic Policy” *Board of Governors of the Federal Reserve System*. February 2011. Accessed December 2018. <https://www.bis.org/review/r110204a.pdf>. YS.

For example, under plausible assumptions about how fiscal policies might evolve in the absence of major legislative changes, th**e Congressional Budget Office (CBO) projects the deficit to fall from around 9 percent of GDP currently to roughly 5 percent of GDP by 2015, but then to rise to about 6–1/2 percent of GDP by the end of the decade.2 After that, it projects the budget outlook to deteriorate even more rapidly, with federal debt held by the public reaching almost 90 percent of GDP by 2020 and 150 percent of GDP by 2030, up from about 60 percent at the end of fiscal year 2010.**

Contention 1 US Debt Crisis

Historical precedent for interest rates rise during debt

Castro, Miguel Faria. ‘Rising Interest Rates, the Deficit, and Public Debt.’ Federal Reserve Bank of St. Louis Economic Research, 16 November 2018. https://research.stlouisfed.org/publications/economic-synopses/2018/11/16/rising-interest-rates-the-deficit-and-public-debt/

As the U.S. economy continues its second-longest expansion since World War II, with low unemployment and personal consumption expenditures inflation only slightly below its target, the Federal Reserve System has been gradually raising its target policy rate. Figure 1 shows that these interest rate increases come at a time when federal debt is at historically high levels, a fact that has raised concern.[1] This essay investigates the projected impact of rising interest payments on the federal deficit and debt. Figure 2 plots the historical values as well as projected paths of the federal deficit and debt held by the public as percentages of GDP. Interest payments are likely to double in the next 10 years due to higher interest rates and higher federal debt. This creates upward pressure on federal deficits, which are also likely to be higher and may range from 7 to 10 percent of GDP, depending on the projected inputs. Figure 2 shows that, while debt is projected to increase to about 100 percent of GDP by 2028, it does not seem to be extremely sensitive to the paths of output, inflation, and interest rates.

Interest rates increase over time, unsustainable and financially irresponsible

Collins, Michael. "The National Debt and the Federal Deficit Are Skyrocketing. How It Affects You." USA Today, Gannett Satellite Information Network, 16 Oct. 2018, www.usatoday.com/story/news/politics/2018/10/16/government-spending-how-rising-federal-debt-deficit-impact-americans/1589889002/.

More debt and higher deficits not only harm the economy, they dip into the pocketbooks of average Americans, said Maya MacGuineas, president of the nonpartisan Committee for a Response Federal Budget. For starters, **they drive up interest rates, which leads to slower economic growth. Slower growth leads to lower wages, which results in a lower standard of living for Americans**, MacGuineas said. **To pay for years of deficits, the federal government must borrow money. Roughly half of the U.S. debt is held by foreign countries, such as China, Japan and Saudi Arabia. China alone holds more than $1 trillion in U.S. debt. Borrowing at that level is financially irresponsible**, MacGuineas said. "**We have a global sugar daddy that is allowing us to borrow at an unsustainable level**," she said. **Why is it unsustainable? Because the more we borrow, the more we pay in interest to those countries.**

By 2030, all government revenue will be spent on interest rates and mandatory spending

Brixby. https://www.brookings.edu/wp-content/uploads/2016/07/Bixby-MacGuineas_FINAL.pdf
Interest on the debt will become the fastest growing part of federal spending. In 2017, the next president will inherit a government projected to spend over $300 billion on interest payments that year alone, an amount that grows to more than $800 billion by 2025—more than the current combined federal spending on the Defense Department, education, transportation, and medical research. **Absent change, by 2030 all federal government revenue will be needed just for interest payments and mandatory spending(the spending programs that grow on autopilot), putting increased pressure on spending controlled through the annual appropriations process, which includes investments in human and physical capital and national defense.**

Structurally shifting, foreign investors now make up for 40 percent of US treasury market

Rennison, Joe. January 18, 2019. Accessed January 18, 2019.
https://www.ft.com/content/4ff8e96e-1ac8-11e9-9e64-d150b3105d21

China is not alone; its sales are part of a broader shift in demand for Treasuries. And this is where investors' attention should really be focused. **Foreign investors' appetite for US government debt, primarily driven by official institutions such as central banks and sovereign wealth funds, has plateaued. Overall holdings of Treasuries by foreign investors stand at $6.2tn, in line with where it was at the end of 2014.** George Goncalves, head of fixed-income strategy at Nomura in New York, said the Treasury market was becoming "domesticated". He cited Fed data showing record buying of Treasuries by domestic buyers last year. **This structural shift comes at a critical time. Th**e US treasury department is increasing its debt issuance to fund rising government spending — amplified by the Trump administration's tax cut last year — and to plug the hole left by the Fed as it reduces the size of its balance sheet. **That means foreign demand is dwindling just as supply is rising. Foreign investors now make up 40 per cent of the US Treasury market, their lowest level since 2003.** "This is what is more worrying," said Mr Slok. Demand at auctions of Treasuries has already decreased, judging by a falling bid-to-cover ratio. Primary dealers, typically banks that have to bid on a pro-rata share of each auction to ensure the debt is sold, have seen their holdings of US government debt soar. This retreat of foreign buyers from the Treasury market could, over time, lead to upward pressure on borrowing costs for the US government. But it could also bring a "crowding out" effect, as big holders of government debt in the US pull back from investing in other asset classes, such as corporate credit. A contraction in domestic demand for credit would, **in turn, limit companies' access to bonds and loans, potentially hurting US growth. That longer-term risk should not be ignored and it could be exacerbated if the US trade war meets with some success on its own terms, shrinking the country's trade deficits. That would cause foreign demand for Treasuries to fade, piling pressure on the domestic bond market — at a time when a widening fiscal deficit is forcing debt issuance higher. That, as Mr Slok put it, is "the doomsday scenario".**

China is selling our bonds. Our Fed isn't even willing to buy. Oh shit. Oh also treasuries are increasing because of supply

Schiffgold December 20 2018.
https://schiffgold.com/key-gold-news/china-and-japan-dump-more-us-debt/
China and Japan dumped more US Treasuries in October, even as the federal government continued to run up its debt.
Chinese holdings of US Treasuries dropped for the fifth straight month, sinking to the lowest level since May 2017, according to data recently released by the Treasury Department. The total amount of US debt held by China fell from $1.15 trillion to 1.14 trillion. Over the past year, the Chinese have shed $50 billion in US debt.

Japan has also been selling US Treasuries. That country has divested itself of $76 billion from a year ago to $1.02 trillion. This continues a trend since the peak of its holdings at the end of 2014 ($1.24 trillion).
Meanwhile, the US federal government continues to spend itself deeper into debt at a staggering pace. Through the first two months of the 2019 budget year (October and November), the deficit totaled $305.4 billion. That's a 51.4% increase over the first two months of fiscal 2018.
The national debt ballooned by $1.33 trillion over the last year. It now stands at over $21.8 trillion as of December 14, according to Treasury Department data.
That means the Treasury Department is selling bonds at a dizzying pace. **Long-term US debt sales have risen to a level not seen since the height of the financial crisis. In November alone, the US Treasury sold over $200 billion in public debt. The department has sold bonds at an average rate of $123 billion a month over the past six months. This pace of borrowing is expected to continue into 2019.**
Over the last decade, the US government could always count on the Federal Reserve to buy its paper if nobody else would. The central bank gobbled up billions of dollars in US debt through its quantitative easing program in the wake of the 2008 crash. But the Fed isn't buying either. The central bank shed $190 billion over the 12 months through October as part of its QE Unwind. The Federal Reserve now holds about $2.27 trillion by the end of October, according to WolfStreet.
Who is buying all of these bonds? So far, the Treasury Department has found buyers in the US.
US government entities such as pension funds, Social Security, etc. have taken up some of the slack. These entities increased their holdings by $168 billion to 5.9 trillion over the last year. As WolfStreet explained, "This 'debt held internally' is owed the beneficiaries of those funds; it's their money, invested in Treasury debt, and the US government owes every dime of it. They now hold 27.0% of the total US national debt.
In other words, the US government is borrowing from the US government.
But by far the biggest buyers of US debt have been American institutions and individual investors. They have increased holdings by $1.41 trillion over the last 12 months.
Stock market volatility has increased domestic demand for US bonds. **As WolfStreet noted, "The massive buying-pressure in the Treasury market, in part triggered by stock-market sell-offs, has been easily mopping up the flood of new Treasury debt." But even with this demand, the huge supply of Treasuries on the market has pushed prices down and yields up. The yield on the 10-year Treasury is up sharply from last year and has been hovering between 2.8% and 3.25% since early February.**
The question is: how long will domestic buyers prop up the bond market? And how high will interest rates need to go in order for the federal government to continue its out of control spending? As we've said repeatedly, rising interest rates in an economy built on debt aren't good news.

Recessions are inevitable

Investopedia. "Are Economic Recessions Inevitable" *March 2015. Accessed December 2018.* <https://www.investopedia.com/ask/answers/032015/are-economic-recessions-inevitable.asp>. YS.

"Recession" is the title given to a an economic period marked by negative real growth, declining output, depressed prices and rising unemployment. These periods result from an unusual, simultaneous and large grouping of business errors, or malinvestments. Faced with financial loss and declining margins**, businesses scale back production and reallocate resources from less valuable ends to toward more valuable ends.Oftentimes, the malinvestments create an atmosphere of unhealthy speculation in the market**. Overvalued assets attract more investors who are chasing unsustainable gains. **Many assert that the tendency to speculate on unsustainable investments is the primary driving force behind recessions. They suggest these speculators are a necessary part of the capitalist market and, consequently, periodic recessions are inevitable. A**s John Maynard Keynes suggested, "human nature requires quick results, there is particular zest in making money quickly."

Baccardax, Martin. "US Bond Treasury Yields Rise as Treasury Adds Billions to Weekly Auctions to Fund Deficit" *The Street*. September 14 2018. Accessed January 26 2019. <https://www.thestreet.com/markets/us-bond-yields-rise-as-treasury-adds-billions-to-weekly-auctions-to-fund-deficit-14712217>. YS.

In its quarterly refunding statement, published last month, the Treasury said it would need to raise an additional $30 billion this quarter, and as such would be increasing the size of benchmark auctions by $1 billion. Earlier this week, a sale of $35 billion in 3-year notes, the biggest auction of its kind since 2010, drew the highest yield (2.821%) since May of 2009.

Recession impact

Alan S. **Blinder** & Mark Zandi, **15**, (), "The Financial Crisis: Lessons for the Next One", Center on Budget and Policy Priorities, 10-15-2015, https://www.cbpp.org/research/economy/the-financial-crisis-lessons-for-the-next-one, DOA-12-30-2018 (MO)

The massive and multifaceted policy responses to the financial crisis and Great Recession — ranging from traditional fiscal stimulus to tools that policymakers invented on the fly — dramatically reduced the severity and length of the meltdown that began in 2008; its effects on jobs, unemployment, and budget deficits; and its lasting impact on today's economy. Without the policy responses of late 2008 and early 2009, we estimate that: The peak-to-trough decline in real gross domestic product (GDP), which was barely over 4%, would have been close to a stunning 14%; **The economy would have contracted for more than three years, more than twice as long as it did;** More than 17 million jobs would have been lost, about twice the actual number. **Unemployment would have peaked at just under 16%, rather than the actual 10%; The budget deficit would have grown to more than 20 percent of GDP, about double its actual peak of 10 percent**, topping off at $2.8 trillion in fiscal 2011. Today's economy might be far weaker than it is — with real GDP in the second quarter of 2015 about $800 billion lower than its actual level, 3.6 million fewer jobs, and unemployment at a still-dizzying 7.6%. We estimate that, due to the fiscal and financial responses of policymakers (the latter of which includes the Federal Reserve), real GDP was 16.3% higher in 2011 than it would have been. **Unemployment was almost seven percentage points lower that year than it would have been, with about 10 million more jobs.**

Developing World AFF Cards

Engen 04 [https://www.nber.org/papers/w10681, SY]

Does government debt affect interest rates? Despite a substantial body of empirical analysis, the answer based on the past two decades of research is mixed. While many studies suggest, at most, a single-digit rise in the interest rate when government debt increases by one percent of GDP, others estimate either much larger effects or find no effect. Comparing results across studies is complicated by differences in economic models, definitions of econometric approaches, and sources of data. Using a standard set of data and a simple analytical framework, we reconsider and add to empirical evidence on the effect of federal government debt and interest rates. **We begin <u>by deriving analytically the effect of government debt on the real interest rate and find that an increase in government debt equivalent to one percent of GDP would be predicted to increase the real interest rate by about two to three basis points.</u>** While some existing studies estimate effects in this range, others find larger effects. In almost all cases, these larger estimates come from specifications relating federal deficits (as opposed to debt) and the level of interest rates or from specifications not controlling adequately for macroeconomic influences on interest rates that might be correlated with deficits. We present our own empirical analysis in two parts. First, we examine a variety of conventional reduced-form specifications linking interest rates and government debt and other variables. In particular, we provide estimates for three types of specifications to permit comparisons among different approaches taken in previous research; we estimate the effect of: an expected, or projected, measure of federal government debt on a forward-looking measure of the real interest rate; an expected, or projected, measure of federal government debt on a current measure of the real interest rate; and a current measure of federal government debt on a current measure of the real interest rate. Most of the statistically significant estimated effects are consistent with the prediction of the simple analytical calculation. Second, we provide evidence using vector autoregression analysis. In general, these results are similar to those found in our reduced-form econometric analysis and consistent with the analytical calculations. Taken together, the bulk of our empirical results suggest that an increase in federal government debt equivalent to one percent of GDP, all else equal, would be expected to increase the long-term real rate of interest by about three basis points, though one specification suggests a larger impact, while some estimates are not statistically significantly different from zero. By presenting a range of results with the same data, we illustrate the dependence of estimation on specification and definition differences.

High interest rates lead to stronger dollar

Druck 15 [Pablo, IMF, https://voxeu.org/article/strength-dollar-and-emerging-markets-growth, SY]

<u>Higher interest rates in the US tend to occur alongside a stronger dollar</u>, and vice versa (Figure 3). **Higher <u>interest rates in the US increase capital inflows to the US searching for higher yields, appreciating the currency.</u>** Often, higher interest rates are also associated with stronger growth, though not always.

Showley 18 [https://www.sandiegouniontribune.com/business/economy/sd-fi-econometer11feb-20180201-story.html, SY]

David Ely, San Diego State University

YES**: <u>A strong dollar is often the result of a U.S. economy that is healthy and expected to grow, relative to other economies, and offers attractive investment opportunities to global investors.</u>** However, the decline in the value of the dollar over the past year is not due to the absence of these conditions in the U.S., but by shifts in investment flows due to improving prospects for growth in other economies.

90% of exports from commodities

Hewitt 03 [ODI, https://www.odi.org/projects/1481-world-commodity-prices-and-their-impact-developing-countries, SY]

Commodity price fluctuations, along with the globalisation of the world economy and increased liberalisation of commodity markets have led to profound changes that **seriously affect the weaker economies of the developing world. Commodity price instability has a negative impact on economic growth, countries' financial resources, and income distribution, and may lead to increased poverty** instead of poverty alleviation. **Many countries, especially in Africa, derive more than 90% of their export earnings from commodities.**

Strong dollar decreases growth of Ems – decreases price of commodities

Druck 15 [Pablo, IMF, https://voxeu.org/article/strength-dollar-and-emerging-markets-growth, SY]

Using data for 1970–2014, we document that: **During periods of US dollar appreciation, real GDP growth in emerging markets slows despite the positive impulse of US growth**, and vice versa. **The main transmission channel is through an income effect owing to the impact of the dollar on global commodity prices. As the dollar appreciates, dollar commodity prices tend to fall. In turn, weaker commodity prices depress domestic demand via lower real (dollar) income. Thus, real GDP in emerging markets decelerates.** Moreover, we show that these effects hold despite any potential expenditure-switching effect resulting from the relative currency depreciation of emerging market economies when the dollar appreciates. We also show that **despite controlling for the effects of the US real exchange rate appreciation and real GDP growth, an increase in the US interest rate further reduces growth in emerging markets.** All these effects are stronger in countries with more rigid exchange rate regimes. Finally, although net commodity exporters are affected the most, countries that rely on importing capital or inputs for domestic production will also be affected. Therefore, at the time of writing, emerging markets' growth is likely to remain subdued reflecting, in part, the expected persistence of the strong dollar and the anticipated increase in the US interest rates. **Why the US real effective exchange rate has such an impact?** For developing countries, this is essentially an exogenous variable. **Most international transactions are priced in US dollars, including commodity prices.** And emerging markets (excluding perhaps China) cannot affect much the weights in the multilateral exchange rate of the US. Thus, developments in the US affect emerging markets – and not vice versa. Further, the independence of US macroeconomic policy with respect to less developed countries suggests that the US real exchange rate is likely to be more relevant and even more exogenous than the terms of trade.

High FFR rates increase the probability of debt crises by 10%

Koepke 16 [Institute of International Finance, https://www.iif.com/publication/research-note/determinants-emerging-market-crises-role-us-monetary-policy, SY]

As a benchmark, the unconditional probability of an EM country being in a crisis in any given year over the sample period (1987 to 2014) is 8.7 percent. **The est<u>imation results suggest that in years when the Fed is not tightening policy, the predicted probability is 6.4 percent, while in a year of Fed tightening, the predicted probability jumps to 17.3 percent.</u>** In addition, the estimation results suggest that the incidence of crises also depends on the prevailing stance of U.S. monetary policy. For example, the predicted crisis probability is reduced to 10.9% in a year when the Fed is tightening policy if the real federal funds rate was one percentage point below its natural rate in the prior year. By contrast, **if the real F<u>FR was a percentage point above its natural rate in the prior year and the Fed tightens policy, the predicted crisis probability is 32%. Moreover, if Fed tightening occurs against the backdrop of an upward shift in expected policy rates by one percentage point, the predicted crisis probability is 40.8 percent</u>** (assuming a real FFR at its sample average). Note that it is not common to observe an upward shift of expected policy rates of this magnitude, nor is it common for the Fed to tighten when the real FFR is already a full percentage point above its natural rate (see footnote 11 on page 21). As such, these two scenarios can be thought of as tail risks and serve to highlight the potential disruption that can stem from adverse U.S. monetary policy conditions.

Inverse relationship – Strong dollar decreases prices / Commodity prices are key to econ in EMs

Turak 18 [Natash, https://www.cnbc.com/2018/01/31/gundlach-and-experts-commodities-to-keep-rising-as-dollar-falls.html, SY]

Copper, palladium, and more recently platinum and gold have all seen a pickup in the last three months following the more pervasive dollar weakness. **This is <u>a huge relief for commodities exporters, particularly across many natural resource-dependent countries in South America and Africa, which saw their economies tank when commodity prices plummeted in 2015.</u>** Ultimately, the direction of the dollar remains a key question for many of these commodities. **This is b<u>ecause the dollar is the benchmark for pricing and buying commodities, so a weak dollar means it costs more dollars to buy commodities and a lesser amount of the currencies of the resource-producing countries. Conversely, a strong dollar often decreases the dollar price of commodities.</u>**

Inverse relationship – example in 2014

McCormack 18 [Financial Times, https://www.ft.com/content/44508d0e-5789-11e8-b8b2-d6ceb45fa9d0, SY]

The second reason for **a str<u>ong dollar posing challenges to EMs is the usual inverse correlation between the dollar and commodity prices.</u>** With some important exceptions including China, India and Turkey, EMs as a whole are net exporters of commodities. Leaving aside all other considerations with respect to what might drive commodity prices, **the <u>dollar price moves inversely with the dollar's nominal exchange rate. This was apparent most recently in the 2014 commodity price collapse that was mirrored by a strong surge in the dollar.</u>**

Isamail 18 [https://www.bloomberg.com/news/articles/2018-05-29/why-some-emerging-markets-are-suddenly-melting-down-quicktake, SY]

Encouraged by near-zero interest rates after the global financial crisis, developing nations loaded up on what was then cheap debt. Selling bonds denominated in dollars rather than the local currency also attracted investors who favored the more stable greenback. Turkey's corporate sector, for example, has foreign currency debt in dollars, equivalent to 40 percent of gross domestic output. Global investors, though, sometimes ignored danger signs, such as rising trade deficits and government spending sprees. They also brushed aside, until now, the fact that **a stronger dollar would make it harder for emerging markets to repay their debt. That's because once they borrowed in dollars, they needed to buy dollars to repay the debt. As the dollar rises in value against the local currency, it costs more to obtain those dollars.**

Explanation for why commodity prices decrease

Cross 16 [Commodity HQ, https://commodityhq.com/education/why-the-dollar-is-the-enemy-of-commodity-values/, SY]

The dollar stands out among global currencies because it's the de facto currency of choice used in trading. Commodities are generally priced in dollars and there is a significant inverse relationship between the value of the US dollar and commodity values. Because commodities are traded globally, a drop in the value of the dollar means a rise in a foreign country's currency, which in turn means more buying power for commodities. This increases demand and, as such, **values rise. When the US dollar is strong, commodities become more expensive to purchase and demand drops. Commodity suppliers must reduce prices in order to meet the new market demand.** Businesses can profit from lower commodity prices such as airlines being able to take advantage of lower oil costs. Stocks rise as margins go up and bonds along with them. The US dollar is also used as a safe haven asset by the global financial marketplace. **When the economy is experiencing volatility or there's poor growth in foreign markets, investors flock to the relative safety of the dollar creating higher demand for the currency and further pushing commodity prices down.**

Prasad 15 [https://globaledge.msu.edu/blog/post/33076/the-impact-of-rising-interest-rates-on-e, SY]

The Federal Reserve has stated that it will be raising rates slowly; however, a more aggressive rate raise can cause more uncertainty in markets. Many emerging-market currencies are already under pressure due to decreasing prospects for growth, low commodity prices, declining productivity, and a stronger dollar. The International Monetary Fund estimates that the **emerging markets have borrowed trillions of dollars more than the commodity prices and global demand have warranted.** Although most of the debt was borrowed by companies, similar problems in the corporate sector can seep into the financial markets. A large part of the reason why the IMF urged the Federal Reserve to delay a rate rise was due to the spillover effects, and developing nations can account for nearly 40 % of global output.

Ems on the Brink – more than 10% of rev is to paying back loans / 30 countries are at risk of debt distress

Elliott 18

[https://www.theguardian.com/business/2018/mar/18/developing-countries-risk-from-us-rate-rise-jubilee-debt-campaign-warns, SY]

The expected rise in US interest rates will increase financial pressures on developing countries already struggling with a 60% jump in their debt repayments since 2014, a leading charity has warned. The Jubilee Debt Campaign said **a study of 126 developing nations showed that they were devoting more than 10% of their revenues on average to paying the interest on money borrowed** – the highest level since before the G7 agreement to write off the debts of the world's poorest nations at Gleneagles, Scotland, in 2005. Five of the countries on the charity's list – Angola, Lebanon, Ghana, Chad and Bhutan – were spending more than a third of government revenues on servicing debts. Developing country debt moved down the international agenda following the Gleneagles agreement in which the G7 industrial countries agreed to spend £30bn writing off the debts owed to the International Monetary Fund and the World Bank by the 18 poor countries. But developing country debt is now once again being closely monitored by **the IMF**, which says **30 of the 67 poor countries it assesses are in debt distress or at risk of being so. Lending to developing countries almost doubled between 2008 and 2014 as low interest rates in the west led to a search for higher-yielding investments.** A boom in commodity prices meant many poor countries borrowed in anticipation of tax receipts that have not materialised. But the Jubilee Debt Campaign said the boom–bust in commodity prices was only one factor behind rising debt, pointing out that some countries were paying back money owed by former dictators, while others had been struggling with high debts for many years but had not been eligible for help. **The campaign said developing countries were also vulnerable to a rise in global interest rates as central banks withdrew the support they have been providing since 2008. The US Federal Reserve is expected to raise interest rates this week** – with the financial markets expecting two or three further upward moves during 2018. Tim Jones, an economist at the Jubilee Debt Campaign, said: **"Debt payments for many countries have risen rapidly as a result of a lending boom and fall in commodity prices. The situation may worsen further as US dollar interest rates rise, and as other central banks reduce monetary stimulus.** Debt payments are reducing government budgets when more spending is needed to meet the sustainable development goals." External loans to developing country governments rose from $200bn per year in 2008 to $390bn in 2014 and while they have since dropped to $300-350bn per year from 2015-2017 they remained well above levels seen prior to the global financial crisis. Commodity prices peaked in the middle of 2014 and more than halved over the next 18 months. Despite a recovery from their low in January 2016 they remain more than 40% lower than they were at their peak. The Jubilee Debt Campaign said the fall in global commodity prices had reduced the income of many governments that are reliant on commodity exports for earnings. In addition, **weaker commodity prices led to the exchange rates of developing countries falling against the US dollar, increasing the relative size of debt payments since external debts tend to be owed in dollars.** Angola and Mozambique – two sub-Saharan African countries heavily dependent on commodity exports – had both seen falls of 50% in their exchange rates since 2014. Jones said there had been a lack of transparency about how debts had been incurred. And he said private lenders should suffer from any restructuring agreements. "Where there are debt crises, the risk is that the IMF will bail out reckless lenders, and the debt will remain with the country concerned," Jones said. "Instead, reckless lenders need to be made to bear some of the costs of economic shocks through lower debt payments, allowing governments to maintain spending on essential services."

Ip 18 [https://www.wsj.com/articles/in-a-dollarized-world-a-rising-dollar-spells-pain-1525869836, SY]

Economic ties between the U.S. and Argentina are modest, yet **Federal Reserve policy** is wreaking havoc on Argentina. It also **threatens Turkey, Indonesia and others, for the same reason: their imports, exports and a lot of their debt is denominated in dollars.** The latest emerging market tumult exposes a critical though dimly understood fault line in the global economy. Though the U.S. share of global output and trade has declined over the decades, **the dollar has become even more dominant in global trade and finance. Dollarization, new research shows, means an appreciating dollar may hurt rather than help other economies by raising their import and debt costs. In fact, a rallying dollar may help explain why global growth has already faltered this year.** The dollar's dominance is also why the U.S. can isolate Iran simply by cutting off its access to the U.S. banking system. Argentina's problems are mostly homegrown: Inflation exceeds 20% and its current-account deficit, which includes trade and investment income, has widened. But those problems have been compounded by rising U.S. interest rates and expectations that fiscal stimulus will lead to even higher rates. This has drawn capital from Argentina, causing the peso to plummet 17% against the dollar this year. And that's a problem, because even though just 15% of Argentina's imports come from the U.S., 88% of its total imports are invoiced in dollars, according to Harvard University economist Gita Gopinath. Thus, a rising dollar quickly jacks up prices in pesos. Furthermore, Argentina's various levels of government owe $98 billion in dollar-denominated debt and its private sector another $68 billion, equal to about a third of gross domestic product. As the peso falls, that debt becomes harder to pay off. The run on the peso has prompted the central bank to boost interest rates to 40% and Tuesday, the country asked the International Monetary Fund for a credit line. Argentina's vulnerability is extreme but not unique. **Ms. Gopinath has found that around 40% of world trade is invoiced in dollars, roughly four times the U.S. share of world trade. Moreover, developing countries collectively owe $2 trillion in dollar-denominated debt, according to the Bank for International Settlements.** With the dollar rising, emerging-market currencies, stock markets and bonds are all selling off. "This is a currency that has spillovers that are far more than what was recognized in the past," Ms. Gopinath said in an interview.

JDC 14 [https://jubileedebt.org.uk/wp-content/uploads/2014/10/Lending-boom-research_10.14.pdf, SY]

Over the last forty years, the removal of regulations on lending has driven devastating debt crises affecting people on every continent. The Latin American and African debt crises of the 1980s and 1990s were followed by the East Asian Financial crisis of the late 1990s, the Russian and Argentine defaults at the turn of the century, and the European debt crisis in the late 2000s. Failure to cancel unjust and unsustainable debts continues to increase poverty and inequality around the world. **Large debt payment burdens have dramatic impacts on poverty and inequality. Debt crises in the 1980s, 1990s and 2000s caused two or more 'lost decades of development'. In sub-Saharan Africa, the number of people living in extreme poverty (on less than $1.25 a day) increased from 205 million in 1981 to 330 million by 1993**.1