# Spending DA

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### 1NC DA—Spending

#### Trump’s budget cuts will restore fiscal discipline and economic growth.

Romina BOCCIA 17, deputy director of Thomas A. Roe Institute for Economic Policy Studies and the Grover M. Hermann fellow in federal budgetary affairs at The Heritage Foundation [“Trump’s ‘Skinny’ Budget Paves Way for a Leaner Government,” *The Daily Signal*, March 16, 2017, http://dailysignal.com/2017/03/16/trumps-skinny-budget-paves-way-for-a-leaner-government/]

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Such a targeted approach will help to unleash innovation, economic growth, and jobs that have been hindered by Washington overreach. It’s due time to cut the federal government down to size, and Trump’s proposals make significant strides in this direction.

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It is encouraging that the proposal would fully offset any increase in next year’s defense spending with cuts to domestic programs. Worrisome, however, is that this year’s defense boost would only be partially offset, increasing discretionary spending in fiscal year 2017 by $10 billion.

Trump should set a positive precedent this year by offsetting any new spending with spending cuts elsewhere.

#### Education spending and regulation cause economic decline—empirics and a mountain of studies prove.

Brian Riedl, November 12, 2008, (Senior Fellow, Manhattan Institute "Why Government Spending Does Not Stimulate Economic Growth," Heritage Foundation, http://www.heritage.org/budget-and-spending/report/why-government-spending-does-not-stimulate-economic-growth)

Productivity growth requires increasing the amount of capital, either material or human, relative to the amount of labor employed. Productivity growth is facilitated by smoothly functioning markets indicating accurate price signals to which buyers and sellers, firms and workers can respond in flexible markets. Only in the rare instances where the private sector fails to provide these inputs in adequate amounts is government spending necessary. For instance, government spending on education, job training, physical infrastructure, and research and development can increase long-term productivity rates-but only if government spending does not crowd out similar private spending, and only if government spends the money more competently than businesses, nonprofit organizations, and private citizens. More specifically, government must secure a higher long-term return on its investment than taxpayers' (or investors lending the government) requirements with the same funds. Historically, governments have rarely outperformed the private sector in generating productivity growth.

Even when government spending improves economic growth rates on balance, it is necessary to differentiate between immediate versus future effects. There is no immediate stimulus from government spending, since that money had to be removed from another part of the economy. However, a productivity investment may aid future economic growth, once it has been fully completed and is being used by the American workforce. For example, spending on energy itself does not improve economic growth, yet the eventual existence of a completed, well-functioning energy system can. Those economic impacts can take years, or even decades, to occur.

Most government spending has historically reduced productivity and long-term economic growth due to: [3]

Taxes. Most government spending is financed by taxes, and high tax rates reduce incentives to work, save, and invest-resulting in a less motivated workforce as well as less business investment in new capital and technology. Few government expenditures raise productivity enough to offset the productivity lost due to taxes;

Incentives. Social spending often reduces incentives for productivity by subsidizing leisure and unemployment. Combined with taxes, it is clear that taxing Peter to subsidize Paul reduces both of their incentives to be productive, since productivity no longer determines one's income;

Displacement. Every dollar spent by politicians means one dollar less to be allocated based on market forces within the more productive private sector. For example, rather than allowing the market to allocate investments, politicians seize that money and earmark it for favored organizations with little regard for improvements to economic efficiency; and

Inefficiencies. Government provision of housing, education, and postal operations are often much less efficient than the private sector. Government also distorts existing health care and education markets by promoting third-party payers, resulting in over-consumption and insensitivity to prices and outcomes. Another example of inefficiency is when politicians earmark highway money for wasteful pork projects rather than expanding highway capacity where it is most needed.

Mountains of academic studies show how government expansions reduce economic growth:[4]

Public Finance Review reported that "higher total government expenditure, no matter how financed, is associated with a lower growth rate of real per capita gross state product."[5]

The Quarterly Journal of Economics reported that "the ratio of real government consumption expenditure to real GDP had a negative association with growth and investment," and "growth is inversely related to the share of government consumption in GDP, but insignificantly related to the share of public investment."[6]

A Journal of Macroeconomics study discovered that "the coefficient of the additive terms of the government-size variable indicates that a 1% increase in government size decreases the rate of economic growth by 0.143%."[7]

Public Choice reported that "a one percent increase in government spending as a percent of GDP (from, say, 30 to 31%) would raise the unemployment rate by approximately .36 of one percent (from, say, 8 to 8.36 percent)."[8]

Economic growth is driven by individuals and entrepreneurs operating in free markets, not by Washington spending and regulations. The outdated idea that transferring spending power from the private sector to Washington will expand the economy has been thoroughly discredited, yet lawmakers continue to return to this strategy. The U.S. economy has soared highest when the federal government was shrinking, and it has stagnated at times of government expansion. This experience has been paralleled in Europe, where government expansions have been followed by economic decline. A strong private sector provides the nation with strong economic growth and benefits for all Americans.

#### Economic decline risks nuclear war

Stein Tønnesson 15, Research Professor at the Peace Research Institute Oslo; Leader of East Asia Peace program, Uppsala University [“Deterrence, interdependence and Sino-US peace,” *International Area Studies Review*, Vol. 18, No. 3, 2015, p. 297-311]

Several recent works on China and Sino–US relations have made substantial contributions to the current understanding of how and under what circumstances a combination of nuclear deterrence and economic interdependence may reduce the risk of war between major powers. At least four conclusions can be drawn from the review above: first, those who say that interdependence may both inhibit and drive conflict are right. Interdependence raises the cost of conflict for all sides but asymmetrical or unbalanced dependencies and negative trade expectations may generate tensions leading to trade wars among interdependent states that in turn increase the risk of military conflict (Copeland, 2015: 1, 14, 437; Roach, 2014). The risk may increase if one of the interdependent countries is governed by an inward-looking socio-economic coalition (Solingen, 2015); second, the risk of war between China and the US should not just be analysed bilaterally but include their allies and partners. Third party countries could drag China or the US into confrontation; third, in this context it is of some comfort that the three main economic powers in Northeast Asia (China, Japan and South Korea) are all deeply integrated economically through production networks within a global system of trade and finance (Ravenhill, 2014; Yoshimatsu, 2014: 576); and fourth, decisions for war and peace are taken by very few people, who act on the basis of their future expectations. International relations theory must be supplemented by foreign policy analysis in order to assess the value attributed by national decision-makers to economic development and their assessments of risks and opportunities. If leaders on either side of the Atlantic begin to seriously fear or anticipate their own nation’s decline then they may blame this on external dependence, appeal to anti-foreign sentiments, contemplate the use of force to gain respect or credibility, adopt protectionist policies, and ultimately refuse to be deterred by either nuclear arms or prospects of socioeconomic calamities. Such a dangerous shift could happen abruptly, i.e. under the instigation of actions by a third party – or against a third party.

Yet as long as there is both nuclear deterrence and interdependence, the tensions in East Asia are unlikely to escalate to war. As Chan (2013) says, all states in the region are aware that they cannot count on support from either China or the US if they make provocative moves. The greatest risk is not that a territorial dispute leads to war under present circumstances but that changes in the world economy alter those circumstances in ways that render inter-state peace more precarious. If China and the US fail to rebalance their financial and trading relations (Roach, 2014) then a trade war could result, interrupting transnational production networks, provoking social distress, and exacerbating nationalist emotions. This could have unforeseen consequences in the field of security, with nuclear deterrence remaining the only factor to protect the world from Armageddon, and unreliably so. Deterrence could lose its credibility: one of the two great powers might gamble that the other yield in a cyber-war or conventional limited war, or third party countries might engage in conflict with each other, with a view to obliging Washington or Beijing to intervene.

### 1NC DA—Debt Limit

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#### Further federal spending risks triggering default and financial crisis. Successful budget reform is key.

Romina Boccia 17, deputy director of Thomas A. Roe Institute for Economic Policy Studies and the Grover M. Hermann fellow in federal budgetary affairs at The Heritage Foundation (“Economic Growth with Less Debt,” *The Heritage Foundation*, March 14, 2017, accessed 07/12/17, http://www.heritage.org/debt/commentary/economic-growth-less-debt, DDI-EJ)

Remember the debt limit? It’s back, and it matters.

High and rising federal debt is a key contributor to sluggish economic growth and to lost opportunity for the American people. But Washington can help unleash growth and expand opportunity by acting to control spending before increasing the debt limit again.

The debt limit is an alarm bell. It should motivate Congress and the president to agree on a spending reduction strategy that puts the federal budget on a path to balance. Instead, Congress voted to silence the alarm, suspending the limit in November 2015.

This week, with the national debt closing in on $20 trillion, the suspension expires. Deficits are projected to add more than $9 trillion to the debt over the next decade, and that’s assuming no tax relief and no additional spending for defense, border security and infrastructure — all things that President Trump has promised.

The nation must honor its debt and the interest payments on it. But we now know that Treasury can prioritize these payments during any debt limit impasse — after all, Obama’s Treasury Department was prepared to do just that in 2013, even though it insisted publicly that it couldn’t.

Rather than triggering default, hitting the debt limit should trigger serious discussion in Congress and the White House about how to rein in the nation’s overspending effectively and humanely. The only way the federal government can avoid real default on its obligations in the future is to begin controlling spending and debt today.

Some suggest that the U.S. government need never default, because it can always direct the Federal Reserve to “print our way out of debt.” Tell that to Venezuela. Or to the Weimar Republic. This nonsolution overlooks the fact that default on the value of money by currency deflation is simply default by another means.

Just as families cannot spend beyond their means indefinitely, so too the federal government must learn to live within reasonable spending limits. Before taking out another credit card, members of Congress and the executive branch should gather round the kitchen table and hash out spending priorities and budget cuts best calculated to improve the U.S. fiscal outlook.

They have several months to agree on a detailed plan. Even though the debt limit returns this week, Treasury will likely be able to continue borrowing until this fall; possibly all the way through September.

An array of debt-limit loopholes, called extraordinary measures, allows Treasury to borrow from other accounts that are exempt from the debt limit. There is nothing really extraordinary about these measures any more, though. Resorting to these measures has become a regular occurrence, weakening the debt limit’s binding force and enabling Treasury to use its discretion to select the most opportune moment to schedule a debt-limit showdown.

The current fiscal path the nation is on is highly unsustainable and demands urgent reform.

Congress’ official number-crunchers, located in the Congressional Budget Office, have repeatedly warned that such high and rising debt dampens economic growth and could bring about a financial crisis where investors lose confidence in the U.S.’ ability to honor its financial commitments. Such debt also presents an economic and security crisis risk, by reducing congressional flexibility to maneuver during a crisis.

But President Trump and the congressional leadership can lead us away from that by introducing budgets that significantly reduce the size and scope of government. And, yes, that means starting to reform federal health and welfare programs — the so-called “mandatory spending” programs that are driving spending growth and debt. America’s fiscal future depends on them.

#### Debt default causes dollar to lose its reserve currency status.

Amadeo 4/22 [Kimberly Amadeo has an M.S. in management from the Sloan School of Business at MIT and a B.A in Psychology and is the president of WorldMoneyWatch.com with 20 years of senior experience in economic analysis and business strategy, “U.S. Debt Default Causes and Consequences”, The Balance, April 22, 2017, https://www.thebalance.com/u-s-debt-default-3306295] Accessed 7-12-17, Tamara Wurman

There are two scenarios under which the United States would default on its debt. This first would happen if Congress didn't raise the debt ceiling. Former Treasury Secretary Tim Geithner, in a 2011 letter to Congress, outlined what would happen:

Interest rates would rise, since "Treasuries represent the benchmark borrowing rate" for all other bonds. This means increased costs for corporations, state and local government, mortgages and consumer loans.

The dollar would drop, as foreign investors fled the "safe-haven status" of Treasuries. The dollar would lose its status as a global world currency. This would have the most disastrous long-term effects.

The U.S. government would not be able to pay salaries or benefits for federal or military personnel and retirees. Social Security, Medicare, and Medicaid benefit payments would stop, as would student loan payments, tax refunds and payments to keep government facilities open. This would be far worse than a government shutdown, which only affects non-essential Discretionary programs.

The second scenario would occur if the U.S. Government simply decided that its debt was too high, and simply stopped paying interest on Treasury bills, notes and bonds. In that case, the value of Treasuries on the secondary market would plummet. Anyone trying to sell a Treasury would have to deeply discount it. The Federal Government could no longer sell Treasuries in its auctions, so the government would no longer be able to borrow to pay its bills. In other words, any default on Treasuries would have the same impact as one resulting from a debt ceiling crisis.

Even the Threat of a Debt Default Is Bad

Even if investors only think the U.S. could default, the consequences could be nearly as bad as an actual default. That's because U.S. debt is seen worldwide as the safest investment anywhere. Most investors look at Treasuries as if they were 100% guaranteed by the U.S. government. Any threat of a default could cause debt ratings agencies, such as Moody's and Standard and Poor's, to lower the credit rating of the U.S.

To give you an idea of just how bad a lower credit rating could be, in April 2011 S&P only lowered its outlook on the U.S. debt from "stable" to "negative." As a result, the Dow immediately dropped 200 points and gold gained $10 an ounce.

How Would a Debt Default Impact Business?

A U.S. debt default would significantly raise the cost of doing business. It would increase the cost of borrowing for businesses, who would have to pay higher interest rates on loans and bonds to compete with the higher interest rates of U.S. Treasuries. All interest rates in the U.S. would rise, increasing prices and contributing to inflation. The stock market would also suffer, as any U.S. investment would be seen as riskier. Stock prices would fall as investors fled to other countries' "safer" stocks or gold. For these reasons, it could lead to another recession.

#### Dollar primacy is key to the international economy and U.S. hegemony.

Thomas COSTIGAN ET AL. 17, Master of Arts student at the Western Sydney University, Australia, and teaches at The College at Western Sydney University; Drew Cottle, Senior Lecturer in Politics and History at the School of Humanities and Communication Arts, Western Sydney University; Angela Keys, a sessional lecturer in the School of Humanities and Social Sciences at Charles Sturt University [“The US Dollar as the Global Reserve Currency: Implications for US Hegemony,” *World Review of Political Economy*, Vol. 8 No. 1, Spring 2017, p. 104-122]

As the global reserve currency since the end of World War II, the US dollar has been intrinsic to the functioning of the world economy. The US dollar is so fundamental to the global financial system that the political and economic ramifications of the dollar’s reserve currency status are rarely considered. The US dollar as the global reserve currency is a subject of critical importance, both to the understanding of the international financial system, and the wider political and economic ramifications of the status accorded to the dollar. As F. William Engdahl has explained,

Maintaining the role of the US dollar as world reserve currency has been the foremost pillar of the American Century since 1945, related to but more strategic even than US military superiority. How that dollar primacy has been maintained to now encompassed the history of countless postwar wars, financial warfare, debt crises, and threats of nuclear war to the present. (Engdahl 2008)

This article contends that the dollar as the global reserve currency has been crucial to the operations of US hegemony during the post-World War II period. To investigate this issue, the theoretical perspective of World-Systems Analysis expounded by Immanuel Wallerstein (2011) is employed. The article also draws upon the theoretical work of Henry C.K. Liu who developed the term “US dollar hegemony” (Liu 2002). In this article, we argue that US planners from the Council on Foreign Relations (CFR) in conjunction with State Department officials pursued a deliberate plan to make the United States a global hegemonic power (Shoup and Minter 1977) and the dollar was the central currency of that hegemony (Engdahl 2008, 213). We demonstrate how the dollar evolved into a petro-currency through Nixon’s Saudi decision of 1973. The dollar was placed on the trajectory that it would follow for decades and became the source of conflict against the United States by its geo-political competitors (Durden 2014). We conclude by arguing that newly emerging strategic competitors to US hegemony such as China, Russia and Iran are growing dissatisfied with the current oil trading arrangements. We do not argue that any of these nations are remotely in contention to replace the United States as world hegemon. However, we suggest that a significant blow could be dealt to the ability of the United States to maintain its hegemonic status should oil trading be carried out in currencies other than the dollar (Koenig 2015). If this were to occur to a large enough extent, the ability of the United States to exercise its foreign policy would be severely curtailed (National Intelligence Council [NIC] 2012). It would also demonstrate the critical importance of the US dollar in the exercise of US hegemony. In this article, we would like to move the dollar to the forefront of debate in understating how US hegemony in the post-World War II period is constructed and maintained and its critical importance in a hegemonic US global agenda.

#### U.S. leadership preserves global multilateralism—reversal risks major power conflict, asymmetric warfare, and economic crises.

Michael J. MAZARR 17, a Senior Political Scientist at the RAND Corporation, where he directs the Building a Sustainable International Order project [“Preserving the Post-War Order,” *The Washington Quarterly*, Vol. 40, No. 2, 2017, p. 29-49, Accessed Online through Emory Libraries]

This essay has argued that the post-war order's most important effect has been to formalize and give institutional coherence to a dominant global coalition of state and non-state actors committed to a handful of foundational norms. The emergence of a guiding coalition and its organizing structure, the post-war order, have created a world far less threatening to the United States and far more amenable to its values. A reversal of that trend, the breakdown of the guiding coalition into multiple competing groupings, would threaten U.S. interests in dramatic ways. If a fairly coherent gravitational core group linked by a shared order gives way to hostile regional coalitions—fired by nationalism and xenophobia, collecting local friends and allies into opposing alliances, practicing mercantilist trade policies—the international economy would sustain grievous blows, the gravitational pull of the guiding coalition would dissipate, and the stage would be set for a return to major-power conflict. Combined with the mounting availability of “gray zone” and non-attributable tools of statecraft—from cyber attacks to political manipulation to more extreme measures like engineered biological agents—such a future would promise persistent conflict and vulnerability.

This risk is very real, because as notable as the emergence of a guiding coalition has been, that trend is not self-sustaining. It relies on the belief that a shared international community produces prosperity—and so a series of economic crises could fatally undermine that perception. It demands an admission among prideful states that they can best satisfy their national ambitions within such a community—but China and Russia could wrench the coalition apart in order to open the way for their geopolitical ambitions. Powerful reactions to the modernizing and globalizing elements of the process have generated grievance-fueled nationalist movements that threaten the deeper assumptions of the guiding coalition. Sustaining a coherent guiding coalition and its institutional framework will require powerful effort.

## Uniqueness

### Link UQ—Edu Spending

#### Trump budget cuts are good—restores the burden of education to the states

Romina Boccia et al. 3-17, (Deputy Director, Thomas A. Roe Institute; Thomas Spoehr, Director, Center for National Defense; Brett D. Schaefer, Jay Kingham Senior Research Fellow in International Regulatory Affairs; James Jay Carafano, Ph.D., Vice President, Kathryn and Shelby Cullom Davis Institute, “Heritage Experts Analyze President Trump’s ‘Skinny’ Budget,” *Heritage Foundation*, March 17, 2017, http://www.heritage.org/budget-and-spending/commentary/heritage-experts-analyze-president-trumps-skinny-budget) RB

President Donald Trump released the first budget blueprint of his new administration Thursday. The self-titled “America First Budget” outlines the president’s priorities for discretionary spending.

Recent news reports indicate the Trump administration relied heavily on The Heritage Foundation’s “Blueprint for Balance” to craft some of the ideas included in Trump’s own budget blueprint.

Following Thursday’s release, Heritage experts were quick to review the president’s proposals for downsizing the federal government and rightsizing the federal bureaucracy. Here is their analysis.

Government Debt and Spending

Romina Boccia declared that the budget, “marks a stark contrast from the reckless spending of the past Administration.”

The new budget proposal put a high priority on national defense. While the FY18 defense boost would be fully paid for with cuts to nondefense programs, the proposal would raise the FY17 Budget Control Act caps by $10 billion. Boccia suggests that the president “should set a precedent this year that budgeting is about prioritizing which means fully offsetting any new spending.”

All-in-all she says, “the proposed cuts to non-defense programs, together with executive actions to streamline federal agencies and cut waste, signal that this administration is serious about cutting the bloated Washington bureaucracy down to size. Congress should work with the administration to bring greater accountability to government and to eliminate federal programs that intervene in areas that are rightfully the domain of the private sector or state and local government.”

Defense and Military Readiness

On the defense side of the equation, retired-General Tom Spoehr says that the “Trump administration’s defense budget request of $603 billion for 2018 represents both reason for optimism and recognition of some stark budgetary realities,” adding, “President Trump's proposal to increase defense spending by around $18 billion above previously planned budgets is helpful and represents a clear commitment to rebuilding the military, and it is encouraging that the administration is willing to take on the fight to repeal caps on defense spending implemented by the Budget Control Act.”

However, this increase proposed by the administration is “insufficient to begin the much-needed re-building – rather, it represents an ‘on ramp’ to the process. An $18-billion increase will not be enough to regrow the military, rebuild near-term readiness, and commence needed modernization programs. Heritage recommends a 2018 defense budget of $632 billion, with the additional implementation of $14 billion in savings we have proposed through various initiatives.”

State Department to Refocus on Statecraft

Brett Schaefer and James Carafano weigh in on the budget cuts to the State Department, saying, “the cuts to the State Department budget proposed by the Trump administration largely represent a return to focusing taxpayer dollars on the business of true statecraft and away from funding global pet projects championed by the Obama administration."

Furthermore, they add “the State Department budget grew roughly 30 percent under President Obama, yet the jump in spending has failed to make the world safer for the United States or our allies. North Korea continues to threaten Japan and South Korea, Iran – further emboldened by a misguided nuclear deal – is destabilizing the Middle East, and Russia continues to exert itself over eastern Europe largely unchecked. The administration is right to refocus on supporting statecraft that will advance American interests and benefit our allies.” and James Carafano weigh in on the budget cuts to the State Department, saying, “the cuts to the State Department budget proposed by the Trump administration largely represent a return to focusing taxpayer dollars on the business of true statecraft and away from funding global pet projects championed by the Obama administration."

Department of Education

“For the first time in decades, the Trump administration is significantly trimming the budget at the U.S. Department of Education, demonstrating a commitment to restoring federalism in education,” according to Lindsey Burke, Director of the Center for Education Policy at Heritage.

Burkes argues, “the budget correctly zeroes out funding for various programs, such as the 21st Century Community Learning Centers Program and the Supporting Effective Instruction state grants program.” According to her, “ it is not appropriate for the federal government to fund high school counseling programs, after-school programs, teacher professional development and a myriad other programs it currently runs.”

#### Education budget cuts are good—ignore media hype

Neal MCCLUSKEY 17, director of Cato’s Center for Educational Freedom and former policy analyst at the Center for Education Reform [“Maybe Education Cuts Wouldn’t Be so Bad,” *Cato Institute*, March 16, 2017, https://www.cato.org/publications/commentary/maybe-education-cuts-wouldnt-be-so-bad]

With the release of today’s “skinny budget” we are likely to hear the usual coverage: “Good-Sounding Program X is being cut by Y million dollars. ‘These cuts will be devastating,’ said someone who gets money through X.’”

Cuts to education programs, which instinctively sound awful because education is generally a good thing, are especially susceptible to this.

But focusing on the immediate recipients of the money, and maybe the good intentions behind the programs, is a terrible way to approach government spending. It ignores that resources are finite, and every government use competes with other uses that may be equally good or better, including what taxpayers may have spent the money on had they been able to keep it.

School choice works, but the danger of federalized choice is huge.

Unfortunately, it is impossible to show someone not spending money on a new car, or investing in a new business, because the dough has gone to an after-school program, or a college Work Study job. So news reports basically ignore opportunity costs.

That problem now off my chest, let’s look at a few of the education items in the Trump administration’s thin proposal:

$250 million for a new private school voucher program, $168 million more for charter schools

School choice works, but the danger of federalized choice is huge. It threatens to homogenize private schools through regulation, and a federal effort could eventually grow large enough to crowd out state programs, killing the competition and innovation that comes through state — “laboratories of democracy” — policymaking. Like almost all federal education meddling, it also would be unconstitutional: the Constitution gives Washington no power to govern or fund education, including school choice.

Eliminate the 21st Century Community Learning Centers

This $1.2 billion program, which supplies funds for before- and after-school programs as well as summer programming, cries out for elimination. Not only is it unconstitutional and in no way something states could not do on their own, but federal evaluations have found that it may have negative effects. As I have discussed before, a 2005 evaluation stated:

This study finds that elementary students who were randomly assigned to attend the 21st Century Community Learning Centers after-school program were more likely to feel safe after school, no more likely to have higher academic achievement, no less likely to be in self-care, more likely to engage in some negative behaviors, and experience mixed effects on developmental outcomes relative to students who were not randomly assigned to attend the centers.

Eliminate the Federal Supplemental Educational Opportunity Grant and reduce Work Study

Of course these programs — one provides grants to students, the other funding for student jobs — are unconstitutional, but they are also counterproductive. Like all federal student aid programs, they enable schools to boost prices or redirect other aid, and they incentivize students to think less intensely about whether they should go to college, what they study, and how quickly they finish.

They are not the main culprits — both are quite small relative to other student aid programs — but they are subsidies nonetheless, and starting with small programs is a good way to ease into the bigger cuts we need. It is also difficult to justify giving taxpayer money to students, even in exchange for some sort of work, when the average payoff of graduating from college is around $1 million. At the very least, shouldn’t beneficiaries of aid have to repay taxpayers? The feds offer loans, after all. (Of course, they should be eliminated, too.)

Trim TRIO Programs and GEAR UP

These programs are supposed to help low-income students prepare for, and access, college. Again, there is no constitutional authority for their existence, and states or civil society could handle the job. But the evidence on the programs’ effectiveness is also pretty poor. As I testified to the U.S. Commission on Civil Rights, recent official assessments have often used weak research methods, and better ones have found uninspiring effects.

The people who benefit directly from federal programs will no doubt be unhappy with threatened cuts affecting them, and they will likely be featured in news coverage. But for the country, many of these proposed cuts may well be good news.

### Link UQ—Debt Limit

#### The debt limit is a warning for fiscal discipline—more spending will significantly drive up debt

Romina Boccia 17, Deputy Director, Thomas A. Roe Institute; and Jonathan Iwaskiw, Spring 2017 member of the Young Leaders Program at The Heritage Foundation (“Debt Limit Calls for Congress, Trump to Fix the Budget,” The Heritage Foundation, 03/29/17, accessed 07/12/17 at http://www.heritage.org/budget-and-spending/commentary/debt-limit-calls-congress-trump-fix-the-budget, DDI-EJ)

The new debt limit in place since March 16 stands at $19.9 trillion.

It’s time for lawmakers to take the fiscal doctor’s diagnosis seriously. Like a patient struggling with unhealthy habits, the government needs to take a long look into the mirror because its fiscal future is in jeopardy.

Since the debt limit suspension expired this month, the temptation to raise or suspend it once more will be strong on Capitol Hill. The ensuing period, where so-called “extraordinary measures” are being used to fund the government on a temporary basis, will be a valuable opportunity to make real, impactful, fiscal changes.

The debt limit is a useful check on federal government spending and borrowing. It uniquely highlights the unsustainable spending that contributes to the rapidly increasing size of the national debt, which is quickly approaching $20 trillion. At that level, debt far exceeds our nation’s gross domestic product and is equivalent to five times the massive 2016 federal budget.

Research shows that spending controls are more effective at achieving fiscal responsibility than debt controls alone. Unsurprisingly, at the heart of our fiscal woes are spending numbers that are unsustainable, harmful, and unnecessarily high.

The Congressional Budget Office projects that federal spending will outpace revenues in the immediate and long-term future. A broader spending cap, encompassing all noninterest spending, could help lawmakers focus in on the real problem.

When Congress and the president approach the debt limit, they must seize the opportunity to make fiscal reforms, especially when it comes to out-of-control entitlement spending. Congress needs to step up and enact reforms that put the budget on a path to balance, and enshrine its commitment with spending limits that are enforceable by law. Only spending reforms can effectively rein in government borrowing and debt.

Caps on discretionary spending (spending that must be appropriated annually by Congress) are also necessary to ensure that the budget does not run up against those debt limits in the first place. While enforcing discretionary spending caps can be politically difficult as special interests always demand more spending for their pet programs, limits are a necessary and proven tool to fostering fiscal discipline.

Since enacting the Budget Control Act in 2011, Congress has increased the debt limit through “suspensions.” The debt suspensions make the debt limit’s statutory authority essentially moot since the Treasury Department can borrow an unlimited amount of debt during the suspension period. It is impossible to know by how much the debt will increase until the end of the suspension.

As of March 16, the debt subject to the limit has increased by $1.4 trillion to a whopping $19.9 trillion since the 2015 suspension. Suspensions merely hide the fiscal irresponsibility of legislators while opening the door for the erosion of the debt limit’s authority.

With the debt suspension officially expired, Congress and President Donald Trump should pursue spending cuts and budget process reforms before increasing the debt limit again. And any increase should be reflected by an actual debt limit; not a suspension.

#### Current spending and debt is hurting the economy, and more spending will permanently hurt economic growth

Romina Boccia 13 (Romina Boccia, leading fiscal and economic expert at The Heritage Foundation, “How the United States’ High Debt Will Weaken the Economy and Hurt Americans,” *Heritage Foundation*, 2-12-2013, http://www.heritage.org/budget-and-spending/report/how-the-united-states-high-debt-will-weaken-the-economy-and-hurt) // ES

“**America is on a dangerous budget path**. **Current spending and debt are dangerously high, and** future spending and debt are on track to rise even higher in large part due to increasing entitlement spending. **Academic research shows that advanced economies like the United States are at risk of significant and prolonged reductions in economic growth** when public debt reaches levels of 90 percent of GDP. High public debt threatens to drive interest rates up, to crowd out private investment, and to raise price inflation. The implications would be severe and pronounced for all Americans, but most especially for the poor, the elderly, and the middle class. U.S. policymakers should learn from Greece and Japan and avoid a fiscal crisis and economic stagnation brought about by public debt overhang.” KEY TAKEAWAYS U.S. federal spending in 2013, combined with depressed receipts from a weak economy, is on track to result in a deficit of $850 billion. The major entitlements and interest on the debt are on track to devour all tax revenues in less than one generation. As U.S. debt is quickly approaching economically damaging debt levels, U.S. lawmakers should delay no more. Copied **Growing federal debt also would increase the probability of a sudden fiscal crisis**, during which **investors would lose confidence in the government’s ability to manage the budget** and the government would thereby lose its ability to borrow at affordable rates. **Such a crisis would**…probably **have a very significant negative impact on the country**. -Congressional Budget Office, 2012 Long-Term Budget Outlook U.S. federal spending in 2013, combined with depressed receipts from a weak economy, is on track to result in a deficit of $850 billion. Publicly held debt in the United States will exceed 76 percent of gross domestic product (GDP) in 2013, and chronic deficits are projected to push U.S. debt to 87 percent of the economy in 10 years.[1] Debt is projected to grow even more rapidly after 2023. Recent economic research, especially the work of Carmen Reinhart, Vincent Reinhart, and Kenneth Rogoff, confirms that federal debt at such high levels puts the United States at risk for a number of harmful economic consequences, including slower economic growth, a weakened ability to respond to unexpected challenges, and quite possibly a debt-driven financial crisis.[2] Entitlements and Interest Drive Future Spending Surge The federal government is quickly exhausting its ability to manage its bills, with debt having already reached the statutory debt ceiling. The resulting debate should focus on the need to reduce federal spending immediately and over the long term by making necessary and prudent reforms to the nation’s major entitlement programs, and thus reduce the continued buildup of debt and the expected harmful consequences increasingly confirmed by academic research. Vulnerable Budget Path In the contentious 2011 debate over the U.S. debt limit, President Barack Obama and Congress agreed to raise the debt ceiling by $2.1 trillion in exchange for specified spending reductions over 10 years. The Budget Control Act allowed the President to raise the limit in three increments from $14.29 trillion to $16.39 trillion.[3] At the time, the United States lost its seemingly permanent AAA rating from Standard & Poor’s, starkly affirming the risk arising from the nation’s budget path.[4] America’s budget problems are twofold: (1) spending and debt are dangerously high today, and (2) future spending and debt are on track to rise even higher. As dangerous as these trends are, the long-term unfunded obligations in the nation’s major entitlement programs loom like an even darker cloud over the U.S. economy. Demographic and economic factors are expected to combine to drive spending in Medicare and Social Security to unsustainable heights. The major entitlements and interest on the debt are on track to devour all tax revenues by in less than one generation.[5] High Public Debt Levels Depress Economic Growth While tax revenues are expected to return to their historically average levels of 18.5 percent, total federal spending driven in large part by entitlements is projected to hover well above the historical level of about 20 percent in the near term.[6] In a mere 25 years, federal spending under current policy is projected to consume as much as 36 percent of GDP.[7] America’s entitlement programs, by definition, span generations. It is vital in assessing their sustainability to consider their long-term implications. Over the 75-year long-term horizon, the combined unfunded obligations arising from promised benefits in Medicare and Social Security alone exceed $48 trillion.[8] The federal unfunded obligations arising from Medicaid and even from veterans’ benefits are unknown, but would likely add many trillions more to this figure. The International Monetary Fund,[9] the intergovernmental organization of 188 member states that seeks to ensure the stability of the international monetary system, warned that the U.S. lacks a “credible strategy” to stabilize its mounting public debt.[10] Such a strategy must begin with putting entitlement spending on a more sustainable long-term path. The sooner policymakers act, the less severe and the more gradual the necessary policy changes can be. Policymakers should not delay, since the economic consequences, particularly the impact on individuals in or planning retirement, would be pronounced and severe. Research Confirms Danger of High Government Debt **Recent research confirms the dangers posed by high levels of government debt**. Reinhart, Reinhart, and Rogoff examined over 110 years of economic data to conclude that advanced economies whose debt levels reach 90 percent of GDP face much slower economic growth.[11] In 2009, Carmen Reinhart and Rogoff wrote This Time Is Different, a book The Economist called “a magisterial work on the causes and consequences of crises stretching back 800 years.”[12] Their conclusions were based on a vast new accumulation of cross-country data, covering 66 countries across all regions of the world and spanning eight centuries. This dataset made it possible to study country debt episodes and crises much more comprehensively. Reinhart, Reinhart, and Rogoff’s recent work on the impact of high public debt on growth and interest rates is based on this groundbreaking dataset. Debt Major Drag on Economy The economists follow a descriptive approach, comparing economic variables for different countries as averages for debt-to-GDP ratios below and above 90 percent of GDP. Measures of comparison include averages for real GDP growth, real (inflation-adjusted) short-term interest rates, and real long-term interest rates. Public debt overhang episodes are analyzed for the causes of the debt, whether from specific wars, financial crises and economic depression, domestic turmoil, or other factors. The researchers refer to sustained periods of gross country debt persisting above 90 percent of GDP for five years or more as “public debt overhang episodes.” Identifying 26 such episodes, of which 20 lasted for more than a decade, the research shows that even if such episodes begin with short-lived dramatic events, such as war or a financial crisis, the negative impact from high debt on growth lasts far beyond such events. The authors’ **results should serve as a sobering wake-up call for policymakers**. Reinhart, Reinhart, and Rogoff discovered that the average growth rate in countries experiencing public debt overhang is 1.2 percentage points lower than in periods with debt below 90 percent of GDP.[13] These public debt overhang episodes last an average of about 23 years. Thus, the cumulative effect of lower growth by one percentage point or more means that national income at the end of the period would be lower by roughly one-fourth. The growth rate of countries with exceptionally high levels of debt—more than 120 percent of the economy—drops even lower, by an average of 2.3 percentage points, which is roughly two-thirds. **The**se **figures indicate just how dire the U.S. situation could become**: According to the Congressional Budget Office baseline economic forecast, U.S. GDP is projected to be $25.9 trillion in fiscal year 2023. U.S. publicly held debt is projected to reach nearly 90 percent of GDP that year. Assuming a 2.2 percent growth rate over 23 years, U.S. GDP would reach $42.7 trillion in 2046 if there was no impact from the debt overhang. Applying the crude assumption that GDP would be reduced by 1.2 percentage points, in each year of the assumed 23-year debt overhang period, U.S. GDP growth would be slashed by more than half to a mere 1 percent. **This would reduce U.S. GDP by more than $10 trillion, to only $32.6 trillion in 2046**. The cumulative effect from the debt overhang would result in a level of GDP lower by nearly one-quarter at the end of the period. The researchers also note that in addition to vast amounts of public debt, other measures of country debt, such as levels of state and local government debt, private debt, external debt (government and private debt owed to foreigners), and the unfunded obligations from retirement and medical care programs, have risen to unprecedented heights in advanced economies, including the United States. In the U.S., the total amount of debt held by all 50 state governments combined amounted to $4.17 trillion in 2012. If one adds state debt to the U.S. gross national debt of $16.4 trillion, the combined state and federal debt exceeds $20.5 trillion. Moreover, the long-term unfunded obligations for Social Security and Medicare totaled $48 trillion in 2012—three times the current U.S. gross national debt. Even this measure does not include other federal obligations in the form of Medicaid or veterans’ benefits, for example. While data across countries of these debt measures is difficult to obtain, other government debt certainly adds to the risks faced by countries with high public debt levels.

### Budget UQ—Trump

#### Budget cuts under Trump alleviate debt and federal deficits and are key to increasing legitimacy needed to sustain the crisis facing the nation

Romina Boccia 17, Deputy Director, Thomas A. Roe Institute [“Spending Trumponomics 101: Good Riddance to Eight Years of Obama Budget Chaos,” *Heritage Foundation*, March 6, 2017, http://www.heritage.org/budget-and-spending/commentary/trumponomics-101-good-riddance-eight-years-obama-budget-chaos-0]

Net cuts in discretionary spending are critical to reducing the size and scope of the government and enhancing individual and economic freedom. They also make an important down payment toward the federal deficit and debt. Smart cuts can “drain the swamp” by weaning special interests from feeding unfairly from the federal trough. They can also streamline the bloated federal bureaucracy and empower the private sector—as well as states and localities—to absorb functions the federal government has improperly usurped. This approach will unleash innovation, economic growth and jobs that have been hindered by an overreaching federal bureaucracy. Much good can come from rightsizing the federal government and reviving federalism, if properly conceived. Success in controlling federal spending and debt, however, depends heavily on reforms to federal health care programs and social security. These programs already consume more than half of the annual federal budget, and they are growing rapidly. Without reforms, nearly 85 cents of every additional dollar in spending over the next ten years will go to federal health care programs, social security and interest on the debt. This is why entitlement reform must follow closely behind efforts to streamline the federal bureaucracy. It’s quite smart to focus on attainable, meaningful goals early in a new presidency. If President Trump and Congress can show the American people that they are serious about reining in federal agency overreach and cutting programs that cater to special interests, perhaps they can build trust with the American people to tackle the bigger fiscal challenges.

#### Trump’s budget makes progress on deficit reduction

Soergel, 7-13-2017, (Andrew, reporter for US News "CBO: Trump Budget Would Make Deficit Progress, Wouldn't Balance," US News &amp; World Report, https://www.usnews.com/news/economy/articles/2017-07-13/cbo-trump-budget-would-make-deficit-progress-wouldnt-balance) RB

The Congressional Budget Office on Thursday said the funding requests and cuts included in President Donald Trump's budgetary blueprint for fiscal 2018 would force the country to operate on a $720 billion deficit by 2027 – rather than the $16 billion surplus the White House previously promised.

In an analysis published Thursday morning, the CBO acknowledged that the latest version of Trump's budget proposal – which calls for funding cuts and, in some cases, the complete elimination of certain government programs to offset a considerable increase to defense spending – would ultimately shrink the deficit relative to the size of the economy over the course of the next decade.

Using a baseline scenario in which current government spending and priorities remain largely unchanged, the CBO estimated the country's deficit would be "nearly one-third smaller than in CBO's baseline projections for the 2018-2027 period" if Trump's proposal was to be adopted in full.

#### Trump’s budget restores fiscal health.

Chris Edwards 17, director of tax policy studies at Cato [“Spending Cuts in President Trump's 2018 Budget,” *Cato Institute*, May 23, 2017, https://www.cato.org/blog/spending-cuts-president-trumps-2018-budget, Web. 12 July 2017]

The Trump administration has released its 2018 budget plan, which includes spending and revenue projections for the 2018 to 2027 period. The plan would increase spending on defense, infrastructure, paid leave, and a few other items, but would reduce overall spending substantially compared to the baseline. The plan would cut numerous programs, and it would eliminate the budget deficit within a decade. The spending cuts in the Trump plan would be beneficial for numerous reasons: Cuts would reduce federal deficits, which have plagued the government since the turn of the century. The budget’s spending cuts are being called cruel and heartless, but chronic deficits are imposing huge costs on young Americans down the road, which is totally unethical.

### Econ UQ—General

#### Economy is increasing

Amadeo 3/15—President of World Money Watch [Kimberly, “US Economic Outlook: For 2017 and Beyond,” March 15, 2017, https://www.thebalance.com/us-economic-outlook-3305669]

The U.S. economic outlook is healthy according to experts. That's because the GDP growth rate will be between the 2 percent to 3 percent ideal range. Unemployment will continue at the natural rate. There isn't too much inflation or deflation. That's a Goldilocks economy.

Donald Trump promised to increase economic growth to 4 percent. That could create the irrational exuberance that creates damaging booms and busts.

Overview

U.S. GDP growth will rise to 2.1 percent in 2017. That's better than the 1.9 percent estimated for 2016 and the same as 2015's growth rate of 2.1 percent. The increase in gross domestic product will remain at 2.1 percent in 2018 and drop to 1.9 percent in 2019. That's according to the most recent forecast released at the Federal Open Market Committee meeting on March 15, 2017. That begins to take into account the impact of Trump's policies.

The unemployment rate will drop to 4.5 percent in 2017 and beyond. That's better than the 4.7 percent rate in 2016, and the Fed's 6.7 percent target. Most job growth is in low-paying retail and food service industries. Many people have been out of work for so long that they'll never be able to return to the high-paying jobs they used to have. That means structural unemployment increased. Federal Reserve Chair Janet Yellen admits a lot of workers are part-time and would prefer full-time work.

That makes the unemployment rate seem artificially low. She considers the real unemployment rate to be more accurate. That rate is usually double the official rate.

Inflation will be 1.9 percent in 2017 and 2.0 percent in 2018 and beyond. These rates are higher the 1.5 percent rate in 2016, and the 0.7 percent inflation experienced in 2015.

Both were caused by low oil prices. The core inflation rate (without gas or food prices) will be 1.9 percent in 2017, and 2.0 percent in 2018 and beyond. That's close to the Fed's 2.0 percent target inflation rate. Here's more on the U.S. Inflation Rate History and Forecast.

U.S. manufacturing is forecast to increase faster than the general economy. Production will grow 3 percent in 2017, and 2.8 percent in 2018. Growth will slow to 2.6 percent in 2019 and 2 percent in 2020.

#### **Fed sees steady US economic growth**

South China Morning Post 17 — 2017 (“Federal Reserve sees steady growth of US economy,” 7-6-2017, http://www.scmp.com/business/global-economy/article/2101786/fed-sees-steady-us-economic-growth-and-only-moderate-signs, Accessed 7-11-2017, AB)

The US economy continues to churn out jobs and grow at a steady pace, with investment and consumer confidence both healthy and only moderate signs of risk in financial markets, the US Federal Reserve said on Friday in its semi-annual report to Congress. With stock markets near record levels, and interest rates and credit conditions still loose, the report gave detailed attention to whether the financial system and bond markets posed any particular threat to the country’s eight-year economic expansion. The answer so far is no, said the Fed, noting that there is little evidence of a liquidity crunch in the corporate or other bond markets, and no evidence that rising asset values pose a problem. The structure of the corporate bond market is changing with new regulations, the Fed said, but by traditional measures shows only minimal strain in adapting. “Vulnerabilities in the US financial system remained, on balance, moderate,” concluded the report, submitted to Congress on behalf of the Fed’s Washington-based Board of Governors. “Valuation pressures across a range of assets and several indicators of investor risk appetite have increased further. However, these developments in asset markets have not been accompanied by increased leverage.” The combination of rising asset values and rising leverage is considered particularly toxic, indicating that investments are being made with borrowed money and leaving investors unable to repay those debts if the value of the underlying assets decline. The release of the report on Friday comes ahead of Fed Chair Janet Yellen’s appearance next Wednesday and Thursday before the House and Senate committees that oversee the central bank and related issues. The roughly 60-page document is largely a review of economic and policy developments since the last report, in February. In this instance the document took on a steady-as-she-goes quality. Growth in the first quarter was slow at about 1-1/2 per cent on an annualised basis, and inflation took a step backward. But consumer confidence remained strong, and “business investment has turned up. The housing market continues its gradual recovery. Economic growth has also been supported by recent strength in foreign activity.” The government on Friday said non-farm payrolls surged by 222,000 in June and workers put in more hours but average hourly earnings grew a modest 0.2 per cent. Along with the discussion of financial conditions, however, the Fed did highlight some long-term problems. The central bank noted that weak productivity growth may become entrenched as a “new normal,” and could be one reason wage growth remains weak. It also noted the continued gap in unemployment rates between whites and blacks and Hispanics.

### Econ UQ—Consumer Spending

#### **Consumer spending spurs economic growth now**

Lindsay Dunsmuir 17 — 2017 (Dunsmuir is a Finance Director at World Design & Trade Company Limited “U.S. first quarter economic growth revised up on jump in consumer spending,” Reuters, 6-29-2017, https://www.reuters.com/article/us-usa-economy-idUSKBN19K1NN, Accessed 7-11-2017, AB)

The U.S. economy slowed less than feared in the first quarter due largely to a jump in consumer spending, providing a slightly more encouraging outlook for growth this year. Gross domestic product increased at a 1.4 percent annual rate instead of the 1.2 percent reported last month, the Commerce Department said in its final assessment for the period on Thursday. The reading was the worst since the second quarter of 2016 but above analysts' expectations, easing fears the economy had been hobbled at the start of this year. The government had pegged first-quarter growth at a paltry 0.7 percent in its first estimate in April. "The upward revision occurred even with a downward revision to the inventory data, which has favorable implications for the adding up of second-quarter growth," said Daniel Silver, an economist at J.P. Morgan. Economists polled by Reuters had expected GDP growth to be unrevised at 1.2 percent in the first quarter. The economy tends to underperform in that period relative to the rest of the year due to perennial issues with the calculation of the data. The government has said it is working to resolve those issues. The U.S. dollar .DXY briefly edged up after the release of the data before retracing earlier losses against a basket of currencies. Prices of U.S. Treasuries were trading lower and stocks on Wall Street were down sharply. First-quarter economic growth was boosted by an upward revision to consumer spending, which accounts for more than two-thirds of U.S. economic activity. Consumer spending rose at a 1.1 percent pace, the weakest reading since the second quarter of 2013 but almost double the 0.6 percent reported last month. Despite the upward revision to GDP, the Trump administration's stated target of swiftly boosting annual U.S. economic growth to 3 percent remains a challenge. A sustained average growth rate of 3 percent has not been achieved in the United States since the 1990s. The U.S. economy has grown an average 2 percent since 2000 and it expanded only 1.6 percent in 2016, which was the weakest growth in five years. President Donald Trump's economic program of tax cuts, regulatory rollbacks and infrastructure spending has yet to get off the ground five months into his presidency. Details of the White House's tax plan remain sparse as Trump advisers attempt to win over fiscally conservative Republicans in Congress who want any changes to ultimately be revenue-neutral. Initial signs that economic growth re-accelerated sharply in the second quarter have also faltered in the face of recent disappointing data on retail sales, manufacturing production and inflation. Housing data has also been mixed. The Atlanta Federal Reserve is currently forecasting annualized growth of 2.9 percent in the second quarter. Other data on Thursday showed the job market was still flashing a green light. The Labor Department reported that the number of Americans filing for unemployment benefits last week rose slightly, but the underlying trend remained consistent with a tight labor market. The unemployment rate fell to a 16-year low in May. U.S. exporters also flexed more muscle in the first quarter. Exports for the period were revised to show a 7.0 percent rate of growth from the previously reported 5.8 percent. Exports in the fourth quarter fell at a rate of 4.5 percent. Business spending on equipment was revised to show it increasing at a rate of 7.8 percent in the January-March period rather than the 7.2 percent previously estimated. Businesses accumulated inventories at a rate of $2.6 billion in the first quarter, rather than the $4.3 billion reported last month. Inventory investment rose at a rate of $49.6 billion in the fourth quarter of last year. Inventories subtracted 1.11 percentage point from GDP growth in the first quarter instead of the 1.07 percentage point previously reported. The government also reported that corporate profits after tax with inventory valuation and capital consumption adjustments fell at an annual rate of 2.7 percent in the first quarter after rising at a 2.3 percent pace in the prior three months.

### Econ UQ—Jobs/Wages

#### **Employment rates indicate economic surge**

Christopher S. Rugaber 17 — July 10, 2017 (Christopher S. Rugaber is reporter covering employment and the economy for the Associated Press. His work has been published by Associated Press, Yahoo, Bloomberg Businessweek, ABC News, The Washington Post, Time Magazine, Chicago Tribune, Salon and 746 more. “Hiring surged last month in a sign of U.S. economic vitality,” seMissourian, 7-10-2017, http://www.semissourian.com/story/2426641.html, Accessed 7-11-2017, AB)

WASHINGTON -- Hiring surged in June in a surprising show of U.S. economic vitality eight years into the recovery from the recession.Pay gains remain weak, though, a stark reminder of one of the economy's key shortcomings. Employers added 222,000 jobs last month, and hiring in the previous two months was revised much higher. Job gains have averaged nearly 180,000 a month this year, only slightly below last year's pace. Unemployment ticked up to 4.4 percent from 4.3 percent, but mostly for a good reason: More Americans began looking for work, a sign of confidence in the economy. Last month, economists worried hiring would slow as employers struggled to fill jobs from a dwindling supply of unemployed workers. Friday's data suggests companies still are finding plenty of people to hire. That has given economists greater confidence the economy still has room to run. "This balanced pace should enable the current economic expansion to be maintained much beyond the historical norm," Russell Price, senior economist for Ameriprise Financial, said. The expansion is the third-longest on record.So far, the job market and economy look broadly the same as they did last year, though President Donald Trump has boasted his policies are accelerating hiring and growth. The economy's durability appears to be benefiting more people. The unemployment rate among blacks fell in June to its lowest level in 17 years, at 7.1 percent. The gap with whites, whose rate was 3.8 percent, persisted. The rate among Latinos dropped to 4.8 percent, the lowest in 11 years. Even with June's strong hiring, average hourly pay rose just 2.5 percent from a year earlier. The last time the unemployment rate was this low, wages were rising by about 4 percent. Normally, as the number of unemployed dwindles, employers raise pay to attract job seekers. Economists offer a number of explanations for why that dynamic hasn't kicked in. One factor: The influx of job seekers last month -- who had been on the sidelines, not counted as unemployed -- might have offset upward wage pressures. Employers had more applicants to choose from. Mark Zandi, chief economist at Moody's Analytics, said many workers are too cautious to push for raises, partly because of the lingering effects of the recession, when nearly 9 million people lost their jobs. And some businesses have decided they can't raise prices enough to afford meaningful pay raises. That cycle of limited wage gains and low prices has kept inflation in check. John McAuliffe, chief executive of Sylvan Learning, a company that offers tutoring to students from kindergarten through high school, is hiring more teachers and expanding. Yet it is cutting costs to maintain profits, rather than raising prices. The company has opened 10 new locations since March, creating about 100 jobs, mostly part-time.m" More people have the ability to afford tutoring for their children," McAuliffe said. But the company sees little need to raise pay. "A lot of teachers look for supplemental income," he said. "We've always been able to find them." Economists forecast the economy will expand at roughly a 2 percent pace this year, about the same as it has grown since the recession ended. The economy appears resilient enough for the Federal Reserve to keep raising its benchmark interest rate. In a report to Congress on Friday, the Fed signaled its belief the economy is on a firm footing. Many business owners are seeing greater confidence among their customers. Mark Dix, a general contractor in Knoxville, Tennessee, said he has seen a jump in demand for the renovation, painting and home-construction services he provides. He employs 15 people. "I would hire another half-dozen people today if I could find the skilled labor," he said. Drug use is a problem among many people he considers for jobs, Dix said. And some men in the area rely on disability benefits, he added. The June jobs report showed broad hiring across numerous industries. Health care posted the biggest job gain -- 59,100 -- despite uncertainty around health-care legislation in Congress.

#### The economy is growing now, the hourly wage rising signals an expansionary period

Penny Starr, 7-7-2017, "BREAKING: U.S. Economy Adds 222,000 Jobs in June," Breitbart, http://www.breitbart.com/economics/2017/07/07/u-s-economy-adds-222000-jobs-in-june/

The U.S. labor market expanded at a blistering pace in June, adding more than 222,000 jobs, according to Friday’s report from the Bureau of Labor Statistics. That was far better than the 175,000 jobs expected by Wall Street economists. The unemployment rate rose slightly, from 4.3 percent to 4.4 percent, according BLS. This was actually good news because it reflected more Americans re-entering the labor market. The average hourly wage rose by 2.5 percent. Wage growth has been one of the key missing ingredients through much of the recent economic expansion. In another sign of strength for the labor market, average hours worked also grew in June. The average workweek for all employees on private nonfarm payrolls rose by 0.1 hour to 34.5 hours in June. In manufacturing, the workweek edged up by 0.1 hour to 40.8 hours. The average workweek for production and non supervisory employees on private nonfarm payrolls rose by 0.1 hour to 33.7 hours. The BLS also said that April and May added 47,000 more jobs than previously announced. Over the past three months, job gains have averaged 194,000 a month, far outpacing the rate most economists expected. The health care sector added 37,000 jobs in June, defying expectations that concerns over the future Republican plans to replace and repeal Obamacare would slow job growth in this area. Mining has bounced back from its pre-election low, adding 7,000 jobs for the month for a total of 56,000 new jobs since October.

### Econ UQ—Manufacturing

#### Manufacturing rates signal rapid growth

Sho Chandra 17 — July 3 2017 (Sho Chandra is a Reporte for BenefitsPRO Magazine and Bloomberg News. She has been published in BenefitsPRO Magazine, Bloomberg News, Yahoo, Bloomberg Businessweek, The Independent, Business Standard, Australian Financial Review, Daily Business Review and 16 more media outlets. “Manufacturing Pickup Signals Boost to U.S. Economic Growth,” Bloomberg, 7-3-2017, https://www.bloomberg.com/news/articles/2017-07-03/manufacturing-pickup-in-u-s-signals-boost-to-economic-growth, Accessed 7-11-2017, AB)

American factories powered up in June at the fastest pace in nearly three years, with robust advances in production, orders and employment that indicate a firming in the economy, data from the Institute for Supply Management showed Monday. HIGHLIGHTS OF ISM MANUFACTURING (JUNE) Factory index rose to 57.8, highest since August 2014 (est. 55.3) from 54.9 in May; readings above 50 indicate growth ISM’s gauge of new orders increased to three-month high of 63.5 from 59.5 Measure of production picked up, while employment gauge climbed to the second-highest level since 2011 Key Takeaways Faster growth in orders and production in the final month of the quarter indicates solid demand that, together with rising exports, shows manufacturing is on solid footing. The ISM’s pulse of employment in the industry also indicates the government’s measure of factory payrolls, released as part of the Labor Department’s jobs report on Friday, will rebound in June after declining a month earlier. The expansion was broad based, with 15 of 18 industries surveyed by the purchasing managers’ group posting growth in June. They included machinery, transportation equipment, computer and electronic products, and petroleum and coal products. The three reporting contractions were apparel, textile mills and primary metals. The 2.9-point monthly gain in the ISM index, which was the largest jump since early 2013, is also notable as it comes amid fading expectations that the government will deliver a fiscal boost, via tax reform and infrastructure spending, in the near future. Official’s View “Everything was strong,” Timothy Fiore, chairman of the ISM factory survey committee, said on a conference call. Unless supply-chain constraints arise, “there’s really no reason” why the robust pace of manufacturing can’t continue, he said. At the same time, manufacturers are awaiting more clarity on potential policy changes such as taxes, regulations and tariffs on imported materials including steel, Fiore said. Other Details Measure of export orders climbed to 59.5 in June from 57.5 Employment gauge increased to 57.2 from 53.5 Production index rose to 62.4, highest since February, from 57.1 A gauge of supplier delivery times advanced to 57, the highest since December 2014, from 53.1, indicating deliveries are taking longer Order backlogs measure rose to 57 from 55 Index of prices paid dropped to 55, lowest since November, from 60.5

### AT: Trump Kills Econ

#### Steady growth and business confidence prevents Trump protectionism

Shawn Tully 17, Editor at large at Fortune [“The Promise and Peril of the Trump Economy,” *Fortune*, February 16, 2017, http://fortune.com/2017/02/16/president-donald-trump-economy-executive-orders-policy/, accessed 7 Mar 2017]

Trump’s sudden shifts in policy—and the difficulty in ever ascertaining whether he is bluffing or serious about his more dire threats—are causing widespread uncertainty. And if business hates anything, it’s uncertainty. “I think things are moving in the right direction, but I’m seeing lots of nervousness,” says Tom Barrack, chairman of real estate investment manager Colony Capital and one of Trump’s closest friends. “I’m seeing totally polarized views on what’s going to happen, from one camp believing things are going to be great, and an opposing camp predicting disaster.”

Some of Trump’s proposals are already undermining his principal goals. His tariff threats against Mexico, for instance, have helped push the peso down 10% against the dollar since Nov. 8. That’s made U.S. exports of everything from auto parts to appliances a lot more expensive across our southern border, slowing the exports that Trump vows to grow.

Both Trump’s conflicted policy and his erratic execution have caused some on Wall Street to have second thoughts. For example, Ray Dalio, founder of the world’s biggest hedge fund, Bridgewater Associates, praised Trump’s policies in an essay on LinkedIn shortly after the election. In late January, he hedged his position in a note to clients and warned that he had become “more concerned that the damaging effects of President Donald Trump’s populist policies may overwhelm the benefits of his pro-business agenda.” In early February, Goldman Sachs sent a note to clients warning that “risks are less positively tilted than they appeared shortly after the election.”

Danger is also lurking in the buoyant stock market. The big gains since the election have made pricey shares even more expensive, driving the trailing price/earnings ratio of the S&P 500 to 25 in mid-February—well above the historical average of 16. That leave equities extremely vulnerable to deep declines if investors begin to sense that Trump can’t deliver the GDP gains that he’s promising.

It’s important to remember that it is still early days for the Trump administration. There’s plenty of time for the new President and his advisers to refine their approach to governing and, in economic matters, to deliver his promised reforms. Speculating on the odds of that happening, however, is a fool’s game. For now, we can focus only on what he has said he wants to do.

To better understand the specifics—and the unknowns—of Trump’s policies and how they’re likely to drive or slow the economy, Fortune interviewed dozens of economists, policy experts, former government officials, and business leaders.

What does Trump think of the turmoil he has caused so far? “I talk to him every day,” says Barrack. “He thinks it’s a revolution, and all the tumult is normal. He’s not bothered at all by all the divisions in Congress and the electorate.”

The near future of the American economy will depend on which side of the scale predominates under Trump: free-business initiatives or protectionist policies. Corporate tax cuts and regulatory relief will weigh heavily on the plus side. But an upheaval in trade would swamp all the potential gains from slashing regulations and taxes.

Trump’s team appears divided on trade. Commerce Secretary nominee Wilbur Ross and White House National Trade Council chief Peter Navarro are in the protectionist camp, while Treasury ­Secretary Steve Mnuchin and top economic adviser Gary Cohn, the longtime No. 2 to Lloyd Blankfein at Goldman Sachs, seem wary of disrupting free-trade agreements. Keep in mind that Trump’s pledge to protect workers from cheap, job-killing imports from China and Mexico was a key factor in helping propel him to the White House.

As quickly as things appear to be moving now, it’s important to remember as well that negotiating big trade deals is a lengthy process. If Trump can significantly boost growth in the next two or three quarters, America will be in a far better mood. With payrolls and wages waxing, the pressure to build trade barriers will abate, and Trump could declare victory by trumpeting relatively minor concessions. That’s probably the best-case scenario for achieving a healthy balance of policies. “If Trump can achieve consistent 3% to 4% expansion in GDP, nothing else matters,” says Gary Hufbauer, an economist at the Peterson Institute for International Economics and a stern critic of Trump’s views on trade.

Trump has a realistic shot at reaching that ambitious goal, though it will require implementing his unambiguously pro-business policies and mostly scuttling the rest. The President inherited a so-so economy that grew at just 1.6% in 2016 and has expanded at an average of 2.3% annually since the nadir of the Great Recession in mid-2009. Although the unemployment rate is now just 4.9% and the economy has created 11 million jobs in the past seven years, roughly an equal number of working-age Americans have ceased looking.

Many economists argue that a small pool of employable labor and an aging population, capped by low levels of immigration, have helped create a “new normal” that confines America to a plodding GDP growth rate of 2% or so. Trump isn’t buying it. In the view of his economic team, the roadblock is a dearth of capital investment. They argue that Obama hobbled business with a host of expensive regulations in banking, energy, and manufacturing that forced CEOs into a defensive posture, in which they shunned risk taking and hoarded cash.

Whatever the reason, it’s undeniable that capex in the U.S. has languished and that a healthy dose of new investment is absolutely essential to lifting America’s growth trajectory. The crucial measure of capex, private nonresidential fixed investment, stalled in the third quarter of 2014. Since then, spending on new plants, labs, and research facilities has increased less than 0.5% a year, adjusted for inflation, creating a substantial drag on GDP.

Trump wants to jolt the U.S. economy back into action. He predicts a virtuous cycle in which his tax plan allows companies to raise their profits from new investments, driving them to boost spending. Then new machinery and tech breakthroughs will raise worker productivity and, hence, wages and employment. At the same time, lifting burdensome regulations should also recharge capex across the economy.

### AT: Econ Unsustainable

#### **The current economy is considerably strong and growing with potential after a period of economic turmoil since 2008.**

FocusEconomics 6/27 [“United States Economy - GDP, Inflation, CPI and Interest Rate,” *FocusEconomics*, 27 June 2017, http://www.focus-economics.com/countries/united-states, Web. 11 July 2017]

Despite facing challenges at the domestic level along with a rapidly transforming global landscape, the U.S. economy is still the largest and most important in the world. The U.S. economy represents about 20% of total global output, and is still larger than that of China. Moreover, according to the IMF, the U.S. has the sixth highest per capita GDP (PPP). The U.S. economy features a highly-developed and technologically-advanced services sector, which accounts for about 80% of its output. The U.S. economy is dominated by services-oriented companies in areas such as technology, financial services, healthcare and retail. Large U.S. corporations also play a major role on the global stage, with more than a fifth of companies on the Fortune Global 500 coming from the United States. Even though the services sector is the main engine of the economy, the U.S. also has an important manufacturing base, which represents roughly 15% of output. The U.S. is the second largest manufacturer in the world and a leader in higher-value industries such as automobiles, aerospace, machinery, telecommunications and chemicals. Meanwhile, agriculture represents less than 2% of output. However, large amounts of arable land, advanced farming technology and generous government subsidies make the U.S. a net exporter of food and the largest agricultural exporting country in the world. The U.S. economy maintains its powerhouse status through a combination of characteristics. The country has access to abundant natural resources and a sophisticated physical infrastructure. It also has a large, well-educated and productive workforce. Moreover, the physical and human capital is fully leveraged in a free-market and business-oriented environment. The government and the people of the United States both contribute to this unique economic environment. The government provides political stability, a functional legal system, and a regulatory structure that allow the economy to flourish. The general population, including a diversity of immigrants, brings a solid work ethic, as well as a sense of entrepreneurship and risk taking to the mix. Economic growth in the United States is constantly being driven forward by ongoing innovation, research and development as well as capital investment. The U.S. economy is currently emerging from a period of considerable turmoil. A mix of factors, including low interest rates, widespread mortgage lending, excessive risk taking in the financial sector, high consumer indebtedness and lax government regulation, led to a major recession that began in 2008. The housing market and several major banks collapsed and the U.S. economy proceeded to contract until the third quarter of 2009 in what was the deepest and longest downturn since the Great Depression. The U.S. government intervened by using USD 700 billion to purchase troubled mortgage-related assets and propping up large floundering corporations in order to stabilize the financial system. It also introduced a stimulus package worth USD 831 billion to be spent across the following 10 years to boost the economy.

## Links

### Link—Edu Spending Bad

#### More federal spending in education costs billions and suppresses innovation—empirics prove spending doesn’t cause academic success.

McCluskey 16, director of Cato’s Center for Educational Freedom and former policy analyst at the Center for Education Reform (Neal, “Cutting Federal Aid for K-12 Education,” 04/21/2016, accessed 7/11/17 at https://www.downsizinggovernment.org/education/k-12-education-subsidies, DDI-EJ)

Federal control over K-12 education has risen dramatically in recent decades. Elementary and secondary spending under the Department of Education and its predecessor agencies rose from $4.5 billion in 1965 to $40.2 billion in 2016, in constant 2016 dollars.1 The Department of Education funds more than 100 subsidy programs, and each comes with regulations that extend federal control into state and local education.2 A substantial amount of funding for K-12 education comes from other federal agencies as well. For example, the Department of Agriculture will spend $22 billion in 2016 on school lunches and related programs.3 Across all federal departments, constant-dollar K-12 spending rose from $13.5 billion in 1965 to $80.1 billion in 2014.4 Congress may have taken a step back on federal control with its recent reauthorization of education spending called the Ensuring Student Success Act of 2016 (ESSA). On the surface, ESSA would decrease much of the prescriptive federal control asserted under the No Child Left Behind Act of 2002 (NCLB). But as of this writing, it is too early to know what ESSA regulations will look like, and there is a real danger of sustained federal micromanagement of the nation’s schools. Over the years, the states have been happy to receive federal funds, but they have chafed under the mandates imposed by Washington. NCLB provoked a backlash because of its costly rules for academic standards, student testing, unrealistic proficiency demands, and other items. The Race to the Top program (RTTT), passed in 2009, provided grant money to states that agreed to additional federal micromanagement of their schools, including adopting national curriculum standards.5 The Obama administration imposed further requirements on states that desired waivers from parts of NCLB, such as waivers for NCLB’s utterly unrealistic requirement that all students be “proficient” in math and reading by 2014. The accumulation of federal rules has suppressed innovation, diversity, and competition in state education systems, while generating vast paper-pushing bureaucracies. Despite the large increases in federal aid since the 1960s, public school academic performance has ultimately not improved. While scores on the National Assessment of Educational Progress have improved for some groups and younger ages, math and reading scores for 17-year-olds—essentially, the school system’s “final products”—have been stagnant. In addition, America’s performance on international exams has remained mediocre, yet we spend more per-pupil on K-12 education than almost any other country.6 Federal funding and top-down rules are not the way to create a high-quality K-12 education system in America. Congress should phase out federal funding for K-12 education and end all related regulations. Policymakers need to recognize that federal aid is ultimately funded by the taxpayers who live in the 50 states, and thus provides no free lunch. Indeed, the states just get money back with strings attached, while losing billions of dollars from wasteful bureaucracy. There is no compelling policy reason, nor constitutional authority, for the federal government to be involved in K-12 education. In the long run, America’s schools would be better off without it.

#### Federal funding of education programs requires countless amounts of money and labor, and is empirically ineffective at raising the quality of education

McCluskey 16, director of Cato’s Center for Educational Freedom and former policy analyst at the Center for Education Reform (Neal, “Cutting Federal Aid for K-12 Education,” 04/21/2016, accessed 7/11/17 at https://www.downsizinggovernment.org/education/k-12-education-subsidies, DDI-EJ)

A basic effect of all federal programs is to redistribute income from taxpayers to the beneficiaries of programs and the bureaucracy that supports them. The tens of billions of dollars a year spent on federal K-12 programs could have otherwise been retained by families and used for education or other private purposes. The higher their taxes, the less income families have to spend on private schools, tutors, saving for college, or other educational expenses. In addition, without federal involvement, state and local governments-which are much closer to the people the schools are supposed to serve-could decide what they felt was the best use of public education dollars, whether reducing class sizes, paying teachers more, or giving parents more control by implementing choice programs. Federal intervention has long been supported on “equity” grounds, or redistributing funds toward less-advantaged schools. But studies have found that the federal government is not very successful at such redistribution, even if it were a good idea. When you compare per pupil federal K-12 financing per state with state poverty rates, it reveals only a weak correlation, and comparing funding to states’ median household income has an even smaller correlation.49 Perhaps more importantly, federal funds are often offset at the state and local levels by reduced state and local funding. A statistical analysis by Nora Gordon of the University of California, San Diego, found that while Title I is supposed to steer money to poor school districts, the actual effect is quite different.50 She found that within a few years of a grant being given, state and local governments used the federal funds to displace their own funding of poor schools. Thus, poor schools may be no further ahead despite the federal grant money directed at them. Other studies have concluded that Title I has not reduced the education funding gap between higher- and lower-income states.51 And, ironically, federal “supplement-not-supplant” regulations may backfire. These rules are supposed to ensure than federal money is only used for additional activities on which states would not have otherwise spent. However, the rules may make it harder for districts, among other things, to try innovative pilot programs, lest they run into trouble if they scale up successful innovations to all students, who must be funded using state and local dollars, not just the Title I funds that may have paid for the pilot program.52 Aside from redistribution, the theory behind educational aid to the states is that federal policymakers can design programs in the national interest to efficiently solve local problems.53 But involving the federal government focuses the educational policy discussion on spending levels and regulations, not on delivering quality services. By involving all levels of government in a policy area, the aid system creates a lack of accountability-when every government is responsible for education, no government is responsible. The Department of Education has no teachers and runs no schools. Its purpose is to oversee more than 100 programs, covering pre-K though adult education, which are described in a massive department guidebook that is 328 pages long.54All these programs create intense bureaucracy at the federal, state, and local levels. If the activities funded by federal grants are useful, then state and local governments should fund them themselves, and that way the nation’s taxpayers would be saved the costs of hiring well-paid administrators at the federal level. There are also large educational bureaucracies in state and local governments that comply with all the federal paperwork and regulations. For example, in 2008 the Department of Education estimated that 7.8 million hours of work would be needed for state and local education agencies to comply just with regulations governing Title I grants. That figure had increased from 2.9 million hours in 2003, mainly as a result of the No Child Left Behind legislation.55 In many states, a majority of state-level education department workers are those administering federally funded programs.56 Federal education programs have also generated large lobbying and litigation activities, which are a drag on the U.S. economy. Consider, for example, that the National Education Association-the nation’s largest teachers union-has a staff of about 500 and in 2015 received more than $360 million in dues and agency fees, the latter being forced payments from non-members who fall under collective bargaining agreements.57 The NEA influences federal policy through publications, conferences, meetings with legislators, and contributions to candidates. The NEA and American Federation of Teachers are some of the largest lobbyists and political spenders in Washington.58 Other than these unions, there are other education groups that lobby in Washington, D.C., including the American Association of School Administrators, the Council of Chief State School Officers, the National Association of Secondary School Principals, the National Association of School Nurses, and the list goes on.

#### Increased federal education spending stunts economic growth

Dan Lips, January 26, 2009, (Dan Lips is a Senior policy analyst for the Heritage Foundation. "Ten Reasons Why the "Economic Stimulus" Should Not Include Education Spending," Heritage Foundation, http://www.heritage.org/education/report/ten-reasons-why-the-economic-stimulus-should-not-include-education-spending) lz

American Recovery and Reinvestment Act of 2009.[1] Widely touted as an economic stimulus package, the $825 billion draft legislation included as much as $142 billion for education.[2] This includes the creation of a $79 billion State Fiscal Stabilization Fund to assist state governments in providing public education and other services. The act also includes significant spending increases for current and proposed federal programs for K-12, postsecondary, and early childhood education. This approach is bad economic policy and bad education policy. An unprecedented federal spending increase for education will not improve economic growth -- and past experience strongly suggests that this plan will not improve American educational performance. Instead of a massive federal spending increase, Congress should embrace fiscally responsible solutions to help states meet fiscal challenges and improve educational services. The Proposed Federal Spending Increase: An Overview The draft American Recovery and Reinvestment Act calls for an unprecedented increase in federal education funding. The proposed legislation includes at least $142 billion in new federal funds to be disbursed over the next two years -- nearly double the total outlays of the U.S. Department of Education in 2007.[3] It nearly matches the level of all on-budget federal funds for education in 2006: $166.5 billion.[4] The proposal calls for this funding to be allocated to existing and new federal education programs: Elementary and Secondary Education Programs. The American Recovery and Reinvestment Act would boost federal funding for existing federal K-12 education programs. Title I and IDEA -- the two main federal K-12 education programs -- are both marked for $13 billion spending increases. The package also includes new funding for a series of other K-12 education programs, including Impact Aid ($100 million), Technology Education ($1 billion), Education for Homeless Children ($66 million), Charter School Facilities ($25 million), and Teacher Incentive Fund ($200 million). Also included is a new $14 billion program for school construction and modernization. Postsecondary Education Programs. The proposal includes significant funding increases for higher education, including a $1.5 billion increase for Pell Grant funding. It also includes $6 billion for a new program to support "repair, renovation, and modernization" efforts at higher education institutions. Early Childhood Education Programs. The package provides funding increases for early childhood education and care programs. Specifically, the proposal calls for $2.1 billion in new funds for Head Start.[5] It also includes a $2 billion increase for the Child Care Development Block Grant program. STEM Education. The spending plan also includes new funding to promote Science, Technology, Engineering, and Math (STEM) education. The plan calls for $100 million in new funding for the National Science Foundation to develop new teachers in STEM fields and support research and development to improve math and science instruction. The proposal would also provide $2.5 billion to the National Science Foundation for a range of other projects, including support for STEM education at higher education institutions. Stabilization Fund. The largest education initiative in the proposal is a $79 billion State Fiscal Stabilization Fund to help state governments pay for public services, including education. At least 61 percent of the funds for this program must be used by states for education. To have access to these funds, states must comply with a range of government regulations for various education policies, such as a requirement that states maintain current funding levels and meet certain guidelines for "equity in teacher distribution." The proposal includes a regulation to prevent funds from being used for school-choice programs, requiring that "no recipient of funds under this title shall use funds to provide financial assistance to students to attend private elementary or secondary schools." Top Ten Reasons Why this Education Spending Plan Is the Wrong Approach 1. Increasing federal spending on education will not improve the economy. Supporters of the American Recovery and Reinvestment Act of 2009 highlight multiple reasons for supporting the $825 billion plan.A top reason cited in the legislation is to promote "economic recovery." Policymakers should recognize that, like other deficit spending, dramatically increasing federal education spending will not stimulate economic growth.[6] Proponents of additional government spending focus on creating new demand by putting more government money into the marketplace. This mindset ignores the other side of the ledger: Deficit spending takes money out of the private sector, leaving less money available for individuals and businesses to borrow. In the long term, government's allocation of these resources is likely to be less efficient and will probably generate less productive economic activity than if those resources had been left in the private sector. This proposal is simply another massive new spending plan. It is being proposed as an economic stimulus to have the legislation considered outside of the traditional budget process and expedite congressional approval.[7]

### Link—Spending Bad (Generic)

#### More federal government spending will spiral into a financial crisis, the only way to avoid the impacts of an economic recession would be to cut spending – Canada proves

Edwards, director of tax policy studies at Cato, 17 (Chris, “A Plan to Cut Federal Government Spending,” 6/23/17, accessed 7/12/17 at https://www.downsizinggovernment.org/plan-to-cut-federal-spending, DDI EJ)

Federal government spending is rising, deficits are chronic, and accumulated debt is reaching dangerous levels. Growing spending and debt are undermining economic growth and may push the nation into a financial crisis in coming years. The solution to these problems is to downsize every federal department by cutting the most harmful programs. This study proposes specific cuts that would reduce federal spending by almost one-quarter and balance the budget in less than a decade. Federal spending cuts would spur economic growth by shifting resources from lower-valued government activities to higher-valued private ones. Cuts would expand freedom by giving people more control over their lives and reducing the regulations that come with spending programs. The federal government has expanded into many areas that should be left to state and local governments, businesses, charities, and individuals. That expansion is sucking the life out of the private economy and creating a top-down bureaucratic society that is alien to American traditions. So cutting federal spending would enhance civil liberties by dispersing power from Washington. The Congressional Budget Office (CBO) projects that federal spending will rise from 20.7 percent of gross domestic product (GDP) in 2017 to 23.4 percent by 2027 under current law.1 Over the same period, tax revenues are expected to rise much more slowly, reaching 18.4 percent of GDP by 2027. As a consequence, fast-growing spending will produce increasingly large deficits. Policymakers should change course. They should cut spending and eliminate deficits. The plan presented here would balance the budget within a decade and generate growing surpluses after that. Spending would be reduced to 18.0 percent of GDP by 2027, or almost one-quarter less than the CBO projection for that year. Some economists claim that cutting government spending would hurt the economy, but that notion is based on faulty Keynesian theories. In fact, spending cuts would shift resources from often mismanaged and damaging government programs to more productive private activities, thus increasing overall GDP. Markets have mechanisms to allocate resources to high-value activities, but the government has no such capabilities.2 It is true that private businesses make many mistakes, but entrepreneurs and competition are constantly fixing them. By contrast, federal agencies follow failed and obsolete approaches decade after decade.3 So moving resources out of the government would be a net gain for the economy. Consider Canada's experience. In the mid-1990s, the federal government faced a debt crisis caused by overspending, which is similar to America's current situation. But the Canadian government reversed course and slashed spending from 23 percent of GDP in 1993, to 17 percent by 2000, to just 15 percent today.4 The Canadian economy did not sink into a recession from the cuts as Keynesians would have expected, but instead grew strongly during the 1990s and 2000s. Thus policymakers should not think of spending cuts as a necessary evil to reduce deficits. Rather, the U.S. government's fiscal mess is an opportunity to make reforms that would spur growth and expand individual freedom. The plan proposed here includes a menu of spending reforms for policymakers to consider. These and other reforms are discussed further at www.DownsizingGovernment.org. Spending Cut Overview This section describes how cutting spending would eliminate the federal deficit within a decade and generate growing surpluses after that. The starting point for the plan is the CBO's baseline projection from January 2017.5 Figure 1 shows CBO projections for revenues (black line) and spending (red line) as a percent of GDP. The gap between the two lines is the federal deficit, which is expected to grow steadily without reforms. The blue line shows projected spending under the reform plan proposed here. Under the plan, spending would decline from 20.7 percent of GDP today to 18.0 percent by 2027. The deficit would be eliminated by 2024 and growing surpluses would be generated after that. Under the plan, spending cuts would be phased in over 10 years and would total $1.5 trillion annually by 2027, including about $225 billion in reduced interest costs that year.6 Falling spending and deficits would allow room for tax reforms. One reform would be to repeal the tax increases under the 2010 Affordable Care Act.7 Another reform would be to slash the federal corporate tax rate from 35 percent to 15 percent, which would match the reformed Canadian rate. Such a cut would spur stronger economic growth and lose little revenue over the long term.8 In sum, the best fiscal approach would be to cut spending and reform the most damaging parts of the tax code. That would end the harmful build-up of debt, expand personal freedom, and generate benefits for all Americans from a growing economy.

#### Federal spending produces a heavy burden on taxpayers, erodes the private sector, increases financial risk, and fosters corruption

Katz, research fellow in regulatory policy, 17 (Diane, “Out-of-control Government Spending Harms Taxpayers,” The Heritage Foundation, 03/28/17, accessed 07/12/17 at http://www.heritage.org/taxes/commentary/out-control-government-spending-harms-taxpayers, DDI-EJ)

President Trump’s proposed cuts in discretionary spending have prompted a frenzy of dire headlines, including this gem from the Detroit Free Press: “Trump budget cuts would make life miserable for many.” But lost amid all the special interest outrage is any mention of how uncontrolled federal spending affects taxpayers. For example, few Americans are aware that, collectively, they shoulder more than $18 trillion in debt exposure from loans, loan guarantees and subsidized insurance provided by some 150 federal programs. With some government loans extending 40 years, the ever-growing burden of federal credit will encumber generations to come — without their consent. This redistribution of taxpayers’ money erodes the nation’s entrepreneurial spirit, increases financial risk and fosters cronyism and corruption. The government credit portfolio consists of direct loans and loan guarantees for housing, agriculture, energy, education, transportation, infrastructure, exporting and small business, among other enterprises. Federal insurance programs cover bank and credit union deposits, pensions, flood damage, declines in crop prices and acts of terrorism. Capital for mortgage lending by banks is provided by government-sponsored enterprises such as Fannie Mae and Freddie Mac. In “Bailout Barometer,” researchers with the Federal Reserve Bank of Richmond estimate that 61 percent of all liabilities throughout the U.S. financial system are explicitly or implicitly backed by government (that is, by taxpayers). Total outstanding loans and loan guarantees backed by taxpayers exceeded $3.4 trillion at the end of fiscal 2015. Add in the exposure of Fannie Mae, Freddie Mac, the Federal Home Loan Banks, the Federal Deposit Insurance Corporation and the Pension Benefit Guaranty Corporation, and the total swells to an estimated $18 trillion. Proponents say that government lending is necessary in order to spur economic growth or to mitigate “market imperfections,” such as gaps in available financing or lack of competition (leading to unduly high credit costs). But government credit is a poor substitute for private financing. Private lenders offer credit to generate profit. The challenge they face is to minimize risk and maximize return. Under threat of loss (and independent of government meddling), great care is taken in lending decisions. In contrast, government financing is entirely detached from the profit motive and its inherent discipline. Tax revenues give government lenders an endless source of capital, and bureaucrats are largely protected from accountability. Consequently, default rates exceeding 20 percent are common among federal credit programs. The sheer volume of lending leaves taxpayers at tremendous risk. For example, the Department of Education has $1.3 trillion in direct student loans outstanding — and more than $74 billion is delinquent, and billions more are in default. When entrepreneurs need not compete for private loans based on merit, productivity improvements and innovation become less important than political capital. Moreover, creditworthiness becomes less relevant to banks and mortgage lenders when they act as mere pass-through agents for government financing. The result is a larger proportion of economic assets — in the form of both property and enterprise — are inherently weakened. There is also a pernicious regulatory chain reaction when government engages in lending. As noted by economist Henry Hazlitt, “[When] the government provides the financing, the private property becomes public property instead, and the government has the right to decide how, where, when and by whom the property shall be used.” Indeed, the trillions of dollars of credit subsidies represent the commandeering of financial services by government and its escalating power over private enterprise. Whether issued as a loan or a loan guarantee, government credit constitutes a risk borne by taxpayers for the benefit of a private party. That risk — multiplied by tens of thousands of transactions — carries direct and indirect consequences for the nation. While legions of regulators scrutinize the actions of private banks and financiers, there is sparse oversight of the government’s credit subsidies and their detrimental effects on the economy. It is time to shut down this massive credit racket.

#### Educational spending hurts businesses and crushes growth

Daniel Mitchell, March 15, 2005, (McKenna Senior Fellow in Political Economy "The Impact of Government Spending on Economic Growth," Heritage Foundation, http://www.heritage.org/budget-and-spending/report/the-impact-government-spending-economic-growth) lz

Policymakers are divided as to whether government expansion helps or hinders economic growth. Advocates of bigger government argue that government programs provide valuable "public goods" such as education and infrastructure. They also claim that increases in government spending can bolster economic growth by putting money into people's pockets.

Proponents of smaller government have the opposite view. They explain that government is too big and that higher spending undermines economic growth by transferring additional resources from the productive sector of the economy to government, which uses them less efficiently. They also warn that an expanding public sector complicates efforts to implement pro-growth policies-such as fundamental tax reform and personal retirement accounts- because critics can use the existence of budget deficits as a reason to oppose policies that would strengthen the economy.

Which side is right?

This paper evaluates the impact of government spending on economic performance. It discusses the theoretical arguments, reviews the international evidence, highlights the latest academic research, cites examples of countries that have significantly reduced government spending as a share of national economic output, and analyzes the economic consequences of those reforms.1 The online supplement to this paper contains a comprehensive list of research and key findings.

This paper concludes that a large and growing government is not conducive to better economic performance. Indeed, reducing the size of government would lead to higher incomes and improve America's competitiveness. There are also philosophical reasons to support smaller government, but this paper does not address that aspect of the debate. Instead, it reports on-and relies upon-economic theory and empirical research.[1]

#### More government spending will lead to slow economic growth and potential financial crisis

Chris Edwards 14, director of tax policy studies at Cato [1-9-2014, "Reducing Wasteful Federal Spending," *Cato Institute*, https://www.cato.org/publications/testimony/reducing-wasteful-federal-spending) // ES

Federal spending is too high and government debt is piling up. Official projections show rivers of red ink for years to come unless policymakers enact reforms. Unless spending and deficits are reduced, the United States will face slower economic growth and possibly further financial crises down the road. Policymakers should turn their attention to cutting unneeded and wasteful federal spending. Great places to start would be to cut aid programs for the states and to privatize activities where possible. When the federal government takes over activities best left to states, businesses, charities, and individuals, it usually generates a lot of bureaucratic waste and inefficiency, which ultimately harms the economy and reduces American incomes. Some other nations have made substantial cuts to their government budgets and pursued reforms such as privatization with very beneficial results. So U.S. policymakers should view spending reforms as an opportunity to create positive and lasting benefits to the economy and society.

#### Government spending reduces national output

Daniel J. Mitchell 16, senior fellow at the Cato Institute who specializes in fiscal policy, serves on the editorial board of the Cayman Financial Review, PhD in economics from George Mason University [11-14-2016, "How Government Spending Kills Economic Growth," Foundation for Economic Education, https://fee.org/articles/how-government-spending-kills-economic-growth/) //ES

And the book is filled with lots of useful information in that quest. In Chapter 4, David Smith explains the interaction between fiscal policy and economic performance, noting that excessive government not only reduces the level of economic output, but also the future growth rate. …increased governmental consumption appears to reduce national output. This is likely to be because the resources diverted to supply such expenditures would be better employed in the private sector. In particular, the evidence from international cross-section and panel-data studies suggests that almost all increases in the share of governmental expenditure in GDP lead to a near one-for-one reduction in the share allocated to private capital formation. This under-capitalisation takes the economy onto a lower, but parallel, growth path according to ‘neo-classical’ growth models but leads to an additional permanent reduction in the growth rate in the context of a ‘post-neo-classical endogenous-growth’ model. He provides a micro-economic explanation for why various government activities hinder growth (I offer eight reasons in this video, by the way). Transfer payments are likely to reduce economic growth in various ways, not least because of the supply-side effects of the taxes necessary to finance them. Unlike with government investment, there is unlikely to be any offsetting effect on growth. These have grown rapidly over the last century. Transfers in the form of pensions and other payments to people at older ages are likely to reduce saving in the private sector and fixed capital formation. However, the most potentially counter-productive public expenditure appears to be paying means-tested welfare benefits to the population of working age. These reduce potential GDP because of their impact in reducing the supply of labour to the private sector, which exacerbates the effect of the taxes necessary to finance them. …there has been a big increase in government spending over the last 100 years. However, within the government spending envelope, there has been a particularly large increase in those items that damage the economy most while those items that tend to have a beneficial effect on growth or which damage the economy least have been reduced. In other words, he’s saying that not only is government too big. He’s also pointing out that much of the spending is seemingly designed to impose economic damage by discouraging the productive use and allocation of labor and capital. I also like that he explains that the real problem is spending, not just red ink (a point I often make, but not always successfully, when talking to politicians). …statistical evidence that suggests that the negative effects of higher taxes and budget deficits on private activity are identical in the long run and quite similar in the short term. This confirms that the primary issue is the size of state spending compared with national output and that the choice between tax and bond finance is a secondary consideration. Ultimately, government spending is financed either by taxes levied now or deferred taxes. He then reviews some of the research on the “Rahn Curve.” …it is reasonable to ask whether there are ‘growth-maximising’ or ‘welfare-maximising’ levels of government expenditure. …The growth-maximising share of government spending in GDP was some 20–25 per cent of GDP. This was based on the fact that ratios in this range were typical of the fast growing South East Asian ‘Tiger’ economies, countries such as Japan and Korea in their high growth phases, and even Australia, Canada and Spain in the 1950s. This indicative range should probably be revised down to some 18.5–23.5 per cent, using current (June 2016) UK definitions.

#### Post World War II proves that a decrease in spending is best

Willis L. **Krumholz**, 5/2/**01** (JD/MBA graduate from the University of St. Thomas, and works in the financial services industry, 5-2-2016, "Why Trump’s Government Spending Will Destroy The Economy," Federalist, http://thefederalist.com/2016/05/02/why-trumps-government-spending-will-destroy-the-economy/) // ES

“Next, let’s deal with the fallacy—even widely held on Wall Street even—that increased government spending causes sustainable growth. **Increasing federal spending** as a share of GDP **actually cannibalizes the finite amount of resources within the American** economy at the expense of the private sector, where those resources would be used to boost wages and living standards.” The prime example is after World War II, where federal spending fell from around 45 percent of GDP, to under 10 percent, almost overnight. Keynesians predicted another Great Depression. Rather, a very short recession was followed by economic boom, as resources were reallocated to their most productive uses that best aligned with consumer preferences. Keynesians like to peddle the fiction the war-driven large boost in spending finally moved us out of depression. Actually, it was a large boost in private savings that led us out of the depression, as combined household and business debt dropped from 150 percent of GDP on the eve of war to 60 percent of GDP by the time the war ended. Keep in mind, the recovery didn’t take off until after government spending was downsized. During this recovery, heavy war-time taxes were largely kept in place, and the U.S. federal budget deficit turned into a surplus until the Korean War. Another fiction Keynesians peddle, while we are on the subject, is that if stimulus doesn’t work, it is because the stimulus wasn’t big enough. In other words, you can never prove these people wrong. Aside from the logical train wreck, this kind of thinking leads ideologues to look at, say, Japan, and determine that after decades of monetary stimulus—to the point where the Bank of Japan now owns the vast majority of Japanese government bonds and more than half of Japanese exchange traded funds, and is one of the top-ten owners of most companies in the Nikkei 225 stock-index—and fiscal stimulus, meaning running massive deficits so Japan’s public debt has reached almost 250 percent of GDP, not enough is being done (we’re looking at you, Paul Krugman). More reasonable people can look at Japan, Inc. and see where neo-Keynesianism has fallen short. While history provides many examples where reductions in government consumption induced a short recession followed by large gains in prosperity, **examples abound where increased government consumption leads to a short term high followed by a terrible hangover**. Just look at Brazil, Venezuela, and Argentina.

### Link—NSLA

#### NSLA includes loan forgiveness and the PSLF program alone cost over $80 billion

Mayotte, director of consumer outreach and compliance for American Student Assistance, 17 (Betsy, “The Future of Graduate Student Loan Borrowing,” 03/15/17, accessed 07/14/17 at https://www.usnews.com/education/blogs/student-loan-ranger/articles/2017-03-15/the-future-of-graduate-student-loan-borrowing, DDI-EJ)

The problem with these programs is that they're expensive. The Government Accountability Office predicts that the cost to taxpayers for the PSLF program alone will be more than $80 billion. The other issue is that these programs may have resulted in a disincentive for students to keep their borrowing at affordable amounts. With these issues in mind, both the former and current administrations have discussed policy changes to the PSLF and income-driven programs that could affect future students. There has also been some recent chatter about changes to the Graduate PLUS loan program that could make postbaccalaureate programs unaffordable for some students altogether. Given all of this, here are some possibilities graduate students could possibly anticipate. For several years, the Obama administration and some members of Congress have proposed capping the forgiveness under the PSLF program at the current undergraduate federal student loan limit of $57,500. In recent years, Republicans proposed eliminating PSLF altogether for new borrowers. [Read about what DeVos might do with student loans.] The Student Loan Ranger predicts that it is more likely than not that PSLF will be capped, probably at the undergraduate loan limit, for new borrowers who take their first loan after any such legislation is signed. This could be as early as fall 2017 if the proposal is included in the next round of budget discussions or if Congress makes progress on the reauthorization of the Higher Education Act at the end of this year or next. There is a chance they will make the more drastic change of cutting the program altogether, but we hope at this point that this is less likely. As for Graduate PLUS loans, we've been hearing and reading chatter that some Republicans think graduate school borrowing should be pushed over to the private market altogether. The thought process is that this would help curb subsidy costs to taxpayers, while allowing private lenders and schools to help determine how much debt makes sense for students pursuing certain fields of study.

#### Entitlements accompanying the NSLA would cost billions

Delisle, resident fellow at the American Enterprise Institute, 16 (Jason, “The coming Public Service Loan Forgiveness bonanza,” 09/22/16, accessed 07/14/17 at https://www.brookings.edu/research/the-coming-public-service-loan-forgiveness-bonanza/, DDI-EJ)

The Obama administration understands that spending on PSLF needs to be reined in. The administration’s proposals do not go nearly far enough, as I argue and document subsequently, and they have not obtained traction on the Hill. Nevertheless, the proposed reforms give us a window into the runaway costs of the program as scored by the non-partisan Congressional Budget Office (CBO). In 2014, the CBO estimated that the Obama administration’s proposal to cap the amount that could be forgiven under PSLF at $57,500 would save $265 million over 10 years (2015 to 2024).[xi] The agency recently revised that figure to $6.7 billion.[xii] The CBO revised its estimates by a similar magnitude for a related change to PSLF proposed by the Obama administration. Borrowers make payments based on their income only up to a certain point in IBR. Once a borrower’s income reaches a level where his loan payment would be higher than under a traditional 10-year repayment term for his original loan balance, the program by default has him pay the lower of the two amounts. The Obama administration proposed eliminating this cap, which would thus require some borrowers to pay more and therefore have less forgiven under PSLF.[xiii] The CBO originally estimated the proposal would save $135 million, which stems from reducing the amount of loan forgiveness borrowers get under either PSLF or IBR’s 20-year forgiveness benefit. In 2016, the CBO raised that estimate to $5.4 billion.[xiv] In other words, as indicated in the table below, the CBO estimates that just two features of IBR and PSLF that favor those with the largest loans and incomes will cost the taxpayer over $12 billion in forgiven loan repayments over the next 10 years.

### Link—Right to Education

#### RTE forces the government to heavily invest in schools – costs 30 billion dollars

Goodwin Liu 2006 (Goodwin Hon Liu is an American lawyer, educator and an Associate Justice of the Supreme Court of California. Reprinted with Permission of New York University School of Law “INTERSTATE INEQUALITY IN EDUCATIONAL OPPORTUNITY” http://www.nyulawreview.org/sites/default/files/pdf/NYULawReview-81-6-Liu.pdf)

In sketching the basic contours of a national foundation program, I recognize that, in the hands of Congress, all of the parameterspupil weights, cost adjustments, minimum state effort, federal matching rate, and the foundation level itself-would be informed by a complex mix of research, expert judgment, and politics. The practical balance of benefits and burdens is as important as any distributive principle in determining the shape of a viable program. Nevertheless, as long as public demand for high standards can be sustained, and as we learn more from cost studies about current shortcomings in financing a truly adequate education, the case for a robust federal role in narrowing interstate disparities and ensuring a national foundation level of resources will remain strong. To gauge the potential impact of this reform, I compared the interstate equalizing effect of federal education aid in 2002-03 with the effect of a program with the following parameters: i. Foundation guarantee. The program assures every state at least $6500 in cost-adjusted revenue per weighted pupil, an amount that Congress has hypothetically determined, based on the best available evidence, to be a reasonable estimate of the cost of adequate educational opportunity for equal citizenship. ii. Minimum state effort. As a condition of federal aid, each state with nonfederal per-pupil revenue below $6500 must devote (a) at least 3.25% of its total taxable resources to education or (b) the level of effort necessary to produce the $6500 foundation level, whichever is less. In other words, a state is ineligible for federal aid if it has not made sufficient effort to bring its per-pupil revenue up to the foundation level. iii. Federal matching rate. Each state's nonfederal revenue is matched by federal aid at a rate inversely proportional to the ratio of the state's fiscal capacity to the national average. iv. Minimum matching rate. The minimum federal matching rate is set at 4%, a figure hypothetically judged by Congress to be high enough to garner support for the program from relatively wealthy states. Table 8 simulates the results of this program. Column A shows cost-adjusted revenue per weighted pupil from all sources for each state in 2002-03, and Column B shows cost-adjusted revenue per weighted pupil from nonfederal sources. 279 Column C shows perpupil revenue after applying the minimum effort requirement to states in Column B below the $6500 foundation.280 Column D lists the fed- 279 The revenue data are from U.S. CENSUS BUREAU, PUBLIC EDUCATION FINANCES 2003, at 1 tbl.1 (2005). The data are adjusted for geographic costs and pupil weighted using the method discussed at notes 74-82 supra and accompanying text. Pupil weighting is based on data in NAT'L CTR. FOR EDUC. STATISTICS, DIGEST OF EDUCATION STATISTICS 2004 tbl.37 (2005), http://nces.ed.gov/programs/digest/d04/tables/dtO4037.asp (fall 2002 enrollment); id. at tbl.54 (number of children six to twenty-one years old served under Part B of Individuals with Disabilities Education Act in 2002-03 by state); NCELA, supra note 82 (LEP enrollment data for 2002-03 by state); and U.S. Census Bureau, American Community Survey: Percent of Related Children Under 18 Years Below Poverty Level in the Past 12 Months (2002), http://www.census.gov/acs/www/Products/Ranking/2002/ R11T040.htm (child poverty rates for 2002 by state). 280 Eight states in 2002-03 (Arizona, Florida, Kentucky, Nevada, North Carolina, South Dakota, Tennessee, and Washington) had cost-adjusted nonfederal revenue per weighted pupil below $6500 and state effort below 3.25% based on nonfederal education revenue as a percentage of TFR. See TOTAL TAXABLE RESOURCES, supra note 153. Five of the states Reprinted with Permission of New York University School of Law [Vol. 81:2044 INTERSTATE INEQUALITY Federal matching rate for each state according to a formula that increases the rate as state fiscal capacity decreases, with a minimum rate of 4%.281 Column E applies the matching rates to the figures in Column C to produce the total cost-adjusted revenue per weighted pupil for each state under the program.282 The enrollment-weighted coefficient of interstate variation is shown at the bottom of the columns. As the matching rates in Column D indicate, the simulated national foundation plan disproportionately benefits states with relatively low fiscal capacity that have exerted at least the minimum effort, such as Alabama, California, Idaho, Montana, New Mexico, and Oklahoma. The plan is less generous toward states with relatively high fiscal capacity, including not only states with historically high education spending, such as Connecticut, Massachusetts, and New York, but also states whose low education revenue is largely due to low effort, such as Florida, Nevada, North Carolina, and South Dakota. The plan thus ensures a base level of per-pupil funding by directing substantial aid to poorer states, where additional money is likely to yield the greatest educational dividends,283 while encouraging wealthier states to do their fair share. The parameters of the federal matching rate, foundation amount, and minimum level of state effort can be adjusted to produce greater or lesser degrees of interstate equalization. The main point is that the program in its essentials is structured to deliver far more equality of opportunity across states than does current federal policy. The program simulated in Column E would have narrowed interstate inequality in per-pupil revenue by nearly one-third (32%) at a cost of $43.5 billion in 2002-03.284 By comparison, actual federal education (all but Arizona, Kentucky, and Tennessee) could have produced the $6500 foundation with less than 3.25% effort. 281 Similar to the Medicaid formula, the federal matching rate here can take the general form Rs = 1 - X\*(Cs / CAVG), where R, is the federal matching rate for state S, Cs is the cost-adjusted fiscal capacity per weighted pupil of state S, CAVG is the average fiscal capacity of all states, and X and Y are constants that can be adjusted to produce greater or lesser degrees of interstate equalization. In Column D of Table 8, I have set X = 0.95 and Y = 1, with Rs having a minimum value of 0.04. Column F uses the same values of X and Y but sets no minimum for Rs. 282 For any state whose matching rate is insufficient to produce per-pupil revenue of $6500, the program contributes additional federal aid to ensure the foundation level. In Columns E and G, this is the case for Arizona and Utah. 283 See supra notes 117-35 and accompanying text. 284 1 computed the 32% figure by comparing the enrollment-weighted coefficient of interstate variation in cost-adjusted revenue per weighted pupil in Column B (16.5) with the coefficient in Column E (11.2). The $43.5 billion total is derived by subtracting the values in Column B from those in Column E to yield cost-adjusted federal aid per weighted pupil for each state, and then converting the cost- and need-adjusted aid into Reprinted with Permission of New York University School of Law December 2006) NEW YORK UNIVERSITY LAW REVIEW revenue in 2002-03 totaled $36.8 billion and reduced the coefficient of interstate variation by only 12%.285 If Congress were to adopt this national foundation plan as a major reform and expansion of Title I, it would require approximately $30 billion in new money above the $13 billion currently spent under Title 1.286 Large as this increase may seem, it is consistent with other estimates of the cost of a national foundation plan,2 87 and the federal share of the national education budget would still be less than 15%.288 Moreover, a significant component of the $43.5 billion estimate in Table 8 is attributable to the 4% minimum federal matching rate. As Columns F and G show, the plan without any minimum would have produced an even greater degree of interstate equalization (a 37% reduction in the coefficient of variation) at a lesser cost ($37.2 billion) in 2002-03, although only thirty states-perhaps too few for an effective political majority-would have received significant federal aid. 289

### Link—STEM

#### STEM requires enormous federal spending

Lauren Camera (Education Reporter, 4-13-2016, "Feds to States: Use Federal Dollars for STEM," US News &amp; World Report, https://www.usnews.com/news/articles/2016-04-13/feds-to-states-use-federal-dollars-for-stem)

The Department of Education wants more states to tap federal dollars for science, technology, engineering and math, or STEM education, especially for poor students, students of color and other historically underserved students.

“Too often many of our students, especially those who are most vulnerable, do not have equitable access to high-quality STEM and computer science opportunities, which are part of a well-rounded education and can change the course of a child’s life,” Secretary of Education John King said. “We are committed to ensuring that all students have the same opportunities to access a rigorous and challenging education.”

The examples include recommendations for both improving access for students and supporting educators in STEM disciplines, including computer science.

“Enhancing the impact of STEM education programs and maximizing the impact of available federal resources necessitate leveraging various sources of support,” they wrote.

For example, districts could use the federal pot of money they receive to help educate poor students to purchase STEM materials, devices or STEM-focused digital learning resources. Alternately, they could use the federal money for teacher support to train educators on new STEM concepts.

The guidance was announced during the sixth White House Science Fair, where more than 130 students from more than 30 states showed off their STEM projects.

During the event, President Barack Obama also announced a handful of new STEM initiatives, including a $200 million investment by Oracle to support computer science education for an additional 125,000 students; a commitment from more than 500 schools to expand access to computer science with help from Code.org; and the launch of a mentorship program to help STEM professionals who want to volunteer match with nearby schools.

The announcements come on the heels of the president’s budget proposal, which included $3 billion for STEM education programs and a $4 billion proposal to offer computer science to all students.

The Obama administration’s focus on STEM and computer science is largely an economic one.

#### STEM programs cost trillions—2016 spending bill proves

Henry, Government Relations Division, AIP, 15 (Michael S., “FY 2016 Appropriations: STEM Education Programs Mostly Funded Flat,” American Institute of Physics, 12/23/15, accessed 07/15/17 at https://www.aip.org/fyi/2015/fy-2016-appropriations-stem-education-programs-mostly-funded-flat, DDI-EJ)

On Dec. 18, Congress passed, and the President signed into law, the final FY 2016 annual spending bill. As FYI reported last Wednesday, the law appropriates $1.15 trillion in discretionary spending obligations and finalizes funding levels for the nation’s major science agencies, offices and programs through the end of September 2016, including for the science, technology, engineering, and mathematics (STEM) programs at the Department of Education (DOE) and National Science Foundation (NSF). Congress’ guidance for DOE spending can be found on pages 70-80 of the bill’s joint explanatory statement, and guidance for NSF’s STEM program can be found on page 32 of the joint explanatory statement. Department / Agency / Directorate / Program FY14 enacted FY15 enacted FY16 President's request FY16 enacted Change between FY15 and FY16 Department of Education 67,300.0 70,470.0 74,138.0 71,698.0 1.7% Math and Science Partnerships 149.7 152.7 202.7 152.7 0.0% Minority Science & Engineering Improvement 9.0 9.0 9.0 9.0 0.0% National Science Foundation 7,131.4 7,344.2 7,723.6 7,463.5 1.6% Education & Human Resources 832.0 866.0 962.6 880.0 1.6% Advancing Informal STEM Learning 54.8 55.0 60.0 62.5 13.6% STEM + Computing Partnerships 57.4 57.1 51.9 51.9 -9.1% Louis Stokes Alliances for Minority Participation 45.5 46.0 46.0 46.0 0.0% Robert Noyce Teacher Scholarships 62.6 60.9 60.9 60.9 0.0% \* Figures in millions of U.S dollars As the table above shows, DOE is receiving a 1.7 percent increase in spending between FY 2015 and FY 2016, and NSF is seeing a similar 1.6 percent increase. Within that amount, STEM education programs at the Department and Foundation are largely being flat funded year-over-year, with the exception of a major 13.6 percent increase for Advancing Informal STEM Learning and a 9.1 percent decrease for the STEM + Computing Partnerships program. The Advancing Informal STEM Learning program seeks to advance new approaches to STEM learning for the public in informal environments, including in media, science centers and museums, and youth, community, and out of school time programs. The steady year-over-year funding for STEM education initiatives clocks in lower than the 5.2 percent increase in overall federal discretionary spending in FY 2016, an indication that STEM education was not a winner in the annual budget process this year. As FYI reported, however STEM education did receive a boost this year from the authorization of several new funding streams and a new STEM master teacher corps in the Every Student Succeeds Act (ESSA). ESSA is the new reauthorization of the Elementary and Secondary Education Act governing federal oversight of K-12 schools that President Obama signed into law earlier this month.

### AT: Edu Spending Good—Spillover

#### There’s no relationship between education spending and economic growth

Charles KENNY 14, senior fellow at the Center for Global Development [“Why Education Spending Doesn't Lead to Economic Growth,” *Bloomberg*, April 7, 2014, https://www.bloomberg.com/news/articles/2014-04-07/why-education-spending-doesnt-lead-to-economic-growth]

But does that private return on investment in education translate into benefits for the national economy? In the U.S., public education expenditure accounts for more than 5 percent of gross domestic product. (Private spending is about the same size.) In developing countries, including Kenya and Uganda, education takes up 15 percent or more of the government expenditures. Public education spending is justified in part by the idea that it has considerable spillover effects—not only the student, but society as whole benefits when a kid goes to school. The data suggest a more complex story, however.

Analysis by Lawrence Katz and Claudia Goldin suggests that increased educational attainment among Americans from 1915 to 1999 might account for 10 percent of the growth in U.S. GDP over that time. Some commentators contend that this an underestimate (PDF). But at the global level, no relationship has been found between a more educated population and more rapid economic development. There has been an explosion in schooling in developing countries, but many show nothing like explosive growth in GDP per person. By 2010, the average Kenyan had spent more years in school than the average French citizen had in 1985. But Kenya’s GDP per capita in 2010 was only 7 percent of France’s GDP per head 25 years earlier.

What explains the limited impact of increased education on economic growth? A possible answer is that education acts as a filter rather than an investment. A recent study (PDF) in Italy found that test scores had a significant impact on the earnings of employees—but none on the earnings of self-employed people. One interpretation of that result is that schooling signals persons with intelligence and ambition, rather than actually imparting or indicating skills that make them better at their jobs over the long term. Signaling helps as a screening tool for employers, but makes no difference to people who work for themselves. Presumably, they already know how smart and ambitious they are. (Think Bill Gates: Harvard let him in, signaling smarts, but he didn’t finish his studies before going off to become the world’s richest man; apparently Gates didn’t feel he needed to complete the course load to succeed).

It looks as if the developing world may may have a similar problem: As primary schooling has become universal and its signaling power has weakened, analysis in the journal Development Policy Review suggests that the returns to primary schooling have dropped since the 1950s from a near 30 percent wage premium toward a 5 percent wage premium today. That’s in part because lots of kids aren’t learning anything at all in school. In India, for example, only around a quarter of children who complete primary school can read a simple passage, do simple math, tell time, and make change.

### AT: Spending Good—Stimulus

#### Stimulus effects are a myth—it only redistributes spending power in an inefficient way.

Brian M. RIEDL ‘8, Grover M. Hermann Fellow in Federal Budgetary Affairs in the Thomas A. Roe Institute for Economic Policy Studies at *The Heritage Foundation*, master’s degree in public affairs from Princeton [“Why Government Spending Does Not Stimulate Economic Growth,” *The Heritage Foundation*, November 12, 2008, http://www.heritage.org/budget-and-spending/report/why-government-spending-does-not-stimulate-economic-growth]

In a throwback to the 1930s and 1970s, Democratic lawmakers are betting that America's economic ills can be cured by an extraordinary expansion of government. This tired approach has already failed repeatedly in the past year, in which Congress and the President:

• Increased total federal spending by 11 percent to nearly $3 trillion;

• Enacted $333 billion in "emergency" spending;

• Enacted $105 billion in tax rebates; and

• Pushed the budget deficit to $455 billion in the name of "stimulus."

Every one of these policies failed to increase economic growth. Now, in addition to passing a $700 billion financial sector rescue package, lawmakers have decided to double down on these failed spending policies by proposing a $300 billion economic stimulus bill. Even though the last $455 billion in Keynesian deficit spending failed to help the economy, lawmakers seem to have convinced themselves that the next $300 billion will succeed.

This is not the first time government expansions have failed to produce economic growth. Massive spending hikes in the 1930s, 1960s, and 1970s all failed to increase economic growth rates. Yet in the 1980s and 1990s-when the federal government shrank by one-fifth as a percentage of gross domestic product (GDP)-the U.S. economy enjoyed its greatest expansion to date.

Cross-national comparisons yield the same result. The U.S. government spends significantly less than the 15 pre-2004 European Union nations, and yet enjoys 40 percent larger per capita GDP, 50 percent faster economic growth rates, and a substantially lower unemployment rate.[1]

When conventional economic wisdom repeatedly fails, it becomes necessary to revisit that conventional wisdom. Government spending fails to stimulate economic growth because every dollar Congress "injects" into the economy must first be taxed or borrowed out of the economy. Thus, government spending "stimulus" merely redistributes existing income, doing nothing to increase productivity or employment, and therefore nothing to create additional income. Even worse, many federal expenditures weaken the private sector by directing resources toward less productive uses and thus impede income growth.

The Myth of Spending as "Stimulus"

Spending-stimulus advocates claim that government can "inject" new money into the economy, increasing demand and therefore production. This raises the obvious question: Where does the government acquire the money it pumps into the economy? Congress does not have a vault of money waiting to be distributed: Therefore, every dollar Congress "injects" into the economy must first be taxed or borrowed out of the economy. No new spending power is created. It is merely redistributed from one group of people to another.[2]

Spending-stimulus advocates typically respond that redistributing money from "savers" to "spenders" will lead to additional spending. That assumes that savers store their savings in their mattresses or elsewhere outside the economy. In reality, nearly all Americans either invest their savings by purchasing financial assets such as stocks and bonds (which finances business investment), or by purchasing non-financial assets such as real estate and collectibles, or they deposit it in banks (which quickly lend it to others to spend). The money is used regardless of whether people spend or save.

Government cannot create new purchasing power out of thin air. If Congress funds new spending with taxes, it is simply redistributing existing income. If Congress instead borrows the money from domestic investors, those investors will have that much less to invest or to spend in the private economy. If Congress borrows the money from foreigners, the balance of payments will adjust by equally reducing net exports, leaving GDP unchanged. Every dollar Congress spends must first come from somewhere else.

This does not mean that government spending has no economic impact at all. Government spending often alters the composition of total demand, such as increasing consumption at the expense of investment.

More importantly, government spending can alter future economic growth. Economic growth results from producing more goods and services (not from redistributing existing income), and that requires productivity growth and growth in the labor supply. A government's impact on economic growth is, therefore, determined by its policies' effect on labor productivity and labor supply.

## Impacts and Internal Links

### I/L—Default Collapses Dollar

#### Debt default devalues and dollar and destroys its international credibility as a world currency – this causes worldwide economic decline and a lack of financial globalization

Eichengreen 13 [Barry Eichengreen is a Professor of Economics at the University of California, Berkeley and a former senior policy adviser at the International Monetary Fund, “The Dollar and the Debt Ceiling,” *Project Syndicate*, Oct 10, 2013, https://www.project-syndicate.org/commentary/barry-eichengreenon-the-fallout-from-a-us-default] Accessed 7-14-17, Tamara W

But a default on US government debt precipitated by failure to raise the debt ceiling would be a very different kind of shock, with very different effects. In response to the subprime disruption and Lehman’s collapse, investors piled into US government bonds, because they offered safety and liquidity – prized attributes in a crisis. These are precisely the attributes that would be jeopardized by a default.

The presumption that US Treasury bonds are a safe source of income would be the first casualty of default. Even if the Treasury paid bondholders first – choosing to stiff, say, contractors or Social Security recipients – the idea that the US government always pays its bills would no longer be taken for granted. Holders of US Treasury bonds would begin to think twice.

The impact on market liquidity would also be severe. Fedwire, the electronic network operated by the US Federal Reserve to transfer funds between financial institutions, is not set up to settle transactions in defaulted securities. So Fedwire would immediately freeze. The repo market, in which loans are provided against Treasury bonds, would also seize up.

For their part, mutual funds that are prohibited by covenant from holding defaulted securities would have to dump their Treasuries in a self-destructive fire sale. Money-market mutual funds, virtually without exception, would “break the buck,” allowing their shares to go to a discount. The impact would be many times more severe than when one money-market player, the Reserve Primary Fund, broke the buck in 2008.

Indeed, the entire commercial banking sector, which owns nearly $2 trillion in government-backed securities – would be threatened. Confidence in the banks rests on confidence in the Federal Deposit Insurance Corporation, which insures deposits. But it is not inconceivable that the FDIC would go bust if the value of the banks’ Treasury bonds cratered.

The result would be a sharp drop in the dollar and catastrophic losses for US financial institutions. Beyond the immediate financial costs, the dollar’s global safe-haven status would be lost.

It is difficult to estimate the cost to the US of losing the dollar’s position as the leading international currency. But 2% of GDP, or one year’s worth of economic growth, is not an unreasonable guess. With foreign central banks and international investors shunning dollars, the US Treasury would have to pay more to borrow, even if the debt ceiling was eventually raised. The US would also lose the insurance value of a currency that automatically strengthens when something goes wrong (whether at home or abroad).

The impact on the rest of the world would be even more calamitous. Foreign investors, too, would suffer severe losses on their holdings of US treasuries. In addition, disaffected holders of dollars would rush into other currencies, like the euro, which would appreciate sharply as a result. A significantly stronger euro is, of course, the last thing a moribund Europe needs. Consider the adverse impact on Spain, an ailing economy that is struggling to increase its exports.

Likewise, small economies’ currencies – for example, the Canadian dollar and the Norwegian krone – would shoot through the roof. Even emerging-market countries like South Korea and Mexico would experience similar effects, jeopardizing their export sectors. They would have no choice but to apply strict capital controls to limit foreign purchases of their securities. It is not inconceivable that advanced countries would do the same, which would mean the end of financial globalization. Indeed, it could spell the end of all economic globalization.

Sane governments do not default when they have a choice – especially not when they enjoy the “exorbitant privilege” of issuing the only true global currency. We are about to find out whether the US still has a sane government.

#### The brink is now, October is when the first round of defaulting occurs

Sahadi, 6-29-2017, (Jeanne, Journalist for CNN money "Debt ceiling deadline: The United States could risk default by early October," CNNMoney, http://money.cnn.com/2017/06/29/news/economy/debt-ceiling/index.html RB)

The Congressional Budget Office on Thursday narrowed its projections for when Treasury might run short on money if lawmakers don't raise or suspend the country's debt ceiling.

The CBO now estimates that Treasury might risk defaulting on some payments in the first half of October.

Previously, it had predicted that the so-called X date -- the point when Treasury won't have enough cash and revenue on hand to pay all bills in full and on time -- would come sometime in the fall.

"The range of possible dates has narrowed as the budget outlook for this year has become clearer and CBO has increased its estimate of the Treasury's net borrowing needs," the agency noted in a new report.

Related: Mnuchin cites September as possible debt ceiling crunch

Currently the legal borrowing limit is set at $19.81 trillion. Since mid-March, when the most recent debt ceiling suspension ended, Treasury has been using special accounting measures to allow the government to continue borrowing as needed.

But those measures, by the CBO's estimate, will be tapped out between early and mid-October.

#### Defaulting harms consumer confidence and international growth

Matthew Yglesias, 5-6-2016 (Writer for Vox "Donald Trump just threatened to cause an unprecedented global financial crisis," Vox, https://www.vox.com/2016/5/6/11607464/trump-haircut-default-debt RB)

The government doesn't work like that. Right now, people and companies all around the world treat US government bonds as the least risky financial asset in the universe. If the government defaults and banks fail as a result, the government needs to clean up the mess. And if risk-free federal bonds turn out to be risky, then every other financial asset becomes riskier. The interest rate charged on state and local government debt, on corporate debt, and on home loans will spike. Savings will evaporate, and liquidity will vanish as everyone tries to hold on to their cash until they can figure out what's going on.

Every assessment of risk in the financial system is based on the idea that the least risky thing is lending money to the federal government. If that turns out to be much riskier than previously thought, then everything else becomes much riskier too. Business investment will collapse, state and local finances will be crushed, and shockwaves will emanate to a whole range of foreign countries that borrow dollars.

### I/L—Default Collapses Econ

#### Debt default would crush the economy

* Higher Interest Rates
* Higher Inflation
* Crowding out effect

Romina Boccia, leading fiscal and economic expert at The Heritage Foundation and focuses on government spending and the national debt., 2-12-2013, "How the United States’ High Debt Will Weaken the Economy and Hurt Americans," Heritage Foundation, http://www.heritage.org/budget-and-spending/report/how-the-united-states-high-debt-will-weaken-the-economy-and-hurt RB

A Significant and Prolonged Drag on Economic Growth

Debt overhang reduces economic growth significantly and for a prolonged period of time in three main ways.

1. Higher Interest Rates. Creditors may lose confidence in the country’s ability to service its debt and demand higher interest rates to offset the additional risk. Or, interest rates may rise simply because the government is attempting to sell more debt than private bondholders are willing to buy at current prices. Either way, higher interest rates raise the cost of the debt, and the government must then either tax its citizens more, which would reduce economic activity; reduce government spending in other areas; or take on even more debt, which could cause a debt spiral.

Higher interest rates on government bonds also lead to higher rates for other domestic investments, including mortgages, credit cards, consumer loans, and business loans. Higher interest rates on mortgages, car loans, and other loans would make it more costly for families to borrow money. Families may then have to delay purchasing their first home and other means of building financial security. For many Americans, the dream of starting a business would no longer be in reach. Higher interest rates have a real and pronounced impact on the lives of ordinary citizens and translate into less investment and thus slow growth in the rest of the economy. A weaker economy in turn would provide fewer career opportunities and lower wages and salaries for workers.

However, higher interest rates do not always materialize in countries suffering a debt overhang. According to Reinhart, Reinhart, and Rogoff, in 11 of the 26 cases where public debt was above 90 percent of GDP, real interest rates were either lower, or about the same, as during years of lower debt ratios. Soaring debt matters for economic growth even when market actors are willing to absorb it at low interest.[14]

Interpreted another way, in more than half of debt overhang cases, interest rates rose. In the case of the U.S., the Federal Reserve’s policy of repeated quantitative easing has contributed to interest rates dropping to historical lows. Interest rates will likely rise at some point over the next several years. The Congressional Budget Office predicts that interest costs on the debt will more than double before the end of the decade, rising from 1.4 percent of GDP in 2013 to 2.9 percent as early as 2020.[15] High levels of U.S. public debt could push interest rates even higher with severe impacts for the American economy.

2. Higher Inflation. The United States has, as do other countries with independent currencies, an additional option to monetize its debts: replacing a substantial portion of outstanding debt with another form of federal liability—currency. The government could, through the Federal Reserve, inflate the money supply. The resulting increase in the rate of price inflation would devalue the principal of the remaining public debt. The resulting inflation would also destabilize the private economy, increase uncertainty, increase real interest rates, and slow economic growth markedly.

Inflation is particularly harmful for those Americans on fixed incomes, such as the elderly who rely on Social Security checks, pensions, and their own savings in retirement. By raising the cost of essential goods and services, like food and medical care, inflation can push seniors into poverty. Inflation and longer life expectancies can mean that some seniors run out of their savings sooner than anticipated, then becoming completely dependent on Social Security. Inflation inflicts the most pain on the poor and middle class by reducing the purchasing power of the cash savings of American families. Inflation also means that everyone has to pay more for goods and services, including essentials like food and clothing.

Moreover, severe inflation could dethrone the U.S. dollar as the world’s primary reserve currency. Thus far, a major saving grace for the U.S. government has been that, in comparison with other advanced nations with major currencies, such as Europe and China, the U.S. dollar has retained its status as the best currency option for finance and commerce.[16] If Washington policies continue on their current path of ever-higher sovereign debt and a risky Federal Reserve policy, both of which lack a credible crisis coping strategy, confidence in the U.S. economy and monetary policy regime could erode. Such a development would be unprecedented in size and magnitude and the impact on Americans and the economy would be massive and severe.

For all these reasons, the Federal Reserve and central banks of all industrialized countries have adopted a policy favoring low and stable inflation, though the means by which they pursue this policy can vary substantially and their success is often spotty. Reversing this policy in favor of a policy of debt monetization and high inflation would be a radical departure in policy and practice. It would be the economic equivalent of a scorched earth policy, and its adoption is thus extremely unlikely.

How High U.S. Debt Levels Would Hurt Americans

High U.S. Debt Levels Risk…

Higher Interest Rates

Higher interest rates on mortgages, car loans, and other loans would make it more costly for families to borrow

money.

Families may have to delay purchasing their first home and other means of building financial security.

For many Americans, the dream of starting a business would no longer be in reach.

Higher Inflation

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Inflation reduces the purchasing power of the cash savings of American families, inflicting the most pain on the

poor and middle class by eroding the value of their rainy day fund.

Inflation raises the prices on essential goods and services, like food, clothing, and medical care, and is particularly

harmful for the poor and those on fixed incomes, like the elderly.

Higher inflation and longer life expectancies together can mean that some seniors run out of their savings sooner

than anticipated, leaving them completely dependent on Social Security. Some may even end up in poverty.

Crowding Out Private Investment

Government deficit spending and its associated debt subtracts from the amount of private saving available for private

investment, leading to slower economic growth.

Less economic growth means fewer jobs, lower wages and salaries, and fewer opportunities for career

advancement.

Less private investment means fewer opportunities for innovation and the creation of productivity enhancing technologies,

putting the U.S. at a disadvantage with competing trading nations.

Solution

U.S. debt is quickly approaching economically damaging debt levels. U.S. lawmakers should delay no more. Congress and the President should take firm and immediate steps to balance the budget within 10 years, by cutting spending and reforming the entitlements.

3. Crowding Out Private Investment. Economic growth, especially increasing per capita income, depends on the proper functioning of prices to signal and markets to respond, but it also depends fundamentally on increasing the amount and quality of productive capital available to the workforce. The amount of capital employed in the economy needs to increase at least to keep pace with the growth in the labor force to maintain current living standards, and must grow even faster—to increase the amount of capital per worker—to raise worker productivity and thus wages and salaries.

Government deficit spending and its associated debt subtracts from the amount of private saving available for private investment, leading to slower economic growth. Unlike what staunch believers of government spending for economic stimulus claim, government stimulus spending does the opposite of growing the economy. Less economic growth caused by high government spending and debt results in fewer available jobs, lower wages and salaries, and fewer opportunities for career advancement.

Prolonged debt overhang in the United States, even at low interest rates, would be a massive drag on economic growth, leading to significantly reduced prosperity for Americans. In the words of Reinhart, Reinhart, and Rogoff: “This debt-without-drama scenario is reminiscent for us of T. S. Eliot’s (1925) lines in The Hollow Men: ‘This is the way the world ends / Not with a bang but a whimper.’”[17]

### I/L—Debt Limit

#### Failure to raise the debt ceiling collapses the dollar—causes inflation and mistrust.

Amadeo, 7-7-2017 (Kimberly, President of World Money Watch "What Happens If the Debt Ceiling Isn't Raised by October," Balance, https://www.thebalance.com/u-s-debt-ceiling-why-it-matters-past-crises-3305868)

What Happens If the Debt Ceiling Isn't Raised?

As the debt approaches the ceiling, Treasury can stop issuing Treasury notes, and borrow from its retirement funds. These funds exclude Social Security and Medicare. It can withdraw around $800 billion it keeps at the Federal Reserve bank.

Between 2008-2010, the Fed vastly increased the amount of Treasury notes it held, a policy called quantitative easing. Former Congressman Ron Paul, Chair of the Fed Oversight Committee, suggested that the Fed forgive or postpone payment of the $1.6 trillion in debt it owned. That would have delayed the need to raise the debt ceiling.

Once the debt ceiling is reached, Treasury cannot auction new Treasury notes. It must rely on incoming revenue to pay ongoing federal government expenses. That happened in 1996 when Treasury announced it could not send out Social Security checks.

Competing Federal regulations make it unclear how Treasury could decide which bills to pay and which to delay. Foreign owners would get concerned that they may not get paid. See What Is the U.S. Debt to China?

If Treasury did default on its interest payments, three things would happen. First, the federal government could no longer make its monthly payments. Employees would be furloughed and pension payments wouldn't go out. All those receiving Social Security, Medicare and Medicaid payments would go without. Federal buildings and services would close.

Second, the yields of Treasury notes sold on the secondary market would rise. That would create higher interest rates. This would increase the cost of doing business and buying a home. It would slow down economic growth.

Third, owners of U.S. Treasurys would dump their holdings. That would cause the dollar to plummet. The dollar’s drastic decline could eliminate its status as the world's reserve currency. The standard of living in America would decline. In this situation, the United States would find itself unable to repay its debt.

For all these reasons, Congress shouldn't monkey around with raising the debt ceiling. If members are concerned about government spending, they should get serious about adopting a more conservative fiscal policy long before the debt ceiling needs to be raised.

### I/L—Debt Collapses Heg

#### Lack of American economic credibility creates incentives for balancing strategies—specifically, the inability to address debt issues makes the US vulnerable to attacks on the dollar monopoly

Mann 14 [Eric Mann is a special agent with a United States federal agency, with significant domestic and international counterintelligence and counter-terrorism experience. Worked as a special assistant for a U.S. Senator and served as a presidential appointee for the U.S. Congress. He is currently responsible for an internal security and vulnerability assessment program. Bachelors @ University of South Carolina, Graduate degree in Homeland Security @ Georgetown. “AUSTERITY, ECONOMIC DECLINE, AND FINANCIAL WEAPONS OF WAR: A NEW PARADIGM FOR GLOBAL SECURITY,” May 2014, https://jscholarship.library.jhu.edu/bitstream/handle/1774.2/37262/MANN-THESIS-2014.pdf] Accessed 7-13-17, Tamara W

The financial crisis of 2008, however, provided learning opportunities for potential rivals of the United States. First, the crisis came on suddenly and shocked the international financial system; as a result most states were caught unprepared. The major powers, including the United States, took emergency actions to contain the crisis. However, a multi-state economic warfare strategy with the goal of upsetting current balance of power dynamics could be managed over an extended period of time. This tactic would allow for a gradual and controlled transition of power as America’s economic outputs are reduced and its ability to retaliate or balance against a coalition of rivals is diminished. The crisis also exposed vulnerabilities in the global financial markets that America’s rivals may seek to exploit.

In the end, economic warfare will rise because of three attributes that make these strategies attractive and viable options for balancing against the United States. First, the use of economic warfare can be a passive balancing strategy. Since soft-balancing is difficult to distinguish from normal trade and foreign policy actions, the coordinated efforts of a coalition of states intent on challenging the role of the United States in the international systems may go undetected. These efforts may include activities to build support for alternatives to the dollar as the leading reserve currency, or replacing the dollar as the standard currency for oil transactions.

Secondly, there is increasing international support for more diversity in reserve currency holdings and challenging America’s “monopoly of the dollar.” This rhetoric has increased in the aftermath of the global financial crisis. Lastly, potential rivals of the United States will use economic warfare because of inherent vulnerabilities in global financial markets. Several vulnerabilities are identified by Katz, who finds that “highly centralized financial chokepoints” are vulnerable to interruption, “levered derivative U.S. financial products” such as the mortgage back securities introduce significant risk, and “deficit fueled federal spending” by the United States can undermine America’s ability to respond to economic crisis.240 The pervasiveness of the dollar also places a significant portion of all dollars outside the control of the U.S. government. As Katz notes, as much sixty percent of all dollars and fifty-five percent of all highly rated securities are owned by foreign entities.241 These substantial holdings of U.S. currency and financial instruments may provide leverage to rival states in ways that are not fully understood and will require further research to address this potential vulnerability.

However, threats to America’s role in the current international system are not totally dependent on the actions of rival states. America’s inability to address its increasing debt issues has done more to undermine America’s international status than the scenario’s outlined in the proceeding sections of this chapters. A gradual erosion of confidence accelerated by passive balancing strategies, aggravated by America’s failure to act, is a war against America…by other means.

### I/L—Dollar k2 Heg

#### The dollar is a central feature of hegemony—key to sustain military bases and flexible foreign policy.

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US hegemony has been the subject of study from many varied perspectives in different historical contexts. Anderson (2013), for example, has argued that US hegemony rose to cover the planet from the earliest years of US history. He contends that the US imperium had a long prehistory stretching back to its founding. In the post-Cold War era, Johnson (2004, 151) has argued that a new form of US hegemony has emerged where US military bases constitute an “empire of bases.” In this article, we argue that the role of the US dollar as the global reserve currency should be seen as central to the functioning of US hegemony. The benefits the United States has derived from the dollar’s reserve currency status are crucial, for instance, to the maintenance of military bases and other aspects of US hegemonic power. Robert Keohane, for example, has done considerable work on how US hegemony is structurally comprised. In After Hegemony (2005), first published in 1984, Keohane argued that cooperation among capitalist powers would continue even without a single hegemon. Keohane’s study lacks significant explanation of the role of reserve currencies or financial markets in how cooperation occurs between state actors. Susan Strange (1987) critiques hegemonic stability theory. Strange argues that a critical reason for hegemonic change “in the great game of states” “is primarily economic, not political” (Strange 1987, 553). While Strange does consider the role of the US dollar and its reserve status, it is relegated to third position in a list of structural reasons for the conditions that give rise to US hegemony. In contrast, we argue that the dollar and its reserve status is the most fundamental reason that the United States is a hegemonic power. Emmanuel Wallerstein’s (1991) study focuses on the changing worlds system in the 1980s. The collapse of the Soviet Union and the evolution of the world system in the context of a declining US hegemony are seen as major changes to the capitalist world economy. Absent from Wallerstein’s (1991) study is any analysis of the dollar and its reserve function in how hegemony is constructed.

Critical contributions have been made by Michael Hudson and Henry C.K. Liu to scholarship on the US dollar with regard to US hegemony. Hudson (2003) has presented a critical history of the US dollar and how the political power attained through the selection of the dollar as the global reserve currency has served the interests of the United States. However, this study was published prior to the financial crash of 2008. The global financial crisis (GFC) has had a large impact on the debates surrounding whether the dollar can be maintained in the face of this disruption (Overholt et al. 2015). Furthermore, since Hudson’s (2003) study was published, there have been several major developments in the realm of political economy that concern the dollar and its continued reserve status. First, the increasing use of the Yuan in bilateral trade between Russian and China, particularly for hydrocarbon payments, has the potential to undermine US hegemony by creating a system outside the control of the US banking system, the China International Payments System (CIPS) (Koneig 2015). Another critical feature which occurred after Hudson (2003) was the creation of the Asian Infrastructure Investment Bank (AIIB). Officially the bank is intended to meet the infrastructure investment needs of the Asian region and will be used to fund “The New Silk Road” project for example. However, this institution will be under the direction of the Chinese in concert with multilateral partners. These developments indicate a challenge to a US-centric world system and raise the possibility of a regional sphere of influence dominated by Russia and China in East and particularly Central Asia. This evolution of Russian Chinese cooperation is a direct threat to the hegemony of the United States in Central Asia as Zbigniew Brzezinski in The Grand Chessboard (1997) theorised could happen. Liu (2002) has analysed the role of the dollar in the operations of US hegemony. Liu contends that since Nixon abandoned the gold standard in 1971, the US dollar has become a “global monetary instrument that only the United States can produce by fiat.” According to Liu, the rest of the world produces goods, and the United States produces dollars that are required to purchase these goods, particularly oil. As US dollars are needed to facilitate global trade, this consequently positions the United States at the centre of a global trading system in which it is the dominant power. Liu (2002) asserts the contention that the unique role the dollar occupies allows the United States to manipulate the currency at will and that China must live with the consequences (349). Liu and Deng’s (2012) study identifies a more recent contention between the US dollar and the Chinese RMB centred on the sensitive issue of currency devaluation. However, little theoretical interpretation is given to how this is made possible. Here we fill this gap by positing that a world systems analysis is the best way of understanding the interconnected relationship between the dollar and other currencies.

Prasad (2014) has argued that despite the difficulties that the US dollar and the US economy confront, the role of the US dollar in international finance through its reserve function will endure for the foreseeable future. Prasad emphasises the strengthening of the dollar since the GFC and asserts that the existing superiority of Western legal and financial institutions make the role of the dollar secure. Prasad notes that it has long been a source of contention that holders of US Treasury bonds are, in effect, subsidising US deficit spending and the standard of living of Americans through their purchase of US debt. This phenomenon has been come to be known as the “exorbitant privilege” (Canzoneri et al. 2013). Nonetheless, as the United States’ NIC has suggested,

Despite recent inflows into dollar assets and the appreciation of the dollar, the dollar could lose its status as an unparalleled global reserve currency by 2025, and become a first among equals in a market basket of currencies. This may force the US to consider more carefully how the conduct of its foreign policy affects the dollar. Without a steady source of external demand for dollars, US foreign policy actions might bring exposure to currency shock and higher interest rates for Americans. (NIC 2008, 12)

The dollar and its position as the global reserve currency are fundamental to the US economy and are, as a consequence, critical to the funding of both US domestic and foreign policies. As financial transactions can be conducted instantly across the globe, it has been suggested that “a nation’s currency security is even more critical than energy security” (Engdahl 2014, 10). Rickards (2011) has examined the geo-strategic and defence posture that the United States maintains in relation to the dollar, exploring the impact future financial attacks may have on the United States’ geo-strategic rivalry with other nations. Rickards (2011, 6) highlights the staging of simulated games on this subject, which were held at the Applied Physics laboratory near Washington in conjunction with the Department of Defence in September 2008. The purpose of the games was to “examine the impact of global financial activities on national security issues” (Rickards 2011, 6). Rickards (2011, 11) argues that such an attack on the United States would undermine confidence in the dollar and emphasises the existence of US presidential powers which permit the freezing of accounts that attempt to disrupt markets in this way.

#### Dollar is vital to hegemony

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From the end of World War II until the present, the United States has encountered challenges to its position as the global hegemonic power. The United States has undergone a transformation economically and industrially, and, as a manufacturer and exporter of goods, the United States has certainly declined. Although other aspects of US hegemonic influence have changed, the status of the US dollar as the global reserve currency has not yet been successfully challenged. The power and influence of the US dollar as the global reserve is often overlooked as a hegemonic instrument, particularly as there are more obvious expressions of US hegemonic power, such as the presence of US military bases on every continent except Antarctica. As an enduring feature of US hegemony that continues to link the world economy, the US dollar as the global reserve currency can be viewed, potentially, as the most vital element of US hegemony.

#### Dollar status is key to hegemony --- economic and structural power

Kirshner 16— Stephen and Barbara Friedman Professor of International Political Economy, Cornell University [Jonathan, “Dollar Diminution and New Macroeconomic Constraints on U.S. Power,” in Jeremi Suri and Benjamin Valention (eds.) *Sustainable Security: Rethinking American National Security Strategy*, p. 19-20]

The main perks of issuing “key” currency are (1) autonomy and balance of payments flexibility, and (2) structural power. With regard to the former, in the United States it is underappreciated the extent to which the special place of the dollar has allowed America to shake off the (often costly) burdens of macroeconomic adjustment and essentially dump them on others.38 In addition, the United States has been able to sustain deficits on its international accounts that other states could not have, and to adopt economic policies that, attempted elsewhere, would have been overwhelmed by a withering “disciplinary” response from international financial markets. **The erosion of these perks will circumscribe US power and autonomy**, and fights over the burdens of adjustment—the normal stuffing of international monetary politics—will become more a more common and a more salient feature of foreign policy, at least from an American perspective.

The dollar-centric international system has also rewarded the United States with structural power. Structural power is not easily measured, nor obviously “coercive,” but reflects “the power to decide how things shall be done, the power to shape frameworks within which states relate to each other.” 39 Structural power also affects the pattern of economic relations between states and their calculations of political interest. States that use the dollar (and especially those that hold their reserves in dollars) develop a vested interest in the value and stability of the dollar. Once in widespread use, the fate of the dollar becomes more than just America’s problem – it becomes the problem off all dollar holders.

**A relative contraction of the dollar’s international role, then, would reduce both the “hard” and “soft” power the United States previously enjoyed—its coercive power enhanced by greater autonomy and its structural power implicitly shaping the preferences of others**. Further, the United States would face additional burdens—not from the loss of perks, but from the costs associated with managing a currency in relative decline. For issuers of once dominant international money, those new difficulties arise from what can be called the overhang problem, and from a loss of prestige.

#### Dollar hegemony provides the US a wide number of international benefits—a shift in its international role fosters economic decline

Norrlof ’14 [Carla Norrlof is an Associate Professor of Political Science at the University of Toronto who focuses on international cooperation and US fiscal hegemony, “Dollar hegemony: A power analysis”, Review of International Political Economy, Vol.21 No.5, Published 2014, http://www.tandfonline.com/doi/pdf/10.1080/09692290.2014.895773?needAccess=true] Accessed 7-14-17, Tamara W

Since the end of World War II, the US dollar has been the currency most widely used by governments, financial institutions, corporations and individuals. Why does dollar hegemony persist? This paper undertakes a power analysis to explain the sustained importance of the dollar despite waning confidence in its value and the crescendo of voices claiming American decline. 2014 Taylor & Francis Review of International Political Economy, 2014 Vol. 21, No. 5, 1042–1070, http://dx.doi.org/10.1080/09692290.2014.895773

Much is at stake in the debate about the future of the dollar. The dollar’s international role provides the United States with a series of benefits, these are well documented and include prestige, seignorage, balance of payments flexibility, and policy autonomy, as well as capital and exchange-rate gains (Rueff, 1972; Cohen, 1977; Strange, 1987; Gourinchas and Rey, 2005, Cohen, 2006, Lane and Milesi-Ferretti, 2008, Norrlof, 2008, 2010). Looser constraints on its hegemonic power also help generate a structurally advantageous context with long-term commercial, financial and political gains (Strange, 1987, 1996; Norrlof, 2010). In addition, the dollar has symbolic meaning. The greenback is an emblem of American power coveted by other states. Even though there are important dissensions to the view that the international role of the dollar provides the United States with an ‘exorbitant privilege’, declinists tend to agree that dollar hegemony is profitable. In this paper, I assume benefits associated with dollar hegemony are real

If the dollar’s international role is lost or seriously threatened, the American government, as well as its firms and people, must forego an important source of wealth, convenience and independence. Without the dollar, declinists believe the American government will have a harder time borrowing on favorable terms, which will exacerbate America’s economic and geopolitical descent. For declinists, a substantial reduction in the dollar’s international role is not a mere possibility but an imminently approaching reality. This bearish outlook is nothing new — the United States’ capacity to provide the global currency of choice is regularly put into question. Beginning with the breakdown of Bretton Woods, and increasingly after the introduction of the euro and the rise of China, there has been rampant speculation that a multipolar currency order is in the making (Mundell, 2002; Chinn and Frankel, 2008; Kirshner, 2008; Eichengreen, 2011; Subramanian, 2011a; Layne, 2012). In the 1970s and 1980s, the halcyon days of the dollar were assumed long gone because of a series of inter-related challenges. Current account deficits, oil shocks, budget deficits, the cost of wars, military spending and inflation were said to conspire against the dollar’s international standing. The reappearance of some of these difficulties, more specifically current account and budget deficits in the context of largescale wars and a financial crisis, has reignited suspicions that we are witnessing the last sigh of the dollar era. This wave of dollar pessimism has had a strong grip on popular imagination because perceived internal weakness coincides with the gradual diffusion of power to other actors in the system. Moreover, actors with growing relative capability are assumed to want to capture the benefits associated with international currency status. However, if the international role of the dollar endures, important dimensions of the declinist case for eroding hegemony will be made irrelevant

#### Loss of reserve currency status crushes US ability to influence global policy preferences and forces a scale-back of US power projection.

Jonathan Kirshner, August 2008. Professor of International Political Economy @ Cornell University. “Dollar primacy and American power: What’s at stake?” Review of International Political Economy, 15.3, 418–438.

Setting aside these red herrings, the US would, nevertheless, face real consequences from the contraction of the international role of the dollar. They are reduced international political influence, the loss of the benefits it has become accustomed to enjoying (in particular, the ease with which it is able to finance its deficits), and the risk of reduced macroeconomic policy autonomy during international political crises. These latter two effects, which would directly affect US power, would be more acute and salient if the change in the dollar's role comes about suddenly in the wake of an international financial crisis, and less dramatic, though still significant, if the dollar's relative primacy were to erode gradually. Either of these changes would take place in a domestic (American) political context that would likely magnify the extent to which dollar diminution contracts US power.

It is hard to quantify the reduction of political influence that would result from diminished global use of the greenback, but that does not make it any less real. The loss of dollar primacy, even to a (most likely) ‘first among equals’ status, would erode the Hischmanesque benefits that the US garners as a result of the dollar's global role. In a world where fewer hold dollars, fewer would also have a stake on the dollar, and subtly, they would have **less of a stake in the US economy and US policy preferences more generally**. At the same time, the issuers of currencies that fill in the gaps where the dollar once reigned would see their own influence enhanced, as holders of, say, euros, see their interests more enmeshed in the interests of the European Union. As the dollar is used less in some parts of the world (including most likely Europe, Asia, and parts of Africa and the Middle East), the US would lose twice, first, from the reduction in its own influence, and second, from the enhanced political influence of other powers.

More concretely, with the reduction in the dollar's prestige and thus its credibility, the US would lose some of the privileges of primacy that it takes for granted and routinely, if implicitly, invokes. Here the shift in status from ‘top’ to ‘negotiated’ currency is paramount. 36 In a scenario where the dollar's role receded, and especially as complicated by an increasingly visible overhang problem (as more actors get out of dollars), American policies would no longer be given the benefit of the doubt. Its macroeconomic management would be subject to intense scrutiny in international financial markets and its deviations from financial rectitude would start to come at a price. This would affect the US ability to borrow and to spend. Federal government spending would take place under the watchful eye of international bankers and investors, whose preferences will always be for cuts. Borrowing from abroad would also come at a higher price. In the past, periods of notable dollar weakness led to US borrowing via mechanisms that involved foreign currency payments and which were designed to insure creditors against the possibility of a decline in the value of the dollar. Each of these experimental mechanisms, the Roosa Bonds of the 1960s and the Carter Bonds of the 1970s, were only used on a modest scale; but they suggest the antecedents for future demands by creditors that would limit the ability of the US to borrow in dollars. 37 It would also become more difficult to reduce the value of US debts via devaluation and inflation, devices which have served the US well in the past, but which in the future would both work less well and further undermine the dollar's credibility.

Increased (and more skeptical) market scrutiny of American macroeconomic policy choices would also affect the US during moments of international crisis, and during periods of wartime. Markets tend to react negatively to the prospects for a country's currency as it enters crisis and war, anticipating increased prospects for government spending, borrowing, inflation, and hedging against general uncertainty. 38 Under dollar hegemony, the US tended to benefit from the ‘flight to quality’ during moments of international distress; but in the context of dollar diminution, with markets much more nervous about the dollar, the US would find itself uncharacteristically under financial stress during crucial moments of international political confrontation. Here some analogy to Britain is illustrative – during World War II the international role of the pound was an important source of support; but after the war, with sterling in decline, the vulnerability of the pound left Britain exposed and forced it to abandon its military adventure over Suez in 1956. 39

These new pressures on the dollar would take place in a distinct domestic political context. How would the US political system react to life under the watchful and newly jaundiced eye of international financial markets, with reduced macroeconomic policy autonomy, greater demands that its economic choices meet the ‘approval’ of international financiers and investors, and forced to finance its military adventures not by borrowing more dollars, but with hard cash on the barrelhead?

There is good reason to suspect that **in response, the US will scale back its international power projection**, to an even greater extent than necessarily implied by its underlying economic power. For the US seems to be at the political limits of its fiscal will, consistent with theories that anticipate great powers will become addled by consumerism and the corroding consequences of affluence. 40 This is particularly notable with regard to America's recent wars. The 9/11 attacks revealed a real threat to the nation's security, yet the subsequent war in Afghanistan has been undertaken with caution regarding risks taken and resources (both military and economic) expended; investments in homeland security have been relatively modest given the needs at hand, and appropriations for securing ‘loose nukes’ have been inadequate. 41 The yawning divergence between the government's rhetoric associated with the stakes of the Iraq war and the unwillingness of the administration to call for any national sacrifices on its behalf strongly suggest that America's leaders are deeply skeptical of the nation's ability to mobilize its vast wealth in support of foreign policy abroad. Indeed the Iraq war is the only large war in US history that has been accompanied by tax cuts. Major tax increases were associated with the War of 1812, the Civil War, World War I, World War II, the Korean War, and even, if with great reluctance on the part of President Johnson, the Vietnam War. 42

From one perspective, military spending in the US is not at historically high levels. As a percentage of gross domestic product, US defense spending (3.9% in 2004, 4.0% in 2005) is in fact near post-World War II lows, and well below the levels associated with other wartime periods (13% in 1953, 9.5% in 1968). However, that amount of spending is nevertheless extremely high in when considered in absolute dollars ($454.1 billion in 2004; 493.6 billion in 2005), and given that at these levels, the US comes close to spending as much on defense as the rest of the countries of the world combined. 43 It is these figures that are more likely to be decisive in the future when the US is under pressure to make real choices about taxes and spending in the future. When borrowing becomes more difficult, and adjustment more difficult to postpone, choices will have to be made between raising taxes, cutting non-defense spending, and cutting defense spending.

In sum, while dollar doomsayers have cried wolf repeatedly in the past, the currents of massive US debt, its unprecedented current account imbalances, the emergence of the euro, and, most important of all, a distinct geopolitical setting, have caused the dollar to drift towards uncharted waters. As a result, a reduced international role for the dollar plausible and perhaps even likely, and it would have significant political consequences. **A general downward recasting of US political influence would be accompanied by much more novel and acute inhibitors on the willingness and ability of the US to use force abroad – macroeconomic distress during international crises, and consistent pressure on federal budgets**. The reduction in US power and influence would be less salient if dollar diminution occurs gradually rather than suddenly, and if the American public suddenly becomes willing to tolerate tax increases and cuts to other government spending. But even these circumstances would mitigate, not eliminate, the consequences of the erosion of dollar primacy for the US.

### Heg Impact—War

#### The U.S. led order ensures global stability through economic freedom and democracy. Roll back causes war.

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Yet, Fortress America would also have deeply pernicious effects that would outweigh any narrow, short-term benefits. Most broadly, it would shred the international order that Washington has long promoted. The relatively high levels of international stability and security that the world has enjoyed since World War II, the maintenance of an open global economy, the unprecedented spread of liberal concepts such as democracy and human rights: all of these fundamental characteristics of the international system have rested on the geopolitical, economic, and ideological leadership of the United States, and all would, presumably, be endangered by a reversion to Fortress America. Indeed, if one accepts the relatively commonsensical premise that the actions of the world's preeminent power set the tone for the international system, then such dramatic changes in U.S. foreign policy would inevitably upend the global order, as well.26

Of course, killing the liberal order might be a feature, not a glitch, of Fortress America. So the question is whether disrupting the international system could still pay dividends by enabling narrower national gains. The trouble here, however, is that Fortress America hinges on a fundamentally skewed assessment of the benefits and costs of American internationalism. As noted, there is strong evidence that an open trading system makes America far wealthier than it would be otherwise—even if the gains are unevenly distributed and some trade partners pursue predatory approaches. There is strong evidence that U.S. alliance commitments have suppressed regional instability which might otherwise erupt and force Washington to intervene—as happened during World War I and World War II—at enormous cost in lives and treasure. There is strong evidence that institutions such as the IMF, World Bank, and UN actually serve as force-multipliers for U.S. power, by allowing America to project its voice through forums for which it pays only a fraction of the cost. And there is strong evidence that an international system in which democracy is dominant is likely to be more peaceful and advantageous for the United States over the long run, and that American policies have contributed enormously to the spread of democracy to date. Fortress America misses just how beneficial the post-war order has been for America—and thus dramatically understates the costs of destroying that order. 27

Indeed, Fortress America would simply exchange modest short-term gains for far higher long-term costs—namely, the emergence of a less prosperous and less stable world, one in which liberal political institutions such as democracy are less prevalent, and one in which the United States would ultimately suffer a great deal as well. And when one examines Fortress America more closely, even some of the shorter-term gains prove illusory. Fortress America emphasizes a more aggressive approach to counter-terrorism—but by disrupting U.S. alliances and alienating Muslim communities at home and abroad, it would surely undercut both the international and domestic cooperation essential to any counter-terrorism strategy. Fortress America emphasizes strengthening American sovereignty and aggressively curbing illegal immigration—but killing NAFTA and immiserating Mexico would only exacerbate the economic underdevelopment that drives migrants to the United States. “Energy independence” seems like a worthwhile goal, but realizing it would require the nearly impossible task of completely sealing the United States off from the global energy market.28 Fortress America may seem alluring, but its key components are frequently unachievable, contradictory, or counterproductive.

In fact, Fortress America could prove profoundly self-destructive to American power. The United States has historically been able to wield preeminent global power with remarkably little global pushback, primarily because it has generally wielded that power in an inclusive, multilateral, and broadly beneficial way.29 Yet, if Washington were to adopt a more zero-sum policy based on promoting its interests at the expense of others, if it were to become more aggressively unilateral and standoffish, other countries might come to view U.S. power as more threatening than reassuring—and they might work more determinedly to counter American influence through diplomatic, economic, or other means. Fortress America would thus represent the self-inflicted death of the relatively benign American superpower that the world has known for the past 70 years, and the advent of a scarier superpower that would engender vastly increased international resistance.

#### Hegemony prevents great power war and cascade proliferation.

Hal BRANDS 15, faculty at the Sanford School of Public Policy at Duke University [“Fools Rush Out? The Flawed Logic of Offshore Balancing,” *The Washington Quarterly*, Vol. 38, No. 2, p. 7-28]

One can tell a similar story about the relative stability of the post-war order. As even some leading offshore balancers have acknowledged, the lack of conflict in regions like Europe in recent decades is not something that has occurred naturally. It has occurred because the “American pacifier” has suppressed precisely the dynamics that previously fostered geopolitical turmoil. That pacifier has limited arms races and security competitions by providing the protection that allows other countries to under-build their militaries. It has soothed historical rivalries by affording a climate of security in which powerful countries like Germany and Japan could be revived economically and reintegrated into thriving and fairly cooperative regional orders. It has induced caution in the behavior of allies and adversaries alike, deterring aggression and dissuading other destabilizing behavior. As John Mearsheimer has noted, the United States “effectively acts as a night watchman,” lending order to an otherwise disorderly and anarchical environment. 45

What would happen if Washington backed away from this role? The most logical answer is that both U.S. influence and global stability would suffer. With respect to influence, the United States would effectively be surrendering the most powerful bargaining chip it has traditionally wielded in dealing with friends and allies, and jeopardizing the position of leadership it has used to shape bilateral and regional agendas for decades. The consequences would seem no less damaging where stability is concerned. As offshore balancers have argued, it may be that U.S. retrenchment would force local powers to spend more on defense, while perhaps assuaging certain points of friction with countries that feel threatened or encircled by U.S. presence. But it equally stands to reason that removing the American pacifier would liberate the more destabilizing influences that U.S. policy had previously stifled. Long-dormant security competitions might reawaken as countries armed themselves more vigorously; historical antagonisms between old rivals might reemerge in the absence of a robust U.S. presence and the reassurance it provides. Moreover, countries that seek to revise existing regional orders in their favor—think Russia in Europe, or China in Asia—might indeed applaud U.S. retrenchment, but they might just as plausibly feel empowered to more assertively press their interests. If the United States has been a kind of Leviathan in key regions, Mearsheimer acknowledges, then “take away that Leviathan and there is likely to be big trouble.” 46

Scanning the global horizon today, one can easily see where such trouble might arise. In Europe, a revisionist Russia is already destabilizing its neighbors and contesting the post-Cold War settlement in the region. In the Gulf and broader Middle East, the threat of Iranian ascendancy has stoked region-wide tensions manifesting in proxy wars and hints of an incipient arms race, even as that region also contends with a severe threat to its stability in the form of the Islamic State. In East Asia, a rising China is challenging the regional status quo in numerous ways, sounding alarms among its neighbors—many of whom also have historical grievances against each other. In these circumstances, removing the American pacifier would likely yield not low-cost stability, but increased conflict and upheaval.

That conflict and upheaval, in turn, would be quite damaging to U.S. interests even if it did not result in the nightmare scenario of a hostile power dominating a key region. It is hard to imagine, for instance, that increased instability and acrimony would produce the robust multilateral cooperation necessary to deal with transnational threats from pandemics to piracy. More problematic still might be the economic consequences. As scholars like Michael Mandelbaum have argued, the enormous progress toward global prosperity and integration that has occurred since World War II (and now the Cold War) has come in the climate of relative stability and security provided largely by the United States. 47 One simply cannot confidently predict that this progress would endure amid escalating geopolitical competition in regions of enormous importance to the world economy.

Perhaps the greatest risk that a strategy of offshore balancing would run, of course, is that a key region might not be able to maintain its own balance following U.S. retrenchment. That prospect might have seemed far-fetched in the early post-Cold War era, and it remains unlikely in the immediate future. But in East Asia particularly, the rise and growing assertiveness of China has highlighted the medium- to long-term danger that a hostile power could in fact gain regional primacy. If China's economy continues to grow rapidly, and if Beijing continues to increase military spending by 10 percent or more each year, then its neighbors will ultimately face grave challenges in containing Chinese power even if they join forces in that endeavor. This possibility, ironically, is one to which leading advocates of retrenchment have been attuned. “The United States will have to play a key role in countering China,” Mearshimer writes, “because its Asian neighbors are not strong enough to do it by themselves.” 48

If this is true, however, then offshore balancing becomes a dangerous and potentially self-defeating strategy. As mentioned above, it could lead countries like Japan and South Korea to seek nuclear weapons, thereby stoking arms races and elevating regional tensions. Alternatively, and perhaps more worryingly, it might encourage the scenario that offshore balancers seek to avoid, by easing China's ascent to regional hegemony. As Robert Gilpin has written, “Retrenchment by its very nature is an indication of relative weakness and declining power, and thus retrenchment can have a deteriorating effect on relations with allies and rivals.” 49 In East Asia today, U.S. allies rely on U.S. reassurance to navigate increasingly fraught relationships with a more assertive China precisely because they understand that they will have great trouble balancing Beijing on their own. A significant U.S. retrenchment might therefore tempt these countries to acquiesce to, or bandwagon with, a rising China if they felt that prospects for successful resistance were diminishing as the United States retreated. 50 In the same vein, retrenchment would compromise alliance relationships, basing agreements, and other assets that might help Washington check Chinese power in the first place—and that would allow the United States to surge additional forces into theater in a crisis. In sum, if one expects that Asian countries will be unable to counter China themselves, then reducing U.S. influence and leverage in the region is a curious policy. Offshore balancing might promise to preserve a stable and advantageous environment while reducing U.S. burdens. But upon closer analysis, the probable outcomes of the strategy seem more perilous and destabilizing than its proponents acknowledge.

#### U.S. leadership historically prevented proliferation and great power war.

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For U.S. policymakers, World War II showed that the global environment had become fundamentally interdependent in both economic and security terms. It thereby compelled U.S. policymakers to move beyond a narrow conception of U.S. interests, and to protect those interests by constructing an overarching international system in which America could be prosperous and secure. During the post-war decades, the United States undertook to lead an open and prosperous global economy, to underwrite stability and security in key regions, to advance liberal ideals such as democracy and human rights, and to embed U.S. primacy in a variety of multilateral institutions. This internationalist order-building project, Princeton professor G. John Ikenberry has written, was “the most ambitious and far-reaching … the world had yet seen.”1

This project was never cost-free, of course. The United States made military expenditures far in excess of what would have been required simply to defend American territory; it tolerated some free-riding by allies from Western Europe to the Western Pacific; it bore some of the heaviest burdens in responding to transgressions of the international order from the Korean War to the Persian Gulf War and beyond. Likewise, Washington's leadership of the international economy meant accepting a degree of economic discrimination by countries that exploited open U.S. markets without fully opening their own; it also required accepting responsibility for stabilizing and lubricating the international economy, with all the exertions those tasks entailed. Participating in international institutions—from the North Atlantic Treaty Organization (NATO) to the United Nations (UN)—meant accepting some multilateral constraints on how the United States could wield its unmatched power. The burdens and frustrations of American internationalism have often been exaggerated, but they have never been illusory.

What made the bargain worthwhile was that the United States also reaped great benefits. There have been broad if somewhat amorphous benefits, such as the security and well-being that have come from living in a world that has avoided both great-power war and global depression for generations. There have also been narrower benefits—the immense influence that the United States wields in all the world's key regions; the checks it has been able to impose on nuclear proliferation and other threats; the extraordinary international cooperation it has secured in pursuing its own foreign policy priorities, from combating communism during the Cold War to terrorism today. On the economic front, too, economists generally agree that the pursuit of free trade and globalization has made the United States (and the world) far richer than it otherwise would have been—in fact, Washington has frequently translated its position of international leadership into an advantage in trade and other economic negotiations.2

### I/L—Dollar k2 Econ

#### Loss of dollar hegemony causes major economic crises

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One potential challenge to the US dollar’s future as the global reserve currency, identified by economist Robert Triffin, has come to be known as the “Triffin Dilemma” or the “Triffin Paradox.” Triffin (1960) argued that the selection of a nation’s currency as the global reserve currency would create problems for that nation in the form of conflicting economic demands. Such a nation would eventually experience a critical balance of payments problem, particularly in its current account deficit. Triffin criticised the Bretton Woods monetary system adopted at the end of World War II which established what he interpreted as an irreconcilable economic paradox for the United States. Whether the United States will experience a future economic crisis cannot be known; however, US debt has certainly grown enormously since the end of World War II. The unrelenting demand for US dollars created by the currency’s establishment as the global reserve has enabled the United States to continue to accrue debt, largely without consequence. As the current system compels nations to trade in US dollars, the United States has been free to run large budget deficits and balance of payments deficits without any apparent impact on the United States (Hudson 2003, xii). However, if the US dollar was to lose its position as the global reserve currency, the United States would likely experience a major economic crisis. A critical problem may yet emerge as the US issues more and more of its currency while trying to maintain the value of the currency (Zhou 2009).

#### Petrodollar switch will destroy the US economy

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The short version of the story is that a 1970s deal cemented the US dollar as the only currency to buy and sell crude oil, and from that monopoly on the all-important oil trade the US dollar slowly but surely became the reserve currency for global trades in most commodities and goods. Massive demand for US dollars ensued, pushing the dollar's value up, up, and away. In addition, countries stored their excess US dollars savings in US Treasuries, giving the US government a vast pool of credit from which to draw.

We know where that situation led - to a US government suffocating in debt while its citizens face stubbornly high unemployment (due in part to the high value of the dollar); a failed real estate market; record personal-debt burdens; a bloated banking system; and a teetering economy. That is not the picture of a world superpower worthy of the privileges gained from having its currency back global trade. Other countries are starting to see that and are slowly but surely moving away from US dollars in their transactions, starting with oil.

If the US dollar loses its position as the global reserve currency, the consequences for America are dire. A major portion of the dollar's valuation stems from its lock on the oil industry - if that monopoly fades, so too will the value of the dollar. Such a major transition in global fiat currency relationships will bode well for some currencies and not so well for others, and the outcomes will be challenging to predict. But there is one outcome that we foresee with certainty: Gold will rise. Uncertainty around paper money always bodes well for gold, and these are uncertain days indeed.

The Petrodollar System

To explain this situation properly, we have to start in 1973. That's when President Nixon asked King Faisal of Saudi Arabia to accept only US dollars as payment for oil and to invest any excess profits in US Treasury bonds, notes, and bills. In exchange, Nixon pledged to protect Saudi Arabian oil fields from the Soviet Union and other interested nations, such as Iran and Iraq. It was the start of something great for the US, even if the outcome was as artificial as the US real-estate bubble and yet constitutes the foundation for the valuation of the US dollar.

By 1975 all of the members of OPEC agreed to sell their oil only in US dollars. Every oil-importing nation in the world started saving their surplus in US dollars so as to be able to buy oil; with such high demand for dollars the currency strengthened. On top of that, many oil-exporting nations like Saudi Arabia spent their US dollar surpluses on Treasury securities, providing a new, deep pool of lenders to support US government spending.

The "petrodollar" system was a brilliant political and economic move. It forced the world's oil money to flow through the US Federal Reserve, creating ever-growing international demand for both US dollars and US debt, while essentially letting the US pretty much own the world's oil for free, since oil's value is denominated in a currency that America controls and prints. The petrodollar system spread beyond oil: the majority of international trade is done in US dollars. That means that from Russia to China, Brazil to South Korea, every country aims to maximize the US-dollar surplus garnered from its export trade to buy oil.

The US has reaped many rewards. As oil usage increased in the 1980s, demand for the US dollar rose with it, lifting the US economy to new heights. But even without economic success at home the US dollar would have soared, because the petrodollar system created consistent international demand for US dollars, which in turn gained in value. A strong US dollar allowed Americans to buy imported goods at a massive discount - the petrodollar system essentially creating a subsidy for US consumers at the expense of the rest of the world. Here, finally, the US hit on a downside: The availability of cheap imports hit the US manufacturing industry hard, and the disappearance of manufacturing jobs remains one of the biggest challenges in resurrecting the US economy today.

There is another downside, a potential threat now lurking in the shadows. The value of the US dollar isdetermined in large part by the fact that oil is sold in US dollars. If that trade shifts to a different currency, countries around the world won't need all their US money. The resulting sell-off of US dollars would weaken the currency dramatically.

So here's an interesting thought experiment. Everybody says the US goes to war to protect its oil supplies, but doesn't it really go to war to ensure the continuation of the petrodollar system?

The Iraq war provides a good example. Until November 2000, no OPEC country had dared to violate the US dollar-pricing rule, and while the US dollar remained the strongest currency in the world there was also little reason to challenge the system. But in late 2000, France and a few other EU members convinced Saddam Hussein to defy the petrodollar process and sell Iraq's oil for food in euros, not dollars. In the time between then and the March 2003 American invasion of Iraq, several other nations hinted at their interest in non-US dollar oil trading, including Russia, Iran, Indonesia, and even Venezuela. In April 2002, Iranian OPEC representative Javad Yarjani was invited to Spain by the EU to deliver a detailed analysis of how OPEC might at some point sell its oil to the EU for euros, not dollars.

This movement, founded in Iraq, was starting to threaten the dominance of the US dollar as the global reserve currency and petro currency. In March 2003, the US invaded Iraq, ending the oil-for-food program and its euro payment program.

There are many other historic examples of the US stepping in to halt a movement away from the petrodollar system, often in covert ways. In February 2011 Dominique Strauss-Kahn, managing director of the International Monetary Fund (IMF), called for a new world currency to challenge the dominance of the US dollar. Three months later a maid at the Sofitel New York Hotel alleged that Strauss-Kahn sexually assaulted her. Strauss-Kahn was forced out of his role at the IMF within weeks; he has since been cleared of any wrongdoing.

War and insidious interventions of this sort may be costly, but the costs of not protecting the petrodollar system would be far higher. If euros, yen, renminbi, rubles, or for that matter straight gold, were generally accepted for oil, the US dollar would quickly become irrelevant, rendering the currency almost worthless. As the rest of the world realizes that there are other options besides the US dollar for global transactions, the US is facing a very significant - and very messy - transition in the global oil machine.

#### The dollar is the backbone of international trade

Cao ’16 [Lan Cao is the Betty Hunton Williams professor of international economic law at the Dale Fowler School of Law at Chapman University, “Currency Wars and the Erosion of Dollar Hegemony”, Michigan Journal of International Law, 2016, http://repository.law.umich.edu/cgi/viewcontent.cgi?article=1365&context=mjil] Accessed 7-13-17, Tamara W

The dollar and the international monetary system have been inextricably intertwined. The Bretton Woods system was created by the United States after World War II and reflects American domination. Dollar hegemony has been part and parcel of American economic and military power. Although the U.S. economy seems to have emerged strong from the 2008 financial crisis, serious fault lines exist under the American-dominated international economic system. Whether dollar hegemony can continue despite economic volatility or whether it is being eroded and more worryingly, undermined and attacked, by internal and external forces, is one of the main issues examined in this Article.

What does dollar hegemony mean? When I was a child in South Vietnam, my mother hid gold bars and U.S. dollars in a safe because everyone knew that the dollar was as good as gold; it is also lighter and easier to carry than gold bars. When the Communists entered Saigon after South Vietnam collapsed in 1975, they went house to house, hammering open brick walls in search of hidden dollars.

Americans and other individuals carrying the U.S. dollar can rely on its privileged status when traveling abroad. That the U.S. dollar is accepted worldwide not just by banks and hotels but also by local small businesses and street peddlers is a reflection of international trust in the U.S. dollar. Moreover, in international business, the dollar is the top dog currency because importers and exporters settle their transactions in dollars, even when the underlying imports and exports have no territorial connection to the United States. As Kishore Mahbubani suggests, “Americans can purchase products at a marginally cheaper rate than other nations, which must exchange their currency with each purchase and pay a transaction cost.”3

For example, more than 80 percent of the trade between South Korea and Thailand is set in dollars, even though only 20 percent of their exports are destined for the United States.4 Although less than 6 percent of Australia’s exports go to the United States, 70 percent are invoiced in dollars. Oil (and other commodities) is priced in dollars,5 requiring countries that are oil consumers to accumulate dollars to pay for oil–mostly by exporting their goods and services to receive dollars as payment.6

Oil producing countries with excess dollar profits invest them in U.S. debt securities held in Western or U.S. banks. Half of international debt securities are in dollars.7 And when central banks hold foreign currency reserves, more than sixty percent of such reserves are dollars. The world’s central banks also “hold close to $5 trillion of the bonds of the U.S. treasury and quasi-governmental agencies like Fannie Mae and Freddie Mac,”8 and because they continue to desire these dollar securities, they are willing to pay more to hold them. As a result, the interest rate the United States has to provide on these securities is relatively low. This allows Americans to have “access to a vast supply of credit and permit[s] the public to borrow at lower interest rates for homes and automobiles and the government to finance larger deficits longer and at lower interest rates.”9 This in turns allows U.S. households to live beyond their means; indeed, this state of affairs means that ironically, “poor households in the developing world ended up subsidizing rich ones in the United States.”10 And despite the havoc wreaked by the 2008 financial crisis, the world nonetheless continued to turn to the dollar because it deemed the U.S. currency a safe haven in a world of financial turbulence. Even in 2008, when the world was gripped by the most debilitating financial crisis in more than eighty years, the U.S. federal government was still able to borrow at low interest rates because foreigners believed the dollar to be a safe haven currency amidst a world of great turmoil.11

Although it only costs a few cents for the U.S. government to print a $100 bill, other countries have to provide added value in the form of goods or services in order to receive $100 dollars. Approximately $500 billion of U.S. currency circulates outside the United States which foreigners acquired, not because their governments printed the dollars but because they had had to provide the United States with $500 billion of actual goods and services.

### I/L—Deficit Spending

#### Increased deficit spending spurs economic stagnation—causes hostility to globalization

Fred Bauer ’16 [Fred Bauer is a writer from New England who is featured in *The Weekly Standard* and *The Daily Caller*. “The Human Costs of America’s Economic Stagnation”, National Review, August 19, 2016, http://www.nationalreview.com/article/439166/americas-economic-stagnation-how-conservatives-can-fix-it] Accessed 7-11-17, Tamara Wurman

McKinsey finds that, in much of the industrialized world, between 65 percent and 70 percent of households saw their market incomes (earnings from labor and capital) decline or stay flat between 2005 and 2014. Increased government transfers counteracted much of the decline, but about a quarter of all households still saw no income growth during this period – a marked departure from previous decades, when most households across the income spectrum saw at least some market-income growth. While they applied their broader findings to 25 nations, the report’s authors dug deep into the economic experiences of six nations, including the United States. Between 1993 and 2005, over 98 percent of American households saw a market-income increase. In the next nine years, that growth collapsed. Between 2005 and 2014, 81 percent of U.S. households experienced a decrease in their market incomes. Only increased government transfers and tax-cuts caused most Americans not to experience income decline; after government transfers and taxes were taken into account, fewer than 2 percent of American households saw their net household income shrink. On one hand, this means that the tax cuts and increased government spending provided an economic cushion to many households. On the other hand, those efforts cost money, and that money had to be borrowed. There are limits to how much money can be borrowed. In the United States, the publicly held national debt climbed from about 40 percent of GDP in 2008 to approximately 75 percent of GDP in 2015. The explosion of deficit-spending helped mask a broader economic slowdown, but it is likely unsustainable in the long term. If slow growth continues for another decade, McKinsey estimates that 70 to 80 percent of households in industrialized economies could experience falling market incomes. At the same time, government efforts to redress that fall through increased spending would become more and more costly: Under a scenario of extended low growth, government transfers would have to swell by 20 to 30 percent over their 2012 levels in order to compensate for the declining market incomes of Americans. As the report notes, such an increase in transfers would only heighten the already-grave fiscal challenges posed by our government’s debt. Broad economic stagnation of the kind addressed in the report carries big political implications, too: It intensifies and spreads public skepticism about the current trends of globalization. According to McKinsey’s report, about 40 percent of Americans feel as though they are not getting ahead. While about two-thirds of those who are not getting ahead feel hopeful about the economic future, another one-third of those who struggle still feel disaffected. Those who feel left behind are more likely to express skepticism about current trade and immigration patterns. And that skepticism becomes especially keen among those who despair about the economic future: The people who felt they were not advancing and believed this was a persistent problem expressed sharply negative views of foreign trade and immigration. They were nearly twice as likely to believe that “Legal immigrants are ruining the culture and cohesiveness of our society” as those who were advancing or neutral, and one-and-a-half times as likely as those who were not advancing but hopeful about the future. Nearly 70 percent of them also agreed with the statement “Cheaper foreign labor is creating unfair competition to [sic] our domestic businesses,” compared with 43 percent of those who were advancing or neutral. Fifty-six percent of them also believed that “The influx of foreign goods and services is leading to domestic job losses,” compared with 29 percent of the advancing or neutral respondents and 41 percent of those who were not advancing but hopeful about the future. McKinsey notes that wage stagnation has been correlated with more sympathy to “nationalist” movements such as Brexit, and to the politicians who lead them. Even nearly half of those who feel economically stable or improving are skeptical about the “unfair competition” of “cheap foreign labor.

### Econ Impact—War

#### Trump will use diversionary war in response to economic decline

Foster 16 (Dennis, Professor of international studies and political science at the Virginia Military Institute “Would President Trump go to war to divert attention from problems at home?” The Washington Post December 19, 2016 https://www.washingtonpost.com/news/monkey-cage/wp/2016/12/19/yes-trump-might-well-go-to-war-to-divert-attention-from-problems-at-home/?utm\_term=.fd514cf55315) RB

If the U.S. economy tanks, should we expect Donald Trump to engage in a diversionary war? Since the age of Machiavelli, analysts have expected world leaders to launch international conflicts to deflect popular attention away from problems at home. By stirring up feelings of patriotism, leaders might escape the political costs of scandal, unpopularity — or a poorly performing economy.

One often-cited example of diversionary war in modern times is Argentina’s 1982 invasion of the Falklands, which several (though not all) political scientists attribute to the junta’s desire to divert the people’s attention from a disastrous economy.

In a 2014 article, Jonathan Keller and I argued that whether U.S. presidents engage in diversionary conflicts depends in part on their psychological traits — how they frame the world, process information and develop plans of action. Certain traits predispose leaders to more belligerent behavior.

Do words translate into foreign policy action?

One way to identify these traits is content analyses of leaders’ rhetoric. The more leaders use certain types of verbal constructs, the more likely they are to possess traits that lead them to use military force.

For one, conceptually simplistic leaders view the world in “black and white” terms; they develop unsophisticated solutions to problems and are largely insensitive to risks. Similarly, distrustful leaders tend to exaggerate threats and rely on aggression to deal with threats. Distrustful leaders typically favor military action and are confident in their ability to wield it effectively.

Thus, when faced with politically damaging problems that are hard to solve — such as a faltering economy — leaders who are both distrustful and simplistic are less likely to put together complex, direct responses. Instead, they develop simplistic but risky “solutions” that divert popular attention from the problem, utilizing the tools with which they are most comfortable and confident (military force).

Based on our analysis of the rhetoric of previous U.S. presidents, we found that presidents whose language appeared more simplistic and distrustful, such as Harry Truman, Dwight Eisenhower and George W. Bush, were more likely to use force abroad in times of rising inflation and unemployment. By contrast, John F. Kennedy and Bill Clinton, whose rhetoric pegged them as more complex and trusting, were less likely to do so.

What about Donald Trump?

Since Donald Trump’s election, many commentators have expressed concern about how he will react to new challenges and whether he might make quick recourse to military action. For example, the Guardian’s George Monbiot has argued that political realities will stymie Trump’s agenda, especially his promises regarding the economy. Then, rather than risk disappointing his base, Trump might try to rally public opinion to his side via military action.

I sampled Trump’s campaign rhetoric, analyzing 71,446 words across 24 events from January 2015 to December 2016. Using a program for measuring leadership traits in rhetoric, I estimated what Trump’s words may tell us about his level of distrust and conceptual complexity. The graph below shows Trump’s level of distrust compared to previous presidents.

These results are startling. Nearly 35 percent of Trump’s references to outside groups paint them as harmful to himself, his allies and friends, and causes that are important to him — a percentage almost twice the previous high. The data suggest that Americans have elected a leader who, if his campaign rhetoric is any indication, will be historically unparalleled among modern presidents in his active suspicion of those unlike himself and his inner circle, and those who disagree with his goals.

As a candidate, Trump also scored second-lowest among presidents in conceptual complexity. Compared to earlier presidents, he used more words and phrases that indicate less willingness to see multiple dimensions or ambiguities in the decision-making environment. These include words and phrases like “absolutely,” “greatest” and “without a doubt.”

A possible implication for military action

I took these data on Trump and plugged them into the statistical model that we developed to predict major uses of force by the United States from 1953 to 2000. For a president of average distrust and conceptual complexity, an economic downturn only weakly predicts an increase in the use of force.

But the model would predict that a president with Trump’s numbers would respond to even a minor economic downturn with an increase in the use of force. For example, were the misery index (aggregate inflation and unemployment) equal to 12 — about where it stood in October 2011 — the model predicts a president with Trump’s psychological traits would initiate more than one major conflict per quarter.

Of course, predictions from such a model come with a lot of uncertainty. By necessity, any measures of a president’s traits are imperfect. And we do not know whether there will be an economic downturn. Moreover, campaigning is not governing, and the responsibilities of the Oval Office might moderate Donald Trump. The psychologist Philip Tetlock has found that presidents often become more conceptually complex once they enter office.

Nevertheless, this analysis suggests some cause for concern about the international ramifications of an economic downturn with a President Trump in the White House.

#### Economic decline under Trump risks nuclear escalation

Time STREET 16, Fellow of the Sustainable Security Programme at the Oxford Research Group and a Ph.D. from Warwick University [“President Trump: Successor to the Nuclear Throne,” *Oxford Research Group*, November 30, 2016, http://www.oxfordresearchgroup.org.uk/publications/briefing\_papers\_and\_reports/president\_trump\_successor\_nuclear\_throne]

Donald Trump’s arrival in the White House as US President has deeply unnerved people from across the political spectrum, both inside the US and around the world. The fact that many regard Trump as an indecent individual and his government as potentially the number one threat to their dignity, liberty and life means that the civil strife already raging in the US is unlikely to fade away soon. The wide-ranging implications of Trump’s election to the most powerful office on Earth—for the peace and stability of both that nation and the world—cannot be emphasised enough. In this regard, of the many uncertainties and worries brought on by a Trump presidency, the two existential questions of climate change and nuclear war stand out.

With the former, Trump’s recent comment that he now has an ‘open mind’ about the importance of the Paris climate agreement—having previously said climate change is a ‘hoax’—is unlikely to assuage fears that he will seek to dramatically expand the US’s extraction and reliance on fossil fuels. With the latter, strong doubts have been raised over whether the new President is capable of responsibly handling the incredible power that will be at his fingertips. Moreover, several commentators are already raising concerns that a Trump administration will pursue policies that will aggravate and disappoint his supporters, a situation that could increase the possibility of the US engaging in a ‘diversionary’ war.

In order to consider what we can expect from a Trump presidency, as well as noting whom Trump empowers as members of his cabinet and those whom he draws on for advice, it is vital to study the track record of recent administrations and appreciate the powers Trump will inherit. In doing so this briefing focuses on the question of what a Trump presidency might mean for international relations with a focus on nuclear arms, including doctrine and disarmament. This means reviewing policies relevant to the US’s nuclear arsenal and pressing international challenges such as non-proliferation, including in East Asia and the Middle East, as well as the US’s relationship with Russia and its role in NATO.

The power and responsibilities of the nuclear monarch

The US President is solely responsible for the decision to use the near-unimaginably destructive power of the nation’s nuclear arsenal. Thus, as Bruce Blair—a former intercontinental ballistic missile launch control officer—makes clear, ‘Trump will have the sole authority to launch nuclear weapons whenever he chooses with a single phone call.’ The wider political meaning of the bomb for the world is aptly summarised by Daniel Deudney, who describes nuclear weapons as ‘intrinsically despotic’ so that they have created ‘nuclear monarchies’ in all nuclear-armed states. Deudney identifies three related reasons for this development: ‘the speed of nuclear use decisions; the concentration of nuclear use decision into the hands of one individual; and the lack of accountability stemming from the inability of affected groups to have their interests represented at the moment of nuclear use’.

Similarly, Elaine Scarry has explained in stark terms in her 2014 book Thermonuclear Monarchy: Choosing between Democracy and Doom, how the possession of nuclear weapons has converted the US government into ‘a monarchic form of rule that places all defense in the executive branch of government’ leaving the population ‘incapacitated’. In response to this situation, Scarry argues that the American people must use the Constitution as a tool to dismantle the US nuclear weapons system, thereby revitalising democratic participation and control over decision-making. Scarry also outlines the incredible might the president wields, with each of the US’s fourteen nuclear-armed submarines alone carrying ‘enough power to destroy the people of an entire continent’, equivalent to ‘eight times the full-blast power expended by Allied and Axis countries in World War II’. Nuclear specialist Hans Kristensen has described how the US’s strategic nuclear war plan ‘if unleashed in its full capacity’ could ‘kill hundreds of millions of people, devastate entire nations, and cause climatic effects on a global scale’.

This war plan consists of a ‘family of plans’ that is aimed at ‘six potential adversaries’ whose identities are kept secret. Kristensen understands that they include ‘potentially hostile countries with nuclear, chemical, and biological weapons (WMD)’, meaning China, North Korea, Iran, Russia and Syria as well as a terrorist group backed by a state that has conducted a catastrophic WMD attack. The ‘dominant mission’ for US nuclear weapons within these plans is termed counterforce, meaning strikes on ‘military, mostly nuclear, targets and the enemy’s leadership’.

Despite these plans, the US’s nuclear arsenal is often described by mainstream commentators as being solely intended to ensure mutual assured destruction (MAD), i.e. as part of the ‘balance of terror’ with Russia, in order to prevent armed conflict between the two nations and to ensure a response in kind to a surprise nuclear attack. However, as Joseph Gerson and John Feffer explain, rather than deterrence just being about enough nuclear forces surviving a surprise first strike attack to ensure MAD, US military planners have also understood it to mean ‘preventing other nations from taking “courses of action” that are inimical to US interests’.

David McDonough thus describes the ‘long-standing goal of American nuclear war-planners’ as being the achievement of the ability to launch a disarming first-strike against an opponent- otherwise known as nuclear superiority. This has been magnified in recent years as the US seeks to ‘prevent’ or ‘rollback’ the ability of weaker states—both nuclear and non-nuclear powers—to establish or maintain a deterrence relationship. Taking all this into account, the new commander-in-chief’s apparently volatile temperament thus raises deep concerns since his finger will be on the nuclear trigger as soon as he assumes office on 20th January 2017. Given his past experience, Bruce Blair’s statement that he is ‘scared to death’ by the idea of a Trump presidency is but one further reason why urgent discussion and action, both in the US and globally, on lessening nuclear dangers—and reviving disarmament—is vital. A recent report by the Ploughshares Fund on how the US can reduce its nuclear spending, reform its nuclear posture and restrain its nuclear war plans should thus be required reading in Washington.

However, as the Economist has rightly noted, ‘It is not Mr Trump’s fault that the system, in which the vulnerable land-based missile force is kept on hair-trigger alert, is widely held to be inherently dangerous’ since, as they point out, ‘no former president, including Barack Obama, has done anything to change it.’ Over sixty years after the nuclear attacks on Hiroshima and Nagasaki, nuclearism thus remains very much embedded in the nation’s strategic thinking. Yet the election of Obama, and the rhetoric of his 2009 Prague speech, in which he stated ‘America's commitment to seek the peace and security of a world without nuclear weapons’ led many to think that a real change was on the cards.

Obama’s visit to Hiroshima earlier this year to commemorate the bombings was thus a painful reminder of how wide the gap is between the rearmament programmes that the US and other nuclear weapon states are engaged in and the disarmament action that they are legally obliged to pursue under the nuclear non-proliferation treaty (NPT). Obama himself said in Japan that, ‘technological progress without an equivalent progress in human institutions can doom us. The scientific revolution that led to the splitting of an atom requires a moral revolution as well.’ For this statement to be meaningful it is necessary to identify who is responsible for the existing, highly dangerous state of affairs. In short, the US government’s recent record supports Scarry’s suggestion that a democratic revolution is what, in reality, is most needed if the US is to make substantial progress on nuclear non-proliferation and disarmament. Short-term reforms towards the democratic control and ultimate dismantlement of the US’s nuclear arsenal have been outlined by Kennette Benedict, who writes that the next administration should:

place our nuclear weapons on a much lower level of launch readiness, release to the public more information about the nuclear weapons in our own arsenals, include legislators and outside experts in its nuclear posture review and recognize Congress’ authority to declare war as a prerequisite to any use of nuclear weapons.

Assessing Obama’s nuclear legacy

In order to properly appreciate what a Trump presidency may bring, we need to revisit the range and types of powers bequeathed to the commander-in-chief by previous administrations. Despite the military advances made by China and Russia in recent years, it is important to recognise that the US remains far and away the biggest global spender on conventional and nuclear weapons and plans to consolidate this position by maintaining significant technological superiority over its adversaries, which will, as is well appreciated, push Beijing, Moscow—and thus other regional powers—to respond. Yet spending on nuclear weapons alone is set to pose significant budgeting difficulties for future US governments.

According to a 2014 report by the James Martin Center, the Departments of Defense and Energy plan to spend approximately $1 trillion over the next 30 years ‘to maintain its current nuclear arsenal and procure a new generation of nuclear-armed or nuclear capable bombers and submarines’ as well as new submarine launched ballistic missiles (SLBMs) and inter-continental ballistic missiles (ICBMs). Arms Control Today has found that total Defense Department nuclear spending ‘is projected to average more than $40 billion in constant fiscal year 2016 dollars between 2025 and 2035, when modernization costs are expected to peak’. Including costs for the Department of Energy’s National Nuclear Security Administration’s projected weapons-related spending during this period ‘would push average spending during this period to more than $50 billion per year’. If anywhere near these sums are spent, then the modest reductions to the US’s nuclear stockpile achieved during the Obama presidency will be entirely overshadowed. Moreover, as analyst Andrew Lichterman notes, the US’s continued modernisation of its nuclear forces is ‘inherently incompatible’ with the ‘unequivocal undertaking’ given at the 2000 NPT Review Conference to eliminate its nuclear arsenal and apply the ‘principle of irreversibility’ to this and related actions.

For Lichterman, the huge outlays committed to the nuclear weapons complex were part of a political ‘bargain’ made by the Obama administration with Republicans. This ensured that the New START nuclear arms control treaty would pass in the Senate whilst also not disturbing the development of missile defense and other advanced conventional weapons programmes. New START is a bilateral agreement between Russia and the US, which Steven Pifer describes as ‘one of the few bright spots’ that exists in these nations’ relationship. Under the treaty Moscow and Washington must, by 2018, reduce their stockpile of operationally deployed strategic nuclear warheads to 1,550. Furthermore, both must keep to a limit of 700 deployed strategic launchers (missiles) and heavy bombers, and to a combined limit of 800 deployed and non-deployed strategic launchers and heavy bombers.

Despite New START ‘proceeding smoothly’ according to Pifer, Hans Kristensen recently produced a report comparing Obama’s record with that of the previous presidents holding office during the nuclear age, which found that, hitherto, Obama has cut fewer warheads—in terms of numbers rather than percentages—than ‘any administration ever’ and that ‘the biggest nuclear disarmers’ in recent decades have been Republicans, not Democrats. Kristensen thus drily observes of this situation that,

a conservative Congress does not complain when Republican presidents reduce the stockpile, only when Democratic president try to do so. As a result of the opposition, the United States is now stuck with a larger and more expensive nuclear arsenal than had Congress agreed to significant reductions.

As his presidency draws to a close, presumably as a means of securing some sort of meaningful legacy in this area, it has been reported that Obama considered adopting a no first use (NFU) policy for nuclear weapons, something which, whilst reversible, could act as a restraint on future presidents. Yet this was apparently abandoned, according to the New York Times, after ‘top national security advisers argued that it could undermine allies and embolden Russia and China’. Furthermore, according to Josh Rogin of the Washington Post, the governments of Japan, South Korea, France and Britain all privately communicated their concerns about Washington adopting NFU. Defense Secretary Ashton Carter is also said to have argued that such a move would be unwise because ‘if North Korea used biological weapons against the South the United States might need the option of threatening a nuclear response’.

However, as Daryll Kimball explains, the US’s ‘overwhelming’ conventional military advantage means that ‘there is no plausible circumstance that could justify—legally, morally, or militarily—the use of nuclear weapons to deal with a non-nuclear threat’. Such resistance to NFU is thus deeply disappointing given that, as Kimball goes on to note, this move would go some way to reassuring China and Russia about the US’s strategic intentions. It would also be an important confidence-building measure for the wider community of non-nuclear weapon states, showing that the US is willing to act in 'good faith' towards its disarmament obligations under the NPT.

Thinking about the causes of proliferation more widely requires us to understand what drives weaker states to seek deterrents, if their reliance on them is to be reduced. For example, as Dr Alan J. Kuperman observes, NATO’s bombing and overthrow of Libyan leader Muammar Gaddafi in 2011 ‘greatly complicated the task of persuading other states such as Iran and North Korea ‘to halt or reverse their nuclear programs’. The lesson Tehran and Pyongyang took is thus that because Gaddafi had voluntarily ended his nuclear and chemical weapons programmes, the West now felt free to pursue regime change. When assessing the importance of the Iran nuclear deal, which is often hailed as one of Obama’s landmark achievements, and which the next President must not be allowed to derail, it is thus important also to consider carefully what behaviour by the most powerful states will enable existing or potential nuclear possessors to embrace disarmament and reduce their interest in seeking non-conventional deterrents.

The inability of Washington to make substantial progress towards reducing the salience of nuclear weapons at home and abroad is all the more noteworthy when one considers the state of US and Russian public opinion on nuclear arms control and disarmament. As John Steinbrunner and Nancy Gallagher observe, ‘responses to detailed questions reveal a striking disparity between what U.S. and Russian leaders are doing and what their publics desire’. For example, their polling found that:

At the most fundamental level, the vast majority of Americans and Russians think that nuclear weapons have a very limited role in current security circumstances and believe that their only legitimate purpose is to deter nuclear attack. It is highly consistent, then, that the publics in both countries would favor eliminating all nuclear weapons if this action could be taken under effective international verification.

Another important measure which the US has failed to hitherto ratify is the Comprehensive Test Ban Treaty (CTBT). This is despite President Obama stating in 2009 that he intended to pursue Senate ratification of the treaty ‘immediately and aggressively’. Once more, there is notably strong public support–82% according to a 2010 poll by the Chicago Council on Global Affairs—for the US joining the CTBT but, again, the Republican-controlled Senate has blocked the treaty at every opportunity.

Overall, the gap between the public’s will and the government’s inaction on nuclear issues is alarming and redolent of the wider democratic deficit in the US. On a more positive note, the fact that the citizenry supports such measures suggests that groups advocating arms control and disarmament initiatives should continue to engage with and understand the public’s positions in order to effectively harness their support.

Stepping back from the brink

In terms of priorities for the incoming administration in the US, stepping back from military confrontation with Russia and pushing the threat of nuclear war to the margins must be at the top of the list. Whilst much has been made of a potential rapprochement between Trump and Putin, the two have, reportedly, only just spoken for the first time on the phone and still need to actually meet in person to discuss strategic issues and deal with inevitable international events and crises, including in relation to Ukraine and Syria. As of now, whilst the mood music from both sides might suggest a warming of relations, as has been seen with previous administrations, unless cooperation is rooted in a real willingness to resolve problems (which for Russia includes US ballistic missile defense deployments in Eastern Europe and NATO expansion) then tensions can quickly re-emerge. Another related question concerns how Trump will conduct himself during any potential crisis or conflict with Russia or another major power, given the stakes and risks involved, as highlighted above.

Whilst we must wait to find out precisely what the new administration’s approach to international affairs will be, in the past week, NATO’s Secretary General Jens Stoltenberg told the BBC that he had been personally informed by Donald Trump, following the election, that the US remains ‘strongly committed to NATO, and that the security guarantees to Europe stand’. Trump had previously shaken sections of the defence and foreign policy establishment by suggesting that NATO was ‘obsolete’ and that countries such as Japan (and by extension others such as South Korea and Saudi Arabia) ‘have to pay us or we have to let them protect themselves’, which could include them acquiring the bomb. One reason why some in Washington have, in the past, not wanted their regional allies to develop their own nuclear weapons is because the US might then become dragged into an escalating conflict. Moreover, if an ally in one region seeks the bomb, this may cause others elsewhere to pursue their own capabilities- an act of strategic independence that might make these states harder to influence and control.

The US’s key relationships in East Asia and the Middle East illustrate why, if a future US President wishes to take meaningful moves towards a world free of nuclear weapons, then developing alternative regional political agreements, including strategic cooperation with China and Russia, will be necessary. As Nancy Gallagher rightly notes, the ‘weaknesses of existing international organizations’ thus requires ‘more inclusive, cooperative security institutions’ to be constructed regionally ‘to complement and someday, perhaps, to replace exclusive military alliances’, alongside progressive demilitarisation. Such confidence-building measures would also support efforts to halt missile and nuclear tests by states such as North Korea, which may soon be capable of striking the US mainland.

Imagining the next enemy

As well as mapping out the US’s current nuclear weapons policies and its regional relationships, it is important to reflect upon how domestic political dynamics under a Trump presidency might drive Washington’s behaviour internationally, particularly given the nuclear shadow that always hangs over conflicts involving the US.

For example, in the near-term, Trump’s economic plan and the great expectations amongst the American working class that have been generated, may have particularly dangerous consequences if, as seems likely, the primary beneficiaries are the very wealthy. Reviewing Trump’s economic plans, Martin Wolf of the Financial Times concludes that ‘the longer-term consequences are likely to be grim, not least for his angry, but fooled, supporters. Next time, they might be even angrier. Where that might lead is terrifying’. Gillian Tett has also highlighted the ‘real risks’ that Trump’s policies could ‘spark US social unrest or geopolitical uncertainty’. Elsewhere, George Monbiot in the Guardian, makes the stark assertion that the inability of the US and other governments to respond effectively to public anger means he now believes that ‘we will see war between the major powers within my lifetime’.

If these warnings weren’t troubling enough, no less a figure than Henry Kissinger argued on BBC’s Newsnight that ‘the more likely reaction’ to a Trump presidency from terror groups ‘will be to do something that evokes a reaction’ from Washington in order to ‘widen the split’ between it and Europe and damage the US’s image around the world. Given that Trump has already vowed to ‘bomb the shit out of ISIS’ and refused to rule out the use of nuclear weapons against the group, it goes without saying that such a scenario could have the gravest consequences and must be avoided so that the US does not play into the terrorists’ hands.

Looking more widely, President-elect Trump’s existing and potential cabinet appointments, which Glenn Greenwald has summarised as ‘empowering…by and large…the traditional, hard, hawkish right-wing members of the Republican Party’ also point to the US engaging in future overseas conflicts, rather than the isolationism which many in the foreign policy establishment criticised Trump for proposing during the presidential campaign. William Hartung and Todd Harrison have drawn attention to the fact that defence spending under Trump could be almost $1trillion (spread over ten years) more than Obama’s most recent budget request. Such projections, alongside Trump’s election rhetoric, suggest that the new nuclear monarch will try to push wide open the door to more spending on nuclear weapons and missile defense, a situation made possible, as we have seen, by Obama’s inability to implement progressive change in this area at a time of persistent Republican obstruction.

Conclusion

The problem now, for the US and the world, is that if Trump does make good on his campaign promises then this will have several damaging consequences for international peace and security and that if Trump does not sufficiently satisfy his supporters then this will likely pour fuel on the flames at home, which may then quickly spread abroad. The people of the US and the world thus now have a huge responsibility to act as a restraining influence and ensure that the US retains an accountable, transparent and democratic government. This responsibility will only grow if crises or shocks take place in or outside the US which ambitious and extremist figures take advantage of, framing them as threats to national security in order to protect their interests and power. If such scenarios emerge the next administration and its untried and untested President will find themselves with a range of extremely powerful tools and institutional experience at their disposal, including nuclear weapons, which may prove too tempting to resist when figuring out how to respond to widespread anger, confusion and unrest, both at home and abroad.

### Econ Impact—Hegemony/War

#### Economic decline kills US influence and causes international instability

Khlalilzad ’12 [Zalmay Khalilzad, Counselor at the Center for Strategic and International Studies, served as the United States ambassador to Afghanistan, Iraq, and the United Nations during the presidency of George W. Bush, served as the director of policy planning at the Defense Department during the Presidency of George H.W. Bush, holds a Ph.D. from the University of Chicago, “It's Foreign Affairs, Stupid” The National Interest, July 16, 2012, http://nationalinterest.org/print/commentary/its-foreign-affairs-stupid-7195] Accessed 7-12-17, Tamara W

The economy trumps national security as the country’s top political issue this election cycle. With the unemployment rate at 8.2 percent, this is not surprising. From a long-term strategic perspective, however, the two issues are closely connected. The current economic crisis threatens Americans’ standard of living and our capacity to address social problems. It also undercuts the U.S. ability to sustain international stability, a prerequisite for domestic prosperity. The campaign debate we must have is how the United States can deal with global problems while restoring its economic health.

In the near term, lackluster growth and ballooning deficits mean fewer resources for national security, including defense, diplomacy, foreign assistance and development. Economic challenges and dissatisfaction with the Iraq and Afghanistan wars are prompting Americans to turn inward. Pressure to reduce the international burden is growing even as U.S. influence is declining. What is worse, these domestic constraints arise at a time when problematic trends abroad are limiting our options or creating greater demands for U.S. action.

Consider some key challenges: first, traditional U.S. allies seem less and less willing to step up to mutual-defense needs. The United States has complained for decades about Europe’s underinvestment in its defense and its lagging contribution to joint efforts. As the Europeans renegotiate their political and economic priorities amid the current fiscal and monetary crisis, NATO countries are likely to spend even less on defense or new NATO missions. European defense spending fell by close to 2 percent in 2011, with countries hit hardest by the sovereign debt crisis seeing more drastic cuts: Greece, 26 percent since 2008; Spain, 18 percent; Italy, 16 percent; and Ireland, 18 percent. By 2015, Britain and Germany, two of the top three European defense spenders along with France, plan cuts of 7.5 percent and 10 percent, respectively. France, if its withdrawal from Afghanistan is any indication, also will retrench in the coming years under its new socialist leadership.

In Asia, meanwhile, our strongest ally, Japan, is suffering from political gridlock and a crisis of confidence following the tsunami, nuclear accident and rapid rise of its regional rivals, particularly China.

Second, the United States cannot rely instead on emerging powers as they do not share, for the most part, U.S. views across a range of international-security issues. Rising powers such as China, India, Brazil, Turkey and Indonesia leverage their economic growth to modernize their militaries, press regional claims and demand greater representation in international bodies. But they don’t see themselves as stakeholders in the American-led international order. Rather, they show little inclination to share in the burdens of providing the collective goods needed to maintain security, enable global commerce and make international institutions work. The United States should seek cooperation with emerging powers on issues of mutual interest, but the absence of strategic like-mindedness will inhibit the emergence of fully integrated alliances. The divergence of interest among great and rising powers thwarts agreement on matters of substance at bodies such as the G-20.

Third, key regions are experiencing destabilizing transitions, particularly in the greater Middle East. The transnational terrorist threat from the Afghanistan-Pakistan region endures. Iran’s nuclear program threatens a cascade of proliferation. Prospects are real for a sectarian war between Sunni and Shia forces in Iraq, Syria and the Gulf, fueled by regional powers such as Iran, Saudi Arabia and Turkey. The most significant great powers outside the region—America, Europe, Russia, China and India—can’t agree on how to address these challenges.

The United States cannot afford to be indifferent to these problems, yet it lacks the resources to address them. The country’s fiscal health must be its top priority. Continuing with low growth and large deficits while economically dynamic rising powers expand their military capabilities will undercut U.S. leadership over time. These trends would culminate in a multipolar world like that of the nineteenth and the first half of the twentieth centuries. A multipolar world would increase the likelihood of war among major powers. The lesson of the twentieth century is that nothing is more expensive than such conflicts. So addressing the economic underpinnings of U.S. power is vital.

#### Security issues relating to the economy change security analysis and make conflict likely

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The conclusions reached in this thesis demonstrate how economic considerations within states can figure prominently into the calculus for future conflicts. The findings also suggest that security issues with economic or financial underpinnings will transcend classical determinants of war and conflict, and change the manner by which rival states engage in hostile acts toward one another. The research shows that security concerns emanating from economic uncertainty and the inherent vulnerabilities within global financial markets will present new challenges for national security, and provide developing states new asymmetric options for balancing against stronger states.

The security areas, identified in the proceeding chapters, are likely to mature into global security threats in the immediate future. As the case study on South Korea suggest, the overlapping security issues associated with economic decline and reduced military spending by the United States will affect allied confidence in America’s security guarantees. The study shows that this outcome could cause regional instability or realignments of strategic partnerships in the Asia-pacific region with ramifications for U.S. national security. Rival states and non-state groups may also become emboldened to challenge America’s status in the unipolar international system.

The potential risks associated with stolen or loose WMD, resulting from poor security, can also pose a threat to U.S. national security. The case study on Pakistan, Syria and North Korea show how financial constraints affect weapons security making weapons vulnerable to theft, and how financial factors can influence WMD proliferation by contributing to the motivating factors behind a trusted insider’s decision to sell weapons technology. The inherent vulnerabilities within the global financial markets will provide terrorists’ organizations and other non-state groups, who object to the current international system or distribution of power, with opportunities to disrupt global finance and perhaps weaken America’s status. A more ominous threat originates from states intent on increasing diversification of foreign currency holdings, establishing alternatives to the dollar for international trade, or engaging financial warfare against the United States.

The importance of this paradigm shift in U.S. national security, which places new emphasis on the causal relationships between economics and global security threats, will require innovative strategies. These strategies must involve multilateral and domestic policy solutions in the following key areas: international institutions, threat response, and U.S. fiscal policy

### AT: U.S. Not K2 Global Econ

#### US economic growth—and decline—have global implications; interconnectivity and synchronization prove

Stocker et al. 3/2 [Marc Stocker is a consultant, Franziska Ohnsorge is the Lead Economist, Csilla Lakatos is an economist, and M Ayhan Kose is the Director of the World Bank Development Prospects Group, “This is how important the US is to the global economy”, World Economic Forum, Published March 2, 2017, https://www.weforum.org/agenda/2017/03/this-is-how-important-the-us-is-to-the-global-economy] Accessed 7-12-17, Tamara Wurman

Because of its size and interconnectedness, developments in the US economy are bound to have important effects around the world. The US has the world’s single largest economy, accounting for almost a quarter of global GDP (at market exchange rates), one-fifth of global FDI, and more than a third of stock market capitalisation. It is the most important export destination for one-fifth of countries around the world. The US dollar is the most widely used currency in global trade and financial transactions, and changes in US monetary policy and investor sentiment play a major role in driving global financing conditions (World Bank 2016).

At the same time, the global economy is important for the US as well. Affiliates of US multinationals operating abroad, and affiliates of foreign companies located in the US account for a large share of US output, employment, cross-border trade and financial flows, and stock market capitalisation. Recent studies have examined the importance of global growth for the US economy (Shambaugh 2016), the global impact of changes in US monetary policy (Rey 2013), or the global effect of changing US trade policies (Furman et al. 2017, Crowley et al. 2017).

It is likely that there will be shifts in US growth, monetary and fiscal policies, as well as uncertainty in US financial markets. What will be the global spillovers? Our recent work (Kose et al. 2017) attempts to answer these questions: How synchronised are US and global business cycles?How large are global spillovers from US growth and policy shocks?How important is the global economy for the US?How synchronised are US and global business cycles?

Business cycles in the US, other advanced economies (AEs), and emerging market and developing economies (EMDEs) have been highly synchronous (Figure 1.A). This partly reflects the strength of global trade and financial linkages of the US economy with the rest of the world, but also that global shocks drive common cyclical fluctuations. This was particularly the case at the time of the 2008-09 Global Crisis. It is not a new phenomenon, however. Although the four recessions the global economy experienced since 1960 (1975, 1982, 1991, and 2009) were driven by many problems in many places, they all overlapped with severe recessions in the US (Kose and Terrones 2015).

Other countries tend to be in the same business cycle phase as the US roughly 80% of the time (Figure 1.B). The degree of synchronisation with US financial cycles is slightly lower, but still significant – credit, housing, and equity price cycles are in the same phase about 60% of the time. Although it is difficult to establish empirically whether the US economy leads business and financial cycle turning points in other economies, recent research indicates that the US appears to influence the timing and duration of recessions in many major economies (Francis et al. 2015).

Figure 1 Synchronisation of business cycles

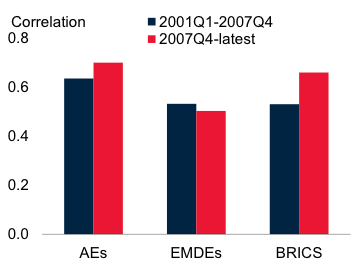
1. Correlations with US business cycles
2. 

Image: Haver Analytics; World Bank; Kose and Terrones (2015); IMF.

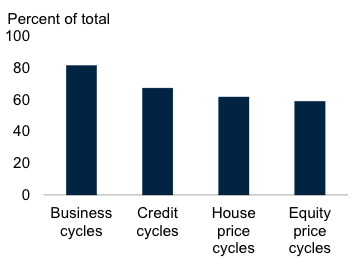
1. Concordance with US business and financial cycles
2. 

Image: Haver Analytics; World Bank; Kose and Terrones (2015); IMF.

How large are global spillovers from US growth and policy shocks?

A surge in US growth – whether due to expansionary fiscal policies or other reasons – could provide a significant boost to the global economy. Shocks to the US economy transmit to the rest of the world through three main channels.

An acceleration in US activity can lift growth in trading partners directly through an increase in import demand, and indirectly by strengthening productivity spillovers embedded in trade.

Financial market developments in the US may have even wider global implications. US bond and equity markets are the largest and most liquid in the world and the US dollar is the currency mostly widely used in trade and financial transactions. This makes US monetary policy and investor confidence important drivers of global financial conditions (Arteta et al. 2015, IMF2015).

Given its role in global commodity markets (the US is both the world’s largest gas and oil consumer and producer), changes in US growth prospects can affect global commodity prices. This affects activity, fiscal and balance of payment developments in commodity exporters.

Estimates indicate that a percentage-point increase in US growth could boost growth in advanced economies by 0.8 of a percentage point, and in emerging market and developing economies by 0.6 of a percentage point after one year (Figure 2.A). Investment could respond even more strongly. A boost to investment could come for instance from fiscal stimulus measures – but the effect would largely depend on the circumstances of the implementation of these measures, including the amount of remaining economic slack, the response of monetary policy, and the adjustment of household and business expectations to the prospect of higher deficit and debt levels. A faster tightening of US monetary policy than previously expected could, for instance, lead to sudden increases in borrowing costs, currency pressures, financial market volatility, and capital outflows for more vulnerable emerging market and developing economies.

Even in the absence of actual policy changes, heightened uncertainty driven by financial market volatility or ambiguity about the direction and scope of US policies could discourage investment both in the US and in the rest of the world. Empirical estimates suggest that a sustained 10% increase in US stock market volatility (specifically, the VIX) could, after one year, reduce investment growth in the US by about 0.6 of a percentage point, in other advanced economies by around 0.5 of a percentage point, and in emerging market and developing economies by 0.6 of a percentage point (Figure 2.B).

### AT: Economy Defense

#### Previous crisis undermined political will to respond—makes the next crisis the trigger point for collapsing US leadership.

Kirshner 16— Stephen and Barbara Friedman Professor of International Political Economy, Cornell University [Jonathan, “Dollar Diminution and New Macroeconomic Constraints on U.S. Power,” in Jeremi Suri and Benjamin Valention (eds.) *Sustainable Security: Rethinking American National Security Strategy*, p. 33-34]

In sum, the stage is set for chronic squabbling over international monetary and financial cooperation and governance in the coming decades, and the United States will find it harder to simply shrug off the burdens of macroeconomic adjustment (which will inevitably present themselves) onto others. This will compound the new US sensitivity to external constraints. And a key word here is new. It is not just that the United States will very likely face external constraints – pressures for adjustment, new macroeconomic vulnerabilities, the danger of financial crisis – it that such pressures are unfamiliar to the US political system. And that system is already under considerable stress, dealing (or failing to deal) with formidable domestic economic problems, first among which is the need to put its fiscal house in order. Given the strands of unilateralism and isolation that weave their way throughout American history, it is possible that domestic politics will indeed magnify the “real” effect of these new pressures, and present an Achilles heel of American power.

Sustainable national security strategies rest on economic and political foundations. Both global economic trends and domestic political contestation suggest that a careful assessment of the underpinning logics and long run wisdom and viability America’s global strategy—which should reflect its priorities, capabilities and ambitions—is in order. In particular, US planners need to be alert to both the international economic and domestic political consequences of another American financial crisis—a possibility that, unfortunately, cannot be causally dismissed. As Barry Eichengreen has argued, the success of the emergency measures introduced in the heat of the moment prevented a second great depression, but “their very success encouraged second thoughts,” and “weakened the incentive to think deeply about causes.” This has left in place, Financial Times columnist Martin Wolf a financial structure that is “irretrievably unstable,” and it is “grotesquely dangerous.” 63 Moreover, domestic politics are much more brittle now than they were then. During the 2007–08 crisis, the correct policies were initially chosen; but, applied half-heartedly and incompletely, these measures are commonly considered to have been a failure by the general public. This perception, coupled with (here more accurate) resentment that the tycoons who caused the crisis were largely sheltered from its consequences, has likely exhausted the political will that would be necessary to introduce the emergency measures required to deal with the next big crisis. Thus the economic and political consequences of the next crisis on American national security strategy will almost certainly be even greater.

## Aff Answers

### 2AC N/UQ—Econ Low

#### U.S. stands on the brink of recession despite current indicators

Greg Ip 17 — July 5, 2017 (Greg Ip is the Chief Economics Commentator, The Wall Street Journal. “Why Soaring Assets and Low Unemployment Mean It’s Time to Start Worrying,” WSJ, 7-5-2017, https://www.wsj.com/articles/why-soaring-assets-and-low-unemployment-mean-its-time-to-start-worrying-1499247003, Accessed 7-11-2017, AB)

If you drew up a list of preconditions for recession, it would include the following: a labor market at full strength, frothy asset prices, tightening central banks, and a pervasive sense of calm. In other words, it would look a lot like the present. Those of us who have lived through economic mayhem before feel our muscle memory twitch at times like this. Consider the worrisome absence of worry. "Implied volatility" measures the cost of hedging against big market moves via options. When fear is pervasive, options are expensive so implied volatility is high. At present, implied volatility in bonds, stocks, currencies and gold sits near its lowest since mid-2007, the eve of the financial crisis, according to a composite measure maintained by Variant Perception, a London-based investment advisory. The economic expansion is now entering its ninth year and in two years will be the longest on record. The unemployment rate sits at 4.3%, the lowest in 16 years, suggesting the economy has reached, or nearly reached, full capacity. Expansions don't die of old age, economists like to say. On the other hand, should we really assume this one will be a record breaker? From a level this low, unemployment has more room to go up than down. Another ominous sign: Central banks are tightening monetary policy, which has preceded every recession. The Fed has raised rates three times since December and last week central banks in Britain, the eurozone and Canada all hinted that years of easy money were coming to an end. Still, the presence of recession preconditions isn't enough to say one is imminent. To understand implied volatility, think of hurricane insurance. Right after a storm, homeowners are more anxious to have coverage, even as insurers withdraw, which of course means premiums spike. As years go by without another hurricane, homeowners let their coverage lapse, insurers return and premiums drop. Similarly, implied volatility is low today because years without a financial calamity have sapped demand for hedging while enticing sellers with the prospect of steady income in exchange for potentially huge losses. But just as hurricane premiums don't predict the next hurricane, low implied volatility tells us nothing about whether or when a downdraft will actually come. Similarly, when unemployment got nearly this low in 1989 and again in 2006, a recession was about a year away; but in 1998, it was three years away, and in 1965, four years. A narrowing spread between short-term interest rates and long-term rates comparable to the present has happened 12 times since 1962, and only five times did recession follow within two years. But if today's conditions don't dictate a recession or a market meltdown, they expose vulnerabilities that make either more likely in the face of some catalyzing event. When growth is steady and interest rates are low for years, investors and businesses behave as if those conditions will last forever. That's why even with muted economic growth, stocks are trading at a historically high 22 times the past year's earnings. It's also why home prices have returned to their pre-crisis peaks in major American cities. Real estate has scaled even greater heights in Australia, Canada and parts of China, which exhibit some of the same lax lending and wishful thinking that underlay the U.S. housing bubble a decade ago. Companies meanwhile have responded to slow, stable growth and low rates by borrowing heavily, often to buy back stock or pay dividends. Corporate debt as a share of economic output is at levels last seen just before the past two recessions. When everyone acts as if steady growth and low volatility will last forever, it guarantees they won't. Once asset prices fall, the flow of credit that sustained them dries up, aggravating the correction. Corporate leverage is at levels that in the past led to weakening corporate bond prices and greater equity volatility, says Jonathan Tepper, founder of Valiant. "A high proportion of companies won't be able to pay back debt." A selloff in corporate bonds and stocks could become self-reinforcing as those who insured against such a move sell into it to limit their own losses. Of course, some things are different this time. The postcrisis regulatory crackdown means if asset prices fall, they probably won't take banks down with them. Last week Janet Yellen, the Fed chairwoman, said she thought there wouldn't be another financial crisis "in our lifetimes." Fair enough: crises as catastrophic as the last happen twice a century. But small crises are inevitable as risk migrates to financial players who haven't drawn the attention of regulators. "Elevated asset valuation pressures today may be indicative of rising vulnerabilities tomorrow," Fed vice chairman Stanley Fischer warned last week. Inflation is uncomfortably low rather than too high as in previous cycles, which makes it less likely central banks will have to raise interest rates sharply or rapidly. But in a world with permanently lower inflation and growth, businesses will struggle to earn their way out of debt, and interest rates will bite at lower levels than before. This confronts the Fed with a dilemma. If bond yields remain around 2% to 2.5%, the Fed may be playing with fire by pushing rates to 3%, as planned. If it backs off those plans, it could egg on excesses that make any reversal more violent. Ms. Yellen and Mr. Fischer, both veterans of past mayhem, need to be on guard for a repeat. So should everyone else

### 2AC N/UQ—Econ Low (Trump)

#### Trump destroys the economy

**Rattner 11/11 [**Steven Rattner is a Wall Street executive and a contributing opinion writer. NY Times Op-Ed, Nov. 11 2016 Trump’s Economic Prescription. First: Do Harm]

Donald J. Trump is positioned to achieve the most radical reshaping of economic policy since Ronald Reagan. Even under Reagan, Republicans never controlled both houses of Congress.

Since Mr. Trump has yet to provide many specifics, I can’t thoroughly assess the overall impact of his plan. But at the least, if he follows through on his ideas, **we could face higher prices on imported goods, rising interest rates, substantial inflation and a further shift of wealth to the upper classes**.

For starters, Mr. **Trump has promised an immediate attack on trade deals**, at least with countries he views as manipulators. Presidents have significant authority to act unilaterally in this area, and Mr. Trump has insisted he would put 35 percent tariffs on imports from Mexico and 45 percent on those from China.

Trade, which has been proved to stimulate economic growth both here and abroad, **has already been slowing**, and Mr. **Trump is determined to slow it further** in an effort to protect blue-collar manufacturing workers, many of them his supporters.

Mr. **Trump’s tariffs would raise the prices of imported goods sharply, cutting the purchasing power of every American**. Lower-income Americans — including Mr. Trump’s core supporters — would be hurt the most because they disproportionately buy less expensive imported items. For China, and particularly Mexico, the **economic costs would be significant**, which is why at one point on Wednesday **the Mexican peso had plunged by more than 13 percent**.

While some manufacturing jobs might come back as a result of the tariffs, **a greater number of domestic jobs would most likely be lost because Americans would have less spending power**. A recent study by the nonpartisan Peterson Institute for International Economics estimated that, rather than bringing jobs back to the United States, Mr. **Trump’s tariffs could result in a trade war that would cost our economy five million jobs and possibly lead to a recession**.

The centerpiece of Mr. Trump’s plan is a huge $5.8 trillion tax cut unaccompanied by specificity around what expenses would be cut to pay for it. (Indeed, the president-elect has proposed more spending on defense and infrastructure.)

As soon as Mr. Trump’s ascendancy became clear on Tuesday night, **interest rates on Treasuries began to rise**. Usually, an unexpected event causes a flight to the safety of government debt, pushing yields down. That the opposite occurred reflects **fears that the deficit might balloon out of control**.

Mr. Trump has promised to keep Medicare and Social Security benefits unchanged, a commitment at odds with Speaker Paul D. Ryan’s own economic proposals. As a fiscal conservative, Mr. Ryan is unlikely to accept large tax cuts unaccompanied by major spending reductions. **That could lead to the evisceration of many of the discretionary federal programs** — think education or research and development — **critical to putting our economy on a stronger footing**.

To be sure, a tax cut on its own would give Americans more cash to spend. But according to the Tax Policy Center, by 2025, 51 percent of Mr. Trump’s reductions would go to the top 1 percent, who both least need it and would be least likely to spend it.

Then there’s the regulatory arena, where Mr. Trump also has a free hand to act unilaterally. And act he has promised to do, starting with a moratorium on new rules not required by Congress and a reversal of many executive orders.

If Mr. Trump sticks to his pledge, it will be open season on regulations, as businesses go after their most disliked provisions and agencies. Industrial companies will take aim at the Environmental Protection Agency. Financial institutions, including the big banks, will push to repeal Dodd-Frank. That’s just for starters.

Both Mr. Trump and Mr. Ryan are united in **opposition to the Affordable Care Act**, potentially ending the free or subsidized coverage that 20 million Americans are now receiving. Those Americans would be facing **higher costs or loss of coverage**.

Some of the efforts at dismantling government may face hurdles in the Senate, where 60 votes are required to break filibusters, more than the Republicans will have. But under a process known as “reconciliation,” matters relating to taxes and spending — and potentially the repeal of Obamacare — can be passed by a simple majority of 51.

Last, Mr. Trump’s signal issue was immigration, where he promised stricter standards, deportation of undocumented workers, a potential moratorium on the entry of new Muslim immigrants and a wall along the Mexican border.

**Immigrants**, including undocumented workers, **play an important role in our economy**, doing jobs that many native-born Americans won’t and paying taxes. The conservative American Action Forum calculated that his deportation plan would cost $400 billion to $600 billion and, because there are not enough citizens and legal residents to fill the demand, the plan would **shrink the labor force and reduce gross domestic product by $1.6 trillion**.

It’s hard to know whether the conflicting forces unleashed by Mr. Trump will create a recession. For the moment, at least, the stock market is betting no. But in addition to higher interest rates, **financial markets are signaling higher inflation rates**.

This much is certain: Mr. Trump’s proposals would confer vast monetary gains on wealthy Americans while leaving middle- and working-class Americans — his electoral base — further behind. For his supporters, the irony of a Trump victory is that they **may end up even less well off**.

### 1AR N/UQ—Econ Low

#### **IMF indicates weak economic conditions**

Ians 17 — 2017 (“IMF cuts 2017 economic growth forecast for US,” Economic Times, 6-28-2017, http://economictimes.indiatimes.com/news/international/business/imf-cuts-2017-economic-growth-forecast-for-us/articleshow/59346342.cms, Accessed 7-11-2017, AB)

WASHINGTON: The International Monetary Fund revised its 2017 gross domestic product (GDP) growth forecast for the US downward from 2.3 per cent to 2.1 per cent, citing the Trump administration's inability to implement its economic policies. The IMF on Tuesday also cut its forecast for 2018 US GDP growth to 2.1 per cent from 2.5 per cent. The Washington-based international financial institution said the Trump administration "intends a wide-ranging overhaul of policies, although a fully articulated policy plan has yet to emerge". The IMF warned of "significant uncertainties" regarding fiscal consolidation, infrastructure investment, renegotiation of trade treaties and immigration policy as some of the factors in the more cautious forecast for the US economy. The international financial institution also said that calls for protectionism and economic nationalism by US authorities cast medium-term shadows on the economy and "a broader retreat from cross-border integration would represent a downside risk to trade. After being sworn in on January 20, President Donald Trump promised to jump-start the US economy and generate annual GDP growth of 3 per cent during his term in the White House. Regarding Washington's monetary policy, the IMF, which is led by Managing Director Christine Lagarde, said the US economy was approaching full employment with a stable inflation rate and the Federal Reserve should continue gradually raising short-term interest rates, currently between 1 per cent and 1.25 per cent. The US dollar, according to the IMF, is "moderately overvalued" between 10 per cent and 20 per cent.

#### Low productivity and labor force weaken the economy

Noah Smith 17 — July 7, 2017 (Noah Smith is a Bloomberg View columnist. He was an assistant professor of finance at Stony Brook University, and he blogs at Noahpinio “America Is Struggling With Economic Rot,” Bloomberg, 7-7-2017, https://www.bloomberg.com/view/articles/2017-07-07/america-is-struggling-with-economic-rot, Accessed 7-11-2017, AB)

The Great Recession, and the financial crisis that preceded it, were such enormous and terrible events that they occupied most of our economic thinking for a decade. But now that the smoke has cleared and the economy has returned to a semblance of normality, we’re starting to think more about long-term trends. And evidence is mounting that the Great Recession may have drawn attention away from a slow rot that has been eating the U.S. economy since the turn of the century. Some of the top macroeconomists in the business have a new paper that reaches this conclusion. In “The Disappointing Recovery of Output after 2009,” John G. Fernald, Robert E. Hall, James H. Stock and Mark W. Watson break down the declines in growth and employment into a structural, long-term component and a short-term part related to the crash. That’s an inherently hard thing to do, since there’s no universally accepted theory of how recessions work. But Fernald et al. use two accounting methods, and find basically the same thing -- although the recession hurt the economy a lot, it happened to coincide with two trends that were slowly eroding the U.S.’s fundamentals. Those two trends are slowing productivity and reduced labor-force participation. Slow productivity growth is hardly news -- Bloomberg View recently ran a whole series of articles about the phenomenon. This unhappy trend appears to have begun three years before the financial crisis: As for labor-force participation, this has been falling since the turn of the century, though the last two years have seen a small uptick: Both of these trends might have been exacerbated by the Great Recession. That economic disaster caused businesses to stop investing, which may have deprived them of the technology needed to increase productivity. Workers thrown out of employment by the recession might have seen their skills, connections and work ethic degrade, preventing them from going back to work even after the economy recovered. But neither of these effects explains the 2000s, when these negative trends were getting started despite a healthy economy. The years before the recession also saw other disturbing developments. For example, the rate of high-growth startup formation fell during that period. As economists Ryan Decker, John Haltiwanger, Ron Jarmin and Javier Miranda point out: The evidence suggests that in High Tech, high-growth young firms play an especially critical role in job creation and productivity growth...However, since 2000 the High Tech sector and publicly traded firms have exhibited a decline in dynamism. The number of IPOs has fallen in the post-2000 period, and those that have entered have not exhibited the same rapid growth as earlier cohorts. The bursting of the tech bubble in 2000 undoubtedly had a lot to do with this. But the worry is that the tech sector, which boomed in the 1990s and drove strong productivity gains through the middle of the 2000s, is now on the same path of falling dynamism displayed by U.S. industry in general: The U.S. manufacturing sector also slowed markedly after 2000. Industrial production in manufacturing grew robustly in the 1980s and 1990s, despite competition from the likes of Japan, Germany and Southeast Asia. But since the turn of the century, the sector’s growth has been almost nil: Manufacturing has tended to be the driver of U.S. productivity growth, so its stagnation could also be a sign of something wrong with the economy. Taken together, this evidence hints that some sort of long-term rot is afflicting the U.S. economy. What could it be? One candidate is the increase in industrial concentration -- greater monopoly power might be holding back productivity and reducing employment. Other hypotheses abound -- creeping regulation, a slowdown in scientific progress, Chinese competition, or the ephemeral nature of the internet economy. Some have even blamed video games for luring young men out of the labor force. Clear thinking from leading voices in business, economics, politics, foreign affairs, culture, and more. But whatever the cause, the implication is clear -- the U.S. needs to put the Great Recession behind it. During the downturn, it made a certain amount of sense to ignore those who called for structural reform of the U.S. economy -- after all, there were more pressing, immediate issues to deal with. But now that the recession is long over and slow growth seems to be here to stay, economists and policy makers should put much greater focus on raising productivity growth and getting more Americans into the workforce. Rooting out Amerisclerosis won’t be easy, but it has to be done.

#### **Economy weak despite recent growth**

Binyamin Appelbaum 17 — July 7, 2017 (Binyamin Appelbaum is a Washington correspondent for The New York Times, covering the Federal Reserve and other aspects of economic policy He has previously worked for The Florida Times-Union, The Charlotte Observer, The Boston Globe and The Washington Post, “Federal Reserve Sees U.S. Economic Growth as Steady but Slow,” New York Times, 7-7-2017, https://www.nytimes.com/2017/07/07/us/politics/federal-reserve-economy-us-growth.html, Accessed 7-11-2017, AB)

WASHINGTON — The Federal Reserve’s view of the American economy, which it updated Friday in a semiannual report to Congress is out: steady growth still impeded by a range of problems. The report gives the reasons for confidence, describing the steady growth of consumer spending on the foundation of a solid economic expansion. However, it also highlighted a number of reasons that growth has remained relatively slow by historical standards. The Fed raised its benchmark interest rate in June for the third consecutive quarter, a sign of confidence in the strength of the economy. It also announced that it planned to start reducing its securities holdings by the end of the year. The Fed pointed to evidence that lenders are seeking opportunities to take larger risks. It noted, for example, that companies with poor credit ratings are able to borrow at interest rates that are unusually close to the rates for companies with good credit ratings. The differences “now stand near the bottom of their historical ranges,” the Fed said. Yet demand for loans remains weak. “Apparent high risk appetite in asset markets has not led to increased borrowing in the nonfinancial sector,” the report said. In a similar vein, the Fed said banks reported a broad decline in loan demand during the first quarter of 2017, “even as lending standards on such loans were reported to be basically unchanged.” The Fed publishes the assessment, called the Monetary Policy Report, twice a year, in the winter and the summer. Janet L. Yellen, the Fed’s chairwoman, will appear before House and Senate committees on Wednesday and Thursday to present the report. Stanley Fischer, the Fed’s vice chairman, said Thursday that uncertainty about federal fiscal policy may be weighing on the economy once again. Businesses reported a burst of optimism after President Trump’s election, in part because of hope that the new administration would enact fiscal policies like tax cuts. But that optimism is flagging. “This cautious approach to investment may in part reflect uncertainty about the policy environment,” Mr. Fischer told an audience in Vineyard Haven, Mass. “Providing more clarity on the future direction of government policy is highly desirable.” The report noted, however, that business investment “rose robustly” in the first quarter, thanks to increased spending on drilling and mining equipment, which could indicate a shift. The low level of investment may be one reason for the slow pace of productivity growth, an average annual pace of just 1 percent, about half the pace during the period from 1990 to 2004. Productivity growth in the United States remains a little bit faster than in other developed countries. The slow pace of productivity growth is an important reason that employee compensation is rising slowly. A measure of hourly compensation that includes wages, salaries and benefits rose at an annual pace of 2.25 percent over the last four quarters, the Fed said. Measures of wage growth, excluding benefits, are in the same ballpark. There is some evidence of a modest upward trend as the labor market has tightened, but the growth remains very weak by historical standards. The eagerness of investors is driving up a wide range of asset prices, a trend the Fed said had continued since its last report in mid-February. It noted that “valuation pressures have increased further” for Treasury securities, equities, corporate bonds and commercial real estate. But the Fed is not sounding alarms. “Vulnerabilities in the U.S. financial system remain moderate on balance,” it said. It also dismissed persistent concerns about the liquidity of financial markets, particularly the market for corporate securities. “Available evidence suggests that financial markets have performed well in recent years, with minimal impairment in liquidity, either in the market for corporate bonds or in the market for other assets.”

### 1AR Alt Causes—Econ

#### Alt causes to decline—EU conflicts, Mid East war, and China

Mason 12/21 [John Mason was an economist at the Federal Reserve System an a special assistant to the Secretary of Housing an Urban Development in the Nixon Administration. He was also a professor of finance at the University of Pennsylvania, “Why the Dollar Will Remain Strong in 2017”, The Street, December 21, 2016, https://www.thestreet.com/story/13933072/2/why-the-dollar-will-remain-strong-in-2017.html] Accessed 7-14-17, Tamara W

Although the United States economy is not that strong, it has been stronger than most other major economies. Consequently, the monetary authorities in the United States have been debating whether or not they should raise the central bank's policy rate of interest, while the monetary authorities in other parts of the world are keeping monetary policy loose and considering whether or not they should seek lower interest rates.

This situation will not end soon.

It now takes less than $1.04 to acquire one Euro. In early 2014, one Euro cost close to $1.40. The value of the dollar has risen by almost 35%.

The Fed's trade weighted U.S. Dollar Index against major currencies stood around 76 in early 2014. Now the index is over 96. The value of the dollar has risen by 26%.

The value of the U.S. dollar will continue to strengthen in 2017. That's primarily because the United States dollar will continue to serve as a safe haven for world monies.

This comes amidst uncertain global conditions.

In the European Union, Greece is on the edge of another financial crisis; Italy is facing a political storm and struggling economy; France is having an election in the Spring, and there are many pundits arguing that Marine Le Pen and the right wing National Front may stage a Donald Trump-style win; and even the German elections, which take place later in the year, are uncertain.

In addition, the European Union still must struggle with the after affects of Brexit.

There's ongoing turmoil in the Middle East, a volatile situation between the Ukraine and Russia, uncertainty in China and restlessness in many emerging markets.

If anything, financial analysts are saying that market volatility will not only remain in 2017, but in all likelihood, will increase. Safe havens are good.

The dollar will continue to strengthen in no small part because the United States will continue to outpace much of the rest of the world in economic growth in 2017, regardless of what the new Trump administration attempts to do in the early part of the year. The policy efforts of the new administration will generate some optimism, even if they take time to impact the economy.

Furthermore, the Federal Reserve has given us "new" forward guidance: It is expecting to raise it's policy rate three times in 2017, by 25 basis points each time. For some reason, this "guidance" seems more credible now than it did one year ago. Anyhow, barring the unforeseen, there should be two rate increases in 2017.

The difficult thing about this scenario is a possible conflict between the imagined economic policies of the Trump administration and the pressures that the Federal Reserve will face.

The Trump administration wants to protect American industries and keep businesses in the United States. It is threatening trade barriers and other such factors that will shelter U.S. corporations. This will work to reduce imports.

But the strong U.S. dollar will hurt American exports, slowing economic growth and limiting markets for U.S. corporations.

How this conflict will be handled will be important for the future of the United States. If policymakers look at these issues as a concern about aggregate demand, we will all lose.

If policymakers consider these issues as a call for economic restructuring, to make transportation more efficient, to allow for the further spread of information, to raise labor productivity and to use capital more effectively, then the U.S. will become more competitive -- capable of maintaining the world's strongest currency, including strong exports.

The value of the dollar in world markets will become a greater issue in 2017 because the United States dollar will continue to increase in value. The dollar will break the "unity" barrier with the Euro, and the cost of one Euro will approach $0.95 during the year.

Expect also the Fed's Trade Weighted U.S. Dollar index against major currencies to break through 100 and even pose some threat to 105.

If Europe breaks apart, or, there is outright war in the Middle East, or further conflict occurs with Russia, or China becomes more aggressive, the dollar could become even stronger.

### AT: Biz Con

#### Trump is a net negative for business confidence

David SPIEGEL 3/14, Senior Editorial Manager; and Anthony Volastro, Producer [“Trump on the brink of triggering a major trade war: CFO survey,” *CNBC*, March 14, 2017, http://www.cnbc.com/2017/03/14/trump-on-the-brink-of-triggering-a-major-trade-war-cfo-survey.html]

American business leaders are having a reality check in the Trump era, skeptical that the president's campaign promises and Republican legislative priorities are likely to come to fruition in the near future. Their biggest concern: the outlook for trade.

According to the latest CNBC Global CFO Council Survey, a majority of U.S. CFOs are less than 50 percent confident that Congress will pass legislation on reforming Obamacare and personal income taxes by the end of this year. Nearly half are less than 25 percent confident that Congress will fund a border wall. On corporate taxes, the most important issue facing most CFOs, the average U.S. council member is only 56 percent confident Congress will pass reforms.

They are generally confident on the confirmation of Supreme Court nominee Judge Neil Gorsuch.

The CNBC Global CFO Council represents some of the largest public and private companies in the world, collectively managing more than $4 trillion in market capitalization across a wide variety of sectors. The quarterly CFO Council poll was conducted from March 1–10.

Skepticism goes even further than campaign promises and action in Congress. Forty-five percent of all respondents believe that Trump's meetings with CEOs and business leaders are political theater and will not lead to policy changes that diverge from the administration's ultimate agenda.

As business leaders are nearly split over the effectiveness of Washington's new leadership, they are in unison when it comes to fears over trade and immigration. Nearly all CFOs surveyed are concerned that the Trump administration's policies could trigger a trade war between the United States and China. The Council echoes the growing concern of business experts over the president's persistent tough language regarding trade deficits.

The looming changes to U.S. trade policy is weighing so heavily on the minds of CFOs that the group considers it the second-largest external risk factor to their firms. Consumer demand still remains the most commonly cited risk factor.

Immigration fears

When it comes to Trump's stance on immigration, nearly 62 percent of U.S. respondents say his administration's current and future policies would negatively impact their business. Not a single member said such polices would have a positive effect on their firm.

### AT: Jobs Higher

#### Other sectors are failing despite some job growth

Nelson D. Schwartz 7/6 [“Hopes of ‘Trump Bump’ for U.S. Economy Shrink as Growth Forecasts Fade,” *The New York Times*, July 6, 2017, Web. 11 July 2017, https://www.nytimes.com/2017/07/06/business/economy/united-states-economy-gdp-trump.html]

The promise of faster economic growth has become a study in the triumph of hope over experience. While the June jobs report, coming on Friday, is expected to show that hiring continued at a healthy pace last month, other recent indicators in areas like consumer spending, construction and auto sales have been decidedly less robust. As a result, Wall Street forecasters have been busy lowering their growth estimates for the second quarter, which ended last Friday, much as they were forced to do over the first three months of the year. Economic expansion for the full year now appears unlikely to be much greater than 2 percent — about the average for the current recovery, which celebrates its eighth year this month. While hardly terrible, it is not the burst of growth — a “Trump bump” — that many expected to result from an upturn in consumer and business sentiment after President Trump’s election. Mr. Trump himself declared upon taking office that his policies would produce 4 percent annual growth, and just this week said on Twitter to affirm that “things are starting to kick in now.” Follow Donald J. Trump ✔ @realDonaldTrump Really great numbers on jobs & the economy! Things are starting to kick in now, and we have just begun! Don't like steel & aluminum dumping! 4:54 PM - 3 Jul 2017 20,111 20,111 Retweets 95,739 95,739 likes Twitter Ads info and privacy But the Federal Reserve Bank of Atlanta’s widely followed GDP Now expects the second-quarter growth figure to come in at 2.7 percent, more than a full percentage point below where it was in May, and a decline even since the beginning of the week. The New York Fed’s Nowcast is even more bearish, with an estimate of 1.9 percent for the quarter just ended and 1.6 percent for the current quarter. “We never seem to have the rebound that people anticipate,” said Stephanie Pomboy, an independent economist in New York who has been skeptical about initially rosy forecasts favored by many of her colleagues in recent quarters. The fading expectations for the current quarter are only the latest example of how faster economic growth seems perpetually out of reach. Far from living up to expectations of a lift after Mr. Trump’s election, the growth rate in the first quarter turned out to be an anemic 1.4 percent. Some of the weakness stemmed from seasonal factors and calendar quirks that have repeatedly produced soft annual starts during the current recovery. The indicators that Mr. Trump highlighted in recent messages on Twitter are indeed pointing in the right direction — strong job creation, a record high for the Dow Jones industrial average and low gasoline prices. But so far, the economy’s basic trajectory remains the same as it did under President Barack Obama. The diminishing expectations are reflected in the dollar’s recent slump. That is not necessarily a bad thing — a weaker dollar makes exports more competitive in foreign markets. It is, however, a sign of the world’s take on the American economy, as well as an indication of improving prospects abroad, especially in Europe. Experts say that without a meaningful change in government policies — greater infrastructure investment, an overhaul of the corporate tax code, a new commitment to improve the skills of American workers — there is no reason to expect the domestic outlook to change. And with deep party divisions in Washington — and the inability of Republicans so far to capitalize on control of Congress and the White House — the odds of passing a major infrastructure bill or sweeping tax legislation are growing longer by the day. “I don’t see any reason we will veer from a 2 percent growth rate,” said Scott Anderson, chief economist at Bank of the West in San Francisco. “The safe bet is to expect more of the same. Unless we do things to boost productivity, this is the economy we are going to see.” Fading Expectations In both the first and second quarters of 2017, initial hopes for a burst of growth faded, as evolving estimates for Goldman Sachs show. Growth of 2 percent is not horrible, especially given that the recovery is now the third longest on record and that the unemployment rate is at 4.3 percent, the lowest in 16 years. Still, it is a far cry from the annual gains of 3 percent or more achieved a decade ago, or the 4 percent rate in the late 1990s. Nor is it strong enough to deliver big increases in household income, which has been stagnant for decades for all but the wealthiest slice of the population. Mr. Anderson said much of the deceleration could be linked to forces beyond the control of politicians and policy makers: an aging population in the United States and a work force that is growing much more slowly than in past decades. “Washington seems tone deaf to this reality,” he said. “Economists have been talking about these things for years, but getting the political will together to address them has been difficult with the gridlock in Washington.” “We had an opportunity to do some real heavy lifting on the infrastructure issue when interest rates were very low,” Mr. Anderson added. That window has now almost certainly closed, with the Fed normalizing monetary policy and gradually raising interest rates. With higher borrowing costs practically inevitable in the future, Mr. Anderson said, “the real tragedy is that the price tag for any future infrastructure spending will be a lot higher.” Ms. Pomboy pointed out that changing consumer habits in the wake of the financial crisis and the recession — notably an increased wariness about spending and taking on debt — also explain what is looking more and more like a long-term downshift. “The post-crisis consumer is fundamentally different from the consumer we knew and loved before the crisis,” she said. The household savings rate, which bottomed out at 2.2 percent amid the housing bubble in 2005, now stands at 5.5 percent. In addition to being more cautious about spending in general and about borrowing against their homes in particular, Ms. Pomboy said, consumers are holding back on discretionary purchases because of the rising health insurance premiums and medical costs as well as onerous student debt payments. Another warning sign: After rising steadily from 2011 to 2015, federal tax payments from individuals are down slightly this year compared with the previous 12 months, suggesting that personal income is faltering. “Despite lip service about the ‘new normal,’ economists continue to forecast growth of 3 to 3.5 percent,” Ms. Pomboy said. “We’re eight years into the recovery — that’s not when things accelerate. It’s when they die.” To be sure, most mainstream economists do not foresee an imminent recession. Nariman Behravesh, chief economist at IHS Markit, goes so far as to say, “we’re chugging along here,” citing healthy income growth and hiring, as well as a strong housing market. Nor is everyone prepared to give up on growth. Macroeconomic Advisers, a St. Louis research firm whose crystal ball is highly regarded among forecasters, began the second quarter by calling for 3.6 percent growth but now estimates the rate will be more like 2.5 percent. But Ben Herzon, a senior economist there, said the rebound is delayed, not dead, especially as businesses restock warehouses and shelves after drawing on inventories in the first half of the year. “Godot has to show up at same point,” he joked. “The models are showing that.”

### AT: CBO Proves Budget Good

#### The CBO is inaccurate—past instances prove

Reynolds 01, (Alan, senior fellow with the Cato Institute., 8-30-2001, "Don't Trust the CBO's Numbers," Cato Institute, https://www.cato.org/publications/commentary/dont-trust-cbos-numbers) RB

The Congressional Budget Office is right where it likes to be — in the news.

First reports of its latest budget outlook came out of the same spin machine. The Washington Post headline was “Budget Will Tap Into Social Security,” and the New York Times’ was “Report Says Lower Surplus Will Affect Social Security.” The CBO report said no such thing, of course. What it said was, “the distinction between on- and off-budget surpluses is unimportant from an overall economic perspective” and “CBO is projecting small on-budget surpluses or deficits in 2001 through 2005.” The Social Security trust fund cannot possibly be “raided” or “tapped,” but has to grow by the amount that payroll taxes exceed benefits. The CBO thinks an already large surplus will grow to 3.7% of GDP by 2011, noting, “all debt available for redemption will be retired by 2010.” Dick Gephardt calls that a “fiscal crisis.”

The compelling part of CBO estimates has nothing to do with Social Security or the odd priority accorded to retiring debt. The real story is the way in which each forecast is treated as indisputable fact, despite the CBO’s record of exaggerating deficits and underestimating surpluses.

In 1993, the CBO predicted that the deficit would soar to $653 billion in 2003. This week, they said that same budget will be in surplus by $172 billion. Little of that $825 billion revision can be explained by legislation or luck. Nearly all of it reflects the magnitude of past forecasting blunders.

Errors are unavoidable, but perpetual bias is another matter. CBO errors always tilt in a specific direction. Aside from the first year of recessions, the CBO always exaggerates future budget deficits and underestimates surpluses.

Past forecasts often overstated deficits by huge amounts even for the current year — by $78 billion in 1992 and $102 billion in 1997. In early 1998, the CBO thought the next year’s surplus would be $2 billion, but it turned out to be $125 billion. Looking further ahead, CBO errors have been staggering. Next year’s budget, now estimated to be in surplus by $176 billion, had once been expected to show deficits of $579 billion (per the CBO’s 1993 forecast), $349 billion (1995 forecast), and $188 billion (1997 forecast).

There are good reasons to expect the CBO now underestimates future surpluses in the same way it used to overestimate future deficits. There is a cyclical pattern to CBO budget forecasts. They always turn overly pessimistic during economic slumps, and move closer to reality only after years of economic expansion.

### 2AC L/T—Edu Spending Good

#### Education spending drives growth—increases GDP, wages, and long-term success.

Carmignani, Professor, Griffith Business School, Griffith University, 16 (Fabrizio, “Does government spending on education promote economic growth?” The Conversation, 06.02.16, accessed 07.13.17 at http://theconversation.com/does-government-spending-on-education-promote-economic-growth-60229, DDI-EJ)

Economic growth is driven by new ideas, by discoveries that result in better products and more efficient production technologies. Human capital is the engine of this process: a better educated labour force increases the return on research and development and ensures that discoveries are more readily absorbed in the productive structure of the economy. In the end, **more education equals more economic growth**. Or so goes the theory. In practice, researchers and policymakers have often questioned the effective aggregate return of spending on education. Simply put, the question is: does government spending on education promote economic growth? Some stylised facts Using data available from The World Bank’s World Development Indicators (WDI) database, it is possible to estimate the bivariate relationship between government education expenditure and GDP across a large sample of countries. The estimates show that for every dollar the government spends on education, GDP grows on average by $20. When the estimate is run for Australia only, the multiplier is slightly higher: an extra $1 of education expenditure increases Australian GDP by $21. While intuitively appealing, these results raise some questions. An obvious concern is that a country with a larger GDP must also spend more on education. This introduces the risk of reverse causality; that is, the model might pick the effect of GDP size on education expenditure and not vice-versa. The graph below somewhat addresses this limitation. World Development Indicators of the World Bank In the chart, GDP is measured by its rate of annual growth between 2000 and 2010 and education expenditure is measured as a share of total GDP over the period 1990-99. This time lag reduces the risk of reverse causality. The dots indicate combinations of education expenditure and GDP growth for each of 151 countries for which data are available from the WDI. The red line provides the best statistical approximation of the bi-dimensional scatter plot. The positive slope indicates that countries that spent more on education as a proportion of GDP in 1990-99 experienced faster growth in the subsequent decade. More precisely, an increase in education expenditure by 1 point of GDP (eg from 4.5% to 5.5%) increases GDP growth by 0.9 percentage points (eg from 4.5% to 5.4%). What do academics have to say about this? A lot of research has been devoted to the analysis of the effects of education on economic growth. Academic research in this area is characterised by a certain degree of technical complexity and results often differ across studies depending on the methodology used, the sample considered, or how education is measured. A survey of this vast literature identified 57 studies, many of which measure education in terms of outcomes (eg enrolment rates, literacy rates, years of schooling in the workforce) rather than expenditure. But the studies that did look at educational expenditure as a proxy for education generally reported a positive effect of education on growth. A recent a meta-analysis considered 29 papers that specifically look at the impact of government education expenditures on economic growth. Of these 29 studies, 14 report a positive and statistically significant effect of government expenditure on growth, 12 report a negative effect, and 3 report no statistically significant effect. Averaging across all studies, the effect of educational expenditure on growth is positive - albeit modest - in the order of a 0.2-0.3% increase in growth for an increase in expenditure by 1% of GDP. All these studies typically look at the direct effect of educational expenditure on growth. However, if education outcomes affect growth, and educational expenditure affects education outcomes, then expenditure also has an indirect effect on growth. Recent estimates that use US data suggest that this indirect effect can be large: a 10% increase in per-pupil spending each year for 12 grades of public school was found to lead to 0.27 more completed years of education, 7.25% higher wages and 3.67 percentage point reduction in the annual incidence of adult poverty. An important aspect that only recently has been addressed by some studies is the one of “quality” of education, as measured for instance by test scores. One such study uses international student achievement tests to construct a measure of cognitive skills that ranges from 3 to 5.5. It reports that an increase in this measure by 0.6 is associated with a two percentage point higher average annual growth rate in GDP per capita across 40 years. The question is then how to produce quality education. The authors of this study consider some of the drivers of test scores, but do not include education expenditure in their analysis. This represents an interesting avenue of future research.

### 1AR L/T—Edu Spending

#### Educational spending boosts innovation—key to growth and competitiveness.

Arne Duncan, 3-2-2017, (Former U.S. secretary of education, Duncan served as the CEO of the Chicago Public Schools from June 2001 through December 2008, “Educational equality and excellence will drive a stronger economy,” *Brookings*, https://www.brookings.edu/blog/brown-center-chalkboard/2017/03/02/educational-equality-and-excellence-will-drive-a-stronger-economy/) lz

This election taught me two things. The first is obvious: We live in a deeply divided nation. The second, while subtle, is incredibly important: The election was a massive cry for help. People across the country–on both sides of the political spectrum–feel they have been left behind and are fearful their basic needs will continue to go unanswered. Rhetoric may win votes, but it doesn’t put food on the table. There’s been much discussion of how we’re divided by race and class, but I believe a huge driver of our nation’s current challenges is created by educational inequity.

The persistent lack of access to world-class educational resources and technology in far too many communities is at the heart of this issue. This inequality breeds more than just subpar test scores. It snowballs to create economic immobility, stranding people without the training necessary to earn well-paying jobs. As the job landscape evolves–STEM jobs are growing 70 percent faster than non-STEM jobs–we need to create opportunities for people to develop 21st-century skills and level the playing field for all demographics.

The strong reactions to new U.S. Secretary of Education Betsy DeVos’s confirmation hearing last month illustrates the importance of education to all factions of our nation. We need to be prepared to find a solution that provides opportunity for all Americans and bolsters our economy. I urge policymakers to make technology education a national priority.

By 2020, demand for skilled technologists will exceed the number of qualified applicants by 1 million, leaving our country vulnerable in key areas such as technological innovation, economic development, and cybersecurity. Our inability to resolve the digital skills shortage is bleeding the U.S. economy of approximately $1 trillion annually.

When compared to 17 other industrial countries, U.S. workers ranked last in “problem solving in technology-rich environments.” If we expect to compete in a global economy that demands increasingly higher skills, we need to concentrate on closing the digital divide. The reversal must begin in K-12, where currently only one in four schools teach computer programming.

The impact of this skills gap is easy to see across local economies. Georgetown University predicts there will be an estimated 228,000 STEM-related jobs in Michigan by 2018, but as Detroit public schools rank the lowest among big-city districts in math—with only 4 percent of eighth graders scoring proficient or better—the question lingers: Who will fill those roles?

#### Investment is critical – improves the economy

Noah Smith, 1-23-2015, (Noah Smith is a Bloomberg View columnist. He was an assistant professor of finance at Stony Brook University, and he blogs at Noahpinion. "Throw More Money at Education," Bloomberg, https://www.bloomberg.com/view/articles/2015-01-23/spending-more-on-public-schools-boosts-u-s-economy)

It’s become almost conventional wisdom that throwing more money at public education doesn’t produce results. But what if conventional wisdom is wrong?

A new paper from economists C. Kirabo Jackson, Rucker Johnson and Claudia Persico suggests that it is. To disentangle correlation from causation, they look at periods from 1955 through 1985 when courts ordered governments to spend more on schools, from kindergarten through 12th grade. They then track how students in those areas did, up through 2011. The result is a very detailed long-term picture of the effect of spending more money on education.

The economists find that spending works. Specifically, they find that a 10 percent increase in spending, on average, leads children to complete 0.27 more years of school, to make wages that are 7.25 percent higher and to have a substantially reduced chance of falling into poverty. These are long-term, durable results. Conclusion: throwing money at the problem works.

Here’s the hitch: The authors find that the benefits of increased spending are much stronger for poor kids than for wealthier ones. So if you, like me, are in the upper portion of the U.S. income distribution, you may be reading this and thinking: “Why should I be paying more for some poor kid to be educated?” After all, why should one person pay the cost while another reaps the benefits?

Well, let me try to answer that. There are several good reasons.

First, if you're an upper-income American, you probably do derive some direct benefit. When poor Americans become better workers, it doesn’t just boost their wages. It also boosts the profitability of the companies where they work. If you own stock in such a company (and I hope you do), the value of those shares will go up if American worker productivity increases.

There might be even bigger, though less direct, effects from having a more-educated populace. The more industries can use U.S. workers instead of Chinese workers, the more industries will base their production in the U.S. This will feed local economies, boosting the profits of stores and other service businesses. That also feeds into your stock portfolio.

If you own your own business, you might need to hire some low-income people. If those people are better readers, better at doing simple math, more efficient at everyday tasks, and just more productive in general, that cuts down on the time and money you need to spend fixing their mistakes.

Next, having more educated poor people makes for a better civil society. Suppose you live in, say, Chicago, or some other city that hasn’t enjoyed as big a drop in crime as New York or Los Angeles. I bet you don’t enjoy having to worry about driving or walking through unsafe neighborhoods. I also bet you would like to walk around downtown without fear of getting mugged. It might also be nice not to have to live behind the isolating walls of a gated community.

One way to reduce crime, of course, is to pay for more police and increase incarceration rates. But another way is to improve education. Economists Lance Lochner and Enrico Moretti found in 2003 that education decreases crime. An educated populace is a well-socialized populace. There is also the fact that better education leads to higher wages for poor people, reducing the incentive for them to engage in crime.

At the risk of sounding grandiose, let me go even further: Education is really the difference between a cohesive society and a collection of people who happen to live next to each other. This was understood well by Fukuzawa Yukichi, Japan’s version of Ben Franklin. After Japan opened up to the West in the mid-1800s, Fukuzawa volunteered for Japan’s first diplomatic mission to the U.S. He returned convinced that universal education was the key to transforming Japan into the equal of the Western nations. His ideas were influential, and Japan to this day has one of the world’s best education systems.

Detractors of our public education system point out that the U.S. already spends as much on public education as many other developed countries -- 5.5 percent of gross domestic product, compared with only 3.5 percent in Japan, 4.9 percent in Canada, 5 percent in South Korea and 5.9 percent in Finland. Many view increased education spending as a giveaway to powerful and greedy teachers’ unions.

But maybe the U.S. spends more because it needs to spend more. The U.S. has more inequality and more poor people than those countries. Just as some countries naturally need to spend more on health care than others, the U.S. might naturally need more education spending.

#### Education is a key investment into economic development

Harry A. Patrinos, 5-17-2016, "Why education matters for economic development," Education, http://blogs.worldbank.org/education/why-education-matters-economic-development

There are more children in school today than ever before. For example, in 1950 the average level of schooling in Africa was less than two years. It is more than five years today. In East Asia and the Pacific, the schooling of the population went from two to seven years between 1950 and 2010. This is a more than a 200 percent increase! Globally, average years of schooling are now projected to rise to 10 years by 2050. This is larger than a five-fold increase within a century and a half.

Yet, there are still 124 million children and adolescents not in school. Also, more than 250 million school children cannot read, even after several years of schooling.

Here are five things you should know about the pivotal role of education in economic development:

Education is an investment

The importance of knowledge and learning has been recognized since the beginning of time. Plato wrote: “If a man neglects education, he walks lame to the end of his life.”

But it was really the Nobel winning economists that put the argument of education as investment. T.W. Schultz argued that investment in education explains growth and Gary Becker gave us the Human Capital Theory.

In a nutshell, the Human Capital Theory posits that investing in education has a payoff in terms of higher wages. Moreover, the theory and empirical estimates are backed up by current science, as explained by James Heckman.

Neurogenesis tells us that learning can continue into advanced ages. The relative costs and benefits to investments in older persons compared to younger persons differs. Investments in more able workers at any age generate higher returns than investments in less able workers, and ability is formed at early ages.

Education pays

Overall, another year of schooling raises earnings by 10 percent a year. This is typically more than any other investment an individual could make:

The value of human capital – the share of human capital in total wealth – is 62 percent. That’s four times the value of produced capital and 15 times the value of natural capital. Globally, we – governments, private sector, families, individuals – spend more than $5.6 trillion a year on education and training. Countries spend 5 percent of GDP on education or 20 percent of their national budget. Education employs about five percent of the labor force.

Moreover, private returns to schooling – what individuals receive in the labor market – have been increasing. Returns are increasing by more than 20 percent in Africa and more than 14 percent in East Asia and the Pacific. The big change recently has been that the returns to tertiary education are now highest.

Skills demanded by the labor market are changing

One of the reasons for the change in the returns pattern is the race between technology and education, as labor markets adjust to automation. In this new world, the ability of workers to compete is handicapped by the poor performance of education systems in most developing countries. Technological change and global competition demand the mastery of competencies and the acquisition of new skills for many.

Countries can compete- and succeed

To promote success in today’s labor market, one needs to invest early, and then invest in the relevant skills (see below). Above all, countries need to invest smartly, by promoting attention to the 3 A’s: Autonomy, Accountability, Assessment. They need to pay attention to teachers, early childhood development and culture

#### Economy hurts when government doesn’t spend

Ezra Klein, 1/30/13, founder and editor-in-chief of Vox.com ("Government is hurting the economy — by spending too little," https://www.washingtonpost.com/news/wonk/wp/2013/01/30/government-is-hurting-the-economy-by-spending-too-little/?utm\_term=.74403f2d9ee3)

Nor is there strong evidence that businesses are holding back on investment for any reason save lack of demand. The general factoid you hear in support of this argument is that corporations are sitting on more than $2.5 trillion in cash, with the implication being that they'd be spending that cash if not for the paralyzing effects of federal policy.

But the build-up of cash reserves -- or, to be more technical (and more accurate), "liquid assets" -- is a long-term trend that hasn't accelerated since the recession. The Federal Reserve keeps data on liquid assets held by non-financial corporations, and the build-up was faster from 1997 to 2000 than it was from 2008 to 2011. Why corporations are holding so much more cash is an interesting mystery, but it's not one that began with the passage of Obamacare.

That said, the government is hurting the recovery, and badly. But it's not because it's spending too much, or because of concerns over future policy. It's because government, at all levels, is spending and investing too little. Despite the stimulus and various other policies we've passed to help the recovery, and despite the large deficits the government has been running, government spending and investment have, at all levels, been contractionary since 2010.

The new numbers the Bureau of Economic Analysis released on fourth-quarter economic growth have received considerable attention for the clear damage that falling government spending did to the economy. According to the BEA, "government consumption expenditures and gross investment" knocked 1.33 percentage points off the total change in economic growth. If government spending had just been neutral -- that is to say, if it had neither contracted nor expanded -- the economy would have grown by 1.23 percentage points rather than shrunk by 0.1 percentage points.

But this isn't the first time that total government spending and investment has been a drag on growth. It pulled growth down by 0.67 percentage points in 2010, .34 in 2011, and .33 in 2012. This is the strange, counterintuitive truth of government policy over the last three years: We haven't been spending enough to keep growth steady, much less help it along.

#### Public spending boosts capital and competitiveness

IMF 95 [8-10-1995, "IMF Pamphlet Series," No Publication, https://www.imf.org/external/pubs/ft/pam/pam48/pam4803.htm]

A variety of empirical studies, based on time-series or cross-country data, have aimed at estimating the contribution of public expenditures to economic growth. Some studies relate aggregate public expenditures to economic growth; others focus on the relationship between certain expenditure components, such as public investment, education or health expenditures, or their components, and economic growth. The major obstacles encountered in these studies include the difficulties involved in (1) valuing public sector outputs; (2) estimating separately the impact of how public expenditures are financed (including the possible crowding out of private investment); and (3) measuring the effects of other factors on economic growth. In addition, using contemporaneous cross-country data to relate public expenditures to economic growth may not yield correct results because many public expenditure projects (for example, those on primary education and physical infrastructure) have long gestation periods.

Public Expenditures and Economic Growth

Many studies have aimed at estimating the effects of public expenditure on economic growth. Empirical studies have yielded conflicting results: some support the hypothesis that a rise in the share of public spending is associated with a decline in economic growth (Landau (1986) and Scully (1989)); others have found that public spending is associated positively with economic growth (Ram (1986)); and still other studies have found no significant relationship (Kormendi and Meguire (1985) and Diamond (1989)). Public expenditures were observed in one study to have no impact on growth in developed countries, but a positive impact in developing countries (Sattar (1993)). In general, studies of the relationship between aggregate public expenditure and economic growth have not yielded robust results, as the results of many are sensitive to small changes in model specification (Levine and Renelt (1992)).

A number of studies have tested the effects of certain public expenditure components on economic growth. In general, these studies suggest that public sector consumption does not promote economic growth (Diamond (1989), Barro (1991), Grossman (1990), and Easterly and Rebelo (1993)). A number of studies have found a positive correlation between economic growth and various education indicators or expenditures: primary and secondary levels of educational attainment (Barro (1991) and Easterly and Rebelo (1993)); the share of expenditures on education in total expenditure (Otani and Villanueva (1990)); and capital expenditures on education (Diamond (1989)). Other studies suggest indirect links between education and economic growth, for example, through the linkage between education expenditures and private investment (Clements and Levy (1994)).31

In contrast to the generally positive correlations between education and growth, a number of studies have reported only a weak correlation between labor productivity--a factor strongly associated with economic growth--and health indicators (Gwatkin (1983)), although there are exceptions (for example, World Bank (1993a)).

Other strands of research have aimed at identifying the effect of household investments in education and health or public outlays on specific education and health services; these studies have found, in general, robust results, indicating the positive effects of such investments on lifetime earnings or educational and health indicators. These studies point to the productivity of primary education and community health services, particularly in developing countries, as well as health education and preventive health care expenditures (Ryoo (1988); Haddad and others (1990); Winkler (1990); Atkin, Guilkey, Popkin, and others (1992); Jamison (1993); Psacharopoulos (1993); and World Bank (1993b)).

Some studies have aimed at assessing the effects of military expenditures on economic growth. Military expenditures can create jobs, and military research and development programs can promote technological progress. While some studies have reported a positive correlation between military expenditures and economic growth, this positive correlation reflects to a large extent the effects of an increase in military outlays on aggregate demand during recessionary periods (Benoit (1973)). When resources are fully employed, the simple theory of opportunity costs implies that military expenditures will crowd out other expenditures, including private investment. Several more recent studies (for example, Deger (1986)) suggest that this effect dominates any positive impact of military outlays on growth.32

Public Investment and Economic Growth

Public investment is an area that can have direct relevance for economic growth. Public investment in basic infrastructure is an essential precondition for capital accumulation in the private sector. Public investment in education and health facilities improves human capital formation. However, public investment is also an area where grossly unproductive white elephants can be found.

While the contribution of public investment to economic growth has been invariably assumed theoretically, empirical studies based on aggregate public expenditure data have found only weak links between public investment and economic growth. Using cross-country data to test the relationship between public investment and economic growth, some recent research in this area has found only a statistically insignificant relationship (Barro (1991)). Other research has found that capital spending on education, health, and housing has a positive effect on economic growth (Diamond (1989)). Some others have used U.S. data to test the effects of public investment on the productivity of existing capital stock, private capital spending, and employment. While many studies have found positive effects, the effect of public investment on private capital spending appears to be strongly influenced by the extent of crowding out (for example, Aschauer (1989a) and (1989b), Munnell (1990), and Holtz-Eakin (1992)), while cross-country studies including the developing nations have failed to produce robust statistical results linking public investment and growth (Levine and Renelt (1992)).

### AT: $ Doesn’t Improve Edu

#### Money does matter for education—prefer actual studies to conservative hacks.

Carey and Harris 16—Kevin Carey directs the Education Policy program at New America; writes regularly for The Upshot at The New York Times and has written feature articles for Wired, The New Republic, Pacific Standard, Washington Monthly, and other publications. Elizabeth A. Harris is an Education Reporter at The New York Times. Prior to joining New America, Carey worked as the policy director of Education Sector, and as an analyst at the Education Trust and the Center on Budget and Policy Priorities (“It Turns Out Spending More Probably Does Improve Education,” *The New York Times*, December 12, 2016, https://www.nytimes.com/2016/12/12/nyregion/it-turns-out-spending-more-probably-does-improve-education.html)

If you spend more on education, will students do better?

Educators, politicians and unions have battled in court over that crucial question for decades, most recently in a sweeping decision this fall in Connecticut, where a judge ordered the state to revamp nearly every facet of its education policies, from graduation requirements to special education, along with its school funding.

For many years, research on the relationship between spending and student learning has been surprisingly inconclusive. Many other factors, including student poverty, parental education and the way schools are organized, contribute to educational results.

Teasing out the specific effect of money spent is methodologically difficult. Opponents of increased school funding have seized on that ambiguity to argue that, for schools, money doesn’t matter — and, therefore, more money isn’t needed.

But new, first-of-its-kind research suggests that conclusion is mistaken. Money really does matter in education, which could provide fresh momentum for more lawsuits and judgments like the Connecticut decision.

The study, published by the National Bureau of Economic Research in July, was conducted by the economists Julien Lafortune and Jesse Rothstein of the University of California at Berkeley and Diane Whitmore Schanzenbach of Northwestern. They examined student test scores in 26 states that have changed the way they fund schools since 1990, usually in response to a lawsuit like Connecticut’s, and compared them with those in 23 states that haven’t. While no two states did exactly the same thing, they all had the effect of increasing funding for the poorest districts.

The post-1990 time frame is important: That’s when courts changed how they think about states’ obligations to public schoolchildren. Previously, nearly all school funding lawsuits focused on the question of “equity” — did disadvantaged students receive funding equal to that of their well-off peers?

The problem with that perspective was the answer could be “yes,” even if funding was too low across the board. Starting with a 1990 court case in Kentucky, courts started asking about “adequacy” instead. Were school districts getting enough money, which might require giving extra money to districts that enroll many low-income, expensive-to-serve students?

“There’s been this wave of school finance reform across the country over the last few decades,” Mr. Rothstein said. “I think it’s fair to say it’s the largest reform aimed at equity since school desegregation, and we really didn’t know what the impacts were. There’s now growing evidence, from my work and from others, that those reforms did lead to improved achievement and improved outcomes for children in low-income school districts.”

Mr. Lafortune, Mr. Rothstein and Ms. Schanzenbach also solved a difficult methodological problem that had plagued school finance researchers for decades. More money isn’t an end unto itself — the goal is to produce better results. But before the recent widespread adoption of the Common Core State Standards, every state had its own standards and related tests. That made it hard to compare academic results from one state to another.

The researchers took advantage of the one test that is taken by a representative sample of schoolchildren nationwide: the National Assessment of Educational Progress, or NAEP, which is administered by the Department of Education.

Although NAEP results are usually published only for whole states and a small number of large urban school districts, the researchers got the education department to let them analyze individual student scores. Those results include information on the test-taker’s race and income, as well as school district attended. The researchers could compare performance in poor and wealthy districts before and after changes in spending.

They found a consistent pattern: In the long run, over comparable time frames, states that send additional money to their lowest-income school districts see more academic improvement in those districts than states that don’t. The size of the effect was significant. The changes bought at least twice as much achievement per dollar as a well-known experiment that decreased class sizes in the early grades.

Another paper, published this year in the Quarterly Journal of Economics, looked at the same question through a different lens. That study examined longer-term outcomes, like how long students stayed in school and how much they earned as adults, for students in districts with and without court-ordered funding changes. Here, too, researchers saw gains with more money spent.

That study was conducted by C. Kirabo Jackson of Northwestern, Rucker C. Johnson from the University of California at Berkeley and Claudia Persico, then a graduate student at Northwestern and now an assistant professor at the University of Wisconsin. They examined outcomes for about 15,000 people, born between 1955 and 1985, and found that for poor children, a 10 percent increase in per-pupil spending each year of elementary and secondary school was associated with wages that were nearly 10 percent higher, a drop in the incidence of adult poverty and roughly six additional months of schooling.

“The notion that spending doesn’t matter is just not true,” Mr. Jackson said. “We found that exposure to higher levels of public K-12 spending when you’re in school has a pretty large beneficial effect on the adult outcomes of kids, and that those effects are much more pronounced for children from low-income families.”

### 2AC Dollar Resilient

#### US dollar resilient—instability of other currencies secures foreign investments.

Patrick Watson 15, Senior Editor [“Why Not to Worry about a US Dollar Collapse,” *Mauldin Economics*, September 16, 2015, Web Accessed: 15 July 2017, http://www.mauldineconomics.com/resources/why-not-to-worry-about-a-us-dollar-collapse]

Compared to other world currencies, the US dollar is hardly collapsing. It is strengthening, and no other currency shows signs of catching up. Some currencies, no doubt, will collapse in the coming decades, but the dollar is way down the list. How can this be? Ironically, cutting all ties to gold actually helps the dollar. Currency values are always relative to another currency. That means it is mathematically impossible for every currency to lose value. When you sell currency A (whatever it is), you must simultaneously buy currency B. That means some currency will always be on top of the pile... even if the pile is sinking. The dollar has stayed relatively strong, despite US economic problems, because other currencies look even worse. Many foreign investors see the US as an island of stability in a storm-tossed world. They want to own dollar-denominated assets. That keeps the dollar strong. For example, look at this chart showing the US dollar exchange rate against the Japanese yen over the last five years. In 2012, before the Bank of Japan launched its latest stimulus program, it only took around 80 yen to buy a dollar. By mid-2015, the rate was over 120 yen to the dollar. If you are an American investor worried about the dollar, imagine how this must look to Japanese investors. They might gladly trade places with you, if they could get dollars in exchange. The same applies, more or less, to all other currencies. The dollar looks more attractive than the home currencies of many foreign investors. Anything can happen in the short term, of course, but a dollar collapse is unlikely in this environment. Every fiat currency in history has eventually collapsed. The US dollar will collapse too, but we think that day is many years away. Meanwhile, our analysis says the dollar could get much stronger. In John Mauldin’s latest Five-Year Global Financial Forecast released January 12, 2015, he explained what he thinks will happen. Here are four excerpted outlooks from what John called his “Tsunami Warning.” Japan will continue its experiment with the most radical quantitative easing attempted by a major country in the history of the world… and the experiment is getting dangerous. The Bank of Japan is trying to end a deflationary malaise that dates back to the late 1980s. To do this, it must convince the rest of the world to buy more Japanese exports. Its best tool is a weaker yen—and not just against the dollar. Japan competes against Germany, China, and South Korea... so it needs to push the yen down against those currencies, too. From all appearances, Japan’s leadership is fully prepared to push the yen much lower than it is now. That will help owners of dollars and dollar-denominated assets. Europe is headed for a crisis at least as severe as the Grexit scare was in 2012—and for the resulting run-up in interest rates and a sovereign debt scare in the peripheral countries. Excessive debt in the so-called PIIGS nations (Portugal, Italy, Ireland, Greece, and Spain) is holding back growth in much of Europe. The main exception is Germany. The euro common currency can’t work as intended while some member countries are booming and others are stuck in recession. The European Central Bank is trying to restore balance with a gigantic asset purchase program and by pushing some short-term interest rates below zero. That’s right—if you have money to lend, you pay somebody to borrow it from you. As you might imagine, no one who owns euros is happy with this situation. Dollar interest rates may not be very high, but they are better than the euro alternative. We think euro currency holders will continue to buy dollars as their own currency remains stagnant... or drops even further.

### 2AC Dollar Bad—Economy

#### Dollar hegemony collapses the global economy—undermines manufacturing and causes trade retaliation.

Ambrose Evans-Pritchard 17, International Business Editor at the Daily Telegraph, M.A. in Economics from Oxford University (“A surging dollar under Trump poses biggest threat to global economy,” *Telegraph,* January 20, 2017, http://www.telegraph.co.uk/business/2017/01/20/surging-dollar-trump-poses-biggest-threat-global-economy-blackrock/)

The surging dollar poses the biggest single threat to the global economy and will be extremely difficult to manage under the incoming Trump presidency, the world's largest investment fund has warned.

Larry Fink, head of the $4 trillion giant BlackRock, said sweeping plans for tax cuts and fiscal stimulus in the US were already causing markets to price in a monetary squeeze by the Federal Reserve, potentially driving an upward spiral in the dollar. "It's going to be very hard to navigate," he told the World Economic Forum in Davos.

Our biggest lender is Japan and our second biggest is China, and I think we need to be paying quite a bit of attention to this. You should always be nice to your lenders

One worry is that the stronger dollar undermines the competitiveness of core US manufacturers, the very sector that Donald Trump has vowed to promote. This will make it even more likely that he will turn to trade warfare, or seek to pressure the Fed into weakening the dollar by delaying rate rises. "There is going to be great tension with the Fed over these issues," he said.

The other is that ballooning fiscal deficits could draw in a flood of foreign capital and yet more US dependence on powerful creditors in Asia, leading to a combustible situation if diplomatic relations deteriorate.

"Our biggest lender is Japan and our second biggest is China, and I think we need to be paying quite a bit of attention to this. You should always be nice to your lenders," he said.

While the world can handle a strong dollar for a while, the effect is to drain liquidity from an international financial system that is more dollarised than ever before, and to force banks in Europe and the Far East to contract dollar lending through the effects of complex hedging derivatives.

Christine Lagarde, the head of the International Monetary Fund, said in Davos that concerns are mounting over the ability of some countries in Africa to meet payments on their dollar debts. Much the same applies to Latin America, and parts of Eastern Europe, and Asia.

For now, the world is recovering from the downturn of early 2016 and the US is entering a veritable boom. Mr Fink said America needs to spend $2 trillion to catch up with "deferred maintenance" of basic infrastructure. The prospect that this will finally be addressed under the Trump White House is already fueling an explosive rally in construction equities.

Contrary to the elite view in Davos, he said the voter shocks in the UK and US last year were positive events that had restored the animal spirits of small business and consumers. "We're seeing growth all over the world. I do believe that Brexit and Donald Trump have had an immediate impact," he said.

"Families feel their voice has changed policy. They feel encouraged and they are spending more money. In the US this is quite evident in car sales," he said. Sales of light vehicles surged to an annual rate of 18.4m in December, smashing all records and catching economists by surprise.

Mr Fink appeared on a panel alongside IMF boss Christine Lagarde and British Chancellor Philip Hammond

Haruhiko Kuroda, the Bank of Japan's governor, echoed the mood of optimism, saying Japan will grow at rates far above potential in 2017 and 2018, and the country may finally win the battle against deflation. "I see a 'white swan' event. There may be 'upside risks' in the US economy this year and next year," he said.

Mrs Lagarde said the IMF was in the welcome position of not having to revise down its growth figures for the first time in several years, but ultimately the future all depends on whether Mr Trump pulls the trigger on a trade conflict. If he does, IMF estimates suggest that the damage will outweigh any of the gains from his fiscal stimulus.

"If we have a race to the bottom on the tax front, on the trade front, on regulations, for me that really is a 'black swan', and there will be devastating effects," she said.

### 1AR Dollar Bad—Economy

#### Strong dollar bad—causes higher prices, risk of a shortage, and difficulty paying back debt

Holodny ’16 [Elena Holodny graduated from Columbia in 2014 with a degree in economics and writes at Business Insider, covering economics, geopolitics, and markets, “The dark side of the stronger dollar”, Business Insider, 12-3-16, http://www.businessinsider.com/negative-effects-of-stronger-us-dollar-2016-12] Accessed 7-15-17, Tamara W

A strong dollar could be problematic for Americans

Perhaps more interesting than the dollar rally itself is what it actually means for companies and consumers going forward, since a stronger dollar can come with negative side-effects for US companies, especially those with heavy international exposure.

Effectively, if the greenback strengthens against another currency, then goods and services in the US become more expensive for people using those other currencies outside the states. Therefore, they might end up buying less of those American-made goods and services going forward, which is then bad for American producers.

Already some US companies and business owners have addressed this issue. On Monday, the Dallas Federal Reserve released its latest assessment of business activity in Texas, which includes comments from survey respondents. One respondent in food manufacturing pointed a finger at the peso, arguing that its weakness could spell bad news for his firm.

"The recent devaluation of the peso will make our products much less competitive in Mexico and much of Latin America. We could see a double-digit decrease in exports to this region," the respondent said.

Moreover, respondents in the Federal Reserve's recently released Beige Book, a complication of anecdotes on the economies of the Fed's 12 districts, also commented on the downside of a strong dollar. In particular, some wondered whether tourism would remain strong if the currency continued to rally against other majors.

And last week in interview with CNBC's "Squawk on the Street" on Wednesday, Meg Whitman, the CEO of Hewlett Packard Enterprise, addressed this issue as well:

"The currency headwinds are very real. Because when the dollar is strong, our goods are more expensive overseas. And so, let's say someone in Europe was going to buy 1,000 servers, now maybe they'd only buy 800 because the dollar is so strong. So, listen, we've got to manage that. That's part of our new reality. We've got to get our cost structure in line."

Even before this recent dollar rally, US companies have been blaming the stronger dollar for weaker profits over the last few quarters.

A stronger dollar also can hurt those abroad

Although the US is no longer the sole dominant economic hegemon, the dollar is still the main currency used on the global stage.

In light of the appreciation, bank economists and analysts are starting to think about the possibility of a global dollar shortage in the near future, as Business Insider's Matt Turner wrote earlier this week.

A stronger dollar stands to wedge companies that borrowed in dollars into an uncomfortable position: not only is it harder to repay the debt, but it's also harder to roll over loans when they come due.

#### Reserve currency status alone crushes the economy.

WSJ 14 (“How the ‘Reserve’ Dollar Harms America: Ending the greenback’s reserve-currency role will raise savings and make U.S. companies more competitive,” *Wall Street Journal*, Byline Lewis E. Lehrman and John D. Mueller, November 20, 2014, http://www.wsj.com/articles/how-the-reserve-dollar-harms-america-1416527644)

The economic crisis of 2008-09 was similar to the crisis that triggered the Great Depression. This time, foreign monetary authorities had purchased trillions of dollars in U.S. public debt, including nearly $1 trillion in mortgage-backed securities issued by two government-sponsored enterprises, Fannie Mae and Freddie Mac. The foreign holdings of dollars were promptly returned to the dollar market, an example of demand duplication. This helped fuel a boom-and-bust in foreign markets and U.S. housing prices. The global excess credit creation also spilled over to commodity markets, in particular causing the world price of crude oil (which is denominated in dollars) to spike to $150 a barrel.

Perhaps surprisingly, given Keynes ’s central role in authoring the reserve-currency system, some American Keynesians such as Kenneth Austin, a monetary economist at the U.S. Treasury; Jared Bernstein, an economic adviser to Vice President Joe Biden ; and Michael Pettis, a Beijing-based economist at the Carnegie Endowment, have expressed concern about the growing burden of the dollar’s status as the world’s reserve currency. For example, Mr. Bernstein argued in a New York Times op-ed article that “what was once a privilege is now a burden, undermining job growth, pumping up budget and trade deficits and inflating financial bubbles.” He urged that, “To get the American economy on track, the government needs to drop its commitment to maintaining the dollar’s reserve-currency status.”

#### Dollar hegemony crushes the global economy and manufacturing.

Peter Coy 1/5, Economics Editor for *Bloomberg Business,* citing David Beckworth, Senior Research Fellow in Economics at George Mason University,and Brad Setser, Senior Fellow at the Council on Foreign Relations (“The Strong Dollar Could Bash the Economy—and It’s Just Getting Started,” *Bloomberg Business* January 5, 2017, https://www.bloomberg.com/news/articles/2017-01-05/the-strong-dollar-could-bash-the-economy-and-it-s-just-getting-started)

The headlines are full of scary reports about the dollar’s rise to a 14-year high against a basket of six major currencies. Its strength will hurt U.S. manufacturing while triggering capital flight from emerging markets, economists say. The appreciation “is a real serious noose around the neck of the global economy,” David Beckworth, a senior research fellow at the Mercatus Center at George Mason University in Arlington, Va., said in November.

What’s really alarming, though, is that even though the dollar has jumped 6 percent against the euro and 12 percent against the yen since the U.S. presidential election, it remains well below its historic highs. If its rise to date is causing trouble, imagine how much worse things could get if it went on a serious upward run.

[Chart Omitted]

The included chart shows how much headroom remains for the greenback. It’s the Federal Reserve’s index of the value of the dollar against a basket of currencies of 26 trading partners, with each one’s value adjusted for that nation’s inflation rate. This is a better indicator of the dollar’s strength than the frequently cited U.S. Dollar Index, which covers just six currencies and isn’t adjusted for inflation. The Fed’s index remains 10 percent below its 2002 high and fully 19 percent below the lofty high of 1985, which led to an emergency international accord to lower the greenback’s value through official, coordinated sales of dollar reserves.

Fundamental factors are driving the dollar upward. Because U.S. growth is strong and unemployment low, Fed policymakers are projecting three more quarter-point increases in short-term rates in 2017. That will tend to push up the dollar by making U.S. Treasuries and other fixed-income investments more lucrative. Investors are also betting President-elect Donald Trump will touch off a growth spurt through tax cuts and infrastructure investment.

Meanwhile, “The euro zone debt crisis and the travails of the Chinese renminbi have weakened the dollar’s main rivals and cemented its dominance as a key benchmark for other currencies,” Cornell University economist Eswar Prasad wrote in an e-mail. ABN Amro, a Dutch bank with a more extreme forecast than most, projects that the euro, worth $1.15 as recently as May, will be only 95¢ for most of 2017. Trump Gives the Dollar Wings, it headlined a November research report.

A strong dollar is bad for U.S. growth, making American goods and services less competitive in world markets. A rule of thumb says that a 10 percent rise in the dollar increases the trade deficit by 1 percent of gross domestic product, and that translates into the loss of hundreds of thousands of jobs, says Brad Setser, a senior fellow at the Council on Foreign Relations in New York. Warnings about the damage from dollar strength have come recently from U.S. companies including Boeing, Emerson Electric, 3M, and United Technologies.

The greenback’s strength could cause problems in emerging markets such as Mexico and Turkey, because it increases how much of the local currency borrowers need to spend to make payments on bonds they issued in dollars. And bond issuers in those countries must pay higher interest to attract buyers when the Fed raises rates. Petróleos Mexicanos pointed to the peso’s depreciation as a factor in a 23 percent increase in the peso value of its debt in the first three quarters of 2016. In China, debt-laden builders are suddenly having trouble selling dollar-denominated bonds.

#### Dollar hegemony flips every internal link—causes financial bubbles, systemic disruption, and foreign liability

Vermeiren ’10 [Mattias Vermeiren is a researcher at the Ghent Institute for International Studies at Ghent University in Belgium, “The global imbalances and the contradictions of US monetary hegemony”, Journal of International Relations and Development, 2010, https://link.springer.com/content/pdf/10.1057%2Fjird.2009.36.pdf] Accessed 7-15-17, Tamara W

The first contradiction of US monetary hegemony is that its structural capacity to attract foreign funds can easily be exploited in ways that give rise to financial bubbles — a contradiction of US structural monetary power clearly exposed by the credit crisis. Foreign countries’ massive reserve accumulation and private capital inflows directly and indirectly contributed to the unsustainable rise in US housing prices. Directly, foreign central banks were major buyers of government-guaranteed debt securities (agencies) issued by Fannie Mae and Freddie Mac — two government-sponsored entities that play a key role in the US housing system. Central banks’ purchases of agencies provided these two mortgage agencies with an extra pool of liquidity that was used to stimulate the US domestic housing markets. Indirectly, foreign capital inflows depressed US interest rates, encouraging excessive credit creation and borrowing and pushing private investors to search for investments with higher yields. Thus, a key aspect of the credit crisis is that the US was able to draw on foreign savings; foreign savings flooded US financial markets with dollars, thereby helping to finance the lending bubble. However, the analysis in the previous section suggests that this does not imply that the foreign ‘saving glut’ is to blame for the US housing bubble; instead, it indicates that by exercising its structural power to delay adjustment, the US made itself susceptible to financial excesses and an unsustainable bubble. Indeed, even before the alleged emergence of the global saving glut, US structural power to delay by absorbing foreign capital has tended to make the US economy prone to unsustainable asset price inflation and financial bubbles. For example, it has been frequently pointed out that the dotcom bubble at the end of the 1990s can be attributed to the massive inflow of foreign funds related to the primacy of the dollar (e.g. Duncan 2003; Dieter 2005; D’Arista and Griffith-Jones 2007).

Given the enormous amounts of foreign investments in dollar-denominated assets, it was often assumed that a crisis originating in the US financial system would fatally undermine confidence in the dollar and the willingness of foreigners to continue their funding of US deficits. Kirshner (2006: 155) cautioned that ‘the US has become more vulnerable to financial crisis than ever before. In particular, the oceans of dollars held abroad ... could serve as fuel to the fire started by a relatively modest financial crisis involving the United States’. Kirshner echoed concerns of Blecker (1998), who already warned more than a decade ago that a US financial crisis would generate a balanceof-payments crisis, with evidently dire consequences for the value of the dollar. However, it seems that foreign willingness to finance US deficits has remained very robust. Paradoxically, the dollar even strengthened against most major currencies (except the yen) in the second half of 2008, largely reflecting the persistent willingness of foreigners to consider US treasuries as the world’s preeminent safe haven investments (Bardhan 2008). Apparently, the subprime crisis has so far not brought about the dollar crisis many expected. According to adherents of the Bretton Woods II hypothesis, ‘The key to the continuity of the international system is the relationship between the United States and the emerging market countries that manage their currencies y [T]he foreign central banks and other non-resident investors continue to hold and rapidly accumulate US Treasury securities at even lower yields than before the subprime crisis appeared’ (Dooley et al. 2009).6 Importantly, the persistent willingness of foreign central banks to maintain and increase their investments in US treasuries has supported the capacity of US policymakers to fight the financial crisis through a 775 billion USD recovery programme and unprecedented monetary easing.

Although the continuing capacity to attract foreign capital in the midst of a crisis of its own making reflects US structural power, intensive reserve accumulation uncovers other contradictions of US monetary hegemony. The second major contradiction of US structural power to delay is this: by participating in the global dollar standard, foreign governments gain more clout in the global monetary and financial system, thereby over the US. First of all, building up huge monetary reserves allows them to exercise what Kirshner (1995, 2006) calls ‘systemic disruption’: it confers on them the capacity to destabilise the currency system by dumping their reserves. This capacity is all the more worth mentioning as the largest creditor of the US, China, cannot be considered as an American ally.7 Although ‘entrapment’ will keep key surplus countries such as China from exercising systemic disruption, Kirshner (1995, 2006) has highlighted how these countries can acquire influence by strategically exploiting their potential capacity to fatally disrupt the value of the dollar. Given the risk that financial markets might become aware of the threat and start selling dollars in anticipation of a depreciation, strategic disruption will be exercised only in those cases when the political benefits exceed the risks and economic costs. As Subacchi (2008b: 359) notes, ‘Countries holding dollar reserves and dollar-denominated assets might be prepared to take losses on reserves for both strategic reasons and geopolitical objectives in direct response to the US administration’s foreign and security policy’. Strategic disruption does not have to be exercised overtly, however. The sheer understanding that foreign governments dispose of massive reserves of dollar assets might induce the US government to embrace policy adjustments that safeguard the interests of these governments and the value of their assets. For instance, their increasing reluctance to accumulate US debt agencies issued by Freddie Mac and Fannie Mae induced the US government to nationalise the two mortgage giants. Indeed, a US senator was told by government officials that ‘[t]here was a real fear that foreign governments would start dumping Fannie and Freddie y and not buy the bonds’ (Solomon et al. 2008). As such, the nationalisation of Freddie Mac and Fannie Mae could be a manifestation of the increased structural power that accrues from holding huge amounts of dollar reserves. Surplus nations with huge reserves have also strengthened their financial clout over the international financial system (and the US) through the creation of sovereign wealth funds (SWFs) — public investment portfolios seeking highyielding investments (e.g. Setser 2008; Subacchi 2008a). Dissatisfied with the meagre financial returns on US government securities, many surplus states have allocated an increasing part of their reserves to SWFs. These funds are indicative of the emergence of new power brokers in global finance (Farell et al. 2008; Subacchi 2008a): they have more than three trillion dollars at their disposal and are estimated to have control over 12 trillion dollars by 2012. Through these funds, foreign governments have shifted from being passive to active investors, causing concern among Western politicians that their investments might be based on political instead of commercial considerations. As the former director of US national intelligence declared, ‘Concerns about the financial capabilities of Russia, China and Organization of the Petroleum Exporting Countries (OPEC) countries and the potential use of their market access to exert financial leverage to achieve political ends represents a major national security issue’ (quoted in Cohen 2008: 7). Although it remains to be seen whether SWFs will be used to advance international political goals, their emergence clearly represents a new assertion of public authority over the global financial system. As Beeson (forthcoming: 733) suggests in China’s case, the creation of the China Investment Corporation reflects ‘a recognition that they can combine capitalist dynamics with realpolitik’. More generally, the emergence of SWFs can be seen as an expression of the need and desire of foreign governments to reduce their dependence on the US-centred reserve system and to diversify their reserves away from low-yield dollar-denominated assets (Helleiner and Lundblad 2008).

This desire of foreign governments to diversify their huge dollar holdings reflects the third contradiction of US monetary hegemony: by exercising its structural power to delay, the US is accumulating foreign liabilities to such an extent that foreigners might lose confidence in the dollar. This is probably the most well-known contradiction of US monetary power; during the Bretton Woods regime, Triffin (1960) argued that this contradiction is an inherent feature of the dollar-centred global monetary system. Although the US, as the issuer of the world’s key reserve currency, was required to run balance-ofpayments deficits in order to inject liquidity into the world economy, Triffin foresaw that these deficits create an overhang of dollar liabilities that would undermine confidence in the dollar’s gold convertibility.8 In those days, the US was able to unilaterally suspend the dollar’s gold convertibility by introducing a paper dollar standard, thereby strengthening its structural power as ‘the US could now print dollar IOUs that could not be changed for gold and either had to be held idle in reserve or spent on buying US goods and services’ (Strange 1988/2004: 107)

Although many analysts have indicated that the present configuration of global imbalances is characterised by comparable Triffinian dynamics Journal of International Relations and Development Volume 13, Number 2, 2010 120 (e.g. Eichengreen 2007; D’Arista and Griffith-Jones 2007; Kirshner 2008; Kemp 2009), the US is obviously not capable of deploying a similar strategy today. Although the fear back then was the inconvertibility of the dollar into gold, the fear today is the devaluation of dollar-denominated assets by depreciation and/or inflation. Indeed, ‘massive imbalances in American external accounts strongly suggest by all conventional theories that the dollar is significantly overvalued, or, at the very least, are much more consistent with expectations of a long-run trajectory of depreciation rather than of appreciation’ (Kirshner 2008: 419). This expectation is especially reasonable because nowadays dollar liquidity is being injected into the world economy through current account deficits and not — as in the old Bretton Woods system — through deficits in the capital account. Moreover, the huge increase in public debt resulting from the fiscal stimulus programme of the Obama administration and the unprecedented monetary easing measures of the Federal Reserve may give rise to escalating inflation.

#### Dollar hegemony only benefits rich nations and independently causes low wages

Liu ’09 [Henry C.K. Liu was a professor at UCLA, Harvard, and Columbia of economics and international relations, “The Dangers of ‘Dollar Hegemony’”, The Roosevelt Institute, May 2009, http://rooseveltinstitute.org/dangers-dollar-hegemony/?utm\_source=rss&utm\_medium=rss] Accessed 7-15-17, Tamara W

To save the gravely impaired world economy from a prolonged depression, what is needed now is not just the revival of the dysfunctional international finance and trade regime, but a redefinition of the regime’s predatory terms, created by dollar hegemony.

Simply put, the regime needs to be remade. Its current role is destructive and preempts national economic development. It must be refashioned constructively, to augment that development.

Under the Westphalian world order of sovereign nation-states, which has framed international relations since 1648, only coordinated economic nationalism that focuses on domestic development can pull the world economy out of its current downward spiral. Economic nationalism should not be confused with trade protectionism. Decades of predatory cross-border neo-liberal finance and trade has generated strong anti-globalization sentiments around the world. It has become a class struggle between the financial elite and the working poor in rich and poor countries alike.

Barely a decade into the 21st century, in a world where market fundamentalism has become the operative norm, misguided trade protectionism appears to be fast re-emerging and developing into a new global trade war with complex dimensions. The irony is that this new trade war is being launched not by the abused poor economies that have been receiving the short end of the trade stick, but by the U.S., as leader of rich nations which have been winning more than they have been losing in the current system. Much of this protectionism is designed to protect industries that the rich nations have voluntarily moved offshore for financial advantage. Such protectionism aims to protect non-existent economic activities by imposing tariffs on goods that the importing nations no longer produce. The biggest battles of this new trade war are being fought on the currency exchange rate front.

Rich nations need to recognize that their efforts to squeeze every last drop of advantage from already unfair finance and trade will only plunge the world into deeper depression. History has shown that while the poor suffer more in economic collapse, the rich, even as they are financially cushioned by their wealth and advantage, are hurt by the sociopolitical repercussions of such a collapse, in the form of war, revolution or both.

The nearly two-year-old crisis in financial markets has been created by excessive debt, denominated in a fiat dollar whose issuer has for decades failed to live by prudent fiscal and monetary rules. Yet the solution to a debt-infested financial crisis is mistakenly deemed to be the shift of massive private-sector debt into public-sector debt through spending. Future taxpayer money is supposed to save zombie financial institutions from bankruptcy. This approach of saving the decrepit institutions of free market capitalism, rather than saving the severely injured global economy, will only exacerbate and prolong the current financial crisis into a decade-long global economic depression.

Excessive national debt denominated in foreign fiat currency, either private or public, threatens the economic and political sovereignty of independent nations. When international finance and trade is denominated in fiat dollars, the U.S. essentially imposes a global tax on all trade around the world, whether or not the U.S. is a direct participant in the transaction and whether or not the transaction takes place within U.S. jurisdiction. Foreign investment denominated in dollars, direct or indirect, naturally goes only to projects than can earn dollars, and not necessarily to projects the target nation needs most for domestic development.

Dollar hegemony prevents all non-dollar economies from financing domestic development with sovereign credit, denominated in their own currencies; it forces them to rely on foreign capital denominated in dollars. Moreover, the exporting economies are in essence shipping the real wealth created there by low wages and environmental abuse to importing nations. The dollar-denominated trade surplus earned by exporting nations cannot be spent in their domestic economies without first converting those dollars into local currencies. But the conversion will create inflation since the wealth behind the new local currency has already been shipped to the importing nations.

Thus, exporting nations, while starved for capital, have to invest the dollars they earn from low wages and environmental abuse back into the dollar economy, enabling the importing economies to have more dollars with which to import more. Capital from the dollar economy is in reality debt from the exporting economies, which will return to the lending economies as foreign capital to invest in the export sector. Dollar hegemony in essence freely transfers the wealth from poor economies to rich economies. This free transfer of wealth hurts workers in both the poor and rich economies by keeping wages low through cross-border wage arbitrage. Low wages then create overcapacity, unsupported by demand in every economy.

### 2AC Impact UQ—Dollar Collapse

#### Alt causes to the devaluation of the dollar – economic development makes decline inevitable without reforms to the dollar

Palley ’06 [Thomas Palley runs the Economics for Democratic and Open Societies Project, and is the former chief economist of the US-China Economic & Security Review Commission. “Why Dollar Hegemony is Unhealthy”, YaleGlobal, June 20, 2006, http://yaleglobal.yale.edu/content/why-dollar-hegemony-unhealthy] Accessed 7-14-17, Tamara W

Conventional theory says the dollar will only lose its dominance when countries become saturated with dollar holdings. At that stage they will cease buying and may even sell dollars, causing the currency to fall. The problem with this story is that countries have no incentive to sell dollars, as this would kill the golden goose of export-led growth.

The buyer-of-last-resort story suggests a different take. One reason the dollar could topple is if countries finally manage to develop their own consumption markets. Countries in the Euro zone are most capable of doing this, but for the moment they are gripped by policymaking that is obsessed with inflation and afraid of growth. China needs to improve its income distribution in a way that links income distribution to productivity. Unions are the natural way to do this, but are blocked by China’s totalitarian political system that fears such organization.

An alternative source of collapse is if American consumers reduce spending because they feel overextended, the Fed raises interest rates too high or American banks tighten lending standards. In this event, the US economy would stall and the dollar could fall owing to diminished economic prospects in the US.

All three theories have merit, but in today’s economic environment the buyer-of-last-resort theory is especially relevant. As long as other countries fail to generate sufficient demand in their own markets, they will be compelled to rely on the US market and pay dollar tribute.

However, none are well served by this co-dependence. Other countries resent the special situation that exempts the US from trade-deficit discipline. Side by side, the long-term economic prospects of the US are undermined by the erosion of the manufacturing sector, while US workers face wage and job pressures from imports that are advantaged by the dollar’s overvaluation. Moreover, all are vulnerable to a sudden stop of the system resulting from financial overextension of the US consumer.

This suggests that the rest of the world needs to develop an alternative to the US consumer. That will require raising wages in developing economies, and encouraging consumption in Europe and Japan. Such measures would stabilize the global economy by providing a second engine of growth, and it would also correct the large global financial imbalances that have developed as a result of over-reliance on the US consumer.

### 2AC Impact D—Default/Dollar

#### Congress wont default on its debt and dollar hegemony is stable

Amadeo 7/7 [Kimberly Amadeo has an M.S. in management from the Sloan School of Business at MIT and a B.A in Psychology and is the president of WorldMoneyWatch.com with 20 years of senior experience in economic analysis and business strategy, “Top 10 Reasons Why the US Economy Won’t Collapse,” *The Balance*, July 7, 2017, https://www.thebalance.com/us-economy-wont-collapse-3980688] Accessed 7-14-17, Tamara W

Have you come across those websites that urge you to prepare for the coming U.S. economic collapse? They start by saying the debt is unsustainable, the dollar is in a bubble or the Federal Reserve is printing dollars. Those three assertions are all true, but they’re nothing new and nothing to panic over.

The fallacy in these arguments occurs afterward. You'll notice the doomsayers say "if" a specific event occurs, then the economy will collapse.

For example, "if China sells its dollar holdings" or "if the U.S. defaults on its debt." But, they don’t tell you that these events are not at all likely. They just suggest you buy guns, gold coins or their survival book to prepare for the event "just in case."

In fact, the U.S. economy is doing just fine. Here are the top 10 reasons why it won't collapse. Included are rebuttals to the negativists' claims.

The U.S. debt is $19 trillion. That's more than the economy produces in a year. Though the debt-to-GDP ratio is in the danger zone, it's not enough to cause a collapse. First, the United States prints its money. That means it is in control of its currency. Lenders feel safe that the U.S. government will pay them back. In fact, the United States could run a much higher debt-to-GDP ratio than it does now and still not face economic collapse. Japan is another strong economy that controls its currency.

It has had a debt-to-GDP ratio above 200 percent for years. Its economy is sluggish but in no danger of collapse.​

Obama added to the debt to get us out of recession, not send us toward collapse. Many of these doomsters accuse Obama of deliberately increasing the debt to destroy the United States.

The United States won't default on its debt.

Most members of Congress realize a debt default would destroy America's credibility in the financial markets. The tea party Republicans in Congress were a minority that threatened to default during the 2011 debt ceiling crisis and in 2013.

China and Japan are the biggest owners of the U.S. debt. But they have no incentive to create a collapse. The United States is their largest market. If it fails, so do their economies. Furthermore, China is not selling all of its dollar holdings. It has remained above $1 trillion since 2013. For more, see U.S. Debt to China.

If anything, the dollar would slowly decline instead of collapse. It fell 40 percent between 2002 and 2008. It has gotten stronger since then because of the financial crisis. Investors flock to ultra-safe U.S. Treasurys and the U.S. dollar as a safe haven.

The dollar won't be replaced as the world's global currency. The doomsayers point to gold, the euro or Bitcoin as a replacement for the dollar. It's true that the dollar's value is supported by its role. But none of these other alternatives have enough circulation to replace the dollar. See Will the Yuan Replace the Dollar?

The Fed's quantitative easing program and low fed funds rate won't cause hyperinflation.

If anything, these programs have created a liquidity trap. That's when people, businesses and banks hoard the extra cash instead of spending or lending it. The real cause of hyperinflation has been debt repayments to fund wars.

The stock market hit new highs in 2015 and 2016. Stock prices are based on corporate earnings, so that’s a sign of business prosperity.

Consumer confidence hit a nine-year high in 2016. Consumer spending drives almost 70 percent of the economy.

Economic growth is slow but stable. Since the Great Recession, the economy has grown 1.5-2.7 percent per year. According to business cycle theory, a bust only occurs after a boom. That's when GDP is more than 3 percent. It hasn't been that high since 2005. For more, see GDP by Year

### 1AR Impact D—Default

#### **U.S. won’t default—political leaders prove.**

Donna Borak 17 [“Treasury's Mnuchin: U.S. won't default on its debt,” *CNN Money*, June 9, 2017, http://money.cnn.com/2017/06/09/news/economy/mnuchin-debt-ceiling/index.html]

As Congress weighs lifting or suspending the U.S.'s debt ceiling, Treasury Secretary Steven Mnuchin on Friday dismissed any possibility that the U.S. would default on its debt. "We'll be fine," said Mnuchin at a joint press conference with Canadian Finance Minister Bill Morneau in Ottawa. "This is not an issue, but I don't want to leave any doubt that we have plans and backup plans," said the former Goldman Sachs banker following a one-day bilateral meeting between the U.S. and Canada. When asked what those backup plans would be, Mnuchin referred to them as "Treasury secretary super powers." A suspension of the debt ceiling expired in mid-March. Since then Treasury has had to use special accounting measures to preserve the country's ability to borrow new money without breaching the $19.8 trillion limit on accumulated debt.

House Speaker Paul Ryan is assuring investors that Congress will meet a new deadline to increase the government’s borrowing authority and avert an economy-quaking default on U.S. obligations.

### 2AC Impact D—Hegemony

#### International order is resilient without hegemony

Posen 14—Professor of Political Science at MIT and the Director of MIT’s Security Studies Program [*Restraint: A New Foundation for U.S. Grand Strategy*, p. 62-64]

The transformation of hegemonic stability theory into a foreign policy doctrine is problematical. First, if there is a gain to having a global hegemon, we do not know its magnitude, and we do not know whether the gains to the United States are commensurate with the costs to the United States. I argue they are not. It is easy enough to imagine that the Great Depression could have been avoided had there been a leader in the 1931 banking crisis; it could also have been avoided, as we saw in 2007, had the central bankers of a handful of major states had a better understanding of economics and banking. Second, the theory tells us that the hegemon must have both the power and the will to sustain the system. How much power is an open question; I doubt that the United States actually has enough power to fulfill its appointed role in this system, especially its appointed economic role. For example, theorists argue that the hegemon must be both the lender and the market of last resort to perform its stabilizing role in crisis. The United States can no longer do either. Third, the question of how much of the hegemon’s power needs to be economic, and how much needs to be military is not a settled matter. This is particularly important given that the U.S. share of global GDP is destined to diminish; can the United States protect its hegemonic position by simply hyperinvesting in military power and deploying it around the world? Does the provision of military security provide a level of stability that inherently supports a global economic system, which would otherwise collapse? Is the existence of that global economy so central to U.S. economic power that if it did collapse, the United States would suffer disproportionately? 130

Because U.S. economic performance is connected to U.S. power, a realist ought to be concerned if there is some strong connection between Liberal Hegemony, international trade, and relative U.S. economic power. Two points are in order. The United States does not depend very much on international trade; imports and exports made up about 29 percent of GDP in 2010, among the smallest shares of advanced economies. 131 Moreover, nearly a third of that trade is with Canada and Mexico, states the United States secures inherently by securing itself. 132 China, at 13 percent, ranks as one of the top three U.S. trading partners, even as the U.S. Department of Defense begins to view it as a near-peer strategic competitor. Another third of U.S. trade is spread among a dozen nation states across the globe, and the rest is scattered across many more. It would take an unusual series of capitulations, conquests, or just plain market closures to close down enough trade to affect greatly the U.S. economy.

A security hegemon is, in any case, unnecessary to insure international trade. Liberal Hegemonists worry that if states feel insecure, their concern about relative gains from trade, and the effect of those relative gains on relative power, will drive out trade. But states have traded with one another under a variety of power constellations. Though political scientists—especially hegemonic stability theorists—and historians view Britain as the global hegemon in the late nineteenth and early twentieth centuries, it was at best “first among equals” in a multipolar great power system, and its grand strategy looks much more like “offshore balancing” or Restraint than it does Liberal Hegemony. Britain was not the day-to-day global security provider. Rather it was the balancer of last resort. Peter Liberman notes that in this period, British-German trade climbed, despite the fact that each came to identify the other as their principal naval rival. Similarly, U.S.-Japan trade grew in the interwar period, even as U.S.-Japan relations deteriorated. 133 States trade with one another due to mutual commercial interest; it seems to take quite a lot of fear and hostility to change the calculus. It is also likely, as Liberman suggests, that the existence of nuclear weapons has reduced whatever relative gains concerns there once might have been, insofar as great powers armed with nuclear weapons do not really depend on economic autonomy for their military power and hence their security. It is therefore improbable that a less militarily activist United States would lead to a collapse of international trade.

Some argue that a global military hegemon is necessary to secure peace and order in the global commons—sea, air, space, and cyberspace—to enable international trade and globalization. As a global naval power, Britain did bring a measure of peace and order to the global commons for most of the nineteenth century. But by the early twentieth century all great trading states had navies capable of securing their merchant ships against any predator who was not a great power. And the fact that other great powers might interfere with this trade did not prevent them from trading with one another, because such interference would have meant war. Mutual deterrence protected the global trade routes. In any event, as I will be argue in chapter 3, the military strategy of Restraint is committed to maintaining what I have called “command of the commons.” That is the bedrock military capability needed by the United States to influence geopolitical events abroad, should that prove necessary. Whatever side benefits for world trade that might arise from the capability to keep order in the commons would still be present. The U.S. interest in maintaining command of the commons is premised on its contribution to U.S. national security, not its contribution to global trade.

### 1AR Impact D—Hegemony

#### Hegemony doesn’t solve war—statistics show it’s conflict-prone.

Monteiro 14—Assistant Professor of Political Science at Yale [Nuno, *Theory of Unipolar Politics*, p. 181-184]

At the same time, the first two-and-a-half decades of our unipolar system have been anything but peaceful in what concerns U.S, involvement in interstate conflict. U.S. forces have been employed in four interstate wars – Kuwait (1991), Kosovo (1999), Afghanistan (2001-), and Iraq (2oo3-2011) – in addition to many smaller interventions including Bosnia, Haiti, Somalia, and Sudan.5 As a result, the United States has been at war for fifteen of the twenty-five years since the end of the Cold War, In fact, the first two-and-a-half decades of unipolarity — representing around 1o percent of U.S. history account for more than 30 percent of the nation's total wartime.6 For critics of U.S. interventionism, "the central question [of contemporary international politics] is how to contain and moderate the use of military force by the United States."8

Table 5 presents a list of great powers divided into three periods: from 1816 to 1945, multipolarity; from 1946 to 1989, bipolarity; and unipolarity since 1990.9 Table 6 then presents summary data about the incidence of war during each of these periods. Unipolarity is by far the most conflict prone of all systems according to two important criteria: the percentage of years that great powers spend at war and the incidence of war involving great powers. In multipolarity, 18 percent of great-power years were spent at war versus 16 percent in bipolarity. In unipolarity, in contrast, a remarkable 64 percent of great-power years have been until now spent at war – by far the highest percentage in all systems. Furthermore, during multipolarity and bipolarity the probability that war involving a great power would, break out in any given year was, respectively, 4.2 percent and 3.4 percent. Under unipolarity, it is 16.o percent – or around four times higher.

It might be argued that the higher number of years that great powers spent at war under unipolarity are merely the result of the long, grinding, and unforeseen occupations of Afghanistan and Iraq by U.S. forces.11 But even if these two wars had gone according to U.S. plans – if the Afghanistan War had ended in the spring of 2002 and the Iraq War in the summer of 2003 – unipolarity would still be particularly prone to great-power involvement in war. Even if the United States had not occupied either Afghanistan or Iraq, it would still have spent 16.0 percent of the post-Cold War years at war, which is about the same as the respective percentages for bipolar and multipolar systems. In other words, even if the United States had refrained from any military occupations, the frequency of its use of military force in major operations would still give us no reason to believe that unipolarity is any more peaceful than any other past configuration of the international system.

As things turned out in both Afghanistan and Iraq, the last two-and-a-half decades saw a sharp increase in both the incidence of conflict and the percentage of great-power years spent at war. This is a particularly puzzling finding given that the current unipole – the United States – is a democracy in a world populated by more democracies than at any time in the past. In light of arguments about how democracies are better able to solve disputes peacefully, choose to engage only in those wars they can win, and tend to fight shorter wars, the United States should have spent fewer years at war than previous nondemocratic great powers.12

As we can see, post-Cold War history can be used in support of both the widespread claim that the overall level of conflict has declined and of the claim that the United States has experienced an unprecedented level of involvement in interstate war. Reality seems to be chafing against the view that unipolarity produces no incentives for conflict; at least in what concerns the unipole's involvement in interstate wars, the past two-and-a-half decades seem to point in the opposite direction.

### 2AC Impact D—Econ

#### No impact to economic decline—countries respond with cooperation not conflict

Clary 15—PhD in Political Science from MIT and a Postdoctoral Fellow at the Watson Institute for International and Public Affairs at Brown [Christopher, “Economic Stress and International Cooperation: Evidence from International Rivalries,” *MIT Political Science Department*, Research Paper No. 2015-8, p. 4]

Economic crises lead to conciliatory behavior through five primary channels. (1) Economic crises lead to austerity pressures, which in turn incent leaders to search for ways to cut defense expenditures. (2) Economic crises also encourage strategic reassessment, so that leaders can argue to their peers and their publics that defense spending can be arrested without endangering the state. This can lead to threat deflation, where elites attempt to downplay the seriousness of the threat posed by a former rival. (3) If a state faces multiple threats, economic crises provoke elites to consider threat prioritization, a process that is postponed during periods of economic normalcy. (4) Economic crises increase the political and economic benefit from international economic cooperation. Leaders seek foreign aid, enhanced trade, and increased investment from abroad during periods of economic trouble. This search is made easier if tensions are reduced with historic rivals. (5) Finally, during crises, elites are more prone to select leaders who are perceived as capable of resolving economic difficulties, permitting the emergence of leaders who hold heterodox foreign policy views. Collectively, these mechanisms make it much more likely that a leader will prefer conciliatory policies compared to during periods of economic normalcy. This section reviews this causal logic in greater detail, while also providing historical examples that these mechanisms recur in practice.

### 1AR Impact D—Econ

#### No impact to economic decline.

Daniel W. DREZNER 14, professor of international politics at the Fletcher School of Law and Diplomacy at Tufts University [“The System Worked: Global Economic Governance during the Great Recession,” *World Politics*, Vol. 66, No. 1 (January 2014), p. 123-164]

The final significant outcome addresses a dog that hasn't barked: the effect of the Great Recession on cross-border conflict and violence. During the initial stages of the crisis, multiple analysts asserted that the financial crisis would lead states to increase their use of force as a tool for staying in power.42 They voiced genuine concern that the global economic downturn would lead to an increase in conflict—whether through greater internal repression, diversionary wars, arms races, or a ratcheting up of great power conflict. Violence in the Middle East, border disputes in the South China Sea, and even the disruptions of the Occupy movement fueled impressions of a surge in global public disorder.

The aggregate data suggest otherwise, however. The Institute for Economics and Peace has concluded that "the average level of peacefulness in 2012 is approximately the same as it was in 2007."43 Interstate violence in particular has declined since the start of the financial crisis, as have military expenditures in most sampled countries. Other studies confirm that the Great Recession has not triggered any increase in violent conflict, as Lotta Themner and Peter Wallensteen conclude: "[T]he pattern is one of relative stability when we consider the trend for the past five years."44 The secular decline in violence that started with the end of the Cold War has not been reversed. Rogers Brubaker observes that "the crisis has not to date generated the surge in protectionist nationalism or ethnic exclusion that might have been expected."43

#### Empirics prove—no shooting wars.

Jervis 11—Professor in the Department of Political Science and School of International and Public Affairs at Columbia University [Robert, “Force in Our Times,” *International Relations*, Vol. 25, No. 4, December 2011, p. 403-425, Emory Libraries]

Even if war is still seen as evil, the security community could be dissolved if severe conflicts of interest were to arise. Could the more peaceful world generate new interests that would bring the members of the community into sharp disputes? 45 A zero-sum sense of status would be one example, perhaps linked to a steep rise in nationalism. More likely would be a worsening of the current economic difficulties, which could itself produce greater nationalism, undermine democracy and bring back old-fashioned beggar-my-neighbor economic policies. While these dangers are real, it is hard to believe that the conflicts could be great enough to lead the members of the community to contemplate fighting each other. It is not so much that economic interdependence has proceeded to the point where it could not be reversed – states that were more internally interdependent than anything seen internationally have fought bloody civil wars. Rather it is that even if the more extreme versions of free trade and economic liberalism become discredited, it is hard to see how without building on a preexisting high level of political conflict leaders and mass opinion would come to believe that their countries could prosper by impoverishing or even attacking others. Is it possible that problems will not only become severe, but that people will entertain the thought that they have to be solved by war? While a pessimist could note that this argument does not appear as outlandish as it did before the financial crisis, an optimist could reply (correctly, in my view) that the very fact that we have seen such a sharp economic down-turn without anyone suggesting that force of arms is the solution shows that even if bad times bring about greater economic conflict, it will not make war thinkable.

### AT: Diversionary War

#### No evidence backs diversionary theory.

Reiter 9—Dan Reiter is professor and chair of political science at Emory University [Aug 17, 2009, *How Wars End*, ch. 2, “Bargaining, Information, and Ending Wars,” pg. 9-10, Princeton University Press]

Irnportantly, the assumption that Wars are always on balance costly for each side is not uncontroversial. Some feminist approaches contend that states may fight for the sake of lighting, as wars serve patriarchy by reinforcing gender identity.3 A more mainstream critique is that leaders go to war for domestic political reasons, such that a war-avoiding bargain might not be reachable even when both sides knew who would win, as lighting itself provides domestic political benefits from a war to both win- ner and loser.4 Under some conditions, especially if a state is undergoing democratization or if a national leader is experiencing domestic political problems such as unrest or economic downturn, a state may see war as a way to rally the public around the leader and stave off domestic political challenges.5 The proposition that leaders go to war when facing domestic difficulties is often called the "diversionary" hypothesis.

However, the evidence that leaders choose war to solve internal political problems is thin. The underlying assumption is that going to war en- genders a rally round the flag effect that boosts the popularity of leaders, but leaders reap this benefit only under very narrow conditions (which often cannot be controlled by the attacking state), and even the biggest rallies are short-lived.6 Importantly, there is almost no smoking gun historical evidence of a leader launching a war primarily as a means of solving domestic political problems. At most, politicians have occasionally speculated about diversionary action, such as Secretary of State William Seward's (ignored) April 1861 suggestion to President Abraham Lincoln that the United States provoke crises with European powers as a means of staving off civil war between the Union and the seceding southern states.7 A Russian minister is famously thought to have declared just after the outbreak ofthe 1904-O5 Russo-japanese War that, "We need a little, victorious war to stem the tide of revolution," but the story is likely too good to be true.8 Leaders sometimes see indirect relationships between starting war and reaping domestic political benefits, such as the possibility that Lyndon Johnson escalated the Vietnam War in 1965 to protect his Great Society program from domestic political attack.9 Some quantitative studies have found that the presence of internal problems like declining economic growth, rising inflation, partial democratization, or declining leader popularity are correlated with an (often slightly) increased likelihood in the use of force. However, these relationships are often limited in scope, occurring only under certain economic or political conditions.10 Any possible diversionary effects might in turn be moderated by the tendency of states to avoid provoking other states that might have diversionary incentives.11