Affirmative: Human Rights

By Steven Errico

Resolved: Economic stability is more important than economic growth.

This case is built on the idea that the protection of human rights is the highest end of good government. It explores the impact of the economy on the protection and accessibility of our human rights and advocates that while growth is good and helpful, economic stability is absolutely essential. This case is written mostly from a governmental perspective, but it can be easily adapted to looking at a more individual level as well.

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Introduction once said, “smart” things.

DEFINITIONS

Economic Stability

Business Dictionary “Economic Stability” <http://www.businessdictionary.com/definition/economic-stability.html>

A term used to describe the financial system of a nation that displays only minor fluctuations in output growth and exhibits a consistently low inflation rate. Economic stability is usually seen as a desirable state for a developed country that is often encouraged by the policies and actions of its central bank.

Economic Growth

Investopedia updated 2019 (Jim holds a Bachelor of Arts in Economics from the University of Alaska and Master's from the University of Maine. Jim was awarded the 2013 Douglas E. French Prize for excellence in the study of Austrian economics.)“Economic Growth” <https://www.investopedia.com/terms/e/economicgrowth.asp>

Economic growth is an increase in the the production of economic goods and services, compared from one period of time to another. It can be measured in nominal or real (adjusted for inflation) terms. Traditionally, aggregate economic growth is measured in terms of gross national product (GNP) or gross domestic product (GDP), although alternative metrics are sometimes used.

VALUE: Human Rights

Definition

American Heritage Dictionary “Human Rights” [https://www.ahdictionary.com/word/search.html?q=human+rights](https://www.ahdictionary.com/word/search.html?q=human+rights&submit.x=34&submit.y=23)

The basic rights and freedoms to which all humans are considered to be entitled, often held to include the rights to life, liberty, equality, and a fair trial, freedom from slavery and torture, and freedom of thought and expression.

Reason to Prefer: Foundation of Economics

Economic theory is built upon anthropology. In order to argue the resolution then we have to presuppose something about the people who participate in the economic system we advocate for. All human beings have fundamental rights that must be protected. This is the foundational understanding of any good government and any good economy.

CONTENTION 1: Economic stability is necessary to protect human rights.

Economic Stability Protects Property Rights

The Heritage Foundation 2009 (Karen A. Campbell, Ph.D., is Policy Analyst in Macroeconomics in the Center for Data Analysis at The Heritage Foundation.) “The Economic Role of Government: Focus on Stability, Not Spending” <https://www.heritage.org/monetary-policy/report/the-economic-role-government-focus-stability-not-spending>

Large deficits can contribute to price instability. If the government finances the deficit by printing money, it can lead to inflation through depreciation of the currency, which makes foreign goods more expensive. This puts increasing pressure on the domestic price level by raising the price of imports. If the government issues debt, competition with businesses and other individuals for investment dollars results, increasing the cost of borrowing to finance productive investments in the private sector.

A weak fiscal position can weaken government's ability to provide security for property rights. Being overleveraged makes it that much more difficult to borrow in the face of a security crisis or other unforeseen catastrophe. The government can also lose its role as a credible governing body (overseer) of markets when it becomes an active participant in the markets. Careful arms-length oversight will also promote clarity, so that reliable information about goods and services is available to those buying and selling in the market, allowing good price signals to come out of the market system. This minimizes distortions and enables people to make the best possible decisions about how to spend their budgets.

Application 1: The COVID-19 Pandemic in Greece

Reuters 2020 (George Georgiopoulos — Reuters in Athens) “Greece sees economy tanking this year on coronavirus impact: stability programme” <https://www.reuters.com/article/us-health-coronavirus-greece-idUSKBN22F0SO>

“The coronavirus outbreak has imposed a burden on the Greek economy as on the rest of the world economy, reversing the initial favourable short-term forecast,” the finance ministry said.

The pandemic clouds the outlook for the global economy with a high degree of uncertainty. Demand, supply and liquidity shocks to the world economy set the stage for a deep global recession, worse than that of the 2008 financial crisis, the report said.

The Greek economy is exposed to external shocks due to a considerable dependency on tourism and transportation receipts,” it said, noting that the government’s main goals now were to bridge the growth gap caused by the health crisis and attract investment.

The baseline projection for a 4.7% contraction takes into account the impact of policy response measures and assumes that the public health crisis fades in the second half of 2020.

But under an alternative set of more adverse assumptions, the programme projects a significantly deeper contraction of up to 8.9% due to a steeper drop of exports and broader negative spillover effects.

Either way, the primary budget balance, which excludes debt servicing outlays, will be in the red, according to the ministry projections - with a deficit of 1.9% under the baseline assumptions and a 2.8% hole under the adverse scenario.

Greece, which emerged from its latest international bailout in August 2018, had managed to outperform its primary budget target for five consecutive years and deliver primary surpluses of more than 3.5% of economic output.

Finance Minister Christos Staikouras said in March that Athens would get more fiscal flexibility to tackle the coronavirus crisis and will not be constrained by a commitment to the European Union to deliver previously agreed budget savings.

Based on stability programme forecasts, public debt is seen rising to 337 billion euros or 188.8% of gross domestic product at the end this year from 331 billion or 176.6% of GDP in 2019.

Impact: The relative economic stability in Greece is linked to the property rights of its citizens due to public debt and investment.

CONTENTION 2: Economic instability harms human rights

Economic Instability Prevents Human Rights from Being Protected

Thomas Chamberlain, Ph.D. 2006 (Thomas E. Chamberlain, Ph.D. is an independent research scientist in Los Angeles, CA specializing in theoretical physics, mathematical psychology, and economics.) “Relationship of Economic Stability to Social and Economic Rights” <https://www.un.org/esa/socdev/social/meetings/egm6_social_integration/documents/SOCIALJUSTICE.ECONOMIC%20STABILITY.pdf>

Economic instability is a condition that the human rights effort cannot solve or defeat—by itself. More to the point, laws or institutions to promote adequate jobs/working-conditions and health care, for examples, cannot overcome essential economic instability. Appropriate policies and institutions—that is, appropriate to the stabilization task, accounting for each nation’s culture, economic system, historical experience, etc.—are required, where human rights are of course crucially germane, but are achieved in concert or in parallel with the elimination of instability and poverty.

Application 1: The Dodd–Frank Act

World Institute for Development Economics Research 2016 (United Nations University) “Unintended consequences of economic sanctions for human rights” <https://doi.org/10.35188/UNU-WIDER/2016/168-0>

When citizens of developed nations pressure their governments to protect vulnerable populations in foreign lands, they often request economic sanctions to punish human rights violators with the goal of generating positive change. In the case we study, US human rights advocacy groups successfully lobbied for Section 1502 of the US Dodd–Frank Act, which effectively reduced international demand for Congolese 3T minerals. While this human rights policy appears to have had its intended effect of reducing militia revenue from 3T mining, evidence here demonstrates it has also produced unintended consequences that call into question whether the policy has benefited the victims of the human rights abuses.

The problem our paper highlights is that Dodd–Frank’s successes in slowing 3T mining have generated two kinds of unintended consequences. First, infant mortality rates rose in villages whose economic fates are tied to intentionally boycotted, armed group controlled 3T mines. Second, infant mortality rates also increased in villages whose economic fates are tied to unintentionally boycotted, and potentially ‘conflict-free’ minerals. This second type of unintended consequence is arguably more regrettable, and suggests important flaws in this and potentially other conflict-free certification programmes. High transaction costs of following supply chains from source to product have produced unintentional boycotts. Rather than absorbing these costs and the associated regulatory burdens, many companies have preferred to source elsewhere, which has had unfortunate effects on child health.

Impact: Destabilizing the economy harmed human rights even more.

Application 2: Brain Health

Neurology Today 2019 (Inserm is the only public research organization in France entirely dedicated to human health. Its objective is to promote the health of all by advancing knowledge about life and disease, treatment innovation, and public health research.) “Income Fluctuations in Early Adulthood May Impair Brain Aging in Midlife, Study Finds” <https://journals.lww.com/neurotodayonline/Fulltext/2019/11070/Income_Fluctuations_in_Early_Adulthood_May_Impair.12.aspx> (Brackets in original)

To what extent does economic instability impact brain health? That question is at the heart of a new analysis that found that fluctuations in income and economic instability were not only associated with adverse health outcomes, they also affected cognitive abilities over time.

Previous studies have linked low socioeconomic status with poor health consequences—some have reported associations between income volatility and cardiovascular and mental health, said Leslie Grasset, PhD, a postdoctoral associate at the Inserm Research Center in Bordeaux, France, and the lead author of the paper published in the October 2 online edition of *Neurology*. Yet few studies have explored how economic instability and dramatic changes in household income affect cognition in the long term.

“Income volatility has been on the rise since the 1980s, yet previous studies have examined this relationship between income and cognitive health at one or maybe two time points,” Dr. Grosset told *Neurology Today*.

She and her colleagues decided to look more specifically at the relationship between brain aging and fluctuations in income by pulling data from the Coronary Artery Risk Development in Young Adults study (CARDIA), an ongoing prospective study of cardiovascular disease and its risk factors in young to middle-aged adults.

The CARDIA team collected data on self-reported pretax income of 3,287 young adults between the ages of 20 and 35 at six different points from 1990 through 2010; in 2010, they administered a battery of tests to assess verbal memory and word retrieval; processing speed; and executive functioning.

The researchers found that higher income volatility and subsequent income drops were, in fact, associated with a significant worsening of processing speed and executive functioning, as well as worse microstructural integrity of total brain and total white matter findings on MRI. [See “The CARDIA Study: Findings on Brain Health” for more specific data.”]

Impact: Instability in the economy hurts human health and life.

Negative Counter-Brief: Human Rights

In order to counter this affirmative case, you’ll have to look at the bigger picture. Economic stability is valuable of course, but you can argue that stability is merely a stepping-stone for better growth. You can even subsume the affirmative value if you use this argument.

Another strategy you can use along with the previous one is simply to counter the arguments about the dangers of economic instability with your own about economic stagnation. Two can play at this game, and the negative gets the middle ground if the arguments are a wash.

Economic stability is good BECAUSE it produces economic growth

The Heritage Foundation 2009 (Karen A. Campbell, Ph.D., is Policy Analyst in Macroeconomics in the Center for Data Analysis at The Heritage Foundation.) “The Economic Role of Government: Focus on Stability, Not Spending” <https://www.heritage.org/monetary-policy/report/the-economic-role-government-focus-stability-not-spending>

Having an orderly governing body allows private citizens to make long-term investment decisions about their personal resources. A credible governing body contributes to the economic growth of a nation and provides the best opportunity to accomplish its national investment and growth goals through the entrepreneurial spirit of all its citizens. Making fundamental changes to the rules and agencies that have become outdated and opaque will provide economic stability and give potential entrepreneurs the confidence to work toward meeting the ever-changing needs of society.

Economic Growth is Essential

Forbes 2017 (Robert Barone, Ph.D. is a Georgetown educated economist. He is a financial advisor at Four Star Wealth Advisors. www.fourstarwealth.com. He is nationally known for his writings and Robert’s storied career includes his having served as a Professor of Finance, a community bank CEO, and a Director and Chairman of the Federal Home Loan Bank of San Francisco. Robert is currently a Director of CSAA Insurance Company (the AAA brand) where he chairs the Finance and Investment Committee. Robert is the co-portfolio manager of the UVA Unconstrained Medium-Term Fixed Income ETF (FFIU).) “The Importance of Economic Growth and the Consequences of its Demise” <https://www.forbes.com/sites/greatspeculations/2017/06/09/the-importance-of-economic-growth-and-the-consequences-of-its-demise/#6df5d1943966> (Note that this article is cut to Stoa evidence standards, but it does capture parts from a larger article. The entire piece is available for review.)

Conceptually, economic growth is a function of two factors: the growth of jobs, and the productivity of those employed. In a world where the labor force of industrialized nations is stagnating, or, worse, shrinking, one might reasonably ask: "Why is economic growth, as measured by the increase in real GDP, so important to the economy?" A good argument can be made that real GDP *per capita* would be a better barometer, as it measures the growth of the average individual's overall well-being, and would eliminate the need to worry about changes in demographics.

**Capital Markets Need Growth**On the surface, the logical answer would appear to be that GDP *per capita*, would be the appropriate measure, but it's not. In today’s industrial economies, the citizenry's balance sheets are heavily invested in the capital markets, and the high valuations of those capital assets are dependent on corporate growth rates. The fact is, a positive overall growth rate of the economy is necessary for the market indexes to advance because growth is a fundamental valuation metric.

**The Japanese Experience**Think of the angst that would be created if the DJIA or S&P 500 were only half of their current levels 28 years from now, in 2045. Wouldn't sit well, would it? And likely that would have meant three decades of deflation and recession. Yet, this is exactly what has happened in Japan over the past 28 years. The growth engine that was Japan's economy in the 1980s gave way to stagnating population growth in the 1990s. In reaction, the Nikki 225 today is near 20,000, about half of the value is was at its peak on December 29, 1989 (38,957). Today, Japan's population, currently approximately 126 million, is expected to fall by 25% to under 100 million by 2050 with seniors (65+) set to make up 40% of the population (from today's 26%).

To think for a moment that a milder version of this couldn't happen in the U.S. might be a significant miscalculation, because U.S. demographics are telling us that potential non-inflationary growth rates have slowed significantly over the past decade and will continue to be tepid as far as the eye can see.

**Beware of Passive Investing**

Rational markets will eventually reflect slow economic growth, and as this slow growth unfolds, it will behoove investors to examine each portfolio holding for its growth characteristics. The successful investor of the future will have to take a more active interest in his/her portfolio holdings, as holding indexes of a slow growth economies are not going to produce good performance. Unfortunately, in this latest bull market, investors have been lured into believing that index investing is safe; that you really don't need to know the individual securities in your portfolio because the general market is going to keep rising and you are indexed to it.

**The Fed Says Slow Growth is “Transitory”**I'm told that we shouldn't worry about slowing growth just yet. The Fed believes that the slow growth in Q1 was "transitory" and they are proceeding to raise interest rates, even as soon as mid-June. But, given the poor hard data, now showing up as underwhelming job growth and a real lack of any upward wage pressure, a couple of more rate hikes could result in an inverted yield curve (short-term rates higher than longer-term ones), and that is almost always a precursor to recession. The Fed has also told us that they will begin to unwind their balance sheet by year's end, i.e., a reverse QE. Even if this is very gradual, it is still monetary tightening, and it may be tightening into the teeth of a recession. Remember, [the bell doesn't ring, nor does a bugle play](https://www.forbes.com/sites/greatspeculations/2017/05/11/no-bell-bugle-or-national-anthem-at-recessions-onset/#5825f93f505a), nor do we stand for the national anthem at a recession's onset. Most of the time we don't even know we are in a recession until the National Bureau of Economic Research announces it, sometimes twelve months or more after it starts. Most of the time, however, the markets know it, and their signal is a lack of growth.

**Hard Data**

The hard data continue to be ugly; the sentiment indexes have rolled over now that the Trump policy package is DOA.

* Not only was April's employment growth (138,000 vs. 185,000 expected) disappointing, but February and March job growth were significantly reduced (-66,000);
* The second pass a Q1 GDP revealed that the corporate profit portion shrank at a seasonally adjusted annual rate of -7.3% versus Q4;
* Inflation is weakening now that Q1/16 oil prices ($26/bbl) are no longer the baseline comparison; headline core inflation, year over year, is now in full retreat;
* Commodity prices, too, are in full retreat; that says something about worldwide demand;
* The housing data (new, existing, permits) have disappointed; so even the industry considered the most robust is lagging.

**Bond Market Gurus**

It is recognized by professional investors that, due to the nature of markets, bond traders usually have a better take on the pulse of the economy than do equity investors. With that in mind, consider that the 10 year Treasury Note has retreated from its post-election 2.6% high, and from its interim 2.4% peak back toward 2.2%. Hardly an endorsement of sustainable growth.

* The net speculative long futures position for the week of May 22nd for the 10 year U.S. Treasury Note was 365,000 contracts, just the inverse of the -365,000 net short position of traders the week of February 28th. This is the largest net long position since December, ’07 and the swing over the last 12 weeks is the largest on record. Back in ’07, loading up on 10 year Treasuries with coupons of 4%+ was a brilliant move!

**Get Active**

* Economic growth is the lifeblood of rising equity prices; without it, the current high PE ratios cannot be sustained;
* The industrial post-WWII world is slowing, mainly due to demographics;
* Passive index investing, with no analysis of the growth potential of assets in the portfolio, is the wrong approach when economic growth is stagnant;
* The Fed appears to be on a mission to tighten monetary conditions despite the lack of hard data supporting such moves; but the reduction in long-term interest rates and the recent record paced move to a speculative long position in the 10 year Treasury Note futures indicates that Wall Street has a different view of the foreseeable economic environment than does the Fed. Who do you trust?

Counter Application: The EESA

The Effects of EESA

Investopedia updated 2019 (Will holds a Bachelor of Arts in literature and political science from Ohio University. He received his Master of Arts in economics at The New School for Social Research. He earned his Master of Arts and his Doctor of Philosophy in English literature at New York University.) “Emergency Economic Stabilization Act (EESA) of 2008”

The act is widely credited with restoring stability and liquidity to the financial sector, unfreezing the markets for credit and capital, and lowering borrowing costs for households and businesses. This, in turn, helped restore confidence in the financial system and restart economic growth.

Largely as a result of the takeover of insurance giant AIG, by 2017, the Congressional Budget Office (CBO) estimated that TARP transactions cost taxpayers a little more than $32 billion. The CBO said the federal government disbursed $313 billion, most of which was repaid by 2017. It estimated a net gain to the government of $9 billion from those transactions. That included a net gain of about $24 billion from assistance to banks and other lending institutions, partially offset by $15 billion of assistance for AIG.

The Emergency Economic Stabilization Act (EESA) is one of the bailout measures taken by Congress in 2008 to help repair the damage caused by the financial crisis of 2007–2008. The act gave the Treasury secretary the authority to buy up to $700 billion of troubled assets in order to restore liquidity in the financial markets. The Emergency Economic Stabilization Act (EESA) was originally proposed by then-Secretary of the Treasury Henry Paulson.

*Most of the money paid out under the EESA has since been repaid, and the Treasury has made a profit of more than $1 billion on its loans and investments.*

In February 2019, the nonpartisan ProPublica reported that a total of $441 billion had been disbursed under TARP in the form of investments, loans, and payouts, of which $390 billion had been repaid to the Treasury. The Treasury had also earned $55.5 billion on those investments and loans. That, plus some additional revenue, had resulted in a profit, to date, of $1.83 billion for the Treasury.

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Forbes 2017 (Robert Barone, Ph.D. is a Georgetown educated economist. He is a financial advisor at Four Star Wealth Advisors. www.fourstarwealth.com. He is nationally known for his writings and Robert’s storied career includes his having served as a Professor of Finance, a community bank CEO, and a Director and Chairman of the Federal Home Loan Bank of San Francisco. Robert is currently a Director of CSAA Insurance Company (the AAA brand) where he chairs the Finance and Investment Committee. Robert is the co-portfolio manager of the UVA Unconstrained Medium-Term Fixed Income ETF (FFIU).) “The Importance of Economic Growth and the Consequences of its Demise” https://www.forbes.com/sites/greatspeculations/2017/06/09/the-importance-of-economic-growth-and-the-consequences-of-its-demise/#6df5d1943966

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