



Episode 1,368: Reagan Admin's David Stockman: Is MAGA a Fantasy?

Guest: David Stockman

WOODS: You know, it's hard to be you, I think these days, because you're not a Trump cheerleader. At the time of the election, you saw that there were a couple of things about him that might have been a value, but you were skeptical, but yet I wouldn't put you in the "never Trump" category in the sense that I don't think you would get along very well with Bill Kristol and his friends. So you know, it's a hard place to be, but you're telling the truth as you see it, and that's a valuable thing.

And you're telling 648 pages worth of it in this amazing new collection. Given that the report on alleged dealings and collusion with Russia has been said to be due any day now for weeks at this point, I'm afraid I might date us if I asked you about this. But nevertheless, there is a major section of the book that does deal with the so-called deep state and also Russiagate. So can you in advance of the report comment on that, given that what I think the general impression some people have is they read in the newspaper that this person has been indicted, that person's in trouble, and this person had some shady dealings, and it seems like it's enough for a lot of people to think maybe where there's smoke, there's fire? Why is that wrong?

STOCKMAN: Well, we may get the report, but it will be the wrong report. The actual meddling in the 2016 election did not come from the Kremlin or Moscow or the Russians. It came from the deep state itself, from the very top led by Brennan, participated in by a handpicked set of people in the FBI, the NSA, and the intelligence community broadly, that essentially attempted to undermine Trump's candidacy in the period before the election and then went to town right after his unexpected, unaccountable victory to undermine his presidency for the month or two that Brennan and his cabal were still in power under Obama. That's the heart of it. I mean, there is nothing here that even remotely smacks of Trump campaign collusion with the Russians. The whole thing, it's not only a witch hunt as Trump correctly says; it's a measure of how distorted our politics are at the present time. In other words, the establishment is so pro-status quo, so pro-policies that are in effect today, that they have repeated silly, stupid things that allegedly point to this collusion over and over, that are kind of inane.

The two people that have been named here, Carter Page and Papadopoulos, were not even paid members of Trump's campaign. They were volunteers. They were no-accounts who showed up, maybe looking to burnish their credentials, and they got drafted on to a foreign policy advisory committee that met only once in March 2016, and only because Trump was being criticized for what he said was his source of ideas on foreign policy. You know, they asked him, "Where do you get your ideas?" and he said, "I get them by watching TV." So, you know,

there was a lot of tongue-clucking about that, and he named an advisory committee. And the entire Republican foreign policy establishment was "never-Trumping" at the moment, and the only people I can find were baby George Papadopoulos, age 29, no-count who had never accomplished anything, and Carter Page, an ex-Merrill Lynch broker who had spent a few years in Moscow and had a shingle out as a one-man firm, trying to get work as an international energy consultant. That's the heart of it .

Or go to the so-called Trump Tower meeting in June 2016, and it's even more pathetic. The so-called Russian agent was not sent by Putin. The lawyer who attended that meeting didn't even speak English. She was there to attack the sanctions on Russia on behalf of a client who had a case in the US court system.

So, you know, the whole thing is so threadbare that it raises the question: what's going on here? What are they really thinking? And the answer is the Democrats are so unreconciled to losing an election to the worst candidate the Republicans have ever fielded, and I'm including Barry Goldwater and Alf Landon. And so they had to rationalize the only way they lost was that there was some untoward, nefarious intervention from the Kremlin that caused this outcome.

And unfortunately, it's led to a revival of what people are calling Cold War 2.0 for no good reason. It has completely stopped, blocked any effort towards rapprochement with Russia and Putin that Trump properly said he wanted to do, because the atmosphere has become so poisoned with this whole nonsense about Russian collusion. It's really a bad turn of events. The war party was strong enough in Washington already on a bipartisan basis, and now, after Russiagate and this whole Mueller witch hunt, we now have even liberal and progressive Democrats who signed up lock, stock, and barrel for the war party. The Pentagon is getting more money than ever. [Inaudible] totally stopped cold in the most important thing that he wanted to do, which was ending the policy of empire first and retreating to something more akin to what he called America first. Well, we address all this in the book, but I think it's a crucial matter that is poisoning the well in Washington in a way that would have been hard to imagine a couple years ago.

WOODS: I know you're on Twitter; I don't know how active you are there, but Tulsi Gabbard put out a really provocative tweet the other day, going after people who are obsessed with the Russia issue, saying that the net effect of what you've done is to make Trump be unnecessarily belligerent with Russia in order to show that there's no collusion, and you're basically just bringing us closer to nuclear war. And then the old tennis player Martina Navratilova jumped in and talked about how wacky and convoluted that logic was. And I thought this is the same Martina Navratilova who everybody else jumped on two weeks earlier because of her comments on transgender tennis players, and then she does exactly the same thing to Tulsi Gabbard. Did you see Tulsi's remark? What do you think about that?

STOCKMAN: Well, first of all, I think she's a breath of fresh air in the Democratic Party, and it's not surprising that they've come after her with guns blaring from the establishment side, the party establishment side and what I call the war party wing of the Democratic Party. And yet, she has great credentials. She actually was in uniform in the Middle East, deployed twice. She's been brilliant in cutting through the nonsense about why we're in Syria, understands what a catastrophe Iraq was, calls a spade a spade, when you look at the barbaric chaos that we produced in Libya and on down the line. So it's at least encouraging that there's one person standing up.

But in a way, the attacks on her from her own side of the spectrum and from the establishment media — you know, she's been raked over the coals on CNN and many other establishment outlets, because allegedly she had a meeting with Assad. Now, can you imagine that? Richard Nixon had a meeting with Brezhnev. He had a meeting with Mao, the biggest murderer in world history. That's what you do when you make foreign policy. And yet here — first of all, Assad is no worse than any of the rest of the butchers in the Middle East. Second, he was elected president of the country. Third, he isn't a jihadist radical; he's a secularist authoritarian. And yet, we've reached the point where that is the bloody shirt that they wave at her, that she met with Assad. This is crazy.

And I'll tell you what: it tells you that the neocons, the Bill Kristols and all the rest of them that you mentioned earlier, have created such a poisonous, ugly atmosphere in the imperial city that I call Washington, that you actually face the kind of circumstance I just described, Tulsi being basically called a trader because she met with one of the authoritarian rulers in the Middle East, looking for some path to resolve the disaster, the catastrophe that we have basically funded and imposed on the hapless country of Syria, that never posed any threat whatsoever to American security, did not have the means. I mean, you know, it's I think maybe in some ways a microcosm of the degree to which the empire has gone off the deep end.

And I say at the moment now that Trump was attacking Senator McCain for whatever reason it came up, but I happen to think he's totally right. I don't think Senator McCain was any kind of hero at all. He was a detestable, warmonger bully, arrogant imperialist when you come right down to it. And yet, the war party down there is rallying around him, both parties, and Senator Chuckles Schumer is going to rename one of the Senate office buildings for McCain. If you think there is a problem with our foreign policy, if you think Washington needs to have housecleaning from stem to stern, the act of even discussing from the Democrat liberals — what used to be the pro-peace party side of the world when I came up in the '60s and '70s, they're going to name a building for McCain? I mean, that tells you all you need to know right there.

WOODS: I'm sure they're just about to announce the Stockman and Ron Paul buildings for the House.

STOCKMAN: [laughing] Yes. Yeah, it'll probably be an outhouse outside somewhere.

WOODS: [laughing] Yeah. Let me ask you about, on the economy, I mean, this book is really what you need, if you want to know what's going on in the economy, but also a critique of Trump's economic policies, not to say that every single last little thing has been bad, but there have been some decisions that shouldn't have been made. But my question to you is, dig into this section of your book, but find for me stuff that — or describe for me how Trump is worse or different from what we would have had under a Jeb Bush. I think the health care proposal would have been identical. The tax cuts would probably have been very similar. The trade thing might be somewhat different. What would be different here? I mean, how would David Stockman's *Peak Jeb* book be different from this one?

STOCKMAN: I don't know, because — well, Trump is obviously much more of a protectionist than the center of the Republican party that dominates Capitol Hill or where Jeb Bush would have been if he had unfortunately been nominated and elected. But I think my angle is a little different. I think what we're dealing with is regime failure. When it comes to economics in

this country, the heart of it is the Fed and the Fed and the Fed, and the way that it has enabled Congress and Washington to ignore fiscal policy entirely, because it's monetized so much of the debt.

You know, back in the day when we were attempting to change things in the early 1980s, we still had a healthy fear of deficits, because that was when Volcker was chairman of the Fed. He was not about to monetize the debt to make it easy for politicians to borrow and spend, and therefore, if you were going to run big deficits that, unfortunately, Reagan stumbled into for reasons of history that I've written about elsewhere, you were eventually going to have a crowding out effect. Interest rates would have been pushed up because supply and demand was still running the bond pits, governing pricing in the bond market. And eventually, private investment would have been reduced, the economy would have been impaired, and you would have had a recession.

Now, the reason I'm mentioning all this is we were heading right into that in 1987, because interest rates were rising tremendously. People forget this, but at the beginning of 1987, the 10-year bond was about 7%. By October when the great crisis came, the 22% meltdown in one day on Black Monday, the bond yield was already up to over 10%, and the crush was on, and the wages of deficit finance were about ready to be paid. When Greenspan stepped in, Volcker was pushed out by the politicians in the White House and Jim Baker at the Treasury, and he opened the spigot on Black Monday, and we were off to the races of monetization, which went on for the next 30 years. People need to understand that when Greenspan took over, the balance sheet of the Fed was only 200 billion, and it had taken about 78 years to get there from when the Fed opened in 1914. And by the time he left, that 200 billion balance sheet was 800 billion, which shouldn't have been increasing at all. And then Bernanke took the torch from there, and Yelen and now Powell. But we ended up with 4.5 trillion balance sheet at the peak a couple years ago, which means that in a very short period of time in the scheme of history, in three decades, they monetized 4.3 trillion of debt, from 200 billion to 4.5 trillion.

Well, of course, when you are buying up 4.3 trillion of bonds and quasi government bonds, the Fannie and Freddie paper, with purely fiat credits plucked out of thin air by essentially the digital printing press of the Fed, you are dramatically shifting the supply-demand equation. You have your big, fat thumb of the central bank on the scale. And that pushed down yields, drove up prices, and gave false signals to the entire financial system that led to the enormous buildup of debt in the household and corporate sector that we talk about in the book and we can get to separately. But more importantly, it gave a new and destructive signal to politicians for the first time. It was no longer what we faced in the early '80s, Howard Baker and the what I call the old Republican bulls properly saying this is a riverboat gamble; if the deficit breaks out, we're going to have to pay the price. We exited that era, and we got into an era where you don't worry about government spending or the size of government or the size of the public debt, because the Fed is going to buy it up and avoid all the negative consequences.

So that happened for 30 years. And unfortunately, the system today is totally unstable. Everything is mispriced because of what the Fed did, both in the public and private sector. It's bad enough the bad signals that went to Congress to just kick the can, and so the debt was, when Reagan left office – when Reagan entered office, I remember I had to deal with it, it was done in 930 billion. By the time he left, it was 3 trillion. By the time Bush left, it was about 10 trillion. By the time Obama left, it was 20. And now, you have left in that context, a

guy who calls himself the king of debt and it's a wonderful elixir to make good things happen. So we are in very serious trouble now, because finally – and this is a big theme of the book – even the Keynesians at the Fed and other central banks have come to the realization that they can't keep expanding the balance sheet and thereby buying up bonds and other fixed-income paper at the rate they were doing without eventually blowing up the system. So they have stopped.

Now, I know we've got all the things that are going in the short run and the Powell pause and QT being wound down, quantitative tightening by October. But the point still is that the direction now is towards either freezing or slightly shrinking the balance sheet of the Fed and other central banks rather than massively expanding. And what that means is that government debt now has to be financed and compete for available funds with the private sector, households and businesses. And sooner or later, it's going to push up rates, and we're going to have a day of reckoning, because the whole system is unstable, mispriced, and based on interest rates that are not market-driven, supply-and-demand-based, real economic prices, but artificial prices created by rogue central banks.

And that's a big theme of my book, because people need to understand that the heart of what's wrong in the financial system today and why there is so much risk and so much instability lurking right below the surface, is that the Fed essentially forced all the other central banks of the world to copy its own expansionary policies. And one way to look at that is that if you take the combined balance sheet of all the central banks of the world, in the late '90s when this was just getting a head of steam, the combination was about \$2 trillion. Everybody adding up what would become the ECB, the Bank of Japan, the Fed, Bank of Canada, and all the rest of it, today is 25 trillion. So in this century in a couple years more, the central banks have bought up \$23 trillion worth of paper. And obviously, that has created a tremendous falsification of financial prices everywhere. It's encouraged businesses to spend most of their cash flow and balance sheet capacity, buying in stock, doing M&A deals for the glory of it rather than the profit of it.

And so we have a real mess, and it all goes right back to the central banks. And obviously, it all started in 1971 when Nixon slammed the gold window shut at Camp David. But it really took off in a destructive direction in 1987, Black Monday, when Greenspan panicked, as I call it, figuratively discovered the printing presses in the basement of the Eccles Building and launched this era that we're in now of massive central bank balance sheets and falsification of financial asset prices.

WOODS: David, it seems to me that there are two major areas that need to be cut at the bare minimum for there to be any hope of any kind of sanity. And yet, these are areas that are so carefully guarded by such major interest groups that the only type of person who could get away with cutting them would have to be campaigning in a populist style, would have to be campaigning in the style of somebody who says, "I'm going to go in there and take a machete to the establishment, and I don't care what it takes." couldn't be a Jeb Bush, who's going to lull you to sleep and talk about all his technocratic solutions to all your problems. It has to be somebody with a machete. But the problem is the two areas are the military and entitlements. Now, the thing is no populist is going to touch entitlements. That just won't happen, because that just undermines his whole base. So maybe the populace would go after the military, but as we've seen with Trump, he sort of does it, but then he wants to increase their budget anyway. So we've got the worst of all worlds here.

STOCKMAN: Yeah, we've got the really worst of all worlds, and that's one of the disappointments about Trump, as I was talking about. Trump is a symptom of regime failure: a Fed-dominated bubble finance policy domestically that left flyover America behind — and that's why he won. He got those votes out in left-behind Rust Belt counties in Wisconsin, Michigan, Western Pennsylvania, Iowa, and so forth — and regime failure in foreign policy, where essentially, instead of a homeland defense, we have an empire-first policy in place. And he said, I want to change that. Regime change has been a failure. We shouldn't be in a conflict with Putin — and I go through a lot of that book, why Russia really is no threat whatsoever. And so Trump was the candidate to oppose in response to the regime failure that was going on both domestically and internationally in terms of Washington policy.

Unfortunately, on the foreign policy front, he's been stymied at every turn. He had what I thought was a wonderful summit meeting with Putin in Helsinki, and they practically crucified him when he got back as being a traitor for meeting with Putin and saying, "I heard his side of the meddling case, and I'm not sure he's wrong." Okay, it turns out the Trump's been right about that all along, but he has been forced, as you were asking a moment ago, as Tulsi Gabbard was saying, into taking provocative steps against Russia, I think mainly out of political self-defense. And the whole rapprochement hope that we have on foreign policy is by the boards now. And frankly, if we don't get squared away with the Russia question, there's no way that we're going to be able to shrink this massive warfare state budget.

Now, Trump's impulses are totally inconsistent, because he did sort of point to "America first" as the polar opposite of "empire first." The logical corollary, as I show in my book, is if you have a thoroughgoing, Robert-Taftian, America-first homeland defense policy, it would be based on nuclear deterrence, which we already have and have paid for long ago. You could do it for 250 billion a year, and I demonstrate that, not the 750 that Trump has requested. And so even though he's talked the right talk when it comes to the meat of the matter, the fiscal meat of the matter, he's gone off the deep end out of this kind of megalomaniacal view of the world that he has, that if he can puff up his chest enough and appear strong enough, everything will fall into place. Well, that's just wrong. But it turns out, ironically, he's the best thing that the military industrial, surveillance, congressional pork barrel establishment ever dreamed of when it comes to what we call the warfare state. So he's failed there.

Now, domestically, he never really had a program. He was responding and speaking to the symptoms and the pain that's coming out of flyover America that was left behind. I try to point out some of these statistics in the book. For instance, the NASDAQ 100, which has been kind of the leading edge of the tech bubble, the second tech bubble, is up 200% in real terms — that is, after inflation — since the pre-crisis peak in late 2007. I'm not talking about the deep bottom, the dark days of March 2009, but the pre-crisis peak. It's up 200% from where it was before we had the so-called near-death experience. On the other hand, industrial production is up less than 4% over the same 11-year period. Real median household income — and this is median, the center of the Main Street — is up 0%. So there's something fundamentally wrong with a system that is producing 200% gains on Wall Street and essentially a flat line on Main Street. Trump was responding to that. But he didn't have even the outlines of a policy that could ameliorate or turn the ship in a different direction. It has to start with the Fed, and his views on the Fed are the worse yet that we've had in the Oval Office, and they've been pretty bad for several decades now.

The trade problem is not because of bad trade deals made by Obama or Bush or Clinton or the Bush before or even Reagan. It's not mainly because foreigners are engaging in sinister acts of

cheating and so forth. It's a function of bad money made in the Eccles Building in Washington, not bad trade deals that have been put into place like NAFTA or even the WTO. So he has identified another problem, and it's only gotten worse on his watch, by the way. The trade deficit is up now 155 billion more in 2018 than it was in 2016. Half of that massive increase in the trade deficit is with China, which he's attempting to solve with big tariffs, when the problem is bad money, 2% inflation, and domestic economy, and economics, and not trade mechanics.

So the dilemma at the moment is that Trump was elected because the regime was failing, and after two years in office, he's done nothing to reverse the direction either internationally or domestically. And in fact, for the most part, he's making it worse with his raw protectionism on trade and his fiscal policy, which is really a nightmare from any kind of sound finance point of view. It's bad enough that he inherited a \$700 billion deficit this late in the business cycle. We're in year ten. We've never really been there before. We're three months from the all-time record. And yet he's piled on 500 billion this year alone, this fiscal year, on top of that 300 billion for non-financed tax cut, 200 billion for military – and to get the military increase, he had to give out about 65 billion of domestic pork to the bipartisan establishment on Capitol Hill, and then they had all these disasters that they've funded with borrowed money. And I mean, it's really insane to be borrowing 1.2 trillion, which is what the Treasury will borrow this year, at a time when, at the end of the fiscal year, we'll be an uncharted territory – that is, we'll be in month 121 or 122 of this expansion, and there's never been one that long in history.

So you're living on – you know, recessions haven't been outlawed. There is weakness everywhere and the domestic economy. There's headwinds coming from all over the world, which we can see with the export data and industrial production data and so forth from both Asia and Europe. And in that environment, with recession staring you in the face, the last thing you want to do at the top of the business cycle was borrow 1.2 trillion, because when the economy finally buckles, which will, the revenue is going to collapse. Unemployment, food stamps, and the rest of it will soar. We'll be in 2 trillion deficits going into the 2020s, when the entire baby boomers are retiring, and Social Security and Medicare are going to explode in costs. I can't emphasize enough what a fiscal nightmare Trump is leading us into, Trump and the Republicans, because it was their tax cut, not his. But that's exactly where we're going, and so, sooner or later, we're going to have total failure of the regime. And I think what you can say halfway through Trump's term is that he is the great disruptor, but only in the sense that it's going to accelerate the great day of reckoning that I think's coming down the pike.

WOODS: David, let me conclude by just telling people to five parts of your book, because that alone ought to get them to click on and grab it, because this is the briefing that everybody needs. You've got a section on the Fed and what the Fed has been up to and how that has deformed the economy. You have a section on Trump's economics in particular. Then you have a section on foreign policy and on America First, which we've seen implemented only marginally, unfortunately. Then a section on the deep state and Russiagate. And then finally a section on the border war and the controversy surrounding the border.

So this is your briefing on the Trump years. Whether we're going to have four more of them or not, this is going to be an indispensable guide. So the book is *Peak Trump: The Undrainable Swamp and the Fantasy of MAGA*, Make America Great Again, linked at TomWoods.com/1368, where you can pick it up, and you can get it electronically, start reading it within moments

from now. But David, thank you for your tireless work and for, frankly, being willing to be unpopular, because who the heck cares if you're not going to tell the truth? What's the point in doing any of this?

STOCKMAN: Well, that's exactly it, and I appreciate very much the chance to talk about all these issues with you. I mean, they're vitally important, and with each day and week and month, we're drifting closer to the wall, and people need to be alerted. This Tis isn't just politics as usual in Washington or the Fed going through another cycle of capitulation or international relations getting warmer and colder and warmer and cycling back and forth. This is all coming to a pretty nasty end game here, and people shouldn't be caught by surprise.

WOODS: Well, that's why you've got to go out and get a copy of *Peak Trump*. You'll enjoy it. It's got David's lively style, of course, and a lot of great information that will help you understand what's going on and convey that to other folks. So thanks again, David.

STOCKMAN: Thank you.