



## Episode 891: Fiscal Doomsday: When It's Coming and What It Looks Like

Guest: Gene Epstein

**WOODS:** All right, let's talk about the Congressional Budget Office, which issues warnings about the fiscal path of the U.S. that go ignored every time they come out. But they just issued their report recently. You wrote about it in *Barron's*, and they're saying that the U.S. is on the road to – either the fiscal road to hell or the road to fiscal hell. But the thing is now, let me just before we even get to the meat of that, why can't I say legitimately, Oh, here we go again? We constantly hear this and then nothing actually happens. We manage to struggle along. So why should I care at this point? I'll be dead before this even matters. Why should I care?

**EPSTEIN:** Well, you'll probably be alive and kicking. It's a 30-year project and actually, I'm 72, but I plan to exceed 100, so I'll probably be alive then as well. And of course the answer is that we are indeed in a period of calm before the storm. The Congressional Budget Office is only saying that the road we are on, if you use a few simple assumptions about economic growth – about the rising elder care entitlements, about the rising debt and the potential for interest rates to go back to normal – those interesting little points, they're only saying, year after year, that 15, 20 years from now, we run the risk of a very serious fiscal crisis, that the debt-to-GDP ratio is going to exceed the post-World War II highs and it will continue to rise, nowhere to go but up. And they keep citing their 2010 study comparing the U.S. with Greece and Argentina and showing that there are indeed uncomfortable parallels.

And so when Hayek wrote *The Road to Serfdom*, he didn't – many misinterpreted him to mean that he thought the road to serfdom was inevitable. Now, you and I are radicals, Tom, and we know that nothing is inevitable. We know that the future is a series of choices and that it's very possible that this road to hell will not occur. But the reason I think that the CBO is right to point out that the dangers are very great, that the U.S. is on the road to hell, is that – and of course, they're an establishment, non-partisan organization based in Washington. They are good Keynesians, not bad Keynesians – and by the way, I want to get to that distinction, why they are good Keynesians and why, for example, Paul Krugman is a bad Keynesian. They are only pointing out that there is very substantial cause for concern and also that this is no way to run a budget.

This is no way for the federal government to operate, running this serious risk of causing a major fiscal crisis in the economy. And that in particular, if they are making promises to Tom Woods at the age of 44 that all his entitlements are going to be ready for him when he turns 65 and 70, that it's not good policy to suddenly pull the plug on

these old people because you suddenly can't afford it. We can potentially – to speak like a wonk, we could potentially end welfare as we know it for 30-year-olds, but you can't end entitlements as elderly people know it when they're 65 and 70. That's the reason why it's prudent to take steps right now to avoid this crisis.

So again, the baby boomers have not yet reached critical mass. The deficits are chronic, but they are not at this point so severe. The debt-to-GDP ratio, public debt – debt held by the public – that is, treasury debt held by the public, of which half is held abroad, by the way – is running now about 77% of gross domestic product. Now, if we can keep it at 77%, then we can scrape by. But they point out that the road we are on is such that in 30 years, it could be anywhere from 150% of GDP to 220% and still rising, and that runs the risk of a fiscal crisis. So they are prudently warning us before the devastation starts to start being aware of this problem and taking steps to remedy it.

**WOODS:** Now, obviously the major ingredients here are social security and Medicare, but Medicare dwarfs social security in significance on this, and yet I think from conservative wonks, I usually hear more about social security for some reason.

**EPSTEIN:** That's absolutely right. By the way, it's essentially – by the way, that's a point that Paul Krugman has made – among the vast wasteland of his many problems and objections to the CBO's projects, he keeps saying that social security is not such a problem, and he's absolutely right, by the way, that if social security were the only elder care program, then it could be absorbed.

But of course the key to that is that in 1965, social security was supposed to pay for the medical care of older people and the nursing home care, and then they created Medicare. And by the way, it's not just Medicare; it's also Medicaid because Medicaid pays a substantial amount to old people, in particular their nursing home costs. And so it's mainly Medicare and Medicaid. And Medicare and Medicaid were then broken off from social security, and that makes social security look good. But that's just – that was just essentially a ploy. Then Medicare and Medicaid began to lead a life of their own, and they began to explode.

And so of course the CBO keeps pointing out that it's a combination of all of these programs. Essentially we could call it elder care. But Krugman and others are being hypnotized by the fact that the government puts different labels and puts in different buckets its way of taking care of old people. And so again, it means nothing. I mean, Krugman has actually written that there's no one problem; there's only several problems. Obviously it's all a part of the same bucket: social security, Medicare, and Medicaid, and of course, to some degree as well, Obamacare, which we haven't yet abolished. And that's the point that the CBO was making.

And then of course when it comes to trying to fix the problem, we can fix it in the wonkish way – which I did, by the way. I wrote an article, a cover story for *Barron's* in December in which I said there's a way to cut \$8.6 trillion from the federal budget over the next ten years, and if you applied that 8.6 trillion to the CBO's baseline estimate, then my 8.6 trillion could balance the budget by 2024. Now, that included, by the way, \$1 trillion of cuts in military spending. Just get rid of those ridiculous bases in places like Germany and Japan since World War II ended quite a while ago.

There are various things that you actually can do. And of course, go for all the low-hanging fruit. In the case of social security, for example, accelerate the retirement age – you know, the retirement age which now goes from 62 to 70, people are living far longer. All of those prudent things can be done if you simply play the wonkish game.

But unfortunately – the CBO, by the way, keeps issuing a huge report on cuts you could apply to the budget and other things you could do, and of course these things are constantly ignored. So again, the road to hell – by the way, of course, that phrase was used by Douglas Holtz-Eakin, who had been director of the CBO. It's only when he left the CBO that he used a non-wonkish term like "the road to hell." The CBO of course talks in more bureaucratic terms about the serious risk of a fiscal crisis and all the rest of it. But of course it's obviously, again, the road to hell. It's not inevitable, but if you've studied public choice theory, if you understand what politicians are all about, then unfortunately, the road to hell begins to look fairly likely. It begins to look like it's a very plausible scenario.

And by the way, I do want to file this point, that over the past weekend, I had an opportunity to spend a lot of hours in the car with somebody who appeared on your show recently, Jim Epstein, who spoke about bitcoin and also about virtual currency generally. And he made the point to me that – he's my son, as you revealed, and he made the point to me that the response on the part of the Federal Reserve, the central bank when the debt does begin to get out of hand will probably be to print money, to print their way out of it. It's a natural, inevitable response of government.

And that, by the way – I'll tell you another irony. Those who've pushed back against my articles on this subject constantly say, How can you compare the U.S. with Greece? Greece had to pay its debt in euros. The U.S. debt is denominated in dollars, and even though half of it is owed to the Chinese, the Japanese, to other foreigners, all they need to do – the U.S. will never default; it just will print the money, print the dollars in order to pay that debt. And they're probably right. What they don't realize, of course, is that could bring a monetary and hyperinflation crisis that could cause even worse problems. It could cause the dollar to collapse. It could cause an even worse fiscal crisis, as it might indeed do.

But Jim Epstein points out that at least there's a silver lining to that. Those who point out, Well, where there be a rush into gold if the dollar's collapsing, or will there be a rush into the Chinese currency, the yuan? No, there might be a new kind of safe haven. It might be the virtual currency. Perhaps it will be bitcoin; perhaps it will be one of the offshoots of bitcoin. That could be a very happy outcome out of this very, very wrenching fiscal crisis.

**WOODS:** I think it's going to be hard for the Fed to use inflationary monetary policy to solve a problem like this, because it'd be one thing to solve a problem where you want to pay for infrastructure; it's a one-shot deal. But these are programs that are supposed to pay out year after year after year. And the problem with an inflation policy, as you know, is not simply that prices will rise and we'll suffer from that; it's that for the Fed to be able to credibly do this – well, this is the problem. If the Fed starts inflating and we believe that this is not just a one-shot deal but this is going to be a consistent policy, then we start anticipating still higher prices, which means we

start in the here and now bidding prices up, which now makes the Fed want to increase the money supply even more to compensate for that, and then it's, you know, "Katy, bar the door" at that point. So that's going to be hard for them to do.

**EPSTEIN:** Okay, I want to respond to your question, Tom, but let me just counter, first of all, exactly how this scenario will play out. On the one hand, there are the Krugmans who argue it doesn't really have to happen; we could deal with that.

**WOODS:** Right.

**EPSTEIN:** But then you're saying, Okay, let's say it does happen; how will it play out? Let me just make two points to you. Ironically I can invoke Alan Greenspan and Milton Friedman. Alan Greenspan wrote in his book *The Age of Turbulence*, the book he wrote after he left the Fed in great glory for having been a great Fed chairman, which soon unraveled. But he wrote that he is really fearful that by the 2030s, inflation is going to rear its ugly head bit time and that we will have a repeat of the 1970s, which culminated in the deep recession of the early '80s. He made two points. He said, first of all, the very point that the Fed will be under pressure to monetize an exploding debt, and second, he pointed out that the disinflation tendencies – which I believe are valid. When I talk in these terms, people think I'm forgetting that inflation is a monetary – the disinflation tendencies of cheap labor abroad will have been played out.

And the other point is the Milton Friedman point, which is the depressing point, which is that the lessons of economic and financial and monetary history often are not learned. And so I could say to you, Well, it happened in the 1970s, this same folly, and you might say, Well, didn't we learn from that folly? Well, yes and no. Oftentimes the lessons of the past are forgotten. So my point is that the U.S. economy was running double digit inflation, 10%, 11%, 12%, and it was potentially on that road to inflationary hell until Volcker came along and hiked the interest rate to 22% and broke the back of the inflation and broke the back of the economy. I say that that could happen again. That folly could happen again. I could be wrong, but I believe potentially you are being naive in imagining that those who run the Fed by 2030 aren't going to be just as naive as those who ran the Fed in the 1970s. So that's my counter, but go ahead with your question.

**WOODS:** All right, I'll give you my question after we pause to thank our sponsor.

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Well, as it turns out, my question comes courtesy of Paul Krugman [laughing]. I was looking through his writing on this subject and on Kotlikoff – and Kotlikoff, Larry Kotlikoff of Boston University, is of course the guy we associate with these gigantic numbers relating to the unfunded liabilities. And apparently, he and Krugman have had it out. He actually wrote a piece to *The New York Times* where he said, Look, Paul, I actually think you're a pretty good economist and everything, but stop calling people stupid. It's really just beneath you. So it was pretty good to see that.

**EPSTEIN:** Yeah, I know.

**WOODS:** But anyway, Krugman was saying, Look, I get what Kotlikoff is trying to calculate. The problem is what he comes up with are these unimaginably large numbers, and then he declares America bankrupt. He says, Look, that's silly, because the U.S. economy is also expected to grow a lot in the future, and meanwhile, real interest rates are expected to be only slightly above growth rates. So any persistent gap between spending and revenue as a percentage of GDP will be a huge number if converted to present values, but bear in mind you're going to have a much, much larger U.S. economy in the future. Isn't that accounted for by Kotlikoff or not?

**EPSTEIN:** Well, you know, I think so. Let me just say a couple of things about that just to – I do believe that Larry Kotlikoff to some small degree is leading with his chin when he structures the argument in that way. I know him. I had a long conversation with him. I do like to quote his line that "If there used to be the greatest generation, the baby boomers are now the greediest generation." You know, he's put some good phrases into the language, and I think his exercise about taking off the debt and then making a present value calculation may well be not necessarily factoring in economic growth. I'm not sure.

I found that – again, if Larry Kotlikoff wants to push back and demand that I retract this, I did find that he just kept telling me – I kept telling him that I think that this present value calculation has some usefulness. There's a guy named Jagadeesh Gokhale, for example, who used to be at Cato and is now at Wharton who's a student of his who likes to do these calculations. I told Jagadeesh and then I told Kotlikoff that I think that the Congressional Budget Office's method is far better. They try to tell a story. They don't do a present value calculation where there's a lot of complicated stuff embedded in it. The Congressional Budget Office lays it out.

The Congressional Budget Office of course is assuming that economic growth will continue, so that when I said that they project that the debt could grow to anywhere from 150% of nominal GDP to 220% by 2030 and that this would way exceed – it was at 106% in 1946 just after World War II and then it fell very steadily into the 1950s – their point is that not only will it way exceed the ratio – this is uncharted waters – way exceed the ratio of 106%; it's going to continue to rise. 30 years from now, the projections are it will still have nowhere to go but up. So that is the source of their concern.

And they're laying out their assumptions. They are saying that – they're projecting real GDP growing at 1.9% average for the next 30 years. That's their assumption they are making, so clearly that – Now, Krugman can then argue with that 1.9 assumption and that nominal GDP will grow by 4% over the next 30 years. And so that's laid out very explicitly so that we simpleminded people, reasonably simpleminded people, can put our minds around it.

So okay, again, all I'm really saying, Tom, is that it's difficult for me to step up to the plate and defend Kotlikoff. He then said to me that he doesn't see that there's even any merit in the CBO's exercise, that somehow or other his calculations are more scientific. I don't see that. I think that his calculations aren't the best way to go, even though of course you could do a present value calculation if you wanted to and come up with a scary number. But the point is that the CBO I think is making it more user-friendly and saying, Well, Krugman, if you want to object to what the CBO is saying –

And by the way, there Krugman has had a whole history of slightly crazy statements. I guess what you and Bob Murphy were recently mentioning, that at one point he was accusing the CBO of being highly politicized, I mean, the truth is that since 2006, the CBO has been issuing these warnings pretty consistently. It doesn't matter who's been in charge. And then they wrote the 2010 paper on the fiscal crisis and they keep citing it, and whoever has been in charge – and I think they've gone through three directorships at least over the last ten years. Because the numbers stare you in the face.

So therefore, let's at least skirt that and try to address Krugman and say, Look, Krugman, read the Congressional Budget Office report. What he does – again, there's a long trail of fallacies that he trots out. He sometimes cherry picks a number and says that the CBO, oh, it's pretty good news. Or actually, I guess his worst moment is that he sometimes acknowledges, sometimes he calls the projections "scary projections," as indeed they are. But then he keeps saying we don't have to really do anything about it now. We do have to cut carbon emissions – that's another column of his. We've got to cut carbon emissions to avoid global warming, even though of course the poor people of the world are going to starve if we do that, and even though there's no way to cut carbon emissions without impoverishing us. But we don't have to do anything about the fiscal debt now. We can wait 15, 20 years and then see what happens.

I mean, again, a totally myopic statement on Krugman's part, because you cannot ask elderly people to run risks with their future. You cannot make these promises that you're going to pay for their Medicare and social security and pension and nursing home care and then suddenly declare 10, 15 years from now, "Oh, it looks like we can't afford it." And when he writes the politicians of the future are going to be left to this, well, what is it that the politicians of the present have been doing, and how naive can you be about politicians who can only look to the next election and they obviously don't give a damn what's going to happen 10, 15 years from now?

So I'm just giving you an overview of Krugman's inability to wrestle with the CBO's assumptions, but getting back specifically to your question, the CBO is saying 1.9% average growth in GDP over the next 30 years and 4% nominal. Let's focus on the 1.9%. They point out that over the last 30 years, growth has run 2.5% average, and they're saying it's going to be 1.9%. Well, in fact, over the last 15 years, growth has run 1.9%, and of course that included the great recession. But I believe that 1.9% is a reasonable projection given what's in store, given the fact that the debt is going to slow growth, given the fact that demographically, we're not going to have the baby boomers entering the labor force or women entering the labor force, as we did in the 1990s. So I believe that 1.9% is pretty good. Does Krugman want to boost it up to 2.1 or 2.2? That's what the CBO does. You don't get a very different result.

So the point is, again, the CBO is making prudent assumptions, and Krugman, by going after Kotlikoff and making this point about economic growth, is simply choosing not to read the source that constantly publishes on this issue and that directly addresses his concerns.

**WOODS:** Yeah, let me jump in on this. I was going to raise as an objection that Krugman raises that all of the things that either Kotlikoff or the CBO are saying assume that policy won't change in the meantime. But that's a fair assumption. If it hasn't

changed up to now, it's not going to change [laughing]. So there's no reason to think that's going to change. But the other thing is, I agree with you that another reason that it's reasonable to say 1.9% growth is that there's another factor weighing on the economy. You mention demographics. Well, it's not just that we're not having as many younger people entering; it's we have so many older people exiting, and the older folks, they're older, they don't work, or they don't work as effectively, and they cost a lot more money. I'm just being blunt and just being honest, because we're not children here and we can discuss this. And that is going to –

**EPSTEIN:** I'm 72, Tom. You haven't insulted me.

**WOODS:** Yeah, exactly, nor should I. So that is necessarily going to drag down growth. Now, there could be some continued burst, like Internet 2.0 or something could revolutionize our lives in some way that I can't anticipate, but barring that, I don't think it's crazy to say 1.9.

**EPSTEIN:** Yes.

**WOODS:** So Krugman will then say, Well, even if what these crazy people are saying is true, and yeah, we do stay on the same trajectory and we do hit this really, really big fiscal speed bump, okay, so at that point we'll make some cuts and we'll make some adjustments, but it's not like we're bankrupt or anything. So I think, again, he's trying to downplay – describe for me, then, contra what Krugman is saying, if I may use that phrase –

**EPSTEIN:** Sure, sure, sure.

**WOODS:** – how this is going to look, what kind of wrenching changes we could be facing would actually look like.

**EPSTEIN:** Well, Krugman has very glibly – I now happily get my Krugman columns from listening to *Contra Krugman* every week –

**WOODS:** It's the only way to get them, yeah [laughing].

**EPSTEIN:** You guys have – I do of course – I've got you guys to help me because I still get emails from readers asking me to read Krugman and tell me what his problem is, and I've got you guys to speed that process for me. But I say that – maybe I haven't read everything by Krugman, but Krugman has made just sort of vague allusions to the idea, you know, let the government deal with it 10, 15 years from now. And the CBO points out that of course the more you delay, the higher the debt grows, the higher the interest costs on the debt grows.

By the way, the interest costs on the debt we now – of course, the calm before the storm is indeed that we're at these ridiculously low interest rates. The CBO very prudently says, by the way, that they're projecting that the average interest rate cost on the treasury debt is now 2%, which – that's 2% right now, the average interest rates servicing on the debt, and it used to be, over the last 20 years it was 6%. So we're no four percentage points below what it used to be at 6%. That was of course servicing

the debt. And the CBO projects a very slow rise to a high of 4.8%, so they don't think – and the average will be about 3 to 4%. But even with those very, very modest assumptions, they're pointing out that the debt servicing alone at the rate we're going is going to run one-third, nearly a third of all projected revenue. It's going to start – the debt servicing, the cost of the interest on the debt, is going to explode.

So the point is that as each year goes on, the choices get worse and worse. The need to suddenly hike taxes by unheard of amounts, that in itself is going to bring a wrench. The need to dramatically cut elder care entitlements rather than creeping them up, that's going to be a wrench. Do we have two, three, five, six years to go? Have others, including the CBO, including me, have we tried to talk about remedies? As I just mentioned, I wrote a report saying, Here – and with Cato wonks, by the way, supporting me, giving me the numbers, I showed a way to achieve a balanced budget with projected growth of the CBO's baseline in eight years and to reduce the debt-to-GDP ratio from 77% to the 50% range, which is still quite high, so that you could avoid this.

But again, the point is that as the CBO keeps repeating, you have to give people time to plan their lives. Maybe – obviously Tom Woods at the age of 44 after listening to Epstein and others knows that he can't plan his life around the assumption that he's going to have all of these entitlements showered on him by the time he's 70, but a lot of other people are planning their lives around it, and so it's only prudent to start, on the part of the federal government, to start avoiding this risk right now, because it is a great, dangerous risk. Go for the low-hanging fruit.

I didn't even, by the way, in my 8.6 trillion of cuts, I didn't even abolish Medicaid or abolish Medicare. I talked about Medicare alone, for example, its own projection is that 12% of Medicare payments are fraudulent. So for example – now, obviously you could say this is – but I said, Let's assume that they're able to police their programming so they can cut the fraudulent rate in half to 6%, which is still pretty bad. But that was one of my low-hanging fruits. That will save – so the calculations you could reach were just – the tally that I came up with added up to – well, to a considerable sum.

Of course, then I said, Do we really need a Department of Education? The Founding Fathers must be turning over in their graves. Let's say for now, let's shut that down. I think I didn't even throw in the, Do we really need a Department of Energy? Do we really need – you know, all these crazy things of government. You might say, God, isn't it easy? There's so many things that government is spending its money on but they don't go away. And of course, mine was – I began, by the way, by quoting our great President Trump. He said, Waste, fraud, and abuse, everywhere you look, it's waste, fraud, and abuse. I'm going to cut so much, it'll make your head spin. I wrote, "Let the head spinning begin, but let's not have any political spinning about whether we're really cutting." But obviously it does not look as though President Trump is going to be cutting that much waste, fraud, and abuse.

So again, going back to Krugman's – just to put a fine point on Krugman's point, I would have liked to see him look at the CBO projections and then tell us why he wants to wait – it looks as though he wants to wait until about 2030 when the debt-to-GDP ratio will likely be over 100, when the deficits are going to be – when \$1 trillion a

year deficits are going to be on the low side. At that point, what kind of stops – what does he expect from our heroic statesman-like politicians in 2030 that will cure this problem so that old people who are planning on these benefits can have time to plan their lives around the new assumptions? What could he possibly do? It doesn't seem very likely that he can do anything. All he can really do is pray. We can pray, as you just said, we can pray for 3 and 4% growth. You and I, we're Austrians. We don't predict the future in the way that others do. If growth really accelerates, then that can make a difference. That could really postpone the debt.

I will say one thing, by the way. Going back to Kotlikoff and Gokhale, the one criticism they make of the CBO's study is indeed a valid one. Basically it says that the factors, that even though the demographic time bomb is beginning to explode, it won't reach full force for another ten years. But their point is that the CBO's other assumptions, which is that medical care per capita is increasing faster than GDP per capita, that it has been doing so for a long time, and the CBO prudently cuts it down – but they say that it's foolish to imagine that that's not going to continue.

They also point out, obviously, that the interest rate on the debt is going to so explode that that in itself is going to start eating up the debt. And Gokhale and Kotlikoff point out that those two factors are not going to stop. And 30 years from now, as the CBO of course adds in sort of a footnote, an afterthought, the debt is going to continue to rise. So they say, Why cut it off 30 years from now if these factors are going to continue to stare us in the face most likely, and therefore we really do face a problem that's not going to stop in 30 years?

So again, the key point is that, while the baby boomer explosion is exacerbating the problem, the other two reasons for fearing the explosion of the debt are going to persist beyond 2030. So if you're a prudent steward of the U.S. budget and the U.S. economy, the idea of listening to Krugman and saying, Well, you know, *après moi, le déluge*, or let's wait for those politicians in 2030 to do something about that, that imprudent, irresponsible behavior. And it's really – I don't know if Krugman really means it; it's just that he flails every time he looks at the CBO numbers and desperately tries for some reason to deny them, because if you're going to start acknowledging the CBO numbers, then a lot of other things have to follow.

Douglas Holtz-Eakin, by the way, talked about the road to hell when Obamacare had come out. He said Obamacare – he said, Isn't it insane we're on the road to hell and now we're crazy enough to add yet another entitlement that's going to put us even faster on the road to hell?

So the point is if you admit the road to hell is a real danger, then you have to start saying, as desirable as it is for the government to run our health care system, these – and for the government to ensure nursing home care for elderly people and pensions and social security – as desirable as all these things are, we've got to do something drastic. We either cut these entitlements – and by the way, the CBO publishes every year a whole list of potential cuts, ways of doing something about it – or we need to raise taxes on the middle class. The rich simply – we can't just tax the rich. That's the other unpleasant prospect that Krugman would have to face. People of limited means will also have to pay 30 and 40% more. We do have to go the way of the small welfare states –

And by the way, that's another point. The CBO is projecting 29%, the budget's going to be 29% of GDP in 30 years, up from 21% now. So you might say, Well, what's wrong with that? All we have to do is tax everybody the way people are taxed in these small, homogenous states like Sweden and Denmark. It's obviously going to be devastating if we do it, but that's also a potential solution.

In any case, I think that's essentially the problem with Krugman. All it boils down to is that if you're in your 40s, you have to start prudently planning for your old age. If you're not fantastically wealthy, you're just an ordinary person, prudently putting money away and stop borrowing in a profligate way. And yet, I'm sure that's what Krugman started doing for himself, but he doesn't see that the analogy holds for the elder care entitlement programs as well.

**WOODS:** Well, gee, let it not be said that on this show we do nothing but talk about problems. We do offer solutions; it's that nobody ever takes us up on them [laughing].

**EPSTEIN:** Well, the solution – again, I think that the potential solution is – I was persuaded by my firebrand son, Jim, who believes that the blockchain technology is so good that in any rational or now irrational world, the currencies of the world are going to stumble – the dollar is going to stumble one way or the other, and the new deal is that people won't have to – that the virtual currencies will be a safe haven and that the world will operate more rationally. It's depressing to recognize that the only way to unseat a currency – because indeed, it's a great convenience. And you, by the way, of course have said bitcoin baffles me, but dollars – those smackers, as you like to coin it – those smackers are just easy for simpleminded people like you and me to deal with. But there could be problems with those smackers down the road, and the bitcoin technology – and bitcoin may not last and there may be other – that may be just the first pass. But those currencies make more sense, and they probably are the currencies of the future. That's the optimistic scenario, which might, I think, arise from the fiscal crisis of the state that the CBO keeps warning about.

**WOODS:** All right, well, there it is. What can I link to? I could link to the CBO thing itself, but your *Barron's* columns might be behind a pay wall.

**EPSTEIN:** Yeah, well, I guess you guys – of course, I've been a pain in the butt for you in this regard. I know you put – the last time you put the columns I wrote, you put one of my columns in a special link, and I sent you my past column excerpts and I know somehow you managed to create a link for them. You remember that, Tom? You did that?

**WOODS:** Oh, yeah, that's right.

**EPSTEIN:** So I don't know, if you did it once you could probably do it again. I put out my special link – I wanted to finish, by the way. If you want to show me off, that's good. I wanted to go back to what's a good Keynesian and what's a bad Keynesian. The good Keynesians are the people who do believe of course that in recessions the government has got to run deficits. But they also believe that when there's an expansion, the government should either balance the budget or even run surpluses. And through the '50s and even into the '60s, you did have that. By and large, there weren't recurrent deficits.

But of course, the good Keynesians are naive, and what they don't recognize is that this is music to politicians ears when you tell them that spending can often be a good thing. And of course the politicians want to please the electorate and not tax so much, although, because they want to tax the rich but not the middle class. And so inevitably, by the 1970s, you began to have chronic deficits. And those of us who understand that politicians can often be irresponsible and not be like good Keynesians, the deficits began.

And we had a brief, amazing moment in the late 1990s under Bill Clinton when we were suddenly getting a balanced budget and fiscal surpluses, but that was a – and by the way, it's interesting to point out that lucky accidents happen. The reason for those surpluses was mainly first that the Cold War abruptly ended and that even the George H.W. Bush and Clinton governments had to retrench a bit from all this Cold War spending. And they did close domestic bases, they did have to retrench on military spending, because it would have been somewhat embarrassing if they were spending as much after the Soviet Union unraveled and after the Cold War ended, so defense spending, which was pretty bloated, actually sank a little bit in absolute terms and rose much more slowly than GDP.

The second thing that happened to Clinton which is very lucky is that Hillarycare – that was Hillary Clinton and Bill Clinton's version of Obamacare – got soundly defeated. Had he been able to pass Hillarycare, no doubt the surpluses wouldn't have happened. So the defeat helped Clinton, and then the booming stock market gave him a huge amount of capital gains from revenues, and suddenly Clinton started to take credit for this and became a fiscal conservative and talked about the locked box, talked about – so there are ironies in history. Certainly Clinton and then Gore became fiscal conservatives. Whether they really would have followed through on the idea of keeping the surpluses and planning for the future, all of that talk – the baby boomers will become the baby boom time bomb – Clinton was talking in those terms.

Now, then of course George W. Bush ignored him and passed a new entitlement, Medicare Part D, the drug benefit, ratcheted up defense spending. There were tax cuts that I think hurt. And then of course Obama came along, and now we're back on the trajectory that we've been on before.

But the good Keynesians, of course, like the CBO believe – while I think they're wrong, they believe that fiscal deficits are good in recession, they at least acknowledge it, as the CBO does, that if you run chronic deficits and if the debt continues to accumulate, then it becomes a bad thing suddenly. That's what good Keynesians are willing to acknowledge, like the CBO is.

Now, the bad Keynesians like Krugman remain in denial, remain in denial about it, even when the government runs chronic deficits all the time, in good times and bad. Even when that happens, they still hold on to the old theology. They say that it's all a great thing. But of course, as the CBO points out, the bad news for people like Krugman and even for the good Keynesians is that once you're at a debt-to-GDP ratio of 150% and 160%, you no longer have much of an option to start running huge deficits, huge increase in deficits, because your deficits are already so large, because the interest rates, the cost of servicing that debt is so huge. And so Krugman even ought to acknowledge that the old deficit financing fix is no longer going to work 20, 30

years from now, because the debt will be so burdensome. So again, that's my little take on that. And I'm quoting a Keynesian organization, the Congressional Budget Office, but at least they're good Keynesians. They can see reality and they can understand that chronic deficits are not the original way for the good Keynesian to be pursued.

**WOODS:** All right, and with that, we'll leave it here – with our great thanks to you for covering this –

**EPSTEIN:** Sure.

**WOODS:** – because I've been meaning to get to it, and I keep hearing people like Krugman say, Oh, this is just a lot of scaremongering – not like that makes me rethink what my view is, but I'm just wondering how we've answered that. And you showed it.

**EPSTEIN:** The road to hell is not inevitable. The road to serfdom was not inevitable. It's just too much of a worry, too much of a concern to be ignored. We've got to something about it, and if we don't, then it's up for grabs about what's really going to happen.

**WOODS:** Right, right. Okay, Gene, thanks so much again. Always a pleasure.

**EPSTEIN:** Thanks again.