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Stop Worrying About the National Deficit

Guests:

For the Motion: Stephanie Kelton, James Galbraith
Against the Motion: Todd Buchholz, Otmar Issing
Moderator: John Donvan

AUDIENCE RESULTS	
Before the debate:	**After the debate:**
55% FOR	**73% FOR**
29% AGAINST	**24% AGAINST**
16% UNDECIDED	**3% UNDECIDED**

Start Time: (00:00:00)

John Donvan:
Money. It doesn't matter whether it's bills, or coins, or crypto, money's worth depends on the value we give it. Goods and services are traded by that value, savings rely on it, debt is repaid by it, and nations can rise and fall, depending on how and where they spend.

In this pandemic, unprecedented spending has thrown new focus on national budgets as they did further into the red. In the U.S. and parts of Europe, debt is set to exceed the size of their economies. Partly the result of the giant fiscal responses to the pandemic and a surge in borrowing. What that means for the future is the focus of our debate. Not merely as a response to the pandemic, but in how we think more broadly about money and the prerogatives of those who print it.

[music playing]

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From Washington, D.C., I'm John Donvan, your host and moderator. Welcome to "That's Debatable," an interactive series on today's most pressing issues. The resolution this time: "Stop worrying about national deficits." We hear from two teams of two arguing for and against that motion and get global audience perspective with the help of artificial intelligence from IBM

Watson. The debaters take questions from me and our global audience, which decides the winner by voting before and after. The team that changes the most minds wins.

Here are the results from the pre-debate vote. For the motion, stop worrying about national deficits, for, 55 percent, against, 25 percent, undecided, 16 percent. Now, the debaters. The team against the motion: Todd Buchholz, former White House Director of Economic Policy under George H.W. Bush.

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His partner, Otmar Issing, Former Chief Economist of the European Central Bank. The team arguing for the motion: Stephanie Kelton, Professor of Economics and Public Policy at Stony Brook University and a leading authority on Modern Monetary Theory. And James Galbraith, economist and professor of Public Affairs at the University of Texas, Austin. Here are their opening statements.

James Galbraith:
Do large national deficits drive up interests in countries that pay debts in their own currency? Obviously not. Japan has a national debt twice GDP and interest rate on deferring debt that's negative. In France, it's almost 100 percent. The interest rate is, again, negative. In the United States, 20 year constant mature treasury rate was about 1.4 percent, just now. And the 10-year rate is below .9 percent, which is an even better deal than Pope Julius got from Michelangelo for the Sistine Chapel.

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And those are market rates. Efficient markets theory tells us that they reflect the expectation of inflation over ten or twenty years to come. That expectation could be wrong, but it is not open to economists who proport the belief in efficient markets to question it. What about the dollar? Sure, the dollar might decline some in the years ahead. If so, goods Americans buy will be more expensive, American jobs will be more plentiful, and they will sell better on world markets. That's an internal matter.

Could the dollar collapse? The thought is absurd. In every world crisis, investors have come into the dollar, not out of it. That is because there is no safer alternative, certainly not the Euro, for which Germany gave up the Deutsch Mark 21 years ago. America's worries are unemployment, climate change, COVID-19, inequality, precarity, the polarization of our society, militarism, the threat of wars.

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America's goals are full employment, balance, growth, and reasonable price stability. Those are written to law. As Keynes said, "Anything we can actually do, we can afford." If you haven't started worrying about deficits, don't start. If you have started, stop. Vote for sound economics and for your mental health.

Otmar Issing:
Let us consider the facts. To a large extent, the public debt figures of industrialized countries today are coming closer and closer to the levels reached after World War II. However, these already frightening figures are only the tip of the iceberg. The greater part of the public debt is not visible.

In Germany, for example, the official figure for the ratio of public debt to gross domestic product is now 72 percent. If you're at application for future social spending, from pensions to healthcare, the number rises to a staggering over 400 percent.

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Similar ratios apply to many other countries. A person born into one of these societies arrives with a heavy load to bear. On top of all, the future challenges arising from climate change or aging populations. High public debt implies limits to future expenditures, and once interest rates rise, the house of cards will collapse.

Stephanie Kelton:
The federal government is nothing like a household. It shouldn't run its budget the way that you and I run our budgets. If it tries to do so, it almost always ends badly for the economy. It will drive the economy into recession. Governments aren't like households because governments issue the currency, and households are what we want to think of as users of the currency.

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So, I want you to think of a very hard line that separates what the federal government can do with its budget, its spending power, and what the rest of us can do. We play by a different set of rules. That's the first important point. The second important truth is that every deficit is good for someone.

The deficit is just the difference between two numbers. The first number is how many dollars the government is spending into the economy each year, and the other number is, how many dollars the government is subtracting back out, mostly by taxing us. So, a deficit means the government is adding more dollars to our economy than it subtracts away, which means that someone is getting a surplus. If you like the, government deficits works to blow financial resources, dollars, and government bonds, those are financial assets that show up on our balance sheets.

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They become part of our wealth, they're part of our savings. A surplus, when the government eliminates deficits, balances its budget or moves it into surplus, then it's operating its budget like a vacuum. It's hoovering those dollars away from the rest of us, and that reduces our wealth. So, think about whether you want the government to be running deficits, which produces sure surpluses, or whether you'd prefer them to hoover away some of the financial assets that you hold.

The third truth is that deficits can be too big. No one is arguing for unbridled deficit spending, out of control, never ending, larger and larger deficits. Deficits can be too big, and inflation can be evidence of a deficit that's gotten too big. But, deficits can also be too small. And evidence of a deficit that is too small is unemployment. That's what we have today, and that's what Dr. Galbraith and I would like to convince you of.

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Let's worry about the unemployment and the depressed economy, not the government deficit.

Todd Buchholz:
The motto or the mascot of Modern Monetary Theory should not be a dollar bill, it should be earplugs, because the modern monetary theorists refuse to listen to 2,000 years of history.

Let's go back. Ancient Greece: city-states went bankrupt lending to the Temple of Delos. French Revolution: Louis XVI loses his head, why? Because he spent too much money. Alright, that's old history. Let's go to modern times. Chile, early 1970s. Inflation. Chile, Brazil, and Argentina, in the 2000s. Bolivia in the 1980s, okay. They encountered inflation, depreciation, wages fell 40 percent. Our colleagues say they're worried about everyday people. Wages fell 40 percent under MMT-like policies.

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Okay, those lesser-developed nations, perhaps. How about Britain? The 1970s. How could you forget that in the 1970s, Britain begged the IMF for the biggest bailout to date? And James Callahan, the Labor Prime Minister of Britain, explained to the MMT theorists of the day, the predecessors to Dr. Kelton and Dr. Galbraith, we cannot, in all candor, do what you ask.

Okay, Britain, let's put that aside. Let's go to a place that's a little more socialist friendly. Sweden had a terrible crisis in the early 1990s. Have you forgotten that the central bank had to raise interest rates 500 percent? Have you forgotten that Canada, the Canadian dollar cratered, and they could not sell their bonds in the 1990s? In each case, those countries had to slash spending and do what is right. Now, a survey was recently done of top economists in the U.S., many of whom are very worried about inequality, global warming, social welfare state.

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None of them, not one, support the principles of MMT. Now, perhaps our colleagues here are like Albert Einstein, a lowly Swiss clerk working by himself, somehow coming up with a magical way that breaks, shatters ideas about space and time.

You may decide today whether they're the Einsteins of our day, but in the meantime, I'd suggest vote to be concerned about the deficit and the debt. Vote because our lives depend on it and hold onto your wallet.

Jon Donvan:
Okay, that wraps up round one. Coming up, government spending tends to soar during recessions. So, should we fear that politicians will disregard deficits?

Todd Buchholz:
Most people in Washington are sensible enough to learn from history and recognize that they shouldn't have a free hand to spend whatever they want.

Stephanie Kelton:
This idea that Congress is just so eager all the time to spend money is simply not our reality.

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[music playing]

John Donvan:
Welcome back to "That's Debatable," presented by Bloomberg and Intelligence Squared. The motion: "Stop worrying about national deficits." One concern from those against is that giving politicians a free hand to spend could be a mistake, and trusting that they will cut back and raise taxes when the time is right, rather than continuing to run at a deficit. Here's more from our debaters.

Stephanie Kelton:
First of all, it isn't about letting politicians doing anything. Congress already has the power of the purse. And we aren't endowing Congress with any new powers and authorities that it doesn't already have. Congress can already appropriate funding for whatever it deems a priority. We saw that in the CARES Act.

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That was $2.2 trillion piece of legislation that passed both the House and the Senate, got signed by the White House, and became law. Congress did not go out and find $2.2 trillion. They didn't come hat in hand to the rest of us, our taxes didn't go up. They didn't go to China and ask for some dollars so that we could carry out a relief package here in the U.S.

Congress has the power of the purse, so they appropriated funding. And where did the money come from? That piece of legislation effectively orders up, from government's bank, its fiscal agent, the Federal Reserve, $2.2 trillion. They get created by the Fed on behalf of Treasury, as authorized by the government. That is how it works today.

So, we're not giving the government new powers, new authorities. And this premise that you have, this idea that governments will go wild if somehow they wake up and realize that they have the power of the purse, and if they vote for the spending, the money will be there, that they'll just run wild and spend out of control.

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To that, I say, all evidence to the contrary. Look at our economy today. We know that this economy desperately needs more spending. You turn on the news, every night you see miles stretching of cars waiting to get food from food banks. We know that tens of millions of people are on the verge of having their unemployment insurance expire. Congress has gone home; they've gone back for the holidays. They're out, they've checked out, they're not going to spend anymore. So, this idea that Congress is just so eager all the time to spend money is simply not our reality.

John Donvan:
I think you've made that point very clear, that you think that that's a canard. So, I want to take that to Todd.

Todd Buchholz:
I think that's very dangerous. And I think the reason why Congress and the U.S. deficits have not previously gotten out of hand is because MMTers have not won the argument.

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It's because most people in Washington are sensible enough to learn from history and recognize that they shouldn't have a free hand to spend whatever they want. Take a look what's happening today in Turkey. Now, I know Jamie might say, well, that doesn't count, it's not a major country.

But President Erdoğan of Turkey controls the Central Bank. It is not independent. He's gone through four different heads of the Central Bank in about five years. His son-in-law was the Finance Minister. As a result, Turkey today raised interest rates by 500 basis points to 15 percent because inflation has gotten out of hand. When you give government officials priority to control the Central Bank, you get higher spending and higher inflation and less responsibility. One of the great achievements in economic history throughout the world in the last 30 years is making central banks more independent so they are not beholden by crass politicians.

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And those of you watching this who might be on the left wing of the political spectrum or the anti-Trump part of the political spectrum, just imagine if Donald Trump had known about MMT and known that he should be in control of the Federal Reserve Board even more so, what would have happened to spending? So, I think these are very dangerous doctrines.

John Donvan:
Coming up, do U.S. deficits endanger the dollar?

Otmar Issing:
I think a country like the U.S. is the least one to risk the stability of its currency.

John Donvan:

And does fiscal prudence make a difference in the real world?

James Galbraith:
Simply saving money on the government accounts is not going to improve the quality of life for anybody.

[music playing]

00:16:00

John Donvan:
Welcome back to “That’s Debatable,” presented by Bloomberg and Intelligence Squared. The motion: "Stop worrying about deficits." We bring in now our global audience. People around the world weighed in on this debate, and we turned to IBM Watson to understand what matters most to them. Here’s how the artificial intelligence works.

Male Speaker:
First, people around the world submit their arguments online. Then, the A.I. assesses the quality of the argument, filtering out any irrelevant submissions, and sorting the remaining arguments into for and against.

Next, the technology identifies the occurring key point, ranking them based on their quality and their frequency. Finally, the A.I. creates a coherent narrative of the strongest and most prevalent points for both sides of the debate.

John Donvan:
Okay, and now we get to hear what the results were. This is a selection of key points and arguments that our global audience, again, more than a thousand people around the world thought were most important. Let’s listen in.

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Male Speaker:
Hello. The following analysis used A.I. models to identify the critical key points made by each side on the motion, we should stop worrying about national deficit. 50 percent thought we should stop worrying about national deficits, with 17 percent of those arguing that national deficits have no direct negative impact on the economy.

One argument said a high deficit does not mean a high risk of default. Financial institutions are strong, and productivity is increasing, thus the danger of an economic fallout is minimal. Another key point for the motion was that, to an extent, the national debt allows financial growth. One argument said that spending money stimulates the economy, which will then bring the government money and lower the deficit.

People also think spending into a higher deficit is acceptable during a health crisis. The remaining 50 percent were against the motion, with 17 percent of submissions arguing that a rising deficit can lead to inflation and cripple the economy.

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One argument said national deficits fundamentally weaken a nation's economy and must be arbitrated to achieve a balanced resolution. Another key point against the motion was that national debt burdens future generations. One argument said, we cannot pretend we have money that we don't have.

It's disrespectful to younger generations to run up the national deficit. People also said that high public debt is dangerous. While the world is so unstable with politics, wars, prevalent racism and extremism, also having high national deficits around the world will cause more instability. Please visit the website to see more results. Good luck to the human debaters.

John Donvan:
One point made that we haven't brought to, and that's the social impact of deficits. People were mentioning things like global instability and things like war and extremism. To the team that's arguing against the resolution, I'll come to you, Otmar, on this one.

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Are deficits a threat to global security? We're not just now talking about the markets, but to global security overall?

Otmar Issing:
I think we need stability in international relations. There are so many risks coming from geopolitics, and this is not a background against which governments should irresponsibly spend money. I think the trust, for example, in the dollar as the dominant currency of the world is based on the future stability of the currency.

So, I think a country like the U.S. is the last one to risk the stability of its currency, and I would suppose that if a new U.S. government, and including that that would explain that they would apply MMT policies, the dollar would lose its leading position in the world, because people would be afraid that in the future, the investments in U.S. dollars would not be safe enough.

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John Donvan:
Stephanie, would you like to respond to that?

Stephanie Kelton:
Yeah, I do, thank you. So, I keep hearing this bizarre discussion about the Central Bank being forced or cajoled or asked to do something to aid and assist government spending, that somehow

what we're talking about is the capacity of the government to run deficits, being somehow dependent upon the Central Bank's acquiescence in all of this, that it has to give up some independence.

Nobody said any such thing. What I described, with respect to the CARES Act, is the way the governments always spent. The government decides what it wants to spend, and the Fed is the government's bank. The Fed carries out all payments that are authorized by Congress on behalf of Treasury, always.

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It doesn't say no to the government, it can't. It has to clear the payments. What the Fed has independence to do is to set the price at which Congress will access those funds. Now, think back to Ronald Reagan. Ronald Reagan ran massive deficits. He didn't have a friendly Federal Reserve chairman holding interest rates near zero to accommodate all of this, he had Paul Volcker, and interest rates were double digits.

They were almost 16 percent when Reagan was president, they never got below seven percent. So a very high interest rate environment that did not stop Ronald Reagan from running massive deficits with two huge tax cuts, and a huge buildup in the military that almost tripled the national debt. So, you don't have to have the Fed behaving in a certain way to allow Congress to do what Congress can do. Republicans do it all the time. They increase the deficit for tax cuts and wars, and the rest of the time the deficit increases is because the economy goes into recession. Those are the big drivers.

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John Donvan:
Okay, let me just let your opponents respond to some of what you were saying. Otmar, I saw you raising your hand, did you want to jump in on that?

Otmar Issing:
Saying that the Central Bank base pays the bill is just like saying my bank is paying my bill. You have to dispose of funds which are created by the Fed. But I think on the general issue, Todd would be in the better position to answer.

Todd Buchholz:
Well look, with all due respect, I think that Stephanie is running away from her own writings. Because it's very clear, although actually, it's very difficult to make sense of MMT. But if you struggle with it, you will find that they diminish the authority of the Central Bank and they leave it to the Congress to decide whether to tighten or loosen policy. But putting that aside, the U.S. dollar today is the world's reserve currency. But you don't choose to be the reserve currency of the world, the world chooses you, depending on your behavior.

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So, the extent to which the U.S. undermines its credibility by saying the debts don't matter and deficits don't matter, we will have a depreciated currency, we will have inflation, and you will have everyday people, mothers and fathers and children, having their standard of living drop, because that's exactly what's happened through 2,500 years of history, and 26,000 miles of circumference around the globe. You can ignore that history, and you can make up a new one, but I'm hoping -- the American people and those watching this program do not fall for that.
James Galbraith:
If you're worried --

Todd Buchholz:
-- the American people and those watching this program do not fall for that.

John Donvan:
Let's bring in James Galbraith. James?

James Galbraith:
Yeah, if you're worried about the standard of living of our children and grandchildren, that's a good thing to worry about. And the way to improve it is to improve the quality of life now to build back a better America, a better world to deal with climate change, to provide the parents with jobs that provide them with adequate incomes to provide the children with the capacity for education, to provide the whole population with healthcare, to deal with the pandemic.

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Simply saving money on the government accounts is not going to improve the quality of life for anybody. In fact, it is going to make it harder and more difficult to improve the quality of life. So yes, we should be worried about our children, we should be worried about what we're doing for them, not what we're not doing for them, by not getting involved and tackling the problems that we actually have.

[music playing]

John Donvan:
Coming up, the debate over deficits continues. Should governments worry more about the bottom line, or unemployment lines?

Stephanie Kelton:
We use human beings, we lock them in unemployment, and we say, thank you for your sacrifice, you're helping the nations guard against inflation risk.

Otmar Issing:
I'm asking you, what is your sense when deficit spending should stop? Until what ratio of unemployment?

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[music playing]

John Donvan:
Welcome back to “That’s Debatable,” presented by Bloomberg and Intelligence Squared. The motion: "Stop worrying about deficits." Governments around the world have spent unprecedented sums, trillions of dollars, to combat the economic impacts of the Coronavirus. In the U.S., the government increased its debt burden by 14 percent in the first half of 2020. Europe’s fiscal response has resulted in a nine percent increase in the debt load. But what does rising debt mean for our future? Here’s more from our debaters.

Todd Buchholz:
In a pandemic, we should be spending money. Nobody disagrees with that. Jamie, I am sure, is sincerely worried about the unemployment rate, as we all are. At 6.9 percent, that is far too high. But let’s just scroll back. February of 2020, before the pandemic hit, the U.S. unemployment rate was only 3.5 percent.

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The lowest I’d ever seen in my lifetime, Jamie had ever seen in his lifetime, or Stephanie or Otmar. So I don’t think we should go into this program and say that MMT or this story about debts is one that is solely appropriate during pandemic. We have to ask, when an economy is doing well, are you willing to give up fiscal discipline? And I think that’s a very dangerous bet for common, everyday people.

John Donvan:
James, did you want to respond to that?

James Galbraith:
I’ll defer to Stephanie.

John Donvan:
Stephanie, do you want to respond to that, sorry.

Stephanie Kelton:
No, I think that this is exactly compatible with what Jamie and I are arguing. I think we’ve found some agreement here, that in the current moment, we recognize that the economy needs the fiscal support that has been provided. And I will make the case, and I think Jamie as well, that we aren’t doing enough. That in spite of the three plus trillion-dollar deficit we have today, it is still too small.

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Congress needs to do more to provide fiscal support to this economy as a bridge to the other side of the pandemic. And beyond that, recovery, and investment in the economy. So, at what point does it become appropriate for the government to withdraw some fiscal support? That’s the question. And I think we're having the right conversation; we're looking at the real economy. It's sending us a signal.

Count the number of people in the unemployment line. How many people remain unemployed will give you a pretty good idea of how long we need to continue the fiscal support and when it will be safe for Congress to begin to withdraw fiscal support.

No one is saying, keep deficits at three or five trillion in perpetuity. We're saying, recognize the important role the federal government can play using its budget to sustain incomes, to keep families whole, to keep businesses from going under, to keep people from losing their homes, provide a bridge to the other side.

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And the deficit is needed now, it's too small, and we're going to need it for some time to come.

John Donvan:
Otmar, you raised your hand on that one.

Otmar Issing:
Yeah, very short. Stephanie, we all are concerned, as Todd has mentioned about unemployment. You discard the notion of a natural rate of unemployment, so let's decide. But I'm asking you, what is your sense when deficit spending should stop? Until what ratio of unemployment? Until everybody is employed at a good at a good wage, as you said in your book? I think this is a fantasy.

Stephanie Kelton:
Well, I don't think it's a fantasy. I think that what we do today is we manage, and I say we, central banks, attempt to manage the inflation rate by finding the "right level of unemployment." They believe that there is some amount of unemployment that is necessary, that you have to trap people in unemployment in order to prevent inflation from accelerating.

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So that is the way we fight inflation today, we use human beings, we lock them in unemployment, and we say, thank you for your sacrifice, you're helping the nation guard against inflation risk. I am saying, in the MMT framework, we're saying there is a better way to do this. That we can in fact anchor prices but do it in way that guarantees that everyone who wants to work and can't find a job anywhere else in the economy, can have employment.

So you do it with a buffer stock of employed workers rather than with a buffer stock of unemployed people, and you anchor the wage so that the government is providing a decent job at a good wage for anyone else can't find work elsewhere in the economy. That anchors prices, and you can get price stability alongside full employment, instead of doing it the way we do today, which is use unemployment to try to tame inflation.

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Otmar Issing:
You hope that the unemployment rate is zero?

Stephanie Kelton:
That is correct.

John Donvan:
Coming up, different kinds of debt create different kinds of problems. Our teams debate the long-term consequences of deficits.

Todd Buchholz:
Public debt is far more dangerous than personal debt because it's passed onto to innocents, generations to come.

[music playing]

John Donvan:
While our resolution is about the national debt, there's a question from Walter Chen, who's in the audience, that isn't about the national debt, but I think the essence of his question is sort of a sense of alarm for the argument that the for side is making. And it goes like this: If public debt does not matter, what about personal and corporate debt? Could government buy all personal and corporate debt, then it's everybody happily ever after?

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And I want to take that to Stephanie, because I think that sounds like a challenge to your side, and I think it's a little bit red meat for your opponents. But can you respond to, what's the difference between what I understand you don't actually call government debt, you call it something else, but what's the difference between that and a corporation or a household? Because you made the argument in the very beginning that this is not like household debt.

Stephanie Kelton:
So, yes, you're right. They're very different, right? When the federal government issues a bond, it is making a promise to the bondholder. And the promise is, in the future, that bond will turn back into currency, right? I will pay that bond off by giving you U.S. dollars, which can only come from me, the federal government of the United States of America. So, the government is the issuer of both of these financial instruments. It is the issuer of the currency, and it is the issuer of this debt instrument that we call a government bond, okay?

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So is the risk different when a private company borrows and takes on debt? Of course. If G.M. issues bonds, if IBM issues bonds, it is raising money, and now it's on the hook to pay back what? U.S. dollars. But where do these companies get U.S. dollars? Well, from earnings, right?

They have to get the currency from somewhere in order to be able to make good on the debt service and to pay the debt. And so, there are completely different risk factors associated with these things.

John Donvan:
All right, I'm not sure that your opponents would disagree that those are different things, so I will move on. Unless one of you wants to -- okay.

Todd Buchholz:
I would just say one thing very quickly. Comparing personal debt to government debt, here's a big difference. If your relative, if your father, is a spendthrift and spends all of his money and goes deep into debt and then dies, you don't get stuck with that debt.

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The American legal system says that debt dies with dear old broke Dad. But when the government spends money, it goes on forever as debt, and new generations inherit that debt. So, in that sense, public debt is far more dangerous than personal debt, because it's passed on to innocents, generations to come.

John Donvan:
Let's stay with this point, and I'll move on to another question. Because I can see you, Stephanie, dying to respond to this. And I think that this is a question that a lot of people will have, is the generational impact. Is this chicken not going to come home to roost in ten, 50, 100 years?

Stephanie Kelton:
No, the bonds that we're talking about are going to become the assets to people in the next generation. And I think, Mr. Buchholz said earlier, and the point is a correct one, that it is always a distributional question. You cannot burden and entire generation with government bonds, with assets, with wealth that they inherit.

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What does happen is that in the future, the future will be populated, some of the people in the future will be taxpayers, and some of the people in the future will be bondholders. And so, there is a distributional issue, right, who receives the interests on those bonds, who holds them as part of their wealth and their portfolios. There can be different people, but for sure, the next generation will inherit a portion of those government securities will be part of their net financial wealth.

John Donvan:
Otmar.

Otmar Issing:

Stephanie, this is very strange, hearing from you. The bonds are mostly bought by rich people, and the burden of taxes, etcetera, has to borne by, partly, also the poor people. So, this struggle, the higher public debt, the more bonds are issued, the more inequality is created by this instrument.

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John Donvan:
I want to move onto one more question while we have a little bit of time, and it's this. Isn't the real argument of the deficit hawks that they disagree with how the surplus is distributed? And Todd and Otmar, you have not described yourselves as hawks on this, but I think this question is directed to you.

That what you're really objecting to is where the spending would go, that it's a policy issue. And I'd like you to address that. Because I thought I heard hints of it, also, in some of James' critique of your argument. So, Todd, you want to take that on?

Todd Buchholz:
I actually disagree with that. I don't have an argument with where the money is spent, in principle. I think that's up to the American people. And if they want a larger military, or it's prudent to have a larger military, as it might have been in the early 1980s when we were politically facing off against the Soviet Union, that might make sense. Today, it probably wouldn't make sense.

00:36:01

No, I think the point that Otmar and I are making today is the idea that you can print money and wrack up deficits without recognizing that that puts a pinch, a strain, on the economy and on families. That is a myth. Just look at it this way, Franklin Roosevelt and his advisors were honest and smart. They created the Social Security system in the 1930s, set the retirement age at 65, why? Because in the 1930, the average 65-year-old was dead. So, the numbers worked out. Franklin Roosevelt himself didn't live to see age 65.

In the 1950s, you had about 15 full time workers for one retiree. Now in the U.S. and Germany and elsewhere, we're getting to the point where it'll be about two and half full-time workers for one retiree. The numbers just don't work. You can try to create magic, say abracadabra, say Modern Monetary Theory, but I don't see how, when you have two people in the workforce and one person in a retirement home, that that is a sustainable system.

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So if you care about a sustainable society, you need, I beg you, to care about the long term debt and deficit.

John Donvan:
James, I can give you the last word if you would like it. Otherwise, we can wrap, because we're coming to the end of this round.

James Galbraith:
Yeah, the Social Security does a very good job of keeping the elderly population out of poverty, and it does an excellent job of keeping old folks from being a burden on their working children.

This is a very valuable thing, it has really nothing to do with the public budget deficit or the finances of the government as a whole, and everything to do with the welfare of the community. Both the older people and the younger people, as well as survivors and others who benefitted from the system. It's one of the great successes of the twentieth century in the United States.

John Donvan:
Okay, that wraps up round two of our deficits debate. Up next, closing statements and our audience vote to pick the winner.

00:38:00

Otmar Issing:
Without constraints, public spending will run out of control.

James Galbraith:
Finance is a bookkeeping matter for our countries. It is a matter that's important, but it is not a constraint.

[music playing]

John Donvan:
Welcome back to "That's Debatable." The motion: "Stop worrying about deficits." The U.S. budget gap more than tripled in 2020 to a record $3.1 trillion due to massive government spending to soften the blow from the coronavirus pandemic. And that increase brought the U.S. debt load to the biggest chunk of GDP since World War II. So, are rising national deficits cause for concern? On one side of the debate, a bold proposition: don't worry about it. But the other side is far more wary.

00:39:00

Here are their closing remarks.

Stephanie Kelton:
Mark Twain famously told us that it's often easier to fool people than to convince them that they have been fooled, and I am here to tell you, with my friend, Dr. Galbraith, we have been fooled. And they are trying to fool you tonight, and the American people are often fooled into getting confused about government deficits.

The word itself sounds like a problem. You hear someone say the government's budget is in deficit, it almost, you know, on the surface, presents as a problem. And what we've tried to do here tonight is to cast a different light on this thing that we call the deficit, to remind you that on the other side of the government's deficit lies a financial surplus for someone.

Who gets it, and for what purpose? Those are important questions. The CARES Act that I brought up a couple of times already tonight was an example of a government using its deficit to send unemployed workers an extra $600 a week to help keep them whole.

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To send a $1,200 check to most Americans in the pandemic to help out with costs. To help small businesses keep their workers on payroll and cover expenses. That's an example of government using the deficit to deliver a financial leg up for struggling people.

Another example of using deficits was the tax cuts that republicans passed in 2017, a roughly $2 trillion addition to deficits that delivered a financial windfall to the people in our society who least need the help. So as a reminder, every deficit is good for someone.

The question is for whom and for what. Right now, the last thing we need to do is turn on government deficits, to be afraid of the, to worry about them, because if we do that, our lawmakers in Washington are going to pull back, they're going to refuse to provide the fiscal support that our economy desperately needs, and that's going to hurt all of us.

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So I'm asking you not to worry about the deficit, not to get fooled, and to vote for the movement. Thank you.

Todd Buchholz:
I have to be honest, Modern Monetary Theory, which advocates larger deficits and printing of money, almost in all cases, is modern in the sense a Jackson Pollock painting is modern. It's colorful, it's hypnotic, but it's a mess, and it can do damage.

Let me give you -- and I understand the impetus force, I understand the frustration. I'll tell you, the other day I was driving to a friend's house, with masks, with my daughter. I hadn't been to the neighborhood before, and there was a roadblock. And my daughter said, let me turn on Google Maps. And I said, no, I don't need Google Maps, I'll find a way to do it, I know how to do it, I'll figure out how to get there.

And so we're driving around and snaking through the community and I'm lost. And Google Maps is now telling me, make a U-turn at the next intersection, but I'm not going to listen because I think I know better.

00:42:04

And Google Maps is again telling me, make a U-turn at the next intersection. Google Maps has the map, it has the evidence, it has the experience. What do I have? I just have the moral superiority that I know better. Well, I'm afraid what this debate comes down to is not evidence, because we've talked throughout history, we've talked throughout continents, we've talked throughout eras.

We've talked about Democratic administrations, Republican administrations, and there's absolutely no evidence that Modern Monetary Theory would have raised the standard of living. More likely, it would have depleted and possibly destroyed the standard of living of countries that adopted it. So, Winston Churchill purportedly once said, "You can always depend on the Yanks to do the right thing. After they've exhausted every other opportunity."

00:43:00

Well, we're looking at lots of different options, including MMT, but it is better to do right thing and to respect the debts and deficits, and understand that is not necessarily our standard of living, but our children and grandchildren. It is what is at stake.

James Galbraith:
Listen, to worry is human. To worry unnecessarily is neurotic. We have plenty of things to worry about, and the issue that divides Professor Kelton and myself from our opponents isn't really deficits or the national debt. The issue that divides us is whether we have the capacity to address the important problems that actually face us.

Whether we have the capacity to stabilize our economy in the face of a pandemic, and to deal with the public health challenges. Whether we have the capacity to reduce unemployment. Whether we can cope with climate change, whether we can address inequality and the legacies of racial divide in our countries.

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These are the issues that are in front of us. Our opponents say, "No now we can't do that. There are mysterious reasons of high finance why this is impossible." To quote John Maynard Keynes from another epic, "Abra would rise, cadabra would come down." But this is not the way the world actually is.

We have seen, as I've said many times so far in this debate, from this year's experience, from the experience of the past four years, from the experience of the past 40 years, that yes, we can address these problems, if we have the will, the organization, the capacity, and the determination to do them.

We can't do it if we say, oh no, there's some mysterious financial reason why we can't. That's our opponents' position, but their position is really that they don't want to address these problems. We do, and we say, once again, if we can actually achieve this, we can afford it.

00:45:03

Finance is a bookkeeping matter for our countries. It's a matter that's important, but it's not a constraint. And people should stop worrying about things that are not important so that they can focus their will and the attention on things that truly are. Thank you.

Otmar Issing:
Not worrying about public deficits functions as a permit to unlimited public spending. [unintelligible] has demonstrated that ineffectiveness, and finally the collapse of the Soviet economic system that, due to the self-butchered constraints on companies, the same is true for public finance.

Without constraints, public spending will run out of control. There are already so many socially beneficial projects that previously elect the funding to be realized. Against the background of centuries of inflationary episodes, a renowned German economist once remarked, "Expecting public politicians to resist the temptation of free public spending is like expecting a dog to sit, disciplined, before a box of sausages."

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It's pure caricature, the symmetry of defunct currencies house innumerable tops. Throughout a long history of humankind, all of them were ruined by excessive public spending, be it by kings, dictators, or parliaments. The proposal to ignore public deficits and debt is pure populism, promising a land of milk and honey, the surest way to undermine and ultimately destroy the value of currencies.

John Donvan:
And now, to the winner. Our audience voted on whether we should stop worrying about national deficits, then they voted a second time after hearing from our debaters.

00:47:05

Again, it's the side that sways the most minds that is declared our winner.

On the resolution, stop worrying about national deficits, for the debate in polling our live audience, 55 percent were in agreement with the resolution, 29 percent were against, and 16 percent were undecided. Those were the first results, again, it's going to be the difference between the first and second that determines our winner.

On the second vote, it went like this. The resolution, stop worrying about national deficits, their first vote was 55 percent, their second vote was 73 percent. They pulled up 18 percentage points, that's going to be the number to beat.

Let's see the team against the resolution. Their first vote was 29 percent, their second vote went down to 24 percent. That means this debate goes to the team arguing for the resolution, "Stop worrying about national deficits." Our congratulations to that team.

But really, congratulations to all four of our debaters for shedding light, for doing it with spirit and intelligence and civility, for this debate in partnership with Intelligence Squared. I'm John Donvan. More Bloomberg television starts now.

This is a rough transcript. Please excuse any errors.