

[Transcript] The Ezra Klein Show / A Libertarian and I Debate the Debt Ceiling

So, I have some terrible news.

We are back in a debt ceiling showdown.

For those who haven't had my misfortune in covering a bunch of these,

let me offer a quick refresh on what's going on here.

And let me make my bias pretty plain.

I think the debt ceiling is one of the dumbest, one of the most dangerous aspects of U.S. law.

What happens here is Congress decides to spend money.

It passes a Trump tax cuts or a defense spending bill or a farm bill, something that is going to raise a deficit.

Then, later on, it holds a separate vote on whether to keep borrowing the money needed to pay the bills for the spending that it has already decided to do.

And so far in history, it has always taken that vote.

Because if we don't pay those bills, we default.

And if we default on U.S. treasuries,

basically taking the single safest and most widely held financial asset in the world and making it risky, we will cause a global financial crisis.

But no one likes voting for raising the debt ceiling

because voting for more debt is an embarrassing vote to take.

And so the minority party often uses the debt ceiling to embarrass the majority party over all the borrowing they're doing.

And again, this is why the debt ceiling is stupid.

Even though that borrowing reflects policies,

minority often also put in place when they were in the majority.

But more recently, Republicans have moved beyond using the debt ceiling to embarrass the Democrats and begun really threatening to cause a default unless their policy demands are met. And it wouldn't be fair to say this is all Republicans, but it is enough that there is real uncertainty as to whether or not Republicans even can raise a debt ceiling when they need to.

And that's where we are now.

But just because the debt ceiling is in name doesn't mean the debt isn't worth thinking about.

Interest rates have gotten a lot higher in the past couple of years.

The U.S. has added a lot of debt in the past few decades.

We've gone from federal debt equaling about 35% of GDP in 2007 to about 70% in 2012 to about 100% now.

And it's only going up from here.

The Congressional Budget Office's 2022 long-term budget outlook, which is the projection I use in the episode,

it sees debt as a percent of GDP rising to 185% of GDP by 2052.

Though whether we should really trust a projection looking 30 years out, well, we'll talk about that.

So I wanted to discuss this with somebody who doesn't share my priorities on all this, an actual fiscal conservative, which is different.

I want to note very different now than a modern Republican.

And somebody who thinks it is worth having this kind of debt ceiling showdown.

Veronique de Regis is an economist at the Mercatus Center at George Mason University.

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She's a nationally syndicated columnist, and she's long been arguing for a much lower debt load, a much smaller government, and been a leading advocate of using the debt ceiling to achieve both. As always, my email is reclinedshow at nytimes.com.

Veronique de Regis, welcome to the show.

Thank you for having me.

So let's start in the news.

We seem to be entering our newest, latest, greatest debt ceiling showdown.

You've backed in the past the usefulness and importance of using the debt ceiling to force budget negotiations.

I am, I think, more to put it gently skeptical of that.

So make the case to me that the debt ceiling is more than like a disastrous mistake of American governance.

So, I mean, historically, right, the debt ceiling has been used by both sides to get some deficit reduction bills or proposal through.

So for instance, like since the 80s, the eighth largest debt reduction bill that have been adopted all were adopted through the debt ceiling.

So, you know, Graham Rodman, the two of them during the 80s, but also the Bush tax hike in the 90s and the Clinton tax hike in 93 and then the balance budget act.

And we can go on and on and pay go.

And of course, the budget control act, these are all like pretty significant budget reduction measures that both sides have attached to the debt ceiling.

I was particularly involved in this idea of using the debt ceiling in 2011.

I've lost, you know, some of my commitment to the idea.

I mean, it's one of the very few opportunities, unfortunately, because our budget process is broken, that both sides have to really negotiate matters of the debt.

But it should be an opportunity to be able to really make that case that we need to do something that said, I think kind of what the more of these standoffs we have, the more investors in the financial sector and other parties are going to be worried that this is going to be the time where we go over and we can't.

We need to raise the debt ceiling and we need to raise it on time.

I think it's extremely important.

It just strikes me then as a slightly odd position.

On the one hand, I take your point that it has been used as a mechanism to get people talking about the debt.

And on the other hand, and I think this is most people will date this to 2011.

And so would I, as our Republican party became more extreme in certain ways as the parties polarized into their modern forms, this idea that maybe this would not be used to embarrass the other side and get them to talk to you, but would actually end up in a breach.

And I think it could have happened in 2011.

I think it very much could happen now.

And the reason people like me find this appalling, I think, is its consequences are really dramatic.

I mean, as you were saying a minute ago, we really don't want to breach.

So Moody's analytics says a short-term debt limit breach could lead to nearly 2 million

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people losing their jobs.

Brookings thought that a short-term debt breach would lead to more than \$750 billion in higher federal borrowing costs.

The Council of Economic Advisers at the White House, they modeled a longer-term default. And they found something more like the Great Recession happening, the stock market falling 45%, unemployment jumping 5 percentage points.

So it just seems that passing functionally a grenade back and forth for no reason, hoping people use it to negotiate as opposed to actually letting the grenade go off.

I don't know.

I don't understand why we would put ourselves under that level of risk continuously.

So the latest drama about the debt ceiling is a big clue that we have a problem.

People can disagree on what the nature of the problem is.

But I think it's unfair to put this entirely at the feet of the Republicans.

I mean, let's not forget that the Democrats have played with the debt ceiling a lot too.

During the Trump years, the Democrats negotiated tax increases to go with the debt ceiling. And a stealer majority of them didn't vote for the debt ceiling.

I mean, I know right now it feels so dramatic.

And I think it's because when the Republicans do it, what they want is they want spending reduction, which is probably more difficult to get through than spending increases.

But I think it's kind of unfair to claim that it's just one side.

Both sides have used the debt ceiling to pass budget reductions with at least their version of what debt reduction would look like.

And that's part of the fact that our budget process is one that's broken for lack of a better word. It's kind of a winner takes all.

Basically, if you're in the minority, you're not even really a participant on whatever the budget is going to be.

And the only moment where you may have a voice is during this debt ceiling process.

So we should have a conversation about getting rid of the debt ceiling.

But for better or worse, this is one of those moments where we have a conversation about it.

But I have mixed feelings about this in the sense that I really hope that the outcome will be a good one.

It's worth noting that 70 percent of voters and 58 percent of Democrats believe that the president should negotiate and find common grounds, including spending cuts.

But the good news to me is that markets seem to be pricing the risk of a default at 4 percent, which is less than in 2011, which was 7 percent.

So I think there's still a lot of hope, but given another week and those numbers could change.

Let me agree with part of this and disagree with part of what you just said.

So the part I agree with is that certainly Democrats have messaged around the debt ceiling.

And I mean, you can go back, Barack Obama has voted against debt ceiling increases.

It's always been something the opposition party uses to embarrass the governing party.

I think there are two differences though.

One is I would say Democrats fundamentally message on the debt ceiling and Republicans fundamentally leverage through the debt ceiling.

And that wasn't always true.

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I think that's a kind of post 2010 thing.

But I also think the reason for that and the reason I am personally afraid right now is that the difference is between the structure of the two parties.

The Democrats have a much more internally coherent congressional caucus.

And so at the end of the day, the Democrats can deliver whatever votes they need to deliver to make sure the debt ceiling goes up.

And that's why we didn't see a huge danger around this in the Trump years or in the George W. Bush years or anything else.

It was never in doubt that Nancy Pelosi or Harry Reid or Chuck Schumer, whoever was at that moment could get the Democrats they needed to vote for the debt ceiling.

And the dangerous thing is that's not true with Kevin McCarthy.

I mean, it also wasn't true necessarily with John Boehner,

but it's really not true with McCarthy given all that he gave up to become speaker, given the power of one member of his conference to call a vote on his speaker ship.

The fear is not so much that in a perfect world,

John Boehner and Barack Obama couldn't have come to a deal,

or even Kevin McCarthy and Joe Biden couldn't come to a deal,

but that Joe Biden, Kevin McCarthy, and the freedom caucus cannot jointly come to a deal.

And that seems to me to be what's pushing us into a more dangerous place,

not the existence of the thing itself, which if the parties are strong enough, they can simply use it cosmetically.

But the existence of the thing combined with this structural breakdown of the Republican party's ability to control its own members and deliver votes on key issues.

No, I mean, I don't disagree with you. I think there's a real risk there.

And to be honest, I'm even surprised that they were able to put a bill on the table.

So maybe that's kind of reassuring that for the debt ceiling, they'll be able to unite, but we can never be sure, right? But this is a risk.

Let's agree that this is a real risk, and we won't know until we know how big of a risk it is.

But this is a risk that could be aggravated if the Democrats don't come to the table, right?

I think kind of now it's time for both sides to sit down.

The president has put out a budget with roughly \$3 trillion in savings.

The Republicans put out a proposal with \$5 trillion. This is over 10 years.

It's time to negotiate. It's time to come to the table.

And so it's not, I'm not disagreeing with you, but I think that if they don't start negotiating right now, this makes all your worries even more salient, it seems.

So we're talking on Wednesday the 10th. Yesterday, there was a meeting between

President Joe Biden and Speaker McCarthy and the other congressional leaders, although I think those

are the real two key members at the moment on this. And my understanding, having reported a bit on the meeting, and there's been a lot of public commentary on it, as they all came,

they all said their platitudes. And now the staff is going to begin actually

trying to negotiate and to see what sort of common ground there might be.

And I should say the Biden administration's position is they're not negotiating on the debt ceiling. That has to be cleaned. They're negotiating simply on the budget.

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But what did you take from that meeting?

I took pretty much the same as you, except that I think that the Biden administration is showing some signs that they are going to negotiate one way or another.

I don't know. Maybe I'm wrong. I mean, politics is not my thing. And I don't know how external pressure works on politicians ever these days, especially. But I have a feeling that there's going to be a lot of pressure for really both sides to get it done, to find a solution.

And we're going to see behind closed door probably more willingness on both sides to negotiate. I just cannot imagine that either side is serious about the risk of going over the limit. I have been wrong many times before, so maybe I'll be wrong this time around.

But I took it as kind of encouraging just the fact that they said that the staff is going to talk. And I think in the end, they will come together. The U.S. for all its drama, the last 15 or 20 years, they've always come together in the end and delivered. So I wish they did that more during the regular process, but fingers crossed, right?

So I want to roadmap this in because I want to talk about the proposals on the table. But before we do that, I want to talk more broadly about the fiscal picture because you can believe whatever you believe about the debt ceiling. And as I said, I'm skeptical. But there's a different question about whether or not we're in a good budgetary position going forward. And so let's talk a bit about the more long-term fiscal picture. And I don't want to do the very long-term. The 30-year stuff, I think, is not, it's extrapolating too far. But how would you describe it over the next, say, 15 years? What does it look like to you?

It looks very red. This year, we're on schedule to have a deficit of \$1.5 trillion. That's over 5% of GDP. We are going to be paying in the next 10 years interest on the debt because that's the thing about deficits. They cost money. And in a time where interest rates are going up, it costs even more money. So I think it's something like 17% or 22% of our revenue are going to be used to pay for interest on the debt. And at 15 years, I don't know. I know the 30 years number and the 10-year window. And our deficit is going to be quite big. It's going to be \$20 trillion. And that means the debt is increasing that much. That's in the next 10 years. I know you don't want to talk about the 30 years, but we know there are things that are coming towards us in the next 30 years, actually in the next 10 years, with Social Security and Medicare trust funds drying out. Here's another fight coming up about what to do about this. But if you, as CBO does, plan on all these benefits, not being cuts, taxes not being cuts, and basically all the money to fill the gap being covered by general revenues, that's \$114 trillion of deficit spending in the next 30 years. It's a lot of money. So I was spending some time, because I'm an interesting person who knows how to have fun, with the Congressional Budget Office's 30-year projection. So let's talk, we can talk about why I become skeptical in the 30-year, but maybe because I think- Oh, you should be skeptical, because they're a very rosy scenario and there's so much we don't know. Well, they've often been pessimistic, too. I mean, they've often- Well, we'll talk about that in a minute. Let me first give the audience some baseline here.

So if you look over the next 30 years, they break it down into their averages for each 10-year set. And I'll just read a couple of these out. They look at Social Security, which in 2022 they estimated would be 4.9% of GDP. And then over the next 10 years, they think that would be 5.5% of GDP. Then over the 10 years after that, 6.1% of GDP. Then after that, 6.3% of GDP. And I take that one pretty seriously, because that's a kind of mechanical, more people are retiring situation. Then you have major healthcare programs like

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Medicare. 2022, that's 5.8% of GDP. And then in the first 10 years, 6.2% of GDP. Second 10 years, 7.6% of GDP. And then the third 10 years, 8.6% of GDP. But now you get the interest. And this is particularly something I wanted to talk to you about, because I was struck by how much of their long-term budget worries are about interest payments rising, particularly if we have higher interest rates. So right now we're paying 1.6% of GDP in interest. Over the next 10 years, they think that'll average out to 2.6. Then the 10 years after that, 4 points of GDP in interest. And then the 10 years after that, 6.2% of GDP in net interest payments. So they see that rising much faster, for instance, than even healthcare costs, which have, I think in past documents like this, been the real driver. So talk to me a bit about that interest rate picture, because I was really struck how much of their projections are riding on what you think is going to happen to interest rates. Well, yeah, I mean, the whole story is about interest rates. But I also actually think that there is a non-zero probability that their story is rosy, actually. So obviously, you're right to say that they've been pessimistic about interest rates, certainly the last 10 or 15 years where they've projected interest rate growing in a way that they really haven't, right? But no one knows how long the current hike in rates is going to stay. And I've been trying to think a lot about whether I think that the structural forces that have kept interest rates low in the last 20 years are going to still prevail. And I'm willing to actually concede that that's a very possibility that eventually we're going to go back to very low rates. I think it's also worth trying to think about the fact that there are forces that are possibly raising interest rates too. And I think it's possible that CBO is mechanically assuming increase in interest rates. I think that there's a possibility that they would be overly optimistic. So for instance, when you look at the literature on the impact of debt to GDP on interest rates, so NBR has a bunch of papers, Brookings, the CBO, I went and looked at the range of projection that they have. And obviously, some of these papers are empirical, some of these papers are just theories. And so I've come out of reading this thinking for every 1% increase of the debt to GDP ratio, you get between two and three basis point increase in interest rates. So what does it mean? Let's assume that the debt to GDP increases as projected by CBO by roughly 100%. You're getting an increase in interest rates somewhere between two and 3%. And that's above the whatever interest rates will be. And that's significant at our level of debt. And the CBO, I was kind of looking at how they were projecting their numbers. And I talked to my colleague Keith Hall, who used to be the CBO director, and they're not fully integrating this literature onto their projections. So what I've learned the last 20 years is that the budget talks have been really wrong, but also people have said that interest rates would never go up. They've been wrong too. I mean, maybe you can say that they've been wrong in a much shorter period of time and will know soon enough. But I think it's not realistic to count on low interest rate to never go up. If they never go up, maybe we don't have a debt problem as long as the government has a plan to repay it and eventually, or at least that people believe that the government has a plan to repay it. But that interest rate risk, I think is one that is worth considering. I mean, I do think that's right. So let me talk a bit about the CBO picture here and then come back to something where I think you may well be right that they're optimistic. So to get at why people have begun, I think people particularly on the left have begun

to mistrust CBO predictions here. So in April, CBO itself, and good on them for doing this, they released a report retrospectively evaluating their budget projections. So not interest rates here, but budget accuracy going back to 1984. And when they looked at it, they found, quote, the CBO overestimated total outlays in its budget year and six year projections about 75% of the time. So generally, they thought we would spend more than we actually did. And CBO also looked at their projections of net interest, and they found that over the 10-year time frame, their error was about 106%. So it could go really wrong. But I think something I'm worried about, and I'll cop to this, is that I think there's a kind of complacency among liberals now who, having watched the budget hawks get this wrong a bunch of different times, kind of only imagine that the error can go in one direction. That it's always going to be how bad the budget picture is, is overestimated. And I think it's pretty easy to imagine ways we can underestimate it. We could have a big recession or more than that, that would make the government spend a bunch more. Right now, if you look at projections on defense spending, I don't think they are counting for our posture against Russia and our posture, which is rapidly getting more hardline towards China. Very hard for me to imagine in that world defense isn't going to go up in the coming decade when I look at the politics in Washington right now. And so it's not hard to imagine ways we could both spend more or need to spend more, or the economy could be weaker than we want it to be. Or as you say, maybe inflation is harder and harder to get under control, and so they just need to keep interest rates higher for longer. So I do think it's important to take seriously the idea that CBO can be wrong in either direction. And the fact that they've been wrong in, I think, assuming the budget picture is worse than it turned out to be recently doesn't mean they can't be wrong in assuming that it is better than it will turn out to be next time. I agree with you. I will say this. So the question is looking at the last 40 years, right? This is a very unusual time in the history of the U.S., especially the last 15, I'd say, where you had that window for the CBO studies, like when from peak interest rates, and we haven't had interest rates at that level ever since, but also a long era where effectively we didn't have inflation. So the question is, is this representative of what was before or what will come? I mean, the same thing, by the way, that you said about being complacent about interest rates applies to a lot of economists with inflation, right? I mean, economists kind of like gave up on the idea that inflation could ever go up. It was kind of like inflation was 2% if you could even get it there. I'm much more careful now. I'm trying really hard, much more than I used to, to kind of make a difference between what I think credibly can happen and motivated belief if you want. I've been wrong a lot in assuming that the debt was going to become unmanageable, that interest rates were going to go up, that we would have inflation have been wrong enough times that I'm open to always being wrong.

That said, we're entering a time of uncharted territory because we haven't had these levels of projected debt. Again, there could be, I don't know, an enormous discovery or something that we can foresee and it could go in the other. We know we're going to have emergencies. We know

we could have a war. We know we can have all the... But the reverse could be true, right? We could something really great can happen and we can grow really fast and things on foreseen. But the truth is basically no one knows.

One thing I can imagine somebody who's more of a modern monetary theorist saying here is, look, this is all fake. The government can print the money it needs to pay off whatever debts it

incurs. The only constraint on the economy is the real constraints of how many people we have, how much capital stock we have. We can do anything we can actually do, but we can always afford to

print money to pay off our debtors. How do you respond to that kind of thinking, which I think it's fair to say has become a lot more common in the past couple of years?

I mean, I don't know if anyone is saying this right now because we've actually seen in the last few years that it's not really fake accounting. I mean, when you get a lot of spending into the economy, some money printing way above what was necessary to close the output gap, and you compound this with bad luck, the war in Ukraine, and you can see the inflation that we're getting. So there's a moment where the real world actually sends a signal. I don't think it's possible to just print money, spend as much money as we want, and just expect that nothing will happen. Let me ask you about inflation here, because on the flip side of inflation raising interest rates, it also inflates away the debt. If you owe 100 bucks and inflation goes from 2% to 10%, that 100 bucks is in real terms worth less. So something you'll hear from the administration, from liberal economists, is the thing to care about here is real interest payments, which is to say interest payments adjusted for inflation. And those have looked pretty low. They've been staying pretty stable. Now, the CBO is expecting here that we get inflation back to about 2%. But how do you think about the inflation picture? Because from one perspective, maybe having more inflation is good for the debt. Well, it's good for the debt if having inflation is not bad for a lot of people, right? Right now, there are a lot of people hurting because everything is more expensive. And if you're not, for instance, a social security beneficiary where your benefits have been indexed to inflation, or there's just a lot of stuff that's prices going up, but your wages are not going up as fast. I mean, real wages have gone down. So that's not great. Then there also the fact that when you have inflation, unless the Fed gives up entirely, which I don't think it will, you have to raise interest rates. And in a world where so many people have built their businesses and our financial system and everything else is based on this idea that interest rates will always be low when you already see in the banking system that it causes some real distress, right? So I think that the idea that inflation could be just used for the purpose of reducing the debt as if that's a great idea. I mean, don't get me wrong. Carmen Reinhart and her co-authors actually looked at the way that governments throughout history have actually addressed reduced debt to GDP ratio. And in a surprise inflation was a big component of that. So it is certainly has been a way, but it has consequences. But one of the things that I know is like, let's assume that CBO is right about that \$114 trillion in deficit that we need to do in the next 30 years. I'll ask you who's going to buy this debt, \$114 trillion, right? I mean, the Japanese and the Chinese have reduced their holding to \$2 trillion. I mean, foreign investors used to hold 50% of our debt. Now it's like 30%. Do we really believe that domestic investors are going to step in to buy all this? I don't know. I mean, this to me is a real risk of having a really high debt. It's like effectively you're taking a risk. Well, I think the other side you'll hear on this is two things. So one, demand for US treasuries has been really strong now for a long time. People have all kinds of reasons for that, but people want them. They seem to want more of them and more of them and more of them. And so we haven't had a problem selling them. But if we did, what we would do, I think kind of mechanically, is to raise what they pay. So I mean, that would mean that our debt does get more expensive for us, right? Our interest payments go up. I think

that's probably part of what the CBO is projecting in here. And so something will hear. People say if they are not in favor of aggressive action on the debt right now, is look, if that begins happening, then we can begin dealing with it. We can always begin making changes or more serious changes at that point. But this idea that we have to be making changes now because we're worried about the uncertain 20 or 30-year future, when the changes we make now will hurt people now, whereas the future, we'll see if we have to do something, then we'll do it then.

It doesn't make sense to treat it in this way, that we're trading the possibility of future problems for the certainty of current harms. How do you respond to that line of argument? This is a possibility. Like in the scenario where interest rates go back to being low and inflation return to its target. And a lot of the conflicts that we see right now go away. And the federal government signals that it has a plan to repay the debt. Under that scenario, it may not be a problem at all to go to 200% of GDP in debt. It's a possibility. Absolutely. The problem that I see is that if this doesn't pan out, this notion that we will have all the time that we need to react and to take the measures that are needed, that's unlikely. Remember that in those CBO projections, again, they don't forecast wars, recessions, like big recession, pandemic, what have you, right? It's like peace, prosperity, and relatively low interest rates higher, but relatively low interest rates. I don't foresee that we're going to have any real problem during a normal time, right? It's going to all happen during an emergency. And I'll say like from a prudential perspective, in theory, we should be thinking about addressing some of our debt problems when times are good, where the economy is growing, where it's easier to collect revenue and less spending is needed so we can jack up spending and do what we need to do when times are hard. I mean, don't you think that the last three years in a way offer a very small example of what failing to assess for any risk when it comes to the level of our debt? And by that, I mean like inflation going up and interest rates and having to fight inflation with increase in interest rate and creating instability in the banking system and all of this. I mean, this can happen really quickly when a few months before no one expected it. I do think that's a lesson of this era, but so let me then, because you're sort of moving between having a lot of uncertainty, but also making this point about precautionary principles. So maybe ask you more concretely what path you would like to see us on. So when you look at that CBO document, over the next 10 years, they project an average of 5.1% of GDP in deficits annually. What would you like to see that number at? It depends on what we're trying to achieve. Are we trying to kind of reduce our debt to GDP ratio? I mean, with all the caveat that fundamentally debt to GDP ratio is not, there's not a magic number, which I by the way used to believe somehow. I didn't know what that number was, but you had a certain debt to GDP number and then boom, everything goes to hell. But let's say Olivier Blanchard, Jason Furman and Larry Summers, their whole research, even though they have different approaches, is to say ultimately, debt doesn't really matter because under some conditions, we can reduce the debt to GDP ratio. If that's the goal, there's a lot of things that you need. And I think it's a decent goal. I think kind of reducing the level of our debt, increasing our ability to pay it back is a good goal. I think you're slightly overcomplicating this. I mean, just give me a number of what you think annual deficits could run at that would not scare you for the fiscal future of the country. I mean, you think it is worthwhile to have a negotiation with the debt ceiling hanging in the balance to produce the deficit year on year. Surely you have something in your head by which you would say, that was successful. We did it. That was worth running this risk because

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we got to this outcome. What outcome would be that for you? Well, I can tell you right now, what I'd be happy about is that we don't negotiate the social security cliff in 2033 when it's happening. This is how much I've lowered my ambition. So the debt ceiling is just an opportunity to actually talk about debt problems. I think we were way more like in the 1990s where they could be used as an opportunity to actually have a conversation and come to the table, as opposed to this drama, which is just horrendous. And I think I really hope, and no one is considering even trying to breach the debt ceiling. But they aren't considering that. That's why we're having a negotiation over the debt ceiling.

Do we know that? I mean, are we sure? I just can only listen to what people say, but that's why like I'm trying to push this question of a number. I do think it's worth asking the question of if we're doing this, what makes it worth doing? And I take your point. We'll talk about social security and Medicare in a second. But one thing that I have noticed is people are being very unclear about what they're actually trying to achieve here, as opposed to simply less deficits. So I look at the Republican offer. We can talk about it, but it's clear to me they're trying to achieve a rollback in Biden administration policies. Biden has a budget that would cut the deficit by a couple trillion, mainly they're not exclusively through tax increases. But I'd like to hear people say, this is where I think we need to go. If we get above this, it wasn't successful. If we get here beneath it for deficits, like I will be happy. Like I, Vernique Dergiers will stop telling people they've done a bad job on this. Okay. So let me tell you, like I don't think the Republicans demands are totally outrageous, if only because discretionary spending in the last two years has increased by 23%. So the idea of rolling it back some doesn't seem as outrageous as most what most people have said it is. That said, this is just the beginning, in my opinion, because this does nothing to address the long-term sustainability of our debt. I think the only thing we need to do is not so much to pay down all the debt or to significantly reduce, change basically the path we are on, I think is important. We need to make it sustainable. What sustainable looks like is, do I know exactly, but I think reducing the risk that we face when we have an enormous debt, if interest rates were going to go up and interest consuming a lot of our revenues, I think that's risky. And so can I tell you exactly what debt sustainability looks like? I think it means finding a way so that we don't face a situation where the deficit increase is so enormous under fairly rosy scenario, where nothing bad happens. But you don't have in your head a deficits as percent of GDP number for that. There isn't like for you, if we got it to 3% a year, you'd be happy. I mean, in my ideal world, it'd be even lower, but I think that 2% to 3%. Have you been following what's going on in France?

A bit, not enough that I'm an expert, but...

So, Finch downgraded France's debt and it's not catastrophic, but it will have consequences for a country that has already problem. And the arguments that Finch used were interesting. The first one was that the deficit was over 5%, right? I'm not saying that the US is exactly comparable. We have a lot of things on our side that France doesn't have, but ours is not far behind and certainly by the end of the decades, it will be there. Again, according to CBO, this is what we have to go with. It also said that to GDP ratio was like 117, right? This is where we're going to be at the end of the decades, according to CBO. And one of the things that was also interesting that makes the case for you about the debt ceiling being dangerous. In my opinion, the debt ceiling is dangerous in more than one way. It's not just the risk of a default, but it's also the fact that it actually shows a lack of unity and increases the probability

that the country is not going to come together, that politicians are not going to come together to do the right thing. And these tensions actually could be signaling bad times for the US and a lack of trust for the US. And that's one of the things that Finch said about France was that the tensions and the protest and the fighting were a sign that the country just didn't have it together and certainly wasn't going to have the political ability or the will to do what it took to control its debt. So let's talk about the bill the Republicans have actually passed in the House and have offered as their starting point in negotiations. And to give a bit of its shape, the CBO estimates the bill would cut spending by about \$4.8 trillion over the next 10 years. About two-thirds of that comes from capping

federal discretionary spending at a rate significantly lower than inflation. And those caps are, they're just kind of mechanical in the bill. They don't say what they would cut. And also, they've said they don't want to cut defense and probably not veterans. So you could, there's an estimate in the New York Times that if you exempt a bunch of the defense and veterans and related things, you end up with cutting those other agencies by about 50%. But they also want to impose stricter work requirements on stamp and Medicaid. They want to block Biden's student debt cancellation. They want to repeal a lot of the tax credits and subsidies for clean energy in the Inflation Reduction Act. But one place they've moved since the St. Paul Ryan years is a place now where, you know, Kevin McCarthy is very straightforward. Social Security and Medicare are off the table. They're not going to touch them. And Biden agrees with that too. So you have, like whenever I talk to budget people, they just talk about Social Security and Medicare when it comes to deficits. And now the Republicans as well as the Democrats, but the Republicans in this case have taken those off the table. So tell me how you read the Republican proposal, the shift in the Republican fiscal position. What should I make of this?

Well, so I think you're making the right thing from the direction of your question, which is that in the end, no one is still serious about the true problem of our debt, right? I mean, the debt ceiling, okay, they want to signal that they're serious about fiscal responsibility. But this is a drop in the bucket of what needs to be done. If you don't reform Social Security and Medicare, if you don't reform entitlement spending, but what reform will entails is a bipartisan agreement because that's the only way we're going to be able to get good reforms. Then your debt problem is still the same. And in the end, it seems to me that while contrary to a lot of what I hear, these cuts are not as big as they're presented, especially considering the enormous increase in spending in the last two years. So I'm not talking about 2020. But in the last two years, again, discretionary spending has increased by 23%. That's really significant. In the end, these cuts are not going to be addressing any of the problems we need to address. I mean, I think the thing that's weird about this to me is, let me say, let me inhabit the Republican position for a minute. The Republican position at this exact moment in time, and it shifts, I would say, administration to administration, but is debt and deficits are a terrible problem, huge danger, such a big problem that it would be better to breach the debt ceiling is what many of them say, than to not pass a bill that substantially curbs spending. And that is because debt and deficits are such a big problem. Then you say, okay, would you increase taxes to do anything about it? No, Social Security and Medicare off the table. Discretionary, the biggest single area of discretionary is defense. Defense, no, we're not cutting defense. Veterans, not that either. So debt and deficits are a huge problem, huge.

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So huge, we are willing to run this terrible risk of the debt ceiling breach. But we won't increase taxes. We no longer want to touch Social Security and Medicare, and we don't want to touch defense. And I think for somebody like me, that leaves me in the position of thinking, oh, you don't actually think debt and deficits are a big problem. You just don't like discretionary spending, or you don't like other parts of the Biden agenda, like the inflation reduction act, which I understand, right? That's politics, right? Republicans disagree with Democrats on things. But there is such a profound disconnect between the debt and deficits rhetoric and the sort of proposal that it's hard to know what to make of it, except from thinking there's something a little bit disingenuous here. So, Ezra, I hope you're not hoping I'm going to be defending the Republicans. I mean, listen, the inconsistencies don't even stop there for a group of people who've been saying for years, how much they hate debt and deficits. They've been spending like drunken sellers. So this is why, as I said, I was very adamant when I kind of still took seriously the idea that some people were serious about addressing the debt problem in the political system. And so in 2011, I was a big believer based on what I'd seen had been accomplished in the past through the debt ceiling. I was like a big believer it was worth doing. This time around, I'm still happy to have a conversation about the debt. I would like to put their proposal in perspective, contrary to a lot of the things that we hear or said about it. But it also needs to be put in perspective of what it will accomplish, which is not very much. So, I mean, the Republicans are incredibly inconsistent, incredible. I mean, it's just like, I think I've made my name criticizing them from the fiscal responsibility side. As long as I can remember writing, they're not serious on this. And I know there are some of the Republicans who are extremely committed and maybe understand the whole thing well, but unfortunately politics is politics. Let's talk about the Medicare side of this for a second, because I'm not somebody who believes Social Security and Medicare should be off the table. I think that's crazy. So, Social Security, again, you're dealing with something more mechanical, right? There are this many retirees. They get this much in benefits. My set of solutions are probably different than yours. I would eliminate the cap on the payroll taxes there. There are a bunch of things that I would do that are probably a little different. But Medicare, when you look at projected cost growth in that program, about a third of it is due to the aging of the population, but two-thirds of the increase in spending comes from an increase in healthcare costs per person. And we've seen slowing healthcare costs over the past 10 years, which has been a surprise to many. But I don't think it's safe to assume that is going to hold. And we don't want all of that to hold, because one reason we've seen slowing costs is a lack of innovation. And we begin getting a bunch of great drugs that do a lot of good for people, but a lot of people need to be on them and they're expensive, because they're not off patent yet. You could see cost growth balloon in the system. 10 years ago, there was a ton of constant talk about healthcare cost reform, right? How do you do value-based payment systems and bundling payments? And how do you separate the care we want from the care we don't need? And just a million things. And now I feel like the Republicans have cuts and the Democrats have Medicare prescription drug marketing, which I support, but nevertheless. And it just seems weirdly like that whole conversation has collapsed when, if you're worried about this, that's actually where you'd want to operate, because that gives you the possibility of having

solutions that give you better care. I mean, unnecessary care is actually not just waste, it's bad. Getting an unnecessary treatment is a bad thing to have happened to you.

But I feel like all the steam went out of that discussion.

I agree. I agree with you. And for all the talk about social security, because there's this big cliff coming up, there's one from Medicare, but it's much less significant than the social security one. I mean, the true increase in spending on these programs come from the healthcare side

of things. And you're right that the growth in healthcare cost is really what we should be focusing on. The other thing where you're completely right about is the fact that it used to be a time where politicians wanted to talk about this. They may disagree, but at the very least, they wanted to talk about this. And what is depressing about the current moment is that no one really wants to talk about it. They're upping each other about who will not be touching anything for Medicare and Medicaid. And we know that the only way we get a reform, a reform that we need to put the debt on a sustainable path is to have a bipartisan agreement, because it's the only one in the past. Republicans and Democrats have come to the table to actually propose reform to social security and pass reform to social security. But as my colleague Chuck Plahouse has written many times, all of these reforms have been bipartisan. Each one of them, that's the only way they last. And anyone who comes to the table, like we are seeing right now with the debt ceiling, this is why, I mean, I'm pessimistic for the future, is like everyone on the Republican side and on the Democrat side, they're all coming with their complete partisan solution. And again, we've talked about what my preferences would be, but in the world we're in, there's no place for my ideal preferences. Tax increases are going to have to be on the table, and spending cuts are going to have to be on the table. And that's the only way we can get them to come together. They have to recognize this and be willing to hash it out, knowing that not everyone is going to like what they get. But at the very least, if they do it together, it's more likely to head in the right direction. And it's also more likely to last.

I was reading an interesting discussion with Brian Burdell, who's conservative at the Manhattan Institute, very worried about the debt. And he was saying that when he looked forward, he thought the end game, even though this was not the end game he liked, was that by the time Medicare and Social Security got out of control, which in his view they will, that because we will not have done anything early, we would have to do too much damage to current retirees. And so we're not going to do that. And so he thought this is going to end in however many years with some kind of value added tax, very big national payroll tax.

And it's worth saying here that the Democrats, I think, have their own version of fiscal responsibility where they've taken tax increases. I forget what the number is now.

Maybe it's like \$450,000 in income beneath that off the table. When I think you do need to think about taxes, it will hit people in the middle class. But I'm curious what you think about that forecasting from Burdell. I mean, I agree with him that the outcome is not going to be one that I like. And I also think that is, and this is why I think the Republicans have been so inconsistent or whatever word you want to use to describe their behavior is that they claim also they don't like taxes, but because they have not done anything, whether when they were cutting taxes or when they

were spending to actually offset a lot of that, I mean, they're both sides are responsible for the deficits and the debt we have, that they have completely ignored the fact that this was

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making much, much more likely the possibility of a new tax, you know, a VAT or a carbon tax or all sorts of tax that they don't like. And I think that this is something that is likely. And I, again, the amount of extra revenue we need to actually face the increase in spending of our entitlement spending is really high. And I hope that Democrats realize that even if they get it, this is not a good outcome. And it would be much better to actually try to figure out different routes, right, increasing taxes, but also reducing benefits for some people and also finding ways to reduce the growth of healthcare costs. And there are so many, and growing the economy, by the way, would be not a bad thing. So there's a lot of things. And I think I just hope that both sides recognize that the final outcome is going to be one that neither side is going to like. But that's, you know, that's what often happens when you actually negotiate. I think that is a good place to end. Always a final question. What are three books you'd recommend to the audience? One of my favorite books in the last few years has been a book by David Epstein called *Range*. It's in praise of a generalist. I think you incarnate a lot of that. And it's basically, it's a book that threw a lot of stories and data and examples show that in the modern world and to solve complex problems, actually being a generalist is better. And having many life experience that you can draw from is better than being hyper-specialized. It doesn't mean that it's not actually great to have some people who are hyper-specialized. But generalists embedded in a team of specialists, for instance, can solve problems very well. So I mean, I love, I love this book. It has just a lot of really amazing stories. It's a really interesting book. My second book, it's an old book, but I just love it. And I think it's, it's important right now is Jonathan Rausch, *Kindly Inquisitors*, which is I think the best case for free speech that I've ever read. It's a really fantastic book. And my last book is a book called *Let Them In* by Jason Riley. And Riley is a conservative. And it's also, it's not, it's not a new book, but I think it's timely right now. He makes the case for much, much more immigrations. And what I loved about this book is actually what he does is that he goes back in history and look at the rhetoric of the anti-immigration people. And he, he shows that these arguments are always the same. It doesn't matter if it's like a wave of Germans coming in, a wave of French people or a wave of Bolivians or Venezuelans, it's the same argument. And he shows how these arguments are wrong. And these arguments, how unfortunately, you know, continue to this day. I mean, his book again, it was published maybe 10 years ago, but I just really love this book. And considering some of the rhetoric about immigration, I think it's a good book to read.

Veronique de Régis, thank you very much.

Thank you for having me.

This episode of The Israel Show was produced by Roger Karma, fact-checking my Michelle Harris, Mary Marge Locker, and Kate Sinclair, mixing by Jeff Gelb. Our production team is Emma Vagau, Annie Galvin, Jeff Gelb, Roger Karma, and Kristin Lin. Original music by Isaac Jones, audience strategy by Shannon Busta. The executive producer of New York Times, depending on audio, is Andy Rose Strasser. And special thanks to Carol Saburo and Christina Semilowski.