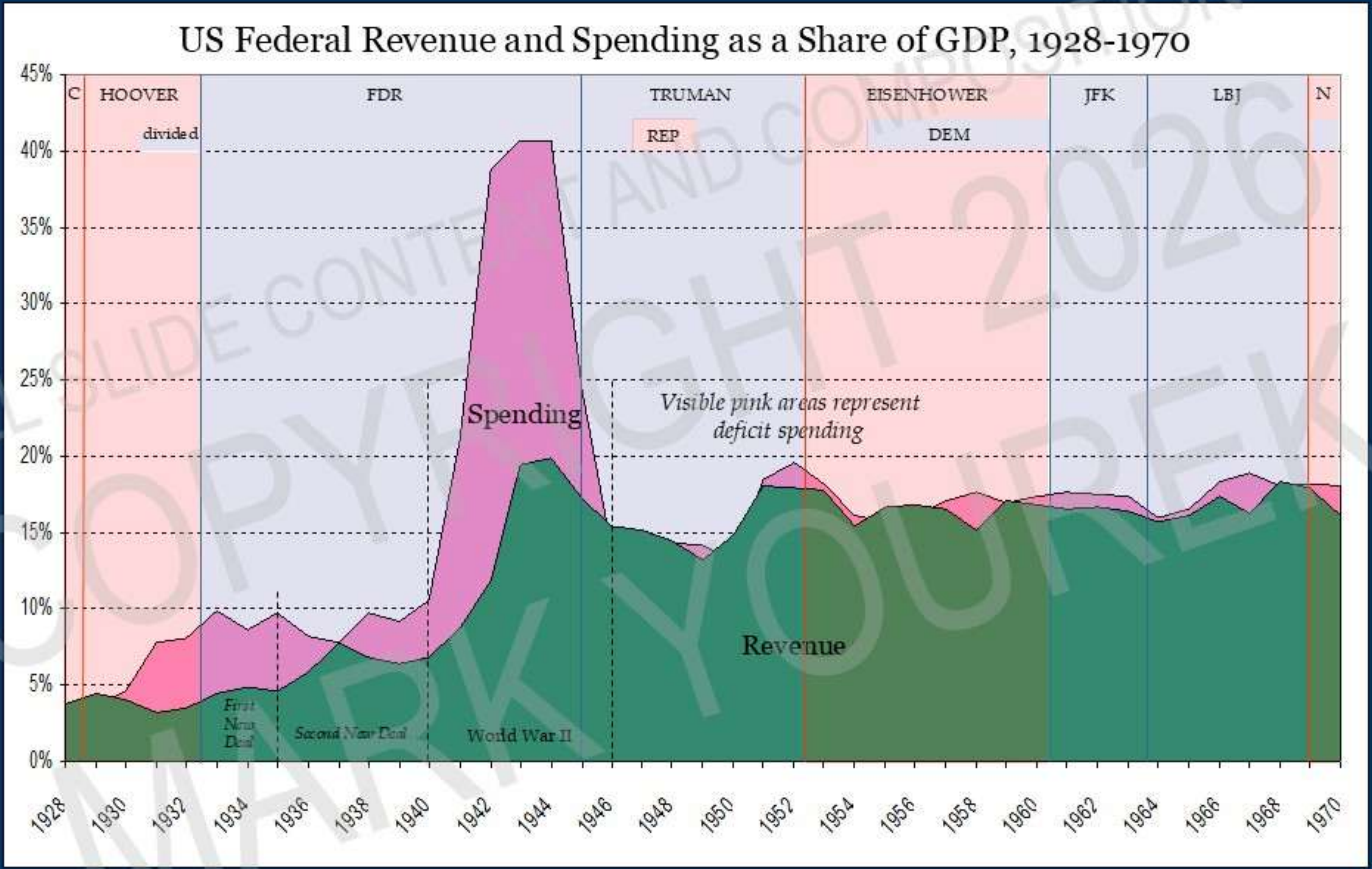
Capitalism, Government, Money, and the Future of the World

Finding and Keeping the Right Balance in Market-Capitalist Democracies

Capitalism, Government, Money, and the Future of the World

Deficits, Debt and the Size of Government



US Federal Revenue and Spending as a Share of GDP, 1928-1970
45%
40%
35%
30%
25%
20%
15%
10%
5%
0%
C
HOOVER
FDR
TRUMAN
EISENHOWER
JFK
LBJ
N
divided
REP
DEM
Spending
Visible pink areas represent deficit spending
Revenue
World War II
Second New Deal
First New Deal
1928
1930
1932
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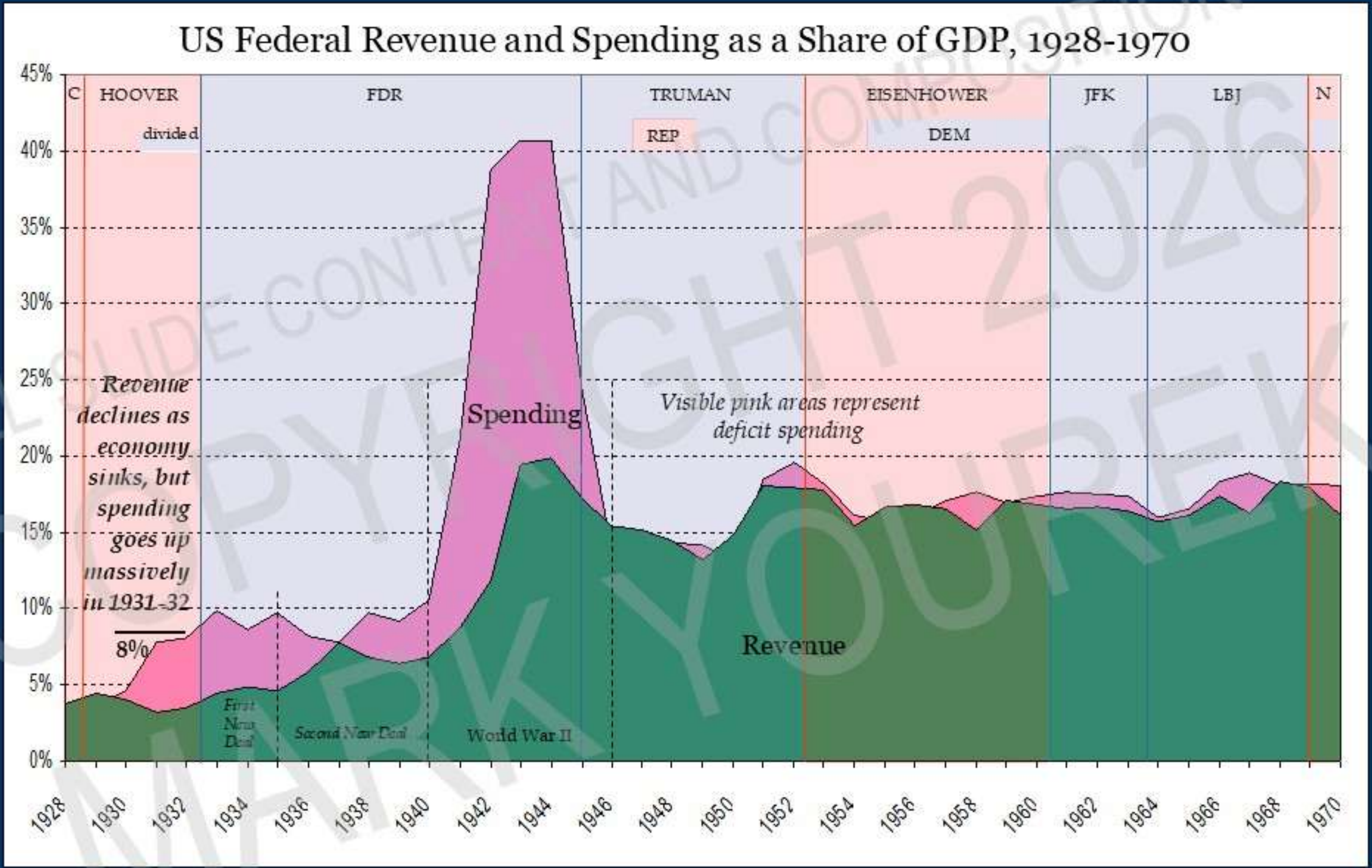
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Revenue declines as economy sinks, but spending goes up massively in 1931-32
8%
Spending
Visible pink areas represent deficit spending
Revenue
First New Deal
Second New Deal
World War II
1928
1930
1932
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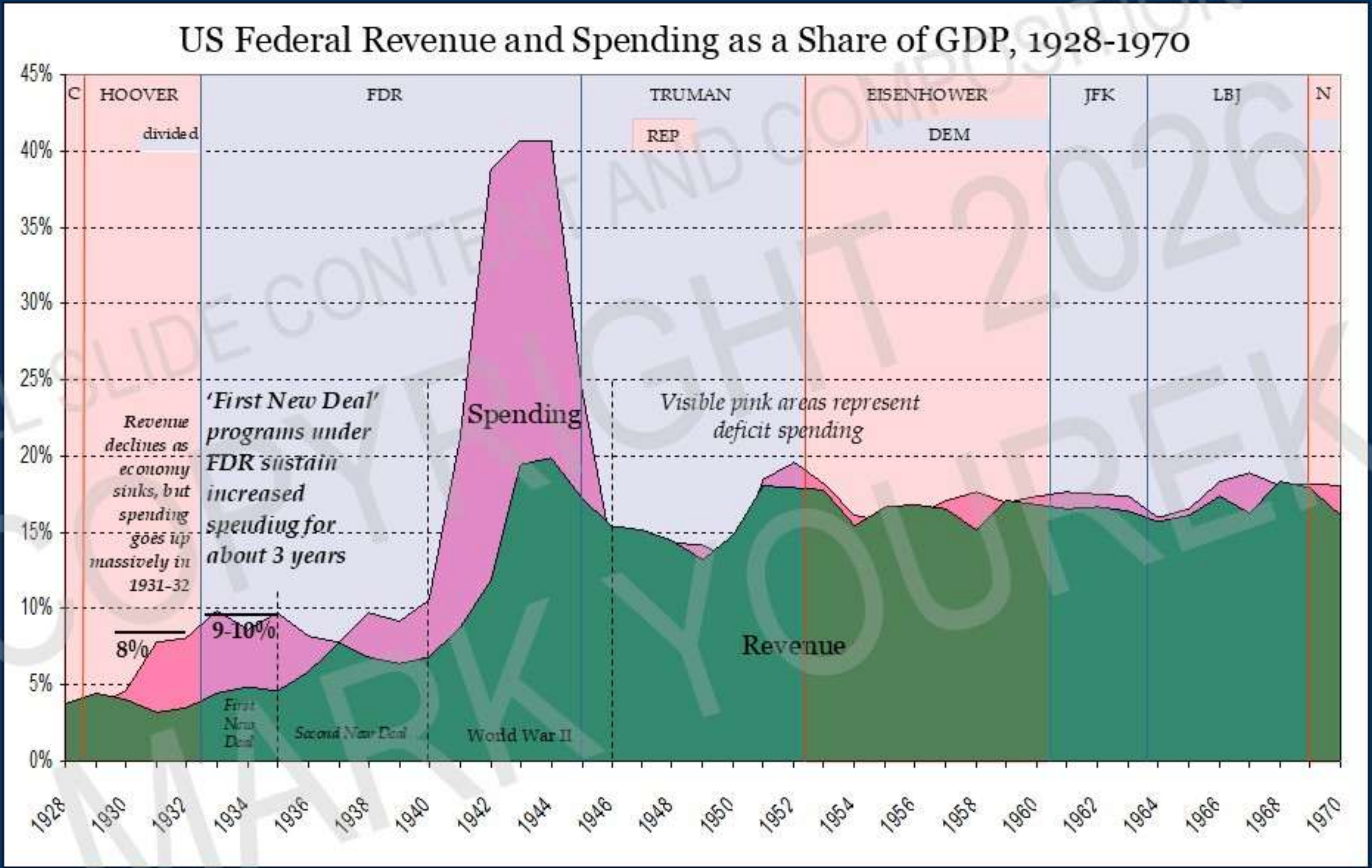
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HOOVER
FDR
TRUMAN
EISENHOWER
JFK
LBJ
N
divided
REP
DEM
Revenue declines as economy sinks, but spending goes up massively in 1931-32
'First New Deal' programs under FDR sustain increased spending for about 3 years
Spending
Visible pink areas represent deficit spending
8%
9-10%
Revenue
First New Deal
Second New Deal
World War II
1928
1930
1932
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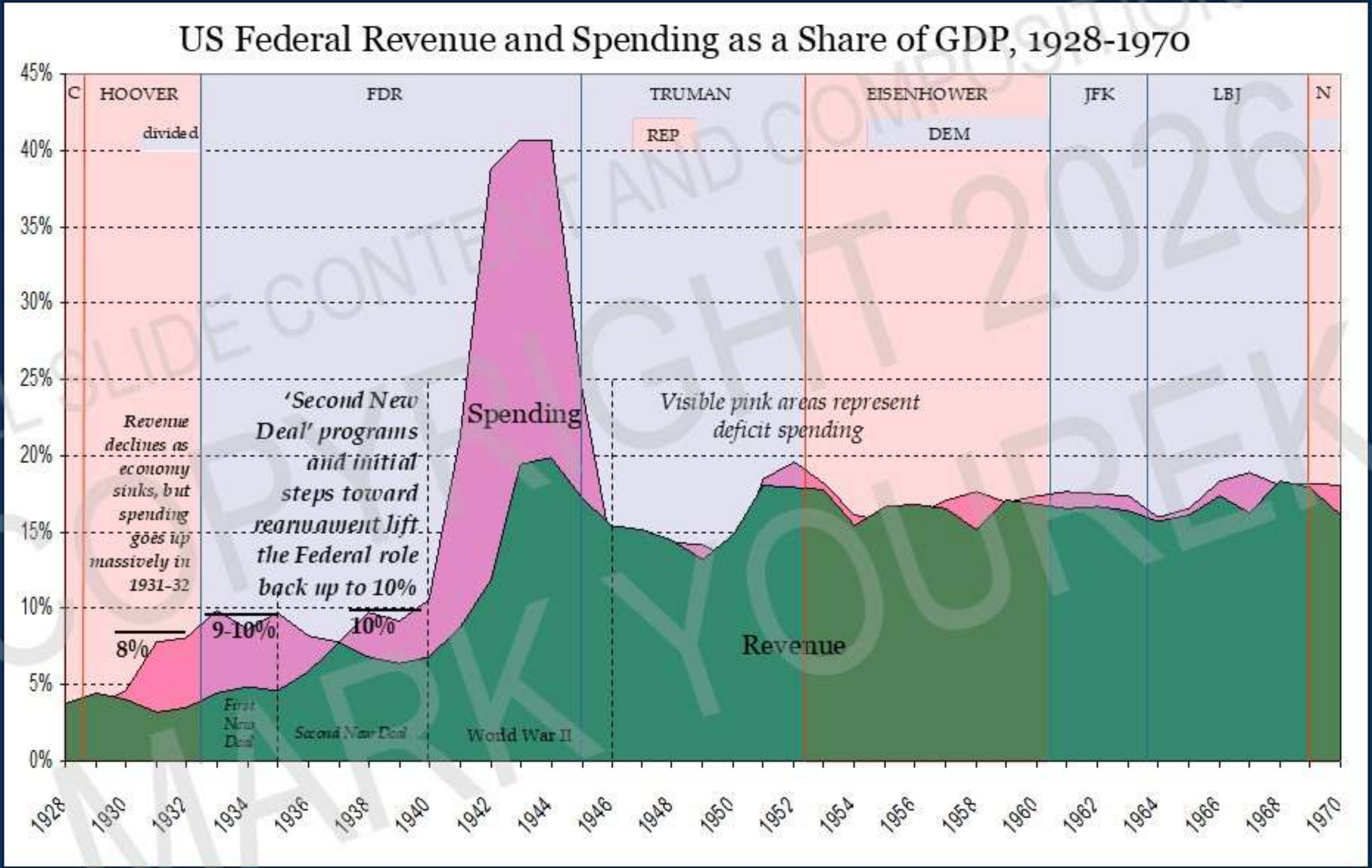
1968
1970


US Federal Revenue and Spending as a Share of GDP, 1928-1970
C
HOOVER
FDR
TRUMAN
EISENHOWER
JFK
LBJ
N
divided
REP
DEM
45%
40%
35%
30%
25%
20%
15%
10%
5%
0%
Revenue declines as economy sinks, but spending goes up massively in 1931-32
'Second New Deal' programs and initial steps toward rearmament lift the Federal role back up to 10%
Spending
Visible pink areas represent deficit spending
8%
9-10%
10%
Revenue
First New Deal
Second New Deal
World War II
1928
1930
1932
1934
1936
1938
1940
1942
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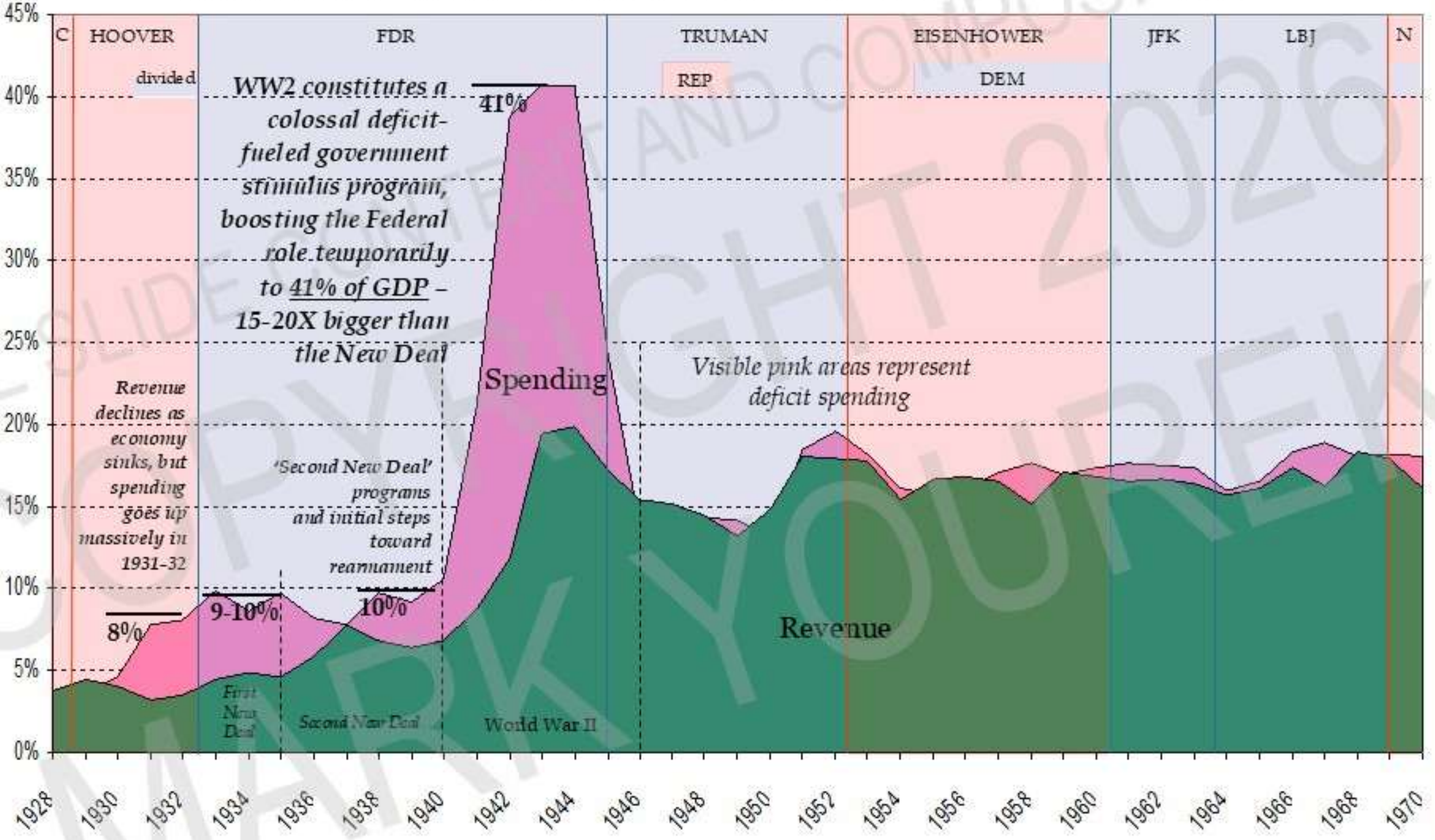
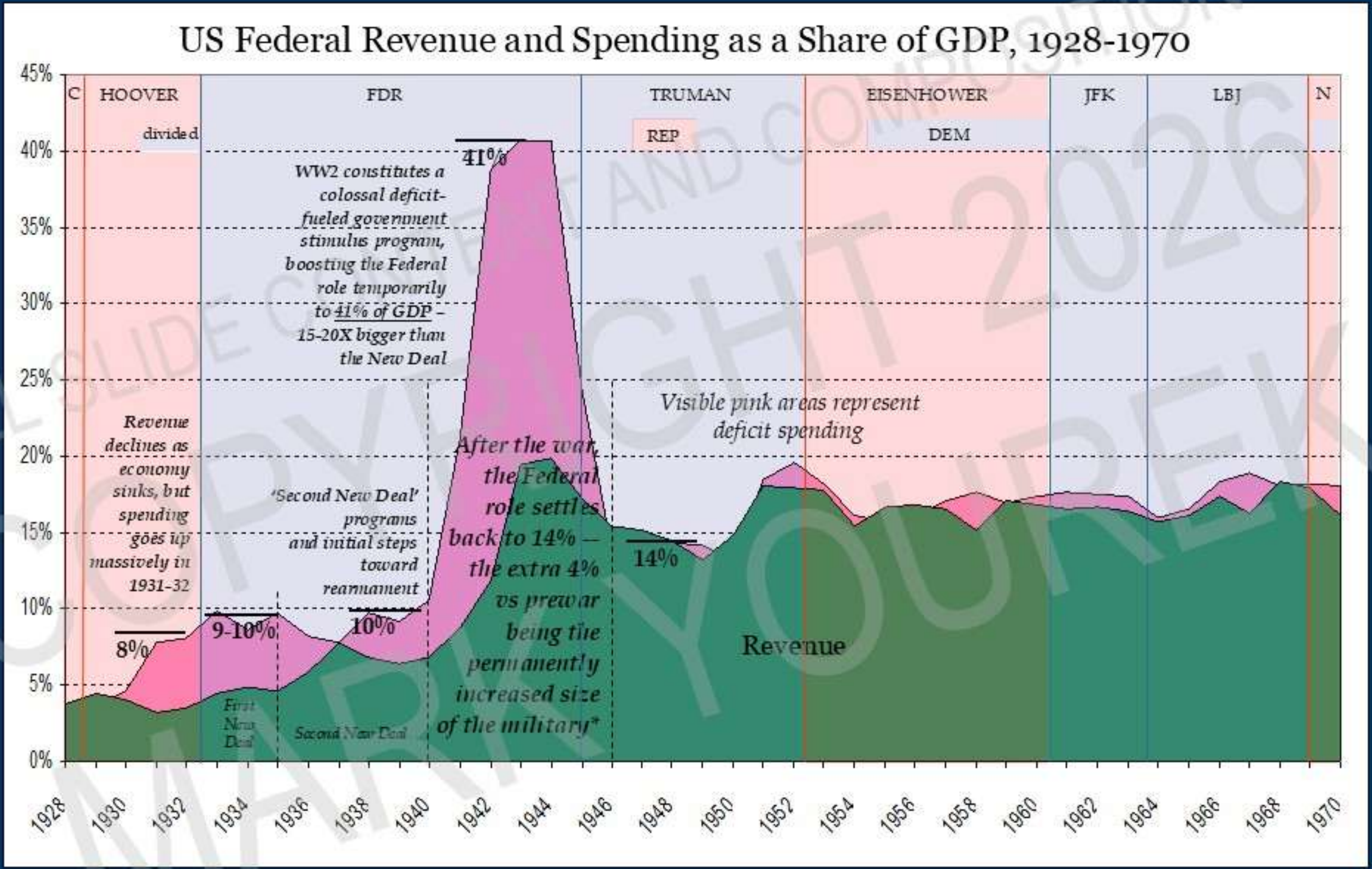
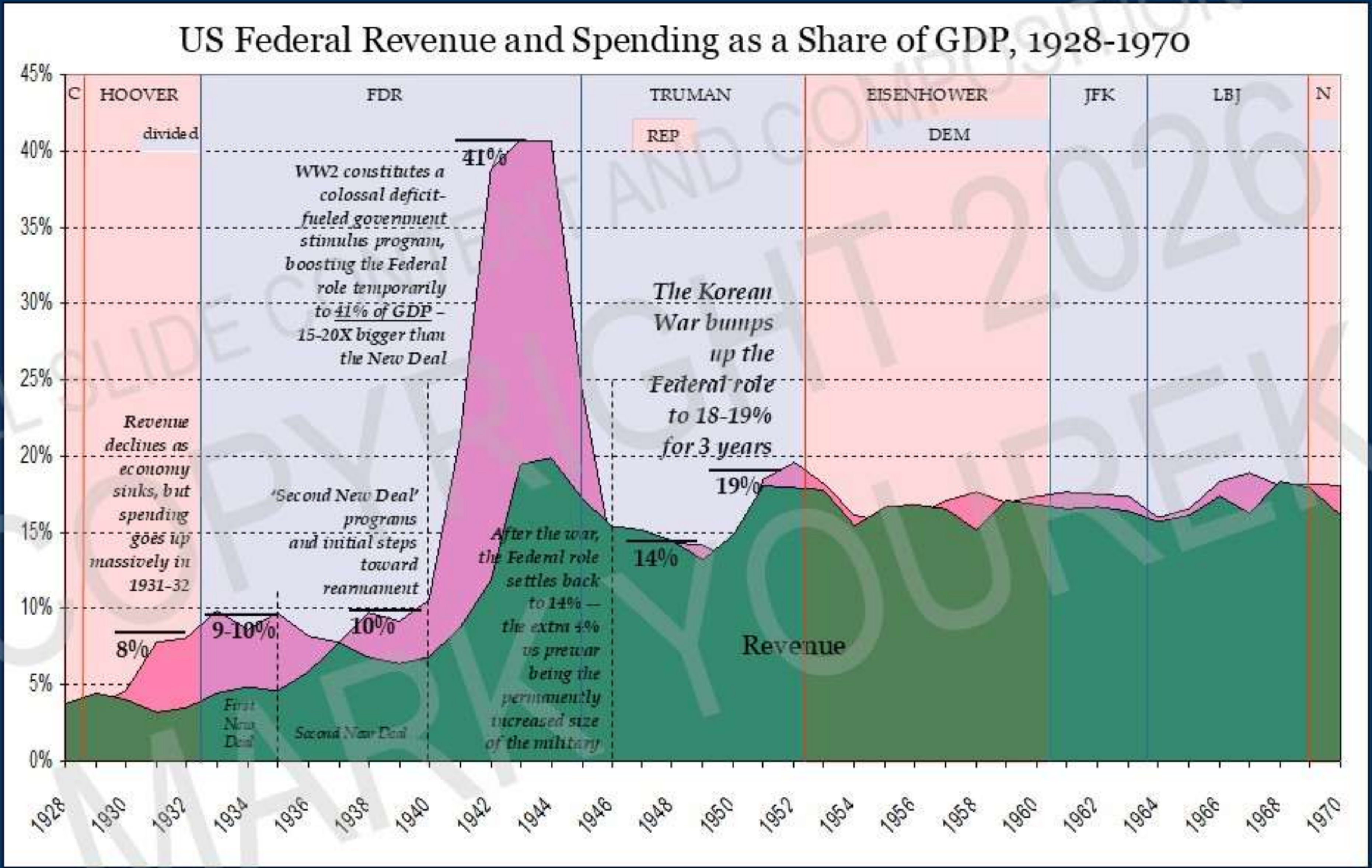
1968
1970

US Federal Revenue and Spending as a Share of GDP, 1928-1970





*also: increased interest payments on the national debt; increased inflows / outflows for Social Security; and expenses related to the GI Bill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10%
5%
0%
C
HOOVER
FDR
TRUMAN
EISENHOWER
JFK
LBJ
N
divided
REP
DEM
41%
WW2 constitutes a colossal deficit-fueled government stimulus program, boosting the Federal role temporarily to 41% of GDP – 15-20X bigger than the New Deal
The Korean War bumps up the Federal role to 18-19% for 3 years
Revenue declines as economy sinks, but spending goes up massively in 1931-32
'Second New Deal' programs and initial steps toward rearmament
After the war, the Federal role settles back to 14% — the extra 4% vs prewar being the permanently increased size of the military
19%
14%
8%
9-10%
10%
Revenue
First New Deal
Second New Deal
1928
1930
1932
1934
1936
1938
1940
1942
1944
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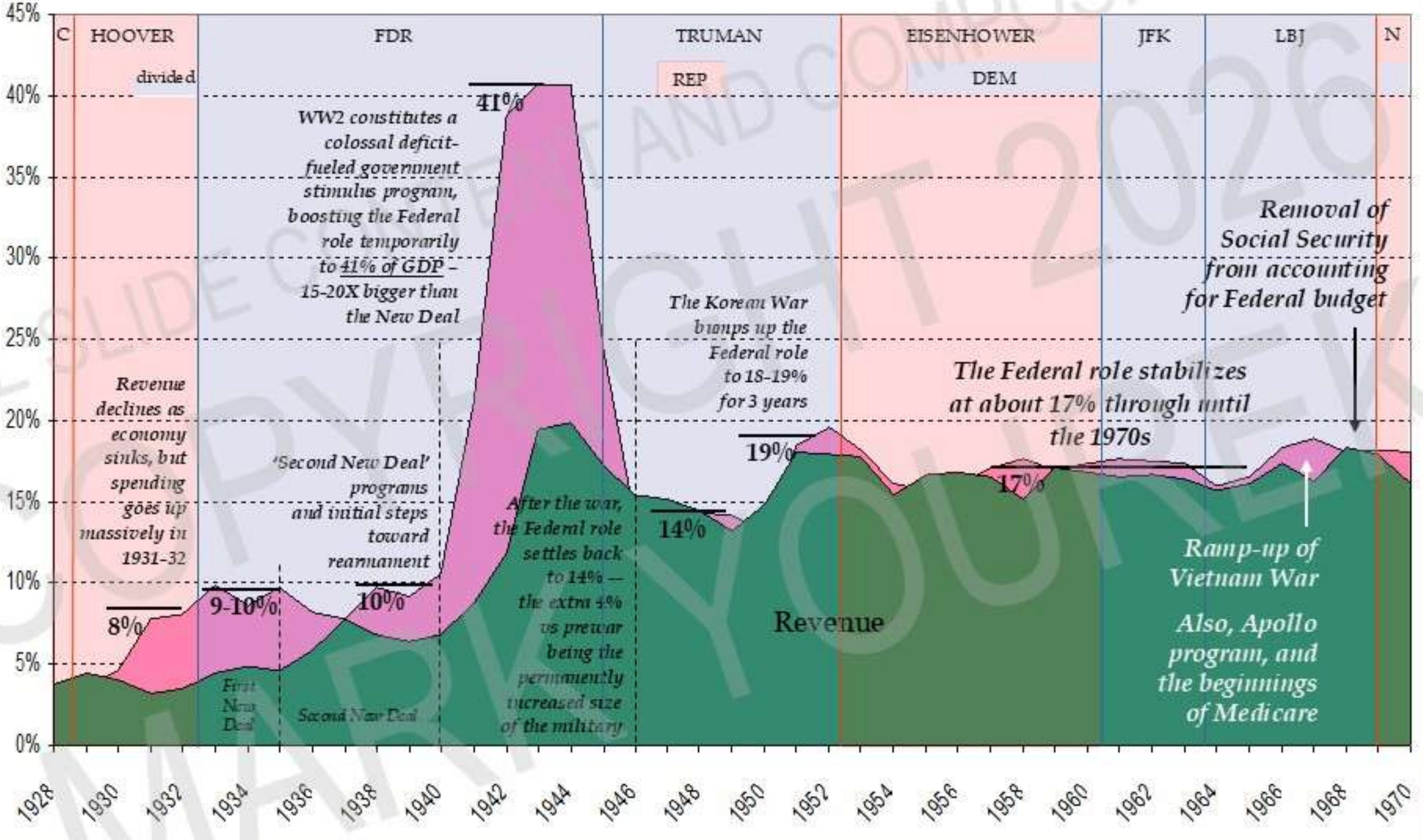
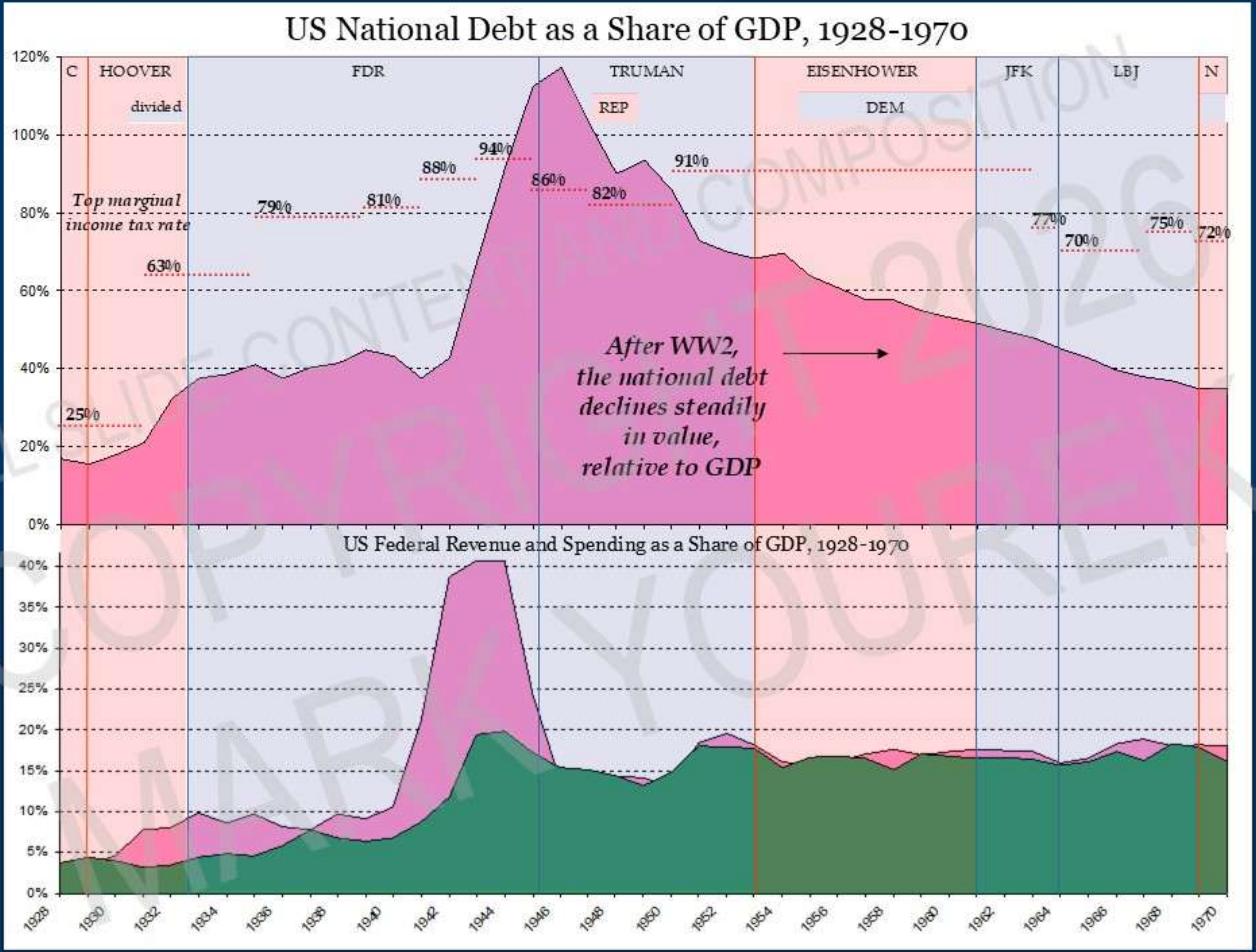
1958
1960
1962
1964
1966
1968
1970

US Federal Revenue and Spending as a Share of GDP, 1928-1970





US National Debt as a Share of GDP, 1928-1970
C
HOOVER
divided
FDR
TRUMAN
REP
EISENHOWER
DEM
JFK
LBJ
N
Top marginal income tax rate
25%
63%
79%
81%
88%
94%
86%
82%
91%
77%
70%
75%
72%
After WW2, the national debt declines steadily in value, relative to GDP
120%
100%
80%
60%
40%
20%
0%
US Federal Revenue and Spending as a Share of GDP, 1928-1970
40%
35%
30%
25%
20%
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10%
5%
0%
1928
1930
1932
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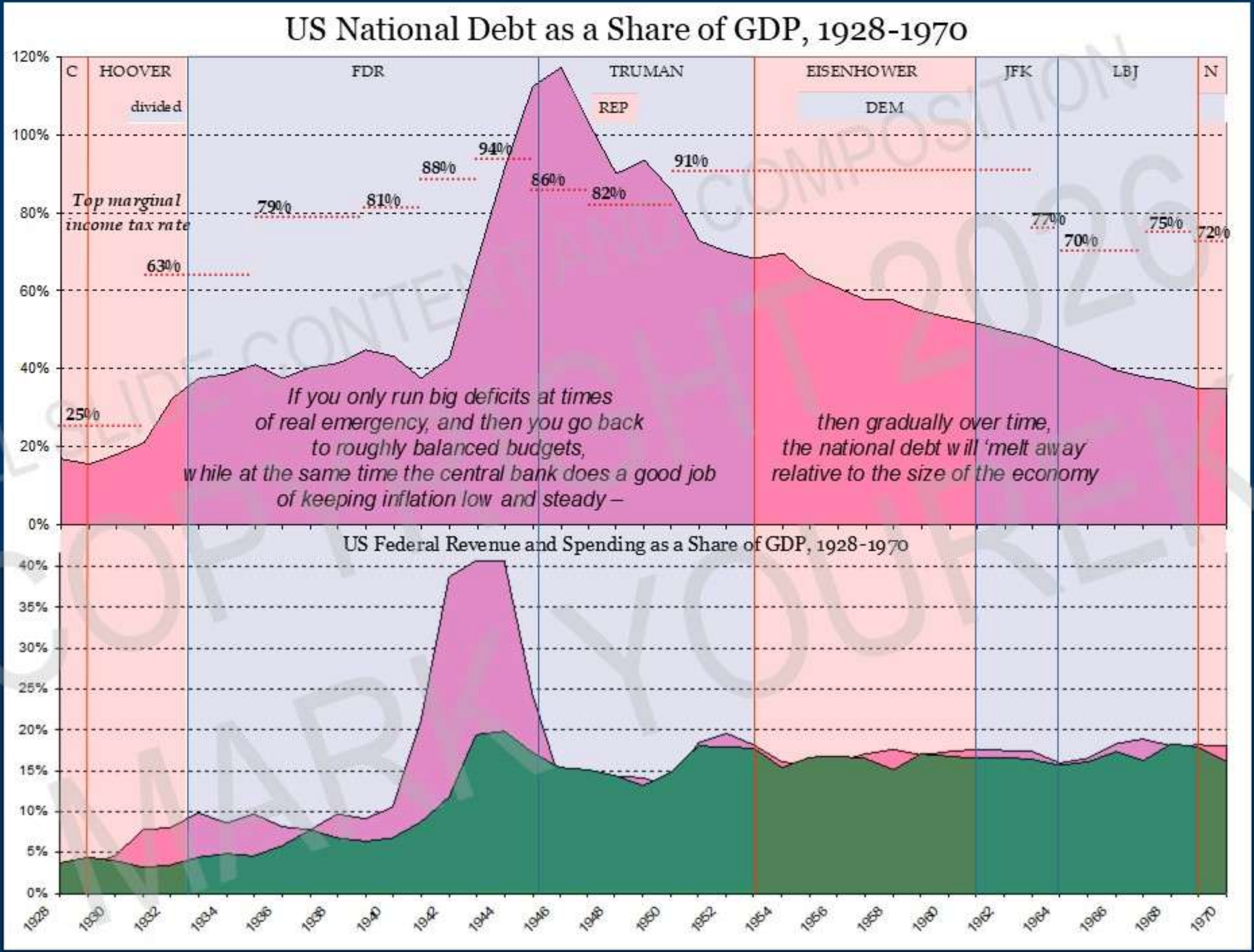
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25%
63%
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88%
94%
86%
82%
91%
77%
70%
75%
72%
120%
100%
80%
60%
40%
20%
0%
If you only run big deficits at times of real emergency, and then you go back to roughly balanced budgets, while at the same time the central bank does a good job of keeping inflation low and steady –
then gradually over time, the national debt will 'melt away relative to the size of the economy
US Federal Revenue and Spending as a Share of GDP, 1928-1970
40%
35%
30%
25%
20%
15%
10%
5%
0%
1928
1930
1932
1934
1936
1938
1940
1942
1944
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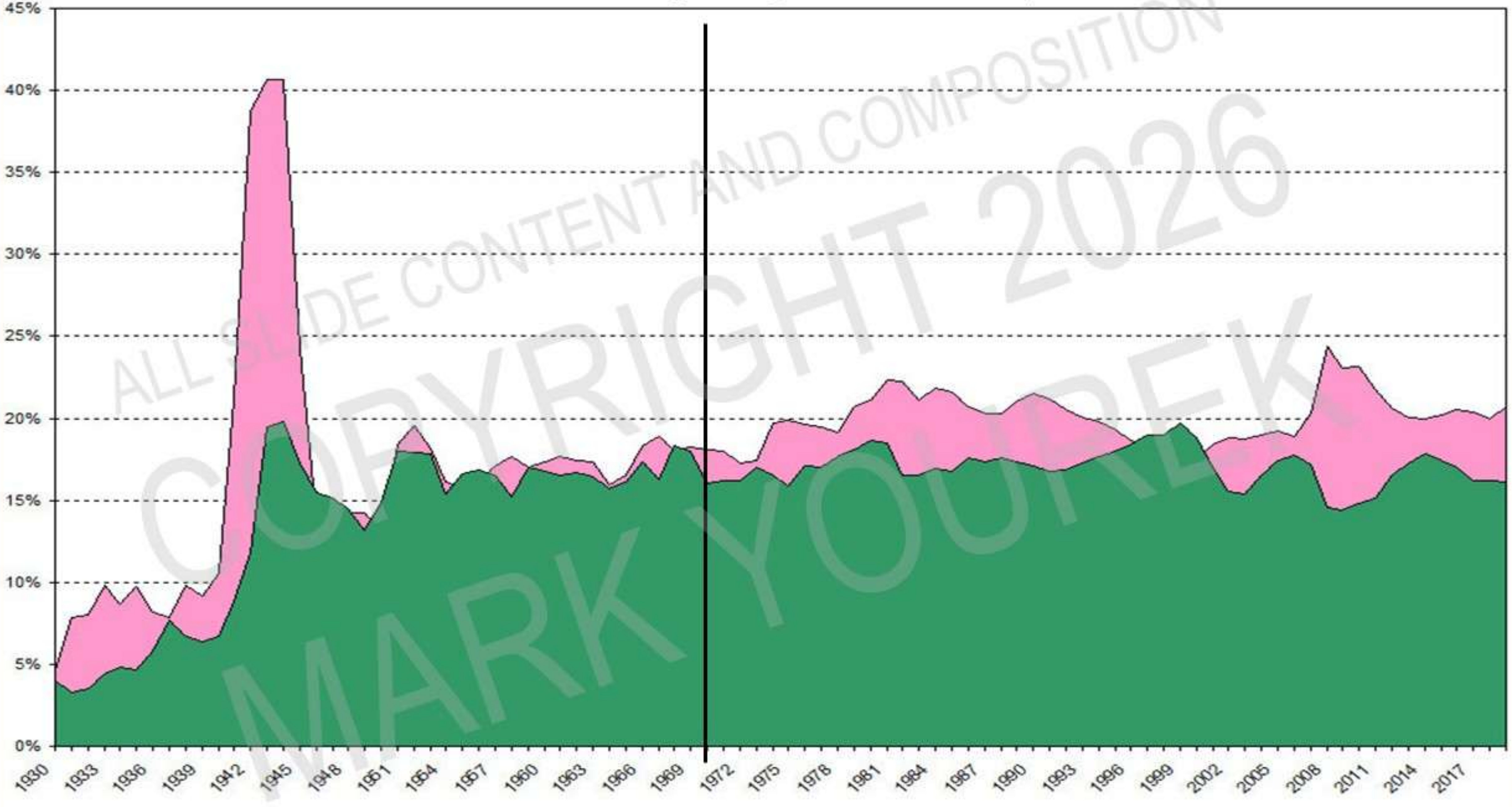
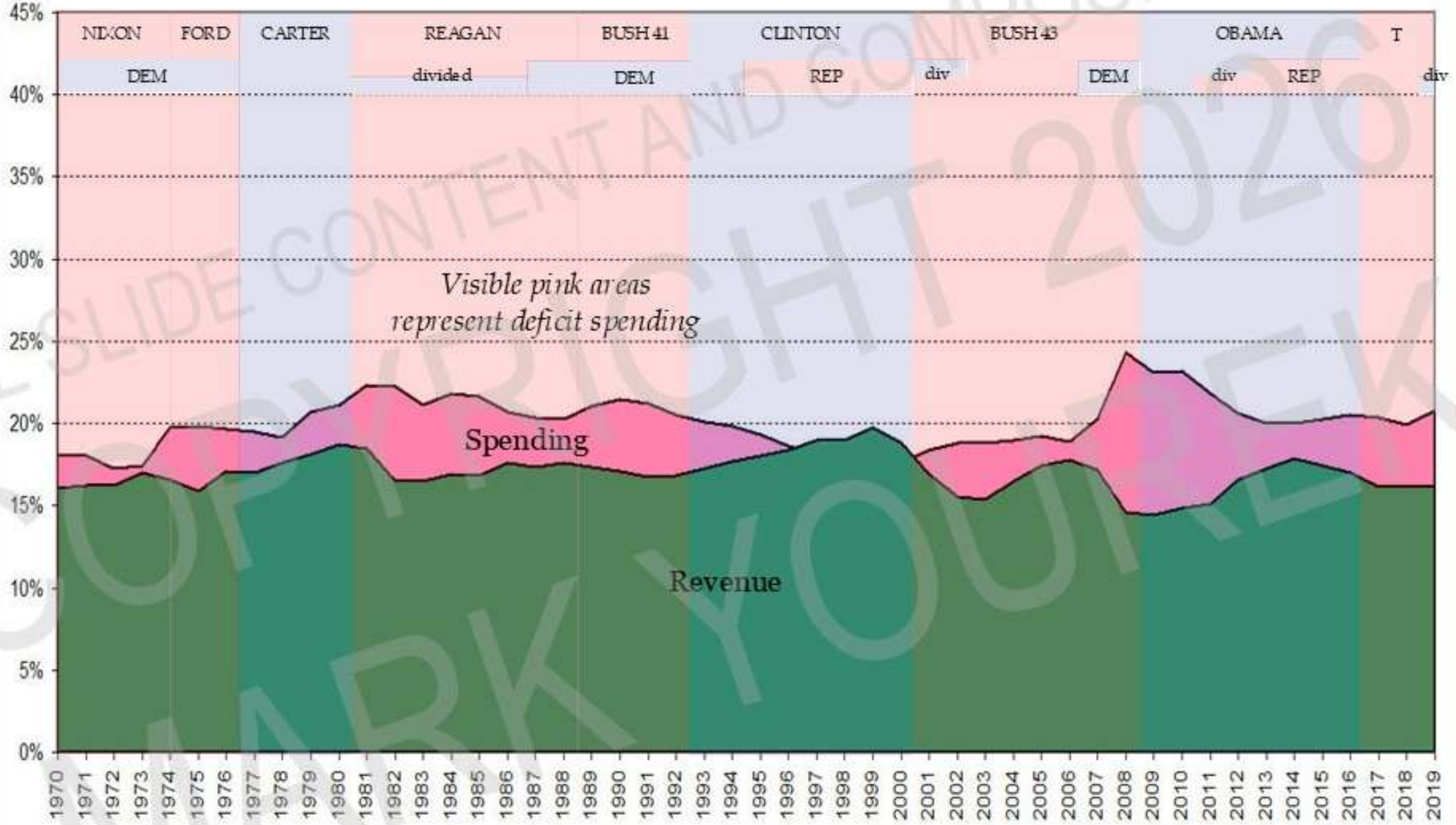
1968
1970

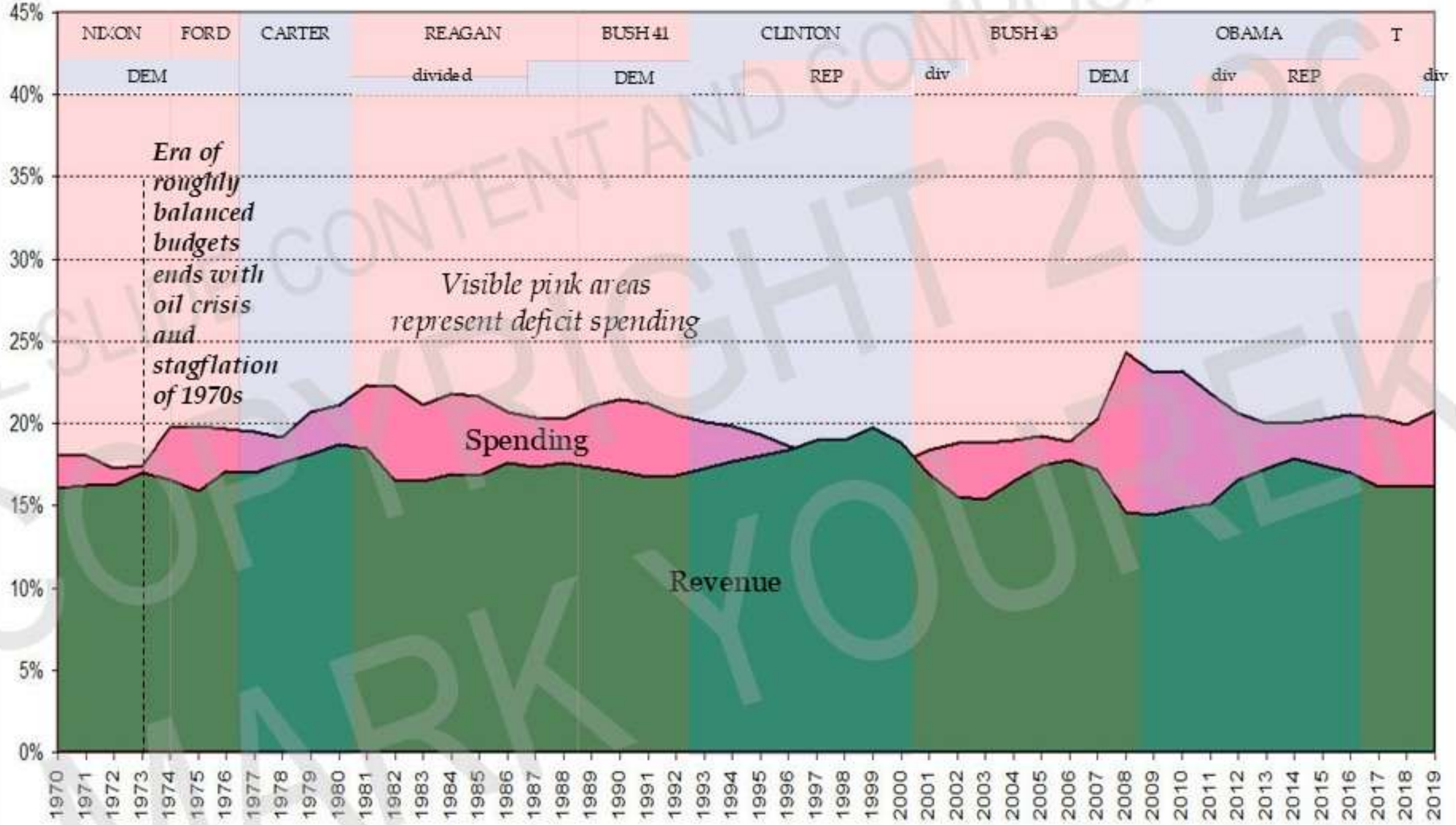
US Federal Revenue and Spending as a Share of GDP, 1930-2019



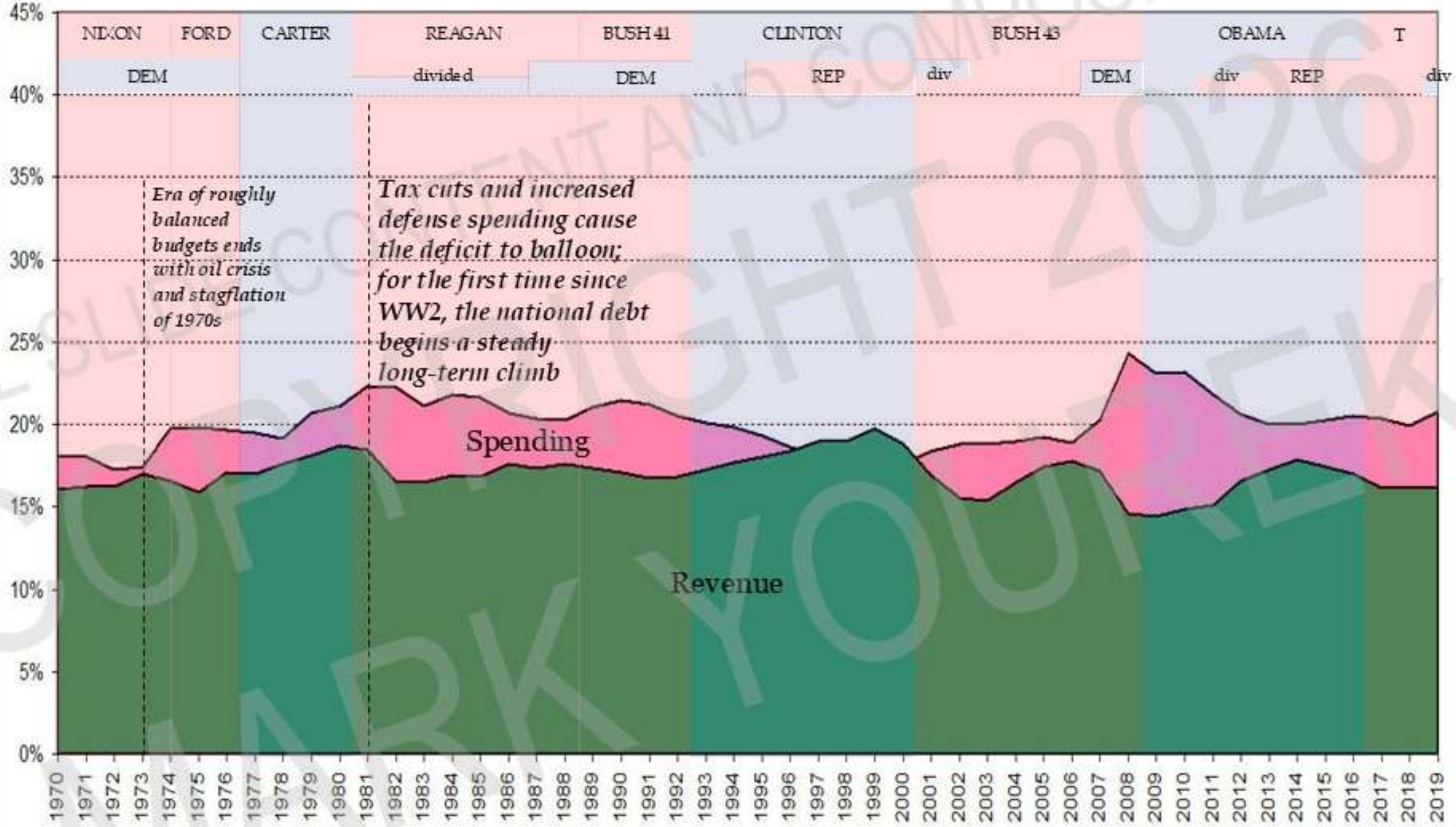
US Federal Revenue and Spending as a Share of GDP, 1970-2019

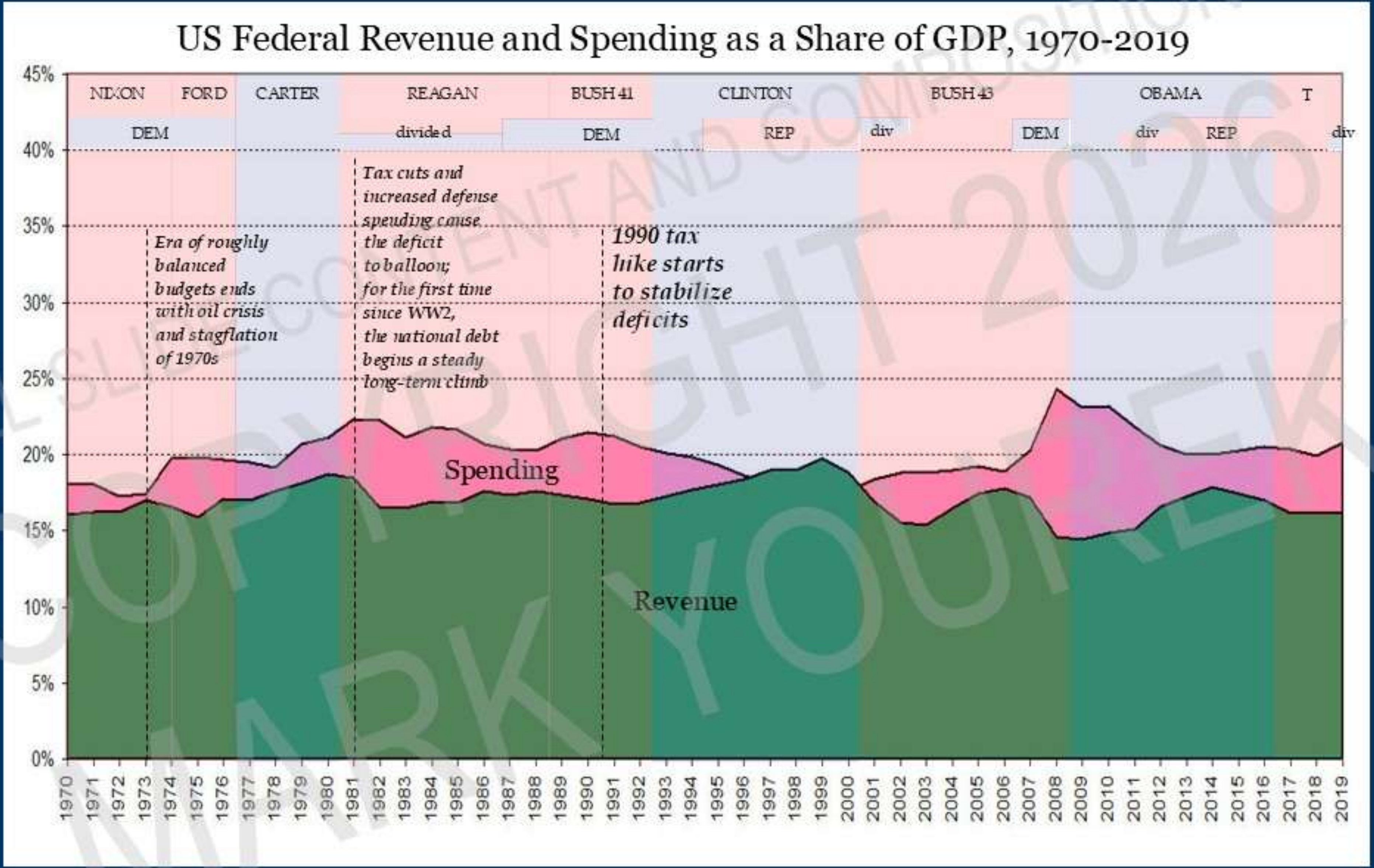


US Federal Revenue and Spending as a Share of GDP, 1970-2019



US Federal Revenue and Spending as a Share of GDP, 1970-2019




US Federal Revenue and Spending as a Share of GDP, 1970-2019
NIXON
FORD
CARTER
REAGAN
BUSH 41
CLINTON
BUSH 43
OBAMA
T
DEM
divided
DEM
REP
div
DEM
div
REP
div
Tax cuts and increased defense spending cause the deficit to balloon; for the first time since WW2, the national debt begins a steady long-term climb
Era of roughly balanced budgets ends with oil crisis and stagflation of 1970s
1990 tax hike starts to stabilize deficits
Spending
Revenue
45%
40%
35%
30%
25%
20%
15%
10%
5%
0%
1970
1971
1972
1973
1974
1975
1976
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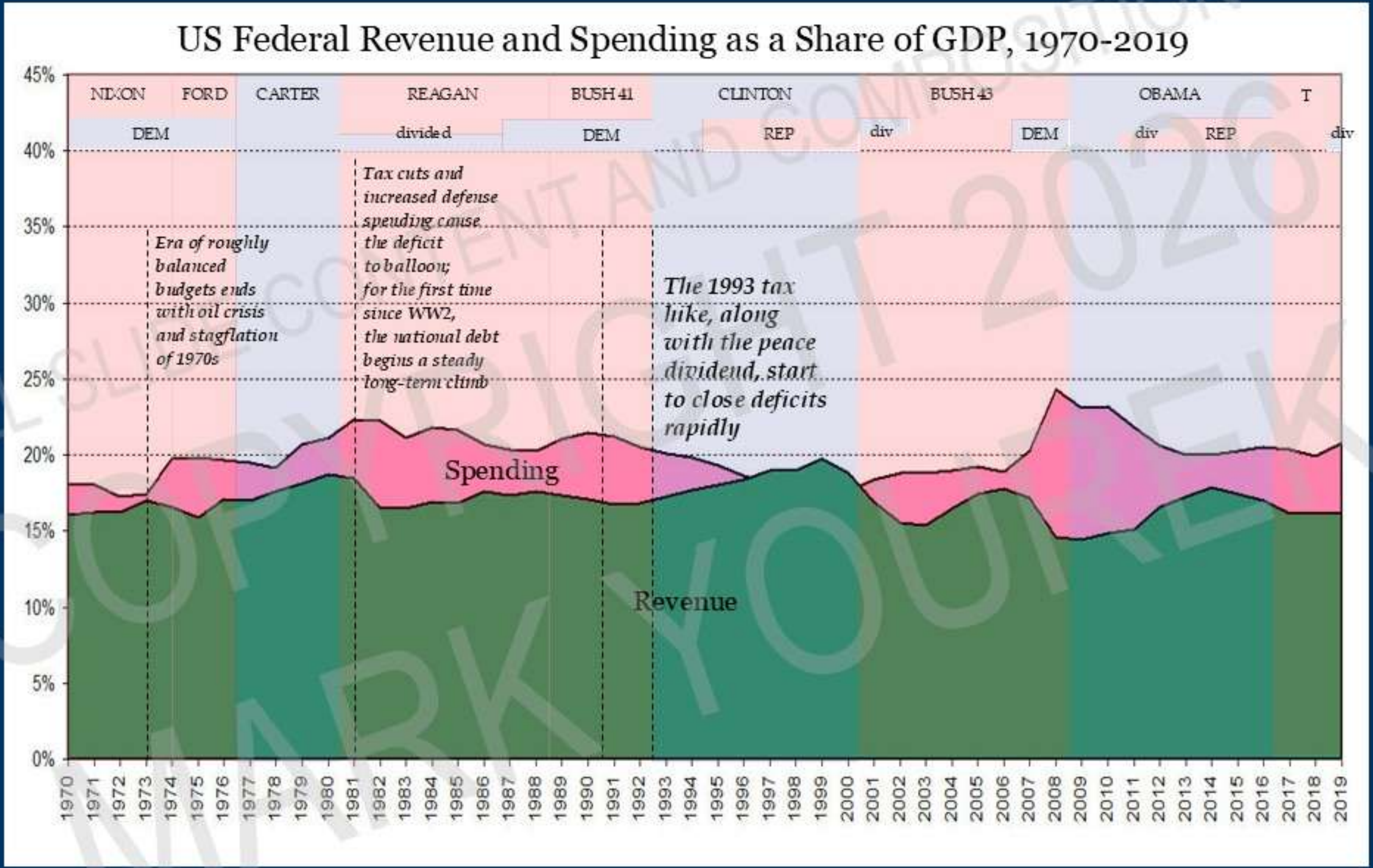
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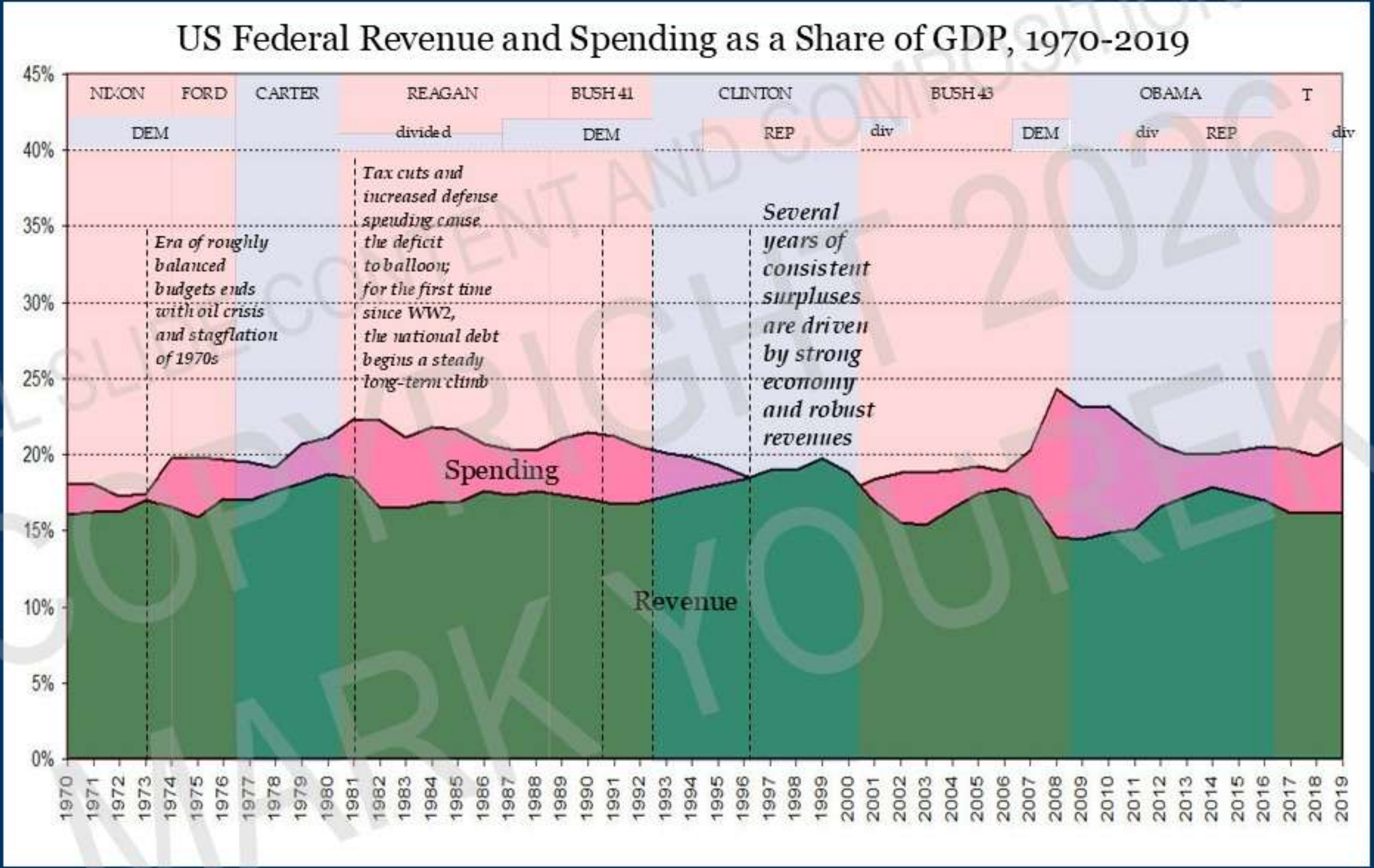
REP
div
Era of roughly balanced budgets ends with oil crisis and stagflation of 1970s
Tax cuts and increased defense spending cause the deficit to balloon; for the first time since WW2, the national debt begins a steady long-term climb
The 1993 tax hike, along with the peace dividend, start to close deficits rapidly
Spending
Revenue
1970 1971 1972 1973 1974 1975 1976 1977 1978 1979 1980 1981 1982 1983 1984 1985 1986 1987 1988 1989 1990 1991 1992 1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019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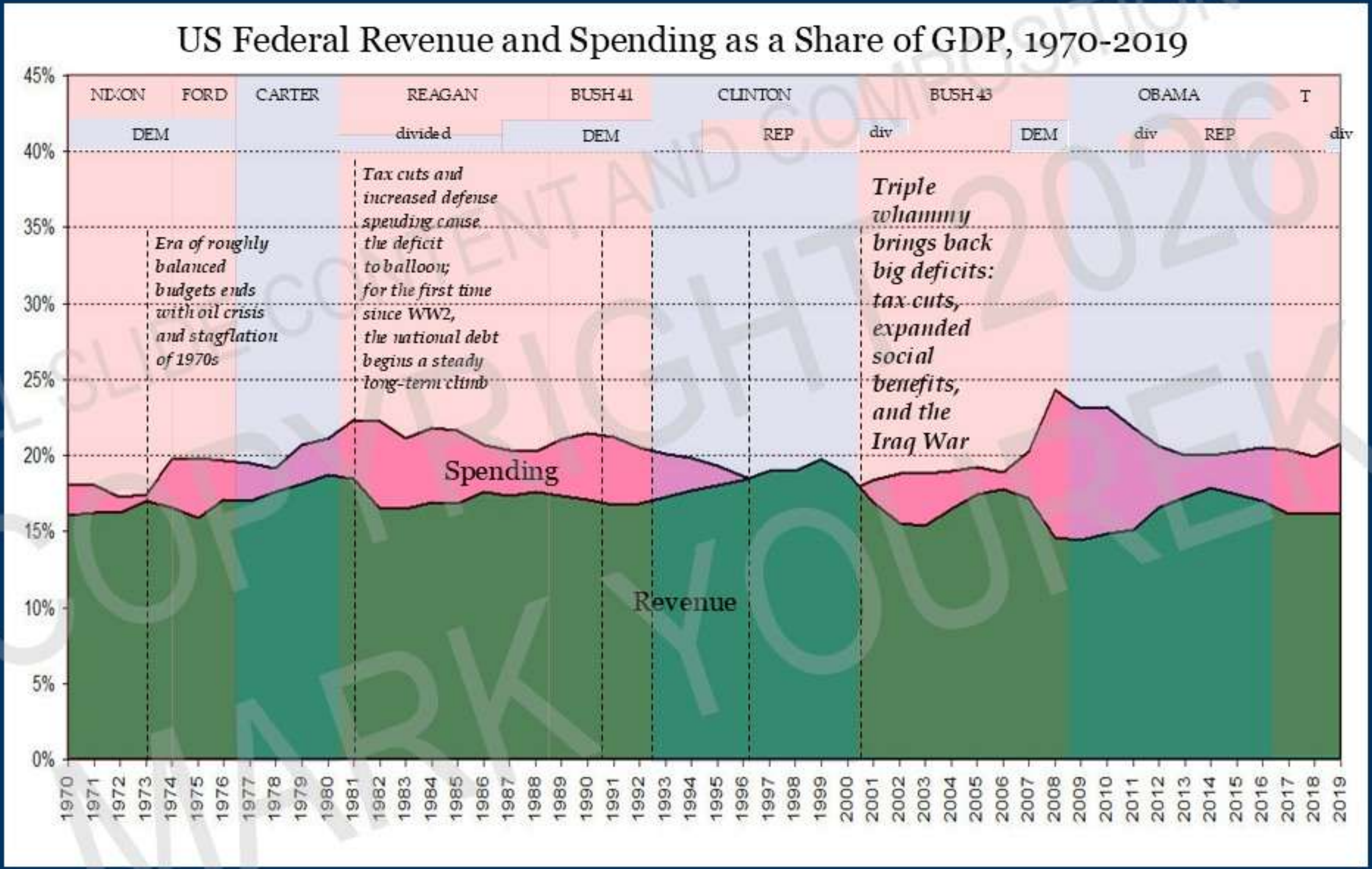
REP
div
Era of roughly balanced budgets ends with oil crisis and stagflation of 1970s
Tax cuts and increased defense spending cause the deficit to balloon; for the first time since WW2, the national debt begins a steady long-term climb
Several years of consistent surpluses are driven by strong economy and robust revenues
Spending
Revenue
1970 1971 1972 1973 1974 1975 1976 1977 1978 1979 1980 1981 1982 1983 1984 1985 1986 1987 1988 1989 1990 1991 1992 1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019



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DEM
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Triple whammy brings back big deficits: tax cuts, expanded social benefits, and the Iraq War
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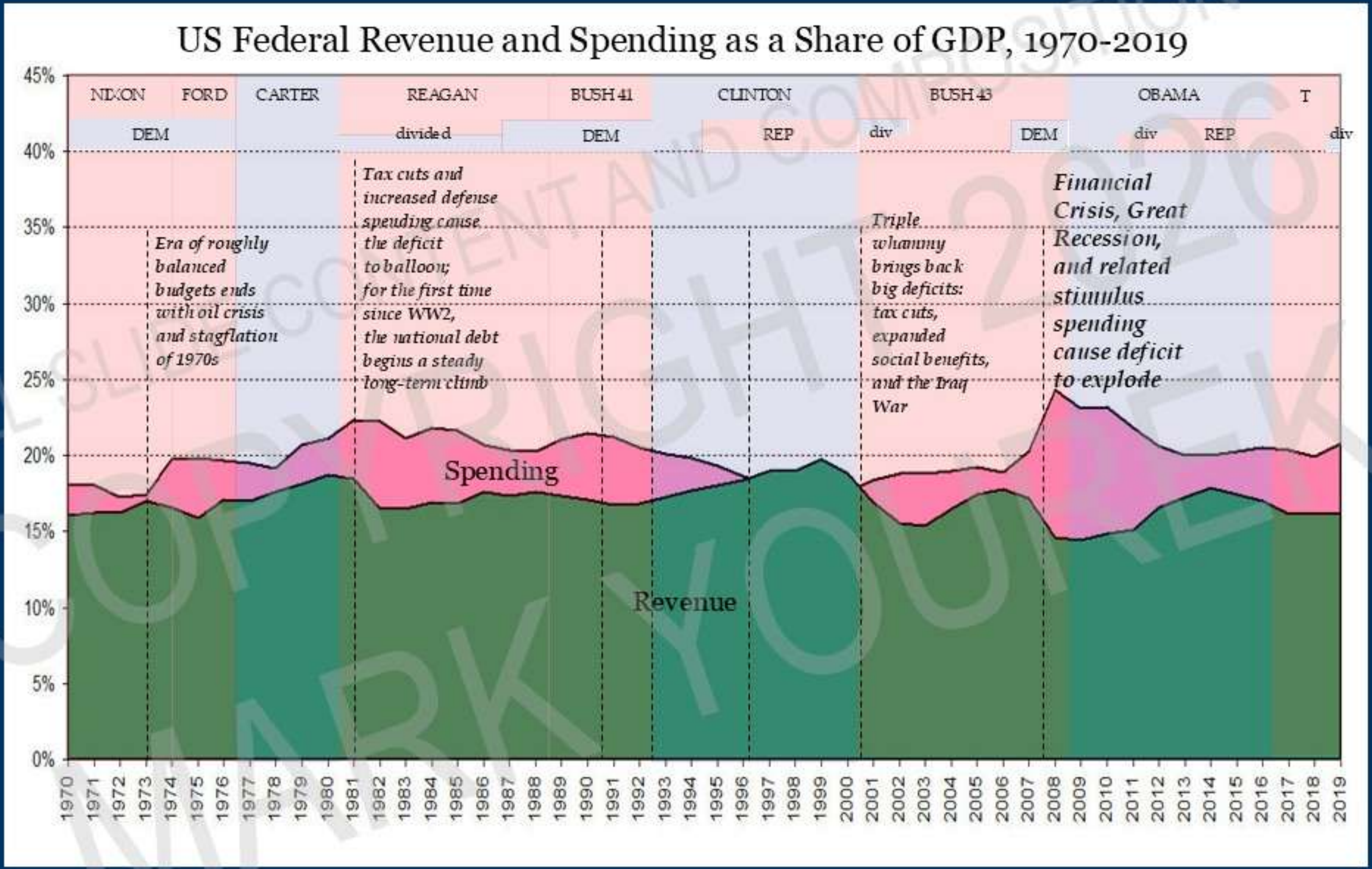

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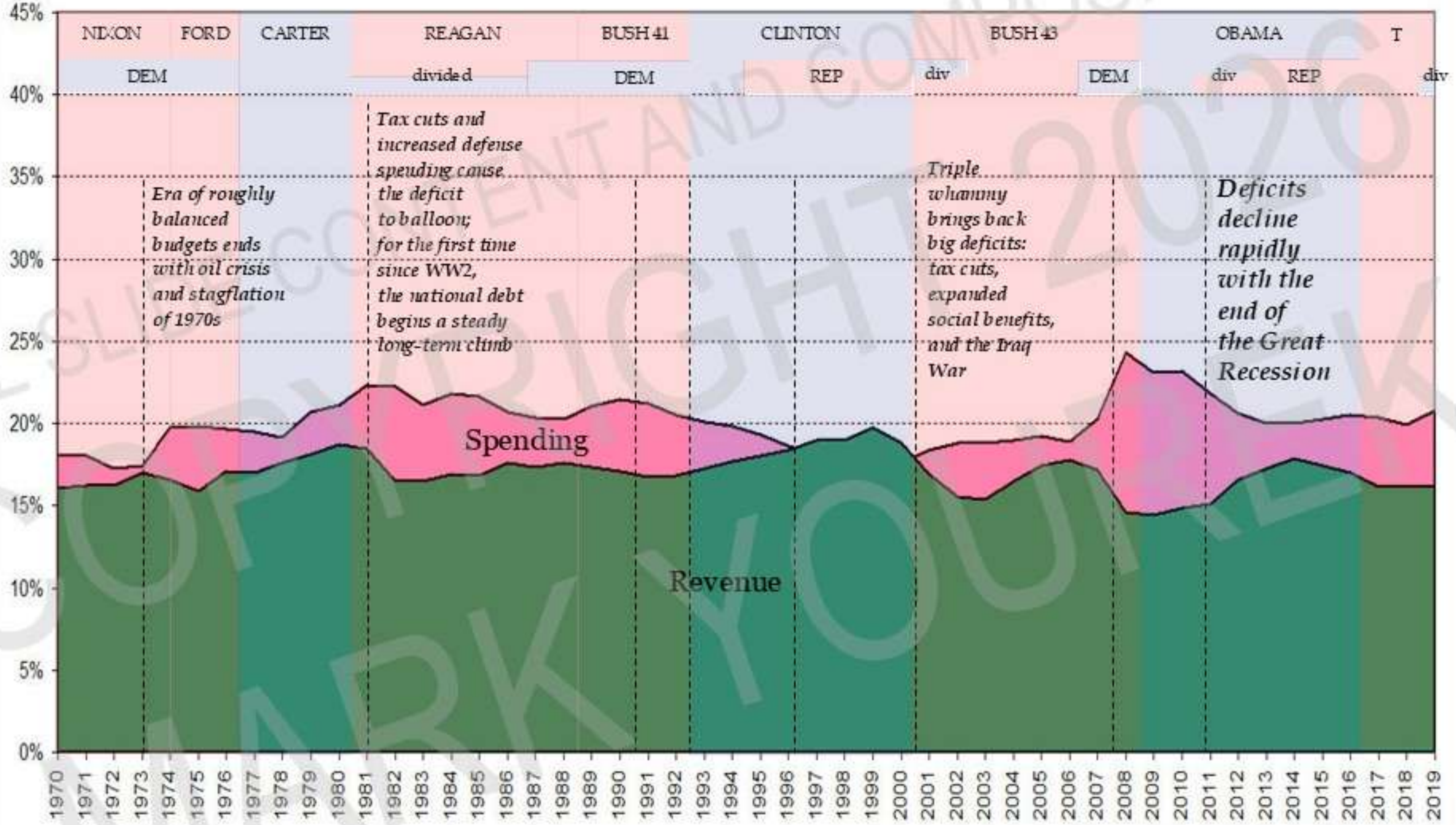
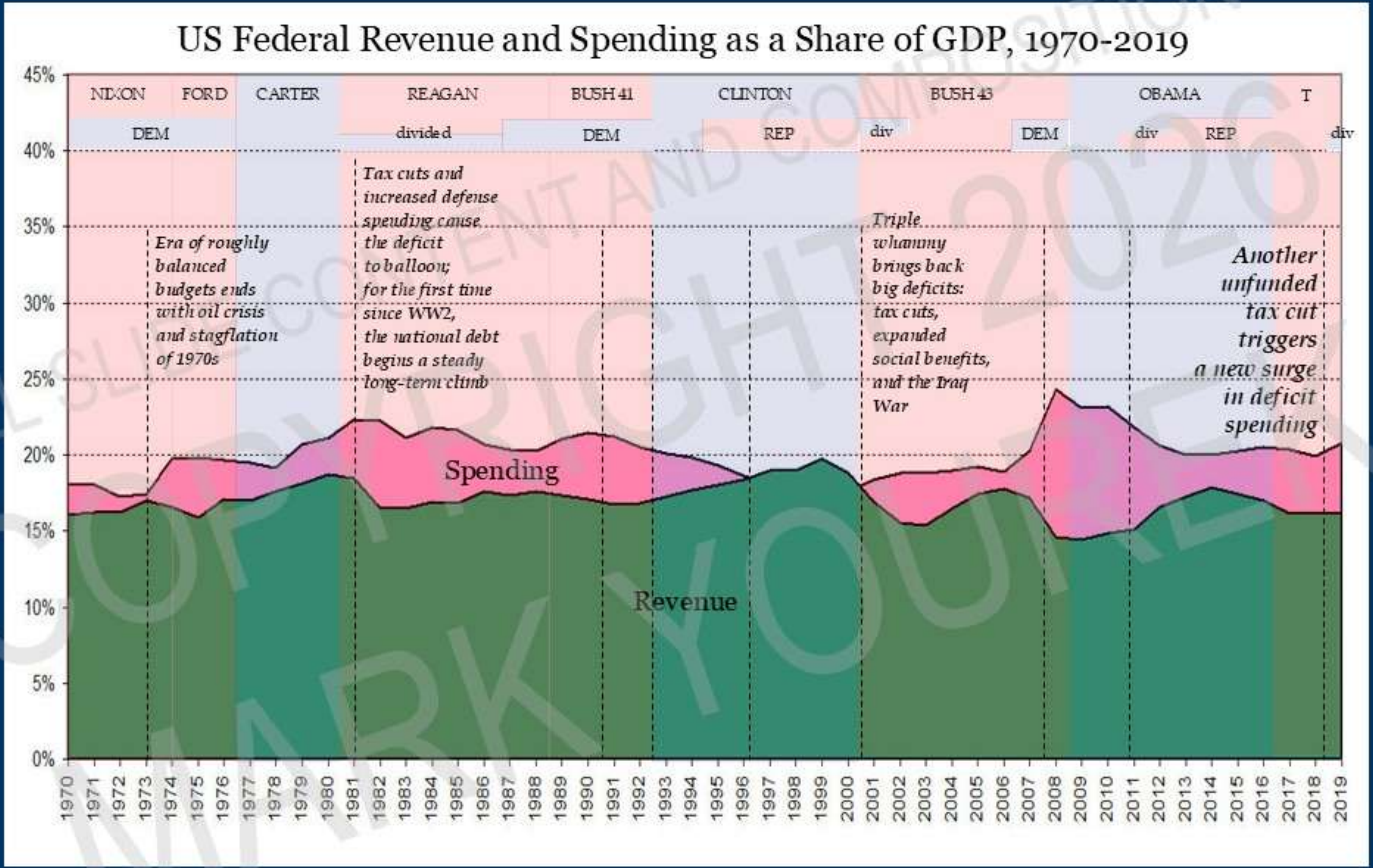
Tax cuts and increased defense spending cause the deficit to balloon; for the first time since WW2, the national debt begins a steady long-term climb
Triple whammy brings back big deficits: tax cuts, expanded social benefits, and the Iraq War
Financial Crisis, Great Recession, and related stimulus spending cause deficit to explode
Spending
Revenue
1970 1971 1972 1973 1974 1975 1976 1977 1978 1979 1980 1981 1982 1983 1984 1985 1986 1987 1988 1989 1990 1991 1992 1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019

US Federal Revenue and Spending as a Share of GDP, 1970-2019





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divided
DEM
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REP
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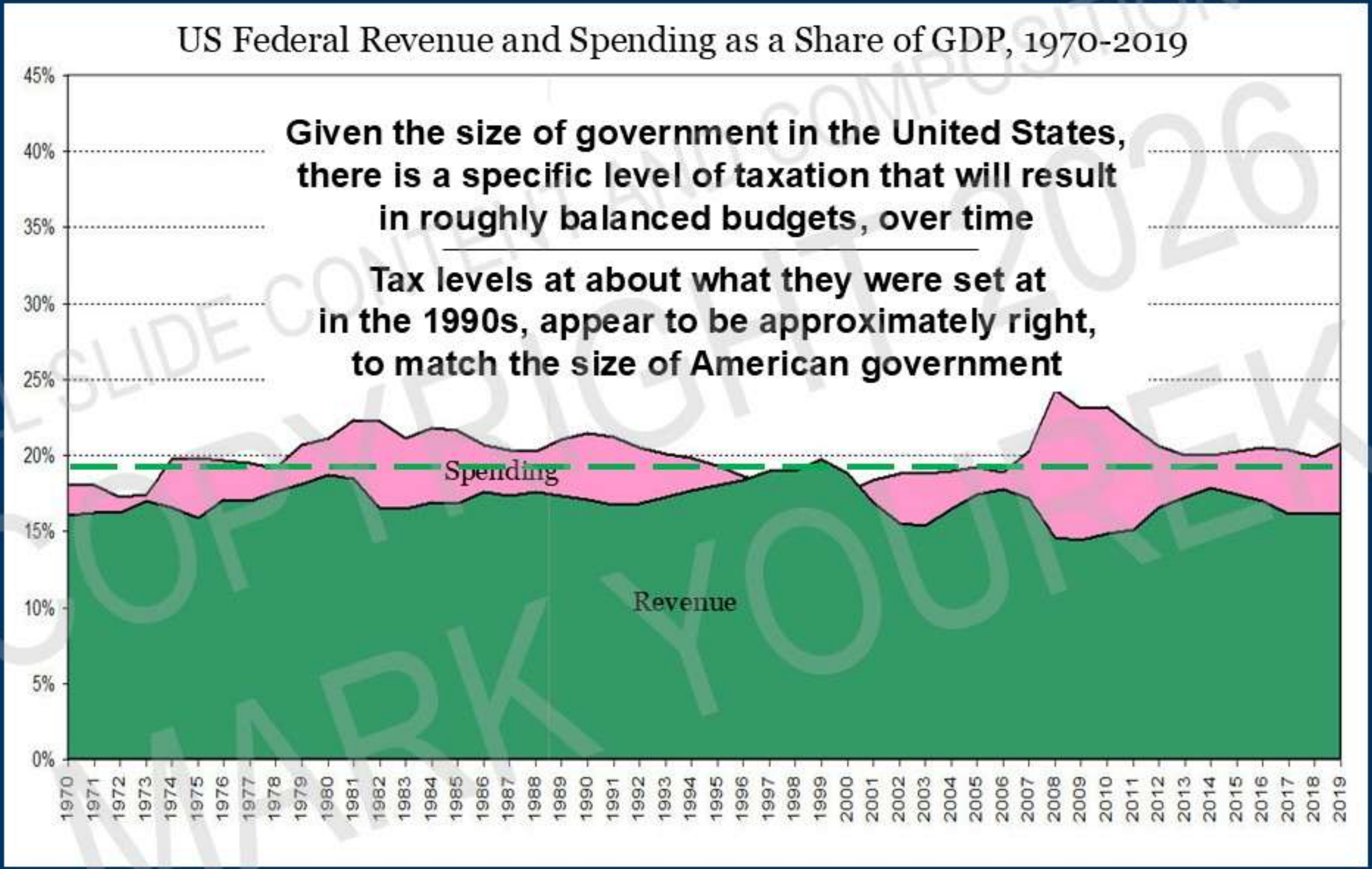
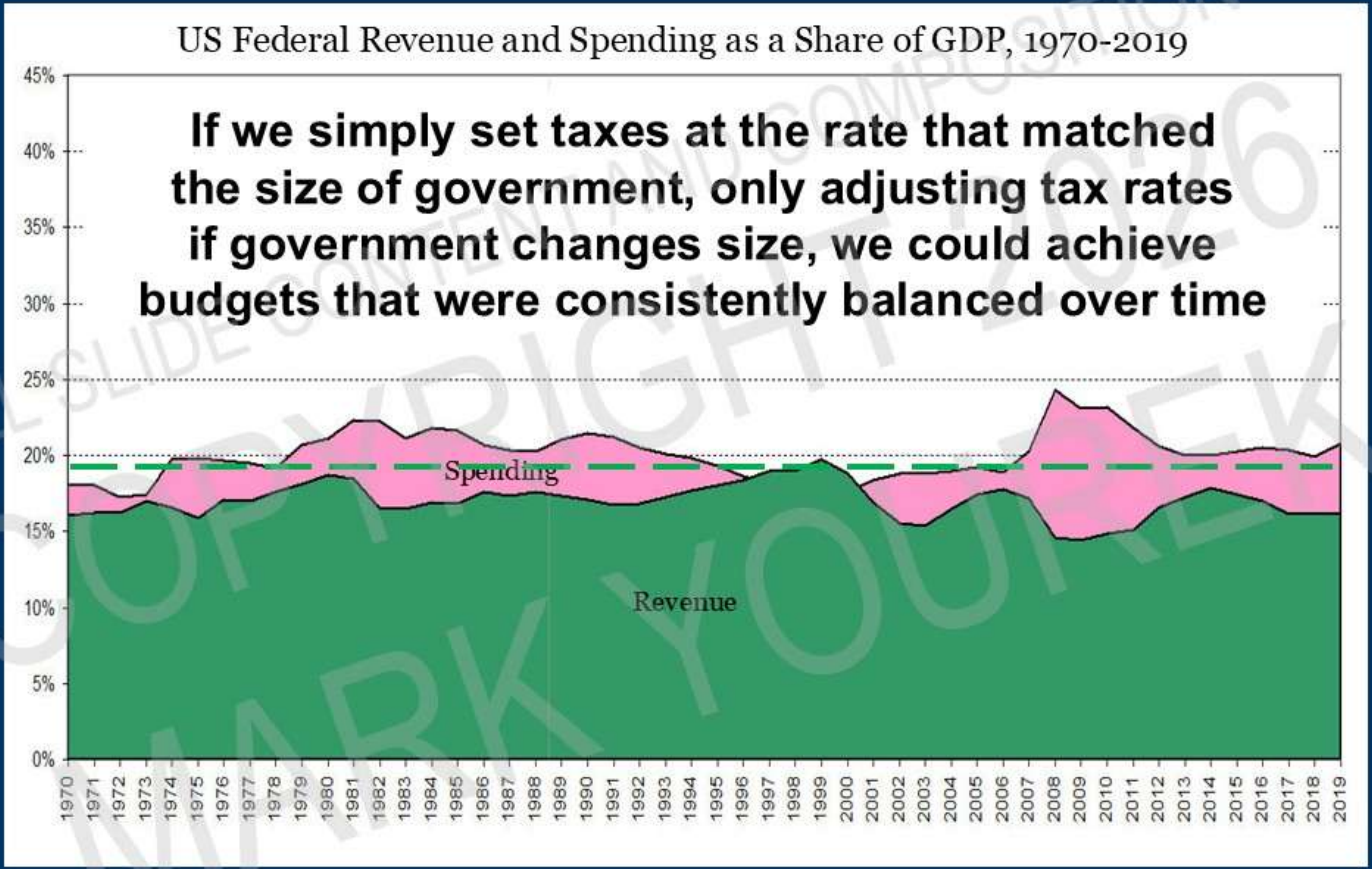
Era of roughly balanced budgets ends with oil crisis and stagflation of 1970s
Tax cuts and increased defense spending cause the deficit to balloon; for the first time since WW2, the national debt begins a steady long-term climb
Triple whammy brings back big deficits: tax cuts, expanded social benefits, and the Iraq War
Another unfunded tax cut triggers a new surge in deficit spending
Spending
Revenue
1970 1971 1972 1973 1974 1975 1976 1977 1978 1979 1980 1981 1982 1983 1984 1985 1986 1987 1988 1989 1990 1991 1992 1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019



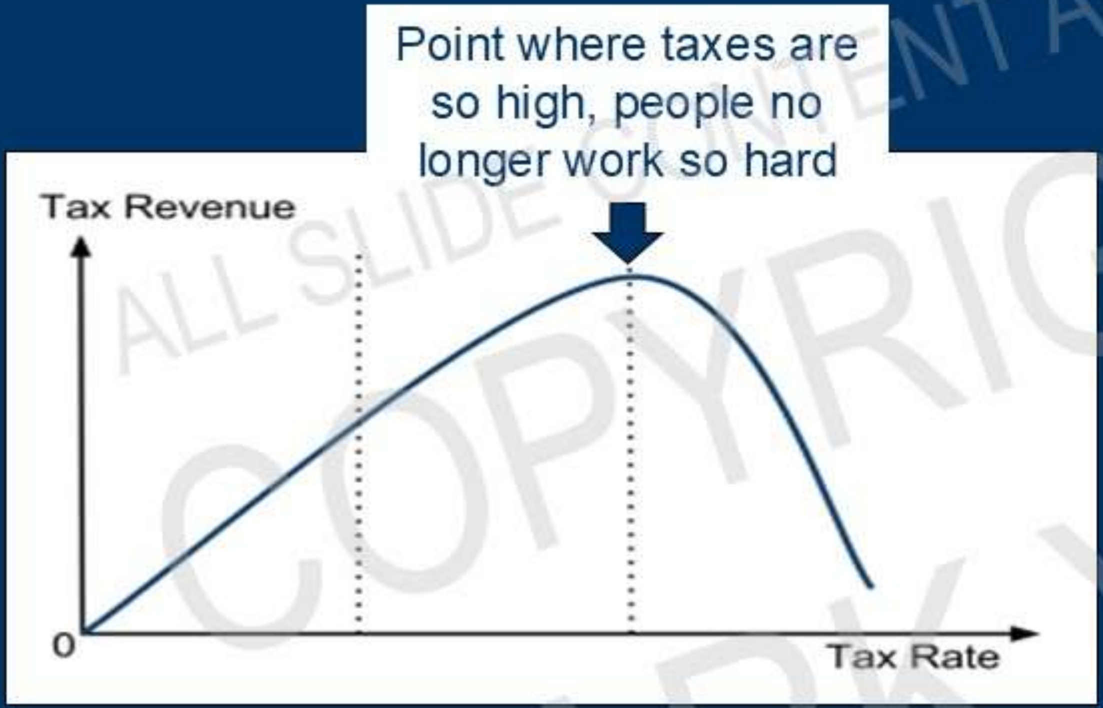
US Federal Revenue and Spending as a Share of GDP, 1970-2019
Given the size of government in the United States, there is a specific level of taxation that will result in roughly balanced budgets, over time
Tax levels at about what they were set at in the 1990s, appear to be approximately right, to match the size of American government
Spending
Revenue
45%
40%
35%
30%
25%
20%
15%
10%
5%
0%
1970 1971 1972 1973 1974 1975 1976 1977 1978 1979 1980 1981 1982 1983 1984 1985 1986 1987 1988 1989 1990 1991 1992 1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019


US Federal Revenue and Spending as a Share of GDP, 1970-2019
If we simply set taxes at the rate that matched the size of government, only adjusting tax rates if government changes size, we could achieve budgets that were consistently balanced over time
Spending
Revenue
45%
40%
35%
30%
25%
20%
15%
10%
5%
0%
1970 1971 1972 1973 1974 1975 1976 1977 1978 1979 1980 1981 1982 1983 1984 1985 1986 1987 1988 1989 1990 1991 1992 1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019

Two arguments that are used to justify tax cuts, even if you're already running deficits

The 'Laffer Curve'

If you raise taxes too high, you will demotivate people from being as productive as possible, and you will actually <u>reduce</u> total tax revenues collected



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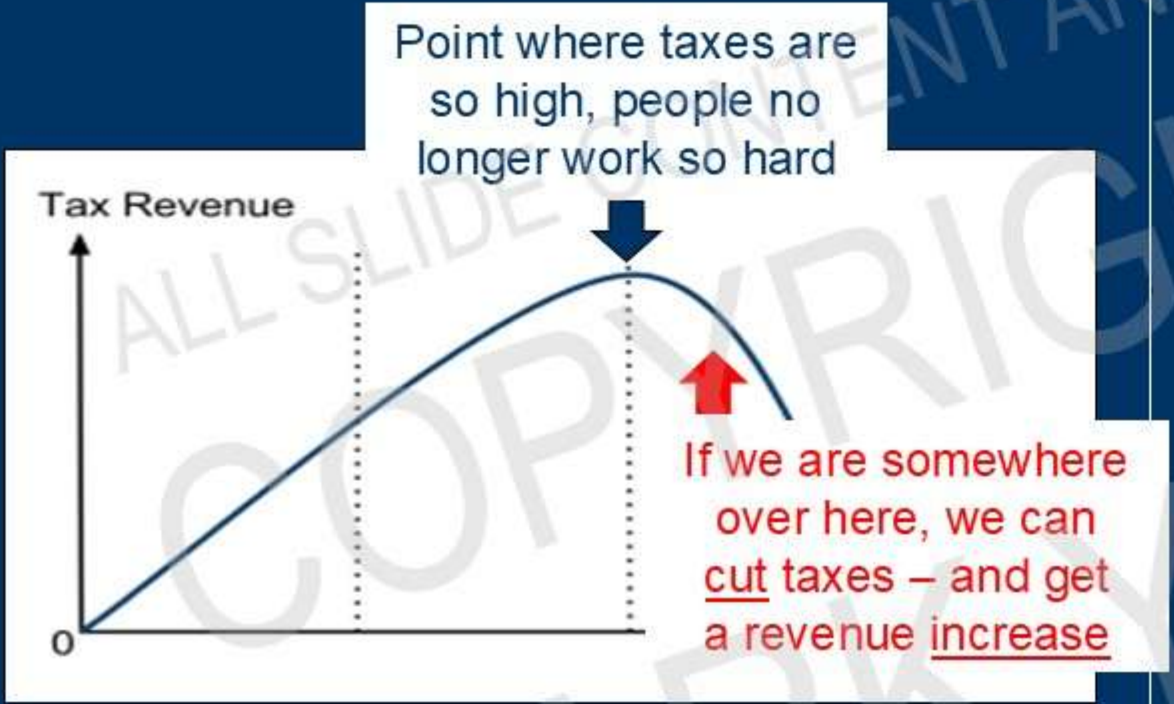
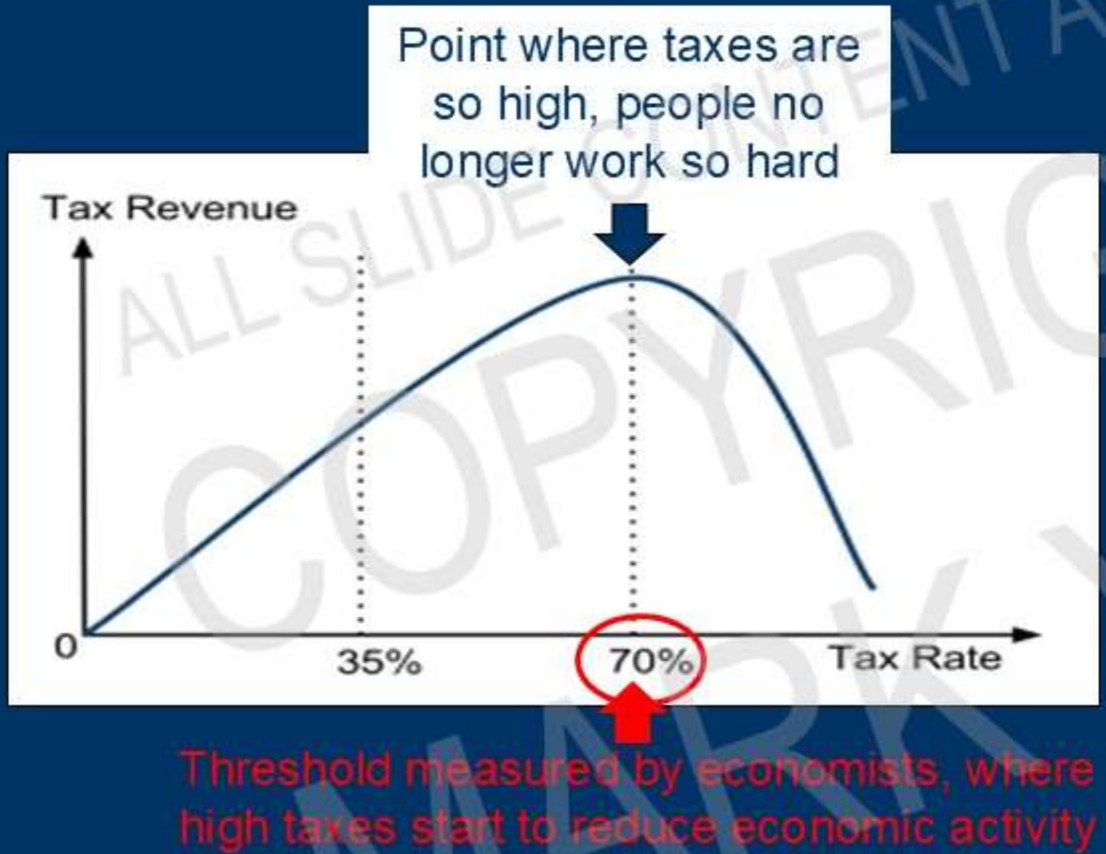


Let's cut taxes, because then tax revenues will be *higher*

The 'Laffer Curve'

If you raise taxes too high, you will demotivate people from being as productive as possible, and you will actually <u>reduce</u> total tax revenues collected



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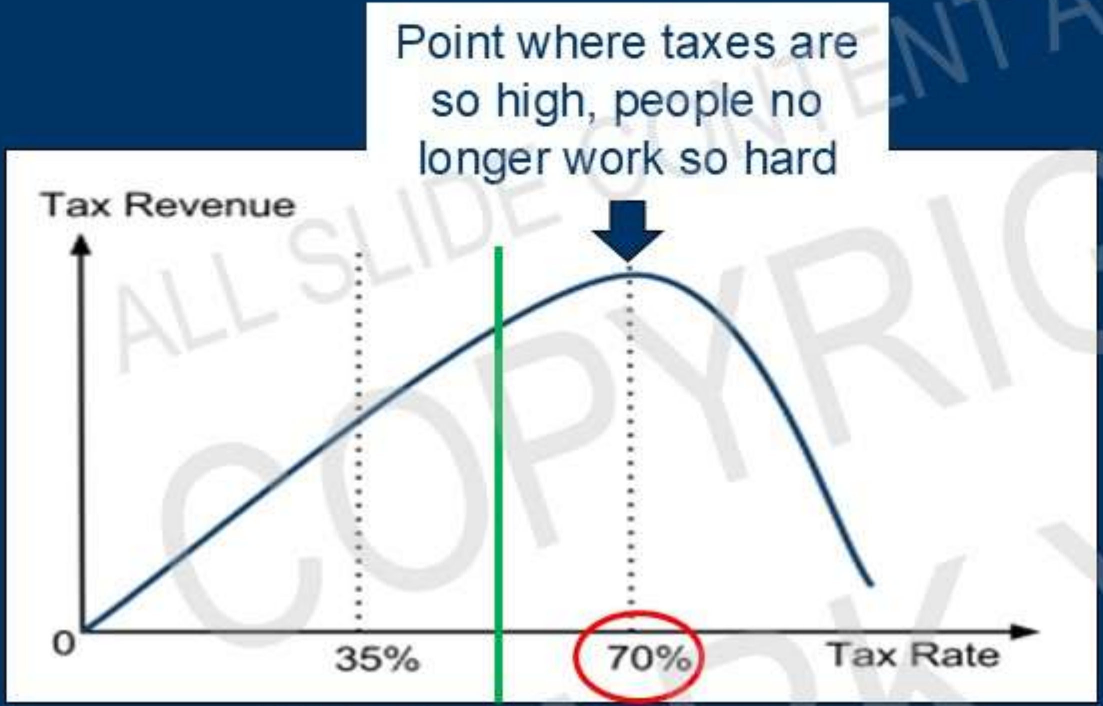

Highest-ever effective marginal tax rate in US

Let's cut taxes, because then tax revenues will be *higher*

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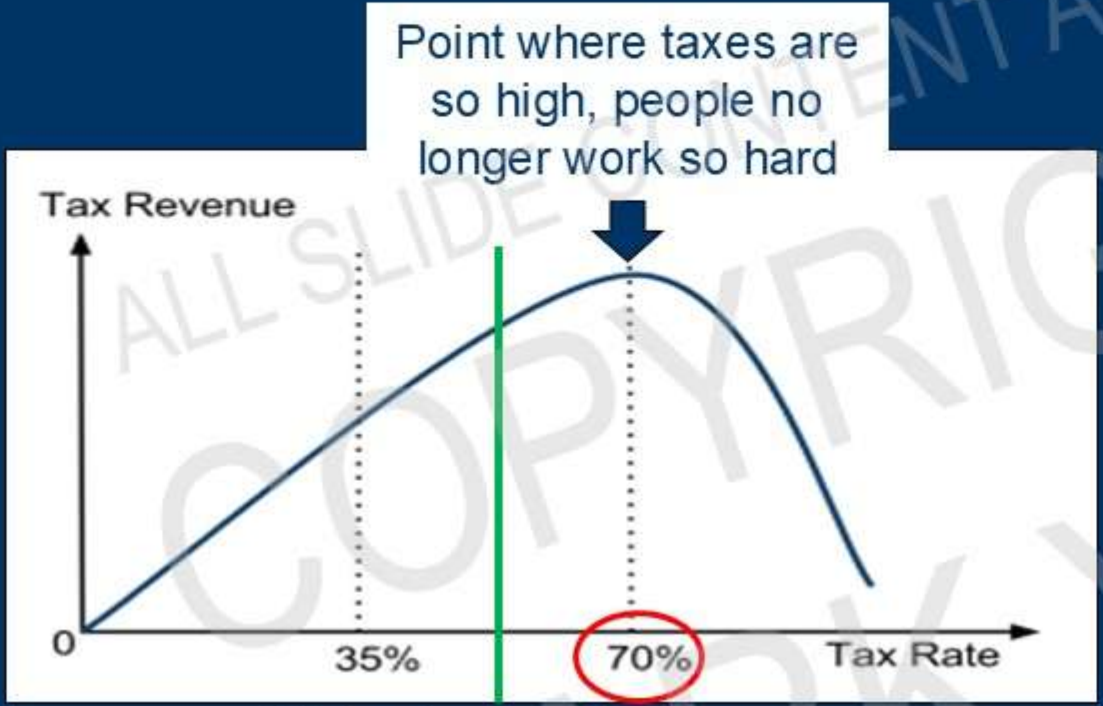


Highest-ever effective marginal tax rate in US

Let's cut taxes, because then tax revenues will be *higher*

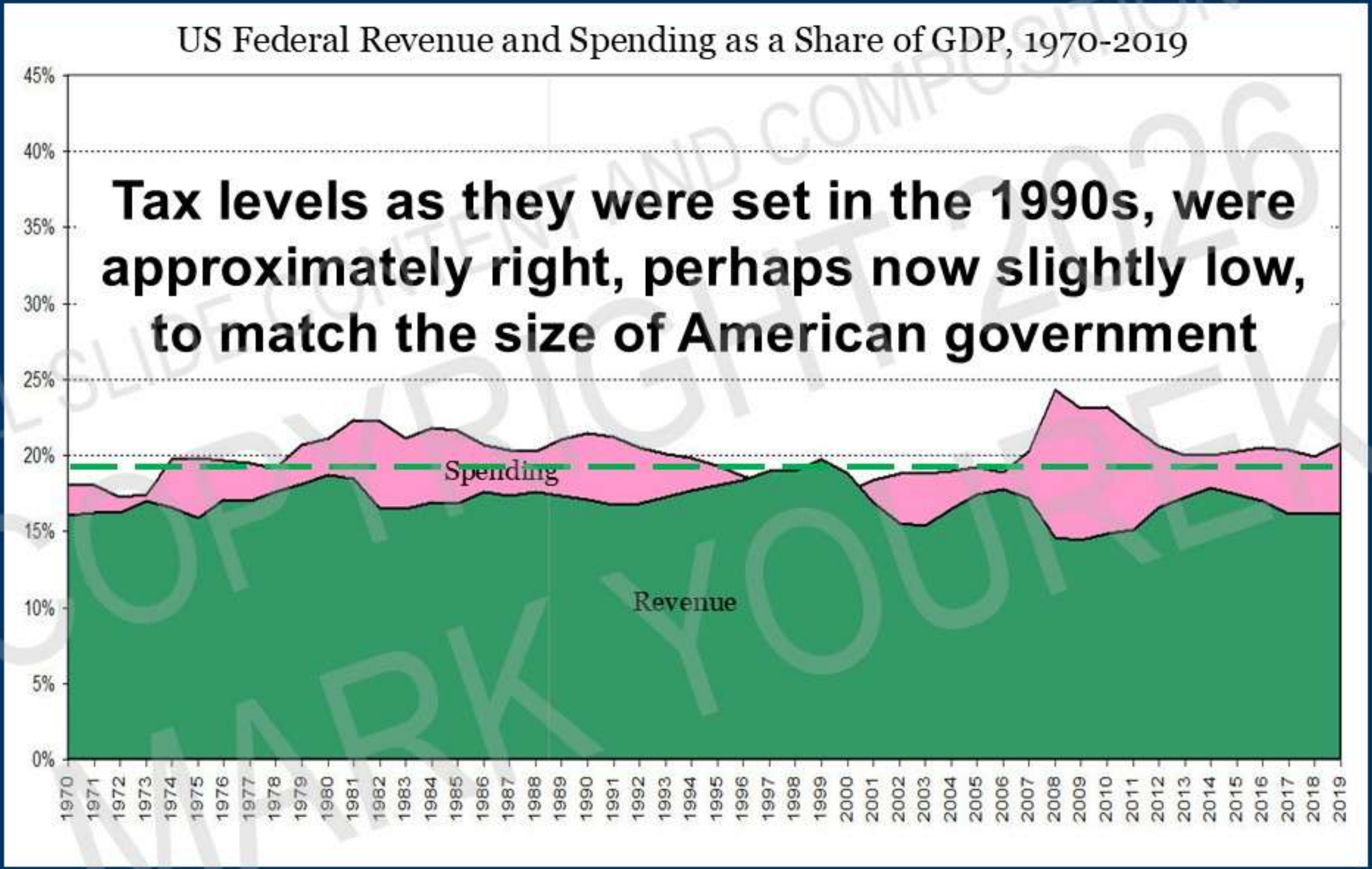
'Starve the Beast'

If you cut taxes and therefore deliberately cause deficits, you will force an eventual reduction in the size of government –

The public (and the financial markets) won't stand for too much deficit spending, for too long –

there is some point at which spending cuts will be forced

Let's cut taxes, because then tax revenues will be *lower*



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0%
Tax levels as they were set in the 1990s, were approximately right, perhaps now slightly low, to match the size of American government
Spending
Revenue
1970
1971
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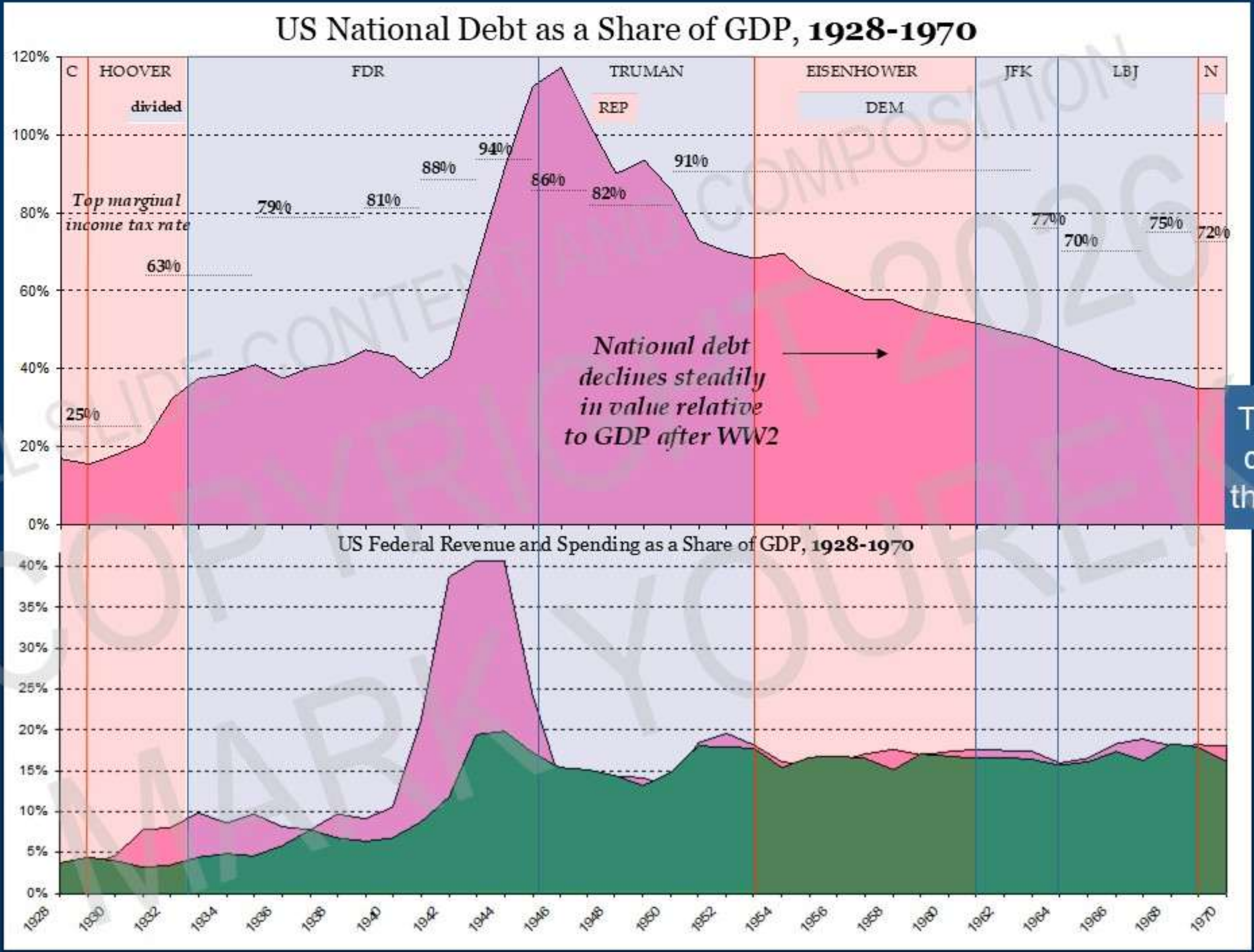
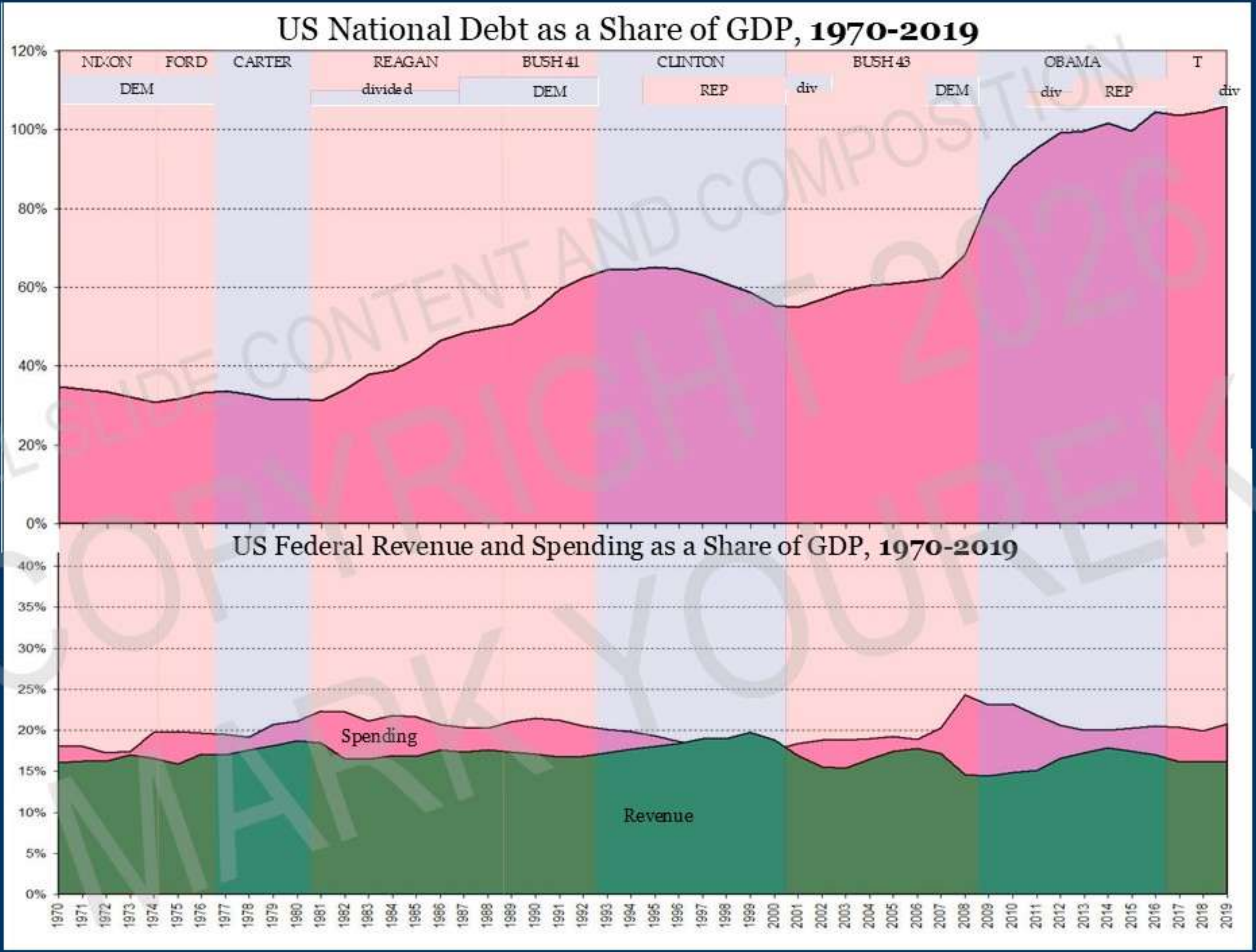


Time to shift this chart, to look at the next 50 years



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T
DEM
divided
DEM
REP
div
DEM
div
REP
div
120%
100%
80%
60%
40%
20%
0%
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Spending
Revenue
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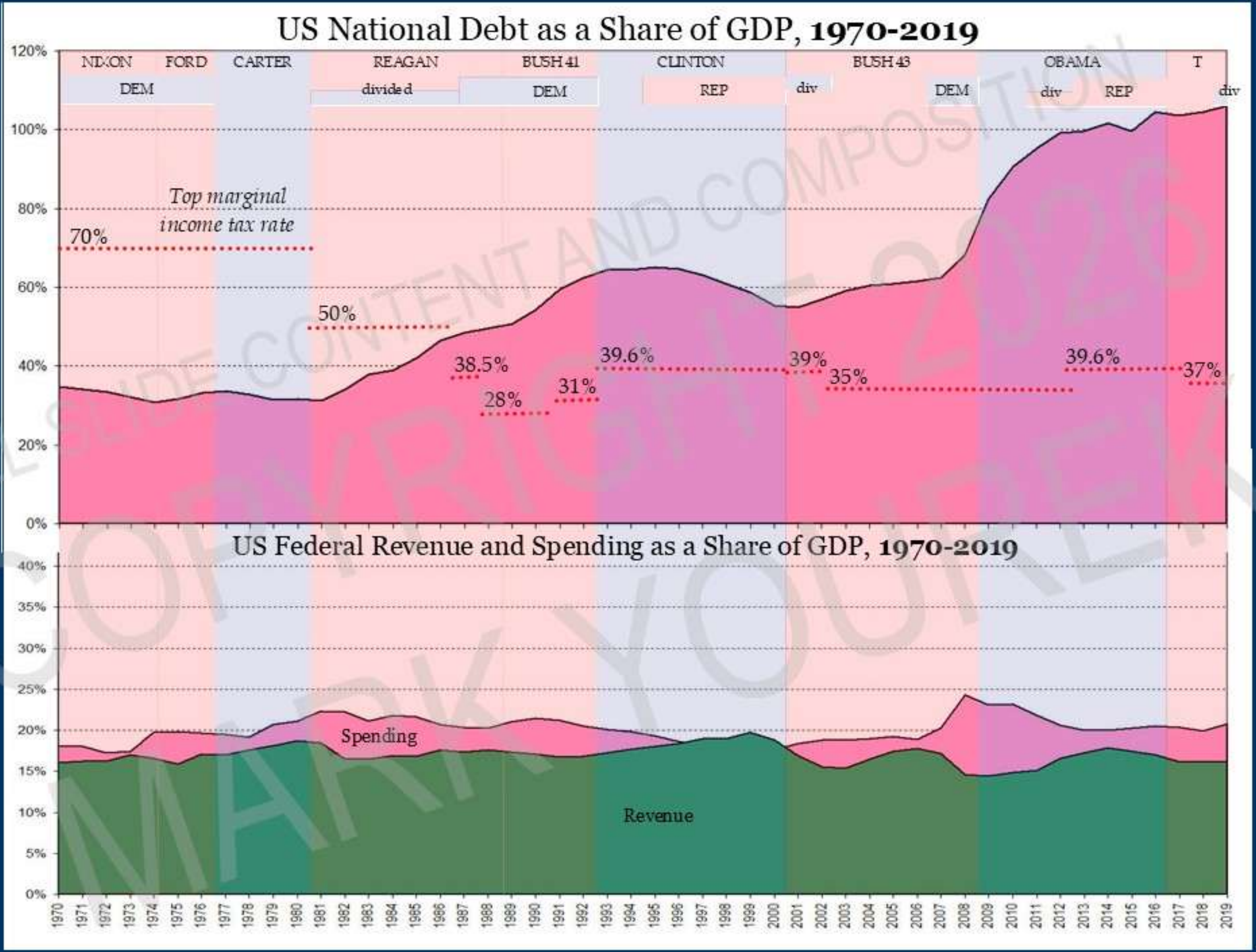
US National Debt as a Share of GDP, 1970-2019
NIXON
FORD
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REAGAN
BUSH 41
CLINTON
BUSH 43
OBAMA
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DEM
REP
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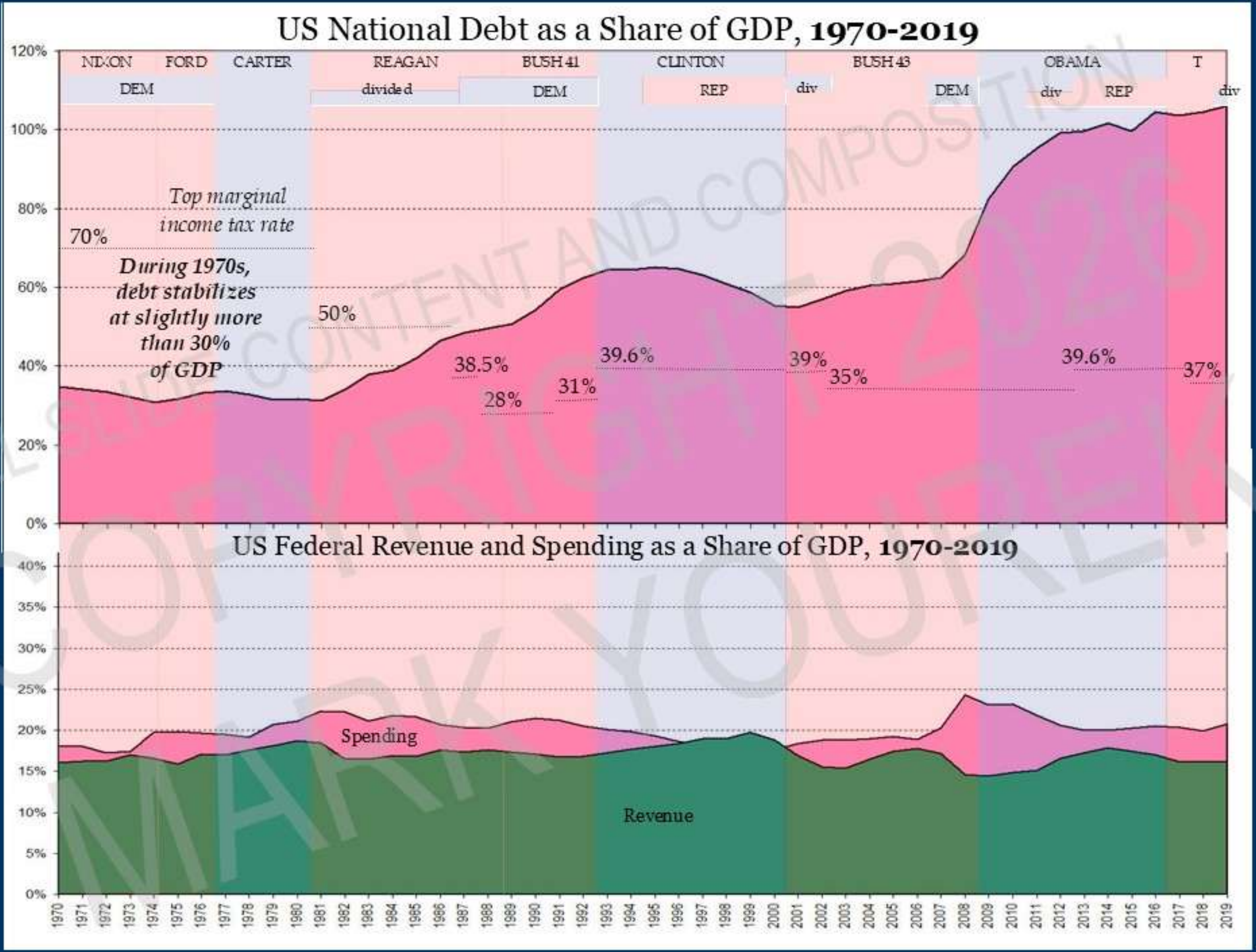
DEM
div
REP
div
Top marginal income tax rate
70%
50%
38.5%
28%
31%
39.6%
39%
35%
39.6%
37%
120%
100%
80%
60%
40%
20%
0%
US Federal Revenue and Spending as a Share of GDP, 1970-2019
Spending
Revenue
40%
35%
30%
25%
20%
15%
10%
5%
0%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28%
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39.6%
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35%
39.6%
37%
US Federal Revenue and Spending as a Share of GDP, 1970-2019
Spending
Revenue
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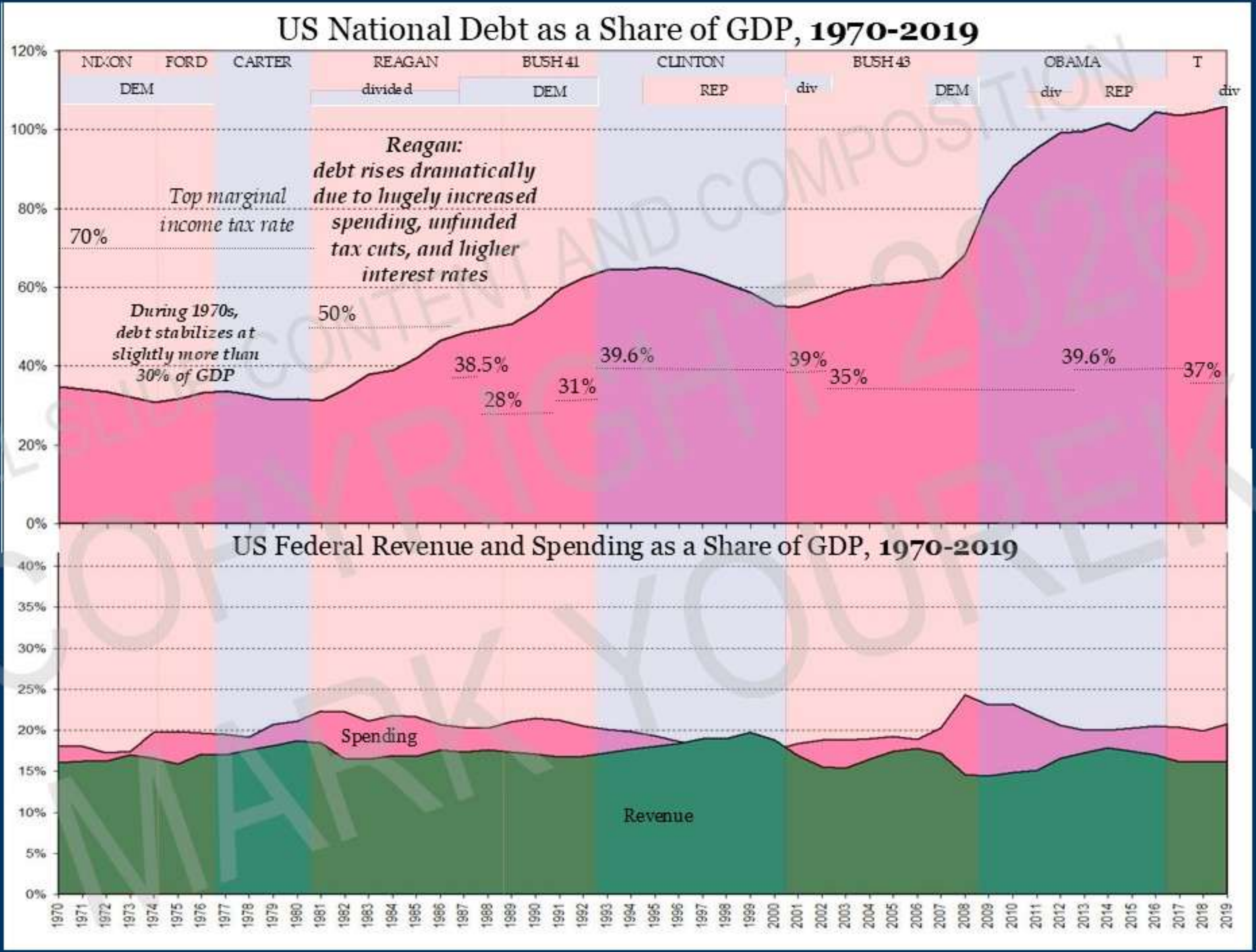
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div
120%
100%
80%
60%
40%
20%
0%
Reagan:
debt rises dramatically due to hugely increased spending, unfunded tax cuts, and higher interest rates
Top marginal income tax rate
70%
50%
During 1970s, debt stabilizes at slightly more than 30% of GDP
38.5%
28%
31%
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35%
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Spending
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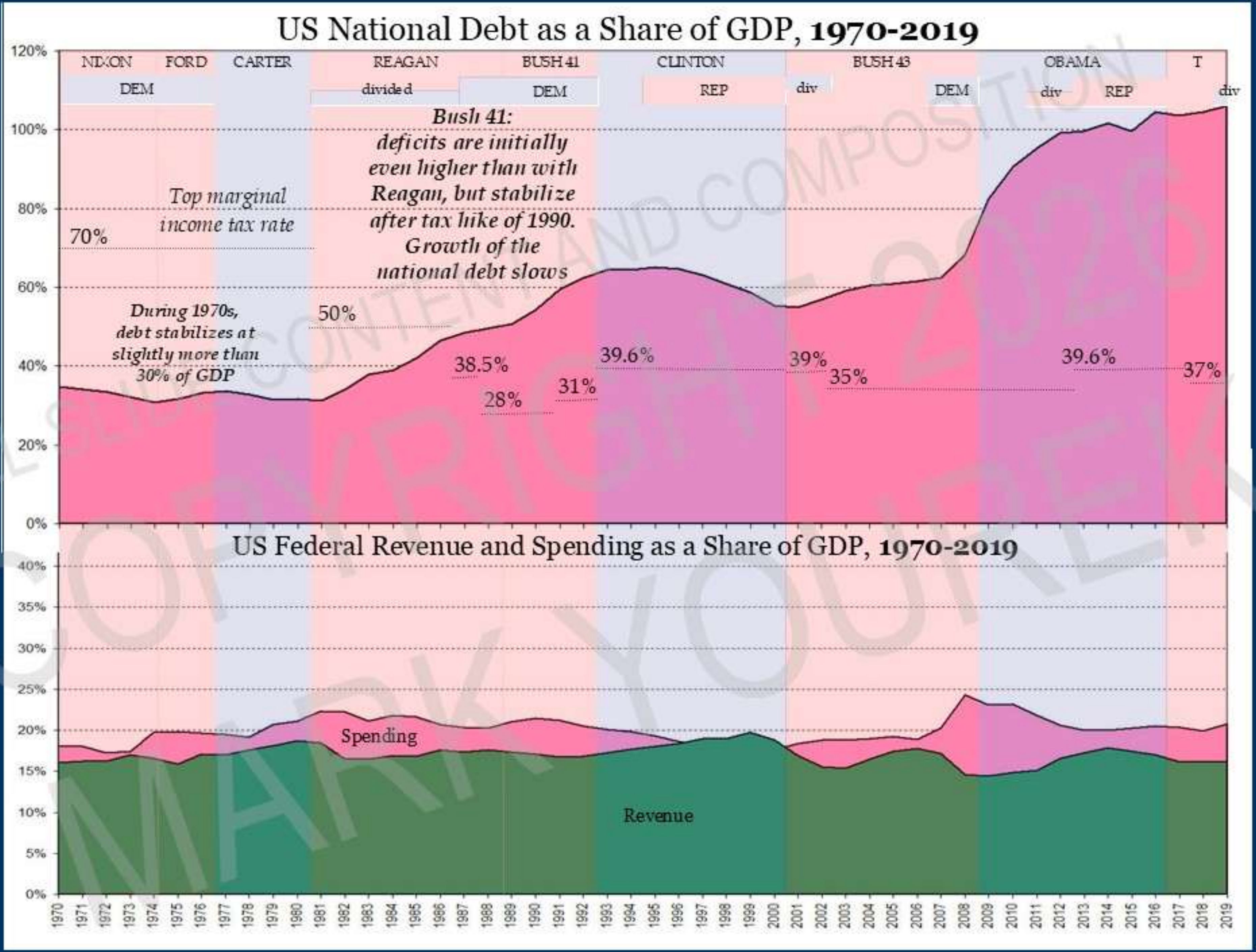

US National Debt as a Share of GDP, 1970-2019
NIXON
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BUSH 41
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divided
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Bush 41:
deficits are initially even higher than with Reagan, but stabilize after tax hike of 1990. Growth of the national debt slows
Top marginal income tax rate
70%
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38.5%
28%
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120%
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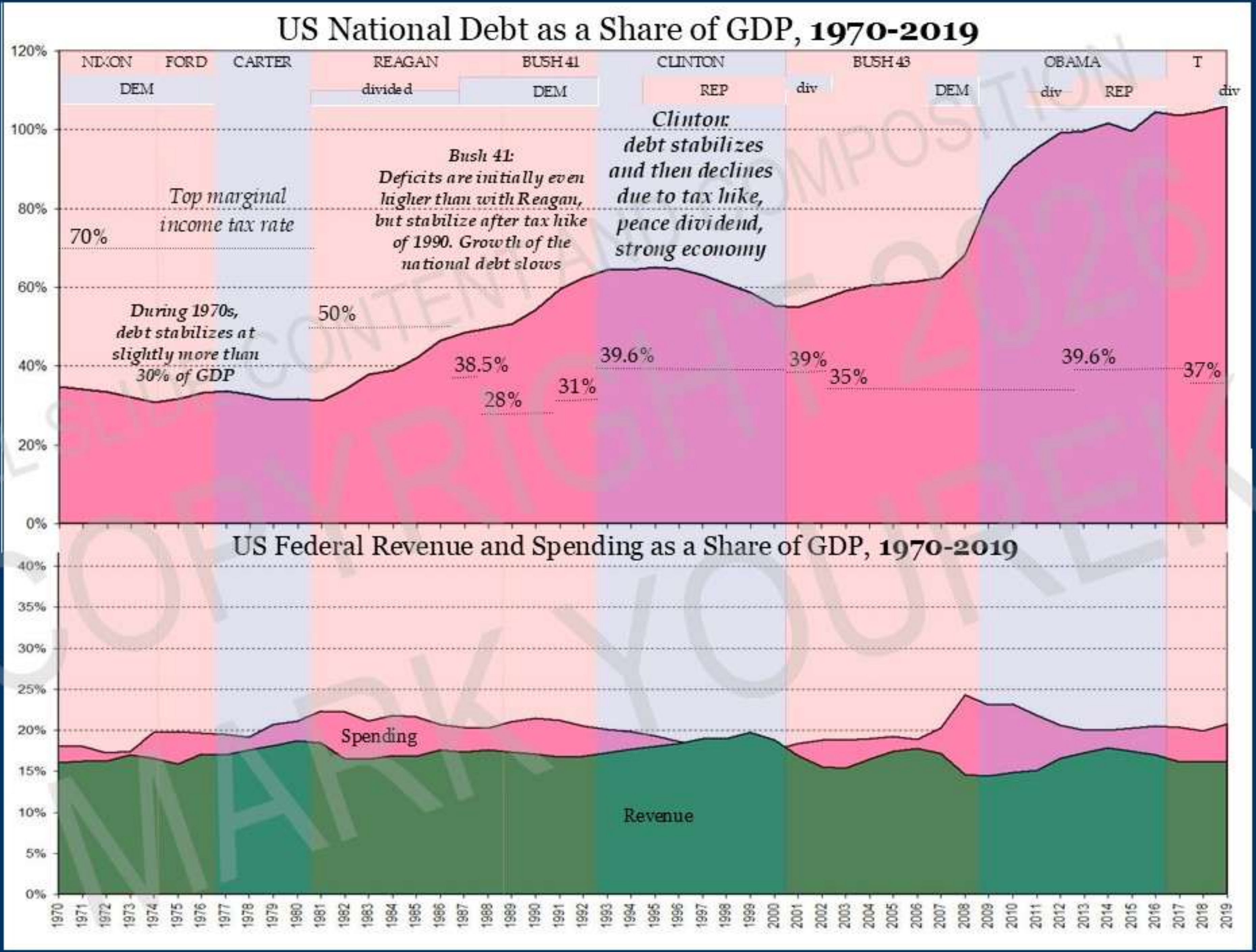

US National Debt as a Share of GDP, 1970-2019
NIXON
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US Federal Revenue and Spending as a Share of GDP, 1970-2019
Spending
Revenue
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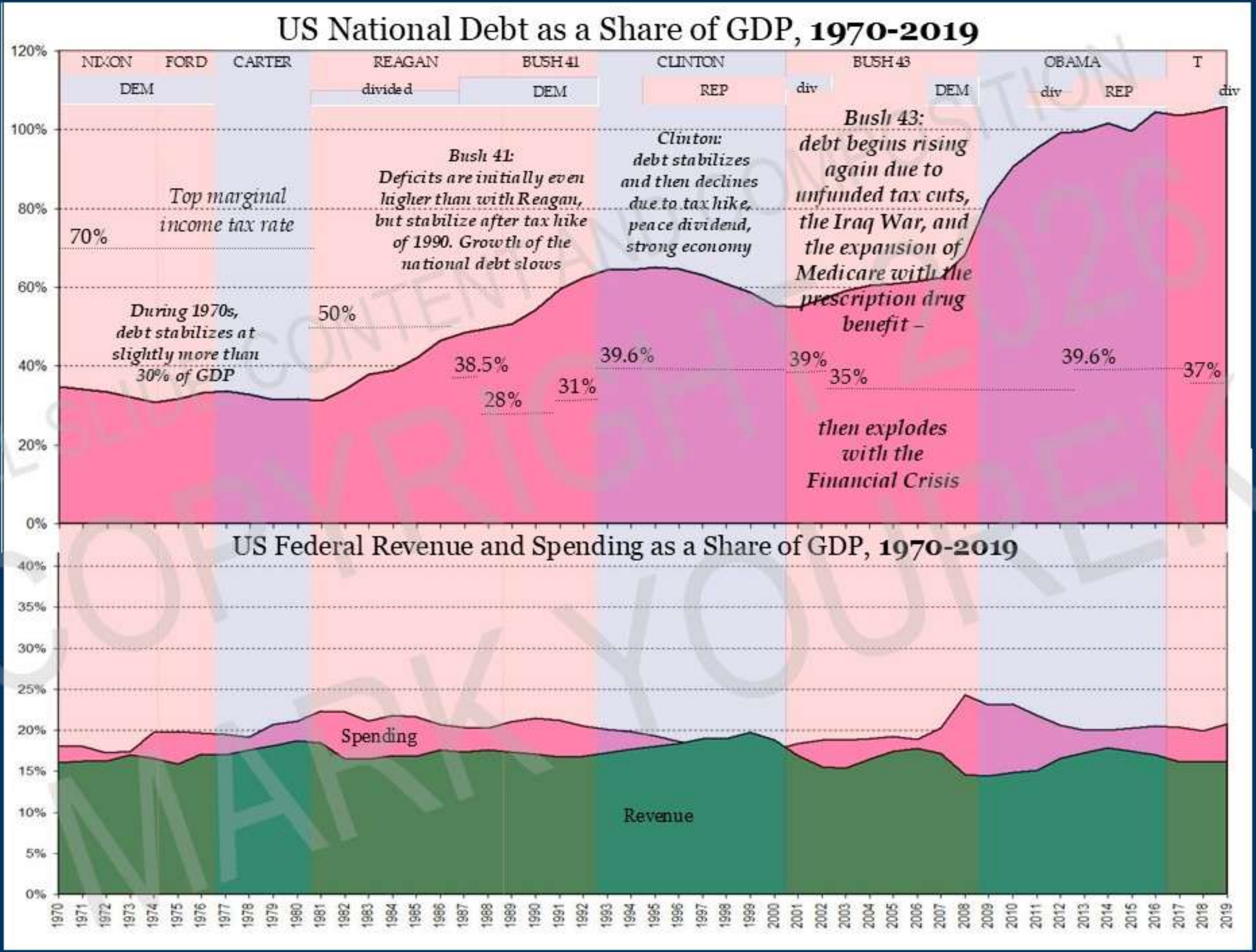

US National Debt as a Share of GDP, 1970-2019
NIXON FORD CARTER REAGAN BUSH 41 CLINTON BUSH 43 OBAMA T
DEM divided DEM REP div DEM div REP div
Top marginal income tax rate
70% 50% 38.5% 28% 31% 39.6% 39% 35% 39.6% 37%
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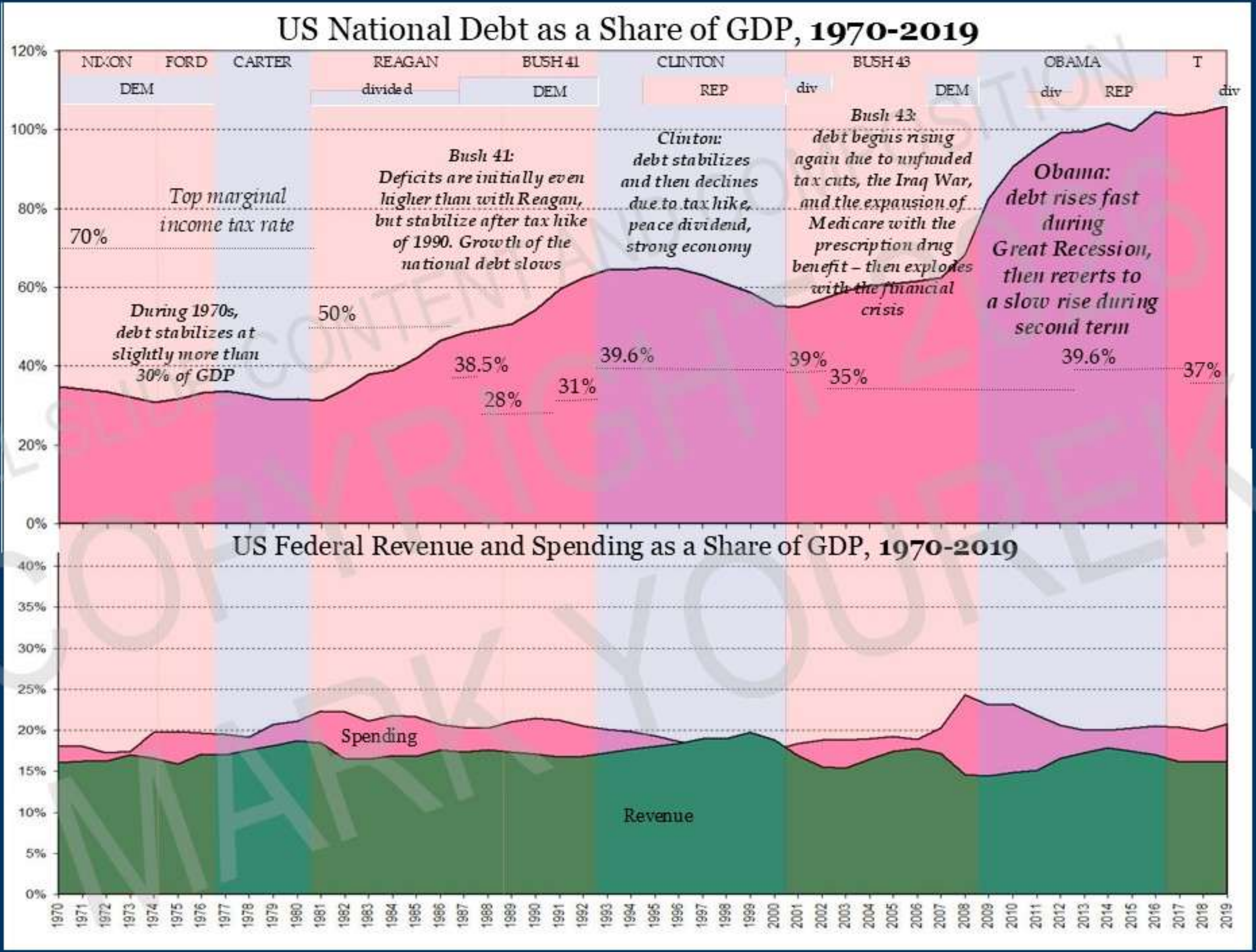
Bush 43: debt begins rising again due to unfunded tax cuts, the Iraq War, and the expansion of Medicare with the prescription drug benefit –
then explodes with the Financial Crisis
US Federal Revenue and Spending as a Share of GDP, 1970-2019
Spending
Revenue



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FORD
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Obama: debt rises fast during Great Recession, then reverts to a slow rise during second term
120%
100%
80%
60%
40%
20%
0%
US Federal Revenue and Spending as a Share of GDP, 1970-2019
Spending
Revenue
40%
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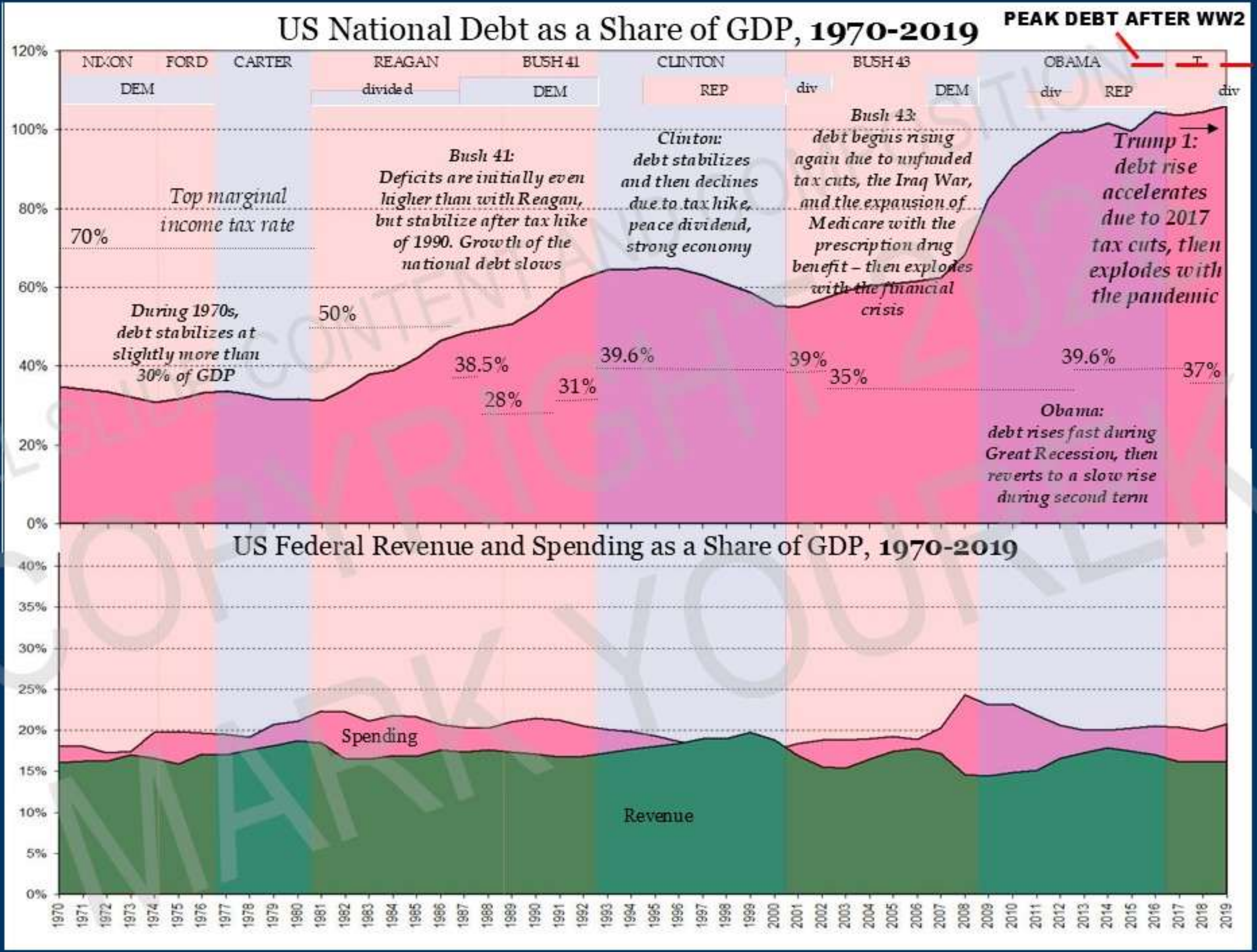
15%
10%
5%
0%
1970 1971 1972 1973 1974 1975 1976 1977 1978 1979 1980 1981 1982 1983 1984 1985 1986 1987 1988 1989 1990 1991 1992 1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019



US National Debt as a Share of GDP, 1970-2019
PEAK DEBT AFTER WW2
NIXON
FORD
CARTER
REAGAN
BUSH 41
CLINTON
BUSH 43
OBAMA
T
DEM
divided
DEM
REP
div
DEM
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REP
div
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Bush 43: debt begins rising again due to unfunded tax cuts, the Iraq War, and the expansion of Medicare with the prescription drug benefit – then explodes with the financial crisis
Trump 1: debt rise accelerates due to 2017 tax cuts, then explodes with the pandemic
Obama: debt rises fast during Great Recession, then reverts to a slow rise during second term
US Federal Revenue and Spending as a Share of GDP, 1970-2019
Spending
Revenue
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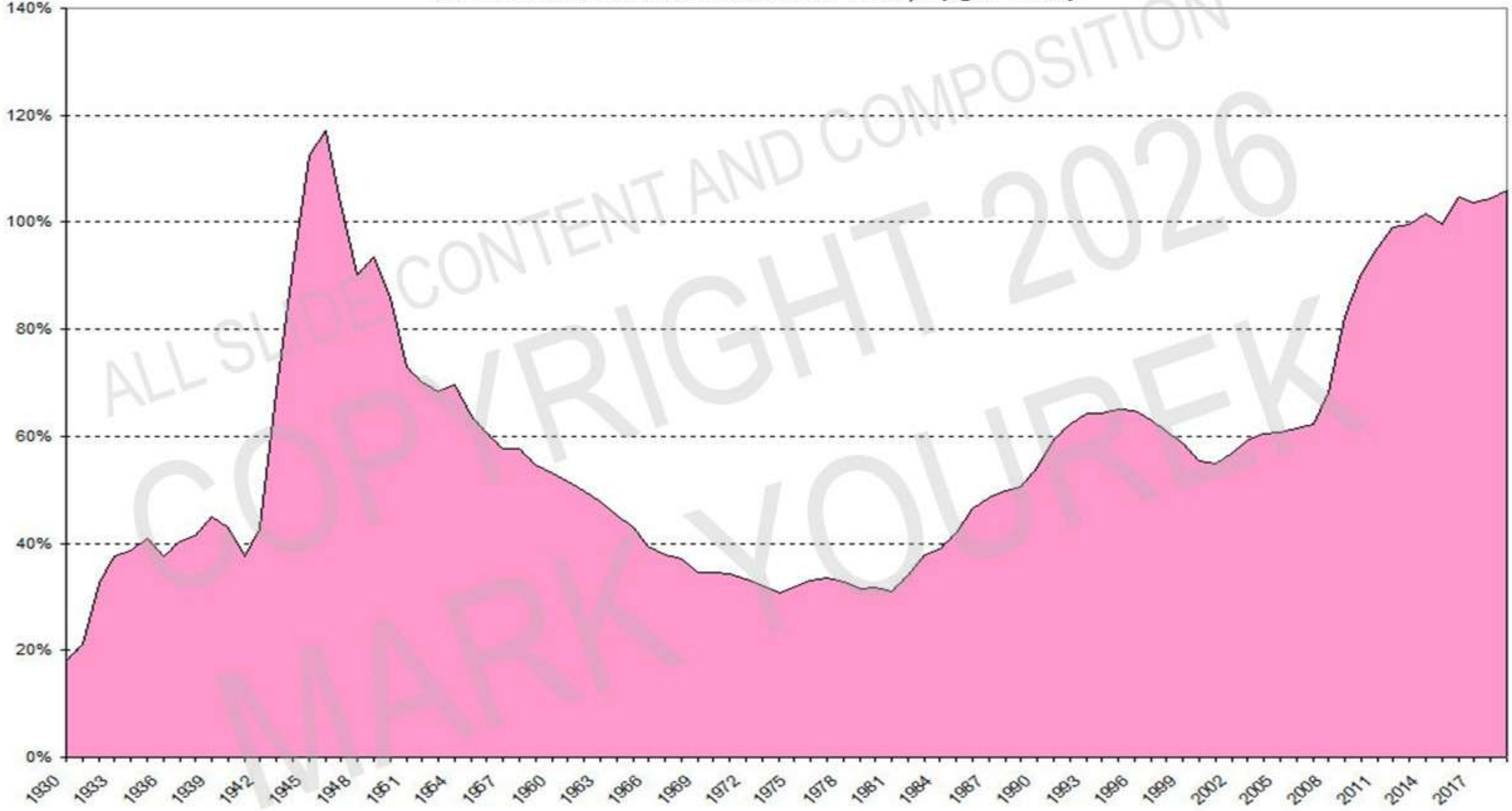
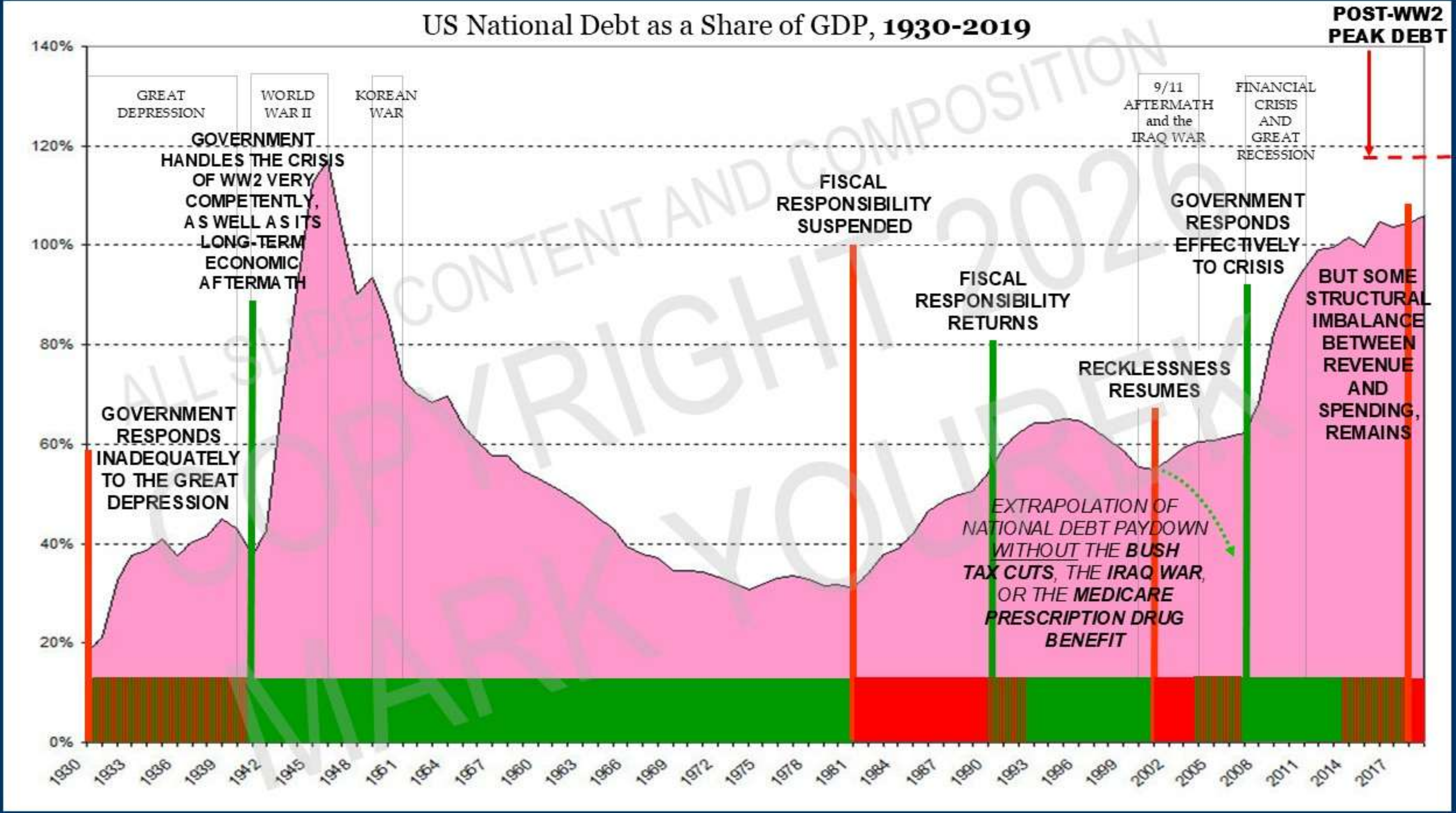
US National Debt as a Share of GDP, **1930-2019**





US National Debt as a Share of GDP, **1930-2019**
POST-WW2 PEAK DEBT
140%
120%
100%
80%
60%
40%
20%
0%
GREAT DEPRESSION
WORLD WAR II
KOREAN WAR
9/11 AFTERMATH and the IRAQ WAR
FINANCIAL CRISIS AND GREAT RECESSION
GOVERNMENT HANDLES THE CRISIS OF WW2 VERY COMPETENTLY, AS WELL AS ITS LONG-TERM ECONOMIC AFTERMATH
GOVERNMENT RESPONDS INADEQUATELY TO THE GREAT DEPRESSION
FISCAL RESPONSIBILITY SUSPENDED
FISCAL RESPONSIBILITY RETURNS
RECKLESSNESS RESUMES
GOVERNMENT RESPONDS EFFECTIVELY TO CRISIS
BUT SOME STRUCTURAL IMBALANCE BETWEEN REVENUE AND SPENDING, REMAINS
EXTRAPOLATION OF NATIONAL DEBT PAYDOWN WITHOUT THE BUSH TAX CUTS, THE IRAQ WAR, OR THE MEDICARE PRESCRIPTION DRUG BENEFIT
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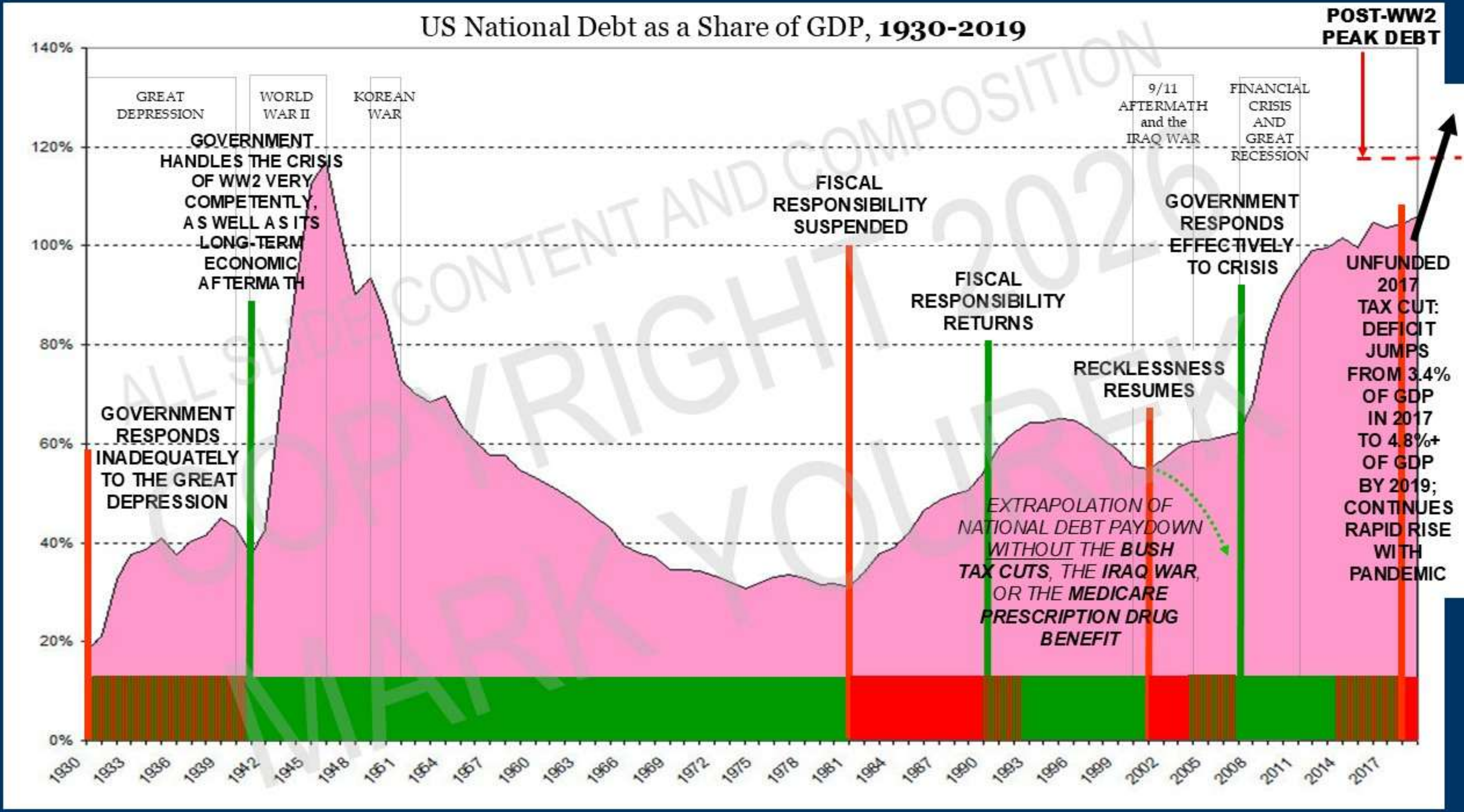

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RECKLESSNESS RESUMES
UNFUNDED 2017 TAX CUT: DEFICIT JUMPS FROM 3.4% OF GDP IN 2017 TO 4.8%+ OF GDP BY 2019; CONTINUES RAPID RISE WITH PANDEMIC
GOVERNMENT RESPONDS INADEQUATELY TO THE GREAT DEPRESSION
*EXTRAPOLATION OF NATIONAL DEBT PAYDOWN WITHOUT THE **BUSH TAX CUTS**, THE **IRAQ WAR**, OR THE **MEDICARE PRESCRIPTION DRUG BENEFIT***
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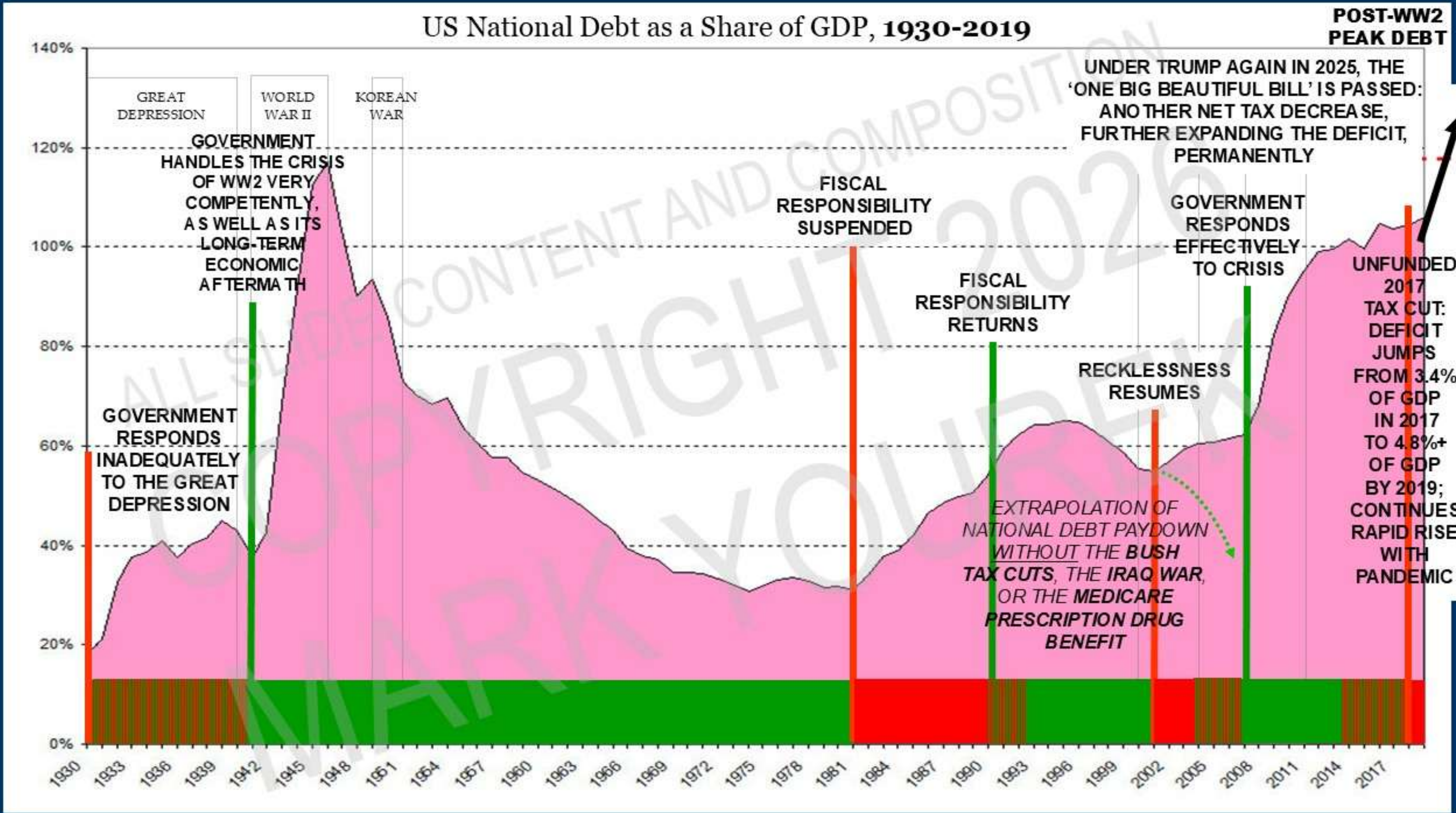
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FISCAL RESPONSIBILITY SUSPENDED
FISCAL RESPONSIBILITY RETURNS
RECKLESSNESS RESUMES
GOVERNMENT RESPONDS EFFECTIVELY TO CRISIS
UNDER TRUMP AGAIN IN 2025, THE 'ONE BIG BEAUTIFUL BILL' IS PASSED: ANOTHER NET TAX DECREASE, FURTHER EXPANDING THE DEFICIT, PERMANENTLY
UNFUNDED 2017 TAX CUT: DEFICIT JUMPS FROM 3.4% OF GDP IN 2017 TO 4.8%+ OF GDP BY 2019; CONTINUES RAPID RISE WITH PANDEMIC
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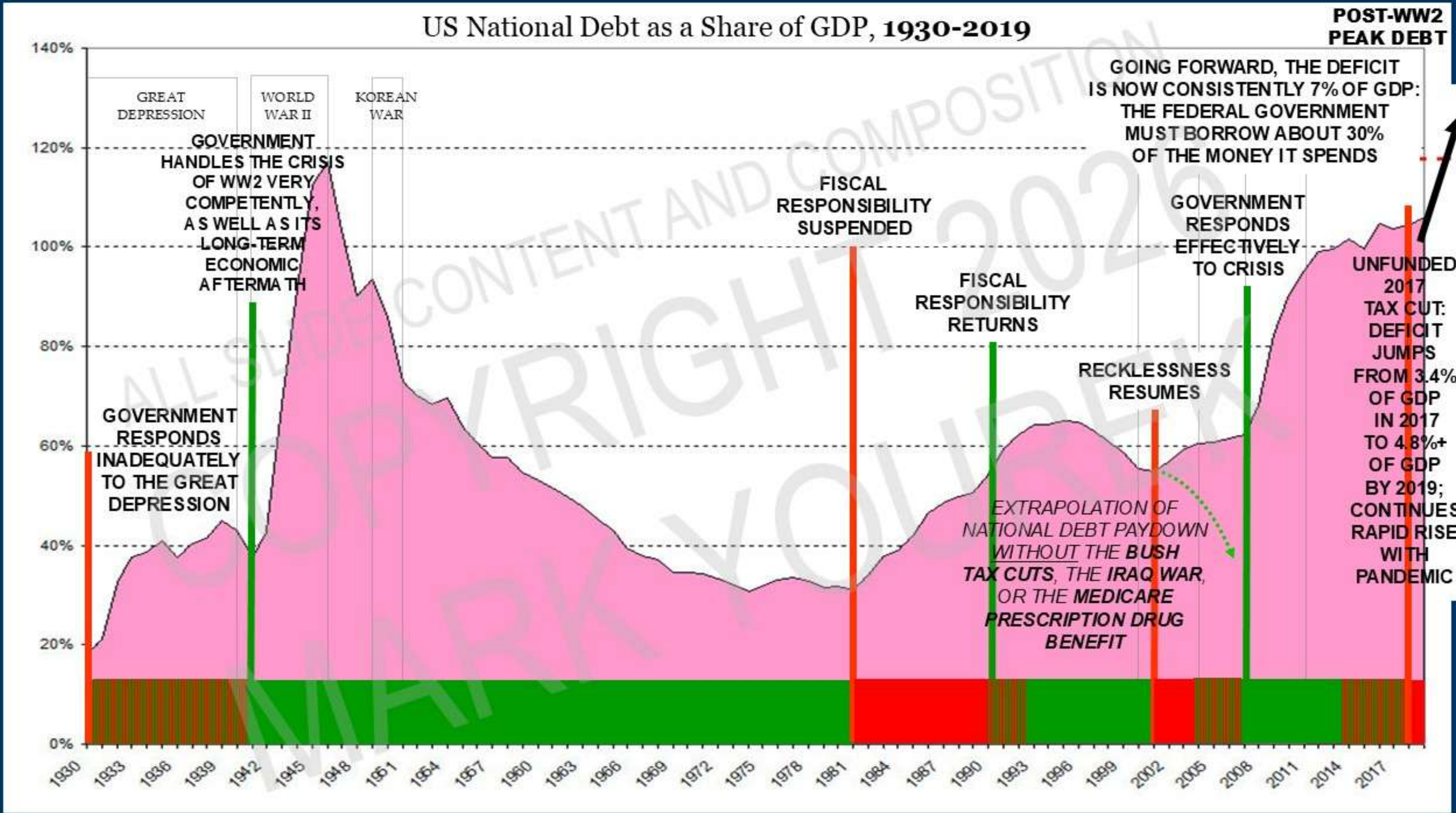
ALL SLIDE CONTENT AND COMPOSITION COPYRIGHT 2026 MARK YOUREK



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FISCAL RESPONSIBILITY SUSPENDED
FISCAL RESPONSIBILITY RETURNS
RECKLESSNESS RESUMES
GOVERNMENT RESPONDS EFFECTIVELY TO CRISIS
GOING FORWARD, THE DEFICIT IS NOW CONSISTENTLY 7% OF GDP: THE FEDERAL GOVERNMENT MUST BORROW ABOUT 30% OF THE MONEY IT SPENDS
EXTRAPOLATION OF NATIONAL DEBT PAYDOWN WITHOUT THE BUSH TAX CUTS, THE IRAQ WAR, OR THE MEDICARE PRESCRIPTION DRUG BENEFIT
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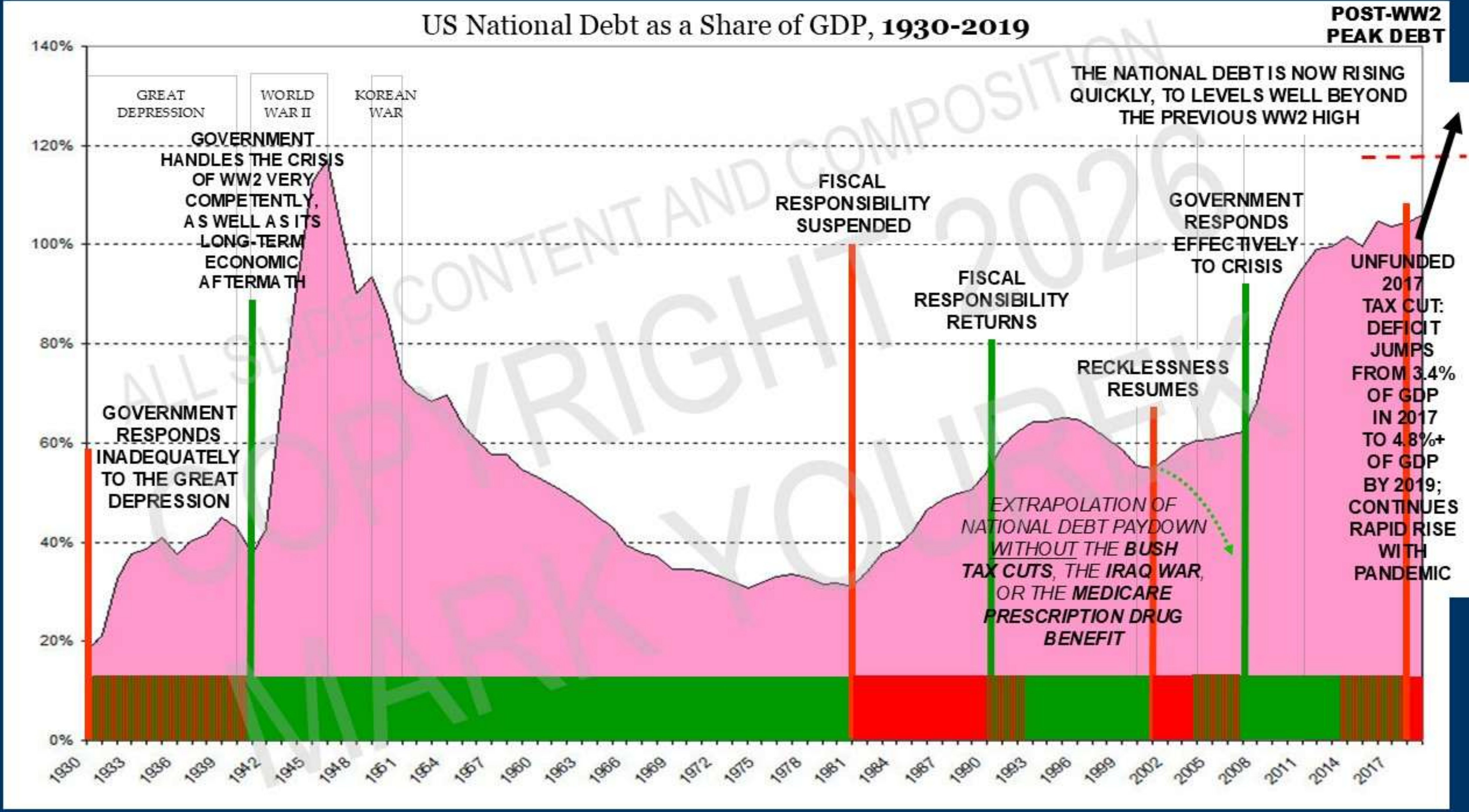
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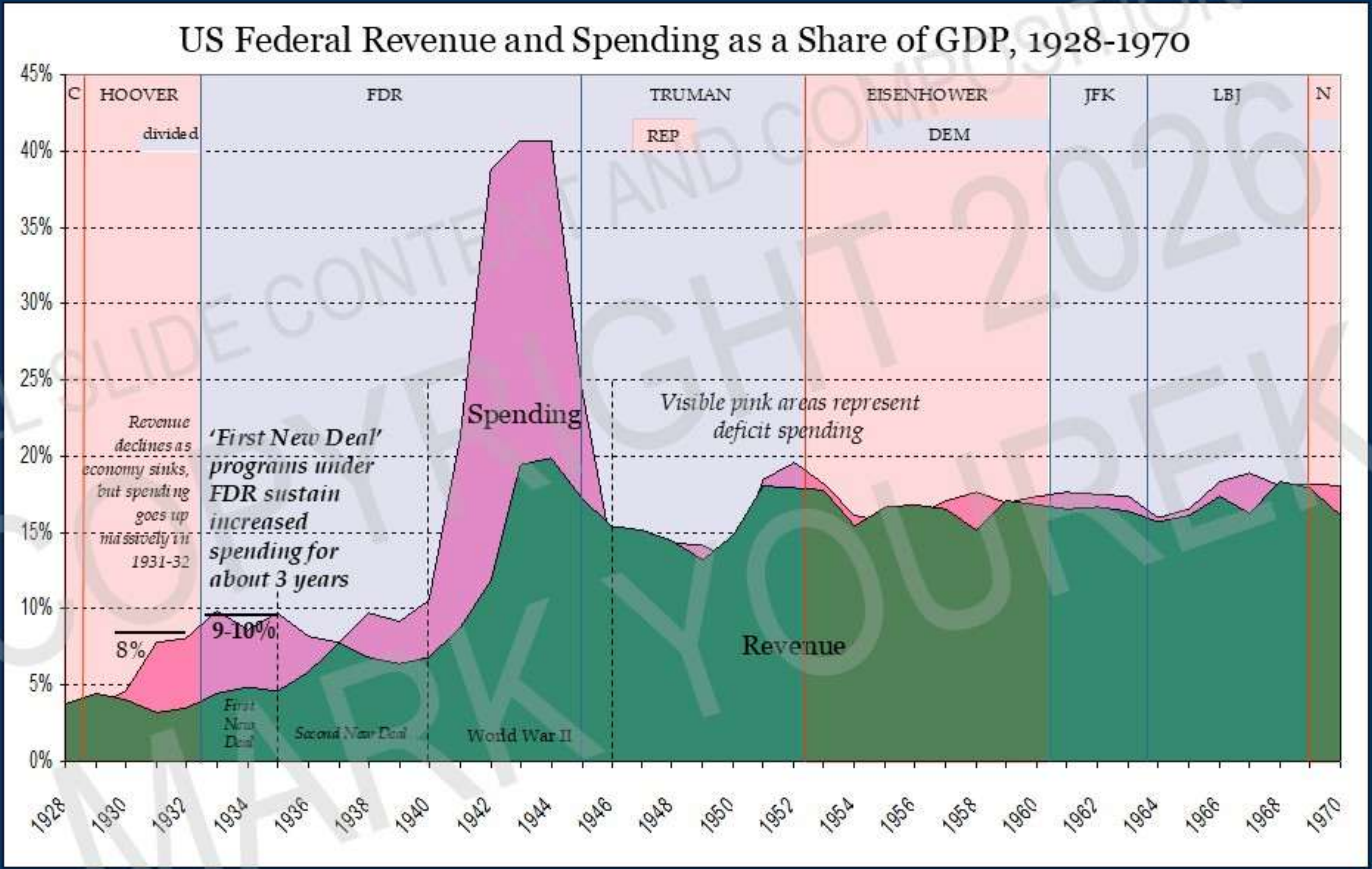
The long-term evolution of American **attitudes** towards **deficit spending**

Until the 1930s

Government must tax commensurate with what it spends; deficit spending (particularly ***deliberate*** deficit spending) is unthinkable

- As the Depression begins to bite severely in 1930-31, Congress decides that 'we must ***do something***':
  - They ramp up spending dramatically, while ***simultaneously raising taxes to a stunning, shocking degree:*** moving directly from a top rate of 25%, to ***a top rate of 63%***
  - These actions reflect the unquestioned assumption of the time: ***there is no choice but to pay for the government spending that you do, in real time, through taxation***
- The deficits incurred during the Depression years embarrass and distress both Hoover and FDR; as the First New Deal ends, spending tapers down, and Roosevelt actually achieves a ***balanced budget*** for one year, in 1937

The long-term evolution of American **attitudes** towards **deficit spending**



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The long-term evolution of American **attitudes** towards **deficit spending**

Until the 1930s

1936

John Maynard Keynes:

'The General Theory of Employment, Interest and Money'

- **In normal times, government should operate with a tax-as-you-go philosophy – i.e., roughly balanced budgets**

  (this point was seen as a no-brainer; obvious truth, at the time)
- **When an economic downturn hits, the Federal government should quickly move to a strategy of aggressive on-purpose deficit spending, to make the recession as short and shallow as possible**

  (this point was taken as a bizarre and radical idea, at the time)
- **After the recession, return to roughly balanced budgets, possibly running small surpluses for a time, to pay down the debt you incurred during the downturn – and to be ready for the next recession or national emergency**

—FDR is given a copy of the book, reads the pages where Keynes explains this idea, and doesn't believe it: *'too good to be true'*

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The long-term evolution of American **attitudes** towards **deficit spending**

1930s – 1970s

Keynes' idea on deficit spending becomes accepted
as a tenet of economic theory, but its acceptance
in the context of political debate is much slower

- The US government engages in significant deficit spending during most of the Depression, and then overwhelming deficit spending during WW2. But all during the 1930s and 40s, deficits are viewed as a dangerous and unavoidable necessity, not as a deliberate / purposeful policy – and certainly not as an on-purpose stimulus to the economy. Taxes are raised further, and sustained at very high levels during the war and for decades afterwards
- During the 1950s and 1960s, although economists now largely accept Keynes' ideas, they are viewed with extreme suspicion by political conservatives: an invitation to profligacy and to the wanton expansion of government
- In the early 1970s, Richard Nixon is quoted as saying 'We are all Keynesians now'. But deficits in the 1970s are (mistakenly) blamed as a primary cause of inflation, and are never employed as a deliberate economic stimulus

The long-term evolution of American **attitudes** towards **deficit spending**

Until the 1930s

Government must tax commensurate with what it spends; deficit spending (particularly *deliberate* deficit spending) is unthinkable

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The long-term evolution of American **attitudes** towards **deficit spending**

1980s

Cavernous divergence between *rhetoric* and *action*

- Ronald Reagan, having held fiercely anti-deficit views for decades, condemns deficit spending as a fundamental government sin – but as soon as he is in office, Reagan chooses a set of policies that generate **<u>towering, endless deficits</u>**: **major expansions of government** and **of spending**, accompanied by **deep tax cuts**
  - This amounts to an unacknowledged deficit-fueled stimulus program, which continues open-endedly, far beyond the 1981-83 recession
- During this same period, even as he is responsible for the most rampant and deliberate deficit spending since WW2, Reagan and others on the right adopt an attitude that ***tax cuts are nonetheless justifiable,*** on the principle that ***'the beast must be starved'***: their assumption is that there will be a limit to the electorate's tolerance for deficits, that will ultimately force spending cuts, in due course

The long-term evolution of American **attitudes** towards **deficit spending**

Until the 1930s

Government must tax commensurate with what it spends; deficit spending (particularly *deliberate* deficit spending) is unthinkable

- As the Depression begins to bite severely in 1930-31, Congress decides that 'we must *do something*':
  - They ramp up spending dramatically, while ***simultaneously raising taxes to a stunning, shocking degree:*** moving directly from a top rate of 25%, to *a top rate of 63%*
  - These actions reflect the unquestioned assumption of the time: *there is no choice but to pay for the government spending that you do, in real time, through taxation*
- The deficits incurred during the Depression years embarrass and distress both Hoover and FDR; as the First New Deal ends, spending tapers down, and Roosevelt actually achieves a *balanced budget* for one year, in 1937

1936

John Maynard Keynes:

'The General Theory of Employment, Interest and Money'

- **In normal times, government should operate with a tax-as-you-go philosophy – i.e., roughly balanced budgets**

  (this point was seen as a no-brainer, obvious truth, at the time)
- **When an economic downturn hits, the Federal government should quickly move to a strategy of aggressive on-purpose deficit spending, to make the recession as short and shallow as possible**

  (this point was taken as a bizarre and radical idea, at the time)
- **After the recession, return to balanced budgets, possibly running small surpluses for a time, to pay down the debt you incurred during the downturn – and to be ready for the next recession/crisis**

  - FDR is given a copy of the book, reads the pages where Keynes explains this idea, and doesn't believe it: *'Too good to be true'*

1980s

Cavernous divergence between *rhetoric* and *action*

- Ronald Reagan, having held fiercely anti-deficit views for decades, condemns deficit spending as a fundamental government sin – but as soon as he is in office, Reagan adopts policies that generate immediate, towering deficits: deep tax cuts, accompanied by major expansions of government spending
  - This amounts to an unacknowledged deficit-fueled stimulus program, which continues open-endedly, far beyond the end of 1981-83 recession
- During this same period, even as he engages in the most rampant deficit spending since WW2, Reagan and others on the right adopt an attitude that tax cuts are nonetheless justifiable, on the principle that ***'the beast must be starved':*** their assumption is that there will be a limit to the electorate's tolerance for deficits, that will ultimately force spending cuts, in due course

The long-term evolution of American **attitudes** towards **deficit spending**

1990s

Return to fiscal responsibility

- Under Bush 41, the cost of the S&L crisis pushes deficits to levels even higher than they were under Reagan. In 1990 Bush works with the Democratic Congress to craft a package of tax hikes as a measure to *limit the growth* of future deficits. This is successful in stabilizing the deficit, but it causes an immediate split within the Republican Party, as Bush is vilified for breaking his 'no new taxes' promise
- Upon taking office in 1993, Clinton is advised by Fed Chief Alan Greenspan that time is up: the deficit crisis must be addressed. Taxes are raised, putting the country on a long-term path towards balanced budgets – for the first time in generations
- During the Clinton administration, the economy booms, and with it, government revenues. Disagreement on priorities between the Democratic administration and the Republican-controlled Congress causes impasses that have an effect of restraining overall spending, for several years
- By 1996, the federal budget is **fully balanced**, then begins to run **significant surpluses every year**. For the first time in its history, the United States is *rapidly paying off its national debt* – a nearly unimaginable development

The long-term evolution of American **attitudes** towards **deficit spending**

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The long-term evolution of American **attitudes** towards **deficit spending**

2000s – present

Decisive abandonment of serious concern about deficits
– then disasters strike, and government responds

- Under Bush 43, taxes are cut repeatedly (ostensibly as a recession-fighting tactic) while government spending is expanded aggressively to conduct the War on Terror, causing an abrupt return to massive, permanent structural deficits
- By this time, the attitude on much of the right is that ***deficits are better than taxes*** – and the key assumption behind ***'starve the beast'*** is tacitly abandoned: i.e., it now seems clear that neither the voters nor the financial markets will swiftly punish fiscal irresponsibility
  - In late 2002, Bush decides to go for another round of tax cuts – even though spending is already spiraling upward, and the Iraq War looms. Treasury Secretary Paul O'Neill raises an alarm, counseling that this would be a profoundly irresponsible path
  - The Vice President waves him off, saying: ***'Reagan proved deficits don't matter.'*** O'Neill is fired a few weeks later

The long-term evolution of American **attitudes** towards **deficit spending**

Tapper: When I heard you commenting on it, I remembered former Treasury Secretary Paul O'Neill saying, in his book, that you told him, 'Reagan proved that deficits don't matter.'

Can you square the concerns about deficits now, versus during the Bush-Cheney administration?

Cheney: Sure. The time that is referred to in the O'Neill book, was back at the beginning of the Bush Administration. It was a time, frankly, when we had surpluses.

The long-term evolution of American **attitudes** towards **deficit spending**

Tapper:

FALSE

There were two rounds of tax cuts during the Bush Administration:

The first tax cuts took place in early 2001, when the budget was running big surpluses

Following those tax cuts, budget surpluses immediately vanished, then massive deficits returned a few months later, after 9/11

Treasury Secretary O'Neill supported these tax cuts

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There were <u>two</u> rounds of tax cuts during the Bush Administration:

The first tax cuts took place in early 2001, when the budget was running <u>big surpluses</u>

Two years later, in early <u>2003</u>, the administration drove <u>another</u> round of tax cuts, <u>*after deficits were already ballooning*</u>, and the Iraq War loomed

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O'Neill opposed this second round of tax cuts, calling them 'irresponsible'

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The long-term evolution of American **attitudes** towards **deficit spending**

Cheney: **The issue was whether or not we could both build up military force, and at the same time, we were concerned about deficit spending.**

And my point was that Ronald Reagan had done exactly that – he had run a deficit in order to build up our military capability back in the early 80s, and it proved a remarkable decision on his part.

Tapper: And to cut taxes –

Cheney: **And to cut taxes, at the same time. So, I'm not opposed, under certain circumstances, to running deficits. The debt is another problem, and we've gotten to the point now, where, especially because of entitlement programs, because there really hasn't been much done, by way of restraining spending, we now have trillion-dollar deficits every year, and a 17 trillion dollar debt, that we're passing on to our kids and grandkids… That concerns me.**

The long-term evolution of American **attitudes** towards **deficit spending**

Tapper: A lot of economists look at the debt and say, a lot of the reason for the debt, in addition to entitlement programs, are things that you and President Bush did, in terms of funding the Iraq and Afghanistan wars, in terms of the Medicare prescription drug benefit, and in terms of the tax cuts.

Are you and President Bush not also responsible for the deficit?

Cheney: **In terms of prescription drug benefits for seniors, that's something the President campaigned on, before I ever got involved… I think it was a good program.**

Tapper: Without taking issue with the policies of the Iraq and Afghanistan wars and the Medicare prescription drug benefit, or the tax cuts, the question is, how are they being paid for?

The long-term evolution of American **attitudes** towards **deficit spending**

Cheney: **I first of all believe that tax cuts are an appropriate part of a policy to achieve economic growth – I'm a Jack Kemp / Art Laffer kind of Republican – I believe it's important to leave as much as we can with the individual wage earner and business, so that they can invest, and create more jobs, and that in and of itself creates more tax revenue down the road. So I'm not opposed to that proposition at all.**

Tapper: What about paying for the wars, paying for the Medicare prescription drug benefit?

Cheney: **The wars were paid for. Funds were appropriated.**

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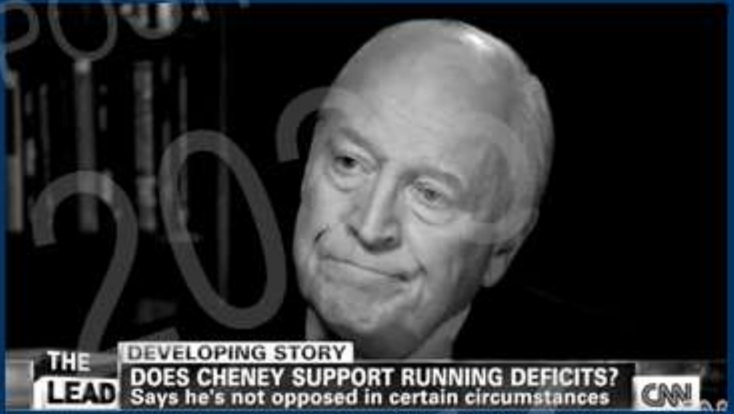

What did Cheney really think?

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A few guesses, framed in ways Cheney might have been willing to publicly acknowledge:

- *It is reasonable to run deficits at times, specifically to address an urgent perceived national security threat: i.e., 'build up military capability'*
  - *Such expenditures (and the associated deficits) are presumably bounded in time – the national security emergency will be mitigated at some point, hopefully – so therefore these deficits shouldn't go on forever*
- *Running deficits chronically, in order to pay for permanent programs to support people – most pertinently, the huge, expensive, permanent 'entitlement' programs we have in place to support people in their retirement (i.e., Social Security and Medicare) – is not justifiable, in the same way as is a temporary run of deficits, to address an urgent national security issue*

What did Cheney really think?

A few guesses, framed in ways Cheney might have been willing to publicly acknowledge:

- *The American people will not stand for taxes to be raised enough to pay for the full long-term cost of Social Security and Medicare – and in any case, the Republican Party is adamantly opposed to any tax increase, for any reason*
  - *Benefits levels therefore must be brought down in some orderly way, so as to fix the long-term mismatch between revenues and benefits*
  - *But downsizing Social Security and Medicare is so politically explosive that you can't expect Republicans to ever do this on their own – it requires bipartisan action, so it can't be turned into an issue that could be used against us in future campaigns*

What did Cheney really think?

A few guesses at things that Cheney probably also thought, but always refrained from saying in public:

- *Really, it would be preferable to abolish / phase out Social Security and Medicare, thereby downsizing government drastically, but this is not politically feasible*
  - ***(Anyone who is decently responsible and successful in life shouldn't need government-run retirement programs, in any case)***
- *Although I say that we should downsize or eliminate these social programs, when Bush and I were in office, I was perfectly fine with going **the exact <u>opposite</u> direction** – **EXPANDING** benefits massively, **expanding the cost of government massively**, through **<u>pure additional deficit spending</u>** – just as a tactic for getting into office, and getting ourselves re-elected*
  - ***Of course I know this is utter, sickening hypocrisy. But politics is a dishonest game. As long as I was playing the game, I was certainly going to do whatever it took to win it***

What did Cheney really think?

A few guesses at things that Cheney probably also thought, but always refrained from saying in public:

- *Reagan's experience did prove that 'deficits don't matter,' both in terms of immediate economics, and in terms of politics*
  - *It is apparently the case that the US government has a wide ability to run chronic deficits at fairly low cost these days, and without causing inflation. But this is a very dangerous truth, that should <u>never</u> be said out loud*
  - *To the voters, taxes are a hell of a lot more concrete and objectionable than deficits… Deficits are remote and abstract. So* ***Republicans should always cut taxes and run bigger deficits, whenever they are in office*** *– this is the way to maximize your political capital and your chances of getting re-elected*
  - *If questioned seriously about this, the fiction that tax cuts might someday actually cause revenues to increase, is always useful as a smoke screen*
  - ***When the other side is in office, the best tactic is to flip over to classic deficit-hawk rhetoric:*** *harp on the idea of deficits and the debt as immediate, emergency priorities. But also be ready to attack them, if they act responsibly to reduce the deficit by raising taxes, to align revenue more closely with spending*

The long-term evolution of American **attitudes** towards **deficit spending**

2000s – present

Decisive abandonment of serious concern about deficits
– then disasters strike, and government responds

- In 2008, capitalism around the world suffers an extreme seizure: widespread banking panics and an acute, systemic financial crisis like nothing since the Great Depression
- Government intervenes in three successive ways that turn out, in the aggregate, to be highly effective in averting catastrophe, this time:
  - Immediate crisis containment and stabilization in 2008 under Bush, through Federal Reserve and Treasury actions, and then TARP
  - Broad stimulus package in 2009 under Obama, to counter the Great Recession. (This is the first time American government has acted with an expressly-stated strategy of deficit-financed stimulus spending, to counter an economic downturn)
  - Wide-ranging financial and banking reforms in 2010, also under Obama, to prevent the recurrence of a similar crisis in the future
- Deficits decline rapidly during the early 2010s, then stabilize, but resume widening rapidly after new tax cuts under Trump in 2017, enacted without any concomitant spending cuts
- In 2020, disaster strikes again with the Covid-19 pandemic, forcing an abrupt and indefinite economic slowdown. Government responds again, with multiple waves of deficit-fueled stimulus spending / disaster relief in both 2020 and 2021. Deficits rise to new heights, then stabilize at a very high level in 2022-2023

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So, what's the truth?

How much do deficits
and the national debt matter?

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- **Interest on the national debt** is the direct, unavoidable cost of deficit spending
- The cost of interest on the national debt, is a function of:
  - —*The size of the **accumulated debt***
  - —*The share of that debt that is held by parties other than the government itself*
  - —*The **interest rate** the government must pay, to service the debt*
- Interest cost as a percentage of the federal budget:

1960s-1970s	**6 to 9%**
1980s	peak of **15%**
Late 1990s – early 2000s	**11%**
Late 2000s – late 2010s	**6 to 8%**
2020 – 2021	**5 to 5.5%**
2022	**8%**
2023	**11%**
2026	**14%**
By 2034	**20%, and growing steadily**

At present, the Federal Reserve owns about 18% of the national debt, so the effective interest cost is 18% lower than these numbers

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Interest on the national debt now costs the United States about as much as the **military** – and will start to exceed military spending, within the next few years

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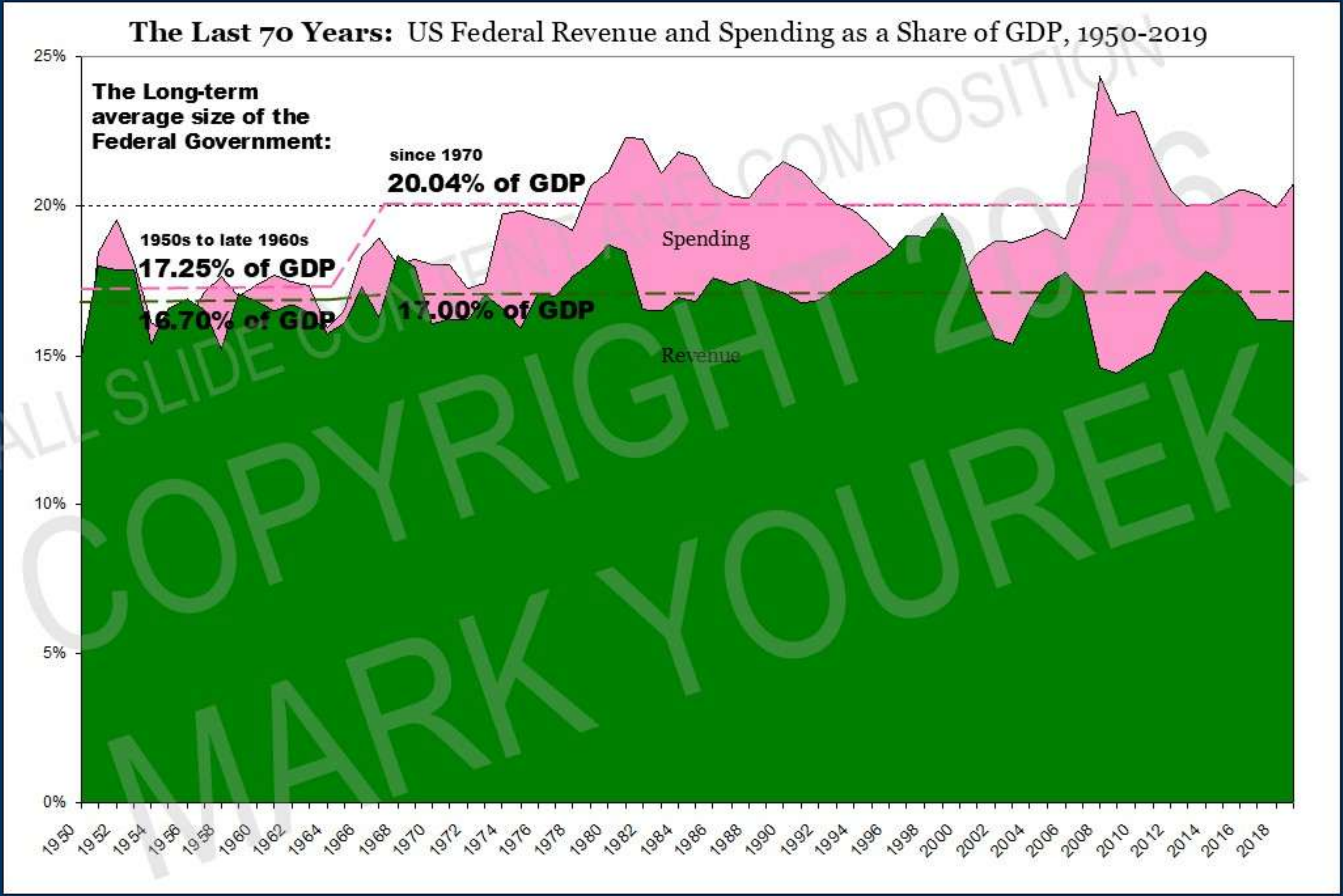
- If the US dollar becomes less dominant as the world's reserve currency, demand for US Treasury debt would presumably decline. This could force interest rates to rise permanently, therefore permanently reducing the US economic growth rate
- With the national debt already very high, if we encountered another major national security emergency or other disaster, the relative economic decline of the United States would accelerate
- Doubt in the financial markets about the commitment of the US to pay its debts without a significant devaluation of the dollar – if such a fear were ever to take hold – would radically telescope this process and make it happen abruptly, without warning
- In these circumstances, unavoidably, this would be accompanied by an irreversible reduction in American geopolitical power and status

So, what's the truth? How much do deficits and the national debt matter?

- An alternate path would be to let the interest costs keep growing, and let the deficit keep getting bigger and bigger – but just have the Federal Reserve buy all this new debt, while keeping interest rates low: *'monetization of the debt'*
  - —***This would inevitably lead to spiraling inflation, and eventually to hyperinflation, which would be ruinous***



The Last 70 Years: US Federal Revenue and Spending as a Share of GDP, 1950-2019
25%
20%
15%
10%
5%
0%
The Long-term average size of the Federal Government:
since 1970
20.04% of GDP
1950s to late 1960s
17.25% of GDP
16.70% of GDP
17.00% of GDP
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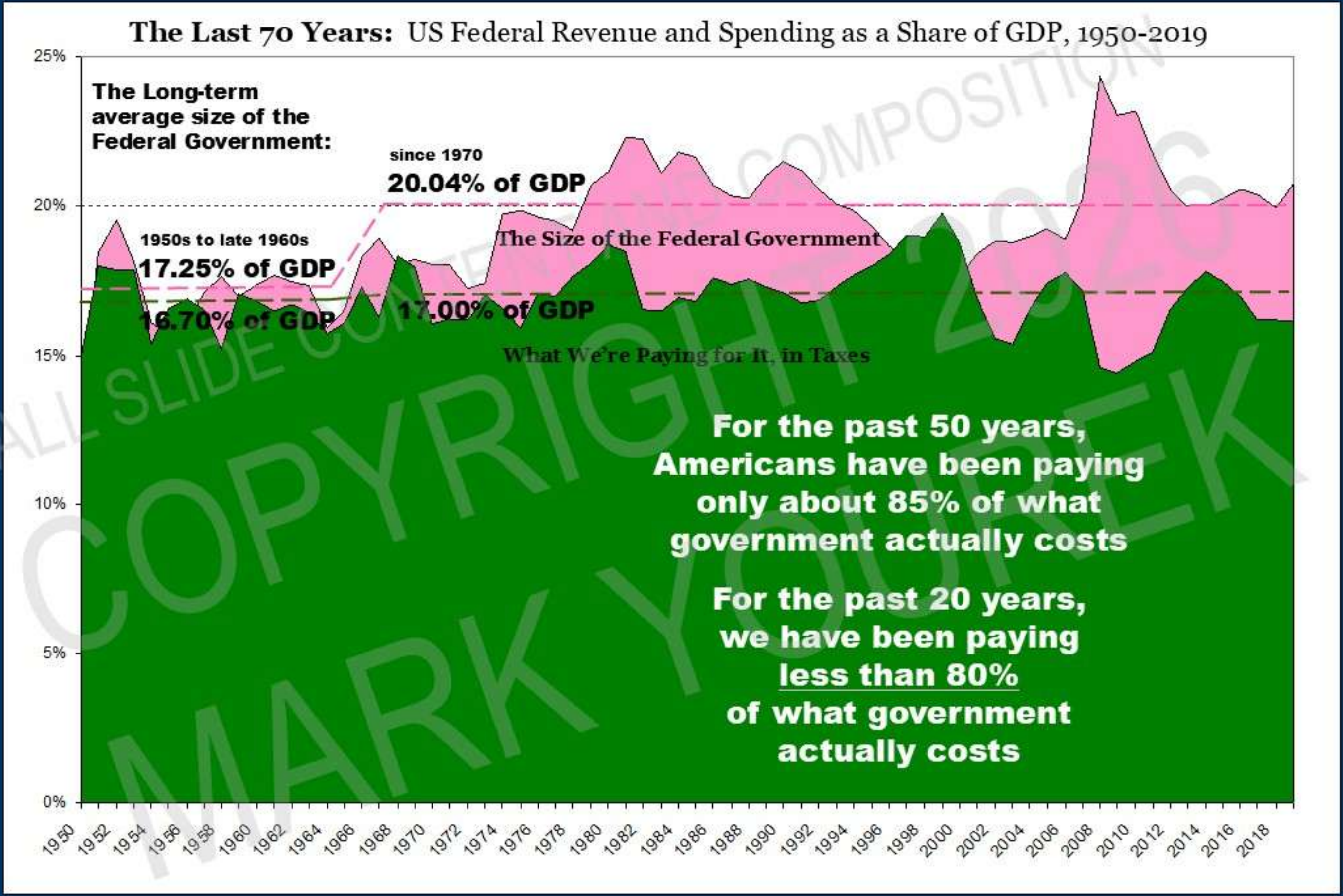

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What We're Paying for It, in Taxes
For the past 50 years, Americans have been paying only about 85% of what government actually costs
For the past 20 years, we have been paying less than 80% of what government actually costs
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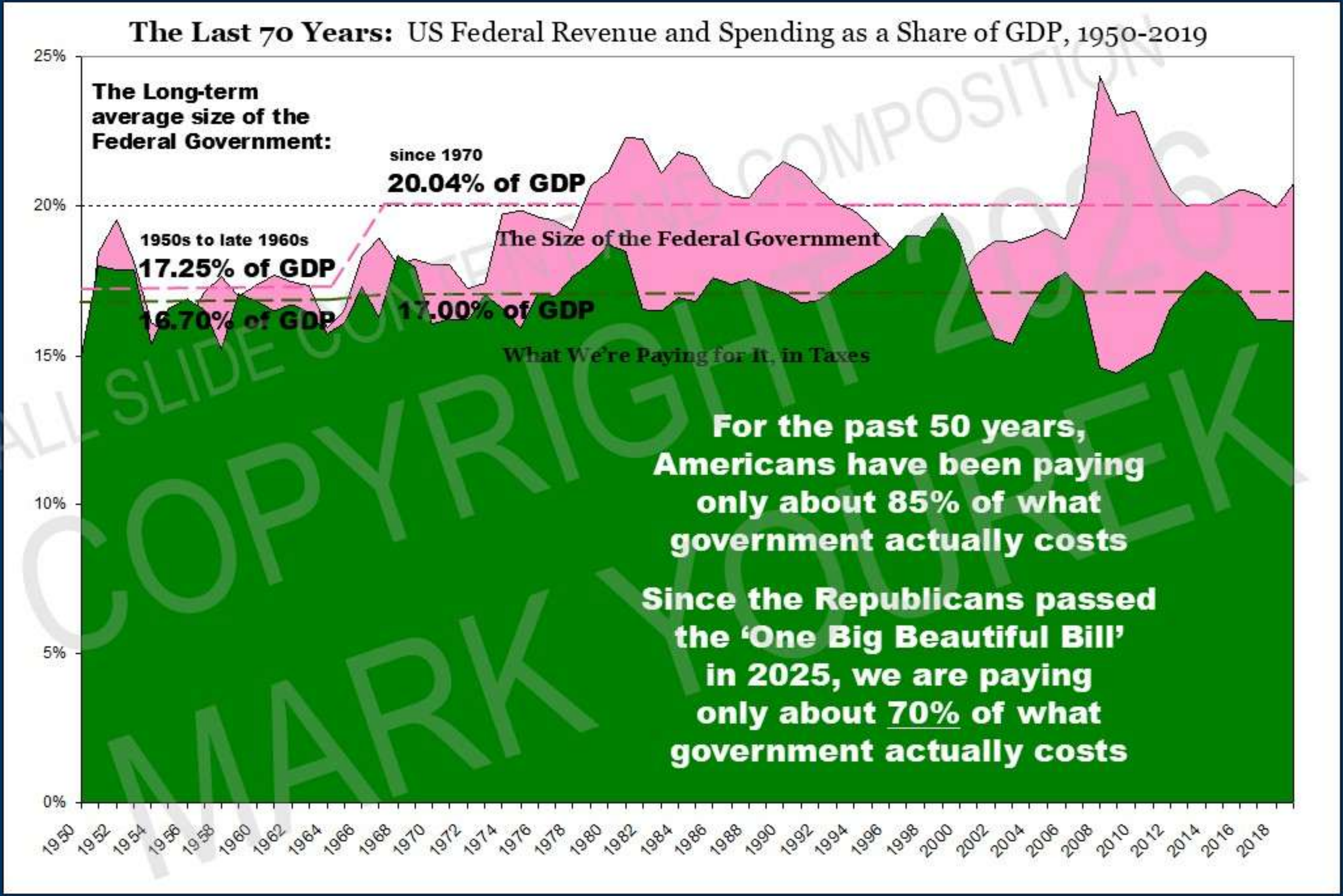
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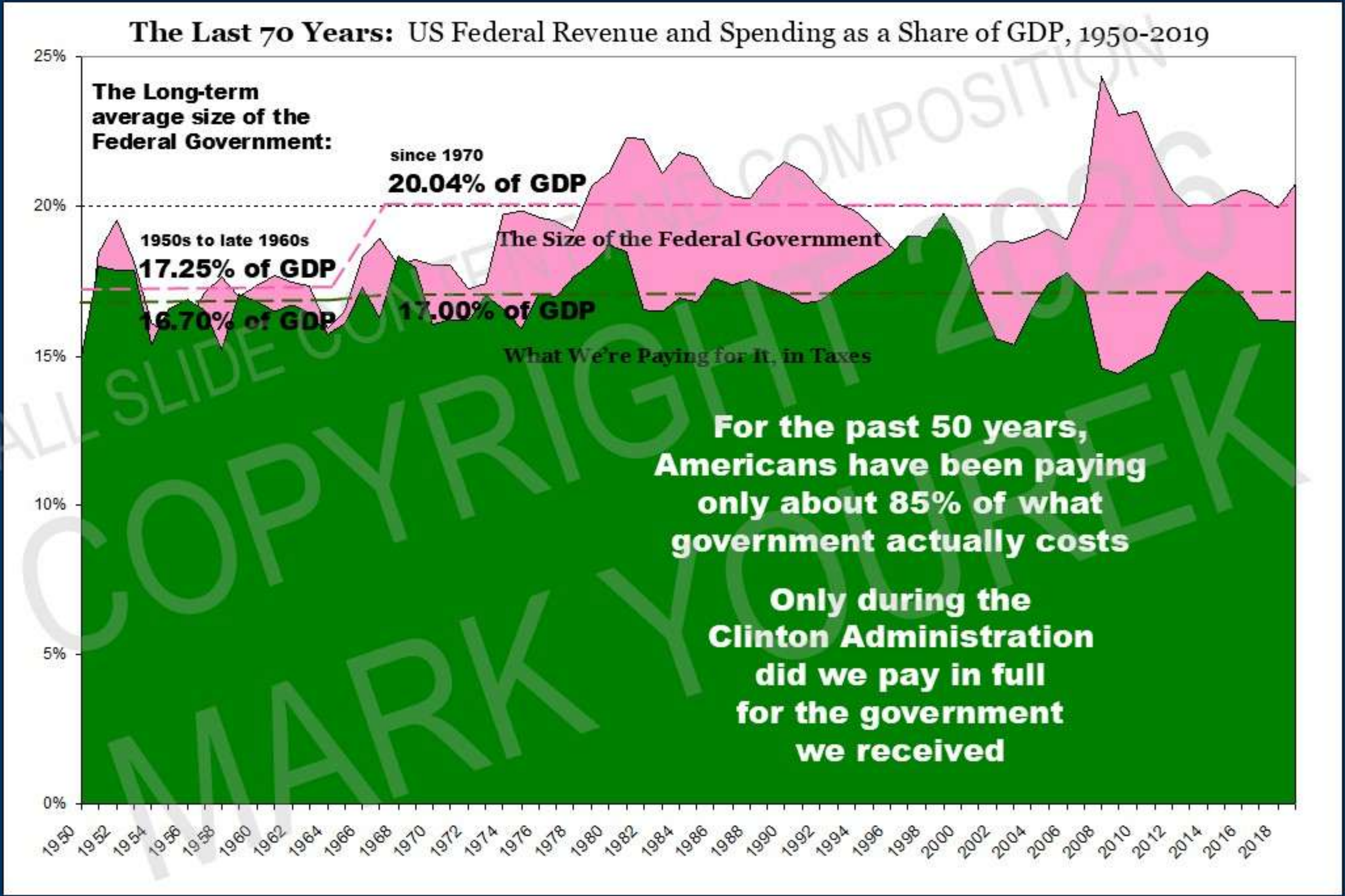
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The Size of the Federal Government
What We're Paying for It, in Taxes
For the past 50 years, Americans have been paying only about 85% of what government actually costs
Only during the Clinton Administration did we pay in full for the government we received
25%
20%
15%
10%
5%
0%
1950
1952
1954
1956
1958
1960
1962
1964
1966
1968
1970
1972
1974
1976
1978
1980
1982
1984
1986
1988
1990
1992
1994
1996
1998
2000
2002
2004
2006
2008
2010
2012
2014
2016
2018

Sidebar: The effects of tax cuts on public finance, and the economy as a whole

FEDERAL GOVT

In the last 25 years, we have yanked tax rates up and down repeatedly, varying between rates that produce balanced budgets, and rates that guarantee massive deficits

Amount we're paying in taxes, since 2025 (OBBB)

Revenue shortfall (i.e., new money borrowed and added to the national debt, each year)

PRIVATE SECTOR and STATE & LOCAL GOVT

There is zero evidence for the idea that it is better for the economy in the long term to have lower tax rates, at the expense of running massive deficits

vs

having higher tax rates, so as to maintain balanced budgets

On the contrary, balanced budgets are preferable during normal times (i.e. if there is no recession or other emergency) –

The economy tends to perform better when public finances are healthier

Sidebar: The effects of tax cuts on public finance, and the economy as a whole

FEDERAL GOVT

PRIVATE SECTOR and STATE & LOCAL GOVT

**Aside from that point,
tax cuts which result in deficits
have a vastly larger impact
on public finances –
they do *outsized damage* –
compared to whatever minor
stimulative effect they may have
in the short run on the overall economy**

LOWEST TAX RATES

HIGHEST TAX RATES

70%

30%

Amount we're paying in taxes, since 2025 (OBBB)

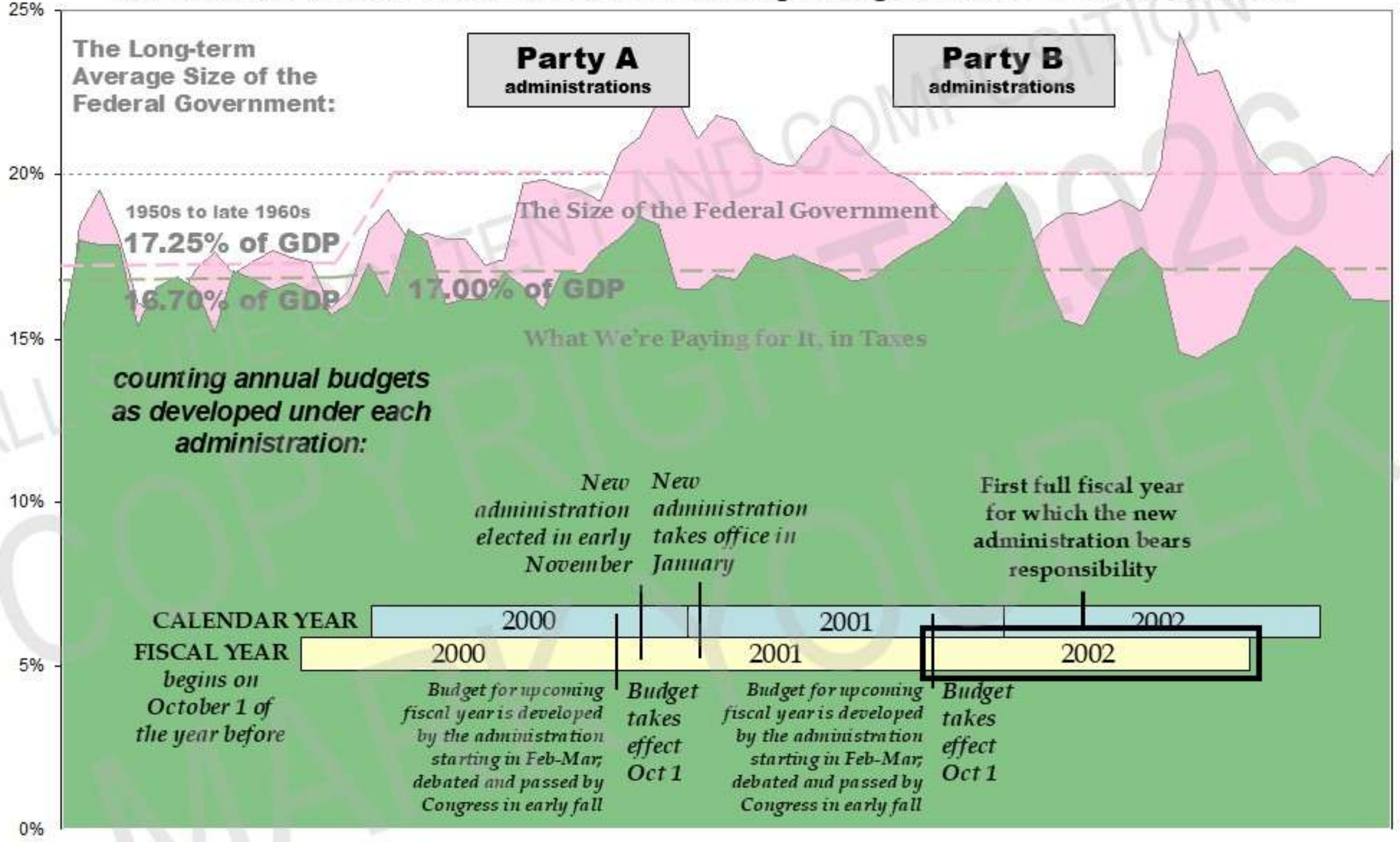
Revenue shortfall (i.e., new money borrowed and added to the national debt, each year)

This simply reflects the size of the federal government in relation to the overall economy: it averages ~20%

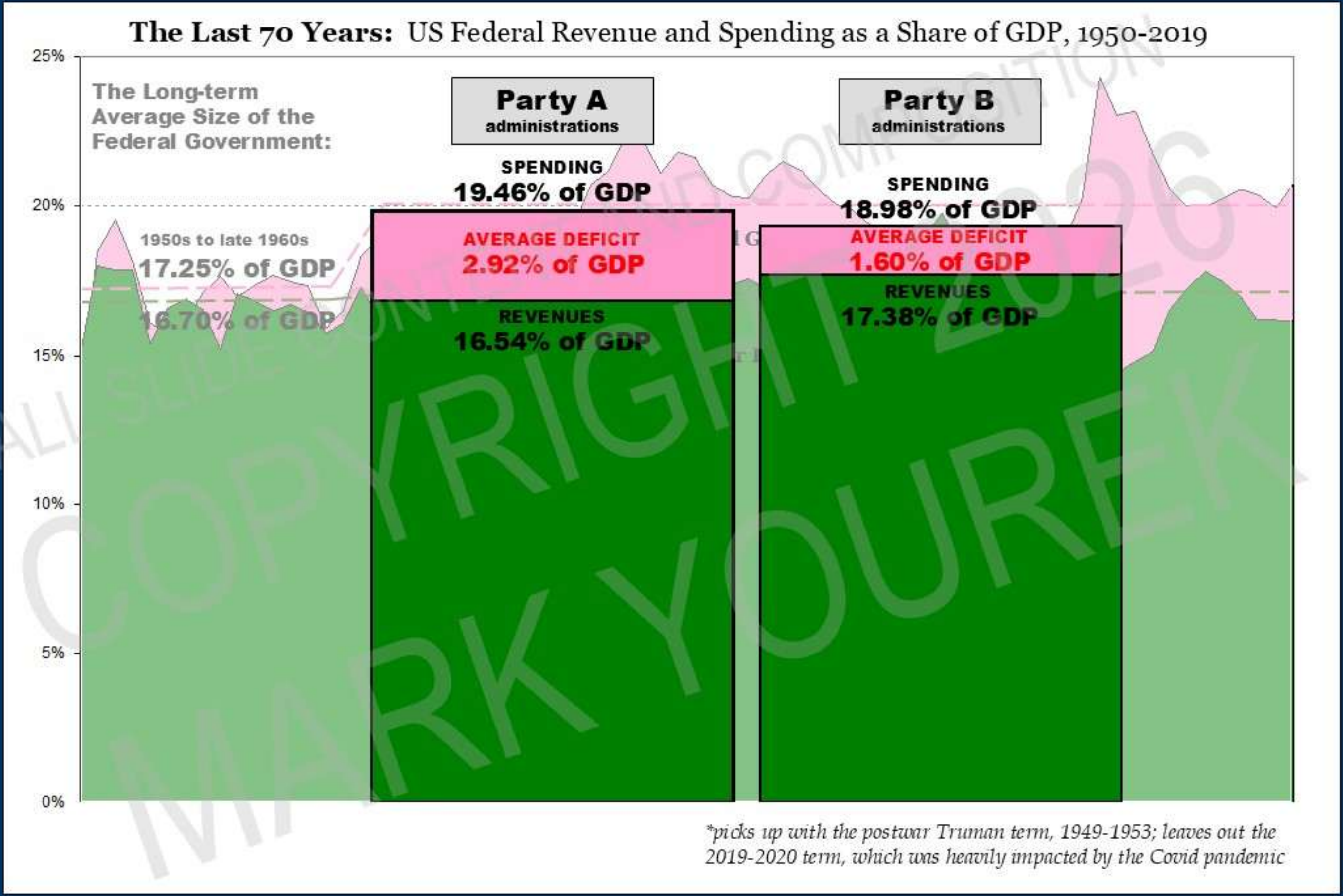
The deficit therefore explodes at a rate 5 times greater, than the impact of tax cuts on the overall economy

The Last 70 Years: US Federal Revenue and Spending as a Share of GDP, 1950-2019
25%
20%
15%
10%
5%
0%
The Long-term Average Size of the Federal Government:
Party A administrations
Party B administrations
1950s to late 1960s
17.25% of GDP
16.70% of GDP
17.00% of GDP
The Size of the Federal Government
What We're Paying for It, in Taxes
Time for a fiscal report card, on the two American political parties

The Last 70 Years: US Federal Revenue and Spending as a Share of GDP, 1950-2019



picks up with the postwar Truman term, 1949-1953; leaves out the 2019-2020 term, which was heavily impacted by the Covid pandemic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16.70% of GDP
Party A
administrations
SPENDING
19.46% of GDP
AVERAGE DEFICIT
2.92% of GDP
REVENUES
16.54% of GDP
Party B
administrations
SPENDING
18.98% of GDP
AVERAGE DEFICIT
1.60% of GDP
REVENUES
17.38% of GDP
*picks up with the postwar Truman term, 1949-1953; leaves out the 2019-2020 term, which was heavily impacted by the Covid pandemic
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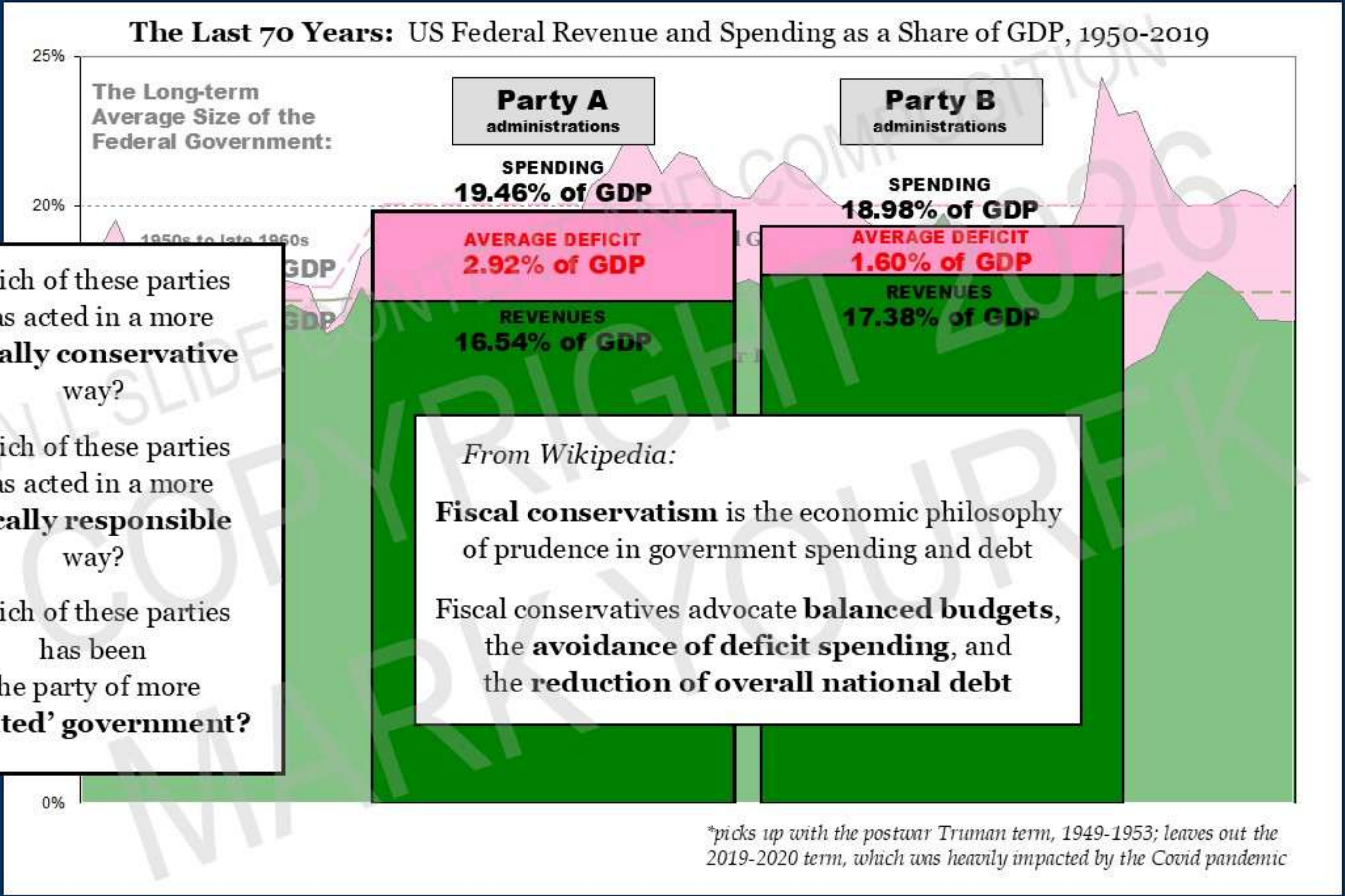

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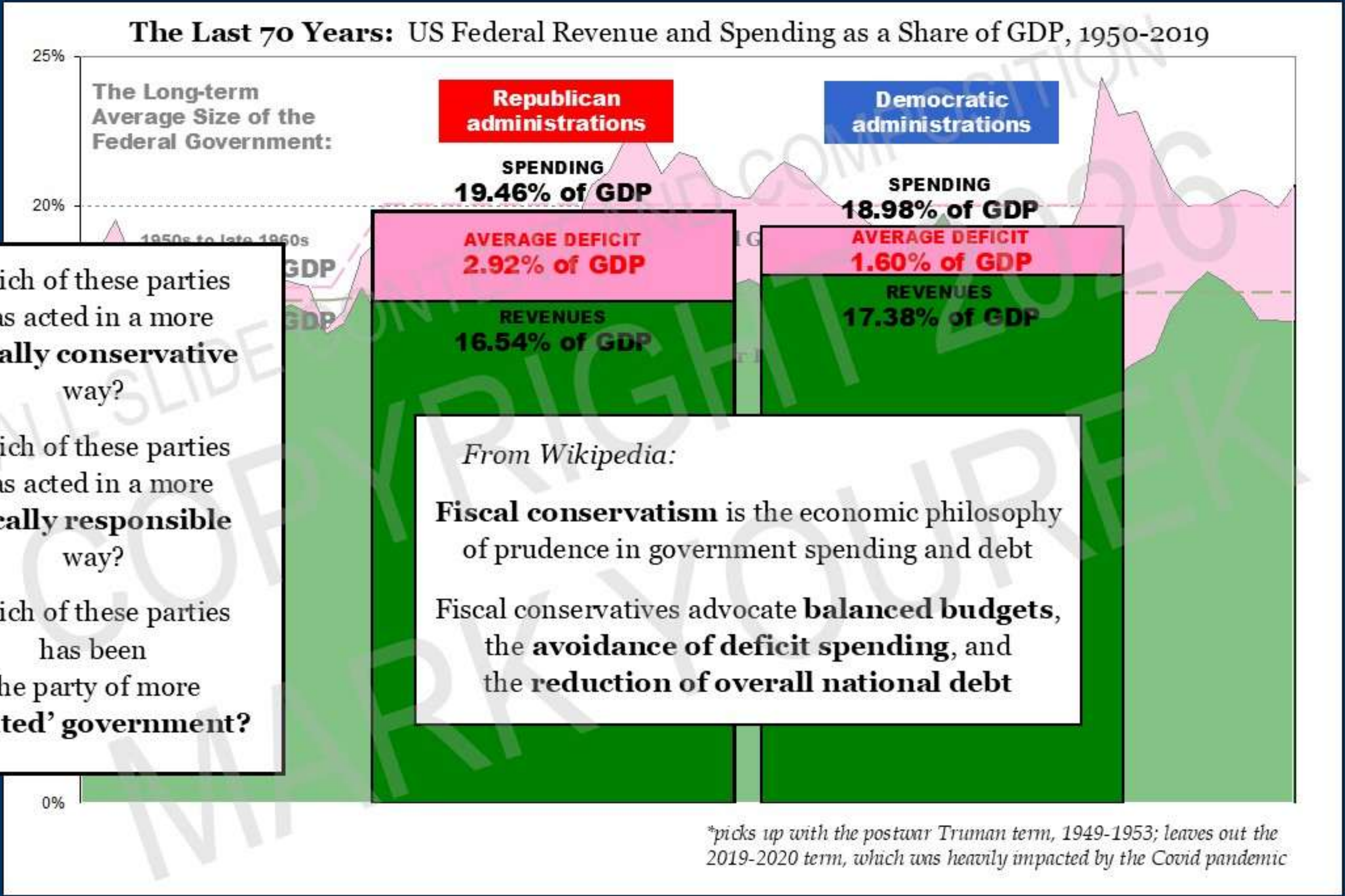
REVENUES
16.54% of GDP
Party B
administrations
SPENDING
18.98% of GDP
AVERAGE DEFICIT
1.60% of GDP
REVENUES
17.38% of GDP
Which of these parties has acted in a more **fiscally conservative** way?
Which of these parties has acted in a more **fiscally responsible** way?
Which of these parties has been the party of more **'limited' government?**
From Wikipedia:
Fiscal conservatism is the economic philosophy of prudence in government spending and debt
Fiscal conservatives advocate **balanced budgets**, the **avoidance of deficit spending**, and the **reduction of overall national debt**
*picks up with the postwar Truman term, 1949-1953; leaves out the 2019-2020 term, which was heavily impacted by the Covid pandemic


The Last 70 Years: US Federal Revenue and Spending as a Share of GDP, 1950-2019
25%
20%
0%
The Long-term Average Size of the Federal Government:
Republican administrations
SPENDING
19.46% of GDP
AVERAGE DEFICIT
2.92% of GDP
REVENUES
16.54% of GDP
Democratic administrations
SPENDING
18.98% of GDP
AVERAGE DEFICIT
1.60% of GDP
REVENUES
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Which of these parties has acted in a more fiscally conservative way?
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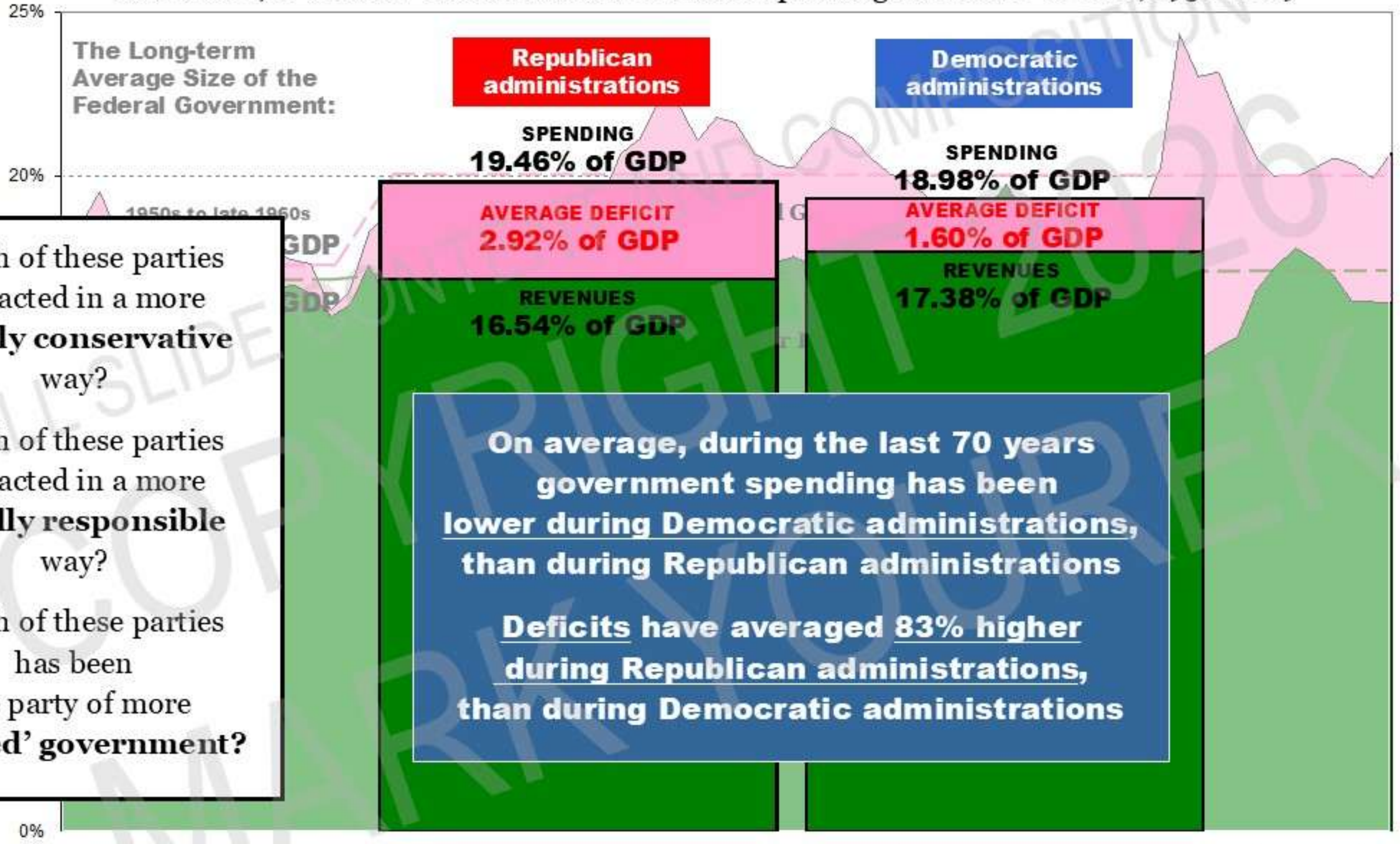


Which of these parties has acted in a more **fiscally conservative** way?

Which of these parties has acted in a more **fiscally responsible** way?

Which of these parties has been the party of more **'limited' government?**

On average, during the last 70 years government spending has been <u>lower during Democratic administrations,</u> than during Republican administrations

<u>Deficits</u> have averaged <u>83% higher during Republican administrations,</u> than during Democratic administrations

**picks up with the postwar Truman term, 1949-1953; leaves out the 2019-2020 term, which was heavily impacted by the Covid pandemic*

…n during Democratic and Republican administrations?

So far, in the postwar era, in **real** terms, on average

the stock market has performed

THREE TIMES BETTER

during Democratic administrations

than during Republican administrations

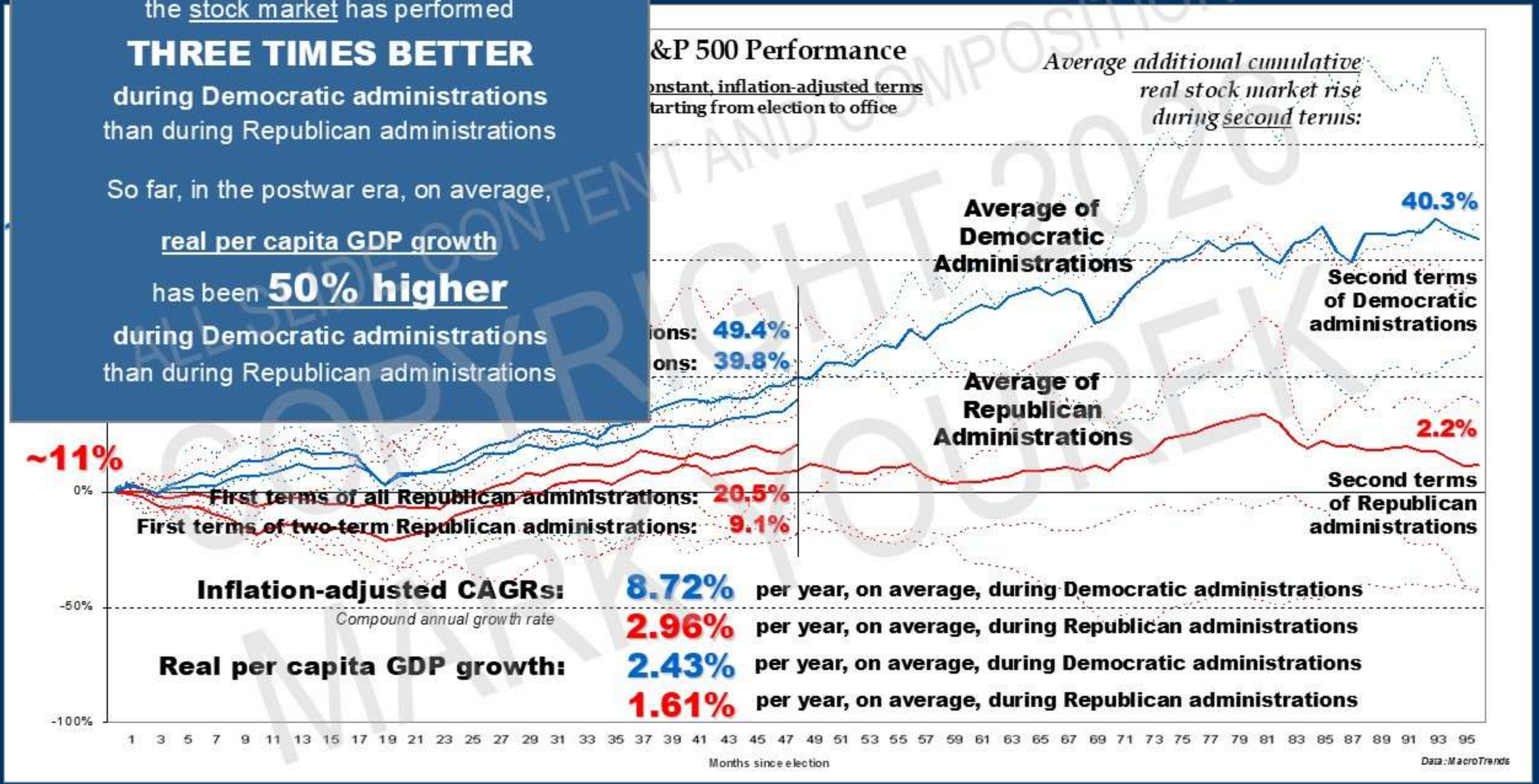
So far, in the postwar era, on average,

real per capita GDP growth

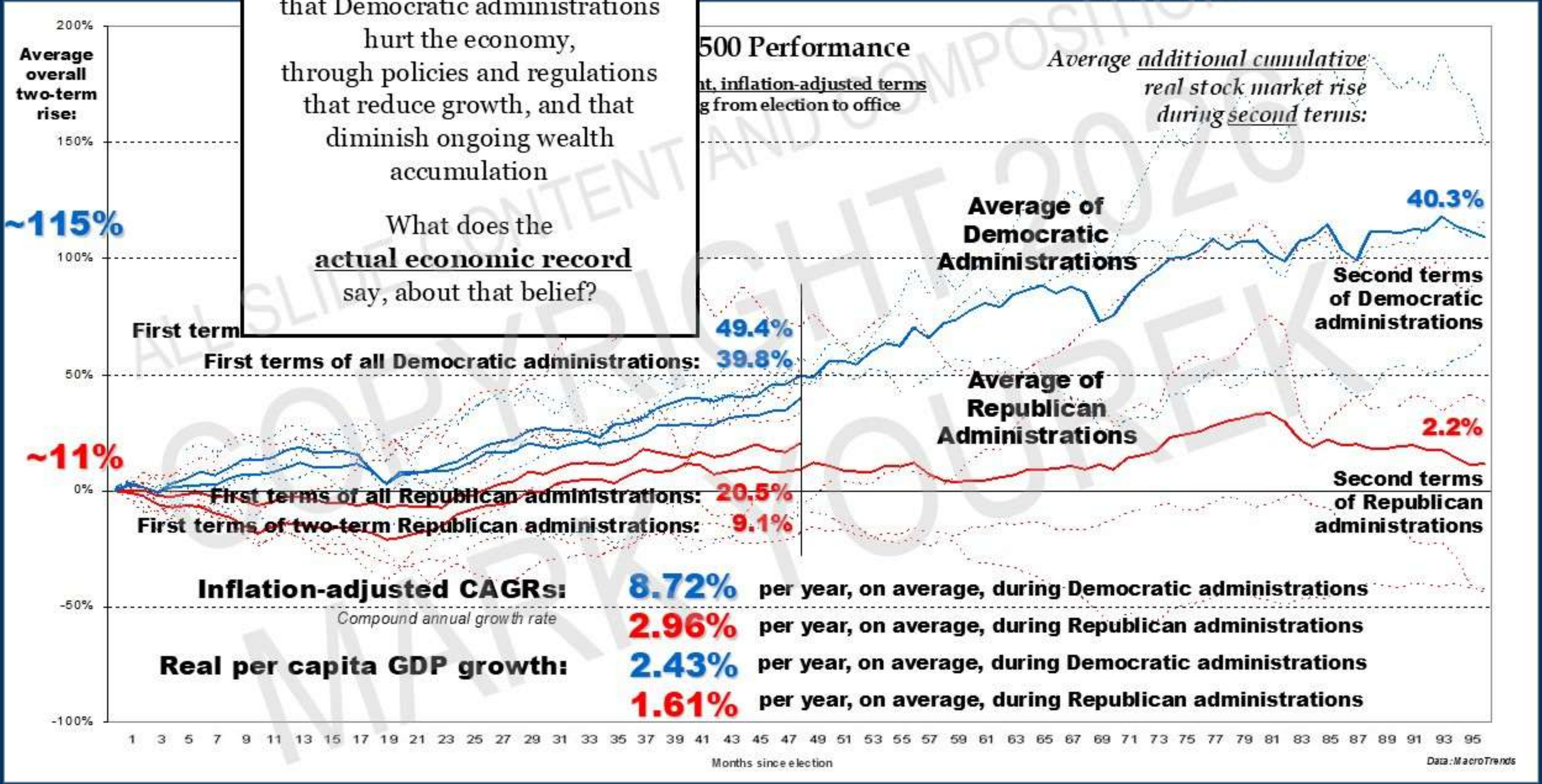
has been **50% higher**

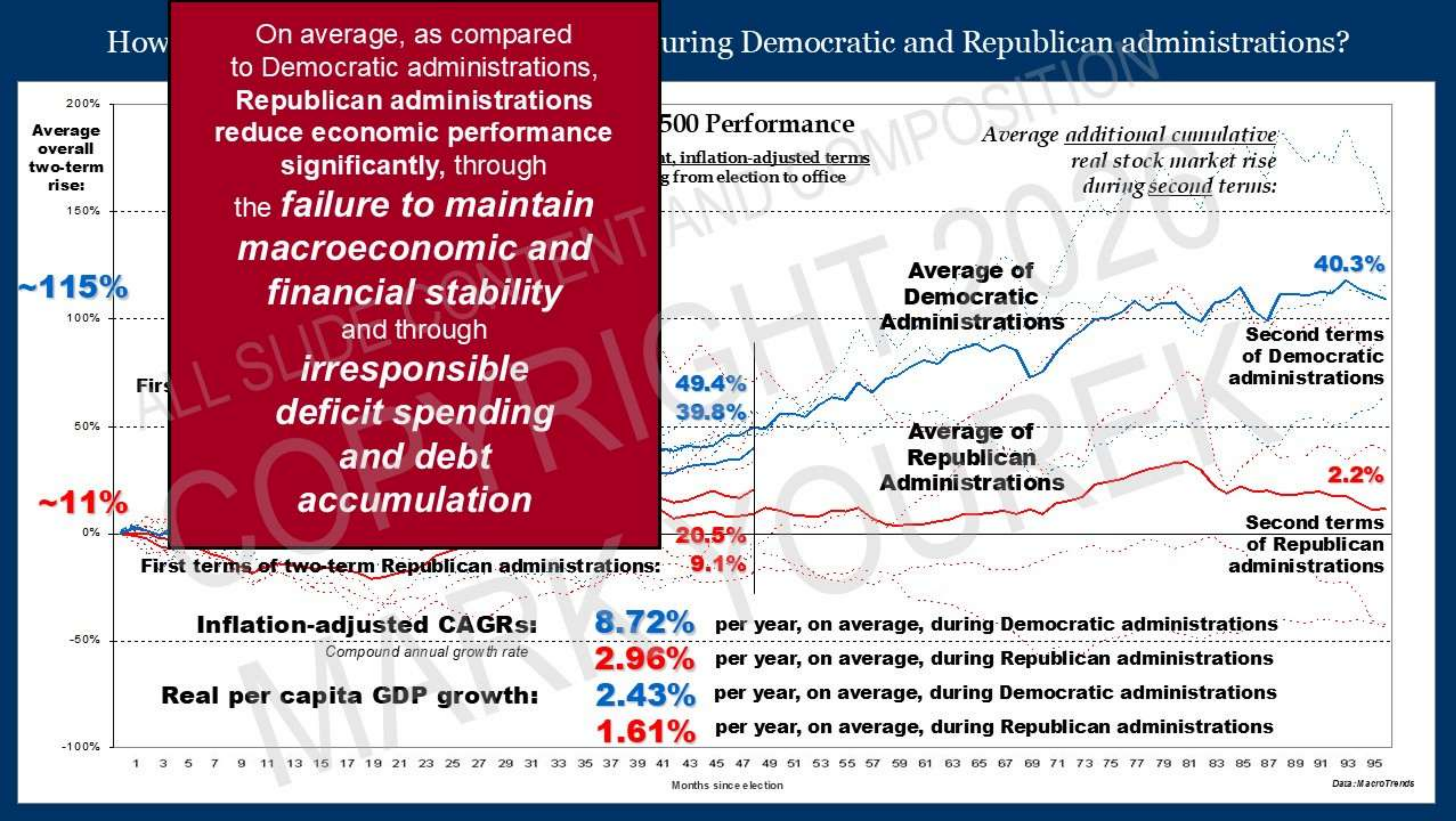
during Democratic administrations

than during Republican administrations



How does [the economy perform d]uring Democratic and Republican administrations?





How
uring Democratic and Republican administrations?
On average, as compared to Democratic administrations, **Republican administrations reduce economic performance significantly**, through the ***failure to maintain macroeconomic and financial stability*** and through ***irresponsible deficit spending and debt accumulation***
500 Performance
nt, inflation-adjusted terms
g from election to office
Average overall two-term rise:
~115%
~11%
200%
150%
100%
50%
0%
-50%
-100%
Average additional cumulative real stock market rise during second terms:
Average of Democratic Administrations
Average of Republican Administrations
40.3%
Second terms of Democratic administrations
2.2%
Second terms of Republican administrations
Firs
49.4%
39.8%
20.5%
First terms of two-term Republican administrations: 9.1%
Inflation-adjusted CAGRs:
Compound annual growth rate
8.72% per year, on average, during Democratic administrations
2.96% per year, on average, during Republican administrations
Real per capita GDP growth:
2.43% per year, on average, during Democratic administrations
1.61% per year, on average, during Republican administrations
1 3 5 7 9 11 13 15 17 19 21 23 25 27 29 31 33 35 37 39 41 43 45 47 49 51 53 55 57 59 61 63 65 67 69 71 73 75 77 79 81 83 85 87 89 91 93 95
Months since election
Data: MacroTrends
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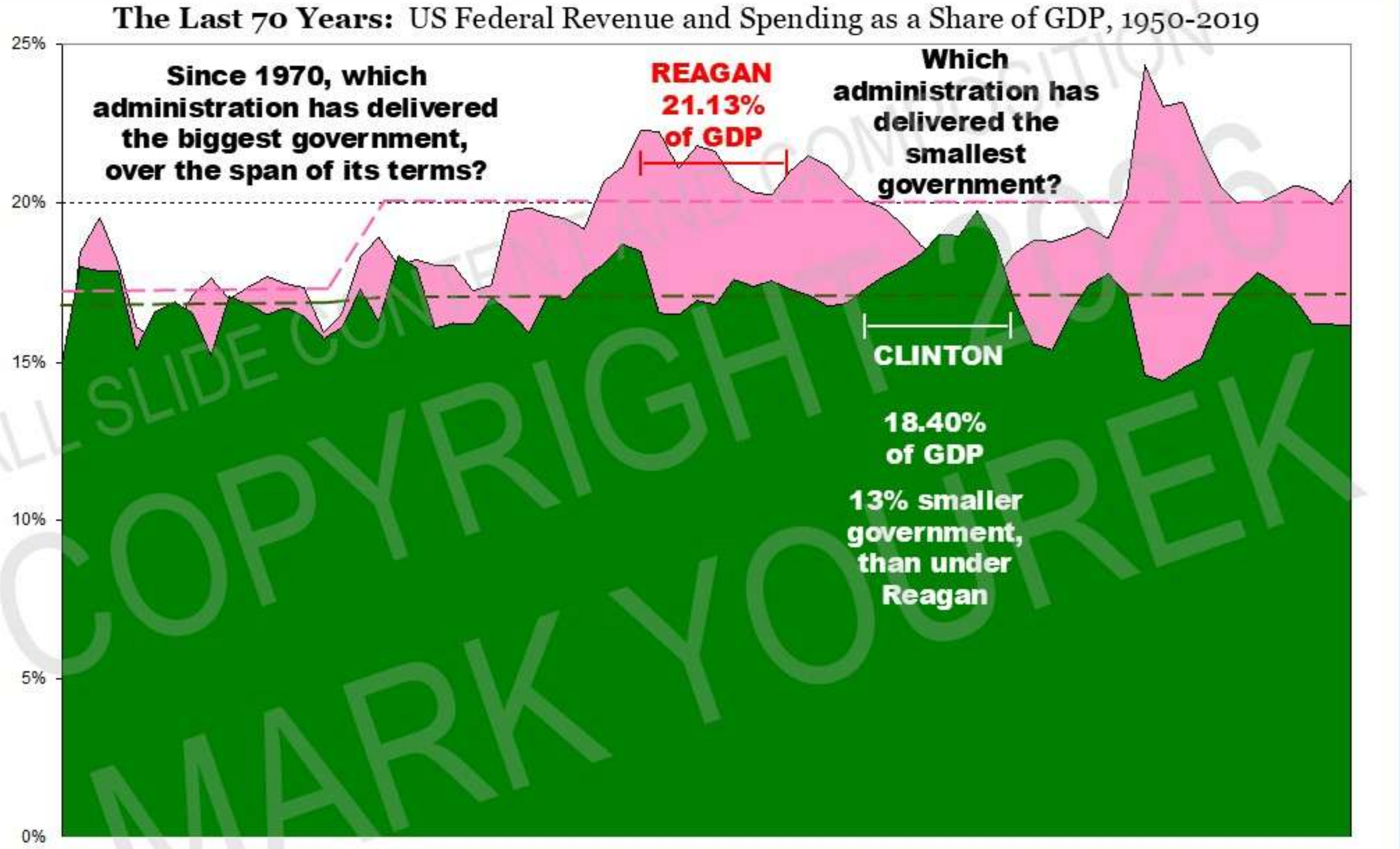

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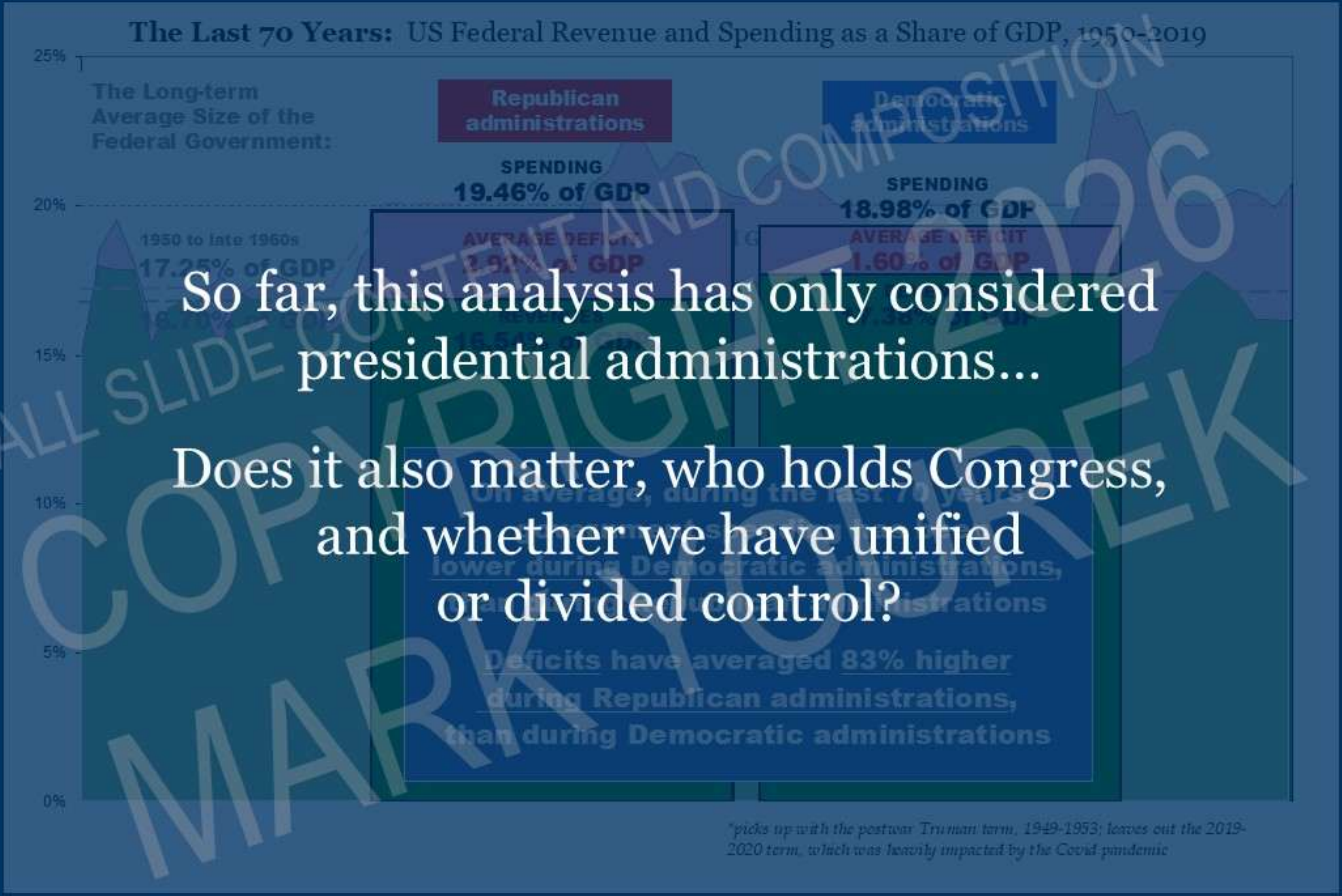
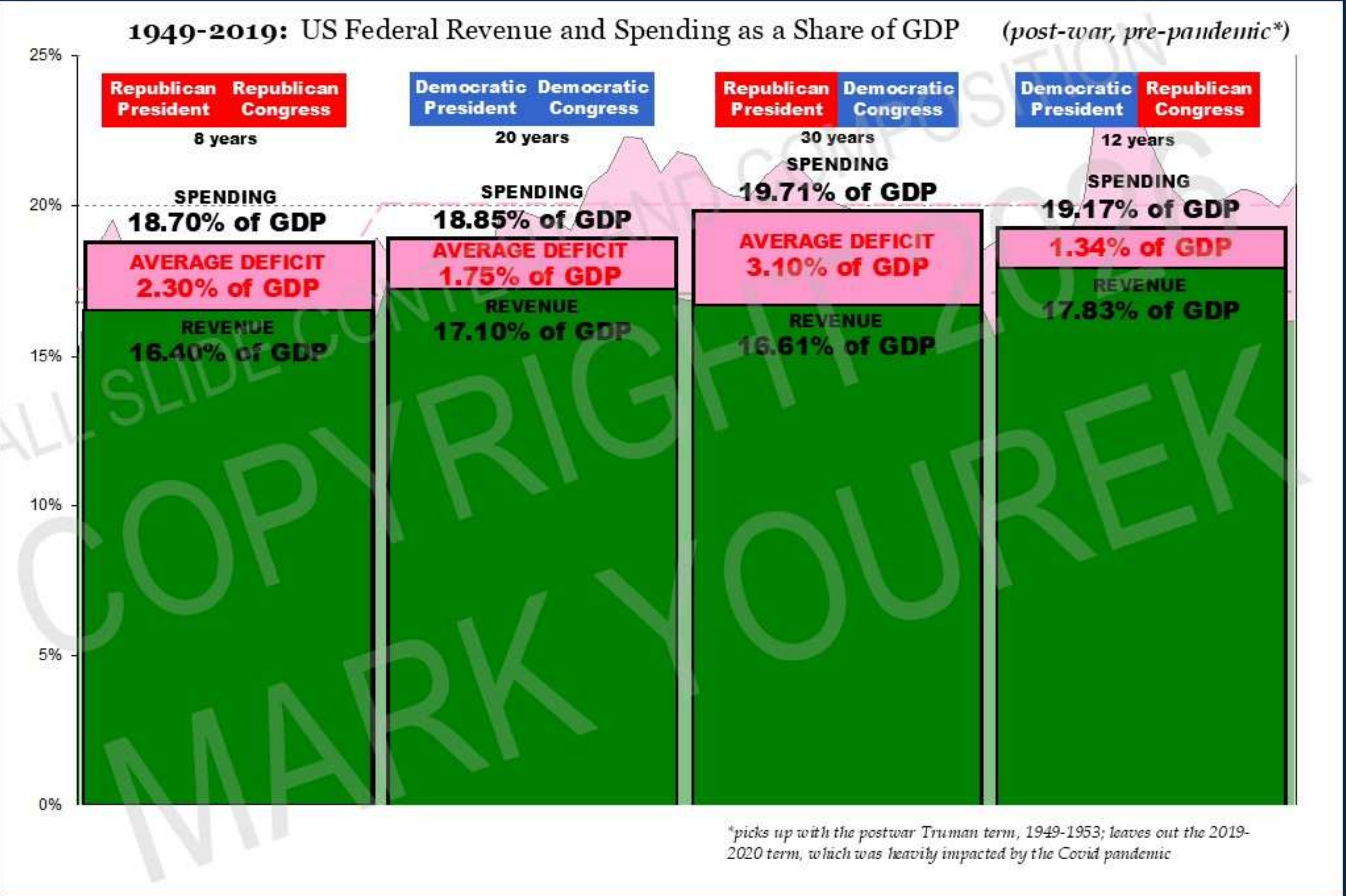
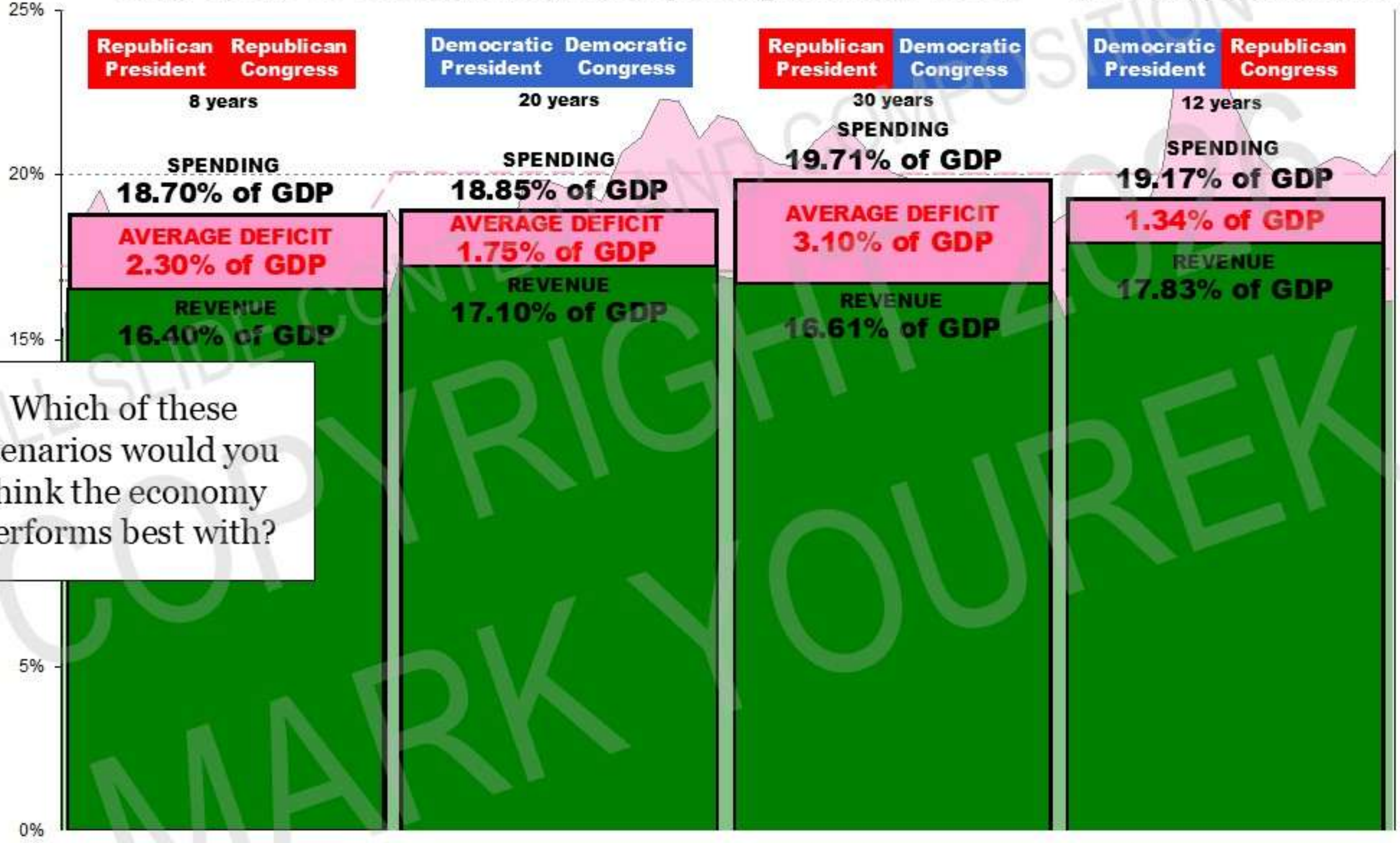


So far, this analysis has only considered presidential administrations…

Does it also matter, who holds Congress, and whether we have unified or divided control?

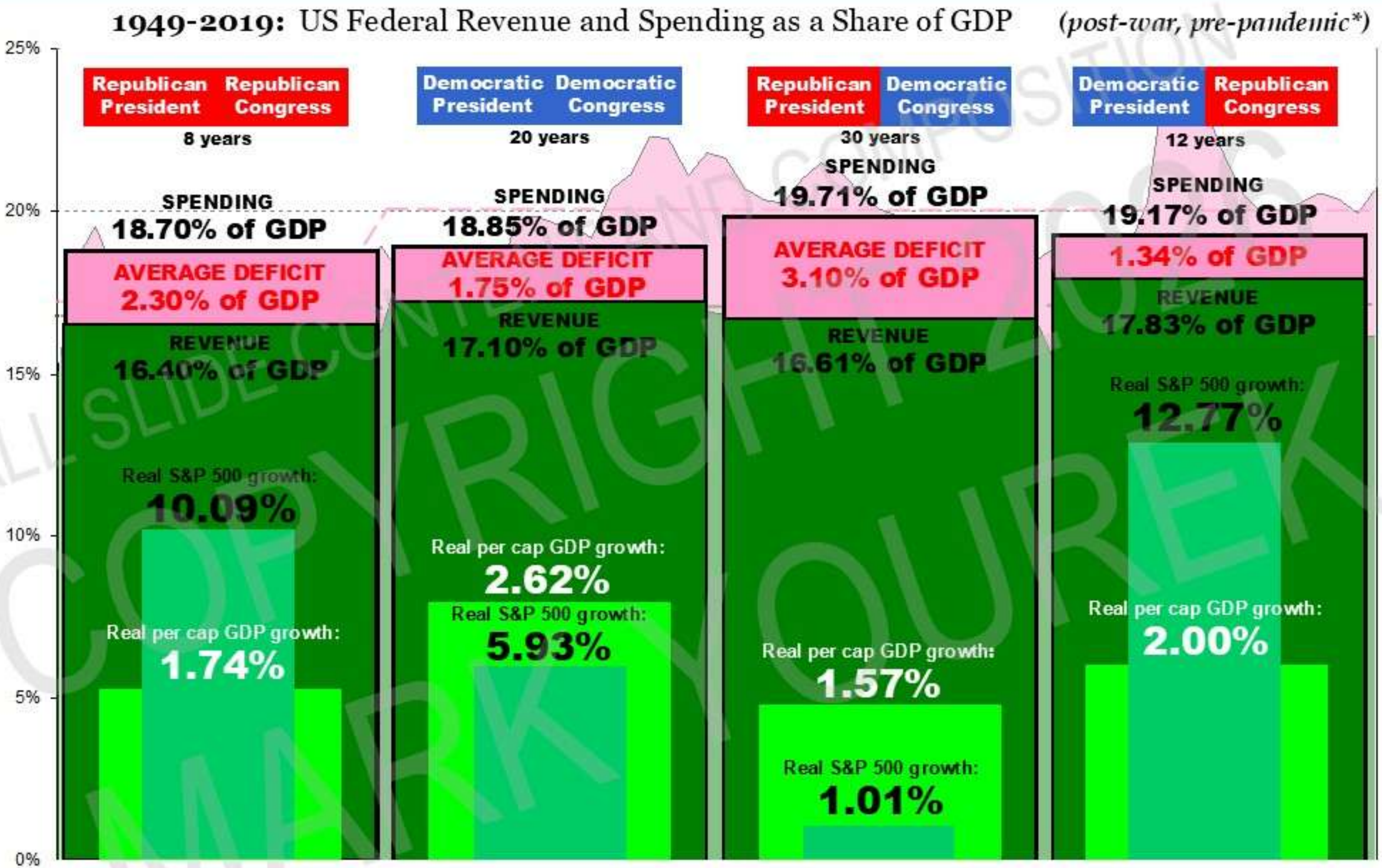

1949-2019: US Federal Revenue and Spending as a Share of GDP (post-war, pre-pandemic*)
25%
20%
15%
10%
5%
0%
Republican President Republican Congress
8 years
SPENDING 18.70% of GDP
AVERAGE DEFICIT 2.30% of GDP
REVENUE 16.40% of GDP
Democratic President Democratic Congress
20 years
SPENDING 18.85% of GDP
AVERAGE DEFICIT 1.75% of GDP
REVENUE 17.10% of GDP
Republican President Democratic Congress
30 years
SPENDING 19.71% of GDP
AVERAGE DEFICIT 3.10% of GDP
REVENUE 16.61% of GDP
Democratic President Republican Congress
12 years
SPENDING 19.17% of GDP
1.34% of GDP
REVENUE 17.83% of GDP
*picks up with the postwar Truman term, 1949-1953; leaves out the 2019-2020 term, which was heavily impacted by the Covid pandemic

1949-2019: US Federal Revenue and Spending as a Share of GDP *(post-war, pre-pandemic*)*



Which of these scenarios would you think the economy performs best with?

picks up with the postwar Truman term, 1949-1953; leaves out the 2019-2020 term, which was heavily impacted by the Covid pandemic



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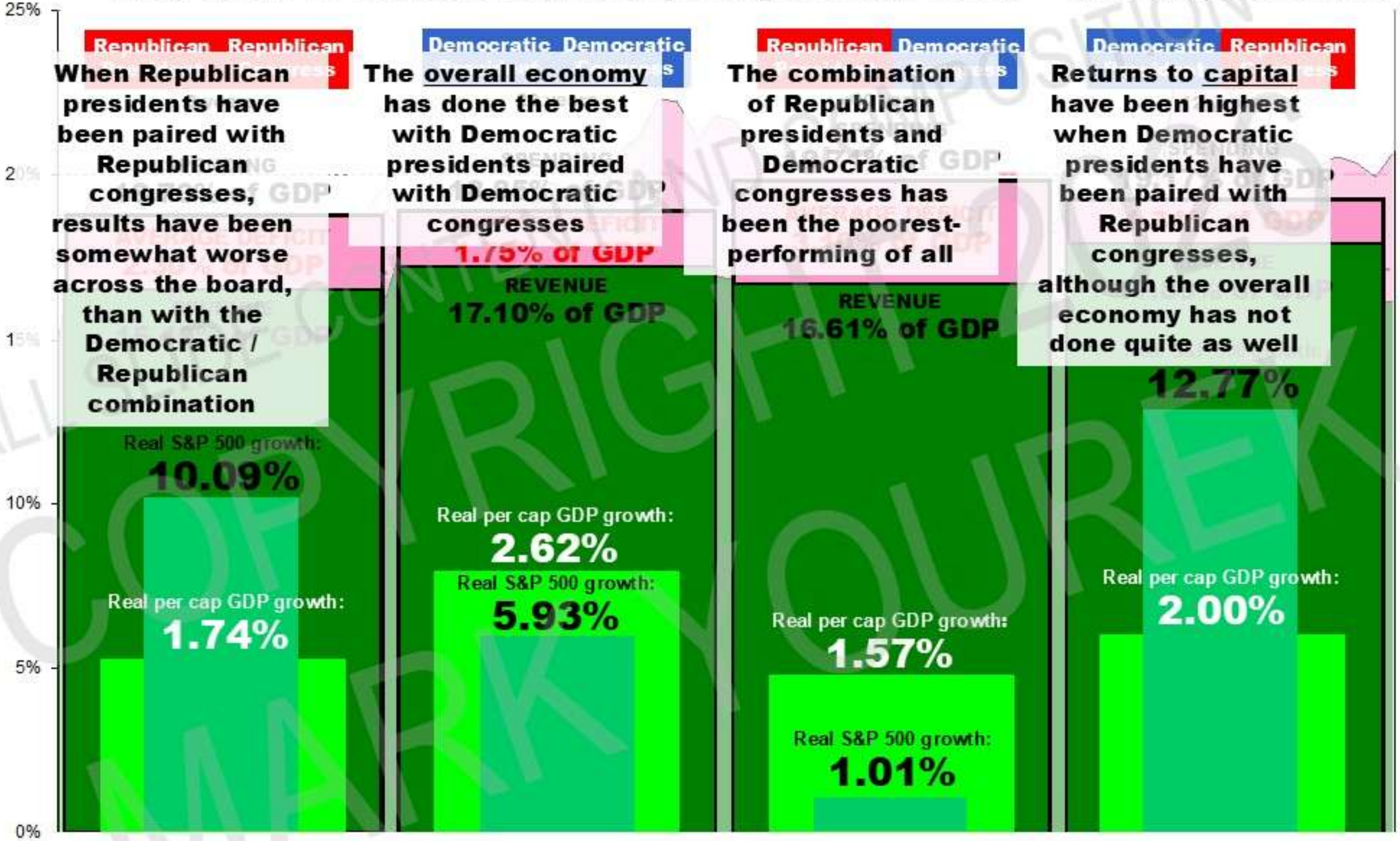
1949-2019: US Federal Revenue and Spending as a Share of GDP *(post-war, pre-pandemic*)*



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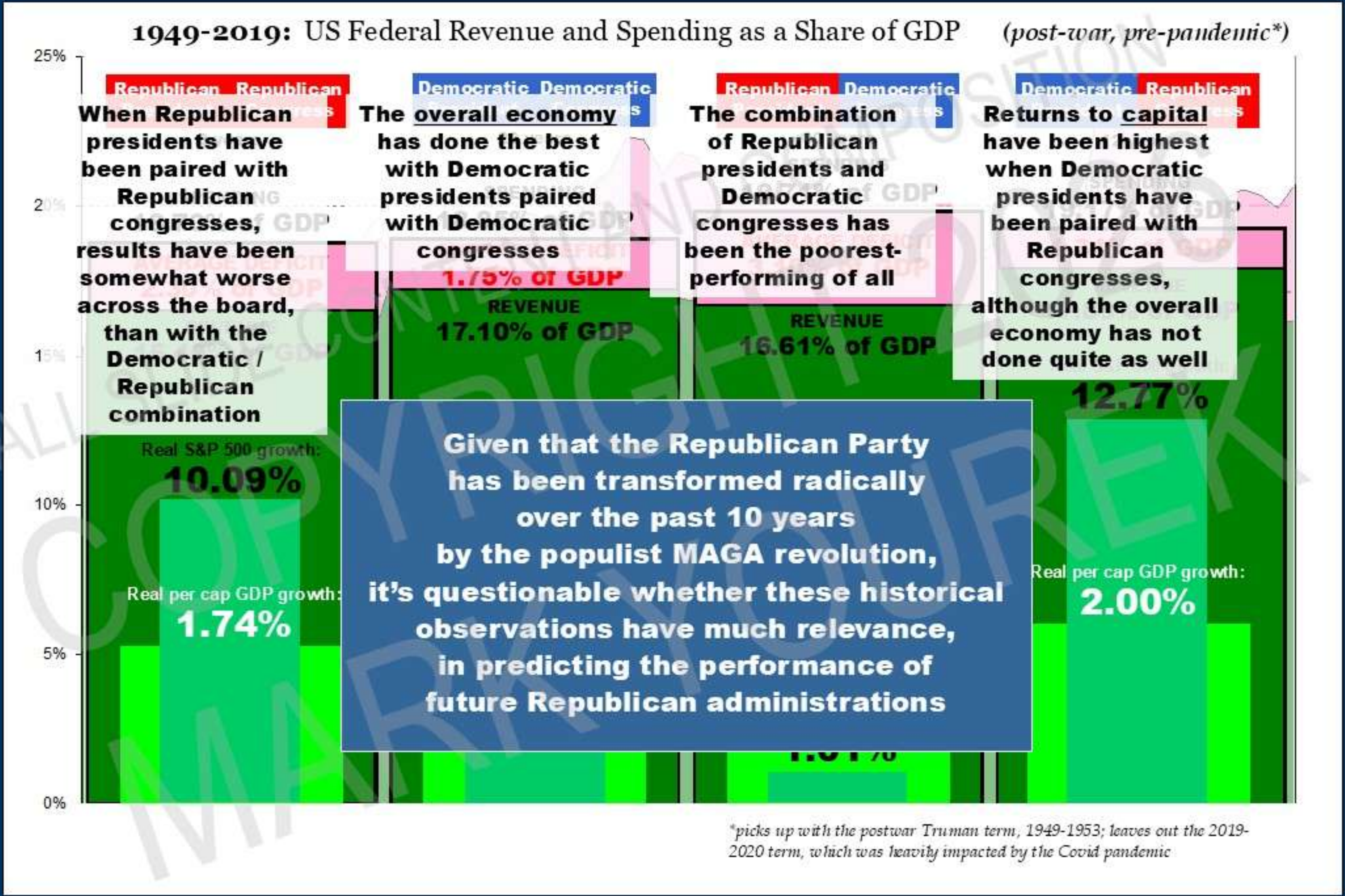
1949-2019: US Federal Revenue and Spending as a Share of GDP (post-war, pre-pandemic*)
25%
20%
15%
10%
5%
0%
Republican Republican
Democratic Democratic
Republican Democratic
Democratic Republican
When Republican presidents have been paired with Republican congresses, results have been somewhat worse across the board, than with the Democratic / Republican combination
The overall economy has done the best with Democratic presidents paired with Democratic congresses
The combination of Republican presidents and Democratic congresses has been the poorest-performing of all
Returns to capital have been highest when Democratic presidents have been paired with Republican congresses, although the overall economy has not done quite as well
1.75% of GDP
REVENUE
17.10% of GDP
REVENUE
16.61% of GDP
Real S&P 500 growth:
10.09%
12.77%
Real per cap GDP growth:
1.74%
Real per cap GDP growth:
2.00%
Given that the Republican Party has been transformed radically over the past 10 years by the populist MAGA revolution, it's questionable whether these historical observations have much relevance, in predicting the performance of future Republican administrations
*picks up with the postwar Truman term, 1949-1953; leaves out the 2019-2020 term, which was heavily impacted by the Covid pandemic
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Postscript on debt, deficits, monetary and fiscal policy:
What Alan Greenspan thought of the presidents

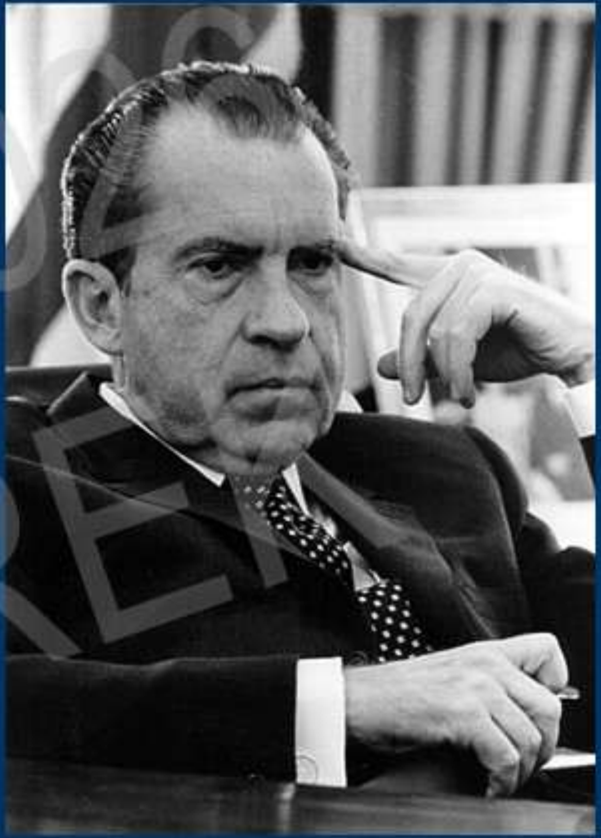
In 1967, Greenspan met Richard Nixon for the first time, in Nixon's law office in New York:

Without wasting time on chitchat, Nixon drew me out with thoughtful questions about economics and policy. When he set forth his ideas, he did so in perfectly-turned sentences and paragraphs.

I was very impressed. Later in the campaign, I'd sometimes have to brief Nixon on an issue before he met with the media, and he'd go into that same intense, factually-oriented lawyer mode.

He could listen for 5 minutes on a subject he couldn't possibly know much about – a breaking news event, for instance – then get out there and sound as knowledgeable as a professor.

I would say that he and Bill Clinton were by far the smartest presidents I've worked with.



In late July 1968, a week before the Republican convention, Nixon assembled his senior staff at a beach resort in Montauk. Nixon already had enough votes for the nomination, and this was meant to be a working session for his acceptance speech.

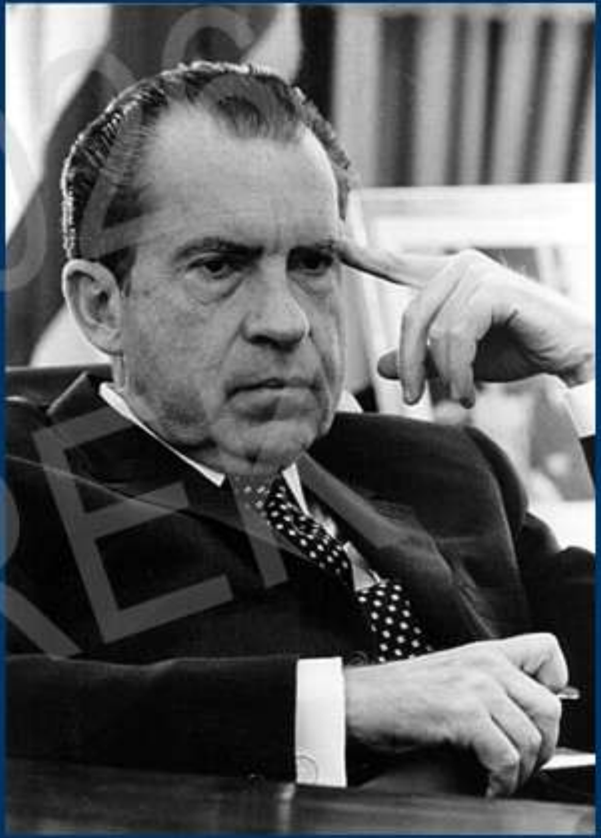
But when we sat down at the conference table, for some reason he was angry.

Instead of the policy discussion I was expecting, he launched into a fulmination about how the Democrats were the enemy.

He didn't raise his voice, but his speech was so intense and so laced with profanity that it would have made Tony Soprano blush.

I was stunned: this was not the man I'd been dealing with.

I had no inkling then, that I was observing an important part of the Nixon personality. I couldn't understand how a single human being could have such different sides.



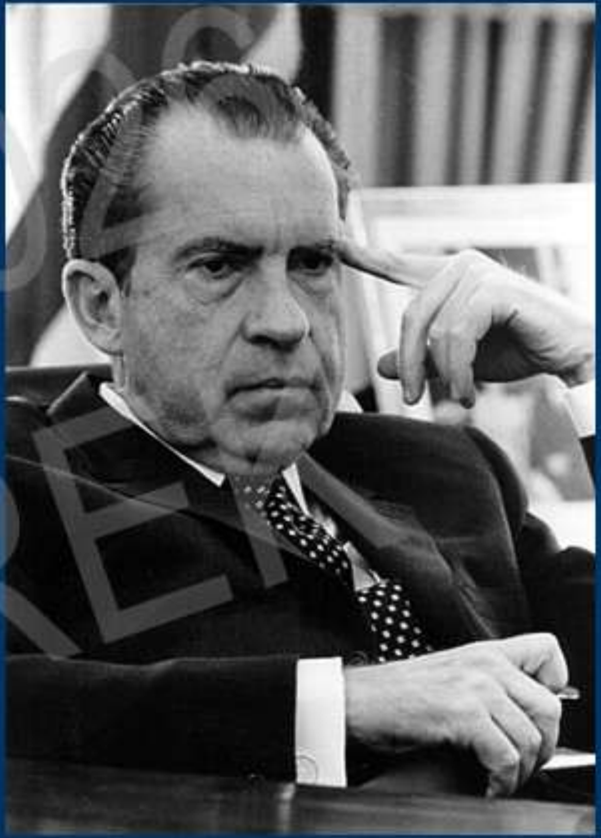
After awhile, he subsided and the meeting went on, but I never looked at him the same way after that.

It so disturbed me, that after the election, when I was invited to join the White House staff, I said, “No, I much prefer to go back to my job.”

Of course, Nixon’s profane side became public five years later, with the release of the Watergate tapes. In them, he comes across as an extremely smart man who is sadly paranoid, misanthropic, and cynical.

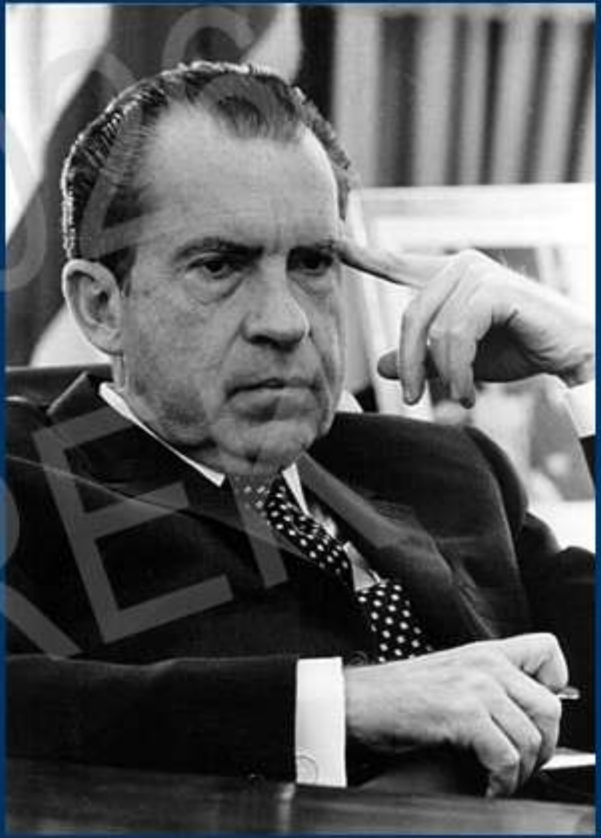
[Many years later, in a meeting I was in, sometime in the 1990s], a member of the Clinton administration accused Nixon of anti-Semitism.

I said, “You don’t understand. He wasn’t exclusively anti-Semitic. He was anti-Semitic, anti-Italian, anti-Greek, anti-Slovak. I don’t know anybody he was ***pro***. He hated everybody.”



When Nixon left office, I was relieved. You didn't know what he might do.

And the President of the United States has so much power that it's scary – it's very hard for a military officer sworn to uphold the Constitution to say, "Mr. President, I'm not going to do that."



Of course, Nixon was the extreme.

But I came to see that people who are
on the top of the political heap are really different.

Jerry Ford was as close to normal as you get in a president;
but he was never elected.

Ford and Nixon were as different as day and night.

Ford was a secure man, with fewer psychological hang-ups
than almost anyone I'd ever met.

You never got strange vibes from him,
never any sense of hidden motives.

If he was angry, he'd be angry for an objective reason.
But that was rare – he was exceptionally even-tempered.

Ford's top priority was to develop a solution to inflation. With the dollar losing more than 10 percent of its value in 1975, inflation had everybody spooked.

In business, inflation creates uncertainty and risk, which makes planning more difficult and discourages managers from hiring, or building factories, or indeed doing any kind of investing for growth.

I agreed with the president's priorities, but I was horrified to learn how his White House staff planned to tackle the issue.

It was in a senior staff meeting that the speechwriting department unveiled a campaign called Whip Inflation Now.

WIN, as they wanted it to be known, was a vast program that would involve a national voluntary price freeze, a summit conference in Washington to discuss inflation with preliminary task forces, mini-summits all over the country, and many other features.

The speechwriters had ordered up millions of WIN buttons, samples of which they handed out to us in the room.

It was surreal. I was the only economist present, and I said to myself, this is unbelievable stupidity. What am I doing here?

Over the next few days, I succeeded in getting them to water down a few of the provisions, but Whip Inflation Now went forward with great fanfare that fall.

It was a low point of economic policymaking. By the end of the year it was totally eclipsed by the worsening recession.

Deregulation was the Ford administration's great unsung achievement.

In fact, a remarkable consensus emerged in Washington – a convergence of attitudes between the liberal left and the conservative right. Ford's deregulation campaign targeted railroads, trucking and airlines.

And despite massive opposition by companies and unions, within a few years, Congress deregulated all three.

Jimmy Carter had no use for me – we met on only a couple of occasions and never hit it off. (Of course, I'd been part of the Ford administration, and he'd defeated Ford.)

But from the sidelines in New York, I saw much going on in government to cheer about.

Many of the moves that the administration and Congress made were the very ones I'd have pushed for, had I been there.

Most important, the Carter administration carried out the deregulation initiative that had begun under Jerry Ford. The airline deregulation bill, promoted by Ted Kennedy, passed in 1978. After that, Congress moved methodically to deregulate telecommunications and half a dozen other industries.

Deregulation had a lasting effect, not just on the economy but also on the Democratic Party, ending its domination by labor and opening it to business.

But as important as these changes were, President Carter got little credit for them, mainly because of his style.

Unlike Reagan, who knew how to present economic renewal stirringly, Carter came across as hesitant and dispirited; he made change seem like something you did because you had no choice.

Reagan's temperament fascinated me. He brought a sunniness and benevolence to the presidency that never wavered, even when we had to deal with a dysfunctional economy and the global danger of nuclear war.

Stored in his head must have been four hundred stories and one-liners. While most of them were humorous, he was able to tap them instantly to communicate politics or policy.

It was an odd form of intelligence, and he used it to transform the country's self-image. Under Reagan, Americans went from believing they were a former great power to regaining their self-confidence.

He was, of course, at root devoted to free markets. Though his grasp of economics wasn't very deep or sophisticated, he understood the tendency of free markets to self-correct, and the fundamental wealth-creating power of capitalism.

[Reagan and incumbent Fed Chairman Paul Volcker] had never met, and a few weeks after taking office, Reagan wanted to get acquainted.

Paul Volcker didn't make things easy for the new president.

In order to avoid the appearance of summoning the Fed chairman to the White House, he asked if he could come see Volcker at the Fed—only to have Volcker send back word that such a visit would be "inappropriate."

Nevertheless, Reagan persisted, and finally Volcker allowed that he would be willing to meet at the Treasury Department.

The president's opening line at their lunch in Don Regan's office became part of the Reagan legend. He said mildly to Volcker, "I'm curious. People are asking why we need a Fed at all."

I am told Volcker's jaw dropped; he had to regroup before coming back with a persuasive defense of the institution.

This evidently satisfied Reagan, who went back to being his amiable self.

The two men cooperated quietly from then on. Reagan gave Volcker the political cover he needed; no matter how much people complained, the president made it his practice never to criticize the Fed.

And though Volcker was a Democrat, when his term ended in 1983, Reagan reappointed him.

When George Bush won in 1988, I hoped the Fed and his administration would get along.

Everybody knew that whoever came in after Reagan would face big economic challenges: not just an eventual downturn in the business cycle, but whopping deficits and the rapidly mounting national debt.

I thought Bush had upped the ante substantially when he'd declared in his acceptance speech at the Republican convention: "Read my lips: no new taxes."

It was a memorable line, but at some point he was going to have to tackle the deficit – and he'd tied one hand behind his back.

I would see President Bush every six or seven weeks. He was intelligent, and in person we always got along well.

But during his presidency he was far less focused on the economy than on foreign affairs.

He didn't think of interest rates as being set mainly by market forces; he seemed to believe they were matters of preference. It was not a thoughtful view.

When the 1990 budget bill was on the table – and President Bush faced the necessity of breaking his no-new-taxes pledge – Treasury Secretary Nick Brady asked me for a commitment that if the budget went through, the Fed would lower interest rates.

In fact, the budget package impressed me. The proposed budget did not cut the deficit as deeply as it might have, but the consensus at the Fed, with which I agreed, was that it was a big step in the right direction.

But before easing credit, we needed to see first whether the budget cuts had any real economic effect.

So I was always very careful in what I privately told Nick Brady. I said, "A sound budget will bring long-term rates down because inflation expectations will fall. Monetary policy, appropriately, should respond to that by lowering short-term interest rates."

That was standard policy, but it frustrated Nick because it was not the promise he was looking for.

When the recession hit that fall, the friction only got worse.

"There has been too much pessimism," President Bush declared in his 1991 State of the Union. "Sound banks should be making sound loans now, and interest rates should be lower, now."

The Fed, of course, had been lowering rates for over a year, but the White House wanted more, faster cuts.

I was saddened years later when I discovered that President Bush blamed me for his loss in the election of 1992.

"I reappointed him and he disappointed me," he told an interviewer in 1998.

His bitterness surprised me; I did not feel the same way about him.

As best I could judge, Bush had done an exemplary job on the most important issues confronting the United States, our confrontation with the Soviet Union and the crisis in the Middle East.

If a president can earn reelection, he did. But then, so did Winston Churchill.

I met Bill Clinton in early December 1992, when he was president-elect.

Clinton had outlined a broad, ambitious economic agenda during his campaign. He wanted to cut taxes on the middle class, halve the federal deficit, stimulate job growth, increase US competitiveness through new education and training programs, invest in the nation's infrastructure, and more.

In our initial conversation, Clinton seemed to pick up on my sense of urgency about the deficit, and asked a lot of smart questions the politicians usually don't ask.

Our meeting, which had been scheduled for an hour, turned into a lively discussion that went on for almost three.

Here was a fellow information hound, and like me, Clinton clearly enjoyed exploring ideas.

I walked away impressed, yet not entirely sure what I thought. Clearly, for sheer intelligence, Bill Clinton was on a par with Richard Nixon, who despite his obvious flaws, was the smartest president I'd met to that point.

After I got back to Washington, I told a friend, "I don't know that I'd have changed my vote, but I'm reassured."

I met with the new President on the morning of January 28, 1993. Clinton was all business, so I got straight to the point.

I focused on the danger of not confronting the deficit right away.

Though I hadn't put it in so many words, the hard truth was that Reagan had borrowed from Clinton, and Clinton was having to pay it back.

There was no reason to feel sorry for Clinton – these very problems were what had enabled him to defeat George Bush.

But I was impressed that he did not seem to be trying to fudge reality to the extent politicians ordinarily do. He was forcing himself to live in the real world on the economic outlook and monetary policy.

His subsequent decision to go ahead and fight for the deficit cuts was an act of political courage. It would have been very easy to go the other way. Not many people would have been the wiser for a year or two or even three.

Clinton impressed me again that fall by fighting for the ratification of NAFTA.

The treaty, negotiated under President Bush, was designed primarily to phase out tariffs and other trade barriers between Mexico and the United States, though it also included Canada.

Labor unions hated it, and so did most Democrats, as well as some conservatives; few Congress-watchers thought it had a prayer.

But Clinton argued, in effect, that you cannot stop the world from turning; like it or not, America was increasingly part of the international economy, and NAFTA embodied the belief that trade and competition create prosperity, and you need free markets to do that.

Clinton was often criticized for inconsistency and for a tendency to take all sides in a debate, but that was never true about his economic policy. A consistent, disciplined focus on long-term economic growth became a hallmark of his presidency.

I think Bill Clinton was the best "Republican" president we have had in awhile.

The George W. Bush administration turned out to be very different from the reincarnation of the Ford administration I had imagined. Now, the political operation was far more dominant.

It quickly became clear that there was no room in this administration for a deficit hawk like Paul O'Neill. Paul's outspokenness put him at odds with the administration, which emphasized loyalty and staying on message.

Paul spent much of his two years as Treasury Secretary feuding with the Bush economists.

To my chagrin, ***"deficits don't matter"*** became part of Republicans' rhetoric.

It was a struggle for me to accept that this had become the dominant ethos and economic policy of the Republican Party.

As the administration and Congress set a course toward a federal deficit of more than $400 billion in 2004, Republicans actually tried to rationalize the abandonment of the libertarian small-government ideal.

And for many of the party's leaders, altering the electoral process to create a permanent Republican-led government – and loosening the federal purse strings any time it might help add a few seats to the Republican majority – became major goals.

"It turned out the American people did not want a major reduction of government," wrote Congressman John Boehner of Ohio in 2004.

Rather than shrinking government, the best that could be hoped for was slowing its growth. Bigger but more efficient government should be the new goal, he and other party leaders argued.

They achieved the former, but not the latter.

The Republicans in Congress lost their way.

They swapped principle for power. They ended up with neither.

They deserved to lose the 2006 elections.

The Age of Turbulence, 2007

Risks we face, as of 2026

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- **The independence of the Federal Reserve Bank:** under ongoing, very dangerous assault
  - *Its ability to set interest rates without political interference, so as to keep inflation steady and low*

Trevor Jackson, professor of economic history at the University of California, Berkeley
writing in the New York Review of Books, February 26, 2026

In most cases, an autocrat controlling a central bank has resulted in high and continuing inflation, because cheap money is a short-term stimulus that is useful for winning elections or paying for implausible adventures, even if it leads to long-term problems.

[If Trump succeeds in abrogating the Fed's independence, so as to take control of interest rates himself], that outcome [high inflation] seems likely, but as in so many other cases, the bigger question is whether Trump is just another petty right-wing dictator, or whether we are living through a permanent epochal rupture.

If it is [a permanent, epochal rupture], the Fed is one of the last remaining obstacles to the unfettered expression of Trump's infantile will, [and] one of the few [remaining] institutions with the power to oppose an unhinged centi-billionaire like Elon Musk.

A generalized loss of credibility in the Fed could mean global economic chaos on a scale we have not seen since the interwar period, and that parallel is not encouraging.

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  - *Rising danger in the* ***financial sector****: innovation continues, while* ***stabilization by the US government is being rolled back / dismantled****; and, the recurrent threat posed by right-wing administrations that have no grasp of these economics, and that cut bank supervision out of a mistaken faith in laissez-faire*

The New York Times November 17, 2025

The Fed Is Cutting Bank Oversight. Critics See Risks.

The regulator is cutting staff and easing oversight in ways that critics say might make supervisors less equipped to spot a crisis in advance, risking deeper damage to the economy.

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  - ***Shadow banking****: the likelihood that, over time, risk is quietly building (again), and possibly also in the realm of crypto-assets, and in other places that may be using* ***dangerous amounts of leverage***
- The current wave of transformative technological innovations: **Artificial Intelligence**
  - *The possibility of a* ***stock market bubble****, driven by hopes around the various AI technologies; the likelihood of serious economic disruption or recession, if and when a large bubble deflates*
  - ***Turbulence and displacement*** *as AI reshapes work and eliminates many existing jobs*
  - *The possibility of* ***further disruption / debasement of our political processes and outcomes,*** *by a population that feels itself to be severely stressed and frustrated, economically and otherwise*
- **Other known and unknown 'unknowns':** *the continuing madness of DT, his serial international gambits, and his spell over his cult; what the Republican Party may turn into, over the longer term*

What will happen to the Republican Party after Trump?

It may harden into an **ever-more-authoritarian, anti-democratic white-populist party,** and bid to establish itself as a 'regime party'

(or, it may pull back from Trump's determined bid to control election outcomes)

Policywise, **it may swing well to the left,** with its frustrated constituency demanding **more and more forms of government intervention,** to bring about much more substantial income redistribution, aimed very specifically at **'restoring' the lost (stolen) economic and social status of the white working and middle class**

Given the frustration levels among its voters, and their relatively low education levels, it is likely to remain highly personality-driven, with a strong inclination to follow **populist demagogues**

Capitalism, Government, Money, and the Future of the World

Finding and Keeping the Right Balance in Market-Capitalist Democracies