

Barry Eichengreen: Number one, I think more dispassionate conversations like this one. Number two, more nonpartisan institutions like the Congressional Budget Office. Number three, and this is difficult, some electoral systems are more conducive to this kind of intelligent discussion and compromise over priorities than others.

Paul Ryan: You can have health and retirement security in America for all Americans. You can have a great, vibrant safety net for the poor and get this debt under control. We can do it. So these problems can be fixed with policies. We don't have the politics or anywhere close to it today to get there.

Marianne Wanamaker: Welcome to "You Might Be Right," a place for civil conversation about tough topics, brought to you by the Howard H. Baker Jr. Center for Public Policy at the University of Tennessee. In this episode, our hosts, former Tennessee Governors Bill Haslam and Phil Bredesen and their guests dig into the national debt. The US owes its debtors more than \$30 trillion on pace to break records even before the COVID-19 pandemic. Unprecedented pandemic relief spending has only accelerated the trajectory of the debt. The governors ask questions on behalf of many worried Americans. Is the United States headed for a fiscal reckoning or will the economy take the additional debt in stride?

Bill Haslam: Well, Phil, I've been looking forward to this conversation because I personally think it's really important for our country. I guess in full disclosure, I should say to our listeners, this is probably one of those where we come from a fairly similar place.

Phil Bredesen: Right.

Bill Haslam: And so, why don't we start by, we talk a lot about the national debt, the national deficit – give us deficit 101, what's the difference in the debt and the deficit?

Phil Bredesen: Well, deficit, of course, is how much more you spend each year than you take in a tax revenue and you have to make that up borrowing money to close the gap and that's what causes the debt to increase. So we got here, I think in the same way that individuals do with the credit card debt, which is it's fun to spend money and much more pleasant than actually figuring out how to pay for it. When you've got an economy as strong as the US, it's a very easy thing to do, to just slip into saying, "Let's slip into a debt mode."

Bill, in the past, when we've had debt up until, really, the modern era, it's been as a result of some crisis, the depression came along and the debt went up because we were trying to deal with it. Obviously, World War II is an example and really, I mean the COVID is an example of that. But the thing which, to me, is scary about where we are now is it's structured in. I mean, even when we don't have crises we run huge deficits because our tax revenues are just lower than what we spend. It's something I know bothers a lot of people. It's also something that's very difficult to fix in an acceptable way to people and I'm really looking forward to this conversation.

Bill Haslam: It's been said that deficit works out well for everyone because Republicans like to cut taxes and Democrats like to increase spending and we've done both of those without any reconciliation.

Phil Bredeesen: That's exactly right. I mean, to me, both parties like to spend money, they just use a different mechanism to do the same thing.

Bill Haslam: Going back to your first point about that deficits aren't a new thing and much of it has been driven by a certain event in the past. I mean, we started out with a revolutionary war that cost money and one of the reasons the country came together and banded together was for, "How are we going to pay for these bills we rang up during the war to individual soldiers and then to France and other countries?" So it isn't a brand new thing, but I think your point's a really good one. It started or in the past, it's primarily been due to a certain event.

Phil Bredeesen: Yeah. I mean, World War II is the classic example. We ended up at the end of that with debt over 100% of our GDP, which is where it is now again, but the war's over. And then we had this huge expansion of the economy over the next 20 years and that as a percentage of the GDP of the country just fell back down to much, much lower levels. There's nothing to come to an end. We're not going to bring Medicare to an end. We're not going to bring Medicaid to an end. It's structural now. It's not incidental.

Bill Haslam: One of the difficulties is, and we both know because we've been candidates, it's really hard to say we're going to cut the deficit, we're going to cut the debt. Because as you've noted, the very first question somebody says in the very first debate is great, "Where are you going to cut it?" And then, now, all of a sudden you're on record as cutting something people care about. Actually, I should confess, for eight years I stole your line about people running government as a business. I should go ahead and give you full credit for it now, but Governor Bredeesen said and I heard him one time back when I was a mayor and he was the governor say, "Everybody wants you to run government like a business until you do," and that means they're having to cut something that you care about and that's precisely the problem.

Phil Bredeesen: Yeah. It's a little bit like if you talk to somebody and then press them about where are you going to cut, it's always fraud and . We're going to cut that all out and that's going to fix everything. I'm not saying it's not there but it doesn't fix the problem.

Bill Haslam: I will say as a conservative who cares deeply about the budget deficit, fixing fraud and waste is not going to fix our debt problem.

Phil Bredeesen: Okay, Bill. Well, our next guest I think is going to be very interesting. It's Professor Barry Eichengreen. He's a professor of economics and political science at Berkeley and has done that for more than a couple of decades now. Very involved as an expert in the subject of economics, has been at Harvard as well as University of Cambridge. Just recently published a book, one of many of his, entitled In Defense of Public Debt, talking about his view,

both historical and current, of what debt means to a country.

We're looking forward to the conversation very much. Welcome.

Barry Eichengreen: Thank you.

Phil Bredesen: I want to start out with a question. We've titled this series, You Might Be Right, taking off after a Howard Baker aphorism that makes sense to listen to the other side sometimes because they might actually be right. In that spirit, I guess in full disclosure, I'd have to say, I've been involved on the side of the issue that persisting deficits are a real problem. I was involved with Erskine Bowles and fix the debt stuff in Washington when I got out of office. So I guess I'd take as an axiom that these things are not good for the country, but I'm also sitting here saying, "Maybe I'm wrong. You might be right. You might be right about this." Just to start this out and for our listeners to understand what the elevator speech or what the paragraph or two about why this should not be a concern in terms of where we are now. What would that argument be?

Barry Eichengreen: Well, that argument would be that there are good debt and bad debt. There are good reasons to incur debt, public debt, and there are not so good reasons. So chronic overspending on low priority programs is not a good thing. On other hand, there are all hands on deck emergencies when the government has to mobilize all available resources beyond what can be mobilized in the short run through taxation and spending that is financed out of current revenues.

The classic historical example is war. So US public debt history is punctuated by, there are big spikes in our debt around the time of the Civil War, World War I, and World War II, but there are also public health emergencies, think COVID-19. If you go way back in history, in the 14th century with the Black Plague, the Italian city states of Sienna and Venice borrowed from their citizens. They incurred public debt in order to meet that public health emergency. So there can be natural disasters, there can be public health emergencies, there can be national security emergencies. We argue in the book that prudent governments borrow to meet those emergencies, but then they repay at least a portion of those debts subsequently in order to restore and enhance their capacity to borrow and meet the next emergency that comes down the pike.

Bill Haslam: Let me just follow up with a question over that. Actually, even though I come from the Republican side of the aisle, I would agree that there are things, World War II is a great example where our debt to GDP went over 100%. But I think the concern is, but we feel like we have actual structural deficits now that are, obviously, COVID bumped us up. But even aside from that, particularly with Medicare and Medicaid driven costs, we're at a structural deficit. Is that an issue or not?

Barry Eichengreen: That's going to be an issue in the longer run, but it's not an issue over the next decade or so because the interest payments we make on the debt are going to be growing

more slowly than the economy as a whole. So that is more or less what the nonpartisan experts at the Congressional Budget Office say, that the federal government debt relative to the size of the economy – and it's relative to the size of the economy that's relevant – will not be much higher in 2032 than it is today. Interest rates are trending upward as we speak. You and your audience are well aware of that fact, but the economy is growing robustly by historical standards and the rate of growth of the economy is higher than the interest rate on our debt. So there isn't public debt cliff looming anywhere in the next 10 years. After that, the population really begins to age and the CBO thinks healthcare costs are going to continue to go up.

Bill Haslam: Let me go back and maybe ask you a fundamental question. What indicators do you look at when measuring debt level? Is it debt to GDP? What do you look at and where would you say, "I'd get concerned when we get beyond this level?"

Barry Eichengreen: I look at debt in the hands of the public. Debt actually held by investors, scaled by relative to the size of the US economy, which basically determines the resources that we can raise to service and repay that debt. So in 2022, as we speak, debt in the hands of the public as a share of GDP is 100%. Not so nice round number. I don't think there's a magic number for how much debt is safe and when it suddenly becomes unsafe. As I've been suggesting, how much debt is safe depends on how healthy the economy is and how fast it's growing and what's going to happen to interest rates going forward. So another thing that Congressional Budget Office does that's wise under the circumstances is they look at a bunch of different scenarios. They do stress tests, if you will, on our ability to safely service our debt because the honest truth is that nobody knows how fast the economy is going to be growing 10 years from now or what that interest rate really is going to be.

Phil Bredezen: I'm interested in your separating out the debt held by the public which is obviously the way it is it often done, but it seems to me that other aspects of the data, the paper that the Social Security Administration holds for example, is every bit as much an obligation to the public. It's an obligation to retirees and not investors, but one that has an equal moral force behind it to be met. Why do you separate them out that way?

Barry Eichengreen: Well, economists typically separate it out because it's simply an instance of government paying money to itself. So it doesn't involve a real transfer of resources, but it's something one can argue about to be sure.

Phil Bredezen: Yeah. One other question related to it is, I mean, we've talked about this in terms of interest rates and the ability to service the debt in that sense, but when you take a trillion dollars and use it to buy government bonds with, that's a trillion dollars that is not doing something else in the economy. It's not being linked to business, it's not being used in a host of other ways. So I mean, it seems like that, too is one of the consequences of debt. It's not just the interest payments, it's the diversion of the capital to a different use.

Barry Eichengreen: Yeah. So economists do worry about that. They talk about crowding out

private investment through ongoing deficit spending by the government. But the way that crowding out takes place is by putting upward pressure on interest rates. So until very recently, private investment has not become more expensive. Interest rates had remained at rock bottom levels, so that had not been a problem. Now, it becomes a worry as increase rates begin to go up, but spending by the government can have other effects on the economy and investment that work in the other direction.

So if we're in a COVID-19 lockdown in early 2020 and economic activity looks poised to collapse, then deficit spending, that adds to the debt and keeps the wheels turning, keeps the economy going, has a strong positive impact on the level of investment. So I think this brings us back to where we started, gentlemen, that if you are engaged in deficit spending and adding to the debt for good reasons to meet an economic, financial, or geopolitical emergency, that has a net positive effect on society, on the economy, on investment compared to the dire alternative. If you're running ongoing deficits and adding unsustainably to the debt in order to finance transfer payments, it's not a good thing from the point of view of the figure of the economy.

Phil Bredezen: Well, that's interesting. I thought we would be at a different place, but we're at exactly the same place in terms of the way of thinking about it.

Bill Haslam: Well, Barry, let me ask a question. Just give us from an economist standpoint, I personally think we're in for a period of inflation due to a host of reasons, but what does inflation do to the deficit and debt?

Barry Eichengreen: In the short run, it can be a good thing from the point of view the burden of the debt on society and the economy because one way of thinking of it is that it reduces the real burden of the debt. Another way of thinking about it is that it inflates nominal GDP and makes it easier to service and repay a given amount of nominal debt. But the other thing we know from history and common sense is that investors will cotton on to those trends and if you go down that inflationary road, interest rates are going to react to that and policies that reduce the real burden of the debt initially, on impact, are going to have the opposite counterproductive result subsequently.

So there are economists out there at the moment who are predicting that we are going to, we being the advanced economies, are going to inflate away a substantial amount of our inherited public debt. I don't believe that, personally, for two reasons. Number one, I think that investors would react very negatively to those policies and institutional and individual investors are a powerful political force. And number two, I do believe that stability culture is deeply ingrained in our central banking community now. So the Fed may be significantly behind the curve, but it's moving double time now to try to catch up and I think they're serious about moving back.

Bill Haslam: I would be concerned when we have chronic overspending on low priority items and both of our experiences being in offices, low priority item is something that someone else cares about more than I do. So I guess, if I'm asking you a move to the conclusion question,

how would you answer that? It's easy to say somebody else's low priority, it's a lot easier to justify we need to spend this because this really matters whether it be climate change, healthcare education, national defense, or keep going.

Barry Eichengree: Well, number one, I think more dispassionate conversations like this one. Number two, more nonpartisan institutions like the Congressional Budget Office. So other countries that have successfully engaged in fiscal consolidation have strong independent expert committees and the like to agree on priorities. Number three, and this is difficult, some electoral systems are more conducive to this kind of intelligent discussion and compromise over priorities than others.

So Germany has a very low public debt, partly because it has a history that makes it phobic about inflation, but partly because they have a political system that delivers broad-based, centrist coalition governments with a bunch of different parties represented at the same time who they're always together in one room having to agree on policy. So we have our own presidential system with its winner take all, first past the post electoral system. I think, again, historically we see that those institutions create challenges for successful debt management. I would point to the 1990s to suggest that they are challenges that can be surmounted, that can be successfully met.

Phil Bredesen: Thank you very much. It's been very helpful and we really appreciate your taking part.

Bill Haslam: Thanks. We do. We know you have a full schedule and we truly do appreciate the insight you've given us.

Barry Eichengreen: And I appreciate the title of the podcast and the sentiment behind it.

Bill Haslam: Thanks so much, Professor.

What do you think? You said in the middle of the podcast maybe we agree more than I thought we would.

Phil Bredesen: Well, I certainly thought that where he went that deficits and debt are perfectly appropriate in emergency circumstances, but the structural ones ought to be avoided. I mean, I would agree with that subject. I mean, there's times when it's appropriate and I presume you'd be close to that –

Bill Haslam: No, yeah. World War II –

Phil Bredesen: We might disagree which emergency –

Bill Haslam: Yeah. Right. Right, right. No question.

Phil Bredeesen: Right. So from that standpoint, it was very helpful. He talked about a lot of things about how he would measure the debt with the inflation rates and the interest rates and so on. I need to think through that a little bit. I'm not sure I totally believe that. The big one for me, though, is the question we touched on briefly which is if a trillion dollars goes to the federal government to spread out to doctors somewhere, that's a trillion dollars that didn't do something else. I sure would like to get my arms around what that something else is and not just gloss over it with a, "Well, it doesn't seem to be anything happening that's preventing business from getting the money they need."

Bill Haslam: I would agree with that. I think probably at the end of the day, he probably has a little bit more faith that government... Believe me, government's not always part of the problem. I ran for office four times because I think government really matters, but he probably has a little bit more faith in the capacity of government to solve every problem than I might.

I don't want to nitpick on things, but one of the points he made was, I think all these things will improve and one of the things he says, "People are going to be retiring later, so therefore they'll be paying in," but the data doesn't really show that. The great resignation that's happening right now, the fallout hasn't really been in 20 and 30 year olds, it's been in people in their late 50s and 60s who've just said, "I've had enough. I'm done. I'm going home." And so, I'm not really encouraged that even though people are staying healthier, they're going to work longer. I think it just means they're going to live longer and have those entitlements for longer.

Phil Bredeesen: Yeah. I have the same reaction which is, again, I don't have the numbers in front of me but people may be retiring a little later, but they definitely are living longer and that runs up the entitlement costs, particularly in Medicare.

Bill Haslam: Well, one thing, and this is more of a general comment, but he was referring like, "Well, that's why we need more conversations like this," and then he went on to say more expert committees, things like the Congressional Budget Office, etc. One of the things I think we'll both agree on is there's been, to me, a really sad decline in trust of institutions of all type in our country. You could say institutions have earned that lack of trust, whether it be government, the church, military – name it. They've all taken their hits, but I think one of the issues is people no longer trust that third party expert opinion on something because there's this assumption, "Well, they're acting like a third party, but they're really for the other side."

Phil Bredeesen: Yeah. The reality is that there's no such thing as a truly independent person. I mean, everybody brings to these discussions a whole bunch of preconceptions and their own life experiences and so on. So it's been interesting for me. You look even around the country at governors, there are states that are never going to send a Democrat or Republican to the Congress, but they happily have governors of different parties.

Bill Haslam: I always laughingly say that Bernie Sanders has a Republican governor, which

was one of those head scratchers.

Phil Bredesen: Right. Massachusetts has a –

Bill Haslam: There you go –

Phil Bredesen: Republican governor, right?

Bill Haslam: And Kansas has a Democrat. So it really does show the difference in electoral office. We both have, like I said, run for mayor, run for governor, I always think it is too bad there's not a requirement that before you can serve in Congress, you have to have been the mayor of your hometown.

Phil Bredesen: That'd be a very healthy thing to do in my opinion.

Bill Haslam: I'm really pleased to have former Speaker Paul Ryan with us. If you could pick somebody who has shown their commitment and passion to the area, the fiscal deficit and why that matters to our country, I think you'd pick Paul. So Paul has also become a friend over the years. Paul, really appreciate you taking time to be with us.

Paul Ryan: Governors, good to be with you guys.

Bill Haslam: So let me start this. You're famous on this issue and I think rightfully so, but give us the elevator speech about why this matters.

Paul Ryan: It matters because in 10 to 20 years, mid-century, we will not be able to afford our social contract. If we think that America's polarized today, just wait if and when we lose our reserve currency status, we can't afford to bond finance our social contract, which is health and retirement security for all Americans, a safety net for the poor, social security, Medicare, Medicaid. We won't be able to afford those things. We want to cut those benefits in real time for real people who have organized their lives around them, who are living on these programs. Think of the chaos that will ensue at that time and that will make today's polarization look like nothing, so this is one of those issues.

My mother-in-law passed away 10 years ago but she used to always say this thing that's always stuck with me, a stitch and time saves nine. This is one of those issues where if you get it right early enough, you can dodge a debt crisis. You can dodge a debt bullet and our country can keep its promises to its people, which is health and retirement security, the social contract, the social safety net and we won't be able to keep that promise. We have so many unfunded liabilities and the government's making promises to what I call the three generation window – retirees, workers, their kids – and it's promises that can't be kept. So we need to reform these programs, so that we can make sure we can keep these promises. It's that simple in my mind.

Phil Bredezen: Obviously, all of us, obviously, have been involved in running for office and it's hard to find people who don't think that in some abstract way that debt is a problem, deficits are a problem, but it rarely gets talked about because then somebody says, "Well, okay. What do you plan to do about it?" After you said get rid of waste and corruption, there's not much more you really want to say in the political world. I mean, where do you think you have to focus and how do you get people to focus on the need to address some of these issues?

Paul Ryan: Yeah. I spent most of my career on this particular issue. Before I was Speaker, I was chairman of the Ways and Means Committee which is the committee in charge of most of these programs, everything but Medicaid. So Social Security, Medicare, the social safety net welfare, that's the Ways and Means Committee. Before I was chair of that, I was chair of the Budget Committee which puts the whole thing together. When I was Budget Committee chair, I used to introduce budgets and I passed three of them out of the House. We called them the Path to Prosperity. When they were my individual budgets, we called them the Roadmap for America's Future.

What you can do is you can reform these programs in such a way that you can bend the curve so that after the boomers are retired and after they've worked through the system, you can get the debt back under control. No two ways about it: you will bond finance the boomer generation. But the question is, can you put in reforms today that apply to people before they retire with important changes to these programs that still meets these missions quite well but dodges that debt bullet so we don't have a debt crisis and passing legislation like that is really hard.

Bill Haslam: Paul, what can get us there as a country to where people say, "All right. I get it." Like I said, maybe we can't bond our debt. What will make us finally face reality?

Paul Ryan: The ugly answer to that is the bond markets do it to us, the vigilantes and the bond markets and currency. So right now, we're monetizing debt. That's basically, recently, that the Federal Reserve is printing money. It's the biggest hold of our debt now and that's fairly recent. You'll hear the Fed talk about sterilizing that debt, but it's not much of a step for the Fed to actually monetize our debt. And so, the reason I bring this up is I think we're playing with fire with respect to preserving the dollar as the world's reserve currency. The good news in this story is there's really no rival currency out there right now. China's not going to do it, but that can't be taken for granted. We could go to a multi-polar currency world where a basket of currencies, yen, euro, won, crypto, different CDBDCs could replace and displace the dollar as the world's reserve currency.

If and when that happens, then our rates, they shoot up and the bond markets come after us. Sorry for giving a long answer, Bill, but we could have a run on bonds, we could have a currency problem that could be the forcing mechanism. That would be ugly, radical budget surgery in real-time which would be very difficult. The alternative to that is we can politically sell the need to do this on our terms as a country. We can make these programs actually work better and pass these reforms so that they're phased in over time, so that they're gradual and accepted

and they're not too disrupting to people and their lives.

Bill Haslam: Paul, let me shift back to 30,000 feet here. It's never been more politically difficult to solve hard problems of any kind, name it, immigration, deficit, we can name it. It's just due to the, we won't have to go into it, but due to the politics of the moment, if you will. So how do we, again, go to 30,000 foot, not just on this, but how do we encourage the country back to focusing on we can make points or we can solve problems?

Paul Ryan: My quick answer, and this was always my theory, is you have to have people run for office talking about this, educating people about this, and then offering a solution to this, so that if they win that office, then they have earned the moral authority and the right to put it into place.

When I became speaker in 2015, I wasn't looking for the job actually, I was drafted into it. One of my conditions on doing this job, and it's a great way to go into a job like that where you get drafted into it. Most people are just dying for the job. I actually really didn't want the job. I said we have to have a plan and agenda that we run on and we called it The Better Way and we put it out there. We had healthcare entitlement reform plans on all these programs, tax reform, and a bunch of other things.

We didn't have a social security reform plan, but we had just about everything else. We ran on that as House Republicans and then the Clinton-Trump show took over and that's what people remember from that 2016 election. When we got into office, we got our tax reform done, we got one vote away from putting these kinds of reforms on two of the three healthcare entitlement. Medicare was not part of it, but Medicaid and the Affordable Care Act, we passed that through the house, what I described, and it failed by a vote in the Senate. So that bill was about a trillion in debt reduction the first 10 years, multiples in the out years. So we would've chipped away at two of the three healthcare programs that needed attending to, leaving Medicare, the big one for later but the president wasn't interested in going into the area of entitlement reform.

It's one of the reasons why I retired was I never saw my family, I was on the road six days a week. I knew we were going into a presidential election cycle, that's not the time you propose massive entitlement reform, so I just knew we weren't going to be doing that kind of serious legislating in a presidential election. And so, I decided to go do the think tank thing. I teach economics at Notre Dame, also, and I'm working on these ideas because this is what I like to spend my time on. When you're in Congress, unfortunately, you don't get to spend that much time on these things.

Bill Haslam: I always tell people that being in elected office is a little bit like alcohol. You think it makes you smarter and more clever, but it doesn't because you don't have time to get through those issues.

Paul Ryan: Yeah. Exactly.

Bill Haslam: But let me ask you this –

Paul Ryan: Somebody needs to run on doing this and then get elected and then go do it.

Bill Haslam: But your argument, I think in the face of it, political reality as you said, there's going to have to be some people be sacrificial limbs for that as well because it's a tough thing to stand up there on the debate stand.

Paul Ryan: It's really hard to get people to vote for this sort of stuff. Yeah.

Bill Haslam: Right. Let me go back. Tell me, you're explaining to somebody who's an insurance agent in Janesville, Wisconsin, and why they should care whether our currency continues to play its current international role. Why should I care?

Paul Ryan: Yeah. I've used to do Rotary Club charts and graphs on this type of stuff. I used to have this PowerPoint I would run through on just this point. The long of the story short is because we are the world's reserve currency, we can borrow pretty much as much as we want at really low interest rates and people buy our bonds no matter what. When the proverbial you-know-what hits the fan economically, what does the world do? They buy US treasuries. When you have all these currency problems around the world, people buy US treasuries. Because we're the reserve currency, we're not acting like it but because we are, we can borrow a lot of money and cash flow all these government promises at low rates. But the problem is, that's really stacking up and it's the percent of GDP that really matters greatly. We're already at 100%, which is because of COVID and other things.

But the problem with our debt situation right now is being at 100% of GDP, partly because of COVID – I think it's at 96% right now and it goes down a few points for a couple of years and then it shoots back up because the structural deficit of these entitlement programs is pushing the debt up. So number one, we're not going to have margin for error to be able to do the kinds of fiscal monetary things we did before when we had this COVID crisis or when we were in the '08 crisis.

So we're running out of a wiggle room to respond to crises because of this stubborn debt. And then, the interest we pay on the debt. When interest rates go up, then we have massive increases in payments on that debt. The problem is, the psychology of the economy and the world markets will maybe one day conclude if this democracy does not get its politics right, then you know what? The Americans are incapable of politically tackling this problem and they're going to monetize. They're just going to print money to pay off this debt and therefore, I need a much higher interest rate, if I'm going to lend these people money, and there goes your problem.

Bill Haslam: We appreciate your time. Let me ask my last question unless Phil has something else. Again, you're talking to that insurance agent in Janesville, Wisconsin, who says, "I'm sorry, you're no longer the currency of record for the world?"

Paul Ryan: The markets say it. I think people who vote with their feet say it. Central Banks say it and people would say, "I want to trade in different currencies. I'm going to put price oil in RMB or on euros instead of dollars." They're going to demand as medium of exchange some other currency because it's more reliable because the Americans have mismanaged it and I don't expect this currency, this dollar to be a reliable store of value anymore. And so, that's why I always tell people, "We're the healthiest looking horse in the glue factory right now." I don't think we're at risk today, but we're playing with fire and with digital currencies coming down the pike, with digital payment rails coming down the pike, it's going to move a lot faster.

Phil Bredeesen: One question, on a related subject, I mean, we've talked about this in terms of the interest payments, the danger to us as a reserve currency and so on, but also when you borrow money by selling treasuries, that's money which it doesn't do something else in the economy. Do you see that as a real part of the problem or is there already sufficient liquidity out there to do everything we're capable of doing in the private sector?

Paul Ryan: I think right now there's liquidity, but we could have a Japan malaise type of situation where there's a big crowding out and therefore money's not going into productive investments, innovative investments in research and new ideas and entrepreneurialism. Plus, our taxes had to be higher than they otherwise would be and our interest rates are going to be really higher. So therefore, the higher interest rates, the tougher access to capital is and the more expensive capital is and your economy stagnates. I think if you get this under control and we fix immigration, we're going to have a heck of a great century, but we'll have some serious stagnation if we don't get this under control.

Phil Bredeesen: And then, the last question related to that, I think we've all observed over the past few months how interconnected the economy is as we look at the obviously Russia and Ukraine and the actions that have been taken and so on. Of our debts, I mean, there's a fair hunk of it that's held internationally.

Paul Ryan: Yeah.

Phil Bredeesen: Does that present, in your mind, any kind of a security risk to the country?

Paul Ryan: The numbers are better than they used to be. 66% of our debt is domestically held and 34% is foreign held, so it's not what it used to be. Again, it's all about reserve currency status. If we keep our reserve currency status, we're going to be fine. When I'm doing the Rotary Club thing with the Janesville insurance man, the SWIFT system, people now know what this is. They know how money moves to the world like plumbing on these electronic payment rails and we run that right now because we're the reserve currency status.

If we screw that up and mismanage it, think of if like Vladimir Putin was in control of the SWIFT system, what could happen if an authoritarian like that was in charge of the plumbing of money

through the world? Well, that is exactly what China is attempting to do right now by digitizing their RMB and building their own payment system and getting the world to join their payment system, starting with the Belt and Road nations and the rest.

So there are huge consequences to us getting this wrong and losing our reserve currency status, such as the payment rails of money throughout the world, we do not want running through a country like China, let alone what it would cost us to operate in a world like that. So big consequences, we got to get it right. All roads lead back to getting our debt under control and the way you get your debt under control is you solve our entitlement programs. You solve these problems, you can have health and retirement security in America for all Americans. You can have a great, vibrant safety net for the poor and get this debt under control. We can do it. So these problems can be fixed with policies. We don't have the politics, or anywhere close to it today, to get there. That's the problem we have right now.

Bill Haslam: Paul, you've been great. The name of the podcast, as we said at the beginning, is "You Might Be Right." Can you think of a time when in your career you've been in a discussion you've thought, "You know, you might be right. I've learned something that's helped my perspective on a critical issue?"

Paul Ryan: Criminal justice reform is probably the one that came to my mind the best. Phil, when were you governor?

Phil Bredeesen: 2003 to 2011.

Paul Ryan: Okay. So I came into Congress in '98 and it was Clinton and Biden, actually, and Republicans saying, "Tough on crime, tough on crime. Three strikes, you're out." Minimum sentences. We were really tough on crime and we passed all these crime laws to crack down on crime and we overshot. I didn't know that until 2014, '15, '13, maybe 2013. I started doing a lot of listening sessions around the country on this and I learned that we were putting people away in jail for a long time and it was making communities worse, making them worse off, and there were better alternatives, drug courts and the rest. So I learned that I was wrong in how I thought about criminal justice. It was over a course of about a two-year period of research on this, learning from governors, frankly, that had learned this lesson as well, and then changed my position on it. We ended up passing criminal justice reform in 2018, so probably that issue. Got it wrong.

Phil Bredeesen: Thank you.

Bill Haslam: Paul, thank you. We truly appreciate your time and your insight and as somebody who – You've been on the right path on this issue, I really appreciate you being willing to be a voice in the wilderness.

Paul Ryan: Yeah. Hopefully, it's not such a wilderness.

Bill Haslam: We're hoping. Thanks so much, Paul. Appreciate it.

Paul Ryan: Take care.

Bill Haslam: Bye bye.

Phil Bredeesen: See you.

Bill Haslam: What'd you think? Any new insight that was unexpected?

Phil Bredeesen: No, he emphasized the reserve currency issue and probably pushed that up in my mind a little as a really good reason to be concerned about that. I certainly want to follow up by reading a little more about that.

Bill Haslam: I would agree. When you talk to me about why the deficit matters, that would not have been at the top of my list and to be frank, it feels like that's a little further away. As in his words, we're still the healthiest horse in the glue factory, so it feels like there's still plenty of reasons to get our house in order, although he did add some new fear to me on that.

Phil Bredeesen: Yeah. Well, the points that he was making, though, about with some of these entitlement programs, the social insurance programs, you can deal with it relatively cheaply and easily today compared to what the world's going to be like down the line. I mean, Social Security is a good example of that. I mean, relatively small increases now, fix it. You wait until 2030 or 2035, you're just talking about these huge things that it takes. I also thought that the nice thing about something like Social Security is, I always divide problems into the ones you can fix with a pen and the ones you can't. I mean, social security you can fix with a pen, you pass a piece of legislation, that's done. Healthcare is infinitely more complicated. You can tell the healthcare system whatever you want, but they'll do –

Bill Haslam: You're right about that, but I would say that I have two things that discourage me a little. Number one, I don't think either party is electing people who want to solve hard issues or not electing many people who want to solve hard issues. The second is, I think America has a math problem in the sense of we don't have any concept with it. We talk about \$30 trillion of debt. Well, what's that mean? Well, here's one way to put that in real life perspective. If you took \$1 bills and stack them on top of each other, \$30 trillion would reach from the earth to the moon and back four times. That's a picture of how much debt we owe.

Phil Bredeesen: Yeah. I think the problem though is that most people can't imagine how far it is to the moon.

Bill Haslam: Well, that could – I just know it's a long way, okay?

Phil Bredesen: It's a long way.

Bill Haslam: So there and back four times is a lot of dollars.

Phil Bredesen: Yeah. The numbers are – I mean, they're enormous.

Bill Haslam: The takeaway as I always say, "Well, what can you do about it?" I think it really does begin with encouraging people that when you go to vote, I know it's easy, there's certain things that make you be really excited about this candidate or that candidate and their position on this issue and that's important, I'm not minimizing that. But the main thing is, I elect people who actually have a resume of solving problems. It's so easy to start a fire, it's really hard to put one out. I just encourage folks think about, okay, I know you're really in favor of Candidate A or Candidate B. Show me some examples of where they've solved hard problems because that's what we have to do.

Phil Bredesen: When it comes to the federal offices in particular, it becomes much more about what lever you're going to pull when push comes to shove than it does about problem solving or anything else, so that was a little discouraging. But there's this saying about the Congress that it doesn't do anything until it absolutely, absolutely has to and then it tends to do something reasonable. I don't know what the trigger point is where somebody feels compelled to act to this, but I guess I personally think when this stuff is going to get solved is when one of these bad things starts to happen and people finally say, "We need to do something."

Bill Haslam: Yeah. I'm not sure whose quote it is, but somebody said, "America always does the right thing when it finally realizes it has no other choice." I do think, I'm not certain what that looks like, but I do think that day can come unless we mend our ways.

Phil Bredesen: Now, you have me all depressed on these podcasts.

Bill Haslam: No, because all these folks listening to us are now going to realize how important it is that we figure out some way to solve problems. Here's the reality, and you know this, you had times when I had a Democratic legislature and times you had a Republican legislature. But in both times, in both those situations, to get something hard done, you had to compromise. You didn't get it the way you wanted.

Phil Bredesen: No question.

Bill Haslam: That's what we've lost, is this sense of – we're a split country, we're 50-50 – so to accomplish something, you're going to have to work with the other side to get anything big to happen.

Phil Bredesen: Well, I think it's even deeper than that because you have to compromise to get it done. But also, I found, and certainly from talking to you, I think it's fair to say you've found,

that oftentimes, the right answer is some amalgam of the two things. By picking and choosing from these different points of view, you can craft a better solution. I mean, when you depart a little from ideology, it means you've got to actually think about things and that's a positive.

Bill Haslam: Rarely in my time in office was the answer that I went into some problem with, the answer that I came out of it with, in terms of being the best answer. It always got a little better in the process.

Marianne Wanamaker: Thanks for listening to "You Might Be Right." Be sure to follow on Apple Podcasts, Spotify, or wherever you listen to your favorite shows and please help spread the word by sharing, rating, and reviewing the show.

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