

Speaker 1: Welcome to the Bill Walton Show, featuring conversations with leaders, entrepreneurs, artists and thinkers. Fresh perspectives on money, culture, politics, and human flourishing. Interesting people. Interesting things.

Bill Walton: Welcome to the Bill Walton Show. Why is it that everything in America seems to become [00:00:30] political and polarized and toxic? For example, it used to be that you could have a pleasant conversation with a stranger about the weather. Now, that leads quickly to a heated debate about climate change and whether or not you are a climate denier. What's going on? Today I want to dig into some of the root causes with two of my previous guests on the show, John Tamny, author of the soon to be published [00:01:00] book, They're Both Wrong, and Arnold Kling, author of the The Three Languages of Politics.

Bill Walton: John Tamny is the director of the Center for Economic Freedom at FreedomWorks and is the editor of RealClearEconomics. John's other contrarian book titles include The End of Work and Who Needs the Fed. Arnold Kling is an independent scholar who blogs at ask blog. A PhD in economics from MIT, he's been a research analyst at the Congressional Budget [00:01:30] Office, an economist at the Federal Reserve Board, and he founded the internet business homefair.com. He's the author of many books, including a personal favorite of mine, Specialization and Trade. John, Arnold, welcome.

Arnold Kling: Thank you.

John Tamny: Thank you.

Bill Walton: Great you're here. John, why don't we kick it off? They're Both Wrong. Who are they and what are they wrong about?

John Tamny: Both sides. Liberal, conservative, Democrats and Republicans, are wrong because they think they can fix things. That's [00:02:00] the first problem, at which point I would say a major indictment of the modern United States is that half of the electorate is terrified of Donald Trump. At the same time, I similarly indict a country whereby half of the electorate, or something like that, is terrified of Hillary Clinton. That was not the founders design. We were supposed to go to bed early on election night simply because what the president would do, what Congress would do, wouldn't be very consequential.

John Tamny: The idea was [00:02:30] that we would live in cities and states and choose our policy bliss. We might like a lot, a little, or mid range on government. We would choose policies there so that if we did not like them we could escape them. Now, I would argue this began in the 1930s, Congress and the president have more and more arrogated themselves power formerly left to cities and states, and as a result... Of course everything's political because suddenly everything that happens in [00:03:00] Washington could potentially impact people living around the country-

Bill Walton: When government was 3% of the economy, it didn't much matter. When it's almost half the economy, it does matter.

John Tamny: Yes.

Bill Walton: Arnold, how does this fit into your framework?

Arnold Kling: Well, I think that what's happened in, let's say, the last 20 years, is that in addition to the structural changes that the government taking over more, there's the psychological [00:03:30] element that people feel much more personally accountable and responsible for what goes on. With the internet and social media, we've had a collision between a world that used to be remote to us. I mean, yes, the government affected us, but we weren't seeing the politicians every day, 24 hours a day, in a 24 hour news cycle, [00:04:00] and things that were going on in the world weren't immediately present to us. Conversely, our friends were present to us at this close range, they weren't appearing on screens. Now we're in a world where it's mixed up. We have our friends on our screens and it feels as though things that happen in the news world and the political world are actually happening to us, [00:04:30] and that we're responsible for them.

Arnold Kling: It's not just that we're being affected by political issues, we have this sense that we're involved. You have this strange phenomenon, I think it's strange, of people posting and sharing political opinions on Facebook or Twitter. What do you accomplish by doing that? But people feel a sense that they do accomplish something by that, and they feel a sense of participation [00:05:00] and ownership. Some people might say, "Well, that's great. We have more ownership of our democracy." But as we get into it, we'll see that it's not a healthy form of ownership, and it creates this environment where we all feel threatened by the people on the other side.

Bill Walton: It's not just the size of government, it's also the information technology that's making all of these distance things immediate to us.

Arnold Kling: [00:05:30] It adds another layer to the problem that as the libertarian we feel is caused by the overcentralization of power.

Bill Walton: Real quickly, just, I know you've got a terrific book, requires a deep reading. But quickly the three moral universes.

Arnold Kling: Okay. We have... Think of three beds. There's oppression, and there is barbarianism, [00:06:00] and there's coercion. We all agree, well, those are bad words, we know they're all bad, but my claim is that progressives believe that when it comes down to it, they're the only ones who really understand oppression, and conservatives believe that they're the only ones who understand that barbarism is the threat, that human beings have a natural tendency to lean back into barbarism if societies and institutions break down.

[00:06:30] Libertarians believe that we're the only ones who were attuned to coercion, particularly the coercion... that government has this unique power to coerce, and that liberty has to be defended against that.

Bill Walton: When we look at, John and your two camps, the liberal and the conservative, the horrible for the liberal would be oppression, the oppressed and the underappreciated by society. [00:07:00] The conservatives would be fearing barbarism and retreating from western values. But I think your gripe is not just that they have those things as good and evils, but they want to use government to bring about a solution.

John Tamny: Yeah. I think they're different sides of the same coin. There are alarmists on both sides. To people on the left, a warming planet is an economic progress, is the source of our destruction. To [00:07:30] conservatives, they can't look at a falling birth rate or a deficit without saying, "We're heading for a major crisis." Who cares that markets just mock all these things, but both sides want more control. They just want control of different things. I think that's dangerous. I think it's important to stress that there's no such thing as government spending. What there is, is there is political allocation of resources, meaning there's allocation of resources that has nothing to do with market signals, [00:08:00] pushing them to higher uses. Both sides do it because they want to fix things, and in presuming to fix things, they make things worse.

Bill Walton: Well, you make a claim in the book I don't think I agree with. You said, "Both sides really claim to be for freedom." I don't think you'd just describe somebody's main interest is freedom. That'd be more of a libertarian view.

John Tamny: Oh, sure. But-

Bill Walton: I should, disclose. We probably all three are libertarians in an undisclosed location.

John Tamny: No, [00:08:30] it's true though. Isn't it ironic that conservatives talk all the time about limited government liberty, and the flag, and what the founders meant, yet they've got solutions to everything. With Obamacare it wasn't repeal it, it's, "Okay, we don't like that central plan, so here's our central plan. We're going to repeal and replace it with our own central plan." All of us have smartphones in our pockets that count as super computers. We don't know why we have them. There was no program to get them, but we have these supercomputers [00:09:00] in our pockets. Yet politicians think that there needs a plan in place for healthcare.

John Tamny: The left in the same way they, they're for freedom and civil liberties, but if a city or state says, "We don't want to do things that way. We think that it's probably dangerous to impose a national healthcare plan. We think that cities and states should be laboratories of ideas." The response to the left is, "We're going to ram

it down your throat." There's nothing. Each side professes liberty while acting as though... but watch their [00:09:30] actions, not what they say.

Arnold Kling: I think if anything, even their verbal commitments to liberty are going down. I remember when progressives were for free speech, now on college campuses they're not. Speaking of college campuses, I remember when parietal rules, rules about who could visit who, and when, and under what circumstances [00:10:00] in a dorm were thrown out in the 1960s, and that was liberating. Now there's probably a thicker rule book on sexual conduct in campus than was ever thrown out in 1960s.

Arnold Kling: I mean, I feel, as libertarian, our overlaps with our allies are really shrinking. On the conservatives, they're no longer defending markets, there was a major conservative conference [00:10:30] here about a month ago where it seems to me like speaker after speaker was blaming social ills on libertarianism. They were blaming libertarians for the opioid crisis, for the financial crisis, for problems in rural America. You said we're lonely. I think we're getting lonelier.

Bill Walton: Well, the financial crisis, [00:11:00] that's an interesting take. You write about that in your book, They're Both Wrong. I mean, there's some conventional explanations for why that happened that the left have, the conservatives have, and the libertarians have a very different one. Who wants to go first on that?

John Tamny: There's so much to it, but liberals are lefties. They say that it was the lack of regulation. Oh really? Well, there were no less than 60 full-time regulators staffed in Citibank alone, the bank that's been bailed out five times in [00:11:30] the last 26 years by the federal government. The notion that banks weren't incredibly regulated defies visible and just empirical realities. Conservatives love to blame it on The Fed. "Oh yeah. The Fed lowered rates to 1% and that caused a rush into housing." Okay, well, explain to me what happened in the 1970s when The Fed was aggressively jacking up rates yet housing was as popular then as it was in the 1970s.

John Tamny: Conservatives love [00:12:00] to blame the Clintons because they forced Fannie and Freddie to relax standards. Yet, as I point out in my book, no less than George W. Bush said that, "Home ownership in the United States is what scares the terrorists, and so we're going to figure out ways to get more houses and mortgages in the hands of the people." Conservatives, going back to the 1930s to [inaudible 00:12:22] were doing everything they could to increase home ownership. The idea that this was a Democrat thing is just so-

Bill Walton: You don't think owning a home scared [00:12:30] of ISIS?

John Tamny: No, apparently. But that's what conservatives think.

Bill Walton: Well, let me... You're watching the Bill Walton Show. I'm here with Arnold Kling and John Tamny and we're talking about the state of politics in America. Right

now we're talking about the root causes of the crisis of 2008 and how they're very different views depending on your political viewpoint.

Arnold Kling: Yeah, it's one of these things that fits the three languages model well. [00:13:00] The left talks about predatory lending, although it was actually the lenders who suffered the most. I mean, it's strange to call it predatory when you give a no down payment loan to somebody who's a high risk borrower. Then when you take over their house by predating, you probably lose 50 to 60% of the value. [00:13:30] They did a very bad job of predatory lending. The conservatives will then turn around and blame the decline of lending standards, and they'll focus on that.

Arnold Kling: As a libertarian, I've got to say that, go back to John Tamny's point about regulation, liberals try to talk about regulation as this dial that you turn it up [00:14:00] or turn down. It was somehow turned down in the 1980s for banks. It wasn't turned down at all. There was a change in the regulatory regime from one which protected various banks from competition. California banks couldn't compete with New York banks. Investment banks couldn't compete with commercial banks. Those regulations against competition were relaxed. But the regulations-

Bill Walton: Are those Glass-Steagall?

Arnold Kling: Yeah, Glass-Steagall [00:14:30] and the interstate banking. But the regulations that were designed to protect safety and soundness were... the intent was to tighten them. There was new capital regulations called risk-based capital regulations. Those were the things that actually backfired. From a libertarian point of view, that indicates that government often intends to do one thing and [00:15:00] achieves a very different result. That would be the libertarian story. It would be my story of the financial crisis.

Bill Walton: Well, it's just stunning to me that we have this bill called Dodd and Frank because Mr. Dodd and Mr. Frank were two of the prime movers in causing government agencies, Fannie and Freddie, whatever, to loosen their lending standards. I knew we were in trouble when my housekeeper came home one day [00:15:30] and, she wasn't making a lot of money, and she says, "Well, I just got a mortgage for X amount. It's really great because they not only lent me the full amount of the house, but they let me an extra \$5,000 so I can buy furniture for it." I said, "Well, how much did you put in?" "Oh, we took money back." That was the way it was played. The private sector responded all the incentives created [00:16:00] by Freddie and Fannie, and said, "Okay, well that's the game we're in. That's the game we'll play."

John Tamny: I just think it's worth stressing that businesses make mistakes all the time. In the early 20th century, there were 2000 car makers formed around the industrial Midwest, just about every single one of them died. There was no financial crisis, that's called progress. Silicon Valley, and they're both wrong. My constant

refrain is that in Silicon [00:16:30] Valley, over nine out of 10 businesses are started up and they fail. This is called progress. There was no financial crisis in 2008 there was a crisis of intervention. You have market's correcting what's not working, the excesses that you talk about and then politicians as is their want because we're not supposed to feel pain, they stepped in and intervened and created a crisis.

John Tamny: I will go to my grave saying that if nothing is done back [00:17:00] then, there is no crisis. I think even libertarians have had a tendency to blame The Fed or, "The government did this." Governments make mistakes all the time. They're governments. 4 trillion, there's going to be lots of them. It's when you intervene when markets are corrected [crosstalk 00:17:14]-

Bill Walton: I think the point here is that these are non-market actors that are imposing rules on the players in the game. They're market actors, and you respond to what what you're told. You mentioned capital standards. Remember when they said that... I guess, was it Basel that [00:17:30] declared that anything rated triple A as a mortgage, you didn't need any capital to back it up if you were a bank or some ridiculously small number?

Arnold Kling: My personal view is that, that was probably the biggest contributor that government made-

Bill Walton: I agree. I agree.

Arnold Kling: ... to the crisis. It's something that few people know about. It's a very subtle point, but it makes a huge difference.

Bill Walton: Well, I used to be a banker and [00:18:00] if it's your own money and you're making your own decisions, and you're not being told by the regulators or by the bond rating agencies, this, that, or the other, you're going to protect your capital like it's yours. You're not going to go with Basel capital standards. You're going to say, "I've got \$1 trillion of mortgages on my balance sheet. I better have a little equity to back up that holding in case the value deteriorates," and it did deteriorate, and they got wiped out.

Arnold Kling: Yeah. The [crosstalk 00:18:27]-

Bill Walton: Arnold I think you and I need [00:18:30] to go on a campaign to get the Basel explanation for 2008 out there because most people don't understand that.

Arnold Kling: Well, one of the things on my resume is something called, Not What They Had in Mind: A History of Government Policies That Caused the Crisis and that talks about one of them. There's also a book by Jeffrey Friedman and Wladimir Kraus, I think it's something like, Engineering A Financial Crisis, and they point straight at Basel. That doesn't necessarily [00:19:00] make it right, but it's out there.

Bill Walton: Would we find, Not What They Had in Mind on Amazon?

Arnold Kling: You would find it an Amazon. I think you can probably find a free copy somewhere on the internet if you look carefully.

Bill Walton: We want to sell books.

Arnold Kling: You can, but at the margin I don't get anything from it, so it doesn't matter to me.

Bill Walton: Speaking of selling books, John. I think you-

John Tamny: I do want to sell them.

Bill Walton: [00:19:30] Your larger point is that it's not the government, but it's government that's centralized in the capitals, not just in Washington, but all over the world. You believe, I believe, that you need government at some... we need that, but it ought to be local and the dollars ought to go local. We've got way too much centralized in DC.

John Tamny: I'm not anti-government. People always say, "Well, you hate government." I'm probably more of a skeptic [00:20:00] than most, but no, what I hate is national government, because people should get to choose their blitz. That was called idealistic, okay, let's agree that it's idealistic, but the constitution is the founding document was realistically the first one in mankind's history that was very skeptical about government. It said that these people used to not work in government. They're fallible individuals, but they work in government, and so let's leave most of the decision making locally. That's what businesses do all the time. When Burger King rolled out [00:20:30] it's plant-based burger, the very idea revolts me, but it started out in St. Louis in the St. Louis Metro area. As in, "We're not going to foist this decision on 7,000 locations in the US, we'll try it in one area, see how it works out."

John Tamny: Businesses recognize all time that they must try something small and then see how it works. With the federal government, they nationalized policies such that their errors, which are inevitable, are felt by everyone. I'm saying, let's [00:21:00] bring it local precisely because these guys are so prone to mistakes.

Arnold Kling: I like to say that the argument for less government is that progress comes from experimentation, evaluation, and evolution. Government is weak in all of those. It won't try enough experiments, it doesn't think in experimental terms, [00:21:30] it doesn't really evaluate them carefully. If the business doesn't want to evaluate it's products carefully, too bad, it's profit and loss statement will evaluate it for it. Then evolution. You talk about nine out of 10 Silicon Valley things failing. Well, probably nine out of 10 public policies fail, but they don't disappear.

Bill Walton: But they stay on the books.

Arnold Kling: Yeah.

Bill Walton: You're watching the Bill Walton Show and I'm here with John Tamny [00:22:00] and Arnold Kling, and we're talking about the limits of federal power and expertise. John, Tierney wrote an intro to your book, which I think was... he had a great sentence in here, it says, "Washington experts are rarely punished. Bureaucracies are immortal, so they don't learn." What, I think, we need to understand is we think that bureaucracies are filled with bad people. They're not bad people. They're probably [00:22:30] people just like everybody else. But just the nature of what they do, they're not close enough to problems and therefore solutions, and they don't learn anything.

John Tamny: Yeah. Look, if Senator Bill Walton from Virginia, you're a disastrous allocator of capital, and you are because you don't have to realize [crosstalk 00:22:50]-

Bill Walton: Well, I think I'd be... [crosstalk 00:22:53].

John Tamny: Because you and Buffet in the Senate would suddenly [00:23:00] not have to realize your errors, and even if you wanted to realize your errors, someone will say, "Hey, wait a second. Some of that spending is occurring in my district. If you want to, you're not going to." With every book I write, I always try to bring real world stories into it. One of the themes that keeps coming into this one is Ed Catmull, the founder of Pixar, the wildly successful movie studio. As he says, "We constantly rush to our mistakes."

John Tamny: Catmull [00:23:30] is uncomfortable if a movie is going well because he knows he's missing something as he also adds, "All of our movies, suck at first." It's this constant search for errors. He realizes that because he used to live in a world where Pixar could not get any funding at all to make movies, and so he's got to have that focus. With government, it doesn't matter if you're Republican, Democrat, or even libertarian like us, you don't have to rush to your mistakes because there's a constant inflow of dollars. You know there's guaranteed [00:24:00] income on an annual basis, so there's less of a need to fix what's wrong. Again, that calls for the decentralization of power for those reasons yet again.

Bill Walton: Entrepreneurs fail. They fail many times, usually before they succeed, and then they succeed and we only look at those successes and it must be easy, so therefore we'll tax them. [00:24:30] Let me change gears a bit to something that might be on point, budget deficits and taxes. We talked about the size and scope of the federal government. We're now running, what, over a trillion dollars a year annual deficit? What do we think about that?

John Tamny: I don't think about it at all. I think it's a huge waste of time. Would we prefer an annual budget that's balanced to \$4 trillion or an annual budget deficit



[00:25:00] of 1 trillion or 2 trillion in spending? To me the answer is obvious. I don't care how they access the funds, that we know by definition they're going to misallocate because it's a political misallocation. I just care about the total dollar amount. Government can take it in taxes or it can borrow it and pay us for the right to misallocate. But let's not pretend one is worse than the other.

John Tamny: I think market signals support my point of view. The budget deficit was \$1 trillion in 1980 [00:25:30] and the yield on 10 year treasury was 11%. Fast forward to the present it's 21 trillion, and then with unfunded liabilities I know it's many multiples of that. The yield on the 10 years is somewhere south of 2%. These are the deepest markets in the world. Are these markets stupid? Because I've heard all of my life that deficits are going to destroy us. I keep waiting for this. I keep waiting for when markets are going to discipline government. I don't worry about deficits. I worry about the size deficits, [00:26:00] are waste.

Arnold Kling: That was the chapter in your book that I disagreed with because I think in some sense the market is stupid for buying longterm government bonds. I wouldn't do it myself. That's just my opinion, but I don't know how to exercise that opinion in a way that would work in the market, because I don't know how the government is going to default exactly. It may [00:26:30] pay off its bonds and screw some future Medicare or social security recipients. Maybe it will sell off Yosemite and the other national parks. Maybe it will print lots of money, like the, what is it, the MMT theory of-

Bill Walton: Modern-

Arnold Kling: Modern Monetary Theory, right.

Bill Walton: MMT, yeah.

Arnold Kling: Maybe it'll print money and [inaudible 00:27:00]. [00:27:00] I don't know how government's going to default, and because of that, I don't know how to express my opinion in the market other than by, I personally don't own a lot of long term bonds. But at some point somebody is going to get screwed. I mean that's my reading of the congressional budget office-

John Tamny: Do you agree that, that's been said all your life and mine? Because that's all I've ever heard.

Arnold Kling: I would say it's been more true [00:27:30] recently with... Start with, let's say the congressional budget office forecasts, which show an unsustainable path for government spending. It's just, we can't fund it. Who's going to get screwed? Is it going to be bond holders? Is it going to be people expecting social security or what? Do you believe that [00:28:00] the private sector is going to take off and grow so fast that the government can just afford to spend whatever it wants. What assumptions are wrong in those congressional budget office forecasts-

Bill Walton: Let me just see if I can simplify the issue. I think what you're saying, if we get a \$4 trillion budget and \$5 trillion deficit, that the bond market's financing it in short term. That's just another way to finance the federal spending. [00:28:30] What Arnold's saying, and I think I agree, is that longterm, there will be a day of reckoning. Short term we don't care, longterm it could be catastrophic.

John Tamny: Sure, but in answer to-

Bill Walton: I think that's the most dangerous weapon, if not the most. It's in my top five.

John Tamny: Okay. But my response to that would be tomorrow has already been priced. What is the 30-year bond, but the market's saying, "30 [00:29:00] years from now. We're just so not worried about [crosstalk 00:29:03]-"

Bill Walton: Well. We're also talking, now, about selling 100-year bonds-

John Tamny: Now we're talking about 100-year bonds. Markets are saying that this is not going to be a problem. This idea about being screwed through money printing or someone being cut off, at least now the deepest markets in the world disagree. It's possible that the two people I'm sitting across from are smarter than every single other market participant. Not to mention all those who aren't participating but who are not worried. But collectively [00:29:30] it's not unreasonable to say that they're much smarter than you are. You may be the smartest person in FedEx Field on any given Sunday. Judging by the fans, I can almost confirm that. But collectively they know more than you do. I-

Arnold Kling: Do they still show up, by the way?

John Tamny: Not as many, so you're smarter than you used to be relative to the Redskin fan base. But as I argue in the book, and I think it's correct, what are bonds but an income stream? People are purchasing an income [00:30:00] stream. If in fact it was a problem of revenues. If the spending... Because I've heard unsustainable all my life. All of my sentient life, the CBO says this. I remember when John McCain ran for president. They showed a video of him every year from 1980 up until 2008 saying, "Hey, someday these deaths are going to get us." The problem is, we've got too much in the way of revenues and the markets are pricing a surge of revenues in the future as talented people are able to meet the needs of more and more people around the world. [00:30:30] As a consequence, government borrowing becomes easier and easier. The deficits are not the tragedy it's the spending.

Arnold Kling: What's odd about that, I mean, one model is, yeah, the markets are expecting a lot of growth. But you'd think if that were true, then interest rates in general would be high. I mean, we're in a world where Piketty who said that, "Well, inequality is because the interest rate is way [00:31:00] higher than the growth rate," should be coming out now and saying, "Inequality should be dropping like a stone because interest rates are so low."

John Tamny: Why would interest rates be high if the economy's growing? [crosstalk 00:31:13]-

Arnold Kling: Because you're getting some return on capital. You would think that... I mean, yeah the [crosstalk 00:31:24]-

John Tamny: They were high in the 1970s, was that a high growth period? Guaranteed they're high in Haiti right now.

Arnold Kling: Well, [00:31:30] of course that's because people were factoring a lot of inflation.

John Tamny: They're also high now. You know better than I, if you go to Silicon Valley and try to fund a business, they're so high that you couldn't even get [inaudible 00:31:47].

Arnold Kling: Okay. Yeah. Well then, that's another possible story which is that, for some reason people consider, even 30-year bonds, a safe haven. [00:32:00] But any sort of private capital investment, they think, "Oh, that's really risky." It's interesting to think why that could be. It could be that one scenario is that people are absolutely confident that the US Navy is going to make sure that the US will never default on bonds. But heaven help you if you have private wealth that-

John Tamny: Yeah, but you just explained why-

Arnold Kling: Maybe the market is thinking Elizabeth Warren is going to come in and tax all your private wealth but the-

John Tamny: No, but you just [00:32:30] explained why. Of course capital is tight in the private sector because, as you agree, we're constantly experimenting and we're constantly failing. The cost of experimentation is always going to be higher, but you would also agree, as you've alluded, that where there's lots of experimentation, there's lots of growth. Government bonds are just a reflection of how much they're going to collect from the most talented, innovative people on earth going forward. If you're looking at individual, of course capital's tight. As Bill [00:33:00] and I have discussed here on this show before, that's why in Hollywood nothing gets funded. That's why in Silicon Valley credit is always so tight that if you want anything you're going to give away so much of your business to a venture capitalist. It's a different thing.

Arnold Kling: When I talk to my wife about our finances, I say, "Government needs our money, and that's the biggest risk in the..." The thing is, I don't know how they're going to get it. I mean, maybe [00:33:30] what the market is pricing in is that Elizabeth Warren's going to come in and, the good news for the bond holders, is going to pay off the debt. The bad news is that for any wealthy people, she's going to pay it off by confiscating people's wealth.

John Tamny: But if she did that, you would see yields on treasury skyrocket because the yields reflect, not a revenue problem, they reflect too much in the way of revenue. If suddenly you confiscate all the growth capital, paying off this debt suddenly becomes [00:34:00] a much more difficult concept. It's precisely because the markets expect there not to be massive wealth confiscation in the future. That investors think this is a safe bet. Look at what happened in Greece. In 2010 they raised taxes to pay off the debt and bond yields on Greece exploded. Of course they did. We have a problem of too much in the way of revenues, not too little.

Bill Walton: Well, I don't think we're going to resolve this. I don't even think we understand why interest rates are negative. [00:34:30] I mean, we're wondering in an area here. You talk about your sentient life. There was an order of the universe. I've got a book written by a guy named Sidney Homer, I was an investment banker, and it was called The History of Interest Rates. It had like 3000 years of what the Babylonians were doing, and the Romans, and the Middle Ages, even with the church banning usury. Interest rates were always 4%, 10% something like that. I don't remember any [00:35:00] chapters in his book where he talked about zero or negative interest rates. Maybe you can explain why the market thinks we had negative interest rates-

John Tamny: Consider who owns those bonds. Central banks, pensions, and insurance companies.

Bill Walton: And big banks that are forced by the government-

John Tamny: Forced-

Bill Walton: ... [crosstalk 00:35:15].

John Tamny: No sentient human being is going to say... Because it's not money. Money is just access to resource. No one's going to say, "Here's a pile of money that is exchangeable for this. I'm going to hand it to you so I can get back less resource allocation [00:35:30] in the future." This is heavily regulated and central banks doing something that in the free market would never happen. I think it's important. Yeah negative rates are an impossibility.

Bill Walton: I like the argument that government interest rates are low because everybody knows the government's going to come and find a way to take the money from you anyway. They've got the ultimate collateral.

John Tamny: I trust capitalists like [00:36:00] you to always outrun government. You're way too smart for Donald Trump and Barack Obama.

Bill Walton: That's flattering. You're watching the Bill Walton Show and I'm here talking about zero interest rates, for all of you who are interested in that, I am, with Arnold Kling and John Tamny. But we're going to shift from the world of interest

rates to the world of climate. Climate is one of those issues, John, you say the market is pricing no [00:36:30] climate change into their calculations. Maybe you familiar with that argument?

Arnold Kling: Yes I am. I think some people claim that insurance companies for flood insurance are starting to price it in. But I don't follow that literature. I don't claim to...

Bill Walton: John?

John Tamny: Yeah. Warren buffet made the point that on catastrophic funding they got out of it. It just wasn't a good business because the risk wasn't there to be in the business to make it worthwhile. [00:37:00] You just look around the world. What is the greatest market signal of all bar none? It's where people move. As we speak, 44% of the world's population lives and works in coastal areas. That number is set to rise and it's set to rise substantially. I have no doubt once again, that the scientist promoting Armageddon, Armageddon that is going to run roughshod over these coastal cities and wipe out all the wealth there. I [00:37:30] have no doubt that they're brilliant, and that's why I don't make a scientific argument.

John Tamny: I'm just saying it would be an impossibility, among other things, that the whole world couldn't know what scientists claim to know because if they did, if they were correct about this, you'd see a mass movement away from this because people would soon have their wealth wiped out. You'd see it in insurance rates, all sorts of different cost related to it because suddenly someone like [00:38:00] me, I'd love to have a house in LA Jolla, but good luck.

Bill Walton: Well, Ken Fisher was on the show, as you know, and he had a very interesting idea. He said, "If you're really worried about oceanfront property. It would cost a few billion dollars just to build a dyke and become the Dutch." I think that's why Barack and Michelle bought their place in Martha's Vineyard. They're right on the water.

John Tamny: Of course. The very people who most believe in climate crisis [00:38:30] own really expensive houses, right where the climate is going to hit. [inaudible 00:38:35] hits on a crucial point. No one's saying the climate doesn't change, but even if it does, it's not as though we can't adjust. Implicit in this argument is that we're static human beings, that we can't adjust to changes. I'm terrified talking about stuff next to an MIT guy, but that's my belief. I just think that this is another example of where markets are saying that there's really no problem.

Arnold Kling: Well, I'm not a scientist either. My [00:39:00] only personal take on the whole climate change stuff is that the climate models remind me too much of macro economic models.

Bill Walton: Oh no.

Arnold Kling: I place the value of those macro economic models at zero. I get nervous about the climate model.

Bill Walton: Well, you had first hand look at the Federal Reserve macro economic models. They correctly predicted how many recessions in the last 100 years?

Arnold Kling: [00:39:30] I don't think it even... I would have to go spend an hour on what I think is wrong with macro economic models. They're just-

Bill Walton: We don't have an hour [crosstalk 00:39:43]-

Arnold Kling: They're just made up. I mean, it turns out that the degrees of freedom don't belong to the data which is something that is required by the statistical theory. The degrees of freedom all belong to the investigator. [00:40:00] I think, to some extent that's true in the climate story too. This is outside of my expertise, but I make this wager, I think you really have enough genuine data to build a climate model. You have to build it with a lot of the investigator's point of view built into it.

Bill Walton: Well, and tying it back to our original thought you really have to [00:40:30] be [inaudible 00:40:30] politics not being close enough, government not being close enough to the real problems. The models, in a sense, have the same issue. They're not close enough to anything real to predict anything. I ran a financial company and I'd get asked, "Well, what's the economy going to do? What's the GDP going to do?" And I'd say, "I don't have a clue. But what I can tell you is we've got a 120 companies in our portfolio, and I can tell you what their markets [00:41:00] are doing, and how they're responding, and what their competition is. If we see a change in the economic climate, they'll adapt." We got pretty good businesses that withstood different markets and that's the world of micro economics. Yet we get the model builders... Keynes basically used... was the excuse to grow federal government. I mean, it was the cover up, macro economics. [00:41:30] I'm being provocative. I love [crosstalk 00:41:31]-

Arnold Kling: No that's... I don't disagree with that one. You could say that on the demand side, the politicians were going to find something. I mean, to justify expanding government and the Keynesian story happened to fill that thing. Oh, it is [00:42:00] the shortage of public investment. That's the whole problem with the economy is the shortage of public investment. He ran with that, Galbraith ran with that. All those people ran with that-

John Tamny: Sir John Cowperthwaite back in the day. That's why with Hong Kong he said, "We will not do government statistics. Because they're not worthwhile to begin with, but they create an incentive among politicians to do things, at which point you're intervening in the natural workings of it." Hong Kong is a pretty good example [00:42:30] of what happens when people are left alone.

Arnold Kling: At least it used to be great example.

Bill Walton: Guaranteed annual income. Good idea? Bad idea?

Arnold Kling: Well, first of all, it's important to know that it's arithmetically equivalent to a negative income tax. If you have a... Let's say you set [00:43:00] \$40,000 as your point at which below that you pay a negative income tax of 25%. That is arithmetically equivalent to having a \$10,000 guaranteed income with a 25% tax rate. You get all the exact same results. Whichever way you want to think about it. I think it's a tremendous improvement over what we have now. If you could replace what we have now [00:43:30] with a negative income tax or guaranteed income, you would have working people going from an average tax rate of about 80% to something more like 25%.

Arnold Kling: I think that would produce a lot of positive social change. All of a sudden these men who are not worth marrying would be worth marrying because their income wouldn't be taxed at an 80% rate, it would be taxed at 25% rate. Milton [00:44:00] Friedman was a fan of the negative income tax, which is what he called it then, for that reason, because it was better than our current system. I am a fan for that same reason.

John Tamny: The first thing I would say is, public choice theory says that this would be run roughshod over by politicians, because suddenly you have both sides competing [crosstalk 00:44:23]-

Bill Walton: Explain public choice theory.

John Tamny: Politicians acting in their own self interest too and they're going to say, "Oh he's offering [crosstalk 00:44:30]-"

Bill Walton: Okay, [00:44:30] not just people in the private sector acting [crosstalk 00:44:33]-

John Tamny: [crosstalk 00:44:33].

Bill Walton: [inaudible 00:44:33] in their own self interest. [crosstalk 00:44:37]-

John Tamny: They're greedy too. Suddenly you have, "He's offering 1200 month. Oh well, I'm offering 1500." Where does it end? That on its own in terms of if you could replace it, yeah, and if we could just get back to constitutional governance, we're not going to replace the other things. What we would [00:45:00] get, history shows, as Arnold alluded, as we all agreed, is that government programs once started are rarely sunsetted. You'd have a guaranteed income in addition to all these others, so it's dangerous there. At which point I would cite one of the most profound things that I've ever read from you and Nick Schulz from your book. I'm trying to think of the name that you wrote-

Arnold Kling: Well, it had two names, so don't worry about [inaudible 00:45:26].

John Tamny: Yeah, but they made the brilliant point that I [00:45:30] have used over and over again, that the minute a worker walks into the United States, their productivity surges. I'm sorry, I don't feel... I feel sorry for individual Americans. Of course there are so many reasons, but this idea that you're in a country like this in a massive free trade zone, that you are free to move around in and migrate on roads, and if you don't have a car you can get into a bus that will be air conditioned with WiFi on it. It will take you to wherever you want to go. The idea that you [00:46:00] need a helping hand from government, I find insulting, and I think it insults every single American, and those who came before them who did not have these opportunities.

Bill Walton: Just real quick. You're watching the Bill Walton Show. I'm here with John Tamny and Arnold Kling, and we're talking about guaranteed annual income and whether that's a good idea or a bad idea. Arnold.

Arnold Kling: Well, I probably agree with all those points, especially the point that we are not going to replace other programs with it. I mean, we don't have [00:46:30] housing programs because we care collectively about poor people's housing. We have housing programs because we have a powerful housing lobby. We don't have food stamps because we're so concerned about people not having enough to eat, we have food stamps because we have a powerful farm lobby. I think you're probably right on that one.

Bill Walton: Nice in theory, but unless you get rid of all the other bad stuff, probably not a good idea.

John Tamny: [00:47:00] If we can just add that it's a solution in search of what's not a problem. The most famous proponent theoretically right now is Andrew Yang. He says, well, technology is going to put people out of work. Oh, please. If that's true, show me all the places bereft of technology that are thriving full of work. Probably all the people are working because they're just so poor. In countries where jobs are being destroyed, the opportunities are endless. The idea that this technological, that this [00:47:30] time is different, is going to lead to a massively unemployed population, defies logic and also any historical reality.

John Tamny: The truth is that technology, which is by its very name about job destruction, is going to continue to free people from work they hate and release them into work that more and more reflects their unique skills and intelligence. I think 30 years from now if we're having this discussion, let's hope we're all still alive at that point, [00:48:00] we're going to think, "Oh, remember when we talked about this? Those people we said were unemployed are loving work and their living standards are at a level that we never imagined."

Bill Walton: Let's plug your book, The End of Work.

John Tamny: Yes. Okay. That is a plug for the book, The End of Work [crosstalk 00:48:13]-



Bill Walton: Available on Amazon. [inaudible 00:48:14] we're all going to end up with jobs we love because of the [crosstalk 00:48:17]-

John Tamny: It's not free.

Bill Walton: We've got a bit of time left. I want to swing back around to one of the things we talked about the outset, The Three Languages of Politics. Because the three of us [00:48:30] are largely in the same camp. We can be in violent agreement on many things, and yet there are not many people that think the way we're thinking or talking right now. How do you resolve something like... I mean, how would the liberals on the oppressor and oppressed axis view something like, I don't know, what we've been talking about, the guaranteed annual income. What would their view be?

Arnold Kling: Well, I think [00:49:00] that there seems to be this endless view that people belong into oppressed classes and there's no limit to what needs to be done to correct that. I mean, the extreme progressive view, or one of the more, I'll call it advanced progressive views, is that African Americans should get reparations from [00:49:30] the rest of us.

Bill Walton: They'd be for the guaranteed annual income. Now the conservatives-

Arnold Kling: They might be for something beyond that. Again, like reparations.

Bill Walton: Okay, [inaudible 00:49:44] beyond that, but then the conservatives, just making sure I understand your model, they'd be concerned about the guaranteed annual income because of what it does to your character to just get another check from the government-

Arnold Kling: Absolutely. Yeah. Thinking-

Bill Walton: I'm not so sure... I don't agree with that too.

John Tamny: [00:50:00] I'm with you on that. I think they would say that it's going to cause deficits and it's going to cause people to be indolent. I'm sorry Bill, there's no way you'd be indolent. What's your number that I'd say to you, "Oh, hey Bill. You get a check from government and you stop being productive. You shut this down." [inaudible 00:50:17]. I don't think you know too many people who are indolent, who would let a meager government check wreck their character. I think conservatives overstated.

Arnold Kling: Well I think that support for that comes from the fact that these people [00:50:30] who face these 80% average tax rates are actually still working a lot of them. But I do think conservatives have a point there in that, in very subtle ways it does undermine character. Again, I think it may be a big factor in the declining marriage rate among middle class and lower middle class people is

that, [00:51:00] where the woman could really use the man's income or now vice versa, that's just not true anymore. It's very [crosstalk 00:51:13]-

Bill Walton: John, I think-

John Tamny: [crosstalk 00:51:14] that prompts premarital sex?

Bill Walton: I think we suffer a bit from living in silos though because, at Rappahannock County, where I live, there are a lot of people who wouldn't react quite the way you're describing. "I'm [00:51:30] going to work, I'm going to do things," that sort of thing. I see a lot of people whose souls are pretty deadened by the government programs, but also the opioid issues, and then the family breakup and things like that. This is something conservatives are concerned about because we do need... I think to have a robust economic order, you need to have a robust civil order, and we are seeing the civil order deteriorating. I'm not so sure everybody is as robust as you make them out to [00:52:00] be.

John Tamny: I have no doubt you're right. Just to walk around you see all of that, I just refuse to blame government for it. People want to call this elitist. I think people make bad decisions and... Fell free to call it elitist, because what I'll say in return is that it's elitist for someone who won the lottery of being born in the United States to say that something's not fair, that the government did this. "Government [00:52:30] caused me to not be ambitious," because we descend from people much poorer than anyone in Rappahannock who crossed oceans and borders just to get a taste of freedom, who didn't live a fraction of their lifestyle, and didn't know the English language.

John Tamny: I think it's more elitist to say that people can't pick themselves up because we see it all the time. We see the world's poorest, to this day, risking their lives to get here. They don't know English, they're not educated, yet they know that once they're here, and Arnold, next point, they get [00:53:00] here and they become enormously productive.

Bill Walton: Open borders. I'm just thinking about all the people coming in here because they're going to be instantly productive. What do we do about immigration, and we have two minutes to cover this.

Arnold Kling: I think the easiest way to deal with is to price it. Get rid of the complex administrative law that's related to [00:53:30] immigration. Just replace it with a price system.

Bill Walton: How would that work?

Arnold Kling: I don't know what you'd charge, but you'd say, "Okay, if you can put up \$10,000 you-

Bill Walton: Come on in-

Arnold Kling: ... can come on in.

Bill Walton: What about a give or get? Could you say, "Well, I don't have \$10,000 but I've got a PhD in economics."

Arnold Kling: No.

Bill Walton: You want cash.

Arnold Kling: Find somebody to sponsor you. Yeah. Just keep it simple. I just want-

Bill Walton: Keep it simple.

Arnold Kling: I'm just trying to get rid of the complexity. [00:54:00] If you favor open borders, you can drop that price to zero. You got that, but that's [crosstalk 00:54:10].

John Tamny: I think putting a price on it would be an improvement on what we have. But you're still, by putting that price on it, people are going to say, "I'm not going to pay it, and I'm going to get in." There'll be people willing to hire them. My solution is a bit more basic, legalize work here. Say, "Citizenship, just an object. But you are legal to work here." Now the response will be, "Yeah, but [00:54:30] terrorists could come in." Okay. The libertarian me will say, "Let's legalize work, but announce yourself when you cross in. Just tell us you're here, at which point-"

Bill Walton: You'd have no screen.

John Tamny: Yeah. At which point, because we wouldn't tell businesses what kind of steel to import, how much, what different things, but we're telling them what to import, most important of all, human capital. Legalize the work, at which point, those who don't announce themselves are much smaller. [00:55:00] Border patrol could chase after those who are coming in perhaps for different reasons. I just think anytime you make something onerous, people are going to sneak in and not pay it, and for me, I'd be happy with that. I like human capital. I go back to your point, I think I even referenced it in the book that when people arrive here, they become much more productive.

Arnold Kling: Well, I can't come up with a good moral case against immigration, so I'm not going to [00:55:30] argue with that one. I think that getting from here to something that a lot of people would accept it's not a two-minute conversation, unfortunately.

Bill Walton: I know, I know. Which leads me to my next line. We've run out of time. As usual, this is fascinating and I've got a lot more here I would like to cover. I'd like to have you both back at some point where we can maybe spend a lot more time

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than 90 seconds on immigration. That's [00:56:00] it for now. Thank you for joining us and we'll see you on the next Bill Walton Show. Thanks for joining.

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