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Kimberly Adams: I guess then we just wait for the music.

Kai Ryssdal: Yeah, as we always do. Wait for the--oh, there it is. There it is. What was I saying about the music? I wasn’t saying anything about the music. Hey everybody, I'm Kai Ryssdal. Welcome back to Make Me Smart. None of us is as smart as all of us on this podcast.

Kimberly Adams: Indeed. And I'm Kimberly Adams. It's Tuesday, which means it's time to do a deep dive into a single topic. And today, we're going to talk about the national debt.

Kai Ryssdal: Now, you may or may not have, depending on how closely you follow this kind of stuff, been aware that the limit on the national debt went back into effect on late Saturday night, 31st of July, a two-year moratorium or relaxation or what have you on the amount of money that the United States government can borrow went back into effect. So now the national debt is something like, I don't know what, $28 trillion, and that's where it stands until Congress does something else. And we're going to talk about that today.

Kimberly Adams: Right. And so it is expected to grow from that 28 trillion to 35 trillion by the end of 2031, and we'll probably get into why we set these time limits for how we think about the debt. But those numbers come from the Congressional Budget Office. And it is always some kind of political drama about whether or not to raise the debt limit.

Kai Ryssdal: Frankly, I look forward to it. It's one of those regular items of coverage. You're like, oh, yeah, here we go again, I know this story. Anyway.

Kimberly Adams: I don't. I don’t look forward to it.

Kai Ryssdal: Megan Greene here, you can hear chuckling there in the background, is an economist, also a senior fellow at Harvard's Kennedy School, and she is going to help us understand number one, what the debt is, how big a deal it is, and, and what we might ought to want to do about it. Megan, thanks for coming on.

Megan Greene: Yeah, thanks for having me.

Kai Ryssdal: So look, $28 trillion is a boatload of money. And, and let me try to relate this in regular household terms, which is the comparison that always gets made, even though it's false. How worried ought we be as a country about $28 trillion worth of red ink?

Megan Greene: Look, so we've, we've got a lot of debts, we've just come off the back of an unprecedented crisis so we've accumulated a whole bunch more debt as a result of that. And the debt is just the stock of everything we've borrowed over time and haven't yet paid back. And so you need to worry about that at some point, because if investors don't think you're gonna pay it back, they won't lend to you anymore and then you won't be able to pay your bills. So the government won't be able to provide normal services, for example. But the US has more space than any other country for two main reasons. One is the US has a global reserve currency, the US dollar. So there's sort of an insatiable demand for US dollar denominated assets. And secondly, the US Treasury market, which is how the US government borrows, is the deepest, most liquid asset class in the entire world, which just means that it's much easier to buy and sell treasuries. And so that means that the point at which investors get really worried about lending to the US government and never getting their money back gets pushed off further into the future. So I would say the US doesn't need to worry nearly as much as any other country for these two unique reasons. I would also say economists are looking at debt really differently now from how they always did. So we always used to look at a figure debt to GDP, which is the stock of all the debt you've borrowed relative to how much you're growing every year, because you can grow your way out from under a debt burden. If you're growing, you can use that money to pay down your debt. And debt is a stock, but GDP is a flow, and economists never compare stocks to flows.

Kai Ryssdal: Yeah, yeah, yeah, yeah.

Kimberly Adams: Stop, stop, stop, stop, stop.

Kai Ryssdal: You gotta do the stock flow thing.

Megan Greene: Yeah, so debt is the stock and the stock is like how much money you have, sorry, how much water you have in a bathtub. And GDP is a flow, it's like how much water is flowing into the bathtub at any given point in time. And so you can't really compare stocks to flows. They're related clearly, but it's like comparing apples and oranges. And yet somehow economists have always compared this debt to GDP, this stock to a flow. And so more recently, economists are starting to think about debt differently and thinking, well, we should compare things in like terms, we should look at it flows to flows instead. And if you do that, you look at borrowing costs. So how much you're accruing to service your debt at any moment in time, relative to GDP, which is how much you're growing at any point in time, and because borrowing costs are so incredibly low, largely because central banks have cut rates so low, then actually that ratio of borrowing costs to GDP is much lower than the debt stock to GDP. And if you look at it in those terms, in borrowing costs to GDP, actually the figure’s much less scary and we don't need to worry as much.

Kimberly Adams: So if I understand that correctly, it's sort of rather than comparing, you know, I owe 100 bucks to, you know, I'm getting more money every year, it's, I owe 100 bucks and the interest on that is 5% but I'm making 5% more every year, so it doesn't matter?

Megan Greene: Yep, that's right. So you're, you're not paying that much to have borrowed that money anyhow, and you're growing, so you don't need to worry. Where this all falls apart, of course, is if your borrowing costs spike all of a sudden, so we don't need to worry as long as borrowing costs are really low. And as long as we're growing, and we are growing in the US. But if borrowing costs were to jump all of a sudden, then we could have a problem in the US. And so as we're thinking about, well, what would make those borrowing costs jump all of a sudden? And one answer is something a lot of people are worried about right now, which is inflation. So if we got sustained significant price hikes in the economy, then the central bank might feel like they have to hike rates to push against that inflation. And that would cause borrowing costs to go up. And then our debt gets much more expensive to service. And so then that ratio, borrowing costs to GDP, looks a bit more scary.

Kai Ryssdal: What happens if Jay Powell is wrong, if inflation is not transitory, that these price increases that we've been seeing the last number of months stick with us, and then the Fed has to raise rates, borrowing gets more expensive, our debt becomes harder to handle, then what happens?

Megan Greene: So then you'll see some stress in a lot of debt markets, but probably not the US government debt market as much as corporate debt markets, for example. So a lot of companies that have borrowed a ton, and it's been really cheap so that's been fine, might get into trouble, might be insolvent, might have to default. The US government, like I said, has a bit more leeway because it has the global reserve currency and because it's such a big, deep liquid asset class that everyone wants to be involved in, that the US should have more space, the government should have more space even if borrowing costs go up. People often ask me what level of debt do we need to worry about at what, where's the trigger point, and unfortunately there isn't a level of debt that's a, that's a trigger point. If you look at when Argentina defaulted, its debt was around 47% of GDP. Same with Ireland, when they got into really big trouble in the 2000s, their debt burden was really low as well. So a lot of it is not a magic number, but more sort of how investors feel about the government's credit worthiness, how likely it is that they'll be paid back and there's a lot of trust in the US government. Will there always be trust? Probably not. There could be a point at which investors decide no way are we lending to the US government. But I think we're a really long way off from that.

Kimberly Adams: I love how all of this is dependent on the emotions of investors.

Megan Greene: Yep, economics always comes down to people.

Kimberly Adams: More serious question. You've mentioned a couple of times that economists used to think about debt one way and they're thinking about it differently now. What, what's prompted this change?

Megan Greene: Um, so I'll say some economists are thinking about it differently. And, and one of the triggers for this change was a paper written by some colleagues of mine in academia.

Unfortunately, not everyone's reading things that professors are writing. So that certainly helps, but that hasn't percolated necessarily. Yeah, I know. Strange. It hasn't percolated out amongst everyone. So I think it's, you know, we're starting to see this change. Also, because it's convenient. We need to borrow a lot right now to pay for this war that we're fighting against the virus. And so I think that's helped sort of change mindsets to justify the spending that we're doing. But I think ultimately, a lot of the views on the debt are more political than they are economic. So for example, if you look at who's really worried about our deficit and our debt right now, it's a lot of moderate Democrats and also a lot of Republicans, and a lot of the same republicans voted in favor of a tax cut and a huge defense spending bill just a couple of years ago. So often, it's more political than an actual economic argument.

Kai Ryssdal: Yeah, we'll keep going, right, because by extension what you're saying is it matters what you're accumulating the debt for, right? Tax cuts that are deficit financed are one thing, recovering from a once in a, you know, century pandemic is another.

Kimberly Adams: Fingers crossed.

Kai Ryssdal: Yeah, fingers crossed.

Megan Greene: Yeah, that's right. And so to put it in even simpler terms, if you are throwing a baseball through windows and replacing your windows, that's not really going to support growth much fundamentally. You will boost GDP, because there's a lot of activity, but it's not very productive, right? But if you're taking that borrowing and you're investing in infrastructure and education and human capital, then that will fundamentally boost GDP over the medium to long term. So not all borrowing is the same, you're right. And I think some were worried that the stimulus checks, for example, were an example of, you know, the baseball being thrown through the window and the window constantly being replaced, not super productive, but that, you know, the infrastructure spending, the human capital spending that the Biden folks have proposed is much more productive. So there are fewer concerns about that kind of spending than the stimi checks.

Kimberly Adams: So, you know, depending on who is in favor of the spending that will add to the debt, one of the arguments constantly trotted out is eventually all this debt is going to have to be paid and we're leaving it all to the future generations and burdening our children with it. How real is, is that argument?

Megan Greene: Yeah, so the debt’s never paid. There's no country with no debt at all.

Kai Ryssdal: Thank you very much for coming to our TED Talk. Megan Greene, ladies and gentlemen. Sorry, just kidding.

Megan Greene: Yeah, some of it can be paid off, some of it expires and so you have to pay that, but you can take out more debt to pay for it. So, you know, you don't actually have to pay off all your debt. And also, a common misconception is that you have to raise money before you can spend it, that you need to collect tax revenues in order to finance spending programs, and that's, that's also just not true, you can go ahead and spend it, you can just borrow the money and spend it and worry about tax revenue collection later. So I don't think that argument holds much water that our, you know, one day, this is all going to have to be paid off. That being said, if you amass a huge debt burden, then eventually it will need to be paid down or investors will strike. They'll say, no way are we lending the US government any more money and that's a problem. That's when, you know, you have IMF programs and defaults and we absolutely want to avoid that. And so you have to pay some of the debt down. And so you can't just borrow endlessly. But you can borrow some, you don't need to expect that we're gonna have to pay this all off one day.

Kai Ryssdal: I'm gonna tread briefly into political waters here for a second. So you remember, I guess it was 10 years ago, right, our debt was downgraded by, I think it was Moody's. And there was much hue and cry. And basically the bond markets didn't even blink, everything went fine. And now like, like, a month ago, maybe, or whatever it was, Fitch came out and said, you know what, we're gonna keep US debt at a triple A rating, that is to say the gold standard, no pun intended. But American political dysfunction is a risk to its creditworthiness. What do you make of that?

Megan Greene: Yeah, I mean, that was a political statement, I think, by Fitch, which is really, you know, unusual for them. That's not their lean normally, but I think, you know, there was, I think, a hint towards the debt ceiling that we've hit now. And the suggestion that if we can’t get an agreement to go ahead and lift the debt ceiling, you know, then credit worthiness would be knocked down a bit. So it was, I think, sort of an elbow jab at politicians to try to get it together and come up with an agreement, which we have yet to see, though I expect that they will.

Kimberly Adams: I mean, I always feel like we have to add the caveat that these are many of the same credit ratings that thought all those mortgage-backed securities were great.

Megan Greene: Yeah, it's, it's worth taking it with a grain of salt.

Kai Ryssdal: Exactly.

Kimberly Adams: Megan Greene, the economist and senior fellow at Harvard's Kennedy School. Thank you so much.

Megan Greene: Thanks for having me.

Kai Ryssdal: Good to talk to you again.

Megan Greene: Thanks.

Kai Ryssdal: Yeah, so there you go, right? It's, it's real, but it's not real. It's a problem, but it's not a problem. Just everybody sit tight.

Kimberly Adams: It's a problem because politics makes it a problem.

Kai Ryssdal: Right, right, right, right, right. And what's gonna happen now is that Janet Yellen is going to scrounge in the couch cushions for a billion here, a billion there, till Octoberish. And then Congress at the very last minute is gonna say, oh yeah, that's fine. Debt limit, no worries. Right? I mean, that's, that's the whole goat rope we're gonna go through.

Kimberly Adams: But to your point about there being, your question about there being a tipping point, you know, there have been several points, you know, even just in the last couple of years, we're like, oh, my gosh, there's so much debt, you know, when are investors gonna stop buying our debt? And there just seems to be nothing that can happen that will make investors stop buying US debt. And as long as that is a thing, you can have as much debt as you want.

Kai Ryssdal: Yeah, fundamentally, I think that's right. That's right. Alright, we're gonna take a quick break, send us your comments on the chat that Kimberly and I had with Megan Greene, you can do it by sending us an email or a voice memo, makemesmart@marketplace.org, of course, is the email address.

Kimberly Adams: Or you can call us and leave us a voice message. Our new number is 508-827-6278, also known as 508-UB-SMART. And we'll be right back.

Kimberly Adams: Alright, news fix. I'll go first because mine is kind of related to the conversation.

Kai Ryssdal: Well also you've got like, 10 links in there, hello. Okay, four, but still.

Kimberly Adams: Yeah, but they're all effectively the same thing. Which is the infrastructure bill. An actual infrastructure bill! And you know me, half the time in meetings I'm like, it's not an infrastructure bill, it's an infrastructure package or an infrastructure plan, because usually there is no bill. But now there is a bill. And it's a very, very long bill. 2700 pages, which means it's chock full of all sorts of things that probably every single member of Congress put something in that they wanted just to get everyone on board. But what that means for the oh so fun job of political reporters here in Washington is that there's the steady trickle of stories about things that have made it into this infrastructure package, which, to tie it back to our earlier conversation, are things that could potentially add to the deficit and later on the debt. And so we'll be, you know, bandied back and forth before there's eventually something potentially passed. And so, you know, couple of things that have jumped out to me, there is a story in Bloomberg about all of these auto safety features that are going to be, if this passes, mandated to be put in cars as a result of this legislation, like drunk driver detections, automatic, automatic braking system, emergency braking systems, crash avoidance systems, rear guards for semi-trailer trucks, different safety measures for passengers, some environmental initiatives like carbon capture technology and potentially a new system of pipelines to move CO_2 around the country so that it can go from, you know, coming out of polluting manufacturing facilities and end up in your soda.

This, The Verge has a good story on that. And, you know, and then there's stuff like broadband and surprisingly, the 65 billion being allocated to broadband, according to Roll Call, has both industry groups and digital equity advocates pretty much on board. And so I'll be fascinated, you know, in the coming days and weeks just as various things keep coming out about what's, what's in this because, yeah, it all costs money. And it's all going to have to be validated at some point.

Kai Ryssdal: Yeah, I think that's exactly right. There's a ton of stuff in there, 2700 pages, and we're gonna be reading about things that are in there for a good long while now. Probably even after Congress passes, or the senate passes it in the next week or two.

Kimberly Adams: We'll be like, wait, that was in there too?

Kai Ryssdal: Oh look, surprise massive legislation. Yeah, totally. Okay, I've got two, both of which are regulatory in nature. Number one, China. Totally interesting story out of China today, David had it on the morning report, I haven't really heard it in too many other places. The Chinese government is denouncing online gaming, and this is just such a loaded phrase, "opium for the mind." And it's just, you're like, wow, first of all, they went there, second of all, when you pair that with some of the things that Chinese regulators have been doing about companies that have filed to go public or have gone public in the United States and some of the crackdowns they're doing on technology companies over there, it's all really, really interesting. So now online gaming is in the crosshairs. Tencent, which is one of the big companies over there, down 10% at one point today in Shanghai trading. It's really, really interesting and you, you role that in with some of the reports of the slowdown in the Chinese economy that's coming and that we've seen so far, and it's, there are more things happening over there and China is, is not necessarily a place to be doing business right now. It's gonna be really hard. It's gonna be really hard.

Kimberly Adams: Yeah, but I don't know if even China with all of its control of its economy and, and citizenry wants to upset all the gamers in China. Because if you do that, what are those gamers going to do with all their free time is probably plot something in response in their fury.

Kai Ryssdal: Well, you know, so look, so that's a really good analogy, right? Because what used to really trouble Chinese leadership was the idea of, at that point, 8 or 900 million peasants, and I'm using that word because that's the word in the Chinese language, right, 8 or 900 million peasants watching the 300 million city dwellers and, and growing middle class have all the stuff. And now that balance has changed, right? With all the huge urban migration that's happened over there, the rural population is much smaller, the urban population is bigger, and more people are wealthy. So that tension has diffused a little bit, but now this idea of there being something else that could rile up the public, I'm sure Xi Jinping does not want that at all. At all. That was a really good point. Item number two. Over here, regulation. Gary Gensler, the new head of the Securities and Exchange Commission, made a set of remarks today at an Aspen Security Forum thing, in which he said he is prepared to take his authorities as far as they will go to regulate and keep an eye on Bitcoin, wild wild west, he called it. And while Bitcoin prices are up today, actually cryptocurrency specifically is what he was talking about, Bitcoin prices are up just a little bit today. There is coming a crackdown on crypto, and people just need to be ready. People just need to be ready.

Kimberly Adams: And I think it was Nancy Marshall-Genzer was flagging yesterday that--and I'm going to double check this--that there is actually something in this infrastructure package to try to capture some of the not paid taxes on crypto to help pay for some of this stuff.

Kai Ryssdal: Yes, for sure. Yeah, so look, you know, crypto is great and maybe the way of the future, but right now, regulators are still trying to figure it out. And when regulators are trying to figure it out, the risk profile goes up, right, because you don't know what is going to happen. Thus, caveat emptor is what I'm saying. That's all I'm saying. That's what I got. Little Latin. Little Latin on the program.

Kimberly Adams: Alright, that's it for the news fix. Let's go on to the mailbag, which is not in Latin, I believe it's English.

Kai Ryssdal: I was trying to look up how to say mailbag in Latin.

Kimberly Adams: I was gonna say, is there a word for mailbag in Latin?

Kai Ryssdal: There has to be. There has to be. Alright, first voicemail today--a listener will send it to us--first voice memo today is about the episode we did last week on WeWork. This comes from Darien in Florida.

Darien: I listened with interest to your podcast about the WeWork fiasco. And one of the things you talked about was the guardrails in the system and around capitalism, and I was thinking about that and part of those guardrails actually need to come from the DC firms that are looking at different opportunities and determining whether or not to, you know, give somebody some money, it seems to me, they failed with those guardrails. So it all comes down to people and their perceptions and greed and all that good stuff that makes the world go around. Anyway, thanks for listening. Take care.

Kimberly Adams: I have to say when I was listening to that episode, I couldn't help but thinking, I wonder if a woman or a business owner of color would have ever been given that kind of leeway to just wing it. I know the answer, they wouldn't have. But it, yeah, yeah. It really depends on who you are.

Kai Ryssdal: It totally does. And here comes Adam Neumann, sweet talking SoftBank and getting you know, a valuation of $47 billion, internally calculated, by the way because it was not a publicly held company. So yeah, there were some guardrails that were not, they were not doing their job for sure.

Kimberly Adams: Alright, and now to a voicemail message following up on the conversation both you and I had on the show, and then later you and Molly had on the show, about Simone Biles and the Olympics. Here's Mary in North Carolina.

Mary: I remember in 1996 when I was nine years old, watching Kerri Strug as part of the women's US gymnastics team, making that second pole vault performance on severely injured leg, looking at her coach and Bela Karolyi, like telling her to do it, and she did it for the gold medal. And I think I will never forget that. I think about it so much differently now. We've made, we've come a long way, but still have a long way to go respecting athletes, letting them be in charge of their own bodies. Thanks so much for the show. Just thought I would add that in.

Kai Ryssdal: Yeah, no, totally good point about Kerri Strug, for sure.

Kimberly Adams: Yeah. I haven't thought about that moment in a while.

Kai Ryssdal: Remember she had, she had the bandaged ankle, right? And he wound up and the coach wound up carrying her off. Yeah. And look, people said all kinds of horrible things about what a taskmaster Bela Karolyi was, so it sort of was in keeping. There was another one after Simone Biles pulled out of the first couple of events, Dominique Marciano, who was a gymnast, I don't even know in the 80s or 90s whatever, showed some clip of herself. Number one, doing a balance beam routine for the Americans, she, she was, she defected from Romania, I think, with her parents. Anyway, doing a balance beam routine with a, with a stress fracture of her tibia. And then she like, she did some flip and landed on her head, and basically wound up getting back on, having to get back on the thing and keep going. And she's like, yeah, they didn't, nobody even stopped. Nobody blinked. It was wild. Wild.

Kimberly Adams: And I remember the narrative, you know, when Kerri Strug had that, you know, performance, everyone just celebrated it so much, and people were like, push through the pain, do what you have to do to win and, you know, do it for everyone else, and blah, blah, blah. And it was just such a narrative about literally destroy yourself for this thing, and it's similar with the concussions and in the NFL. It's like, destroy your body for the sake of this performance and to win, and yeah, it's, it's good that we're moving away from that because people are literally getting killed in the process.

Kai Ryssdal: Alright, new subject. Michael in Washington. Here you go.

Michael: Hi, Kai and Molly. I listen to your podcast every morning while I'm taking care of the chickens on our small farm. So I noticed that Kai is broadcasting from a shed, which makes it a radio shack. Well, not a strip mall version of a radio shack but the Navy version of the Radio Shack, the Old Navy, not the strip mall, older Navy, you know what I mean. It's Radio Shack. I think Kai can explain.

Kai Ryssdal: So number one, actual chickens, actual chickens, which was amazing. Number two, so on Navy ships, the communications offices are called the Radio Shack because it used to be that that's where the radio was. Anyway, yes. Radio Shack. I've got a little radio shack in my backyard. That's what's going on. Nice one, Michael.

Kimberly Adams: You totally need a sign.

Kai Ryssdal: I know, right?

Kimberly Adams: Kai's radio shack.

Kai Ryssdal: No, I know. Oh, man. Alright. This week's answer to the Make Me Smart question comes up next and last, what is something you thought you knew you later found out you were wrong about? Who's it from? Where's it from?

Kimberly Adams: Oh, John Hanke. He's the CEO of Niantic. I talked to him when I was hosting Marketplace Tech a while back, and Niantic is the company behind Pokemon Go. And he was a little stuck with this question for a bit. So I volunteered that my thing that I thought I knew that I was wrong about was how to pronounce subsequently, which is subsequently, and this is what he said.

John Hanke: Well, I remember writing an entire college term paper very boldly using the terms quid pro quo throughout. And I, you know, got an A on the paper but had a really entertaining conversation with a professor at the party at the end of the term because he thought it was hilarious that I didn't know the term, but the term quid pro quo, how to spell it. I knew what it meant but I got mixed up along the way. So I guess that's one example of something I should have thought I was smart about that I wasn't.

Kai Ryssdal: There you go. I'll take that.

Kimberly Adams: Yeah. So another thing he's really into, which makes sense, given his involvements with Google Maps and then later Pokemon Go, is that he's super into all different kinds of maps. And another thing he mentioned that he thought he knew that he didn't, that he later found out he was wrong about, was that borders and geographic features were static. And he said, they're not, you know, the edges of oceans and the locations of things move around on the planet all the time, which you would know from your Navy days. Anyway, you can check out my full interview with him on our podcast on your favorite podcast app. If you listen to the Marketplace Tech podcast.

Kai Ryssdal: And if you don't listen, why not? That's the question. Alright, if you have somehow for some reason put off emailing or sending us a voice memo with your answer to the make me smart question, just do it now, would you? Call us, leave us a voice message at our new number, 508-82-SMART. 508-UB-SMART. We appreciate that when you hook us up cause we need your help to answer that question.

Kimberly Adams: Yes, yes, we do.

Kai Ryssdal: Make Me Smart is produced and directed by Marisa Cabrera. Tony Wagner is our digital producer, Eric Phillips writes our newsletters, also our smart speaker skills. The intern this time around is Grace Rubin.

Kimberly Adams: Today's program was engineered by Drew Jostad with mixing by Liana Squillace. Ben Tolliday and Daniel Ramirez composed our theme music. The senior producer is Bridget Bodnar and the executive director of on demand is Sitara Nieves.

Kai Ryssdal: And just like that.

Kimberly Adams: Look at that.

Kai Ryssdal: Another podcast in the can.

Kimberly Adams: Yeah, there we go. It makes me want to like, look at a globe again.

Kai Ryssdal: Really? Oh yeah.

Kimberly Adams: I used to love that. Big globes and libraries and just like, especially the 3d ones.