

## David L. Bahnsen on *Hold These Truths with Dan Crenshaw* Debt, Money Printers, and the Christian Argument for Free Markets

Rep. Dan Crenshaw: Hey folks, welcome back to your favorite podcast. Today, I've got a special guest, a friend of mine, David Bahnsen. I want to introduce you real quick, David. First of all, thanks for being on. It's an honor to have you. I think we've met a couple of times, but I just recently was out in an event with you in California, so thanks for having me and thanks for being on the podcast.

David L. Bahnsen: It was great to have you in California and it's now great to be a guest of yours on the podcast.

Rep. Dan Crenshaw: David, I'll give you a quick bio, background here. Managing partner and chief investment officer at the Bahnsen Group. It's a bi-coastal private wealth management firm with offices in Newport, New York City, manage over three billion in assets. You're consistently named as one of the top financial advisors in America and a frequent guest on Fox Business, CNBC, Bloomberg. A regular contributor to National Review, I think you're on the board as well for the National Review Institute. It's actually a long list in your bio. I won't go too far into it, but the point I wanted to get across is, you know what you're talking about when it comes to financial markets, when it comes to what's going on with inflation, what's going on with the economy. You regularly write and talk about these issues.

On today's episode, I just want to hit all of it. What's going on in the economy? What's going on with inflation? You've written a lot about the financial crisis of the past and what the right narrative about that is and what the wrong one is. It's important to hit on stuff like that because it does inform out policy decision-making of the future and of the present. We're going to hit all of those things.

What's probably the most pressing economic question though? If you were to say, Dan, this is what you should be asking me about right at this moment, what would that be?

David L. Bahnsen: I think it is the challenge of getting the American economy back to trendline growth. And so that may have a few words in it that sound like it's a little hoity-toity, but I could restate it by just simply saying the biggest challenge for the economy is how, in the next 10 and 20 years it's going to grow the way it grew in most decades since World War II. And so I'm a Gen X'er, you now have millennials and Gen Y'ers that are getting up there in earning years themselves, baby boomers are going well into retirement. Everyone's kind of lived through certain decades of experience economically that is almost entirely been positive in terms of real GDP growth. We've had some recessions along the way, we had the great financial crisis, which I'll talk about later. We had competition from Japan in the '80s. There is talk about competition from China now, but it hasn't been a straight line up, but we have averaged 3.1% real, meaning net of inflation, economic growth per year for 70 years until we got to this last decade.

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And I believe that we are in a complete cluster as to how to figure out the recovery of that real GDP growth. We got one year touching three percent, it was basically a hair below trendline growth during the four years of the Trump presidency. But the fact of the matter is that there is something broken economically, and this isn't a recession. We're having economic growth year over year, I'm not referring to something related to the pandemic. This was going on long before COVID. In fact, right now our economic growth coming out of COVID is going to be the highest growth year that we've had in decades. But basically, the trendline number is way too low and I consider it an unbelievably important issue morally because it speaks to the opportunity that will be there for my children and their children. This is a generational issue. You cannot have 30 years of subpar economic growth and be a world super power.

Rep. Dan Crenshaw: Yeah, okay. If you had a magic wand, what would be the top three policies that you might implement to achieve that growth? Or policies that you would reverse?

David L. Bahnsen: I think I have to cheat. And before I go into what I would do to fix it, we have to diagnose what's caused it and what's caused it is excessive debt. And in just like any 12-step program, people know you can't solve a problem until you first acknowledge you have it. This is too disputed for us to do anything about it. There are too many people that believe that the solution to our economic woes is more debt and because I believe that excessive debt and living above our means societally is the cause of sub-trendline economic growth, I most certainly don't believe that the solution is in more of the problem anymore than I believe the solution for a hungover drunk is more booze.

Rep. Dan Crenshaw: Explain why debt creates that sub-optimal growth.

David L. Bahnsen: First and foremost, debt is pulling into the present, growth that you will get into the future. This is a tautology. This is inherently true that what you have done is borrow against future growth so whatever growth you're going to get into the future will now be lessened by the benefit you got up front. Now, there are productive uses of debt that might give an exponential return, a greater boost to productivity for a period of time. This is especially true in the corporate sector and even in the household sector. Someone may borrow money personally and then end up getting a greater use on that, use of borrowed funds. It is very rarely true in the government sector and even John Maynard Keynes himself argued that the multiplier effect on government spending was optimal from a point of equilibrium. When you start off already far behind the eight ball, when you start off with a significant amount of indebtedness, you have a diminishing return.

And so, again, the first thing we have to do is not so much answer why it is, but just make perfectly clear we know that it is and we can measure.

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Rep. Dan Crenshaw: It's important to know why. I do want to hammer it out a little bit. Is it because money is going into, say, buying bonds and that money would be better utilized in private hands instead of tied up in government debt? Is it because the government just doesn't spend it correctly?

David L. Bahnsen: Yes, the second part is very true. The government is not an optimal allocator of capital and the reason for that is two-fold. A, incentives and B, knowledge. I'm borrowing directly from the great Friedrich Hayek here, the government doesn't have the knowledge to optimally allocate capital. They are not on the ground, they can't see the things close up. This is very much like a doctrine, a subsidiary. People that are most intimate to a transaction are most qualified to allocate resources or to un-allocate resources to it based on their intimate level and knowledge and optics, they can see things that affect them, they have skin in the game, they have more awareness.

Rep. Dan Crenshaw: It's the genius of a decentralized economy.

David L. Bahnsen: Very much so. Very much so. But I also believe that it comes down to an incentive structure where the incentives of the private allocator of capital are very much aligned with growth and productivity. It enhances quality of life for those people who are allocating their own capital, when they allocate it well. Where, in the government's case, at best they have an objective of preservation of capital, but at worst they have just simply catering to the instincts of the voters trying to give special interest groups what may be needed in particular cases. So you get an economy driven by transfer of wealth as opposed to the creation of wealth.

But I think that we have to measure and actually look at how the diminishing return of government debt has worked over the years. It is one of the most violent charts an economist can look at to see the declining return in productivity. The less GDP growth you get or more government debt over time, and when you start at a position of 50% debt to GDP versus starting at 130% debt to GDP, that we are now, you're talking about an entirely different situation. And what's interesting is the left knows this. The left is right when they say that when we move marginal income rates from 70% to 28%, that was very different than us now trying to move from 39 to 37. You get a diminishing return when it's a much lower marginal decrease.

Now, I still believe we should do it, and in fact I do, but I would acknowledge that there's a diminishing return of those different numbers yet somehow they missed that basic math when it comes to these elevated levels of debt to GDP. You have a significant amount of waste, a significant amount of mal-investment, poor allocation, and most importantly, Congressman, you have private actors that are not willing to borrow, invest, and take risks because the economy has now become run by rent-seekers instead of risk-takers.

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Rep. Dan Crenshaw: That comment you just made is an important reason as to why government debt results in less growth, because it does crowd out investment. And it's hard to prove that argument because it's not like you can find a case where it happens. You can only find in the aggregate and in long-term trends that it does indeed happen. And it's also intuitive, it's intuitive for the reason that you just said, but it's difficult to say, you can't find proof that Coca-Cola didn't invest in this company because ... it doesn't work like that. There's not like a silver bullet example, but in the long term, we absolutely see that to be the case. And I like what you said about incentives. There's this belief on the left that for some reason, the people in government are just better people and that the people in corporations are just worse people. And I don't know why so many believe that since so many people work for corporations and not government.

It's almost like you're calling yourself evil. It's this sort of faceless villain that we make up in our minds. But in the end, I don't think either are bad people, but I do think that people working in government have very little incentive for these things that you said, for growth and productivity. Very little incentive at all. The military tends to be the best place for that because it's acculturated into the culture, but even then, you've really got to get into some of the more elite units and then it's this ... or this mentality of we must be working at 110% all the time, it's really acculturated into the culture. Now, that's because you're part of the mission, you're part of this elite group. It's a very different mentality that you can't transfer over to other institutions very effectively.

Corporations are always trying, that's why they hire ex-SEALs to go teach them leadership principles. Now, does it really work? I don't know, they seem to like it and people make money off of it, so sure. But it's difficult because you're not really part of this trial by fire group of people that all went through suffering together and then have this common mission. It's just a different environment, but at least there is profit incentive in a corporation. The government doesn't have any of this so it stands to reason that they are not going to be able to accomplish what they say they will accomplish.

The other point you made, which seems to be true on the left too, is usually this, if one dollar spent on a program is good, then 10 must be better. And that's always the mentality of the left. And if one regulation must be good, then 10 more must be better. And so you get one hindrance to growth, which is the debt because of this notion that if one dollar must be good, then 10 must be better. And they'll say, you have to believe that otherwise you're not compassionate, you're not a compassionate person. But I would say another hindrance to growth is, if you look at our tax code, if you look at our regulatory code from 50 years ago compared to now, it's much, much bigger. How much does that have to do with some of our low growth?

David L. Bahnsen: I think that we are able to use a couple of periods in modern American history to prove that it has a significant amount to do with it and that is the growth that was unleashed out of the supply side tax cuts of democrat President John

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Kennedy and the world changing growth that was unleashed from the supply-side tax cuts of Ronald Reagan. What you got to see was a positive illustration of the principle of incentives that on the margin, when people were able to keep more of the fruits of their labor, there was greater productivity. There was more importantly than just the fact that people would go work harder because they could keep more of their income. I think a lot of people characterize supply side thinking that way and it's difficult because I actually think it's true, but it is not the heart of essence of supply side economics.

What is does is it incentives investment. And see, you cannot get a dollar of investment if you don't have first a dollar of savings. And this is an algebraic truth. Our national savings has to grow for us to have more dollars into investment from which we can go create more productive enterprises, investments in factories, plants, technologies, et cetera. Every dollar of government spending is what, a dollar out of national savings. This is so true that they actually write it in the damn GDP formula. This is algebraically true. So every dollar we take out of the national savings to go into government coffers is a dollar that is removed from the productive growth of the economy.

Historically, we have ample precedent that we get more productivity, not just in the Keynesian sense, the demand side sense, I can't stand this sort of animal spirit talk, partially because it goes so against what I believe theologically. I don't believe we were made to be consumers. I don't think we're here on earth to go eat of someone else's labor. We're here to produce and to me the incentives to produce then allow for consumption and they do it in two ways. I can't consume unless I first produce. I have to make some money so that I can spend it, but I also can't consume unless someone else produces. What am I going to go buy if someone else didn't make it? There's two parts production, one part consumption in any healthy virtuous cycle of an economy and that's what I believe is the biggest need of the next 10, 20 years economically is for us to get back to a more productivity minded, economic mindset.

Rep. Dan Crenshaw: And to produce also means to pursue some sort of meaning.

David L. Bahnsen: That's right.

Rep. Dan Crenshaw: And I think that maybe gets into your Christian faith. The purpose of life is to pursue some kind of higher ends. I'd like to let you unpack that and how your belief system and your faith informs your economic philosophy. But also, what do you say, because what the left says is, well, capitalism is that horrible materialism that just turns you into a mindless consumer. But I would argue that's almost exactly what socialism is.

David L. Bahnsen: In a lot of ways, it's literally what socialism is. It's literally what Marxism is. It is this notion that by the transfer of wealth, which is in material realm that we can generate happiness. That worker, the proletarian can be satisfied by having the

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material means met where I subscribe to view, Dr. Arthur Brooks popularized this notion, the language of earned success. I believe there's a reason why almost every lottery winner I've ever met is an alcoholic. There is nothing that is so feeding about being handed money. Now, for a starving person who is handed a meal, I understand. I am not un-empathetic here and I don't usually go on a personal biography, but sometimes I think I need to as a defense mechanism because I am a big donor in the republican world, I am an affluent guy and I run a successful business in Manhattan and Newport Beach, but I came from nothing.

I could only buy one pair of shoes a year. My parents went paycheck to paycheck. My dad died very young. And so for me, I truly mean it when I say I have a heart for people who are struggling. My belief though is that every person can have the life that I've ended up being able to have by God's grace because what brought about the life I have is honestly exactly what you're describing, what we call a telos, a purpose. I love working. I love having something to work towards and it happens to have produced material prosperity. But when you say, unpack what my faith has to say about this, the irony is, the notion of the capitalist being devoted only to ranked materialism is the exact opposite of the creation message, that not only do we know that God said, I'm making you, man, in my image, that we are to go be co-creators with God. We're to go out and participate in productive activities. But he couldn't even get out of the first book of the Bible without this pro-growth message when he said, go subdue the earth, rule it. Name the animals.

There was an idea for creativity and it was this idea of stewardship. To me, it carries out throughout the whole biblical story, but it carries out in modern life as well. The happiest societies have always been the hardest working ones, the most productive. And then you create a virtuous cycle. You have not only people are happy because they are working hard, but they have material prosperity that is then reinvested and you get the benefits. Our entire American society right now and every kid at a socialism demonstration and at their college campuses that pay \$60,000 a year for tuition, sitting on their \$1100 iPhones tweeting on a \$60 billion company's social media platform about the evils of capitalism, everyone of them is living off of the benefits that have been provided to them by our country's heritage that was so incredibly pro-work and pro-market.

Rep. Dan Crenshaw: What it is about this sort of promise of utopianism and this idea that people, everybody else owes you something, some injustice has occurred, even though your life is good, there's this belief that some injustice has occurred. I don't know why it's so compelling. I suppose it's always been compelling throughout history. It's kind of irresistible this notion of utopianism and this notion that something is just not your fault. That any sub-optimal situation must be somebody else's fault and not your own, this sort of lack of personal responsibility.

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David L. Bahnsen: This is a subject that is near and dear to my heart. My first book I wrote was called, *Crisis of Responsibility* and that's exactly what the thesis of the book is. I think that there is in post-enlightenment years, there was a very popular economic and political philosophy called Marxism that I believe essentially teaches that all human existence is a narrative of an oppressed and an oppressor. And I think you go back even into more ancient of times, the whole way we got a king was because the Israelites were so dissatisfied they felt that they were being ripped off, these other nations had these greater things, give us a king that will come take care of us and provide these things. And really, the First Samuel historical record about how the Israelites got a king is kind of the story of where statism came from. It's a dissatisfied people not taking responsibility for their lot in life looking for someone else to come make it better for them and I believe it is primarily a moral and spiritual issue.

But even if I didn't, I think that the historical weight is overwhelmingly clear that people who refuse to play a victim or people who become disinterested in how things got to be this way and more interested in how they can fix it or make it better, those tend to be very happy and yes, very productive people.

Rep. Dan Crenshaw: Talk about, this is not a term I'm familiar with, but it's a term you're familiar with and it relates to how, again, how your faith informs your professional life. What are the tenets of Kuyperian Calvinism?

David L. Bahnsen: Abraham Kuyper was the prime minister of Holland in the 19th century. He has started the university there. He was a very renowned theologian and so Kuyper in 19th century Holland, who was himself very much trained by the Protestant reformer, John Calvin. He had a lot of roots in Calvinist theology, it was very acceptable across much of Western Europe at the time was this idea that God was engaged in the universe, God cared about the activities on earth, but we were now living in the Lothian liberal order. There were different spheres. Really, a great doctrine of church state separation comes down to sphere sovereignty. It was never the idea that the state is separated from the concepts of morality or virtue or law, but rather that the state is a separate entity from the family, from the church, from the individual.

Kuyper popularized the idea of there being different spheres in society and yet all of them being out of the interest or the purview of God and it is very much my belief that the God of the Old and New Testament cares about the political world that you work in, the financial world that I work in, the ecclesiastical world that churchmen work in. But what a lot of Christians have done over the years is separate the sacred from the secular and they kind of look at the sacred as church work and kings to God that's heavenly minded, but then there's this political and financial and other stuff, it's mostly pretty dirty and seedy. Maybe hopefully you get a little evangelism going on or something, but God doesn't really like all that stuff. And I think that was largely a byproduct of Christians rejecting Kuyper or rejecting Calvin and instead kind of just surrendering to the forces of the enlightenment, surrendering to the forces of Darwinism into the

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19th century. So modernity kind of kicked Christians you know what and throughout 20th century Christians became more and more marginalized.

And where the church has tried to come back with some political engagement, it's unfortunately been almost as sort of a protest movement against just a very narrow set of issues, important ones, abortion and life and marriage and other issues like that, but they were doing it from a point of playing defense, which is understandable.

Rep. Dan Crenshaw: It's reactionary instead of-

David L. Bahnsen: They were doing it without a lot of I think theological sophistication, without a lot of foundation or world view that, in fact, all of these things ... I look at the sixth commandment is thou shall not kill, seventh commandment, not commit adultery. And Christians have always said, the murder side and the marriage side, we like that. But then you get to the eighth, ninth, and tenth commandments, thou shall not covet and steal, economic ethics then. That's been a little shadier. I would like to see us embrace the whole thing.

Rep. Dan Crenshaw: I think it's an important point. It is fascinating how you can find truths from the Bible that definitely inform economics. Inform, generally, how our government is structured, and I don't think we appreciate that enough, how the Bible started with just even the idea of rule-making for a civilization, which is, again, we take it for granted and you can get those rules really, really wrong. It's important to have a basis for that and I think the Bible provides a lot more of that than people realize, if you're willing to look for it.

Talk to us about inflation. Everybody's worried about inflation right now, probably rightfully so. In high inflation, your money is worth less. Your savings become worthless. It's not a great place to be. You want a, generally speaking, economists try to shoot for about a 2% inflation target. Right now, we're much higher than that. What caused it and how do we get a hold of it?

David L. Bahnsen: I have a view on this that I think is very important and I'm very concerned about all my friends on the right who think they are going to score some political points on this issue. I think we're going to go into the midterm year and possibly, and totally unintentionally, deliver an incredibly helpful talking point to the Biden administration. Because when we look at inflation as rising prices and you see prices rising right now, there's a few different things going on and for us to jump into a narrative that I think it makes for pretty good talking points, on like a Fox News interview, and I'm on Fox News all the time, I'm not critical of that, but I don't think it allows a full nuance around what's going on.

A whole bunch of prices have gone up because they went down so much during the pandemic. So the big move higher is largely related to what they call base effect. Secretary Yellen has referred to this term a lot. Some prices have inflated



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because they have previously in very short-term memory, deflated. That's not inflation, it's not sustainable, but it's also not the whole story. Now, a much bigger story, and also a complicated one, are supply chain disruptions. Prices go higher when you're unable to get less of the goods and services you need to run your economy. Again, we have to start with what is the definition of inflation and I do hold to Milton Friedman's definition although I add the nuance that he also added. It's too much money chasing too few goods and services.

He codified that in a time where there was a very constant level of velocity, meaning the money turned over very consistently in the economy. You bought something, they took it and bought something. We have been living now, since the financial crisis, and it started even before then, with utterly collapsing velocity, that money does not turn over and this is what creates inflation. Greater money supply, that's the easy part, times velocity, money turning over. My view is that velocity cannot go higher without loan demand and loan demand cannot go higher with excessive government indebtedness. That people borrow less money to invest in new projects because of the same thing we spoke about earlier.

Many conservatives hear me give this spiel and they say, oh, you're saying everything's okay. We don't have to worry about inflation. I'm saying, that's kind of true, I'm not saying we're going to have an earthquake, but I am saying, we're going to have a hurricane because I consider Japan-ification or disinflationary forces or extended decades of low, slow, and no growth to be worse. So in a lot of ways, what I'm saying is not a positive, but I believe it's a different economic problem than one just seeing prices going higher and saying, oh that must be inflation.

Why do I get away with saying I don't think this is inflationary? Lumber prices went up huge, now they are down 50% in the last month. We know that's all screwed up. There is supply related anomalies around lumber. Used cars going up seven percent in a month. There is supply chain issues that are not normal. What is the judge and jury of inflation? It's the bond market. Trillions and trillions of dollars of people acting in their self-interest are right now loaning the United States government their money, as of today that we're recording, 1.35% for 10 years. When we started talking about inflation four months ago, it was 1.8%. The bond yield has dropped even further.

When President Reagan left office, we had \$900 billion of national debt and the 10-year was at 9%. We now have \$27 trillion of national debt and growing. We'll run a \$3 trillion deficit this year and probably close to two next year and the bond yield is one sixth of that, one seventh of that.

Rep. Dan Crenshaw: I don't understand that. I don't understand that incentive. I wouldn't tie my money up for 10 years for 1.3%.

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David L. Bahnsen: Who does? Who's doing it?

Rep. Dan Crenshaw: I don't know.

David L. Bahnsen: You have other countries that are also overly indebted that have to take their dollars or their own currency and put it somewhere and on a relative basis, the US Treasury looks better than a lot of European sovereign debt or Japanese sovereign debt. But what we have is this exact same story having played out in Japan since the late 1980s. 30 years of disinflation. 30 years of low, slow, and no growth. They've had no real GDP growth for decades. They've had some nominal, but not much.

Rep. Dan Crenshaw: What do you think the Fed should do? Do you think the Fed is on the verge of raising interest rates to deal with inflation or do you think that they think it's temporary and will keep interest rates low?

David L. Bahnsen: No, at a 1.3% ten-year, the Fed can't raise the short-term interest rates. They'll invert the yield curve and push us into recession. I think that they view the short end of the curve. They will use the rhetoric of helping the job market as long as they can, but they know that they are stuck at zero bound, which is the term for being bound with an interest rate down near the zero percent range. And Congressman, I don't think there is any precedent for a central bank getting off a zero bound when they are set. For whatever reason, I vehemently disagreed with him when he did it, but when the President was yelling at Fed Chair, Jay Powell back in 2018, lower rates, lower rates, he was trying to get our Fed funds rate, the only interest rate the Federal Reserve can control up to about two percent. They got it down to zero in the financial crisis and they left it there for seven years. And then he got it up to two percent for about a minute. Then the credit markets threw up in the fourth quarter of 2018.

The President was tweeting at him every second and on January 3, 2019, he said, okay, I surrender. We're not going to keep doing quantitative tightening and we're going to be cutting rates. You can't get an economy dependent on low interest rates and undo it. That's the challenge that they have now.

Rep. Dan Crenshaw: Does that mean the Fed just has less tools, because that's one of their main tools, what other tools they have, really. And does that mean that if we have a serious crisis of growth in the future, we can't really rely on the Fed to do anything about it?

David L. Bahnsen: One of the really interesting things during the COVID moment was that they still had 150 basis points. 1.5% was where the Fed funds rate was. Generally, they like to be, every time Greenspan was cutting rates, he was at three, four, and five percent so he could move the needle when he went to cut rates. One and a half down to zero wasn't a lot, but it was something. But when you're at zero,

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you can't cut further. Now, we learned after the financial crisis never to underestimate their creativity.

What other tools do they have? The next tool became quantitative easing. They buy bonds hand over fist with money that doesn't exist. It's not a very efficacious tool, that money doesn't end up in the economy. It just sits as excess bank reserves, but it helps create a little liquidity in the financial system and it signals to markets that the Fed's there to accommodate. Thank God, in our country, you guys limit what the Fed can do. The Fed cannot go buy stocks. The Fed cannot inject money directly. They found really creative ways with the CARES Act and out of TARP to kind of get around some things. Some of them, by the way, I think, were effective. But them buying junk bond ETFs and things, it's just highly distortive to markets and it's a tremendous moral hazard. But Japan, their central bank owns 60% of their bond market. Our Fed owns less than 20% of ours.

Can they issue a trillion dollar bill, zero coupon and buy it from the Treasury and just sort of use that as a backdoor way to monetize Fed debt? Legally, they could, but they have to maintain some credibility and I know that people say the Fed has shot credibility, but that's a tough sentence to utter because it's all relative to other central banks. Our Fed still has some credibility, relatively speaking. They start doing shenanigans like that, it will fall apart very quickly.

Rep. Dan Crenshaw: I think the public gets really frustrated with this subject because it just feels like a shell game. It's hard for me to understand, to be perfectly honest, about how this money is moving around. If it's real money, if it's not real money.

David L. Bahnsen: I promise, you understand it. I promise, you understand it more than 90% of your colleagues.

Rep. Dan Crenshaw: Yeah, well, that's a scary thought. One question I know people have is, when we say the Fed is printing money. What does that actually mean? Because it doesn't mean they are literally, sometimes they might be literally printing it.

David L. Bahnsen: Well, the Fed can't, only Treasury can. But it doesn't mean anything. It's an old talking point from the right in the '70s that they've never got rid of. And so I am really sympathetic to a simplistic use of that language with quantitative easing. The Fed is using a computer entry to buy bonds from banks, so they are crediting the bank cash and they are taking the bond and they are doing it with money that, prior to the computer entry, didn't exist. Does that sound like printing money?

Rep. Dan Crenshaw: Yeah.

David L. Bahnsen: It sure does, but the problem is that the Treasury still owes the Fed that money. The Fed has an asset called a bond and the Treasury has a liability called the

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bond. It's an even transaction in dual entry accounting. The bank has the cash that was credited to them so now how does that become printing money, loan demand. You and I can take any money we have and put it in our bank. All we did was take money that already existed and put it somewhere else. Now, if we move it from Wells Fargo to Citi, all we've done is transfer. We've created no new money. The only way we create new money is by borrowing more money. Borrowing money gets the bank to send money that the Fed then created from a computer screen out of thin air and it then comes into the system.

Rep. Dan Crenshaw: I see.

David L. Bahnsen: Most borrowing the guys like you and I do is refinancing of debt. We're not creating no new money. You pay off one loan and take a new one or something. Most loan demand comes from companies. Corporate America is already so re-levered that this is why I'm not in that inflation camp because all the good borrowers, they were really needing to kind of reflate after the financial crisis and they borrowed and put it to productive use. They are borrowing at three percent and putting it in projects that generate 10%. They are doing well. But they are leverage limits are realized. Their debt-to-income ratios are maxed out, the good borrowers. Either you're pushing on a string because you can't get much more borrowing out of the good borrowers or you get bad borrowers. We don't want that so you kind of get stuck.

Rep. Dan Crenshaw: That's maybe a good segue to the financial crisis of 2008. That's what happened, basically. You call it predatory borrowing.

David L. Bahnsen: Yeah, yeah, so in that case ... Go ahead.

Rep. Dan Crenshaw: I said, go ahead and just unpack, tell the public what happened there.

David L. Bahnsen: My thesis, to give context, I was a managing director at Morgan Stanley throughout the financial crisis and had built a successful business at one of the country's largest Wall Street firms and lived through it. It was an extremely existential moment for me, not only professionally and economically, but I was intellectually determined to understand what they hell had happened. And what I found was that more or less there was some really good books written after the crisis. There is plenty of material out there, but very quickly things fell into a narrative of either the government did it, Fanny Mae, Freddy Mac, the Fed did it. There might have been a few more libertarian types and so forth. And then certainly there was a very large movement of Wall Street did it and the greed and the lack of regulation and things like that.

Whether one was blaming the big investment banks of Wall Street or the credit agencies or the mortgage brokers, or they were blaming government housing policy and all that type of stuff, all of it had a really big problem, for me, is that all of it was a little bit true. There was some truth to each of these points. But

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every single one, whether the right was blaming government or the left was blaming Wall Street, all of them still held Main Street out as the victim. All we disagreed with was who the bad guy was. But the good guy was definitely Main Street and the question was, was Main Street screwed by the government or were they screwed by Wall Street. And it's just patently false. And so as I covered throughout my research, I really was blown away by what a moral and cultural crisis it was. Folks living outside of their means and looking to be bailed out of the end of it.

That's not to say that plenty of bad actors on Wall Street didn't facilitate it. It's most certainly true that a lot of the equity holders of Wall Street received bail outs. Now, Citi Group stock to this day is down about 85% from where it was pre-crisis. Fanny's and Freddy's were blown out. Lehman's gone. AIG had to totally recapitalize. But look, they still were allowed to live to fight another day and people can disagree about those decisions forever. I think the way in which a lot of it was done was reckless. Totally irresponsible. But we have to remember what caused those financial positions for people that had borrowed money that couldn't or wouldn't pay it back. And the most common form of default was a strategic default and it was non-recourse states, states where they couldn't go after your personal assets.

Ground zero financial crisis was California, Florida, Arizona, Nevada. There is a reason those four states had the lion's share of these defaults that kind of bled into the financial crisis, is those states all do not allow recourse financing. People would not have walked away from their home ... They bought a home that they thought was worth \$800,000, they borrowed \$800,000. The home is now worth \$600,000 because they bought in a bubble and they say, I'm not going to keep making payments on something I'm down 10, 20% on, so they walked away. There is, to me, an unbelievably important lesson here about morality.

Moral people pay their bills. And I borrow from Amity Shlaes' masterful work on the Great Depression when I talk about what happened in the Depression. We didn't have 10% unemployment, we had 30% unemployment and the line you would say about the people struggling in the Depression, 1930s was they pay, they pay. They may have worked in bread lines and three jobs and there was all kinds of social and economic ills, but people thought it was bad on them to not pay a bill. Where in Newport Beach, California, in the financial crisis, if you bought six condos, they go upside down, you walk away from it, you not only did something that I consider immoral and reflecting bad character, you went to the bar Friday night and bragged about it. There was no shame in not paying your bills.

Rep. Dan Crenshaw: And then claiming to be a victim.

David L. Bahnsen: Absolutely.

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Rep. Dan Crenshaw: It's important to get that perspective out there. I think it's true, because it is true. None of this would have happened if people were just paying their bills. We shouldn't romanticize the people who did this. They are not necessarily victims and there's a real consequence to a lack of responsibility and for some reason, the left has doubled down on this very dangerous notion. You see it with student loan payments. You're a victim because you took out a student loan? Why? Why does somebody owe you something for that? What do you think happens if you just cancel rent? What do you think happens? You will create another 2008 crisis, for sure.

David L. Bahnsen: And that's exactly right because what you've done is you've treated the problem with more of the problem. There is no attempt to explain how free exchange is supposed to work, how individual responsibility, risk, reward. Were there people that were uneducated, uninformed and were naively duped by a very aggressive mortgage broker in the financial crisis, of course there were. Now, first of all, all of those stories put together soaking wet were not systemic, not even close.

Rep. Dan Crenshaw: I think that's definitely true.

David L. Bahnsen: But I still believe at the end of the day that we don't treat someone who is uninformed in a transaction and say therefore the solution is we want to leave you uninformed and just simply transfer money. We want to have a society that values individual responsibility that avoids moral hazard. And I don't think we got that right.

Rep. Dan Crenshaw: I think that's a really good conversation on welfare policy. Again, speaking about growth, which is how we started this conversation. I would say that one of the impediments to growth is perhaps a welfare system that creates dependency instead of promote, say, a path forward and out of dependence. That's tricky because you want to help somebody who is downtrodden, you want to help somebody who truly needs it. We don't have an interest in a modern society that leaves people starving, that leaves people homeless and so a safety net is in order here. But how do you get that safety net right? Is it making our entire welfare system looking an earned income tax credit? At least you've aligned incentives in the correct way? I would yeah, it probably is. I would say, yeah, talking to Paul Ryan, who was a guest on this podcast, this is something he's been passionate about forever, is fixing poverty in America and it's like, how many 80 plus poverty, welfare programs do we have in this country?

Could you imagine trying to navigate that as a poor person? It's terrible. Why not simplify the whole thing and put incentives the way they need to be and then you're not tying up that money in unproductive ways. Again, getting back to our initial principle that was laid out.

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David L. Bahnsen: And I think that, for me, a lot of this, which I'm pretty unapologetically committed to linking to my faith world view, I view the human being as too special and too dignified, too important to the human being's creator to allow them to just merely be the recipient of someone else's largess. I think at the end of the day, the biggest criticism of most governmental approaches to poverty are not merely the economics and inefficiency and bureaucracy and alphabet soup of everything, but they do start with the basic vantage point that views someone as a dependent unit on the state, not a human being created with dignity who has productive capacity, who has agency. We can fix a lot of these things on the margin, very temporary programs, safety net issues, most of it, by the way, very localized. But my point being, we can do philanthropy in this country. What we cannot do is start our approach to this subject by ignoring the fundamental problem, which is that all people need to be treated as if they are made with dignity. And I think that that's what the modern welfare system has done and unsurprisingly, everything its done since then has gone wrong.

Rep. Dan Crenshaw: Yeah, I think that's accurate. Again, you know what I like about unpacking? It's been a while since I've done a really focused economics podcast, but what I like to point out is that this stuff isn't rocket science. If you establish a good, moral society, it doesn't have to be perfect, but it has to be generally in the right direction, I think America has that, a good sense of right and wrong, the notion that property rights should be protected, that the right to pursue your happiness should be protected. You allow that creativity to thrive, you will get more prosperity than you could ever imagine and I think reminding people of that basic truth over the last couple of hundred years is really paramount to the next 200 years, if we're going to save the next 200 years because there is just so many people that just don't believe it, especially young people.

Now again, do they know what the hell they are talking about when they say they support socialism? Vast majority have no clue. And they are probably more libertarian than they even realize so that maybe would hopefully give me some hope. We have to get used to the fact that we're always going to be on defense and continue to teach these ideas over and over again.

David L. Bahnsen: I love what you said to Jordan Peterson on this podcast. Playing defense is a good thing when what you're defending are the principles of the American experiment. I think you're right, we have to get used to playing defense. I'd like us to play it better. I'd like for us to play it with the long view, but I agree, we are defending things and we'll have to perpetually do that. That issue about young people and socialism is tough because a big part of me doesn't believe that they really like socialism. A big part of me just thinks that they hate capitalism and I want to present capitalism better than we've presented it. I don't really like the term, capitalism, for one thing.

I think that the notion of free enterprise, of free and virtuous society, there are things that capture the spirit of it much more, I think Marx would have liked the term capitalism to describe our world view, but I don't think it is holistic enough.

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But ultimately, I think that young people hate cronyism and I hate cronyism. I think young people hate student debt that allowed an administrator at a C-level college to boost up tuition prices to \$60,000 a year when they are producing no product that would possibly be considered employable at a level to service that debt. I think young people hated seeing their parents in real financial agony 10, 15 years ago to the financial crisis.

I'm sympathetic to all that stuff, but I also think there's a crisis of morality, a crisis of responsibility. And what you see within "young people" is this top 10 or 20% that are just going to take over the world, that are unbelievably productive, innovative, intelligent, resourceful and so that's the part that's so tricky right now is, the meritocracy is under attack and I want to defend the meritocracy, yet I want to defend it by getting people in the middle bands to up their game. I don't want to defend the meritocracy by asking the productive people to take a couple of steps back. It just is un-American.

Rep. Dan Crenshaw: Yeah. And that does seem to be the goal, is that sort of equalization and race to the bottom and you can't imagine a worse way to do it. It's hard to contend with that ideology because it's easy for them to pretend like they have morality on their side, like they have some higher sense of compassion, higher than you, anyway. But the truth is, there's always going to be a top 10 percent in any kind of game, and civilization is basically a series of games that you play against each other in competition. And a utopianist might have you believe that you can play the socialist game, but it inevitably does not work and we've got to educate our next generation on that. It leads to silly policies.

Talk about worker shortage, this will be one of the last questions I ask, what do we do about that? How do we get people to get the skills that they need and apply for jobs? The biggest complaint that I hear from employers over these last few months, it's getting a little better depending on what state you're in. But the biggest complaint is they can't even get people to apply. They might even contact old employees and they will say, I'm just waiting until those benefits expire and then I'll come back. That's part of it, but I feel like there's a deeper cultural problem here.

David L. Bahnsen: There most definitely is and it's a negative feedback. It's a deeper cultural problem that gets treated with a really bad government policy that makes a worse deeper cultural problem and then you rinse and repeat. Our declining labor participation force is a societal disaster. And then this treatment of extended federal government unemployment subsidies on top of the direct transfer payments and on top the state funded unemployment insurance, which are mostly funded entities providing incentives to people to not work.

Look, this is what I think people don't understand. Those folks that end up playing this out all the way to the end, and they go, look, I was getting almost the equivalent of about \$20 an hour from the government plus I got a couple of



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thousand bucks here and there in direct payments. I didn't have to work. Now, it comes to an end in September, I'll go back and get a job then. But there is a cost that we will never be able to pay back of them missing out on those months or years of training, of community, of skill development, of solving problems, working through conflicts. If you believe a healthy economy is a story of human action and a story of productive human activity, you cannot take people out of the game and then expect them to get back in the game and think that now you're just picking up where you left off.

You're going to be playing catch-up and those are lost productivity units that you don't get back. There's no makeup here. And so I think that this is a disaster economically, but also spiritually and morally because it feeds the number one biggest problem in our society right now for people who still care about this, alienation. People feel alienated. There's no church, there's no synagogue. There's a deteriorating family unit. There's no Rotary Club, there's no bowling night. We have no civil society. And then we want to take people out of their jobs? Now, I understand in upper West Side and in Scottsdale, Arizona and I purposely used a left wing city and a right wing city where they still have yoga classes and Peloton and Spin. That's fine, they have their sort of secular religious activity to produce a community that works in their affluent kind of realm. But I really believe that this is the problem we face right now is that people do not have telos, purpose. And then we pay them to not go work, which is at least the first thing we have to be doing.

There is plenty to do beyond it, but you have to get people into daily activity and why we don't understand this or care about it is totally beyond me because I would think this is intuitive even if I were not a political junkie, an apolitical person. I don't believe that millions of people who read *Hillbilly Elegy* related to the book and loved the book because they were political. He didn't really write it politically. They kind of identified with this story of alienation and felt empathy, but you don't have empathy for people by encouraging them to not work.

Rep. Dan Crenshaw: No, you don't. There's been some good revelations, I think, for people to understand about personal responsibility from this show, and also about just the policy implications of inflation so I want to make sure we get that right because a lot of people are like, well look, we spent trillions of dollars therefore there's inflation. You disagree with that and say a better explanation of the inflation. Look, you can still blame democrats for this, guys, because I think the supply chain disruption, which caused the inflation was from the people who wanted to lock down the economy. And last I checked, that wasn't republicans. It's still democrats fault, everybody. Don't worry. But to your point, we need to get our points correct on this and hopefully your optimism is correct and that inflation does sort of level off here shortly.

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I just thought that was really interesting point and the point we need to be making about debt, it's still bad, but it's bad because of what it does to investment, what it does to growth.

David L. Bahnsen: That's exactly right. And those two are one in the same. What it does to investment is what it does to growth, by stifling investment, it stifles growth.

Rep. Dan Crenshaw: Yeah. And I think that's intuitive. Well, David, thank you so much for being on. That went by fast, quick hour.

David L. Bahnsen: Yeah, but we covered a lot. I really appreciate you having me on, Congressman. I enjoyed the conversation immensely.

Rep. Dan Crenshaw: Yeah, I really appreciate it. I think the audience loved it. We learned a lot. David Bahnsen, appreciate you being on.