Conversations with Bill Kristol

Guest: N. Gregory Mankiw, Professor of Economics, Harvard University;
Chairman of the Council of Economic Advisers (2003 – 2005)

Taped Feb 2, 2017

Table of Contents

I: The State of the US Economy 0:15 – 45:37
II: The Case for Free Markets 45:37 – 1:06:03

I: (0:15 – 45:37) The State of the US Economy

KRISTOL: Hi, I'm Bill Kristol, welcome to CONVERSATIONS. I'm very pleased to be joined today by Harvard professor of economics and former Bush administration official Greg Mankiw, who's going to explain economics to us here...in an hour and a half [laughter].

MANKIW: Nice to be here.

KRISTOL: So, what's going on? I mean, 45 percent of the American public in 2016 voted for either Bernie Sanders, a socialist, or Donald Trump, a – whatever he is. A certain kind of populist. Both of whom reject, I would say, a lot of the mainstream claims of mainstream economics. Is the country in such bad shape that people are right to sort of turn to more extreme, I guess we could say, policies and solutions? What does it say about the country? Then, we'll talk about what does it say about economics?

MANKIW: Sure. The first thing to say is that the United States remains one of the richest countries in the world. So we don't want to lose sight of that fact. But there are a couple of very troubling trends that I think make people unhappy, for good reason.

One is that if you look at growth rates, they've been slowly trending downward over time. So, the past, say, 15 years has the lowest 15-year growth rate that we've seen since World War II. So you have to go back to the Great Depression to really find a period this bad. So we have very low long-term growth rates.

In addition, we see rising inequality. So, the growth that we have seen has accrued to the people at the top of the income distribution. And people who are less educated – people with, say, high school degrees or are high school dropouts – have seen really very little advances in their wages in 20, 30 years.

KRISTOL: So that's true? That's not just sort of –

MANKIW: That's absolutely true. Those are real facts with the data. Now, there is a question on how you're interpreting that data, what's causing it, and what you can do about it. That's – Those are harder questions, but the fact that we are in a low growth regime, in a rising inequality era are unfortunate facts.

KRISTOL: So, in that respect, I guess, if one came down from Mars and looked and said we're going to have a big, big recession – big financial crisis followed by a big recession in 2007, 8, 9. And one that was not predicted, probably, by a lot of the elites and experts – so a little discrediting, you might say, to their claims – and 20 years or 30 years of flat incomes for a lot of Americans. And the annoyance, maybe – apparent injustice, maybe – of the growing inequality. Maybe one should have predicted a Sanders and a Trump phenomenon in 2016.

MANKIW: I think people have real reasons to be unhappy about certain developments in the economy. Then the question is whether the Sanders and Trump solutions and diagnosis of the problem is correct. There I am more skeptical, but I think the fact that there are macro-economic trends that are leaving people, especially less-educated, working-class people, unhappy, I think, makes perfect sense.

KRISTOL: How much of this is due to forces beyond anyone's control and that you couldn't and wouldn't want to turn around – technology and stuff? And how much of it is sort of policy driven, you think?

MANKIW: I think a lot of is beyond people's control.

One of the books about slow growth that has gotten a lot of attention over the past couple of years is by Robert Gordon from Northwestern University; it's called *The Rise and Fall of American Growth*. His explanation is that it's primarily technological.

Previous generations saw technological innovations that really promoted rising living standards that were incredible. We saw electrification, the internal combustion engine, indoor plumbing. And these really changed peoples live fundamentally.

We have technological progress now, he says, but it's not fundamentally as life changing as the technological process of previous generations. Yeah, we have 140 characters. But if you had to give up your 140-character Twitter account versus indoor plumbing, you wouldn't have any difficult choosing. His views are we've not seen the *kind* of technological change that we've seen in previous generations. And I don't know if that's right, but I think it's a plausible hypothesis.

KRISTOL: Does he argue, or do you think, that maybe we just had this amazing, I don't know, 50, 80 years, 100 years – Industrial Revolution and you just get a massive wave of revolutions in transportation, public health, etc., and that's just not going to happen again? Maybe this was just the one time in human history we're going to get that level of progress, and now we're going to go back to something slower. Is that possible?

MANKIW: I think that is his hypothesis. It's certainly true if you go back in human history 2,000 years, stagnant living standards is the norm. Before the Industrial Revolution, things didn't really change all that much, in terms of average living standards.

And his view is that the Industrial Revolution doesn't mean we're going to grow at three percent forever. It was a period of time of rapid growth, and maybe we're getting down to something more normal. We're still growing but at a slower pace.

Now, the future is very, very hard to predict. And economists are terrible at that. So, I think Gordon has sort of more credibility in terms of looking at the recent past than he does at predicting the future, and who knows whether bioengineering and so on is going to have huge changes going forward. Maybe? So, I'm less willing to sign onto Bob's fairly sad prediction than I am his diagnosis of what's been happening recently.

KRISTOL: How worried are you about the reaction to this fact? Let's call it the wage stagnation and stuff. I mean politically, will it make things worse?

MANKIW: Oh, absolutely. I think a lot of the diagnosis of the general public and some of the leading political candidates, I think, is basically wrong. So, for example, let's take trade.

KRISTOL: Let's take trade, because that's been such a big one. You had the phenomenon, let's review them for a second. So Hillary Clinton as Secretary State negotiates a trade agreement with, 11, was it, 12 Asian nations. Walks away from it under pressure from Sanders, who's against it, and the left wing of the Democratic Party.

And the Republicans, which have been pretty consistently free trade – entirely, in terms of presidential candidates. Romney had supported this agreement, and so forth. McCain. And they both continue to do so. And most of the candidates who do so get defeated by Trump. So, the first non-free trade Republican to be nominated in modern times, really.

It's pretty amazing when you think about it, to have Hillary Clinton walking away from the agreement *she* negotiated under pressure from Sanders, and Trump winning the Republican nomination. So, trade seems to be a big one in terms of, either temporarily or not, a change in the public attitude.

MANKIW: I continue to believe that the basic lessons that we teach students in introductory economics classes, which I teach at Harvard, are basically right. Trade is, in fact, one of the things that we spend a lot of time in my class talking to students about. The lessons, which I think are surprising to some layman, are basically the following.

One is that trade between countries is not zero sum. It can make both countries better off. And so, we shouldn't think of trade with China, say, as being a competition with China; that, really, both countries can be made better off.

Secondly, trade doesn't mean that necessarily everybody in the country wins – because domestic producers and domestic consumers, of any particular good, may have different interests. And so, when we start importing cheap textiles from China or some other country, domestic consumers are better off because they get to buy things more cheaply. But if you're a domestic textile producer, or worker in a textile plant, you may lose your job. So, while the overall size of the pie is going to expand because the US is richer overall, there are going to be some people who are worse off. And that is absolutely correct. It's probably a contributing factor to some of the wage stagnation, for certain groups of people, that we've seen.

I should say, by the way, if we can go back the issue of inequality, while I think that trade is a *contributing* factor, I don't think it's the *dominant* factor in rising inequality.

We can come back to trade. But, I want to say, on why are we becoming less equal, the best explanation for that is a book by two of my Harvard colleagues, Claudia Goldin and Larry Katz, and their book is called *The Race Between Education and Technology*.

Their story is that there are two forces driving inequality. Technology tends to exacerbate inequality because when we invent new production processes, that tends to replace unskilled workers and makes the skilled workers more productive. And education is the other side of that ledger, whereas it turns unskilled workers into skilled workers.

Their view is, up till the 1970s, say, education was winning the race. We had this big advance in educational attainment, things like the GI Bill generation, and as a result, while technology may have been increasing demand for skilled workers, education was increasing the supply of them even faster.

Since then, things have reversed. Educational attainment as plateaued, and we haven't seen big advances in education attainment since the 1970s, and as a result, technology has been winning that race. So, it's been increasing the demand for skilled workers and increasing inequality, leaving a lot of unskilled workers behind as they get replaced by machines.

Now, to get back to trade – trade is a little bit like technology. If you are a factory worker with, say, a high school degree, it's kind of the same thing whether you're replaced by a Chinese worker overseas or you're replaced by a domestic robot here. They're both basically producing something more cheaply that you used to produce with unskilled labor before.

KRISTOL: I mean, economic theory. Obviously, correct me, it would be that there's a net benefit to the economy, consumers are all saving money on these cheaper textiles, to get back to your earlier example. Thereby, some textile workers are put out of work, and there is a temporary dislocation, but that money has got to go somewhere, so that textile worker, presumably, becomes a different kind of worker who supplies some other good, which this larger economy would be demanding, right? In theory?

MANKIW: That's exactly right. But the transition from one sector to another sector can be painful.

Two hundred years ago, most Americans were farmers; now, less than two percent of Americans are farmers. That's a good thing, because all of those people now produce all the food we need – *plus* export some – with very few people, because advances in agricultural technology have made that possible. That's clearly a good thing for our prosperity. It would be terrible if 80 percent of Americans were farmers today.

But the transition from going from being a farmer to going to being something else is painful, as people make that transition over their lifetimes or across generations. And we're seeing the same thing now with manufacturing workers.

One of the questions I often ask audiences is, "When did manufacturing output peak in the United States?" Everybody always says 20 years ago, 30 years ago. And the answer is like *right now*. We're producing more manufacturing *output* than we ever have before. If you look at manufacturing *employment*, that peaked 20 or 30 years ago, and that shows you the nature of the problem. We're producing lots of stuff, but with fewer and fewer workers. That's primarily technology.

KRISTOL: That's a good thing, especially because – this is one thing I don't like in the current debate is so much nostalgia for the good 'ol days. Working people had these jobs – and there is some truth to that, especially the unionized jobs paid well and they were stable for maybe 20 or 30 years and so forth. [But] was it really great that people were working in coal mines and getting sick at age 43 with black lung disease?

I'm old enough to remember a whole literature about how alienating working on assembly lines was. And it wasn't stupid literature. You know? It's not either physically great for you but also spiritually, maybe, to be putting some, you know, doing the same thing for 8 hours a day. So, there was an old fashioned view that had some credibility that it was not a bad thing that we were inventing technology that was liberating people from these jobs.

But I guess, it didn't work out quite the way people hoped in terms of them being able to easily get other jobs. Are there problems in the labor market, do you think? What could be, you know, done about that?

MANKIW: Well, I think the real problem is in the educational system. I think what we need is more skilled workers, because that's where we're transitioning to, is a more skilled economy.

If you look at growing sectors – you say manufacturing is shrinking, what's growing? Higher education is growing. Healthcare is growing. But to get those kinds of jobs typically requires more years of schooling. What we need to do is think about education so that education can start winning that race between education and technology, to turn back to that Goldin and Katz book.

So, I think a lot of the focus really needs to be on how to get more people through high school and more people into college, and that's a hard problem. I don't have any great answers for that, but I think that's, in the long run, where the focus needs to be.

KRISTOL: So it's a human capital issue, so to speak.

MANKIW: It is. Going back to the farmers – you know, if 200 years ago I had told policy makers at the time we're only to need two percent being farmers rather than the 80 percent we had then, they'd say, "Oh my God, what are 78 percent of the people going to do?" And trying to say, "Well, let's figure out ways to keep them on the farm," wouldn't be the right answer.

We have to figure out how to transition them into the next thing. That's easier to do in the long run, from generation to generation. It's much harder to do if you're the 50-year-old worker who's had a job that you thought was going to be stable, and all of the sudden, you're replaced by a robot or a cheaper worker abroad.

KRISTOL: I suppose the unhappiness compounds if you yourself don't have great prospects, and you're going to work at a job you don't like that much for the next final 15 years of your working life, you know. And you're worried that your kids aren't going to have better prospects, right? You can, in a way, absorb the hit, perhaps, to your generation if you're confident – if the farmer is confident that his kids who had moved to the city were going to do better or something like that.

MANKIW: But then you need to get the kids ready for a different kind of job. The one thing that is going to happen fairly soon, I'm guessing, is driverless cars and driverless trucks. Imagine you spent your life as a truck driver and you're 50 years old, and all of the sudden they say, "We don't need you anymore, we have a driverless truck." That could happen in our lifetimes.

That's not going to be an easy transition. You're not going to immediately turn that truck driver into something we need like a home healthcare worker. His kids could be home healthcare workers, but turning the 50-year-old is much harder.

KRISTOL: But you do read about the decline of labor market mobility, isn't that right? That somehow people used to adjust faster, move places where there were jobs – is that true?

MANKIW: I have seen evidence to that. I think we need to figure out ways to increase mobility and allow people to move from state to state. It's funny, a lot of public policies are place-based, which means if you see a poor area, [you ask] how can we make that poor area successful? A lot of economists are skeptical of place-based policies rather than having person-based policies. So, how do we get the person to move to where more opportunity is?

All four of my grandparents were born in Ukraine. Thankfully they left to come to the United States. That was probably the best thing for my economic success. We could have spent the past century saying, "How can we make Ukraine successful?" But it's pretty clear from the Mankiw family that leaving Ukraine was the right way to go.

KRISTOL: I'm sure it was a determent to the people in the Ukraine.

But, I think that's right. It's so much easier to write the dramatic story of the decline of Detroit. "Isn't it horrible? It has only one-third of the people it used to have?" And it is kind of bad for some people, and you look at the deserted buildings and that's not nice.

On the other hand, it wouldn't have been a favor to the hundreds of thousands who left Detroit to have made them stay there. Right? I mean, they're probably doing pretty well, a lot of them, in Phoenix, or

Florida or something like that. And I do think that is a big problem. Politically, that's a problem because we have a placed-based political system.

MANKIW: Yeah, placed-based politicians. That's right. If you're a congressman saying, "I helped my constituents leave my district, and now they're successful in somebody else's district." That doesn't get you reelected. So, we'll probably see more place-based policies for that reason.

KRISTOL: But, trade. Trade, I think, was – I've seen studies – well, political science-type things and public opinion polls. Trade really was one of Trump's key issues. He clearly thinks it was, and I agree with that, that it really hit a chord, I think, with people who went to speeches. And I'd say, from the outside, someone like me thought, well, he has a million different issues – immigration, and the wars and various issues – most of them I don't like, but nonetheless, that were popular, but I think trade was the one that really hit a chord with a lot of America. Somewhat to my surprise, in a sense, and I think to economists' surprise because it's not that much a part of the economy, right?

MANKIW: [Only] somewhat to economists' surprise. There's a book – maybe 10 years ago, now – called: *The Myth of the Rational Voter*, by Bryan Caplan, which is wonderful about going through a lot of biases that people have about how the world works. I mean, economists spend a lot of time thinking about these public policy issues, but most people have busy lives and spend most of their time thinking about other things. But they do have certain assumptions about how the world works. And one of the things Caplan does in this book is he studies the various biases that people have.

And two of the biases he finds – first, there is an anti-foreign bias. People are skeptical about interacting with foreigners, and that's because some interactions with foreigners are not productive. Wars, for example. So, there's a certain natural skepticism about foreigners.

And the other thing he documents is anti-market bias. People tend not to trust market mechanisms for getting things right. And those two things, biases, come together in trade. So people sort of look at China, which is doing very well in the past 20 years, and say, "Ah, China is doing great; they must be doing great at my expense." Economists don't think that, but it's not a crazy thing for a layman, who doesn't spend time thinking about these issues, to believe to be true.

KRISTOL: I always sometimes say in speeches, you know, that it's a problem that China's growing so fast. It's a geopolitical problem in some ways, a strategic problem, but also it could be an economic challenge. On the other hand, we would prefer a world with a China that's doing well, than a China that's doing horribly, I think. That really is a recipe for a disaster, right? Same with Mexico. Do we want Mexico to be falling apart or do we want Mexico to be doing relatively well?

MANKIW: Especially Mexico, because they're on our border.

KRISTOL: This is why Trump's stuff strikes me as so crazy, with respect to Mexico. That's a country we have a very concrete interest in not having severe recessions and unemployment, and so forth. It's hard to explain that, I think.

MANKIW: We live in the United States in a period of increasing inequality, and therefore, poverty rates in the United States have been fairly flat for 40 years.

But if you look at poverty around the world, it's actually a very different story. If you look at people living in very deep poverty – less than two dollars a day – it has plummeted over the past 20, 30 years. So, anybody who's worried, takes a global perspective and is worried about deeply poor people, the past 30 years have been a great time.

Now, why is that? Well, it's mainly Asia. It's India and China, to a large degree. Because India and China have been doing fine, and they have a lot of people, and they're pulling a lot of people out of really deep poverty. So, anyone who is worried about the human condition should applaud the growth in India and China.

The median working-class American is not going to take much solace in the fact that there's a lot of Chinese workers being pulled out of poverty. But if you take any humanitarian impulse at all, it's not that bad a time for the global economy.

KRISTOL: Not just humanitarian impulse but American's can take national pride in the fact that it's made – most of it is due to India and China, of course, that progress – but a lot of it, it's made *possible*, let's put it this way, by an American-led world economic and political system that has mostly preserved the peace, that has mostly allowed for the relatively free-flow of capital and investment, which has made possible this massive movement of people out of poverty.

So, there's a way in which an American politician, I've always thought – and I think Clinton and Bush tried to do this in a way, more mainstream politicians – say: "This is something we should be proud of." And it *is* in our long-term interest, not to have these countries collapsing. And it's something, just a matter of, mix of humanitarian and self-interest, and national-leadership pride, that we should feel good about. That disappeared in 2016, I think. You know?

MANKIW: It does. It's funny, having a president who's in favor of trade has a long tradition before this current election. Barack Obama, when he was a senator, wasn't particularly free trade in his voting record, but then, he got in, and he negotiated the Trans-Pacific Partnership.

My guess is that if Hillary Clinton had gotten elected, she would have pivoted toward being more of a free-trader than she actually talked about during the campaign.

So, while there's always been a lot of angst about trade, particularly in Congress, the president is usually the grownup in the room who sees the bigger picture and is usually counted on to promote a free trade agenda, and that goes across party lines.

It's still to be seen what Donald Trump is going to do. I mean, it's still early as we speak. But so far, it looks like he's much more skeptical about free trade than any of his recent predecessors.

KRISTOL: And how worrying is that, just as a pure economics matter? How much damage would lack of further progress or some regress on free trade bring?

MANKIW: I think it would be bad for the US economy. It would shrink the US economy. I really do believe that trade expands the size of the economic pie. It might even be worse for some other countries because they're smaller, and we're big, so we can sort of have – nobody's threatening free trade among the 50 states. So we could benefit –

KRISTOL: Trade is, what, 10 or 12 percent of GDP? Or something like that?

MANKIW: Exactly. So it's small in the US compared to smaller countries.

But to the extent that we shut off smaller countries from trade, and to the extent that some of these populous or smaller countries follow our example by becoming more isolationist, that could be very bad for the developing world.

So, there's a lot of history of countries looking inward and suffering from it. Argentina being the famous example. I think it's particularly worse when the United States starts looking inward and stops engaging in the rest of the world because people are going to be looking at us as an example. We can be either a good example or a bad example, and if we look too inward, that's going to provide a bad example for a lot of economic policies worldwide.

KRISTOL: Some people say, "Well, look, he's not, we're not really going to become a *real* protectionist country. We're not going back to the 19th century, we're not going to have massive tariffs." Probably. I think that's probably correct – that, I think, there wouldn't be support for, and American business would rally against that and so forth, probably.

But if you're just talking about some individual industries and goods, and a little bit of showmanship by Trump to please the people who voted for him, and don't worry too much about it, it's a small percentage of the economy – Is that right or is there a ripple effect, though? Where even a little bit of, you know, that can go a long way, in terms of doing some damage?

KRISTOL: Well, I'm naturally an optimist. So, my feeling is that all of this is going to be, they'll be some "bread and circuses" – but at the end of the day, the grownups in the room will get together and recognize if you want to preserve the success of the US and the world economies, that sticking to free trade principles is a good thing.

On the other hand, the world is very hard to predict. A year ago I didn't predict that Trump would end up president. So, I am perfectly ready to be surprised and to find a retreat to a more economic isolationist view.

Some things require congressional approval, like if you want to have massive tariffs everywhere, but some things can just be done through enforcement. I mean, these things like anti-dumping rules that the president can enforce more vigorously and slap retaliatory tariffs on when he views foreigners as selling too cheaply here.

In my own view, by the way, on anti-dumping, is that the laws are just terrible laws. So, if he's going to more vigorously enforce bad laws, that's not a step in the right direction. I've written in the past about how I'd really like to see anti-dumping laws eliminated or radically reformed, because a lot of the cases of anti-dumping are really just protectionism by another name.

So, I'm kind of nervous that this Congress has, over the years, has ceded so much authority to the president, who now seems to want to use it in a more protectionist way than previous presidents.

KRISTOL: I guess the idea was, in a way, that Congress could get credit for protecting its local businesses with these anti-dumping laws, and then the president would not really enforce them the way Congress intended, so everyone gets the – so Congress gets to say we did our best, and blame the president, and the president makes sure the economy is growing.

MANKIW: That's right, the president is supposed to be the person who has the bigger picture. Traditionally, both under George W. Bush and Bill Clinton, that was a more internationalist picture. It's not so clear whether that's going to be true now. We don't know. It's still to be determined.

KRISTOL: Do you think – I guess what I'm struck by is like TPP, the Trans-Pacific Partnership. I mean, a lot of intelligent economists thought the deal was kind of a mixed bag: it's not really *free*, free trade; there's thousands of pages and specifications, and we already have massive trade with most of these countries and all we're doing is keeping the status quo, after all, we're not putting up tariffs.

So I made that argument to someone who was intelligent, who made the argument back, well, to use the cliché, the bicycle thing – either you're going forward or backward. It's not so – just the rejection of it and the signaling of some of what Trump and Sanders, for that matter, are signaling, can have a snowballing effect or it can get out of control.

Even though it looks concretely, in 2017 – I'm just going to predict this knowing nothing about it – trade between the US and Japan, and the US and Australia is going to be the same as it was in 2016, presumably. I mean, the rules haven't changed; there's no reason it would decrease. That somehow the psychology and the sort of lesson of rejecting TPP and then toying with various anti-dumping measures can have a bit of an escalating kind of effect. Is that true?

MANKIW: I think that's right. And you see it in small ways, like when he approved the pipeline and required that all the pipes be manufactured in the United States, right? Until he realized later that they don't actually make those kinds of pipes in the United States.

KRISTOL: Is that right? So, the Keystone Pipeline, which was such a big Republican kind-of talking point–

MANKIW: The piping, they'll be manufactured here but the pipes themselves will be fabricated elsewhere.

I also worry that the Trump administration is, to the extent they were negotiating with foreign countries on trade, often focused on the wrong things.

So, let's take China. He spent a lot of time talking about China's currency manipulation. I don't think there are many economists that think China's currency manipulation is the first order issue that we need to deal with it. That's not a huge problem, even though certain industries may think it is. There *are* issues we need to negotiate with China on. For one, that I'm focused on, myself, is intellectual property protection. The United States is a country that produces a lot of intellectual property, whether it's software, movies or music, or even economics textbooks – one that's close to my own heart [laughter].

KRISTOL: Do the Chinese, do they translate your textbooks?

MANKIW: It's funny, a Chinese student came into my office a few weeks ago, and she said, "I brought you a copy of the Chinese translation of your book." She got it in the store. I was very happy to get it. And she said, "I think this is the official one. The store was selling three different translations, I wasn't sure which one was the official one."

KRISTOL: So you're not getting royalties on every translation of your book –

MANKIW: Well, it's not that much money; their prices are kind of low, in China. So I wouldn't make a lot of money anyway. But I mean, this is one example.

KRISTOL: Disney's losing more money on the pirating of their films than you're losing on the pirating of your textbook.

MANKIW: Exactly. Well, you know, there was a story in the *New York Times* a few years ago, when the authorities raided some Apple Store in China, which turned out wasn't an Apple store at all – they were selling fake Apple products. And the fake Apple products were [such] good replicas that even the salesmen in the store thought they were working in a real Apple Store. They didn't know there were pirated products.

So we just produce a lot of stuff that is heavy in intellectual content. And it's very easy for a country like China to free-ride. To say we're not going to recognize your copyrights and patents and get our stuff for free. That, really, to me, is just like theft. If you're taking stuff for free that other people are producing, that's [stealing]. So I think that's something we *do* need to deal with China on. I think the currency manipulation is a secondary one.

KRISTOL: If we dodge the bullet on trade, and it's sort of a fair amount of talk and, you know, drama but fundamentally the world trading system stays pretty intact, and Trump called you up and said, well, you were there in the early Bush Administration, and – what are the biggest things that he could do to get that economy going? Get our economy going, from, let's say, two percent back towards three? Are there one or two silver bullets?

MANKIW: I don't think there's any silver bullet. I don't think – there's no silver bullet, but I think there are things we can do. I think a lighter touch on regulation would be a good thing, and he's talked about that. I think him saying he's going to eliminate two regulations for every one he adds is a little simplistic.

KRISTOL: It's in the right direction, I suppose.

MANKIW: But I think, thinking hard about regulations and moving in a slightly more libertarian direction there would be a good thing.

I think tax reform would be a good thing. And actually, I quite like the tax reform plan that the House Republicans are looking at – the so-called "border-adjustable cash-flow tax." Which is a mouthful, but if you actually look at the nuts and bolts of it, it's actually a pretty good tax reform. And I think that would help promote economic growth here; I think it would discourage corporate diversions. So I think that tax reform would be a step in the right direction.

Even if he did all the things I wanted him to do, those things, I don't think you're going to get growth from two to four [percent], which he's talked about. In part because my generation of baby boomers is retiring, and there will just be fewer people in the workforce.

In the previous generations, when the baby boomers were entering the workforce, women were entering the workforce – well, they're already in the workforce, they're not going to enter again. So the combination of the woman's movement has sort of plateaued and the baby boomers are now ready to move to Ft. Lauderdale and play shuffleboard, means that we're going to have lower labor-force growth, and therefore, getting total GDP growth up to four [percent] is going to be very unlikely in that environment.

KRISTOL: I guess that gets back to the earlier point of maybe we had an extraordinary 30, 40 years of baby boom, [women] extremely well-educated component of the adult population that had not traditionally much been in the workforce coming in – which is a very big plus, right? They're educated anyway.

MANKIW: And women coming in. Highly-educated women, in many cases. Absolutely.

KRISTOL: And you don't get that again. I guess the closest you get to that is well-educated immigrants coming in. So, let's talk about *that* since that's the other Trump issue.

MANKIW: Well, immigration is complicated, because it has not only economic issues, but a lot of non-economic issues.

From my perspective, you need to distinguish between sort of high-skilled immigrants and low-skilled immigrants.

The low-skilled immigrants are complicated, because if they come in – there's still gains from trade, and I think that interaction is a good thing – but they probably do compete with other low-skilled Americans and, therefore, could put a depressing effect on wages on the bottom end of the distribution. So, I think, if people are worried about inequality, you can kind of understand why a massive increase in low-skilled immigrants is going to concern them.

At the end of the day, I tend to be more favorable to low-skilled immigrants – in part, because the person who is impacted the most by this is the immigrant themselves. And coming to the United States is a great thing, and most of us – including, certainly, me – has benefited greatly from the ability of immigrants to come in. You know, my grandparents came over 100 years ago, none of them had more than a 4th grade education, so I'm sure they competed with then-low-skilled Americans, probably depressed wages of low-skilled Americans. But because of that decision, of letting us in, I'm now a professor at Harvard and doing very well. So, I have sympathy for them based off of personal history. But I understand how there's another side of that coin.

The high-skilled immigrants are a completely different story. It's nuts to me that we don't let as many high-skilled immigrants in as want to come. I mean, as long we do the proper vetting to make sure they're not terrorists. They're going to come here and they're going to certainly pay more in taxes than they're collecting in social services; they're going to create firms that will then hire a bunch of Americans. So if you hire a bunch of engineers from India to come here, they're going to create a new firm, an engineering firm, and who are they going to hire? They're going to hire a bunch of janitors, and that's going to bid up the wages of janitors, who are, presumably, Americans. So, letting more skilled people in here is a no brainer, to me.

At Harvard we have a lot of foreign students, and some of them go home, and I think when they go home that's fine; they sort of bring American values with them abroad. But to the extent that they want to stay here, we should encourage that. I mean, every diploma should come with a green card, if they want it. Because once you've gotten a degree form a top American university, you are going to contribute a lot, regardless of where you were born. And the fact that we are making it hard for people now, under the current immigration system, is just nuts.

KRISTOL: And I mean, how suboptimal is the current system? Leaving aside Trump for a minute, I mean just the system that has been in place for a while. Are we just leaving a huge amount of potential innovation and economic growth on the table with that, or is it sort of marginal–?

MANKIW: I think it's, well I think that's hard to know. I think that's probably pretty important. I think industries vary in terms of how much difficulty they face.

I would say probably about a third of my colleagues at the Harvard economics department were born abroad. We hire a lot of assistant professors every year, and many of them are not American born. Harvard manages to help them navigate through the immigration system, so it's pretty rare that we hire an assistant professor that can't eventually figure out a way to stay.

I get the sense that, though, in Silicon Valley and other industries that it's not as sure, and it's much harder to navigate through the H1B process. And I think that's unambiguously a bad thing. Trying to figure the magnitude of that, it's hard to calibrate. But I think the direction is absolutely clear.

KRISTOL: People look at Harvard and Silicon Valley and they don't look at the sort of less glamorous, you might say, people who could be coming in and working at, you know, midlevel firms, and hospitals and all kinds of places. It's very hard to see, I sort of agree with you – assuming they can be assimilated and there aren't cultural and social, you know, negative effects – And there are probably some positive effects; there certainly are some positive effects, too, as these people are, in a way, you know, [they] don't take things for granted and their kids work harder and all this kind of stuff. I mean, just looking at, how could it be a negative to have those people? As you say, they're almost all going to work, they are not going to be unemployed, and they are going to pay more in taxes, aren't they, than they are going to consume in benefits?

MANKIW: Oh, absolutely. If you look at a long-term fiscal imbalance – which we still have – we are going to have to figure out ways to either raise more revenue or cut government spending. And the simplest way to raise more revenue is to get more smart people in here who are paying more taxes because they're earning more income. To me, that's like, really, a no-brainer.

KRISTOL: Another thing that's got me worried is the degree to which people have decided, well, all that talk about entitlement and debt, and it's unsustainable – which, I've got to say, I think Republicans and Paul Ryan did a lot to sort of – with some heavy lifting; politically, it's not the easiest thing in the world – they, frankly, pretty much got the whole party on that page. Democrats were a little more hesitant, but some of them were close. But that's been a big setback, I think. We now have a Republican president who, forget about Medicare and Social Security – the Democrats are never going to be the party that, I suspect, takes the lead on that. So here we are, and how worried should we be about that? Is that just something we can kick down the road or is there a real chance that –

MANKIW: Well, we can kick it down the road but the farther we kick it down the road, the fewer the options we have.

So, my preferred solution would be to focus on the spending side of those programs and then encourage people to prepare for their own retirement. I'd say saving more, and IRAs and so on, maybe working longer, later retirement ages.

The alternative is we kick the can down the road. But when the whole baby boomers are retired and we don't have the money to pay for it, it's probably going to be politically impossible to, at that point, say we're going to cut the spending because people have counted on their benefits and they're already sort of at retirement age. And so then, the only solution we're going to have left is raising taxes.

And that's actually, I think, one of the reasons why some Democratic commentators don't mind kicking the can down the road, because they realize that will sort of box the nation into what they want, which is a robust social safety net with higher taxes. They want to move us into the direction of Western Europe. And I'm worried about moving in the direction of Western Europe, because I believe that the higher taxes in Western Europe are one of the reasons that those economies aren't as rich as we are and why people don't work as much in Western Europe as they do in the United States.

So, I think that's, in some sense, the path we're looking at. The way I put it to my students at Harvard is, I say, "Look, my generation of baby boomers have promised us a certain level of retirement benefits, in terms of Social Security and Medicare, and we've promised that you're going to pay for it. How do you feel about that?"

And if it gets to the point where I'm 70 years old and, therefore, my benefits are untouchable politically, then there is no question that my students, when they're my age, will be facing taxes more like we see in France and Germany today.

KRISTOL: There's sort of a sophisticated argument that I've heard, maybe it's partly true, I don't know, I'm curious if it is, that: Well, it sounds like we're switching the burden to the younger generation, but concretely, you're getting benefits you probably don't need – you'll be getting them in 20 years, that you don't need – and your kids will be paying taxes to support that, but you're leaving that money to your kids anyway. So – leaving aside complications of, you know, estate tax rates and stuff – does it really matter that much? Aren't we just sort of recycling the money?

MANKIW: I think, for people at the top, that's right. For people who are leaving bequests to their kids and inheritances are a big thing, I think that's right. In fact, there's a whole theory called "the Ricardian equivalence," all about how these things don't really matter because families can make transfers among themselves across generations and sort of undo whatever the government does. But that's, I don't think, true for the vast majority of people. I mean, inheritance is maybe a big thing in my family and your family, but it's probably not for the median American who's not getting a lot from their parents' inheritance. So it really does – there is the very important issue of how we share the fiscal burden across generations.

KRISTOL: And so, the working class family is, in a way, right to be worried that either the pension and Medicare and stuff they were hoping for is going to more constrained, or limited, or cut; or their kids are going to pay higher taxes for it. But, one or the other?

MANKIW: Yes, yes. If I had to guess, to be honest, I'd say it's probably going to be higher taxes, because we haven't really shown the political will to ask people to get ready, themselves, for their own retirement. In fact, that Donald Trump decided to run on "I'm not going to touch Social Security and Medicare" does sort of indicate that that's the politically winning position right now.

Among economists, by the way, when you poll people about different solutions, later retirement ages poll pretty well among professional economists. Among the general public, it doesn't poll very well at all; people *hate* the idea of later retirement ages.

My view is that since we're living longer, asking people to work a few years longer seems to be the most humane way, because I think higher taxes would adversely affect the economy. You really can't cut benefits much for an 85 or 90-year-old, so the easiest thing is to ask the 60-year-old to work until 65 or 68, but the public doesn't like that at all. So, it's easy to say when you're a tenured professor, harder to say if you're a congressman having to get reelected every two years.

KRISTOL: How worried, I guess – this is sort of a stupid question, obviously there's no simple answer – I mean, you could take the point of view that this is such a massive nation, a huge economy, the government isn't that big a part of it. The government could screw a lot of things up and, you know, at the end of the day, the thing chugs along. And maybe it chugs along at 2.1 percent instead of 2.3 percent, but I mean, basically, it is what it is king of thing. And unless they just wildly go off the rails, we'll be okay and have the normal business cycle and all this. Versus, you add up the different things we're talking about – trade, immigration, not dealing with entitlements, a few other foolish policies. Well, I want to get to the other one, which would be sort of government picking individual companies and pressuring them and that sort of Argentina-type behavior. Could it *really* mess things up, I guess is what I'm saying? How much does one have the, you know –

MANKIW: I'm optimistic that it won't, in the sense that I do believe in our system of checks and balances. So, even if we had a president who wanted to sort of screw things up, I'm optimistic that he couldn't, or she couldn't. So, at the end of the day, I'm probably more optimistic than pessimistic.

On the other hand, I don't say that with 100 percent confidence, because it's not true that the economy is so big that it's robust to *anything*. If you look –

KRISTOL: And I guess, the issue's on the margin, right?

MANKIW: Exactly, because whether it's marginal stuff or whether he's going to do really big, bad stuff.

Nervous students say, "Well, how much does policy matter?" I say, "Look at North Korea versus South Korea." Right? They're basically two identical countries, one's very rich, one's extremely poor and it's all policy. It's East Germany versus West Germany. We have examples where when policy is really bad, things get really bad, economically.

KRISTOL: Argentina, which was once as wealthy as West Europe, right?

MANKIW: Yes, exactly. So, there's no question that bad policy can be really bad. You know, or even in Venezuela now. I mean, Venezuela has one of the biggest oil reserves in the world, how could they possibly be as impoverished as they are? It's kind of nuts. So, really bad policy can be really bad.

My guess is – I'd give more credit to Donald Trump than that. Plus, I also think that to the extent that he has bad impulses, he's going to be checked by Congress. I think the Republican leadership has instincts that are much closer to mine. My guess is, in his heart of hearts, Paul Ryan and I probably agree a lot more than Paul Ryan agrees with Donald Trump. So, I think, at the end of the day, he and Mitch McConnell will provide the right checks and balances that we need. But I'm ready to be proven wrong.

KRISTOL: And fairly bad policies, you know, can slow things down but hopefully not really tip you over. There's a not a tipping point problem?

MANKIW: No, I don't think – The economy is more continuous that that. I don't think there's like a tipping point where you just do this little bit more of this and all of the sudden the avalanche goes. No, I don't see that. No, I'd be quite surprised if anything like that happened.

KRISTOL: How worried should one be about this sort of brow beating, or the opposite, of individual companies and the kind of just moving in that direction, where the President of the United States – in a way that I think was pretty inconceivable almost five, 10, 15 years ago – starts to pick on companies?

MANKIW: When I see that happening in practice, I think of a famous paper by Friedrich Hayek called "The Role of Knowledge and Society," which basically says that information is very, very dispersed among the population of consumers and businesses. Nobody can possibly know all the information to run a centrally planned economy. And therefore, you really can't have any central planner – president, or anybody else – say, "Ah, this firm should be opening up this plant in this location, or not closing this plant and moving it here." That's why we trust markets, because markets figure out a way to aggregate in a decentralized way and disperse information to desirable outcomes.

And whenever a president tries to intervene in that process, he's going to make mistakes because he doesn't know how the economy should be run; he doesn't know what plant should go where. It's basically short circuiting the market mechanism and taking a step toward central planning, and I think – if you'll go back to North versus South Korea – I think we know that central planning really works badly. My guess is that Donald Trump is only going to do a little bit of this. It's mainly for show. Because is he really going to expect to micromanage every company in the United States? But it's certainly a step in a very bad direction.

KRISTOL: And how much do you worry about the flip side of it – which I'm sure I don't know the right terms for this – but companies start to behave in a different way because they expect or fear rewards? I guess sort of rent-seeking versus market-driven investment, or something like that.

MANKIW: I think that's exactly right. And I presume that's the implication of Trump – he's trying to threaten some companies so that other companies will make decisions that he likes. I think, ultimately, they should be making decisions that are in the interest of their shareholders. That's their fiduciary obligation. Not decisions that will please who happens to be elected to the Oval Office at this moment. So I think that is a problem.

KRISTOL: And you have real economic costs if you start making decisions the other way, right?

MANKIW: Absolutely. Because to the extent you're not moving to the right place, not only are your shareholders losing out, but your customers are losing out because they're paying higher prices, and therefore, that's reducing living standards – not only for shareholders but for all Americans.

II: (45:37 – 1:06:03) The Case for Free Markets

KRISTOL: Let's just talk a little more broadly about the whole question of economics and the truths of economics, markets, sometimes derided as "the Washington consensus", the "neo-liberal consensus." I'd say, in my experience – and I'm very curious about what you think about this – it's become almost unfashionable just to have the "conventional," orthodox view that markets really do work better than central planning, that you really don't want to politicize everything, that a rising tide may not lift all boats, but it lifts more boats than not, and that it's a heck of a lot better than a non-rising tide. All these things – now, everyone begins with the opposite, right? Well, we have to stipulate there are losers from trade and the rising tide isn't enough, and that we need government interventions. I'm just curious, how worried are you that that hard-won, over 70 years, pretty reasonable consensus that, really, you could argue has served the world pretty well, in terms of economic policy, is at risk?

MANKIW: I am worried. I think that that consensus among economists hasn't changed, among economists. I don't think economists have changed their view of how the world works. That neo-liberalism that you referred to is still very much the consensus among mainstream economists. Certainly, what I teach in introductory economics at Harvard. And I think if you look at other sort of schools –

KRISTOL: It wouldn't be that different. And the behavioral economics?

MANKIW: Well, I think behavioral economics have become part of the cannon.

KRISTOL: But it's a modification, really, right? Not a fundamental?

MANKIW: Exactly. But I don't think the public at large is as convinced, in part because of the disturbing trends of lower growth and rising inequality. They are disturbing trends, but they somehow think that therefore they need to rethink the basics of economics. Most economists disagree with that, even though they agree with the trends.

Part of the answer is that most people haven't studied economics. Most high school students have never seen an economics course, and therefore, they sort of read the paper and they make assumptions based on every day experience, which is not necessarily the best way to learn.

I'm actually a big believer that we should be teaching introductory economics in high schools more. We require every 11th grader, roughly, to take a year of American history, because we think a year of American history is required to be a good citizen. I think that makes perfect sense. I also think a year of economics is useful to become a good citizen. And there's nothing in introductory economics, as I teach it, that couldn't be taught to 11th or 12th graders, as it doesn't use any more advanced math than most people know in 9th grade. So, it really could be taught at the high school level. But it's not done nearly enough.

KRISTOL: And people take the innovations for granted. It's great that we have the iPhone and all that, but how exactly did that happen, right?

MANKIW: Yes. I mean, if you look at the production chain of something like the iPhone or most complicated products, they're being produced all over the world. And we really are better off than we were 100 years ago, even though we're maybe not growing as fast as our aspirations were set when we were children.

KRISTOL: And produced because innovations are very highly rewarded, even if it increases inequality and you know – a lot of people fail. A lot of companies were close on the iPhone and didn't quite have the right one or just got unlucky, frankly; then those guys lost money. People really don't, I think, appreciate.

MANKIW: We live in an economy where superstars do dominate a little bit more than in the past. The example I used to use is Robert Downey Jr., who, for the movie "The Avengers," made 50 million dollars, just an astonishing sum of money. You know, the typical American needs to work for more than 1,000 years to make 50 million dollars. So how did Robert Downey Jr make 50 million dollars? He did it by making a really good movie that got seen by roughly 200 million people worldwide, and each person who bought a ticket basically paid 25 cents to watch Robert Downey Jr. I guess they didn't really mind paying

25 cents, but he managed to sort of sell his service to 200 million people, even if for only a quarter; that adds up pretty fast.

Similarly, there's a lot of parts of the economy where technology has allowed people to reach wide audiences and, therefore, reap tremendous rewards. Whether you're Taylor Swift, or you're a famous baseball player, or you're Steve Jobs selling your iPhone around the world, technology has allowed people to reach very, very large markets.

But it's a good thing. Those people that paid 25 cents to Robert Downey Jr are probably happy. If you ask them when they left the movie theater, "Did you mind paying 25 cents for that performance?" They'd say, "No, it's great, I love that movie." It's a great movie.

Even though Robert Downey Jr. gets rich, that doesn't mean other people are necessarily getting any poorer. It's creating value. And similar with the iPhone, Taylor Swift's music and all sorts of other superstars.

KRISTOL: I suppose one could tinker with marginal tax rates and reduce inequality a bit, right?

MANKIW: You could to some degree. It's not – it's not going to be huge. Then, we get back to this classic tradeoff in economics which is between equality and efficiency. There is this famous Arthur Okun book, *Equality and Efficiency: The Big Tradeoff*, which maybe we could think of as equality versus growth. So we could use the tax code to promote economic growth, or we use the tax code to produce more equality, but you probably can't do both. So we have these two problems of slow growth and rising inequality, and the tax system, by itself, is the imperfect instrument because you can't really adjust both simultaneously.

Which gets us back to education, which is probably one of the few tools we have that *can* promote both simultaneously. A more educated workforce can both have us grow more quickly and produce more equality.

KRISTOL: How much more of that – I want to ask about that and then come back to the neo-liberal economics question. But on education, is it *education*, or how much of it is sort of the Charles Murray, Bob Putnam, family break up, community break up? Is it really, literally that people don't *know* skill A, B, and C? They don't read quickly enough, or don't know math at a 12th grade instead of a 9th grade level?

Or is it that their lives are chaotic because of things, you know, beyond their control when they were young, but unfortunately, they don't turn out quite the way kids brought up in a hardworking, two-parent family that's stable, and in a community that rewards hard work etc.? How worried are you about that? That's beyond – I don't know what to do about it, but –

MANKIW: I think that the Putnam, Charles Murray stuff is extremely well taken. I love their stuff. What's particularly hard to figure out is cause and effect. What's the causal thing and what's the effect? It's probably true that being brought up in a single-parent family is more difficult and doesn't lead to as good economic outcomes. On the other hand, it could be that the reduced economic opportunities for people at the bottom has *caused* the break up.

One economist, David Autor, described it by saying, look, if you're a woman, a less-educated woman now, say if you have a couple kids out of wedlock and you're raising them, do you really want to get married? That's another mouth to feed if your husband, if you're husband doesn't have good job opportunities. He's not really contributing; he's just going to – he's just one more person you need to take care of.

So it's unclear which way causation runs in that. I certainly think it's not a good thing that we have, let's say, lower marriage rates, especially among less-educated people, but it's not clear that focusing on that as the problem is the right answer.

KRISTOL: How much of the problem do you think is the – and this is the *old* Charles Murray, back in the 80s – of the kind of wage trap or the wedge? The poverty trap. So that the benefits make it not worth your while to take a lower paid job, even though, 15 years from now, if you start with a lower paying job, you'll have a moderately paid job; if you never start, you'll never get the moderately paid job.

MANKIW: I think that remains a concern. I'm a big believer that marginal tax rates do matter. And that's marginal rates for both the rich and the poor. For the poor, the marginal tax rates take the form of benefits that phase out very quickly and, therefore, give you very little incentive to earn more. So, I think when we design social welfare programs, I think that makes a lot of sense.

I actually like Charles Murray's more recent work on basic living income, and then saying we should replace a lot of our social safety net programs with guaranteed income that phases out at a *plausible* rate so people aren't disincentivized to advance their own living standard.

KRISTOL: Yea, I've come to be friendlier to that, too. I just think, because it does seem like the complex of programs now – partly because of the phase outs, partly just because once you're on them, you're sort of worried about losing something if you step off, and it's complex. That probably traps people a little more than disability, food stamps – all these different programs, somehow, one has the sense, and I haven't studied it, but there's less mobility out of that than there should be somehow.

MANKIW: Yes, I agree. And I think rethinking that is an important priority.

KRISTOL: Maybe that will happen, somehow, in Congress and the like.

Getting back to the broader question of the neo-liberal consensus. I guess, I am struck – what was it Orwell said? "Sometimes the restatement of the truth is the obvious, is the most important, thing you can do." I kind of feel that way. Somehow you feel a little silly for making the case for markets. It's like, really? This has been made so much more powerfully and eloquently by much smarter people over decades and centuries. But, it does seem like people just don't get the most basic arguments for why you want to have a society which is somewhat impersonal in its rule of law and in which markets, for all their deficiencies, drive things instead of individuals making decisions about what they like and don't like in terms of political preference and rent seeking. I mean, just these pretty commonsensical things. I don't know, what's your take on that?

MANKIW: I agree. I always think of the basic idea being that decentralized decision making is usually the best decision making, when you don't have one person trying to make decisions for lots of other people, because they don't have full information. People making decisions for their own lives, their own communities are most likely to make the best decisions. And what the government, central government can do, the federal government, is basically establish the rule of law, establish the parameters under which people are making these decisions. But the specific decisions they're making, they leave to the individuals. And the more we decentralize that from the federal government, to the state government, to the local government, the better the decisions are likelier to be.

There's a tendency in our system to do the opposite, of moving more and more decisions to the federal level. People in Washington thinking they're smarter than people in the localities, and therefore, they'll make better decisions. Even if they are smarter, they can make worse decisions; they just don't have the information. And what's good for one community is going to be different from another community.

So, I'm a big believer in the decentralized market, and I'm also a big believer in federalism, really for the same reason – that I want to decentralized power to the lowest level I can because that's where people are most likely to make the best decisions.

It's also where competition is going to rule. One of the reasons that markets work is because of competition. If one company tries to screw you, you can just go to another company. If one town is trying to screw you, you can move to a different town. Competition is the essence of why Adam Smith thought markets worked. Not that he thought that businesses were always noble, he just thought that because they were competing against one another, that provided the most important check and balance.

And similarly, that's why I trust local governments more than I trust federal governments, because it's easier to move from one town to the next than it is to leave the country.

KRISTOL: Right. And the rule of law, I think that's underestimated, don't you think, in allowing for a sound economy and sound economic growth? You look at the Argentina-type situation, you know, and in Venezuela and wherever.

MANKIW: Oh, absolutely. That's right. The John Adams quote, you know, " We're a nation of laws, not of men," I think is tremendously important. So, when Donald Trump says "I don't like this air conditioning Carrier plant to move," he's basically saying, "No, no." There wasn't any law being broken, there's no rule, he's just saying, "I don't like it." And all of the sudden, we're no longer an economy of laws and rules, we're an economy of one particular man who's making judgement calls over a situation that he's not necessarily an expert at.

KRISTOL: And this is where I guess I do think there could be some tipping point, probably, which is not literally in the sense we're going to capsize into some massive depression, but if Trump thinks he can do that, then every governor thinks they can do that. They already think they can do that a little bit, but they tend to do it more generally: "I want to keep businesses in my state." And they reward businesses – maybe they shouldn't, you know – that say they're going to leave the state. But they tend still not to bludgeon individual people quite as much.

But if Trump thinks he can do it, senators think they can do it, congressmen think they can do it, then suddenly you're in a system where it sort of escalates the erosion of the kind of notion of an impersonal rule of law, and impersonal market forces, and so forth.

MANKIW: It does. It centralizes power, really, too much in government officials. I mean – So we need government, because the government is the one thing that holds the monopoly over force in society. But because it has a monopoly over force, that's a tremendous amount of power, and so we want to circumscribe that a lot.

People sort of worry about corporate power, I almost never worry about corporate power because almost every corporation is being competed with. If I don't like my Apple phone, I'll go to Samsung. Whereas, there's no alternatives with the centralized power in government. So, I think – centralized governmental power, to me, is much more of a threat to freedoms and prosperity than is centralized corporate power.

KRISTOL: We're speaking, I guess, two weeks into the Trump administration. I guess the odds are, whatever, life will go on one way or the other, less upside than maybe Trump supporters think and less downside than Trump skeptics think. But is there a real worrisome scenario? Not an insane – obviously, anything could happen, sort of one percent kind of thing – but what would be your negative – What would your plausibly worrisome scenario be over the next four years?

MANKIW: If I had to describe a dystopian future – which I don't expect, by the way – but if I had to describe a dystopian future, it would go something like this. It would be Donald Trump gets all his bills and big infrastructure spending, and big tax cuts. He replaces Janet Yellen at the Fed [Federal Reserve], which he says he's going to do, with someone who's more beholden to Donald Trump. The big [tax] cuts and spending increase demand and inflation starts heating up. Trump leans on his FED chair not to raise interest rates to fight this, because people really don't like raising interest rates. Inflation starts heating up; Trump doesn't like [inflation] heating up, he goes back and says, "What can we do about that?" He looks back to Richard Nixon, and says, "Ah, wage and price controls. If I can tell the Carrier plant not to move out, I can tell the Carrier plant not to raise their prices, and then I can start telling this union not to raise their wages." And then, all of the sudden, we've slowly stumbled into central planning, which we know works terribly.

KRISTOL: Which worked politically for Nixon in '72. He did these very, I think we now would say irresponsible things, in '71, and bludgeoned Arthur Burns to do them or whatever and got himself reelected handily in '72. And then we had an extremely nasty recession in '73.

MANKIW: Well, it worked temporarily, and then it stopped. It stopped working when he stopped doing it, and he couldn't keep doing it because you can't have government controlling all wages and prices in the economy – it was untenable. I think, even the advisors, economic advisors to Richard Nixon at the time, people like Alan Greenspan, knew this was stupid policy. They knew it was kind of nuts. But, they did it anyway.

MANKIW: I mean, I guess one argument – this is a more, sort of fancier argument for markets – is they do sort of internalize a long-term perspective as well as a short term perspective. Whereas, precisely this Nixon example, you know, *his* incentives were short term. It didn't help him in '73 and '74 to have a big recession, but if you're a politician, you can always put off thinking about that, and sometimes, you can push that back to your successor's time in office, presumably. Whereas, markets do, somehow, I think, at least in theory, right, can look over the horizon and be worried about the longer term effects of policies?

MANKIW: I think that's right. The '73 and '74 [recession] was also associated with OPEC. So, there were sort of external forces; we don't want to blame it *all* on Richard Nixon.

But the Richard Nixon example, I think, is an example where an authoritarian president, who was looking for his own political self-interest, poses policies that we know are bad – were known by his own advisors were bad, and that we know from history are bad, and that sort of moves you in the direction of these authoritarian, third-world regimes that never end well. Authoritarian populists tend to move in this direction. And I'm hopeful that Trump isn't going to do that, I suspect the people around him will be smart enough to tell him not to. But if you had to describe a dystopian future, it's I think, it looks something like that.

KRISTOL: I feel like we shouldn't end on that note. So, describe an optimistic future. You basically –

MANKIW: Well, I think there are certain good forces going on right now. I think the move toward a lighter touch on regulation is a good thing. I think some of the tax reforms are a good thing. So, I think, to the extent that –

KRISTOL: It seems like in some areas, more broadly speaking, technological breakthroughs have been… that have been frustrating in some areas – medicine and biomedicine, those areas have been slower than people might have said 30, 40 years ago. People said how little progress we've made. You sort of feel like maybe it could be tipping in some of these places, right?

MANKIW: Yes, yes. We talked earlier about Bob Gordon who is a technological pessimist. There are economists who are technological optimists about the future. Erik Brynjolfsson at MIT thinks we're on the verge on a new technological revolution with all of these things that are going to be just amazing.

Think of driverless cars. If you have driverless cars and driverless trucks, that's going to be hard for people who are displaced from being taxi drivers and truck drivers, but that's going to free up a lot of resources for people to go do other things. That's a huge technological breakthrough given all the time people spend driving. So you can imagine that there will be new technologies over the horizon.

KRISTOL: An Uber-type economy just seems to me an obvious way to help with lots of things, right? I mean, congestion, climate change, if you're very worried about that. You can make a case that some of these breakthroughs, both – there, that's obviously made possible by the computer and by the ability to get these cars in two minutes to show up and have –

And that, you'd think, for young people who love Uber and you think if there has ever been an illustration for a non-centrally planned – I mean, obviously, they're very smart people running Uber who figured this out, so there's a certain amount of central planning, you would say.

MANKIW: All corporations are in some sense centrally planned within the corporation.

KRISTOL: Right, but the essence of it is there are millions of Americans driving in cars with time on their hands and now we can, thanks to technology, know exactly where they are and put them in touch with a person who wants to ride somewhere, and price it appropriately. That's all an amazing, should be an amazing, net plus to an economy where one had to have a personal car, parked somewhere, you know, or a driver or something.

MANKIW: Absolutely. And in fact, in the new edition of my textbook that came out two months ago, in the first chapter I have a new case study on Uber, and it's called "Adam Smith Would Have Loved Uber," is the title. I think it really is exactly that. It's the sort of the market working to match suppliers and demanders in a decentralized way. The way the prices adjust, a plan to manage them that they couldn't with taxis, which is just a tremendous resource.

KRISTOL: A real net positive for the economy, I assume? But I think, also, for people's lives. People are like, "Oh, Uber, it's convenient, it's great; we can walk out of here and get it." But you know, for people who are at 1:00am and have to go somewhere in a not so great neighborhood, for people who've had too much to drink, college students, who don't want to – you know, in the old days, they'd get in some car.

MANKIW: My 25-year-old daughter, who is single, lives by herself – the fact that she has Uber is just amazing. Because wherever she is, she can get home safely, and in short order.

KRISTOL: It's a real benefit, it's not just a marginal economic benefit. Okay, you've cheered me up. On that note, let me thank you, Greg Mankiw, for joining me today on CONVERSATIONS, and thank you for joining us on CONVERSATIONS.

[END]