

# CONVERSATIONS

WITH BILL KRISTOL

## Conversations with Bill Kristol

**Guest:** Edward Conard, Bestselling Author,  
Former Managing Director of Bain Capital,  
Visiting Scholar, AEI

*Taped April 25, 2018*

### Table of Contents

[I: Innovation and Economic Growth 0:15 – 35:39](#)

**II: On Income Inequality 35:39 – 54:07**

**III: Why Favor High-Skilled Immigration? 54:07 – 1:21:09**

### I: Innovation and Economic Growth (0:15 – 35:39)

KRISTOL: Hi, I'm Bill Kristol, welcome to Conversations. I'm very pleased to be joined today by Ed Conard, long-time businessman and investor, partner at Bain Capital and other places, I guess, visiting scholar at the American Enterprise Institute now, who has written two very interesting books. Books I found fascinating, which I want to ask you about: Why you had to write these books? To save economics from the economists? Or explain economics better than the economists do? But the two books were, in 2012, *Unintended Consequences* and then, was it 2016?

CONARD: Yes.

KRISTOL: *The Upside of Inequality: How Good Intentions Undermine the Middle Class*. Both of which I recommend, and I'm trying to boost your royalties here.

CONARD: Thank you.

KRISTOL: Yeah, anytime, right? No, but you draw on your – obviously you went to business school; you know economics. But you draw on your actual experience as an investor and a businessman and –

But, anyway, what made you think that we couldn't learn what we needed to learn from all the fine Harvard economists writing about economics and –

CONARD: I think it was a combination of two things. One is I was under enormous responsibilities at Bain Capital. I'd already made a lot of money and wanted to spend more time with my family. [I] needed a way to get into heaven. Because I felt a moral responsibility to keep making contributions, I thought I'd write the book, and nobody would read it, and I'd lawyer my way into heaven and everything would be fine. But Mitt got through the primaries, and so my book ended up with a lot of attention.

KRISTOL: Yeah, we should say you were a partner and good friend of Mitt Romney's. And the book, the 2012 book, was taken as kind of a –

CONARD: A decoding of what –

KRISTOL: A decoding of “what Romney’s true views” were on the economy.

CONARD: So I ended up on the cover of the *New York Times Magazine* and on the Jon Stewart Show and got a lot of –

KRISTOL: How did that go?

CONARD: It went well. I think we fought to a draw.

KRISTOL: That’s good. That’s a victory.

CONARD: A friendly draw. And it went on for – he said the [longest interview](#) he’d ever done, because he has a long interview after the camera stops rolling, which you can watch on the internet.

KRISTOL: Yeah, we’ll have to look at that. Okay, good.

CONARD: But I thought everybody was only interested in inequality, and that’s what led to the second book, in which I was making arguments about the upside of inequality, the distributional effects of inequality and such.

But that was the first reason: trying to fulfil my moral responsibility. The second was I felt that both the left and the right have a lot of misunderstanding about economics in the popular media and the arguments that you see in the media, not so much the professors.

But when you look at the professors, they’re really so narrowly focused and so cautious about their academic credentials that they don’t want to argue the larger macro picture, the connection between things where they might be an expert and other things in the macro economy that are related where they’re not experts. So they’re very narrowly focused. You tend to find the Paul Krugman’s of the world are willing to write more macro perspectives, but there’s far and few between on the Right.

And I just felt there’s nobody who’s – I view myself as a little bit like a journalist coming down from the mountain: that I’ve done the work to truly understand economics, to explain them.

And also I felt – I didn’t want any propaganda. I wanted to explain the counter arguments against the conservative arguments and the counter arguments of the counter arguments. I always felt everything was kind of one-sided. People are willing to take things out of context, say things that they can win the argument with, even though it’s not advancing the public’s understanding.

I’ll tell you a story. I was debating Paul Krugman, and I said, “Why do you always put up these ridiculous strawmen on the right? Why don’t you put up the serious arguments on the right?” And he said, “Why should I give them access to my audience?”

KRISTOL: Is that right?

CONARD: I said, “Because you’re a Nobel Prize winning [economist]; you’re trying to do what’s best for the country?”

KRISTOL: Or just trying to help democracy, maybe? Democratic discourse?

CONARD: But I think that’s true of almost all the discourse that you find in the media. It’s aggressive. It’s very partisan. It’s very one-sided. And I felt like I want to contribute.

KRISTOL: So what do you think? So let’s take – you’re more or less a conservative, center-right, whatever, I guess most people would say. What was the core point you made that normal consumers of

pro-free market, pro-entrepreneurship, pro-low tax rates, etc., you know, conservative orthodoxy were missing in 2012 after the financial crisis?

CONARD: I would say probably the most important is that there's a shortage of talent. And that we're an innovation driven economy, that we don't really need a lot of capital, we don't need a lot of savings, we're not a capital intensive manufacturing economy anymore. We need smart, creative, well-trained thinkers that are able to scale to economy-wide success without needing much capital at all. Google and Facebook are cash-flow positive the whole way.

And what are the economic policies which really cause us to end up with Silicon Valley, and Europe and Japan to fall woefully short, in comparison, in the amount of innovation that they've produced? And then what effect does that have on the overall economy?

I was probably a little less tuned into the distributional effects in the first book than the second, but still the median incomes in the United States are 15 to 30 percent higher than they are in Europe. I always make comparisons in my book to the United Kingdom, Germany, France, and Japan. They're the three most – the four most relevant economies.

We're 15 to 30 percent better at the median; we're about the same at the lowest levels. After tax, we're probably higher because they tax what they give to the poor more heavily than we do. We barely tax it at all. And at the high end of the income spectrum, we're way more productive; we earn way more money than our counterparts in the rest of the world.

I tried to lay out why this had happened in the first book. I set off on that course, then the financial crisis hit. I felt like I didn't have anything to say about the crisis. I retrenched, I learned a lot, I felt like I did have a different perspective. And so the first book is half why is the United States is out performing other high-wage economies, what happened in the financial crisis, and what can we do in the aftermath to bring us back?

I was trying to avoid the very thing that happened, which was eight years of slow growth, high unemployment, and lower wages than I thought we needed to. I think that stemmed from a misunderstanding of the financial crisis, but it's not what I set off to do when I wrote the first book.

And in the second book, I was somewhat trying to make amends and saying, you know, there are distributional issues here, about who benefits from the growth; how much of it's going to the most talented workers. What about the people that aren't as fortunate to be born with a talent that some of these workers have? And how do we have policies that are going to grow wages in a world where we have an unconstrained supply of labor, particularly low-skilled labor?

KRISTOL: So I want to get to the distributional argument, which has been very much in the news the last two, three years in all kinds of ways, obviously.

But I said, reading your first book and other things you've written, I'd say your focus on innovation strikes me as, innovative. I mean, it's a little different. And a lot of economists it's, you know, it's capital, it's savings, it's investment, it's markets, it's free flow of, you know, capital, blah, blah, blah. But, I don't know how much they say about innovation. They take innovation as some kind of variable, I suppose, that just shows up a lot of the time.

CONARD: Yes.

KRISTOL: But I mean, you make that, you put that sort of at the center, right, of our economic well-being, really. Explain that a little bit.

CONARD: So the argument I make is that I think one of the differences between conservatives and liberals is the extent to which you think incentives matter. I think the liberal argument would be: Bill Gates was a curious guy; he wasn't trying to become a multibillionaire. When he started off he never expected to be a multibillionaire. Mark Zuckerberg, same thing. Why do we have to let people be multibillionaires in order to motivate people to take the entrepreneurial risk that creates innovation?

KRISTOL: Well, back up. So the entrepreneurial risk that creates innovation is, in your view, crucial to economic growth?

CONARD: Yes.

KRISTOL: It's not just having a free-flowing market and –

CONARD: Yes. Because I think we have transitioned from a capital-intensive economy, 1950s, 1960s, to a certain extent the 1970s, where we came out of an agricultural era. We had an agricultural revolution; we have nobody in agriculture anymore.

Luckily, we saw a huge growth in manufacturing, enormous investment in capital. Capital, really, in savings, constrained growth. You could really fund a lot of capital with fairly a risk-averse savings, because if you're financing the inventory of Ford Motor Company, for example, you can always sell the cars. If you're building housing for the Baby Boomers, the houses are easy to value, easy to sell. And so there are certain characteristics about that capital that makes it financeable with low-risk savings. That whole part of the economy—

KRISTOL: The task in that era was to get the savings.

CONARD: Yes.

KRISTOL: And get them invested.

CONARD: Yes. And then, and to get the people – we sent a lot of people to college in advance of the rest of the world. We came out of the Depression where we had a lot of innovation that wasn't implemented. We went to the Second World War. So we had a lot of pent-up demand, if you will. We started sending people off to school. We built highways and television, which knitted our markets together into enormous mass markets with huge economies of scale.

The Second World War had devastated Europe and Japan, so we really had no competitors. There wasn't a lot of international trade. There wasn't a lot of immigration at the time. I mean, the world was our oyster. And we discovered these enormous opportunities in manufacturing: built huge plants— Ford Motor Company, GE, etc., Proctor & Gamble—and then we had enormous prosperity. There was a baby dearth in the Great Depression, so there was a shortage of workers at the time, as well. So you saw a lot of wage growth.

That slowed down as you got into the 1970s and 1980s. We saw an increase in small business, tried to pick up the slack, because Baby Boomers were coming. There was nobody to put those people to work, so you saw an increase in small business. But a lot of small businesses – I make a restaurant and take your customers; you start a shop and take my customers. It doesn't grow the economy like innovation, capital investment and such.

So we did see a slowdown in productivity growth, and that kind of slowed down. And then when we got to the 1990s, we saw much more of a rise of innovation, where the demands on our most talented people and their ability to produce technology and finding the crossroads between business and science became far more important.

What we saw during that era was businesses that succeeded became cash-flow positive very quickly. Business became a net contributor to savings as a net user of savings over that time; that we needed a lot more venture capital, which couldn't be funded by risk-averse savings because it's kind of all or nothing. You find the cure for cancer or you don't.

No one's going to lend you money to find a cure for cancer because the guys who are lending you money are risk averse and they want their money back. They'll finance your house, because they can sell your house. They'll finance your inventory. But they're not going to finance –

KRISTOL: So this is equity capital.

CONARD: Yes.

KRISTOL: Risk-taking capital.

CONARD: And so I felt that the economic models that we were using applied to the 1950s, to manufacturing. They didn't really apply to the economy that the United States found itself in.

And we were making comparisons to Germany and Japan, who are still much more manufacturing based than we are. Their people have different skills; their capital markets are different than our capital markets. I just felt that we were missing some of the key ingredients that were serving as the catalyst for making our economy more successful. And I can dive right into this if you want.

KRISTOL: And it is, and you thought it was more successful. I mean, it was more successful.

CONARD: Yes. I think by – I show a lot of measures that show this.

KRISTOL: Yeah. And what was the cause of that, do you think? I mean, that is to say, why in the 90s, why did we have and the decade after, 2000s, why was there all this innovation here? Why isn't Silicon Valley in Germany and so forth?

CONARD: I think – Look, there's a whole host of reasons. Let's talk about some of the not-private-enterprise reasons.

We invest a lot of money in defense. A lot of that went into the San Francisco area. Probably gave us an advantage. We have economies of scale, critical mass in the United States that's hard to assemble in someplace else in the world. So that—we could draw highly capable people from around the country. That certainly helped us.

We had regulations that made it easier to fire people. So it was easier for us to transition from a manufacturing-based economy to a different economy where Japan, for cultural reasons, was reluctant to do, and Europe, for financial reasons, reluctant to make those changes. So we had certain things like that that facilitated it.

We also saw a coalition in the 1980s come together between free-market conservatives who wanted less regulation, lower government spending, less taxes. They joined together with foreign-policy hawks that wanted more military spending, and with social conservatives that were opposed to abortion. And the combination of those three I think really controlled the Republican Party, were very successful in the 1980s, moved all of politics towards the conservative end of the spectrum.

I think people look back at Bill Clinton, he'd be probably a conservative today. But anyway, I think there was a reshaping of a lot of economic policies and stuff in the 80s, so I think that was part of it.

Part of it's just happenstance, which is, if you create Intel and Microsoft and you see those guys get rich, then what you saw was a lot of people get very interested in going to Silicon Valley, getting involved in technology, earning MBAs.

You saw computers that, personal computers, that gave us a lot of data that we could use to get information to make better decisions. So you saw a rise in the analytical MBAs at that time, coinciding with the – but you didn't see the same thing in Europe and Japan. People were still going off to engineering school, studying mechanical engineering.

KRISTOL: That's often presented like that's a bad thing about the U.S., it seems to me. I mean, including by some conservative types. The Europeans are sort of much more doing "real things," like engineering and manufacturing, and we're wasting our time with MBAs and finance and –

CONARD: I think it's a real –

KRISTOL: And, you know, messaging data and all that. But you seem to have almost the opposite –

CONARD: Well, I'd say, too, a couple things. Look at the market values of our cutting-edge companies versus, say, Germany's. It's 10X.

Everybody thinks the future is in information. You could look at the second law of thermodynamics: a combustion engine is about 16 percent efficient; you go everywhere from there to 99 percent with information, not with mechanical.

Our economy – their productivity was catching up to ours, because it started off low after the Second World War when we kind of destroyed all the infrastructure. They got up to about 80 to 85 percent, and then since the early 1990s, when we made this transition, we spurted ahead.

If you look at our median wages, they're 15 to 30 percent higher, our household incomes, than theirs.

I think you'd see, I also see – I read something the other day, it was a while back, but I re-referenced it, in the *New York Times* where a guy was making boilers in the United States was complaining about the quality of his workforce relative to the quality of the workforce in Germany saying, "I can't get that quality of worker to work for me." It's like, yeah, because that guy's programming computers, not making boilers because nobody wants to make boilers; they have better opportunities in the U.S.

So what you see in Germany is their high-quality workers are making boilers. We can't get our high-quality workers to make boilers. Why? Because they have better opportunities. They'd be making boilers if boilers was the better opportunity. I was with a CEO of a machine-tool company complaining he couldn't get any computer programmers that could program machine tools.

It's like, yeah, because they're all working for Google and Facebook. Why would they want to program machine tools that are going to be shipped off to China? It doesn't make any sense. So I think we had better opportunities. But –

KRISTOL: That was a good thing. I mean –

CONARD: But I would have said it's so –

KRISTOL: Leaving aside distribution for a minute and what happens to the bottom part of the workforce. But in terms of overall economic – you want to be the country innovating in the growth areas of the next decades and century, right?

CONARD: And I think it takes decades to build the infrastructure to be able to do it. So what ends up happening is you create companies like Intel, Microsoft, etc. A lot more people get interested in computers, technology, etc. They go off to get business degrees; we see a fusing of business and engineers in the United States that we did not see in Europe and Japan. They create more companies, Google, Facebook, etc.

What you then see is our workforce is working at these companies, getting way better on-the-job training than they'd be getting working at Ford Motor Company, where I worked, or BMW. They're seeing much more interesting problems to solve. When they see those problems they say – they're not very capital intensive problems, so they say, "I could leave, go off and solve that myself, become an entrepreneur; I've got a higher probability of success. I'm going to get a higher pay off."

There's a community of experts, other people who have started companies, other engineers, other marketing people, other finance people. When I talk to people like the Elon Musk's of the world, the Peter Thiel's of the world, they have a much better understanding as investors of the technology; they're not outsiders from New York that don't really understand it. So I'm able to explain it; they can differentiate between winners and losers.

All of that has a cascading effect that significantly increases the payoff, or what we'd say in economics, "the expected payoff," the risk adjusted payoff, and that drives more and more people to take more and more risk. And gradually over decades, we end up a lot more entrepreneurial, a lot more innovative, a lot bigger tech sector, and a lot more productive workforce at the high end –

KRISTOL: And education system –

CONARD: That's geared towards it.

KRISTOL: Geared towards it, especially in Stanford, Cal Tech and so forth.

CONARD: And students who are willing to take the curriculum. And now what you see is the rest of the world is racing to catch up. But if all they do now is cut their taxes, it's not like, oh, tomorrow they're going to start growing faster. It's going to take them decades to build up the infrastructure, the institutions that truly make our people more productive. It's not that we're smarter; it's just that we're working in jobs that have much better opportunities in them and that makes our workforce more productive than the workforces we see in Europe and Japan.

KRISTOL: And that produces *real* economic growth and well-being. I mean, as opposed to – some say, well, that's just, I don't know, a few people getting super wealthy. But it does really increase the standard of living of the society as a whole and the wealth of the society as a whole?

CONARD: And I would say this, the Congressional Budget Office, when Piketty and Saez came up with their estimates of what was happening in the distribution of wealth, they showed that it was all at the highest end and that pretty much nobody else was growing but the one percent or maybe the top ten percent was growing a little bit, but not that much faster than the rest of the economy.

I think there's been a lot of work since then where you look at non-taxable benefits like health care, government benefits like Social Security and Medicare, changes in family size. One of the thing they did was they looked at tax units instead of families, so you're looking at LLCs, many of which have no income, they're just pass-throughs, things like that. When they make those adjustments, a guy Jerry [Richard] Burkhauser, a guy that really led the charge on this, at least in my mind – but, today, a lot of his methodology is adopted by the Congressional Budget Office – they would say since the early 1970s, we've had about a 50 percent increase in the median, real median wages of workers in the United States.

So I do think that prosperity gets, spills over into the rest of the economy in a very big way. We can get to whether it spills over to the lowest skilled workers in our economy. I think it's slightly different. But, yes, we've enjoyed enormous prosperity relative to the rest of the world.

KRISTOL: So unlike some of the rhetoric, you say the last 50 years is not a story of doom and woe, doom and gloom, or woe and whatever rhymes with woe, in the U.S. I mean, it is a success story more than the opposite it sounds like, you're saying?

CONARD: Right. Without a doubt. I think you look at violence and, you know, [Steven] Pinker's new book. I think if you look at almost any – the rights that we give to minorities, the respect we have for other people, I think you'd find that all of that – the amount of wars we're fighting, even though it feels like a lot, is less and less. I think you'd find all of that's trending down and none of that's really being measured other than through its secondary effects on –

KRISTOL: It does go hand in hand with economic – both with economic growth, I should think, and also a sense of opportunity that channels people into wanting to do things that might pay off in economic well-being as opposed to, you know, starting wars or doing all kinds of other things, I suppose.

CONARD: That's Friedman's argument, right? That growth leads to a more moral society. People are more moral towards their fellow man than when the growth slows down and we all start competing for the resources, it gets –

KRISTOL: Zero sum, yeah.

CONARD: It gets a little trickier.

KRISTOL: What about the institutions? I just want to take a minute on that, because that's interesting what you said. I mean, are there things we should be doing, thinking about going forward in terms of the institutional – this is more political economy than economics, but that's good, I think. You know – whatever, sociological economy; that's economics, too. Are there institutions you think that we're failing to keep up or to cultivate or to create? I mean, some of this was accidental in a kind of Hayekian way I suppose, you know; no one planned, necessarily.

CONARD: Yes, very.

KRISTOL: Silicon Valley would be Silicon Valley. But people did invest in R&D; people did have – we had high quality universities; we had all kinds of social and other kinds of political structures that helped create the situation. Are we doing enough with those kind of institutional structures, I guess is what I'm saying?

CONARD: I mean, one of the things I do say in the book is that we have a shortage of talent.

We'll get to this and talk about it more, but we have an enormous number of college graduates that graduate in curriculum that their fellow man doesn't put much value on. And that if you really go into what customers are willing to pay for, what they demand, what they value, I think you'd find an enormous mismatch between what our college graduates are graduating, the degrees they're graduating with, and what our economy, the customers and our economy, are asking their fellow man to deliver to them, to give them, to work for them.

And I think there was a time when we were really the country with the only college graduates in the world. We could afford to be wasteful, if you will.

I think what we saw in Europe and Japan, much of a focus on engineering and science, not so much on business. We saw business take hold here much sooner than we did in the rest of the world. The



combination of the two has proven very powerful. What we see is a lot of engineers in Japan and Europe, not many business guys; they haven't produced the innovation that we've been able to produce with the combination of the two.

But when you look at who's coming out of school, you see a lot of reluctance to head into the business and science areas. I get on my soapbox here a little bit, but –

KRISTOL: No, no, that's good–

CONARD: But I do think back in the 1950s we got very worried about the Sputnik program, decided we needed more engineers—basically created a first through twelfth [grade] curriculum, which is very, very technical in math, for example. Geometry, trigonometry, calculus, which very few successful people in the world actually use. A very small percent of scientists use it.

We scared a lot of our very capable people away from science and engineering and mathematics, as opposed to saying to them a little bit of math, a little bit of decision making, a little bit of economics, geared to your capability, can go a long, long way towards making you more productive in your ability to serve your fellow man as customers. And we're going to have a curriculum which is geared to that as opposed to the curriculum we have today, which if you aren't in the top – it will go beyond the top five percent, to the top one or two percent, you get scared away from mathematics.

And part of the reason you get scared away is because what in the world do you need geometry and calculus for anymore? You need a little bit of statistical understanding of how the world works, a little bit of decision sciences, a little bit of basic economic concepts that will help you see the math a little more clearly—things we're not teaching our students. So if there was an area where I would have said institutions have sort of failed us, that would certainly be tops on my list.

And I worry more about it, and we can talk about the low end, but I worry it's easier to fix it at the high end. It's proven extremely difficult to actually have a big impact on the people who are more difficult to educate. And maybe we're heading all wrong in that direction, too. But I don't think – it won't solve our innovation problem; it will solve other issues that we have.

KRISTOL: I'm interested in that you said we need so much less capital than we used to. But I mean, of course everyone's so focused on capital. Piketty's book and so forth. Is that a sort of mistake in a sense? I mean, that that's not really the core issue or problem that we face. I mean –

CONARD: I believe that. I think that we actually need surprisingly little capital. I think of capital investment as two things. Funding, somebody's got to fund it; and the second is somebody has to bear the risk of failure. So when it doesn't work who loses their money?

But what we do find is a lot of risk-averse savings; people that say I want to put my money in the bank, but I want to be able to withdraw it tomorrow. There's nothing you can invest in that you can withdraw tomorrow. If you build a house, it's going to take the homeowner 30 years to pay you back. If you build a factory, it's going to take 50 years to pay back.

So they want a lot of liquidity and they want guarantee – they want their principle back. So part of it is you say, well, I built the factory; it didn't work. I tried to find that cure for cancer. Well, that one didn't work. What you get back is zero. I think what you'd see is we also have a surplus of risk-averse savings, in part from the trade deficits, which flood our markets with risk-averse savings.

But the thing we're short on – and as business has gotten more and more profitable, we've recovered from the recession, maybe we're not as short today as we have been in the past – but equity that's really willing to bear the losses that are needed to grow the economy. Because I think one thing people don't

understand is you don't really need to motivate success; you need to motivate failure.

What you have is a big pool of failure, and a small number of things bubble up, from that bubbles Facebook, Google, Intel. But what you don't see is that for every one of those, there's a thousand that people lose their money, people spent ten years of their life, they didn't get much for the value. I mean, they got some training in that ten years, but they go back and start their careers all over again in a new company and in a new industry when it fails.

And so while ultimately the payoffs for the Zuckerbergs of the world and the Bill Gates of the world is someone says I have a chance to strike it rich. If I work for this company and I'm the 100<sup>th</sup> employee and I get one percent, that's going to make it worth the risk that I'm taking to try to get there. And what you find is that we investors are diversified—we have a 100 bets like that—but the individuals are each taking one bet with their life.

So they see a lot more risk than the investors see. And what you need are very high payoffs. In fact, in the books I argue that the payoffs for these people is probably negative on a risk-adjusted basis. They'd probably be better off to just go work wherever they can work and earn their salary than to actually go off and try to do a start up with a very, very high probability of failure. And if they do two or three of these and you get to 50 years old with no savings, no retirement, no job, high paying job at that point, you're going to have a tough life.

And we see a lot of people heading down this path, which is great for society, great for helping our fellow man, not so great for the individuals who are engaged in it.

And they're all doing it in part – we see this in Hollywood. The amount of risk that people are willing to take to be rich and famous. We see it in Wall Street. We see it in state lotteries, you know? As soon as the jackpot gets big those are, you know, the expected value of that bet is negative, you know, you lose all your money. People flock to take that bet. The chance to make 500 million dollars on a one and a million shot? They'll line up at the door to take those, to take those risky bets.

KRISTOL: But leaving aside lotteries, which probably don't add anything much to societal –

CONARD: Yeah, redistribution of the money, yes.

KRISTOL: Distribution. But that really is important you think to have these outsized payoffs, because you really want people to take more risk for the sake of, ultimately for the sake of innovation and economic growth. That's your judgment?

I mean, that if you had a society where you had less risk taking, less outsized payoffs, more just people cheerfully going up the career ladder, step by step instead of, you know, all or nothing bets, that would be a less, ultimately a less productive, a less –

CONARD: Well, we see it in Europe. We see it in Japan. And one of the problems that we do have is we also see a hoard of Baby Boomers about to eat us alive. So if we go on that trajectory, the Germany, Japan trajectory, we're going to do major damage to our economy. I always worry.

KRISTOL: So if you want to support a welfare state, you need this fast growth.

CONARD: Well, and I always worry that after you get done being eaten alive by the Baby Boomers, you have to worry about China actually being successful over the next 30, 40 years and becoming a significant military threat to us. So you better be able to defend yourself after the Baby Boomers eat us alive. I mean, I get very worried that you can't stay on a low growth – you can't stay on a low growth trajectory given what you see coming down the tracks for our economy.

And I tell you, what we see is better than what Europe and Japan see. They see a lot more trouble than we do.

Now China sees plenty of trouble too, but you still have to worry that China's ascendant and in that it's going to get back to its relative position. It's got a large population of smart, hardworking, entrepreneurial people. It's going to be – it's going to be powerful in the future and it's going to have its own views about how the world should be.

We're not going to have our way in the world like we've had, and we're not going to have, and our allies are not going to be anywhere near as strong. So we have to be thoughtful about this. We need policies that foster –

KRISTOL: Growth.

CONARD: Foster innovation and growth. Yes.

KRISTOL: Both to support our own welfare state and to support us, maybe when we're having less demographic growth, but also to deal with enemies and so forth. Yeah, that sounds right.

CONARD: Yes.

KRISTOL: Final point just on this and then I want to get to distribution, which is so interesting and so controversial.

I mean, Peter Thiel I think argues that innovation isn't what it seems to be; it's slowed down. He has various arguments about this. Where are you on that sort of – are you worried? I mean, do you feel like with sound policy, the innovative spirit and abilities are as strong as they've ever been? Do you see a slow down there?

CONARD: So I would say this. Two things. One, we hear a lot about that we don't see as many business startups. I wouldn't worry about it. What we have seen is consolidation in retail, in any retail you see now. You don't see much mom and pop; it's all national brands. That used to be very much of a mom and pop business. It's consolidated into large companies.

You saw the same thing in restaurants, for example, you see a lot of national brands consolidating. You see Walmart's in retail and things like that. So –

KRISTOL: So the notion that millennials are starting fewer businesses than their parents did is not something we should worry about.

CONARD: Well, they might be, because I think what you also find is that the guy who used to start a restaurant is actually a pretty capable guy, and now he's a computer programmer, not starting a restaurant. And the mom and pop guy who's not as capable, because he didn't go onto computer programming, starts the restaurant and fails financially.

And that's why I think you've seen the Darden's of the world and the Walmart's of the world be able to move in and take over those spaces, because what they really are are supervision systems where the supervision isn't as capable, maybe the workers aren't as capable, but with computers and such they are able to supervise those operations more successfully.

So they come in. I think that's actually a good thing, not a bad thing. What really grows the economy is small businesses that grow large. And in today's economy, it's almost exclusively high-tech startups. And it requires more than just a mom and pop entrepreneur. You have to be trained in business, you have to be trained in science, you have to be at the cutting edge of technology, just like science. You can't just be

Thomas Edison anymore. You have to be deeply specialized and at the cutting edge.

So if you look at high quality startups, like the number of startups in Silicon Valley, for examples, the amount of finance that's going into high-tech startups, we're way above what we were in 2000, which is way off the trend line by the way. So you see this huge pick up in 2000, we go back, there was a slow down during the recession; it's come roaring back as the recession has receded.

KRISTOL: So you don't buy the decline in entrepreneurship, decline in innovation, decline in progress sort of argument?

CONARD: No, but I will say one other thing, which I think, where I will agree with it, is as things get more technical, the companies at the cutting edge—what we call the frontier of technology—are absorbing a lot of the talent. And what we're finding is that the rest of the economy is falling off the frontier and falling further and further away from the frontier.

So I know we all have computers, for example. We suffer through them because when we try to have somebody come and fix them for us, they don't do such a great job. You can bet that the guys at Google when they get their computers fixed they're outstanding. So I think you'd find all the artificial intelligence engineers and the programmers and such, the state of the art guys are working for the state of the art companies.

There's enormous synergies for them to do that. They work with other brilliant people. They see the most interesting problems. They have way better economic opportunities. They lead more interesting lives. They probably face less risk because those companies are growing so fast. So they're a magnet to drawing the talent in.

That leaves the rest of the economy with less talent and you would expect the productivity growth and the technological innovation in the rest of the economy to slow down.

So when you look at the overall economy, is it good to have it all there? Probably. But if you look at your everyday life and say, well, you got to suffer through your computer not being very good, because you can't really – the cost of getting a computer department to get you to high quality computer services is, you can't really afford it in this economy.

KRISTOL: I suppose the counter argument might be that, in fact, computers and phones are infinitely easier to use than they were –

CONARD: Yes.

KRISTOL: – ten or fifteen years ago, because all those geniuses in Silicon Valley have spent a lot of time thinking about how to make people who are not tech savvy, like me, how to make it easier for me to do all kinds of things.

CONARD: No doubt about it.

KRISTOL: And people, Uber has made it easier for us to get from Place A to Place B, even though – so we don't depend on – and our drivers, the Uber drivers don't have to be geniuses. They don't have to know the map of New York City and where the traffic jams are, and Waze can take care of that and you and I don't have to think hard about planning our schedules.

So there is some way in which it does make us more efficient, too, right?

CONARD: In a big way. Yes, sure.

KRISTOL: And more productive. I mean, you can leave this discussion and Uber back to your office and not waste 20 minutes looking for a cab in the rain, right?

CONARD: Yep. Listen to a podcast on the way home and check your super computer in your pocket. It absolutely makes you more productive. I do argue in the book that it makes the most capable people way more productive.

## **II: On Income Inequality (35:39 – 54:07)**

KRISTOL: So the rate of increase in productivity, so to speak is – so that gets us to the distribution argument, I think, which people have been concerned about for a long time, obviously, but maybe more evidently so in the last few years.

It does seem like maybe the financial questions of the moment were – we all thought we would recover. Well, we all have recovered from it to some degree, but there I think, don't you think, the differential rates of recovery, or at least the feeling of the rate of recovery –

CONARD: Yes.

KRISTOL: – is very different. Bill Galston, with whom I did some work, likes to point out that actually people made it through the crisis, I mean, psychologically, politically, pretty well. They kind of had faith in the country. They thought, okay, this was a bad one; it doesn't happen that often. But we avoided the abyss, and then we started to come back.

And he said if you look at polling in 2010, 11, 12, people still had confidence more or less in the future— they thought their kids would be better off than they; they had taken a hit, they weren't so sure they would make it back quite to where they had been in '07, but they thought basically things would be okay. This is working class, lower middle-class Americans.

And he says that in about 2013 the numbers started to change, that people sort of thought, gee, it's now four or five years from the crisis and I don't know if I'm ever going to make it back. And I don't know if my kid, who didn't make it through college maybe, and you know is struggling in a not so fancy job somewhere, is ever going to – might have some social problems; there are social, cultural issues and so forth – he might never make it to the level I was at.

And for him that was a big explainer of some of the political turmoil of the last – let's say Trump and Sanders to put it in a simple minded way – of 2016, had a big moment. Do you agree with that? Is there data behind that? Or is that just some psychological, you know, sort of –

CONARD: Well, I haven't seen the – there is always polling data and I'm sure –

KRISTOL: Yeah, I'm sure. But is there real data?

CONARD: I would say that there's real economic theory.

KRISTOL: Are people's sentiments reflecting reality here?

CONARD: Well, two things I'd say. One, is there's real economic theory. They call it "hysteresis" in economics: which is, the longer you're out of a job market, the more your skills get stale; you have a more difficult time re-engaging back into the economy, etc.

So you are, just logically, for all the right reasons, going to worry the longer that you've – maybe you haven't been fully out of the economy, but to the extent you're not at the maximal of your potential, you're

going to get worried about it for very –

KRISTOL: Good reasons, yeah.

CONARD: Logical reasons. So I think, I forget what my other point was, but I think that's certainly logically the case, that you're going to grow more and more worried about the future.

KRISTOL: And in the real world, the differentiation has increased between those on the top –

CONARD: Well, I think we know –

KRISTOL: – quartile and the bottom and so forth.

CONARD: In an economy where talent is scarce, when you go into a recession you don't lay off your talented people. You lay off the people who are most expendable. So the worker who gives you trouble, the guy who's not quite as productive. The person who's easily replaced.

And one of the big problems you have is when you interview people it's hard to figure out in an interview whether the person's really a great computer programmer. You won't know until you hire them. And so what you do is you say if that person was the person that the other employer laid off, he probably wasn't the good person, therefore I need to be extra careful about it.

And so what you find is that the most capable people, the people who are hardest to replace, they don't get laid off. They all, the companies suffer through the recession and pay them anyway. It's the people at the bottom who end up getting pushed off.

Now they are going to feel more optimism because on the back end they're the last people hired, when the economy finally starts to recover they're going to get pulled back into the workforce and feel stronger.

I remember what my other point was. We saw this as well when the Republicans – I won't give President Trump all the credit for this, but when Republicans gained control of the House, Senate, and Presidency, we saw the stock market rise 25 percent.

So I think someone must have looked and said, Democratic control of the economy has led to eight years of slow growth; we're factoring that in going forward. When we no longer see that, we expect faster growth, a more prosperous economy. I think you saw that reflected in the stock market. I think you did see tick-ups in consumer confidence and things like that that went along with it, small tick-ups in productivity and in investment.

But you did see a rise in optimism on the change of regime after the Obama Administration. Whether it's a false positive, you know, if that turns out not to be true or not, we'll see. But people certainly got more positive, and I suspect that's because they actually were negative until that was lifted from them.

KRISTOL: But that would suggest that, you know, this is what happens in recessions. This is what happens when you come out of recessions. It's that going through recessions in the 50's or the 70's.

But I think your argument is that there is a distributional question today. It's a little different from the distributional questions that were raised by normal economic recoveries in the Industrial Era.

CONARD: I do think you see we have had a recovery that follows a pattern that's typical. It's been much longer. I think people felt that the longer after a financial crisis, that that is an argument that an economist, Reinhart, makes – Rogoff and Reinhart make.

You know, I did argue in my first book that we should strengthen guarantees of banks, and that if we didn't do that, we were going to face a long recession. Unfortunately, because of all the bad publicity around banking, I said we're going to go in the opposite direction. We did. It's been problematic. I suspect that's part of the problem.

But I think there are longer-term – on this distributional – and longer-term issues in the works, probably exacerbated by the recession, but nevertheless have been brewing for quite some time.

If you look at the United States, a third of – well, 25 percent of Americans score in the top third of the world on academic tests; 45 percent score in the bottom third. Bear with me for a second. So, we have one high score for every two low scores. In Germany, they match up to the world. They have a third at the high, a third in the middle, a third at the low. So, they have one high score for every low score, which means they have twice as many high scores per low score as we do because they're one to one and we're one to two. If you look at Scandinavia, they have three times as many. And if you look at Japan, they have five times as many.

So they have the luxury of having way more cognitive capability per low-skilled worker as we have in the United States. I think part of what you find in the United States is because we have a relative shortage of high-skilled workers, we have used our high-skilled workers a lot more productively than those economies have. And part of that was this institutional-capability building in Silicon Valley and other parts of our economy, which gave us institutions, which made our workers a lot more productive. They work longer hours than their counterparts in Europe, not so much in Japan. They earn more money. They take more entrepreneurial risks than their counterparts in Germany and Europe and Japan. So, there's been real effects from that group of workers in the United States.

But the effect of that is if you're a talented person, I think you can choose one of three professions.

One is innovating, what we're talking about. The second is I can just be a doctor and I have a high-skilled job. I keep the wheels greased. I keep the economy going. I'm a lawyer; I'm a doctor. I'm not really an innovator. There's plenty of lawyers and doctors who are, but that's not really what I'm doing. Just, I'm a high-skilled worker.

And the third is I can be a supervisor of low-skilled workers. I could be a supervisor – and by “supervisor,” I'm going to use the word broadly. I can be an engineer at Ford Motor Company who designs – I was an engineer at Ford Motor Company, is why I go back there – who designs a very competitive product that customers want to buy. I can design factories that make the workers more productive. I can design training programs. I can program computers, etc., that make those workers more productive.

I think what you find in the United States is we start off with a shortage, a relative shortage of high-skilled workers. We have way better opportunities in innovation, so more of our workers go into innovation. You find higher wages for doctors and lawyers as a result because there's a shortage relative to their counterparts in Europe and Japan. And so, you say, “Who's left to go supervise the unskilled workers?” There's not many of them left.

And when you say over here, “I'm working on innovation.” When talent constrains growth, what's the talent going to work on? Increasing the productivity of the talent. So what you're going to find is a positive feedback loop over here where they design products, they design processes, they supervise talented workers that increase the productivity of talented workers. Meanwhile –

KRISTOL: Which is good.

CONARD: It's all good.

KRISTOL: I mean, good for the economy.

CONARD: Great for the economy. Helps the middle. Creates lots of jobs in the middle as well.

But when you're down at the bottom, you're left to kind of fend for yourself. And you see a lot of evidence for this. David Autor's work, for example, shows that in manufacturing, rural manufacturing towns when they lose their factories, it takes them years, decades. They never really recover the lost wages.

It used to be that the rural economy was catching up to the urban economy in terms of wages. It was closing the gap, converging. We don't see that anymore.

When the worker out there in the heartland of America says, "I'm going to move to San Francisco, Boston, New York," they find incredibly high real-estate prices. So, the pay is two to three times higher for blue-collar work in those cities, but it's completely captured by the landlord and not the worker. And so, they find themselves in a situation where they've been sort of left behind.

We also see this in low workforce participation, high opioid addiction, more unwed births, more divorces. All indications of people not being supervised as tightly as they had been in the past.

And so I think it leads to resentment on the part of those people that say, "Hey, we're all supposed to be a team, a country working together. You guys have all gone off to work for yourselves. The guys who are here being doctors and lawyers are making a ton of money because there's a shortage. Who's over here designing products and processes and products for jobs, high-paying jobs for me?"

And we tell those guys when we take that factory and move it to Mexico, "Don't worry, the entrepreneurs are coming. They're going to put you back to work. They're going to compete with each other. They're going to invest capital. Interest rates are zero. There's a ton of capital out there. That's going to drive your productivity back to where it was before and you're going to get the same wages that you had before."

KRISTOL: And the consumer goods are going will be cheaper since they're made with lower wages in Mexico.

CONARD: And they say, "Hey –" we can come to that in a second. But then they go, "But, yeah, but the entrepreneurs all moved to California and what little blue-collar work they created, they outsourced to China. Where's the entrepreneur who's coming to put me back to work? Where is the promised guy?"

Then they go in line to get a job, and they find 40 million foreign-born adults, 20 million native-born adult children, 35 million of which are Hispanic, low-skilled Hispanic immigrants, all looking to the same pool of high-skilled workers to design high-paying jobs for them.

And they say, "Wait a minute. You told me I wasn't competing with those workers, that all we had to do was invest capital and we were going to get the productivity up to the same level." And I think they have an inherent fear, a logical fear of what's happening to them, relative to what's happening to the economy in total.

And then we end up with the Trump Administration, anti-trade policies, anti-immigration policies, a lot of divisiveness between groups of people in our economy because no one has really stepped up to the responsibility of we have to do to make this great for everybody, not just for the most talented workers, who've really had an enormous opportunity here over the last 30-40 years.

KRISTOL: How much of that is – leaving aside the politics of having quite appropriately sort of trying to make sure everyone benefits – as some economics matter, how much of this is just this is what a modern post-industrial economy looks like? Where returns to education and some form of intellectual capacity



have always been greater than those than to the uneducated presumably, but are relatively much greater than they used to be? I don't know if it's the case or not. Isn't that the argument that people make?

CONARD: Sure, but let's take trade as an example. If we can't make for \$20 what we can buy for \$5. We can't drive around in high-cost cars and be competitive in the long run. It will slow down growth. It will slow down competitiveness. It'll make us weaker, create a weaker America for our children. I don't think we want that.

But let's not kid ourselves. There is a shortage of high-skilled workers in the world. So, what do we do? We export Apple operating systems, high-skilled work to the rest of the world. What do we buy from the rest of the world? Cheap Chinese labor. Because there is a surplus, there is an abundance of low-skilled labor.

So what impact does that have? It increases the demand for high-skilled labor, raises the wages for high-skilled labor, and it puts downward pressure on the wages of low-skilled labor.

Now we also get low-skilled goods, as well. But look at the distribution of who gets what. So, the worker pays 100 percent of the cost of the lower wages. He gets – the top 40 percent get 55 percent of GDP, earn 55 percent of GDP. Retirees get about 15 percent of GDP. The poor gets 5 to 10 percent of GDP – I'm talking about the bottom 20 percent, which largely are not in the workforce, that group. The next group are [in the work force].

So, you add all that up. A guy's getting 25 percent of the benefits for 100 percent of the cost. So, he's paying \$4 of the cost for every dollar of benefit.

Is he better off because of trade? It's not obvious that he's better off. In fact, it's hard to believe actually that he is better off.

Now, is the economy as a whole better off? It absolutely is. Now where does all the growth come from?

We know that two-thirds of the growth and 75 percent of the employment come from San Francisco, New York, Los Angeles, Boston. It's a handful of cities – Texas, Dallas and Houston as well. And the real-estate prices, not so much in Texas, but everywhere else, is sky high. So, he can't share in the growth. All he does is get the effects from balanced trade.

Now, he says, "Well, why should I be supportive of free trade if you're going to charge me \$4 for every dollar of benefit that I get? Dickey that I'm actually getting enough benefit to cover my cost. And I can't share in the growth because I can't move to the fast-growing cities with ultra-high-cost real estate?"

So, in fact, what we're seeing now is the people who are migrating to the high-wage cities are the highest-skilled workers and low-skilled immigrants who are willing to take low after-rent wages. And then we're seeing migration of everybody else out of the blue coastal cities and back into the lower-cost red states.

So, why should we expect those voters to support free enterprise? They go, "Okay, I'm getting a better cell phone. I'm getting this and that." It's all great and I'm sure they're better off than they were, but I think they'd say, "Where is the free market guy who says, 'I'm for trade, but I'm also for redistributing some of the benefits of trade to make up for the fact that you're bearing all the costs and only getting a quarter of the benefits? While I bear none of the costs and get 75 percent of the benefits.'"

KRISTOL: So, it's not just psychological. It's not just cultural anxiety. It's not just relative standing. They really are paying the costs, is what you are arguing? The voters are being rational and thinking this is not working out well for them.

CONARD: Let's go to the next thing. They then say, "Oh, government spending is at 38 percent of GDP – all-time high for this point in the economic cycle – state, local, federal and counting it all up. Debt used to be at 33 percent of GDP. Now it's at 75 percent of GDP."

If you look at the CBO forecast going forward, as Baby Boomers retire, the 38 grows to 45; the 75 grows to 150 percent of GDP. None of that's sustainable.

And they say, "How am I going to get my Social Security and Medicare when I retire? I'm in fierce competition with everybody for government spending. Therefore, I'm going to turn against the other people who are also trying to get their share of government spending." And we free enterprise guys say, "Free trade, lower taxes on business, lower taxes for rich guys to reinvest. We're going to leave bigger deficits going forward in the future, which makes it less likely that you're actually going to get your retirement benefits." But you have to be a pretty rich guy to say, "That's in my best interest."

Okay, now I think you get hit with a third thing, which I think in part explains part of the rise of Trump, which is that when identity politics grows more and more successful, people say, "That's starting to threaten my economic opportunities." So, when you tell the real-life characters of *Hillbilly Elegy* that they're the beneficiaries of white privilege – we [gestures to Kristol and himself] might be the beneficiaries of white privilege. I think they look at it and go, "Hey, wait a minute, I don't think I agree with that."

When you tell them, "Hey, I am against the new head of the Met because he's white and male." The guy says, "Well, I'm white and male. Are you against me, being a police officer?" And so, I think they say, "Those things threaten my economic opportunities. But the fiscal policies of the government are threatening my Social Security and Medicare, and free trade and growth aren't benefitting me very much." Why should they support any of that?

I think we've just been completely tone deaf to what it is they're saying. I think we got jolted awake in this last election. We thought, "No, it can't possibly be the case that President Trump would win." But he's a lot more tuned into an America that we're not in touch with, that has very logical, sound reasons for thinking the way they're thinking.

### **III: Why Favor High-Skilled Immigration? (54:07 – 1:21:09)**

KRISTOL: What actual policies would help them as opposed to – one could be in touch with them and be sympathetic to them, but one still has to do, try to do what's better for the country and what's better for them. But presumably saying that coal-mining jobs are going to come back, or pledging some steel company to leave a plant open for an extra two years in Indiana is not going to do much good, right?

CONARD: Well, yes, I don't think the policies that are being proposed are going to do much good. I'll give you a policy that I think will do a lot of good. But I think you have to recognize that politics is a weird, abstract, symbolic thing.

KRISTOL: No, I can take that point; I'm just saying from the real, policy point of view.

CONARD: Yes. But so, when you bash trade, when you talk about building a wall, when you talk about these things, you're addressing the real, underlying issues, but you're doing it in a weird, dog-whistly, symbolic way. And many of the policies have no impact even if they were implemented. Steel's going to be small, not large. It just can't be large. There isn't enough steel to matter. I'm not supporting the policies.

I think there's only one thing that we can do to solve this problem and that's high-skilled immigration, ultra-high-skilled immigration. So, we issue – and I believe that the Obama Administration squandered

our best opportunity for growth over the last eight years. So, we have 125 full-time workers in the U.S. economy. The top 5 percent –

KRISTOL: 125?

CONARD: [125] Million workers, full-time workers. We have part-time workers, but we'll worry about the highest-skilled, working 2,000 hours a year. The top 5 percent is about 5 or 6 million workers.

We issue a million green cards a year. So, in 10 years, we could potentially double the number of 5 percent workers. Now keep in mind, if we don't hire those 5 percent workers, we Skype them in. Google is Skyping them in from Romania as we speak, okay? Skyping them in from all over the world. So, it's not like they're going to sit on their hands and say, "Oh, sorry, we can't get our hands on the talent." So, they're getting the talent anyway.

KRISTOL: Or they'll build the plants over there and so forth.

CONARD: Yeah, right, exactly. And then they'll get the doctors, the lawyers, the schoolteachers, the bus drivers, the waitresses, and everything that goes along with those high-skilled jobs. They'll get all of those jobs into their economy instead of those jobs into our economy.

So, in about 10 years, we could double the number of 5 percent. I don't know if that doubles our growth rate, maybe one plus one is less. You know, we're fishing out the pool. Maybe there's synergy. I don't know.

There's about 7 billion people, non-Americans, in the world. The top 5 percent would be 350 million. Half of them have never been tested. We don't know who they are. They haven't gone to school. Half of them are too young or the remainder are too young or too old. Half are going to be too established to actually pick up and move. You get down to a pool of about 40 to 50 million, gigantic pool of like 40 to 50 million ultra-high-skilled workers, who are, for the most part, dying to come to the United States. They're probably here getting educated and then we send them home.

There's a real opportunity there to change the very problem that I think is unique to America, which is this tremendous shortage of the highest-scoring workers. And if we do it at the highest level, the top 5 percent – that top 5 percent, myself is in there, have enjoyed enormous prosperity over the last 20-30 years. If we dilute them by 50 percent, come on, they're still going to do great.

I think what you're going to discover is for a whole bunch of other workers, they weren't going to get that job anyway because it's a level of skill that we were going to Skype it in from Romania if that's what we needed. But we will get all the other cascading jobs.

It will also push people into jobs of more supervision of lesser-skilled workers, and things like that, and creating the products and things that go along with making their lives as good as our lives. You'll see more spillover into the rest of the – as someone once said, "The future's here; it's just not evenly distributed." It will push it into the rest. The spillover will go faster. I don't see any other way.

Now, if you look at who pays taxes in the United States – I've only looked at federal, not state, but I suspect it's going to look very similar. If you look, and this is from the Congressional Budget Office, the middle-class median-worker family pays about as much in taxes this year as they consume in government services.

So, they don't put anything towards their retirement. They don't pay for the retirement of anybody else. They don't pay for the benefits that we give to the bottom 40 percent. I have them paying their income share of defense, not their pro-rata share, because you'd say the rich people have more assets to defend, which means most of it's being covered by the richest workers. Those workers are basically

paying for what they're consuming this year, which is fine. But more of them isn't going to pay for Baby Boomers in the future. It's going to increase the amount of retirement benefits we have, but it's not going to add enough additional tax revenue.

KRISTOL: You need people that are adding net value.

CONARD: Right, adding a lot more tax revenue than they pay in government services.

KRISTOL: And those are the high-skilled immigrants.

CONARD: And if you look at our education system, we cannot, we have not been able to produce, for whatever reason, we have not found a way to produce a greater number, enough to solve our problem. So, you say, "Yeah, I'll retool education. I'll try it. It's going to take 20-30 years for it to actually flow through the system and matter." But in the meantime, you just go out and get five million more top 5 percent workers.

KRISTOL: And when you say top 5 percent, do you mean top 5 percent that are already educated in their home countries, or just top 5 percent in terms of ability or drive or hustle?

CONARD: I think you're going to find they're going to tend to be young people, because those are the people who are willing to move. So, they're going to tend to be college graduates who haven't really proven themselves yet, and you're going to say some percent of those will end up being ultra-successful, but who cares. A lot of them will be very, very successful. All we care is they pay more tax revenue than they consume in government services and we're one step forward in the right direction. I think you're going to find those are 20 and 30-year-olds. They're not 50-year-olds deep into their careers. We don't really need the 50-year-olds to move here. We've got – they're not going to come up to speed fast enough to make a difference.

KRISTOL: Or you could admit them to college here, presumably, and that wouldn't be a bad way to get them into the country and keep them.

CONARD: We're already doing that and then we send them home afterward. It's insane.

KRISTOL: Well, admit more of them and keep more of them.

CONARD: Yes, yes, yes. But I think if you ramp up to a million a year, you've got to do more than just admit people. You have to really go out there and recruit them.

KRISTOL: And you think that's doable. I mean, if we invited them, they would come?

CONARD: I think if you look at the distribution of our wages relative to Germany or France, and you look at the top 5 percent, you're talking about two and a half times more money being paid.

KRISTOL: And the key, it seems to me, I think your argument, I think both substantively and politically is, of course, the greater supply of these people will slightly diminish presumably the wages of their equivalents who are here already, but they already are doing well. And it won't, is your argument, diminish the wages of the huge middle and then the lower middle and working class.

CONARD: I think it'll increase those wages.

KRISTOL: In fact, they could increase because the spinoffs of the restaurant and Uber jobs and Silicon Valley. The more startups there are, the more all these other jobs there are, right?

CONARD: And I think you'll find one other thing, too, which is the rest of the world is racing to get business students. They have created more engineers, scientists, mathematicians than they've been able to put to work, more Ph.D.'s than they've been able to put to work.

So, I think what you would do is say, to the extent I can bring in the scientists, the mathematicians, the engineers and combine them with the Americans who are already here, there's real synergy between getting that technical expertise and then marrying it with marketing, networking, communication, relationships, salesmanship, business skills – all of that, which the native-borns tend to have more of because they're just tuned into the culture, the economy, the network, etc. That's not to say that the immigrants won't come up to speed. They will, but it takes some time.

In the same way, if you went off to Japan, you'd kind of be lost there for 10 years trying to figure your way around. It's hard to plug into the network. So, you want to go get experts, team them up with people who are plugged into the network. That's how you get the most productivity from them the fastest. And the way to do that is straight to Silicon Valley and other technological centers that – biologists are growing fast, as well.

KRISTOL: And higher skill doesn't necessarily – or higher ability, I guess, doesn't necessarily mean that they've already gotten their degrees or that they're necessarily even from the top strata of their own societies. I mean, you could imagine incredibly talented –

CONARD: I think you'd basically go get college graduates, which is the best sorting, the big test in a sense. Because I think otherwise you're trying to do it yourself. You're not going to be very effective at it. There's huge amounts of money being spent testing students.

KRISTOL: I was about to say – I mean, I'm just thinking out loud, but why not just give them SAT tests?

CONARD: They've all taken them.

KRISTOL: To a million Indians and take the top – you know.

CONARD: I think Indians –

KRISTOL: And take the top 50,000 into the U.S.

CONARD: Of course.

KRISTOL: Let them go to the state universities, distribute them around. And they'll graduate and they'll do great and they'll help – they'll be total contributors to our country, right?

CONARD: I think you'll find India's already done that thing.

KRISTOL: They thought of this, yeah.

CONARD: They've already done that for you. All you have to do is pick them off. All you have to do is offer them the job now.

KRISTOL: Or offer them either more student visas or more jobs.

CONARD: Somebody quoted a crazy number. I don't know if it's right. But it was something like in order to get one of these top skilled people, it costs about \$2 million. All the training you have to do for other people, the identification, etc., the technical training, etc. It costs like 2 million. So, every time you get one, it's like \$2 million into the pocket of America.

KRISTOL: Yeah.

CONARD: So, you let India do the work. Then when they're done doing all the work, you just go get them.

KRISTOL: I mean, I suppose I'm really just really thinking out loud here. I don't know if it's probably even somewhat politically incorrect to put it this way, but I suppose, you think of the history of immigration to America and in some way, we let – we didn't do anything much except be open to them and provide them genuine opportunity once they were here and some legal protection. They were discriminated against, obviously, in various ways, but not as much in other societies and so forth. And basically, they sorted themselves out because the ones who had – I mean this is oversimplifying, obviously.

CONARD: Yes, yes, yes.

KRISTOL: But the ones who had the get-up-and-go and who had the education to realize they could come here and so forth, whether it's from Ireland or Italy or Russia or whatever, got themselves here. And once they got themselves here, we were a good enough society, well set up enough, I suppose, to let them rise reasonably quickly. And most of them stayed and didn't go back. So, I guess the question is –

CONARD: Why is it different?

KRISTOL: Yeah.

CONARD: I think one thing's changed. Today, everybody is sorted by education. Back then, nobody was sorted by education. So, one thing we did discover back then was "Hey, if we start sorting people by education, we discover lots of really talented people with no education." And it turns out you give them education, they get a lot more productive.

KRISTOL: Or their kids get educated. They don't themselves.

CONARD: Either way.

KRISTOL: There are so many immigrant stories where the parents had to take a job that's in a sense below their natural level because that's what they could get when they came over at ages – which drew my grandparents. I'm sure were very bright, but the jobs they got were the jobs you could get if you were 24 years old and couldn't speak English well. But their kids then got well-educated and moved on and so forth.

CONARD: Right. But now the whole world is sorted by education. So, if you just dip into the random pool, it's different.

You don't have to anymore. You can say, "You know what? I'm just going to go dip wherever I want to dip." Why wouldn't you dip at the very top?

KRISTOL: I suppose that being an immigrant – and not to be simpleminded about this, but why not – I mean, in the old days took a kind of toughness and drive and, you know –

CONARD: It still does.

KRISTOL: Some ocean liner across the seas. Right, but to the degree that you're welcome in the welfare state and you could get on a plane and get here if you just threw the doors open, you'd have a lot of people showing up. You couldn't be as confident as maybe you could have been 100 or 150 years ago

that you're getting people who are going to end up contributing a lot, as opposed to enjoying the benefits of a wealthy society without contributing much.

CONDARD: I think it raises –

KRISTOL: You get a mix.

CONARD: But I think you're raising a great point, which is we weren't a welfare state. We do have a welfare state now.

KRISTOL: It was hard to get here. It was risky to get here. You had to really, you know –

CONARD: But even if you got here, you couldn't fall back on the safety net. So, I think you do probably have to be more – I think everybody would agree you have to be more careful today.

KRISTOL: You can't just sort of have a nice story of "We're throwing the gates open and the people will come in and they'll make it and everything will be great." It does need more of a conscious policy.

CONARD: I think even the Libertarian economists who are for throwing open the doors say, "We feel reluctant to throwing open the doors if you have a high welfare state." They're against the welfare state, and I'm not against the welfare state.

KRISTOL: Right. That's not going to go away soon.

CONARD: But, right, so I think they'd say, "Oh, get rid of that and then throw open the doors." You'd say, "No, let's just be more selective and recognize that we have it. We're going to live with it, and we're trying to finance it."

KRISTOL: So, you make that argument in this book, right? In the second book more.

CONARD: In this book.

KRISTOL: Yeah, the high end [immigration]. And what is the reaction? That it's so contrary to the conventional – Well, most of the folks of the anti-immigration sentiment has been on lower-wage immigrants, I suppose. So, it's not exactly contrary to that. But when you said about 10 minutes ago in this conversation, "I have one big solution to this and it's a massive increase –"

CONARD: I think the only solution.

KRISTOL: The only solution. You're being even more radical than I am. You know, a massive increase in high-end immigration. That's a little contrary to what one hears from both parties these days, I would say.

But what kind of reception have you gotten either from intelligent economists and business types or from political types?

CONARD: So, I'd say –

KRISTOL: How far is this from being like a plausible campaign platform for 2020 or 2024?

CONARD: So, I'm not sure I know. I know part of the answer.

KRISTOL: Now we're guessing, obviously.

CONARD: I think among the high-skilled people, who generally are in my audience, they're very, very supportive and go, "Come on, that's common sense. Of course, that's what we need to do." They're partially voting for themselves in a sense.

I have talked to some of the Breitbart key leaders, who I think say, "Well, if you were to limit it to the top 5 percent, we'd be supportive of it." But if you're talking about just flooding the economy with the 60th percentile, I think they get very – they're not for it. I think they don't view that as in their best interests. I get that.

I suspect some people view this as a kind of racist strategy. I mean, I personally don't care where they come from as long as they can pay more taxes than they cost in government services. I really don't care where they come from.

I think there are other people who do worry about cultures and, you know, what effect it has on your willingness to support capitalism and things like that. I'm not tuned into those arguments. I've heard them. I get it. I can sort of understand some of the logic of it. It's not – I mean, my sense is either look in Silicon Valley. It's all being driven by really capable immigrants who've been highly innovative and produced incredible companies and enormous value for our country. My sense is incentives sort of conquer all.

KRISTOL: And I suppose that absolute numbers – what are you talking about, a million? I mean, this is –

CONARD: Beginning with 5 million.

KRISTOL: Hypothetical. But so, the number of immigrants we now admit per year is –

CONARD: A million a year.

KRISTOL: A little over a million, I think.

CONARD: It's about 800,000 to about a million, something like that. It fluctuates a little.

KRISTOL: So are you doubling the number of – I mean, in your ideal world.

CONARD: Well, I would be happy to double, I think.

KRISTOL: With the right people in the second, in the delta. I mean, you could keep the current immigration alone.

CONARD: I think what you always learn in business is you can blow stuff up. You can take a good idea and blow everything up. You do have to kind of dial the dial carefully. We know how to absorb a million people a year. Well, why don't we start by just absorbing a million a year? Try to skew it towards high-skilled, and then we'll figure out – you know, right now I have an op-ed in the *Wall Street Journal* saying, "Don't dial it down from a million to 500." Let's worry about getting it up from a million after we get it to a million.

KRISTOL: I don't know, just thinking aloud. I mean, also it wouldn't be very hard to go from a million to 1.1 million. Who's going to notice?

CONARD: No, not at all.

KRISTOL: Would we have a clue if it was like 3 million, honestly? I mean, you're still – it's a 330 million population country. Even if you sort of segment it and say these are all between age 18 and 40, they're still coming into what 80 million – I'm making this up, whatever – you know, numbers of people, right. So



that's still a pretty small percentage. You think it would make a big difference, though? I mean, even like 100,000 or 200,000 is what I'm asking. How big does your number have to be to really pay off in the way you hope it does?

CONARD: I mean, I think we need 3 million in total. If we got 600,000 a year for five years and got it up to 3 million. I mean, I do worry about unintended consequences. You get a million 25-year-olds, you know.

KRISTOL: It has its other issues.

CONARD: I'm not worried about the 25-year-olds but you worry about marriage and this and that. What effect – do we have the services? Do we have the institutions?

KRISTOL: But this isn't an idea – this is what we're getting at. This is an idea that depends on hitting a certain number to be worthwhile in the first place. I mean, it works to some degree if you start off with – I'm totally making this up, obviously – you know, a delta, an increase of 50,000 the first year, 100,000 the second year, 150,000 the third year, 200,000 the fourth year. You know, the way an American public policy often gets made. That's fine, too. It's good.

CONARD: Sure. We have H1B visas, and so we do give out a fair number of – fairly active.

KRISTOL: Right, but I'm saying adding to that, that delta.

CONARD: Yeah, sure. I mean, I always think two things that business teaches you. The answer's not there [points in one direction]. It's there [points in opposite direction]. Let's go that direction. And then, let's not worry about where we get to over the hill there. Let's just start walking.

KRISTOL: Yeah, yeah.

CONARD: Because until we take the first step, we can't take the second. Until we take the second, we can't take the third.

KRISTOL: But I do think if one did it, that would be a little bit of proof of concept right? If you did it and then three years later it was 100,000 people a year. And three years later there's no increase in unemployment among – it's not depressing wages or lowering some people.

CONARD: We have proof of concept.

KRISTOL: You think we already have that?

CONARD: Oh, you look at Silicon Valley.

KRISTOL: Yeah, well, that's true.

CONARD: You look at the CEO's in Silicon Valley. We have proof of concept. This works. It works way better than you might imagine it works.

KRISTOL: And it's replicable in the sense that it didn't just work in certain circumstances that you're now going to change by vastly increasing the numbers.

CONARD: It's hard to know till you do it.

KRISTOL: That would be the argument, I suppose.

CONARD: I think we're Skyping a lot of people in from other places and they're getting the benefit of –

KRISTOL: Well, that seems to be a very convincing argument, an argument that would appeal to middle-class and working-class Americans. That, look, right now jobs that you would like and you'd like your kid to have are going abroad because we're not letting the people who create those jobs come in.

I think Romney always got pummeled with "job creators and job takers," and I guess he picked that up from Nick Eberstadt a little bit at AEI and it was all sort of distorted in the media. And I myself thought it's a political matter. You don't really want to distinguish Americans into these categories.

But I suppose it's more – people often have the common sense – you see this often in interviews with Americans of all strata. They're not idiots. I mean, they understand that if someone invents something much better and it produces – it does produce jobs. It's not ridiculous to say that it's in middle-class Americans' interest to have some extremely successful people inventing new things or creating new companies, right? I don't think that's that hard a sell.

CONARD: I wouldn't think. And I would think this. I think we need to do this. It's a hard sell, but the way it works is first, you persuade the academics, who then persuade people in the media, who ultimately persuade people. And so, it cascades down, which is let's pencil out –

And the CBO does this, by the way – the next 30 years as Baby Boomers retire. They're not going to take no for an answer. We can pretend we're going to dial them down, but they are going to fight. They are going to do major damage to America.

KRISTOL: So, our Medicare is going to cost a lot of money.

CONARD: So, why don't we pencil out what we need to do over the next 30 years to pay them fully or at least pay them as much as we possibly can. What other compromises have to be made in other parts of the economy in order to get there?

And I think what we will discover is high-skilled immigration is absolutely critical to making any 30-year plan work, and you would look at all these things.

And I think what we're heading for now – with this tax cut, for example. I love the corporate tax cut. I'm not so sold on the rest of the tax cuts. I think most people like the rest of the tax cuts and don't like the corporate tax cuts. Why do I like the corporate? Because I think you actually can grow the economy faster as a result and get more tax revenues.

But the net effect of this tax cut, which creates a deficit going forward into the future. When we pencil forward and look at the future, we are going to have – we are risking capitalism, free markets, the very thing that generated all of this prosperity because the numbers don't add up, no way, shape, or form.

And when they don't add up 20 years from now, it's going to be battle royale for the money. And the Baby Boomers aren't going to take no for an answer. Okay, I don't know what we're going to do in defense spending, but it's certainly going to get hammered as a result of Baby Boomers retiring. We're going to be looking at our bottom 40 percent and saying, "What kind of subsidies can we give?" They're going to be fighting to get their hands on it. The Baby Boomers are going to be determined to not get their hands on it. Okay, taxes on innovators are going up, up, up, up because that's where all the money is.

So you're going to have a major redistribution, high taxes. We have to see higher taxes in the future. Is this what we think what's going to be good for America that's going to be good for our children? Come on. It can't be. We can pretend all we want.

And there's all kinds of things happen that we can't anticipate. So, who knows? Maybe we'll discover nuclear fusion and none of this will matter. And artificial intelligence will turn into Skynet and destroy us all anyway, or global warming will kill us. I don't know what. It may be none of this. Who knows what's going to matter? I mean, what's going to happen.

But just looking at what we look for now, we do have a plan that could work that we refuse to implement.

KRISTOL: And I suppose, the sort of things people say that allow them to refuse to implement this plan – I'm just thinking aloud here, is: On the left, but also center, is "You just have to improve our education system."

You always say that: education, education. But maybe that can happen and maybe that should happen.

CONARD: A lot of that in here.

KRISTOL: But, as you say, that's a 30-year project and meanwhile, we do –

CONARD: And, oh, by the way, we've been trying for 30 years, and we have showed no improvement whatsoever.

KRISTOL: And these people exist in the real world, who can come in and not depend on us totally overhauling a massive system that's been difficult to overhaul. So that's kind of the left-center false kind of –

CONARD: That and taxation won't affect growth. Incentives don't really matter.

KRISTOL: Right.

CONARD: The government can spend the money more effectively than the private sector. It's all cronyism and negotiation anyway.

KRISTOL: Job training, yeah.

And then the conservative dream, I suppose, the way of avoiding this is, "Well, we just get entitlements under control." Sort of Paul Ryan and stuff, which I'm personally in favor of, if you can do it. But as you say, a) it probably doesn't do enough to actually reduce the burden the Baby Boomers are going to cause. And b) it turns out to be very difficult to do politically anyway.

So, you have Paul Ryan saying [get] entitlements under control. Random Democrats saying education, education, job training, government – find government programs that are going to increase productivity.

And neither side wants to actually say what you said.

CONARD: Yeah, I think I would have said – So, entitlements. Has there been an increase in entitlements since the recession started? There has. Did it go away as much as you would have expected it to go away? No. So is there some improvement to be done there? Yes. Are you going to have like mentally retarded people don't get any benefit from the government? Half the people can't work for real reasons. The other half are largely single mothers. We're going to give them no benefits whatsoever?

So, we're going to have maybe some improvement there. Is it going to be enough to solve the problem? No. Can we really have –

KRISTOL: Medicare.

CONARD: The Medicare we have, which is just endless spending with no control. You know, we oppose death panels, which are really trying to control usage in the final weeks of life. Come on. We've got to control usage in the final weeks of life, which is – this is what we can afford to do. We're going to do the best that we can do. If you want more than that, you're going to have to pay for it yourself. We're going to have to be thoughtful about the usage of –

KRISTOL: That's probably an even tougher sell than the immigrants.

CONARD: Sure, and we're going to have a hard time doing it. But these are steps in the right –

KRISTOL: But you say, you need the education solution and we need the liberal solution or the invest better and more wisely in what we're now doing, which is kind of the liberal, centrist solution. Or the conservative cutback on all these wasteful programs and save money. Neither really addresses the problem in a way that –

CONARD: You've just got to grow the pie bigger, and there's no –

KRISTOL: And that's the high-skilled immigration.

CONARD: And I think there's no serious economist who would believe that you could cut taxes enough to solve this problem without doing major damage. We cannot get it through organic growth.

So, I think you have to turn to other solutions if you can't get it through organic growth. And the sooner we turn to them, the better off we're going to be because it just gives you more time to solve the problem.

And I'll tell you, you say the answer is tax cuts for the wealthy, tax cuts for business, and what we're going to do is reduce entitlement spending for Social Security and Medicare. I think the blue-collar worker says, "So first you get trade, then you get growth in cities I can't afford. Now you want to balance it on the back of my Social Security and Medicare." They're not going to vote for us.

KRISTOL: Welcome to the future of Donald Trump Republicans and Bernie Sanders Democrats.

CONARD: Mm-hmm, joined together against everybody else.

KRISTOL: Yeah, and against economic growth, ultimately.

CONARD: So, I think some compromises are needed if we want to –

KRISTOL: But that's so interesting. Okay, well, good, so people watching this and reading your books will sign on. Everyone will be onboard by 2020 – enough people will be onboard by 2020 and we'll get ourselves out of this unproductive debate, I've got to say, that we're having now in our politics, right? I mean, we're really not diagnosing the problem.

But, look, this has been a terrific conversation. I've learned a ton, and we'll have to continue it because there's so much more to say. But thank you for taking the time and for diagnosing the problem and actually proposing a big solution. So, that's rare.

CONARD: Thanks for listening. Thanks for taking the time to listen to my point of view.

KRISTOL: Thanks, Ed Conard. And thank you for joining us on CONVERSATIONS.

[END]