

CONVERSATIONS

WITH BILL KRISTOL

Conversations with Bill Kristol

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I: Against Economic Pessimism (0:15 – 30:01)

KRISTOL: Hi, I'm Bill Kristol. Welcome to CONVERSATIONS. I'm very pleased to be joined today Michael Strain, the Director of Economic Policies at the American Enterprise Institute. An excellent columnist for *Bloomberg Weekly*, right?

STRAIN: Yes.

KRISTOL: *Bloomberg View*, is that what it's called?

STRAIN: *Bloomberg Opinion* now.

KRISTOL: *Bloomberg Opinion*. I can't keep track. People should look that up. Very rare to have an economist who can write well. You have to pretend not to accept that, to accept this praise, because now you'll alienate all your colleagues when they see you nodding along. [Laughter]. Very good columns addressing current policy problems.

And what I want to talk to you about today is how should we think about ourselves economically? I mean, I spoke to some college students this morning – we're speaking in what, January of 2019 – and I was just amazed. These were college students mostly from pretty good colleges, spending two weeks in Washington, and they were so pessimistic, both about the future, and the present actually, and the recent past. So every question was kind of a, "Well, of course, the Republicans are going for Trump and the Democrats are going for someone like Sanders, because the mix of– let's call them conventional centrist – establishment policies have failed. And we actually had a pretty decent discussion about that, but so what's the truth? I mean –

STRAIN: Well, I think there's a – I'm not surprised that you heard that, there's a lot of negativism right now. And it's not wholly unwarranted, and we shouldn't just dismiss it. When I try to explain the moment we're in, I think there are really two factors at play.

There have been these long simmering, kind of slower burning changes in, not only the economy, but also in society, a kind of move away from middle income jobs where workers with a mid-level of skill

could build a good career, workers who hadn't been to college, but who had graduated high school or done some training, something like that in the manufacturing sector, in clerical work, things of that nature. Employment growth in those sorts of occupations has been on a downward trajectory for several decades.

This has been accompanied to a lesser extent, but still important by globalization and kind of the liberalization of international trade. We've seen – even predating those trends – we've seen a continuous decline in the share of men who are in their prime working years who are employed. We have seen some well-intentioned public policy aimed at working class and lower class Americans that has had, you know, some negative unintended consequences. Programs like disability insurance. And, you know, some kind of changes in the culture as well.

All these things every year they kind of get a little stronger, you don't really notice it while it's happening. But they've been happening for several decades. And those longer term, slower burning trends kind of collided with the Great Recession. And the Great Recession –

KRISTOL: The Great Recession being –

STRAIN: The financial crisis ten years ago and the very deep recession that accompanied it. The recession kind of exacerbated those trends. It accelerated some of them. And it really caused a shock to the system.

And I think we're still – And then, of course, it was followed by a recovery that was slow. It was a very steady recovery. We're still in that recovery. We haven't had a recession since then. But the recovery has been kind of "slow and steady wins the race."

And that had psychological effects on people, it had cultural effects on people. It affected our politics in obvious ways that we're living with now. It affected both political parties. And that's not that uncommon. There's actually been some research that looks at the effects of severe recessions following financial crises on populism, both far left populism and far right populism.

And the balance of the evidence suggests that if you experience, as a country you experience a really severe downturn like that that had a financial origin, that populism is given a new lease on life. And that that takes ten years or so to run its course. So I think we're living with those effects.

The good news is that I think this is temporary. I think that as we continue to see income growth, as we continue to see wages accelerate for workers, as we get more distance behind us from the Great Recession. You know, it may be that a shallow recession actually in some perverse sense helps psychologically, because we, you know, see that we can have a downturn and that it won't result in ten percent unemployment or something like that. I see some of this kind of, this fever pitch you know receding a little bit. But it could take a while.

KRISTOL: What about the effect of the recession itself? Or the fact of the recession, I guess I should say? I mean, doesn't that discredit all these economists who said this couldn't happen anymore, we know how to distribute risk so well, and moderate financial systems aren't like 1929 and all that?

STRAIN: Yes. It does to some extent. There was a somewhat prevalent view that the Fed had been able to kind of tame the business cycle, that we knew enough about how to manage monetary policy that we were going to have recessions, of course, but that the recessions weren't going to be severe. Macro economists referred to this period as the Great Moderation. And, you know, history came knocking again and we learned that we didn't quite have it under control to the extent that we thought we did.

KRISTOL: So there's some reason for these young people to be less bullish, less optimistic, less sort of cheerful, everything's getting better. On the other hand, don't you think it's been overdone? I mean, in the

real world American working class and middle class families have they really had no income growth over 40 years? You hear that a lot. They can't support their – they're more at risk than they used to be. Income inequity is way up. Social mobility is way down. We're just living in a less attractive country, a less effective economy for most people, I think is what is the view of the Trump voters and the Sanders voters and some others in between. And that's a lot of voters, right?

STRAIN: Yeah, I think that's right. I think that the sense you get is that, exactly as you said that incomes are flat, that there's no more mobility, that inequality is growing rapidly every year, and that these are driven by policy choices that elites in Washington and New York made and, you know, almost, you know, kind of selfishly to benefit themselves at the expense of millions of households.

I think that that negativism is wildly overblown when you look at it analytically. Take income inequality. It is –

KRISTOL: Let's just take living standards. I mean, are people living better than they used to?

STRAIN: Yes, people are living better than they used to. If you look at household income, you know, from say 1979 to the present, you see income growth for every kind of group of American households.

Income is a tricky thing to measure. If you care mostly about what people earn from working then you want to look at earnings. If you care about the total flow of financial resources into a household that they can use to spend or save, then you want to look at earnings plus other factors. It's also somewhat difficult to make these comparisons over time because consumer prices change so you have to control for inflation, because the structure of households change, so you have to figure out a way to kind of correct for that, just to make sure you're making an apples to apples comparison.

KRISTOL: The quality of goods change.

STRAIN: Quality of goods change as well. Absolutely. But the consensus view certainly is that households have experienced income growth, that incomes have grown by, you know, at least 30 percent let's say over that time period. And, of course, households at the top have seen significantly greater income growth than that.

So we can have a debate about how to measure income. We can have a debate about whether or not the growth that we've seen is adequate. We can have a debate about whether or not the fact that households at the top saw significantly faster income growth than households at the bottom, whether that's acceptable in some normative sense. But it's just analytically incorrect to argue that there are wide swaths of American households that haven't seen any income growth in four decades.

If you look at publications by, you know, kind of neutral referees, like the Congressional Budget Office, they're very clear that there's been more than zero income growth over that time period for American households.

KRISTOL: And globalization didn't destroy the working class and hollow out manufacturing and all that?

STRAIN: Yeah, globalization had mixed effects. I mean, I think this has been something that's been widely misunderstood. When America became more open to trade and particularly when other countries, including China became more open to trade themselves, the degree to which American manufacturers had to compete with imported goods increased.

It's also the case that the opportunities for American companies to export increased as well. So import competition created some losers, export opportunities created some winners. You want to kind of see what the net effect is.

It is the case that globalization and particularly trade with China resulted in some employment losses in manufacturing. But if you kind of look at it holistically, international trade has, if anything, been a net positive for labor demand in the United States.

And it's important I think, to place these effects in their proper magnitude. So let's say that, let's ignore the good effects from globalization, focus *only* on the bad effects of trade with China, you know, maybe two million jobs, three million jobs over the last two decades have been lost to trade with China.

Again, focusing *only* on the bad and not focusing on the jobs that were gained. That's 10, 20, 30 thousand jobs a month, something like that. Every month in the United States, four or five *million* people leave their employer. Every month, in the United States four or five *million* people are hired into a new job. There's enormous churn in the labor market. We have an extremely dynamic economy.

You pick up the newspaper every month and you see that 200,000 jobs were created. That's a *net* figure. That's when you take all the new employment relationships and you subtract the employment relationships that ended, you end up with that net figure. But under the hood millions of people are leaving jobs every month, millions of people are getting jobs every month.

So four million, five million people left their employer last month and 30,000 of those people left because of trade with China. It's an issue. But it's not nearly an issue of the magnitude that you would think from the public conversation.

KRISTOL: And I suppose it's benefited a lot of consumers and –

STRAIN: That's absolutely right. That's absolutely right. So there's some very good research that suggests that, you know, over that 20 year period, you know, that we lost a couple hundred thousand jobs on net because of trade with China and globalization. But that's one month, right, over a 20 year period. And even there, you know, I think kind of the best evidence suggests that if anything this has been good for American workers on the whole.

How has it been good? Export opportunities, like I said. It's also the case that it's allowed for the creation of global supply chains and that's created efficiencies that have been good for workers because firms are more profitable, they can hire more workers. They need more workers to do their work.

It's also allowed American companies to take advantage of economies of scale, because they can sell to global markets. That allows them to, you know, need more workers and hire more workers. It has lowered prices for American households. It's good to pay less for things. But in addition that means you have more money to spend on other things.

KRISTOL: Right.

STRAIN: That's been good for workers as well.

So there's been some bad, for sure. And some communities have been hurt by this. But the good dramatically outweighs the bad for the poor and for the working class. It's not the case that, you know, the winners are all the elites and the losers are the poor and the working class. The good for the poor and the working class has outweighed the harm.

And in addition the disrupting effects of globalization just pale in comparison to the disruptive effects of technological change.

KRISTOL: So let's talk about that, because "Everyone's going to be losing," – someone asked me that question this morning, a young person – "as I get older I've read somewhere that 40 percent of the jobs that exist now won't exist." Is that a problem? Is it a fact? Is it true? Is it speeding up?

STRAIN: I think it's hard to know, it's hard to predict the future. It's hard to predict the future. It's hard to really even understand the present.

There's a big debate right now about how prevalent the gig economy is and how much we should worry about that. And a few years ago there was extensive concern that over the next two decades nobody would be an employee anymore. It would be a gig worker. Now we have to redesign the safety net around those things.

And then we have some new data recently that suggests this is really less of a problem than we thought it was. So it's hard to know the present.

It's even harder to predict the future. But the effects of technological change have been real and they've been enormous. And they've caused significant disruption. If you want to know why the share of workers who are in the manufacturing sector has declined over time, the real reason is technological change. Manufacturing companies can produce a lot more output with a lot fewer workers.

KRISTOL: Which is good, right?

STRAIN: It's certainly good.

KRISTOL: Isn't that how you have economic growth?

STRAIN: It's how you have economic growth and it's something that you really can't stop. I mean, there have been some proposals to tax robots and tax companies that employ robots and things of that nature. But that's hard to justify on really any ground.

And this has been a fact of life for hundreds of years, since the Industrial Revolution. People do not lament the fact that it's no longer the case that half of all workers are working in agriculture. I do not hear a lot of people who want to ban washing machines, you know, because human beings no longer need to wash clothes by hand.

And that's not to make light of the disruption that it's caused. And it's not to, you know, make light of the public policy challenges that are created by technological change and automation. But it is to say that this is an impersonal macroeconomic global force. It's not a policy choice. It's a reality of the world that we live in. And rather than shouting at the rain, we need to figure out how to make umbrellas.

KRISTOL: And also make the rain – used as a metaphor I guess – help nourish crops, right? I mean, we want more automation, we certainly want more innovation, we want more economic growth. I mean, is the right criticism almost the opposite one? That we've done too much or too little to foster growth in innovation. Are you worried about that?

STRAIN: Yeah. Well, it's interesting. You have to pick your dystopia, right?

KRISTOL: Right.

STRAIN: So one dystopia is we don't have any productivity growth, that's going to, you know, really destroy economic growth. It means we're not innovating and what are we going to do about the fact that –

KRISTOL: Business startups are down.

STRAIN: Business startups are down, etc., etc. So that's one. That's one dystopia.

The other dystopia is we have way too much innovation and it's going to put all the workers out of work and we aren't going to need any human workers anymore and what are we going to do with all these people, and we need a universal basic income, etc., etc.

Those two dystopias are obviously incompatible. But they both I think speak to, you know, this kind of general sense of anxiety that exists around these issues; and that sense of anxiety is not without foundation. But, you know, the job of leaders and the job of public policy is to channel that energy into productive means; and to do the kinds of things that need to be done to help people and to not make people afraid of the future.

KRISTOL: And how much in the real world are you worried about economic growth not being as strong as it should be and innovation slowing down? I mean, how much is the problem the opposite almost of what people think?

STRAIN: I'm definitely worried about that. We achieved – there are two ways to grow your economy. You can grow your economy by adding more workers, or you can grow your economy by making your workers more productive.

We achieved a lot of economic growth in the 1980s and 1990s certainly through advances in productivity, but also because women entered the workforce and previously women were participating in the workforce at much lower rates. There is not a massive third gender that's half the population out there that we can bring into the workforce. So the effects of demographics – again a reality that it's very hard to change – will be naturally suppressing the rate of economic growth, which is something to be concerned about.

We have had a lull in productivity growth that nobody really understands. But if it continues that's extremely problematic as well.

And so I think this is a real challenge. This is a challenge that's exacerbated by our current policy environment. If you can't increase the labor force participation rate among native born workers, then what you do is you allow immigrants into your country and you can achieve economic growth through bringing in more workers from abroad. That's obviously a politically charged subject at the moment.

So, yes, I think right now the problem is not that we have too much growth and we need to think about things that are more important than growth, that are being neglected by an excessive focus on growth. I think the problem we have, if anything, is that productivity is growing too slowly and we're entering into a period of naturally lower GDP growth.

KRISTOL: Why do you think that is happening? I mean, it feels to me like people aren't being encouraged to innovate the way they once were.

STRAIN: Yeah.

KRISTOL: But I don't know quite what that means in terms of practical policies.

STRAIN: I think it's hard to know. I think the most persuasive explanation that I've seen that I'm not totally bought into, but if I had to bet, if I had to pick one, it would be that we're in kind of a natural lag right now. So, you know, we've had a real explosion. If you kind of walk around in your daily life and – How did I get here to the studio today? I walked out the front door of my office building and took out my phone and put in the Google map address and then let my GPS tell me when to turn right and when to turn left.

And you know we can, you know our son face timed with his grandmother, you know, and all this stuff. So our daily life has all these interesting new technological applications. But then we look at the productivity statistics and we see that it's not increasing. So how to reconcile that?

I think that it takes a while for businesses to figure out how to use new technology. So the technology has to be invented and initial applications for that technology have to be found. And then businesses have to bring it into wide use. You can see this in hospitals, right? So for a long time you go to the doctor's office and they'd have a big stack of paper and a clipboard and they'd always complain about the paper and then you'd go – but today you go into the doctor's office, they have a big stack of paper and a clipboard and an iPad.

KRISTOL: Right.

STRAIN: And they complain about the paper still. Well, at some point the stack of paper is going to go away. And that's when you're going to see the productivity gain from the technology. I think that analogy applies more broadly than just hospitals.

So I think that at some point in the relatively near future a lot of this technology is going to find commercial applications. We'll see an increase in productivity growth. But that's a guess. And that could be too optimistic.

KRISTOL: And then different public policies could either encourage or discourage, I suppose, technological forward movement in innovation.

STRAIN: Absolutely. Absolutely. That's absolutely right.

KRISTOL: It is striking that when I came to Washington – it sounds so simple-minded now almost – but certainly for the Republican side, and to some degree the Democratic side, it was all about growth, growth, growth, a rising tide lifts all boats. Let's not micro-manage things, a certain kind of simple minded version of Hayekianism you might say, and of just, you know, let's get incentives in place and it will turn out alright.

And there was a reaction against that, and some of that was a legitimate reaction that that was a little too simple I suppose. But don't you think the reaction has just gone much too far, and in fact it would be sort of healthy to get back to a little bit of can we just have faster growth, please, and let the rising tide lift the boats and not agonize about this boat here in northern Ohio was going up a little less than the boat in Texas and it's shrinking a little bit because people are moving? I mean those things aren't bad, right? I mean, they're inevitable anyway in a free country and a free economy.

STRAIN: Yeah, I think that's right. I mean, I've been surprised by some kind of emerging bipartisan consensus.

There seems to be this emerging bipartisan consensus that the American Dream is on life support. There's this emerging bipartisan consensus that we've really gone too far with globalization and that we need to scale back globalization. There's this emerging bipartisan consensus that economic growth is overblown, and we need to figure out all these spending programs to help people in ways that economic growth won't.

And that has been surprising. It has been surprising to see just how much salience – I mean, I recently read Elizabeth Warren's foreign policy campaign kickoff speech, where she talks about international trade and trade agreements and things of this nature. And there were sections of it where you would think her and President Trump were sharing a speech writer.

And, of course, you're starting to see a lot of the President's views and rhetoric kind of filter in to Senate Republicans and things of that nature. And so it has been, it's been surprising. And I think it's a challenge for the economy.

KRISTOL: And how much damage can that kind of stuff do?

STRAIN: I think it could do quite a bit of damage. I think it could do quite a bit of damage.

KRISTOL: You could take the attitude that we're a such a mess – and in a strong economy you could have a lot of idiotic, you know, hiccups and little obstacles, but that the economy's going to steamroll over them. And do you think that the obstacles could be more significant?

STRAIN: Yes, absolutely more significant. I mean, another area for growing bipartisan consensus is that deficits don't matter.

There are challenges we face with Social Security and Medicare. There are challenges we face with the kind of longer term spending trajectory, relative to the longer term revenue trajectory that need to be solved. Otherwise we will see slower economic growth, and we'll see reduced kind of private investment and that all accrues to all of our detriment.

Of course, there are even less likely, but worse scenarios where the bond market freaks out and we get thrown into a major recession or something like that. And, again, not zero chance, but much less likely.

And there are ways to address these problems so that those bad things don't happen. And, you know, in the past you can imagine some combination of spending cuts that will not kick in for ten years or something like that and tax increases and you narrow the gap. But if both parties agree that the deficit's not a problem that the debt's not a problem, and not only do they both agree but they're both growing more enthusiastic in their agreement, that poses real challenges. We did not join TPP, which –

KRISTOL: Trans Pacific –

STRAIN: Trans Pacific Partnership. Yeah, that's right. A trade agreement that the Obama Administration worked on for years and years and years and that they were kind of counting on Republicans to help carry over the finish line. And the Democratic nominee for President, Mrs. Clinton and the Republican nominee for President, Donald Trump, both agreed we shouldn't do that.

That's not a major thing for the U.S. economy. A couple hundred billion dollars a year in GDP that we won't have anymore. But I think it tells us something. And you do enough stupid things and you end up inflicting real harm. There are important geo-strategic considerations as to why we would want to have a large footprint in Southeast Asia, you know, we cede that ground to China, that could come back to haunt us.

So these decisions matter. And we've been close to even more significant policy disruptions. Reports about the President wanting to just pull out of NAFTA, you know, we ended up with the USMCA, hasn't been submitted to Congress. I don't think that the Democrats in the House of Representatives are going to make it better than it currently is.

So there's a lot of opportunity for self-inflicted wounds. And again, you know, we go back to GDP. And it's easy to say, "Oh, okay, well, you know, instead of growing at 2.7 percent, we're going to grow at 2.4 percent." And that's, you know, doesn't really sound like a big difference. And it's not a big difference today. It's not a big difference tomorrow. But if we are growing three-tenths, four-tenths, half a point, a full point slower every year for 30 years then that really does add up to quite a bit of money. And it adds up to, you know, quite a bit less innovation. It adds up to – play the tape backwards, right?

KRISTOL: Right.

STRAIN: Go back 100 years and slow down GDP growth. Do we not have antibiotics? Do we not have air conditioning? Do we not have air travel? Maybe we still do have some of those things. Maybe we have them but they're of lower quality. Maybe we have, you know, one or two instead of four or five.

But it matters. And we need to take seriously our obligations to the next generation and to, you know, people who are, you know, currently in school and just starting out life and pay attention to the policy choices we're making.

KRISTOL: And there is a kind of complacency I think about growth and innovation as if it's just going to happen, regardless of what policies we pursue, which is not maybe quite correct.

STRAIN: Yeah.

II: Technological Change and Innovation (30:01– 59:56)

KRISTOL: What about social mobility? I often hear people worry about that in the U.S. That it seems to be declining. Is that your impression of what the data showed? Or is it clear what the reasons would be?

STRAIN: It's a hard thing to measure. I think that, you know, so the metric that I – there are a couple of different ways to think about economic mobility. One question you might ask is, say there are ten people in the country and you rank them by income. And you look again five years later and has the seventh highest income person, you know, climbed up to be the third highest income person? And, if not, then mobility is slowing.

That's a useful thing to know. I think it's ethically challenging because it requires a lot of downward mobility was well. If somebody's kind of climbing up that ladder then there are, necessarily people falling down that ladder as well, it's a zero sum game.

A less ethically challenging way to think about mobility is to look at whether or not kids grow up and earn more than their parents did. And there everybody, you could have 100 percent mobility, right? Everybody can end up doing better. And, you know, the best evidence, again very hard to measure, but the best evidence suggests that that has declined over the decades.

You know, there are some reasons for that. It was a lot easier for the people who were kids during the Great Depression to outearn their parents 40 years later when they were living in 1980, obviously. So we'd expect some sort of natural decline.

But here again I think, I think this is another example of how the negativism is really painting a qualitatively incorrect picture. If you look at adults who are in their 40s today, and you look at the ones who were raised in low income households, 80 percent, 90 percent of those adults have higher incomes than their parents did.

If you look at adults today who 40 years ago were raised in working-class households, two-thirds of them have higher incomes than their parents did when they were kids.

This to me, I mean, it's always a challenge interpreting, you know, objective data and drawing conclusions from it, but this says to me that there's still quite a bit of upward mobility in American life and in American society, particularly when you focus on the people who were raised in the most vulnerable circumstances, in the lowest income circumstances.

Could there be more? Sure. I mean, it's a similar story with income growth. Are incomes growing? Yes. Are they growing fast enough? That can be debated. That could be debated. Is there upper mobility?

Yes. Particularly for the lowest income people in society. Should there be more? Should it be faster? That's a discussion we can have.

But the right discussion is how to improve. The right discussion is not the American Dream is dead, and incomes –

KRISTOL: And that upper mobility is happening despite the fact that, I guess it's true, that not being educated, or well educated, or not having post high school education, let's say, is more of a disadvantage than it used to be, relative to being educated, well educated. Is that correct?

STRAIN: Yes.

KRISTOL: The education gap has increased.

STRAIN: Yes, that's right. And it's increased, you know, due to two factors really. A lot of the technological change that we've been talking about, you know, in the 1980s and 1990s accrued to the benefit of higher educated, higher skilled worker. You know, think about in the old days if you were an architect, you had to have a big drafting table and you did all your stuff by hand.

And then all of a sudden computers come along and now you can have drafting software, or if you're an engineer or something like that your productivity increases dramatically. If you are a custodian, your productivity really hasn't changed. If you are a clerk, or if you are a bank teller, or if you are a worker on an assembly line, your productivity has actually decreased, because technology can do your job.

So for the engineer or the architect, technology helps them to do their jobs better. For the custodian, not really effected. For the clerk, bank teller, manufacturing worker technology actually can do the job for them. And, you know, those manufacturing workers and bank tellers were middle skilled, middle income workers. And so that's, you know, that's a big part of the story that we've seen.

One way to kind of push the wages of higher educated workers down is if more people become higher educated. And so there's this, the economist Claudia Golden and Larry Katz at Harvard, characterizes this as a race between education and technology. So technology comes along, it makes educated workers more productive, their firms want more of them because of that, their wages go up. Then more people go to school, now there are more educated workers, that pushes, that means that they are more plentiful, firms have to compete less hard for them, their wages go down.

And so we've seen both a slowdown of educational attainment and an increase in technological change that benefits the top relatively more than the bottom. And that's increased that gap relative to where it was several decades ago.

KRISTOL: Inequality, generally, is it higher than it used to be?

STRAIN: Inequality has increased significantly relative to where it was four decades ago. It's interesting, if you look at, say, the last ten years, when there's been really excessive attention paid to inequality in my view, you could comfortably argue that inequality growth has stagnated. That inequality hasn't really increased. You could even more comfortably argue that it has increased, but that the rate of increase has slowed significantly relative to where it used to be.

So even on inequality I think that there's just kind of excessive negativism, even if you think inequality is one of the top five problems facing the country, which I don't. I don't.

KRISTOL: Is that right, you don't think –

STRAIN: I mean, I think inequality is an issue to the extent that it stifles aspiration. You don't want a situation where young people kind of look around and look at society and say, you know, I can't make it to the top.

KRISTOL: It's rigged.

STRAIN: It's rigged.

KRISTOL: Or the system is such – whether it's rigged or not.

STRAIN: Or it's just so far away that I can't imagine that. To the extent that's happening, I think it's a problem. But apart from that, I don't think it's a big problem.

I think that the kind of absolute condition of lower income people is a major challenge and a major problem, something that requires a lot of attention. And so addressing the incomes and wages of the working class, addressing the incomes and wages of the poor I think is a first order of importance. That will reduce inequality. But reducing inequality is kind of a side effect and not the most important thing in my view.

KRISTOL: And how worried are you by, let's call it the Charles Murray/Bob Putnam "thesis" is maybe too strong, but description, account of our society, which has a successful upper middle class and an unsuccessful lower working class, I guess you'd say? Is that, I mean, it does paint a picture that's not deterministic, but still that looks like it's not going to get more successful. Does that turn out to be empirically quite correct? If you're born in, what's Charles' Fishtown or whatever–

STRAIN: Fishtown. Yeah.

KRISTOL: You're not getting out of Fishtown. Or your chances of exceeding your parents' standing is not very high and so forth. Do we have more data on that?

STRAIN: Yeah. I mean, I think that's a problem. It's a bigger problem in some communities than in other communities. Some of that is economics. Some of that is changes in American culture. Some of it is adverse consequences of well-intentioned but poorly designed public policy. And, you know, focusing on how to kind of get more people pulled up I think is important.

I think that it's important not to be too negative about the situation. It's not – I think that American society has evolved and changed dramatically over the decades. And this idea of kind of permanent ossification I think is a little overdone.

KRISTOL: Overdone.

STRAIN: Yeah.

KRISTOL: And generally do you think – I mean, if a Senator asked you, okay, what should I really focus on? I mean, would you say at the end of the day higher growth solves a lot of problems, let's just get growth up to where it could be gotten, which is presumably a little higher than it's been for the last several years?

Or would you say, no, growth as a macro thing is overrated, we need to help this kind of worker, or this kind of community, or much more targeted approaches that have gotten some favor recently in think tanks and public policy journals? I'm oversimplifying the choice, I will grant. But I'm just curious where you are in that sort of –

STRAIN: I think a rising tide does lift all boats. I think it doesn't lift them at the same rate. I think it doesn't lift them all immediately. But I think that it's important not to lose sight of that. If I were advising a policy maker, given the current climate, I think that would be pretty high on my list of pieces of advice to give, because I'd be worried he wouldn't be hearing that from –

KRISTOL: That's what strikes me. I mean, it seems to me you can make a case two ways. A, actually empirically, analytically the rising tide lifts boats. And that's a good thing. But, B, and this may be a little kind of intuitive, maybe I'm wrong, tell me if I am, that we actually know more about how to lift, how to raise the tide, or whatever the right way to say that is, lift the tide, in a funny way than to fix the individual boats.

I mean, it seems more daunting because of course you're saying increasing the whole growth rate of the whole economy. But in some way that's a fairly straight, in a certain way you could argue maybe a reasonably straightforward proposition and sensible tax and other kinds of policies and incentives and education –

STRAIN: Yeah, I think –

KRISTOL: Education policies. Whereas the notion that you're going to sort of, you know, reach in here and fix this one this way, and this one that way. It just strikes me as missing the kind of Hayekian truths about the limits of what we're going to be able to do.

STRAIN: Yeah, I think that's largely right. I mean, there's this sense out there that growth is exogenous, outside the system.

KRISTOL: Right.

STRAIN: Something that really – that just kind of happens. And bad policy won't slow it down, and good policy won't speed it up. We know how to grow the workforce through immigration. We know that there are policies out there that can pull more people into the workforce if we choose to use them. We know that workers with more skills are more productive and that will increase the growth rate. We know that if we want more research and development that we can subsidize that and that should lead to more innovation. There are things that we know.

And there is some low-hanging fruit that we're not achieving, you know: high skilled immigration. Something that there used to be a strong bipartisan consensus around, you know, it gets kind of tripped up with the politics of immigration; it seems to be a real casualty of that.

But I don't think there's much doubt that if we doubled the number of green cards for STEM graduates who want to come work here that that would have an impact on entrepreneurship, that that would have an impact on innovation, and that that would benefit economic growth of the overall economy.

It's important not to go too far in that direction, and you start talking about, you know, doubling the growth rate or things of that nature. But if you keep in mind that a few tenths of a percent point more GDP growth has significant effects over, you know, a two or three decade long period, then, you know, those sorts of policy changes start to look like they're a lot more impactful than if you're only focusing on next year or on the year after.

And it speaks of the confusion of the moment, because *that* sense coexists with this sense that globalization and automation are policy choices, are the results of policy choices that elites in Washington and New York have made – which is just analytically incorrect.

So on the one hand, you have this kind of sense out there that the elites in New York and Washington are conspiring to open the economy for their own benefit and to the detriment of millions of people. While

at the same time, you have this sense out there that there's really nothing we can do to speed things up. And I think it just reflects some of the confusion and anxiety in the current moment.

KRISTOL: I mean, I think psychologically those can go together in a funny way. And I think you see that in history, the kind of helplessness before external forces often gets translated into hostility to people who are really manipulating those forces.

STRAIN: Yes.

KRISTOL: Who are behind those forces. You know, it's this funny kind of one-two step. I agree both, neither is healthy.

STRAIN: Or correct.

KRISTOL: Yeah. Let's hope not. And I think that's what's so amazing to me. I mean, history shows it's not.

STRAIN: Yeah.

KRISTOL: It's not like we don't have quite a lot of data by now about how economies grow, how nations change, what policies work. And the current debate does seem to – you know, it operates in a sort of history free and evidence-free environment. It's as if no one's ever – like no one ever looked at India in 1970 and today. No one looked at how China did under policies before they liberalized. No one looked at socialism versus markets.

I'm not saying this doesn't go to the other extreme and becomes some kind of insane dogmatic "every tax cut works" and "we do so much better than Scandinavia." That may not be true. Maybe a medium sized welfare state is fine. But I mean at some basic level there's almost a forgetfulness, on left and right I would say on this.

STRAIN: I agree with that completely.

KRISTOL: I mean, is the trade issue really even a close call? The notion that the world is better off?

STRAIN: It's not a close call. Or the notion that the United States is better off.

KRISTOL: Right.

STRAIN: One of the raps on trade is that all the beneficiaries live in developing countries. And it's true that we've lifted a billion, two billion people out of miserable, dire poverty, where they were living on less than two dollars a day, and where they had an extremely short life expectancy. And that's a wonderful thing. So we shouldn't just brush that aside, I think, the way that some people seem to.

But, you know, even if you do set that aside and look only at the United States, it is not a close call that free trade has been better for America than closing off our economy to the rest of the world in 1979 or 1995 would have been. It's not a close call that free trade has [sic, hasn't] accrued to the betterment of the working class on the whole. It just isn't. It just isn't. It just isn't. And that needs to –

KRISTOL: And when you say that to younger people – you teach seminars at AEI and so forth –

STRAIN: They think I'm crazy.

KRISTOL: Yeah, why, what is that? I mean, that seems a little strange to me though. They're just bored, they take it for granted, or they – It sounds too much like just happy talk. I mean, what is that?

STRAIN: They read op-eds and listen to politicians. And it's not the view that you encounter most often when you enter the public debate. There's a desire, I think, to both explain the current moment that we've now been in for many years, several years. And there's a desire to, I think, create a policy agenda, among both Republicans and Democrats, a desire to create a policy agenda around this current political moment.

And, you know, I think both are understandable and may even be good that both political parties have people out there who are trying to build policy agendas, you know, around this populous moment. But, you know, there are things that are just analytically correct, and things that are analytically incorrect. And for people who are in the business of diagnosing what's happening in the economy and in society, you know, fidelity to analytical correctness is an important thing.

KRISTOL: Do you think within the economics profession there's been much change? Or is this more a matter of just disbelief in experts and –

STRAIN: There's been change in the economics profession. I mean, I think certainly what we talked about earlier, you know, the extent to which economists believe that the kind of code book on monetary policy had been cracked. I think that consensus is out the window. Economists are paying much more attention to the importance of the banking system and the real kind of plumbing of credit markets.

And that's a good thing, I think. I think that economists have come to a better understanding that, yes, trade creates winners and losers. And, yes, over time the economy will reallocate the winnings and the losses and you may see fewer jobs in this sector, but you'll see more jobs in this sector, and on the whole we really shouldn't expect trade to affect the overall level of employment. We shouldn't really expect trade to affect the unemployment rate. I think economists still think all those things are true.

But economists have I think changed their view, or many have, on the speed of that adjustment. That adjustment can take longer than –

KRISTOL: But do you think they're more timid? I mean, it just seems to me that they're not pushing back against the sort of consensus, the politically fashionable consensus on both sides, as much as I might have expected I guess I would say.

STRAIN: Yeah, I think that is true and interesting. And don't really know how to explain that. I mean, I think it is the case that economists have become kind of less interested in public intellectual roles and that economists have become less interested in policy advice as a whole over the last 30 years let's say.

And that could be part of a – I think that it's also the case, at least in my view, that a lot of people in Washington are less interested in –

KRISTOL: Well, that's the flipside.

STRAIN: The expertise.

KRISTOL: And if you say it's the establishment view, it kind of gets discredited.

STRAIN: Yeah.

KRISTOL: So it's like the foreign policy establishment tries to push back against foolish ideas that would undercut alliances and a structure that's served the world pretty well for 70 years. And people know that's just people who have been around for a while. And I guess the same is true in economics.

STRAIN: Yes.

KRISTOL: I'd say that the economists have been a less visible to me than the foreign policy establishment guys.

STRAIN: They have a little less spunk.

KRISTOL: Yes. No. Jim Mattis's resigning in protest and –

I want to ask one last, final sort of topic. I'd say in your writing you write more than I would think most economists do about moral questions, to some degree, or questions of character. And you focus quite a bit recently on, you've focused quite a bit recently on agency. And I don't know if that's a fancy word, but responsibility, and the degree to which the way which we're now conducting debates, especially about the working class, is actually both incorrect, but sort of bad, seems to deprive them of agency and the ability to shape their own future. Can you say a word about that?

STRAIN: Yeah, I've been concerned that a kind of politics and narrative of victimhood has really emerged in discussions of the working class. And that that has –

KRISTOL: And on the Right as well.

STRAIN: And on the Right for sure.

KRISTOL: My friend Charlie Sykes wrote a book *A Nation of Victims*, maybe 20 years ago, but it was an attack on the Left making everyone into a victim. "We on the Right don't do that. We understand that individuals should, you know, strive." But not so much now.

STRAIN: Well, that's right. And that's allowed for a narrative of grievance to develop. And I think it's been very surprising, particularly, to hear this from conservatives who, like you say, have long championed the importance of personal responsibility and the importance of individual liberty. I think it certainly is the case that many working class communities and that many members of the working class have been adversely affected by economic dynamism, by the changes we've seen in the economy, by the Great Recession, but also by the advance of automation and technological change, and to some extent trade and things we've discussed.

And, you know, of course it's the case that people live their lives in a broader social context and in a broader economic context. I also think that many members of the working class have been adversely affected by some of the cultural change that we've seen over the decades. I think many have been adversely affected by well-intentioned but poorly designed public policy.

So people's lives happen in a context. At the same time, we call them the working class for a reason, you know, three-quarters of them have jobs. They are by definition not poor, you know, they're members of the income group that's above the poverty line. They are not the least educated members of society. And I believe personally that personal responsibility is important and that sometimes people are in a bad circumstance or sometimes people are angry even if their circumstance isn't that bad, because of external forces, and sometimes it's because of bad choices.

And we need to be okay with that. And it's been surprising to see the extent to which there's been a retreat from that on the political right. It's not to say that bad things don't happen to people. Or that being angry is bad or whatever. But it is to say that on some basic level you have to make choices and you're responsible for the choices you make.

I mean, you don't want to be snarky about it, but a lot of conservatives were very comfortable with that type of diagnosis and type of rhetoric, talking about Black men who use drugs, talking about single moms who are African American who weren't working, back in the '80s and '90s. And, you know, now if it's

White men who are using drugs or White people who aren't employed, all of a sudden it's the economy and policy choices by the elites and these sorts of things.

Now, of course, attitudes about drugs have evolved over time. Of course, politics matters and if the people you're talking about are part of your political coalition you're less likely to criticize them. But I think it's been, on the whole, I think it's been kind of disappointing to see a retreat from the value of personal responsibility on the political right.

KRISTOL: And damaging, don't you think? To those people don't you think it's –

STRAIN: Sure.

KRISTOL: That's what I worry about. It's important that it be true that you can succeed in large part due to your own efforts. It's also important that you *believe* that to be true because if you don't believe it to be true, you won't help make it true.

STRAIN: Yeah, that's exactly right.

KRISTOL: If it really were hopeless of course there'd be no point saying, "well, you have a chance." But we have enough evidence around us, it seems to me –

STRAIN: I think that's right.

KRISTOL: – not to think that it's hopeless.

STRAIN: I think that's exactly right. And I think that's again where kind of being just analytically correct is important. It's not the case that some working class towns have fallen on hard times because of policy elites in Washington and New York. It's because technology improved, and there have been productivity advances, and factories don't need as many workers any more.

It's not the case that if you work hard and play by the rules that you can't better your situation. Maybe it requires moving to another town that's 100 miles away. Maybe it requires taking a job that pays 80 percent of the job that you lost two years ago. But you can do that. And people, as you say, public messaging matters and leadership matters and people need to hear that message because that will help them to actually move to that town that's 100 miles away.

It will help them to get the next job and to continue climbing. If all they hear is that the American Dream is dead, and that you're a victim of the elites and everything is hopeless, they'll be, you know, a little less likely to do the things that will give them a better life.

KRISTOL: And are you hopeful that they'll be hearing – How hopeful are you that our public discourse is going to change? Do you think we have to go through another few years –

STRAIN: I'm not very hopeful.

KRISTOL: Yeah, in either party so much.

STRAIN: Yeah. I mean, I think the likely nominee in the GOP in 2020 is President Trump and I don't think his message is going to change. And I think the Democratic Party is pretty dug in on the doom and gloom as well. And so I think we're in this for a little while. And it's been surprising to me the extent to which this has kind of filtered down.

I mean, I understand that the Democrats don't have a natural leader right now, and you know there will be a lot of them running for President. I would have expected Republican Senators to hold the line a little more on some of this stuff than they have.

KRISTOL: That's true on a lot of issues. No, you're right, I think the degree to which everyone seemed to find fatalism and pessimism attractive is maybe something for deeper students of psychology than either of us to explain.

This has been very interesting, Mike. We'll come back in a couple of, maybe a year or two and you'll explain what's happened.

STRAIN: Yes.

KRISTOL: You don't know what's going to happen. It's hard to even understand what is happening. It's a little easier to understand what has happened, right?

STRAIN: I think that's right.

KRISTOL: Not perfect. Anyway, you'll come and explain that, so Mike Strain, thank you so much for joining me today.

And thank you for joining us on CONVERSATIONS.

[END]