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Canadian public policy

# Straight Talk

March 2019

## *Straight Talk:* Tyler Cowen and Tony Keller

The global economy is facing a number of challenges, from slowing wage growth to a possible hard landing for China's economy. To shed light on current economic challenges, and what can be done about them, MLI is pleased to present this edition of its Straight Talk, which is based on a conversation between Holbert L. Harris Chair of Economics at George Mason University Tyler Cowen and *Globe and Mail* Editorial Page Editor Tony Keller. This conversation took place as part of the Nota Bene Dinner Speaker Series on January 22, 2019 in Toronto. MLI is proud to be a partner in this prestigious series.



**Tyler Cowen** is Holbert L. Harris Chair of Economics at George Mason University and serves as chairman and faculty director of the Mercatus Center at George Mason University. With colleague Alex Tabarrok, Cowen is coauthor of the

popular economics blog *Marginal Revolution* and cofounder of the online educational platform *Marginal Revolution University*. A dedicated writer and communicator of economic ideas, Cowen is the author of several bestselling books and is widely published in academic journals and the popular media.



**Tony Keller** is the Editorial Page Editor of *The Globe and Mail*. He joined the *Globe* in 1991 as an editorial writer; in a career of more than 25 years he has also served as editor of *The Financial Post Magazine*, managing editor of *Maclean's*, and a financial news anchor on BNN.

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**Tony Keller:** Since we called this talk the dangerous new economy, what are some things we should be worried about?

**Tyler Cowen:** The biggest danger in most western economies is simply slow wage growth. If you look at measured wage growth for the median American male it actually has not gone up in 50 – 50 not 15 – years. Some of that is a mismeasurement problem, but that it's even possible the number has not risen I find shocking. Canada is in a funny position. If you look at the most recent OECD (Organisation for Economic Co-operation and Development) report on wage stagnation Canada has had the most robust wage growth of any OECD nation which is something you all can feel good about.

But I think that has come under quite special circumstances. In part you are catching up to the United States because you have the same technologies but are more sensible in terms of governance. And in part you are selling things that China wanted to buy. And those gains are more or less at an end. So superior Canadian wage growth might be a thing of the past and the idea that we're just going to move into the future where wages don't go up anymore on average, that to me is by far the biggest economic problem.

**Tony Keller:** So why has that happened? What's changed in the last few decades?

**Tyler Cowen:** I think we're seeing the industrial revolution peter out, that's the fundamental cause. And then layered on top of that we're shooting ourselves in the foot. How we're doing it depends on the country. But here's the key problem. So you have the industrial revolution, you have fossil fuels, you have powerful machines, you have electrification, you have cars, you have powered boats, you have planes, you have radio and so on. We all know the story. Those are huge gains, unprecedented in human history.

But at some point, your car only gets so much better. So cars today, they're a bit safer, flat tires are rarer than in the past, maybe your sound system is better, but it's not like moving from a horse to a car. You're moving from a car to a better car. Airplanes they're not really even getting better anymore. So we're just seeing a slowing down of all these previous gains, we're eking out wins at the margin. The main dynamic sector you could call it computers, Internet, communications. So we can accelerate the transmission of information ever more quickly. For the people in this room, people in media, academia, finance, law, this is incredible. But for most North Americans, it's not that big a deal.

And living standards, especially in the United States, they just haven't risen at that fast a pace. That idea that you can sub in Facebook for network TV – maybe it's better but it's not revolutionizing your life. But the people who are obsessed with information, we think there's so much progress. And then we live in cities like Washington, Toronto, Los Angeles, Manhattan that have gotten much better so we think tend to think everything's great.

But for our countries as a whole, it's been a kind of disappointing performance where the US in relative terms of course has done worse than Canada.

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**Tony Keller: Give us a sense of why technology has slowed down.**

**Tyler Cowen:** I think with any big technological breakthrough you can only do so much with it. So fossil fuels, they changed the entire world, it was phenomenal but at the end of the day, you can have a plane, but a flying car, it's still too dangerous. We're waiting on the next big thing. Consider transportation; the big innovation now is the scooter. To me that's depressing. I mean, if they work for you, fine, but let's bring back the horse, let's bring back walking, I'm fine with that. The bicycle in the Netherlands or Denmark. But it's a sign of what progress has become. So many things are moving in retrograde because we don't actually want to fly to the moon anymore. Mars is not that interesting. And read science fiction from the '50s and '60s, it paints a picture of the world today that is Utopian and most of the world, again, other than computers, hasn't changed that much in a while.

The stuff of my life when I was a kid – I just turned 57, if you're wondering – it's sort of the tables, the sofas, the TV, the chairs, it's the same stuff, some of it's worse. The sofa is more comfortable, the car is safer but a stasis has set in.

**Tony Keller: So, as you said we're sort of mining the residue of the industrial revolution. How can we cause the next great leap forward to occur?**

**Tyler Cowen:** Well, I think the next big leap forward is coming, though I don't trust anyone who claims to predict when. But if you think of some confluence of artificial intelligence, the Internet, the Internet of things, integrated systems, taking software and using it not just to go on Twitter but to make real physical things more productive in some coordinated way, at some point I think another series of big breakthroughs will arrive. I don't think it's six months from now, I don't think it's 500 years from now. Probably within many (but not all) of our lifetimes – that would be my totally speculative guess.

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**Tony Keller: Is there anything we can do to juice up the timetable?**

**Tyler Cowen:** Well, the manifestation of this that seems to be most around the corner is self-driving cars, which really would make driving different. If you imagine everyone in them, there probably wouldn't be many more accidents; it would save in the United States 40,000 lives a year. Commutes would change, cities could be reorganized, you could sleep in the backseat, you could text your friend, watch TV, whatever. That would be a big deal.

But in the last two years, self-driving cars seem to be a little harder than we had thought. People used to talk about it being a big revolution five years away; now you hear people in Silicon Valley saying it's more like 20 years away. Again, it's not impossibly far away but there are a lot of last mile problems. Putting them on snow, for instance. The big self-driving cars experiment is coming first to Arizona, not to Ottawa, believe it or not because the cars don't handle snow. That problem is harder to fix than a lot of people had thought. The policeman waving you around the cone for the accident, how does the self-driving car read that? Well, it's actually a difficult problem still. I think we'll get there but the big revolution on the horizon now looks like 20 years away.

**Tony Keller: What about the effects of automation and IT on jobs and incomes? How do we manage that?**

**Tyler Cowen:** Well, that's the status quo, we're not going to stop it. Income inequality is up in most western or advanced countries, even in most emerging economies. Here's a way to think about it. The skills you needed to work in an automobile factory, I'm not saying it wasn't hard work but most able-bodied men could do it or even women had they been given the chance. The skills you need to work with information technology are cognitively more demanding. The stuff changes pretty quickly so the real skill you need now is the ability to retrain yourself. It's hard enough to learn things but it's something else to retrain yourself every six years.

Now how many people have that skill in contemporary North America. You can debate that percentage but I think it's below 50 percent. So the people who can work well with IT and retrain themselves – whatever percentage that is – I am very optimistic about their prospects for the next 20 to 30 years. And those who cannot I think they're going to see flat wages basically *ad infinitum*. And if their wages go up a bit it's always, "Hey, why don't we put this in Vietnam" or "What's so special about North American workers?" We're fine but the rest of the world has caught up with us. In terms of effort they're probably ahead of us, and education-wise, people are better educated all over. We're not so special anymore and we need to get used to that.

**Tony Keller: You referenced increasing inequality; what's the policy response or solution to that?**

**Tyler Cowen:** Well, solution is a tricky word. I wouldn't assume there's a solution. I think what we should do is try to improve education so as many people as possible are on the good side of the curve. But, in some ways, that is trivial – who's against improving education, right? I think the best third, say, of schools in the United States are quite good, maybe underrated in some ways, while our bottom half is quite bad. We need to shift that proportion. That's actually one political change I'm reasonably bullish on, it's a bipartisan issue, most parents want it.

And then just, you know, be in there for the slog but realize that you can have a life with stagnant wages and still be happier each year. We have more tolerant societies, there's a lot of fun free stuff out there. So I'm not a pessimist about human well-being but it's not going to be like the glory days where living standards doubled every generation for everyone. You know, that was so 1965.

**Tony Keller: But would we get back to living standards increasing substantially if we had this great technological leap forward?**

**Tyler Cowen:** I don't think we know but I wouldn't assume that's the case. Because some labourers will find their labour worth less because artificial intelligence will substitute for them. So, again, people who can retrain will more opportunity now than ever before and that's a lot of people, but it's also a lot of people it doesn't cover.

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**Tony Keller: I just want to be clear; is education an answer to the inequality for the society or is this an answer for the individual?**

**Tyler Cowen:** Just for the individual.

I don't see inequality going down unless you think the stock market's going to fall, that's a kind of automatic cure for inequality to some limited extent but it's not a fun cure. Look, when you have a global economy and you can sell iPhones to the whole world and not just people in North America, the rich people are going to be much richer. I don't see what can or even should change that. So measured inequality I don't really think ever is going to fall for a long time, short of destructive work.

**Tony Keller: What about those like Alexandria Ocasio-Cortez who want a 70 percent top marginal tax rate to fight inequality?**

**Tyler Cowen:** Well, if we take the United States, we are deeply in debt; at some point we will need to raise taxes and this will include mostly raising taxes on wealthier people. That money will go to pay off our debt, it won't go to helping poorer people. I wish it would but we are dug so deeply into this hole it's a myth to think that we can take care of our fiscal problem and have a lot left over to redistribute. I would just say we've made big mistakes. Seventy percent rate, what people are going to do is reclassify labour income into capital income. You go back to the time when wealthy Americans faced a so-called 70 percent rate, the average tax rate they actually paid in those years was about 32 percent, lower than it is now.

All tax systems contain outs and loopholes. You all probably know this better than I do. There's never really going to be a true 70 percent rate in a modern capitalist economy. You can publish the number but it's not really going to solve the problem. Ultimately, it's about skills and the people who are not doing as well. Yes, we should give them more cash aid and better education. But at some point who or what is going to pay them to have a better job is what's going to be the partial solution we hope we all find.

**Tony Keller: Among Canada, Europe and the United States, the US has the highest levels of inequality. Is that something that needs to be addressed for political stability?**

**Tyler Cowen:** I don't think we know yet. I know it's very fashionable in the newspapers for people to say if inequality goes up somehow democracy ends. The evidence from political science is quite mixed on this and you see a lot of countries – take Poland, it's been growing at 4 percent since the 1990s and created a robust middle class and became much freer and they have their own populism movement and they have their own political problems. So I don't think we really know what makes for political stability. It could be a problem, but when I look at envy, I think most envy is local people envying their in-laws, people they went to high school with, the colleague down the hall. They're not so pissed off at Bill Gates.

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I think that's different in parts of Europe, even parts of Asia, but the United States, it's like he lives in such a different world. When Trump ran for President he bragged about being a billionaire. The response of the Democrats was not, "You're a billionaire, you're evil," it was, "You're not a billionaire." And that says everything.

**Tony Keller: When you look at these three different models, the European model of somewhat higher taxes and somewhat more services, Canada somewhere in the middle, and the United States at the other end, which one do you prefer?**

**Tyler Cowen:** Well, I think of these countries as integrated units, most of all US and Canada. So I wouldn't even quite call Canada a high equality country. I know the numbers like you all do but in a sense Canada exports its inequality to the U.S. So if you want to start a big international brand of some kind or do a tech start-up and you're Canadian, you move to the US. Or, if you're William Shatner, you move to Hollywood and in that case do Star Trek and become quite wealthy. That's Canadian inequality. It hasn't gone away, it's just changed its zip code. So don't think Canada is so equal, like it is and it isn't.

But I think we have this wonderful kind of marriage between the two countries where we can be more reckless, in a way more stupid, less responsible place with fewer constraints on individual creativity, have way bigger social problems, and also be more innovative. And you can, as a result of those innovations, afford your social insurance and I think it's a very good bargain for both countries. And we in turn get a lot of the best of your talent, I thank you for that, I love Star Trek, Jim Carrey, many other examples.

And to ask whether the US should be more like Canada, or Canada be more like the US – I don't think it's the right question. It's how should the two fit together. We've evolved into a mostly happy marriage of convenience based on a lot of accidents but it works. And even if with you know who's living on Pennsylvania Avenue it still works. And I think it will continue to work for the rest of our lifetimes.

**Tony Keller: I want to go back to technological change for a moment. John Maynard Keynes had this idea a century ago that we'd have so much wealth that our big worry in the future would be too much leisure time. Why hasn't that come to pass?**

**Tyler Cowen:** The American wealthy are such a historical outlier. I don't know of any other society where the wealthiest people have chosen to work more and indeed much more. So if you look at these new companies that have an owner/manager like the famous tech companies, there's new evidence that if the founder/CEO dies those companies on average lose 85 percent of their value unless they're totally mature. And those people, the amount they work and the dedication with which they work, they are not becoming an idle aristocracy. And I don't completely know why but actually I'm kind of one of them. I

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don't run a big tech company, my company is like the company of me but I'm a workaholic. I more or less work till like 10:30 or 11:00 pm at night, and start at 7:00 am. I write every single day of my life. That's nutty, right.

You know, I have friends in rural Mexico and they're like a family of seven and they live on \$2,000 a year and they're not entirely unhappy. Like what am I doing, it's crazy. And maybe some of you are a bit like this. So it's funny that even though we ought to be able to introspect you must have worked hard to get to where you are, you tell me, why? Why do you do it?

**Tony Keller: I don't know either; that's a good question. Does economics have an answer?**

**Tyler Cowen:** No, of course not. Even questions right across home plate we don't understand that well. Economics is as much art as science.

**Tony Keller: Do you want to take a guess at why people do this?**

**Tyler Cowen:** Well, buying things is fun, funding charitable projects is highly rewarding. So if you're Bill Gates and you're running the Gates Foundation if only indirectly, that is its own reward. Having a project that you see through and a team of people you work with, like maybe those are the most fun things to do and to feel you're doing the world good. So I'm not saying every company just does the world good but at least most CEOs think or hope their companies are doing the world good. And maybe that's just the most fun thing. And, you know, you still could have a family life, you might be like an absentee parent to some extent but you can have the children – a lot of people seem willing to do that, at least enough people.

So, you work, you get a social network, you get validation; we see this with the furloughs of government employees in Washington. A lot of marriages are having problems because the spouses are together all day. It's like the old saying: for better or worse but please not for lunch. So maybe work is a little bit underrated.

**Tony Keller: Can you elaborate on that? What should governments do in that environment?**

**Tyler Cowen:** I always want to be country-specific and context-specific. In my country I think all the states should adopt the Medicaid expansion, which would be not the Canadian system but would offer a lot more health care protection. That is doable.

**Tony Keller: And Medicaid, just to be clear, means everybody who's low income has health insurance.**

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**Tyler Cowen:** Correct. And that's the major problem. I'm not saying there are no other problems in our health care system but that's the most pressing problem. The states that have done it in most cases have not regretted it. I think my government should spend much more on science and research and development, this is a benefit for the whole world. But if you think of America as providing public goods to the whole world, we don't want to take away risk, let other countries take away risk. Let Finland be the Finland of Finland and let the United States be more dynamic. And in essence you want the US to be advertising to immigrants, well yes we want talented professionals who will be fine dentists but we really want the shakers and movers, the people who will start the Googles, the people who will turn the world upside down and your country has to look and feel a certain way to put out that ad to the immigrants.

And I think of say Australia putting out great ads; we have awesome weather, we're nice to you and you can be a pretty high earning upper middle class professional. Canada's a bit more like that. The US doesn't really put out that ad. We're like come here take your chances. But to have one country like that where that country's pretty innovative I think it's the right way to do things.

So I don't want to take away all of the American-ness but I'm usually happy when other countries, you know, New Zealand, they have single payer, it works fine, they don't produce that much health care innovation. But do we miss it, no.

**Tony Keller: On the question of immigration policy, what would you want to see a better US immigration system look like?**

**Tyler Cowen:** If I had my way I would more than double current US quotas for immigrants. I fully understand that's not going to happen. I would consider experiments with city-specific visas, well you can come but you've got to go to North Dakota or you've got to go to West Virginia. I don't think we can enforce those deals but I would try it on a limited basis. I think half the people we take in under those rules would actually stay for five to 10 years where they are first sent and that would revitalize those parts of the country.

I think unskilled immigration is what frees up the time of more skilled Americans and immigrants. You need someone to help you out if you're a working woman; it helps a lot if you can have a nanny or have access to various forms of cheap labour. So I don't believe in open borders but I think we could do much more immigration than we're doing. I look at a country like Switzerland which people used to think was terribly closed and now it's like 23 percent are not born in Switzerland. And if you can manage political backlash – a huge if – it seems to me economically it can and does work.

So I say full steam ahead but be really careful, you don't want to end up with one of those leaders who gets in power by campaigning against your immigrants.

**Tony Keller: On the environment, there's a lot of political push back on carbon taxes, even here in Ontario and Canada. Our premier even thinks they'll cause a recession. What are your thoughts on the topic?**

“ I don't believe in open borders but I think we could do much more immigration than we're doing.”



**Tyler Cowen:** First I favour the idea but I don't see them as going anywhere. It's been around for a long time, it's one of these ideas all economists almost all like. Citizens hate it, citizens don't like to see their heating bills go up, the price of gasoline go up, they overreact. So I'm not sure carbon taxes have a future.

Canada to me is a funny case. It's not going to bring a recession here but of course it's going to cost you foregone consumption but you're a small country, you could do whatever. Perfect policy, but it's not going to make climate change go away; you're not going to put a dent in that problem. At current margins even the US could turn off everything, and it's not going to make a dent in the problem. Mostly it's about China, then India, then the rest of the emerging economies. We all need to come up with something cheap enough that even the poor countries want to use it. And there's a lot of rah-rah boosterism of solar, wind, you know, you're on the scooter, like some of this works. But a lot of it is overrated in terms of the ability to integrate it into an energy infrastructure for enough of the world to make this a green planet again.

And it's a really tough problem and I hope something like fusion works or, you know, we need some really big breakthroughs. And in areas like nuclear, hydro electric, a lot of the world's going backwards and those are pretty green. So, I don't know, I think we're going to find out how bad climate change is going to be. I worry how bad it will be, it's not a field of my expertise. But the consensus seems to be each year the projections get worse.

**Tony Keller: So your sense would be that it's going to take a technological leap to get us there?**

**Tyler Cowen:** That's right. Now, and the many small things will help, patches of solar, wind, electric cars, I'm all for that. But if you uncritically just think those can like zoom up to be 100 percent of the current energy supply, no it's not, that's not close to working. Unless you're a small country of a very particular sort, like Denmark. And even Denmark you look at the rate at which they tax cars, things like that are not going to happen in North America even if they should.

**Tony Keller: What about the idea of carbon taxes and give all the money back in rebates? Economists tend to love this idea.**

**Tyler Cowen:** I don't like it. You're lying to people, you're saying this isn't going to cost you anything but you send everyone back the same cheque. It's like inflation, no one actually has more resources at their disposal. If you make some real thing energy more expensive, someone's consumption has to go down, that's the truth. Maybe you can get a bit by lying to people, but as an economist, I don't do it and wouldn't like to have to lie about preferred policies. I think telling people the truth, like this is so serious we need to make you worse off now because it's so important. That might have a better long run chance than this, oh it'll be like even fun, like a carbon tax is fun, we're going to make it fun for you. People then think oh, it can't be that important.

“ We all need to come up with something cheap enough that even the poor countries want to use it.”

Did we make like World War II fun for people? No, sometimes you need to do the tough sales pitch and I suspect that's the case here.

**Tony Keller: Are you hopeful that we'll be able to negotiate the Chinese, the Indians and the others into doing something on climate change?**

**Tyler Cowen:** No, I'm convinced we won't. There is a chance we'll invent something so wonderful and cheap that they'll just do it. But they are totally selfish in this calculus, my country is totally selfish. Denmark is not, Canada, we'll see. You know, you've got to think in terms of countries being selfish and your plan had better be robust to that because they are.

**Tony Keller: So on that note, I want to ask you a question about economics very broadly and what economists know and what economists don't know. Can you talk a bit about the limits of knowledge in the field of economics?**

**Tyler Cowen:** When you ask us questions, I know we seem kind of weak and I apologize for that. The best argument for economics is to talk to the people who don't know anything and then we really shine. When you listen to us compared to them. A lot of it is just that economists can ask better questions, they can think less emotionally or more rigorously about costs and benefits. But if you're asking us to forecast, we're not good at that. We're good as some broad predictions, e.g., if you change taxes what will happen.

There's like a few policy ideas we have, like having congestion pricing for rush hour. London and Singapore have done it, it worked, we said it would work, we were right about that one. We have some things to show for it. We went to the US government and told them how to design better auctions, and the auctions got better. We're not hopeless, Wall Street pays us good money. I don't know if it's socially valuable but it works within the company.

But if you just think economists have the answers, that is wrong.

**Tony Keller: So why is that? Doctors have some answers, we think the dentist has some answers, why does the economist have such few answers but just more questions?**

**Tyler Cowen:** I think dentists are awesome. I go to the dentist a fair amount cause I've trouble with my teeth but I don't have trouble anymore. The dentist always has fixed me and it's pretty predictable. It's like fixing a car. A record of doctors is not that good, there's a number of papers written when doctors go on strike, mortality rates do not go up. So we'll have to see about them. But human beings are complex, and part of the problems of doctors is that the patients don't listen; it's not always the fault of the doctor,

“ Economists can ask better questions, they can think less emotionally or more rigorously about costs and benefits. But if you're asking us to forecast, we're not good at that.”

Economists cannot predict how complex systems interact with many moving parts. We rarely see big social changes in advance so we're limited but also it's a society based on division of labour. Put us in our place and let us have our say but realize you've got to listen to a lot of other perspectives too.

**Tony Keller: Is there any other field as complicated as, and hence as filled with unanswered questions as economics?**

**Tyler Cowen:** Well, I think in a way the most fundamental field is anthropology. Anthropology is about how do people perceive the world. So economics is great when you know how people perceive the world. Like put a tax on income, some people work less, we know people perceive the tax as a tax. But when my daughter was a teenager I said to her, "Well, if you wash the dishes, I'll pay you." And she didn't wash the dishes anymore. And I'm an economist, so I'm like this makes no sense. But then I thought about it. How does she perceive that deal, a), I'm controlling her and b) I'm going to give her money anyway. So, if she earns, I just give her less money.

When you're unsure how people perceive the terms, economic prediction gets bad. Anthropology is all about how do people perceive whatever's happening and that is extremely inexact. But when you study anthropology or try to do it, you learn how inexact is your knowledge of almost everything and I find that very potent, very useful. I sometimes say travel is the most fundamental form of knowledge and you're kind of like gee I took this trip, I didn't learn that much. I'm like, yeah, that's right, travel is the most fundamental form of knowledge, it's really hard to figure out a place. That you didn't learn that much from your trip ought to tell you something.

“ A lot of free trade is not defined very well. It's not about tariffs, it's about coordinated regulation.”

**Tony Keller: Why did you become an economist?**

**Tyler Cowen:** I was age 13 or 14, and I'd been playing chess and doing well but I realized there's no future in this, it's awful as a profession. No health insurance for one thing. And I started reading books and I realized I wanted to spend the rest of my life reading books, writing books and I would be like either a philosopher or an economist. And then I learned economists both make more money and almost all of us get jobs, which has never been true for philosophers. And that kind of settled it and here I am. And that was a long time ago so I've like been working at economics a long time.

**Tony Keller: And economists get to do philosophy too, so.**

**Tyler Cowen:** That's right.

**Tony Keller: Let me switch gears. How about a game of underrated or overrated?**

**Tyler Cowen:** Let me just say I have a podcast called Conversations with Tyler, it's online, transcript and

audio and it's me asking the questions.

**Tony Keller: Role reversal here. Free trade. Overrated or underrated?**

**Tyler Cowen:** Free trade is about properly rated. For small countries it's very, very good, for large countries it actually matters a bit less than many people think. So for large countries it may be slightly overrated. But there's not much gain to protectionism. But I would say we've entered an era where a lot of free trade is not defined very well. It's not about tariffs, it's about coordinated regulation, what do you need to do to have a securities offering in another country or get your drugs approved. And free trade just isn't that well defined anymore. So mostly properly rated in a few cases, slightly overrated but still the best way to do things whenever you can.

**Tony Keller: Information technology?**

**Tyler Cowen:** Information technology is overrated in the United States and especially in the State of California. It has not given America a high rate of productivity growth. It is wonderful for people like us who sit up late at night reading Wikipedia pages and giggling. That is not most of America. The big gains will come from integrating information technology with things in what is called meet space, physical stuff and I'd say we've been way overrating what it's done for us so far. We're probably underrating what it will do for us in the more distant future.

“ You know, the old saying China will always surprise us is maybe the most true sentence about China.”

**Tony Keller: The impact of taxes on economic dynamism?**

**Tyler Cowen:** It all depends on the tax. So if you have rates of taxation on labour income between say 25 percent and 45 percent, I don't think varying that rate very much makes a huge difference. I think as you hit 55 percent or higher, as has been the case in some European countries such as France, I think it often makes a considerable difference especially if people come out easily, re-label that as capital income. If you look at the corporate rate of income tax, the US rate was 35 percent, that was too high. All the sheltering of income in Ireland, Cayman Islands, that made a big difference. We lowered it to 21 percent, a mistake in my view, lower than it should be, we could have just gone with like 25 percent to 28 percent to have a rough parity with other rates of corporate tax. And lowering it more to 21 percent, are we going to get a lot more investment? My guess is probably not but we didn't need to lower it.

**Tony Keller: Schooling?**

**Tyler Cowen:** Schooling. Again, at what level? Getting an MBA is probably overrated and you see non-top MBA programs falling off the face of the earth. Having good K through 12 and picking up the right two or three mentors who inspire you to change your life trajectory in a way that will stay with you forever, believe it or not, that is still underrated. So I think we don't understand schooling very well. Much of it is wasteful. You put in so much wasted time, things you'll never remember. The main thing you're getting out of it is just like basic grounding, socialization and those two or three mentors who will change your life forever.

So kind of underrated actually, but not always at the post-graduate level.

**Tony Keller: China?**

**Tyler Cowen:** Both. You know, the old saying China will always surprise us is maybe the most true sentence about China. I think right now the Chinese economy will hit a hard landing because they can't just take on more debt and build more infrastructure in a useful way. But the one thing China has done remarkably well is mobilize and identify human capital and in this regard it's underrated. It's a far more meritocratic country than even the Chinese will admit. They think in terms of the evil corrupt princelings, all that's true but it's really striking to me that the top Chinese graduate students I meet in my daily life, so many of them are from out of the way places, from poor families, even from villages. And there's an exam system, they were smart, they did well, they got to chance to be something. And in that regard China has done such a phenomenal job I don't feel we totally appreciate that yet.

**Tony Keller: Donald Trump?**

**Tyler Cowen:** By whom. I mean, he's underrated or overrated. There's a very good chance Trump will matter less than we think. Just to be clear I will be happy when it's all over, whenever that is and I didn't want it. But he's not bringing fascism to the United States, he's not ending democracy. He has reshaped public debate, he's violated a bunch of norms, he's made US politics more like earlier 19th century US politics, which I don't like. But for the ordinary American, other than media, people don't notice that Trump is president. He has not, you know, sent molecules impinging on their actual lives for most people in the United States who do not live in a few particular areas or do dealings with the government.

So the impact of Trump by most people is overrated whether positive or negative. American court system, checks and balances, really have held up. The Mueller investigation will be completed. So I'd say impact overrated. I guess he's underrated in the sense like most educated people think it's some kind of disaster. I don't think it is that yet. He's wrecked a lot of trust in alliances, but I think a lot of that will be rebuilt. Again, most of it I don't like. I think it's nasty, I mean, beyond nasty what we've done to certain immigrants and other groups. But the US has a long history of being that way and what's frightening to me is how much like he is one of us and we need to get used to that a bit more.

**Tony Keller: Finally, happiness?**

**Tyler Cowen:** Happiness in my view is overrated. If you pursue happiness there's good evidence you will end up less happy. The way to be happy is to pursue a project and be one of these people who works a lot and has this potentially misguided delusion you're doing the world some good. And then in some indirect way you'll have a sense of satisfaction with your life. It's striking in the data, if you correlate

“Happiness in my view is overrated. If you pursue happiness there's good evidence you will end up less happy.”



how happy are people in moments with, are they overall satisfied with their lives, that correlation is not so strong, see the writings of Daniel Conman. And that to me suggests happiness is a wee bit overrated and highly individualized in North American societies.

**Tony Keller:** Now let's take a few questions from the audience.

**Question 1: Dr. Cowen, is the legalization of cannabis in Canada and parts of the United States underrated or overrated?**

**Tyler Cowen:** I don't know how it's going in Canada and of course, I know it's a new experiment, people mean different things by the word legalization. Here are my views. I think it's morally wrong to throw anyone in jail just for smoking pot or selling pot to someone else provided they're not an innocent minor. That said, I don't want Wal-Mart selling marijuana or marijuana advertised on national TV. So I would call it decriminalization or you could call it legalization with strong regulation.

But where it's a bit kept out of the public sphere but people who insist on doing it can get it and no one goes to jail for it, again, minors aside or adulterated pot aside. That to me is the best outcome. There's no good way actually to regulate most addictive substances, there's no magic bullet, we will never be happy with what we do. But that's my view. My sense is a lot of people think legalization of marijuana is some kind of panacea. As far as I can tell, there's a lot of evidence that it can be quite dangerous. It's not like your grandpa's pot, it's a lot more potent – see the recent Malcolm Gladwell article in the New Yorker. So I really don't like the stuff, I've never tried it, so in that sense I'm not well informed at all. I'm scared to try it. I don't even think people should drink alcohol frankly. Voluntarily they should abstain. So that's my view. Personally I would come down hard on these substances but I don't think you should send people to jail.

“ The forms of growth we're seeing are less egalitarian, less based in manufacturing.”

**Question 2: We tend to think a lot about automation in North American terms or European terms but I think there's some study that shows that 40 percent, 50 percent of jobs in the emerging economies are going to be affected much more by automation than we will. I was curious if you had any thoughts about what the impact will be socially, globally?**

**Tyler Cowen:** I have a whole paper on this – it's correct, the major impact of automation will be on low-wage societies. If most things are done by robots why invest in a low wage economy, the way say Japan was in 1964. So that kind of economic growth led by exports of manufactured goods is becoming much harder. The forms of growth we're seeing are less egalitarian, less based in manufacturing. That is reshaping the entire set of emerging economies all of which are basically de-industrializing, even China now. So there's robots in China and China's about as wealthy as Mexico in per capita terms. That is scary, it will affect them much more than us.

As an aside I would say whatever media report on the study X percent of jobs can be automated I read a bunch of those studies, the number is always made up. I'm not denying automation's a big thing, I wrote a book on it, it is a big thing. But whatever number you read, it's wrong, it's made up, it means nothing.

**Question 3: I have a question about social organization, I'm wondering whether you would have any comments about better forms of social organizations for countries like Canada or even Toronto?**

**Tyler Cowen:** Well, I don't know what you mean by social organization. It seems to me it's hard to improve on Canada. For one thing a lot of what happens you don't actually control; the US and/or the global economy dictate it. China is another constraint. The real risk for Canada moving forward is there will likely be a new cold war between the US and China which essentially will never end and Canada along with Germany and Singapore will be one of the country's most caught in the middle and you will suffer greatly from this and have no control over it. And it's already an issue, there's what, 13 Canadians detained in China, how many intentionally you can debate. But this will get much worse. The scope of Chinese spying and espionage is worse than most people think, it is underrated. And the trust will never be restored and Canada is one of the countries that has done best selling to China and this will now be fraught with difficulty for many decades.

So I don't know how to improve Canada much internally other than just common sense recommendations that, you know, we would all agree with. So you're pretty close to an optimum, that's your problem in a way. Like you used to be poorer than the US, then you caught up to us or maybe surpassed us by a bit. You don't have technologies that we don't, you're not going to be 27 percent richer so you're going to kind of rise with us, that's fine. Hard to make improvements.

**Question 4: You briefly touched upon free trade so more specifically is the Canada-EU Comprehensive Economic and Trade Agreement (CETA) overrated or underrated?**

**Tyler Cowen:** Probably overrated. Most free trade agreements are overrated, especially for the larger countries. What they really are is a way of certifying the lesser countries and it's not even the free trade. A lot of the lesser countries like pre-NAFTA Mexico had lowered most of its tariffs but the certification is of high value. You're telling the world it's okay to invest here, they are part of a framework that will provide stability.

So I would say the certification element is underrated. The free trade side of it is overrated. Though again, I'm all for it. The world's pretty close to free trade, the actual barriers as lawyers here know are in services and there free trade is hard to define. What does it mean to let a German lawyer practice freely in France if he or she doesn't really speak French or know much about French law. Is that free trade or is that just consumer protection – where do you draw the line? It's always going to be super foggy.

“ There's an increasing body of evidence showing a shrinking population is bad for your macro economy...It turns out it's true, so it's all the more reason to have a lot of immigrants.”

**Question 5: Birth rates have been declining in the west; they have declined already in China. Could you talk a little bit about that and the impact that we would expect to see both in China, which does not have a lot of immigration, and in the US that is seeking to limit immigration?**

**Tyler Cowen:** There are now claims that China's population is shrinking right now; this is uncertain but possibly true. There's an increasing body of evidence showing a shrinking population is bad for your macro economy. It's an old idea from Alvin Hansen. It turns out it's true, so it's all the more reason to have a lot of immigrants. The US and Canada can manage this, but China can't. It's harder for Japan. There's a lot of problems with living in China but one is simply that written Chinese is very hard to learn in a way that English is not. Same with written Japanese and that makes it much harder to try to move to Japan or China and do something fairly skilled because your ability to read and write is going to lag much more than it would in Canada or Australia. And I think that will be a large historical factor looking forward.

I think China can attract a lot more immigrants from Laos, from Cambodia, from the Stans, actually from Russia. They'll need to do so, but they're not well geared for that. The kinds of loyalty tests and social credit scores they're moving toward are a step in the opposite direction. China probably will do a very job on attracting immigrants, it will be a macro liability, you know, for decades into the future.

So in the US, total fertility is down. That to me ought to be viewed as a national crisis. We're becoming more secular for a long time, and the family size is shrinking. Latinos in particular have shrinking birth rates and we need to do something about that and reverse this wall talk and get more people in.

**Tony Keller:** On that note let's wrap it up. Tyler, thank you for speaking to us today.



True North in  
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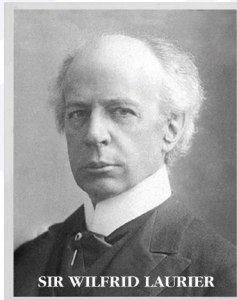
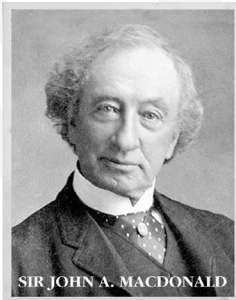
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