

Speaker 1:

Welcome to the Bill Walton Show, featuring conversations with leaders, entrepreneurs, artists, and thinkers. Fresh perspectives on money, culture, politics, and human flourishing. Interesting people, interesting things.

William Walton:

Welcome to the Bill Walton Show. America's policy and economic debate in the last several decades has been characterized by free market libertarian on the one hand and progressive big government liberals on the other, but the current pandemic and the crisis we're in I think has starkly illustrated limitations of both approaches. Our free market trade policy with China has left us dangerously dependent on it for critical medicines and medical supplies. For example, America can no longer even manufacture aspirin in its own country. But also looking at the lockdown we're experiencing from state, federal, local governments, we're also seeing what a blunt instrument government policy can be and is not detecting the nuances of how different this virus has affected different states in different places in different times.

William Walton:

Stepping into this breach with a very interesting solution is my good friend Oren Cass, who's launching the American Compass project in the next week. Oren's been a Senior Fellow at the Manhattan Institute. He was a Domestic Policy Director for Mitt Romney during the 2012 campaign and has worked as a consultant at Bain & Company for over a decade. Also joining me is Wells King, who is Research Director of American Compass and prior to joining American Compass, Wells also worked as a Management Consultant at McKinsey and he's been a Policy Advisor to Utah Senator, Mike Lee. Oren, let's talk about why you launched American Compass.

Oren Cass:

Well, thanks for having me Bill, it's great to see you again, even via computer.

William Walton:

I need a haircut, I need a haircut. It's been four months. I've been locked down.

Oren Cass:

I'll take this opportunity to credit my wife for giving me an extraordinary haircut in the backyard.

William Walton:

It looks great.

Oren Cass:

We were both surprised it worked, but allows me to reappear in semi-public I guess. And yeah, we're very excited to be launching American Compass. I think, as you described in your introduction, our political debates have been characterized by this dispute between on the one hand, free market libertarian perspectives and on the other, the kind of progressive big government view. And I think lost in all of that has been a more traditionally conservative conception of what we want the economy to deliver and what economic policy, and therefore the government, can actually do to help. And so we want to really bring that back to the discussion and hopefully shape the debate a little bit so that not only do people hear that, but hopefully some folks on both the left of center and the right of center, I

think especially within the right of center, realize there are other alternatives out there that might be more attractive and that might be able to build toward a consensus.

William Walton:

Well you're launching with three interesting essays. Wells, you wrote one of them. Wells, you gave us a bit of history about the government role in the economy back at the America's founding. Do you want to give us a quick summary of that?

Wells King:

Sure and thank you for inviting me on. The history of, I think, American political and economic thinking is a lot more nuance than conservatives tend to think about. We're very familiar of course with the founding philosophy of the Declaration, a belief in constitutional powers. But I don't think we give enough thought to the way that those constitutional powers were exercised within the American economy. One of the things that I was really struck by in the research that I did and that I tried to lay out in the essay, is the fact that many of America's greatest statesmen did see a very positive role for the government within the national economy. In particular, what Hamilton and Henry Clay developed, what ultimately became known as the American System, which is essentially a three pronged policy approach. A national bank that directed investment, throughout the economy, a massive plan for infrastructure spending, as well as protective tariffs for the manufacturing sector. And the goal of this was to develop-

William Walton:

It sounds like our current president.

Wells King:

In many ways, I do think there are a lot of parallels and I think a lot of folks have been able to highlight this. His instincts are, in many ways, those of a Hamilton or a Clay.

William Walton:

Oh boy. Interestingly, you both worked as management consultants at Bain and McKinsey, two of the premier management consulting firms. What did that bring to your current project?

Oren Cass:

Well, I suspect it's not a coincidence maybe that we got that perspective early on in our careers. People talk about going to Washington and seeing how the sausage is made in Congress. The reality is that we make just as much sausage in the private sector. And while I think, obviously firms [inaudible] a huge amount of value to the economy and certainly I'm a big fan of private sector firms as the leading actors in our economy, if you get some experience as a consultant, you also get a lot of perspective on how these decisions get made, what influences them. And you realize that while markets do a lot of good, there are also a lot of things that markets aren't going to take into account and aren't going to give us. And so I think that probably informs some of our thinking on both where we really value the market and want to make sure that it is in the lead, but also where we realized there need to be a role for other forces.

William Walton:

Well in one of your essays you mentioned the limitations [inaudible] ... I guess if I had to pick a stripe I'd be a libertarian. Hayek wrote *The Fatal Conceit* and also wrote extensively about the role of prices and allocating resources and the price mechanism was the sacrosanct way to do things. But you point out, I think it's interesting, and this is my experience as an investor, price tells you one thing, but you need a lot of context to know about what that price is telling you. I mean, is your supply chain backed up? Has the raw material been moved into another use or something like that. So it's more than just the market participants need. Thoughts?

Oren Cass:

Yeah, I think that's ... It's like that Julius Krein talks about in his essay. And the thing that really jumped out to me when I first read it, was his distinction between price as a signal for rationing and price as a signal for investing. And prices are a terrific way to ration goods, to help us understand there's only so much available and find out who's willing to pay the most and then in turn send a signal back, if people are paying a lot, that there may be an opportunity to make more. And so price is terrific for that. But as you mentioned in your experience as an investor, price as a signal for investment is helpful, but it's certainly not the whole story. There's a lot else you want to know, either as a individual investor, as a firm, or as a nation, about what investments need to get made and what investments should get made.

Oren Cass:

And so while everything Hayek talks about, about the power of the price system, about the existence of a knowledge problem. Those are all important points. Those are all things to keep in mind, but they don't answer all the questions. And so I think that gets back to this idea that there's more than that, that we have to look at.

William Walton:

Well, in launching this project, you've enlisted, I think about 15, 16 public policy experts in what you're calling *The Commons* and how do you plan to shape this debate between the libertarians, on the one hand, and the people proposing, I suppose, a progressive solutions, on the other?

Oren Cass:

Well *The Commons* is one manifestation of what I think are driving impetus for this whole project is, which is to recognize that there's a tremendous amount of momentum in public policy circles, especially on the right of center, among people who want to think and talk about and explore these questions in more depth. The reality though is that there's very little momentum at the institutional level. If you look across all of the major right of center institutions, I would say there's very little interest in talking about this, even though within each of the institutions there are people who want to. And so American Compass generally is very focused on finding those people, bringing them together, and creating some institutional support for their work. And then *The Commons* is one particularly public way to do that and create a space where a lot of the prominent folks thinking and writing about this can do so and interact with each other and so the rest of the world can see who's working on it and what they're talking about.

William Walton:

Who are some of the people you have in *The Commons*?

Oren Cass:

Oh gosh. I think as you said, we're up to close to 20 as well as those of us directly involved with American Compass. And it really runs the gamut [inaudible] folks, such as yourself, on the more libertarian side to folks who are kind of pushing very aggressively on thinking about economic policy on the right of center, like John Lettieri, who leads the Economic Innovation Group. Even folks on the left of center who have very heterodox views, like Matt Stoller, and then other folks who I would describe as kind of classically conservative and bring some really important social views to the economic policy debate. From Rusty Reno at First Things to Patrick Deneen at Notre Dame and lots more. But that gives you a sense of the breadth.

William Walton:

Well yeah, and you have Rob Atkinson, who's a founder of Information Technology, I've had on the show, who's terrific describing the role big business plays in innovation and creating good jobs. And he's a real paradigm breaker when it comes to talking about the significance and usefulness of big business. David Azerrad over at Hillsdale College is extremely interesting thinker. Who else? We have ... Yeah, you mentioned Matt Stoller and then you've got this guy, Walton, who does a radio or does a podcast who's going to weigh in on libertarian side of things and J.D. Vance, who gets at the human cost that some of the decisions where we're working for market [inaudible] a low cost may have had on the family and civil society in the country.

William Walton:

Wells, in your essay you talk about the difference, the debate, right at the beginning between was it Jefferson and Hamilton? And the Agrarian Tradition, on the one hand, and the New York Bank Tradition, on the other. You want to amplify how this argument's been going on for 250 years?

Wells King:

Yep, sure. So in many ways, I do think we kind of still see these fault lines in our political and policy debates today. I think one of the clearest places you see this, in fact, is antitrust. Where I think the Hamiltonian wing sees the real distinct advantages of scale, they see that big is, in fact, a real advantage. [inaudible] That trying to scale our organizations, in our manufacturing sector, in particular, achieve some distinct advantages for the nation, as a whole. Whereas more of the Jeffersonian wing, I do think that they see a particular value in the advantages of a smaller type of economy, right? The advantages of smaller producers and that, rather than trying to concentrate power, that they would prefer to diffuse the power and see [inaudible] producers. And so in many ways, I think it's a question not only about scale, but also a concentration of power. And Hamiltonians see distinct advantages to that and the Jeffersonians still do not.

William Walton:

Well that sounds like an argument we're still having today. Oren, there've been some pushback by my libertarian friends about this notion of having government interact with business to create, might be called, an industrial policy. And there're couple things that spring to mind. One, the fact that we have a big government now does not necessarily mean that the government's failed to implement interesting business strategies for America. The size of the government's really based on our entitlement programs and a lot of other things and it's not been aimed at any sort of planning or advancing any interests that I think you're talking about. Do you want to comment on that? About the argument against the sheer size of government mitigates against the fact that government could be useful.

Oren Cass:

Yeah, I think that's an important distinction between government in terms of the roles it plays and just government in terms of how much money it spends. One thing I emphasize often is that if you look across a lot of the policy proposals that, certainly I'm interested in, and that covers industrial policy, but also education and environmental regulation and organized labor and so forth, the net effect isn't necessarily more spending. If anything, I think we probably are spending too much in a lot of areas, but what we're really interested in is asking about what influence does government have on the actual conditions that our economy operates in. These are all areas where we have to make some choice. Government is inevitable. Whether you're talking about our education system or our system of organized labor or the interaction that the military has, or the kinds of rules we're going to have on things like environmental policy.

Oren Cass:

And so the question is, can we use those in a way that is going to produce the kinds of economic outcomes that we want? Can we create conditions so that all those market actors pursuing profit pursue profit in a way that also benefits society widely? And so that's definitely a different role for government policy than we typically think about today. But as Wells said, it's not new. It's actually much more the way we used to think about it. And I think it's a way that would probably generate a lot more benefits for the nation.

William Walton:

Well, Lincoln was in favor of what you all might call industrial policy, yet the federal government even, I guess, before the civil war was what? 3% of GDP as we could measure it then, now we're at 30% of GDP. I mean, it's a massively different scale. And one of the things we should talk about is my experience and others' experience in business is that a lot of people in government agencies do not like business. And there's a hostility to the private sector in and among people, actors in government. How do you get people working on the same team, rowing the boat the same direction?

Oren Cass:

Yeah, that's certainly a challenge and I think it's something that, as we think about policy changes we might make, there's almost a meta-policy question of what kinds of people do we have in government and what kinds of expertise do they have? We've spent the last 40 or 50 years essentially telling government to get out of the economy, that it has no business thinking about those questions at all, and instead it should just focus on transfer payments and welfare programs. And so unsurprisingly, that's now what the government excels at and what its staff focuses on. So I think there's certainly a question of who is in government and what they're doing.

Oren Cass:

And then I think there's a question of what goals we point them toward. We've really had a policy in recent decades that says, "Just generate growth and if that creates a lot of winners and losers, we'll take from some and give it to others." And if we instead say, "We actually would care about what kind of growth we get, and we would like to be supporting an economy that spreads prosperity widely," then that's a different role for what policymakers might be thinking about. And if I were a business leader, I'd certainly be very interested in talking with the policymakers about that. Because at the end of the day, for business leaders, they may ultimately have to focus on the bottom-line, but they're just responding

to the conditions they're placed in. And so a lot of times you talk to them, they'll say, "Yeah, sure. If the conditions were different, we would behave differently."

William Walton:

Well, one of the things that's notable about Trump's managing this health crisis, this virus, is the way he brings out the CEOs of the companies and they're impressive and they come out and talk about what they're doing and they're working together. Is this an example of what you'd see of an industrial policy, but not crisis oriented, but something aimed at coordinating with businesses longterm?

Oren Cass:

Well I think it's hard to draw too many conclusions from the middle of the crisis. One thing I try to emphasize is, I don't think we should draw lessons that because something is happening in this once in a lifetime situation, that's how it should always be. But I do think we can draw lessons from things it's calling our attention to that have been problems all along and will continue to be problems. And so as an example, this question of supply chains is a very important one. We are noticing it in a very acute way because there were suddenly a set of things that we really wanted and didn't have. But that's just a specific example of a very broad issue, which is that supply chains don't just instantly move from place to place. They represent years and decades of entrenched experience and relationships. And if you say that you don't care about those things, you don't care where the supply chains are, then someone else who cares is going to get them. And then you're going to turn around and realize actually you're not so happy about that.

Oren Cass:

And so one of the things that has driven me nuts in these debates, generally, is that for decades everybody said, "Oh, it doesn't matter who makes what, where, and it's irrational to put particular value on manufacturing." And then when you turn around and ask, "Well, why can't we make X here?" or, "Why can't we make Y here?" Their response is, "Ha, well don't be silly because all the supply chains are entrenched in Asia." And it just makes you want to kind of slam your forehead on the table. That's why these things mattered in the first place. And hopefully long after this crisis is over, one of the things that will be closer to the top of mind is that those things matter and that what markets do in pursuit of efficiency is not exactly aligned with what is in the interests of the national economy in the long run.

William Walton:

Well Wells, one of the things you write about is that, as I think about this ... In the United States, we pursued fairly radical free trade among the States, but we had very hefty tariffs on manufacturers outside the United States and that's the way the American economy grew for decade after decade after decade in the 1800s and on into the 1900s. You want to comment on that?

Wells King:

Yeah. And you know, in many ways the federal policy, historically, was a free home market within the United States, but a fairly protected global one. Where we actually saw that our competitors were interested in Europe, and particular in England, where they had developing economies, but we saw it as our national interest to develop our own economy, in particular, our manufacturing sector. And so we protected our industries as they were developing, but also saw that eventually, once we'd achieved a certain amount of industrialization, that it would be fair and in fact in our interests, to open up our markets and to pursue more of a reciprocal type of trade policy. And you in fact begin to see this at the

turn of the 20th, when you see, for instance, some of the longest time protectionists say a president ... Sorry. That some of the longest time protectionists, began to advocate for a liberalized trade approach, which they called reciprocal trade, where they found that nations in Europe, which achieved a similar degree of industrialization, that we would pursue a balanced approach to trade with them.

Oren Cass:

The free home market concept is a really interesting and important one. Senator Romney had an op-ed in the Washington Post recently that made this point vis-a-vis China as well, which is that if you open up your economy to free trade with another country that is not a market economy, that has wild distortions, and actively seeks to subvert and undermine your own economic goals, that doesn't advance the cause of the free market. You're actively lessening the freedom of your market if you allow China to participate in it. And so a principle that made so much sense in the U.S. context has always been where you have this large domestic market that has common laws and economic conditions and standards and so forth, obviously with some variation, then yes, of course it makes sense to have as free a market as possible within that realm. But it's a very different and more complex question to ask when and on what conditions do you want to combine that market with ones that are under completely different sovereignty?

William Walton:

Well, in the case of China and the case of medical supplies, China deliberately imposed a system where they would choose an industry, they would choose a sub-sector, and they would subsidize it and subsidize it to the point where they could drive the prices down far below what American manufacturer could charge. And then sure enough, the American manufacturers either move their operations to China, or someplace like that, and got out of business in the United States. And then when they had left the field, China raised their prices. And that's not a free market transaction in any sense and I think we're all waking up to that now. They have an industrial policy where they've chosen what, 17 strategic industries, I don't remember the exact number, and they're engaging in that with all of those industries. When we come back here to the United States, Oren, how do you respond to that? What do we do as policymakers?

Oren Cass:

Well, the point that the Wells just made about reciprocal trade is a great place to start. You know, one of the things that China does, beyond the subsidies, is it does not provide access to its market the way that it takes advantage of access to other markets. And so China, among other things, says to firms in a place like the U.S., "If you want to be able to sell to our billion plus consumers, you have to come and do the production over here." And so as a starting point, the principle of reciprocal trade that says, "Yes, trade, can be a wonderful thing, but it has to be balanced, it has to have the same rules on both sides," is, I think, an incredibly important starting place and something that we should be pursuing much more aggressively as we establish our trading relationships around the world.

Oren Cass:

And then I think we need to have a two part approach. One is to try to discourage the kinds of really bad behaviors you see in places like China and you do some of that from trade directly, but you can also use other levers. For instance, you can say, "We're going to restrict access to our higher education system to Chinese nationals until China shows it can be a responsible member of the international community." I

think that's something that would focus their mind a great deal. And then secondly, domestically, there's a lot more that we can do to make America a more attractive place to make things.

Oren Cass:

And some of that's in our education system and making sure that we are investing in both engineers and technicians and people throughout a supply chain who actually excel at making things besides social media ad campaigns. And some of that is in our organized labor system. We have a very dysfunctional organized labor system that looks nothing like systems in places like Northern Europe or Japan that have, I would say, better industrial sectors. We can do that with how we approach regulation. We can do that with how we tax or support an industry. We can do that with how we support and fund and invest in infrastructure and research directly.

Oren Cass:

So all of those things are things that you've heard people talk about in the past but I would say should be the focus. That this is what economic policy is all about, is how do you use public policy to get private actors within the economy, investing in the kinds of activities that are going to be most important to the nation's prosperity.

William Walton:

Well, as I said at the outset, you have an ambitious project that you're launching. Some would say audacious. I'm reading from your launch document and we've covered sort of specific things about trade, but it's much wider agenda. Establishing new non-college priorities for the education system, we've talked about industrial policy, creating a modern system of organized labor, constraining cross-border flows of goods and people and capital, regulating Big Tech and financial speculation, and reforming the welfare state to promote work and family formation.

William Walton:

My first question is a process question. These are all interesting ideas that you raised. Where are people going to go to find where you're developing those ideas? Are you working through a website or you've got an office now in D.C., I see. But how do we find you to learn more about this project?

Oren Cass:

Yeah, the launch that we're undertaking right now will be focused on the website that we'll roll out, which will feature a bunch of stuff. It'll feature The Commons, the blog we just talked about with a lot of contributing writers. It'll feature an In-Focus section where we will regularly put out a new series on issues that we think are important. So what we've been talking about today is that first series on thinking broadly about economic policy, going back to the tradition of the American system, and thinking in terms of that tradition, in terms of theory. And then in terms of practicing policy, how should economic policy look different than it does today?

Oren Cass:

But we will focus on lots of different subjects, a lot of the ones you just mentioned and bring forward new content and new debates on them. And then we'll also have projects that we run. We will identify areas where we think particular research or activism could be particularly constructive and try to make sure that we inject that into the debate as well.



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William Walton:

So repeat again your website is ... Where can we find you?

Oren Cass:

It's [americancompass.org](http://americancompass.org).

William Walton:

[Americancompass.org](http://Americancompass.org). And I assume you've got the Facebook group already being set up. I mean, we got to get the word out, Oren.

Oren Cass:

Unfortunately, I'm not an especially proficient Facebook user, nor is anyone in-

William Walton:

Okay, well Wells is younger, I suppose you're going to take on the Facebook side of this, Wells?

Wells King:

It sounds as though I may have to, I may have to, yeah.

William Walton:

We just gave you a [inaudible] promotion right here.

Oren Cass:

Yeah. I asked Wells to lead our TikTok initiative. But no, on social media we also ... I think Twitter is a great way to engage in some of these discussions and also call attention to important content and so we are @AmerCompass.

William Walton:

Normally, I'd like this to last about 30 minutes, but there's just one question. You've got so many interesting ideas in here and I like to dig in, we can't do it all in this time. You talked about regulating Big Tech, what do you mean by that?

Oren Cass:

Well, I think it can mean a few different things when we get down to nuts and bolts. I think the starting point is to recognize that technology is a force in our society and our economy has gone through an incredible evolution over the past couple of decades as the internet and networks generally have come to play such a central role. And our approach to regulation just hasn't caught up with that, in part because it has happened during a period where the dogma was that regulation's bad. If you look back through history when we've had major technological revolutions like this, we've always had an initial kind of unregulated experimental period, whether that's with the car or with electricity, but then we also got to the point where we said, "Okay, we need some rules for this."

Oren Cass:

I think there was a point where it was suggested that the system of roads didn't need rules of the roads, everyone would kind of figure it out as they went along. And then at some point we realized actually we probably do need some rules of the road. And likewise with electricity, we realized these are going to be big utilities, they need to be regulated, we need to figure out how to make sure electrification occurs nationwide. And so while I think there's a lot of debate to be had about how to regulate and what the right approach is, I think we have to move past the idea that there is no need for regulation or the best outcome would be if we leave it entirely unregulated. Because it is increasingly affecting society and the economy in both positive and negative ways. There are lots of very positive ways it does, but as we've been discussing throughout, there are a lot of things the market just doesn't care about and doesn't consider.

Oren Cass:

And so if we as a nation care about and want to consider those things, we are going to have to impose those views on a market that otherwise would disregard them.

William Walton:

Well I'll be interested in weighing in as a member of The Commons because when you say this, my first instinct, well I want to regulate the regulators.

Oren Cass:

One thing that's interesting about that, what the model of regulation looks like, should be [inaudible] different. I mean in those kind of total changes that I was describing, there wasn't some agency out there that just needed to write some more rules. We had to rethink, "Well, what would it even mean to regulate this kind of thing?" And so I think we need to be creative about it, but I don't think conservatives should be the one saying, "We don't need speed limits. We don't need people to agree that red means stop and green means go. It'll work out if we just pave the roads and leave it there."

William Walton:

Well, I think this is going to be an interesting and important project. I'm glad you're launching an American Compass. Oren Cass and Wells King, thanks for being here. You're bringing a different take to the public policy debate and I think that maybe some useful things will come out of it and I'm wishing you success and looking forward to being part of this. I'll see you back here to dig into some of these other topics. Oren, thank you.

Oren Cass:

Thank you. Love to come back.

William Walton:

Wells.

Oren Cass:

Thank you, Bill.

William Walton:

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Speaker 1:

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