

Ralph Schlosstein on Culture and Capitalism



Evercore Wealth Management clients in Palm Beach joined Evercore President and CEO Ralph Schlosstein for an evening at the newly renovated Norton Museum on March 4. Ralph was interviewed by Jeff Maurer, CEO of Evercore Wealth Management and Evercore Trust Company, N.A., on the intersection of culture and capitalism in the United States.





Editor's note: Ralph Schlosstein joined Evercore in 2009 to help grow the firm into the leading global independent investment bank. He previously co-founded BlackRock, the world's largest asset manager, and served as the firm's president for almost 20 years. He earlier worked for the federal government, advising President Carter on urban policy, economic development and housing issues, and as an economist for the Congressional Joint Economic Committee. Ralph is a trustee of New Visions for Public Education, a trustee of the Lincoln Center for the Performing Arts, and a member of The Council on Foreign Relations.

Jeff: *Ralph, you have lived the American Dream, as the son of immigrants, working since you were nine years old and through college, on to co-founding BlackRock and becoming the CEO of Evercore. Do you think your journey would be more difficult today?*

Ralph: In many ways, I had the absolute best possible upbringing. My parents left Nazi Germany; they came from reasonably well-off families there, but here my father was a bartender and my mother was a nursery school teacher. Education was paramount. We went to museums and the symphony, and I was able to attend the best magnet schools in the city. The only thing that we didn't have was money.

For me, for any individual, it is still possible to do exactly what I did. I am incredibly grateful to this country for the opportunities it provides. We all should be.

I do think the rewards for labor versus capital have changed, particularly the rewards for less than highly skilled labor. When many of us were growing up, it was possible then to start out at the bottom and become solidly middle class or upper middle class by getting a job in manufacturing. The number of jobs available now for those without a lot of education has shrunk dramatically.

Jeff: *Is capitalism in its current form driving increasing inequality?*

Ralph: The return on capital and the return on labor has widened dramatically. Now, all of us in this room are beneficiaries of that. But my own view is that societies don't long thrive – or perhaps even survive – when the benefits of the system are very narrowly enjoyed.

To me, and I consider myself a political centrist, this is one of the most fundamental questions that we as a society face. I worry about a society where so much of the benefits have gone to a limited number of people. Unfortunately, our government's policies have, to a certain extent, reinforced these divisions. Years ago, dividends and capital gains were taxed at the same rates as ordinary income. Today, my assistant is paying a higher tax rate on her marginal dollars than I am on my dividends and capital gains. That doesn't make sense to me.

At the same time, we have underinvested in education, which in the world we live in today is really the only means of social mobility. As for our fiscal policy, we have a trillion-dollar deficit with full employment, which means that we are leaving a lot of debt to our children and grandchildren. So, I think we need to fix some of these things.

Jeff: *Let's talk about education. I know it is of great interest to you and it certainly is important to our culture.*

Ralph: I think it's the single most important issue. I spend a lot of time working with the public schools of New York, where there are over one million kids, about half of whom graduate on time. I went to public schools until college, and I got a great education. And there are still some great public schools. But many are not serving those in most need of their education. It is, in my view, a major challenge.

We have a country – and ours is not the only one – that is heavily focused now on globalization and immigration as negatives for our economy, and particularly for less skilled workers. However, in my view, the single thing that separates the growth that we've had in the United States from the low growth in Europe and Japan is our immigration. Our GDP is a function of two things: how many workers we have and their productivity. So cutting off people who want to come to this country and work really hard is really shooting all of us in the foot. If it were up to me, every non-U.S. citizen who gets an education at a U.S. college would get a green card with their diploma because we want them to stay here.

"I worry about a society where so much of the benefits have gone to a limited number of people."

What is causing this phenomenon more than anything else is that technology has made the location of work much more fungible. Technology has allowed remote work. Manufacturing does tend to move to where the cheapest labor can be found. My hope is that we invest in education and we become a magnet for talent. I think this country is the greatest place in the world to live and work, so we should welcome those with skills from all over the world.

Jeff: Do you think technology, including artificial intelligence and robotics, will significantly impact our workforce? How can a capitalist society protect affected workers?

Ralph: I don't think we have a choice; it's going to happen. So the question is: How do we adapt? We will need a much more skilled workforce and a much more active investment in training. Many people in their 60s, 50s and even 40s have been displaced by machines and technology, and are now working in jobs that are lower skilled and lower paid – and these are people who have a great work ethic and who have worked their entire lives. We as a society probably have to provide them with some combination of reeducation and support. It is a very hard thing from a public policy point of view to balance the incentive to work – which I feel very passionately about – and to make sure that we are sharing in some way the wealth that technological advances are creating.

Jeff: What are your thoughts on China? Many of us in the West had always thought that economic advancement would be tied to liberal democracy, but the rise of other systems has to make us wonder.

Ralph: China is incredibly important to the future of the global economy. Its economy is still somewhat smaller than ours. But if you look at its contribution to the global growth rate, it's really powerful. The government has a five-year plan, a 10-year plan, a 15-year plan. And they course-correct. They assiduously plan how to get to where they want to be in 10 years, instead of just 10 days. If one business is investing for the long term and the other is just trying to achieve the next quarter's earnings, I can tell you which business in all probability is going to win.

Jeff: Is your glass half empty or half full?

Ralph: I'm an inveterate optimist, although I know I don't sound like it. The talent and ingenuity of the people in this country and our economic system – I am firmly convinced that it's the best combination. I do think that we as a society are not doing well enough by our children and grandchildren in three areas: fiscal policy, which we talked about earlier; climate, which is going to become much harder to address every year; and the breakdown of our global institutions.

The divergence of our politics is a threat to achieving all that we wish to achieve. By the time we get to 2020, we will have gone through 28 years when the president of the United States was adored by half the country and despised by the other half. Each ran on the idea of working across the aisle and being the president of all the people. We desperately need a president to do that, and we need representatives to do that.

“We as a society are not doing well enough by our children and grandchildren”

Jeff: You had a very different upbringing than your children. As a parent, what do you think about raising children in a climate of affluence, knowing that they will never experience – or potentially benefit from – the kind of struggle you faced?

Ralph: I think the most important thing is to raise kids with great values who feel a responsibility and accountability for their own lives and who treat people really respectfully. My wife and I have worked pretty hard. [Editor's note: Jane Hartley is the former U.S. Ambassador to France.] Our children are going to have enough money so that they pursue whatever they are really passionate about. If that is going to mean making more money, great. If they wish to serve others in any capacity, they will be able to do that. I will be happy with either approach, as long as they work hard and are passionate about what they do.



The transcript of the evening's discussion was edited for space. For further information on Evercore Wealth Management and Evercore Trust Company, N.A. in Palm Beach, please contact **Michael Cozene** at michael.cozene@evercore.com.

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