

The Economic Club of New York

485th Meeting
111th Year

Larry Kudlow
Director of the National Economic Council

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Interviewer: Rebecca Quick
Co-anchor of “Squawk Box”
Anchor of “On the Money”

Introduction

Marie-Josée Kravis, Chairman

I am Marie-Josée Kravis, I'm the chairman of the Economic Club and the senior fellow at the Hudson Institute. I'm delighted to welcome all of you to the 485th meeting of the Economic Club. The club is 111 years old and as you know, it is the foremost national forum for discussions on economic policy and geopolitical issues, both domestically and internationally.

I'm very happy to welcome today, the members of the Centennial Society who's support has ensured the financial stability of the club. Many of you are here at the head table and many are at the front tables. I really want to thank you for being so generous and steadfast in your support of the club.

We are also delighted to welcome several of our Economic Club 2018 fellows who are attending today. Later today the 50 2017 and 2018 fellows will be getting together to network and to prepare for their October 22nd debate which will be held at Bloomberg and all club members are invited to this event.

But, what you've all been waiting for is, of course, the speaker who kicks off this season and it's my great pleasure to introduce a friend, a longtime member of the club, and of course our guest speaker, Larry Kudlow. (Applause)

Larry serves as an Assistant to the President for Economic Policy and Director of the National Economic Council and in that function he leads the coordination of President Trump's domestic and global economic policy agenda. Prior to the White House, you all knew Larry, of course, as the CNBC Senior Correspondent and Contributor and, of course, a host of the CNBC's prime time show, the Kudlow Report. He also served as Chief Economist and Senior Managing Director at Bear Stearns. Of course, when he served under President Reagan he was also a top economic advisor on economic policy.

The first part of our program will consist of remarks from Larry and we will follow then by a conversation with our board member and also CNBC television star, Becky Quick. Without further ado, let me introduce Larry, give him the podium and I'll be back to introduce Becky more formally. So Larry...(applause)

The Honorable Larry Kudlow

Assistant to the President for Economic Policy

Director, National Economic Council

Thank you. I appreciate it. It's a great honor to be here. I appreciate the great turnout. I have been a longtime member here and a board member and something or other. So, it's great fun for me. I want to note, it's just interesting, here we are September 2018. It was almost to the day, almost to the day that then candidate Donald Trump spoke at this club, two years ago. September

2016 during the campaign. Whatever kind of coincidence that is, so be it. I just want to note briefly his message at that time because I think much of what he promised is coming true. Even though there might have been some skeptics.

Just to begin, if we lower our taxes, and if we remove destructive regulations, and we unleash our vast treasure of American energy, and if we negotiate trade deals that will put America first and help our workers, then there is no limit to the number of jobs we can create and the amount of prosperity we can unleash. Lower taxes, roll back regulations. His policies end the war on business, end the war on investment, end the war on success, reward success, don't punish it. We've seen, probably the fastest, most abrupt increase and various measures of confidence ever. Ever. Almost the day after the election.

I mean, you look at things, just the last week or two, we are still drawing as small businesses based on the NFIB, record high is consumer sentiment, 17-year highs, a whole variety of things, almost from the day after the election, but it continues to rise.

At the time President, then candidate Donald Trump spoke here, he laid out a 4% economic growth goal, 4% economic growth. He said, if he won the administration's baseline would be 3.5% and we have eventually settled on a 3% baseline and create over 20 million jobs in ten years.

And he talked about helping the forgotten men and women of America. Cops and soldiers and teachers and fire fighters and young and old and moms and dads and blacks and whites and Latinos. It's been quite remarkable. So, now we find ourselves in a position, I guess 3.2% first half growth, 4.2% second quarter growth. The Atlanta Fed is expecting better than 4% growth. We will be happy with anything above 3% growth. With respect I acknowledge our critics who believed we couldn't get better than 1 to 2% growth. The reality is, we are moving forward on those policies and on the results.

I would say this, the single biggest story of this year, 2018, the single biggest news story, not fictionalized versions of what goes on in the White House, and all the rest of it. The single biggest story is an economic boom that virtually everybody thought impossible. That is the story. And I believe the recent successes are not one-off, they are not one time, they will be continued and sustained, because of the policies.

Not only a new growth spurt, I'll go to some numbers. Take a look, besides the confidence numbers, which continue to amaze, a story recently a few days ago, published in that famous supply side newspaper, the Washington Post, above the fold, Blue Collar Jobs, Growing the Fastest since 1984. Blue collar jobs, those are the forgotten Americans that then candidate and now President Trump talked about.

In the past year, 650,000, 3.3% annual rate, rural America jobs are growing at 5.1%. Across the

board, paychecks are getting fatter. Median incomes continue to rise. Data point after data point. Industrial production, retail sales, ISM's. The U.S. is the hottest economy in the world today. We are crushing it. Capital is flowing here in huge quantities. Not just repatriation, where we have made it easier to bring back the money from overseas but also new investments coming into the United States.

I wish our friends around the world would emulate and imitate our policies of lower taxes and deregulation so they could pick their growth rates up as well. But we are getting the money right now because we are in an economic boom that virtually everybody thought impossible, not so long ago. I just want to make these points.

The incentive model works. I've been around a while, have argued for many years, as per my former boss, Ronald Reagan, actually from my book, John F. Kennedy, a Democrat, if you lower tax rates, and by the way ease up on regulations, you keep more of what you earn, you keep more of what you invest, you keep more of what you risk, and people will do more of it.

Cut taxes, and the economy will grow. It's a model that has been used. It worked in the 60's, 80's, 90's. It didn't work the last 20 years because we went in the wrong direction. Now we are moving back to the right direction. The incentive model. The tax plan was always based on a very simple theory, well rooted in academic literature and actual history, lowering business tax rates, large and small, immediate cash expensing, and in our case easier repatriation of overseas

money will create incentives to grow.

We are talking about capital formation. It's as old as the literature. Capital formation. And the data show it's already working. It's early, I appreciate some of our critics don't agree. I respect that. I know many of them. I always listen to them. But, they had their chance for eight years or longer, with heavy regulations and spending and taxing. Now we've brought in a different model. Give us a chance. Give us a chance. I ask you. And note that the early results are positive.

The economic boom is the biggest story of 2018 and in my judgment it will continue. If we provide more capital per worker, the old K/L ratio, it will over time with better equipment, manufacturing, training, improve productivity, output per hour. We are already seeing early signs of a pickup in productivity. I know it's early. I grant you that. And it is still not where we hope it will be. But, we are moving in the right direction.

And with that will come an increase in real wages, and better jobs. I mean, we are seeing some remarkable indicators. Real wages rising. My colleague Kevin Hazlett of the CEA put out a study, after taxes and inflation, actually, real wages are rising at 1.4%. We are seeing big increases, 3% increase in real disposable income after tax, after inflation. Median wages are rising now. I guess the highest in ten years.

I acknowledge it's only been a year or so, but we're moving in the right direction, and the

numbers continue to support this view. So, more capital investment, more productivity, more jobs, and fatter pay checks. A healthy economy. The employment story has been solid.

Unemployment rates, I guess overall 3.9% and even more remarkably, unemployment rates for all various categories of minority groups are hitting historic lows or multi-decade lows.

I put this out there because I think in the hubbub of beltway politics a lot of this is lost. I don't want it to be lost. The blue-collar workers are gaining, as I've said before, the job openings are at record highs. Even the quit rate, more folks are quitting their job, you know why, for better jobs. And more people are coming out of the labor force to work because the wages have increased.

This is good stuff. It's out there. Now I know the U.S. is a free-market economy. The government doesn't run the economy, essentially, at least not yet. But I would say, as I always have, government policies matter a lot. And an incentive-oriented policy where we aim to increase the economies potential to grow, as I said things that have happened in the past, new policies matter a lot. And I think that's part of the big change we are seeing. And again, it's not just a numerical change. It's an atmospheric change. It's a confidence change, rarely seen.

So I will leave it at that. Let me suggest a last point. I know there will be questions on trade. Let me say this, as somebody who has worked with the president now in office for six months and before that. I've known him many years, interviewed him many times on my former network and elsewhere. To my light the trading system around the world is broken. And it's been broken.

Maybe for as much as 20 years. The post-World War II trading system, which predominated as a free trade reform, said the problems just before, during and after World War II is a good system. It was governed by rules, and people essentially played by the rules. Unfortunately, that system has broken down. Free trade is a great concept. I certainly support it. I have my whole career and continue to do so. But free trade has to be fair trade. It has to be reciprocal trade. What we're seeing, you're seeing, these countries are raising tariffs, non-tariff barriers, subsidies, the World Trade Organization has become dysfunctional. The biggest culprit, has in fact, been China. But not the only culprit.

And I will say right here, on China, we are ready to negotiate and talk with China any time that they are ready for serious and substantiate negotiations towards free trade, to reduce tariffs, and non-tariff barriers, to open markets, to allow the most competitive economy in the world, ours, to export more and more goods and services to China. To help them. We are ready to have that discussion any time as long as it's going to be a serious discussion.

But the reality is, we cannot permit the theft of intellectual property, we cannot permit the forced transfer of valuable technologies, we must strive for American ownership of American companies in China. And, in their country they had been reforming along free market lines for several decades. The Deng Shi Ping reforms, but that seems to have stopped in recent decades and indeed moving in the wrong direction.

President Trump argued at the G7 and elsewhere and since then that he is a free trader, that he wants to move towards zero tariffs and zero non-tariff barriers, and zero subsidies, with reciprocity each step of the way. That is his view. People are blaming the president, I say, do not blame Trump for this. He inherited this trading mess. He's trying to fix it. He is a reformer. It's not an easy task. But to protect the American economy and protect American jobs of all stripes, manufacturing, non-manufacturing, you know these blue-collar numbers are very positive. We hope to hang on to that.

We have to be tough. Prior presidents have raised the issue of unfair trading practices and the lack of reciprocity, and then they go away. President Trump is not going away on this issue. He will be strong and determined. Trade reform is necessary. Moving towards free trade is absolutely pro-growth. And that is why I support him and I am working with him and Secretary Mnuchin and the others and Lighthizer and so forth.

So, I urge you to think this through. The person who is trying to fix the system is not the problem. He's the solution. And again, as in other cases, give him a chance. We've only been doing this four or five months. Already we've made some progress. We have a deal with Mexico. We are negotiating with Canada. We are negotiating with the European Union. We are negotiating with Japan. And as I said, we stand ready to negotiate with China, any time, if they are willing to move towards serious talks to remedy trade problems.

So, low tax rates, lighter regulations, opening up energy, steady dollar, low inflation, a hot economy. I still think it's the biggest story of 2018. And I think it's a story as long as these policies are intact, and not overturned that is going to continue for quite some time. America is a great nation. We have a great economic history. From the end of World War II to 2000 we grew at 3.5% a year, don't tell me we can't get back to that. Don't tell me we are locked into 1 to 2%. We are not. With the right policies, and the right incentive structure and the right freedoms and the right support of businesses, and individuals and entrepreneurs and innovators and creators, we could continue a new success story. The president mentioned it here two years ago, almost to the day. It's my great honor to serve him and to remind you of his goals and there's no turning back as far as we're concerned. I thank the Economic Club of New York for having me. I'm honored by all of this and I'm gearing up for my pal Becky Quick and her various questions. Thank you very much. (Applause)

Marie-Jose Kravis: So thank you Larry. I should have mentioned in the introduction your book which was entitled *Prosperity and American Abundance*. I see that you remain faithful to your basic principles. And I thank you for taking the time sharing those ideas with us.

I'm happy to welcome, as I said, Becky Quick, a member of the Board of the Economic Club of New York. You all know Becky as the co-anchor of Squawk Box and also the anchor of the Nationally syndicated *On the Money*.

Becky received a number of questions that many members submitted through our website portal and I thank all of you. She's reviewed them and curated them and Becky, to you, and Larry for more in-depth discussion of our economy. Thank you.

DISCUSSION

BECKY QUICK: Thank you Marie-Jose. Larry, thank you. And thank everyone here. It's really an honor to be here with you and share this stage. Larry and I have been friends and colleagues for over 15 years. But this is a great opportunity and we really appreciate you being here.

LARRY KUDLOW: Thank you Becky.

BECKY QUICK: You talked an awful lot about the economic landscape, where we've come. There are a lot of questions in this room about where we head from here and what could happen to offset some of the momentum we've seen in the economy. The first and foremost has to be what's happening with trade. I know you just addressed it a little bit, but let's talk about what's happening here and find out...we have heard, there have been reports that there are going to be additional tariffs introduced on another \$200 billion of Chinese goods. We've heard that those tariffs could run as high as 25%, although most of the reports today put it closer to 10%. Can you tell us anything about what we might be hearing?

LARRY KUDLOW: Well I don't want to get terribly specific. The president has tariffs on a couple of hundred billion dollars. He has not been satisfied with the talks with China on this. My guess is announcements will be coming soon. Again I don't want to front run him on that. I think the basic stories are probably more or less correct. Straight out of our meetings. One of the things I've learned, it's quite remarkable, is you have a high-level meeting and all the phones have to leave the room, right, but you may as well have a direct mic into the *Wall Street Journal*. Stuff gets out. Again, I don't want to be specific on that. The president has talked about it. And announcements will be coming soon.

BECKY QUICK: We have not seen a massive reaction in the stock market to this. Some people have been surprised by that, have you?

LARRY KUDLOW: Well, yes and no. I think in its wisdom the stock market sees. First of all the big story here is the change in policies that I mentioned before and the economic boom, which is emerging. I think that's really the big story. Stocks are close to an all-time high, profits are close to an all-time high, along with the other data points that I mentioned. The tariff story may be, a very good force for good. Don't rule that out. Like I said, people want to blame President Trump for fixing a broken system, and I think that's unfair. The stock market, which may be discounting, I don't know how far in advance, maybe it's saying, you know what, some of these reforms are necessary. They are being done cautiously. There's lots of discussions inside the government and with private sector people. I understand there are disagreements, as is always

the case when you undertake big reforms. But I don't see any reason to think at the present time that the president's trade reforms are going to damage the economy. In fact, I think the president's trade reforms will help the economy. Just one recent example is Mexico. That's a good thing. My hope is we will get more progress with Canada and the European Union, Japan, and perhaps China. I don't want to rule out China, I'm just saying that we still await serious talks. That's all. I think that's why the stock market continues to do very well. These may be positive developments long-term.

BECKY QUICK: Well we talk to a lot of people, obviously on CNBC, and most of them, when asked why they don't think the stock market has been impacted, say, they think that this is a negotiating tactic. That this will eventually be resolved. That they don't anticipate seeing the full additional \$200 billion tariffs come on, or even the \$267 billion after that. That they would weigh things differently if they thought that was a real threat. What do you say to that?

LARRY KUDLOW: Again, I don't want to get ahead of the president and I don't want to get into a lot of details about this, but it is a grand strategy of negotiating. It is President Trump's brand and style. He's tough. He has laid out his goals. I think they are very sensible, as I say, it is a free trade strategy. But it's hard to make the reforms. Whether they are long-term or not, I think they are necessary and we'll see. We'll see how this plays out. You know, I remember years ago when I worked for President Reagan, when I was a child, (Laughter) I go to the White House once every 35 years or so, I remember Mrs. Reagan correctly developing an anti-drug

strategy by saying, just say no. Remember. She was right. I would say to the Chinese, on something of substance, just say yes. It takes two to tango. We've put out our asks, we are open to talks as I said at any time, just say yes to a couple of things, and then let's move on. This can be done. Trade is tough, I get that. Everything is tough. Tax cuts are tough. Rolling back regulations is tough. The president's whole agenda is tough. He's keeping promises, the reason I belabored the Economic Club of New York two years ago, he laid a platform, and he's making good on it. So keep hope alive.

BECKY QUICK: The Chinese officials, or at least some who have spoken to the media have suggested that they have every intention, or had every intention of coming and having trade talks, but that they felt like they were antagonized when these additional tariffs were brought up again last week. What should we read as the narrative? What's really happening?

LARRY KUDLOW: We will see. We will see. Again, we welcome any time, serious talks with China, absolutely. The door is open. And the president has said many times, he has a good relationship with President Xi. I have a good relationship with Vice Premier Liu He and his team. Our team leader on this, Secretary of Treasury Mnuchin, is in touch and communicating. Just say yes.

BECKY QUICK: Larry, the president tweeted this morning, and I wish I brought up the actual text of it, but he tweeted something along the lines of how the tariffs haven't really shown up in

prices, at least not on a grand scale yet. And while you can see it in certain areas, maybe in steel prices, in lumber prices, and different areas, that's true on a grand scale. But tariffs are taxes and the more that you ramp up, the more that you would expect to see some sort of ripple through our economy. Is there a point that you are worried? If we're looking at \$250 billion in total of tariffs, does that get to the point where you start to think these are taxes on American consumers that will disrupt what you have been trying to build.

LARRY KUDLOW: Well, we are looking at it carefully. We are following it very carefully. I don't think we are near that point right now. I mean, again, I think the singular story here is an economic boom that most folks thought was impossible. That's really the big story. With respect to the impact of tariffs, we will see. I mean, we are following it, I don't see any problem right now at all.

BECKY QUICK: Also there have been questions about certain companies. We had an analyst we spoke with today who says he watches Apple shares as his proxy for how concerning these talks are. That Apple would be one who would be potentially hit pretty hard. I just wonder, is there anything you watch as a proxy. Is it the Dow Jones Industrial Average, is it the dollar, is there anything you are watching to say okay, it's all clear, we can continue?

LARRY KUDLOW: Well we try to watch everything. On Apple, by the way, we've spoken to Mr. Tim Cook many times, a really smart guy. He's given us some good advice. Sure, we're

watching currency markets, we're watching stock markets, we're watching as much as we can possibly watch. I mean, I think right now, one issue is the Chinese stock market has had a very rough time of it this year. And I think their economy is softening quite a bit. Now whether you can relate that to the tariff story or not, I would just say, my own personal view, something called state run capitalism doesn't work. It never has, and it never will. I don't think the Chinese gang particularly agrees with that, but we will see. Look, we try to keep an eye on everything. Our data, their data, European data, everybody's data. We have a terrific Council of Economic Advisors. The treasury is hard at it. We know that it's not easy to make reforms. Okay. But the president believes that's the right path. I happen to agree. He believes he has a mandate to do that. And it's not monolithic. I mean we just signed, Congress just passed this 1700 tariffs were reduced, we are willing to do that. So it's always aimed. But again, in order to level the playing field, and get some reciprocity, and get to what we euphemistically call the three zeros on tariffs and non-tariff barriers and subsidies, we are going to have to take tough steps. Maybe it's a wakeup call.

BECKY QUICK: What advice did Tim Cook give you?

LARRY KUDLOW: The only thing I'll say on that with Mr. Cook, all conversations are private, but he really loved our tax reform. Really loved our tax reform. (Laughter) He said it to me in my office up on the second floor, and I went down with the meeting in the Oval Office, and he said it to the president. The president liked that.

BECKY QUICK: Alright. Let's talk a little bit about the strong economy and what the implications will be in a lot of different places. At some point the Federal Reserve is going to continue to raise interest rates and expectations for how quickly that will happen have risen as the economic numbers have improved. There was also someone who laid out to us this morning this theory that if you see additional tariffs that will increase the inflation numbers. That will in turn force the Fed's hands sooner, that in turn could lead to a stronger dollar. How does all of that play in it. Have you thought about that and where you think we are headed? It is just the Fed rate hikes or is it happening for a good reason or for a bad reason.

LARRY KUDLOW: Look, ...first of all the Fed is independent. That's a key point. The second point is, inflation is a monetary phenomena. So you can have individual or specific price increases or price decreases depending on a whole variety of things, supply and demand and so forth. Inflation is a monetary phenomena. If the dollar were falling rapidly, that would be a signal of inflation. It's not. It's been steady. That's great. A great country should have a steady reliable currency and we do. The only thing I will say and it's just my view in general. You've heard this before. More rapid economic growth is not by itself inflationary. More people working and prospering is not inflationary. I mean, for heaven sakes we haven't had any cap goods increases in almost 20 years. We haven't had any real wage increases in almost 20 years. We've had some, but very little. If the workforce which is producing this boom can't get wage increases, when can they. And how can that be bad. How in the world can that be bad? I will say how pleased I am that Chairman J. Powell has made the same point, on a number of times, and

that's good. So that's just my view. I'm not interfering with their independence. I just think we're on the same track. I think that's great.

BECKY QUICK: We spoke recently with Jim Bullard from the St. Louis Fed, the president there, and he raised some concerns about the inverted yield curve and if the Fed continues to raise rates, whether they will go ahead and invert the yield curve and what that might mean. Do you have any concerns about that?

LARRY KUDLOW: Well I follow the yield curve, I always have. To maybe redefine, the original model at the New York Fed and pardon me, the fellow is teaching at RPI or he was, he spent the New York Fed along many years. That model was the yield on 10-year treasuries, relative to the three-month treasury bill. And it's still positive, about 90ish, 95 basis points or so. Something like that. Don't quote me to the nickel but it's more or less that. That's okay. That's fine. That's not a recession signal. I think the recession probability from that model is very low, 12ish%, something like that, 13%. So, that's pretty good. Using that model we're fine. That's all I'll say.

BECKY QUICK: Let's talk a little bit about CBO numbers that were put out last week. These are the numbers that are for the first eleven months of the fiscal year through August. They showed that receipts of treasury were up 1% but that spending was up 7%. So, as a result it indicated that the budget deficit would be targeting about \$895 billion for that period of time.

That's \$220 billion ahead of where it was a year ago. Do you have any concerns about the budget deficit and what would your solution be? Or those numbers.

LARRY KUDLOW: Actually this is one of the rare moments when I will publicly agree with the CBO, which is unusual for me. The gap is principally spending too much. I think by a couple hundred billion increase. The revenues, as you noted are up slightly, even with the tax cuts. I wish more people would take note of that. And I wish the CBO would talk more about that, because their own estimates from before the tax cuts and after the tax cuts, another words roughly mid-2017 and mid-2018, they revised nominal GDP from which revenues are derived, something on the order of \$6 trillion higher. Which using an average tax rate of 17.5% or so, really cut the deficit back by as much as a trillion dollars, over the ten-year period. Which is another way of saying we just about paid, not quite, but we paid for about two-thirds of the total tax cut. And my suspicion is, we financed through growth and this increase in GDP, pretty much financed the business tax cuts. Alright. Now, I agree, we spend too much. I absolutely agree. We are working on it. We are working on it.

BECKY QUICK: Will the Trump administration tackle entitlement reform?

LARRY KUDLOW: Well we've already tackled a big part of the newest entitlement, namely Obamacare. As you know in the tax bill we eliminated the individual mandate and a lot of other reforms involved with that. And we're still chipping away on a regulatory basis to reduce the

burdens and the inefficiencies of that. We are not for state run, we are not for single payer healthcare. So, that was the first tackle. We are also trying very hard to deal with a lot of work fair issues. A very important part of the president's agenda, where we had some very good reforms in the 90s, when Republicans and Democrats, Gingrich, and Bill Clinton, very good reforms on welfare for example. Work requirements, eligibility requirements, unfortunately much, if not all of that was undone in the last 20 years. I can be bipartisan here, Republicans and Democrats, so we're trying to patch that up again. Food Stamps, still near record, whereas unemployment has fallen so much. Things like that. So, yeah, we are going there. Smaller entitlements. As far as the larger entitlements, I think everybody is going to look at that, probably next year. I don't want to be specific. I don't want to get ahead of our own budgeting, but we'll get there. But I agree we have to be tougher on spending.

People are quick to blame deficits on tax cuts. Well, I don't buy that. Tax cuts promote growth in wages, revenues come in, federal, state and local revenues come in. We are going to run deficits of about 4 to 5% of GDP the next year or two. Okay. I'd rather it were lower, but it's not a catastrophe. It's just not the biggest thing in the world. Going down the road, of course we'd like to slim that down as much as possible and we will work at it. But I will say, as I always do, the single biggest factor affecting the budget in general and these macro-numbers on deficits and debt is the rate of economic growth. If you grow slowly for long periods time, you're going to have greater deficits. If you grow rapidly, you're going to have lesser deficits. It's true for federal government and state and local governments. Growth solves a lot of problems. So, glad

you asked. Our policies are aimed at growth and prosperity.

BECKY QUICK: You mentioned bipartisan efforts and I say this a little tongue in cheek, but bipartisan efforts seem to be Republicans in Congress working with this administration. What happens if the Democrats actually take control of the House and/or the Senate? What happens to any of your plans at that point?

LARRY KUDLOW: Well I don't know. I don't want to get too political on this story. But I understand that there's a risk. I am assuming nothing here right now. I'm not here to forecast politically. But I would just say this, given the fact that we've emerged into this economic boom, if you will, it would be a shame if efforts were made to unravel the policies or overturn the policies. And I think that argument is going to figure very heavily in the November elections. The success of the economy and the success of the policies and I think it would be a great disservice to Americans if we overturned those policies. I don't want to go much further than that. But, not surprisingly, we got here, as I said, I still think the boom is the biggest story of 2018.

There was a time, Marie cited a book I wrote many, many years ago. Not so long ago, a year or two back I did something called JFK and the Reagan Revolution. JFK as a Democrat, right, was the first post-war supply side tax cutter. And it worked beautifully, 4 or 5% growth, virtually no inflation. Twenty years later it got off the rails. Ronald Reagan came in, a former Democrat and

emulated the JFK tax cut. And Reagan gave him credit for it. Now, that was a different Democratic party. I get that. Doesn't mean it couldn't happen again. Maybe there is a role model there. I just...from whatever source, I don't want to get too political Becky, but I just want...don't overturn the good work that's been done. Don't overturn, for example, the explosion in blue collar jobs. Don't overturn the increase in confidence. Don't overturn the capital that's flowing into the United States. You know, it's working, it's working.

BECKY QUICK: Is that an admission that Tax Cut 2.0 which would make these tax cuts permanent is not going to happen before November?

LARRY KUDLOW: I don't think so. But I think making the personal tax cuts permanent is a very good idea. There's some assorted savings accounts in there. I think Kevin Brady is exactly right. I think there may be a vote. I'm not 100% sure, there may be a vote on that. No I don't think it'll pass, it'll get through the whole Congress, but it's a good message. I think it's a good message. And I think we can do a lot more on tax reform going down the road.

BECKY QUICK: The Joint Committee on Taxation has looked at Tax Cut 2.0 and said that it will add over ten years something like \$657 billion to the deficit. They also say that the deficit would be \$1.8 trillion under that law, instead of \$1.5 trillion under current law. By the year, I think 2028, do you quibble with those numbers?

LARRY KUDLOW: Always. (Laughter)

BECKY QUICK: That was a set up.

LARRY KUDLOW: I mean, even the \$1.5 trillion which is the sort of agreed upon...as I said, with the new revisions in the nominal GDP baseline, the real GDP baseline, the revenue baseline, we've already paid probably even by CBOs estimates, roughly two-thirds of that whole tax cut. So, you know, one of the wonders of Washington is these models, and debate about static versus dynamic scoring. That debate may never be settled. But, when candidate Trump spoke to the New York Economic Club, I was sitting right behind him that day, as a board member, but obviously I contributed to that plan. And he declared a 4% national goal for economic growth. I just thought it was wonderful. There was debate inside the campaign. And the 4%'s won. So now I got 4 and now he wants 5. But, that's a good thing to shoot for. And I say nothing but good if we reach that goal, nothing but good will come of it. Nothing. You can't grow fast enough. It's just a great thing. It helps everybody. It helps everything, not just these numbers, it helps prosperity and confidence and jobs, every American working.

What is there, 155 million some odd Americans working right now and the number is rising nicely. They are all benefitting. Everyone benefits from that kind of growth and prosperity and economic health. And paychecks are getting fatter. How can that be bad? How can that possibly be bad. How can that be bad for budgets, for getting more revenues. It can't be bad, I'm sorry. I

could go on and rant. (Laughter) By the way it's not personal. They are professionals, in these shops, I don't do personal at all. I'm just saying, Lord help us from some of these models.

BECKY QUICK: This room serves as a church on the weekends. So this is all appropriate sort of preaching. I want to end on a little bit of a philosophical note. I'm not sure if you saw David Leonhardt's column in the *New York Times*. I believe it was on Friday. I read it over the weekend. But he lays out this idea that the government statistics that are reported don't necessarily completely report life as it is for many Americans. That they fall short, particularly when it comes to inequality. He's not blaming this administration. He's just saying that for decades the numbers have gotten further and further apart and don't reflect things like the 15% of men age 25 to 54 who are now not working. They don't reflect things like household net worth that has dropped 20% since 2007, even while the Dow Jones Industrial Average is up 60%.

LARRY KUDLOW: Household net wealth just hit a record \$100 trillion or more.

BECKY QUICK: He talked about how those numbers that he laid out have not recovered to the same extent that the stock market has. And that many of the gains we've seen in GDP going back to the year 2000 where there's been 28% increase in GDP, haven't gone to the lower 90% of Americans. Do you see inequality like that? And do you think that there's any way to A) record that or B) fix it? Again these are not things that haven't happened under this administration, just a

longer-term problem.

LARRY KUDLOW: Well the measurements are always an issue. From time to time the government tries to make them better. Distinguished economists, much smarter than me, will go after that. We've had periodic changes. A lot of people argue inflation is measured too high, way too high. And if that's the case, then a lot of these other numbers would improve with a lower inflation rate, the real numbers would be better. I don't know Becky. That's an ongoing discussion. I think it's a fair topic to discuss.

I want to just...again in a philosophical sense, on the newsroom floor of your station network, and my old one, some people refer to me as the happy warrior. I actually have some of the same charge in the White House. I believe, personally, always have, that a strong healthy economy, it's not the only factor. I get that. It's not the only factor. But I think that this country and probably others, but this country, is always happier, friendlier, more confident when the economic winds are blowing warm. In the book we wrote almost two years to the day, I think that was the opening chapter. Americans were cranky, pointing fingers at each other, not happy campers, I sense it myself. I travel around a lot or I used to.

Apart from the statistics I think there's an emotional content to a better economy where opportunity is strong, achievement is strong, where we do reward success not punish it. And where we help each other, and we don't point fingers. This is all qualitative stuff, Kudlow stuff, I

don't know what it is. I'm an optimist and I just think in terms of who we are and how we relate to each other, our level of stability for example, things are always better when the economy is better. I just believe that. It's not the only factor. Gosh knows in my own life, I've learned a lot about faith for example and things that have made my life better. But you start with economic prosperity and health, things just get better, I just believe that.

We are an optimistic nation. I learned that from President Reagan. I've learned that from President Trump. We are an optimistic nation. And as long as we're on the right track and as long as we're expanding, we will be optimists. We've had a rough patch. I think that rough patch is ending. That's my view. Other's may not agree. I appreciate that and I respect different views, you know that. But, I think if this economic boom that I described, it's also like the Greatest Story Never Told. If this continues, and this continues, and I hope it will, and I hope it's not overturned. Elections or not. We will be a better country. We will be a better country, we will be a happier country. I just believe that.

BECKY QUICK: Larry I just want to thank you very much for your time today.

LARRY KUDLOW: I appreciate it. (Applause)

CHAIRMAN MARIE- JOSEE KRAVIS: And I just want to thank Becky and Larry. We could have gone on and on and you set a very high standard in launching this season. Speaking of this

season, I hope you'll join us October 1st for Ben Silbermann, the CEO and Co-Founder of Pinterest. We have quite a heavy month of October. We have ten events. And I hope you'll come to as many as possible. Enjoy lunch and again, thank you Becky and Larry. (Applause)