

THE ECONOMIC CLUB

O F W A S H I N G T O N, D. C.

**The Honorable Larry Kudlow Discusses Domestic and Global
Economic Policy, his Career, and Personal Challenges.**

**The Honorable Larry Kudlow
Assistant to the President for Economic Policy;
Director, National Economic Council
Thursday, October 4, 2018**

MR. RUBENSTEIN: We're very pleased today to have as our special guest Larry Kudlow. He is assistant to the president for economic policy and the director of the National Economic Council. He is the 12th person to serve in that position since it was created in 1993. Larry is a native of New Jersey. Went to college at the University of Rochester, where he was a member of the tennis team. A very accomplished tennis player. He later got his first job in government working at the New York Fed.

From there, he went to PaineWebber, became the chief economist, later became the chief economist at Bear Stearns. Recruited to become the chief economist at the Office of Management and Budget under President Reagan in President Reagan's first term. After that, he returned to Bear Stearns. And then later, after leaving Bear Stearns, began a series of television and radio shows known as "The Larry Kudlow Report," "The Larry Kudlow Show." I have often thought naming a show after yourself – I don't know whether that's a good idea or not. [Laughter.] But I've come to think it's not a bad idea.

So, he's become the president's top advisor on economic policy since April, when he assumed the position. And in the first full quarter in which he's had this position, the U.S. economy grew at 4.1 percent. So very impressive performance for the first quarter. [Cheers, applause.] So, I'm very pleased to have Larry as our special guest. He's going to make some opening remarks, and then we'll have a conversation with him.

Larry. [Applause.]

LARRY KUDLOW: Well, thank you, David. Appreciate it very much. Thanks for having me at the Washington Economic Club. You're very kind. I appreciate the turnout. I don't want to spend much time, because Mr. Rubenstein is, I'm told, a brilliant interviewer and has many insights. And I want to go there. Let me just begin with a few thoughts.

I believe – I believe we are or have entered an economic boom. And virtually nobody expected this. They thought it would be impossible. Most people thought 2 percent growth was the max. I never bought into it. America's basically a free market economy. It's not government-run. But government policies matter a lot. And we've had a switch in policies to an incentive model of low tax rates, especially businesses, small business, major rollback in deregulation. President Trump's own view is to end the war on business and to end the war on success, to end the war on investing, to end the war on risk, essentially to open the economy. And these incentives – you keep more of what you earn, you keep more of what you invest – have been lacking for a bunch of years. And I don't want to go partisan. I'm just going to say a bunch of years.

From 2000 to the present we haven't had a good performance. We've grown 2 percent of so. The boys believed that the actual potential to grow in the United States, based on historical experience, from roughly, let's say, post-World War II, 1950 to 2000, was 3.5 percent growth after inflation. And in fact, you can go back to the entire 20th century, including the Great Depression, and the average growth rate – and I know the data maybe is sketchy in the early part – but the average growth rate is scored at 3.5 percent at an annual rate after inflation.

So, I'm not satisfied with the low growth. I helped out in the campaign designing some tax cuts, as I say, especially business. In the Reagan years, we had great progress on personal tax reform, a little bit on the business side. But the business side has been lagging. We've fallen behind. For many years on my broadcasting shows I've argued the need to reform the business tax code, large and small businesses, better repatriation terms, and of course 100 percent expensing. And I believe this approach, which is beginning to bear fruit, I think this will move us back toward our long-term growth trajectory.

I – with all respect – I have many friends in the Democratic Party. I'm a former Democrat myself, as was Reagan, as was President Trump for that matter. I just disagree, respectfully, with the idea of secular stagnation – 2 percent is the best we can do. And won't get into the grass right now, but I would just say it looks like we have gotten a good leg-up in the beginning because these new tax and regulatory rollback incentives are beginning to produce a tremendous business investment boom – equipment, capital spending, structures, technology, campuses, whatever, retraining. We're getting more capital per worker for the first time. The old K over L ratio.

And over a period of years, I believe, and our administration believes, that infusion of capital to make the workers stronger will, indeed, restore productivity which have been lagging for quite some time, under Democrats and Republicans. And it's starting to bear fruit. As I said, there's a cap-ex boom beginning. Productivity's showing signs of life. I know it's early in the game. I appreciate that. But it is showing signs of life. We like that very much.

One other point I'll make – two quick points. And then David and I will go. We have seen really a remarkable burst of confidence – and I've been around a while and I've done this from different sides – government, Wall Street, TV. You look at these confidence charts, whether it's consumer sentiment or small business, NFIB.¹ I've never seen such an abrupt turnaround, a V-shaped recovery, almost beginning the day after the election and continuing, continuing right up to the last recorded month. And I think that really is a big change in attitude. That confidence number's worth watching. That's the real poll for the economy.

And as I say, it's being reflected now in better attitudes and it's being reflected in more optimism. I'm a firm believer in optimism. I'm the happy warrior, the last of the breed. I learned it from President Reagan. I'm relearning it with President Trump. On the newsroom floor at CNBC, I was called the happy warrior. I just won't accept second-best. And that's why these new changes I think are bearing fruit and will continue to bear fruit.

I will just say – and I have book out – a recent book out. I've written a couple books. The most recent book, two years ago, it was called “JFK and the Reagan Revolution.” You can get it on Amazon. [Laughter.] Just – you can one click right through. It's very simple. But my point in that book, written by my co-author Brian Domitrovic, the terribly smart historian, was Democrat Kennedy was the first post-war supply-sider – Democrat JFK. And it worked. It worked for, I don't know, we had a good boom of seven, eight, nine years. And then we went off the tracks. And Republican Reagan came in and emulated and borrowed much of the Kennedy tax rate reduction across the board. Reagan gave JFK full credit.

¹ NFIB is the National Federation of Independent Business - the largest small business association in the U.S.

My point is, if you work this model, this incentive model as I call it, we will get growth. It has worked in the '60s and it's worked in the '80s. And actually, for the most part, worked in the '90s. We had a few glitches there, but finally Republicans, working with Democrat Clinton, produced some pretty good stuff. And we kind of got lost in the last 20 years. I hope we are regaining it. The early returns are good.

One last point. I promise. We'll talk about trade. I know that's a controversial issue. I'm more than happy to talk about trade. I've been deeply involved since I came down here. There was a wonderful piece in my favorite supply-side newspaper, The Washington Post. [Laughter.] I guess it ran a week or two, front page above the fold, about the burst of blue-collar employment. And they charted it all the way back – hadn't seen anything since 1984, when I was a cub scout working for Reagan.

Jobs are proliferating in those sectors. Manufacturing and so forth. Energy. Energy's such a huge part of our recovery story – more on that later. Paychecks are getting fatter, after tax, after inflation, after bonuses, after benefits – according to my dear friend and colleague Kevin Hassett of the CEA.² That's a wonderful thing, blue-collar workers. They've been left behind. They're starting to come back. And I notice other reports talking about higher wages and salaries.

Our view, my view, Kevin Hassett's view – if you lower corporate tax rates and related investment incentives, the biggest beneficiary will be ordinary, Main Street working folks. And this is a controversial idea in the academic literature, but it has gained a lot of support in the last 15 years. We're working to that. We're banking on that. And it seems like it's already happened. So, I give you fatter paychecks, better blue-collar jobs. I give you a tremendous run of confidence. I think we're going to go on for quite some time. This is not a sugar high. This is a change in marginal tax rates and regulations which will keep on giving incentives.

As David was kind enough to point out, in my first quarter in the White House we got 4.2 percent growth. I take complete responsibility for that number. [Laughter.] Actually, the Atlanta Fed's is just up there. They're at 4.1 in Q3, come out in a couple weeks. We'd be more than happy at any time to beat 3 percent, which is our official forecast. President Trump has always said, take a rip at the ball. Take a rip at the ball. I'm behind you, not to punish but to reward. I think it's working. And so, I'll be around a while to help it work. Thank you. [Applause.]

MR. RUBENSTEIN: OK. So, thank you very much, Larry. Thank you for coming here today.

MR. KUDLOW: Appreciate it.

MR. RUBENSTEIN: So, since World War II, on average, we've had a recession every seven years. We're now almost 10 years into a growth cycle. Now, things can't be much better than they are. The economy's wonderful. But, you know, if you're Jewish, you think things that are always good – something bad is going to happen. [Laughter.] And I'm always thinking

² CEA is the Council of Economic Advisers. Kevin Hassett is the Council chair.

something bad is going to happen. So when will there be a recession? There's going to be a recession at some point, or you don't think we – we're going to have one in any foreseeable future?

MR. KUDLOW: I'm sure there's a recession out there in the business cycle but, no, I don't see it in the near future. I'm a practicing convert to Catholicism. [Laughter.] I have a lot of faith. [Laughter.]

MR. RUBENSTEIN: OK.

MR. KUDLOW: In the holy spirit if not the bureaucracy.

MR. RUBENSTEIN: OK. So –

MR. KUDLOW: But my bigger point is – I gave a talk last evening to my great friend Ralph Reed's Faith and Family Conference. And a couple of early questions came up about this crash, that crash. And my advice to that person was, you know, I'm not really a betting man. But if I were, I would advise you to take the over. We've been taking the under for too long. Let's take the over. [Laughs.]

MR. RUBENSTEIN: OK. What about the deficit and the debt? We're running – we have \$21 trillion of total indebtedness. And we are running an annual deficit for FY '19 projected to be roughly \$1 trillion or so. Are you not worried about the total indebtedness and the deficit?

MR. KUDLOW: No. Not at the moment, no. I've never been much of a deficit hawk. But I understand over a period of time that could be more difficult. Look, David, my point here is not to be some wild-eyed guy with a crazy forecast. I'm just saying, growth is going to solve a good deal of that deficit and the debt burden on the economy. If we get the kind of growth we're looking for over a period of 10 years or more, that is going to be an enormous help. And I believe that deficit to GDP ratios will be coming down – not immediately, I get that – but I think they will over time. That's been our experience. But the other factor is there must be greater spending limitations. There's no question about that. Grow the economy, trim spending, go for more modest government. We've done it on the regulatory front. I think you'll see a tougher line on the spending front.

MR. RUBENSTEIN: Now, in the campaign President Trump took off of the table entitlement reform – Social Security, Medicare, Medicaid. You gave a speech recently, you said, well, maybe next year we'll take a look at that. What did you mean?

MR. KUDLOW: Yeah. It was a – it was a big maybe. And it was – what I was trying to say – my dear friend Becky Quick of CNBC – I was saying we are going to continue to reform and erase the vestiges of Obamacare, with which we disagree enormously. And we've got the end of the individual mandate. We've also made some regulatory reforms. Much more to do with taxes and spending. She was talking about big entitlements long term. I was talking about Obamacare. I didn't mean to imply big entitlements. To be very clear, we have no plans to deal

with the big entitlements right now. We have enough on our plate with Obamacare. But – but, but, but – let me just raise a couple points real quick.

I believe Obamacare was an important entitlement to go after. And secondly, let me make this point, Nick Mulvaney, our OMB³ budget director, we're all gathering now in the early stages of the budget process. He has shown, actually, the biggest part of the deficit is not the big entitlements. It's actually non-defense spending – I'm sorry – it's actually discretionary spending across the board. Now, that includes things like food stamps and welfare. And the president wants workfare put into all these programs, which by the way Clinton and Gingrich did years ago, restored that eligibility workfare, cut that. But there's a lot of extraneous stuff in this budget. So, we could make a big dent in spending – and I think you'll see this – without worrying about the big entitlements. Let's just look at the bread and butter stuff that goes on every day.

MR. RUBENSTEIN: Now, the economy is doing very well by every standard. So, if it's doing so well, why do we need to have tariffs? Because we're already doing so well, why do we need to have tariffs? If we just keep where we are – why don't we just keep where we are? Why do we need to have tariffs? Because theoretically we can't do much better than we are?

MR. KUDLOW: Well, look, President Trump is a trade reformer. That's his basic point. And I am – have been known, and still am, as more of a doctrinaire free trader, OK? I did not approve of the blanket steel tariffs, for example. Art Laffer⁴ and I wrote an op-ed when I was out of office against it. But on the other hand, he makes the point that the trading system has broken down. The idea of reciprocity on tariffs and non-tariff barriers has gone away. There's a lot of unfair trading practices. The biggest culprit is China. And that can't be left alone. And there's evidence, good evidence – and it's not only China, I might add. But our tariffs are much lower than their tariffs almost everywhere in the world, nearly everywhere in the world.

Why should we accept that? Why? I mean, past presidents in both parties have given some lip service to changing China's trading practices, but never followed through. President Trump is following through. And you know the bill of attainder here as well as I do. You've got IP theft. You've got forced transfers of technology because of the ownership problem. They won't let us own American companies, or they won't give us licenses. You've got a lot of tariffs on various food and industrial commodities. And the thing is, on the free trade side I look at this – so does the president – if they lower these barriers and open up markets, we will have huge export sales because the United States is the biggest, most efficient, competitive economy in the world. We will actually benefit their consumers and their businesses by doing that.

But, you know, China has played fast and loose with the rules. The World Trade Organization needs reforms to enforce those rules. China is taking advantage. They're not a third world country anymore. Why should we have to suffer? That's President Trump's biggest issue. It's like, my point is this. Don't blame Trump. Blame the system he inherited, which was essentially broken. And you've seen now recently we were able to complete – I have to get this

³ OMB is the federal Office of Management and Budget.

⁴ Art Laffer is an American economist who was a member of President Reagan's Economic Policy Advisory Board.

right – USMCA⁵, formerly NAFTA, with a combination of pressure, negotiations. Pretty good deal, in my opinion. May not be perfect. Pretty good deal. Certainly, the supply chains are intact. We are talking to the European Union again. We are talking to Japan again. And we are moving to what I have characterized as a trade coalition of the willing to confront China.

They fix – you know, and others need to fix things too. We probably need to fix a few things too. But I’m just saying, the president wants a level playing field. He wants reciprocity. Ultimately, he wants zero tariffs, zero non-tariff barriers, and zero subsidies. This may be painful in some cases, right? He’s a disruptor, as we know. But, again, using NAFTA as a good win, and we had South Korea, I believe these things can be negotiated. And I am quite patient on this. It’s only been four or five months. I think we should let him do his work.

MR. RUBENSTEIN: Well, let’s talk about USMCA, as it’s now called. He didn’t like the acronym of NAFTA and this is a different one. It’s harder to remember this one, but OK. USMCA, OK. [Laughter.] You have to actually get it approved by Congress. And you can’t use fast track authority in the lame duck session, as I understand it. So, you’ll have to get this approved in the next Congress.

MR. KUDLOW: Well, you could, David, I think. This is –

MR. RUBENSTEIN: Well, you’d need to get it – you’d need to get 60 votes in the Senate.

MR. KUDLOW: But it’s not likely, that’s correct.

MR. RUBENSTEIN: So, assuming you don’t have 60 votes in the Senate, for whatever reason, if you use fast track and you didn’t need to get 60 votes in the Senate you’d have to do it next year. Next year the House could be controlled by the Democrats. Are you –

MR. KUDLOW: Possibly.

MR. RUBENSTEIN: – confident that you can get it through, even with a Democratic-controlled House, or you’re not sure if you can get it through?

MR. KUDLOW: Well, look, what I would say is if Democrats really support the working folks, the middle, Main Street, manufacturing, blue-collar working force, they will support this deal because many of those provisions are aimed at exactly that, all right? You’ve got the domestic content, but it’s NAFTA content, or it’s USMCA content. Some wage adjustments. Some very good adjudication and review procedures. This thing – you know, the president campaigned on it – this thing is about the blue-collar working folks. And if the Democratic Party supports that group they should vote for this.

This is – I mean, we’ve met – I’ve been in these meetings. The heads of the labor unions. Good folk. Most of them were on my TV show down through the years. They were – they liked

⁵ USMCA is the United States–Mexico–Canada Agreement, a pending free trade agreement between Canada, Mexico, and the United States. It will replace NAFTA – the North American Free Trade Agreement.

it. They weren't ready to totally commit, but they basically were sympathetic. So, I think we pick up from there.

MR. RUBENSTEIN: OK. Many provisions in this new agreement are taken out of the Trans-Pacific Partnership.⁶ There are many things that are similar. Would you consider revising the effort to do the Trans-Pacific Partnership, and maybe get a new agreement there?

MR. KUDLOW: I would say not at the present time. And we do a side-by-side – I think Ambassador Robert Lighthizer may do a presser on this today. But this deal is really much better than TPP in so many different areas. I think our next focus is – well, first of all, China's first and foremost – first and foremost. The process has slowed. We've been very disappointed with China's response. We've made our asks. We're always willing to talk, serious talks, anytime. Maybe, maybe, Presidents Trump and Xi will meet at the G-20 in Buenos Aires. Maybe not. There's some hope about that. We are engaging with Japan on an FTA.⁷ We are engaging with Europe on something that might be FTA-like. So, we will see.

MR. RUBENSTEIN: OK. Now you served in the government in Washington the first time, and you were the director of economic policy for OMB. David Stockman was then the director of OMB. Presumably in that position you did not have as much contact with the president as you do now, but how you would compare President Reagan with President Trump in their decision-making and the way they look at economics and other kinds of things?

MR. KUDLOW: Well, I work in the White House once every 35 years or so. [Laughter.] That's what I do. I loved my job at OMB. Now, you have a senior job at OMB, you really learn how the government works. I mean, that's where it all comes together. Look, they are two different gentlemen, two different people. Reagan was remarkable. I didn't spend nearly as much time in those days as I do now. I was in meetings. Did do – presidential cabinet. Just different people. And they are who they are.

But I would say this, maybe this is overlooked sometimes by my friends, if you look at the policies, they're very similar. Remember, Reagan was an outsider. Reagan was not a Wall Street guy. He was a Californian. His pressure points, policies, and even donors were not Northeastern-based. President Trump's quite similar in that respect. You know, President Trump is moving in the red states and the Northeast and the industrial parts that have been ignored. Reagan was the same way. Reagan deregulated. Obviously, Reagan slashed tax rates. Both of them basically believe in free market principles. So, they're quite similar, though they have many different styles.

MR. RUBENSTEIN: So, you are very successful. You have a TV show. You have a radio show. You're presumably making –

MR. KUDLOW: Had. Had.

⁶ The Trans-Pacific Partnership is a defunct proposed trade agreement between Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, Vietnam, and United States. Signed in 2016 but was not ratified and did not take effect.

⁷ FTA – Free Trade Agreement

MR. RUBENSTEIN: You had?

MR. KUDLOW: Had.

MR. RUBENSTEIN: You had?

MR. KUDLOW: Had.

MR. RUBENSTEIN: You had. You were very successful in that. And presumably you're making more money than when you were – than your government salary, I assume.

MR. KUDLOW: By a very small amount. [Laughter.]

MR. RUBENSTEIN: All right. So how did you all of a sudden get this position? Not that you're not qualified for it, but did the president woo you over a long period of time? Did you want to give up all these things to come in and be flagellated by people in Washington? Why did you want this? [Laughter.]

MR. KUDLOW: [Laughs.] I was pretty surprised. I mean, I had been in the campaign. I've known him for many years. I've interviewed him on both radio and television. I work with a bunch of folks – Steve Mnuchin and Steve Moore and Steve Miller and so forth, Art Laffer. You know, we helped on the tax side particularly. But, no, I didn't expect it. I didn't seek it, and so forth. And I guess last March I was – I have a place in Connecticut on the weekends. I'm driving home from tennis in the afternoon. White House operator calls. So, I pull over to the side. We don't have near enough cell towers in Connecticut. And we talked for about 30-40 minutes. And he says he will call me back the next day. And he did.

And he said, he's calling me back the next evening. And he did. And we had long talks. That Tuesday evening came, I was at a midtown restaurant, a bunch of pals. Saw the thing come on, so I walked outside. Unfortunately, it was cold and raining. And he was talking about a lot of things. And he was actually sort of mapping out some of the things he would ask me to do. And I had to get home to do a radio show. But I think I said: Sir, are you offering me a position? And he said, yeah, yeah, absolutely. You're my guy. Congratulations. Start right away. [Laughter.] And I love him for it. That's pure Trump. And as I say, we have a good relationship going back through the years.

So, I will say this. Look, to me, this is first and foremost a great honor. And it gives me a chance to weigh in and work as an advisor and as a manager of the NEC,⁸ which cuts a wide swath, on issues that I've been working with for many years, in some sense four decades. It's an honor. And I have to tell you, most days really, it's the most fun I've ever had, if you want to know the truth.

⁸ NEC - National Economic Council, the principal forum used by the president for considering economic policy matters.

MR. RUBENSTEIN: Well, let me ask you this. I worked in the White House when I was in my late 20s. You worked when you were in your 30s, I guess, or so, before. Now you are over 70.

MR. KUDLOW: Barely.

MR. RUBENSTEIN: Barely. [Laughter.] Many White House staffs are filled with younger people. Do you feel, you know, like you're a little older than the other people? And can you keep up with all this – these young people in the White House? [Laughter.]

MR. KUDLOW: This is ageism discrimination at its worst. [Laughter.] We had –

MR. RUBENSTEIN: I'm almost your age, so.

MR. KUDLOW: I know. I'm going to get to that. [Laughter.] Look, we have, as you – we have a tremendous crop of young people, by the way. Just tremendous. And, you know, part of my – part of my career down through the years and now is I'm a talent spotter. I try to bring kids along. Many of them come to me for advice. And I love it for that. I just love it. But there are some gray beards – quite a few gray beards around. As I say, there's still a bunch of Reagan – people that I met as a child with Reagan, like, John Bolton or Bob Lighthizer, or Tony Dolan. There's a bunch of us still hanging on for dear life. The president himself has as much energy as I've ever seen. The guy's indefatigable. So, no, it's not a problem.

MR. RUBENSTEIN: OK. Not an issue, but early in your tenure you did have a heart problem. And you've fortunately recovered from it. How did you know you actually had a heart problem? And did you ever have any history of this? And are you not worried about the pace you're keeping up with in the future?

MR. KUDLOW: No, I mean, I'm very blessed. It was very mild. Walter Reed took care of me wonderfully. I had some stents come in. I think of them as spark plugs to give me new energy. I have more energy now that I probably did for years. So, I just say, beware.

MR. RUBENSTEIN: OK. All right. So –

MR. KUDLOW: And they did good. I will just say, if any of you have a heart problem, go to Walter Reed. They're very good at it. And I was lucky. I was in the hospital for two nights. The president tweeted from Singapore – which was a lovely, you know, thing. But people kind of –

MR. RUBENSTEIN: He kind of outed you initially.

MR. KUDLOW: He outed me. We had just come back from G-7. And I was deeply involved in writing communiques with the leaders around me, and my own president giving the eye signals yes or no. I don't know if that helped, but in any case, I'm fine. I feel great. And I'm very blessed.

MR. RUBENSTEIN: OK. The best way to make a – get the president to make a decision, is it through a memo, is it a meeting, is it one-on-one? How does he make decisions on economic policy?

MR. KUDLOW: Well, all three. But principally in small meetings. He loves the give and take of the discussion. He's very knowledgeable. He has very strong business instincts. He's very hands-on. He's very decisive executive. And where there are disagreements, as there are, he likes to see the discussion right in front of him. And he's cross-examining everybody.

MR. RUBENSTEIN: OK. Now if you're a business person, and you want to influence the president on economic policy, what's the best way to do it? Is it to get a one-on-one meeting with him? Is it to go work through you? Is it to send him a position paper? How do people influence him?

MR. KUDLOW: Lord knows they can work through me. And one of the blessings of this job is I've met a million folks in business. I knew many of them before, but I'm meeting new ones. You know, having dinner with him is great. By the way, you can call him. He's remarkably accessible.

MR. RUBENSTEIN: What's the number they've got for him? [Laughter.] So –

MR. KUDLOW: I mean that. It's interesting. He's – to his senior staff, and these – you know, we have policy time with the president – he is remarkably accessible, really. And you can do that one-on-one. We like to do it more in small meetings. We have a great team and we have good team play and a very well-managed process by the chief, General Kelly. But I'll tell you, he takes a lot of calls at night. I've gotten a few. Some of them happy calls. Some of them less happy calls. So, he's very accessible. Just dial him up, David. [Laughter.]

MR. RUBENSTEIN: Is that 456-1414?

MR. KUDLOW: It still works. It still works.

MR. RUBENSTEIN: I already tried that. I tried to get through. [Laughter.]

MR. KUDLOW: When you say, this is David Rubenstein on the line, it will go right through.

MR. RUBENSTEIN: Right. I doubt that. [Laughter.] I doubt it. Right through where, I don't know, but OK. [Laughter.]

So today how would you say you've changed the economic policy process from Gary Cohn? He was there for about a year. Have you changed – do you have the same staff, or have you made changes?

MR. KUDLOW: First of all, in my opinion, Gary Cohn did a very good job. A friend of mine. And was enormously helpful for my transition. Very, very helpful. And I think he had a good staff. We have made some staff changes, but no thorough house cleaning. National Economic

Council, terrific shop. We are the free market guys in that building, and I'm proud of it. I work personally very hard with the staff because, you know, yes, I'm doing a lot of media work and so forth. And yes, you're in the Oval with the president. But so much of the day, as you might imagine from your experience, you're doing the committee work and the meetings, you know, which is tough going, but it's essential. So, I don't – I don't think I've made any radical changes. I would – I would – NEC, which is a fabulous place, we work with everybody. It's interagency and we will have a policy opinion at the end of the day. But much of what we do is discussions and brokering information and having calm meetings to get everybody's point of view, and then present it to the president.

MR. RUBENSTEIN: OK. And so, when you present things to the president, do you typically send him a memo first, or do you just go in and talk to him?

MR. KUDLOW: Yes, you have to go – right. You got to put some kind of either informational, preferably decision-making memo. It'll go through staff sec, and then we'll go into the meeting and have it.

MR. RUBENSTEIN: So, have you found that now that you're in this position people laugh at your jokes more, you've got business people telling you how much smarter you are than they used to tell you? Have you found life is much different?

MR. KUDLOW: [Laughs.] I've always had kind of a wiseass sense of humor. So sometimes that works, sometimes it doesn't. I'll be honest with you, it's funny in my particular situation. Down through 20 years of TV anchoring and so forth, you do learn to ask questions and interview people. I found that to be very useful in all these meetings with men and women from business, other agencies, my own staff. I try to bring it out of them, so I'm informed. I'm kind of a hands-on guy on these issues.

MR. RUBENSTEIN: So, I have a future. I could be an economic policy person in the future too, right?

MR. KUDLOW: You need a little more TV work.

MR. RUBENSTEIN: TV work? [Laughter.]

MR. KUDLOW: But you could be.

MR. RUBENSTEIN: So, when you had a TV show and a radio show, as you did, and I listened to and watched it from time to time.

MR. KUDLOW: Thank you.

MR. RUBENSTEIN: You can say pretty much what comes into your mind. Sometimes you make a mistake, but it's not like the world moves one way if you say something you regret a little bit. Now, how do you resist the temptation to think what – to say whatever you want to say, because now you have more constraints? Is that a challenge?

MR. KUDLOW: Sometimes, but I still pretty much say what I want to say. I mean, I will say this: In terms of my relationship with the POTUS, he wants – I believe, and others have agreed – he wants me to give him my best shot. That means we will agree on many, many things. We may disagree on some things. He loves disagreements and going back and forth. You got to be ultra-respectful as his position, the president, and I enjoy that very much. That’s kind of the way I am. I’ve always tried to be a bridge-builder. I’m not hung up on political labels. On the air for many years I made some great friends in both political parties. I’m not saying I was perfect. There’s a few I’d like to have back. I’ve actually apologized to guests on the air if I felt I was too aggressive. But that’s my style. I’m not – look it, if I have you on the – how the hell – you never came on my show. How’d you escape –

MR. RUBENSTEIN: I was not invited. But I’m happy the next time you have a show.
[Laughter.]

MR. KUDLOW: All right. If it – we never know. But I would say, look, so advice – my pal Austan Goolsbee, my pal Jared Bernstein, very distinguished economists on the Democratic side, if I invite them on I want to hear their point of view. And I try to carry that in my professional life in the White House, the same thing. There are differences between the agencies. You’ve got a lot of terribly smart people. You don’t get those jobs unless you’re smart. So, I just want to build bridges and hear them.

MR. RUBENSTEIN: All right. Now, we’ve talked about this a little bit ago. And you said it was OK to talk about this. You went through a transformative experience in your life that changed your life for the better. You had been at Wall Street. You had a problem, an addiction issue. And you cured it. How did you do that? And how have you remained so sober for, what, 23 years?

MR. KUDLOW: Yes.

MR. RUBENSTEIN: So, can you just talk about how that came about and how you’ve managed to conquer that?

MR. KUDLOW: Well, briefly, I had a – I was kind of a hopeless alcohol and drug addict.

MR. RUBENSTEIN: Not just beer?

MR. KUDLOW: No. I – [laughter] – no comment. [Laughter.]

MR. RUBENSTEIN: OK.

MR. KUDLOW: Look – he’s a pretty clever guy, isn’t he? [Laughter.]

MR. RUBENSTEIN: OK. So, you had a problem.

MR. KUDLOW: So, I won't go through the gory details over six or seven years. I will say this, and I've said this before many times, my wife of 31 years, whom I love dearly and is a saint, and she, right near the end, at the end – I'd lost everything. And she gave me a one-way airplane ticket to Minneapolis-St. Paul Airport. And about an hour north of there is a fabulous, magical place called the Hazelden Foundation. And I spent, I don't know, five - something - six months there learning how to live differently, which I needed. I was kind of a high flyer. I had enjoyed success. Changing myself. Restoring faith. It's not a religious place, but faith in a general spiritual behavioral sense. And it was the greatest experience of my life. It was a turning point in my life, without question.

And, as I say, once in a while I talk about this on the air, and I say to people: It's never hopeless. That's what I learned. It's never hopeless. If you are willing to listen and pull yourself back and take advice and directions from others who have been through it and are sober, you too can be sober. That's what I learned. And later on – by the way, I might add after many years of being the number one and number two economist on Wall Street in these various polls, when I got out of Hazelden I had one job offer from my very dear friend – and mentor – but very dear friend, Arthur Laffer, who brought Judy and me out to San Diego to live with him for a year or two. And I got well.

And God has been very good to me. And he has directed me. And I try – I'm not perfect – I try to follow his directions on a daily basis. And for the most part it has worked. I go to a number of 12-step meetings. I sponsor folks. I have sponsors. That fellowship is absolutely phenomenal. As I said earlier, I eventually became a Catholic convert and practice. And there is no way – there is simply no way that I'd be sitting here and you would be interviewing me, or that I would have a top job in the White House, or that I would become a professional broadcaster, which was a career – there is no way any of that would have happened were it not for the fact that I sobered up and stayed that way. I am eternally grateful for that. I personally thank God on a daily basis, sometimes during the day. And I live a life of a faith, where I do my best.

MR. RUBENSTEIN: Well, if you'd ever like to convert back, we'd be happy to have you back, but – [laughter, applause]. So, let me ask you about the Federal Reserve. On a less important matter, the Federal Reserve. The president said he wasn't completely happy with the increase in interest rates that Jay Powell⁹ has orchestrated. And you have seemed to say, well, that was a one-off comment. Not – don't take too much into it. Is the president upset about the interest rate increases? And do you regularly meet with the chairman of –

MR. KUDLOW: I do. I do. Jay Powell, good man. A very good man. Look, the Fed is independent. They're going to do what they're going to do. I've been through this a few times in government. The president has his opinions, and he gives them, which is great. But he's never – he's said, he's not forcing them, pushing them, or trying to apply any pressure. He's just giving them his views. I'm not going to comment on, you know, the Fed interest rates, but I will say this: Much to my pleasure, I think Chair Powell, in his speeches and so forth, has made it clear that a lot of the old models have not worked and are being reviewed.

⁹ Jay Powell is the chairman of the Federal Reserve.

And in particular, one of my key points down through the years is that economic growth is not by itself inflationary. This Phillips curve's¹⁰ stuff's got to be changed. Been disproved. The data don't support it. Moreover, not only, more people working with more success and higher wages is a good thing. We need that. This is the working folks. And that is not – inflation – I'm a Friedmanite¹¹ going back a million years. Too much money chasing too few goods. Nowadays, you can't use M2¹² or something –

MR. RUBENSTEIN: For those who didn't take Economics 101, the Phillips curve basically says –

MR. KUDLOW: Unemployment versus inflation.

MR. RUBENSTEIN: – when unemployment goes down, inflation goes up.

MR. KUDLOW: By the way, Phillips himself never really said that. He merely said that lower unemployment will boost wages. He never said it would cause generalized inflation. That came with the new Keynesians¹³ in the 1960s. My view has always been a monetary view of inflation. If you create excess money – and nowadays you would see it – let's say the dollar was collapsing, or the TIPS spreads¹⁴ in the bond market were expanding – you know, commodity signals are very important. I don't see any of that, by the way. And Chairman Powell has referred to that, much to my pleasure. And I think he's rethinking a lot of old shibboleths.¹⁵

MR. RUBENSTEIN: OK. Now, many people say that budget deficits matter, but a lot of economists don't say that trade deficits matter that much. Obviously, the president has a different view. Have you tried to tell him that trade deficits aren't viewed as that important by economists? Or he doesn't really care about that view?

MR. KUDLOW: Yes, and yes.

MR. RUBENSTEIN: OK. And with any progress? Modest?

MR. KUDLOW: Modest.

¹⁰ The Phillips curve is a single-equation econometric model that describes a historical inverse relationship between rates of unemployment and corresponding rates of rises in wages.

¹¹ A "Friedmanite" is one who supports the theory of economist Milton Friedman that economic regulation should be through direct governmental manipulation of the money supply.

¹² M2 is a calculation of the money supply that includes all elements of M1 as well as "near money." M1 includes cash and checking deposits. Near money refers to savings deposits, money market securities, mutual funds and other time deposits.

¹³ New Keynesian Economics is a modern macroeconomic school of thought that evolved from classical Keynesian economics. It differs from classical Keynesian thinking in terms of how quickly prices and wages adjust. New Keynesian theory maintains that prices and wages are "sticky," adjusting more slowly to short-term economic fluctuations. This, in turn, explains such economic factors as involuntary unemployment and the impact of federal monetary policies.

¹⁴ A TIPS spread compares the yield of the Treasury Inflation Protection Securities and the yield of regular U.S. Treasury securities with the same maturity dates. TIPS payments adjust for inflation, while U.S. Treasury payments do not.

¹⁵ A custom or a tradition.

MR. RUBENSTEIN: OK.

MR. KUDLOW: We have these discussions. And, again, you got to understand my view on trade. To me, lower trade barriers are pro-growth. That's part of the supply-side model. Pro-growth. And I sincerely believe that his view is the same. And if we open markets and get the reciprocity, and, you know, try to go for zero tariffs and non-tariff barriers and so forth, we will benefit enormously. You know, America is so competitive now, capital is flowing here from all over the world. It's really quite remarkable. I talked about the confidence before. We're killing it. Men and women in our economy are killing it right now. We haven't seen this in almost 20 years. So, if you open a market and give us a chance, we will pour right through it. And I believe that's the president's view absolutely.

MR. RUBENSTEIN: OK. Well, the economy is doing well. Everybody agrees with that. And nobody sees it ending anytime soon. But if you take credit for the economy being good, when a downturn occurs how can you avoid being blamed for it? In other words, you know, if you say: I'm responsible for the great economy. And then when it goes down how can you say: Well, I'm not responsible for it. You ever worry about that?

MR. KUDLOW: I've never actually said I'm personally responsible.

MR. RUBENSTEIN: OK, not personally, but the president has sort of mentioned it.

MR. KUDLOW: Yes. [Laughter.] My view down the through the years, David, as you know, I tend to get one big thing right about every 15 years or so. And I think I'm onto something right now. Yes, of course, the business cycle is not going to be repealed. And we will have recessions. But, look, remember this, basically, you know, from about 1980 to 2000, we had a couple of very mild, barely perceptible recessions. I'm not saying stocks don't fluctuate, but really economists look at that. They were very mild. That chapter ended, regrettably, in '08 and '09. But there's no reason why, if you have good policies and you have confidence and you have some optimism and you have some good leadership, yeah, we will go through the vagaries of the business cycle. But it doesn't matter. It just doesn't matter.

MR. RUBENSTEIN: All right. The next Congress – whatever the Congress is, Democratic, Republican, whatever, split – what legislative priorities in the economic area would you like to pursue, or the administration will pursue?

MR. KUDLOW: OK. Good point. We're working through that now. You know, budget stuff's coming toward the backend of the year. You know, we will continue to emphasize the need to maintain and possibly improve the tax reforms that we've undertaken. We will continue to move on the deregulatory track. We will continue to have maybe even greater emphasis, David, on energy – energy deregulation. We will, and are, becoming the dominant energy player in the world. We're running about a 11 million-plus barrels a day. We're ahead of Saudi Arabia. We're going to overtake Russia. A lot of the inside estimates in the agencies in our government is suggesting 15 million barrels a day in 2020.

But the real thing here is the natural gas revolution. And all this comes from the fracking and so forth, the horizontal drilling. The natural gas thing is off the charts. We had a fellow in yesterday – I won't name his name – we had a fellow in yesterday who runs a gigantic utilities company out West. He's mostly doing nat gas in the Permian Basin. And he's got more than he knows what to do with. They're burning it off, what's it, flaring is the word. And he went through the numbers. I had him come in and speak to the president. We are so cheap and so efficient that we – even with shipping costs, which is how it's being done to get to Europe, for example – we are very competitive with Russia. We may underbid Russia. Now, they may subsidize it – blah, blah, blah.

But we're just this – and every European country wants LNG.¹⁶ Asia wants LNG. There may come a time when China wants LNG. That is a revolution, right, which had been stifled for so many years. And part of that, to answer your policy question, is we need infrastructure, including pipelines. We need east to west, we need west to east.

MR. RUBENSTEIN: Why is it so hard to get infrastructure legislation? No one seems to be able to do it in the last decade or so.

MR. KUDLOW: The states have some problems. But we also have some leverage at the federal government. So, you'll see a lot of infrastructure talk. Pipelines. By the way, it's not just pipelines. It will be the building out of whole areas, like many cities, schools, shopping – that's the way these big companies are looking at it. I think it's absolutely a fantastic vision.

MR. RUBENSTEIN: Now, you've talked about energy prices – or, energy. And we're booming. We're the biggest oil producer in the world now. So, when the president says OPEC has prices too high, some people say, well, wait a second, we're the principal beneficiary now of high prices because we're manufacturing. What did he really mean when he said OPEC has prices too high, because we really have the prices high too?

MR. KUDLOW: Well, it's interesting – right. Nowadays, unlike the '70s and '80s, we are winners and losers when the price goes up and the price goes down, because we've become huge producers. You know, I'm not going to get up here and spout out oil forecasts. I believe – I've always taken Milton Friedman's position: World markets will work and assert themselves over time. So as this – as we evolve into the major energy player, I think prices will respond to supply and demand and production inputs.

By the way, I don't want to leave out on the energy story, besides oil and natural gas and LNG, we have made it easier for coal companies to restore, rehab, clean-up. We're trying to make it easier for nuclear. We don't have any particular biases against solar. We think it's too expensive in the open market, but whatever. There's no bias. We just – we want a level playing field, by the way, not subsidizing one side and not the other. And I think you'll see a big infrastructure push as, you know, new policies come out.

¹⁶ LNG - liquified natural gas

MR. RUBENSTEIN: Recently Amazon announced that it was increasing its minimum wage for its employees to \$15. I think you publicly said that was good. I didn't hear the president say anything good about Amazon, but do you think he might? Or?

MR. KUDLOW: In my lifetime? [Laughter.] It's possible.

MR. RUBENSTEIN: Possible. OK.

MR. KUDLOW: I applaud. See, I just have this peculiar view. More people working and prospering with higher wages they are earning is a wonderful thing – wonderful. Wonderful. [Applause.]

MR. RUBENSTEIN: OK. All right.

MR. KUDLOW: All right. It's not inflationary. It's not overheating. And as I said to you earlier, we are now incentivizing the new capital investments to make the workforce even better with productivity – I think it's fabulous. Now, I don't want the federal government to tell these private companies what to do. But if Amazon, making money, wants to give \$15 an hour, God bless them.

MR. RUBENSTEIN: OK. And we didn't talk about the dollar yet. I know the Treasury secretary's never supposed to talk about it, but there's no rule that says the head of the NEC can't talk about the dollar. So, do you have any views on whether the dollar is too strong?

MR. KUDLOW: My sense is the dollar has been steady and stable and reliable. Secretary Mnuchin has the same view. That's just how we want it.

MR. RUBENSTEIN: OK.

MR. KUDLOW: How's that?

MR. RUBENSTEIN: That's not going to get you in any trouble.

MR. KUDLOW: OK.

MR. RUBENSTEIN: So, let me ask you, you're obviously well-regarded within the White House. At some point after the midterms the president might say there's a Cabinet vacancy. Would you want to be in the Cabinet in any way? Or you're happy with your current job?

MR. KUDLOW: Oh, love my current job. I serve at the president's pleasure. I mean, David, back to your early attacks on me regarding ageism – [laughter] –

MR. RUBENSTEIN: They were attacks on me.

MR. KUDLOW: Well, I know, we'll share. It's a lovely experience. I'm too old to pad my resume. I don't have ambitions on this stuff. I've been around. I will serve him best I can. And I just love what I'm doing.

MR. RUBENSTEIN: OK. Whenever this comes to an end, at some point, three years, four years, however long you might serve, or he might be re-elected, you might serve, would you go back into the broadcasting world? Would you want to go into the higher calling of private equity? Or you're not sure? [Laughter, applause.]

MR. KUDLOW: [Laughs.] That's wonderful. You know what I would say? To be honest, I don't know.

MR. RUBENSTEIN: OK.

MR. KUDLOW: I mean, my life and career all these years, my ups and downs, I'm a lucky guy. I'm a blessed guy. And in my view, it's God's will. He will decide. And I just want to show up and do the best I can. He will lead me. Look, I've had careers – I mean, I was a Wall Street – I was a Fed economist, Wall Street economist, TV broadcaster. Now I'm back in policy and politics. I don't know.

MR. RUBENSTEIN: All right. Well, I want to thank you for your service to our country. And let me give you a small gift, if I could. Thank you. [Applause.] This is a map of – the original map of the District of Columbia. And we will send it to your office. OK? Thank you. Thanks very much.



**Larry Kudlow,
Assistant to the President for Economic Policy,
Director, National Economic Council**

Lawrence A. Kudlow leads the coordination of President Donald J. Trump's domestic and global economic policy agenda.

During President Trump’s campaign, Mr. Kudlow served as a tax and economic advisor.

Prior to the White House, Mr. Kudlow was a CNBC Senior Contributor and host of CNBC’s primetime show “The Kudlow Report.” He also served as chief economist and senior managing director of Bear Stearns & Company.

During President Reagan’s first term, Mr. Kudlow was associate director for economics and planning at the Office of Management and Budget, where he was engaged in the development of the Administration’s economic and budget policy.

He started his career at the Federal Reserve Bank of New York.

Mr. Kudlow has been a nationally syndicated columnist. He was a senior editor of National Review magazine, as well as a columnist and economics editor for National Review Online. He is also the author of “JFK and the Reagan Revolution: A Secret History of American Prosperity” and “American Abundance: The New Economic and Moral Prosperity.”

He previously served as the president of St. Patrick’s Church Parish Council in Redding, Connecticut and on the Fordham University Board of Trustees. Mr. Kudlow has won numerous awards, including the Bishop’s Humanitarian Award from the Catholic Charities of Brooklyn & Queens, the New York Police Department Holy Name Society’s Lifetime Achievement Award, and the Ambassadors for Mission Award from the Pontifical Mission Societies of the United States.

Mr. Kudlow was educated at the University of Rochester and Princeton University’s Woodrow Wilson School of Public and International Affairs.