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CGC PAST LIVE EVENTS

LARRY KUDLOW AND BARNEY FRANK, GAIL CHADDOCK

RUSSELL

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\* \* \*TRANSCRIBER'S NOTE: OVERLAPPING DIALOGUE THROUGHOUT; SOMETIMES  
DIFFICULT TO UNDERSTAND INDIVIDUAL SPEAKERS. MR. FRANK'S SPEECH PATTERN  
SOMETIMES DIFFICULT TO UNDERSTAND.\* \* \*

00:00:00;15

(OFF-MIC CONVERSATION)

UNIDENTIFIED MALE SPEAKER:

00:00:14;13

Our people expect their president and the  
Congress to find essential agreement on issues of  
great moment; the wise resolution of which will  
better shape the future of the nation.

UNIDENTIFIED MALE SPEAKER:

00:00:28;24

The Congress is so partisan, so divided, they  
refuse to even address this issue.

PRESIDENT CLINTON:

00:00:36;23

The political divisions we see in our country  
today, it is a counter-model for how people ought  
to make all kinds of decisions.

PRESIDENT OBAMA:

00:00:45;24 We can decide to come together and make our country reflect the good inside us.

PRESIDENT REAGAN:

00:00:53;09 But never better than in those times of great challenge, when we came together not as Democrats or Republicans, but as Americans, united in a common cause.

BRUCE BOND:

00:01:18;04 Well, hello and welcome. It's so good to see everybody. I'm Bruce Bond. I'm president of Common Ground Committee. And first, I'd like to thank the Unitarian Church for hosting us this evening. They've been delightful to work with. And also, on behalf of all of my colleagues-- in Common Ground Committee, I would like to thank all of you for joining us this evening.

00:01:41;03 Now, the video you just saw gives you a sense of our grass-roots group. Our motto and our hope is to bring light not heat to public discourse. And you know, we're actually based in the New York

area but the idea for Common Ground as it is today (Common Ground Committee as it is today) started right here in Nantucket-- during an interesting discussion with-- my friend from childhood, Erik Olsen, out on-- the Sconset Walf-- Bluff Walk. And-- Erik's also a member of the Common Ground Committee. So-- we have some Nantucket roots.

00:02:16;02

Now-- the event we're doing this evening is our seventh forum and-- the topic is: Finding Common Ground on Taxes. And I think we'd all agree that the political climate this year has been somewhat tumultuous. But we continue to believe that politicians and policy-makers can work together (and not compromise their principles) to find common ground and do the work that's necessary. And that's why we're here.

00:02:47;14

And so, let's get to it. First, I'd like to introduce our wonderful panel that we have tonight. And we're gonna start with our

moderator, Gail Chaddock Russell. Until recently, Gail was the Capitol Hill reporter for the *Christian Science Monitor*. She's covered Congress for the paper since 2001. Prior to her work at the *Monitor*, she taught politics at Swarthmore and Bennington College for eight years and will be going back to teaching politics at Principia College in Elmhurst, Illinois, this fall. Gail, welcome.

GAIL CHADDOCK RUSSELL:

00:03:17;12

Thank you.

00:03:19;12

(OFF-MIC CONVERSATION)

BRUCE BOND:

00:03:24;24

And next in the chair, furthest from me-- we welcome former Democratic Congressman of Massachusetts, Barney Frank, someone that you all know in this room. In his 32-year career as a member of the U.S.-- of the U.S. Congress, Chairman Barney Frank has been th-- he was the leading co-sponsor of the 2010 Dodd-Frank Act.

00:03:46;05

He proved himself to be an industrious and

accomplished lawmaker, serving as Chairman of the House Financial Services Committee from 2007 to 2011. Barney, welcome. (APPLAUSE) And in the center here, we have Larry Kudlow, senior contributor to CNBC, former host of CNBC's *The Kudlow Report*, and nationally syndicated columnist and radio host of *The Larry Kudlow Show*.

00:04:16;13

During President Reagan's first term, Mr. Kudlow was the Associate Director for Economics and Planning in the Office of Management and Budget. And-- he has provided economic counsel and advice to a wide range of top political figures, most recently Donald Trump. So, let's give our panelists a great hand, (APPLAUSE) and Gail, over to you.

GAIL CHADDOCK RUSSELL:

00:04:46;04

Thank you, Bruce. And welcome, everyone. As Bruce said, we're here tonight to talk about finding common ground on taxes. We're meeting just 100

days from a presidential election. It's probably one of the most interesting in our history and where the tax code and tax reform looms large.

00:05:09;22

Our two guests have both debated economic policy for decades. Usually, they meet kind of as gladiators. But they have agreed tonight to take on I think a harder task, and that's to help look for common ground. We're gonna begin by looking at current realities of taxes. And one of them (probably the most obvious) is that everyone thinks the tax code is broken and fiendishly complex. The question is how to fix it. Let's start by listening to President Obama talking about tax policy in April of this year.

PRESIDENT OBAMA:

00:05:56;13

When politicians perpetuate a system that favors the wealthy at the expense of the middle class, it's not surprising that people feel like they can't get ahead. It's not surprising that, oftentimes, it may produce a politics that-- is directed at that frustration. Rather than protect

wasteful tax loopholes for the few at the top, we should be investing more in things like education and job creation and job training that we know grow the economy for everybody.

00:06:24;24

And rather than lock in tax breaks for millionaires, or make it harder to actually enforce existing laws, let's give tax breaks to help working families pay for child care or for college. And let's stop rewarding companies that are shippin' jobs overseas (and profit overseas) and start rewarding companies that create jobs right here at home and are good corporate citizens. That's how we're gonna build America together.

GAIL CHADDOCK RUSSELL:

00:06:51;23

You might've missed the very opening of his comments, which is important. What he said was, "When politicians perpetuate a system that favors the wealthy at the expense of the middle class." We'll hear more about that as we proceed. We'd also like to show you another chart.

00:07:11;24

Everyone complains when tax rates are raised but to put it in perspective, let's look at it. Let's take a look at this chart. Historically, tax rates were much higher than they are today. Look over to 1944; an all-time high of 94%. In the Eisenhower-- hower years, it's 91%. And in the '60s and '70s, it's 70%.

00:07:39;21

We've just heard President Obama talking about tax rates, tax breaks. We've seen this chart about tax rates. We've seen huge variations in tax rates in this country. But to set the stage, we'd like to start with hearing from both our guests on their philosophy of taxes. What actually should taxes pay for? Mr. Frank, why don't we start with you? What do you think taxes should pay for?

BARNEY FRANK:

00:08:10;23

Oh-- taxes should pay for those things that the society wants, that have to be done together. I



believe that we are best off with a system in which there is a private sector that generates our wealth and goods and services, and people can make those purchases and their allocation of their income for those things which can be done individually.

00:08:41;11

But there are also some public purposes that can't be paid for, and-- taxes should be going for that purpose. They are some that are national defense-- some other things that are general. Then there's a more controversial element. To what extent should the public undertake to help people who would not, on their own, be able to do things?

00:09:08;10

That's-- and then there's-- another element I believe we need to focus on more. That is, there are things that are in the general interest in my mind, dealing with climate change, a number of environment issues-- properly done, international trade. The problem there is that these are public

policies that are in the general interest that have a differential impact on people within the society. Some people will be hurt disproportionately by things that are in the public interest. Now, we recognize that in one regard, with what's called eminent domain. If you own a piece of property, and the society needs it to build a road or a school or some other essential thing, you get compensated. It is much harder to do because you're talkin' about physical, real property. But what about those people who are negatively affected by environment policy?

00:10:06;24

Hillary Clinton got into trouble when she said to the coal miners, "You're gonna lose your jobs." Well, it is in the national interest for the coal miners to lose their jobs. It is not appropriate for the coal miners to lose their jobs with no compensation, no offset, from the society that is benefiting. I believe that's also the key to trade.

00:10:23;18

I think it's c-- international trade has a good effect on the overall GDP but it's had a negative effect on distribution. So, I think this is one of the most important areas to think about. How do you come up with policies that compensate those people who are disproportionately hurt by things that are in the general interest?

00:10:43;05

And I think paying for that is a legitimate demand to be made on the tax system because-- and I-- and I-- th-- I'll close with this. There's both a moral and a practical reason for doing it. The moral reason is that, very often, the people who are gonna be hurt worse are the people who are already at the low end.

00:10:58;24

But beyond that-- if you don't do it, they're gonna stop you, I mean, whether you want to do it or not. And I think many people would see that's the case with trade today. If you wanna go ahead with international trade, you've gotta deal with

the concern that people think that it's hurtin' them. I believe similarly with environmental policy, I think-- very important to go forward with what we need to do with regard to global warming being retarded and-- and-- and-- and dealt with. You've gotta come up with-- you recognize that some people will be disproportionately hurt and compensate them appropriately.

GAIL CHADDOCK RUSSELL:

00:11:30;22

Just a clarification before we go on, do you think that the tax code is the best way to do that? I mean, we used to have training programs for people that were displaced.

BARNEY FRANK:

00:11:38;22

Well, first of all, training is a useful thing. But to tell a 56-year-old coal miner that she's gonna become (or he's gonna become) a programmer is kind of deceptive advertising. So, yes, training is a part of-- but by the way, the tax code-- I'm not talkin' about doin' that through the tax code. I should be c-- I'm talkin' about

generating enough revenue. You asked me not what the-- what-- what taxes should pay for. These are not things that you can do--

GAIL CHADDOCK RUSSELL:

00:12:04;19

Right.

BARNEY FRANK:

00:12:05;24

--you-- or you'll-- you'll make the tax code worse if you try to deal with that directly through you get a break here or you get a break there, or you get a surcharge over there. This is the-- the-- to answer your question, it is-- this is, I think, a new category of items that we-- we need to talk about-- paying for publicly.

00:12:24;20

And again, I believe there's a moral component to that. But if we don't do more of that, we're already running into problems where there is political resistance to doing some things that are clearly in the general interest. But because they have the negative effect on some, they get stopped. And it's a rule of politics, without question; the antis will always have more power

than the pros.

00:12:45;24

You-- you-- w-- when you're doing something-- when the-- when the politicians are about to do something that people like, they take it for granted and say, well, they're doin' the right thing. When we're gonna do somethin' they don't like, we hear from them. So, there's-- there-- there's-- a kind of negativity built into this.

00:13:02;17

And I believe-- and-- and you (?) can go overboard, but I think it's important to recognize this principle of compensation. In effect, it's taken the principle of compensation for physical land that is taken and-- and use that, to some extent, to diminish opposition to policies that are clearly in the general interest but have this negative effect, economically and certainly politically.

GAIL CHADDOCK RUSSELL:

00:13:22;24

Mr. Kudlow, same question.

LARRY KUDLOW:

00:13:25;04 Well, actually, some of Barney's points I agree with.

GAIL CHADDOCK RUSSELL:

00:13:27;24 Good.

LARRY KUDLOW:

00:13:29;11 I mean, I-- right--

GAIL CHADDOCK RUSSELL:

00:13:29;20 Stop. Stop--

LARRY KUDLOW:

00:13:30;24 --right off the top, we're supposed to do common ground.

GAIL CHADDOCK RUSSELL:

00:13:32;10 Yeah.

LARRY KUDLOW:

00:13:33;24 We occasionally agree on CNBC-- which is probably why they threw both of us off. It's not enough--

BARNEY FRANK:

00:13:38;12 That's right, yes.

LARRY KUDLOW:

00:13:40;04 --screaming (LAUGHTER) and yelling. But, look, I think, you know, there's a bunch of g-- I'll just

call 'em generic points. Okay? The first one is to generate the resour-- we may disagree on precisely which programs and-- and resources. But we cannot desert people in need. We cannot. We cannot walk away from them (?).

00:14:03;24

Look, I'm a long-time Republican. I'm kind of a lousy Republican. I'm a Reagan camp Republican. If poor people can't afford health care, you know what I would do? I would just give it to them. I would pay for it. It's a government function. I've always said that. Been my position for years. There are other areas where I might agree with barney. There are other areas where I won't.

00:14:22;12

But what you're really asking here is how to build (or rebuild) a tax system which will generate the maximum volume of revenues and, at the same time, do little harm to the economy so that we can generate economic growth, which is the engine, as Mr. Frank said. It's a tricky business but I think there's some obvious things



that need to be done. By the way, on your--  
table-- is there a way to pull that long-term tax  
table back up on this thing? I wanna point out  
somethin'. If-- if not, not. But--

BARNEY FRANK:

00:14:59;05 The rate-- the one with the rates?

LARRY KUDLOW:

00:15:00;15 Yeah, the in-- individual tax rates.

BARNEY FRANK:

00:15:02;02 There it is.

GAIL CHADDOCK RUSSELL:

00:15:03;13 Thank you.

LARRY KUDLOW:

00:15:03;24 Yeah, the table's accurate. I'm not gonna call--  
I just wanna know-- and I'm gonna shamelessly  
push a book. But I think it's an-- a good book.  
You'll like this book.

GAIL CHADDOCK RUSSELL:

00:15:11;20 Did you write it?

LARRY KUDLOW:

00:15:12;20 I did. I--

GAIL CHADDOCK RUSSELL:

00:15:13;04 Oh.

LARRY KUDLOW:

00:15:14;09 --I co-authored (LAUGHTER) it. Oh, I thought you knew that. I co-authored it with Brian Domitrovic.

GAIL CHADDOCK RUSSELL:

00:15:17;24 I did know. Sorry.

LARRY KUDLOW:

00:15:19;06 So, look at this split here. You got-- in the '40s, in the '50s, you know, you're way up at 90%-some-odd tax rates. Now, you mentioned in the '60s and '70s, it dropped to 70%. That's actually not true. The guy who brought it down to 70% from 91% was one of my heroes: John F. Kennedy. Democrat. Just wanna (?) underscore that; Democrat. First supply-sider-- I might add.

00:15:46;17 Now, Kennedy horribly was assassinated. Johnson didn't really agree but he signed it. He signed the bill and he used it to make some deals with senators on civil rights. I'm not gonna go into

that history. I just wanna say Kennedy started lowering marginal tax rates. Then what your chart shows, you stayed at the 70% level for a good bit of time. And unfortunately, inflation pushed everybody into higher brackets.

GAIL CHADDOCK RUSSELL:

00:16:17;05

Ah, right--

LARRY KUDLOW:

00:16:18;15

And that was the curse of the 1970s--

GAIL CHADDOCK RUSSELL:

00:16:20;05

Right.

LARRY KUDLOW:

00:16:20;24

--so that these rates, and there were about 15 rates, they look like they were lower, but they actually got higher because they're all inflated. And it's called inflation tax bracket creep. Now, my main point is this. Reagan comes in and, working with a Democratic House and Republican Senate, gets the top rate, 70-- I'm sorry, to-- 50% in 1981, it was phased in, in '83, and then takes a second whack at the ball and gets the '86 tax reform bill (which I might add was a

bipartisan bill) to 28%. You know, and that's where it's held. Now, it's bounced up and down between 35% and 40%.

00:16:57;07

We can argue about whether 35% or 40% is the best rate or not. There's, you know, a lotta studies about that sorta thing. But having reviewed this, let me just say two things. The growth that Mr. Frank and I both want to provide the revenues for a lot of different purposes (private and public purposes), that growth, in my opinion, comes from the lowest possible marginal tax rates, with the simplest possible code and the elimination of virtually every single loophole in the code.

00:17:30;24

Okay? I want them out. I want the K Street out. I want the Chamber of Commerce out. As I said, I'm a lousy Republican. If we cut their tax rates-- and we're gonna get to the business side in a minute-- they-- I don't want deductions. Anyway, deductions is a bad tax policy. We need to reform. Second point, finally, I believe right

now, the most important tax is the corporate--  
the business tax.

00:17:52;03

I believe the single biggest obstacle to the economy is we are uncompetitive business tax rates, which range up to roughly 40%. We are the highest among the developed world. And we are losing companies, we're losing cash, we're losing investment. You know, right now, if you looked at the GDP on-- on Friday-- the economy is perilously close to recession.

00:18:15;08

The biggest thing dropping it is business investment, which-- has fallen in the past year. And actually, business (SLURS) investment peaked in the year, 2000, as did wages. So, I'm really interested. I mean, I would almost concede certain points. I would give up something on the personal side. I mean, I wouldn't, really. I'm a Forbes flat-tax guy; 20%.

00:18:36;21

But if it came down to it, I want to see-- if I

can't get elimination of the corporate tax, then give me 15%. Large businesses, so-called C-corps, small pass-throughs, so-called S-corps, 15% across the board. Europe is at 25. China's at 25. Canada's at 15. Ireland's at-- s-- 12-and-a-half. England-- Britain's going to 17. Get me to 15. Get me to 15. Stop double-taxing profits, so that the United States becomes (NOISE) the most hospitable investment climate in the world.

GAIL CHADDOCK RUSSELL:

00:19:12;16

We're about to talk more about that. Let's first look at the goals of tax reform, and we have another chart to show you. This chart shows a history from 1900 to the present. You'll see two spikes: World War I, World War II. And you'll also see that, especially after World War II, it's pretty unusual for tax revenues to come up to the level that government actually spends.

00:19:40;09

But we'd like to focus your attention on two points here. And-- Mr. Frank, why don't we ask you, first of all? Look at that period where--

during the-- Clinton-- Gingrich era, when (for a brief period) there was a government surplus. What do you think went on there? What created it? Is it something we ought to do? Is that important to have a surplus? And is there anything today that might reproduce that?

BARNEY FRANK:

00:20:09;24

Yeah. Actually, it should've become known for a while as the Clinton/Kasich era. People will remember that during the debates, John Kasich kept boasting about the fact that he was the last one to balance-- the only time the budget got balanced, when he was there. I kept reminding people that he was giving Bill Clinton that credit.

00:20:28;24

And you'll note, by the way, that that moment ended when George Bush and the Republicans came into power-- from people who just see this as, oh, Democrats, deficit, Republicans-- balance. In fact, at that point of intersection, Alan Greenspan told the Congress to be careful that we

did not reduce the debt. Remember, the deficit is the annual amount. The debt is the overall, cumulative effect of all the annual deficits. And Alan Greenspan said do not come close to reducing the debt altogether because it will make monetary policy impossible. If we did not-- and-- and that's how he-- he had a realistic fear at that point that that was gonna happen. It was a result of-- of two things. There were some spending cuts, some of which I thought were a mistake. But a big part-- and a big part of the spike in spending had to do with the military.

00:21:21;24

And this is historically-- when the Cold War ended, George H.W. Bush initiated a reduction in military spending. Bill Clinton carried that out. From 1990 on, for the first time in 50 years, there was no existential threat to the United States. And so, first, George H.W. Bush and Bill Clinton began a sinc-- a severe drop in spending. You also had a very good year-- you had a good productivity.



00:21:46;20

So, you notice the red is going up. Yellow's going down and red's going up because we were having a better economy; lower unemployment, more business activity means more taxes. What then broke that was-- George W. Bush decided that we could reduce taxes. And there was a general consensus. (UNINTEL) wanted to reduce taxes, too. Not by as much.

00:22:08;00

But the problem was, and this is where the divergence comes in right away, taxes get reduced at the same time that military spending spikes, because we then go to war in-- in two cases. We go to Iraq and Afghanistan. But a big part of-- of what happened in the '90s was spending was moderating and the biggest drop in spending was from the-- moderation in military spending.

00:22:32;17

And military spending took an enormous jump-- a couple hundred billion dollars a year, from the end of the Clinton years to-- within three years,

to the Bush years, when we were fighting-- two wars. So, that, I think, was the-- was the-- was the major factor in the-- in the spending going up.

LARRY KUDLOW:

00:22:51;08

Can I make one point on this, though? I agree about the drop in military spendin'. What you also have in this is terrific growth.

BARNEY FRANK:

00:23:04;04

Yeah, I mentioned that (UNINTEL) and a strong economy, and that's what brought-- brought up the revenues.

LARRY KUDLOW:

00:23:08;24

You basically had the '80s and '90s were growin' at 4% to 5%, basically. We had one very minor recession; didn't amount to a hill of beans. So, this sort of goes back to my theme. You wanna produce the resources for public purposes? You wanna get the budget back into balance? You wanna create greater business investment? Let's go for growth. Growth. Growth solves a lotta problems, including budget problems.

BARNEY FRANK:

00:23:36;16            Yeah, but--

LARRY KUDLOW:

00:23:38;06            Growth solves poverty problems. All right? May not-- the only solution, but it's very important solution. Growth has been missing for 15 years under Republican and Democratic presidents and Congresses.

BARNEY FRANK:

00:23:53;04            Let me respond to that, though. First, I agree-- first, there is one-- one point where we have some disagreement. Growth has not produced for us as much as we hoped because there has been a disparity. You certainly see it politically, and I-- and it's based on economic reality. The-- there is an increasing problem with the distribution of the profic-- proceeds of growth so that you have seen incomes for a large percentage of the population not growing with the growth.

00:24:23;04            And that's why growth is essential. But I do

think that growth has to be accompanied by some concern for distribution. And I agree. The trick is how do you have distribution that does not unduly affect growth. I think there's room to do it. But the other point I would make is this. And you make your point about havin' to get the-- the-- the corporate tax rate down, but it wasn't down durin' that period of growth.

LARRY KUDLOW:

00:24:41;08

No.

BARNEY FRANK:

00:24:42;02

You have just celebrated a period of growth.

LARRY KUDLOW:

00:24:42;22

No.

BARNEY FRANK:

00:24:43;24

But that was a period of growth with--

00:24:44;24

(OVERTALK)

BARNEY FRANK:

00:24:45;18

--let me finish. That's a period of growth with the corporate tax rate exactly where it is now. So, I have to-- the-- the notion that we can't have the growth unless we reduce that, I agree

with you; there was a period of great growth in the-- in the '90s. And it was with the c-- t-- tax rate and, in fact, the-- income tax rate being higher (?).

00:25:03;24

One last point I would notice for people, just to go-- if you think about it. This is an aside. You tryin' to find common ground? The tax fight now? Larry alluded to it; 5%. Under the Democrats, it's 39.6. This is the top rate. Under the Republicans, it's 35. We're-- we're fighting over a relatively small increment, although it can mean billions. But the basic point I would make is that the period of great growth that you're celebrating was one in which the corporate tax was as it is today.

LARRY KUDLOW:

00:25:28;17

But also, unfortunately, we were asleep at the switch. See, when I came into office for Reagan-- in 1980, the big issue was personal taxes. They were 70% and had gotten even higher than that because of the inflation bracket creep. And it

really was stunting economic growth, and it was really damaging particularly the middle class.

00:25:50;17

That got fixed, by and large. And as Barney said, you know, we've been fiddling around with a fairly small differential for income tax. What happened, though-- and this is what I think people have to focus on. The rest of the world was lowering their business income taxes and their depreciation rates were accelerated. And they had very substantial business booms--

BARNEY FRANK:

00:26:15;15

But--

LARRY KUDLOW:

00:26:17;22

In Europe, they moved down-- I'm gonna be very general here, not every country, but more or less from 45%, 50%, corporate tax to 25%. Some of the smaller countries are-- Britain, not so small, Ireland, Canada. China moved down. China's about 25%. The United States was left behind. We have been losing private capital--

BARNEY FRANK:

00:26:38;24 Except--

LARRY KUDLOW:

00:26:40;20 Hang on, one point. Because the incentive structure was running against business rate of return. So, they go where they are treated best. And I think it's damaged the United States. And I think it's helped foreign countries. I don't wanna p-- it's not like-- I don't see this as zero sum. I want everybody to grow. All I'm saying is the United States needs to join the corporate tax cut revolution that swept the rest of the world.

BARNEY FRANK:

00:27:05;19 The problem is two things. First of all, we do wanna have enough revenue, and-- and I know Larry would agree. They do have generally p-- higher personal tax rates there. So, that's an offset for the--

LARRY KUDLOW:

00:27:16;03 Some.

BARNEY FRANK:

00:27:17;00

--for the revenue. But beyond that, if it is-- if we're getting a lunch eaten by the rest of the world, because they have a lower corporate tax rate, how come we have the best economy? It's not as good as we would like to be. But since the Great Recession, America has grown faster than any other developed nation.

00:27:32;24

Larry, the facts just don't support this notion that we have lost out because of a competitive disadvantage in corporate tax, because we've done better. There are a lotta reasons for that; the stability of America-- et cetera. I mean, I have to say-- from the standpoint of, you know, what kinda shape America's in, we have two problems today that stem from a rec-- America being too attractive.

00:27:52;19

First, everybody in the world wants to come live here, so we have an immigration issue. And secondly, everybody's got money wants to invest



here, so the dollar goes up and there's a competitive disadvantage for some of our manufacturers. But the fundamental point is there's a conflict between your noting how they dropped their corporate tax rate and the fact that in the last seven or eight years, we have done better than all of those people (Japan and western Europe) with the lower tax rate, except for the Irish who went so low that they're now getting themselves in trouble with everybody else and they're goin' back up. But France, Germany, England, Italy, Japan, whatever that corporate tax rate is, we've done better.

LARRY KUDLOW:

00:28:26;13 Well, look--

GAIL CHADDOCK RUSSELL:

00:28:27;05 Let-- let me add one ele--

LARRY KUDLOW:

00:28:28;14 No, I wanna answer this, please. Those countries have so many other problems.

BARNEY FRANK:

00:28:34;12 Oh.

LARRY KUDLOW:

00:28:35;18 All right. I--

BARNEY FRANK:

00:28:36;18 But then we haven't lost to them, Larry. Maybe it's because of other problems but we haven't lost to them.

LARRY KUDLOW:

00:28:39;15 Our victory on the economy (our so-called victory on the economy) wasn't much of a victory.

BARNEY FRANK:

00:28:44;06 I didn't say victory. I said we're doin' better than they are--

LARRY KUDLOW:

00:28:45;24 We're doin' better-- but we're so down-- you know, the standards have dropped so much. I mean, actually, one country that has beaten us-- actually, two countries have beaten us durin' this period; that's Britain and Canada. United States has grown at less than 2% durin' this recovery. That was the front-page headline yesterday in the wa-- or yesterday in the *Wall S-*

-

BARNEY FRANK:

00:29:04;24 Larry, that's not the point. The point is--

LARRY KUDLOW:

00:29:05;20 No, I'm making--

BARNEY FRANK:

00:29:07;01 You're saying that we were at a competitive disadvantage to countries--

LARRY KUDLOW:

00:29:08;17 We sh--

BARNEY FRANK:

00:29:10;05 --when we're doin' better than they are.

LARRY KUDLOW:

00:29:11;02 We should-- barely. We shouldn't accept 2% or 1.5% growth. That's not doing--

00:29:17;22 (OVERTALK)

BARNEY FRANK:

00:29:18;08 I'm not saying it's good. I'm simply saying it invalidates the argument that we are losing because they are lower-- th-- than they are lower than us--

00:29:23;12 (OVERTALK)

BARNEY FRANK:

00:29:24;03 We're not losing to them.

LARRY KUDLOW:

00:29:24;24 But if you take a look at the business side of the calculation, we may be losing. That's what the debate over China--

BARNEY FRANK:

00:29:29;23 Maybe?

LARRY KUDLOW:

00:29:31;03 --is all about--

BARNEY FRANK:

00:29:31;24 Maybe sounds less certain than you were--

00:29:32;13 (OVERTALK)

GAIL CHADDOCK RUSSELL:

00:29:32;24 Time out.

BARNEY FRANK:

00:29:33;16 --three minutes ago--

LARRY KUDLOW:

00:29:33;23 No, but I'm saying--

GAIL CHADDOCK RUSSELL:

00:29:34;11 Time, time, time, time, time--

LARRY KUDLOW:

00:29:35;16 It-- it does-- it doesn't-- I don't think--

GAIL CHADDOCK RUSSELL:

00:29:37;10 Time.

LARRY KUDLOW:

00:29:38;18 --it takes away the argument--

BARNEY FRANK:

00:29:38;24 Oh, and China's tax rate is irrelevant to what their growth is.

LARRY KUDLOW:

00:29:41;24 Well, I put 25% plus the vig.

GAIL CHADDOCK RUSSELL:

00:29:43;12 We're-- we're about--

00:29:44;19 (OVERTALK)

GAIL CHADDOCK RUSSELL:

00:29:45;24 --to show a video that introduces an entirely new element to this discussion, which is this. Whatever people who are experts on the economy think is going on in the economy, the public has their own views. And we've just seen-- take a look at this video from Donald Trump and Bernie Sanders' rallies.

00:30:05;24

Thousands of people poured out to rallies to see Sanders and Trump this election season, unlike anything most of us have seen in our lifetimes. Both parties just had conventions. Hillary Clinton is officially the Democratic candidate. Donald Trump is the official Republican nominee. Let's talk about how the populism in this election, and that isn't what is accurate and happening in the economy; it's how people see it. How is the populism in this election going to change tax strategy?

LARRY KUDLOW:

00:30:38;01

Well, look-- I don't wanna repeat the argument, but the recovery of the last seven or eight years has not fulfilled the requirements of a normal, good recovery which, from a deep recession, should've been at least 4%, 5% or more. And so, what you've got is a middle-class revolt. That's the populist revolt.

00:30:58;24

The populist (THROAT CLEARING) revolt is aimed at

trade, China, Japan, NAFTA. The populist revolt is aimed at immigration. I think there are grains of truth in those, but I don't think those are the real causes. Middle-income people, wage earners in this country, haven't had a raise since the year, 2000.

00:31:21;22

Real median income, their way to slice this, basically not had a raise since 2000. So, you know what? They're angry. And you know what? Who can blame 'em? So, that's the flaw in the argument that the president makes (and that Barney just made) that our economy's outperforming everybody's economy. It-- it is true, statistically, in GDP terms, but it isn't really true. It isn't really true. We should be growing at, you know, two or three times the amount.

GAIL CHADDOCK RUSSELL:

00:31:47;16

But let's begin. We're gonna get right back to--

BARNEY FRANK:

00:31:49;12

I wanna respond to that, because that federal--

Larry, you keep misquoting me. I didn't say things were great. I talked about our growth rate on a specific point; namely that it refutes your argument that we have lost to those people whose corporate tax rate is lower but whose growth is even lower.

00:32:03;15

And in fact, the fact that their growth is so low, and you said they have a lotta other problems, that's part of the reason why we have not done better. Because we have been hurt by our lack of markets in some of our major trading partners, which-- probably 'cause the dollar's been so strong, because everybody has so much confidence in America, compared to everybody else.

00:32:22;13

Although, at least they've stopped them from buying \$20 million condos as a way to hide their money. But-- the fact is that their-- their-- their slowness has been the problem. Secondly, I-- I'm sorry. I know I mumble sometimes but I



thought I was clear that I thought the problem has been that the distribution has been bad. I have been saying this. I agree--

00:32:43;23

(OVERTALK)

BARNEY FRANK:

00:32:44;24

--there's no question. And that has two implications for tax policy. First of all-- and there were two elements. Larry and I certainly agree on this. There are two elements in the tax code: 1) One, how do you structure it to maximize incentive and to minimize disincentive? 2) What's the overall level of revenue it brings in?

00:33:01;23

Now, they can be somewhat interrelated because, clearly, a better tax code from productivity over long-term will bring in more revenue. But we have to--we can't just wait for the long-term. As an economist that Larry does not respect (and I do) once said, John Maynard Keynes, (LAUGH) "In the long run, we shall all be dead," so that you (LAUGH) can't just always put things--

LARRY KUDLOW:

00:33:21;08 He got that right.

BARNEY FRANK:

00:33:21;24 Yes, shall--

GAIL CHADDOCK RUSSELL:

00:33:22;19 Yes (?).

BARNEY FRANK:

00:33:24;05 --he (LAUGHTER) said, "We shall all be dead."  
But-- the-- the point, though, is, with regard to  
this, you have to have enough revenue to deal--  
well, there are two (UNINTEL) tax code. First of  
all, you have to have enough revenue. There are  
things you have to do to ameliorate the pain that  
some people have felt because the way in which  
the economy advances.

00:33:47;10 If you are highly skilled, highly educated, adept  
in technology, you have done better. If you have  
been in basic manufacturing where you have a high  
school education and a willingness to work, you  
have not done well. And that's not your fault.  
That's because of the way the economy has

evolved. I think there are people who exaggerate the extent to which trade is a part of it.

00:34:07;24

Larry said that Obama and I got it wrong. I know he just forgot to mention that the person who has most spectacularly got it wrong is his candidate, Donald Trump, because the most articulate advocate of that viewpoint that you so well-refuted is, of course, Donald Trump.

GAIL CHADDOCK RUSSELL:

00:34:21;09

I'm glad you mentioned--

00:34:22;11

(OVERTALK)

BARNEY FRANK:

00:34:22;08

But secondly, just one last point. I'm sorry but--

LARRY KUDLOW:

00:34:23;15

I-- I, unfortunately, don't agree with him on--

00:34:26;22

(OVERTALK)

BARNEY FRANK:

00:34:27;06

I know. You just want him to be president  
(UNINTEL) --

00:34:29;02

(OVERTALK)

GAIL CHADDOCK RUSSELL:

00:34:29;11 We're-- we're about to invite Donald Trump speak--  
-

BARNEY FRANK:

00:34:30;24 But I have--

GAIL CHADDOCK RUSSELL:

00:34:31;23 --but we're gonna start with Hillary Clinton--

BARNEY FRANK:

00:34:32;06 Oh, I have one more point b-- the-- the way the tax code works, first of all, you have to have enough revenue. Secondly, it has to be done in a way so that the lower-income people get a break. I think, for example, we should be changing the social security payroll tax and make people pay more at the upper end and-- reduce it some, as we did temporarily, to great effect on the economy in terms of consumption, for people who are at the lower end.

GAIL CHADDOCK RUSSELL:

00:34:54;14 Let's cue Hillary Clinton, who has something to say on exactly this topic.

HILLARY CLINTON:

00:35:01;01

We're going to make sure Wall Street corporations and the super rich pay their fair share of taxes. (CHEERING) When people say the game is rigged, the best evidence is our tax code. It is riddled with scams, loopholes and special breaks.

00:35:21;24

It is wrong that some millionaires do pay a lower tax rate than their secretaries and we're going to stop it. Now, compare-- (CHEERING) compare what Senator Sanders and I intend to do with Donald Trump's plan. His tax plan would make our current system even worse. Independent analysts say he would add \$30 trillion to the national debt in order to give a massive gift to the wealthiest Americans, Wall Street money managers and our largest corporations. But after all, what else should we expect from someone who calls himself the king of debt?

GAIL CHADDOCK RUSSELL:

00:36:05;06

Donald Trump couldn't be with us tonight, but he also sent a video clip. Here's Donald Trump at

the GOP convention, talking about his tax policy proposals.

DONALD TRUMP:

00:36:15;20

While Hillary Clinton plans a massive (and I mean massive) tax increase, I have proposed the largest tax reduction of any candidate who has run for president this year, Democrat or Republican. (CHEERING) Middle-income Americans and businesses will experience profound relief and taxes will be greatly simplified for everyone. I mean, everyone. America is one of the highest-tax nations in the world. Reducing taxes will cause new companies and new jobs to come roaring back into our country. Believe me, it'll happen and it'll happen fast.

LARRY KUDLOW:

00:37:15;04

Couldn't have said it better if I'd written it (LAUGH) myself.

GAIL CHADDOCK RUSSELL:

00:37:20;00

That-- that's my next question--

LARRY KUDLOW:

00:37:20;24

Which I kinda did. (LAUGHTER) He's learned his

lesson well. Not on everything but on that one. I don't think how-- I don't wanna make this (UNINTEL) Barney's for Hillary. I'm for Donald Trump's--

GAIL CHADDOCK RUSSELL:

00:37:33;24

Really?

LARRY KUDLOW:

00:37:36;09

Well, I'll let Barney talk for himself but I think he is. All I'll say is this. And this is generic point. I don't-- this is not antagonistic point. But I-- I believe this election mar-- in large part is gonna be fought over this issue. In other words, we are perilously close to recession.

00:37:50;19

We've had a very, very, very sub-par recovery. I don't believe you can run on raising taxes. Now, the shibboleth here is raising taxes on rich people and corporations and so forth. My view? That will make matters much worse. And I think Trump has the right-- idea on lowering taxes. And when he says we're the highest-tax nation in the

world, he's really referring to business taxes,  
not--

GAIL CHADDOCK RUSSELL:

00:38:14;10 Right.

BARNEY FRANK:

00:38:15;19 Oh, he wasn't sayin' the whole truth.

LARRY KUDLOW:

00:38:17;19 He--

BARNEY FRANK:

00:38:18;08 He didn't say we're the highest business-tax  
nation--

LARRY KUDLOW:

00:38:19;24 He should've put the word, business, in.

BARNEY FRANK:

00:38:21;20 To tell the truth.

LARRY KUDLOW:

00:38:22;12 I had it in there.

BARNEY FRANK:

00:38:22;19 Yeah. (LAUGHTER) Right. But you-- you-- you're--  
your accuracy lost out to his political need.

LARRY KUDLOW:

00:38:30;24 Well, let's just look at it this way. As you



know, you've been in the game a long time, you kinda do what you can do and then, at the end of the--

BARNEY FRANK:

00:38:38;12

Oh, y-- I-- I have no problem with you. My problem's with him.

LARRY KUDLOW:

00:38:43;03

But I do think he's going towards a growth message. And I don't think Mrs. Clinton has a growth message. And I think she, therefore, is wrong on the economic issues.

BARNEY FRANK:

00:38:50;13

Let me say a couple things. First of all, the problem with that is (UNINTEL) one other thing. One of the things that Trump has said that had some appeal to me was we have to tell other nations to start paying their fair share. Larry and I have talked about this. There's no question about it.

00:39:05;07

The paradox is that he says that and then, at the same time, talks about a significant increase in

the American military budget. Now, one of the advantages of having other people pay for this is we no longer have to pay their bills as much. But if you take his significant increase in the military budget that he's talked about-- the military's a disaster-- he wants a significant increase, and then a series of tax cuts-- and I understand the argument that, over a longer term, it may produce more revenue.

00:39:31;21

But clearly in the short-term, it costs us revenue. So, you are talking about-- and this is one of the things I think you need to do to deal with the unhappiness. You need to deal with the programmatic needs to put some people to work. For example, one of the things that we can do, that can alleviate this unhappiness, is a massive infrastructure program. Good for our productivity; putting people to work.

00:39:54;14

Putting people to work who don't have high-tech skills. Putting people to work in construction.

And if you put people to work in construction today, as opposed to 40 years ago, they're not just gonna be all white guys. Yes, there'll be a lotta white guys. There'll be African Americans. There'll be women. We've gotten better at that.

00:40:07;21

But the problem with massive tax cuts right now across the board, coupled with a big military increase, is that you then lose the ability to do any of the things that I think you ought to do to-- to-- to produce-- more offsets. The other point is this, and there's a conflict. Trump talked about how he's gonna attack the rich.

00:40:31;08

Trump's rhetoric? He's against Wall Street, et cetera. Well, I don't see how. And-- I-- I do think there is a contradiction between his general anti-rich-people-I'm-for-the-workin'-guy rhetoric and a tax cut which will do more for the wealthiest, 'cause they pay more--

LARRY KUDLOW:

00:40:46;17

Yeah, but--

BARNEY FRANK:

00:40:47;23 --than other people.

LARRY KUDLOW:

00:40:48;10 --he's gonna-- he's gonna take-- he's gonna remove literally hundreds of billions of dollars of deductions. Now, I can't give you a final package here. I'm not authorized--

BARNEY FRANK:

00:40:56;15 Well, let's talk about that. Politically, is he gonna--

LARRY KUDLOW:

00:40:58;21 No, is-- the-- the basic idea for tax reform, and you know this, whether it's personal or business, you wanna lower the rates, flatten the rates and broaden the base. So, that means you take your rates--

00:41:08;24 (OVERTALK)

BARNEY FRANK:

00:41:09;09 Larry, if you could do that, I'd agree--

LARRY KUDLOW:

00:41:10;06 And you get rid of as many deductions as--

00:41:11;24 (OVERTALK)



voters. And you say you're gonna get rid of the biggest deductions, the home mortgage interest (SLURS) deduction, the charitable deduction, and the voters will go-- go crazy.

LARRY KUDLOW:

00:41:56;14 Well, I don't think-- I don't think it has to be that way. This is--

BARNEY FRANK:

00:42:00;06 Well, what are the-- that's where the money is in the deductions, Larry. You know that--

LARRY KUDLOW:

00:42:01;21 Well, I do, but if you cap them at a certain limit, most people, first of all, don't pay the income tax, and second of all, don't have deductions.

BARNEY FRANK:

00:42:10;23 Right.

LARRY KUDLOW:

00:42:11;22 And the way this-- if this is done well-- and this is-- gonna be a Kudlowian work of art--

BARNEY FRANK:

00:42:16;11 But then there's no real-- there's no real money-

-

00:42:17;10

(OVERTALK)

BARNEY FRANK:

00:42:18;05

--if you start capping it--

LARRY KUDLOW:

00:42:18;20

I've got this whole thing wired. And--

BARNEY FRANK:

00:42:20;24

You can't even get Trump to say it right. How are you gonna get him to pass it?

LARRY KUDLOW:

00:42:23;23

We're working (LAUGHTER) on it. We're working on it. Yeah, this-- these things take time. You know that. It's about progress, not perfection. But I will simply say that-- that you can put-- and this is not a new thought. I mean, you--

00:42:36;12

(OVERTALK)

BARNEY FRANK:

00:42:36;24

No, I agree (?).

LARRY KUDLOW:

00:42:37;12

--guys from Brookings and you've got guys from Marty Feldstein and so forth. If you cap deductions, so-called tax expenditures, and r--

really put a cap on 'em, then it will-- the only people--

BARNEY FRANK:

00:42:46;01

Oh, but--

LARRY KUDLOW:

00:42:47;16

--that will be affected is this top 1% or 2%.

BARNEY FRANK:

00:42:48;21

No, but then you-- if you only do the top 1% or 2%, you don't make the real money. Home mortgage interest deduction, which I-- if we-- I think we oversubsidize home ownership at the-- at the expense of renters. I've been critical of that--

LARRY KUDLOW:

00:42:58;24

Agreed (?).

BARNEY FRANK:

00:43:00;24

I wrote (?) to cap it some. But if you-- that-- those are middle-class people who vote and they may exaggerate the extent of it. You're right. If you don't-- if you don't itemize, you don't get it. But I-- and the second is the charitable deductions. You will get the museums and the charities and the churches. You tell the Roman



Catholic Church that we're gonna take away their deduction and-- I'll vote with you. But good luck to both of us.

LARRY KUDLOW:

00:43:23;12 Well, (LAUGH) as--

GAIL CHADDOCK RUSSELL:

00:43:24;06 There's-- there's one other person--

LARRY KUDLOW:

00:43:25;13 --as somebody who sits on the board of his diocese-- that's an uphill battle. I would agree with you on that. (LAUGH) But-- but I don't wanna leave the impression at all this is happening. In other words, there are gonna be gradations and, as I said, different c--

00:43:37;08 (OVERTALK)

BARNEY FRANK:

00:43:37;22 But can I ask you a question--

LARRY KUDLOW:

00:43:38;18 Most Americans, I think, will not even need deductions. That's the way this should work out.

BARNEY FRANK:

00:43:44;24 All right, can I ask you this, though? And this

is the-- but th-- they want them. And--

00:43:48;15

(OVERTALK)

LARRY KUDLOW:

00:43:48;24

And this is off the record, by the way. I'm n--  
I'm only speakin' for myself--

BARNEY FRANK:

00:43:50;20

Yeah, no (UNINTEL). But it's for you-- I agree.  
But here's the deal. If you're telling me that  
the rate reductions are tied to the abolition of  
the loopholes, then I-- I-- I-- I'm-- I'm  
cheerin' you on.

00:44:04;04

(OVERTALK)

BARNEY FRANK:

00:44:05;05

My fear is--

LARRY KUDLOW:

00:44:05;16

I'm tellin' you--

BARNEY FRANK:

00:44:06;09

Yeah, that's in your mind, Larry--

LARRY KUDLOW:

00:44:06;24

I'm tellin' you.

BARNEY FRANK:

00:44:07;24

But my fear is that what happens is--

00:44:09;02

(OVERTALK)

LARRY KUDLOW:

00:44:10;00

You never believe that I'm a real Republican. You never have--

BARNEY FRANK:

00:44:11;11

No. No, I have-- I have-- I have said (LAUGH) that you're a Republican. I just think the rest of them aren't because you're (LAUGHTER) so different (?). But the point is this. I'm afraid what happens-- you go to Congress and you say let's lower the rates and let's get rid of the home mortgage deduction (?) and the health care, and d-- and they say, okay, w-- A-- yes to A and no to B. And that's--

00:44:32;24

(OVERTALK)

BARNEY FRANK:

00:44:33;12

But if you're tellin' me-- if I could get a guarantee that there would be no rate reduction without a concomitant elimination of-- of these others, I'm all with you.

LARRY KUDLOW:

00:44:42;03

The middle class, und-- und-- I'm just gonna call

it a vision. The middle class will not need to take the deductions.

BARNEY FRANK:

00:44:49;18 But they will think they do.

LARRY KUDLOW:

00:44:50;18 Well, perhaps. I mean--

00:44:52;02 (OVERTALK)

BARNEY FRANK:

00:44:52;24 But here-- but here's the other part--

LARRY KUDLOW:

00:44:53;15 Selling it is a different--

BARNEY FRANK:

00:44:53;24 There's-- there's-- there's-- you know, if we-- it's lotta things (?). Hey, if I was starting a (NOISE) new society, I don't know about you, I'd have a consumption tax. I'd have a progressive consumption tax--

LARRY KUDLOW:

00:45:00;24 Yes, I like that.

BARNEY FRANK:

00:45:02;14 --you know, if you were starting over again. The problem is this. For most people today-- well

(?), some have stuck, and it's still the case that either the biggest or the second biggest asset they have is the value of their home. And the-- the-- in the short-term, if you take away the home mortgage interest (SLURS) deduction, you will lower the value of that asset--

LARRY KUDLOW:

00:45:19;12 No, because--

00:45:20;09 (OVERTALK)

BARNEY FRANK:

00:45:21;09 --because that's factored into the sale, going forward.

LARRY KUDLOW:

00:45:21;24 But the overall picture is, if you lower the marginal tax rates, every place else, those deductions are worth less and, therefore, the impact on the va--

00:45:31;20 (OVERTALK)

BARNEY FRANK:

00:45:32;04 Yeah, but you're still-- even if you cut 'em in half--

00:45:33;22 (OVERTALK)

BARNEY FRANK:

00:45:34;19

Even if you cut 'em-- even if you c-- even if you cut 'em in half, you're still having a short-term hit to your asset value.

GAIL CHADDOCK RUSSELL:

00:45:40;15

But let's invite one other person here who wasn't able to join us tonight. Warren Buffett, however-- Chairman and CEO of Berkshire Hathaway, appeared on *CNN Money* back in 2010. And what he said went viral, and comments about tax reform don't-- often do that. Let's hear from Warren Buffett.

WARREN BUFFETT:

00:46:00;05

We're-- we're taking in about 15-and-a-fraction percent of GDP in income in the United States. That isn't enough. We're gonna have to get more money from somebody. Now, the question is: Do we get more money from the person that's gonna serve me lunch today or do we get it from me? I think we should get it from me. And-- and I have a lower tax rate, counting payroll taxes, than anybody in my office, and I don't have a tax

shelter.

00:46:21;20

I just follow-- just-- take the form and fill out the numbers. And I think that's very wrong. And I think that if we're gonna get money, and we're gonna need money. I mean, we are not taking in enough money-- at the federal government level. And w-- there's spending cuts to be done. I'm sure of that.

00:46:38;17

But we need more revenue, too. And you know, there's only a few places to get it. You get it from corporations or you get it from individuals. And-- and there's-- you know, if we're gonna get it from individuals, it shouldn't be the bottom 98%. It should be more from people at the top.

GAIL CHADDOCK RUSSELL:

00:46:58;04

Mr. Kudlow, to you, is it fair that Warren Buffett pays less on his investment income than his secretary does on her wages?

LARRY KUDLOW:

00:47:07;11

No, it's not fair. But the other side of the

story Mr. Buffett has never told you about is that he takes all of his income and puts it in his charity and, therefore, deducts everything. And he, by the way, runs the charity. So, that's just puttin' it from here to here. Here is taxable. The charity is not.

00:47:28;17

And I think this is one of the loopholes that should be closed. I'm not aiming it at him, per se. There are a lot of extremely wealthy people. God bless 'em. I'm all (LAUGH) for wealth creation. I love rich people. (MIC NOISE) I wish we could create more of them. But they should be taxed the way the rest of us are taxed. Okay?

00:47:44;07

And this charitable loophole, which is something we are looking at, I can't promise anything, that's what he's really talking about. And I think he's misled a lotta people. And CNBC-- you know, we've interviewed him many times-- has really kinda dug in on that. He doesn't like-- talk about that part. Just one more point. Look.



GAIL CHADDOCK RUSSELL:

00:47:59;02 Please.

LARRY KUDLOW:

00:48:00;14 Capital gains, very important tax; tax on risk, tax on investment (INAUDIBLE) very important risk. Mr. Buffett-- a lot of his income-- and I'm not-- I don't know what his latest financial statement looks like. But I'm gonna say that most of his income is from capital gains; sales.

00:48:20;14 So, he can then shuttle that into his charitable foundation. Now, there are a lotta ways you can ameliorate that. You could tax, for example-- capital gains that have not been realized. You can have an unrealized capital gains tax. My friend, Arthur Laffer, who's a supply-sider, has advocated that for many years. I'm not there yet. But you can also stop the charitable deduction and you can equalize that.

00:48:45;23 I mean, first of all, his secretary makes a lotta money. We've never really known how much (LAUGH)

she (?) makes. I think we should find that out. But the bigger point-- I don't wanna be snarky. I've never met the secretary. But the bigger point is he has a gigantic loophole; it oughta be closed. Okay? Mr. Gates does the same thing. Many rich people (UNINTEL). I'm not against rich. I'm for rich.

BARNEY FRANK:

00:49:04;22 Mr. Zuckerberg--

LARRY KUDLOW:

00:49:05;24 I'm against loopholes.

BARNEY FRANK:

00:49:07;13 Yeah, Zuckerberg just did that in a big way. Just one thing in defense of-- about (?) when you said he runs his charity. He actually turned his charity over to the Gates. Buffett-- so, he's not running his anymore. He turned it over, pretty much, to them.

00:49:18;24 But the other point he made, and I-- and it's a very-- I never heard this before, and I listen carefully-- to somethin' I alluded to. He said

he-- I pay a lower percentage, if you take into account the payroll tax. That's a function of the capping of the amount of your salary and wages that go to social security tax.

00:49:39;20

I hadn't really heard him say that before. In other words, if you are making \$100,000 a year, all of your income is subject to the FICA tax. If you are making \$5 million or \$10 million a year, one-tenth of 1% is. And that's-- that's one of the things I would like to talk at (?). We had a period where we had a bipartisan agreement, as part of the effort to respond to the crash, where the first 2% of the social security payroll tax was suspended.

00:50:09;10

And in that year, consumption spending went up because these are people who-- they gotta spend what they have. We then reinstated it. I would like to make one change, which is-- and I'm now in the higher bracket of social security. Social security taxes still end at about \$100,000. I

would like to take-- lop off the first 2% in social security, which is a major tax increase for people at the lower end, and add to that, say you'll start paying your payroll tax again above a half-a-million dollars.

00:50:34;22

And that would be-- you might (?) do it revenue-neutral for the social security system. And I think that would be very (UNINTEL). And the other point I would make is this, and I-- and I wanna agree on the charity, and this is one of the-- some of my very wealthy, liberal, rich friends have insisted on. One of the great abuses are the people who donate great art to museums and then leave it in their houses.

LARRY KUDLOW:

00:50:56;10

Right.

BARNEY FRANK:

00:50:57;05

And this is something that--

00:50:58;19

(OVERTALK)

BARNEY FRANK:

00:50:59;14

--all the great liberals have defended.

LARRY KUDLOW:

00:50:59;24 Right.

BARNEY FRANK:

00:51:00;20 You donate a great piece of art to a museum so that when you die, or somethin' happens, they get it and you get the tax deduction right away.

LARRY KUDLOW:

00:51:08;19 You know--

BARNEY FRANK:

00:51:09;24 I think-- and-- and these are museum (UNINTEL) great art and people should enjoy it. But people makin' \$50,000 a year are probably not gonna go to your house and see the painting and--

LARRY KUDLOW:

00:51:17;24 You think?

BARNEY FRANK:

00:51:19;04 --that's--

LARRY KUDLOW:

00:51:19;08 You think? Yeah.

BARNEY FRANK:

00:51:20;06 That-- that is an example of the charitable deduction that some of my liberal friends greatly

abuse and defend.

LARRY KUDLOW:

00:51:25;00

I agree. I mean, I-- I totally agree. I just wanna come back to the payroll tax thing 'cause that's an interesting subject. We did have this temporary reduction-- and there is some evidence that it helps-- consumption in the very short run. My problem with that, Barney, and it's problem with a lot of these quick fixes, if you had made it-- if there was a permanent tax reform-- and I know every-- nothing's permanent. But if you had said, look, it's not gonna expire in six--

BARNEY FRANK:

00:51:50;11

Indefinite.

LARRY KUDLOW:

00:51:51;04

That's right. I think that would've helped employers hire more--

BARNEY FRANK:

00:51:55;13

No, I-- I agree with that--

00:51:56;24

(OVERTALK)

BARNEY FRANK:

00:51:57;14 --I would like to make it--

LARRY KUDLOW:

00:51:57;18 --that would've helped employees--

BARNEY FRANK:

00:51:58;05 Because people-- people are not gonna make  
fundamental decisions on a short-term thing--

00:52:00;11 (OVERTALK)

LARRY KUDLOW:

00:52:01;22 That's--

BARNEY FRANK:

00:52:02;22 They'll-- they'll buy extra groceries. No, I  
agree. I think if we restructure the payroll tax,  
because it is a tax on employers as well as  
employees--

LARRY KUDLOW:

00:52:07;24 Yes.

BARNEY FRANK:

00:52:08;24 And I think that would be a good-- and again, I  
will say this. If they increased above a half-a-  
million dollars in income or whatever, I think it  
would-- that-- that fairly small amount would

have a negligible effect. I mean, we've agreed the 5% difference between the top rates-- I think you could work that in. And it would-- it-- let's put it this way. It would get you a bigger bang than a lot of other things for a fairly small--

00:52:30;00

(OVERTALK)

LARRY KUDLOW:

00:52:30;16

I tell you, man, I would give you-- I'm not gonna say everything. That would be too far. But I would give you a lot of runnin' room on the personal tax side--

00:52:40;14

(BARNEY FRANK UNINTEL)

LARRY KUDLOW:

00:52:41;17

--if you give me my 15% corporate tax--

00:52:43;11

(OVERTALK)

BARNEY FRANK:

00:52:43;24

At the right-- at the r-- with the right trade-off, we could-- we could do that, yeah--

LARRY KUDLOW:

00:52:46;02

I mean that. I mean that. I think there's a (APPLAUSE) deal-- I think-- I think there's a deal to be had. And-- and-- it's been



circulatin'. You know, you talk to staff in Washington. You talk to Democrat staff. You talk to Republican staff. They know that deal is out there.

00:53:02;22

And it's so disappointing. Look, I don't know why-- you know, when you see Mrs. Clinton-- and by the way, I've-- I've asked f-- I've asked some Clinton friends. I was a Democrat. I know a lot of her people. They're very smart. I said, "Give me ten or 15 minutes with her. I'm gonna-- I'm gonna turn her into a corporate tax reformer."

00:53:17;06

And I-- you know, I didn't hear back. Not surprising. (LAUGHTER) But the point I'm making is I th-- I think the-- the single biggest (SLURS) mistake on the growth issue-- I mean, I don't agree with taxing the rich and all that. I don't think it works. But the single (UNINTEL) where's her corporate tax reform plan, because that's the single biggest obstacle to economic growth, in my opinion.

BARNEY FRANK:

00:53:35;01 Oh, I d--

00:53:36;06 (OVERTALK)

LARRY KUDLOW:

00:53:36;24 And even Obama, he didn't push it but he had it in a couple budgets. He would've gone down to 28%. I give him some credit. He just didn't push it.

BARNEY FRANK:

00:53:43;24 I agree. But I-- I don't think it is the single biggest obstacle. At this point, I think the single biggest obstacle (SLURS) for us is the problems of the rest of the world. I mean, it's been a serious drag for the rest of the world (UNINTEL). But again-- if you-- I-- if you can-- you can do the personal income (?) tax in a way that is at least revenue-neutral and-- is distribution-neutral, which you can easily figure out, then I think that's a trade-off people would have.

00:54:09;20 The problem is-- on both sides-- and this is

partly the public perception. You say to the public, here's a deal. We're gonna lower this-- they don't believe you. They-- and-- and they-- they don't believe anybody. And part of the problem is, I have to say-- look-- Larry and I have both been critical of a lotta politicians, even when I was in office. And the media is about the worst.

LARRY KUDLOW:

00:54:27;21

The worst.

BARNEY FRANK:

00:54:28;13

Because the media has the most negative-- the-- the real bias is not right or left. It is negative. It is. I had-- a long-time editor-- once told my friend, Bob Crachit (?), I wish young journalists today were as skeptical of bad news as they are of good news. They-- they just wanna destroy (?) the-- but you know who else is part of the problem? The voters.

00:54:48;04

The voters do not-- they're in this mood where they-- there is a great demand for services-- a

resistance to taxes of all kind, and an unwillingness to deal with trade-offs. And it's reinforced by the nature of the media. The mainstream is part of the problem. But even worse is the new media in which all the activists are living in parallel echo chambers (LAUGH) and they only hear what they wanna hear.

00:55:12;24

And they don't believe-- so, that-- the-- the major obstacle to compromise today on the part of the people in elected office are their voters; their most activist voters who say don't you dare sell me out. We're in the majority. Don't give an inch.

LARRY KUDLOW:

00:55:25;03

By the way--

GAIL CHADDOCK RUSSELL:

00:55:26;02

We're about to say--

LARRY KUDLOW:

00:55:26;22

--Bob Kaiser is a great reporter.

BARNEY FRANK:

00:55:27;24

Great, yeah.

LARRY KUDLOW:

00:55:29;11

He's a very old friend of mine. I think the world of him. On the other hand, Barney, I will say this. I'm not here to predict the election 'cause the polls are showing it's a toss-up. But I think voters, in one way or another-- I'm not sure I understand how this is gonna work, federal, state and local. We are in the midst of a revolution.

BARNEY FRANK:

00:55:45;21

Uh-huh (AFFIRM).

LARRY KUDLOW:

00:55:46;22

You got all these angry voters-- for good reason in some; maybe not so good reason in others (SLURS). But whatever. I don't wanna question their motives. We have a fact. And the election turnout, the election results, I mean, in both parties, were very surprising. So, I don't wanna blame the voters. I'm tryin' to listen to the voters.

BARNEY FRANK:

00:56:04;10

You can do both. You can listen to people and then say-- and part of it is a negativism on the

voters, but it's a media/voter interaction in which the only news is bad, so that there is no confidence in government. And I'm talkin' about specifically the deal.

00:56:21;12

People have no-- it's hard to sell a deal in which people are asked to give up something in return for getting something else, 'cause they don't believe that they're gonna get anything. And that kinda negativity (UNINTEL). By the way, you're right about-- but it's not just in America. It's in Britain. It's in France, where Marine Le Pen--

LARRY KUDLOW:

00:56:36;19

Yeah.

BARNEY FRANK:

00:56:37;17

--is-- is-- is the top. It's in Austria. There is this-- in the developed world, this-- and I-- I believe it has to do with the perception in-- based in part on reality that growth has been unfairly shared, and tryin' to get growth more fairly shared m-- it's-- it's a twofold thing.

Growth is-- is the necessary condition. But it's not sufficient. It's necessary to provide the resources. But to be sufficient to deal with this, you've gotta do something about the distribution and the offsets of the negatives.

GAIL CHADDOCK RUSSELL:

00:57:04;13

I wanna just kind of lightning-round approach because there's some very interesting ideas g-- (LAUGH) generating here. Have we agreed that the home mortgage deduction is something that we could dispense with?

BARNEY FRANK:

00:57:19;00

Oh, I would-- I think it-- it over-- first of all, the economic effect is to help-- the richer you are, the bigger (UNINTEL). If you don't-- if you don't itemize, the low end, they get nothing from it. It distorts investment. We get-- if-- because that's a tax incentive that leads to an overinvestment in residences and an underinvestment in more productive parts of the economy. So, I-- I-- I do not think, in a rational world, you would have the home

(UNINTEL). Most societies don't, and I think we should get rid of it.

GAIL CHADDOCK RUSSELL:

00:57:48;17

Get rid of it? Good.

LARRY KUDLOW:

00:57:50;05

By the way, I-- they don't have it in Canada, do they?

BARNEY FRANK:

00:57:52;08

No.

LARRY KUDLOW:

00:57:53;06

Right. I would just say I would-- if you lower the tax rates on-- l-- let's take \$40,000 to about \$100,000. That's sort of broadly the middle class. If you fight me on that, I-- I won't fight very hard. But just use that figure. If you lower their marginal tax rate, the value of the mortgage deduction disappears. But it's the upper end--

BARNEY FRANK:

00:58:18;13

Yeah.

LARRY KUDLOW:

00:58:20;08

--that I wanna cap. At a minimum--



BARNEY FRANK:

00:58:20;24 Oh yeah, people--

LARRY KUDLOW:

00:58:22;12 --I wanna cap the other end--

BARNEY FRANK:

00:58:22;22 People makin' \$40,000 aren't itemizing.

LARRY KUDLOW:

00:58:24;01 I know.

BARNEY FRANK:

00:58:25;07 So, the itemizing doesn't really start till--

LARRY KUDLOW:

00:58:25;24 I know.

BARNEY FRANK:

00:58:27;02 --seventy or 80.

LARRY KUDLOW:

00:58:27;18 So, I just wanted the big-- the big guys, okay, mist-- I'd like to see how much Mr. Gates takes on-- and Mr. Buffett takes on his--

BARNEY FRANK:

00:58:34;07 Or Mr. Trump. But we'll never know, will we, 'cause he won't release his taxes.

LARRY KUDLOW:

00:58:40;20 No c--

00:58:41;11 (OVERTALK)

GAIL CHADDOCK RUSSELL:

00:58:41;22 We're gonna go with the (LAUGHTER) very end-- I--  
I think this grand bargain with the 15% corporate  
rate is really worth talking more about it. We'll  
do at the end. I wanna touch two other points on  
the corporate side.

LARRY KUDLOW:

00:58:51;23 It's the only thing I think about, my whole life.  
(LAUGHTER) 15% business tax, large and small, can  
solve all your problems.

GAIL CHADDOCK RUSSELL:

00:58:59;11 Let's hear-- here's something that the public  
thinks a lot about which is-- President Obama  
talking about tax inversions on April 5th of this  
year. Let's hear him.

PRESIDENT OBAMA:

00:59:13;08 So, I am very pleased that the Treasury  
Department has taken new action to prevent more  
corporations from taking advantage of one of the

most insidious tax loopholes out there, in fleeing the country just to get out of paying their taxes.

00:59:28;05

When companies exploit loopholes like this, it makes it harder to invest in the things that are gonna keep-- America's economy going strong for future generations. It sticks the rest of us with the tab. And it makes hard-working Americans feel like the deck is stacked against them. It's not that they're breakin' the laws. It's that the laws are so poorly designed that they allow people, if they've got enough lawyers and enough accountants, to wiggle out of responsibilities that ordinary citizens-- are having to abide by. Only Congress can close it for good.

GAIL CHADDOCK RUSSELL:

01:00:04;23

Now, let's hear from Republicans who are also hearing from voters that companies fleeing the country to avoid taxes is something they just can't face right now. Let's hear from--

LARRY KUDLOW:

01:00:15;24 Who-- who can't face?

GAIL CHADDOCK RUSSELL:

01:00:18;09 Voters don't wanna hear about corporations leaving the country and taking jobs with them.

LARRY KUDLOW:

01:00:23;24 Yes, but look, for heaven's sakes, I-- I mean, I--  
-

01:00:25;24 (OVERTALK)

GAIL CHADDOCK RUSSELL:

01:00:26;08 Wait, but Brady's about to speak. Then you can talk directly to him--

LARRY KUDLOW:

01:00:28;05 I dis-- who's gonna speak?

GAIL CHADDOCK RUSSELL:

01:00:30;01 Kevin Brady, Ways and Means Chair--

LARRY KUDLOW:

01:00:31;04 Oh, my pal. Okay.

GAIL CHADDOCK RUSSELL:

01:00:32;14 Here he goes--

LARRY KUDLOW:

01:00:33;06 Yes, listen to Kevin Brady--

GAIL CHADDOCK RUSSELL:

01:00:33;19 You can spe-- Kevin, speak.

LARRY KUDLOW:

01:00:35;06 Listen to Kevin.

KEVIN BRADY:

01:00:37;01 You know, we want companies to not-- in America, to not be forced to move overseas. There's common ground on that. How the White House is approaching it, I think, is wrong in two ways: 1) The only solution is to fix this broken tax code. But secondly, I think in their haste to build a wall to keep U.S. companies from leaving, they built a wall to k-- that keeps foreign dollars and U.S. dollars from flowing back into our local communities.

01:01:00;16 And the regulation they laid out is so complicated that in that meeting with Treasury secretaries and joint taxation (SLURS) committee, there were-- for every answer, there were five more questions that were raised. My worry is, and it's a bipartisan worry, that they rush into this

rule that has huge economic consequences at home. They miss the target and don't really solve it and in fact make us less competitive, which means you've missed the mark in every way.

GAIL CHADDOCK RUSSELL:

01:01:30;14 Mr. Frank, if you were in Congress at this moment and just heard that, would you say an opening for common ground? We both--

01:01:37;11 (OVERTALK)

BARNEY FRANK:

01:01:37;23 No. Can I-- I wanna talk about this common ground thing at first.

GAIL CHADDOCK RUSSELL:

01:01:40;03 Please.

BARNEY FRANK:

01:01:41;05 And I-- I'm sorry. It's a difference with the premise of common ground. There is a problem in America that political debate gets too angry. And I am very proud of the example Larry and I set on CNBC and today. Differences on issues, that's not the problem. The problem is the personalization and the distortion and the anger.

01:02:05;13

This is a democracy in which you go and debate. By the way, there's never been a democracy in the history of the world without political parties. Political parties channel-- ideas and-- and-- and without them, you have pure-- anarchy. The people who wrote the American Constitution, those guys didn't like political parties and they spent half their time denouncin' political parties, and the other half, organizin' them and-- and debating each other.

01:02:28;07

This obsession with doing away with disagreement is a mistake. You wanna have rational discussion so you frame the agreement, the disagreement, and-- and-- and-- debate them. I do think there is common ground in the goal of restraining people from leaving. There are fundamental differences about how you do that. In particular, by the way, I am-- well, I'd like (?) to even go beyond that.

01:02:54;10

Part of the problem is not simply people leaving America but what I would hope would be that you could get international agreement to stop all companies from manipulating where they pay their taxes by internal transfer pricing and other things. And Ireland has been a great success, partly because they have been outrageous in their willingness to be the-- the haven-- for-- for this kinda thing.

01:03:18;21

The other thing I would say is this. I know one of the arguments, I'm told as well-- if we lowered the rate, they-- they would send more money back. Why? If they can get away with keepin' it there, why would they send it back on a lower rate? I-- I think-- th-- I-- I do think, though, there needs to be international agreement. And America's got a lotta clout.

01:03:33;24

And I think we should use some of our clout to pressure others to come to agreements. Not simply companies that leave America and go elsewhere,



but to focus more on tryin' to have companies have to pay the taxes where the main locus of their business is.

LARRY KUDLOW:

01:03:49;18

Well, I think, though, the main locus of their business-- I think (?) about what you mean by that. Look, c-- couple things. By the way, Kevin Brady, I think, has just done a terrific job on tax reform. And he is a civil guy. And Barney makes really important points. This stuff should not be personal. I really totally agree with him.

01:04:11;01

Again, Mr. Obama had two options there. I think he chose the wrong option. He wants to punish companies for leaving through these inversions. Okay. Donald Trump, by the way, has a rather punitive approach to this, too, which does not make me smile.

BARNEY FRANK:

01:04:26;16

Why should this issue be different than all other issues (UNINTEL) Passover--

01:04:29;24

(OVERTALK)

BARNEY FRANK:

01:04:31;00 He's got a punitive approach to everything--

LARRY KUDLOW:

01:04:31;12 You're right. I know. I get this. I mean, it's--  
(LAUGH) these parties are all, you know,  
screaming at each other and it's-- it's ugly. But  
again, if you lower the marginal rate-- and I  
wanna add two other terms-- make it territorial,  
right, pay your taxes once--

BARNEY FRANK:

01:04:46;19 Where you do your business.

LARRY KUDLOW:

01:04:48;24 Where you do your business. Don't c-- don't have  
to pay it a second time. And third is-- median  
expensing-- for business equipment, which would  
make America an extremely-- hospitable (MIC  
NOISE) place. So, in other words, solve the  
problem through tax reform rather than beating  
the hell out of these individual companies.

01:05:07;16 And-- and again-- I think Mr. Obama took the  
wrong road. But I will absolutely concede

sometimes Mr. Trump's-- and he singles out individual companies, which I do not like. What they're responding to is a fiduciary responsibility to their shareholders to do the best they can, after tax. And maybe they're right. Maybe they're wrong. That's their goal. And it's an admirable goal.

BARNEY FRANK:

01:05:29;22 There's one area where I would-- and I agree with that, in general. Although, I think there should be more focus on-- when I say the locus of business, some of these inversions are just on paper. Nothing about the business has changed except the name, the address you put on it--

LARRY KUDLOW:

01:05:42;24 That's right, that's exact--

BARNEY FRANK:

01:05:44;01 And that, I think, you--

LARRY KUDLOW:

01:05:44;24 The post office.

BARNEY FRANK:

01:05:46;09 You can block that. But here's the one that

particularly upsets me. Americans pay higher drug prices than anywhere in the world because we are the world's intellectual fount for new medicines. What happens is that we give companies great intellectual property protection in return for which we do get much of the re-- research in the world. They do some in Israel but mostly here.

01:06:10;09

And that's the bargain. They get this intellectual property protection. They are able to develop medicines here. Other people can pay for 'em more cheaply. But I am particularly angry when pharmaceutical companies that are a beneficiary of this deal, and because of the intellectual property protection, are able to charge Americans much more than almost anybody else in the world pays for these drugs. And then they do the inversion.

01:06:35;13

And I would go after them. And I would-- I-- and the way you can do it, I would say that we-- because the intellectual property protection is

statutory. And I would support legislation that would say if you are a company that has benefited from intellectual property protection and the enormous subsidies we give to drug research, which is perfectly good as a public policy, if you decide you're now the resident of a foreign country, then your American intellectual property protection-- you can get their property protection, not ours. And that's a special case of I think-- abuse of a privilege.

LARRY KUDLOW:

01:07:10;10

They will-- they will say that it costs them a lotta money to make these investments into these new drugs. So, the early pricing has to be high. I-- I mean, I think you're makin' a good point about an important problem. Honestly, don't have-- a quick answer to it. I'd like to put so much more competition into that process. I'm not the first--

01:07:31;24

(OVERTALK)

BARNEY FRANK:

01:07:32;21

No, I agree, but then part of the problem is

just--

LARRY KUDLOW:

01:07:33;15 I just don't know how to do it--

BARNEY FRANK:

01:07:34;08 They're goin' the other way around because what they're now doing is, again, outrageous. The pa-- the-- the patent protection expires--

LARRY KUDLOW:

01:07:40;23 Yeah.

BARNEY FRANK:

01:07:41;23 --generics are there--

LARRY KUDLOW:

01:07:41;18 Yeah.

BARNEY FRANK:

01:07:42;22 --and they suddenly announce that this drug is not only good for its main purpose, but it affects people who have a sore third toe and it's a small thing. And-- and-- and they try to extend the patent protection. And that one we've just gotta change. I mean--

01:07:55;17 (OVERTALK)

GAIL CHADDOCK RUSSELL:

01:07:56;13 Can-- can we, now, just for a minute, invite people that did show up--

LARRY KUDLOW:

01:07:59;02 Well, hang on one sec--

GAIL CHADDOCK RUSSELL:

01:08:01;01 --to participate?

LARRY KUDLOW:

01:08:01;17 I wanna have one one fun point.

BARNEY FRANK:

01:08:02;07 All right, last point--

LARRY KUDLOW:

01:08:03;11 If you-- if-- whoever-- Pfizer-- if you invert and relocate-- in Dublin or wherever, do you know (perhaps you do) it's actually cheaper after tax for Pfizer in Dublin, or wherever they are, London, to invest (LAUGH) in the United States, because of the tax--

BARNEY FRANK:

01:08:21;19 Yeah.

LARRY KUDLOW:

01:08:23;08 --address, as you put it? Now, that's exactly the

kind of thing we don't want.

BARNEY FRANK:

01:08:27;24 I agree with you--

LARRY KUDLOW:

01:08:28;24 That's just insanity. I'm sorry.

GAIL CHADDOCK RUSSELL:

01:08:29;24 No. It's fine. Thanks to our excellent producer, Donna Vislavski (PH), we actually have something like time for an audience to participate. You know the drill. The lights come up. There are three microphones. Rush to stand behind one of them. And if you aren't-- able to get up, raise your hand and we'll have a mobile mic that comes and talks to you. On the left-hand side. Whoops. In the middle. Go ahead, sir.

JOHN:

01:09:08;24 Okay. My name is John. And-- I had some of this conversation with Mr. Frank already. So, I'd like to direct this to Mr. Kudlow. I think we call it a revolution that's going on right now in the pol-- political arena. There's a fundamental problem that could change the course of America,



the way I see it.

01:09:33;24

And that is, after eight years of President Obama, and assuming Hillary is elected, pretty sure she would be elected twice, that'll be 16 years of demo-- Democrats in the White House that would affect social programs and the Democratic platform in a major way, especially with I would assume that there'll be some support to implement things that we haven't been able to do for years with all the conflict going-- (CLEARS THROAT) going on. So, what we then have--

LARRY KUDLOW:

01:10:10;16

What's your question, sir?

JOHN:

01:10:12;24

--is the movement towards this socialistic democracy--

LARRY KUDLOW:

01:10:15;22

I need-- I need a question, honestly.

AUDIENCE MEMBER:

01:10:17;11

The question is--

LARRY KUDLOW:

01:10:18;24 I don't wanna be rude but I need a question.

JOHN:

01:10:19;13 Yeah. So, laying the-- the foundation that says with this kinda socialism, and the immigration to support it, because they'll vote Democratic, or at least that's the assumption, does that change the future direction of the country to be much more socialistic than ever, because more than half the country will be voting Democratic at that point?

LARRY KUDLOW:

01:10:39;24 Well, look, I-- y-- you're-- it's not an analytic question. It's-- it's a forecasting question. I can't forecast that. I honestly that. We will see. You know, right now-- you know (?), we look at polls. I look at polls. You look at polls. Some of the most famous pollsters and strategists talk to us about polls.

01:10:59;02 Nobody knows. The actual numbers are even. And they're even in even-- in-- in-- in most of the--

pivotal states. So, I-- I don't know, sir. I honestly don't know. I will tell you this. I'm a free market guy. Always will be. I have managed-- I have managed, I think pretty well-- I'm pointing to Donna Vislavki (PH), who is my long-time senior producer on CNBC-- I've never called him a socialist, per se. Now, everybody on the radio has screamed to me for not calling him a socialist--

BARNEY FRANK:

01:11:33;08

Obama?

LARRY KUDLOW:

01:11:34;20

Yes, I mean Obama. Everyone-- I-- I won't. I don't-- I mean, I don't know. I read Karl Marx as a kid and socialism is you-- you take over all the means of production. I've never seen him do that. Now, he is a social welfare-- liberal, left European type guy--

JOHN:

01:11:51;23

Socialistic Democrat.

LARRY KUDLOW:

01:11:53;02

But I-- I-- but you're really askin' me to

predict the future. I-- I-- I just don't know. I honestly don't know.

GAIL CHADDOCK RUSSELL:

01:11:58;00

Barney--

01:11:59;05

(OVERTALK)

BARNEY FRANK:

01:11:59;17

Well, since that was invoked, (MIC NOISE) I have to say that's not the conversation we had. You left out a big (LAUGH) part. You talked about-- and you acknowledged this before but now you've taken it back. You talked about 16 years of Democratic debt.

01:12:12;14

As I pointed out to you, it's 24 years. You leave out the George W. Bush administration. And as the chart showed, when Bill Clinton left office, we had the f-- two years in which there was no deficit annually. And the debt was going down. So, I-- you're an example of the point I was tryin' to make before. It's good to debate issues. The problem is not debating issues but debating them uncivilly and, frankly, unfairly

and in a biased way. When you talk about 16 years of Democratic debt and ignore the eight years before that, that's an example of a very unbalanced approach.

01:12:46;07

(OVERTALK)

BARNEY FRANK:

01:12:47;09

I'm sorry. I listened through you. And I'd like you to f-- you say even though-- but the fact is, I happen to have said this. I'm sure elsewhere, where I'm not around, you talk about your 16 years of Democratic debt and you forget the eight years of George Bush debt. Did that make us socialistic?

AUDIENCE MEMBER:

01:13:01;15

Please add it. All I'm saying is--

BARNEY FRANK:

01:13:03;03

I'm sorry. Please, I'm sorry, sir.

GAIL CHADDOCK RUSSELL:

01:13:04;09

Can-- can we--

01:13:04;19

(OVERTALK)

BARNEY FRANK:

01:13:05;10

I'm sorry. This is my last-- I'm gonna be as

civil as you were. You now conceded-- and that's like before. When I talk to you, you can't avoid this unpleasant fact, from your standpoint. So, you concede it. But clearly, when you get a chance to speak uncontradicted, you have this bias view that it was 16 years and you forget the eight years.

01:13:22;15

Secondly, I don't think you know what socialism. Yes, it is a doctrine, as Larry said. It is different than having a high welfare rate. It is different than having-- you-- I don't think Bismarck, who started health care, was a socialist. That's an example of using pejorative words that distort the activity. If you think the Democrats would be too much in terms of unemployment compensation or whatever, that's not socialism.

01:13:48;17

But the fundamental point I was make is this. And I don't care what you say now. Yes, you'll concede it because I confronted you with it. But

when you keep talking, as you do, about 16 years of debt, you're-- you're more worried about the six-- the eight years that haven't happened than the eight years that did under George W. Bush. And that is an example of how not to have a civil debate.

JOHN:

01:14:06;24 But I'm-- I'm worried about the uncontrolled debt.

BARNEY FRANK:

01:14:09;24 I'm worried about your bias, sir. And you keep tryin' to duck that.

GAIL CHADDOCK RUSSELL:

01:14:12;15 Thank you--

01:14:13;08 (OVERTALK)

GAIL CHADDOCK RUSSELL:

01:14:14;05 Next question--

01:14:14;22 (OVERTALK)

LARRY KUDLOW:

01:14:15;09 By the way, I thought Clinton-- I thought Bill Clinton was a very good economic president.

BARNEY FRANK:

01:14:18;08                   Yeah.

LARRY KUDLOW:

01:14:19;11                   When I see him upon occasion--

BARNEY FRANK:

01:14:20;24                   One of those socialistic Democrats--

LARRY KUDLOW:

01:14:22;08                   --I congratulate him for being Reagan's third  
term. (LAUGHTER) Just thought I'd add that.

GAIL CHADDOCK RUSSELL:

01:14:26;15                   Next.

AUDIENCE MEMBER:

01:14:28;05                   My question is for-- both Mr. Kudlow and Mr.  
Frank. Do you think that a consumption tax can be  
A) progressive or B) be implemented?

BARNEY FRANK:

01:14:38;05                   Yes and no. Of course it can be-- I mean, I don't  
(UNINTEL) say of course. Yes, it can-- any tax  
can be depending-- you can exempt the first X-  
dollars or you-- you can do as the value-added  
taxes in many European countries where there are  
rebates. It actually promotes exports. I mean,



the value-added tax-- American exporters are at a (MIC NOISE) disadvantage because our-- our competitors have an-- a value-added tax which is rebated on exports.

LARRY KUDLOW:

01:15:03;03 We have to do border-adjusted--

01:15:05;02 (OVERTALK)

BARNEY FRANK:

01:15:05;14 Yeah.

LARRY KUDLOW:

01:15:05;23 Right.

BARNEY FRANK:

01:15:07;15 But yes, you can have a sales tax. You can-- you can have a rebate for people. You can have a graduated rebate; the less you make, the more you get back from-- from-- from sales tax. But no, you can't change it. Here's the problem (UNINTEL) interest deduction. Even capping it-- and I agree with Larry.

01:15:22;07 If you capped it at \$20,000 a year in mortgage interest or something-- that would be a great

improvement. But vested in-- and this is why I am very skeptical (and I said it before) of the deal that we lower rates in return for getting rid of the deductions. My answer was do them in one bill and-- and make that bill unbreakable.

01:15:44;24

Because these deductions-- and here's where I talked about the voters. Some of the deductions are in there (the more arcane ones) because of some K Street lobbyist. But the most expensive deductions are the mainstream deductions, and they are broadly supported by the public. And they're in there for the-- for the public.

01:16:03;24

By the way-- then there's the, you know, historic preservation. Well, how much does Nantucket make on that? I bet there's a lotta historic preservation tax cuts here in Nantucket from all my good, liberal friends. Well, the problem is that getting rid of any set of things is very hard. The sales tax has been demonized unfairly both by the right and the left.

01:16:22;11                   The right will think it's an unlimited machine for-- for-- raising money, and the left-- oh, it's gonna be regressive. But it-- it can be progressive. So, the answer is yes, you can design it in a progressive way. But no, I don't think in-- given all the interest out there that you could ever get it implemented.

LARRY KUDLOW:

01:16:39;24                   I would--

GAIL CHADDOCK RUSSELL:

01:16:40;06                   This side.

LARRY KUDLOW:

01:16:41;23                   I'm one of those guys that thinks, under present law, a consumption tax would be unlimited revenues for the government.

BARNEY FRANK:

01:16:49;02                   Well, we would change 'em.

LARRY KUDLOW:

01:16:49;19                   But if you-- we were talkin' about this-- in the green room earlier. If we get together and repeal the 16th Amendment, then let's talk.

BARNEY FRANK:

01:17:00;14 That's the one that (UNINTEL) income tax.

LARRY KUDLOW:

01:17:03;15 I was there when it was signed with Woodrow  
Wilson. (LAUGHTER) I never got my pen 'cause--

01:17:08;24 (OVERTALK)

BARNEY FRANK:

01:17:09;12 How many others?

LARRY KUDLOW:

01:17:09;24 I was a stan--

BARNEY FRANK:

01:17:10;10 How-- how many others? Are we okay on women's  
suffrage?

LARRY KUDLOW:

01:17:13;15 Yes, I'm okay on women's suffrage.

BARNEY FRANK:

01:17:15;08 There you go.

LARRY KUDLOW:

01:17:16;18 But in all seriousness, I just don't wanna go  
that route until-- and I would greatly-- on  
economic grounds, we should tax consumption and  
not investment and saving. And I think a whole

lot of economists on both sides of the aisle agree with that.

AUDIENCE MEMBER:

01:17:32;09 Thank you.

GAIL CHADDOCK RUSSELL:

01:17:33;24 Can we take another one in the middle and then move that direction?

AUDIENCE MEMBER:

01:17:36;20 Thank you. Thank you for an excellent presentation at the level-- that you both are delivering. My question is to ask you to help us understand the Dodd-Frank Bill in regard to the Glass Bill, which there has been a proponent and-- a movement to say we should go back to the Glass Bill. Can you help us understand what this is all about?

BARNEY FRANK:

01:18:11;05 Yeah. Well, let me start-- first of all, the-- the Glass-Steagall law that was passed in 1933 said that-- a financial institution could not be both a bank and an investment house. You could be a bank and take deposits and make loans or you

can do investments. Over time, that line got kinda clouded.

01:18:35;20

And in 1999, the Glass-Steagall Act was repealed. A Republican Congress and Bill Clinton. I voted against the repeal but I didn't vote against it because I thought the Glass-Steagall Act should stay as it is. It was 80-- it's 80 years old. And there are a lotta things that have happened. For example, we had serious problems with derivatives. Glass and Steagall never heard of derivatives, cer-- not financial derivatives.

01:18:56;24

I thought we needed new regulation. One of the things I should begin with is this. No thoughtful person I am familiar with thinks that cl-- the-- the repeal of Glass-Steagall caused the financial crash. That includes Elizabeth Warren, who's specifically says no, it didn't. The two institutions whose failures triggered the crash, AIG and Lehman Brothers, would not have been affected by Glass-Steagall.

01:19:21;24 Part of the problem was mortgages that were given to people who shouldn't have gotten the mortgages. Glass-Steagall would not have prevented that. As long as the residential mortgages were given by a bank, there were no regulations that said you couldn't give 'em to people who couldn't possibly repay 'em.

01:19:34;13 AIG got in trouble because they incurred debt on something called credit default swaps, which was insurance against other people's securities, basically based on those mortgages. So, as the mortgages failed and the securities failed, AIG was supposed to reimburse the securities holders and AIG didn't have the money and wound up getting it from the Federal Reserve.

01:19:54;01 And by the way, AIG first asked the Federal Reserve for \$85 billion and, a week later, said, oh, we made a slight mistake; we need \$170 billion. Glass-Steagall did none of that. Glass-

Steagall would not have prevented that. The Dodd-Frank Bill has got a lot more complications. We don't have to get into it (?). You just want to know the difference.

01:20:10;24

The argument today, I think it is largely symbolic. People who don't like large financial institutions have argued that we should put in Glass-Steagall basically to kind of penalize 'em. I think it would be very disruptive to do that right now. I do favor regulating some of these institutions. But telling the largest financial institutions in America they had to spend the next couple of years separating themselves I think would be-- a retardation, again, since I don't think that c-- caused the problem.

01:20:38;02

Now, what you have on the Democratic platform is very interesting on the specifics. As a compromise between Sanders and Clinton, it calls for a 21st century version of Glass-Steagall. That is, not Glass-Steagall-- because Glass-



Steagall was an early 20th century one. It is-- and my preference is for doing regulation. Larry and I would differ about how much.

01:21:01;13

But I-- I certainly-- the regulation has to be much more institution-specific. A one-size-fits-all requirement that every large bank be split-- not in two, because they wouldn't be the same halves-- rather than a more-- more focused regulation-- Wells Fargo and JPMorgan Chase are very different institutions. Wells Fargo is much more a traditional bank. JPMorgan Chase is a much more diversified operation. I don't think the same regulatory solution fits both.

GAIL CHADDOCK RUSSELL:

01:21:29;24

Can we move to somewhat shorter questions and--

AUDIENCE MEMBER:

01:21:31;19

Thank you.

GAIL CHADDOCK RUSSELL:

01:21:33;14

--quick responses? Go ahead--

BARNEY FRANK:

01:21:34;24

You're being very polite. You mean shorter

answers.

GAIL CHADDOCK RUSSELL:

01:21:35;24 A gentleman in the blue.

AUDIENCE MEMBER:

01:21:36;24 My question is very simple. Why can't we simplify the tax code?

BARNEY FRANK:

01:21:45;15 Because the complexities were put in there by important political forces. We would like to do that. We did it in 1986 and it got re-complicated. And the problem is, simplify-- we-- we've been talkin' about this. The home mortgage interest deduction-- the historic deduction, the low-income housing tax credit, there are very few things the just floated in there from the ozone.

01:22:09;04 Almost every-- every one of them is the result of significant political pressure. Some, the kind-- lobbyists doing sleight of hand. But the more expensive ones, in terms of the revenues lost, and in some ways, the more distorting ones, in terms of investment, have large political support

behind them. And the public would react against them, in my judgment. That's why it hasn't happened before. The guy before Kevin Brady, Dave-- what was Dave's-- I'm forgetting--

01:22:33;24

(OVERTALK)

LARRY KUDLOW:

01:22:34;13

Camp.

GAIL CHADDOCK RUSSELL:

01:22:34;24

Camp--

BARNEY FRANK:

01:22:36;07

Dave Camp was the Chairman of Ways and Means. He came up with a bill that would've done a lot to get rid of deductions. John Boehner repudiated him. It was so unpopular with his colleagues, not because it was intellectually flawed but because people who were the supporters of the loopholes heard from-- told their congressmen, don't you do that.

LARRY KUDLOW:

01:22:55;02

I would just say I'm a little more optimistic about it-- acknowledging the difficulties. You-- again, you have to forecast or interpret these

political trends. But I just think the public is so fed up w-- with all of this. What do I mean by all this? It's-- I just mean all of this. And that they really believe that the system is rigged and that the rich elites are running it, and they wanna overturn the establishment. I'm not sure what that means. But I'm just sayin' that's what they see--

01:23:26;24

(OVERTALK)

BARNEY FRANK:

01:23:27;11

I'll tell you, the establishment is anybody who has served in Congress for a long time, except (LAUGH) Bernie Sanders. That's apparently the establishment.

LARRY KUDLOW:

01:23:35;08

As g-- I mean, I-- it's-- it's funny. Look, I started my career at the New York Fed. I worked in Reagan's (?) and I was one of his budgets deputies. I've been in and outta politics for many years. I guess I'm a member of the establishment. But I-- I wanna tear down these-- crazy tax laws.

01:23:52;02

I mean, there's a guy out in-- used to be Chicago. Now, he's in Stanford Hoover. He's a brilliant economist named John Cochrane. And he really is not political at all. And he thinks, Barney, that-- that it's the-- it's the complexity of the code that is more important than the rates.

BARNEY FRANK:

01:24:09;21

I-- I agree. But I've been there. And I will tell you, I've been a supporter of r-- reducing the home mortgage interest (SLURS) deduction. When we talk about reducing the home mortgage interest (SLURS) deduction, some member will introduce a resolution saying don't you dare reduce it any further, and gets 387 signatures because they are flooded by-- House members.

01:24:30;21

They are flooded. I mean, the-- the-- I agree. And part of it is the negativism. You tell people we're gonna get rid of this deduction you've been takin' advantage of, or that you're told benefits

your institution, your church, your whatever,  
because we're gonna lower the rates, they don't  
believe you. I mean, I wish we could do it but I--  
- you asked me why--

LARRY KUDLOW:

01:24:44;24 I mean, I--

BARNEY FRANK:

01:24:46;05 It's purely-- it's the vote-- on this one, the  
voters are a major--

01:24:49;02 (OVERTALK)

LARRY KUDLOW:

01:24:49;16 I'm being attacked right now because they know my  
views, the--

BARNEY FRANK:

01:24:51;17 Yeah.

LARRY KUDLOW:

01:24:52;22 --mortgage b-- the home-builders, the mortgage  
crowd. I'm being attacked. I have no salary. I  
have no-- no title. I have no position. I have no  
nothing. But I'm being attacked because of my  
view. And I'm just tellin' you, I wanna go after  
it. If-- if anything-- if there's anytime in

recent years that we could make some major changes and knock out some of these special interest deductions, now's the time--

BARNEY FRANK:

01:25:14;13

Well, let me (UNINTEL) given that politicians wanna win votes, if it was so potentially unpopular, how come nobody-- nobody-- all the people who ran for-- for-- for-- not-- not Bernie Sanders, not-- any of the Republicans, not m-- major congressional candidates talkin' about it? And the answer is 'cause they think it's a political loser. Right or wrong?

LARRY KUDLOW:

01:25:35;03

Oh, he's gotta change that. And anyway, Republicans can be very wussy on these things as well.

AUDIENCE MEMBER:

01:25:40;11

May I--

GAIL CHADDOCK RUSSELL:

01:25:41;12

In the center--

AUDIENCE MEMBER:

01:25:42;03

--may I ask-- or a question from-- a tax lawyer,

now tax professor, point of view? One thing we know about the IRS is that on-- shortly after December 31, they know what our wages are, if we earn wages, they know what our cap-- what our dividends are and what our interests are, and even what our home interest deduction is, if we have one.

01:26:06;24

That information with the right computer-- and you can play around with rates. It can be a different rate. And I like your idea on graduated FICA, et cetera. By January 31, that information could be turned around, sent back to the taxpayer, with a bill. And the taxpayer would have the option. He could pay that bill and send that postcard back to the IRS. Or it could fill out the tax return that we have now and pay H&R Block, TurboTax--

LARRY KUDLOW:

01:26:45;04

There's a choice. There's-- there--

AUDIENCE MEMBER:

01:26:45;18

You have a choice--



LARRY KUDLOW:

01:26:46;16                   There is-- there has been legislation proposed on this.

AUDIENCE MEMBER:

01:26:49;06                   You have a choice. And the idea being is because of the frustration, it gets so simple. The rate is-- is gonna be the same, is-- we're gonna figure that out. And it'll just get-- it'll--

01:27:01;15   (OVERTALK)

BARNEY FRANK:

01:27:02;08                   Do I understand you correctly that you will leave the home mortgage interest (SLURS) deduction and get rid of all the others?

01:27:06;00   (OVERTALK)

BARNEY FRANK:

01:27:06;21                   I'm just quoting you. I'm-- I'm sorry--

01:27:07;18   (OVERTALK)

AUDIENCE MEMBER:

01:27:08;05                   Or not use it.

BARNEY FRANK:

01:27:09;05                   No, I'm sorry. Well, but you said the home mortgage interest (SLURS) deduction. But that's a

critical question if you're asking me why not.  
Does it include the home mortgage interest  
(SLURS) deduction and the charitable deduction? I  
gotta tell you-- if you've ever run for office,  
you tell every church that they're not gettin'  
the deduction--

AUDIENCE MEMBER:

01:27:23;24 No, I-- I went to mass last night. I mean, the  
charitable deduction's gone.

BARNEY FRANK:

01:27:27;06 Okay. I'm sorry. I'm not questioning--

01:27:28;12 (OVERTALK)

BARNEY FRANK:

01:27:30;05 Excuse me. I'm not questioning your religiosity.  
But you're asking a question. Why can't it be  
done? If it would mean that large numbers of  
people might take advantage of the ab-- of-- of a  
fee (?) and not get the home mortgage interest  
(SLURS) deduction and the charitable deduction,  
it would not get the votes in Congress. I'm ex--  
I'm giving you the political explanation--

01:27:47;18 (OVERTALK)

AUDIENCE MEMBER:

01:27:49;04 But if-- if you-- if you worked on that algorithm?

BARNEY FRANK:

01:27:53;00 It's politics. It's not trigonometry--

AUDIENCE MEMBER:

01:27:55;07 No, but-- but-- but give the taxpayer a simple tax return.

BARNEY FRANK:

01:27:57;24 No, but here's what you're forgetting. The-- look, there's-- American politics is a politics of institutions and interest groups. The fact is-- there's no un-- non-mediated relationship between the politician the voter. You would get the organized groups, which are very powerful in this society-- the realtors Larry has mentioned, some of the others-- the organized groups that would be threatened by this would inundate Congress by saying don't vote for it. I'm giving you the political answer. And if you were-- if you leave in some deductions, maybe. There are a couple others that might be so pop--

LARRY KUDLOW:

01:28:33;01 But I-- look, you're right. Look, those guys-- I've always hated them and they hated me, I mean, going back to the early 1980s. I have no truck with them. I have no truck with this god-damn deduction game. It is rigged. You know, who-- it's rigged. It's just rigged and I'd like to get rid of it. You got--

BARNEY FRANK:

01:28:49;11 They got more votes than you, Larry. I'm just explaining to him--

LARRY KUDLOW:

01:28:50;23 You gotta--

01:28:51;09 (OVERTALK)

BARNEY FRANK:

01:28:52;04 --politically why it can't happen.

LARRY KUDLOW:

01:28:53;17 --B. Kelly-- B-- Brian Kelly, B.K. is the smartest investor--

GAIL CHADDOCK RUSSELL:

01:28:55;18 Right there.

LARRY KUDLOW:

01:28:56;23 --in America--

GAIL CHADDOCK RUSSELL:

01:28:56;24 In the (UNINTEL).

AUDIENCE MEMBER:

01:28:58;10 So, quick question. Seems to me that the-- the tax reform debate is centered around income inequality, or at least maybe that's part of the fuel. And that could be-- may or may not be part of current monetary policy. But I'm-- what I'm curious about is what your views on is c-- current monetary policy-- does it have an impact on taxes and the current debate? And if that changes, will that change the debate?

LARRY KUDLOW:

01:29:21;24 Well, Bri-- I-- you know, my-- I would almost reverse that. In other words, first of all, I wanna level the Fed and start over. But that's a whole different (LAUGH) conversation. I think the problem now, as we were talkin' this weekend on the radio-- Brian Kelly's a very distinguished investment advisor and CNBC contributor.

01:29:42;15

I think it's because the business taxes are so high, the regulatory burdens have grown and nobody wants to make a ten-year risk. And I just don't see the Fed as-- you know, that's just not something they can do. It's-- it's not a monetary issue. They've made mistakes-- down through the years. And I don't think they're in a place they, themselves, would like to be in right now. But you know, if my goal was to get 5% economic growth, just for argument's sake, I regard that as a fiscal issue.

BARNEY FRANK:

01:30:11;16

And I would say, if, again, you're asking why-- well, first, I disagree that the tax reform debate is mainly about inequality. That's an aspect to it. But a big part of the tax-- there are two aspects of it. One is that it is too complicated and can retard growth. I mean, the tax code is responsible-- carries a burden both (UNINTEL) growth and with distribution.

01:30:34;15

But the-- if the specific question's why can't we get rid of the deductions and simplify it, I will repeat this again and again-- maybe somebody's gotta go spend some time at a congressional office. The voters won't allow it to happen. This is a place in which votes matter; not just black votes or blue votes or green votes, angry votes matter.

01:30:53;21

And at this point, if you look at the major deductions and you have a legislation to try and eliminate them, even as part of a package with lower rates, you'll lose out. They will have a mobilization of people-- and again, I speak from experience. I was against-- I was for substantially (?) lowering the home mortgage interest deduction. But that-- the religious-- the charitable deduction, not just religious-- people b-- talk about-- you'll hear all the medical schools.

01:31:21;14

Oh my God, what are you doin' to health research?

Health research is so heavily financed. What are you doin' to the nature of our neighbors with the historic preservation tax credit? What about the low-income housing tax credit? We're not talkin' about the little, narrow breaks for this or that company.

01:31:36;16

At this point, the public-- those breaks are in there because the public's organized themselves. American politics is basically-- it's-- producer politics, not consumer politics. That's why the benefits of lower consumer prices that come from trade with China don't count for much, politically, because people are not motivated by their consumer interests, unfortunately or not. They are more motivated by their producer interests. It's how they get their money. And for the beneficiaries of deduction, that's what drives them. That-- the Fed has nothin' to do with that.

LARRY KUDLOW:

01:32:08;05

That's right. I mean, you've had--



01:32:10;00

(OVERTALK)

LARRY KUDLOW:

01:32:11;11

--eight years, thereabouts-- I'm just gonna call them zero interest rates. And-- the balance sheet is-- you know this as well as I, has pumped up \$4.5 trillion. If that ain't gonna do it, nothin' is. And I-- I think Barney's right. And I just think it's a fiscal issue. I mean, in some sense, I wish the Fed would get honest about that but--

BARNEY FRANK:

01:32:33;05

No, in fairness to them, they have been. Bernanke, particularly, would say I'm only doin' this 'cause you won't. You go look at Ben Bernanke's testimony and--

LARRY KUDLOW:

01:32:40;10

Yeah.

BARNEY FRANK:

01:32:41;16

--the-- the Fed has begged Congress. Bernanke, in particular, has said this is up to you. And he got ignored.

LARRY KUDLOW:

01:32:47;03

I--



So, in fact, the payroll tax is a very regressive tax. And-- people who don't pay income tax do pay-- a payroll tax. But I don't have a preset figure of who should or shouldn't pay taxes.

01:33:37;09

I would like to set tax policy at what I think it oughta be. As I said, I-- you know, ideally, I'd have a consumption tax. And then you figure out-- and then you would hope, frankly, that a higher percentage would pay it because you'd hope people were makin' more money.

LARRY KUDLOW:

01:33:50;05

See, I think-- this business about 45% don't pay, which may be generally true, is a false issue because of the payroll tax. And of course, many of my conservative friends will make the case that there's something wrong with a system where-

-

01:34:10;20

(OVERTALK)

BARNEY FRANK:

01:34:11;04

Mitt Romney.

LARRY KUDLOW:

01:34:11;24 --half of 'em don't pay the income tax. Well, but they-- look, the first time you get a job, you're gonna have to pay the payroll tax. You sign up, you go in; that's it. So, it's really not fair. I mean, it's-- it's not accurate and it's not fair and it's not helpful to solving a lot of the tax reform--

01:34:27;03 (OVERTALK)

BARNEY FRANK:

01:34:28;05 One thing in support. I think-- and-- and-- and the fact is that most of those people do not in their minds differentiate between the payroll tax and the income tax--

LARRY KUDLOW:

01:34:33;16 I know, I know.

BARNEY FRANK:

01:34:35;16 Then they're payin' the federal government a tax.

LARRY KUDLOW:

01:34:37;23 It's just-- it's all-- you're right. It's the same pot. It's the same argument. It's the same ideology. You know, let's reform the whole bloody

system. Let's just do that. That's what we need--

01:34:45;24

(OVERTALK)

GAIL CHADDOCK RUSSELL:

01:34:46;07

I think that's an excellent--

AUDIENCE MEMBER:

01:34:46;22

But in that-- in that reformed system, what would that number be?

LARRY KUDLOW:

01:34:50;20

Which number?

BARNEY FRANK:

01:34:53;10

I just said I don't have a preset number. I think you have a good tax policy, and then whatever that falls-- I-- I don't think there's any-- I mean, if the implicit question is, oh, if too many people don't pay taxes, does that mean they're gonna just vote for more spending, in fact, statistically, that's not the case.

LARRY KUDLOW:

01:35:05;24

Yeah, no--

LARRY KUDLOW:

01:35:06;24

In fact, the mo-- the people at the low end don't vote at all. A large part of those people in the

45%, they have the lowest turnout rate. So, I do not think that it's an argument-- I understand-- I don't think it holds up empirically that because there are a large number of people who don't pay taxes, they vote for higher spending. By the way, if you look at-- who votes for conservative who will-- cut spending the most, very high percentage of them live in Kentucky where they're livin' on welfare.

LARRY KUDLOW:

01:35:32;24

I-- look, the only number I have is 15% business tax. (LAUGHTER) The only number I have. I started with it tonight. I continued with it tonight. I'm ending with it tonight. 15%.

GAIL CHADDOCK RUSSELL:

01:35:46;21

Speaking of end-- speaking of end, let's go back just to the elements of common ground one last time. There's actually a very interesting kind of grand bargain that emerged out of this. 15% on the corporate side, cut way back on tax deductions. Whether it's politically possible is gonna be the-- my last question-- of the night to

both of you.

BARNEY FRANK:

01:36:12;24            You left out a part: And a significant increase  
in personal rates.

GAIL CHADDOCK RUSSELL:

01:36:16;11            And a significant-- yeah.

LARRY KUDLOW:

01:36:20;01            No.

GAIL CHADDOCK RUSSELL:

01:36:22;24            Well, 15% and cutting down on a lot of tax  
deductions and infusing an element of  
progressivism on the personal side?

BARNEY FRANK:

01:36:30;02            Not just an element. There is some progressivism  
now. People forget that. But-- I-- I--  
theoretically, I could-- I-- I have-- I have no  
particular attachment to the corporate tax being  
part of it. I do wanna make sure that it is-- I  
think it should be more redistributive, not  
enormously more, and that it-- it has to produce  
(?) more revenue.

01:36:50;21

Given that, I have no-- I'm not wedded to any of the-- of the components. But yeah, so in theory-- a significant reduction in the corporate tax rate, more than offset in-- offset in revenue by a combination of the elimination of deductions and an increase in the top rates-- and-- let me just say somethin' about the marginal rate. Now that I'm no longer in Congress, I make real money. I mean, this notion, oh, you congressmen-- I pay more in taxes today than I used to make as a member of Congress.

LARRY KUDLOW:

01:37:24;12

Yeah.

BARNEY FRANK:

01:37:25;15

And I'm in the break between social security and state (UNINTEL). I'm-- I'm close to 50%. But I have to tell you, maybe I'm peculiar. I have never turned down a chance to make money 'cause I was only gonna keep half of it. I have never said I'm not gonna (LAUGHTER) go do that-- if it was otherwise worthwhile. But in any case, if you're talkin' about raising the upper rates on



personal, significantly reducin' the corporate rate, and doing away with-- deductions, yeah, in-- in principle, I would go with that--

LARRY KUDLOW:

01:37:53;24 If you were in the movie business and your next movie would be taxed at 91%--

BARNEY FRANK:

01:38:02;13 Talkin' about 50%, not 91.

LARRY KUDLOW:

01:38:03;23 I understand.

BARNEY FRANK:

01:38:05;05 I understand why Reagan became a conservative--

LARRY KUDLOW:

01:38:05;24 Okay.

BARNEY FRANK:

01:38:07;23 --if that's what you're getting at.

LARRY KUDLOW:

01:38:08;04 That's what I'm getting at--

BARNEY FRANK:

01:38:08;13 That's when Ronald Reagan became a conservative--

LARRY KUDLOW:

01:38:09;20 I'm just-- I'm just saying in many cases,

incentives matter--

BARNEY FRANK:

01:38:12;12 No, but 91-- whoa, yeah, 91% and 50% is a very big difference--

LARRY KUDLOW:

01:38:16;19 I-- I get that part. (LAUGH) I just wanna check in on it.

GAIL CHADDOCK RUSSELL:

01:38:21;12 This may--

01:38:21;24 (OVERTALK)

LARRY KUDLOW:

01:38:22;14 What we need--

BARNEY FRANK:

01:38:22;13 So, if anybody wants to bring this show on the road-- (LAUGH) and offer us a speaking fee, I at least will not turn it down 'cause I'm only keepin' half of it--

LARRY KUDLOW:

01:38:29;14 Before-- (LAUGHTER) before-- before these personal rates go up, let's do it. We really need someone--

01:38:37;23 (OVERTALK)

BARNEY FRANK:

01:38:38;08 No, if they do go up, we'll incorporate.

LARRY KUDLOW:

01:38:40;19 Oh, (LAUGH) okay.

GAIL CHADDOCK RUSSELL:

01:38:41;02 And then we'll--

01:38:42;03 (OVERTALK)

LARRY KUDLOW:

01:38:42;15 We need a deal. We need a deal. Okay? I'm not gonna, you know, be lowly enough to say we need the art of the deal. I'm just saying we need a deal. And I think-- I wish, and it will not happen, I don't think--

BARNEY FRANK:

01:38:54;17 Not a chance.

LARRY KUDLOW:

01:38:56;17 --but I think that this election could have been a discussion--

BARNEY FRANK:

01:39:00;13 Yeah.

LARRY KUDLOW:

01:39:02;01 --of that kinda deal. And I will add my political

hero, for whom I worked, Ronald Reagan, was a deal-maker. Don't ever forget that--

BARNEY FRANK:

01:39:08;19

Yup.

LARRY KUDLOW:

01:39:10;14

He was a deal-maker.

BARNEY FRANK:

01:39:11;02

Absolutely--

LARRY KUDLOW:

01:39:12;07

He-- he won a few and he lost a few.

BARNEY FRANK:

01:39:12;23

I worked with him on immigration--

01:39:14;18

(OVERTALK)

LARRY KUDLOW:

01:39:14;24

I know you did and-- and I'm just sayin', you know, he was a union member, he was a union president; he understood that stuff. And-- I'm still in the-- I'm lookin' for that kind of approach to politics as well as the policy--

01:39:27;00

(OVERTALK)

BARNEY FRANK:

01:39:28;09

One last thing. I would just urge you to be a

little careful about asking people the kinda question you asked, 'cause I did say yes. But I wanna be honest with you. The less likely it is to happen, the more likely people are to be agreeable.

GAIL CHADDOCK RUSSELL:

01:39:42;15 That's very interesting--

LARRY KUDLOW:

01:39:43;03 Good point. That's a good point. I like that point. I like it a lot. Yeah, good point.

01:39:47;21 (OFF-MIC CONVERSATION)

BRUCE BOND:

01:39:59;24 But I hope you agree--

01:40:00;14 (OVERTALK)

BRUCE BOND:

01:40:01;16 --on the stage was proof that people of opposite positions that believe very p-- passionately in what they believe in can actually work together to find progress on some of the most important issues that we have. And I'd like to give them a big round of applause. (APPLAUSE) Thank you, guys.

01:40:16;24

(OFF-MIC CONVERSATION)

BRUCE BOND:

01:40:26;09

This is-- this is the way it oughta work. I think we all agree with that. Now, I just wanna say if you like what you saw tonight, we're gonna be putting a lot more of these on. Our next one is October 17th in Greenwich, Connecticut, on-- immigration reform with Governor Bill Richardson and immigration expert, Mark Krikorian.

01:40:42;00

If you're in Greenwich, we'd love to have you go there. I would like to say that it does cost us money. We'd love to have you go out to your-- to our website and donate because we have only individual contributions and we rely on them. And we would-- really appreciate it if you would help us out. I would like to say on behalf of all my colleagues at Common Ground Committee and the *Christian Science Monitor*, thank you so much for coming. It's been a great evening. Have a good evening. Thanks again.

01:41:10;13

(OFF-MIC CONVERSATION)

\* \* \*END OF TRANSCRIPT\* \* \*