

[Begin transcription at 0:03:45]

Bruce Bond: And so with that, let's get started. John, the floor is yours.

John Yemma: Thank you, Bruce, and thank you all for coming out. I think this'll be a very interesting evening tonight, because we're talking about a very basic issue, and that issue is equality, income equality. Is there a problem here? And if there is a problem, what can be done to address it? Let's start by listening to President Obama talk about this issue on December 4th of last year. *[Video played, 0:04:10 to 0:05:24]*

Let's begin with that overall question, and let's put up a graphic. This is the World Bank that tracks income equality. This is called the Gini coefficient, and it's maybe hard for you to see, but both Larry and Jared could explain the Gini coefficient, but we all have to stay awake this evening, so *[laughter]* we'll – the Gini coefficient essentially tells you the difference between – it shows you the countries that are closest to equality in terms of income and those that aren't. And if you look at Canada and Scandinavia, northern Europe, generally fairly close in income between the poorest and the richest. Look at the countries that are red. You see the countries that usually have this problem of the extreme wealthy and the masses of people who have – who live in poverty.

And then, look at the countries that are – look at us. Well, we're not green. In other words, we're not very equal. We're not even light green. We're actually pink. We're more like China and Russia, but maybe there's a reason for that. Maybe it's because we're a country that's always on the make, always changing. There's a lot of churn in our society, so let's take this overall issue first, and maybe we'll start with Jared. You've written and talked a lot about income inequality and in particular about the issue of fairness and participation of the middle class in the economy. In fact, at one point, I think you've written that you think that now, for the middle class, it's like a spectator sport more than a participatory sport, to be involved in growth, and tell us, is the income gap widening? If it's widening, is – what is the impact on our economy?

Jared Bernstein: Sure. Well, first of all, let me just say thanks for inviting me. It's great to be here tonight, and it's especially great to be here with my old friend, Larry. And if I can just take a second, I just wanna tell one anecdote that I was just thinking about as we sat down, which is when I went to work for the White House, they sent me out to talk to the cameras about the economy, and this was when things

were really dark. I mean, we were hemorrhaging employment. GDP was cratering, and the very first time I went out to Pebble Beach, they call it, to talk to the cameras, it was to be interviewed by Larry Kudlow, who, by the way, I had known for years and been on his show. And all the handlers said to me, "You don't want your first interview to be with Larry. Larry'll jump all over you. Larry's tough." And I said, "Well, Larry's tough, but Larry listens, and Larry and I can have a conversation about things with – about which we disagree," so I just wanna say how nice it is to be here with you to try to find common ground.

The increase in inequality, whether it's wages, income or wealth in America has been large by historical standards, starting around the latter 1970s. If you look at the post-war period, say the mid '40s to the mid '70s, incomes at the bottom and the middle and the top all grew at about the same rate. They all just about doubled. Starting in the latter 1970s, you began to see this inequality problem creep in, and since then, you've got lots of different numbers with lots of different datasets. But one of the things I tried to do for tonight was to look across every dataset I could, and what I found was that from the latter 1970s until now, income inequality has increased, I'd say significantly, but that's a judgment call, in every one of these datasets.

So if you're looking at the Census Bureau, they show incomes pretty stagnant at the middle and the bottom and growing at the top, but they leave out realized capital gains, which is very important. That's the money that you get when you sell stocks and bonds and artwork or whatever, and that, obviously, is more concentrated at the top. Once you include that, you get numbers like those developed by Emmanuel Saez and other authors that show back in the late '70s, the top 1 percent held 10 percent of all income. Now, they hold more than 20 percent of all income, and if you – one way you can tell that this inequality problem is, I think, serious and entrenched is the higher you go up the scale, the more concentration you see. So if you look at, for example, the top 10th of the top 1 percent, so this is a narrow slice of the wealthiest and you look at wealth, back in the late '70s, the top 10th of the top 1 percent controlled about 7 percent of all wealth. Now, they control about 22 percent, so a growth by a factor of 3.

I could tell you the same story about wage growth, and so on wages, income, and wealth, very much a pretty concentrated increase. You can dampen the increase if you start adding taxes and transfers, and in many cases, you should, but even if you look at the Congressional Budget Office's data, which adds transfer

payments, welfare benefits, food stamps, that kind of thing, Medicaid, and takes account of taxes, middle incomes grew about 40 percent over the last 30 years. At the top, they grew 200 percent, so faster by a factor of 5, so yes, it's growing. Its impact on the economy is a longer and more complicated story, and I'm happy to get into that, but maybe for now, I just sort of laid on a lot of numbers on you, so maybe I'll stop there for now.

John Yemma: Great, okay. So Larry, you've cited research that this isn't a zero-sum game, that essentially, the rich have gotten richer, but that everybody's gotten richer over time.

Larry Kudlow: Exactly.

John Yemma: Tell us –

Larry Kudlow: I don't even acknowledge the notion of income inequality. I don't acknowledge it. The reason I don't acknowledge it is not because I'm mean spirited, but the way I know the story, the way I believe the story, life, liberty, and the pursuit of happiness, we all begin at the starting line the same – equality of opportunity. That's what makes this country great, but we do not end at the finish line the same. That is also what makes this country great, and I don't believe that creating millionaires or billionaires is a bad thing. I don't think that detracts from the middle class or the lower classes. I think we have problems in this country, by the way. I think we have poverty traps. I don't think we're growing nearly enough as we should be. I think that's a longer-term issue.

But as far as inequality goes, I basically agree with the data sources that Jared cited. We may have somewhat different conclusions, but if you use the CBO, you use Berkower, you use Burkhauser, you use Greg Mankiw, you gotta adjust for taxes. You gotta adjust for transfer programs. You gotta adjust for health benefits from employers and things of that sort, and when you look at that, the President is wrong. We have been rising. We've been rising for over three decades. I'm always interested that the President took that point of view, because we had at least one good pro-growth Democratic president. What he's doing is saying Bill Clinton was a lousy president, and I don't believe that. I mean, he may have had his personal peccadillos, but on the economy, I think he was rather good working with Republicans. I'd be interested to see if his wife runs the same, so I don't know why Obama feels that way. I don't think the data support that.

Let me just give you one quick anecdote to sort of summarize my philosophy. My friend, Harold Hamm, who was the guy who brought hydraulic drilling and fracturing to North Dakota – it's one of the greatest economic and technological developments of our time and it's comprising a very large amount of our economic growth and job creation, so Harold Hamm, I've interviewed him many times. Here's the deal: He has created thousands of millionaires because of the new fracking techniques and the oil boom, thousands. In fact, if you add on Texas and you add on Pennsylvania, you're probably talking tens of thousands of millionaires, okay? Now, at the same time, he has created tens of thousands of new jobs by field hands and roustabouts. I think the Bureau of Labor Statistics said waitresses in North Dakota now make about \$37,000 a year. That's very high. These people were unemployed, 'cause our oil industry had been finished, done for many years.

Okay, so what happened here? The \$80,000 roustabout and the \$80,000 field hand who had no job is not making nearly as much as the millionaire who may have just sold the land or leased the land or gotten a royalty deal. But my question to you is are we better off or worse off? Because clearly, inequality has increased. The millionaires have made millions; the roustabouts, \$80,000 – not bad, but it isn't a million. I would argue we are all better off as a result of that, and I would say to you, in a cliché that I have always agreed with, and I'm actually writing a book on John F. Kennedy, who coined the phrase, "A rising tide lifts all boats." That's my point of view, and to try to capture all these statistics on the head of a pin as to who's ahead and who's behind, no, that's not how the country works. That's now how the economy works.

John Yemma: Maybe if we could just concentrate on the idea of the middle class, then. We've got very rich people doing very well, and we maybe even have the bottom coming up, whether it's –

[Crosstalk]

Larry Kudlow: Who's more middle class than the \$80,000 field hand, seriously?

Jared Bernstein: Well, wait a second. So there are a number of points there with which I strongly disagree *[laughter]*, some of which I think are factually incorrect and some of which we can argue about are just opinions. But I thought you said in there when you got started something about we all start from the same starting line.

Larry Kudlow: I believe we do.

- Jared Bernstein:* And yeah, so I think –
- Larry Kudlow:* That's equality of opportunity.
- Jared Bernstein:* Right, so I think there is significant inequality of opportunity and I can give you lots of different ways in which that plays itself out.
- Larry Kudlow:* Tell me why, Jared.
- Jared Bernstein:* Well, hold on. Let me finish, so and I think that one of the problems is that if you believe that we're all starting out at the starting line the same way, and that there really is no disadvantage for a poor child in a disadvantaged, in an economically segregated neighborhood, facing the kinds of educational barriers that she faces, the kinds of income barriers she faces, the nutritional barriers, the environmental barriers – if there's no difference between that kid and a kid from the middle class, then we're really starting out from a –
- Larry Kudlow:* No.
- Jared Bernstein:* – very different place.
- John Yemma:* We have a section we're gonna get into –
- [Crosstalk]*
- Larry Kudlow:* Yeah, let me clarify that. I was merely speaking in legal terms. I happen to agree. I wanna get to the issues of family breakup and marriage and education, which I happen to think are the real problems in the country. I'm just saying that legally, particularly now, in 2014, since the civil rights laws have been enacted and so forth, I'm saying we all begin with equality of opportunity.
- Jared Bernstein:* Oh, you mean like the minute you're born?
- Larry Kudlow:* That's correct. That's all I'm saying. That's –
- Jared Bernstein:* I'm not even sure that's true.
- Larry Kudlow:* – in our Constitution.
- Jared Bernstein:* In fact, I'm pretty sure it's not.

Larry Kudlow: And that's in our legal framework, and I also would add, unlike socialist experiments in the Soviet Union or elsewhere, I don't believe we should finish at the –

[Crosstalk]

Jared Bernstein: The environment wherein the mom, while she's pregnant – the environment where the mom lives has been shown to have serious impacts on the starting. So we're unequal at the starting gate in profound ways that you have to understand if you're gonna get into this –

[Crosstalk]

John Yemma: Okay, let's hold that for a second, and we've essentially established what your positions are going in. *[Laughter]* I'm gonna look over at our colleague over there and see if –

[Crosstalk]

Jared Bernstein: So far, not a lot of common ground.

John Yemma: – any kind of common ground. *[Laughter]* I suspect we don't, but then, we can continue to hope.

Jared Bernstein: I mean, Larry did acknowledge, to his credit, that the statistics that I cited were true, and I do think that the President was saying that inequality's increased a lot, and I don't think that's wrong.

John Yemma: So we have a point of common ground up here.

Larry Kudlow: I don't think you can – wait. Just on that point, I – Jared is a great friend. I just want you to know *[laughter]* this is a labor of love, even though we're gonna disagree. I don't think the gap's so-called. I think the only gap that I can find, looking at the data, on the quintiles and all the categories we should include, the top 1 percent and the top 1/10 of 1 percent have absolutely shot up in the last bunch of decades, absolutely, okay? I'm not denying that. What I am denying is that's a bad thing, right? And I am also denying that that is detrimental to the economy. Indeed, I would argue it helps the economy.

[Crosstalk]

John Yemma: Right, I think we've got that. But what about this? Take a look at the monitor if you can, Larry. Whatever the income inequality, the

issue is economic growth and equality of opportunity. Do you two agree on that point? Might you agree on that? And then, there's a second point: Where there is inequality of opportunity, that's where economic policy can make a difference.

Jared Bernstein: I agree on the second, and I suspect you would as well, Larry. I don't agree on the first, and I'll tell you why.

Larry Kudlow: I think we can cross over early in the game here. *[Laughter]*

John Yemma: I hope so.

Larry Kudlow: But I'm making a distinction, and I don't really like my own distinction, but I thought that's where we're heading. In regards to the economy and the issue of inequality and the issue of laws and so forth, no, I don't agree. I think we do start out equal. However, I think there are serious cultural and social problems, many of which are a function of government policies that have put a lot of people in the hole that I wish weren't in the hole, and if we wanna go to that, I'm perfectly happy to go to that.

John Yemma: We'll get into –

[Crosstalk]

Larry Kudlow: But I'm just saying it isn't – they're not – well, actually, and actually, let me – they are, in some sense, economic policies, because of the whole issue of the growth of the entitlement state and transfers and what my friend, Chicago Professor Casey Mulligan, calls the redistribution recession, so maybe I should throw that – they all go and lump together.

John Yemma: Okay. I'm just gonna say that –

Jared Bernstein: I wanna explain how I disagree with the first bullet, if that's okay?

John Yemma: Sure.

Jared Bernstein: So the problem is that – twofold: It's the "whatever the income inequality" point, as if we could have any level of income inequality, and all we would worry about would be the equality of opportunity. In fact, they're interrelated. When income inequality gets too high, and I would argue it's too high now, it actually creates barriers to opportunity, such that these two concepts interact in a way that is – creates great disadvantages for those on the wrong side of the divide. Again, I sort of ticked through it

earlier, but you can see it most clearly through educational opportunity, but there are neighborhood effects. There are nutritional effects. There are environmental effects. There are the amount of income, and this is a, I think, an important difference – the amount of income that low-income parents can spend on enrichment goods for their kids – this is some work from a book called *Whither Opportunity?*, that I commend to you. It's very much in the spirit of my comments. It used to be that high-income parents spent about four times what low-income parents did on things like tutoring and sports and art class and vacations and the sort of things that an upper-middle-class parent like myself and many of you spend on our kids all the time. Now, it's a factor closer to seven, and that's, I think, a good example of how income inequality impacts inequality of opportunity.

John Yemma: Well, let's stay with that point, because what we're gonna do is we're gonna try to march through and ask the question, is the playing field leveled, or is it tilted? We're gonna see whether there's something that government or public institutions should do to try to rectify that, if so, and whether – how much of economic empowerment is up to the individual, the family, and education. So let's maybe start on families and education, and maybe turn the discussion to equal opportunity. Again, let's go back to President Obama, who's been talking about this. *[Video played, 0:21:44 to 0:22:58]* Yeah, let's – I'd like to put up a recent graph that *The Wall Street Journal* had that reflects what the President said. Basically, the kids from higher-income families do better on SATs, SAT tests than those from lower-income families, so this basically shows you that as affluence increases, test scores increase. At least, this is what *The Wall Street Journal* has said, so Larry, how much weight would you give to this whole question of the family and education –

[Crosstalk]

Larry Kudlow: A lot.

John Yemma: Tell us about that.

Larry Kudlow: An absolute enormous amount. That's a different issue than what we were talking about before, in terms of millionaires vs. –

[Crosstalk]

John Yemma: Right. This is now a different issue.

Larry Kudlow:

This is a different – but it is related to government policy. Look, you can look at the household formation in this country. Upper-class households now, basically, the majority, 65, 75 percent, have two income earners; middle class, the middle gap, one income earner. The bottom quintiles have a one half of one income earner, so we're suffering here from, number one, family breakup, which I think is an enormous, enormous factor in the economic problems of the country. We're also suffering from, two, a very poor education system. Regrettably, by the way, President Obama, who occasionally talks about this, wants to throw more money at government-sponsored education, the teachers' union. To me, we should be embarked in school choice and charter schools. We are denying the poorest of us the opportunities to better themselves educationally because we have a dysfunctional education system, 'cause it lacks choice, so I agree with that too.

So you've got two household earners, so naturally, the upper end's gonna have more money. You've also got an education system problem. I also think we have – and this goes to government economic policy – we are, by and large, paying too many people not to work and paying too few people to work. And I think that, unfortunately, this particular recession, although it started in the prior administration, is a perfect example of that, so I said Casey Mulligan writes a book on it, very important stuff. You get certain benefits. I'm not opposed to the social safety net, not opposed to it at all, but what we've done is we've widened eligibility so much, and we've reduced time limits so much that you have no incentive to get a job, to succeed on your job, meaning higher income, because you'll lose your government subsidies, whether it's disability or food stamps or Obamacare, and you'll move into a higher tax bracket. And this is a poverty trap that government has created, despite the fact that the whole period of three decades or whatever, we have spent several trillion dollars redistributing income. It hasn't worked, because the basic incentive structure has been destroyed.

Jared Bernstein:

So let – I gotta intervene [*laughter*] – an intervention. That rap didn't make sense to me 40 years ago, and I think I derived a fair bit of evidence that disproved it, but it makes far less sense now, because what's happened – and Casey Mulligan misses this in his work, and I would urge you not to cite him on these points – what has happened over the last 30 or 40 years – and frankly, I think this is a good thing, and here, we may agree on something – is that anti-poverty policy has massively shifted towards work. That is, ever since welfare reform really came to a head in the '90s, the message from public policy was, "If you wanna get out of poverty,

you have to work yourself – you have to work your way out of poverty."

There are benefits for people who don't work, but they're miniscule, and they ensure that you stay – that your income is extremely low. The only way for families to climb up the ladder is to work more, and by far, the largest addition to the safety net has been a subsidy program, a wage-subsidy program called the earned income tax credit, which we currently spend about \$60 billion a year on. It was Ronald Reagan's favorite anti-poverty program, and I like it a lot too, so there's some common ground, and it is not only pro-work, but it can lift the income of, say, a mom with a couple of kids by \$3,000, on average, per year. Okay, so poverty policy's gotten more pro-work, not the other way.

Larry Kudlow: No.

Jared Bernstein: So I think Larry's just factually wrong about that.

Larry Kudlow: No. I don't agree with –

[Crosstalk]

Jared Bernstein: Well, hold on. Let me finish. Now, on the education –

Larry Kudlow: Look at Obamacare. Let's take Obamacare. It's a perfect example.

Jared Bernstein: Hold on. I will in a second. On the education point, here's a fact that I think is really important, that kind of crystallizes a lot of what I've been saying about this, "We're unequal at the starting gate," which I think is a pretty core disagreement between us: If you look at the scores on cognitive tests of poor kids and rich kids, and then you look at which one of them, later in their life, attended and completed college, you find that college completion for smart poor kids – okay, and I'm using these words in quotes, but for high-achieving, high-scoring poor kids, the college completion rate for high-scoring poor kids is almost exactly the same as the college completion rate for low-scoring rich kids. So what that tells you is that it's not a meritocracy, and it's not just a matter of what you bring to the table; that there are structural barriers to opportunity, and they're worsened by our growing inequality. We can argue Obamacare too.

Larry Kudlow: Yeah. Look – first of all, I don't think – I think you said this earlier, but maybe you didn't. The data on social mobility does not show that social mobility has deteriorated, all right? And that may

be counterintuitive. In some sense, I don't believe the data, but that's what the data show, and your point about the Gini coefficient is also correct. The Gini coefficient hasn't changed in 50 years. That's the inequality coefficient, but look –

Jared Bernstein: It's gone up.

Larry Kudlow: – in terms of the earned income tax credit, in terms of Obamacare, in terms of unemployment insurance, in terms of a variety of small entitlements, in terms of welfare, we've reversed course from where we were in the 1990s. We've expanded the eligibility and we've taken a lot of the time limits off. That's why the food stamp explosion. That's why the welfare explosion. That's why the poor performance, in some sense, of the employment data. That's why the participation rates are so low. We are paying people not to work.

Obamacare's a perfect example of this, and this debate is not about Casey Mulligan, but I would urge you to read his book for this reason: Casey Mulligan – I was just with him in Chicago the other night – he actually persuaded the Congressional Budget Office to change their numbers. He showed them by his work that the incentive effect of Obamacare is perverse. That is to say it is incentivizing you to work fewer hours in order to get the subsidies. It is incentivizing companies to hire fewer people and if you don't – if you back that, if you go away from that, because I think, in people's hearts, they'd rather work and earn the money rather than get welfare, you lose. You lose the subsidy. Your tax rate goes up. The marginal tax rates, and it's not just Mulligan, estimated by a number of people range between 45 and 80 percent, the increase in marginal tax rates for the extra-hour work in terms of losing your benefits. Now, I'm all for the earned income tax credit. That was Milton Friedman's negative income tax, and you're right, Reagan was for it, but –

Jared Bernstein: Pro-work, right?

Larry Kudlow: It should be, but what's happened is it needs reform badly. We need to smooth out the cliffs. You have a steep cliff, where you lose your government benefit under current law for all of these programs. You could use the earned income tax credit to smooth that out, but that's a –

[Crosstalk]

Larry Kudlow: – very important change. I would think you would agree with me on that –

Jared Bernstein: Well, actually, I do agree with you on that.

Larry Kudlow: – because the incentive effects are very –

[Crosstalk]

Jared Bernstein: No, I do agree with you on that, but let me cut to the chase here, that I think – in a way that I hope is helpful for the audience, 'cause I really think that this is largely a distraction. I mean, we could have a good debate about Obamacare, but let me put it this way –

Larry Kudlow: Those are the laws, Jared.

Jared Bernstein: No, listen to what I'm –

Larry Kudlow: You lose your subsidies.

Jared Bernstein: Listen to what I'm gonna say, and I think it'll change your mind. *[Laughter]* You'll stop talking about all this Casey Mulligan nonsense. First of all, we happen to agree that if you were to lower out the – lower the – smooth out these cliffs that would be a good thing. It would be very expensive, so we'd have to talk about that. Here's the thing: All of the increase in inequality that I've been talking about has been a pretax, a pretransfer phenomenon. You don't have to invoke marginal tax rates and the impact of Obamacare, which by the way is a relatively recent phenomenon. This trend started, as I said, in the latter 1970s, and in fact, the – at the core of what's happened here, especially for working families, is stagnant and unequal earnings pretax.

So you can very simply look at relationships, like we've done a ton more globalization. I happen to think that's a good thing, but it's definitely hurt lots of non-college-educated men, for example, particularly in production sectors, and their wages tanked accordingly, and their employment tanked accordingly. It has nothing to do with marginal tax rates. It has to do with structural, global economic changes. Now, those changes, we – are in many ways positive. I happen to think that the US is actually doing a bad job in the way we manage globalization, and we can have a conversation about that. It's a big contributor to inequality, but all of these problems way predate anything with Obamacare, and if you actually look at the marginal tax rate argument with the

poverty story, if anything, that's gotten much more pro-work, not the other way.

[Crosstalk]

Larry Kudlow: And I think, by the way, the Obamacare problem, which is, what, four years old now, has really contributed to the drop in median incomes, and it's really contributed to the drop in hours worked in employment, and it's really contributed to the drop in the labor force participation rates, which is the soft underbelly.

[Crosstalk]

Larry Kudlow: The participation rates have dropped.

Jared Bernstein: Yes, they have dropped, but they're –

Larry Kudlow: The employment-to-population ratio has dropped.

Jared Bernstein: Show me one convincing piece of research, that's not by Casey Mulligan, that makes that case.

Larry Kudlow: All right. John Cochrane's another guy.

Jared Bernstein: Ooh, even worse. *[Laughter]*

Larry Kudlow: The difference between Jared and I, and this is a long difference, much as I love him, is I believe in the incentive model, and Jared does not, so I believe that all these government programs, made with the best of intentions, have perversely made the situation even worse. Let me –

John Yemma: Are there any government programs –

Larry Kudlow: Let me circle back to one thing.

John Yemma: Hold on.

Larry Kudlow: I wanna make one point, 'cause I don't wanna lose it.

John Yemma: So do I at some point. *[Laughter]*

Jared Bernstein: *[Laughter]* We'll bring you back..

Larry Kudlow: This is all about inequality. I wanna come back to my original starting point. I don't wanna lose track of this thread: Economic

growth solves an awful lot of problems. One of the issues that I'm most concerned about is that, basically, in the last 15 years, under Republican president and a Democratic president, under Republican Congress and a Democratic Congress, the rate of US economic growth has dropped, collapsed, if you will, to 1.8 percent at an annual rate. Normally, we grow at close to 3 1/2 percent. I'm talking over 50-year periods or more, so therefore, to solve these problems, and we're gonna get to family breakup and marriage in a second, in economic terms, I believe we have to reenergize incentives to form capital, to start new businesses and form brand-new businesses, and to grow the economy. I think that's at the root of so much of this, and again, I argue inequality, hell, no. A rising tide lifts all boats. We have not seen that kind of rising tide since the early 2000s, and I find that very troubling.

John Yemma: Thank you. *[Laughter]* So I mean, if we're looking at families and education, can we agree on certain things with families? Can we agree that policies that promote – that help families hold together, economic policies, for instance – I mean, I've read that this whole problem of breakup of families in lower income – at lower income levels is actually driven by economics in many ways, as much as it –

Larry Kudlow: Yes.

John Yemma: So –

Larry Kudlow: First of all, you're paid not to stay married, and second of all, you're paid to have out-of-wedlock children. Now, those are two incredibly damaging things to culture, to family, and to economic growth.

[Crosstalk]

John Yemma: But also, not having a job can help put stresses on a family too.

Jared Bernstein: I agree with part of the premise here, and I think the facts are the facts about this, which is the following. I mean, no question, and Larry and I agree on this point, that two earners earn more than one earner. If you look at the poverty rates for married couples with kids vs. a single parent, typically a mom, with a kid, the poverty rates are twice as high for the latter group, so that's just simple arithmetic. Where I think we have a real limit in terms of social policy – and this isn't just me talking now; these are – this is the work of people who have worked for years on the idea of trying to incentivize marriage through social policy – is that it doesn't work.

The factors within society – and they really go from – it's not just economics. It's everything from feminism to increased opportunities for women to economics of diminished marriageable males, as they're sometimes called in sociological literature. All of these factors are contributing to a lot more single motherhood and not just at the bottom, but across the income scale, at the top as well. Women are getting married later, if they get married at all, and having children is no longer nearly as conditional on marriage as it used to be.

And I'll cite the work of a guy named Ron Haskins, who's done – he's to my right on all of these issues, but he's worked for years, if not decades, on trying to incentivize marriage through social policy. I always find it weird when I'm kind of arguing with a social conservative who's all of a sudden saying, "Well, here's what government should be doing: Figuring out ways to incentivize marriage." It doesn't work. These are trends that are now embedded in our culture, so we would be much smarter, especially if we wanna offset the inequality problem and the inequality of opportunity problem, we would be much smarter if we invested in kids, regardless of whether they have one or two parents. That's the way forward.

Larry Kudlow: No, I don't – look, the marriage penalty is not a cultural issue. That is an economic issue, and the day we abolish the marriage penalty, we are –

Jared Bernstein: You should say what you're talking about. What is –

[Crosstalk]

Larry Kudlow: The marriage penalty, it's actually two people, all right, and they should both be earners. They don't have to be, but if they are both earners, they actually pay higher tax married. They pay a lower tax as individuals. That's wrong. We should abolish the marriage penalty and any vestiges of it whatsoever.

Jared Bernstein: I think we may have an agreement here.

[Crosstalk]

Jared Bernstein: Listen, here's a concrete agreement. We may have a concrete agreement. Let me try this –

Larry Kudlow: And I've been married 27 years. *[Laughter]*

Jared Bernstein: Well, yes, to –

[Crosstalk]

Larry Kudlow: It's not about taxes. *[Laughter]*

Jared Bernstein: Here's something we may have – we actually – I was working for the White House at the time – under President Obama and the Recovery Act, we went pretty far to get rid of the marriage penalty under the earned income tax credit, so that the marriage penalty was brought way down. Now, this is in place only till 2017 because of some nasty Republican budget stuff. It sounds to me like we might be able to agree to extend the refundable part of the earned income tax credit –

[Crosstalk]

Larry Kudlow: Yes, I agree with that.

Jared Bernstein: – so that we get rid of the marriage –

Larry Kudlow: I absolutely agree with that.

Jared Bernstein: So that's a concrete agreement –

[Crosstalk]

John Yemma: Let's celebrate this moment. *[Laughter]* Let's just celebrate this moment. *[Applause]*

Jared Bernstein: Thank you.

Larry Kudlow: I agree.

John Yemma: And Kraft, what do we have to show? Let's see if we can put anything up here.

[Crosstalk]

John Yemma: Let's see. Here we go, in a minute.

Jared Bernstein: While you're working on that, can I –

Larry Kudlow: Taxes and marriage.

- Jared Bernstein:* While you're working on that, I need to interject a very important point here, because we have a fundamental disagreement.
- Larry Kudlow:* What about kids?
- Jared Bernstein:* I think this –
- Larry Kudlow:* What about out-of-wedlock kids?
- Jared Bernstein:* I think the –
- Larry Kudlow:* I don't wanna reward that.
- Jared Bernstein:* Let me just say that it's very important –
- Larry Kudlow:* And the tax code does reward that.
- Jared Bernstein:* Hold on. It's very important to understand the relationship between economic growth and inequality. By the way, you know who you were just agreeing with? Thomas Piketty. Thomas Piketty has said as long as the rate of return on capital is growing more slowly than economic growth, inequality will increase, so he –
- Larry Kudlow:* I don't agree with that.
- Jared Bernstein:* – agrees with you. Okay, well, now you don't agree.
- Larry Kudlow:* I may agree with him on marriage, but I think his own prime minister would say – sorry – President Hollande, he did what Piketty said. He raised the top tax rate to 75 percent.
- Jared Bernstein:* I'm just saying he –
- Larry Kudlow:* Piketty said 80, and he lost his whole government, but let's not debate Piketty.
- Jared Bernstein:* – views growth as something that reduces inequality, just like you.
- Larry Kudlow:* I just think that –
- Jared Bernstein:* Here's the thing: The rising tide –
- Larry Kudlow:* – cultural institutions, at the very least, Jared, at the very least, should be economic-value free, okay? What we've done is created a set of disincentives.

Jared Bernstein: Well, I don't disagree with that.

[Crosstalk]

Larry Kudlow: That's an area of common ground.

Jared Bernstein: So here's the thing about growth: This recovery has been actually in place since the second half of 2009. I remember it well, because we were making a lot of noise about it at the time. The economy's been growing since the second half of 2009. GDP is up 14 percent. That's not gangbusters, and I agree with Larry, it should be faster, but GDP is up 14 percent. Corporate profitability is up 45 percent. These are all adjusted for inflation. The stock market is up 90 percent. Median family income is down 3 percent, GDP up 14 percent, the stock market almost doubled, median family income down 3 percent. The data simply do not support this idea that growth carries with it the median family and the reason is inequality, which creates a wedge between growth and the economic wellbeing of the middle class and poor families –

Larry Kudlow: No.

Jared Bernstein: – as has been the case for – or at least over this recovery.

Larry Kudlow: Yeah, I think we got big problems with this recovery, so we have common ground on that. I think one of the reasons median incomes have fallen is precisely because growth has been so weak, all right? So I think that's a very important point, and again, I don't wanna assess blame, Jared, but *[laughter]* that's the deal. Now, let me make one other point though. I'm gonna argue almost against myself. This is an argument, by the way, I do not know why Obama doesn't make. When we're talking about the stock market, okay, liberals don't like the stock market, and they think it's all rich people and it's all the top one percent. Well, I've had this debate with a million people down through the years. You know what? Fifty percent of Americans, either directly or indirectly, own stock. Now, the biggest chunk of that is through pension funds, and the biggest-growing chunk of that, a group that I do not admire, is government unions. Now, these are, by and large, middle-class people. I think they may do great damage, particularly to our education system, but that's a different subject.

What I'm here to say is millions and millions and millions more Americans have benefited from the rise in the stock market than is generally acknowledged by people on the left and the right, and

that's not a small thing. When I went to work for Reagan in the early '80s, only about 17, 18 percent of the people were involved in the stock market. Today, as I say, it's 50 percent of households, close to 100 million people, so it's not a small thing that stocks have improved, and to Jared's point about profits, I think it's a remarkable thing that in the face of an anti-business administration, which constantly wants to raise tax rates on businesses or capital formation, businesses have been so resilient in this country that they have pulled themselves up by the bootstraps and have become profitable.

[Crosstalk]

John Yemma: Let's pause for just a second. We –

Jared Bernstein: I disagree with a lot of those facts, but we can get back to that.

John Yemma: Okay, we'll get back to it. Ooh, we have a lot here. *[Laughter]*

Jared Bernstein: We've agreed on that much.

John Yemma: We've agreed that policies should not break up families, allows for opportunities of two wage earners. Do away with the marriage penalty. Anti-poverty policy has massively shifted to work, especially in the '90s.

Jared Bernstein: He doesn't agree with that.

Larry Kudlow: I don't agree with that.

Jared Bernstein: Larry explicitly disagreed with that point, but go ahead.

John Yemma: The earned income credit is pro-work and lifts income for most of those needing it, or those most needing it. Now, well-intended programs such as Obamacare, the Affordable Care Act, have inadvertently created perverse incentives that undermine work.

Larry Kudlow: We don't agree –

[Crosstalk]

John Yemma: But we need to smooth out the cliffs.

Larry Kudlow: That, we agree with.

John Yemma: Okay, and income inequality is a pretax issue.

Larry Kudlow: No, I don't agree with that.

John Yemma: All right.

Larry Kudlow: On the other hand, did I hear – I thought I heard the earliest smidges that Jared agrees with me, how screwed up our education system is. Did I hear that? 'Cause that's a terrific point, Jared.
[Laughter]

Jared Bernstein: Yeah. Well, I – what – I don't think it – I think it's wrong to say that it's screwed up. I think it's actually more in the context of our discussion to say that it's highly unequal. There are schools, public schools in towns that you and I would be very happy to send our kids to, and they happen to be – there're not a lot of towns like that. But by the way, it's weird for me for you to connect the federal government to that issue, because the federal government, for all the noise it makes, contributes well under ten percent of funding to the –

Larry Kudlow: And growing.

Jared Bernstein: – public school, to the K-through-12 system, and that's a state issue, but yes, we definitely should do a ton more to reduce the inequality of schooling.

[Crosstalk]

John Yemma: Does that put you both on the side of charter schools?

Larry Kudlow: Yeah. See, that's – this is where I wanted to go, because –

Jared Bernstein: No. Charter schools haven't been shown to be any more successful than – they have all the same problems of the public schools.

Larry Kudlow: Oh, Jared, the data on performance of charter schools vis-a-vis your run-of-the-mill public school is overwhelming at this point, overwhelming. I mean, look, even in this nutcase Sandinista New York City, alright *[laughter]*, we can, daily, weekly –

[Crosstalk]

Larry Kudlow: – everybody – right, the people's republic of New York *[laughter]*
– the data on the outperformance of charter schools is so overwhelming that even the head Sandinista, Deblasio, had to back down.

Jared Bernstein: No. It is widely –

[Crosstalk]

Jared Bernstein: Okay, so we have a – one of the things that's gonna happen tonight
[applause] – no, don't –

[Crosstalk]

Jared Bernstein: One of the things that's gonna happen tonight is we're gonna have factual disagreements that ought to be able to be resolved by facts, and I would encourage the Common Ground group, who's good at this, to put up the facts of the case on this issue. And if they prove what I'm about to say to be wrong, I will definitely backpedal and agree that Larry is correct. The national – I'm gonna make an assertion, and Common Ground will put it on their website – the national research has found that the child achievements in charter schools are not superior by any measure to those in the broad public schools. Now, I'm not saying that kids shouldn't have choice, because I think they should have more choice.

Larry Kudlow: Ah, common ground.

Jared Bernstein: I think choice is important. I would never tell a parent in a neighborhood with a terrible public school, "You have to send your kid there." I think that's immoral.

Larry Kudlow: That's common ground. I agree with you. My only point – the bigger –

Jared Bernstein: But the charter thing is not the solution you think it is.

Larry Kudlow: Well, I – you and I are gonna have to – we agree to disagree on the performance.

Jared Bernstein: Well, let's get the facts.

Larry Kudlow: But the political issue here is the national federal issue. When he first became president, I thought President Obama and his education man, Arnie Duncan, were gonna be much better on this regarding more local autonomy, which is to say allowing charter schools or allowing private schools or allowing people to take their own tax dollars and go to whichever school they choose and I've been quite disappointed that the President never followed through. I interviewed Arnie Duncan on this subject, and he was equivocal

at best, even though he had a pretty good rep in Chicago, and I was disappointed. President Obama, on the other hand, has consistently kowtowed to the teachers' union, and the teachers' union is the most vitriolic, viral opponent of school choice or charter schools that you can possibly imagine, and they have a lot of political clout. In fact, in some sense, the teachers' union is very close to financing the entire Democratic Party so I think there is a federal issue. At the local level, it's the same debate. It's the teachers' union against the reformers. We have it here with Eva Moskowitz as the reformer, and the teachers' union – hell's bells. Wisconsin has had –

[Crosstalk]

Jared Bernstein: We only have so much time, so –

[Crosstalk]

Jared Bernstein: No, this is – these are right-wing talking points, Larry. They have nothing to do with the inequality problem, the opportunity problem. They don't even have anything to do with the education problem.

Larry Kudlow: You acknowledged that education was a key point –

[Crosstalk]

Jared Bernstein: I do believe that.

Larry Kudlow: And I agree with you.

Jared Bernstein: And I think it's intimately connected to inequality, and in fact, if we want to improve our public schools, we should integrate by class. That's the way to go, and that's exactly what the President was saying. He –

Larry Kudlow: What's class? What do you mean by class?

Jared Bernstein: By economic class, by income class, so that poor kids don't go to school with just poor kids, but that there's integration of poor kids going to school with middle-class kids and upper-class kids. He's absolutely right when he says we've actually done better than you may think in terms of closing achievement gaps by race, but where have they opened up? They've opened up by income, and if you take a bunch of poor kids who come to school with all of the barriers that I've been talking about, all the disadvantages from

starting their life in poverty, because they're not equal at the starting gate – Larry's wrong about that – and you put all those poor kids in a charter school or a public school or whatever school you want –

Larry Kudlow: They are legally –

Jared Bernstein: – they're not going to do nearly as well as if you integrate them with kids from other economic classes.

Larry Kudlow: I could go through we are endowed by our creator, but I won't.

[Crosstalk]

Larry Kudlow: – Declaration of Independence, but I do wanna come back to this point: Marriage and education are integrated and getting, shall I say, worse, or better, depending on your point of view. The possibilities for a two-income-earning family, where the marriage is maintained, are far greater than not, far greater. I mean, you can almost predict now the success or failure rate, and the other point that's –

Jared Bernstein: So what would you do to incentivize marriage, outside of the tax code?

Larry Kudlow: We can make tax code changes, but I don't think that's the whole story, you know? I think that there are cultural issues here, and maybe you can say they go beyond my expertise, and I wouldn't disagree, but I have read a lot of sociology. I have read Charles Murray, who is acknowledged as an expert factually, who by the way makes no distinction between minorities and whites. We both suffer from the same problem and the intermarriage now of the upper-income, intact-family people – they're intermarrying with each other, which makes the gap even bigger in education, and therefore, the probabilities of success even lower.

Jared Bernstein: Assortative mating, I think they call it. It's true.

Larry Kudlow: Yeah. I mean, and these are things that are factually true, and I regret 'em. These are things that have to do, I think, with churches and civic groups, non-government groups, alright, who have to try to make the case of the benefits of a family, alright? And I'm very tolerant regarding that word "family," but I just think that non-government groups have to be much more assertive, and I have to tell you this too. This is about President Obama, who has a marriage and two beautiful kids. They go to the best schools.

Some conservatives use that in a snarky way. I don't. I think he's a role model. I think that's like the Bill Cosby role model. Yes, I wish Obama had spent so much more time arguing the benefits of the model that he himself and Michelle, his wife, embody than class warfare and taxing rich people and all of the assorted divisions that he has created in the country. This could be, the issue of family breakup and marriage, the single number-one issue for this country going forward for the next bunch of decades. That's how strongly I believe it.

Jared Bernstein: I certainly don't disagree, as I've tried to stress throughout my comments, that all else equal, kids are better off with two parents, and there's lots of research that makes this case. All else isn't always equal. Kids are better outside of an abusive marriage than inside one, of course. I have a piece on this that I commend to you, and I think you'd like it as well. It's called "The Limits of Marriage as a Pathway out of Poverty," and it ran in *The New York Times* a few weeks – a few months ago. You can Google it, and one of the points I made was that, while I accept a lot of what you said in terms of the research, I think one of the limits, and maybe one of the reasons the President doesn't speak to this as much, is because when you're president, and you say, "Here's something we should do," people have a right to say to you, "Okay, how are we gonna do it?" What are the policies that would help change this, I think, deeply-embedded cultural trend? And remember, one of the reasons this trend is a positive one is because it's provided more options for women. A woman does not have to be married to be a mom, whereas in the past, that was much more common. Now, you may not like that, and – but that's a very powerful option, and I think many –

Larry Kudlow: Moms and dads are important, and you know what? Some of this stuff is non-legislatable, alright?

Jared Bernstein: This is that.

Larry Kudlow: But presidents and other public leaders can use the bully pulpit to make important cultural points, and there may be disagreement. I get that, but I'd like to see more of that, alright? The churches, the synagogues, religions, the civic groups, all that stuff, I think, is so damn important.

John Yemma: Could I just ask the two of you –

[Crosstalk]

John Yemma: – very quickly, because I think we're running out of time here, and we need to go to questions, very quickly, when you think about this whole idea of the playing field and whether it should be level or not, and whether there are policies that we should get into – I think we should take that down; that's probably too much information for right now; we'll go back at it at some point – whether – is – there are things like affirmative action, put into place by President Nixon, right, a Republican. There are certain policies that are meant to create more social justice or make sure that it isn't imbalanced because if you're a black man and you're walking down the street, you're – you've got – we've seen this in the news. We've seen this in – with Ferguson and other areas, all of these things. Are those issues still –

Larry Kudlow: You just dropped in that Ferguson thing. I don't think that has a thing to do with affirmative action, but whatever.

John Yemma: Sorry, but there were – there have been issues about racial profiling that have come out of the Ferguson debate, whether you agree with them or not. They're part of the conversation, and I'm just asking whether these are the kinds of – affirmative action and ending practices like redlining and other kinds of things that are – stack the deck against poor people or minority people, whether those are – whether you would see that as being part of the –

[Crosstalk]

Larry Kudlow: Redlining, let me give you – I have big problems with this. We just had a housing crash. A lot of that was because of federal policies, I might add, bipartisan federal policies that said everybody should have a home – "I'm gonna redline an area. They don't own enough homes, people who live there, so I'm gonna order banks and savings and loans to make mortgages, whether they can afford it or not, and then I'm gonna order Fannie Mae and Freddie Mac, the government housing agencies, to put their guaranteed stamp on it." I think that got us into a whole lot of trouble. I, therefore, believe in governments cannot order – they just cannot order economic changes.

But I'll tell you what: We haven't spent enough time on this economic-growth aspect of it, and I wanna come back to it. I'll try my best. We need the rising tide lifts all boats, and here's where I disagree with Mr. Piketty and others on the left: United States, unfortunately, has a tax policy that double, triple, and quadruple taxes capital and investment, which is, in my opinion, a deterrent to new business creation, which is, in my opinion, a deterrent to

jobs and incomes and families, alright? I wish we could reform our tax system, alright? The corporate tax has got to come down. Hell, we almost had bipartisan agreement on that. We're not even close to competitive, but in general, income, then capital gains, then dividends, then estates, we don't need to keep taxing the same dollar three and four and five times, because it detracts from productivity and economic growth and job opportunities. So let's reform the tax code – make it flatter, fairer, simpler.

And just one last point: I am vehemently opposed to the whole idea of special favors, which I call cronyism or insiderism, whether it's in tax policy or anything else. I make a point: Paul Ryan, friend of mine, Congressman, ran for vice president, may run for president – I have no idea – he and others are making this point, that the increase in the scope and size of government has been accompanied by an increase in cronyism and special favors to special interests, and that's gotta stop. That is hurting, hell, the common man, the average man and woman. They don't have their lobbyists in Washington to get special tax breaks, and that's why I wanna scrap the whole system and start over with a flat tax.

John Yemma: Jared, you respond, and then I'll go to questions. *[Applause]*

Jared Bernstein: Let me work backwards to your question. All of that stuff about taxes, some of which I happen to very much support – we are on the same page, and we've talked about this on Larry's show a lot, vis-a-vis cleaning out the corporate tax code, which is a big, ugly mess, and I'd be happy to trade off a bunch of points for a broader base, and Larry's right – there's lots of agreement. By the way, you might ask yourself, "Well, if there's all this agreement on lowering the corporate tax, how come we don't have a lower corporate tax?" And the answer is that there's agreement among economists and people, talking heads on television. When you actually get down to taking somebody's tax break away in order to broaden the base and close a loophole, they fight you tooth and nail, and they hire the lobbyists to do so, so it sounds a lot easier than it is.

Larry Kudlow: So we need to just say, "Screw you," and get it done *[laughter]*, not you personally.

Jared Bernstein: No, I understand.

Larry Kudlow: I mean screw the – look, I – there are Republicans that are guilty.

Jared Bernstein: But my point is it has nothing to do with the topic. It's just this thing that you wanna do, and I wanna do it too.

Larry Kudlow: No, it has to do with growth.

Jared Bernstein: No, it – I've told you already that we've had 14 percent GDP growth and negative median income growth. Look, I have done –

[Crosstalk]

Jared Bernstein: Come on. I let you have a long, long bite at the apple there.
[Laughter] Can you have a long bite at the apple?

Larry Kudlow: You're right.

Jared Bernstein: A big bite of the apple. Sorry.

Larry Kudlow: A big bite, yeah.

Jared Bernstein: Mixing my metaphors. I have done the analysis myself, but others have done it as well. I've tried to do as careful statistical analysis as we can do with this kind of thing, because it's not enough to say, "If we cut taxes, growth happens, and middle class and poor people do better." That's kind of trickle-down, supply-side economics, which I view as fairy dust in terms of the evidence to support it, and what I've looked at is have you – can you really make a statistical argument, a connection, an empirical connection between changes in the taxation of capital, changes in corporate tax rates, changes in business taxation and changes in inequality, whether over time or between countries? And the answer is that you cannot. If you cut taxes for people at the top of the income scale, whether they be stockholders – and by the way, the tax on capital is already lower than the tax on income for those at the top – if you cut taxes for those at the top, they will get richer, no question about it. In fact, you'll raise after-tax inequality, but what you won't see is any kind of this trickle-down dynamic that Larry keeps speaking to.

Larry Kudlow: Sometimes called incentives.

Jared Bernstein: Now, getting back to your point, John, I absolutely believe that there are essentially rule changes or regulations that can overcome the kind of barriers that I've been stressing. I was thinking about Title Nine in girls' sports is a great example. There's also issues like raising the minimum wage or, for example, the housing piece that Larry talked about. Okay, last I checked, and I haven't checked for a few years, so I'm not sure this statistic is still valid – it's probably gotten worse – median wealth, not income, median

wealth for an African-American family is zero. So if you're a black family trying to make a down payment on a house – and if you're middle class or poor, your wealth is going to be typically grown through home ownership. The path to wealth is a path – it just takes you through home ownership. And because of historical discrimination and the inability of families to accumulate wealth over the long history, oftentimes they do need help when credit markets discriminate, so I'm all for that.

Now, I don't think you should shove home ownership down the throats of people who can't afford to sustain that kind of a loan, to service that debt. I think that that's overdone, but it is one of the greatest conservative hat tricks of all time to take a bunch of financial innovation – the "innovation" part is in quotes – that Wall Street got involved in that completely tanked the housing market and then the economy and blame it on a few programs that helped low-income people afford a home. There's nothing to substantiate that at all. *[Applause]* Thank you.

Larry Kudlow: All I'll say to you, Jared, is if you throw a lot of blood into the ocean waters, the sharks will come, alright?

Jared Bernstein: Well, that's a point of agreement. *[Laughter]*

Larry Kudlow: I don't wanna defend Wall Street practices. I have my own views and criticisms of some of what they did. On the other hand, I think some of it was motivated by the government –

[Crosstalk]

Jared Bernstein: Community Reinvestment Act did not grow the housing market.

Larry Kudlow: Well, you see, I think it did, and I think other pieces of legislation –

Jared Bernstein: So another factual disagreement –

[Crosstalk]

Larry Kudlow: So we disagree on that, but I also – I again wanna note it's much better – and I'm sorry we disagree on this language business about trickle down vs. incentives, but I do believe in the incentive model. By the way, I don't think it's the domain of the Republican Party. As I said earlier, I'm writing a book about John F. Kennedy, whose tax-rate reductions were the progenitor of Reagan's, as Reagan himself acknowledged many times, so therefore, it's not a partisan

issue. It doesn't have to be a partisan issue, but to me, if you pay someone more after tax to work, invest, take risks, they will.

On the other hand, if you pay someone more not to work, not to invest – in this case, it's mostly not to work – they will, and I think that's at the heart of the economic-growth problem. Unfortunately, we have abandoned the incentive model in many cases, and particularly in the current administration, and we have decided willy nilly that spending money on particular groups, raising taxes on the rich and pushing the money over here to the non-rich, is gonna make the economy grow. I think that model's failed. I think, as Jared has pointed out, incomes are falling now, not rising. This is a very poor economic recovery. These were not good ideas, and they should be abolished.

John Yemma: Here's a possible point of agreement, because it doesn't involve the federal government. It doesn't involve government. It involves the super-government agency, the Fed, and it's a question: Has Fed policy increased inequality by artificially inflating asset prices? And I heard you two talking about that before.

Jared Bernstein: Right. I actually wrote a blog post on that this morning – jaredbernsteinblog.com [*laughter*] – wherein I argued that it didn't look to me to be the case. I happened to be at the Boston Fed a couple of weeks ago, when they talked – Janet Yellen spoke about the inequality of opportunity and, I thought, gave a very compelling talk, which I commend to you, and all of these things are linked on my blog. And since then, a number of commentators have written – well, in fact, the Fed itself is goosing inequality because their quantitative easing and their very-low interest rates are boosting asset prices, and who holds most of the assets? By the way, I disagree with Larry on this point. He said 50 percent of the – of...

Larry Kudlow: Households.

Jared Bernstein: Households hold stock. That's true. That's if you count every household, if you don't count the value of stock. If you have one share, in that calculation, if you have one share –

[*Crosstalk*]

Larry Kudlow: No, these are teachers and firefighters and cops.

Jared Bernstein: If you have one share, you're counted exactly the same as if you have a million shares.

- Larry Kudlow:* It's the pension funds. Come on.
- Jared Bernstein:* Let me finish. In that calculation, that's how it goes. Eighty percent of stock market wealth is held by the top 20 percent. It's a highly concentrated problem.
- Larry Kudlow:* That's not a bad thing, if everybody benefits from it.
- Jared Bernstein:* If they did, but they don't.
- Larry Kudlow:* Well, your firefighters and teachers are huge – have you seen – look, I'm not opposed to this.
- Jared Bernstein:* Well, let's stick with the Fed thing. Let's just stick with the question at hand.
- John Yemma:* Yeah, that'd be nice.
- Jared Bernstein:* So I argue, and you can see my argument, that while I do think asset-price inflation is ongoing to some extent, in order to evaluate this question of has the Fed contributed to inequality, you have to account for things that the Fed's actions have done to lower unemployment, to boost job growth, to boost GDP, 'cause they pushed the other way. So simply isolating this one part of the Fed's actions – they've done some stuff that have inflated asset prices, and saying, therefore, they've increased inequality, is very incomplete. There's no, "But what if they hadn't done this? What would've happened to jobs and incomes of middle- and lower-income people?" Now, that analysis hasn't been done. I talk about a little bit of it in my blog post. I think if it was done, it would show that the Fed hasn't increased inequality, but it hasn't been done.
- Larry Kudlow:* One point of common ground is I think Jared has a very good blog site. *[Laughter]* Really, it's very good, very interesting, very informative, and I think, actually, we're not too far apart on this other matter, because many of my conservative friends have made the same charge. I don't really see any evidence of it. Actually, I don't see any evidence that the Fed's \$4 trillion balance sheet creation has impacted the economy at all. The multipliers have broken down. Velocity has broken down. It's just gonna make it harder for them to get back to some form of normalization. Now, I think up to a point, you could argue ultra-low interest rates were stimulants. Interest rates are obviously important to the economy.

We've probably gone beyond that as we enter year six of this soft recovery.

I don't see any evidence that inflation's about to break out and roar. I don't see it. I use my market indicators, and I don't see it. I think profits have been the driving force behind the stock market rally, along with low interest rates. I'll grant you that, but of the two, I kind of like the profits argument. I just don't like monetary – I just don't know how the Fed's done it. On the other hand, in the spirit of immaculate conception, whatever they've done, it may be helpful. It doesn't look harmful to me, and it may actually be helpful, so I would urge caution on the Fed when they start raising rates. We need to normalize interest rates, but as an – I started my career at the New York Fed in open-market operations in 1973, so I know something about the subject. I'd be careful if I were they about normalizing interest rates.

Jared Bernstein: We agree on this point.

John Yemma: Okay, so this is a point of agreement, so that's great. We have a point of agreement here that the Fed is probably not harming.

Larry Kudlow: And the optimal policy mix now – and Jared's gonna love this [*laughter*] – the optimal policy mix right now to grow the American economy is to slash the corporate tax rate, which provides a little cover for the Fed to slowly normalize interest rates. I believe that's the optimal policy mix.

Jared Bernstein: Let me ask you if we can get agreement on this: So here's something else to add to the optimal – I wonder if you agree with me. I think we both agree that the Fed should unwind slowly and cautiously.

Larry Kudlow: Right.

Jared Bernstein: What about this as a time, taking advantage of low rates and some of the deficits in our public infrastructure, what about taking advantage of this point in time to, along with a Fed policy, to do a pretty deep dive into the improvement of our public infrastructure? Would you sign up for that?

Larry Kudlow: I could. [*Applause*]

John Yemma: Highways and...

Jared Bernstein: Infrastructure always gets a lot of applause. [*Laughter*]

Larry Kudlow: No, I always – I think – my problem with the infrastructure argument several years ago was in the –

Jared Bernstein: Bridges, roads, schools –

[Crosstalk]

Larry Kudlow: No, it was part of the, quote/unquote, stimulus package, and that's not the way to do infrastructure. The way to do infrastructure is – any Democrat or Republican on the committee will tell you, John, you gotta do it over a long period of time. You gotta get the financing right, and we got some financing issues that are solvable, but it's not a quick fix, as the President himself says if there weren't so many shovel-ready projects. Having said that, as part of the infrastructure, I want to see immediate authorization for the Keystone pipeline, and as part of that, I want to see a whole infrastructure buildout of pipelines in this country, so all the new oil and gas that's coming out of the Dakotas and Texas and Pennsylvania gets to the right spot in the economy. Pipelines are safer than trucks, and pipelines are safer than ships.

Jared Bernstein: So we could go – we could have an interesting disagreement about this if you want, or we could –

[Crosstalk]

John Yemma: No, I think let's just sort of say we've got something here and stop.
[Laughter]

Jared Bernstein: Yeah, because we don't wanna start digging into precisely which infrastructure are you –

[Crosstalk]

John Yemma: Yeah, that's where the disagreement –

Larry Kudlow: I'm okay with bridges. *[Laughter]* I'm fine with bridges.

John Yemma: We love bridges. Everybody loves bridges.

Larry Kudlow: Tunnels, roads – I can't drive in New York City. I've never seen anything like it.

Jared Bernstein: There you go.

John Yemma: Okay, so what we're gonna do – I think at this point, why don't we just sort of celebrate the victory here of having agreed that infrastructure's a good thing, having agreed that Fed policy is not a bad thing necessarily, having agreed that there's a lot more work to be done on all of this. And I'm gonna actually, at this point, hand it over to Bruce Bond.

Bruce Bond: So thank you, John. So what did we learn tonight? *[Laughter]*
Well, one thing we learned is that finding common ground is very difficult. We have two gentlemen here that feel very strongly in their positions and are very well informed and have done the research to back up their views, but yet, what I saw here was two individuals working together at different points and trying to find points that they could work out from. Now, in my opinion, and in, I believe, in the view of the folks that are members of the Common Ground Committee, this is exactly what we want our leaders to do.
[Applause]

So I would like to thank Larry and Jared and John and Kraft, all of you that worked hard together to put this event together, so that we could demonstrate to people what is possible when we work together in good faith, even though we may disagree passionately on different positions. We hope you had a good time this evening, enjoyed the spirited conversation. We certainly felt it was very worthwhile. We hope you'll come back to our next event and keep – we'll keep you posted on when that's gonna be. It's been a great evening. Again, let's give a good hand to John and Jared and Larry and Kraft.

[Applause] [Crosstalk]

John Yemma: Thank you, guys.

Jared Bernstein: Thank you, John.

John Yemma: Appreciate it.

[Music playing]

[End of Audio]