



The Economic Club of New York

119th Year
860th Meeting

The Honorable Kevin A. Hassett
Director, White House National Economic Council

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In-Person/Hybrid Event

Moderator: David Westin
Anchor, Bloomberg Wall Street Week

Introduction

President Barbara Van Allen

Hello and welcome to everyone. Thank you for coming today. I know there's a little bit of rain. We've been through a little rain but the sun is going to come out. And in the meantime, we'll enjoy our time together. I'm Barbara Van Allen, President and CEO of the Club, and it's a pleasure to be here with you. I want to extend a warm welcome to students joining us virtually from Penn State University and to recognize members of the 2026 Class of Fellows – a select group of diverse, next-gen business thought leaders joining us today.

As many of you know, The Economic Club is proud to stand as the nation's leading nonpartisan forum for discussions on social, economic, and political issues. We have a tradition of excellence that stretches over a century. It'll actually be 120 years next year, 2027. And we've been lucky enough to continue that tradition up and including this morning where we're joined by a very distinguished guest, The Honorable Kevin Hassett.

Kevin currently serves as the Director of the White House National Economic Council, where he advises the President on economic policy. He's a widely published economist. His work has focused extensively on tax policy, business investment, and economic

growth. He previously served as Chairman of the Council of Economic Advisers during the first Trump administration and later returned to the White House as a Senior Advisor during the Covid-19 pandemic.

His career spanned academics, public policy, economic research with roles at the Milken Institute, the Hoover Institution, the American Enterprise Institute, the Federal Reserve Board, Columbia Business School, and the NYU School of Law.

Today's program will feature a fireside chat moderated by Club Member David Westin. David, as many of you know, is Anchor of Bloomberg Wall Street Week. The program will conclude promptly at 1:00. As a reminder, this discussion is on the record. We do have media both in the room and online. And I believe we're going to have some opening remarks followed by our conversation. We do intend to provide time for questions from our members and guests, so stay tuned and prepare for that. Without further ado, please join me in welcoming both of these important gentlemen. Thank you.

Opening Remarks by The Honorable Kevin A. Hassett

You know it's really a great honor to be here at this, the most distinguished Economic Club in the country, with apologies to anybody else. There's an interesting bookend about today's event too, which is 120 years ago when the Club started, the first person

to speak was my predecessor, Larry Kudlow. (Laughter)...Yes, he makes that joke all the time I'm just stealing his joke.

I think that we have a lot to talk about. One of the things, I've been consuming your talks here for a long, long time, and I've learned so much over the years. And one of the things that I appreciate most is that it's a time for people to put aside partisanship and then sort of look at the big picture a little bit more. It feels like that's almost a general theme.

And so what we're going to do is I'm going to talk for just a few minutes about sort of my career and how I got to where we are and how I think about the policy changes that we've been making. And then David and I will have the general conversation, and then we'll open it up to questions.

I can remember when was in grad school at the University of Pennsylvania that the conventional wisdom in the economics profession was that tax policy has no effect on business fixed investment. And, in fact, there was even a well-known paper in the *Journal of Econometrics* by Ben Bernanke and Peter Reiss that showed that the accelerator model, which is just basically, you know, changes, in why, predicting changes in investment, changes in GDP and changes in investment, outperforms any model that has taxes in it.

And I had this intuition when I was maybe 23 years old and thinking about what my dissertation was going to be that that must be wrong, that result. And the reason is that, like I understand like behavioral economics and so on. And so that economics is about how we use models of optimization to figure out what's going on. So the first thing you do when you see something and you don't understand, you just say, well, what's the model that would produce such a thing? And very often the models required optimization of something, like utility function and production function, something like that.

And all the way back in grad school I understood that optimization as an assumption of how to model, like individual consumption decisions, isn't necessarily a good model. Because there's not really a market force that drives behavioral economics out. But in the business sector, you know, it really ought to be that if you change the taxes, that it affects the cost of capital and then that affects the investment behavior. And if you've got, if it doesn't do that, then somebody who does do that should put them out of business just because they're managing the business smarter.

And so that was my ex-ante intuition about I'm going to look into this. I'm going to look into this. And as I looked into it, and then I had a series of papers in my dissertation also with Alan Auerbach, also with Glenn Hubbard, and Jason Cummins, names you guys all know. But what I figured out was that there was a pattern in the data, starting with my

old friend, Richard Musgrave, many Harvard people will probably remember Dick, who when he was an advisor to John Kennedy and they had a recession, they said, well, what should we do?

And he said, well, we should have an investment tax credit because as Keynes taught us, the business cycle is almost always because of investment. And so if we were to have an investment tax credit then we could smooth the business cycle really quickly and so let's have an investment tax credit. And then President Kennedy said to Dick Musgrave, we can't do that. We can't do that. Oh, I guess we can do that. And so he decided to do it, to have an investment tax credit, and it really worked. But then what happened was the recession is over, the investment tax credit, costly. They take it off. And that happened, either investment tax credit or accelerated depreciation, which is basically the same mathematically, for every recession pretty much ever since.

And so when I go to grad school, people are using time series data to look at the impact of tax policy on investment and they're just running a regression. And since the investment tax credit was endogenously decided and tended to be put on when we were in a recession, then when you ran the regression, you got the wrong sign. On average investment was low when there was an investment tax credit.

And so I'm thinking, oh, okay, so therefore the regressions are wrong, how do we do

something that's smart? And that was what was in my dissertation where we got data, cross-section data on all sorts of different types of investment. And because they have different asset lives and depreciation rates and so on, that if you change, if they have an investment tax credit or you change the depreciation schedule, it'll have a cross-section different effect depending on what kind of asset you got. And then we found that if there was a tax policy effect that was significant, that if you have a tax change that it should be more stimulative with the places that have the best _____. A short-lived equipment. And so when you're in those cross-section regressions, you saw huge tax effects.

And so that started a journey of mine of really, really caring about capital and investment and how to get it right. And I would say that that capital side was really something that I was obsessed with pretty much throughout my career but especially, say the first 20 years. And so if you wonder why, it is that we have expensive (audio cut out) now, and we have low corporate tax rates, I have a paper where I showed that there's a Laffer curve of the corporate tax space. So we're down to 21% but revenue didn't really go down. All that stuff built up off of mine and my colleagues' work starting with that sort of silly regression that was just, you know, kept the endogenous tax policy giving the wrong sign.

Later in my career, I started to think about, well, capital, and I promise, I'm not going to go too much longer...

DAVID WESTIN: The stage is yours...

THE HONORABLE KEVIN A. HASSETT: Okay, so there's one thing. So we've got kind of the business sector optimized, at least on the tax side. But on the individual side, you know, when I think about the social problems that we have, then a lot of times it goes back to insufficient capital. And so the first thing that I started working on really with Sean Parker and his team back in the day was looking at geographic variation in like the state of affairs for American communities. And we found that there were distressed communities that had basically no capital and that there had been some attempts, Jack Kemp and others, to try to get capital into those places, but they just didn't work.

And so I wrote a paper with Jared Bernstein, who was the CEA Chair under Joe Biden, before he was CEA Chair. I think if the Bidens had noticed he wrote a paper, maybe they wouldn't have given him the job. I don't know. But we wrote a paper where we introduced the idea of opportunity zones, which would be a way, our vision was that it's one thing to go and put a convenience store in a distressed community. If you do that on your own, you know, good luck to you because there are a lot of things going on in that community.

But if we have, like private equity funds and they accumulate lots and lots of cash, they

can go in and invest in the distressed community. And you as an investor can put your money in the private equity fund that invests only in distressed communities, then you can have a matched equilibrium where everybody runs to the distressed community because the profit that you get if you get their first is so high. And so we got opportunity zones into the tax bill the last time.

And then two more things. One of the things that, you know, Einstein taught us all that compounding is the most powerful force in the universe. And one of the things that has sort of upset me about the conversation about investment, especially investment in equities, and I wrote a lot about this in the 90s, is that everybody always wants to, especially in the media sometimes, if the stock market goes up then it's a bubble, right? And so one of the problems that you can see is that very, very few Americans have benefitted from the massive compounding from equity markets and other forms of capital investment because I think in part they get scared away with all the chatter about bubbles and so on.

And I, with Teresa Ghilarducci, wrote a paper where we basically argued that we need to have Trump, we didn't call it the Trump Account, but we needed to have an account so that when a kid is born that they get some money from the federal government, invested in equities, and they get to have an app on their phone where they can look it and they can sort of see that they're part of the American dream too and that

compounding can help make their life better. And we put that into the Big Beautiful Bill and by the end of this month there'll be 70 million accounts, 70 million accounts because we set accounts up for everybody under 18.

And we made it so that philanthropists can put money in anybody's account that they want. And so Michael Dell is putting money in. Brad Gerstner put \$250 in the account of everybody in Indiana, his home state. We've got hundreds of people who have told us they're going to start contributing to the Trump accounts for the kids of America.

And so we've not only given capital and the benefit of compounding to a whole new generation of kids, but we've redefined in a radical and positive way what sort of charitable giving can be. And so you don't need to get a C3 and I've worked for C3s before, I don't mean to criticize, to get a C3 to try to help kids. You can give money directly to kids and it's way more efficient.

The last thing that we are working on right now, and Secretary Bessent and I are working on it right now, is that there are a lot of people that don't have, from their work, so these are adults now, a 401K. And there's a big academic literature that's really wonderful to read. I highly recommend that you go get the papers because the CBO has access to the real data for the Thrift Savings Plan of the real people. You know, obviously very highly confidential, but they can look and see, like the impact of the Thrift

Savings Plan for government workers, on the welfare of government workers and their practices. And the literature is like highly, highly convincing, that the Thrift Savings Plan and the federal government helps people learn to save and gets people in the game and gets them compounding.

And so we issued an executive order. We had a sort of orphan policy that allowed just to put \$1,000 in people's accounts, but we're working on a big expansion of that. In the executive order it says Scott and I have to report out on what our plan is going to be. I think we have about 45 days left, something like that. And so that again puts capital into the pockets of people who might not have had it before. And, you know, I'm not as old as Larry Kudlow but when I was at the Milken Institute a couple of years ago, I estimated that if I got the \$1,000 in my Trump Account when I was born, that when I was giving the talk back then it would be worth \$600,000.

And so getting in early, and in fact we had the Australian Prime Minister and Ambassador talking to us about it and they have this superannuation thing where they put people into accounts, but not until they start working. And so what we're doing is like way better than that because they're getting the compounding from the time they're born.

Last thought, so when we think about my business research, that I thought of it as being

sort of academic support for what some people call supply side economics. And I always declined when people say are you supply side economists, I say, no, I'm a supply and demand side economist. But we put a lot of thought over the last few years into supply side-labor side policy. Because again if you think that you've got the corporate code and that kind of stuff about right, then what can we do with the supply side for labor? And we talked at length during the campaign with the President about this.

And so no tax on tips, well, who are like the hardest working people? There's a lot of hardworking people in our country. But people who are getting tips, they work really, really hard. And if we give them an incentive to work a little bit longer, then we've got some people, if they're getting good tips, especially if they're really good workers, giving them an incentive to increase labor supply.

No tax on overtime. So who is the worker that the manager most wants to stay late. It's the person who he's willing to pay the overtime to. So if you don't tax overtime, then you increase the labor supply. And Social Security, no tax on Social Security – if you get Social Security and then you get your check for the first time and you look at it and decide I don't have enough money to live, this is smaller than I thought, then if you go back to work, then the marginal tax on your work is really high because they take away some of your benefits. And so we worked on that too. All supply side kinds of things.

So I think that our agenda has been based on a heck of a lot of science that has evolved a lot over the last 30 years, that it recognizes that if you get growth from supply side things, that you can have growth without causing big inflation. And I think that my old friend, now Chairman Kevin Warsh, has talked a lot about this, how you need to know, the Fed needs to know whether the growth is coming from the demand side or the supply side, that it needs to adjust its policies accordingly.

And so with that, I thank you for your attention, and now I'll open it up to general conversation.

Conversation with The Honorable Kevin A. Hassett

DAVID WESTIN: So thank you very much. That was very helpful. And I want to come back to taxes and compounding. But before that, just take a half step back. As Director of the National Economic Council, you sort of are responsible for managing President Trump's economic sort of strategy as it were. You're coming up on two years in for the second term. So you've got just over two years left. Where are you on that strategy and particularly with some of the goals that were set out at the beginning? For example, 3% deficit as a percentage of GDP and 3% or better growth. What's your score card on where you are and what you need to do through the last two years to deliver?

THE HONORABLE KEVIN A. HASSETT: Yes, thank you for that. And the National Economic Council, for those of you who don't know the difference between the Council of Economic Advisers and the National Economic Council, that it was created by President Bill Clinton, and my good friend, I'm sure a friend to a lot of people in the room, Bob Rubin was the first person to have that job.

And without naming names, I think that President Clinton thought that once you send the Cabinet people out to run their Cabinet agencies, that some of them might have like agendas of their own that disagree with what President Clinton's agenda was. I'm not naming names but I think I can hear names being thought. And so he brought Bob Rubin in to make sure that the President's objectives are being pursued by the Cabinet agencies and to pick up the phone every day and say, what are you doing, what are you doing?

And so it's an interesting thing, one little trivia is that sometimes people call me Chairman of the National Economic Council, but I'm not the Chairman. I'm the Director. Do you know who the Chairman is?

DAVID WESTIN: Yes, I do. Scott...

THE HONORABLE KEVIN A. HASSETT: It's President Trump.

DAVID WESTIN: It is?

THE HONORABLE KEVIN A. HASSETT: It is.

DAVID WESTIN: He didn't replace the Chair.

THE HONORABLE KEVIN A. HASSETT: No, the Director runs the National Economic Council for the President. But when the National Economic Council meets, the Chairman of those meetings is President Trump.

DAVID WESTIN: Oh, I see, I see.

THE HONORABLE KEVIN A. HASSETT: And so I was Chairman of the Council of Economic Advisers.

DAVID WESTIN: Who is the Chairman of the Economic Advisors now?

THE HONORABLE KEVIN A. HASSETT: Chris Phelan, he's a fantastic guy. And so I think that right now we've had this sort of supply side pushes that we expected. That growth is, the GDP now is in the 5s right now and that's consistent with a lot of data that we're seeing.

DAVID WESTIN: Real or nominal?

THE HONORABLE KEVIN A. HASSETT: Real.

(Comment from audience – inaudible)

THE HONORABLE KEVIN A. HASSETT: What's the real number right now?

(Comment from audience – inaudible)

THE HONORABLE KEVIN A. HASSETT: Okay, it's good to have a guy like that.

DAVID WESTIN: What's your average of the two years?

THE HONORABLE KEVIN A. HASSETT: You know, I think that looking ahead the way I think about what we're about to experience because of the capital spending boom that we've been seeing, the productivity boom that's related to AI, and I know we're going to want to talk more about that, and the increase in work hours, which is really visible. So it used to be that people would want to look at average hourly wages when they were thinking about how the labor market is doing, but what we've started doing is looking at average weekly wages. Because all these things that, you know, the tax stimuli that are

making people work harder show up in longer work weeks. And so all those things are big supply side impetuses.

So the way to do sort of growth accounting from it looking forward is that I think that right now our estimate for productivity growth is just like about $2\frac{1}{2}$. And I think our estimate for what we're getting out of capital deepening is like .7 or .8. Labor supply may be about the same. And so that means that the sort of base case, no disruptions from the outside world, and we'll talk about those too, that we should be cruising around 4 instead of 3.

And the biggest contributor to that is the productivity boom, which I believe, my friend, Dan Oliner, or Dan Sichel and Steve Oliner at the Fed once did a paper on productivity. I don't know if you remember reading their research on this. And they said that when there's a productivity boom, that it's never apparent to the public until after the benchmark provision when the productivity boom is almost over.

And the reason is that when there's productivity boom, then a lot of times there are like all these new things and we don't really know how to measure them at the beginning. And then we learn how to measure them over time and stuff like that. But think about this, that we're having a productivity boom, and we're measuring it before the benchmark provision. We're seeing it in real time so how good is the benchmark

provision going to be? And so I say that we're really, really bullish on the momentum that we have going forward.

And, you know, I'm not going to break news on what the President's plans are for this or that, that's not public. But if you go back and look at everything that we've done, so we reduced federal employment by 300,000-something workers. That's a budget saving, if we keep it there, of about \$500 billion over ten years. Those workers, if they go into the private sector and get private sector jobs, make on average about \$30,000 more than they did at government work, in part because they don't get the benefits and so on. So there's about another \$100 billion tax benefit from that.

So if you look at all the things we've been doing, then you can imagine the things that we're going to continue, things that we're going to expand. And I think that the AI policy, as an example, is something that we made it basically so that it's voluntary. So if you don't want a data center in your town, nobody's going to make you have a data center in your town. And if a firm wants to build a data center, then they've got to make their own power. And so we've got all these things in this big ever-changing world that are building on an enormous amount of momentum and we're going to continue.

DAVID WESTIN: If increased productivity from AI is important to the plan going forward in the economy, are you at all worried about downside risk? Because you said if you

want a data center, fine, if you don't, you don't have to. Increasing numbers of communities, and even states and, of course, Texas is the one everybody mentions, but it's not just Texas, New York, are putting moratoria. Are you worried that that may slow down the productivity gains from AI?

THE HONORABLE KEVIN A. HASSETT: Well, what we're seeing right now, let's contrast it with the internet. And I'll tell you a sort of interesting story about the internet because I was a senior economist at the Federal Reserve in Washington with Alan Greenspan when the internet was just starting. And I was in charge of the business sector, researching and forecasting the business sector.

And one of the things that the government agencies started to do was they did something called hedonic adjustment of the computer deflator. Because you went from like an 8286 to a Pentium and it cost about the same, but the Pentium was like ten times better. And then they would show that up as a decline in the price of computing because you could put in the same dollar and you get way more computing.

And so at one point, Alan came into my office, or sent a note and then I went to his office, and he said, you know, something doesn't make sense because telecommunications equipment is basically all computers now. So think about Cisco and everything else. But the deflator for telecommunications equipment is, like it's gone up 3

or 4% a year. Figure out what's going on.

And so I called over to the Bureau of Economic Analysis, I said, what's going on? And they said, well, we have a matched model way that we calculate price changes. And we don't take things out of the bundle where we measure the price changes until the thing is no longer made in the U.S. And so they were still making, like the telecoms equipment that you could see on Laugh-In and shipping it to developing countries who had these old analog things. And since the U.S. firms were still making it, it was still in the bundle that was counted in the deflator. And so I did a memo for Greenspan that's presumable FOIA-ble now after all these years where I said if we just were to take the communications deflator and treat it as if it's the computer deflator, that GDP grows like 1½% higher than measured.

And the thing that's interesting to me about this productivity boom is that you're not seeing any of the sort of action, hedonic action, that one would expect that we saw back then in the 90s, when again, you know, we saw that it was supply side and that the internet boom was coming supply side. And so Alan Greenspan didn't hike rates while growth was really high and the markets celebrated. And so now the deflators, I think, have some, we have to study how to do this, but think about how much better AI is now compared to a year ago.

And I don't know how you subscribe to AI, which one you use or anything, but my monthly subscription price hasn't changed. Now if I were trying to like do some kind of massive token thing to invent a new firm or something, probably the price would go up. But it's way better, and so there should be like a really big decline and it's an increasing share of what we do.

And so I think that that's the way to think about AI is that, first of all, that the growth benefit of it is way bigger than you might think. The concerns, of course, are that it's going to change people's jobs, maybe cause some jobs to be replaced. But the studies that are out right now, academic studies show that the labor market effect of AI is that firms that start using AI see their sales go up a lot, their employment go up a lot, and wages go up a lot because the people are more productive.

The firms that don't employ AI start to fail. And so to the extent that there's an AI job effect right now, and mindful that we just had a great jobs report, and initial claims for unemployment insurance are the lowest they've been since World War II, and so the market is not showing a lot of stress from AI. But to the extent that there is stress, it's actually the workers at the firms that aren't using AI.

The final thing, I mentioned the government workers, the 300,000 or so, that there's an old paper based on state and local data that shows that government workers are really

good workers. And because states have balanced budget amendments, they actually have to lay people off more frequently than federal government people because suddenly there's a recession. They don't have the revenue and so some people are being laid off. And it shows that on average when a state worker gets laid off it creates actually two jobs, one for him and one elsewhere in the private sector because government workers, when they join the private sector are so much more productive than when they're at government.

And so think about it, one, that we've reduced federal employment by 300,000, a lot of that was voluntary, don't forget, because we gave people a buyout. But I look very closely at the D.C. area job numbers and there's not a hiccup there at all. And so the government workers either exited the labor force, they retired, or got jobs right away.

DAVID WESTIN: So going back and looking at your goals on growth, you're feeling pretty good about growth.

THE HONORABLE KEVIN A. HASSETT: Yes, I'm feeling pretty good about growth.

DAVID WESTIN: What about that deficit, 3% of GDP? Because it doesn't look like that's where it is or where it's headed. And, as you know, CBO and a lot of other projections are saying that's going to get worse rather than get better. By the way, just to connect

with something that may or may not be connected, we have yields really moving up which exacerbates the problems because that means the interest rate, which you have to pay on, goes up for the government as well as for everyone else.

THE HONORABLE KEVIN A. HASSETT: Right. Well, for sure, you know, the deficit reduction of reducing government workers by that many, you know, again, it's about half a trillion, deficit reduction is really important to the President and to key members in Congress, and so it's always in the conversation.

DAVID WESTIN: Do you think you're on a track to 3% at the end of your term, 3% of GDP deficit?

THE HONORABLE KEVIN A. HASSETT: You know, it's going to depend on basically whether there's force majeure measures that come in the way of that. But, yes, I think that that's, especially in the next two years, it's going to be something that we have to pay close attention to. But as economists, though, I want to remind one thing, that I once wrote a book, stealing the title from Thomas Mann, called *The Magic Mountain*. And I argued that when we're thinking about what we're handing to our kids when we have government policies, that you have to look at sort of the costs and benefits.

And so if we do something like, I don't know, big corporate reform, that increases capital

formation a lot, but because you're expensing in the first year or two, then revenue goes down, then what matters for future generations is like how does that affect, sure, they'll have a tax bill of the future, but they also have all that capital and all of the wealth that's built up in the stock market and so on.

And over the last sort of 12 years, the Federal Reserve keeps track of household net worth and subtracts out the debt, the government debt, which is a liability for future generations. If you look at the liability for future generations, it's actually smaller than you might think when we're looking at U.S. net numbers because a lot of debt is debt we owe ourselves. And so the external debt is maybe around \$15 trillion. It's quite a bit smaller. But the household net worth, net of debt, has gone up by something like \$90 trillion over the last decade.

And so America's fiscal policy, while we have challenges and we definitely have to balance things in the future and higher interest rates make that more difficult as well, but on net, household net worth is skyrocketing. It's absolutely skyrocketing even if you adjust for what's been going on with the deficit. And I think that, as economists when we're thinking about what federal government policy is doing for ordinary folks who are living in future America, then you have to think about, well, did we run up a big deficit and mail checks to people and then they consumed it? Or did we set up a whole bunch of policies that gave people more capital in the future?

I love doing this when I'm lecturing undergraduates. I'll say, suppose you want to have higher consumption in the future. How do you do that? And then the answer is, well, you invest in human capital in which case you'll have higher wages. Or you, like don't go to a restaurant this year and put the money in the bank and then you have capital which you can then draw on in the future when you want to have higher consumption in the future. But if you don't have more capital in the future, you're not going to have higher consumption. And we've just basically been hitting the capital in the future out of the park. It's like grand slam home runs out of the park, just sort of the best numbers we've ever seen.

And I think that you have to keep that in mind as an ability to pay stories so that we've got growth, we've got capital formation, we've got what people need to have future consumption. They've got Trump Accounts so that we know that they're going to participate in it. And for sure, we need to get the government more under control in terms of government spending.

DAVID WESTIN: So from your chair in the White House, why are yields moving up so much? By the way, it's not just the United States, it's through much of the Western world. But there's been a dramatic move up particularly in long-term bond yields.

THE HONORABLE KEVIN A. HASSETT: So it's the job of the Treasury Secretary to

talk about interest rates and interest rate policy.

DAVID WESTIN: But I'm not talking about interest rates, I'm talking about the yield on bonds that are out there...

THE HONORABLE KEVIN A. HASSETT: Right, no I'm just going to abstract slightly. I just sort of say that in a model, and I was one of the programmers for the Auerbach-Kotlikoff model back in the day, dynamic general equilibrium model, where you've got to get like interest rates and everything else to line up and markets clear and you're steady-state equilibrium, that in that kind of model then the real return on capital is an attractor, not 100%, for the real interest rate.

And so if you have a really low return on capital, you'll have a low interest rate. If you have a really high return on capital, you have a higher interest rate. The way to think about it is suppose that you could borrow right now at 6% and buy a data center and make 20%. You should do that as much as you can. And when you do that as much as you can, then the 6 goes up and the 20 goes down. And so that effect in general equilibrium is something that is visible, say, if you look at the 30-year right now. The 30-year TIP has a real yield that was, you know, basically zero just a few years ago and right now it's 3. And inflation in the 30-year TIP is 2.1, right? Did I get it right? And so the 30-year Treasury market is telling you that the real return on capital is higher than it

used to be. And that would be consistent with the policy that advantages capital through deregulation in tax policy.

DAVID WESTIN: I know you want to get to as many questions as we can so let me just ask you one last question. Again, taking a look at halfway through, just about halfway through President Trump's second term, we have a sense of what Reaganomics looked like, what the basic pillars of Reaganomics were. We have a sense of what President Clinton tried to do – some people call it Third Way – what the basic pillars were. When this is all over and you look back on it, what do you believe the basic pillars of Trumponomics will be?

THE HONORABLE KEVIN A. HASSETT: They're very similar to Reaganomics. You know, he's basically lowered the cost of working for American workers so you see advantage to American workers in a way that is really visible in the tax data that we just got. The average tax refund after the Big Beautiful Bill was almost \$3,500. That's real money for real folks.

And so I think one of the things that he saw it a little bit differently, so he's done, like Reagan-type supply side stuff, the business side, but he put the worker first supply side policies like the no tax on tips, which is a little bit different. But I don't think that President Reagan, who I never had the opportunity to meet, would probably disagree

with those policies. The deregulation, I think, has been similar. Perhaps we're going faster than he did.

And then there's the trade policy, which is quite a bit different. And I think if you look at the massive amount of onshoring that people are doing that partly it's because of tax policy, but certainly it's also because of trade policy. People want to locate production in the U.S. because there's no tariff if you do that.

DAVID WESTIN: When you draw the parallel to President Reagan, it does strike me that one of President Reagan's goals was to reduce the deficit. I think most people looking back are saying he did not achieve that. He cut taxes without a doubt, but the deficit did not go down. In fact, it went up fairly substantially. Are you in danger of a similar situation?

THE HONORABLE KEVIN A. HASSETT: If you go back and look, there was a really wonderful PBS documentary about Reagan. And it was kind of interesting to watch the way that, you know, because I'm sure that folks who made the documentary went in, and certainly while President Reagan was in the White House, you know, didn't think his policies were going to be that effective. But in retrospect, they just lined up the victories one after another.

So, sure, you know, he, along with Volcker, licked inflation and, sure, he got economic growth going back to places we thought were impossible in the 70s. And so the malaise of the 70s was over. Sure, he knocked down the Berlin Wall and so on and so on. But they finished with, oh, but the deficit went up. And for, like in the long run, if we spend money, then future taxes are going to have to pay for that for sure. But I think that all of us are better off because of the bundle of policies that Ronald Reagan gave us, and I'm highly certain that people will feel the same about President Trump.

DAVID WESTIN: But that suggests that you're open to, or more importantly, the President is open to a tradeoff that says as long as we're investing money well, we may increase the deficit rather than reduce it.

THE HONORABLE KEVIN A. HASSETT: We want to reduce the deficit. We absolutely want to reduce the deficit.

DAVID WESTIN: But if you had to make a tradeoff, you'd make that tradeoff.

THE HONORABLE KEVIN A. HASSETT: The President's budget is clear, like on how we're going to do it. That's our objective.

DAVID WESTIN: Okay, great, thanks. But I know, Kevin, you want to talk to...so we will

ask you to just identify yourselves.

THE HONORABLE KEVIN A. HASSETT: And also make your statement in the form of a question.

DAVID WESTIN: Oh, exactly, there has to be a question, very good point.

THE HONORABLE KEVIN A. HASSETT: Let's just start with...

QUESTION: Thank you for the remarks. This is Punit Pujara with Caxton. My question is on inflation Kevin Warsh has said recent readings don't show underlying trends improving. What exactly do you disagree with him? And if the Fed were to hike once or maybe twice in Q4, what can the administration do beyond rhetoric? Thank you.

THE HONORABLE KEVIN A. HASSETT: So on the data question, the thing is that, I'll be slightly technical but this is a place where I get to be technical, so wonderful. If you are just forecasting future prices, then one of the things that we know is that top line CPI is what matters, the price of eggs, for people, like if you're writing down their budget constraint, that's what matters. And yet we always talk about core CPI.

And the reason is that if you're actually forecasting with econometric models' future top

line CPI, core CPI does a better job than top line CPI at forecasting future top line. It's kind of interesting. It's an old result. And so, thing one is that I think that the way to think about it, if I were at the Fed, is like what's the trajectory, the outgoing trajectory of inflation? Is it going up? Is it going down? And if you do sort of a distributed lag model to forecast future CPI with core CPI, that it's the first few months that matter. And then after that, it's less so.

So I have a rule of thumb that's different from what everybody in the media does, but I'll challenge people to a forecasting horse race where I think that what I see in the last three months, the average of the last three months analyzed, is a better indicator of where we're going than a 12-month change. Because a 12-month change will very often have momentum from 12 months ago that's completely different from what we're seeing. And so if you look at 3-month annualized right now, then everything's right around the Fed's target. But if you do it another way, then it's not. And whether they should do it their way or I should do it my way is something for some in our room.

QUESTION: (Inaudible)

THE HONORABLE KEVIN A. HASSETT: Well, we respect the independence of the Fed that, you know, if you think that the last three-month inflation is running around 2 and you think that, you know, since 18.0-something, interest rates were about the inflation

rate plus 2, then you would argue there's not a lot of room to go up from here for them.

QUESTION: Director Hassett, thank you for your remarks earlier. I'd like to ask you, I'm Scott Shay. I'd like to ask you about the largest financing of our deficit, which is our senior rich. And the Administration has talked a bit about dollar dominance and how they're going to maintain the dollar. But I don't need to rehearse the statistics to you but the world reserve is becoming much more multi-polar, foreign central banks and countries are more wary of holding onto the dollar because of sanctions and various other regimes. They're going to gold more. They're going to other currencies. The Chinese and Russians are overtly putting together competitors to SWIFT. So I'm wondering what the strategy is in light of an increasing deficit for the Administration to maintain the dollar dominance that we've been privileged and enjoyed the benefits of since World War II.

THE HONORABLE KEVIN A. HASSETT: Oh sure, it's a great question. And the way to think about it for me is just that if people want to do something in the U.S., so say you're a foreign manufacturer and you've decided that you want to locate your production in the U.S., well, to do that you need dollars.

And so if you compare the attractiveness of, say capital investment in the U.S. to capital investment, say, pick a country, France, like which place is more likely to be the place

where you'd want to send your money? And so the dollar dominance, it's not a thing that's influenced, I don't think, very much by chatter. I think that in the end when we have the strongest economy on earth and everybody wants to move their stuff here, then if they're going to do that, then they've got to buy dollars. And that's where dollar dominance comes from, and I think that that's why we're looking pretty good right now.

QUESTION: Thank you. Last week I was at Georgetown University, and before and after you spoke, Senator Bill Hagerty and a guy you were with, both spoke about the Genius Act that was failed in the Congress and they also expressed concerns about the Clarity Act. So my question is, in the next seven weeks when the Congress is going to come back, can you share what the White House is thinking about how to get through the Genius Act?

THE HONORABLE KEVIN A. HASSETT: So I'm not in ____ and so I don't handicap things well. And I know that there's going to be, after the election, a heck of a lot of stuff that has to be done, including getting the Defense bill through. But those negotiations, you know, are ongoing between leaders, the President, and I just don't want to step in front of that. But there's a lot of stuff that everybody recognizes has to be done before, regardless of the outcome of the election, before the end of the year.

DAVID WESTIN: Other questions?

QUESTION: James Hasso. Going back to interest rates, and I know you can't predict where they're going. The Fed may not have a lot of room, as you point out, based upon inflation. Let's assume they overshoot, which we have on the downside in the past sometimes, and on the upside, where do you get nervous about discretionary spend, the consumer, as you do your modeling and looking at the economic, economic growth? What rate would trigger in your head a concern based upon gasoline prices and where interest rates are today and where they can go? What would really get you worried from the discretionary spend side?

THE HONORABLE KEVIN A. HASSETT: It's not sustainable for interest spending as a share of government spending to go to 1. And it's been going up. And that's one reason why, you know, we've talked about the necessity of getting debt to GDP back down to a reasonable place. Remember that the Covid emergency was a real emergency, that it may or may not have been wise, but the economies all over the country were shut down.

And when the President brought me back to the White House, I remember one of the first meetings what I said to folks was that if you shut down the economy for a week, that that's about a 50th of GDP. At an annual rate, that's like about 8, -8. If you do it for a month, it's -32. Do you remember what the quarter was? Minus 32.

And so what we did back then is we, in a very bipartisan way, the White House team met with Democrats and Republicans and we agreed that we had this emergency and we're going to have to, like there's been a hole dug by the shutdown, we're going to have to fill that hole up if we don't want to have like a deep, deep recession. But we also knew that it was very uncertain what was happening because we didn't know, like were we suddenly going to have the cases go away, were we going to suddenly have a vaccine. And so we agreed to do it like a couple of months at a time. You might remember.

And so it depends on what you call a stimulus bill, but we had four or five stimulus bills that year, in the Covid year before President Biden came in. And we calculated the sort of the amount of dirt to put in the hole so precisely that after a -32% quarter, GDP for the year was flat for that year. It was flat. And when we left office, inflation was 1½% despite the fact that government debt went up a lot and government spending went up a lot. But it was in part because there was a hole, we filled the hole but we didn't go too far.

What happened next was, and it very often happens like in political history, that when there's a change in administration the new people have things they always wanted to do and finally, they can do them. And so what happened was the new administration came

in, they had all these things that they wanted to do. Finally they could do them. And so they took the sort of baseline of what we did to fill the hole and they piled it up on top of everything else. And that's where we got the really high inflation and so on. And so the debt problem is one that, you know, basically I think got really out of control when the Covid spending didn't go back to where it should have, and we're still working on getting that, but we have to sort of transition there smoothly rather than a big lump.

DAVID WESTIN: And I think all of us recognize that stimulus spending was discretionary. It might have been right. It might have been wrong. But it was discretionary. The thing, I think, many people can't understand is how we can address the debt and the deficit without addressing things like Social Security and Medicare, the so-called entitlements, particularly now that we have, we seem to be baking in increased interest costs. It isn't even discussed, and I'm not pointing a finger at the White House for this. I don't see anyone putting it on the agenda in Washington.

THE HONORABLE KEVIN A. HASSETT: The thing about this which again there's a lot of academic evidence on this is the deficit conversation for places like the New York Economic Club is really an important one to have. And if you base it on empirical observation, then one of the things you see is that in the technical literature they call it a fiscal consolidation.

And a fiscal consolidation is when you do like a whole bunch of government changes to sort of restore the trajectory of the deficit to a better place. And fiscal consolidations, Alberto Alesina at Harvard wrote a whole bunch of papers where he showed that if a government has a fiscal consolidation, then like Keynesians would say that's going to make the economy collapse because you're doing things that are way tougher. But that, in fact, when there's fiscal consolidation it's a growth opportunity, that fiscal consolidations are growth-enhancing.

My co-author, Matt Jensen, and I once wrote a paper on lessons of fiscal consolidation where we went back and looked at all the fiscal consolidations that had ever happened in global economic history. And we just estimated which fiscal consolidations worked. And the definition of worked was that the country that was doing a fiscal consolidation achieved its own objective. And so if it said, well, over the next five years we want the deficit to go down by this much or that much, then did they actually achieve that? Or did they not?

And what we found was that there's a clear pattern in the data that very often because there'll be sort of, you know, right-wing and left-wing politicians who want to actually have a fiscal consolidation and be nice to one another and split the difference, and so they would do something like 50% spending cuts and 50% tax increases. Those, on average, failed miserably. And the ones that succeeded were the ones that were almost

100% spending cuts.

And the reason why the 50/50s failed is another paper I wrote with Charlie Calomiris once, you know, the *If You Give A Mouse a Cookie* books, right? So we did a paper on If you Give a Congressman a Dollar...What Happens? And so what happens is that you, in the fiscal consolidations that raised revenue, then that increased spending offset the revenue increase. And so the literature suggests that people should be very much mindful of the positive benefits potentially of fiscal consolidation. And that if they do it, then it needs to be focused on spending.

DAVID WESTIN: Thank you very much. I know Barbara wants to get you back to Washington so you can manage the economy.

PRESIDENT BARBARA VAN ALLEN: Oh, absolutely. Thank you so much. So I'm pleased to announce we have a robust lineup of speakers. And I think if you take your program and turn it over, you'll see that is the case. And we are still in the process of adding more events to our calendar. I just want to, rather than go on here, just mention that tomorrow we have an Authors Series luncheon featuring David Booth, the Founder and Chairman of Dimensional Fund Advisors, and I encourage folks to join us. Be sure to check the website. As we mentioned, we have more coming.

And I do always take a moment to recognize members of the Centennial Society joining

us today as their contributions provide the financial backbone for the work that we do.

So thank you for joining us. We're going to say goodbye to the nearly 100 people joining us virtually. And for everyone in the room, please enjoy your lunch. Thank you.