THE STATE OF THE GLOBAL ECONOMY: A CONVERSATION WITH US SECRETARY OF THE TREASURY SCOTT BESSENT

Announcer 00:00

Welcome to the 28th annual Milken Institute Global Conference. We are delighted to have you here with us as we explore this year's theme, Toward a Flourishing Future. To begin our session on the state of the global economy, please welcome to the stage CEO of the Milken Institute, Richard Ditizio.

Richard Ditizio 00:27

Good morning. Good morning. And welcome to the 28th annual Milken Institute Global Conference, the 1,000 speakers in 200 sessions that are about to begin reflect a year's worth of work from Milken Institute employees around the globe, and I thank each of you for joining us, not just with your presence, but with your ideas, your influence and your energy. Our work at the Milken Institute lies at the intersection of finance, medical innovation and human capital, with the goal of creating actionable strategies for the challenges of our time, and while there's no shortage of those challenges, and in many cases, we actually have the resources and technology to address these issues, what's often missing is finding a common will to do so. How else to explain that in a world that has created some $500 trillion in wealth, one in 11 people on the planet live on under $2 a day. Or that tuberculosis, a totally preventable and curable disease, killed 1.3 million people last year. Or that nearly 2 billion people still live without the internet, which in today's world means no access to basic education, telemedicine or economic opportunity. These aren't just numbers. These are actual lives, and a sobering reminder that the distance between what we can do and what we are doing is still far too wide. We need to close this gap. But how? We know that innovation and opportunity must go hand in hand. Breakthroughs in biotech, AI, and FinTech are moving at an exponential pace, but if those breakthroughs benefit only the few, then we're failing. Technology should not be a luxury. It should be a lever, expanding access to healthcare, to capital, and to opportunity in every corner of the world, and at the core of that effort is something we value deeply at the Institute— diversity— in perspective, in people, in problem solving. The future will not be built by living within our own echo chambers. It will be built by bold, inclusive coalitions that reflect the world we're trying to realize, and we have many past successes to lead the way. We see time and again, when capital, innovation, and collaboration come together, remarkable things happen. But there's a more concerning gap I want to talk about, one that doesn't show up in spreadsheets, but is just as critical— the growing erosion of civility in how we speak to one another. The temperature of our conversations across media, politics, even PTA meetings, has risen to the point where anger too often replaces listening. Hostility has crept in where curiosity used to live, and tragically, in far too many instances, violence has often followed. I fear we are modeling the wrong behaviors for our children, and the rising anxiety and depression level in our kids tells me they are watching and listening. Too often we close our minds, our ears, and increasingly, our hearts, when we come upon a different perspective. That's why this gathering matters. You will encounter people who are not like you, who don't look like you, or celebrate the same holidays, or love the same kind of person that you do. That doesn't make them your enemy, that just creates an opportunity to learn something new from someone new. And my wish for you over these next few days is that happens. We've worked quite intentionally at this conference to create a space where people from different sectors, backgrounds, and beliefs can come together, not to agree on everything, but to engage with respect; to disagree without dehumanizing; to challenge ideas, not identities; and to remind ourselves that progress doesn't come from shouting—it comes from listening, learning, and leaning in. We won't solve everything in one week, but we can set a tone. We can break bread and build trust, and we can make this a place where capital, compassion, and creativity come together to do what none of them can do alone. I know the challenges we face are enormous, but I also know that our capacity to meet them is even greater, and I'm excited to have you join us on this journey. And it's now my pleasure to open the conference by introducing and welcoming to the stage Secretary Scott Bessent.

Scott Bessent 05:10

Good morning and thank you for that kind introduction. It's an honor to be with you. If the namesake of this conference is any indication, this is a meeting for bold people with bold ideas. Well, I work for President Donald J. Trump—so I feel right at home. Mike Milken, like President Trump, is a visionary. In the 1970s, he had the rare combination of guts and intellect to defy the Wall Street consensus. With his heterodox approach to junk bonds, he pioneered a new asset class known today as high yield bonds. By staying true to his vision, Mike overturned decades of economic orthodoxy. He bootstrapped entirely new industries by redirecting billions of dollars in capital to non-investment grade companies. His colleagues on Wall Street told him he was delusional and a fool. But ultimately, history proved him right. Sound familiar? Like Mike Milken, President Trump has no shortage of critics in establishment circles. But he proved them wrong in his first term—and he is proving them wrong again today. On President Trump's first day in office, he vowed to usher in a new Golden Age for our country. A Golden Age America deserves a Golden Age economy. So, for the past 100 days, we've been preparing the soil. We have uprooted government waste and harmful regulations. We have planted the seeds of private investment. And we have fertilized the ground with fresh tax legislation. Next, we harvest. And we want you to harvest with us. America is the Schelling point of global finance. We have the world's reserve currency and the deepest and most liquid capital markets, and the strongest property rights. For these reasons, the United States is the premier destination for international capital. And the administration's goal is to make it even more appealing for investors like you. This morning, I will explain how we plan to achieve that goal. The primary components of the Trump economic agenda—trade, tax cuts and deregulation—are not standalone policies. They are interlocking parts of an engine designed to drive long-term investment in the American economy. Our goal with trade policy is to level the playing field for our great American workers and companies. With a level playing field, American industry can outcompete all challengers. Tariffs are engineered to encourage companies like yours to invest directly in the United States. Hire your workers here. Build your factories here. Make your products here. You'll be glad you did—not only because we have the most productive work force in the world. But because we will soon have the most favorable tax and regulatory environment as well. This is where tax incentives and deregulation come into play. You may have heard one big, beautiful bill floating around Congress. This bill is big and beautiful for Main Street America and investors alike. The president's signature tax legislation will prevent an enormous tax hike on Main Street by making the small business deduction permanent. It will also provide tax credits and deductions for research and innovation to stimulate investment in high-tech operations. We—it will restore 100 percent expensing for equipment while expanding that incentive to new factory construction. The objective? To accelerate investment in American industry. To make that investment as seamless and rewarding as possible, President Trump has embraced an ambitious deregulation agenda. This includes expansive permitting reform. The president doesn't want to just "drill, baby drill." He wants to "build, baby, build." To that end, he has signed executive orders to reduce the federal approval process for new energy and construction projects from several years to just a few months. This simple reform will unleash the creative potential of America's builders. It will empower business leaders like you to put your capital to work as quickly and efficiently as possible. The building renaissance will be fueled by the president's energy dominance agenda. Energy is the base layer of all economic activity. That's why the administration champions an all-of-the-above approach to energy development to drive down the cost of doing business. I hope you can see the bigger picture now. The Trump economic agenda is more than the sum of its parts. Trade, tax cuts, and deregulation may be three distinct policies. But each policy is mutually reinforcing. And acting in concert, they push toward the same goal—to solidify our position as the home of global capital. The result of the president's economic plan will be more. More jobs, more homes, more growth, more factories, more critical manufacturing plants, more semiconductors, more energy, more opportunity, more defense, more economic security, more innovation. In short, more of all things we need the most. The president believes we can achieve more together. This is the abundant vision he has for the future. He wants everyone to be a part of it. Thousands of businesses are now catching the president's vision. Since he assumed office in January, companies have pledged to invest trillions into the US economy. President Trump has secured more investment for our country in 100 days than President Biden did during all four years. Entrepreneurs, too, are starting to understand what the president is trying to accomplish. March saw one of the highest levels ever recorded for new business applications. Many of these men and women—like many of you—are grasping that America First is a blueprint for a more abundant world. For now, a parting thought. When I entered public service, I spent more than 40 years in the asset management business. There, one mantra guides one of the world's most successful investors: "Never bet against America." Warren Buffett coined the phrase—and it's been his lodestar as long as he's been in the game. "Never bet against America" captures a time-tested truth: the American economy is unstoppable. Throw whatever you will at our capital markets—the Great Depression, two World Wars, 9/11, a COVID recession of the last few years, or sky high inflation. Each time the American economy gets knocked down, it gets back up again. And it gets back up even stronger than what than it was before. US markets are anti-fragile. Indeed, the entire history can be distilled into just five words: "Up and to the right." On a long-term horizon, it's never a bad time to invest in America—but especially now the United States is entering a new golden age of economic prosperity for both Main Street and Wall Street. And we don't want anyone to get left behind. Come with us—so we can build a more abundant America together. Thank you all.

Announcer 13:35

Please welcome Institute chairman, Michael Milken.

Michael Milken 13:52

So as a scholar in college, a leading university, an accomplished fund manager, former professor, and distinguished career in finance and academia, your range of life options was unlimited. What inspired you to choose the field of public service joining President Trump's administration in a very high profile, and I should say, high-pressure role?

Scott Bessent 14:26

I would agree on all the above. So Mike, there was a long or long art desire for public service. I had tried or considered going to the Naval Academy, and I was applying in 1979, I wanted to serve my country. Due to sexual orientation, I was unable to, so even since I was a teenager, I wanted to serve my country, and I'd had a great career, like many people in this room in finance, the country had been good to me and as a economic history scholar, I was shocked at what was happening with these budget deficits. So last year, 6.7% of GDP, highest ever, when we weren't at war, weren't in a recession, and I wanted to come out from behind my desk and be part of the solution, because I was afraid that four more years of that, and it was kind of a deeply cynical plan, I thought, run up the debt and then have to raise taxes and really stymie the American engine of growth, innovation, and opportunity.

Michael Milken 15:38

Well, we once again, we're very happy you took up that mission. And I can't think of a better person at this time to be the Secretary of the Treasury. Let me try— Over the years, we have had a number of secretaries of the treasury who were not really into financial markets. But it's interesting when I think about—and how do you strike the balance between the administration's goal of reindustrialization in the US and the risk of isolating the US economy.

Scott Bessent 16:23

Well, I think that they're not mutually exclusive. And as I've said many times, that obviously in this trade puzzle, China is the biggest piece. Where do we end up with China? And I said during IMF week in Washington, said it's possible that we could, as Ray Dalio might say, do a big, beautiful rebalancing, that if we want more manufacturing, everyone agrees, except Chinese leadership, that they need more consumption. We could actually do that together. And then look, on the other side that getting better terms of trade is not always a straight line. It's not always a pleasant process, but I think at the end, the trading relationships will be stronger. Our security and values ties will still be there. I look back and I think about the example of NATO and German fiscal spending. So I lived in London for a long time, ran the Soros office there, and since the—well, forever actually, that whether it was French president, the Italian Prime Minister, people in Brussels were trying to break open the German piggy bank, and President Trump, not in a straight line, not in what would be, what anyone would call a diplomatic manner, has gotten NATO countries to step up and meet their spending requirements. I think these numbers are approximate, but I think only 25% when he came in, in 2017 only 25% of NATO countries were meeting their spending requirements. Now, I think only 25% aren't. So the Germans, for the first time, are going to allegedly do a big fiscal spin, which will drive European growth. And so can we do the same thing on trade? I think so.

Michael Milken 18:34

So let's talk maybe about a specific situation. You recently signed an historical economic partnership with Ukraine, and as you said, there was a little, few bumps along the way. Can you walk us through the role that the Treasury played, and what is expected to come out of this agreement?

Scott Bessent 18:57

And let's walk backwards that I was bemused, gratified to see that on Saturday as I was coming out here, excuse me, Friday as I was coming out here, Washington Post, lead headline was, "Russia now nervous after US-Ukraine signed deal". I believed that this would happen in February, President Trump believed that it would happen in February. And this was President Trump's idea he had. He likes negotiating, as you know, a lot of people in this room probably know, and he likes creating negotiating leverage for himself and the Ukraine Investment Partnership—the economic partnership was his idea, and he believed that it would do several things. One, it would create more leverage for him, with the Russian leadership when it was time to go to them. So the idea was, start with Ukraine, sign a deal that shows that there is no daylight between the US and the Ukrainian people. It would be a symbol to Ukrainian people that the US is still there. It would be a symbol to a tired American public, skeptical of more financial commitments that it was possible to have a shared prosperity with Ukraine, and then it would, in essence, be a tacit security guarantee because of the economic partnership—I went to and just to give you the timeline, so he tasked me with drawing up the document, speaking with Ukrainians. I thought it was a good idea to actually go to Kyiv, for anyone who hasn't been, you fly to Poland, you take a 10-hour night train the in to Kyiv, and you do that to keep from getting shot down—and which is good. And everyone was saying, oh, like, "this isn't a good deal, this isn't a good deal." I said, well, if it's not a good deal, why did the Russians bomb Kyiv for the first time. So I went on February 10, the Russians bombed Kyiv at four in the morning for an hour for the first time since November, because they knew the train arrived at eight and so before I got there. So if the Russians, if we were pro-Russian, and this was a terrible deal for the Ukrainians. Why didn't the Russians want it signed—so then President Zelensky elected not to sign it that day. He elected not to sign it at the Munich Security Conference. A few days later, there was a little incident at the White House. Some of you may have seen President Trump called it great TV, and when the deal went south that day. And I actually think in terms of the final deal, and Mike, I'm sure you, everyone in this room has seen it, that sometimes the blowup, you end up with a better deal. So February 28 was the blowup in the Oval, and what was going to be signed that day was actually just a four-page memorandum of understanding. After that blow up, we at Treasury made the decision to try to make the blowup into an opportunity. And my team—I instructed my team to go straight to writing the full agreement, which is six different agreements, very varying lengths, but hundreds of pages. So we worked on that document. And then when there was the kind of recovery and trust between President Trump, President Zelensky, after the meeting at the Vatican—we signed the deal a few days later. And look, I think it's win-win. What it is not is one of these rapacious Chinese deals sign here. It's loan to own. You're going to default on the debt. We're going to own all your minerals. And that's life. This is economic partnership. They put in assets. We put in capital from the DFC American best practices, and know-how. And it's 50-50, it's equity, not debt. And some of our European partners were criticizing me at the G7, and I said, you know, you know, guys, if you want to trade, if you want to do a debt for equity swap, why don't you write off your Ukraine debt and we'll let you into our partnership. No one's called me yet.

Michael Milken 23:48

Well, you know, I think what struck me, Mr. Secretary, was this major oil find off Guyana and Venezuela rattling the sabers and had sent a couple military ships. The US then asked them what you're doing, because that's Exxon. That's a US company. And I think that, to me, underlined part of the strength of this agreement you struck. Let's talk about one element that many people have been concerned about, and that is, what are the key components of deregulation? I know it's part of your economic strategy to spur growth. Are there any specific regulations that are at the top of your list for reform?

Scott Bessent 24:40

Yes, as I said at one of the smaller group meetings last night, maybe a few people in the room interested in private credit, and Treasury is taking the lead on financial deregulation, and I think private credit is an incredible new—the bolt on to the world's deepest—the breadth and depth of the world's deepest capital markets, but the growth of private credit tells me that the regulated banking system has been too tightly constrained, so we have set up at Treasury, I convened something called FSOC, Financial Stability Oversight Council and President Trump tasked me with helping him choose the leaders for the financial regulators. So we—they have installed a new vice chair for supervision at the Fed, Mickey Bowen. We are going to have a new OCC head FDIC Paul Atkins has just taken over the SEC Brian Quinn is at CFTC—so the regulators are aligned, and we are going to be like, safe, sound, and smart and redoing regulated financial entities. And then, as I mentioned in my talk—energy, that's a pretty easy playbook, but the real impetus is going to be on permitting across all industries, and that's where the EPA comes in, putting pressure on state and reg—the federal government is going to put pressure on state and local governments to speed up the process, the permit—permitting process. So what's the use in giving one year depreciation if it's 36 months to break ground? One CEO recently told me he was talking about the difference between doing business in Texas and Illinois. He said, we started a project in Texas. From the day we went to the city of Houston to talk about it, to the day I cut the ribbon—took two and a half years. In Chicago, we are still seven years into the planning process, so we want to make everyone look more like Texas.

Michael Milken 27:04

Well, you have. You're in an area here called Malibu, where maybe in 15 years, you can build a house. So we are very accustomed to this. Let me talk about another issue. It was in 2017 that our theme of the Global Conference was "Building Meaningful Lives." Part of that was a reflection on the disruptions we saw emerging from advances in AI, robotics, digital assets—the world we felt was heading for significant change, and we scheduled dozens of sessions around that area. Eight years later, you're now the Treasury Secretary, navigating the nation through these various changes. Give us a broad view as to how you see these issues today.

Scott Bessent 28:00

Well, I said in my confirmation hearing that we have to win an AI in quantum—that if the United States doesn't take the lead, if we don't win, every everything else doesn't matter—that if we if we lose the edge there—and, and I think China's catching up, which is natural, but I think we will maintain the—our leadership on that. And again, what we are trying to do is not pick winners and losers. We are just trying to set the environment for the best opportunity for our entrepreneurs to succeed, stop intellectual property theft, and in terms of making it accessible to all Americans, I think that's going to be very important. I was out on the campaign trail with President Trump, and I was struck by—there had been a big migration by the venture capital community to President Trump. So on one side, you've got the VCs, the most innovative the people in the world. You got Elon Musk, the richest person in the world, and the president's penultimate rally that I went to was in Pittsburgh, and these steel workers showed up and they got their vest on, they've got their hard hats, they've got their families. And the real idea is to make sure that innovators can innovate, and steel workers can have the same quality of life and opportunity, and that their kids could be the silicon—could be the Silicon Valley entrepreneurs, or they can stay and have the same life or better that their folks had in Pittsburgh.

Michael Milken 29:52

Well, that is a great goal, and we hope we achieve it from that standpoint in. Interest rates. You know, you've often talked how important that 10-year interest rate level is—and I when I look at financial markets over a long period of times, I can sometimes identify when that individual had come into financial markets by what period of time and the interest rates. So in the 1970s, particularly, the volatility of financial markets you saw over the next decade—many of the people that were CFOs became CEOs because how you financed your company allowed it to exist. In the last few years, we've lost three as independent companies, major financial institutions, due to the fact that they had bought a quarter of a trillion of US government intermediate securities and borrowed overnight. So when you look at interest rates and the tenure, and as I mentioned to you, I got this app on my phone that anytime the US government prices change by more than two percent in two hours, off my phone goes. So in the 1950s—

Scott Bessent 31:13

Please don't share that with the president.

Michael Milken 31:17

So in the 1950s if you were trading governments, it was like watching paint dry. You could see an entire variation of maybe two percent in price in an entire decade. We now have seen a variation of more than two percent occur in more than one day. How do you see the importance of the level of interest rates and our economy and what you want to achieve?

Scott Bessent 31:46

I think that I'm not going to talk about the Fed. I said I won't talk about their future mistakes. I'll only talk about their past mistakes. So I thought it was focused. I thought it was important to focus on the 10-year. And the 10-year has a lot of things wrapped in it. It's the short-term rate, it's the term premium, and we're focused on creating the best environment for stable rates. And I think a lot of what we saw in April was this periodic unwinding that I've experienced, you've experienced, most people in this room have experienced in their career. I'm a big believer the—in the Hyman Minsky, stability leads to instability. So I think we probably had a very stable period. A lot of leverage players built up very large positions. There was an uncertainty shock. They're out. But what we're trying to do is to create, go back to the Trump 1.0 non-inflationary growth. So I think if we can put non-inflationary growth in place and take away —back to your initial question, why am I sitting here? Is to take away the credit risk of the US government, then I think rates will naturally come down. And as I've said before, there's an opportunity here that if we can do it, the goal on one side, I call it reprivatizing the government, or reprivatizing the US economy. On one side, we want to bring down government borrowing slowly, maybe decrease the deficit by one percent a year. So time—President Trump leaves office, we're back at the long term average of about three and a half percent deficit to GDP, and the denominator grows faster than the numerator. Debt to GDP goes down. So we're decreasing the government and the economy at the same time we're right-sizing government spending and government employment, and then on the other side, through financial deregulation, we're releveraging the private sector, and then the excess employment that was shed in the government economy can go to the private sector. One thing—I've never lived in DC before, but one thing that really struck me was within a 10-mile radius of DC, 25 percent of the nation's economy pulses through there, and that's too much. Traditionally, it's about 21 percent and we've got to make sure—we have a stewardship obligation—to make sure that that is spent wisely.

Michael Milken 34:47

So we were making decision where to have the Milken Institute School of Public Health, besides the fact the Executive Office Building is one block away from GW, but every major decision on medical was located within a mile or so, and so the decision, ultimately, with the talent we had there with Lynn Goldman and others, was we would go to GW, because the decisions were being made there. Now, as you know, we spent 12 years building this building across the street from your new home at the Treasury— —and the Center for the American Dream—and we thought it was a four year project. It turned out to be a 12 year project. But this passion for the ideal of American dream, I believe, is something you truly believe in. We've been asking 10,000 individuals in more than 100 countries around the world that live there or have come here, how they interpret that phrase. What does that mean? What does the American Dream that you're going to protect for so many of us, what does it mean to you?

Scott Bessent 36:03

It means a shared vision. We're going to approach the 250th anniversary next year, or we will have the 250th anniversary next year, and it's—what does the next 250 look like? And to me, it's the equal opportunity for great outcomes. It's like I said, it's equal opportunity—if you're one of the children of the construction workers in the Duquesne Arena on November 4, that you might be sitting here that because you founded a financial services company, or because you're a medical researcher, or it's the opportunity for people in this room to continue to prosper. But to me, it's two things. It is the fact that the system works and that there is mobility that we get rid of these discouraging surveys of families that—and children who don't think they're going to do as well as their parents. So there's—we need a belief in the system, and we need to continue making sure that the system works. So to me, that's the American dream.

Michael Milken 37:19

Well, you've wrapped that up in a bow for us here in that what we have found in every survey for 12 years is the number one essential ingredient —condition that exists for the American dream was freedom to live your life, whether you wanted to be a steel worker or whether you wanted to work in finance or wherever you wanted to pursue—or whether you wanted to be the soccer coach of your daughter's soccer team. So Mr. Secretary, we couldn't be happier that you took up the mantle of public service, and we look forward to your stewardship for the next few years. Thank you very much.

Scott Bessent 38:00

Thank you.

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