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Advancing Economic Mobility and Innovation

A Conversation with NEC Director Kevin Hassett

Michael Piwowar 00:04

All right, we are so delighted to welcome our friend, Kevin Hassett, one of Washington's most respected economic minds. Kevin is currently serving as the director of the National Economic Council at the White House. In the last Trump Administration, he first served as chairman of the Council of Economic Advisers, and later returned to the White House as special advisor to the President for COVID economic policy. Kevin has commitments that will call him back to the White House very shortly, so let's go ahead and get started. Welcome, Kevin.

Kevin Hassett 00:33

Thanks, Mike. Great to be here.

Michael Piwowar 00:35

So both Trump Administrations have pursued an ambitious economic agenda: trade, energy, taxes, deregulation. As a long time key economic adviser to President Trump, what are the unifying principles that underlie all these efforts?

Kevin Hassett 00:50

Yeah, thanks. First of all, I want to remind everybody that Mike was one of the persons who helped me get Senate-confirmed in 2017 so we've been together for a long time, and it's been a thrill to have worked with you here at Milken. You know, I think that President Trump has really believed in a number of things that I think really shouldn't be controversial. He believes that if we have energy dominance, we have energy security. If we have a tax code that rewards businesses that invest in their communities with expensing and so on, that it'll both create a strong business environment, but also increase the wages of ordinary folks. And a trade agenda that basically makes it both for national security reasons, that we have

the security we need for supply chains, but also that we stop offshoring jobs to other countries from the US. There's a big academic literature that shows that when China entered the World Trade Organization, then they began to wipe out villages and towns all across the country, even to the point where Nobel Prize winning writer Angus Deaton and his wife Anne Case wrote a book about Deaths of Despair, Deaths of Despair in America that were highly attributable to China dumping stuff into communities and causing factories to close. And so I think that in the end, that the way to think about what President Trump has accomplished so much, and there's so much more to do, is that he understands that there's a really, really strong return to getting capital into communities. And so he supported the first Tax Cuts and Jobs Act Opportunity Zones, because if communities are poor or distressed, then obviously one of the main reasons that would be is that there's too little capital. And then, you know, this year, we wanted to get capital into the pockets of our youth, and so we created the Trump Accounts, because, again, if someone is poor and has little access to the kind of mobility that we all want everyone in America to have access to, then one way to help them is—and we've done that with research here at the Milken Institute—is to help them understand that they have a stake in the game. And finally, like getting capital to adults is sort of the final linchpin in this plan to use capital to spread it widely and to help it spread wealth. And so now we've got this issue that the President has endorsed where we're going to take the sort of half of Americans that don't have access to a 401K through their employer, and give them access through the government plan, the Thrift Savings Plan.

Michael Piwowar 04:04

So we'll hear more about the last piece on the panel right after us, from Shil Patel, who is working with the White House and with the Milken Institute on pushing that. So, all three of those Opportunity Zones, the Trump Accounts, and these new retirement accounts, fall under the broad rubric of the theme of this conference, one of them is economic mobility, right? And so if you look back over your tenure, those are obviously some big ones. Before I get into asking you for some other ones. You know these Trump Accounts - I don't think they get the attention they deserve. Can you talk a little bit more about the details of these and how they help youth achieve the American dream?

Kevin Hassett 04:49

Well, really, we've got two programs that we're pursuing, and so let's start with the Trump Account for children that we put into the Big Beautiful Bill last year. And so with that account, that basically every time a child is born, we create an account and seed the account and set the accounts up so that individuals, family members, charities, and so on, can add money to the account. And I can remember I was speaking about a year ago with Michael Dell, and when we talked about the idea of what was then, I guess, called the Invest America Account, before the legislation, he said that he has had his charitable arm, his people who helped guide his charitable contributions study everything that could be done to make sure that his wealth has a positive effect in the long run on America, and that they decided that the number one thing he could do would be to take his wealth and to spread it out amongst America's youth into these Trump Accounts. And as you've seen, he's already made a commitment to do that with, I think it was six and a half billion dollars. My expectation is that this is the kind of thing, realization that many of the people who are friends with Mike Dell or Mike Milken and everything that when they start to study what the future of

America looks like, if everybody has access to capital, then it's a fundamentally different world where as that world perhaps envisioned by Karl Marx, where capital and labor are opposed to one another. Well, if people have access to capital, then capital is a complement to your welfare. And I think it's really, really an important positive step, maybe perhaps the most important thing that was in the bill last year for the long run, the future of America. The other thing is that the typical 401K last year for Americans, went up by \$40,000. It was a good year. And—

Michael Piwowar 07:05

—for people that have them.

Kevin Hassett 07:07

Yeah, about half of Americans don't have one. And so that's something that working with you, and with my friend Rob Shapiro, we've been thinking about ways to move forward with that, and also Teresa Ghilarducci. And so President Trump has agreed that that would be sort of, I think, the final step in closing the circle, in getting access to capital, to people. And the details of it are very, very similar in terms of the construction of the vehicles that people will invest in, like the Thrift Savings Plan for the federal government, and there's an existing program that will allow us to match it without legislation to begin with, so we can get these things up and running relatively quickly. And our expectation is that in the long run, people will see that this stimulation of savings, the matching that we can already do, will be such a positive effect on society, be so politically popular, that they'll extend it and make it bigger over time. The reason we have the matching money, actually, was because there was a big bipartisan push to do that, and the money begins to be spent in 2027 and so it's very fortunate that people thought ahead how to do it. We had to figure out how to design it and make it work. The people at Treasury worked overtime to make sure that the things will be ready by next year.

Michael Piwowar 08:39

Yeah, we look forward to seeing that, and look forward to working with you, and your team on that. And again, we'll hear more about that in the next panel. Now, you mentioned the you know, the baby accounts were originally called Invest America Accounts. And I love that name because it's about investing in Americans, the children, the babies. Every baby gets \$1,000 invested in a broad base index of US companies, so investing in America so they can achieve the American Dream. And as you point out, one of the key features that we at the institute were very adamant about was to allow for philanthropists to contribute. And Michael Dell stepped up in an unbelievable way to do this, right? And it's exactly the theory of our case here at the Institute, where it's public, private, and philanthropic sectors, all working together, and it's just been a huge success.

Kevin Hassett 09:26

I want to add to one thing that we did in the bill that people maybe didn't notice, but the original idea that was brought to us, really by Brad Gerstner, you can remember back in the day, was to just have an account for everybody born in America that year. But as we studied it and talked with Michael Dell about the philanthropic potential of this idea, then we, ah, perhaps little known in the bill, made accounts for everybody who's a minor. So the accounts were established. Now the original contribution is for the new born, but like the money that Michael Dell is generously spreading out to millions and millions of kids will go to everybody, I believe, 10 and under. So by making accounts, we were criticized at first when we were designing the legislation that way, because people are thinking, well, geez, if you're not putting money in the account, aren't you making a lot of empty accounts? And isn't that a big waste? But we, especially the president, had optimistic view of the philanthropy, the potential for the philanthropy of this program, and so we were very, very careful to make sure that every kid had a chance to get a contribution from the philanthropist to the family members, the aunts and uncles or the churches that wanted to.

Michael Piwowar 10:49

That's great, and Treasury is charged with implementing the program, and it goes live on July 4th of this year, so the one year anniversary of the Big Beautiful Bill. So let me turn to another topic related to economic mobility. For many families, it's not just economic mobility and opportunity in theory, but it's you know, whether they can afford to participate in the opportunity in the first place. The word affordability is being used a lot these days in terms of being a structural component of economic mobility. So what, how are you thinking about the affordability issue in terms of what specific policy levers do you believe are most effective of reducing cost burdens without dampening growth, right?

Kevin Hassett 11:32

Well, first of all, I think that in the end, the sort of summary statistic of success or not on the affordability front for any administration would be the growth in the average real wage, because people get take-home pay and then they have to go to the grocery store, and if the price of the stuff they're buying at the grocery store is going up faster than their wages, then they're losing ground. When President Trump took office, it seems impossible to remember, but it's true that in the Obama eight years, real wage growth was effectively zero, very close to zero, slightly positive, and that real wage growth was described by some as the new normal. That because of the evolution of the global economy, we just weren't going to be in a place where we could adopt policies that would increase the wages of ordinary Americans, in part, because they're competing with low wage workers in foreign countries and so on. And when President Trump took office, we believed that we had policies in place that we had to pass, with the Tax Cuts and Jobs Act and so on, that would increase real wages. And I can remember that when we talked about the Tax Cuts and Jobs Act in the Oval the President asked me, Well, what's it going to do to the economy? And I said, Well, it'll increase GDP by so and so. And then he says, I don't want to talk to the American people about GDP. They don't care about GDP. They want to know what it means for them. And so then we came back with an estimate, which we put in the Economic Report of the President that said that the real wage for American workers would go up by between \$4,000 and \$8,000 over the next three years or so if the bill passed. And that estimate was roundly ridiculed. I mean the amount of abuse that Mike Faulkender over there, I see, he and I took for pushing that, but the President actually, it's kind of interesting, he said, well,

four to eight thousand, let's just make our talking point for the Tax Cuts and Jobs Act be \$4000, because I want to underpromise and overdeliver. And the truth is that right before Covid, wages, real wages had increased already by about \$6,500 which makes the estimate that we had between four and eight look pretty darn good. And so that the question is, there was a big inflation that came in the previous administration. That inflation, I believe, was very demand side driven. There was a heck of a lot of government spending, and you know, basically it wasn't constrained by Federal Reserve action. And so we printed money and helicopter dropped it into the country, and inflation took off, unlike anything we've seen back since the 70s, and real wages declined sharply. And so, when you think about, you know, the affordability crisis that people still feel, then you know, a lot of it came from the fact that inflation went up by 20 something percent, and that measure doesn't account for the increase in the cost of getting a home. Because they don't have interest rates and the inflation numbers, but we're turning things around. We're turning things around fast. And the real wage numbers that stagnated over really those 12 years of the other side's policies, real wages on average last year went up by \$1,400, which is about the pace that we saw when we were here before. And it's a pace that we expect will accelerate, in part because once we adjust for the after tax wage, and we get all the tax refunds that are coming from, no tax on tips, no tax on overtime, we expect the number, our estimate is the number will be between \$2,500 and \$3,000 for this year, making the combined effect of the first two years be above \$4,000. And so in the end, affordability is about, how is your wage doing? How's it compared to what you're paying for stuff? And if the wage is going up faster, then you're better off. A final thing on this Mike, which is just something that people sometimes forget, is that folks usually get their wages adjusted by their employers around the beginning of the year. So people who don't change jobs very often, their wage is the same for a year, and then January comes, and then, depending on how well the firm did, their wage goes up. And so this is a key function of, like all of macroeconomics, the assumption that wages are kind of sticky compared to prices. And so one of the things that I think that we're really looking forward to, is that that \$1,400 increase that we just discussed was despite the fact that wages are sticky. And we've done so much to stimulate capital spending and onshoring of production and everything that we're like highly confident in the optimistic outlook for wages and affordability.

Michael Piwowar 16:52

Oh, that's great. So let's turn to innovation. So the Financial Times recently published a graph showing three possible scenarios for the impact AI could have on GDP. The extreme techno optimist scenario showed GDP going up to infinity and was labeled AI singularity, end of scarcity. The extreme AI doomer scenario showed GDP going to zero, and it said AI singularity, human extinction. And then there was this middle scenario which showed a modest AI boosted growth path, right? So the classic, there's three, there's three kinds of people in the world, right? Optimists, pessimists, and economists, right? So I want to ask the economist, and we hear a lot about AI's potential effects on all kinds of things, effects on productivity, mostly positive effects on jobs. Lot of concerns about disruptions here. What does the data tell us so far about how AI is transforming the economy, and what's your longer term view on how this will play out?

Kevin Hassett 17:53

Well, you've seen all of the increase in wealth and market cap of the companies that are involved in AI, that's really been astonishing, and it's similar to the kind of increase we saw in the 90s, when the computer started to be widespread, in part because Netscape Navigator made it easy to use a computer, but that was like around '95 and then we had four years in a row where equity markets just skyrocketed and GDP growth was bouncing around in the fives, and so on. And the interesting thing is that while the computer was diffusing and the economic data were really quite positive, the productivity measures weren't really showing huge effects of computers at the beginning. The thing that's different this time, like the AI revolution is much bigger than the computer, is that the valuations that we're seeing of the AI companies are consistent with observable productivity gains from firms that use AI. And a way to summarize that is something that I'm sure you know, but not everyone in the audience necessarily does, that the last quarter, we had the most positive surprises for earnings reports in history as a percentage. And the reason is that AI is just a really great coach. So if you want to cheat at chess, use an AI engine, and you could, like, win a tournament. If you're running a business that get AI to look at what you're doing, and you're going to really increase the productivity of what you're doing, and that's going to increase your profitability, and now we're going to see the wage increase. So near term—

Michael Piwowar 19:37

—and this is across all sectors, not just tech sectors, it's across the economy.

Kevin Hassett 19:41

That's right, it's across all sectors. And a way to think about it too is that if you take whatever it is you're doing, and you get a really great engineer to come and help you do it better, that almost any business you could think of is going to benefit from the engineer, and the AI is creating sort of virtual agents that are like engineers that are making your business better. I think that that's the wave that we're running right now. The question is, what does it look like in the long run? And I think that the way I think about it is just that as productivity advances, that there'll be fundamental societal changes, but they'll be all—so I'm an optimist—they'll be all for the good, because if we're making lots of productivity and wealth, then wages will be higher and we'll have more opportunity for leisure.

Michael Piwowar 20:33

That's great. Kevin, thank you so much for taking time out of your busy day, and thank you for everything you do for the American people.

Kevin Hassett 20:40

Thank you, Mike, thank you.

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