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The Honorable Scott Bessent
U.S. Secretary of the Treasury

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Moderator: Larry Kudlow
Host, Kudlow, Fox Business Network
Former Director, National Economic Council

Introduction

Chair Robert K. Steel

Good afternoon everyone and welcome to the 790th meeting of The Economic Club of New York. My name is Bob Steel. I'm Chair of our Club and Partner and Vice Chair of Perella Weinberg Partners. It's a pleasure to be with all of you here today.

Before we begin, let me extend a warm welcome to the students joining us virtually from Mercy University and NYU as well as the members of the 2025 Class of New York Economic Club Fellows – a select group of diverse, rising, next-generation business thought leaders.

The Economic Club of New York is proud to stand as the nation's leading nonpartisan platform for discussions on economic, social, and political issues. For more than a century, The Economic Club of New York has been a platform for thought leadership and dialogue.

Today, we're excited to continue that tradition and have the extreme privilege to welcome my good friend and our fellow Club Member, The Honorable Scott Bessent. On January 28th of this year, Scott was sworn in as the 79th Secretary of the Treasury of the United States.

As Secretary, he oversees the U.S. Treasury's mission to maintain economic strength, foster growth, manage our government's finances, and protect the financial system from economic threats. With more than 40 years in global investment management, Scott is a recognized expert in currency and fixed income markets. He previously served as the Chief Investment Officer of Soros Fund Management and later founded his firm, Key Square Capital Management, a global macro hedge fund. He's also taught history at his alma mater, Yale University, and contributed to leading economic journals.

A South Carolina native, Scott holds a B.A. from Yale. He and his family have supported numerous philanthropic efforts, including the McLeod Rehabilitation Center, Harlem Children's Zone, and Rockefeller University. In addition to being a member of our Club, he's a member of the Council on Foreign Relations, and remains a strong advocate for financial literacy and education.

Today's format will begin with prepared remarks from the Secretary followed by a fireside chat. And we're especially excited and honored to have fellow Club Member, Larry Kudlow, as our moderator. Larry is the host of Kudlow on Fox Business Network, and formerly Director of the National Economic Council. Just a reminder to all of you that this discussion is on the record. We do have a large number of media in the room and online. And we will conclude the program today promptly at 1:00. So now, with no further ado, please join me in welcoming our fellow Club Member and Secretary of the

Treasury to the podium. Scott...

Opening Remarks by U.S. Secretary of the Treasury, Scott Bessent

Bob, thank you for that. And it's an honor to be speaking here today as the 79th Secretary of the Treasury of the United States. It was only six months ago when President Trump laid out his vision to restore American economic prosperity to this very group. It is a privilege to be here, both as a member of the Trump administration, a recent member of the Trump administration, and a long-time member of The Economic Club of New York to explain how we will deliver on the President's vision.

Today, I'm going to address three critical pillars of President Trump's America First agenda. America First is about more than just domestic or international policy, more than just economic policy and national security policy. It is a holistic program that serves the goal of improving the lives of every American. To that end, I will touch on three priorities for the Treasury Department, each of which is part of the overall agenda.

In this speech, I will not address tax policy. It is the foundation on which the three pillars rest. Larry Kudlow and I are going to have a detailed discussion in the Q&A on tax policy, including the President's priorities on permanence, current policy baseline, no tax on tips, no tax on Social Security, no tax on overtime, and deductibility of loans on

American-made autos.

First, I will address a critical aspect of our domestic economic agenda, responsibly deregulating the financial sector to accelerate what I call the re-privatization of the economy. Second, maybe some of you have an interest in this – President Trump's tariff policies have begun the process of reorienting our international economic relations. I'll review our broader international economic policy goals from a first principles basis and discuss how tariffs fit into the picture. Lastly, economic security and national security are inseparable. At Treasury, our unique financial tools are a critical component of U.S. foreign policy. I'll address how we are updating those tools and give the first real-time example here today.

At Treasury, we will lead a comprehensive and assertive effort across the Administration to empower our nation's banks to finance the economy's pursuit of job growth, wealth creation, and prosperity for all Americans. I began my career as a financial sector analyst. I quickly learned that a strong, yet efficient regulatory framework is needed to mitigate risk and protect taxpayers' hard-earned dollars. The regulatory overreach of the past few years in pursuit of political agendas has missed material risk, stymied growth, and squashed innovation.

The Trump administration aims to make financial regulation more efficient, effective,

and appropriately tailored. President Trump's recent executive order that requires the Office of the Comptroller of the Currency, the OCC, the Federal Deposit Insurance Corporation, the FDIC, and the Federal Reserve to submit regulatory actions for review at the Office of Management and Budget will improve analytical rigor and discipline, while increasing accountability.

The supervisory failures at the heart of the 2023 banking crisis under President Joe Biden should have been a wakeup call. As the Fed's review noted, its supervisors did not fully appreciate Silicon Valley Bank's vulnerabilities as it grew in size and complexity. When risks were identified, they did not take sufficient steps to ensure that SVB fixed those problems quickly. The result was the third largest bank failure in United States history. It was a supervisory failure.

Our financial regulatory agenda must start with a fundamental refocusing of supervisors' priorities. Leadership must drive a culture that focuses on material risk taking, rather than box checking. As such, I plan to use the Financial Oversight Council, known as FSOC, and the President's Working Group on Financial Markets to drive change in our regulatory environment.

We need our financial regulators singing in unison from the same song sheet. To be clear, this does not mean consolidation of agencies, but coordination via Treasury, such

that our regulators work in parallel with each other and industry. I am excited about the dynamic leadership that the President has put in place across the financial regulatory agencies to drive this process.

Our nation's largest banks', many of whom are represented here today, role as financial intermediaries has been weighed down by unduly burdensome regulatory requirements and a broken supervisory culture. Backward looking policies in response to an undercapitalized system predating the global financial crisis almost two decades ago should not drive today's approach. Bank regulation and supervision should reflect the current needs of the economy.

For example, the enhanced supplementary leverage restriction, the SLR, can risk becoming a binding constraint instead of a backstop. The result is that the safest asset in the country, U.S. Treasuries, are not treated as such when leverage restriction is applied. Some have suggested that risk-free exposures like central bank reserves and short duration Treasuries should not be capitalized even under a risk-insensitive leverage capital restriction, while others have suggested an adjustment to the leverage restriction buffer. I'm not here today making a specific policy announcement – only to make the point that rigorous analysis must be applied to these regulations if we are to appropriately supervise and regulate our banks.

Given my small-town roots, I'm extremely focused on the success of America's community banks. The 4,000 community banks operating nationwide in every county in America are one of the most important reasons for the U.S. economic performance in recent decades. Despite only holding 15% of industry assets and deposits, community banks make up 40% of loans to small businesses, 70% of agricultural loans, and 40% of commercial real estate loans. They have strong relationships with their customers and tailor their loans to their neighbor's businesses.

They have been increasingly hamstrung with burdensome supervision and regulation. Community banks are indeed overloaded with unproductive reporting requirements that have little to do with reducing material financial risk. Regulatory rating systems have suffered from mission drift as regulators apply subjective standards. Productive and synergistic mergers are often slowed due to immaterial supervisory issues.

Regulations should serve to ensure the safe and soundness of U.S. banks, drive affordability across goods and services and facilitate economic growth. And we are going to accomplish this by improving the efficiency and effectiveness of our financial sector to underwrite and finance domestic activity. De-leveraging the public sector and re-leveraging the private sector begin and end with smartly reinvigorating our regulated financial institutions.

On the international economic system, President Trump's bold international economic agenda will also provide the backdrop for his domestic economic policies to succeed. The President has already begun a campaign to rebalance the international economic system. Perhaps we are seeing an early big win with Germany's discussions to dramatically boost its military spending.

The international trading system consists of a web of relationships – military, economic, political. One cannot take a single aspect in isolation. This is how President Trump sees the world, not as a zero-sum game, but as inter-linkages that can be reordered to advance the interest of the American people.

This is contrary to the last several decades, when other countries acted to advance their own interests, while our policymakers largely forgot about the tradeoff of unconstrained trade misalignment. The result was the United States provided a source of massive demand, acted as arbiter of global peace, but did not receive adequate compensation. For example, today the United States finds itself subsidizing the rest of the world's under-spending in defense. This is not just a security issue. The United States also provides reserve assets, serves as a consumer of first and last resort, and absorbs excess supply in the face of insufficient demand in other countries' domestic models. This system is not sustainable.

Access to cheap goods is not the essence of the American Dream. The American Dream is rooted in the concept that any citizen can achieve prosperity, upward mobility, and economic security. For too long, the designers of multilateral trade deals have lost sight of this. International economic relations that do not work for the American people must be re-examined.

This is what tariffs are designed to address – leveling the playing field such that the international trading system begins to reward ingenuity, security, rule of law, and stability, not wage suppression, currency manipulation, intellectual property theft, non-tariff barriers and draconian regulations. To the extent that another country's practices harm our own economy and people, the United States will respond. This is the America First Trade Policy. We are identifying bad actors across a range of criteria, not just tariffs applied to our exports, but also non-tariff barriers, laws which unfairly apply fines to our exporters, government policies which undercut global competition and suppress wages and currency manipulation that enables persistent trade surpluses.

These are not the only metrics in which our global trading partners should be scored. That is, increased burden sharing on security is critical amongst friendly nations. No longer should American tax dollars, American military equipment, and in some cases, American lives, be the sole bearers of upholding friendly trade and mutual security. Burden sharing is not a matter of offloading risk, but a matter of all benefitting parties

having interest in the system. The shared interest ultimately strengthens the international system as the cost of disruption outweigh any benefits of dissolution.

A 2025 sanctions regime; in the past, I've said that economic security is national security. Nowhere is this more evident than the U.S. Treasury's sanctions actions. In his ECNY speech last September, President Trump expressed his view that overuse of sanctions could affect the U.S. dollar's supremacy. I couldn't agree more and would add that, not unlike the overuse of antibiotics, the target becomes immune and mutates. Lackadaisical sanctions simply create new markets, which must then be sanctioned and so on.

A major factor that has enabled the Russian war machine's continued financing was the Biden administration's egregiously weak sanctions on Russian energy, stemming from worries about upward pressure on U.S. energy prices during an election season. In a craven political move, National Security Advisor Jake Sullivan, raised the Russian sanctions on the way out the door in January. What was the point of substantial U.S. military and financial support over the past three years, without a commensurate and fulsome sanction support.

This administration has kept the enhanced sanctions in place and will not hesitate to go all in should it provide leverage in peace negotiations. Per President Trump's guidance,

sanctions will be used explicitly and aggressively for immediate maximum impact. They will be carefully monitored to ensure that they are achieving specific objectives.

Last month, the White House announced its maximum pressure campaign on Iran designed to collapse its already buckling economy. The Iranian economy is in disarray; 35% official inflation, a currency that has depreciated 60% in the last 12 months, and an ongoing energy crisis. I know a few things about currency devaluations, and if I were an Iranian, I would get all of my money out of the Rial now.

This precarious state exists before our Maximum Pressure campaign, designed to collapse Iranian oil exports from the current 1.5 - 1.6 million barrels per day, back to the trickle they were when President Trump left office. Iran has developed a complex shadow network of financial facilitators and black-market oil shippers via a ghost fleet to sell oil, petrochemical and other commodities to finance its exports and generate hard currency.

As such, we have elevated a sanctions campaign against this export infrastructure, targeting all stages of Iran's oil supply chain. We have coupled this with vigorous government engagement and private sector outreach. We will close off Iran's access to the international financial system by targeting regional parties that facilitate the transfer of its revenues. Treasury is prepared to engage in frank discussions with these

countries. We are going to shut down Iran's oil sector and drone manufacturing capabilities. We have predetermined benchmarks and timelines. Making Iran Broke Again will mark the beginning of our updated sanctions policy. Watch this space. If economic security is national security, the regime in Tehran will have neither.

In conclusion, the three pillars outlined today are linked by the primary vision of this Administration, that every decision and policy of the United States government should serve the American people.

Thank you all. I look forward to engaging with you in Q&A and my discussion with Larry Kudlow.

Conversation with U.S. Secretary of the Treasury Scott Bessent

LARRY KUDLOW: Thank you everybody. Thank you very much. Thanks to Secretary Bessent for an excellent opening speech. Secretary, let me begin, of course, you mentioned tariffs in your speech and almost everybody on Wall Street and the financial markets are obsessed with tariffs. I would say crazed about tariffs. And I thought perhaps we could take this opportunity for some basic educational work on the subject.

So President Trump, in his speech to Congress on Tuesday, very forcefully talked about

changing the unfair trading system, to which you referred in your own speech this afternoon. The President said there could be some one-time difficulties – if I have that right – one-time difficulties. Maybe you'd talk about one-time difficulties and perhaps the biggest question I hear all the time is are tariffs inflationary?

THE HONORABLE SCOTT BESSENT: Okay, Larry, there's a lot to unpack there. So let's start with a couple of things. I would think over the coming months we're going to have a couple of adjustments. One was one that I talked about as we de-leverage the government sector, re-leverage the private sector, which we'll talk about later. And look, can tariffs be a one-time price adjustment? Yes.

While I've agreed not to talk about prospective Fed policy, going forward I would hope that the failed Team Transitory could get back together and think that nothing is more transitory than tariffs if it's a one-time price adjustment. And for those who say, oh, the tariffs are a tax, they're inflationary, so you're saying taxes are inflationary, which I'd like to challenge a lot of my Democratic friends.

So, look, as I said, the economic program is a whole of government holistic program, and I think we can get a one-time price adjustment but we've also gotten, barring the moves yesterday and today in government bonds because of the European bond blowout, the Japanese bond blowout, we have, 10-year interest rates are lower,

mortgage rates are lower since President Trump won and came into office. As of last night, crude prices are down 15%. So across a continuum, I'm not worried about inflation.

LARRY KUDLOW: Yes, and just one follow-up on this. The President is a believer in reciprocity, and this goes back many years, when I worked in the first term, reciprocity. So people are, as I say, so many people in the financial world are worried – inflation and tariffs and all the rest. But he has said also that if countries who have engaged in unfair trading practices reduce their tariffs or their non-tariff barriers, then we would all have a lower tariff rate. I mean he's said that for many years. People don't seem to understand it. I don't know if it's in the market, so I wanted to put it out there. It is possible, over a period of time, that tariff rates, both here and abroad, could come down. Is it not?

THE HONORABLE SCOTT BESSENT: Look, as President Trump has said many times, tariff is his favorite word. I would say that reciprocal is probably his second favorite word. And I think we have to be open to the idea that if you want to be a numbskull, or Justin Trudeau, and say, oh, we're going to do this, then it's going to, tariffs are going to go up. But if you want to sit back, have a discussion with the Commerce Department, USTR, they all have my phone number too, I am happy to have a discussion with our foreign counterparts that says that here's what we think you were doing. And the tariffs are the actual easy part. Because we know India does this on U.S. motorcycles.

Germany does this on, or E.U. does this on American cars. That's a quantitative number.

But also what are non-tariff barriers? Apple cannot sell the new iPhone-16 because of local content laws in Indonesia. Are you manipulating your currency? Are you suppressing the value of that? Are you unfairly subsidizing select industries either via bank lending or suppressing the labor markets? And then five, something that's come to our attention recently, the E.U. is putting these gigantic fines on our U.S. tech companies and that's a form, that's a non-tariff barrier too.

So we're going to look at that and then talk about what could happen on a reciprocal basis. Much of that will come out April 2. And we will then, it's going to be path-dependent based on our trading partners, and there will be a discussion. When Prime Minister Keir Starmer and Team U.K. were in the White House on Thursday, we had a very good discussion about going on all of this and more.

LARRY KUDLOW: Alright, thank you very much for that. I also wanted to circle back; you were mentioning bond rates. There's a terrific bond market rally going on, actually a very strong bond market rally, more or less since the President was inaugurated. I don't know what the 10-year is today. It was about 4.15, 4.12.

THE HONORABLE SCOTT BESSENT: Higher...4.30.

LARRY KUDLOW: Okay. It was nearly 5% a month or six weeks ago.

THE HONORABLE SCOTT BESSENT: Yes, 4.84 for those keeping score.

LARRY KUDLOW: I like to round; I like round numbers. I learned that from Trump, you know, just round numbers. Anyway, the point I'm making is could you talk a moment, when you and I talked on an interview after your confirmation, you said that you were focused on the 10-year bond rate. The President himself is focused on the 10-year bond rate. It has come way down. Mortgage rates have come way down. And on top of that, even while people are telling everyone that tariffs are inflationary and so forth, commodity prices are coming down. Oil prices are coming down. I just wondered if you'd talk for a moment or two about the market situation where rates are falling.

THE HONORABLE SCOTT BESSENT: So the two things that I've talked about, that President Trump has talked about, you will notice that he has stopped calling for the Fed to cut rates. Because the purpose of cutting rates is to cut rates. And when the Fed cut rates, they did...I will criticize past actions before I was confirmed, their past action in September, jumbo rate cut, 50 basis points and two more subsequent rate cuts, 100 basis points. The long end of the curve moved up.

So our view is we want to focus on the 10-year and what can we do as an Administration to bring that down. And one of the things is sound fiscal policy. So controlling government spending, getting back the confidence. One of the reasons that I'm sitting up here now, not out in the audience, is I became so alarmed by the fiscal stance that the previous administration had, 5.7...excuse me, 6.7% GDP spending. We've never seen that when we weren't in a war or we weren't in a recession. And we've got to bring that down.

And let me be clear, the U.S. does not have a revenue problem. We have a spending problem. We are right where we have been, and the long-term average is 17½%, 18½% of revenues. That hasn't changed. What has changed is this blowout spending. Over the past 40 years, the deficit has averaged about 3½%. So we were at 21, 22% of GDP spending. The previous administration blew it out to 25%. Some of the things they put in place, if we hadn't grabbed them by the horns, this thing was going to blow out even more. And so we've stabilized it, we're bringing it down. And we're going to go from there.

LARRY KUDLOW: So let's stay with that for a moment. I'm going to get to tax policy of course, but let's just stay with that for a moment. It's a very important subject – budget deficits and overspending. Over my shoulder, my pal Glenn Hubbard, who I've known for many years and has been a great mentor, Glenn asks, you've wisely talked about

the need to reduce the budget deficit in the U.S. In addition to consideration of revenues and spending, growth is important. A higher rate of economic growth that doesn't require more deficits to pull off can reduce deficits and the debt to GDP ratio while raising living standards – it's an unusually long question, but I'm going to go through it – what are the three best things we can do to reduce growth? What are the three best things we can do?

THE HONORABLE SCOTT BESSENT: The previous administration did the three best things to reduce growth.

LARRY KUDLOW: Give it your best shot.

THE HONORABLE SCOTT BESSENT: Well, Larry, you're one of the people who has drilled this into me. We've got to pass the Tax Cuts and Jobs Act this year. The sooner, the better. And the President has said he wants permanence in that. So (a) the permanence in that. Part of that, that the President mentioned at the address to Congress on Tuesday night was making the full expensing of capital equipment retroactive to January 20th.

Another thing that we are considering, and I'll talk about it because the President has mentioned it, perhaps having full expensing, we'll create a window and perhaps having

full expensing of factories within that window. So equipment and factories. Not all structures. Not airplane hangars, not You-Store-It, but factories that create American jobs. So we think that could be very powerful. So that would be one.

Cutting regulation. I think the real tax or the under-explained, under-noted tax on the American people has been these regulations. Steve Moore and his Committee to Unleash Prosperity had some great statistics on that if you want to go to their website. But not only does it slow down the velocity in the economy, it's been a real burden on American business, American households. I talked a little about the financial regulations, but it's across every sector. And a lot of these, the previous administration threw a lot more of these on their way out the door. So an ambitious and effective deregulatory agenda.

And then three, our proposals to bring down energy costs, increase energy security, and for U.S. energy dominance, because what we're seeing, a lot of the affordability crisis that we have is not only a direct result of increased gasoline prices, home heating prices, but energy, as you know, Larry, permeates everything in the economy, whether it's the transportation of food to grocery stores, any kind of travel, any products that are petroleum-based. So I think it was a long answer, but getting the tax deal done, deregulating, and the energy dominance.

LARRY KUDLOW: Just to stay with it, first of all, the President, in his speech on Tuesday night, called for 100% expensing, retroactive to January 20th, which I think is really quite extraordinary and would boost, you know, we've had very poor business, fixed business investment spending for several years. So that would be retroactive.

THE HONORABLE SCOTT BESSENT: Retroactive. So any of you considering a project, you can do it now, because we're going to get this bill passed. And if you've got it and it's ready to go, no reason to hesitate.

LARRY KUDLOW: And part of this, also this scenario for one big, beautiful tax bill is, one big, beautiful bill, I mean that's what it is. The income tax rates would stay down. The small business deduction would be restored, if not more. We talked about the expensing. The corporate tax rate could come to 15%, made in America goods. Fifteen percent would put us at the very, very low end of the OECD. And this would, let's see tax-free tips, tax-free overtime, tax-free senior benefits, and it would be made permanent. It would be permanent, Scott. This is what the President called for. And it could be scored on a current policy baseline, which means in effect we don't have to, I mean this issue here is to stop a $5 trillion tax hike. There's no evidence that this tax bill and tax proposal would actually reduce revenues. In fact, just the opposite happened in the late-2017 bill.

THE HONORABLE SCOTT BESSENT: Look, I think that certainty, the closer we get to the tax bill expiring, the more the, what I would call an uncertainty tax goes up. So the sooner we can get this done...I lead something, Larry, I believe that you were part of it, it's called the Big Six. So it's myself, Kevin Hassett, the NEC Director, Leader Thune, Chairman of the Senate Finance Committee, Senator Crapo, Speaker Johnson, and the Chairman of the House Finance Committee, Jason Smith. And the six of us are going at this every day to try to get it done as soon as possible so that there is no glitch in what's going on.

Because the longer we wait, the bigger the chance that the unthinkable could happen and we could have this catastrophic tax increase. And I know that President Trump believes that one of the reasons that the 2018 midterms were unsuccessful was that it was an amazing tax bill you put together, but that it wasn't the focus in the first half of the year.

LARRY KUDLOW: And you believe, I know the President believes, but you believe, and I know that Glenn Hubbard believes that with good policies we should be able to project a 3% GDP growth baseline out over the next 10 or 20 years.

THE HONORABLE SCOTT BESSENT: I think, so for those of you, when I used to sit out there for 35 years, I thought I knew how Washington accounting worked, and I was

wrong. Now that I'm inside the sausage factory, just so we can kind of level-set, CBO scoring makes Enron look conservative. I mean it's crazy the things that they have. And when Larry and I talk about current policy scoring, that if we don't use current policy, the current CBO protocol, and this is why I think, now being on the inside, we've gotten into this spending mess, into this tax mess, that the current baseline, I don't know why we're calling this extending the tax cuts. It is a current tax policy. Extending the current tax policy that gets re-scored, extending current spending, the current spending that got put in does not get re-scored. So guess which is easier to do? Keep the spending going. You have the tax policy, the tax levels, you have to fight for, depending on when they expire. So this is why permanence is so important.

LARRY KUDLOW: Yes, thank you for that. I think it's a really important point. In so far as the Big Six is concerned, what you're negotiating, you and Kevin Hassett and the House and Senate members, you will produce, there will a Trump budget and there will be a Trump tax plan that will be formally submitted at some point in the near future.

THE HONORABLE SCOTT BESSENT: Yes, and Larry, as you said, so one thing we don't talk about a lot and I think we're going to is the tariff income. Right now we have substantial tariff income from China that President Biden left on. And if we have new tariff income, we won't be able to score that, since it won't go through the legislative process. But I could tell you, that could be very substantial.

And if you think about it, when people say, oh, tariffs are a regressive tax, well, are they are regressive tax if you then use the income from tariffs to no-tax on tips, no-tax on Social Security, no-tax on overtime, making auto loans tax deductible. Those four policies, which President Trump put forward during the campaign, all accrue to the bottom 50% of wage earners and working Americans. So could you have a tariff policy that is in finances, income tax cuts, and real income increases for the bottom 50%? I think that would be pretty great.

LARRY KUDLOW: Have you ever met William McKinley? I get; the President sends me text messages on William McKinley. I know I've been around, but I just missed him. Perhaps you communed with him.

THE HONORABLE SCOTT BESSENT: I don't. I did, in anticipation of discussing it with the President, I did read his biography. It was very interesting.

LARRY KUDLOW: Yes, the Robert Merry biography is very good. Okay, other questions. I know we've mentioned tariffs, Mr. Secretary, but I want to do it again. We have questions from Mr. Glenn Hutchins. There are two theories of tariffs. The first is they are a negotiating tactic, which involves short-term pain for average Americans, but long-term gain. Then he goes on, the second is that they might be considered sound, fundamental policy. What are your thoughts with respect to these two scenarios?

THE HONORABLE SCOTT BESSENT: Sure. So a couple of things. In terms of tariff policy, I think one thing that has become clear to me over the past decade, the past few years, and I set it out in an editorial that I wrote in *The Economist*, is Ricardian equivalence does not work if other countries have a very different economic and social policy.

So China is exporting their policies to us. They've decimated our manufacturing sector. There's a new paper out called the China Shock that said the community has recovered, the workers haven't. And so clearly the policy is not working for working Americans. So China exported their policies, and tariffs are one way to push back on this. So I do think it is good policy.

And it is, you know, I've said, and I say this because I think, I know it's what President Trump believes, he believes three things. One, that it is a good source of revenues. Two, it protects our important industries and the employees. And three, he's added a third leg to the stool, and he uses it for negotiating.

LARRY KUDLOW: You know, I often, we talked about this a while back, the free trade theory of Ricardian equivalence is a very interesting theory, but there is no equivalence. As you just noted, I just wanted to highlight this, the Chinese economic system and the Chinese political system is not equivalent to the United States. We are a free market

democracy. They are an authoritarian Socialist political entity.

THE HONORABLE SCOTT BESSENT: Yes, it's like California versus Texas.

LARRY KUDLOW: Well put, okay. Very well put. And I think that's the problem when you look at the world trading system. It is unfair because it's not equivalent. Yes, foreign tariff rates are much higher than ours. But many of these countries are just not equivalent. We're not playing, it's not only a non-level playing field for tariffs, it's a non-level playing field for basic economies and basic polities. And you have to deal. That has to be changed. The world trade system, World Trade Organization never took that into account.

THE HONORABLE SCOTT BESSENT: Well, it hasn't, Larry. And the only good thing that I could say about Covid was it was a beta test for what we could have if we had a large-scale economic disturbance or a hot war. And it showed us that optimal supply chains are not secure. And I think it has made us refocus on many of the aspects. When you see President Trump talking about the rare earth, strategic minerals, reshoring our medicines, reshoring the semiconductors, all of that is from the lessons we learned during Covid of not having reliable trading partners.

And to your point, Larry, we can accumulate all of the strategic mineral deposits that we

need, but China still processes 85%, does 85% of the processing. And every time a private sector company tries to stand up a processing facility outside of China, China drops their prices and puts them out of business. There are several in the United States that are just sitting idle because the Chinese saw what was happening and dropped it. And that's unacceptable.

LARRY KUDLOW: I just want to; another question from Mr. Glenn Hutchins. I want to be absolutely fair and balanced. He's asking a principal component of the Trump campaign was that our deficits and debt are too high. Now, you've talked about that but I want to give you just another round on it.

THE HONORABLE SCOTT BESSENT: Yes. I just talked about; the spending is too high. And I think that, Larry, you and I have talked about it. I've seen Glenn Hubbard talk about it in ECNY seminars. But if you can change the growth trajectory, then we can grow our way out of this debt. And again, another one of the reasons that I'm sitting up here and not out there was I was afraid that four more years like we just had would make it impossible to grow out of our debt. That the accumulated debt stock would be just too big and you would have to go into a European-style system where you're working all the time just to pay off the debt. But I do think we are taking this seriously. I do think this is the Last Chance Bar and Grill to get this done.

And imagine if we think about a growth trajectory, and again back to CBO scoring, CBO scoring scores, in the projections, they talk about, or they use 1.7%, 1.8% baseline growth for ten years, whether you cut taxes or raise taxes. So if we are sitting here in a year and we've just had the biggest tax hike in history, the CBO will not change their growth projection, will not have changed it. I don't even want to think what growth would look like, could look like.

So if we could get above 3%, if we could hold expenses in line, flat, or even if we could do the unthinkable, if we think about kind of a naive reductionist model of government, G equals S minus T, spending minus taxes, Republicans, we like more spending, but we just want to do it slower. We like lower taxes. Democrats like higher taxes. What if the S actually held flat or went down? That would be a pretty good story.

LARRY KUDLOW: It sure would. You know, I saw a study, just to finish this point, over ten years the differential between 3% growth and 1.8% growth comes to about $3 trillion of extra money, which could be poured in for any number of private sector uses.

THE HONORABLE SCOTT BESSENT: And again, Larry, it's back to the predictability. That if we can do that, and then all those benefits actually accrue out into the economy, not to the bond holders, not to the government.

LARRY KUDLOW: And just one last point on this whole budget thing. DOGE savings, I saw, it's interesting, a poll, a Democratic poll, my friend Mark Penn, in his poll, let's see, 69% favored the idea of a $1 trillion budget savings, I'll call it, from Elon Musk and DOGE. This was a Democratic poll, so I thought it was quite interesting.

As you incorporate your Big Six projections and you put out a Trump budget, is there a DOGE, is there a DOGE spot for this? And perhaps how much might that be?

THE HONORABLE SCOTT BESSENT: Larry, I don't know yet, but to think that there's no waste, fraud, or abuse in the U.S. government, think about it. Now that I live in D.C., 25%, 25% of U.S. GDP flows through area code 202. Everybody is trying, like there are all these markers on that same thing. Americans with healthcare, every Monday is paying for your healthcare. But when you think about 25% of GDP flowing through area code 202, everybody's trying to skim a portion of it, trying to reallocate it. I don't know what the savings level can be, but I think examining a lot of these contracts, a lot of this employment...

And I was with Glenn Youngkin, Governor of Virginia, the other day and I thought he would, all these people were in a state over government layoffs. And so his, Northern Virginia would probably be the area most affected. And I said, Governor, how are you handling this? How are you messaging it? And he said, we have 350,000 private sector

jobs available in Virginia. My office has a portal up. And anyone can go on the portal and come and join us in the private sector.

LARRY KUDLOW: I mean that goes to your theory, which I think President Trump has adopted, but it was your note, your idea, you want, this has been a government-driven economy, you want to make this a private sector-driven economy. We want to, as I understand it, dis-empower the public federal bureaucracy and re-empower the kind of risk taking and investment that goes along with private sector advances.

You'll see headlines, federal jobs are down, oh my God. But the fact is private jobs, the fact is the private sector should be vastly bigger than the public sector anyway. And tax policies have a lot of incentives. So I want to end on your theory to re-privatize the economy, which I think is so important and should, in fact, be a global model for other countries.

THE HONORABLE SCOTT BESSENT: Larry, everyone knows what they should do. It's just, do they have the willpower to do it? For any of you who haven't read it, Mario Draghi, two weeks ago in the FT had a very good piece, a European competitiveness paper that he put together where he talks about that intra-Europe is actually tariffing themselves more than America ever could because of their high regulatory burden.

And when I think that as we bring down this spending, and we're not going to do it all at once, I'm not in the habit of repeating private conversations, but I will tell you the first time I went in to see President Trump to talk about getting involved with the campaign, he looked at me and said, Scott, how are we going to get this deficit down without killing the economy?

And I've been thinking nonstop about that for the past 15, 18 months now, and I really do think it's this transition from public to private that will bring down or will de-leverage the government. And as I've talked about, that's why I wanted to lead it with it today to this group that we will re-leverage the private sector. And part of the key to re-leveraging the private sector is cutting regulation, making the tax policy permanent, and getting our regulated banking system going again.

I think that private credit is exciting. It's the breadth, depth of our capital markets. It's something that is new in our capital markets. But we also have to get the regulated entities lending again. I think that they can co-exist. And I think Main Street, in terms of the regulated entities being squeezed, it's really happened at the smaller regional banks, small banks, and community banks, which hits Main Street. And like I said, Wall Street's done great. Wall Street can continue doing well. But this Administration is about Main Street.

LARRY KUDLOW: Anyway, Secretary, we appreciate your visiting here. And we wish you the best of luck and godspeed.

THE HONORABLE SCOTT BESSENT: Thanks, Larry.

CHAIR ROBERT K. STEEL: Thank you both very much. I thank, Mr. Secretary, thank you for choosing the Economic Club as the venue for you to describe your ideas as they're developing. It was terrific and an honor for us to have you here today as a former Club Member and now as the Secretary.

THE HONORABLE SCOTT BESSENT: I'm still a Club Member.

CHAIR ROBERT K. STEEL: Exactly, okay great. And Larry, thanks as always for engaging so thoughtfully. You know, to our fellow members, thanks to all of you for being here. We have a great series of events coming up. Larry Fink is coming, Jon Gray, Dan Loeb. Also, for those of you who are online or are going to be in Florida, we're now trying to do events there. And tomorrow Governor DeSantis will be addressing people in Florida on behalf of The Economic Club of New York.

Let me also say thank you to the 400 Centennial members of our Club who provide extra support so we can put these types of events on, and we're very appreciative. Let

me also say too, that, you know, these events don't happen because we snap our fingers. Barbara Van Allen and her team do an amazing job in a short period of time making these things happen. So everyone, those that are online, thank you for joining. Those in the room, please enjoy your lunch. And again, thank you, Mr. Secretary, for being here today.