

Testimony of Secretary of the Treasury Janet L. Yellen to the Committee on Finance, U.S. Senate



June 16, 2021

Chairman Wyden, Ranking Member Crapo, it's a pleasure to be with you.

When I took office back in January, the first – and most urgent – problem confronting our economy was obviously the pandemic: helping people make it to the other side of the crisis and ensuring they were met there by a robust recovery. Thanks to this Congress – and its passage of the American Rescue Plan – I believe we are well on our way towards that goal.

But we have to be clear-eyed about something: The pandemic was not our only economic problem. Long before a single American was infected with COVID-19, millions of people in this country were running up against a series of long-term, structural economic challenges that undermined their ability to make a good living.

For instance, wage inequality. In healthy economies, we see wage growth across the distribution – for workers making the highest incomes and those making the lowest. But over the past several decades, that has not been the case in our economy. While the highest earners have seen their income grow, families at the bottom end of the distribution have seen their pay stagnate. Gender and racial pay gaps also persist.

At the same time, labor force participation has been dropping. Even before the pandemic, the share of American women in the workforce lagged far behind many other wealthy nations.

These trends have coincided with a reordering of the economic map. There have always been richer areas of the country and poorer areas, but for most of the 20th century, the latter were catching up with the former. The country was rising together. Today, this is less true. There's a divergence among local economies, some areas that are growing more prosperous and others that are stagnating.

Climate change adds a fresh layer of crisis on top of this – the average cost of climate-related disasters is expected to double every five years.

And of course, there is racial inequality: When I started studying economics in 1963, the average Black family's wealth was about 15% of the average white family. Maybe that isn't surprising: Jim Crow laws were still in effect. But what is surprising is that it's almost 60 years later, and that ratio has barely changed.

These destructive forces – the divergence in wages and of geographic regions, the decline in labor force participation, the rise of climate change, and the persistence of racial inequality – all these are combining to block tens of millions of Americans from the prosperous parts of our economy.

There are clear reasons why these destructive forces have festered. The private sector does not make enough of the types of investments needed to reverse them – training programs that can lead to higher wages; childcare and paid leave that would help people rejoin the workforce; or infrastructure that would lower carbon emissions and spur growth in neglected communities. For 40 years we haven't done that. Not as much as we should have.

We need to remedy this lack of investment. We need ambitious fiscal policy to start unwinding these trends, and if there is a short summary of the President's Budget, that's it.

The Budget, which includes both the American Jobs and Families Plans, will repair the fractured foundations of our economy. It does so through a series of smart policies, including childcare and paid leave so more parents can join the workforce; a mass modernization – and greening – of America's infrastructure to spur commerce and reduce emissions; an investment to make housing and education available to all. The list goes on.

We need to make these investments at some point, and now is fiscally the most strategic time to make them. We expect the cost of federal debt payments will remain well below historical levels through the coming decade. We have a window to invest in ourselves.

In fact, this Budget is both fiscally strategic *and fiscally responsible*. It pays for itself through a long overdue reformation of the tax code that will make it fairer, without touching the vast majority of Americans, those who earn less than \$400,000 a year.

There are some tough trade-offs in fiscal policy, but this – a fairer tax code for a structurally sound economy – is not one of them.

With that, I am happy to take your questions.

###

