Remarks by Secretary of the Treasury Janet L. Yellen to the National Association for Business Economics

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Over the last year and half, the world has faced a shock due to COVID-19 that many of us did not see coming. Even those that did, likely could not have imagined the depth of the crisis—the loss of lives and livelihoods.

Given the success of economic support programs and early vaccination efforts, the U.S. economy is recovering. The American Rescue Plan, passed seven months ago, continues to provide support for families and businesses struggling with the impact of the pandemic. But our economic recovery will face significant risks until we have moved more decisively past the pandemic. That is why a top priority for the Biden Administration continues to be to urge all Americans to get vaccinated.

The sudden shock of the pandemic also brought to the fore many of America's longstanding socioeconomic challenges. The economic pain from the pandemic has been disproportionately borne by those least able to bear that pain, reflecting structural factors and that many low-income jobs were not amenable to remote work. Inequality has been increasing for decades, and households with lower levels of income and wealth, including many minority households, were dangerously exposed to hardship as COVID set in. Underinvestment in public infrastructure and education left many households without the knowledge or tools, such as broadband, to make the most of those job opportunities still available despite the pandemic. At the same time, our country has failed for too long to confront the challenges of climate change.

These are longstanding problems—problems that have been growing for decades—yet ones that we have perennially put aside for future policymakers to solve.

In the coming days, Congress will need to tackle the pressing questions of whether to avert a government shutdown and whether to raise the debt limit. A government shutdown would impair our ability to respond to the pandemic and disrupt normal government operations. As painful as this would be, failing to address the debt limit and defaulting on our national obligations would be far worse—likely provoking a historical financial collapse and causing our economy to fall into recession.

Congress will also very soon vote on a bipartisan infrastructure package and the reconciliation bill, which together hold enormous consequence for the future of the U.S. economy. We face the question: Where do we want the U.S. economy to go from here?

I would like to describe today my perspective on the starkly different paths that lie before us and say what I believe is at stake in the decisions Congress will make this fall.

We have a window of opportunity to act on the Biden Administration's Build Back Better proposals to secure America's future prosperity, competitiveness, and economic sustainability. While all policy actions present difficult tradeoffs, the long-term gains from enacting this agenda far exceed any costs.

THE COST OF INACTION

Let me start by discussing what happens if we continue down the path we have followed for far too long—delaying or avoiding initiatives, either on the spending or tax side, necessary to address America's long-run structural challenges.

The cost of inaction is all too clear: we are left to bear the ongoing burdens of longstanding problems and their ever-worsening consequences:

First, sticking with the status quo means that we see neither the investment in infrastructure nor human capital that would enhance our ability to compete globally in the 21st century. Prior to the pandemic, competing budget pressures have meant categories of spending related to U.S. competitiveness have been continually compressed. In particular, non-defense discretionary spending—which includes spending on education, training, research, and transportation—had been gradually falling as a share of our economy, especially over the past decade. While the average from 1962 to 2010 was nearly 4 percent of GDP, this category of spending had fallen to around 3 percent of GDP before the pandemic and was expected to fall even further over the next decade.

In practice, this means that we haven't made the public investments needed to adequately maintain or modernize our infrastructure. Nor have we made critical investments in R&D and education needed to maintain our competitive edge. Failure to invest in public infrastructure has direct adverse consequences for the everyday life of all Americans. To mention only two of many possible examples, the Environmental Protection Agency estimated that America's drinking water treatment and distribution systems need nearly half a trillion dollars in investments over the next 20 years, and a Department of Education survey reported that over half of America's public schools need to be repaired, renovated, or modernized.

Inadequate infrastructure also depresses labor productivity, which places a drag on America's global competitive position. Broadband access is just one example of an infrastructure investment that could boost productivity. The reliance on broadband during the pandemic vividly illustrates the potential gains to productivity from broadband access. Economic research has shown how broadband access boosts employment and wages. Yet tens of millions of Americans lack access, and estimates suggest nearly half of all Americans are unable to use the internet at broadband speeds.

Second, continuing with the status quo would also mean failing to address the mounting threats from climate change—creating risks across the economy and hindering America's progress in the race for low-carbon technologies. We are not as prepared as we ought to be for the increasingly frequent and deadly impacts of climate-related weather events. Households and businesses around the country are already experiencing adverse impacts from climate change—heatwaves, wildfires, and more frequent and severe tropical storms, among others. This summer alone, nearly one third of Americans experienced extreme weather events. Climate scientists have been clear that these adverse effects will worsen, and that action is critical. We are also not investing sufficiently in the technologies and good jobs that will address climate change, leaving us less equipped to lead the global economic transformation underway. For example, China has more than two times as many electric vehicles as the United States, as well as a robust and growing electric vehicle manufacturing sector and associated supply chain.

Third, with the status quo, we do not address the long-standing impediments and inequities that limit economic opportunities and make everyday life more challenging for many Americans. Workers, particularly lower-wage earners, have seen wage growth stagnate over several decades, despite overall rising productivity and national income. From 1948 to 1973, median family income rose about 3 percent per year, in line with the rate of growth in labor productivity. Since then, median family income has risen only 0.6 percent per year—nearly a percentage point per year more slowly than overall growth in labor productivity—as gains in income have disproportionately benefited the top of the income distribution. At the same time, disparities across racial groups remain wide: in 2019, the median income of a black household was only about 60 percent that of a white household, and the median wealth of a black household was only about 10 percent that of white household.

There are several contributors to these troubling trends. Wage stagnation and low labor force participation among low-skilled workers reflects a decline in bargaining power and the real minimum wage, as well as failures to invest in education and critical infrastructure. A lack of support for childcare impedes labor force participation among women. A longstanding racial wealth gap, combined with inadequate investments in education and other structural inequities facing communities of color, inhibits the ability of minorities to invest in the skills and knowledge needed to seize economic opportunities. And discrimination in the labor market continues to be a barrier.

Critically, inequality and the lack of opportunity for many Americans harms all Americans. Addressing inequities in the labor market and across the economy directly benefits disadvantaged groups and indirectly benefits us all, as increased engagement with the labor force and higher productivity boost GDP. Economic research has suggested that decreasing barriers to fully engaging in the labor market have been a major source of economic growth for decades, and we have a long way to go until the job is done.

And finally, with the status quo, we are stuck with a tax code that fails to address the concentration of wealth and income inequality. Not only is the United States in the bottom quartile of advanced countries in terms of overall tax revenue as a percent of GDP, but we are at the very bottom in corporate tax revenue as a share of GDP. Capital income received by investors faces tax rates far lower than the burdens that fall on labor income, with some capital income escaping tax entirely due to the step-up in basis at the end of life and other loopholes. At the same time, an under-staffed and under-resourced IRS has resulted in a tax gap that is estimated at $7 trillion over the next decade. Many taxpayers—especially wealthy taxpayers with opaque income sources—are able to evade paying taxes that are due under the existing tax code. That diminishes revenue, lowers progressivity, and harms the competitiveness of compliant taxpayers and businesses.

Without critical policy steps to reverse these trends, we risk a prolonged future period of lower growth and productivity, and we can lose our competitive edge in the global economy.

BUILD BACK BETTER PATH

There is a better path. President Biden's Build Back Better Agenda contains a needed and integrated set of investments in the future of America—to ensure the success of our businesses, productivity of our workers, and inclusiveness of our system. Congress is considering these proposals as it decides on a program of new long-term investments in social safety net programs and climate change incentives to be implemented over the next ten years, along with a bill to invest in hard infrastructure. These investments would be fully paid for through higher taxes on large, profitable corporations and the highest-income taxpayers, improved enforcement of our existing tax laws, and through savings from reforms to health care and gains from economic growth.

By enacting this Build Back Better package, Congress can facilitate the long-overdue investments required to modernize our nation's infrastructure. The investments in the president's agenda would be a sweeping overhaul of our national infrastructure—including in a new electric grid and power structure, new passenger and freight rail systems, roads and bridges that have been in disrepair and unsafe for decades, modern transit systems and airports, upgrades to ports and waterways, electric vehicles, broadband, new schools, and clean drinking water, environmental remediation projects—as well as the initial steps to help mitigate the impacts of climate change.

A key part of the Biden Administration's Build Back Better agenda proposes, for the first time, major initiatives to green the economy. These initiatives respond to the climate change challenge with investments in new energy infrastructure and support for R&D that will incentivize innovation in renewable energy technologies. They also provide important investments in resilience to adapt to the devastating impacts that climate change is already wreaking on our communities.

The President's Build Back Better agenda also proposes new programs and initiatives that would support families and enable greater inclusion in the workforce and social mobility—helping the disadvantaged and boosting economic growth. For example, wider access to childcare and paid leave allows more parents, especially women, to return to the workforce and earn a paycheck. More affordable tuition will enable more workers to land jobs that pay higher wages. More affordable housing means they can buy assets that start to build generational wealth. And an expanded child tax credit will reduce child poverty and, along with universal childhood education, will help families to provide their children with greatly expanded opportunity.

And we are proposing a fairer tax code to help pay for these things, while ending decades where our tax regime favored capital at the expense of labor. One proposal is to reform the corporate tax system. With corporate taxes at a historical low of one percent of GDP, we believe the corporate sector can contribute to this effort by bearing its fair share: we propose simply to return the corporate tax rate part way toward historic norms, while also addressing the offshoring and profit shifting incentives that are embedded in current U.S. law. Under the Administration's proposal, the corporate tax rate would still be lower than at any point since World War II other than the years after 2017. These reforms will help pay for the investments I previously discussed— a better trained workforce, better infrastructure to transport goods and services, and support for workers that will increase labor participation. These are investments that will benefit all businesses.

At the same time, we want to end the global race to the bottom in corporate taxation. As part of this effort, we are working with countries around the world to establish a global minimum corporate tax to remove incentives for tax competition, instead fostering an integrated global economy undistorted by locational decisions motivated by tax avoidance, and a fair sharing of the tax burden among businesses and workers.

We have also proposed a series of tax reforms that ensure that wealthy individuals pay their fair share. No taxpayer earning under $400,000 will face a tax increase. Rather, the typical American household will experience large tax cuts due to expansions in the child tax credit, the earned income tax credit, and the dependent care tax credit. We also seek to address the large problem of tax evasion, which has stacked the deck for decades against responsible and compliant taxpayers.

The initiatives I just outlined are necessary to reshape the U.S. economy, maintain our strong contribution to the global economy, and continue American leadership in the future. Of course, our own prosperity is also linked to the global economy, and in the coming weeks I will be addressing our ongoing international economic priorities.

NOW IS THE TIME

Many people who appreciate the merits of the agenda I've just outlined have become reluctant to support it out of concern it would lead to an overheated economy and inflation or a debt problem. Let me explain why I believe these concerns do not provide a compelling rationale for inaction.

The Biden Administration has deliberately put forward a package that pays for itself over time. That means that with the set of revenue increases included in the plan we will not experience a worsening U.S. debt burden in comparison with the status quo. Key elements of the revenue package are simply good policy, including steps to ensure that all taxpayers pay the taxes they owe. Moreover, with interest rates near zero, investments to support future economic growth make economic and financial sense. Financial market participants and economists generally agree that debt sustainability is simply not an issue for the foreseeable future.

Likewise, concerns about the inflationary impacts of these proposals are, in my view, misplaced. Inflation has indeed been elevated this year, largely reflecting supply disruptions associated with the COVID-19 pandemic. These supply disruptions will likely fade. Again, this view is not solely my own—it is widely shared among economists and financial market participants.

The gradual, multi-year path of proposed outlays and investments, and the fact that new revenues are raised along the way, means that there is no meaningful impact on the short-run impetus to economic activity and on inflation. In fact, 17 Nobel Prize winning economists recently concluded that, in addition to boosting economic growth, President Biden's will reduce long-term inflationary pressures by expanding the capacity of the economy.

CONCLUSION

Over the course of American history, we have seen inflection points, where policymakers had the courage to think big and act big to address longstanding flaws in the prevailing economic landscape. Maybe none is more poignant than the years just before and after World War I. Countering a wave of populism, a progressive movement ushered in a fairer income tax, strengthened anti-monopoly laws, created the Federal Reserve, and provided women the right to vote. Then, amidst the Great Depression, the New Deal created Social Security, the Securities and Exchange Commission, the Federal Deposit Insurance Corporation, and the Fair Labor Standards Act. That legislation, some of it controversial in its time, continues to provide opportunity, assurance, and stability that Americans count on every day.

We face a similarly significant moment today, where Congress can think big and act big to decisively send us down a better path. Though not without risks and trade-offs, President Biden's vision will allow us to make public investments needed to grow our economy, enhance competitiveness, create good jobs, and make our economy more sustainable, resilient, and inclusive.

Let me be clear: we have no time to waste. There is no better time than today to act boldly to ensure a more prosperous and sustainable future for Americans.

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