

Remarks by Secretary of the Treasury Janet L. Yellen at the Securities Industry and Financial Markets Association's Annual Meeting

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As Prepared for Delivery

Thank you for that introduction. I'd like to begin by thanking Ken and SIFMA for inviting me to your Annual Meeting. I'm delighted to be here with all of you.

Just over a week ago, I had the opportunity to meet with my counterparts from across the world at the IMF and World Bank in Washington. We spoke about many topics. But one thing was clear: we are at an important moment for the global economy. In the United States, we are focused on transitioning our economy to stable and sustained growth. The U.S. economy retains significant strength. But inflation remains too high, and we are contending with serious global headwinds.

So today, I'll focus first on our Administration's policies to address the immediate challenges we've faced: those that led to a historically strong recovery and subsequently, our concerted actions to address high inflation and energy costs.

Then I'll turn to our longer-run strategy of investments in the strength of the American economy. As we tackle our immediate challenges, we must not lose sight of what lies on the other side. The United States has long faced structural pressures that have held back our economic potential. But I believe our Administration's recent legislative accomplishments position the United States to lead the global economy in the decades to come.

Starting with our actions to address immediate challenges, at the time of the President's inauguration, the pandemic was at its peak. The virus had taken over 400,000 lives in our country. And it was claiming an additional 3,000 Americans each day. The economic toll was also staggering. Millions of jobs had been lost. Each week, an average of more than 800,000 new jobless claims were being filed. In many respects, our economy had been brought to a standstill.

And there was no guarantee that we would achieve a rapid recovery. Less than 1 percent of Americans had been fully vaccinated. And the Omicron and Delta waves had yet to hit our

shores. We faced unprecedented uncertainty about the course of the economy. In fact, throughout 2020 and 2021, the tail risk was a downturn that could match the Great Depression.

To ensure this economic catastrophe would not materialize, the federal government took action: to support households, businesses, and state and local governments through a once-in-a-century public health emergency. We brought the United States back to full employment in record time, in large part due to the American Rescue Plan and our vaccination campaign. As of last month, over 10 million jobs have been created since President Biden took office. Our recovery has also been historically inclusive: 2021 saw the fastest calendar year decline in the number of unemployed Black and Hispanic Americans on record.


As we mark this significant progress, it's important to recognize that we now face serious global headwinds and challenges with elevated inflation. Growth is slowing globally. And energy and food prices have risen, driven partly by Putin's terrible war in Ukraine and the pandemic's lingering effects abroad. Climate change continues to devastate communities, exacerbating energy and food shortages in Europe and across the world. Our economy remains resilient, bolstered by President Biden's economic plan, but we are highly attuned to these risks.

Two immediate priorities are to tackle inflation and to monitor potential vulnerabilities in the financial system.

Let me be very clear: inflation in the United States remains far too high. Our Administration's top economic priority is to rein it in. We recognize that the Federal Reserve bears the primary responsibility, but we are taking a broad range of complementary actions to lower costs. They range from de-congesting our ports to bringing down the costs of prescription drugs.

We have paid particular attention to energy prices. And we are encouraged by the difference our actions have made. Here at home, our Administration is completing the release of 180 million barrels of crude oil from the Strategic Petroleum Reserve to boost supply. Treasury analysis indicates that the release has reduced the price of gasoline by 17 to 42 cents per gallon this year.

We have also worked with other countries in our effort to stabilize energy prices. The United States has partnered with the G7 to finalize and implement a cap on the price of Russian oil. The goal of this cap is to keep Russian oil flowing onto global markets — at lower prices — while reducing revenue that Putin can use to fund his illegal war. This effort will help stabilize energy markets. It will also provide developing countries with greater leverage to negotiate better prices for Russian oil.



Overall, while there are risks, I believe that there is a path toward lowering inflation while preserving the historic economic gains of the past two years. Today, our labor market remains remarkably healthy. Household and business balance sheets do not appear overextended. And banks have strong capital and liquidity positions due to the reforms that we implemented after the Global Financial Crisis.

We are closely monitoring the financial sector, as global developments have led to increased market volatility. To date, the U.S. financial system has not been a source of economic instability. While we continue to watch for emerging risks, our system remains resilient and continues to operate well through uncertainties.

Still, we can do more to mitigate potential risks. Our work begins with the Treasury market — the bedrock of our financial system. The Treasury market today is reflecting greater uncertainty about the economic outlook, but trading volumes are robust and investors are able to execute transactions. However, in the past few years, we have seen some episodes of stress in this critical market. These episodes underscore the importance of enhancing its resilience. Treasury is working with financial regulators to advance reforms that improve the Treasury market's ability to absorb shocks and disruptions, rather than to amplify them.

We are also attentive to the possibility that higher market volatility could expose vulnerabilities in nonbank financial intermediation. Since I arrived at Treasury, financial regulators have been working together to better monitor leverage in private funds and develop policies to reduce the first-mover advantage that could lead to investor runs in money market funds and open-end bond funds.

Looking ahead, we are considering the impact of emerging technologies on our financial system. Innovation is one of the hallmarks of a vibrant financial system and economy. But innovation without adequate regulation can result in significant disruptions and harm. As part of that effort, the Treasury Department and its agency counterparts recently completed the federal government's most comprehensive review of digital assets. These reports represent our most significant effort yet to promote responsible innovation in this area. Our goal is to realize the potential benefits of digital assets while mitigating and minimizing their risks.

As we continue to make progress on our immediate priorities, I believe it's equally important to strengthen our long-term economic outlook.

For decades, our economy had been suffering from longstanding structural issues. Our economic potential had been weighed down by sluggish productivity growth and declining



labor force participation. Inequality had soared, with profound disparities by race and geography. And our economy had been over-exposed to the actions of malicious geopolitical actors like Putin, vulnerabilities in our supply chain, and the growing impacts of climate change.

Over the past year, the Biden Administration has advanced an economic plan to tackle these structural issues. Taken together, I believe that the trifecta of legislation that the President has signed into law over the past year — the Bipartisan Infrastructure Law, the CHIPS and Science Act, and the Inflation Reduction Act — constitute among the most important economic investments we've ever made. Let me discuss three specific ways these laws generate strong, resilient, and inclusive growth.

First, our economic plan boosts the productive capacity of our economy. Earlier this year, I laid out an approach to strengthening our potential for economic growth. I called it “modern supply-side economics.” I argued that, with an economy at full employment, we are uniquely suited for a supply-side expansion that raises the ceiling of what our economy can produce.

I'm glad to report that we've enacted key elements of this proposal less than a year later.

Take infrastructure. Economists have long underscored how basic public infrastructure can increase the productivity of American workers. Studies show that a 10 percent increase in government infrastructure investment grows national output by over 1 percent in the long run. Yet we have neglected our roads and bridges for decades. The result? A staggering one in five miles of highways and major roads in America are in poor condition.

The Bipartisan Infrastructure Law provides a historic surge in funding for America's transportation system. These construction projects will have reverberating economic benefits. More efficient movement of goods means fewer costly supply-chain disruptions. Better transportation can connect workers to more training opportunities and higher-productivity jobs. And our efforts go beyond physical infrastructure. We are also closing the digital gap: both by expanding broadband infrastructure and lowering the costs of service for millions of Americans.

We expect our “Internet for All” plan to broaden economic opportunity and lead to a sustained increase in the productivity of our workers.

Second, our economic plan will bolster our resilience to global shocks. The pandemic and Putin's terrible war in Ukraine have taught us the costs of supply-chain vulnerabilities. We've seen empty shelves and volatile prices at the pump — as well as factories idled by the shorta

of microchips. Three decades ago, the United States produced over a third of all microchips. Now we're down to just 12 percent. By one estimate, the recent chip shortage resulted in \$240 billion in lost U.S. economic output last year.

Our plan is expected to change this dynamic. The CHIPS and Science Act will create a full semiconductor ecosystem here in the United States. We will provide tens of billions of dollars in public capital to strengthen semiconductor R&D, fabrication, and workforce training. We are already seeing a crowding-in effect on private investments. Just this month, two large chip manufacturers announced up to a \$120 billion investment in chip production and other advanced technologies here in New York State.

Third, our plan spurs inclusive economic growth across the country. For too long, private capital has been highly clustered in a few cities on the coasts. Equality of opportunity is not just a fairness issue. It's also an economic issue. Our modern supply-side agenda understands that some of the best opportunities for growth come from investing in people and places that have been overlooked. These investments often have a higher relative return on investment, given the law of diminishing returns. And they raise our growth potential by enabling us to tap all of our resources.

The Biden economic plan puts this theory into practice. Take the Inflation Reduction Act. It's the most aggressive action on climate in our nation's history. This law will help mitigate the worst consequences of climate change, which are borne most disproportionately by the poorest. But it's also expected to create good-paying jobs across non-coastal areas and regions that have been historically dependent on fossil-fuel extraction. One innovation in our clean energy plan is to provide additional tax incentives for businesses to invest in low-income communities. We're also incentivizing investment in historic energy communities, like those dependent on coal production. I believe that these concerted economic investments can have cascading effects on the renewal of local communities themselves.

In the coming months, we expect to see significant movements of capital into growing industries like semiconductors and clean energy. Many of you here will play a critical role in financing these projects across the country. These are exciting investments: beyond boosting long-term economic growth, they will revitalize communities and bolster the resilience of our country for years to come.

Of course, there are serious challenges directly ahead of us. And I know it has been a tough few years for the American people. But our progress thus far shows what our country can do. We have experienced among the strongest recoveries of any major advanced economy. And we've

made a generational investment to expand our economic capacity. I believe that we can navigate through this current moment as well.

Thank you.

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