

Remarks by Secretary of the Treasury Janet L. Yellen on the State of the U.S. Economy in Chicago, Illinois

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As Prepared for Delivery

Good afternoon and thank you, Sean, for the introduction.

I'm honored to be here at the Economic Club of Chicago to talk about the middle class in America: from when the pandemic hit, to the recovery, to what's ahead. It's a fitting story to tell here in Chicago. Like many American cities, Chicago was built by a middle class that drove industrialization and innovation. But Chicago and its middle-class residents have also faced challenges for decades.

This story of the middle class is not separate from the state of the economy. It's at the heart of it. By middle class, I don't mean a narrow or fixed group. I mean workers across industries and occupations—from firefighters, to nurses, to factory workers. Americans other than those at the very top. President Biden and I believe that GDP growth is not meaningful if it is not shared; if it doesn't impact the lives of these Americans. And we also believe that a stronger middle class and a thriving economy everywhere in the United States is key to building a more robust and resilient economy overall. America's middle class has been at the heart of America's success. This leads us to pursue an agenda that is focused on the middle class.

We started with an economic recovery that is remarkable for both its speed and its fairness. The recovery is so strong and so widely shared because Bidenomics is not just about a post-pandemic rebound in demand. We have also focused on unsnarling supply chains and bringing more Americans into the labor force, which increases supply.

We are now doubling down on that strategy with massive investments to position middle-class families to benefit from and to drive our country's growth. I call this modern supply-side economics.

Overall, the Biden Administration has put in place the most extensive set of policies and investments to benefit the middle class and grow the economy that our country has seen in

my lifetime. Our economic plan is improving lives and laying the foundation for a new future for middle-class families and communities across the country. This is what I'll discuss today.

Let me start with some personal experience. I grew up in Bay Ridge, Brooklyn, in the 1950s and 1960s. It was a middle-class neighborhood at a good time for the middle class in America. My father was a doctor. He would tell me about the workers who came to him for treatment. I learned about how much their jobs mattered to them and also about the consequences of losing them.

From the 1970s on, the American economy made great strides—from huge increases in high school graduation rates to dramatic improvements in workplace safety. But the challenges I heard about when I was a kid became trends and my own special concerns as an adult and as a practicing economist.

Real median wages stagnated over decades. They grew only 8 percent between 1979 and 2019. At the age of 30, 90 percent of my generation were earning more than their parents at the same age. In contrast, only half of children born in the mid-1980s earned more. Incomes became more volatile, especially for people without college degrees. It became harder to buy a home; harder to rent one. Harder to pay for healthcare; harder to pay for education. In 2011, parents worked two to five additional hours per week compared to the parents of 1965. And to buy what they needed, middle-class Americans borrowed, adding to significant mortgage debt and student debt.

This was the middle-class reality when, suddenly, middle-class Americans were hit by the COVID-19 pandemic.

I. RESPONDING TO THE PANDEMIC

The unemployment rate reached almost 15 percent in April 2020; the bottom quartile of wage earners accounted for 80 percent of job losses.

After President Biden took office, the Administration acted decisively, with the needs of middle-class Americans top of mind. Our goal was to get people back on their feet as quickly as possible. We knew we should not go too small, so we chose a path of historic support for American workers.

Through the American Rescue Plan, middle-class families received direct financial support for their day-to-day needs. That included tax credits to help their kids and emergency rental

assistance and homeowner assistance for housing. Business owners got resources to stay open and to keep people employed.

The expansion of the Child Tax Credit led to the largest drop in child poverty in American history. We avoided a massive wave of evictions and foreclosures. The impacts were widely felt. Women of color especially benefitted from the expansion of the Child Tax Credit, as 48 percent of single-parent households are headed by Black or Hispanic mothers. Nearly half of homeowner assistance went to low-income homeowners.

We seldom think about what the alternative might have been. But it's clear that without the approach we took—the scale of support and the distribution of spending—middle-class families would have had a far greater struggle.

II. DRIVING A HISTORIC RECOVERY

As we recovered, the Administration maintained its focus on protecting the middle class while also addressing other crises. For example, even as our recovery exceeded expectations, global inflation emerged as a challenge we've worked to address.

In response to Russia's invasion of Ukraine and the resulting impacts on global energy markets and the American middle class, we released 180 million barrels from the Strategic Petroleum Reserve. With an international coalition of partners, we put in place a novel price cap on Russian oil. These actions have limited Russia's ability to fund its war while they also kept global energy markets well-supplied and energy prices down for American families. Though we're focused on making historic investments in transitioning towards clean energy in the medium- and long-term, record domestic oil and natural gas production addressed our immediate needs. And energy prices have declined, with gas now down around \$1.90 per gallon from its high in June 2022.

Disruptions in supply chains beyond energy had meant we couldn't get the goods we needed or their prices were too high. The Administration helped to ease the supply chain bottlenecks that were contributing to inflation. With the help of our policies, supply chains healed, and Americans rejoined the labor force.

Though some forecasters thought a recession last year was inevitable, President Biden and I did not. Instead of contracting, the economy has continued to grow, driven by American workers and President Biden's economic strategy. It now produces far more goods and services than it did before the pandemic. The data released just this morning shows strong

economic growth in 2023, including in the last quarter of the year: 3.1 percent over the course of the year. At the same time, inflation has come down significantly. Consumer sentiment has increased by 29 percent since November, the biggest two month increase since 1991. It's now at its highest level since 2021. And the labor market is healthy. The prime-age labor force participation rate is up over two percentage points from January 2021 and was above its pre-pandemic peak for all of 2023. The unemployment rate is near historic lows. It has been below 4 percent for 23 months now, a stretch that has not been seen during the last 50 years.

Like our response to the pandemic, our recovery matters. It matters for the middle class. Household median wealth increased by 37 percent between 2019 and 2022. This is the largest three-year increase on record. Real wages have risen from their pre-pandemic levels—especially quickly for middle-income households. And because wages have risen more than prices, middle-class Americans now have more purchasing power. [New Treasury analysis](#) shows that a worker earning the median wage can today buy the same goods and services as in 2019, with nearly \$1,400 left over to save or spend. And families are now putting their extra income and their accumulated pandemic-era savings back into the economy.

Put simply, it's been the fairest recovery on record. We see this in gains not only for middle-class Americans but also across demographic groups, such as the rapid decline in unemployment rates for Black and Hispanic Americans. There are gains across the country, too. Before the pandemic, the unemployment rate was nearly 20 percent higher in rural than in metropolitan areas. That large gap has been eliminated.

We don't need to invent a counterfactual. We can see it outside the United States. The U.S. has seen a particularly strong GDP recovery and inflation has cooled sooner and more quickly than in other large, advanced economies. And the increase in real wages is unique to our country's recovery: in other economies, real wages have declined since 2019.

Our outcomes are also in sharp contrast to the recoveries I've seen here in the United States during my lifetime. After the Great Recession, it took more than twelve years for the prime-age labor force participation rate to return to its pre-downturn level. It took six years for employment to recover. For Americans in rural areas, it never did. And during previous economic downturns, Black and Hispanic Americans have historically faced higher unemployment rate increases than other groups.

The recovery we've had—instead of one that was weaker or less fair—meant that we avoided financial pain for most middle-class American families.

President Biden and I know that our work is far from done. Though inflation has declined, prices of key goods that matter to middle-class Americans remain too high, so we are taking additional action. We've capped insulin costs for Americans on Medicare at \$35 per month. And we've reduced the prices of prescription drugs for seniors. We're also working to bring energy-related costs down more and tax credits are available to eligible households through the Inflation Reduction Act.

III. BUILDING FOR THE FUTURE

The President and I understand that many Americans have long felt a deeper pessimism about the economy, going back far before the pandemic. Due to the longer-term trends that I described, life is still harder than it should be for the middle class in this country.

To change this, our modern supply-side strategy is designed to build off of our historic recovery and continue charting a new course. We're focused on boosting our economic capacity in order to deliver robust and shared economic growth. Our aim is to make middle-class lives better: for the short haul and for the long haul.

Infrastructure

We started with infrastructure. Our country's infrastructure has been deteriorating for decades. In the Trump Administration, the idea of doing anything to fix it was a punch line. But this Administration has delivered. The Bipartisan Infrastructure Law is a \$1.2 trillion investment in our nation's infrastructure. It is bringing new opportunities within reach for middle-class families. It's creating new construction jobs that do not require a college degree. It's providing access to clean water and to better internet. It's helping goods get to consumers faster and at lower cost.

These changes are happening everywhere in America, not just on the coasts or in wealthier communities. Treasury analysis shows that funding from the Bipartisan Infrastructure Law is especially going to states with the lowest-rated public infrastructure and lower median household incomes. Funding is also being widely distributed. Ten states are receiving transit funding that, per capita, is more than ten times their pre-pandemic annual transit investment. An additional ten states are receiving five times as much. 18 other states are receiving twice as much. Through infrastructure investment, we're helping build a new future for people and places that have historically been left behind.

Manufacturing and Energy

Infrastructure is just the beginning. The CHIPS and Science Act and the Inflation Reduction Act are reinvigorating American manufacturing, including through incentivizing private sector investments. Companies have announced over \$600 billion in manufacturing and clean energy investments since the start of the Administration. These investments will fuel our economic growth and increase our economic security.

But I want to emphasize today how they'll change middle-class lives. The reinvigoration of manufacturing means new jobs for middle-class Americans, especially in places where potential exists, but opportunity has failed. The IRA provides incentives to locate projects in low-income communities and in energy communities where the local economy has historically been dependent on fossil fuels. These incentives are working. Investments are growing faster in energy communities and in greater amounts. Since the IRA was passed, 70 percent of IRA-related investments have been in counties where the employment rate is below the national average and 86 percent have been in counties with college graduation rates below average.

We're also working to make sure these jobs are good ones. The IRA's prevailing wage and apprenticeship requirements help ensure fair wages and pathways into new industries. The President and I are also strong supporters of unions. Union members typically have higher wages, by around 10 to 15 percent. They have greater access to critical fringe benefits, such as retirement benefits, medical benefits, and life insurance. Union members also benefit from more scheduling predictability and better workplace safety. My own academic work has found that these non-monetary factors are a key driver of job satisfaction.

And we know it's not just good jobs that matter to people. What follows them also matters, so we're working to support Americans in planning for retirement. The American Rescue Plan provided support to multiemployer pensions, protecting millions of pensions, including restoring benefits for thousands of workers and retirees who had had their benefits cut. In October, we proposed a new rule that cracks down on additional barriers to retirement security, such as junk fees.

Tax Policy

We are also putting tax policy to work for middle-class Americans and small businesses. Past measures like the Trump Administration's Tax Cuts and Jobs Act increased the deficit by \$2 trillion while doing little to spur investment. It prioritized tax cuts for corporations, disproportionately benefited top earners, and did not fix the broken international tax system that encourages companies to shift jobs and profits overseas.

In contrast, President Biden made an ironclad commitment to not raise taxes on those making less than \$400,000 a year. Thanks to the IRA, we have enacted numerous tax benefits that support the middle class and our massive effort to modernize the Internal Revenue Service is making it easier for taxpayers to file taxes and receive the benefits for which they are eligible.

We're paying for this and for our long-term investments by asking the wealthiest to pay their fair share. The IRS now has additional resources to go after wealthy tax cheats. A new Corporate Alternative Minimum Tax makes sure that the biggest, most profitable corporations cannot avoid paying taxes. A surcharge on stock buybacks is encouraging companies to invest in their growth and productivity instead of prioritizing wealthy investors.

IV. CLOSING

None of these policies are aiming to recreate an earlier era. This country and the world have changed and we cannot go back. What we need is a new future rooted in upgraded infrastructure and a modern tax system, fueled by twenty-first century industries, and with the middle class at its center. The Administration is building the foundations of that future.

Our economic agenda is far from finished. There's much more the President and I would like to do to support the middle class. When the expanded Child Tax Credit expired, millions of children were pushed back into poverty. It is still too hard to be a working parent. We need to get American families access to affordable childcare and other support for their children. As these children get older, they should be able to get a good education, including through free community college, and receive training that prepares them for good jobs. As they work, they should be able to afford quality housing near economic opportunities. And as they get older, they should be able to retire with dignity. We need to do more here too.

The obstacles the middle class has faced for decades will not disappear overnight. But this Administration is fighting the right fight: for economic policy that makes a meaningful difference in people's lives. It's what motivated me to become an economist and has been the central mission throughout my career. And it has shaped this Administration's actions as we have responded to the pandemic, as we have driven a strong and fair recovery, and as we are putting in place the building blocks for continued growth.

If we keep at it, America will continue its progress in overcoming the challenges facing the middle class. The middle class has always driven the success of our country. It will continue to lead our future.

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