

Remarks by Secretary of the Treasury Janet L. Yellen on the Economic Case for Democracy

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I. INTRODUCTION

Good afternoon. Thank you to the McCain Institute for the invitation to speak at this year's Sedona Forum. This event brings people with diverse backgrounds and perspectives together around common values, which I know mattered deeply to John McCain.

Senator McCain was an American hero, from his service in the Navy to the Senate. Yet perhaps his most important legacy is his belief in the unifying power of American democracy. He said of our country, "We are 325 million opinionated, vociferous individuals. We argue and compete and sometimes even vilify each other in raucous public debates. But we have always had so much more in common with each other than in disagreement."

Today I will talk about how John McCain was right. It is impossible to overestimate how important democracy is to America. It is the founding idea of our country: from the Revolution itself. To the Declaration of Independence. To the Constitution. It's how we define ourselves. Amidst those who question democratic values, we must reaffirm basic democratic principles—our commitment to the values embodied in the Declaration of Independence and our Constitution.

For Americans, democracy is not only the basis for our self-conception. It is also the basis for our success. Americans work hard to support themselves and their families. But, beyond that, most care about serving their fellow Americans. If there ever were an American who exemplified this commitment, it was John McCain. McCain refused a special offer to be freed as a prisoner of war in Vietnam. He did so because he would not accept treatment that was preferential to that of his American prison mates.

It is Americans' respect for their fellow citizens' views and needs that truly underlies America's success. That is what allows us to work out our disagreements and to address legitimate concerns. And it explains why America is commonly viewed as one of the hardest working and most successful countries in the world: We care not just about ourselves but about one another. As expressed by a worker quoted in Michèle Lamont's *The Dignity of Working Men*, "If I become rich, I'm going to carry the same mind I got now. I am going to be caring...And the people that don't have it, I would never turn my back on them, never...People's hearts should come first. [Don't] put money before people or use people to get money." These are the feelings of American patriots. We do our jobs to support ourselves and our families. But we also do them to fulfill the duty that we feel to the fellow members of our democracy.

We must protect this democratic spirit—as we must work to protect other pillars of democracy, from political accountability, to economic freedom, to strong institutions that uphold the rule of law.

I admit that this doesn't seem like typical terrain for a Treasury Secretary. But democracy isn't just important in and of itself. I believe that democracy is critical to building and sustaining a strong economy. Indeed, the argument made by authoritarians and their defenders that chipping away at democracy is a fair or even necessary trade for economic gains is deeply flawed. Undercutting democracy undercuts a foundation of sustainable and inclusive growth.

Recently, democracy has come under threat. That challenge was especially terrifying on the notorious day of January 6th, when rioters, spurred on by a lie, stormed the Capitol. They attempted to block the peaceful transition of leadership at the heart of our democracy. But the threat to democracy is not just here at home. In Europe, Putin's authoritarian regime continues to wage a brutal and unjust war. That war is devastating to Ukraine's future, and it is also undermining the rules-based international order. Around the world, we see examples of increasing repression. Freedom House's annual report found that political rights and civil liberties decreased in 52 countries in 2023; there were improvements in only 21.^[1]

In the face of such threats, we must reaffirm our conviction in the importance of democracy based on mutual respect. Our democracy is far from perfect, but that respect has always been the basis for Americans' ability to cooperate with each other, even in difficult circumstances. We must renew our commitment to do everything possible to protect it—for democracy itself and for the economy.

II. PILLARS OF DEMOCRACY AND ECONOMIC OUTCOMES

Economists have long studied the importance of democracy to economic growth. One recent study analyzing 175 countries over a 50-year period found that democratization increases GDP per capita by around 20 percent in the long run.^[2]

But today, I would like to focus not on the topline numbers but on three of the most important pillars of democracy that I have seen throughout my life: accountability, economic freedom, and strong and independent institutions that uphold the rule of law.

Accountability

At its core, democracy is about accountability. In a democracy, free and fair elections give citizens the opportunity to reelect or remove their leaders at regular intervals, affirming the country's direction or calling for change. Senator McCain understood the importance of the peaceful transfer of power well. In his 2008 concession speech he urged his supporters to congratulate the president-elect and to "work together to get our country moving."

Robust democracies also provide for accountability between elections. Citizens can voice their concerns by means that range from public comments to protests. The free press uncovers corruption and wrongdoing. Checks and balances limit the power of each part of government. The list goes on.

Such accountability has far-ranging impacts. First and foremost, it drives economic policymaking that meets people's needs. Democracies tend to invest more in public goods like health and education—as much as 20 to 30 percent more for health care according to one study.^[3] These investments matter for individuals' economic outcomes: An additional year of schooling increases earnings by 7 to 10 percent on average.^[4] This is intuitive to many of us. My father was a doctor, and, as a child, I heard stories from him about how good health enabled his patients to lead productive lives. And I credit my own strong public high school education with opening the door to higher education and to work I have found meaningful.

Second, if democracy is working as it should, government is accountable to all citizens—regardless of income, ethnicity, gender, and geography. This broad accountability leads government to take into account diverse perspectives. This includes caring for those who have been left out.

Third, accountability matters because it is not a one-time mechanism. Looming future elections and opportunities for voice between elections mean citizens can demand different economic policymaking if their needs are not being met. In response, government can correct its course over time.

Economic Freedom

Accountability is only one of the pillars of democracy. Freedom to participate in the economy and the free flow of people and ideas also fuel growth and dynamism.

The foundation of an economy's productive capacity is its labor force. And yet too often the labor force is restricted by constraints on the political and economic rights of certain groups. America has come a long way here, driven in large part by citizens demanding change. I was a freshman in college in 1963, when the March on Washington occurred. Around the same time, I began to fully understand the discrimination faced by women in professions like economics. I was one of very few women in my graduate economics program, and there were no tenured women on the faculty when I started teaching.

The barriers to participation in the economy for Black Americans, women, and many others was first and foremost a moral affront. But it was also an economic one. One of the most important economic stories of my lifetime was millions of Americans gaining greater access to our country's economic life. Specifically, the share of 25 to 54 year-old—or prime age—women participating in our labor force more than doubled, from 35 percent just after World War II to 74 percent in 1990. The inclusion of women in our workforce contributed about half a percentage point per year to the potential growth rate of real GDP over that period.

Alongside broad participation, economies benefit from the free flow of people and ideas. During my years in the Bay Area, I saw the payoffs from risk-taking, entrepreneurship, and innovation—from the invention of the microprocessor five decades ago to the growth of Apple and Google more recently. A recent study of 23 OECD countries from 1972 to 2010 has affirmed the connection between democracy and entrepreneurship, particularly through social exchange and the diffusion of knowledge.^[5]

And the free flow of people and ideas doesn't just benefit innovators. The ability to form unions builds worker power. According to a recent Treasury report, unions raise the wages of their members by 10 to 15 percent and bring non-wage benefits, such as more predictable scheduling. As Treasury Secretary, I benefit from engaging with public, private, and non-profit stakeholders who are unafraid to speak openly and a free press that amplifies diverse perspectives. Democratic governments rely on this freedom of speech and freedom of the press to make wise decisions that benefit every member of our democracy.

Rule of Law

This leads me to the third pillar. Alongside accountability and economic freedom, democracy is associated with strong, independent institutions that uphold the rule of law. In a democracy, individuals and firms can trust that arrangements such as property rights will not change overnight and will be enforced fairly, no matter who is in power. Winners are not predetermined or subject to the arbitrary and unpredictable whims of political leaders. Citizens in a democracy also widely obey the law. They do so because other citizens also support it. Moreover, they view it as their duty to cooperate with law enforcement: If I disobey the law, you will see it as your duty to help the authorities, as the law requires and vice versa. Such cooperation is a foundation of democracy. There's a name for the respect for the law that's typical of democracies. It's called "legitimacy." Absent such legitimacy, democracy collapses. But with it, democracy thrives.

As President of the San Francisco Federal Reserve, I saw how capital markets grounded in the rule of law help drive the dynamism of Silicon Valley. And every day the rule of law supports thousands of other economic decisions—from purchasing a home because you know your deed will be upheld in court to expanding your business because you will be competing based on your ingenuity and hard work, not on the biggest bribe to your local officials.

I have also seen that the rule of law can be bolstered by institutions that are insulated from political interference. As Chair of the Federal Reserve, I insisted on the Fed's independence and transparency because I believe it matters for financial stability and economic growth. Recent research has been consistent with my belief: It has shown that greater central bank independence is associated with greater price stability, which contributes significantly to long-term growth.^[6]

Nondemocratic Counter Examples

My belief in the impact of democracy on the economy is also influenced by observing what happens in its absence.

Again I will take an example from my own experience. Just prior to the integration of East and West Germany in 1991, I studied the economy of East Germany. It had been believed strongly in the United States and elsewhere that the East German economy was doing well under its Communist government. On the contrary, our data showed that outside of the energy sector, there was only a single enterprise in East Germany that would be able to make a profit after unification when its currency, the East Mark, was exchanged for Deutsche Marks on a one-for-one basis. That one firm was Meissen. The East Germans had not only suffered greatly from the cruelty of their totalitarian regime with its ever-vigilant Stasi; they had also done much less well economically than their West German counterparts on the other side of the border.

Nor is Russia, which was for so long the center of the Soviet Empire, a poster child for the economic success of those who disparage democracy. Recent IMF estimates of GDP per capita of Russia relative to the United States are about one-sixth. Repression has driven highly-educated workers from the country, taking their skills, ideas, and capital with them, for example, to launch some of the world's leading start-ups not from Russia but from the United States and other jurisdictions. Any efficiencies that come from a totalitarian state seem to be far more than offset by the advantages from democracy.

As for China, there is no denying that China's catch-up growth lifted hundreds of millions of people from poverty. This is one of the great global economic achievements of the past century and it is a result of its market liberalization and opening up. But China's future growth is far from certain. Its GDP per capita is currently one-sixth of America's and less than one-third that of the European Union. I believe that the absence of some of the pillars I have described will continue to pose challenges as China navigates the transition to an advanced economy. Limits on transparency and censorship give companies reason to doubt the information they receive. Coercive actions against firms undermine fair competition.

And the nearby Korean peninsula offers another striking example. In the 70 years of evolving democracy in South Korea and dictatorship in North Korea, the countries' economic trajectories have also diverged: sharply. Today, per capita income in South Korea is estimated to be 30 times greater than in North Korea. Life expectancy in the South is a decade longer.

III. BIDEN-HARRIS ADMINISTRATION ACTIONS

So what does this add up to? Democracy is not just intrinsically good. Promoting democracy is also good economic policy. It creates the conditions for workers to thrive and for businesses to invest and grow, among the many potential gains I have highlighted. The argument that eroding democracy would be a fair, or necessary, trade for economic gains is wrong.

And yet this argument has taken root, abroad and even here in America. I believe that is because economic success, even in a robust democracy, is not one hundred per cent guaranteed. Democracies and economies take hard work to build and maintain. It is easy to lose faith. And I turn to that now.

I have spoken before about the challenges faced by America's working families. Over decades, communities across the country have been hollowed out from deindustrialization. Median real wages have stagnated. Health care and education have become harder to afford. Many American working families are uncertain about their future. And there has been a significant increase in deaths of despair.

This insecurity and fear persist today, not only in America but for people elsewhere around the world. And this has led many people to understandably question whether democracy can, in fact, deliver—for themselves, their families, their communities, and their countries.

Over the past three years, President Biden and I have worked to show here at home that it can, despite dysfunction in Washington and in the face of challenges still ahead. As the President said last September in honor of Senator McCain's legacy, "I've made the defense and protection and preservation of American democracy the central issue of my presidency."

We have shown democracy can deliver by addressing immediate crises and kitchen table issues that matter to Americans and through the pursuit of a medium and long-term economic agenda focused on economic opportunity for all.

We took office in the depths of the recession brought on by the pandemic. President Biden went big at this time of national emergency. We provided cash relief for households, prevented tenants from being evicted, and supported small businesses to keep employees on their payrolls. Our vaccination campaign saved lives and enabled return to work. The funding we provided was unprecedented: not just in its scale but in its flexibility; it was designed to reach every city and town in the United States—big or small, urban or rural—and to empower them to meet their citizens' needs.

America bounced back quickly, achieving rapid economic growth and unemployment that remains near historic lows. We avoided the scarring that affected a generation of workers after the Global Financial Crisis. The recovery has been historically fast, and historically inclusive. We have seen the lowest unemployment rate since the 1960s and a narrowing of the Black-White wage gap. There was a nearly 20 percent gap between the metropolitan and the rural rates of unemployment. That gap has been eliminated.

Now, we are designing and implementing choices for the President's Investing in America agenda. Its aim: that gains will be felt broadly and no community or worker will be left behind. The results so far are promising. Treasury analysis has shown that states with lower median household incomes are receiving more funding per capita from the President's historic infrastructure law than wealthier states. That means new bridges, roads, and airports; fast broadband and clean water; and the economic opportunities that come with upgraded infrastructure are being expanded in the communities that need it the most.

The same is true for our investments in the industries of the future. We are creating good jobs and pathways to them for American families across the country. Eighty-four percent of clean energy investments announced since the Inflation Reduction Act was passed have been in counties with college graduation rates below the national average; 75 percent have been in counties with median incomes below the national average. I have seen the impact myself in trips around the country—from a plant making parts for EV batteries in rural Kentucky to a workforce training center in downtown Milwaukee.

As I do this work, I feel the ways in which democracy is influencing me—and other public servants—to serve all Americans, strengthening my policymaking with diverse inputs, and making capital markets transparent. Put simply: Democracy is delivering for Americans, and for our economy. With democracy, it is the America of all of us. All of us must make our contributions and listen to one another. That's what democracy is all about. And, even when we disagree, we must respect each other.

IV. CONCLUSION

Let me end with this. Churchill once quipped that "democracy is the worst form of government except for all the others." He is right that we need to acknowledge that democracy is not perfect. It's messy. We have made and will continue to make mistakes. Also, in a democracy, everyone does not get their way, and we're bound to see some dissatisfaction and frustration from those who feel strongly about their opinions. Yet it is essential that we do not give in to the impulses of some and make the devastating error of turning away from our democratic spirit and system. Ultimately, democracy provides the accountability, freedoms, and rule of law that give us the best chance of learning from our mistakes and doing better. With democracy, no one man or woman dictates how we solve our problems. We work through them together.

As we look ahead, we need to make it easier for Americans to afford childcare, access education, live in quality housing, and retire with dignity. We need to do more than reaffirm our conviction in democracy. We must recommit to its protection, and we must also show that it can deliver.

We live in a time of significant challenges. A once-in-a-century pandemic took millions of lives and livelihoods. Conflict in the Middle East has led to humanitarian crisis. The physical and economic costs of climate change are a daily reminder of its existential threat. It is a moment that demands American leadership, including by bolstering our democracy and by supporting democracies around the world.

John McCain once said that being American meant more to him than any other association. I too feel immensely fortunate to have been born and lived here, as my life has been made possible by the promise of American democracy. America gave me the opportunity to acquire an

excellent education. In my own career, democracy has made me free to examine and question economic orthodoxy. Being a woman in economics wasn't always easy, but I stood on the shoulders of women who had fought for their democratic rights and paved the way for me and other women economists to reach the heights of our profession. Now, I feel a special obligation to strengthen the institutions that I have benefited from my whole life.

I realize that there are many across this country and around the world who have not had my opportunities. That might give us reason to doubt the power of democracy. On the contrary, it should be reason for us to redouble our work: to bolster democracy for its own sake, and also for America's and the world's economic future. So America can be the land of opportunity: for everybody. For my own part, I promise to do everything I can to make this happen.

A strong democracy is critical to building and sustaining a strong economy. And, also, it is the job of all of us to do everything possible to protect it. Our commitment to it has been central to who we are: since July 4, 1776.

Thank you.

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[1] <https://freedomhouse.org/report/freedom-world/2024/mounting-damage-flawed-elections-and-armed-conflict>

[2] <https://economics.mit.edu/sites/default/files/publications/Democracy%20Does%20Cause%20Growth.pdf>

[3] <https://www.ifo.de/en/press-release/2022-03-09/democracies-invest-more-healthcare-dictatorships>

[4]

<https://www.sciencedirect.com/science/article/pii/B9780128153918000033#:~:text>Returns%20to%20education%20tend%20to%20be%20in%20t>

[5] <https://link.springer.com/article/10.1007/s11187-023-00737-7>

[6] <https://www.imf.org/en/Blogs/Articles/2024/03/21/strengthen-central-bank-independence-to-protect-the-world-economy#:~:text=It%20also%20found%20that%20greater,democratic%20societies%2C%20trust%20is%20key>