



The Economic Club of New York

116th Year
719th Meeting

The Honorable Wally Adeyemo
Deputy Secretary of the Treasury
U.S. Department of the Treasury

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Moderator: Charles Phillips
Managing Partner and Founder
RECOGNIZE

Introduction

President Barbara Van Allen

Good afternoon and welcome to the 719th meeting of The Economic Club of New York. I'm Barbara Van Allen, President and CEO of the Club. Let us now take a moment to remember those heroes who made the ultimate sacrifice on this day 22 years ago.

I hope you all had a wonderful summer and are looking forward to an enjoyable and successful fall. The Economic Club of New York is known as the nation's leading nonpartisan forum for discussions on economic, social, and political issues.

The Club launched its DEI programming in 2020 and it continues today. We are not doing this work alone and would like to give special thanks to our corporate partners – BlackRock, Mastercard, PayPal, S&P Global and Taconic Capital. I would like to extend a warm welcome to students from Rutgers University, Mercy College, and Columbia University who are joining us virtually today, as well as members of our largest-ever Class of 2023 Fellows – a select group of diverse, rising, net-gen business thought leaders. As a reminder, starting October 1st, we will be taking applications for our 2024 Fellows program, and you can find those applications on our website.

Today, I'm honored to welcome our special guest, The Honorable Wally Adeyemo.

Wally was sworn in as Deputy Secretary of the Treasury in March of 2021. He's been at the center of many of the country's major economic policy decisions since the 2008 Financial Crisis and he's worked in organizations across the public, private, and non-profit sectors.

He has taken a leading role in Treasury's national security, economic inequality, and pandemic-related economic recovery work. And this is his second tour actually at the Treasury Department. He first began in the early days of the Obama Administration, during the depths of the Great Recession. Rising through a variety of leadership roles at Treasury, he became Senior Advisor and Deputy Chief of Staff under Secretary Tim Geithner and then subsequently Secretary Jack Lew, as well as chief negotiator for the Trans-Pacific Partnership's provisions on macroeconomic policy.

From 2015 to 2017, he served in the Obama White House as Deputy National Security Advisor for International Economics and Deputy Director of the National Economic Council. He also served as President Obama's representative to the G7 and the G20. He also served as the first President of the Obama Foundation and as a Senior Advisor at both the Center for Strategic and International Studies and for BlackRock.

The format today will begin with opening remarks from Wally followed by a conversation, and we're honored to have Club Trustee, Charles Phillips, as our

moderator. Charles, as many of you know, is the Managing Director and Founder of RECOGNIZE. Time permitting, they will take member questions in the room. As a reminder, this conversation is on the record, and we do have a lot of media on the line as well as quite a number of members. So without further ado, I'm going to turn the mike over to Wally. Thank you.

Opening Remarks by The Honorable Wally Adeyemo

Let me start by thanking Barbara for that kind introduction, but also thanking all of you, not only for having me, but for creating this forum for the discussion of economic policy and ideas of our day. And I'm happy to be here today to talk about a few issues with you. And I'll keep my remarks short in order to make sure that we can get to the conversation.

But, as you know, we have faced a set of novel challenges across the last three years – a global pandemic, Russia's illegal invasion of Ukraine, both contributing to global inflationary pressures at home but abroad as well. And today, the United States is navigating those headwinds – I would argue – better than any advanced economy in the world. Our economy is growing faster and has lower inflation than any other G7 country. We remain focused on making sure that the pressures that we have faced continue to come down when it comes to inflation while continuing to maintain a healthy labor

market.

To advance these goals, the President has decided and is working hard to make sure that we make targeted investments in the United States economy. At the core of this strategy is a commitment to expanding economic opportunity across the United States – arresting the significant rise in economic inequality over the last four decades, and to revitalize communities that have been left behind or left for too long by this country. Income data tells a clear story about the growing economic divide in this country. From 1979 to 2021, average annual wages for the top 0.1% of earners grew more than 16 times faster than the bottom 90%.

While many in this city have reaped the benefits of post-war economic growth, we're all acutely aware that pockets of this great city and countless communities across the country have lacked the same access to opportunity. While we often focus on why closing the opportunity gap is consistent with our highest moral ideals, I want to speak today about why doing so through investments in these communities is essential to our economic future and growth.

Our economic recovery from COVID-19 taught us a number of very important lessons about how targeted investments can unlock supply chains, prevent economic scarring, and combat longstanding disparities. These investments are a feature of what Secretary

Yellen has called modern supply-side economics, which calls for harnessing government resources to boost labor supply and raise productivity while reducing inequality.

History shows how investing in people can propel our economy. In the second half of the 20th century, for example, as more Americans graduated high school and attended college, rising educational attainment drove productivity growth. In the labor market, greater opportunities for women and Black men to take skilled jobs accounted for up to 40% of U.S. GDP growth from 1960 to 2010.

Despite the clear economic benefits, opportunity is still too often concentrated in too few zip codes in our country. All of us know the challenges of neighborhoods in urban areas like New York City and Washington, D.C. But we often fail to focus on the lack of opportunity for the one in five Americans who live in rural communities.

Historically, rural areas have had higher unemployment, lower labor force participation, and lower wages than urban America. These communities are often hit harder by downturns. After the Great Recession, for example, rural unemployment never fully recovered before the pandemic. Working-age labor force participation decreased over three times more in rural America than urban America. By one recent estimate, over 22% of rural Americans lack access to adequate broadband, in comparison to 6% of all

Americans.

Before the pandemic, the unemployment rate in rural areas was nearly 20% higher than in metro areas. Today, that gap has been eliminated, and real wages in rural areas are rising – thanks in part to targeted policies of the Biden Administration focused on these communities.

For example, the American Rescue Plan provided \$20 billion in funding to rural healthcare providers. The Inflation Reduction Act is the single largest investment in rural electrification in eight decades allocating \$13 billion in incentives to support rural clean energy projects, creating jobs and spurring growth. Further, the Biden Administration is investing \$75 billion to provide universal access to high-speed internet that will dramatically improve rural broadband coverage. These kinds of investments also address challenges outside of rural communities. Take high-speed internet, for example, where communities of color face the same barriers to access as rural areas.

I saw this firsthand, living on the South Side of Chicago, while the President of the Obama Foundation, during the pandemic where countless Black and Brown children without broadband access struggled to keep up with their education. As of 2020, one in five children in Chicago lacked access to broadband. It surprises no one that most of these children lived in communities of color.

This gap is being closed today by the Biden Administration’s investment in universal broadband, which will mean not only that children can learn from home but more small businesses will be able to take advantage of digital opportunities. More businesses will be able to build facilities in rural communities. These investments recognize a simple truth we must overcome – potential exists in every American community, but opportunity does not.

This is why much of my time today is focused on working with Secretary Yellen to implement the Inflation Reduction Act in a way that is consistent with the President’s goal of reducing inequality. The early data shows that we’re succeeding. In the year since we passed the IRA, nearly two-thirds of the investments in IRA-related sectors are in counties with above-average poverty, 80% are in counties with lower college graduation rates than the national average, and almost 90% are in counties with below-average weekly wages.

The President’s economic strategy, including these historic targeted investments, leverages the importance of people and places to help us reach our economic potential. I look forward to discussing with you today how the Biden Administration’s economic approach is helping to secure shared prosperity in America in the decades ahead. And I’m looking forward to the conversation with Charles. Thank you. (Applause)

Conversation with The Honorable Wally Adeyemo

CHARLES PHILLIPS: Well, Mr. Deputy Secretary, it's nice to see you again and thank you for coming to visit us at The Economic Club of New York. I think before we get started diving into deep policy questions, I think everybody is thinking the same thing I am, how can someone do all those things in the short amount of time? I feel like a slacker after hearing that bio. But I think it would be helpful to give a little bit of your background before we dive in. I mean you've come from being born in Nigeria to being nominated in this position by the President and affirmed by the Senate, and so people will want to kind of know your journey a little bit before we get started. I know I'm embarrassing him. He doesn't usually like to talk about this, but I'm asking the questions...so can you give us a little background?

DEPUTY SECRETARY WALLY ADEYEMO: Well, it's great to be here, and thank you, Charles, for doing this. I know people don't know this but you were just in Ukraine hours ago and just came to do this. And I really appreciate it, and I appreciate the invitation.

I got into public service because it's something that was important to my parents. They both emigrated to the United States from Nigeria. My dad was an elementary school principal and my mom was a nurse. And they both believed deeply in public service. And I had a chance to go to a public university in California, U.C. Berkeley. It was the first year after the end of Affirmative Action and it was, I had an underclass of 6,000 students. I think there were six Black males who didn't play sports.

So you realize that something is going wrong with the system when places like that don't look very diverse, do not look like America. And it inspired me to think about what I could do to, both think about those types of challenges, the challenges of inequality, and where I could do that. And it led me down the path of coming to a place called Brookings where I got my first job in Washington, D.C. working for this man named Doug Elmendorf, who is now the President, or the Dean, excuse me, for the Kennedy School. But before that was friends with this guy named Tim Geithner, who wound up being Treasury Secretary.

CHARLES PHILLIPS: Nice to have friends.

DEPUTY SECRETARY WALLY ADEYEMO: Yes, good to have friends. And that's how I got introduced to Secretary Geithner at that point and ended up in the administration.

CHARLES PHILLIPS: That's great. That's great. You had two years, though, where you were Chief of Staff for Larry Fink at BlackRock, which we all know who he is. What did you learn from that? I'm just curious. I saw it in your bio.

DEPUTY SECRETARY WALLY ADEYEMO: I think one of the most important things that Larry taught me was to always be a student of the markets. And every day, my day usually starts with a markets briefing with some of the talented people at Treasury,

hearing about what happened in Asia, what's happening in Europe, how we expect the U.S. to open. And trying to make sure – that's after I've done my intelligence briefing – but I think the key thing is to be a student of data, and make sure that you understand the information. Because ultimately, the best decisions are made when they're data-driven.

CHARLES PHILLIPS: Okay, let's dive in some. So you mentioned the IRA and all the objectives of that program and all the people you want to help, which are all good things. But most economists think that was responsible also for some inflation. So can you talk about balancing that investment and the pace of it, what's the inflation impact, if you assume that correlation is there? And secondly, to the extent you can share it, what do you think about the 2% inflation target? Is that reasonable? Is there a difference between the Treasury and the Federal Reserve?

DEPUTY SECRETARY WALLY ADEYEMO: So, I'll start out by saying that we, of course, respect the independence of the Federal Reserve, and I think Chairman Powell has spoken to the 2% inflation target and I'll leave it there. But I do think that we should think about the American Rescue Plan differently as we look at what's happening around the world. I mentioned it on stage but Europe, the U.K., our G7 allies and partners, they've all experienced high rates of inflation. None of them had an American Rescue Plan.

But what I would say today is that the U.S. economy is doing better than those economies. We have lower unemployment. We have lower rates of inflation. We have an economy that has a great deal of momentum because of some of the targeted investments that we made. Think about what the American Rescue Plan accomplished. We cut childhood poverty in this country in half. We reduced evictions in this country by half. We put ourselves in a position where we built momentum in an economy where in 2021 and 2022, we had 10.5 million people apply to start businesses, more than at any other point in our economy.

So I think that ultimately we're in a place where the economy and the United States is doing better because our companies are more flexible. We've got grit and determination when it comes to the American people. But I do think that the policy choices we made early on, including the American Rescue Plan has put us in a position where our economy is doing better than our allies, but also our competitors as well.

CHARLES PHILLIPS: Are there any parts of it that were more impactful than others? Any parts that you would have pulled back based on what you know now?

DEPUTY SECRETARY WALLY ADEYEMO: What we know now is that ultimately what we're seeing is the investments we made in communities that have been underinvested

in have paid off the most, which is something that I think has been at the heart of what the President thought, both about the American Rescue Plan, but also about the IRA and also about the Bipartisan Infrastructure legislation.

I talked about rural America and I think oftentimes, because I'm from an urban area, I under-think about the importance of investing in rural communities in America. One of five Americans live there. The idea that 20% of people who live in rural America don't have access to broadband internet is something that shouldn't happen in the 21st century in America. Making those investments aren't just morally right, but it means that for those of you who are CEOs, it means that you can think about putting your next regional headquarters in rural community because they'll have connectivity to address your firm, will have connectivity to your customers. So I think what we learned from the investments was, I think, that ultimately making targeted investments in communities that have been underinvested in is the best way to unlock potential in the economy.

CHARLES PHILLIPS: And a lot of that funding goes to the states, and are you able to track how they use that so it's efficient and effective?

DEPUTY SECRETARY WALLY ADEYEMO: So one of the things that we did that I thought was very effective about the American Rescue Plan was we didn't just give the money to states and let them decide how to give it out to cities. We gave a great deal of

money to cities and local governments, and I think we are tracking it. We're getting quarterly, semi-annually, and annual reporting back from the cities and local governments.

But we also gave money to a number of organizations like CDFIs and Minority Depository Institutions with the explicit instruction that their goal was to make sure that they used that money to create credit so that people had the money they needed to start small businesses, to make sure that they could expand the businesses that they've had. And there again, we're getting reporting back. And what we've seen is that those banks, the MDIs and CDFIs that received capital from the Treasury Department, they've actually lent more money into the economy over the course of the last several months than other banks that are also in those communities because they've had additional capital to be able to make sure that they're helping those businesses grow.

CHARLES PHILLIPS: Let's turn to the budget process. The fiscal year ends on September 30. There are 438 agencies that need to be funded. We've had 20 shutdowns since, at least in the Congressional Record, in history, budget shutdowns where the government just shut down, usually for short periods of time. But Democrats and Republicans in the White House are pretty far apart, \$153 billion gap right now. And it sounds like, at least if you believe what you read, the Republicans would like to see a shutdown. So what are the contingency plans? What happens? Does the military still

get paid? Does the Park Service...what works and what doesn't work in this likely shutdown?

DEPUTY SECRETARY WALLY ADEYEMO: That's a great question. The one thing that I will say is it's not Democrats and Republicans. Democrats in the Senate, Democrats in the House, Republicans in the Senate, all of us agree that what we should do is live by the terms of the deal we just cut this summer, a deal that set out the terms for what we should do in terms of the budget. You're right that House Republicans are trying to figure out exactly what they want to do going forward. But I think there's a great deal of consensus around the idea, if you run a business, if you run a big business, a small business, when you make a deal, the key is to live by those terms to make sure that you can keep doing the business that you're in. And the business we're in is making sure that the American economy works, that America has the resources it needs to pay for border security, that we have the resources to help people who have gone through these natural disasters.

Ultimately what works and what doesn't work if the government shuts down, there's a long list of things that don't work, lots of people who don't get paid. And our goal is really to try and get to a place where Congress makes an agreement to continue to fund the government because the last thing we need is the headwind of a government shutdown. When we've reached an agreement, it sets off principles for how we're going

to fund the government going forward. It includes deficit reductions of up to a trillion dollars, and I'm hopeful that House Republicans will get to a position where they're able to pass something and make sure we don't have to deal with a government shutdown.

CHARLES PHILLIPS: But if you do, is there a Plan B at least to get by? What have you learned from the last, I guess, thing you just went through?

DEPUTY SECRETARY WALLY ADEYEMO: I think the most important thing we learned from the debt limit episode that we went through was the importance of making sure that we clearly communicate to remind people of the stakes and that we have clear lines of communication. I know that members of Congress are talking about what they will do to make sure they keep the government funded. We haven't seen a government shutdown in a little while. My hope is that we don't see one now. Because one of the things that we're all encouraged by is the fact that the U.S. economy is doing far better than I think many people had expected because of what we've done in terms of targeted investments and the work that the companies around the country have done to make themselves more resilient.

The last thing we need is the headwind of a government shutdown. I think in terms of our plan, there's well-rehearsed plans for what people do in terms of government shutdowns, but what they all lead to is less demand in the economy, an economy in

which the government is providing fewer resources to the American people. And ultimately that's not good for anyone.

CHARLES PHILLIPS: The Treasury Department submitted a proposal for 2024 for a tax increase, up to 28% on corporations. As you might guess, this is an audience that probably would like to hear the details about that and the rationale behind it. But if that's the case, how do you balance tax increases in the economy? And what's the rationale behind all of that?

DEPUTY SECRETARY WALLY ADEYEMO: I think what I would say is that the key is to think about what is the effective rate of taxation for a company in America. And the effective rate of taxation for the average company in America is about 8.6%, which is far lower than what the stated rate is of 21%. So what we know is that there are a number of companies in this country that don't pay any taxes.

And one of the things that I would say is that it's going to be important for us to have a conversation about what does it look like to broaden the base to make sure that more companies are paying into our tax base? Because today corporations pay about 1.6% of GDP worth of taxes in the United States. The OECD average is 3%. So our corporations are contributing less in terms of taxes than their peers and counterparts around the world. I think the conversation we have to have is what does it look like to

broaden the base? And ultimately, even if we were to go up to 28%, that is far below where it was during the Reagan Administration, during the Clinton Administration when taxes were far higher and we had a stronger economic growth.

But I think the thing the President and the administration are interested in, is what can we do to make sure that we have fiscal sustainability that includes modest tax increases, but also looking at ways to cut costs. The cost of healthcare in our country is too high. Giving the government the ability to negotiate prices in terms of prescription drugs makes a great deal of sense to anyone we talk to. But we also can think about what we can do to eliminate subsidies. None of us thinks it makes sense to subsidize energy companies in light of how they're doing in this country. But there are probably other subsidies and other things we can do to make the budget more efficient.

But in order to have that conversation, you have to have a willing partner to talk about those issues. I think we look forward to having that conversation with Republicans in the House. The thing that we can't do is do it in a way where every time they don't get what they want, they threaten to shut down the government or do something else that hurts the American people and the economy.

CHARLES PHILLIPS: We saw that the IRS got an additional \$80 billion, which is a scary number to everybody else, so, one, why was the number so big? And two, what

are you going to do with all that money?

DEPUTY SECRETARY WALLY ADEYEMO: That's a great question. And I think one of the things we're doing with all that money is improving customer service. The first year I got to the, you know, I'm the COO of the Treasury Department so I'm in charge of execution, and when I saw the data in terms of our performance, it was disappointing. The first year I got there, the IRS answered 13% of the calls that they received. So with that money, last year we answered 85% of the calls. So we're going to continue to improve those kinds of numbers.

But you have to ask yourself why is performance so poor? And part of the reason performance is so poor is that for the last decade, instead of growing the budget of the IRS, it's cut every single year in order to make it harder for the IRS to do its job, which is providing customer service to Americans who want to do the right thing. And one of the things we have in America is a very high voluntary tax rate. But the other thing, the more insidious thing is it's preventing the IRS from collecting money from the people who don't want to pay their taxes. And the tax gap in this country, the gap between what we're owed and what we collect, is about \$600 billion a year, \$600 billion a year. If you collected all those taxes, over a ten-year period, that's \$6 trillion. That's a great deal of money.

So the other thing we're doing with that money is making it easier for the IRS to go after those people who are not paying their taxes on a regular basis. And the reason it's been so hard for the IRS has been both the underinvestment in people, but also technology. How many of your firms or places that you work at still code in a language called COBOL? I'm guessing almost none of you. But the IRS's infrastructure is built on COBOL. We've been unable to invest in it. So part of this is investing in technology, putting our systems in the Cloud, using AI to be able to look at complex partnerships that some people are using to hide their money. But ultimately if you run a company today, one of the biggest investments you make is in technology. And a lot of this money is going to go towards improving IRS technology, hiring more data scientists, putting us in a position where we can improve customer service and close the tax gap in order to make sure that we have the money to pay for our priorities.

CHARLES PHILLIPS: The Secretary of the Treasury is also the Chair of the Board of Trustees for the Social Security and Medicare Trusts, and the projection that you guys have put out looked pretty scary a few years out. So how viable are both of those? What do we do differently? What are you advising Congress to do to make sure that these are...(Audio Issue)...?

DEPUTY SECRETARY WALLY ADEYEMO: I think it's one of the most important things that we can do is work with Congress to make sure that we're offering both of these

benefits over the long term. I spoke about it just a moment ago, but you see the skyrocketing costs of healthcare throughout the economy. Almost one in five of our dollars in America is invested in healthcare. And I would say that the outcomes we're getting in America are not that much better than some other countries around the world. So thinking about what we can do to try and reduce costs within these programs, to try and extend the life of these programs is something that we want to do with Congress. We think it's an important and urgent work because it speaks to both fiscal sustainability but more importantly making sure that seniors in America have access to these benefits over the long term is an obligation for all of us.

CHARLES PHILLIPS: Let's turn to international a little bit. You mentioned I just got back from Ukraine last night, which was an informative and interesting trip, but I'm still awake. I'm good. But one of the things that came out of that is they don't believe the sanctions against Russia have been as effective as they could have been, number one. And then essentially, you've spent a lot of time on sanctions in general and in foreign policy tools. So what could be done differently? A lot of things are going through Hong Kong and Dubai and American companies in some cases are participating. What's your assessment on where we are?

DEPUTY SECRETARY WALLY ADEYEMO: So a great deal of my time is spent thinking about national security issues and Russia and Ukraine in particular. What I

would say is that today Russian revenues from selling oil are down 42% compared to last year in response to the price cap and actions that Europe took to ban the importing of Russian oil and gas.

Just a few weeks ago, the Kremlin was scrambling and they decided to increase their interest rates by 325 basis points if they saw the ruble pass the psychologically important level of 100 to 1. I don't have to tell you they're working. You just have to look at the quotes from Russia's finance minister and central bank governor, who are saying that the sanctions and export controls that have been put in place are having an impact. But to the point of the Ukrainian officials you saw, the thing that I would say to the Kremlin and to others is that as long as Russia's illegitimate invasion of Ukraine continues, we're going to continue to put in place sanctions and export controls against Russia, which is going to be a tool in the service of our larger foreign policy.

One of the places I've increasingly focused on is what do we do to go after Russia's military industrialized complex? One of the most important lessons we learned from the pandemic is how important supply chains are. Russia has a supply chain for building military weapons. I spend a great deal of time learning everything I can about that with my colleagues at Treasury and the Commerce Department, and putting on our sanctions list everything from the ball bearings to the micro-electronics that they need to build up the military equipment they're using in Ukraine. At the same time that my

colleagues at the Defense Department are providing Ukrainians with the weapons they need to defend themselves. We're going to continue to do that work to make it harder for Russia to prosecute this war while we make it easier for Ukraine to defend themselves.

CHARLES PHILLIPS: One to ten are things we could do. Have we done most of those things already? Or are there still more tools at your disposal going forward?

DEPUTY SECRETARY WALLY ADEYEMO: Part of the reason there's always more that you can do is because what we know is that the Kremlin has tasked their intelligence agencies with trying to get around our sanctions and export controls. So they're trying to set up, they're setting up fake companies, cutouts, new ways of trying to circumvent them in order to get the goods they need. And as we see those things, we need to take additional actions to cut off those routes as well. So there's going to be more that we're going to do in the weeks and months to come to cut off the ability of the Kremlin to both propagate this illegitimate war and also prop up their economy.

CHARLES PHILLIPS: Let's turn to China a little bit, the other big topic. You were on CNN a few days ago saying that China is facing significant headwinds and that seems to be the consensus out there. Is that good for us? Is it positive for the global economy? What's the impact on us, in your view, I guess, and maybe you can just talk about China

in general? And I saw President Biden was out yesterday saying he would like them to do well. A surprising statement. But how do you kind of summarize all that?

DEPUTY SECRETARY WALLY ADEYEMO: I was on CNN this morning at 6:50. I made those same comments again this morning at 6:50. And I think the reality is that things haven't changed, since the last time I was on CNN, for the Chinese economy.

Ultimately, they face a number of headwinds from high rates of youth unemployment to a property sector that is over-leveraged to the challenges they have in terms of decision making. I'd say they have 3 "Ds" – demand, they have debt, and they have decision making challenges. And China, because ultimately, the thing that market participants want to understand is what are you trying to accomplish in terms of the economic strategy you're putting in place?

And while China has these headwinds, they also have resources. They have the ability to deal with these headwinds in the short term. I think the bigger challenges that China has are structural ones. Over time, they have a great deal of debt in their system. They also have demographic challenges. And the fact that they are such a command-and-control economy makes it very hard for China to be able to grow in the way they need to in order to meet the needs of the Chinese people. China is still a country that is relatively poor on a per person basis.

For decades, Democratic and Republican administrations have advised the Chinese to open up their economy, to build a deeper and broader private sector that would include, not only American firms but also European firms to compete with these Chinese firms to help improve their business processes and improve their ability to meet the needs of their consumers. Chinese officials haven't done that. And I think that China faces headwinds partially because of their decision making and the choices they've made, but they have the resources to change that. And I think that the United States is well positioned to withstand the Chinese headwinds.

But the places where you have to be concerned about are their neighbors – countries in Asia. But also a number of other countries that have borrowed from China and Africa, who are very economically-dependent on them going forward. So we're paying a great deal of attention, but ultimately the Chinese have the resources they need to deal with these challenges. The question is how do they choose to do so?

CHARLES PHILLIPS: When you say decision making, it's centralized structure you're talking about mostly?

DEPUTY SECRETARY WALLY ADEYEMO: Centralized structure and that fact that many decisions in China are not allowed to happen based on market-based principles. Ultimately, because the central government controls so much of the economy, it makes

it harder for the economy to have the flexibility and the ability to adjust. And also the way that, the decisions they've made coming out of COVID. We made a certain set of choices here in the United States when it came to COVID-19. One, making sure that any American who wanted it had access to a well-functioning vaccine, and also providing economic support to the economy in ways that allowed us to boost growth and make sure that we created jobs as quickly as possible. China has made a set of different choices and they're seeing the results of these choices today in terms of a slower growing economy that has struggled coming out of COVID-19.

CHARLES PHILLIPS: The U.S. is the largest shareholder in the International Monetary Fund. They've played an important role in the Ukraine already. But from your perspective, from a government standpoint and transparency, have they been as effective as they could be? Any changes that need to be made?

DEPUTY SECRETARY WALLY ADEYEMO: I think the IMF has played a critical role as the global economy has dealt with two shocks, Covid-19 and the pandemic, but also Russia's invasion of Ukraine. And you have to remember that when you think about the inflation, people often forget the inflationary impact of Russia's invasion of Ukraine. But I can tell you that when you look at Egypt, for example, where Egypt was a huge purchaser of grain from that region, and the Egyptian government subsidized that grain for the Egyptian people, when headline inflation went up, when the cost of grain went

up, Egypt faced challenges. They had to go to the IMF.

A number of countries have had to go to the IMF over the last several years in order to be able to withstand the pressures that have come from Russia's invasion of Ukraine alone when it comes to higher energy costs and also higher food costs. And the IMF has been there for those economies in addition to Ukraine's, in addition to the work they did during the pandemic.

So I do think the IMF has been effective. We're going through the process now of thinking about the next quota increase, which is really the way that the IMF raises capital. And I think it's a good conversation for us to have at this moment as we make sure that the IMF is well-resourced to deal with the challenges ahead.

CHARLES PHILLIPS: I want to ask the last few questions on banks and so I'm going to ask the audience to start getting their questions ready after this. The regional banks have gone through some, you know, a period of stress over the last few years. One, are we through that? Is it pretty stable? And two, if we happen to end up with much more concentration in the money that's in our banks, is that a bad thing or a good thing? In other words, if it's transitioning, should we be concerned about that?

DEPUTY SECRETARY WALLY ADEYEMO: I think we, in America, benefit from having

a diverse banking sector. Fifty percent of lending in the U.S. economy is done by regional and smaller banks in the country. And oftentimes, those community banks are the ones who give loans to small businesses that may have less of a proven track record. And I said this earlier and I think it's important for us to recognize that in 2021 and 2022, 10.5 million Americans made the decision to start small businesses, which is a record number. One-fourth of those were opened by Latinos in this country.

The two things, when I talk to a small business owner, they care most about, is how do I get access to customers and how do I get access to capital? You're more likely to get access to capital from a bank that is locally located. And that is why it's important for us to have diversity in the banking sector. You're right that ultimately we've seen consolidation from the system. But one of the things that I think people feared after the banking episodes in the late winter, early spring, was that we would see a pullback in credit availability. We haven't seen that significant pullback, which we're encouraged by.

In fact, as we looked at the data, many of these smaller institutions, the Minority Depository Institutions and Community Development Financial Institutions, which we put capital into as part of the American Rescue Plan, have actually created more credit in those communities than other banks have over the course of the last year. So we're actually seeing in some places where more credit is going out to these small businesses to help them grow over time. The truth is that small businesses create jobs for 50% of

Americans.

CHARLES PHILLIPS: Well, we're in the financial capital of the world so I'm sure there will be plenty of questions here, and we have some journalists in the room. So let's turn to the audience and get a few questions. Yes.

QUESTION: Thank you so much for being here. I'm Nili Gilbert. I'm the Vice Chair of Carbon Direct, and I also Chair the Advisory Board for the Glasgow Financial Alliance for Net Zero. This is the alliance of 650 financial companies that have made net zero pledges. So I really appreciate what you've said about the Inflation Reduction Act and the Infrastructure Bill and the way in which climate policy has benefitted the economy and underserved communities in general.

What I haven't heard as much about is the U.S. government stance on carbon markets. As you know, many of us in the Economic Club community are markets people. I see countries, like the UAE, Singapore and others, really pushing this forward. It's part of the national agenda. And developing carbon markets seems, as a national effort, it seems like one way in which we could, not only build competitiveness, but move more money into the things that you've discussed, projects in underserved communities, and also moving more money into the technologies that the IRA is also seeking to advance. Could you share with us how the administration is thinking about climate policy from a

markets perspective? Thank you.

DEPUTY SECRETARY WALLY ADEYEMO: That's a great question. I think that broadly, as all of you in this room know well, one of the things we benefit from in the United States is having the deepest, most liquid capital markets in the world. I think the development of capital markets is something that has the ability to have a great deal of impact in terms of allowing us to use markets to help price the provision of services in this space. And a number of my colleagues are spending a great deal of time working with people who are thinking about setting up carbon markets here in the United States, including our Under Secretary for Domestic Finance, Nellie Liang, and my colleagues in International Affairs.

One of the key aspects that make markets the most effective and efficient is when they're global. That's why it's important for us to work globally. And I know that during Climate Week, which has been happening here in New York, a number of my colleagues look forward to participating, not only with your coalition but with some of their counterparts around the world to think through what we can do to help foster the growth of these markets going forward.

QUESTION: Thank you, Deputy Secretary and your story is very moving. I wanted to hear your thoughts, you know, the President was at the G20. And one of the things

about the G20, there were a number of important things, but one of the things that caught my attention was a report that Ajay Banga from World Bank created, which effectively stated India has accomplished in about 36 months, or three years, what would have taken nations about close to between 47 to 49 years to accomplish in terms of its digital infrastructure for inclusion. Bringing in, by and large, the vast majority of folks in India sustaining themselves between \$1 and \$2 a day. It sort of struck me as you were speaking in terms of the area of technology deprivation across the nation that 20% of people have such limited access.

So I'm curious to get your thoughts on the three, four principle pillars of this, like the Unified Payment System. How are you thinking about that? In context, one of the things that stood out during the pandemic was while the intention was to get the money through the pipelines, there was no idea of how the pipelines even work, which was truly quite shocking, aside from its effect on the people who needed it the most. So I'd be curious to get your thoughts and thank you again for all that you do.

DEPUTY SECRETARY WALLY ADEYEMO: I think that's a great question. I think the Indian government has a great deal of success in terms of making sure that they're building rails that will allow them to get payments, but also other things to those who live the furthest away from the center of government. And I think part of the thing that we want to make sure that we do in this country, but around the world is to make sure that

we think through financial inclusion. And I think the private sector should and has to be our partner in doing this. Because ultimately while the government has role to play in making sure that we have infrastructure, we want to make it, to create it in a way that creates yield, incentives, and opportunities for the private sector to play a role. And that's what we're doing here in terms of the President's investment agenda.

(Fire Safety Announcement on Loudspeaker...)

CHARLES PHILLIPS: So my good friend, Greg...

DEPUTY SECRETARY WALLY ADEYEMO: So maybe I'll just finish my answer, I think the key thing that we're trying to do in terms of the Biden Administration is not only make targeted investments, but to make these targeted investments in the ways that encourage the private sector to play a role as well in order to make sure that we're creating real economic opportunity in these communities. That's why the IRA is so effective is because what we've done is we've created these incentives that are leading private firms to make business decisions, to make investments in America.

As I mentioned earlier, we have 110 announced deals since the passage of the IRA worth \$200 billion, that have been announced in communities throughout the country. I think that that's a model that we think works in terms of creating infrastructure and

service and creating opportunities for big, small, and medium-sized businesses in the country that will then create jobs. I know that it's something that India is focused on as well. Ultimately, Ajay Banga is one of the great business leaders in America, we're happy to have him at the World Bank. And I think that he's very focused on what can the World Bank do to help unlock private capital, investing in not only India but around the world.

CHARLES PHILLIPS: Greg...

QUESTION: Thank you. First of all, Deputy Secretary, thank you for being here.

Charles, a riveting conversation. And President Van Allen, this is just, I'm so glad to be here right now. So a question: In February of this year, I had the opportunity to travel with a delegation of leaders from across the country to Israel and Palestine.

In Israel, I think 48 or something like that of the GDP is basically the technology sector. One thing that was explained to us that they do well is that they invest in companies that invest outside of Israel. So here's what I mean by that. So I'm Jamaican. China has invested significantly in the infrastructure in Jamaica – highways, electricity plants, you name it. What does the Secretary...well, I'll say it differently...what is the Treasury doing with the partners in government to make sure that businesses in the U.S. are able to invest in places like Continental Africa, the Caribbean, and so it's easier for trade to go

back and forth?

DEPUTY SECRETARY WALLY ADEYEMO: Good question. I think part of what we're doing is making sure that we're using the development finance arms of the government, like the Development Finance Corporation, to try and create real opportunities to invest in infrastructure in those countries, but also through things like the Export-Import Bank to help U.S. firms that are competing to do business there. Ultimately, I think the difference between the way that we're doing this and China is doing this is that we want to end up in a place where countries have the ability to not only have these investments made there, but to reap more of the benefits of those investments so that it is a true partnership.

We also don't think that the United States making these investments alone is the only strategy that we can do today. That's why we work very closely with the G7 to do so. And to come back, I think the World Bank is going to play a major role here. The G20 meeting that just happened, one of the most important outcomes from there was _____, which was increasing the capital for multilateral development banks by \$25 billion, which will mean that these development banks are in a better position to make investments in middle-income and lower-income countries that will then unlock the ability of private capital to follow that.

I think that, when I talk to CEOs, and I talk to investors, some of the things that they want to make sure that they're doing when they're going to these countries is making sure there some degree of risk-sharing between them, between the government, between the international financial institutions. I think doing this well is going to be critical to unlocking potential in these economies. And that's what we want to do using things like the Development Finance Corporation in tandem with other countries like the U.K. and the European Union as well as World Bank. Because in the same way that we see in America, there's plenty of potential in communities throughout this country, the question is how do we create more opportunity, that's true in countries in the Caribbean, in Africa, Latin America. We want to make sure that we're doing this in order to grow the global economy.

CHARLES PHILLIPS: We have one more here.

QUESTION: Thank you. Thank you so much for doing this today. My question is about two policies, you know, one of which is on the banking side, we continue to implement additional policies to enhance the safety and soundness of the banking system and require banks to hold more capital. One of the impacts of those policies is it increases the capital costs and therefore reduces the willingness of those banks to commit investments in balance sheet to the U.S. Treasury market.

And then on the other side, the size of our deficits and, therefore, our Treasury auctions continue to grow. And looking at CBO forecasts, that doesn't seem likely to change anytime in the foreseeable future. How do you think about those two sort of opposite forces and what the potential, you know, like how do we bridge that gap and make sure the Treasury market remains, is liquid and resilient as it has been in the past?

DEPUTY SECRETARY WALLY ADEYEMO: Yes, and you know this better than most in terms of, the Treasury market remains the deepest, most liquid market in the world. We have an interest in this country in making sure that remains the case. That's why we set up an inter-agency group to work through how we can make sure that we have resiliency in that market. That's why we get advice from people like you in terms of how we think about Treasury markets going forward.

I do think that one of the things the President and the administration has focused on is the sustainability and how do we do that over time. Part of that is additional revenues. Part of that is reducing costs. I think the President has put out a plan that includes reducing the deficit and debt by \$3 trillion over the next ten years. I think that it's something that he is willing to talk to and work with anyone on going forward. But I think in the near-term, we're taking a number of steps including a buyback program that will help improve liquidity next year.

But we feel good about where the Treasury markets are today in terms of our, we get 2.5 to 3 bids for every security that we put on the market. We think part of our role is to make sure that we maintain that. I think that oftentimes the things that we have to focus on in order to make sure that Treasuries remain attractive are the investments I've talked about. By investing in our, think about how long we've been talking about making investments in infrastructure in America, for decades. We passed historic infrastructure investments in this country. They're going to make the economy more competitive. Those dollars, those \$200 billion in 110 deals that I talked about, a lot of that capital, lots of those investments are coming from abroad.

When I travel around the world today and I talk to investors and I talk to corporate CEOs, most of their conversations are about how can I make investments here in the United States because it's the most attractive place for me to invest given what you're doing in your economy. And I think as long as we continue to do that, I think it's going to put us in a position where U.S. Treasuries are going to remain attractive. And we have to make sure that we build the right infrastructure to make sure that investors have the ability to do that as easily as possible.

CHARLES PHILLIPS: So I think we have time for one last fascinating, compelling question. Let's go back here.

QUESTION: So you mentioned the possible government shutdown. One of the things that there hasn't been talk about is the potential UAW strike. And the issues that come to mind are sticky inflation and a possible supply chain glut where, you know, the supply chain becomes difficult again. And I just wonder if you have any color or comments on this.

DEPUTY SECRETARY WALLY ADEYEMO: Yes, I think my colleagues, Gene Sperling and the Acting Labor Secretary are in communication. But our intuition is that they will reach an agreement. And I think the truth is that back when Jim Millstein, who is sitting back there, and I were at the Treasury the last time we were in a position where these auto companies were facing significant challenges. Today, that's very different. They're making very healthy profits. They are in a position where American companies have a great deal of momentum behind them, partially because of the investments we're making, like the IRA, the investments we're making in vehicles. And ultimately, the conversation they're having now with labor is about how do we divide up the profits we're making and think about how working together we can make sure that American auto companies are ready to lead into the future.

You're right that ultimately one of the things we have to think about are some of the challenges that our supply chain could and did face during the pandemic, related to autos. But today, our auto companies are more healthy. And I've spent time talking to

the CEOs of these companies. Their supply chains are far better than they were back then as well, which is allowing them to produce record numbers of vehicles. And many of them are building far more clean energy vehicles today than they were in the past because demand is increasing.

Not just in places like New York and California, but in the middle of the country as well where because of the IRA and the credits that have been provided, we're seeing Americans who want to pay, who want to charge their car rather than buy gas, going out and buying electric vehicles, and we expect that to continue. And that puts us in a place where American auto makers, with labor, can work together to make sure that we continue to have a strong auto industry going forward. And that's what we expect.

CHARLES PHILLIPS: Mr. Deputy Secretary, let me thank you for attending. I think we're all feeling better with you at the helm, about the country's balance sheet. My apologies for the fake news on the fire alarm but I couldn't do anything about that one. But thank you for coming.

DEPUTY SECRETARY WALLY ADEYEMO: Thank you for having me. (Applause)

PRESIDENT BARBARA VAN ALLEN: So, many thanks to you both for being with us today. Great insights. Just really pleased with the conversation. I want to just mention

that we have a lot of great speakers coming up. And actually we have an event this afternoon. In remembering 9/11, we have an event at 2:30, a virtual panel conversation with a couple of Medal of Honor recipients. So for those that have time this afternoon, feel free to tune in. On Thursday of this week, we have a luncheon with Sergio Ermotti, the Group Chief Executive for UBS. So there are still seats available if anyone is interested in taking advantage of that. On September 18, we have a webinar with Kent Smetters. He is Professor of Business Economics and Public Policy at Wharton, and so that will be an interesting one. And then we're very fortunate to have joining us, the Prime Minister of Japan, on September 21st. And that will be at The Pierre Hotel. On September 27th, we have a luncheon with Brian Moynihan, Chair and CEO of Bank of America. September 28th, we'll have a breakfast with the author of *Elon Musk*, the much talked-about book coming out, I guess, this week, by Walter Isaacson.

I also just want to highlight that we have a One Member/One Candidate Event scheduled for Tuesday, September 26, here at the University Club at 6:00 pm. It's a complimentary reception where members can bring a candidate for membership in the Club, and we encourage you to consider doing so.

We have a lot on the October calendar. I'm not going to name all of that, but I will tell you that Jay Powell, the Chair of the Federal Reserve, was added late last Friday, on October 19th. That will be a luncheon.

And then, as always, we want to take a moment to recognize those members of our 363 counting and growing Centennial Society folks that are joining us today for their contributions which continue to provide the financial backbone for our programming at the Club. So thank you to all who are attending virtually. We'll say goodbye now. And for those in the room, please enjoy your lunch, and we hope to see everyone soon. Thank you.