The Economic Club of New York

117th Year
764th Meeting

Janet Yellen
United States
Secretary of the Treasury

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Moderator: John C. Williams
President and Chief Executive Officer
Federal Reserve Bank of New York
Chair, The Economic Club of New York

Introduction

Chair John C. Williams

Good afternoon everyone. Good afternoon and welcome to the 764th meeting of The Economic Club of New York. I'm John Williams. I'm Chair of the Club and President and CEO of the Federal Reserve Bank of New York. The Economic Club of New York is recognized as the premier nonpartisan forum in the nation, and it stands as the leading platform for discussion on economic, social, and political matters. For more than a century, the Club has hosted over 1,000 preeminent guest speakers contributing to our tradition of excellence.

So I'd like to extend a warm welcome to students who are joining us virtually from Fordham University, Columbia University, and Harvard University. I'd also like to welcome members of our largest-ever Class of Fellows – a select group of diverse, rising, next-gen business thought leaders. We'd like to thank the Peter G. Peterson Foundation for supporting this program and the Fellows' attendance at today's luncheon.

As Chair of the Club, it's my privilege to preside this afternoon, and we'll start by bestowing the Peter G. Peterson Leadership Excellence Award, which will be followed by a speech by this year's recipient and end with a fireside chat that I'm very pleased to moderate.

It's been a great pleasure to Chair the Peter G. Peterson Leadership Excellence Award Committee and to serve alongside my Award Committee members – Bill Dudley, Roger Ferguson, Alan Greenspan, Marie-Josée Kravis, Greg Mankiw, and Andrew Tisch. The Leadership Excellence Award was inaugurated in 2011 through a generous personal gift from the late Peter G. Peterson, former Club Chair and longtime Member. In 2021, the Economic Club Board voted to name the award in his honor.

This prestigious recognition is bestowed upon those whose exemplary achievements have protected and enhanced the free market system, expanded employment, and enabled robust economic growth. Past recipients have included former Secretaries of State George Shultz and Dr. Henry Kissinger; Board Chairs of the Federal Reserve Paul Volcker and Dr. Alan Greenspan; Former Vice Chairs of the Federal Reserve Alice Rivlin, Stan Fischer, Roger Ferguson. And last year's honoree was Bill Gates.

As we prepare to honor the ninth recipient of this important award, please join me in welcoming to the podium Club Member, Chair and CEO of the Peter G. Peterson Foundation, and one of the children of the late Pete Peterson, Michael Peterson.

Michael Peterson

Thank you John, and thank you, Barbara. On behalf of my family and my colleagues here at the Peterson Foundation, I want to thank you all for being here. We very much appreciate this event. This award has a remarkable list of past honorees, including last year's recipient, Bill Gates, who we'll be hearing from on video shortly. Bill is a true visionary and innovator in business as well as philanthropy. And I've been thrilled to work with him on America's broken healthcare system.

It's truly an honor to have this award named after my father. Knowing my dad, if he were here today, he'd be very happy about three things. Number one, to be honest, first and foremost, that his name is on this award. Let's face it, we all like a little attention. Secondly, and more importantly, that the award shows that the Economic Club continues as a vital institution leading the policy conversation. He loved the Economic Club and its vibrant exchange of ideas. Lastly, that the honoree is Janet Yellen, a brilliant economist and thoughtful policymaker whom he respected greatly. Madam Secretary, he would be so thrilled that you are receiving this award.

A few words about Secretary Yellen. As you know, she was the first female Chair of the Federal Reserve. She was the first female Treasury Secretary. Numerically, she was the 15th Fed Chair, the 78th Treasury Secretary, and the 18th Chair of the Council of

Economic Advisers. So that adds up to 111 people. But she's the only person to ever complete the trifecta holding all three top jobs. Pretty impressive.

Well, as of now, she's the only person to complete the long-awaited quadrifecta. In addition to these modest titles, she now adds some real prestige to the Peter G. Peterson Leadership Excellence Award. I know this is the day she was waiting for where she could finally put something meaningful on her resume.

She's also from Brooklyn, near and dear to the New York Economic Club. Anyone from Bay Ridge in the house? Brooklyn at least? Oh, there are a couple, so welcome. As far as I know, she's the first recipient of this award to have a rap song written about her, which I didn't realize. It's called Who's Yellen Now? and it's in the style of Hamilton, The Musical. So I promised my kids I would not try to sing it here today, but here's one of the lines. "Bay Ridge represent. Brooklyn's in the cabinet. Damn, Janet, go and get it. Fifth in line for President. She knows the kinda stimulus it takes to pass a buck. I heard she called the housing crisis. She's qualified as ffff." I think I'll just say she's a highly qualified economist. That'll do it.

So a Hamiltonian rap song is very fitting because she is truly in the room where it happens. She's a tireless public servant. Her global travel schedule is exhausting to even think about. She's been to Brazil, Germany, Italy, Ukraine, India, Senegal, China, Zambia, and South Africa. And that's just recently. And there's no one more central to this major moment for fiscal and economic policy. The 2024 election will be a fiscal election. There are several major fiscal events looming next year, including the reinstatement of the debt ceiling and the expiration of the 2017 tax cuts and various ACA subsidies.

My father started our foundation because he was concerned about the runaway debt, and I know the Secretary understands the dangers of that trajectory. Debt to GDP is a staggering 20% higher than just before Covid. And our structural deficits remain with every forecast showing future spending growth far exceeding revenue growth. And, of course, interest costs are rising. Interest will soon be the fastest growing federal program. It's already greater than what we spend on defense, and it'll soon be more than one trillion per year.

So the fiscal stakes are high, but America is fortunate to have a steady, experienced hand at the wheel. We'll probably need extraordinary measures to get through once again the debt ceiling, but with Janet we're lucky to have an extraordinary person to handle it.

Lastly, Secretary Yellen, I want to personally thank you for the dialogue and advice you gave me at the Peterson Foundation as we began our efforts to increase diversity in the economic profession. Your work in this area is so important, so thank you. With that, I'd like to welcome John back to the stage. Thank you very much.

CHAIR JOHN C. WILLIAMS: Thank you, Michael. Before I share my thoughts on our honoree, we have a special message to share to please enjoy this video from last year's Peter G. Peterson Leadership Excellence Award recipient, Mr. Bill Gates.

Video - Bill Gates

Secretary Yellen, congratulations on this well-deserved honor. I wish I was there in person to celebrate with you. Throughout your career, you've broken many barriers and made history, not only in your current position, but also as the first woman to chair the Federal Reserve. It's all a testament to your incredible expertise and strong leadership. At every step, you've taken on tough challenges and fought for policies that improved lives in America and around the world. Your ability to navigate complex situations and make critical decisions in the face of uncertainty is very impressive. You're an inspiration to the business community, philanthropists, and anyone who wants to create a more equitable society. I know you'll continue to make huge contributions in the years to come. Congratulations.

Chair John C. Williams

Now it is with great honor and admiration that we present this year's Peter G. Peterson Leadership Excellence Award to a visionary leader whose impact transcends industries, whose commitment to economic prosperity has truly reshaped our world. Janet Yellen, a name synonymous with groundbreaking economic thought, public service, and global financial stability embodies the essence of leadership excellence.
Through her career as a researcher, teacher, mentor, and policymaker, Janet has made her mark as a globally-admired and respected thought leader and practitioner of monetary, economic, and regulatory policy. And she's done this with the highest integrity, public purpose, and human kindness. This being The Economic Club of New York, I cannot help but mention, as we heard from Michael, that Janet is a born and raised New Yorker, growing up in Brooklyn. Another little fact about Janet's youth was, and perhaps a harbinger of her future career, she attended Fort Hamilton High School indelibly linking the first and the 78^{th} U.S. Secretary of Treasury in history.

Of course, Janet's many accomplishments and firsts are legendary, and Michael, you went through them so I won't repeat those. But I will mention from a Federal Reserve point of view that within the Fed she has held pretty much every policymaker role that exists. She was the President of the San Francisco Fed where I had the great privilege of working for her. She was a Federal Reserve Board Governor, Vice Chair, and Chair.

Given your resume, I think we can honestly say Janet has truly done it all.

In each of these roles, Janet has showcased a unique blend of strategic vision, compassion, and courage. From stabilizing financial markets to promoting inclusive economic growth, her commitment to societal betterment exemplifies the very essence of leadership excellence that The Economic Club of New York proudly celebrates today. Those of us who have been privileged to have worked alongside Janet have immeasurably benefitted from her wisdom, her mentorship, and her example of what it means to be a public servant.

So without further ado, on behalf of the Economic Club Board of Trustees, and all of us here today, it's an honor to present the 2024 Peter G. Peterson Leadership Excellence Award to my dear friend, mentor, and a truly extraordinary leader, Janet Yellen. (Applause)

Remarks by United States Secretary of the Treasury Janet Yellen

Well, John and Michael, thank you so much for your wonderful remarks. It's a tremendous honor to receive the Peter G. Peterson Leadership Excellence Award and to join the ranks of the distinguished group of individuals who were its previous awardees. I'm also very glad to have the chance to speak to all of you today at a venue that, since 1907, has served as one of the country's premier fora for discussion of domestic and global issues.

I last spoke here at The Economic Club of New York in 2016 as Chair of the Federal Reserve. I discussed a topic that was then at the heart of my work: the Federal Reserve's pursuit of maximum employment and price stability. Today, I will similarly focus on a topic I see as core to my work and to the Biden Administration's agenda: expanding our economy's capacity to produce over the medium and long term and doing so in a manner that is inclusive and environmentally sound.

I first spoke about this strategy, which I've called modern supply side economics, over two years ago at Davos. Today, I'd like to reflect on how we have applied it since, and specifically the roles played by the public and private sectors in boosting our nation's competitiveness and economic strength.

We have seen a historic economic recovery since the start of this Administration. Economic growth has proven resilient and strong in recent quarters. The labor market remains healthy, with low unemployment rates. Prime-age labor force participation now exceeds its pre-pandemic high. Inflation is down nearly two-thirds from its peak and we expect it to moderate further as rents and other critical price pressures stabilize.

American businesses have contributed to this recovery, starting with their role in helping to distribute pandemic relief funds. As we recovered from the pandemic, business fixed investment grew even faster than our economy as a whole and now constitutes over 13% of our GDP. We have also had three record years of new business applications.

Now, there are, of course, challenges. Americans are concerned about the cost of living and too many families find it hard to make ends meet. Addressing this remains President Biden's top priority.

As we have driven our recovery, we have also worked to strengthen financial stability and respond to urgent issues at home and abroad. Here too, the private sector has been crucial. We solicit views from business leaders in the financial sector as we finance the operations of the Federal government and pursue ongoing collaboration with the private sector to respond to cyber incidents and conduct cybersecurity exercises. These are just two of many examples. The U.S. business community has also been key to our response to Russia's invasion of Ukraine, including as we continue to work to crack down on Russian sanctions evasion.

While driving a historic recovery and responding to urgent issues, the Biden Administration has also kept in mind the need to promote stronger and more inclusive growth over a longer timeframe, and as we face an increasingly complex and dynamic global economic landscape.

Our ability to compete and spur growth requires us to tackle longstanding structural challenges. Over decades, the United States saw slow productivity growth, entrenched income inequality, and significant deindustrialization, with communities in many parts of the country becoming hollowed out. Labor force participation of prime-age individuals without a college degree declined. And there was a rise in deaths of despair. For too long, too many American workers and American businesses haven't been able to reach their full potential to contribute to our country's strength.

Throughout my career, I've seen and participated in robust debates about the proper relationship between the government and business in addressing the challenges we've faced. We've learned through experience that heavy-handed central planning through government dictates is not a sustainable economic strategy. But neither is traditional supply side economics, which ignores the importance of public infrastructure, education and workforce training, and government-supported basic research. Traditional supply side economics wrongly assumes that policies such as tax cuts for those at the top and deregulation will fuel growth and prosperity for the nation at large.

Instead, it's been clear to President Biden and to me that our economic strategy cannot be driven by either the public or private sector alone. Modern supply side economics embraces collaboration with the private sector, targeting public interventions to create a supportive environment for businesses and to fuel private sector investments.

We've also used public policy to address climate change and to encourage the private sector to reach people and places that historically had not received sufficient investment. This broad-based approach brings benefits not just for American workers and families but for businesses and the economy as a whole.

I'll focus today on how we're applying modern supply side economics to spur greater U.S. competitiveness and growth across three key areas: infrastructure, human capital and labor force participation, and investments in R&D and strategic industries.

I'll start with infrastructure, an important contributor to our economy's productive capacity. According to one analysis, a 10% increase in the stock of core physical infrastructure increases productivity by more than 2%.

Yet when President Biden came into office, infrastructure investment as a share of GDP had fallen by more than 40% since the 1960s. We should be able to travel between major U.S. cities with ease, assume the goods we order will arrive on time, and find talent to support scaling businesses. Instead, airports became outdated, ports were constrained, and there was uneven access to high-speed internet. I've heard the business community repeatedly emphasize the obstacles these shortfalls cause and how they hinder our competitiveness. There is widespread consensus that our country's outdated infrastructure slowed the flow of people and goods, holding back the U.S. economy.

The Biden Administration is making massive investments to change this. The Bipartisan Infrastructure Law is enabling ambitious projects to improve America's roads, ports, and highways. It's also our government's largest ever push toward affordable and universal internet access. This is in addition to the American Rescue Plan's many investments, including a Treasury program for internet and other critical capital projects that will reach over 2 million American households and businesses. In total, state and local capital investment as a share of state and local spending grew more from 2022 to 2024 than in any two-year period since 1979.

The private sector is making complementary investments. Real private spending on construction for transportation, for example, began to rise shortly after the Bipartisan Infrastructure Law was passed, that arrested a years-long decline. Over the past two years, it's increased by almost 20%. And this is the scale of investments needed to help drive our future growth.

Our investments are also advancing our core objective of reaching people and places that had been left behind. Historically, we had seen higher infrastructure investment in states with higher median household incomes. But that's not what's happening now. Treasury analysis shows that Bipartisan Infrastructure Law funding is going in greater amounts to states with lower median household incomes and the lowest-rated infrastructure, where improvements are most needed. And funding has been spread broadly. For example, while only five states accounted for about two-thirds of investment in public transit in 2019, those five states account for only 40% of Bipartisan Infrastructure Law spending.

This matters not only because of fairness. Reaching people and places that had been left behind also has the potential to yield larger aggregate gains under the basic economic premise that returns to investment in any given place exhibit diminishing returns. Put simply, investing in people and places where there had not been sufficient opportunity can yield the largest bang for the buck.

Alongside infrastructure, the labor force is of course a critical factor in our economy's capacity to produce – and therefore to our nation's competitive strength. And here too, we've seen significant challenges. Labor force participation, especially of men, has declined over the past two decades. The historic increase in women's labor force participation was a success story – contributing meaningfully to our country's growth – but women still face significant challenges to full participation, such as lack of affordable childcare.

There are also significant barriers to the availability and accessibility of good jobs. In the 1970s, three out of four jobs required at most a high school diploma. Now, two out of three jobs require more than a high school diploma, limiting opportunity for the majority of Americans over 25 who do not have college degrees. There are also had not been enough investment in alternative pathways to good jobs. Workforce development funding to states, adjusted for inflation, declined by 30% from 2001 to the end of 2020.

Like poor infrastructure, inaccessibility of higher education and workforce development has not only affected the lives of individuals and families. In my engagements with businesses, I hear about the difficulty they have in finding the right talent to fuel growth. So the Biden Administration is making generational investments and pursuing policies to change this as well. Treasury has encouraged using State and Local Fiscal Recovery Funds for workforce development.

The Inflation Reduction Act provides tax incentives for companies to hire apprentices, supporting the expansion of these pathways. And, in line with modern supply side economics, the President's Budget proposes ambitious policies to support strengthening the labor force, from guaranteeing affordable high-quality childcare to expanding grants to reduce the cost of college.

Across the country, these programs are being implemented and scaled with a particular focus on meeting private sector demand. In fact, potential employers are often directly engaged in developing and delivering training and then hiring from that training pool. In Milwaukee and Cleveland, Rockwell Automation offers a 12-week program to equip veterans with technical skills for advanced manufacturing jobs. In Idaho, Micron expanded its first-ever Registered Apprenticeship Program. And last month in Arizona, I visited Mesa Community College to learn about their Semiconductor Technician Quickstart program, which is taught by Intel employees.

As with infrastructure, we care not only about boosting the supply of a key factor of production, but also about reaching people and places where there previously was not sufficient opportunity. Across the country, we are encouraging workforce development programs to target populations that have traditionally faced barriers to employment and emphasizing best practices such as providing wraparound services like transportation stipends and childcare. Again, this is motivated not just by a commitment to fairness but by an understanding that reaching those who had not had opportunity can bring much greater economic gains.

I'll end with our efforts to boost spending on research and development and to bolster American competitiveness in cutting-edge industries like semiconductors and clean energy. R&D has significant economic benefits. One recent study found that government R&D accounts for roughly one-fourth of business sector productivity growth since World War II. Yet there is ample evidence it is undersupplied, including due to a significant decline in federal R&D spending. In 2020, the government's R&D spending was less than 1% of GDP. That's half of what it was in the 1960s. And the U.S. share of global R&D has declined. It was 31% in 2020, compared to 69% in 1960.

The U.S. has more generally been widely perceived as suffering a loss of international competitiveness in key industries such as semiconductors and clean energy. This partly is a result of concerted foreign subsidy programs which have not only caused economic losses but have also exacerbated economic insecurity. Insufficient investment in key industries had also made our critical supply chains too vulnerable. We have seen the consequences of this in recent years, such as in the shortage of goods and their volatile prices in the context of the pandemic and Russia's invasion of Ukraine.

In response to these challenges, we have pursued a strategic combination of direct investments and market-based incentives. The CHIPS and Science Act authorized funding to restore America's leadership in semiconductor manufacturing, including substantial investments in research and development. The Inflation Reduction Act is far and away our most ambitious effort to address the existential threat from climate change. Instead of broad-based tax cuts for top earners and corporations, it works by offering significant tax incentives to fuel private investment in the clean energy transition.

Global investment in clean energy reached a record level of over $1.7 trillion in 2023, offering massive opportunities for American workers and businesses. We are providing the private sector with the stability needed over long enough time horizons to invest in clean energy, with the understanding that government intervention can then be scaled back as clean energy technologies become cost competitive. I've heard from many American businesses that these incentives are allowing them to pursue projects that otherwise would not have been viable.

We have worked to fuel private sector involvement in the transition to clean energy in other ways as well, from releasing a set of Principles for Net-Zero Financing and Investment last fall to guide financial institutions pursuing the transition to net-zero to publishing just last month key principles to support the development of high-integrity voluntary carbon markets.

We're starting to see the impacts of our policies. There has been an especially notable surge in manufacturing construction since the IRA and CHIPS and Science Act were enacted. The composition of business investment growth has shifted dramatically, with factory construction contributing almost one-third and computer, electrical, and electronic factories the key source of the increase. And these are the industries that the

CHIPS Act and the IRA support, including semiconductors and batteries for electric vehicles. And this surge in manufacturing construction is unique in the United States. That's suggestive evidence that the legislation is likely having its intended impact.

More generally, private companies have announced over $850 billion in manufacturing and clean energy investments since the start of this Administration. And the private sector is responding to policies designed to spur investment in a wide swathe of the United States. The IRA offers an Energy Community Bonus: namely, a greater tax credit for projects in communities historically reliant on fossil fuels such as coal.

Since the IRA was passed, $4.5 billion of investments per month have been announced in these communities, compared to $2 billion before the IRA. The IRA also offers a Low-Income Communities Bonus, and that also seems to be having its intended impact. Since the IRA was passed, 75% of announced clean energy investments have been in counties with median incomes below the U.S. aggregate median income. And 84% have been in counties with college graduation rates below the U.S. aggregate rate. This broad reach contrasts sharply to the outcomes we saw under traditional supply side economics.

Our approach to increasing competitiveness in key domestic industries has been criticized as protectionist. Some see the United States as withdrawing from the global economic stage. I'd argue in response that since the start of this Administration, we have acted on our belief that global integration, including through trade, continues to be broadly beneficial for American consumers and businesses. We do not intend to withdraw from global markets. But there are significant risks relating to overconcentrated supply chains and we should especially respond when foreign subsidies threaten the viability of domestic firms in strategic sectors. At President Biden's direction, I've been particularly focused on responsibly managing the U.S. economic relationship with China.

Countries around the world look to the state of our two economies, but also our interactions, because they're crucial to global growth. Together, China and the United States represent 40% of global output and have the two largest financial systems in the world. I believe that America's fundamental economic strength means that the United States has nothing to fear from healthy economic competition. As I hear frequently from American businesses, China represents a huge market for American manufacturers and firms, supporting over 700,000 American jobs. President Biden and I reject the notion that decoupling would be in any way beneficial for the American economy. At the same time, we can only realize the potential benefits of our economic relationship if there is a level playing field.

I am particularly concerned about China's enduring macroeconomic imbalances. China is a global outlier in terms of its very high savings rate: 45 to 50% of GDP for roughly 20 years. And that is roughly twice the OECD average. Such high savings reflect a lack of sufficient domestic consumption demand and risk leading to an expansion in China's external surplus. At present, China is directing an increasing share of savings into manufacturing. Specifically, China's industrial policies channel savings into unusually high investment rates in select industries, leading to excess capacity.

Now, this dynamic is actually a problem for China, as excess capacity usually indicates the presence of economic inefficiencies as resources are trapped in less productive firms and industries. And, in fact, the share of firms losing money in China has been rapidly increasing, recently hitting a level not seen since the early 2000s. China already accounts for 30% of the world's manufacturing output. And it cannot rapidly grow that share without causing displacement globally. And China cannot assume that the rest of the world will rapidly absorb huge quantities of excess production to the detriment of domestic industries in other countries.

This overcapacity threatens American firms and workers, along with those around the world. We saw in the past how overcapacity can decimate businesses here at home. And we're now seeing the risks of that happening again, in key industries that matter to our long-term growth, such as electric vehicles, lithium-ion batteries, and solar, but also across a range of manufacturing industries.

The scale of China's subsidies and industrial policies is hard to quantify due to lack of transparency, but even conservative estimates suggest that they far exceed that of other countries, which is why we see economies ranging from advanced to emerging markets launching trade investigations. And China's overcapacity risks our supply chains being artificially overconcentrated, posing additional security and economic concerns. China also pursues a variety of unfair trade practices – from restrictive investment policies to economic coercion – that further undermine fair competition.

If China continues on this path, I fear that its policies may interfere significantly with our efforts to build a healthy economic relationship. I've heard these concerns from American and foreign businesses. So, even as we maintain our broad trade and investment relationship with China, I will continue to represent the interests of American workers and businesses and press my Chinese counterparts on these issues bilaterally and multilaterally. That's something I did during my trip to China in April and at the G7 last month. At the same time, the United States will continue pursuing an approach I've called friendshoring, which involves deepening ties with a wide range of trusted partners and allies in order to diversify our supply chains and support long-term growth. This also creates significant opportunities for our private sector.

Ultimately, I believe the modern supply side economics approach, applied to the areas I've spoken about today and to others, is putting us on the right path to building an economy that serves us well for the long term. Collaboration between the public and private sectors is at the heart of this approach. I've seen the potential of such collaboration throughout my career and we have worked over the past three years to realize it.

The challenges we face are deeply rooted. It will take time for the investments the public and private sectors are making to fully pay off. As we look ahead, we will continue to partner with American businesses, especially as we navigate shifts, from geopolitics, to the ongoing energy transition, to developments in cyber and artificial intelligence. I believe our efforts will help us regain our economic strength in areas where we have underinvested and extend it further in other areas and do so in a way that benefits all Americans. And I look forward to our continued work. Thank you so much for having me here today and thank you so much for this honor. (Applause)

Conversation with Secretary Janet Yellen

CHAIR JOHN C. WILLIAMS: Well, thank you so much for sharing your views and perspectives on a wide range of issues that are really important for our country. Let me start, you started talking about the state of the economy and so, could you talk, as someone who has followed the U.S. economy, have been an astute observer of the U.S. economy, how do you see the U.S. situation and outlook? What do you think are some of the indicators that you think are particularly relevant to you as you think about the economy, especially for the members of The Economic Club of New York?

SECRETARY JANET YELLEN: So I'd start by saying that it's worth comparing how the U.S. is doing with how other advanced countries – our G7 peers and other advanced countries – are doing. We're enjoying the strongest recovery of any advanced nation and our strong growth is really lifting growth globally. It's worth recalling that last year almost all economists, I think it's fair to say, were predicting that we would have a recession. That's something we have avoided. And we now continue to see solid economic growth.

The labor market remains strong. We haven't had a period with unemployment at or below 4% for almost 50 years, as long as we've had now. At the same time, I see pressures in the labor market as having gradually eased. Firms are having less trouble than they were a year or so ago hiring. Wages are rising, but they're increasing less rapidly. We're seeing fewer quits and a less frenetic pace of hiring. I think Covid caused considerable disruption in the labor market to both demand and supply. And the labor market is now normalizing and looks pretty much like it looked when it was very strong pre-pandemic. We continue to add jobs at a very solid pace — three million last year, another 1.2 just in the first five months of this year. And business investment is also very strong, and I see positive signs that the outlook will remain encouraging.

Manufacturing construction, which I noted, has played a large role in the strength of business investment. And more recently, we've seen a pickup in spending on high-tech equipment and R&D. Firms are observing persistently high returns to their capital and new business formation is at historic rates – 16 million jobs over the first three years of the Administration – and I think that shows confidence in the economy.

Inflation, which we're all focused on, has eased considerably. Headline inflation is down almost two-thirds from its peak and core inflation has also trended down on balance. And I certainly expect further progress to be made, especially as rents and other critical price pressures recede over time. That said, Americans are clearly very concerned about the cost of living and addressing the high cost of living remains a top economic priority for the President.

We know that there are areas of their budgets where Americans are really having trouble making ends meet. And so President Biden has put forward a kind of affordability agenda that focuses on some areas that have really been getting worse and very problematic. I'm thinking here of healthcare, energy, housing, these are areas where...childcare...where we're committed to working with Americans so that they can feel more secure about their economic circumstances.

CHAIR JOHN C. WILLIAMS: So in your remarks you emphasized the role of the private sector in terms of increasing American competitiveness but broadly about...you just said these things, investment, R&D, productivity, expanding the economy's potential really. So where do you see, again for a group of business leaders, either here or online, where do you see the greatest opportunities for American businesses currently and in the future?

SECRETARY JANET YELLEN: Well, I mean, I see just enormous opportunities in many sectors of the economy – artificial intelligence being an example of something where there are tremendous opportunities. But let me focus on one area that is important to the Administration, and that's clean energy. And the Inflation Reduction Act that I've referenced is surely the most significant climate legislation in our nation's history. And it's created tremendous opportunities and will continue over time for American businesses. It is fueling investment in renewable energy. It's propelling us toward achieving our climate goals. And, as I mentioned, it's creating opportunity in parts of the country that haven't seen it for a while.

I've been traveling around the country to visit some establishments that were either expanded or opened up because of the Inflation Reduction Act. Last fall, I was in North Carolina, visited a firm called Livent, which has expanded its U.S. lithium-hydroxide manufacturing capacity by 50% because of the IRA. In March, I was in Kentucky and visited a firm called Advanced Nano Products, which is producing parts for a gigantic

EV battery plant that's located near there.

And, of course, we're seeing a battery built in the Midwest and South that's emerged because of the IRA. And then I recently was in Atlanta where I visited a firm called Suniva, which did path-breaking work in developing solar cell technology but was driven out of business in 2017 because of Chinese dumping of solar panels. But because of the IRA, fortunately the plant, although they had shut and locked the door, the plant was still there and they've reopened it and are going back to making cells. So there are important business opportunities.

I think one of the important things is both that there are a significant set of tax incentives for the production and investment in clean energy, but also we had some – they were at a lower level – but it was uncertain year to year, would they be renewed every year they had to be renewed? Now we have a program that will create certainty for the next decade, which is very important, I think, for firms investing.

And starting next year, rather than subsidizing particular technologies like solar and wind, we're moving to something called a technology-neutral approach. So that innovation, if firms are innovative in developing new technologies to produce energy in a renewable way, technologies that none of us have even thought of yet, they'll be eligible for subsidies too. We're very busy at Treasury. We've already issued 60 or 70 pieces of guidance, proposed rules for what's necessary to qualify for these credits.

One of the great features of these credits is sometimes tax credits are awarded to businesses that they don't have income and can't use it. But there's a feature of these tax credits called transferability, which enables a firm that gets a credit but doesn't need it to sell it to another firm with a tax liability that does need it. And I think this is a very business-friendly approach and it's really beginning to generate a large market. So researchers have estimated that we need something like $3 trillion a year in global investments to reach net-zero by 2050. So there are a lot of opportunities here.

CHAIR JOHN C. WILLIAMS: Thank you. So you mentioned geopolitics a bit with Russia's war in Ukraine and the U.S. economic relationship with China. So how do you engage with American businesses as you navigate these complex challenges? You talked a little bit about that, but maybe for this audience you can elaborate a bit on that.

SECRETARY JANET YELLEN: So, well, let me start with Russia. So we are trying to play an important role working with our allies to address Russia's brutal treatment and aggression against Ukraine. And one of the ways in which we're able to do that is by putting a sanctions regime in place to try to prevent Russia from getting – well, two pieces to it. One is trying to make it difficult or impossible for Russia to get the military equipment or materials it needs to build its own military supplies. We want to make that as difficult as possible.

And second, we want to try to reduce Russia's revenue that it's using to support its military and fight the war. And really this is a mission that can only be accomplished by working with the private sector. We have in place a set of export controls that the government works closely with the private sector to put in place, and the Treasury Department is responsible for a sanctions program.

And here too, we count, especially on financial institutions, but also on firms to make sure that these sanctions are working in the manner that we want. We developed an innovative price cap that tries to limit the amount that Russia can earn on selling oil globally. We wanted Russia to sell oil globally because we didn't want global oil prices to rise, but we had the idea that we could try to limit the amount that Russia receives. And that too involves working with western service providers, businesses that normally would provide insurance and other, trade finance and so forth for these oil shipments.

And we said you can go on doing that, but only if the price that Russia is getting for its oil is below $60 a barrel. So cooperation with the private sector has been critical. And I guess in the case of China, I'd say we've met with many businesses that are operating in China to understand both the opportunities that they see – they're American businesses and foreign businesses – to try to understand the ways in which they feel there are huge opportunities but the playing field isn't level. And I've taken their concerns directly to top Chinese leadership.

As I mentioned, we're particularly concerned about this macroeconomic imbalance that is, you know, China used to invest enormous amounts in infrastructure and real estate. And the real estate sector, of course, now has declined and infrastructure spending, the returns on that have diminished drastically. And so those savings that used to be channeled into those sectors are really now going into advanced manufacturing. And this is a problem, as I described, not just for us but for many businesses around the world.

CHAIR JOHN C. WILLIAMS: So I think we're down to just the last question, and only one minute. But this is a question I think a lot of our audience wants to hear, especially, obviously younger, but I mean pretty much anybody who is, we have fellows, we have students who are joining us. What's your advice to anyone who is thinking about entering a career of public service? And I have to ask this personally? When you were a high school student at Fort Hamilton, did you have any idea that you'd be sitting here as Secretary of the Treasury and speaking to the world about the economy?

SECRETARY JANET YELLEN: No, I had absolutely no idea. But when I took my first Economics class in college, it was love at first sight. And I knew that I wanted to do economics and hope that I would be able to have a career in public policy. Because I saw economics as a field that is both interesting in its own right and really important in pursuing the public interest and improving welfare. And anyone thinking of going into public service, I recommend it just immensely highly.

I think the mission of government in terms of trying to work with the private sector and to address economic, social, health challenges, a broad range of challenges, there's a real role for government. It's not that government should replace the private sector, but there's a role for government and the private sector. And the work is fascinating and it's important, and what I found in government is a true sense of mission.

And John, having had the pleasure of working with you and knowing that you've spent most of your career also in public service, you're faced with important and seriously consequential challenges. You go to work and find a set of colleagues who are completely committed to the mission of doing everything they possibly can. I remember when you and I worked together during the financial crisis, you know, how we felt the weight of the importance of what we were doing in trying to address it, and a sense of camaraderie that people feel working on critically important projects together.

The people that I've dealt with in public service are just immensely motivated, talented, committed. And what I look for in a job is a sense of identification with the mission, with the people, with the organization, and I found that. And whatever, whether your interest is in economics or in other areas, energy, health, whatever, there are wonderful jobs, and it's a really rewarding choice.

CHAIR JOHN C. WILLIAMS: And you've been a role model for so many Americans and around the world in public service. So thank you for everything you've done.

SECRETARY JANET YELLEN: My pleasure.

(Applause)

CHAIR JOHN C. WILLIAMS: I'll very quickly, I'll just wrap this up. First of all, I want to express my gratitude to you, Janet, for being with us this afternoon and for engaging in this great conversation. Congratulations on this extremely well-deserved award. And we send our best wishes to you for your continued success in everything you do.

Before we conclude, I have to do the usual part of just reminding everybody that we've got some great speakers coming up before we take a break. So on June 17th, we have Strauss Zelnick, Chair and CEO of Take-Two Interactive. It's a discussion that I'm honored to be moderating. And then on June 25th, we'll have my colleague, Lisa Cook, Governor of the Federal Reserve Board of Governors, coming to us. Then we'll have a break for summer, a short break for summer.

I'd like to take a moment to recognize the members of the Centennial Society who are joining us today. Their contributions continue to be the financial backbone of support for the Club. Thank you all for attending today. We look forward to seeing you in the future. And for those of you in the room, please enjoy your lunch. Thank you.