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TAPPER: Welcome back to STATE OF THE UNION. I'm Jake Tapper.

Covid cases and deaths are on the decline, but it is clear that the economic effects of the pandemic are going to play out for months, even years.

And, as Americans look ahead to the holiday season, they're currently worried about rising inflation driving up the cost of many goods, a backed-up supply chain delaying their orders, and painfully high prices at the gas pump.

Joining us now to discuss, Treasury Secretary Janet Yellen. Secretary Yellen, good to see you. Thanks so much for joining us. We have a lot to get to.

But, first, you just heard Speaker [Nancy] Pelosi. She floated some new ways to pay for this bill, such as a wealth tax, because it does appear that the plans to raise the corporate tax rate and raising the tax rate for top wage earners are out.

With those off the table, can you still guarantee that this bill is going to be paid for?

JANET YELLEN, U.S. TREASURY SECRETARY: As the speaker noted, we have a variety of different ways to raise revenue.

And, all in all, it should be relatively straightforward to raise the revenue necessary to pay for this bill. The final package exactly, what's in and out hasn't been decided. That's being negotiated now.

TAPPER: Do you think that a wealth tax will be part of it? And can you explain what that would look like?

YELLEN: Well, I think what's under consideration is a proposal that Senator Wyden and the Senate Finance Committee have been looking at that would impose a tax on unrealized capital gains, on liquid assets held by extremely wealthy individuals, billionaires.

I wouldn't call that a wealth tax. But it would help get at capital gains, which are an extraordinarily large part of the incomes of the wealthiest individuals, and right now escape taxation, until they're realized, and often they're unrealized in the death benefit from a so- called step up of basis.

So, it's not a wealth tax, but a tax on unrealized capital gains of exceptionally wealthy individuals.

TAPPER: The Biden administration is trying to reach this deal to spend about another $2 trillion. That makes a total of an extraordinary $5 trillion in spending this year.

Inflation, of course, is growing at its fastest pace in 30 years. If the American economy is already overheating, is spending even more money potentially pouring gas on the inflation fire?

YELLEN: Well, the additional spending in the infrastructure package and in the Build Back Better package, both of those are spending over 10 years, not in a single year. The rescue package did involve substantial spending this year.

And let's remember that a benefit of that package is that unemployment has declined to 4.8 percent, that Americans tell us they feel confident they can find jobs. Now, the size of the labor force has declined. It's not moved back to pre-pandemic levels, in part because of covid, because of health concerns, because of child care concerns, school concerns.

And so many firms are experiencing a shortage of labor. The covid shock to the economy has caused disruptions that we will be working through over the next year. And, of course, Americans haven't seen inflation like we have experienced recently in a long time.

TAPPER: Yes.

YELLEN: But as we get back to normal, expect that to end. And already, on a monthly basis, the inflation numbers are way down below their peaks.

TAPPER: So...

YELLEN: The covid crisis markedly diminished spending on services and caused a reallocation of spending toward goods. And the supply of goods to Americans has increased substantially, but there's still pressure there.

And there are shutdowns and covid impacts in Asia...

TAPPER: Yes.

YELLEN: ... where we import many goods from. And so we're experiencing a lot of supply bottlenecks.

TAPPER: Right.

YELLEN: There's a shortage of semiconductors. And that's pushed up the prices of used cars and caused a reduction in production of new cars. And this is temporary pains that result from a covid economy and getting beyond it. So...

TAPPER: Right. So let me ask you about that, because this rising inflation is hitting Americans' wallets hard, impacting everything from gas prices to groceries. When do you expect the inflation to get back to the 2 percent range, which is considered normal? 2022? 2023? When?

YELLEN: Well, I expect that to happen next year.

Monthly rates of inflation have already fallen substantially from the very high rates that we saw in the spring and early summer. On a 12- month basis, the inflation rate will remain high into next year because of what's already happened.

But I expect improvement by the end of -- by the middle to end of next year, second half of next year.

TAPPER: Second half of 2022.

Former President Obama's Treasury Secretary Larry Summers has been sounding alarm bells for months about rising prices. Take a listen to his response to what he calls very disturbing inflation numbers out last week.

(BEGIN VIDEO CLIP)

LAWRENCE SUMMERS, FORMER DIRECTOR, WHITE HOUSE NATIONAL ECONOMIC COUNCIL: Now we see inflation becoming more widespread in a wider range of products, spreading to the housing and labor markets. I have been alarmed for a long time, and I'm more alarmed now.

(END VIDEO CLIP)

TAPPER: More alarmed now. And Summers added this warning -- quote -- "We're in more danger than we have been during my career of losing control of inflation in the U.S." Is he wrong?

YELLEN: I think he's wrong, I don't think we're about to lose control of inflation.

I agree, of course, we are going through a period of inflation that's higher than Americans have seen in a long time. And it's something that's obviously a concern and worrying them. But we haven't lost control.

And, as we make further progress on the pandemic, I expect these bottlenecks to subside. Americans will return to the labor force as conditions improve. And, remember, the spending that we did that partially has caused this high demand for goods, it's been very important in making sure that the pandemic hasn't had a scarring effect on American workers.

It's given them enough income and support to get through this without -- while still being able to put food on their table and keep roofs over their heads.

TAPPER: Right.

YELLEN: And when you don't hear people talking about, I'm worried about being able to get a job, remember, that's a very good impact that the rescue packages had.

And what we're talking about with infrastructure and Build Back Better, this is a relatively small amount of spending over a decade. And we need this spending to make our economy productive...

TAPPER: Right.

YELLEN: ... to make sure that families have the support to take care of their children and to work. And it will boost labor force participation.

TAPPER: So, Secretary Yellen, you referred to this earlier, but I want to ask you.

There's this record-breaking 4.3 million Americans who left their jobs just in August. It's a pandemic phenomenon some are now calling the Great Resignation. This comes is almost 11 million jobs are currently open and waiting to be filled.

What's going on here? Why are Americans not taking these jobs? And what are you and the White House doing to get people back to work?

YELLEN: Well, right now, we have a very tight labor market.

And when the labor market is tight and Americans feel good about their ability to get another job, they're more likely to quit a job. They're getting outside job offers and taking them. And that shows up in those statistics.

So we have a good, tight labor market. Firms are obviously having trouble hiring workers.But labor supply is depressed by the pandemic. That's because of health concerns, because of child care. And as we get beyond the pandemic, I expect labor supply to increase.

And I -- it's good, I think, to see wages begin to rise, especially for those Americans who had the most insecure jobs and the lowest wages. And to see some improvement there is something that we should be pleased with

TAPPER: You have projected that the U.S. is going to run out of money to pay its bills on December 3 unless Congress acts to once again raise the debt ceiling.

Senator Mitch McConnell says Democrats are going to have to do it alone. And so we just talked to Speaker Pelosi about whether or not they're going to do it with reconciliation. What -- how concerned are you that, ultimately, a default might actually happen this time?

YELLEN: Well, I consider it utterly essential that the debt ceiling be raised.

It's simply inconceivable that America should prove itself unwilling to pay the bills it's already incurred. And let's be clear. The debt ceiling is not about future spending or tax policy, on which members of Congress may disagree. It is about paying the bills that result from past decisions of Congress about spending and taxation.

It would be utterly catastrophic, something that has not ever happened in the history of America. Our assets, our treasuries are regarded as the safest assets on the planet, because America can be counted on, always has, to pay its bills.

I personally believe this is a responsibility that Republicans and Democrats should share.

TAPPER: Yes.

YELLEN: I think it's something that both parties should do together. It's a housekeeping matter, doing what's necessary to pay our bills. I have confidence it will get done, but I will leave it to the speaker and to [Senate Majority] Leader [Charles] Schumer to figure out what the best way is forward on that.

TAPPER: Lastly, Madam Secretary, I asked Senator Elizabeth Warren a few days ago about why she opposes renominating Fed Chair Jerome Powell. She calls him a dangerous man. Take a listen.

(BEGIN VIDEO CLIP)

TAPPER: If he reappoints Powell, will you fight it? Will you filibuster it? Will you stop it?

SEN. ELIZABETH WARREN (D-MA): I will oppose it. And I will use the tools I have got. I don't want to make another five-year bet on someone whose entire attitude is that he is not going to work to rein in the giant financial institutions.

(END VIDEO CLIP)

TAPPER: Bloomberg reports that you privately support renominating Fed Chair Jerome Powell for another term.

Is that true? Do you support the renomination of Jerome Powell?

YELLEN: Well, I'm not going to talk about the advice that I'm giving to the president. It's up to him to decide what's best.

But I would say that, during his term, and during my term and Bernanke's term, regulation of financial institutions has been markedly strengthened. It's important to note that, when the pandemic struck, although there were huge stresses in financial markets, that the core of our financial system did very well because of the improvements in capital liquidity, risk management, stress testing. And those improvements have stayed in place during the Powell regime.

TAPPER: All right, Secretary Janet Yellen, thank you so much for your time today. We appreciate it.

YELLEN: Thanks for having me.