

Fed Unfiltered, Transcript

3/24/22 – Neel Kashkari, Speech: Q&A at the Fargo-Moorhead-Chamber of Commerce

Neel Kashkari:

Well, good morning, everyone. Thanks for joining us. Thanks for inviting me. It's great to be with you today. It's so nice to be back in person after two, this is my first one of these doing after two years. I'm going to speak for just a few minutes and then turn it over to Kurt, and we're going to have a discussion, and then we're going to open it up to the audience for some Q & A. And I've been in North Dakota a bunch of times, so North Dakotans generally are not shy. I hope you are not shy. I'd love to hear from you, and fire away what's on your mind and what you'd like to know about, or what you're seeing in your communities.

Neel Kashkari:

Let me just start by telling you why I'm here, and why the Minneapolis Fed is here. In 1913, the United States Congress created the Federal Reserve System, which is our nation's central bank, but Congress did something unique. They said we don't simply want it in the nation's capital. We want it distributed all the way around the country, so that the different regions of the country have a direct voice in the policy-making process. So they created 12 independent federal reserve banks, the ninth of which is the Minneapolis Fed. And our jobs are to represent you, our jobs are to represent this region, which is Minnesota, North and South Dakota, Montana, the upper peninsula of Michigan and Northwestern Wisconsin. So a big part of our jobs is to spend our time traveling around the district - we call it the district - to hear from you about what's happening in your local economy.

Neel Kashkari:

And then I go back to Washington, DC, every six weeks for federal open market committee meetings, and part of what I'm doing in those meetings is talking about what's happening here in our regional economy. So meetings like this, I've got a day full of events here. They're really good for me to be able to hear directly from folks what's happening in the regional economy. Now, we cannot set a different monetary policy or a different interest rate for North Dakota, and for California or for New York, because we all use the same dollar. So it's one interest rate for the whole country, but we want to try to pick that monetary policy that's the best we can for the country as a whole, and making sure that our region is part of that process, and part of that deliberation, is literally my job. And so I appreciate you being here today.

Neel Kashkari:

Let me just spend a couple minutes on what's going on in the economy. I'm sure it's top of mind for folks, and then I'm going to turn it over to Kurt and we're going to have a good discussion. Obviously, inflation is very high right now. Big surprise, at least for me, that inflation has gotten this high and stayed this high for as long as it has. The U.S. economy went through a rapid shutdown, much of it, I know less so in North Dakota, because of COVID, and there's now been reopening, and that reopening has been uneven. Basically, demand has picked up more quickly than supply has been able to catch up. And so six months or so ago, I thought, well, this is probably going to be a temporary phenomenon that we're seeing, because supply chains are going to get sorted out, people are going to come back to work, that's going to give businesses the workers that they need, and then you'll start to see supply return. At the same time, I expected demand to normalize.

Neel Kashkari:

When much of the U.S. economy was shut down, you couldn't go out to restaurants, people were not traveling, they weren't going to hotels. So what were people doing? They were either saving a lot of

Fed Unfiltered, Transcript

3/24/22 – Neel Kashkari, Speech: Q&A at the Fargo-Moorhead-Chamber of Commerce

money or they were spending it on goods rather than on services, cars, washers and dryers, gym equipment for your home, because your gym might have been closed. So if you looked at the economic data, goods consumption went way up and services consumption went down. Well, that seems like that should be a temporary phenomenon, and as the economy reopens, that would go back to normal. Interestingly, that hasn't happened. The goods consumption has stayed elevated while services consumption has picked up. That's not what I expected to see. And so that tells me, okay, that's part of the inflation story. Maybe that's going to normalize and goods will come back down as services fully recovers, or maybe it's going to be sustained. We just don't know right now.

Neel Kashkari:

So about six months ago, the Federal Open Market Committee started adjusting what we call forward guidance, adjusting how we are likely going to set interest rates in the future. And now we've done the first interest rate increase last week, and we've signaled we expect it will probably be six more this year, 25 basis-point increases. It could be more, could be less. I think that I penciled in, in my forecast, that we'd have seven this year, but it's really going to depend on the economic data. If some of these imbalances that I described start to sort themselves out in the next few months, and I hope they do, then maybe we won't need as many. But if they don't, and if the high inflation is sustained, and there continue to be worker shortages around the country, then maybe we'll end up having to do more. We will have to see how the data evolves, but I've certainly shifted my views quite dramatically in the past six months.

Neel Kashkari:

The committee has moved quite aggressively, and the one thing everybody should know is 100% of the people on the Federal Open Market Committee are committed to us getting back to our 2% inflation target, there's no disagreement about that. All of us, we have different views on what it's going to take to get there, but we are all committed to watching the data and adjusting what we need to do based on what happens in the economy. And so, that's where we are. It's an uncertain time, and obviously everything that's happening in Ukraine, the tragedy in Ukraine, is making all of these problems worse, because you've got high oil prices, high commodity prices, supply chains that are potentially affected by that. That makes this an even more challenging problem, but we are going to tackle it. So with that quick overview, I hope that sets the groundwork. Kurt, over to you.

Kurt Zellers:

Yeah. Great. Well thank you, everybody, and good morning. And thank you, President Kashkari, for coming late. And as the president said, congratulations everybody. Doesn't this feel great? A round of applause yourselves for being here, come on! We're back in person. And as Shannon mentioned, to the 24 other chambers that are joining us online, another phenomenal opportunity. My kudos, having been in public service for a long time, watching what the Fargo Moorehead West Fargo Chamber is doing from an innovation standpoint, bringing in chambers from all over the Midwest to share, to listen, those that maybe are back in service and can't be here, but having this online and being able to access this after the effect is fantastic. So as Shannon said, my name is Kurt Zellers. I'm the vice president of communications and public affairs for Primacy Strategy Group. We're a public affairs and lobbying firm here in Bismark, as well as in St. Paul and in Washington, DC, and just opening up in South Dakota.

Kurt Zellers:

Fed Unfiltered, Transcript

3/24/22 – Neel Kashkari, Speech: Q&A at the Fargo-Moorhead-Chamber of Commerce

My primary job is working on public policy and the public-relations and media-relations side, but also nightlight as a host for events like this. So when the opportunity came up to work and interview President Kashkari, even before the Russian invasion, I jumped at the chance. Now, with interest rates, the invasion, the world stage as it is, we're going to settle in here for about two-and-a-half hours, so hopefully you guys got enough coffee. Ah, you guys aren't quite awake yet for my good dad jokes, but we're going to get through as much as we can. As they said before, there are going to be microphones around the room here. So if you have a question, please raise your hand in advance, so that everybody doesn't rush to get to the end. And then for online folks, make sure and put that into the queue. Katherine or Kale will be able to get those questions up to us, so we can start and make sure.

Kurt Zellers:

But I'm going to ask a few big, basic questions to get us going, but really do want to hear from the crowd. So please, as you're looking around the room, look for those microphones. The state of the economy in general, you led right into what I'd like to start with, is those interest rates. I read, there was an article from the Star Tribune just last weekend, you had been pretty adamant and pretty not, I don't want to say concrete on it, but you'd been opposed to those rate increases. What was that change? You alluded to it a little bit, but what was that change that you saw that made you think that that needed to be done? And then, you kind of led into how long this could take. Where do you see that supply chain? Is that the number-one thing that's holding things up, or is it just a combination of everything?

Neel Kashkari:

Well, it's a combination of a lot of things. So one thing that for the last five or six years, before the pandemic, we kept thinking that, oh my gosh, we're at full employment or maximum employment, all the Americans who want to work have jobs. And then we kept getting surprised as more and more Americans were coming off the sidelines and taking jobs or, excuse me, folks that we thought would retire didn't retire. They said, "I'm going to work for a few more years." That's really good for the U.S. economy. The more Americans that are working, the higher our productive capacity. So we kept getting faked out by the U.S. economy. It turns out we were not at full employment. There were more workers there. And then the pandemic hit, and many Americans lost their jobs, many Americans left the workforce. And nine months ago or so, we were probably missing four or five million workers from the workforce, where we should have been if there had been no pandemic.

Neel Kashkari:

And people pointed to a lot of different factors. They pointed to unemployment benefits that were generous, that some people said, "Oh, this is incentivizing people not to come back." Well, those expired in August or September of last year. We had schools around the country that were closed, which created huge childcare challenges for families, especially with young children. That was keeping some people out of the workforce. And then there was fear of COVID, just people were nervous about getting sick. And so schools then reopened, the unemployment benefits expired, COVID vaccines became more widely available, and we did start to see more and more workers come back in. So part of what I was arguing was let's not shortchange the American worker. I believe the vast majority of Americans want to work. I believe they will come back if given the chance.

Neel Kashkari:

Now, they have come back, right? In the last six months, the U.S. economy has created about 580,000 jobs a month. That is really strong job growth, so that's been positive, yet it's not been enough to keep

Fed Unfiltered, Transcript

3/24/22 – Neel Kashkari, Speech: Q&A at the Fargo-Moorhead-Chamber of Commerce

inflation in check. And so I think it's just a consolation of all of that data that got me and my colleagues to say, okay, this is not evolving exactly as we expect it, and so we need to adjust.

Neel Kashkari:

In terms of supply chain, six months or so ago, my economist and I did a round of calls with some of the biggest businesses that are headquartered in this region, global companies, and they're all name brands that you know, that have operations all around the world. And I asked the CEOs and the head of supply chains, "What's going on in your supply chains?" And they said, "It's not getting better." They said, "Every time we put out a fire in one market, something else burns somewhere else, and we are just, it's like Wac-A-Mole." And I said, "Well, when do you think it's going to get better?" And they said, "We're guessing not in 2022, maybe in 2023, but who knows." And that also opened my eyes that, oh my gosh, this is going to last longer than I expected. And the data just keeps coming in that direction, and so of course we have to respond.

Kurt Zellers:

So two follow-ups to the supply chain, The Great Resignation, as some of the media call it, and then how is automation going to play a part of that? I heard an ad on the drive up here yesterday - it was QuikTrips. If you are a sponsor, congratulations, you've got bonus advertising - but talking about drivers making \$93,000 a year, \$93,000 a year to do delivery routes. Is the supply chain in That Great Resignation, is that going to kind of fast forward? Are we going to see driverless semis on the road next year? Will that be 2023, 2024, or it will the worker eventually come back, or will that market adjust? And again, if you get paid \$100,000 to do route delivery for a QuikTrip or for SuperAmerica, so I make sure and equal advertising there, is that going to be a part of this new change then in what you're seeing?

Neel Kashkari:

As the economy has gotten strong and workers have more choices, and by the way, that's a good thing. The highest wage increases we are seeing are for the lowest-income workers. These are folks who are long overdue for a raise. I'm glad they have more choices than they had before. I think you are seeing a churning in the labor market. I don't really buy this great resignation story. I think you're seeing a great job-switching story, which is people are switching away from the toughest jobs to more attractive jobs. One thing I hear from all the big businesses that I talk to is, "Oh my gosh, we can't get long-haul truckers." That's a tough job to be a long-haul trucker, because you're away from home for a week, but you are seeing more people hired in local delivery, because that's a better job. Guess what? You get to sleep in your own bed, you get to be with your family.

Neel Kashkari:

Another job that's really tough, but really important, our childcare workers, right? I've got two young children, a one year old and a three year old. Childcare workers are profoundly important to our society. They're also paid really, really poorly. And so as they look at, well, I can go to Walmart or I can go to Target, and I can make \$13 or \$15 bucks an hour, and that's an easier job, why don't I go do that? And so you're seeing it churn away from the toughest jobs into more attractive jobs, not more important jobs, but more attractive jobs. And so society's going to have to adjust, because we still need long-haul truckers. And as much as Silicon Valley promises us it's around the corner that we're going to have driverless trucks, it always seems to be around the corner, so we'll see when it arrives. And there's some jobs, like childcare, there's no robot that can do childcare. And we need high-quality childcare workers, and that means we're going to have to pay them more, and we ought to pay them more.

Fed Unfiltered, Transcript

3/24/22 – Neel Kashkari, Speech: Q&A at the Fargo-Moorhead-Chamber of Commerce

Kurt Zellers:

So a question coming in online, we'll back up a little bit. So the question's back on the interest rates, and especially where your position has been, and the question is why not move interest rates faster rather than continue the slow kind of quarter, quarter, quarter? It would be a little bit of shock to the market, but it would make the recovery speed up - would it? And maybe it wouldn't - so basically the tear the bandaid approach off, just hit it with two points or two-and-a-half points, versus a quarter, a quarter, a quarter. And this is definitely out of my end of the, I'm in the shallow end of the pool now, so this is I'm dangerously going into this question, but why the policy? And maybe that's a little deep for 7:30 breakfast, but-

Neel Kashkari:

Well-

Kurt Zellers:

Fast versus slow?

Neel Kashkari:

Because I'll say a few things. One is we're going to get more information. And let's say that these supply chains do start to sort themselves out, let's say that more workers do come back in. Maybe we're not going to have to move as far as we otherwise would, and so there's a danger to overdoing it and ending up not needing all of that medicine, so to speak, number one. Number two, the way monetary policy works, it's an interesting thing. It doesn't just work based on what we did last week, moving 0.25%. It actually moves based on what we signal we're going to do in the future. So mortgage rates have moved up quite a bit. Even before we moved interest rates 25 basis points last week - we hadn't moved them at all - mortgage rates moved up a lot over the last six months just because we indicated we are going to be acting. And so the path of interest rates actually matters a lot, and we have already moved the path of interest rates quite dramatically in the past six months.

Neel Kashkari:

So I would just encourage people, don't just focus on that 25 basis points, focus on what we've signaled about the path. That's determining what's happening. The 25 basis points is an overnight interest rate that banks charge each other. Nobody cares about an overnight interest rate. Can you go get a mortgage? You care about rates over the next 10 years, 20 years, 30 years. It's that path that actually matters, and there we've made a big move.

Kurt Zellers:

So, and again, if those of you in the room, the online questions are coming in great. Thank you to the audience across the Midwest. Anyone in the room, again, if you'd like to ask a question, please raise your hand. There are some folks walking around with microphones, so please they'll find you. So we're going to go quickly now into workforce. That's a big issue up here, North Dakota. Being from here, from Devil's Lake, and attending UND, this has been an issue that hasn't come up just in the last couple of years. This has been a growing problem with the Bakken, and a lot of folks went west that maybe could have been staying here in Fargo or Grand Forks, or maybe Jamestown. Where do you see that workforce development?

Kurt Zellers:

Fed Unfiltered, Transcript

3/24/22 – Neel Kashkari, Speech: Q&A at the Fargo-Moorhead-Chamber of Commerce

And we hear it constantly, as you mentioned, the daycare shortage up here is unheard of. I had even no idea. There's no third-shift daycare for people who are working in longer jobs or a third shift. Where do you see that workforce development? What's the new model? Is it the four year degree, is it trade school, is it a combination, is it a hybrid? Do we start juniors in high school on a path, versus waiting until they hit that graduation deadline and then go into training. Where do you see the new model that is reacting to the current state of the economy?

Neel Kashkari:

Well, I think because it has been an ongoing issue in North Dakota, first thing we have to do is make sure that we're actually training and reaching everybody who's here. We don't do that today, right? There are people who fall through the cracks of our education system, who don't get the basic skills. I'm not saying go to a four-year college, I'm saying be able to be productive contributors to our economy. So that's number one, is making sure we actually reach and train everybody who's here. Number two, this is math. I mean, look, our economy grows in part by population growth. It's just math. If you have more people, you have more people producing things, and you have more people consuming things. So if we want our economy to grow, we need people. Now, birth rates in advanced economies have been declining for decades, they've been declining in America. We're having fewer kids than prior generations. So either we accept slower growth, which is all the challenges that folks in North Dakota are aware of, or we embrace immigration. That's it.

Neel Kashkari:

Now I'll tell you, Japan is trying a different strategy, which is they're trying to create tax incentives and whatnot to encourage their folks to have more babies. All right? That is a very challenging thing to pull off. And by the way, at a minimum, it takes about 20 years to work, just to do the math, okay, so if you want to wait 20 years, maybe we could try that strategy. This is just math. So right now, what North Dakota did during the oil boom is you drew in workers from all around the country, because you paid way up. That works if it's one hot local market. That does not work if the U.S. economy as a whole needs workers, and right now the U.S. economy as a whole needs workers. So ultimately, this is a political question, which we as a country have to decide. Immigration has been a huge source of competitive strength for America over its history. It can be again, but we have to make that political decision.

Kurt Zellers:

Yeah. Well, I'm interested. Is it vouchers for dinner? Is it vouchers for date night? It's an interesting Japan strategy. Unfortunately, after three kids, we're done, so I'm out of the mix. One question online, leading back to that, in the churn of the labor market, the quickly-rising wages, generous hiring bonuses. Is that getting to overheated, and could it lead to a protracted period of wage stagnation once that market does re-normalize? So where everybody, like you said, the boom out west, does it get to a point where there's a stagnation in there?

Neel Kashkari:

Well, I think what we're trying to do, in terms of the fed, is we are trying to engineer, people call it, a soft landing, which is you have a booming economy. And what we're doing right now is we're taking our foot off the accelerator to try to let things normalize, where supply and demand can come into balance into a more sustained growth rate. The question that a lot of economists ask is, well, if you look historically, sometimes when the federal reserve, maybe often when the federal reserve has tried to cool things down, you end up leading to a recession. And then you end up having an increase in

Fed Unfiltered, Transcript

3/24/22 – Neel Kashkari, Speech: Q&A at the Fargo-Moorhead-Chamber of Commerce

unemployment, and some of those jobs end up being lost. That's what we want to try to avoid. I think it's just going to be determined by how the economy unfolds, how many workers come back, what's going to happen to supply chains. Do some of these inflation pressures relieve on their own, and how much of it do we have to do to try to bring supply and demand into balance? I hope we can engineer the soft landing.

Kurt Zellers:

No pressure, not at all, but I don't know if I can, can everybody still hear me?

Neel Kashkari:

No.

Kurt Zellers:

I may have lost a battery here. I-

Neel Kashkari:

There you go.

Kurt Zellers:

There we go. So one of the other areas with the challenges of workforce is workforce housing, so that segment of the population that's maybe in first or second-year career part of their job, that housing isn't there at that level for them. Unfortunately, the Minneapolis market, it's exploding. That first or second home for a family is unaffordable at current rates. Where, type my comments out, where do you see that workforce housing for that first- or second-job family that needs a space to work, needs a space to live after getting that first or second job?

Neel Kashkari:

Yeah, so housing is a huge issue all around the district. This is a completely self-made problem. I always say man-made, but it's a man- and woman-made problem, right? If you look around North Dakota, there's a lot of land in North Dakota, a lot of places to build, a lot of places to build in Minnesota, a lot of places to build in Montana, and yet we all create barriers that make it more expensive for a new supply to come in. Simply put, there is no state in the country, there is no federal government in the country that you can subsidize your way out of this problem, because the need is massive. Even if the legislature comes in and says, "We're going to double our investment in affordable housing," that's great, it is a grain of sand in the beach of need in North Dakota, in Minnesota, et cetera, and we're all at fault.

Neel Kashkari:

I live in a community, a western suburb in North Dakota, where we have big lot sizes, because my neighbors and I like having big lots, and that makes it more expensive. If somebody wanted to build a home in our region, it makes it more expensive. Or you have minimum number of bedrooms or car garages, or in California, mandatory solar panels. Each one of these sounds good, each one of these is well meaning. When you add it up, and add it up, add it up, it just raises the minimum cost of a unit or of a house to unaffordable levels, so it's completely man- and woman-made problem. And the question is, do we have the courage to actually look ourselves in the mirror and realize we're the creator of this, and we have the power to do something about it? That's it.

Fed Unfiltered, Transcript

3/24/22 – Neel Kashkari, Speech: Q&A at the Fargo-Moorhead-Chamber of Commerce

Kurt Zellers:

And for those regional centers, the challenge, right? So whether we're here in North Dakota, it's Iowa, it's Michigan, as those regional centers become more and more important, as the communities around them get a little smaller, it exasperates a problem. How do you encourage that policy then to push? And don't tell my wife I said this, but leave Maple Grove and maybe move to Alexandria, or maybe move to a smaller town that has the need, has a workforce need, but also has the housing affordability.

Neel Kashkari:

Well, one of the things that the pandemic has shown us is, and you all knew this before, but it's really become clear to almost everybody now, is how critical broadband is, affordable broadband, to communities all across North Dakota, all across Minnesota, so that, because now more and more jobs are becoming remote, and now all of the sudden you can live in the small town that you want to live in. If you have access to broadband, you can live in that small town and have a good job, and be able to support the local community.

Neel Kashkari:

So, for 100 years, rural communities in America have been drying up, because people have been going to the cities for college, staying there for economic opportunity, and that's created huge pressures on small towns across America. It may now be that technology has changed that. I mean, maybe it's made that not necessarily a one-way street for so many small towns in America, but we need to make sure that that broadband is available, the basic infrastructure is there. And hopefully the infrastructure bill that they passed in Congress will help make that possible for communities all across, but it is a huge challenge.

Kurt Zellers:

Hey, a perfect segue, and if there's anybody out in the crowd, again, please don't be shy. I've known very few people in Fargo to be shy, so please raise your hand and somebody with the microphone will come over and ask the question, but you led perfectly into the next topic area, federal spending. Broadband is a great example of where I think the government actually has been doing a good job, but where do you see some of the previous spending, whether it was the help with the COVID relief, some of the infrastructure, Build Back Better, or whatever the walking zombie that used to be Build Back Better is going to fund? How do you see that federal funding? Has it worked? Are there some states that have done a better job of using those funds as they've been given, in some cases, several billions of dollars?

Kurt Zellers:

And then, do you see a need for additional bills out of Washington? I know there's Build Back Better is going to be skinnied down to something maybe smaller, just a couple of trillion instead of \$4 trillion or \$5 trillion, but where do you see that federal policy, and has it worked?

Neel Kashkari:

Well, our political process is imperfect, but I think it's better than you look around the world. By comparison, it's pretty good, actually, as imperfect and as ugly as it can seem. And I actually give Congress and both the Trump and the Biden administrations great credit for they responded aggressively to the pandemic. None of us knew how deep the hole was going to be, how many Americans were going to lose their jobs, how long those jobs would take to come back. And one of the

Fed Unfiltered, Transcript

3/24/22 – Neel Kashkari, Speech: Q&A at the Fargo-Moorhead-Chamber of Commerce

things that we learned, I was in the middle of the '08 financial crisis, the error that we made during the '08 crisis is we were always a little bit late, and we're always a little bit small in our response. And so we ended up having a 10-year, very slow recovery. This recovery, by comparison, has been a rocket ship, and that's in part because the fed learned its lesson, and we were more aggressive this time, and Congress and the executive branches were very aggressive in supporting businesses and supporting families who were impacted by the pandemic.

Neel Kashkari:

It turns out now, I think history's going to show that they did more than they needed to do, but in the moment you didn't know how deep the hole was, you didn't know if you were looking into the abyss. And so I said strongly at the time, it's better to err on the side of doing too much, rather than too little, and I think that Congress saw that, agreed with that, and that's what they did, not because of me. They reached that conclusion on their own, so I give them a lot of credit for that.

Neel Kashkari:

Now, where do we go from here? I don't know. I mean, we're each going to have a spending priority that we think is important, and that's tough about the political process, right? I made the case earlier in this conversation, I said infrastructure and broadband internet is really important. I also made the case that, hey, childcare is actually really important for the country, and our childcare workers need to get paid more. Oh, that costs money, and that has to come from somewhere, and I bet somebody else here will have their own spending priority that they would suggest. And if you look at it, it's probably a good idea. Well, you put all of this together, and we all have our ideas, it adds up to big, big, big dollars. And so ultimately, it's a political process that sorts through that and tries to figure out what are we going to invest in as a country? And so I think they'll figure it out.

Kurt Zellers:

Well, and since we are 24 chambers around the Midwest here, are there, and you don't have to call it a favorite because we're in North Dakota, and say they're doing a great job, but do you see a state that has kind of figured that out, like we're going to use this amount of money for infrastructure and roads, we've got some broadband money, and then we're dipping into housing over here. Has anybody figured out that magic formula yet or a piece part, maybe not the whole formula, but two or three things that have really taken off that are being successful in those local economies in an upper-Midwestern state here?

Neel Kashkari:

Well, I'll say I can speak about Minnesota because I know it the best. I don't know what every state is doing. I serve with the deed commissioner on a task force for Governor Walz. It's a task force that's trying to advise the governor and the executive branch in Minnesota on how to spend their surplus and what to be investing in for long-term economic growth for the state. And so it's great that Steve Grove is here and will be addressing you later today.

Neel Kashkari:

One of the things that I argued in the early part of our work was that I went back to broadband, and I said broadband is paramount for so much of our economy, for healthcare delivery, for education. A lot of money is coming from the federal government. Whatever the hole that is left, whatever gap is left, I said Minnesota ought just finish the job. I don't know if the gap is \$5 million or \$500 million, but

Fed Unfiltered, Transcript

3/24/22 – Neel Kashkari, Speech: Q&A at the Fargo-Moorhead-Chamber of Commerce

anywhere you go in Minnesota, you ought to be able to get access to high-quality, high-speed, affordable broadband, and I think the governor agreed with that. Again, it wasn't my idea, I know Steve was already there, but that's an example of let's just finish the job using the one-time money that the state has.

Neel Kashkari:

My assumption is that other states like North Dakota also have people who are looking at this, both in the administration and advisors, who are saying, "What can we best use this money for to build out our needs in North Dakota?" So I'm confident that we elect people who take their job seriously, and are doing their very best to make the best decisions for their voters.

Kurt Zellers:

Yeah. And luckily, Shawn Riley from the North Dakota, he prefers IT guy, by the way, he said I have permission to use that, has never been more excited at a breakfast in his life, federal money, state money being coming down. One of the questions coming in from online is you mentioned the short-term rates have moved up quickly due to the forward guidance. However, the long-term rates have relatively slowed. Is that concerning to you?

Neel Kashkari:

Well, so this is a good question, this issue. I pay a lot of attention to the 10-year treasury yield, so when the U.S. government borrows money for 10 years, what is the yield on that bond? Part of that yield is a reflection of the expected path of interest rates, right? If we told you interest rates are going to be 5% at least for the next 10 years, you would expect the 10-year yield to be at least 5%. So part of it is what are interest rates going to be, part of it is what is the expectation for inflation? Well, the 10-year treasury is right now around 2.3%. It's still quite low relative to history. That is telling me a number of things. That is telling me that the interest rate environment that we're in, the interest rate that determines the neutral level of stimulus, neither stimulating or restraining the economy, is quite low relative to history, and it's telling us that inflation expectations, people's confidence about inflation in the future, is also close to where it should be.

Neel Kashkari:

So on one hand, it's comforting, because it suggests that inflation expectations are anchored. On the other hand, it's telling us, hey, the U.S. economy's long-run growth potential is still modest, and so it's telling us a lot of different things. And one thing that people pay a lot of attention to are where are short-term interest rates relative to long term interest rates? When the yield curve, as they call it, inverts, it has been a signal that there may be a recession coming in the future. It is not inverted yet, but it is getting flatter. To me, trying to simplify everything I just said, the 10-year treasury, to me, and the shape of the yield curve, gives me feedback on where we are relative to neutral. So I have said that I think the neutral interest rate, federal funds rate, is around 2%, and that the 10-year treasury is telling me it probably still is around 2%. So anyway, it's a very technical question that was asked, there's a lot in there, but it's something I pay a lot of attention to.

Kurt Zellers:

Well, and I think when you look at folks in the upper Midwest around the agriculture and business development, they look at those rates, because a lot of that planning, you know, our family farm's still up by Devil's Lake, they start planning in December, they don't wait until oh my God. So that rate

Fed Unfiltered, Transcript

3/24/22 – Neel Kashkari, Speech: Q&A at the Fargo-Moorhead-Chamber of Commerce

increase, the current one, but then that long-term rate is, yeah, as they're planning, and as farms are being passed down, that's a huge concern. So one other question around, and I hazard to do this because I'm sure you could ask this around, but it's a very short and to-the-point question. Is crypto real or just a flash in the pan, and should it be regulated? I know that's a hot topic, and I'm sure everybody in the room either has crypto or is getting crypto, or what crypto to get, but as this new reset now with Russia and Ukraine and the world markets, what does that do to it, and what is an opinion on that, from a regulatory standpoint?

Neel Kashkari:

Yeah. So, I've developed pretty strong views on crypto, which is I've said publicly that it's, from what I can tell, 95% noise, hype and confusion. And I'm reserving judgment on the last 5%, that maybe something useful could come out of the last 5%. The most basic question I always ask people who are excited about it is what can you do with a cryptocurrency that you cannot do today? So first of all, digital currencies exist today. I can send anybody in this room \$5 instantly with Venmo or PayPal or Zelle. That is a digital currency. So what could I do with Bitcoin that I can't do with that? And then I just get a bunch of fancy words, a word salad, and nobody can articulate what the use case is.

Neel Kashkari:

And then they will say, "Well, no, no, no. If you look at Venezuela. Or if you were in Russia and you didn't want to have these sanctions imposed on you, you could get around the sanctions with Bitcoin." Okay, I get that. Why would America be in favor of that? So the use case, other than for trying to get around sanctions or for drug lords or for money launderers, it is not obvious to me what any normal person could do with this thing that you cannot do today using a commercial product like Venmo, PayPal, or Zelle. So we'll see, maybe something useful will come of it? We'll see.

Kurt Zellers:

But it's great. As you can see the sponsor on the wall, Bremer Bank thanks you for that endorsement. Happy to go down to your local Bremer Bank. They'll be happy to help you open up that checking and savings account. So, getting a little more local, and I apologize to some of our other friends here in the Midwest, but really because it's Western North Dakota, this is an online question that, a little bit longer, but I think really fits with also where the economy is. The domestic oil and gas public companies appear to be reticent to deploy capital in the Bakken, due to some of the current administration SEC policies. It doesn't seem to be holding back private companies and hedge funds. Is there anything the federal reserve can do to facilitate capital investment, thereby increasing domestic energy security in the current geopolitical environment?

Neel Kashkari:

Well, I've been asking this question. One of the things, the breakthrough, the technology revolution that has been fracking and horizontal drilling, I believed essentially put a cap on the price of oil. When oil prices would go up, the frackers would get out there, and it's much quicker to bring more production online there than in a traditional oil field. So I'm surprised that that has not yet happened, and so I've been making a round of calls into the oil and gas sector, including last week. I did an event on Friday with Senator Kramer from North Dakota and the North Dakota Petroleum Council, to hear directly from producers on what's going on. And it's a lot of different things that is keeping back new supply. It is a lack of confidence that prices are going to stay high. They're like, "We're going to go make these investments, and then prices come back down, and then we're in trouble again with our investors."

Fed Unfiltered, Transcript

3/24/22 – Neel Kashkari, Speech: Q&A at the Fargo-Moorhead-Chamber of Commerce

Neel Kashkari:

There are workforce issues, finding the workers that they need, then there's the regulatory environment, the political environment, et cetera. And so trying to determine which, I think the most important factor is the economic one, which is, hey, we're just not sure how long these prices are going to stay high, but all of it matters. I mean, I'm basically of the camp right now we need all the energy production we can get. And do we need to transition to a clean future? Absolutely. But one of my friends who used to be on our board, Kathy Neset, from the oil region in Western North Dakota, she's talking about technology development of carbon capture and sequestration that's going on in North Dakota right now that is showing real promise. I hope so. I mean, I hope those things end up working, because that could be really powerful for the U.S. economy on a number of different dimensions.

Neel Kashkari:

And so right now my message is we need all of the above. That doesn't mean that we don't need to have a clean future, we do, but we need a lot of breakthrough technologies on a lot of different fronts to make that happen. And I think carbon capture and sequestration, I hope, is going to be a piece of that.

Kurt Zellers:

Yeah. And kudos to the Berg administration for really leading on that on a national basis, not just here in the upper Midwest. We just have a couple minutes left here, so I want to get down to, and this is a giant question for as we're heading out. The debts of the federal government is incurring as we're spending, helping, aiding our way out of this. Where do you see that going, in three minutes or less, where do you see that going forward? And then, are we on the precipice of getting a little too close to the edge, or is it right, because we've never been in a pandemic like this, that we have to deal with a situation like this?

Neel Kashkari:

I think the pandemic spending was appropriate. It's kind of like war spending. I mean, the U.S. government debt ballooned during World War II, and then it gradually came back down. So I think the key question's going to be what happens after this pandemic period is over, and what are the fiscal plans going forward? By the way, it goes back, in part, to demographics. I mean, for example, a lot of our social programs, Social Security, Medicare and Medicaid are paid for by current workers paying for current retirees. And as our society ages, those ratios go into the red. And so if we don't do anything on the immigration front, our budget situation is going to be a lot harder going forward.

Neel Kashkari:

In terms of how close we are to the precipice, this is a relative game, meaning investors around the world, for all of our dysfunction and all of our challenges in America, investors around the world look at America and say, "This is a better place to invest than anywhere else in the world." I mean, it's not even close, and so that's why the U.S. government is able to borrow at very low rates. And so if Europe really got sorted out and became economically strong and competitive, or China did, investors might say, "Hey, I'd rather invest in Europe or in China," so at some point that might happen.

Neel Kashkari:

I'm still fully all-in on USA for our competitive strengths. We've got to keep investing and keep do making smart policy choices, and I think we'll be very competitive around the world, but that's really what it's going to come down to. Right now, America is still the best place in the world to invest, because of our rule of law, because of our innovation culture, our education systems, et cetera. We

Fed Unfiltered, Transcript

3/24/22 – Neel Kashkari, Speech: Q&A at the Fargo-Moorhead-Chamber of Commerce

need to keep our competitive advantage, and then we will be able to continue to borrow and fund ourselves at attractive levels.

Kurt Zellers:

Well, and that the investment and the next conversation will, Shannon's asked, we're going to do this once a quarter, I hope you're fine coming up, and chamber will have this scheduled once a quarter, but we really do appreciate. We could have gone for at least another hour, I have a stack of questions here, but we really appreciate you coming up, President Kashkari, those of you who are online as well. If they would like to follow some of your research, if they would like to follow up on some of the other, you do several of these, I watched a few of your other interviews over the weekend, where can folks look for that online?

Neel Kashkari:

Just come to our website, minneapolisfed.org. We always record these, livestream them, put them on the website. We create a lot of research on national, global and local issues, just please sign up to our mailing list. We'd love to stay in touch with you. And if you see things that you think are important, please reach out. We'd love to hear from you.

Kurt Zellers:

Fantastic. Well thank you everybody, and we appreciate your time, President Kashkari.

Neel Kashkari:

Thank you for having me.