Sandy Bishop:

Good morning everyone. We'll go ahead and get started. I'm Sandy Bishop and I'm the Executive Director for Economic and Community Development here at Nicolet, and it's my pleasure to welcome you on behalf of our president, Kate Farrell, who just arrived moments ago. Welcome Kate.

Kate's been traveling and came in quite late last evening, but we're so happy you made it and thanks for being here. On behalf of Kate and Nicolet's Board of Trustees, it's my honor and pleasure to welcome you all to the Northwoods Economic Development Summit. This, let's call it an annual event, was interrupted by something called a global pandemic, couple of years back, and I think the last time we were all together was September, 2019 when we had the first economic development here at Nicolet in the Northwoods. A lot has changed since then globally and locally as you know, but many of our challenges remain the same. So that's why we're all here today is to talk about the challenges that we're all dealing with, whether you work in economic development, whether you work for county, city, state, federal government, whether you are a private business here today, we're just really happy to have you here and this is going to be a real treat today.

So please engage, please get involved, ask questions, there's all kinds of ways that we can work together today, so thank you again for being here. I just wanted to recognize a few of the college staff who helped put some of this together. First and foremost, Jody Engelman. Jody is our manager of professional and continuing ed, here at the college, and she and Lisa Sage, who also works here at Nicolet and is Vice President of Grow North, our regional economic development corporation up here. Jody and Lisa, you met them at the front entrance at the registration table, so thank you very much. Also, Mike Effinger, who is up in the booth here and is the tech guy extraordinaire. Mike is our manager of theater and event services, and knows all that stuff that the rest of us rely on day in and day out to look and sound professional.

So we also have Tommy Wartman here in the audience, right here. Tommy is the manager of our SBA Community Navigator Grant. So many of you that work in economic development get to also work with Tommy and Angie Schreiber, who is here in the back. Just wanted to call the both of you out because you're doing extraordinary work for the college and for our small businesses throughout the entire region. Tommy also helped with some last minute logistics yesterday and I want to say thanks for that. Also, behind the scenes we have Jenny Bonardeli from our facilities department, we have Melissa Warner, Katie Brooks, who are helping with all of the food, and beverage, and set up and that kind of stuff. So just thanks to the myriad of people who help put today's event on.

I just wanted to talk a little bit about the schedule today. We're getting started right on time, we'll try to stay on time today. We don't have a scheduled break on the agenda, but I understand some of you have to leave for the broadband round table at 11 o'clock. So we'll take a short break around 11 o'clock so you can get to the round table, and we can fill up our coffee and take a quick break as well. Lunch will be boxed lunches provided out in the commons area around 11:45 this morning. And restrooms, if you haven't already found them, are right out the theater exit here and to the right. So without any further ado, I would like to introduce Angie Close, who is the executive director for Langlade County Economic Development and is the president of Grow North. Angie.

Angie Close:

Thank you, Sandy. And I would like to say welcome on behalf of Grow North. I am the president, as Sandy had mentioned, but I also want to say thank you to all of our sponsors, without you we wouldn't be able to make this happen. So with that, we have UW Extension of Wisconsin, Madison, of course, Nicolet College, Lac du Flambeau Tribe, Bay Lake and North Central Regional Planning Commission. So please give them a round of applause. Thank you. And without further ado, I'm going to go ahead and introduce Kristin Rungee, who is the UW Extension Community Economic Development Specialist, thank you.

Kristen Rungee:

Thank you, Angie. Thank you all for being here today, 2019 feels like yesterday and also like three years ago, and a lot has happened between now and then. I'm here representing UW Extension, there's a whole team of folks that will be presenting throughout the day today. I'd like to thank a couple of them that are in the audience. Brian Gochi, Steve Deller, Matt Kiris, Brandon Hoffstead, and Tessa Conroy, as well as Chris Stark and Gale Hike will be here later today. We are going to have hopefully an exciting and engaging day for you today. I get the distinct joy of introducing Britney Bayer, who has been a partner to UW Extension for quite a few years, we're excited to be here, we're involved because you got this going in 2019 and we cannot thank you enough. So with that, Britney, thank you very much.

Britney Bayer:

Thank you everyone. So as Kristen said, I'm Britney Bayer. Up until September, I was the executive director of Grow North at a regional economic development corporation, and one of the things I was working on was broadband. So now I'm doing that full time as a consultant with a company called HealthTech Solutions, and they have a company called Celerity, which is doing all the project management work. Before we get started, I'd like for you to do a little activity because this is going to become really interactive. Take out your smartphone because we all have them, and go to the text options, and we want you to text 2-2-3-3-3 and put that in as the phone number, and what you're going to text is Minneapolis. It's okay if it's capitalized, auto text actually capitalizes it so you don't have to worry about that. Hit send and nod if you have already gotten to that point, don't go to the URL, stay on the text function.

So we're going to be using that in a little bit, but this next section is a town hall for all of you to respond and talk to the president of the Federal Reserve Bank of Minneapolis. So to introduce Neel Kashkari, he began his career in another area, which is something that I understand really well, not aerospace, but he started in aerospace, but jumping into economic development. After business school, he went on to work for the public service section, so he worked with the US Treasury following then Goldman Sachs' CEO, Henry Paulson, into that position.

In 2008, he was confirmed as Assistant Secretary of the Treasury, and he oversaw TARP during the 2008 area, so the Troubled Assets Relief Program, and some of us remember that era. He did leave and went into the private sector, but he explored public service again, running for governor in California in 2014. But that led him also to the position of taking over the presidency of the Federal Reserve Bank in 2016. So he's had a pretty short run in comparison to other presidents of the banks, but he's known for his often minority opinion in keeping the interest rates low and also was of course connected to TARP and really understanding the too big to fail way of thinking about things. So with that, I'd like to introduce Neel Kashkari.

Neel Kashkari:

Thank you, Britney. Great to be with all of you, thank you for having me. I'm going to start just for a couple minutes and talk about why I'm here and what the Minneapolis Fed does, and then I want to go to the polls because it'll be great to get your input. So the Federal Reserve is our nations central bank, we were created by Congress in 1913. Basically think about managing the ups and downs of the US economy, or if the economy hits a crisis, the Federal Reserve, the central bank, can step in. Now, we always talk about having two primary goals. One goal is maximum employment as many Americans as possible, gainfully employed and contributing to our economy. The other goal is stable prices, what we define is 2% inflation. Now, I don't need to tell you, we do not have stable prices today, and that's something we're going to talk about.

So we're hard at work trying to get inflation back down to our 2% target, but why did Congress do this? Why did Congress create the Federal Reserve this way? They did something unique, they didn't want it simply housed in the nation's capital, they wanted it spread out around the country. So they created the Board of Governors in Washington, DC You probably have heard of Alan Greenspan back in the day, and then Ben Bernanke and Janet Yellen, and our current chairman, Jerome Powell, and then they created 12 independent regional Federal Reserve Banks, the ninth of which is the Minneapolis Fed, and our charge at the Minneapolis Fed is to represent this portion of America, which is Minnesota, the Dakotas, Montana, Northwestern Wisconsin, and the Upper Peninsula, Michigan. So a big part of my job and my colleagues' jobs are to travel around our region and to keep tabs on what's happening in our economy.

That means meeting with business leaders, civic leaders, workers, labor leaders, big business, small business, all across the economy so that we have a good sense of what's happening here. And then I go back to Washington, DC every six weeks where we have what's called federal open market committee meetings, and we set interest rates for the nation, and part of what I do in those meetings is I talk about what's happening here in our regional economy. Now, we cannot set a different interest rate for Wisconsin and for California it's all the same dollar, so we have to set one interest rate for America, but we want to make sure that this region is part of that deliberative process. So meetings like this and other meetings I've done yesterday, and we'll do later today, meeting small businesses or small round tables as well as these big town halls, gives me a lot of insight into what you all are experiencing.

So we're going to do something that I don't normally do, which is we're going to have this survey. We're going to let you all in the audience here, answer some questions on your smartphone just to collect a sense of how you see the economy right now. This is going to be helpful for me, but then it's also going to help us in the discussion that we're all going to have, and the last thing I'll say is, two more things. One is, I really appreciate it if you're very direct, ask me your toughest question, offer me your toughest comment. I'd rather learn from it than have you not ask it or not share it. And then the other side of that coin in full disclosure is this is being live streamed to the public so depending on what you say may get people's attention for better or for worse, I just wanted you to know that in advance. So with that, why don't we go to the first question.

So first question, tell us about yourself, which description best fits, employed in the private sector, employed at a non-profit, in government, unemployed but looking, not in the labor force but not retired, retired or you're a student. Okay, great, that's interesting. One of the challenges we've had coming out of the pandemic is a bunch of folks left the labor force for a variety of reasons, some of whom retired, some of whom are left the labor force, maybe they're caring for children or they're sick among other things so this is an interesting snapshot. I would've guessed coming into this meeting that we would've had more retirees here so it's just interesting. Okay, next question. How does the current Northwoods regional economy compare with one year ago? Much weaker to much stronger. Okay. Few people saying much weaker, generally skewed a little bit to the right. Okay, but then you got the much... That's interesting, somewhat weaker. Okay, next question. How would you describe current hiring demands from employers in the region? Very weak to very strong. I think I know the answer to this but it'd be interesting to hear your perspective.

So I'm not surprised to see a lot of very strong. One of the things we know right now, the first half of this year, the official statistics, the economy shrunk in the US, there's negative GDP, and typically people say, "Well, that must mean we're in a recession." But usually a recession coincides with a lot of job losses.

We've had a very strong labor market over the course of this past year suggesting we were not in recession. The economy's sending a lot of mixed signals right now, and we are looking for evidence that the labor market is at least somewhat softening and we're not seeing much evidence of that yet, certainly up here, we're not seeing it. Okay, next question. What impact has inflation had on your business or place of employment? Positive effect, very negative, don't know or doesn't apply.

We know obviously that inflation is very painful for families, there's going to the grocery store, I go to the grocery store with my family, I see the prices continuing to go up. There are some businesses who maybe are immune to inflation or somewhat immune to inflation, and maybe there are some businesses that do somewhat better in an inflationary environment, but this shows that even on the business side... I know what the answer is on the consumer side, on the business side, it's very negative.

Okay, next. What impacts have higher interest rates had on your business and or your household? So we've raised interest rates a lot this past year already, has it had an effect on your business or your family? Okay, not surprised. I mean, one of the goals of rising interest rates is you make things more expensive, more expensive to buy a house, more expensive to buy a car, to try to tap the brakes on some of the demand in the economy so I'm not surprised by this. Is that the last one or is there another one? Outlook for Northwoods over the next 12 months, optimistic to pessimistic. Okay, pretty balanced, maybe slightly skewing on the pessimistic side, but overall it seems like pretty balanced. Okay, so one to three words, what's the biggest challenge that's facing the Northwoods regional economy? Just do a word cloud. Boy, housing is just standing out there, isn't it?

Britney Bayer:

Yeah.

Neel Kashkari:

Workforce, employees. Got it. Okay, this is great. Well, thank you all for participating, it's great to get this context just so we can start off. So why don't we turn it over to you?

Britney Bayer:

Sure. So you talked a little bit about the dual mandate, but I wanted to dig in a little bit more on the...

Neel Kashkari:

And can we take this down just so we don't distract them?

Britney Bayer:

Sure.

Neel Kashkari:

Go ahead, thanks.

Britney Bayer:

Housing. I wanted to talk a little bit more about the employment and keeping it in balance. We're specifically a place that kind of typically runs pretty close to full employment. So when you're thinking about the big picture and then the local picture, how do you try to balance that from the Federal Reserve's point of view.

Neel Kashkari:

Well, we have to, as I mentioned at the start, we have to set a monetary policy for the nation as a whole so we do look at a lot of national statistics on what's happening in the number of people who have jobs. So for example, what's the unemployment rate? It's very low. But the number of people who are in the labor force, because there are some people who retire, a lot of people retire early when the pandemic hit. So a key question for us is, are some of those folks coming back in? Retirement is a pretty sticky state, which means when people retire, they tend to stay retired, but it's not always a permanent state, some folks do decide to come back or maybe work back part time. So we do a look a lot at how big is a labor force? How many people are working, how many people do we think want jobs?

Prior to the pandemic... In your introduction, you said that I had been one of the advocates for low interest rates. I had taken that view because every time we thought we were at maximum employment, everybody who wanted a job had a job, the economy went out and created hundreds of thousands of more jobs and people took those jobs. So where'd those folks come from, turns out we were not really at maximum employment, more people wanted to work. So coming out to meetings like this and looking at local statistics helps me to try to make sense of what we're seeing nationally. So for example, a lot of businesses for years prior to the pandemic told me there are no workers anywhere and then businesses would go out, and hire people and find jobs so there was some disconnect. So individual conversations like this helped me to make sense of the conflicting signals that we often see in the national statistics.

Britney Bayer:

And talking about conflicting signals and trying to figure out what was happening, we just hopefully were exiting the pandemic period. So what are some of the highlights that the Federal Reserve Bank learned from that period and what are you going to try to adjust going forth?

Neel Kashkari:

I mean, one thing we got right, having been through the 08 crisis, my colleagues and I... There's a tremendous amount of institutional learning at the Federal Reserve in how to respond to a crisis. When I look back at our response to 08, I would say we did our very best, but if we could do it over again, we would've been bigger and bolder earlier, we were a little bit slow. But we were also doing things we'd never done before so that caution was under understandable. In 2020, we benefited for having done what we did in 08, and we acted much more aggressively responding to the 2020 downturn of the economy and the economy has bounced back much faster than we expected. So that's a good lesson that we got right, I think responding forcefully, but the inflation has surprised us.

So a year ago when we started seeing signs of high inflation climbing, I was in the camp that, "Hey, I think this inflation's going to be what we call transitory. It's going to go up and it's going to come back down fairly quickly." That has not happened. In many cases the underlying inflation has continued to climb and it's climbing for a lot of different reasons. It's climbing because supply chains continue to be dumbed up, that was something we did not see happening. We'd never been through this before, we didn't expect that there'd be lasting supply chain challenges all around the world.

Obviously Russia invaded Ukraine, that was something that we were not expecting, which upended commodity markets and energy markets. COVID in some sense has been better and worse, meaning the vaccines came along much faster than the health experts thought was possible, which is fantastic. It allowed us to reopen the economy quicker than we thought but it's also lingering. I mean, several hundred Americans are still dying every day from COVID, so it's both better in some dimensions but also longer lasting. So all of this is forcing us to try to adjust our understanding of where the economy is and where it's heading, and then to try to adjust policy along with that.

Britney Bayer:

Thank you. This is a perfect opportunity at this point for questions from the audience, again, ask any of the questions that you have, raise your hand, and we have two people who have their microphones ready to go, or I'm going to have to call on people because I know...

Neel Kashkari:

And do us a favor and introduce yourself when you ask, just so the audience on online knows who's talking.

Eric Berk:

Sure. My name's Eric Berk and I work for USDA Rural Development. I'm wondering if you guys are looking at it, another housing bubble, a potential housing bubble bursting once we come out of COVID and some of these programs go away that we're helping people stay in houses they couldn't afford anymore, and along with the increased pricing, it's a concern for us and I'm wondering if that's something you're looking at or seeing?

Neel Kashkari:

It's a good question. The fundamentals of most American households are much stronger than they were before the pandemic and before the 08 downturn, for example. And if you look at home equity values or how much equity are in the average home across America, there's a lot of equity in American homes would suggest that home prices would've to decline by quite a bit to wipe out that equity to lead to another housing crash that we saw. I don't want to say anything is impossible. I've learned to never say something is impossible, but the fundamentals of most households is simply much-much stronger than it was prior to the pandemic and prior to the 08 downturn, which gives me more confidence that we should not be facing such an acute housing bursting of the bubble, there may be a housing downturn as mortgage rates continue to climb, but that doesn't necessarily mean there's going to be a hard crash. Thank you.

Britney Bayer:

Other questions?

Angie Schreiber:

Angie Schreiber with the Grid. So my question is the Fed considering adjusting the balance sheet at all to combat inflation?

Neel Kashkari:

We are, and we are doing it actually. Let me just spend a minute on this to explain... It's a good question. To explain the background of your question. The traditional policy tool that we move up and down to try to boost the economy or slow the economy down is a federal funds rate, which is an overnight interest rate that banks charge each other when they loan each other money. We move that interest rate up and down, not because anybody cares about overnight interest rates, it's because it has an effect on longer term interest rates. So if we move the overnight interest rate up, it tends to then have some effect on longer term rates such as mortgage rates. Well, when the pandemic hit and we cut interest rates to zero, the question was are we out of ammunition? Does that mean we cannot lower long term rates anymore? And the answer is no.

So then we started expanding our balance sheet by buying long term treasury bonds and mortgage backed securities to drive down those long term interest rates directly. So now we have a large balance sheet and the question was, are we going to do anything with our balance sheet to try to bring inflation down? And the answer's yes, and we are, and one of the ways we do this is by letting our balance sheet run off. So if you buy a treasury bond or any other bond, as that bond matures, you get your principle back. So prior to several months ago, we were reinvesting our principle as it was expiring to keep our balance sheet of the same size. Now our balance sheet is shrinking and it's actually shrinking at quite a fast rate, those bonds are maturing. We're shrinking our balance sheet at roughly twice the rate that we shrank it the last time after the last crisis.

So that is going to put, by shrinking our balance sheet, that it should be putting some upward pressure on long term interest rates, that complements what we're doing with our federal funds rates. So we moved up these overnight interest rates and now we're shrinking our balance sheet, both of those should be putting upward pressure on long term interest rates, which then translates into higher mortgage rates, higher borrowing costs if you were to buy a car, mortgage rates have gone from something like 3% to seven. I was in a meeting yesterday and somebody said they heard of somebody paying an eight on a 30 year mortgage. Mortgage rates have come up very quickly over the course of this year in response to our actions, both with the federal funds rate and with the balance sheet. Sorry, long answer to your question, but that's a complicated question.

Britney Bayer:

Great. Other questions.

Neel Kashkari:

In the middle.

Britney Bayer:

Right here in the middle, over here in the center section.

Scott Cattanach:

Thank you very much. My name is Scott Cattanach. Neel, I am a president of People State Bank, a large community bank in our area. Before my question, I do have to indicate how much I appreciate your brown cowboy boots, that's fantastic.

Britney Bayer:

I took some liberty, I'm like, "I'm coming out, I might as well."

Scott Cattanach:

You can never go wrong in North Central Wisconsin with the brown cowboy boots. Banks, our operations are obviously heavily impacted by any change of interest rates up or down. So that creates all sorts of uncertainty on how we could move forward and serve customers. So my question is, what are your thoughts on the benefits of pulling off the bandaid and doing a shock rate increase to where you think it needs to go all at once instead of these moderate movements that create, the market thinks we're there, we're not there. If you think we're there, we're not there, that type of thing.

Neel Kashkari:

Yeah. Well, first it's a good question and I'm going to just gently push back on one of your comments, which is that these have been moderate movements. Moving in 75 basis point increments as we've done over the last several months, several meetings, is actually very aggressive, very aggressive relative to history of the Federal Reserve. Some people have said, "Well, why don't you just go in one shot? Why do three 75 basis points, why not just do 2.25 in one shot?" And the answer is, there's tremendous uncertainty in the underlying fundamentals of the economy. So think about it, first half of the year we had negative GDP growth, all the chatter in markets was, "Oh my gosh, we must be in a recession." If we were in fact in a recession, that might cause us to rethink how we're approaching monetary policy or at least adjust our thinking. But at the same time, the job market is creating strong job growth month after month after month.

So are we in a recession or is the economy still growing? Mixed signals. So by moving at an aggressive but not an overwhelming pace, it allows us to get the funds rate up to signal our commitment to keeping inflation in check and bringing it back down to 2%. But it also gives us some time to see how the economy is unfolding. One of the real challenges with what we're trying to do, is that monetary policy, many parts of it operate with a lag, it takes a year to work its way through the economy. Now, let me give you an example, I mentioned this already. When we raise interest rates, mortgage rates respond almost immediately and that directly affects the housing market. So the housing market is the first to respond, but as it works its way through all the rest of the economy, that could take a year or two.

So if we keep raising rates or if we just went up 2% or 3% or 4% in one shot, it may well be that that's too much and that we end up overdoing it needlessly. So by moving and looking at the data and seeing how the economy's responding, it allows us to try to measure the dosage somewhat while still moving aggressively. But I got to say it's not a crazy question, it's a totally reasonable question and it's a judgment call on should we be moving in 50 basis point increments or 75 basis point instruments and how much more data are we going to continue to get to inform us? So far, some people are saying, "Well look, headline inflation has come down a lot Fed, why do you keep raising rates?" And it's true, gas prices have come down and some of the more volatile components of inflation have come down, but the stickier parts of inflation such as services inflation, wages, those things continue to go up generally speaking. So it's a complex picture that we're trying to unravel as we're making these policy calls. Thank you.

Britney Bayer:

Great. Next question.

Jim Maladi:

Hi, Jim Maladi, I'm a realtor up here so I'm in the housing business, that is what I am. Well, it's working, we're not exactly on the cutting edge of trends up here in Northern Wisconsin, but the cuts are working, the housing is really slowing down. But my biggest concern, I guess, long term, is affordable housing entry level. We just don't have any here and I don't have any answers, and I know that the Fed is probably not the right person to ask, but what can we do about affordable housing, not only here but everywhere?

Neel Kashkari:

Sure. Well, it's everywhere I go all across our region, red district, blue district, it doesn't matter, this is one of the top issues that families are facing and businesses are facing because they say, "I've got jobs, people want to take my jobs, but they can't find a place to live that they can afford that's decent." And you're right, it's mostly down to local issues, and I'm going to... Let me ask you this, who here owns their own home? Not everybody, but almost all the hands went up, I do. The reason housing is so unaffordable is because of people like you and me, people who own their own homes like me and you don't want people building more homes in our neighborhood. We like our place the way it is, we chose to live here for a reason and we erect all sorts of barriers to prevent people from building more homes, that's why it's so expensive.

And until we're willing to take that hard look in the mirror, we're not going to address this. We say whether it's minimum lot sizes or minimum car garage or some states they say you must have solar panels. All of these sound good and each one is well intentioned but when you add it up and layered it up and layered up it makes it prohibitively expensive and uneconomic to build new homes that people can afford and that's just the truth. So unless we're willing to address that head on, there's not going to be an answer for it.

Britney Bayer:

Other questions? Right over here.

Melissa Martinez:

Melissa Martinez, I'm the director of the Chamber in Washburn, Wisconsin. These numbers and things, a lot of the stuff you're saying, I have no clue what you're talking about. So what I'm wondering is how much does the fear of inflation actually impact inflation, and if it does, what can we do to calm everybody down so that it doesn't continue, so we don't manifest it?

Neel Kashkari:

Yeah. Well, you understand way more than you give yourself credit for. One of the things that the economics profession learned in the last big inflation cycle in the 1970s, what it was... They call it expectations of inflation, you call it fear of inflation, that actually is a really important component that drives actual inflation because if people say, "Oh my gosh, I can't buy put food on the table anymore like I used to, my paycheck's not going as far." They go to their employer and they say, "Hey, you need to pay me more just to keep my head above water here." And then they pay more and then they have to pass those prices on to consumers and then it ends up being a spiral that gets out of control. And we are acutely aware of that dynamic, and that is in part why the Federal Reserve is acting as aggressively as we are to tell the world we're dead serious about getting inflation down because we do not want that psychology to take hold.

And if you look at surveys of where families and individuals think inflation is headed, most think inflation is headed back down fairly quickly. And if you look at financial markets, they make their own expectations, they have their own expectations, they also think inflation is headed back down pretty quickly, which is good news, much better than the alternative. But now we have to keep on, we have to deliver what we said we were going to do. We have to follow, walk the walk so to speak, to validate those expectations so that they don't get out of control. Thanks for asking that.

Britney Bayer:

Thank you. Question over here.

Tom Nimachek:

I'm Tom Nimachek with UP Travel and the affordable housing is the issue of, we talk about homes, but it seems like more and more this country's got to go to multiple type dwellings. What can be done or are there other things we can do to get the private and sector like incentives to invest in multiple type dwellings so that we can bring the cost of monthly living down for people who are looking for affordable housing? Not everybody's going to be able to have a home everywhere, but we don't see the investment coming from the private sector to build multiple units so that they can rent them out on a profit basis and get the economy moving, that part of it moving forward.

Britney Bayer:

Yeah. Great question, and you're right there are, for example, if you look in the Twin Cities, there's a lot of construction of apartment buildings, multiple units, just like you said. And you're absolutely right, you've got to get the private sector mobilized to provide the capital, there's just not enough money in state budgets or federal budgets to subsidize your way out of this problem because there's so much demand for families and for new families needing a place to live and workers needing a place to live. So I guess I would ask you, I don't mean to punt, but to ask your real estate colleagues in the audience why... So yesterday I met with a bunch of small businesses who said, "We have this many jobs available, this many jobs, these are good paying jobs and we get people who apply and there's no place to live."

So why isn't one of the real estate developers in this room see that and say, "I'm going to go build a work, a nice apartment building to provide for those workers who I know will come because the job demand is here." What is preventing that from happening? My guess is it's more expensive to do for a variety of reasons than maybe it should be or than we appreciate. But you're absolutely right, the challenge is how do you unlock the private sector because only the private sector can move at scale. Now, I will say this, I visited a lot of rural communities around the district that I cover, there are some communities that do this better than others. Some communities actually get the developers together with the business owners together with the town planners, with the city officials and say, "How do we make the math work here?" And it can be solved, but it takes political will to solve it.

And I'll just say, I don't know this region particularly well, this corner of Wisconsin particularly well, but I have the people that I met here the way it is. So my guess is if you say, "I'm going to go build an apartment building and it's going to increase traffic on the roads, I'm guessing people are going to say, "I don't want that. I chose to live here because I like it the way it is." Well, that cuts against actually bringing more people in here to fill those jobs. So this is the honest conversation that folks need to have about do you really want more people living here?

Right over here.

Brian Hanson:

I'm Brian Hanson with the town of Harrison, which is in Linn County, just south of here, a rural township. My question is a few years ago there was a lot of talk about tariffs, and things and prices kind of went up with those going in. I don't hear much talk about that anymore so I assume some of them have been taken off but maybe not all of them, and is there any thought to what effect tariffs have on the underlying issues we're talking about?

Neel Kashkari:

Yeah, great question. So tariffs generally speaking are inflationary. They do raise prices for consumers here who are buying goods and services from abroad. My understanding is that some of those tariffs have expired, but as you said, not all of them. I think it's an active debate in Washington on... Reducing tariffs would lower prices for American consumers and for American businesses but then there may also be other political or geopolitical dimensions to that. So I think it ends up being somewhat of a complex assessment, but purely from a prices standpoint, you're right, lower tariff should help bring down prices. But there are other considerations that I think are weighing officials minds

Britney Bayer:

Right over here.

Todd B. Restorfa:

Hi, my name is Todd B. Restorfa, I work here at Nicolet now, actually I'm one of the transplants who came up recently within the past year, retired from the cities, I have an investment banking background and have actually contributed to Zero Hedge for about 10 years. My question is, and this bit of a hardball question...

Britney Bayer:

I don't think I've ever met somebody who's actually identified themselves, Zero Hedge is this anonymous website that likes to post lots of things. Thank you for having the courage to identify yourself.

Todd B. Restorfa:

And I actually do contribute with my own name.

Neel Kashkari:

You do, all right. Well, that's a first, thank you.

Todd B. Restorfa:

So the question I have is one that I've been actually writing about for many years, is that inflation is disproportionately harmful to areas like this where the bottom 50th percentile of income earners, just because discretionary spending is limited so when prices of commodities go up, it tightens, even their budgets tighten disproportionately to the top 1% or 5% or 10%. The Fed has over the years, if you look at cyclicality, it goes through cycles of high asset inflation, to asset price moderation, to asset inflation, to asset moderation. The asset inflation actually works well and benefits large asset owners and asset producers, but it hurts disproportionately small asset owners, people who are asset owners, people who own maybe a house or a car, or renters or consumers.

The question I guess I have is, does the Fed..." Given this kind of latest era of inflation, quite aggressive inflation, are there discussions going on at the Fed on how the Fed is responsible for some of the inflation due to the monetary expansion policies that they enact, the over steering, the 15 year...? There's a lot of discussion, openly acknowledge discussion, even at the Fed, I know about whether or not they should have been zero interest rate for as long as there had been. I'm just kind of interested to know what the conversations around those...? And then the acknowledgement of the disproportionate harm it does to areas like this, and making known, just looking for what those discussions look like behind closed doors.

Neel Kashkari:

Yeah. Well, first of all appreciate your question, I'm going to answer it. At least it's consistent with what I would've read on Zero Hedge about these topics. I go back to our dual mandate, prior to the pandemic, we have a goal of 2% inflation and maximum employment, and for the 10 years before the pandemic hit, we had inflation that was a little bit below 2% and we kept getting surprised that more and more Americans want to work. These two things are supposed to be like sides of the seesaw, that unemployment rate goes down and inflation goes up. But instead, the seesaw was broken in the middle and they were both low, which my read of that suggested policy was actually too tight during that. So if we said, "Well, hey, asset prices are too high, we want to get asset prices lower prior to the pandemic, so we're going to run higher interest rates." That would depress inflation more and that would keep more Americans on the sidelines.

So that to me seems like a lousy trade off for the people you're concerned about, saying, "We're going to keep low income workers out of work because we want to try to hold the stock market down." That seems like a terrible trade off from my perspective. So that's why I advocated prior to the pandemic, "Hey, we need to be as aggressive as possible and trying to put people back to work, especially while inflation is low, it's like we ought to put people back to work." Then the pandemic hits, and the reopening happens and inflation hits us from a place that we were not expecting. So typically we think about inflation as coming from the labor market, as I said, unemployment rate goes down, wages go up, businesses pass those costs on and inflation goes up.

Well, this inflation has not been driven by the labor market, this inflation has been driven by supply chain disruptions, commodity price spikes, and a lot of stimulus at the same time, but it's not been through the labor market. Now the labor market is tightening, wages are climbing, and in a sense, wages are trying to catch up to that inflation, but most real wages in America had been declining in this high inflationary period so it's not been a wage driven inflation. So I would say the reassessment that I'm participating in and the discussions that I'm part of are trying to understand the many different avenues of inflation.

Because if I were to criticize us in hindsight, I would say in hindsight we were overly focused on the labor market's potential for inflation. And it turns out there are other sources of inflation, which also matter a lot too. So it's just a very complex picture but I think for me it's premature to say, "Well, we should have been running tighter monetary policy in 2016 and 2017 and 2018." That is not at all obvious to me that that would've made us avoid the outcome that we're in right now. Thanks for your comments and question.

Britney Bayer:

Great. Are there any... Perfect, one more question.

Eric Jensen:

Hey Eric Jensen, I'm a marketer here in town, but quick question for you. So I hear of, we have high housing pricing right now, interest rates are rising, we still have a pretty big balance sheet. What tools does the Fed have if we were to enter into a recession in first quarter of next year? What tools does the Fed have left to help moderate our economy?

Neel Kashkari:

Well, I think the bar for us, our traditional tool is moving interest rates up and down to try to either stimulate or restrain demand. We don't have tools directly on the supply side of the economy, we can really only affect demand. I'll get to your answer in a second. On one hand we need to bring demand down to match supply, but hopefully we're going to continue to get some help on the supply side and then we don't have to bring demand down quite as far. And there's some evidence that supply is improving, that supply chains are getting better, it's very sector specific and it's business specific, but there's some evidence that supply chains are getting better and shipping costs are following among other things. So the question is how much do we have to bring demand down to meet that supply?

Now we always could... I'm not predicting this, and I think the bar for doing this is very high, if the economy entered a steep downturn, we could always stop what we're doing, we could always, if we needed to reverse what we're doing, if we thought that inflation was headed back down very quickly. For me, the bar for such a change is very high because we have not yet seen much evidence that the underlying inflation, the services inflation, the wage inflation, the labor market, that that is yet softening. So I think we're quite a ways away from anything like that, I think a much more likely scenario is we will raise to some level north of 4%, maybe four and a half, and then pause and sit there for an extended period of time while the tightening that we've already done works its way through the economy. And then we can assess, do we need to go higher from there or can we then begin to back off if we think inflation is headed well back down to 2%.

Britney Bayer:

Thank you. So I have a question. Taking us from housing a little bit back to the employer sector, I would say roughly 60 to 70% of the businesses here are small businesses. So we're in this inflationary period, their balance sheets are really tight, the employees are asking for more benefits or wages. And this area traditionally has had really thin benefit packages, and it has this trickle down effect into different parts of the sector, I'm surprised childcare hasn't come up in the conversation. So as we're working through this period where we're struggling to figure out where the inflation's going to go and where the market is turning, what are some of the things that small businesses should be aware of and thinking, "Okay, these changes are happening, but we need to figure out how to of course, work together to figure out our housing problem." But what can individual businesses do when they're searching through this incentive package, boom time versus wage increase?

Neel Kashkari:

Well, one of the things that I think... And we have 1100 employees at the Minneapolis Fed, I've heard a lot of this from our leaders and from our staff, that employees want more flexibility. To the extent that small businesses have that flexibility can customize their work environment to meet the needs of their staff, that that could make them more attractive and more competitive. In fact, some people say that flexibility is more important than the actual wage. Wages are important of course, but flexibility matters for a lot of folks, even more than that. So I think that small businesses are well positioned to be nimble in that dimension.

The other thing of course, which I know you've worked on a lot is broadband, as broadband, it's great, it's long overdue. One of the things I think we all find, you all already knew it but the country learned, was how important broadband is for businesses, for economies, for jobs, by the way, for education, for healthcare, for a lot of different sectors. So now that a lot of money is being allocated from the federal government and from states to wire everybody, that really has a lot of potential for businesses to reach workers that maybe they couldn't otherwise reach, also to reach customers that maybe they couldn't otherwise reach. So I think that small businesses hopefully could be well positioned to take advantage of that.

Britney Bayer:

Perfect. We have time for a question or two? Are there any questions left in the audience? Oh, we do.

Tommy Wartman:

Hi, my name is Tommy Wartman, I work here at Nicolet College with the Grid. So first of all, thank you very much for coming up here, we all really appreciate this, this is a huge honor.

Neel Kashkari:

Thank you.

Tommy Wartman:

My question is, so small businesses and small... I actually wrote this down, so don't let me mess this up, I apologize. I'm sure I'm the only person who's ever forgotten what the question was. Are we in truly unique times, economically speaking? I'm almost 40 years old and I feel like we've seen a lot of different economies and people always think that they're in a special time, but people like Ray Dalio are out there saying that this is an everything bubble, and is it truly unique among unique times in your opinion, as far as the economy goes, and if so, how is the Fed dealing with those kinds of issues? And if not, that'd be interesting to know too, thank you very much.

Neel Kashkari:

Every time there's something different. So first of all, history has a way of repeating itself. I read a lot of history too, and you all know this, there was a massive flu pandemic in 1918, and then it took a hundred years. And there was another massive of that similar scale pandemic that we all just lived through in COVID. In 08 that was the worst banking crisis, financial crisis since the Great Depression. Okay, 80 years. So I joke, but it's not really funny, one in a hundred year events keep happening every 10 years, but they're different events. So it's still one in a hundred years, but it's a different one in a hundred year event. So I don't know if this is such a unique time. I mean, some things are unique, I mentioned earlier that the ability to produce these highly effective vaccines in under a year is a miracle of science that's allowed us to reopen the economy safely and go back to normal and really dramatically cut the deaths down from where they would've been. They didn't have that a hundred years ago so we're way better off in that dimension.

So we also had the very high inflation in the 1970s, we're not back there right now, but if the Federal Reserve doesn't do our jobs, we could be. We learned from the 1970s, we're going to do our jobs, we're going to get inflation back down. So I would say there are lots of echoes of the past, but each period is unique. Right now, we also have this terrible war, Putin invading Ukraine, the human suffering, not to mention the economic damage that causes. So the world's a complex place and we're always... One other thing I'll just say, we are always running scenarios, our economists, especially in Washington, we are always running scenarios of what might the next shoe be to drop, what might come around the corner? And the thing is, the shoe that drops is never one of the five or 10 shoes that you were looking for.

So prior to the pandemic, we ran all sorts of scenarios, but Global Pandemic was not one of those and then it hit us. So you do your best, you absolutely learn everything you can from the past or you try to, and then you try to incorporate it in a way that makes sense today, and we're not perfect, but we're going to do our very best.

Britney Bayer:

Thank you. I think there's one more question right there.

Chancellor Clay:

My name is Chancellor Clay, and I'm involved with domestic as well as international device brokering. So my business is very much based around end consumer products. So as many end consumer businesses have seen over the past year and a half, two years, there's been a slow down in domestic demand for a lot of consumer products as discretionary spending has been pretty well wiped out by inflation, and we're also seeing that happen in another way with international markets. So with the strength of US Dollar, it's gone up tremendously against neighboring countries, Mexico, as well as other international clients that I have. I keep getting feedback saying, "Hey, the US dollar is too strong for this product." It's really slowing down American products for export, so my question is, what monetary policy can we put in place to ensure that American products are not too expensive on the export side? Because we obviously don't want a weak dollar in the global economy, but at the same time, if the US dollar is too strong, then it inhibits us from exporting products and doing business outside the US.

Neel Kashkari:

I'm not going to have a satisfactory answer for you. First of all, the dollar, the dollar policy, so to speak, is the purview of the Treasury Department and the executive branch, not the Federal Reserve, but the dollar does respond to interest rate movement. So people say, "Why is the dollar so strong?" It's partly strong because the Federal Reserve has continued to raise interest rates and we've signaled, I think quite persuasively that we are committed to bringing inflation back down, and it's also strong because the US economy for all of our challenges is fundamentally stronger than any other advanced economy in the world. I would not trade places in terms of our competitive economic position within any other country in the world. So if you put raising interest rates on top of a strong foundation, I think that's my explanation for why the dollar is strong.

The benefit of the dollar strong is that it makes imports cheaper, the exact opposite. I mean, you understand that, it's the opposite side of the coin that you were just talking about. I mean, long term, we want a competitive global marketplace, we want our businesses to be able to compete around the world. Currencies go up and currencies go down, we're in a period of relative currency strength. There's nothing the Federal Reserve could do to try to say, "We're going to do something to support exporters." It's conceivable that fiscal authorities would choose to do that, right now our job is to get inflation back down. And although we don't target the dollar, I will acknowledge that the strong dollar is making inflation a little bit less costly here at home, though it creates challenges for other countries around the world.

Britney Bayer:

Thank you. I think we have one last question from up here.

Angie Schreiber:

Again, Angie Schreiber with the Grid. So could you give your thoughts on, by administration's executive order 14067, which if you don't know, is ensuring responsible development of digital assets, and is this an effort to move towards digital currency in the future?

Neel Kashkari:

I don't know. I'm not going to comment on the administration's executive order, partly because it's not my place to do that, partly because I haven't studied their executive order. I'll offer you my own thoughts on digital currencies. Usually when I go to a college campus it's one of the first questions that I get and I always ask people, "Has anybody ever bought something with Bitcoin?" Bought something, not bought Bitcoin, bought a sandwich, bought a book, bought a laptop. You raised your hand, what'd you buy?

Speaker 22:

A car.

Neel Kashkari:

You bought a car.

Speaker 22:

A used car.

Neel Kashkari:

Can someone send him a microphone I want to learn from this. Can you bring the microphone to the front? The Zero Hedge guy.

Britney Bayer:

Of course.

Neel Kashkari:

He said he bought a car with Bitcoin, I want to... He he is, coming over there. So tell me about this.

Speaker 22:

It was just a used, so...

Neel Kashkari:

That's okay.

Speaker 22:

It's two private citizens exchanging.

Neel Kashkari:

I see, and how did you value the car?

Speaker 22:

In USD?

Neel Kashkari:

And then you just did the math and said, "Okay, equivalent this many."

Speaker 22:

Exactly.

Neel Kashkari:

Okay, that's interesting. Well, credit to you, this is the first time I... So I asked this question, somebody asked me about this, I asked this question at a dinner of some donors to some non-profit. So it was a wealthy table of donors and somebody asked me about it and I said, "Has anybody here ever actually bought something or done any transaction?" And nobody said, and one guy raised his hand and I said, "Tell me what did you do?" He's like, "I bought something with Bitcoin. I had a transaction I could not do any other way." I said, "Tell me what is that, I really want to learn?" And he said when Russia invaded Ukraine, he wanted to send some money to somebody in Ukraine so he sent them Bitcoin and it worked like this.

I said, "Okay, that's amazing. Tell me, what did they do with the Bitcoin, how did they buy medicine, how did they buy food? Didn't they have to convert locally." He said, "No." Finally, I got him to admit what he was doing, and what he was doing was he was trying to buy arms, a lot of arms for somebody in the Ukraine. So he sent them Bitcoin and they then sent the Bitcoin to an arms dealer in Germany who then shipped them the weapons. Now, I don't know if it's legal for an American to buy arms for Ukraine, but I said, "Okay, you got me, there's a transaction..." The long answer, the reason why I'm going off on this for a minute is, digital dollars exist today. I can send anybody in this room $5 using Venmo or PayPal or Zelle, that's a digital currency. So what is it about Bitcoin or Ethereum or a central bank digital currency, what problem does it actually solve that existing technology does not already solve? Okay, Zero Hedge has its hand up.

Todd B. Restorfa:

So I would say the one unique thing about Bitcoin, and this is different from Ethereum and a lot of the other cryptos, is that it is a finite asset, which means it's an appreciating asset, which it does actually have a profound impact on society, it creates wealth without taking risks.

Neel Kashkari:

All right. I know we're out of time, but let's just indulge me for one more minute. So the pitch of Bitcoin when it was created was that there's only so many coins that can ever be created by the algorithm, it's like 21 million. So that's different, there's no limit to how many dollars can get created or whatnot. So the problem is the barrier to entry to any one of you or me creating our own version of Bitcoin, call it Neelcoin, is zero. So there have been thousands of these things created. If you go back in American history, there was a time before the Civil War, before the dollar was invented, the green back when banks issued their own currency, states issued their own currency. There were thousands of currencies out there, and even if you said, My bank's currency is secure, I promise you I'm only going to make so many of these dollars, but Britney issued her own currency, and you issued your own currency and you issued your own currency. It was chaos.

So this is the fatal flaw that Bitcoiners have never been able to so far overcome, there's no bear to entry for all these copycats being created. And so now there are thousands and thousands of these garbage coins out there, and that's why in major economies, the government controls the money supply because there's one government producing one currency for that economy. So anyway, long answer to... I'm remaining 5% that maybe something useful will come from all of this, so far my opinion, it's 95% noise, hype and confusion.

Britney Bayer:

Great.

Neel Kashkari:

On that note.

Britney Bayer:

On that note... No, sometimes in our places in rural communities, you don't get those questions up front.

Neel Kashkari:

Yeah, it was great though.

Britney Bayer:

Right at the end.

Neel Kashkari:

I'm glad we got it.

Britney Bayer:

But you met somebody from Zero Hedge, there you go.

Neel Kashkari:

Yes.

Britney Bayer:

So on behalf of everyone from the northwest, I really want to thank you for coming here and speaking to us and in so many different ways. I know we've been working on this for a couple years, the pandemic pushed this off, but your follow through is absolutely appreciated. So I want to thank everyone for participating. There were a lot of really great questions and we'll be talking later today.

Neel Kashkari:

All right. Thank you all very much, really appreciate it. This was fine.

Britney Bayer:

Thank you.

Neel Kashkari:

Thank you.

Britney Bayer:

Thank you.