Fed Unfiltered, Transcript

**10/18/22 – Neel Kashkari, Interview: Women Corporate Directors, Minnesota Chapter**

Speaker 1:

Ready? Okay. Okay. Hello everyone. Thank you for coming and welcome to our fall event, even though it feels like it's the winter. [inaudible 00:01:24] Corporate Director chapter here in Minnesota. I'm one of the co-chairs and along with Cindy Brooks and Kathy Rodell, we're really thrilled you're here. We put a lot of thought into planning this program. We have two amazing speakers, Neel Kashkari, Chair or President and CEO of the Federal Reserve here in Minneapolis. And Deb Sheneman, President and Managing Director of Piper.

The first 30 or so minutes, we will have a dialogue with Neel and we will welcome all of your questions. And then we will switch gears and go off live feed and have Deb come up and have a similar conversation. So we will have both the public sector and the private sector.

Quick message from [inaudible 00:02:09], who is the Chairman of the Fed board, she was planning to moderate and unfortunately got diagnosed with COVID on Sunday night. So, she is without much voice, she feels good but could not be here, so she sends her best wishes.

We have a couple of guests, just so I don't forget to acknowledge. [inaudible 00:02:31] is Kate Kelly's guest. Deb [inaudible 00:02:34] is in fact mine and Kathy's guest. And James Powell from KPMG. But we're honored to have all the members here and I think we'll have a fascinating conversation. Okay, with that quick introduction of Neel.

Neel Kashkari:

Quick.

Speaker 1:

Quick. I was really relieved that I was told I didn't have to read the whole bio. So Neel came to Minnesota in January of 2016 as Presidency of the Fed. We're pleased to have him in Twin Cities, he has a very national influence. I'm certain you see him on CNBC and all kinds of other important places, voicing his-

Neel Kashkari:

Bloomberg is the one covering this, just making sure.

Speaker 1:

Oh, I'm sorry. I also forgot. In addition to being live streamed at the Fed, Bloomberg is also re-streaming live this whole feed. And so, it will be on their dot com channel as well as they might have snippets on their TV coverage as we go forward. So, Neel became chairman or the head of the Fed here in 2016, moved on to Goldman Sachs in the treasury after business school. And I had the honor of interviewing Neel in June of 2020. It was our first Zoom WCD meeting in the middle of the pandemic and we all thought the pandemic was going to last about three more months after that. And so, this is a fabulous opportunity to see how the world has changed in all so many ways. So with that, Neel, why don't you give us a bit of a history lesson on how we got here, where inflation is at the 40 year highs and the Feds acting really aggressively on interest rates to cool the US economy. What's going on?

Neel Kashkari:

Well, first of all, it's great to be with you again. Thank you for inviting me back. It's great to see all of you and be here in person. The economy was quite strong going into the pandemic. We had a low unemployment rate, we had pretty good wage growth, we had low inflation and pretty good economic growth. So the fundamentals were sound. Then the pandemic hit. We went through the rapid shutdown. We didn't know how long it was going to last. So the big downturn, high unemployment, lot of job losses, a lot of, the service sector of the economy, as you know all very well was shut. People were working from home when they could.

And then something really positive happened, which is the miracle of science gave us vaccines much sooner than we thought was possible. And so, we were able to reopen the economy sooner because a lot of people got vaccinated and felt safe going back. And so the reopening has been a real positive thing, but it's led to unevenness and it's led to a bunch of surprises. So first of all, Congress was very aggressive in putting out stimulus to support laid off workers and small businesses that were harmed, but they sized that stimulus, the way I think about it, they sized that stimulus in part assuming this pandemic's probably going to last longer than it ended up lasting. So the vaccines were a very positive surprise, but it meant that we can reopen the economy more quickly. And then with the benefit of hindsight now, maybe the stimulus was bigger than it needed to be. Kind of a high class problem relative to the alternative. But that's sort of how we got here.

We saw parts of the economy shut down, the services sector shut down, but people were home buying a lot of goods. So the good's side of the economy was booming. And so as the economy's been reopening, we've been looking for signs of the economy rebalancing, shifting away from goods towards services. That's happening, but there's still a lot of goods that are being consumed, so the rebalancing has not happened as quickly as we thought.

In May of 2021, core inflation finally ticked above 2%. We have a 2% inflation target and for maybe a decade prior to the pandemic, we kept getting surprised and inflation was coming up short. So core inflation finally ticked above 2% in May of 2020 with capacity for our economy. And so we at the Fed, and I and others said, "Hey, we think this high inflation that we're seeing is going to be short-lived, it's going to be transitory.", we called it. We think it's going to fade away and I can walk through why. Obviously that didn't happen.

And then by November of 2021, we shifted gears very aggressively and said, "Okay, we now need to step in and we need to get inflation under control." And so inflation is much too high, we are on a very aggressive campaign to bring demand down to get inflation in check.

Just back up for a second. Where does inflation come from? It comes from a mismatch between supply and demand. If demand is out stripping supply, you're going to get high prices. So we need to bring demand down. But the question is, are we going to get more help on the supply side to bring these two things into balance? If we can get more help on the supply side, then we don't have to do all of the work with interest rates, we can get these things into balance. If we don't get any help on the supply side, then the burden really falls on us to bring demand down to get inflation back under control.

And so, there's a lot more to it. That's kind of a quick summary. A lot of unevenness, you had COVID, you had the shutdowns, the reopening, the fiscal stimulus, supply chains around the world gummed up. Continue to be gummed up, they're getting better, but they continue to be gummed up, especially in China. And then of course you have Russia invading Ukraine and upending energy markets and commodity markets, not to mention the human suffering. And that affects the global economy. So this is a time of extraordinary uncertainty with a lot of different things going on at the same time. And we're getting a lot of mixed signals, which I'm sure we're going to talk about.

Speaker 1:

So, you made dramatic changes in the interest rate to try to deal with this high inflation. Is it time to take a pause and see the effects and let them have some longer term effects? It seems like there's been a lot of conversation that there are somewhat planned, couple more escalations.

Neel Kashkari:

It's a very good question. There's a lot going on that is complicated right now. So one is, we're getting mixed signals from the economy. For example, in the first half of this year we had negative GDP growth. And most people say, "Well, two quarters of negative GDP growth, you must be in a recession." But typically if you're in a recession, the economy is shedding jobs. Well, the economy is creating tons of jobs. So, are we in a recession? I don't think so, but we're getting mixed signals.

Another thing is, when we traditionally think about the source of inflation, we traditionally think about it as driven by the labor market. The labor market gets really tight, the unemployment rate drops, businesses have to increase wages and then they pass those costs on the consumers. This inflation didn't come from the labor market. This inflation came from supply chains and energy and commodities and wages are trying to catch up.

So, the reason I tell you this is my confidence in being able to tell you where inflation is going to be in six months is very low right now. And in core inflation, the are parts of inflation that we know are volatile, energy prices, gas prices go up and down, they matter, but they go up and down, they're very volatile. I was talking to somebody earlier about lumber prices, lumber prices went up and they went back down. There you are. Went back up and come back down. So there's certain sectors that move around a lot.

We also try to look at the stickier parts of inflation. So services inflation tends to be stickier, wage inflation tends to be stickier, housing inflation and rents tend to be stickier. So far, the core inflation has not yet shown evidence that it has peaked. The core services inflation, which is the stickiest of all keeps climbing. And we kept getting surprised on the upside that core keeps going up and services keeps going up.

So the problem for me with trying to say, "Hey, it's time to pause.", is we're not even sure that we've got rates high enough to push services inflation down. So until I see some compelling evidence that core inflation and services inflation have at least peaked, I'm not going to be ready to declare a pause. And so, that's why I think we still have a ways to go before we get such information. And then, to underline your question, a lot of monetary policy, it could take a year or two to feel the full effects of this. So once I have confidence, okay, we at least have put a lid on inflation, even if it's going to take a while to come back down, then I might be in a position to say, "Hey, I'd be comfortable pausing to see that all of the medicine work its way through the economy." But we're not even there yet. So we're not even sure that the problem's not getting worse. I'm not ready to declare a pause until we at least have that confidence.

Speaker 1:

So, what leading indicators do you track to be able to look at inflation and see before it gets there, is it slowing? Is it rising?

Neel Kashkari:

Well, we look at all the different components of inflation. So for example, we know that raising interest rates hits the housing market first. Because we raise interest rates, the mortgage market responds, mortgage rates go up, they've skyrocketed from 3% to seven for 30 year mortgages. And that slams the breaks in the housing market. So we know that, we see that, it's working the way it's supposed to work. But we also know that rents take time to catch up. Somebody, maybe they signed a one year lease, maybe they signed a two year lease, it takes time to work its way through the rest of the housing market. Not to mention all the other things that are adjacent or that are not related to housing, those take even longer.

So we look at the individual components to see, is monetary policy having the effect that we think it should have on these various components? Another thing we spend a lot of time looking at is the labor market. There is some evidence that the labor market is slowing down. So the job growth has continued at a robust pace, but not quite as robust as two months ago and three months ago. So we look a lot at job growth, is job growth slowing?

When I travel around our region and I'd be interested in what you all are seeing in the businesses that you serve as directors of, the number one thing I hear from businesses is still, "We can't find workers." All around our region. I was just in Wisconsin last week, still can't find workers. So until I start hearing businesses say, "You know what? I think we're good on workers.", that'd be an interesting indicator if we start hearing that feedback, that's not happening yet.

We also look at consumer spending, there's some evidence that consumer spending is softening, which is not entirely surprising. But then, so on one hand you have some evidence that consumer spending is softening. On the other hand, when you talk to banks, they say, "Our consumers are flush with cash." The Bank of America CEO has been talking about this for the last year or two, he said it yesterday on his earnings call that if you look at their checking account balances across income category, their customers have many multiples of as much money in their checking accounts as they had prior to the pandemic. We would've expected that money to get spent down or it will get spent down at some point, hasn't begun happening yet. So again, a lot of mixed signals. And we look at all of these things trying to figure out what are the underlying trends and it's really hard to see right now.

Speaker 1:

Thank you. So unemployment is at the lowest level in history and yet you aren't convinced we're in a recession yet. Many people, other experts are on the news saying we're going to have one in Q1 or Q2 or Q3 and saying we're going to... And everybody in this room sits on boards, as you know and many of them have raised the question and their boards are raising the question, "Are we in a recession? If not, when do you think we might be? Or do you think we can avert it? And if so, how?"

Neel Kashkari:

Well whether we... We have to get inflation down and my colleagues and I are committed to getting inflation down. But it goes back to what I said earlier, are we going to get some help on the supply side of the economy so that we don't have to do all the work to bring supply and demand into balance? I don't know the answer to that. We're still missing a lot of workers. What happened to the workers that we're missing? Number one, a million Americans died. Now it's skewed older, but some of those folks were working and there's human tragedy, there's also economic loss associated with their not working. Immigration largely shut down during the pandemic, so those are workers we would've had working, not working. A lot of Americans retired early because the pandemic hit, they're like, "I don't know what this is. I want to be able to retire.", so they just retired.

Retirement tends to be a sticky state. It's not necessarily a permanent state. A lot of folks who retire stay retired, but it's possible some could come back. And then you have people dealing with healthcare issues, childcare issues, caring for, COVID has swept my household the second time. Somehow it missed me, but it got my kids, it got my wife for the second time. [inaudible 00:15:48] just got... So COVID is still with us and it is still affecting people's ability to participate in the economy. And so, when are some of these things going to get better and when are we going to see some more workers come back in? I'm not sure. So these answers to these questions will determine how much more we have to do at the Federal Reserve versus whether we get some help on the supply side. And that's really going to be determinative of whether or not we end up having what's called a hard landing or not. And so I don't know the answer to that.

Speaker 1:

Okay. So with interest rates rising, it is affecting the strength of the dollar across the various currencies. We have the impact of that on corporations who have global businesses is pretty profound. The impact of the war is pretty profound on the global economy. How do you kind of weigh and consider the interest rate changes in the US and the ripple effect it's having around the world, both on corporate earnings relative to the strength of the dollar, but also what other countries are doing in terms of their interest rates and how that affects the competitiveness of the US?

Neel Kashkari:

Well, we have a mandate that's very clear. We are created by the United States Congress to work on behalf of the American people. And our goals are, maximum employment and stable prices. And we define stable prices as 2% inflation. And just to state the obvious, we're doing really well on employment right now, we're doing really lousy on inflation right now. So the economy's not in balance and it's our job to bring it into balance. We do not set monetary policy for the world, we set monetary policy for the United States, but we have to pay a lot of attention into the feedback groups that you just talked about.

So we have a team of economists, actually a lot of economists around the country that do a lot of analysis of, "Hey, what happens when the Fed raises interest rates? The dollar could move up. What is the feedback loop? What does it mean for growth? What does it mean for inflation as business does business around the world?" So when the currency appreciates, it makes buying stuff from abroad cheaper. So it should be on the margin helpful in terms of inflation, but it creates other challenges that you just alluded to. So, we pay a lot of attention into these feedback loops, but ultimately we are trying to optimize monetary policy to achieve the dual mandate goals that Congress has assigned us, that's our task.

Speaker 1:

So it does appear in some cases, prices are stabilizing, supply chains are getting a little bit better, corporate profits are fine. I mean, what metrics should people in the room be looking at as they sit down with their boards and do strategic planning and what things should they be doing to mitigate risk with this pretty bumpy, uncertain future we have ahead?

Neel Kashkari:

I think that's the key, which is, I'm being very candid with all of you about how much uncertainty I see as we're trying to assess the economy. And so I guess, my advice, to the extent that I could give advice to corporate directors, is plan for a wide range of outcomes. This is not a time where, if anybody comes to you and says, "I definitively know what the future holds six months from now. This is what's going to be happening." Take that with a great deal of skepticism. There's a lot of uncertainty right now and that makes it harder to plan. But you know what? It's better to try to plan for uncertainty than to pick wrong and try to be certain about this thing and ends up being a very, very different situation.

Speaker 1:

Okay. With that, I'm going to pause because I know that there are a lot of really good questions in the audience and you Neel loves good questions from the audience.

Neel Kashkari:

[inaudible 00:19:23].

Speaker 1:

Okay, we're going to bring a mic over to you, Sheila.

Shiela:

I'm Sheila Riggs in healthcare and I wanted to pick up on the corporate profit piece. What role... Some are saying corporate profits are maybe pretty high and is that playing a role in inflation at all in your eyes?

Neel Kashkari:

It is. This goes back to the conundrum of what's going on in the economy. So, unemployment is very low. Businesses say they can't find workers. Wages are climbing across the board, especially for the lowest income, lowest paid workers. So you would think that means the labor market's very tight and that the share of national income that goes to workers would be increasing. It's not, it's decreasing and corporate profits are at record highs. So, do we actually have a tight labor market?

One way I would define a tight labor market is labor is in a relatively strong position and their share of the pie is growing. Their share of the pie is shrinking. So, I don't know. And I've asked our economist and some people have said, "Oh, this is price gouging and this is hoarding." And when you ask economists about what is price gouging and what is hoarding, boy it is, they give you very complicated answers. It's a head scratcher right now and I challenge people to say, if this is a tight labor market, why isn't labor share going up? And labor share is continuing to go down and I don't have a good answer for you.

Speaker 4:

Thank you, Neel for being here today, we are so lucky to have you in our backyard. Let's stay with the labor side. How do you think about the labor market though today, the skill level of workers, is it more needed... I mean, a whole wide range of skills are needed, but isn't it over time that we need to continue to upskill the workforce and while there's low unemployment, it's that desire for more highly skilled workers? And how does that, that's different than other cycles potentially as well, I'd love your viewpoint on that.

Neel Kashkari:

Well, I think that what you highlighted is an ongoing trend that we're increasingly a knowledge based economy, increasingly there's a premium for skills, we have to find ways as a society of educating more of our young people and continuing to educate people throughout their careers. So I think that's a long term trend and it's possible that that's been intensified or accelerated because of the pandemic, it's certainly possible, but certainly it has not decreased because of the pandemic.

I think that's absolutely true. I don't know that that's what explains the situation that we're in right now. Because one of the things that I saw prior to the pandemic, as the unemployment rate went down and businesses struggled to find workers, all of a sudden they started investing in their own people and they started training people and they started going the extra mile to get the workers that they needed by investing in those workers. And so, I thought that was a really healthy thing that was taking place in 2016, '17, '18 and '19. I would love to get back there, but that doesn't change the fact that as a society, we have to address the long term education issues to remain competitive.

Speaker 5:

So thanks for being here and things for your insights. As we think about what you've said before and where the Fed's going continuing to in increase rates, but we're not seeing that impacting the inflation. Is the Fed currently now thinking about perhaps a multi-prong approach versus just the reliance on pushing rates further with the chance that we go into a deep recession?

Neel Kashkari:

Unfortunately, we have one tool. I mean, we have several tools, but our one essential tool is we can affect demand, the demands side of the economy. We don't have any tools to affect the supplies side of the economy. So I've said this publicly and I've said this to leaders in Washington, anything that leaders in Washington can do to help on the supply side, hey, we'd be celebrating it.

So for example, with the Inflation Reduction Act, I believe the congressional budget office scored as a net reduction in deficit spending over a decade. So on the margin that should be helpful, that on the margin should be a reduction in inflation. But such fiscal policies tend to take a few years before they really begin to bear fruit. But you know what? We'll take any help we can get. But nonetheless, our job is to bring inflation down.

And I'll tell you one more thing. In the late... So the 1970s was appeared of very high inflation in advanced economies around the world, including in the US. And then the Fed chairman Paul Volker said, "I've got to break the back of inflation." and they raised rates aggressively leading to a very deep recession. The good news is, that recession was very short lived. And when there are recessions that are traditionally triggered by tight monetary policy to crush inflation, the recovery can be very quick from that. And the important thing is, I believe it benefited the American economy for decades by getting inflation expectations anchored and getting inflation bottled up. And so that to me is what's at stake. What's at stake is giving up this economic backdrop that we have all enjoyed. It's not been perfect, but we've all more or less enjoyed it for decades and we need to preserve that. And so, I don't know, this is a long answer to your question. It's a long answer to your question. I have a lot of thoughts.

Speaker 6:

Neel, actually... This is Deb [inaudible 00:25:14] and you started going there in the last answer just around the supply side. And can you just elaborate on that? And maybe this is part of the goods to services transition, but on one hand you see high inventories in certain cases and so I'm just, could you clarify what help you'd like to see on the supply side?

Neel Kashkari:

Yeah. So again, you're hitting on the complexity. So part of the reason that the supply chains got gummed up is that demand for goods was just so high. And yes, there was COVID issues and shut shutdowns and whatnot else. But even if there had been no disruptions, the demand was simply so much beyond the supply chain's ability to meet the need. And then you saw retailers, for example, investing a lot to try to meet the customer's needs and then all of a sudden preferences started to change. And now all of a sudden you've got a bunch of retailers like, "Oh my gosh, I've got all these goods that I don't need anymore." And so that's happening at the same time. But goods spending has not reverted all the way back to levels that we would've expected. So goods spending is still somewhat elevated while services spending continues to climb. And so that means overall the demand side is still hot relative to where it should be.

Deba:

Neel, I'm Deba. I work in 3M, so obviously been in multi-industrials for a long time. And I'm keen to understand your perspective from those you compete against, which are the feds in the other countries. And one that's been really talked about is UK and the [inaudible 00:26:51] face in their very bold, but probably failed strategy there. What do you expect from others around the world, other large economies around the world? Clearly the UK experiment has gone array, some thoughts and comments from your side on that.

Neel Kashkari:

There's a lot of dialogue between, especially between the board of Governors in Washington and they're in constant dialogue with the other major central banks and we have occasional interaction with them. They're all united. They're united in a determination to get inflation back down. They all agree, I think, that there's been tremendous benefits for their economies by keeping inflation in check. And so, we need to restore price stability. And each economy is different and each economy will raise rates at their own rate that makes sense. But I think the fact that they're all committed to the same fight is a positive thing. Yeah.

Deba:

I thought you refrained from commenting on the one question.

Neel Kashkari:

Well, it's not for me to offer a specific country specific advice.

Speaker 1:

[inaudible 00:27:54],

Neel Kashkari:

But the UK matters and so we pay a lot of attention to what's happening in their economy.

Speaker 8:

I want to pick up on the supply chain and just get your perspective. A lot of corporations focused on a very lean approach to supply chain and it was really about just in-time inventory. And now you look at some of where people said, "If I have the inventory, I can sell it and I can have this great stuff." And the consumers focuses flipped from, "I can't travel anymore, I'm going to focus on my home." How do you think the corporations focus on that version of supply chain just in time about not really caring which company or which country it got produced in, but rather look at the price and the efficiency of the transaction has affected the complication of what you're dealing with now around supply chain? And what should we as corporate directors be thinking about as we're helping our companies navigate this water to say, what does the future look like and how do we want to think about our supply chains? It's not just about lean, it's not just about just in-time. What kinds of questions should we be asking our corporations to think about in the future?

Neel Kashkari:

Well, I think you're absolutely right. I mean, the nature of crises and shocks is the unthinkable happens. We're always looking out at the Fed, we're always looking out for scenarios of bad things that could happen. And I can tell you in all of our scenarios in 2019, a global pandemic was not on the list of things that we thought were high likelihood in 2020. And I think that's true for individual companies and whatnot.

So you hear a lot of talk about on-shoring and friend-shoring and re-shoring and it all sounds lovely. I'm skeptical that it's going to stick. But I mean, you're all the corporate directors, it'd be interesting to see what you think about this. I'm skeptical that five years from now when hopefully the pandemic is well behind us and we've got inflation in check and we're back to a normal economy, hopefully it will be up before five years from now. But let's say five years from now everything's back to normal, that the pressures from public investors are not going to be acute to say, "Hey, you need to get a few more EPS." And you can go back to China and you can get a few more EPS. And so, I'm just skeptical that some of these changes are going to be lasting. But I'm interested in what you all think.

Speaker 1:

Is anybody seeing shifts in manufacturing in the companies they sit on the boards in terms of bringing it from offshore back to the US and will that stick?

Speaker 9:

And my manufacturing lines are benefiting from the re-shoring back to the US. And so they're seeing nice increases in their revenue and profit because of the reassuring to the US. It's hard to get freight from China to the US in a timely and predictable fashion.

Speaker 10:

I've seen the same thing on the boards that I'm at is that they're re-shoring, the benefit there, it's more predictable. They're just rethinking the paradigm that they had. But I want to play off that and go to this comment. So I think it was Delta, one of the Delta executives made a comment, board members saying, "We never sat in boardroom and figured that Zoom would be our competition." And so as you think about supply and demand, where now I can satisfy my need to connect with you via not the way I used to will now change the demand piece and therefore change the supply. How does that factor into the scenarios that you think about?

Neel Kashkari:

Yeah, I mean that's a great question. It's very complicated and it's hard to know how it's all going to shake out. There are going to be some permanent things that are good that have come from all of this. Our ability to work remotely. Take the FOMC as an example. FOMC was always in person till the pandemic hit. We figured out how to go remote. It was not nearly as good, even though we had very high technology, very secure, it was not nearly as good conversations. So we're all back. But guess what? If somebody's sick, they now do it remotely. And before, I'm sure we got sick before too, people got colds, they still came to the meeting. And so, I the first person to miss a meeting in recent years when I took paternity leave, I missed a meeting, which is unprecedented that somebody would do that. So, there are some permanent changes that I think would be beneficial from this, how it all shakes out, what does it mean for productivity? What does it mean for our economy's potential, I think it's too soon to know.

Speaker 1:

Sheila had another question.

Shiela:

I did. Well, a comment about [inaudible 00:32:37] So, I'm on the board of a dental distribution company and gloves are big to dentists and we are going back to Southeast Asia, not China, but to other countries, that's where the raw products are and the low cost, so we are already-

Neel Kashkari:

Going back.

Speaker 5:

... going back, yeah.

Neel Kashkari:

What did you say?

Speaker 11:

[inaudible 00:33:05].

Speaker 1:

Rachael.

Rachael:

Thank you for being here. I have a question. How much attention do you pay to some of the demographic and cultural shifts? Some of us are in households with 20 somethings and 30 somethings and their approach to, their buying habits are different, their values are different. Does that play a role at all as you're projecting out to changes that might be taking place in the economy?

Neel Kashkari:

I think it's hard for us to... I mean, we pay attention to it to the extent that it shows up in what they're buying and it shows up in goods versus services or travel. I will say this and this is not... You weren't saying this, but I hear this a lot. Every generation believes that the generation that follows them is lazy, every generation. And so, I've learned that [inaudible 00:34:05] What's that?

Speaker 13:

In this case, it's true.

Neel Kashkari:

In this case, it's true. In this case it's true. I actually think that the subsequent generations will end up finding that they want work because they want to have the lifestyle that they want. They may want different things, but they're going to have to find a way to provide it. So I'm optimistic. I'm bullish on work, I'm bullish on people's desire to work. One of my lessons of 16, 17, 18, 19 is that the vast majority of people do want to work, I absolutely believe that, if they get a chance to get a decent job at a decent wage, that they feel safe. And so we just got to get back to that position where it's an equilibrial.

Speaker 14:

So I have had a question for a while. One of the things that troubles me is the demographic shift from baby boomers to the following generations had a huge impact on the labor supply and we should have seen that coming, it started 65 years ago. So, why were we surprised by that and whose job should it be to help us all adjust to something like that?

Neel Kashkari:

Well, I mean, it's a hard thing to adjust to. One of the sources of economic growth is productivity growth, the other source is population growth. More people that produce things, more people to buy things. And almost all advanced economies are struggling with low fertility rates, they're just having fewer kids than prior generations. And immigration has filled the void in America throughout our history, it's been a huge driver of economic growth. And it's not available to many countries because we're not perfect at it, but we're pretty good at it. My parents are immigrants, my wife is an immigrant, we're pretty darn good and it's available to us if we choose to use it.

And so this is fundamentally a political question of, do we want economic growth? Well, here you go. Otherwise we're going to have low growth. And I gave this talk, I was in one of the Dakotas and I said, "You've got three choices. You can either subsidize fertility to try to bribe families to have more babies." This is what Japan is trying to do, it doesn't work. "You can embrace immigration or you can accept slower growth." That's math, you tell me which of those you want to do. And one time I had one person say, "I'll take slow growth." Everybody else said, "Wow, if that's the math, I guess we need to go for more immigration." And so it's funny, I talk to people on both sides of the aisle, I talk to our elected leaders from this region, both sides of the aisle, and they both, they all totally get it. They completely understand what it means for the economy. And so, somehow we have to

Speaker 15:

Do they want an option, one, two, or three?

Neel Kashkari:

I'll let them speak for themselves. No, but no, no, no, no. Yeah, they all agree on immigration. Everyone that I speak to says we need to have an immigration system that feeds our economy. And if we want to have economic growth, a sensible immigration system that supports that is part of that. So they all agree on that. The specifics they may or may not agree on, but they all agree on that.

Speaker 16:

I guess, a follow up question to that then. If we're in a situation where we're definitely going to continue to have some labor shortages, even if somebody, we change and where we're buying into the immigration, that's going to take years to change that around. So, should we be expecting then that this continued labor shortage is a longer term thing and that even if we come on the other side of a recession it's possible the inflationary pressures are still there and then rate rates are still there?

Neel Kashkari:

Yeah, I don't see any reason at this point to believe that once we get through this inflation cycle that we are going to be in a high inflation environment. There were these forces that got a lot of attention that talked about secular stagnation before the COVID shock, which was low growth, low inflation, low productivity. I mean, a bunch of stuff were happening at the same time. Those forces and some of that's driven by demographics. Those forces are still there. So, if I had to guess right now, I would say once we get through this transition period, I would say it's more likely we're back in that world than we are in a high inflation world now. But even in 2018, 2019, 2020, a lot of businesses said they struggled to find the workers that they needed. So could we be back in that environment? That seems totally plausible to me and that's where you're seeing a lot of businesses try automation and find ways of doing more with fewer workers. Some of those things are going to stick. Maybe a lot of those things are going to stick.

Speaker 1:

Other questions. Wendy?

Wendy:

Hi, Wendy Shopert. I wanted to go back to a comment that you made, I'll apologize upfront because this is a loaded question for you.

Neel Kashkari:

Okay.

Wendy:

You said there were some things you'd like to see Congress do different differently as we think about tackling inflation. And I wonder if you could just speak more broadly around, as we look at trying to curb inflation as well as ensuring that a recession is more short [inaudible 00:39:08] and where are there opportunities? I mean, you're clearly on the hot seat here, but you are dependent on others in that regard. So just curious on your thoughts.

Neel Kashkari:

One thing that we saw when the pandemic hit, economists talk a lot about what are called the automatic stabilizers. So if the economy goes in recession, there's certain fiscal policies that kick in right away that both support people who are hurt, but that also helps the economy recover more quickly. And the unemployment system is an example of that. We saw around the country wide variation in how effective the unemployment systems were. Now partly, they were overwhelmed because the numbers of people that lost their jobs in the pandemic was so high. Minnesota system worked relatively well compared to a lot of states.

But so one thing that could be done right now is those states, especially that struggled with their unemployment systems in the downturn could be making sure that they've fixed those challenges and have engineered them so that they can meet the needs of their residents whenever the next downturn is. So that's an example of something that could be done right now. I'm not predicting a recession, but whether it's a recession now or at some point in the future, at some point there will be another recession and making sure that those systems are well functioning would be a good investment.

Speaker 1:

So kind of a lightning question. How high do you think interest rates will go before you stop?

Neel Kashkari:

Well, I'll say and then, I know we have a second part to this conversation, so maybe we'll do the transition there. I've said publicly that I could easily see us getting into the mid fours early next year. But a lot's going to depend on whether we start seeing... If we don't see progress in underlying inflation or core inflation, I don't see why I would advocate stopping at 4.5 Or 4.75 or something like that. We need to see actual progress in core inflation and services inflation and we're not seeing it yet. So if we see that... So that number that I offer is predicated on a flattening out of that underlying inflation, if that doesn't happen, then I don't see how we could stop.

Speaker 1:

Okay. Thank you.

Neel Kashkari:

All right. Well, thank you all for having me. Really appreciate it.

Speaker 1:

Thank you so much...