

## **Fed Unfiltered, Transcript**

### **10/6/22 – Neel Kashkari, Interview: Bremer Financial Corporation’s Fall Leadership Conference**

Speaker 1:

Over to you, Jean.

Jean:

Thanks so much, Travis, and thank you, Mitch. Really, really great comments. John, it was interesting to hear from you as well.

Jean:

All right. Well, we are all honored to have Neel Kashkari join us this morning. So let me tell you a little bit about Neel before we get going here.

Jean:

Neel has been the president and chief executive officer of the Federal Reserve Bank of Minneapolis since January 1st, 2016. He serves as a member of the Federal Open Market Committee, bringing the Ninth Federal Reserve District's perspective to monetary policy discussions in Washington, DC.

Jean:

In addition to those responsibilities, Neel oversees the Minneapolis Fed operations and leads just a ton of different initiatives. Among them, he was instrumental in establishing the Opportunity and Inclusive Growth Institute, whose mission is to ensure that world-class research helps to improve the economic wellbeing of all Americans.

Jean:

Most recently, Neel has joined with retired Minnesota Supreme Court Justice Alan Page to propose amending Minnesota's constitution to make quality public education a fundamental right. This effort supports the Fed's mandate to achieve maximum employment, with education being a key in obtaining a good job.

Jean:

Under Neel's leadership, the Minneapolis Fed has also released an action plan on ending too big to fail, which calls for tighter bank regulations to avoid future taxpayer bailouts of large institutions.

Jean:

Neel earned his Bachelor and Master's Degree in Mechanical Engineering from the University of Illinois. He became an aerospace engineer, developing technology for NASA missions. Eventually turning to finance and public policy, he earned his MBA from the University of Pennsylvania's Wharton School. He joined Goldman Sachs and served in several senior positions at the US Department of Treasury, including overseeing the Troubled Asset Relief Program. I think we all remember that, known as TARP, during the financial crisis.

Jean:

Before joining the Minneapolis Fed, he ran for Governor of California in 2014, and it was on a platform focused on economic opportunity. Neel lives with his wife, Christine, his children, Uly and Tecumseh,

## **Fed Unfiltered, Transcript**

### **10/6/22 – Neel Kashkari, Interview: Bremer Financial Corporation’s Fall Leadership Conference**

and a Newfoundland dog, one of those really big, beautiful dogs, called Webster. Again, we are fortunate to have him here.

Jean:

Before I have Neel start, I just wanted to offer some personal comments. I had do have the privilege of being on the board of directors for the Minneapolis Fed. And so, in addition to what Neel's bio offered, I would just offer that I have learned a great deal from this leader, this individual who has just such a great understanding of policy issues, but he also is such a willing listener and is so interested in what others bring to the table as well. So that input that he considers from the Fed board is really part of what is a joy and really a fun responsibility to have as being on that board.

Jean:

I think he's also especially active in reaching out to so many sectors of the economy within the Ninth District. And so, as a result of that, he is someone that is so well-respected and listened to and well-recognized as a voice well beyond the Twin Cities, in our community, but throughout on a national scale as well.

Jean:

I really especially appreciate Neel's ability to stand his ground to state his opinion, and sometimes it's not always the most popular opinion and/or appreciated opinion even at times. But he's always sound in his judgment when he offers what he feels is the best approach to what he has to do and his responsibilities.

Jean:

So with that, I'm going to turn it over to Neel. Thank you again for being here. Just love to have you get started by doing this overview of really what the Federal Reserve is.

Neel Kashkari:

Sure. Well, thank you, Jean, and good morning, everyone. It's great to be with all of you. I commented when I walked in the room, there's a lot of energy in this room. So I can see everybody's excited to be back with each other, and I'm happy to be with you.

Neel Kashkari:

I'm also very happy to not be immediately following the fighter pilot. I heard that she spoke yesterday, which would be a tough act to follow. So I'm happy to be with you on the next day. So thank you for that.

Neel Kashkari:

So Congress created the Federal Reserve in 1913, the nation's central bank. I describe our basic responsibilities. We do a lot of different things, but at a very high level, we try to manage the ups and downs in the US economy. Central banking was started when there are panics in the economy and in the financial system to be the lender of last resort and to get money out to the banking system. So calm people's nerves to try to get through the panic and keep the economy moving.

## **Fed Unfiltered, Transcript**

### **10/6/22 – Neel Kashkari, Interview: Bremer Financial Corporation’s Fall Leadership Conference**

Neel Kashkari:

Now Congress did something unique in 1913. They said, "We don't want our central bank simply housed in the nation's capital of Washington, DC. We want it distributed around the country." So all the different regions of the country would have a voice in that policymaking process.

Neel Kashkari:

So they created the Board of Governors that you've probably heard of. You've probably heard of Alan Greenspan and then Ben Bernanke and Janet Yellen. Our current chairman is Jerome Powell, who sits in Washington, DC with the other governors. Then 12 independent federal Reserve banks, the ninth of which is here, the Minneapolis Fed.

Neel Kashkari:

Our jobs are to represent this region, so Minnesota, North and South Dakota, Montana, the upper peninsula of Michigan, and northwestern Wisconsin. As Jean said, and we're grateful for Jean's service, each of those 12 banks has a board of directors made up of regional leaders, business leaders, civic leaders, nonprofit leaders.

Neel Kashkari:

We work very hard. We have nine directors on our board. We work very hard to make sure that those board members represent the whole region, but also represent different sectors of the region, so that when we talk about what's happening in the economy, Jean brings her perspective, that's going to complement other perspectives on the board, and so that I can get as richest set of information as I can.

Neel Kashkari:

Then I take that insight and I go back to Washington, DC every six weeks, where we have FOMC, Federal Open Market Committee meetings. What I do in those meetings in part is I'm talking about what's happening here in our regional economy.

Neel Kashkari:

What the Fed does matters. Right now, obviously we're at a time of high inflation, which we're going to talk about. The Fed is aggressively raising interest rates to bring that back down. But we all work very hard at the Fed to be transparent to the public, who ultimately we serve. We're accountable to Congress, but we ultimately serve the public. That's who we are working on behalf of and that's why we're live streaming this today.

Neel Kashkari:

Whenever possible, I try to live stream these types of meetings so that everybody can see what it is we're talking about, so everybody can see there's nothing to hide. I'm going to be as transparent with the public as I am in a room full of bankers. It's not one message for one group, another message for another group. It's the same message to everybody. Hopefully that helps build the credibility and confidence that we are working on the public's behalf. So thank you for accommodating our live streaming.

Neel Kashkari:

## **Fed Unfiltered, Transcript**

### **10/6/22 – Neel Kashkari, Interview: Bremer Financial Corporation’s Fall Leadership Conference**

Now the economy was in quite a good place before the pandemic. For the five or six years that I've been at the Fed prior to the pandemic, we kept seeing more and more workers come off the sidelines and take jobs.

Neel Kashkari:

So one of our goals is maximum employment. Actually, let me back up. We talk about a dual mandate: stable prices of 2% inflation and maximum employment, as many people as possible gainfully employed and contributing to our economy.

Neel Kashkari:

Now we normally think these two goals are like the sides of a seesaw. When the economy gets hot, the unemployment rate goes down, and then businesses have to pay up to find workers. Then ultimately that leads to more inflation. So then in that situation, we would raise interest rates to try to cool the economy and bring it back into balance.

Neel Kashkari:

Well, the darnest thing happened for the four or five years before the pandemic. We kept thinking, okay, the unemployment rate's now at 4%. That's as low as it can go. Then more workers went to work, businesses hired them, the unemployment rate went down, but inflation didn't come up. So we ended up, before the pandemic, having around a 3.5% unemployment rate and, curiously, inflation was a little bit below our target. We couldn't even get it back to 2%.

Neel Kashkari:

Then the pandemic hit. We went through the rapid shutdown. Many of us worked from home, as you all did. Then the miracle of highly effective vaccines came about. I spent a lot of my time during the pandemic talking to the best health experts in the world and they said, "We don't know if a vaccine is possible." Think about it, an HIV vaccine, they'd been searching for decades. And if it is possible, it's probably going to take many years.

Neel Kashkari:

Then by the end of the year, we had two highly effective, maybe three highly effective vaccines. That allowed the economy to reopen much more quickly than people had expected. Good problem to have. Then the economy's reopening, and then it's reopening in an imperfect, unexpected ways.

Neel Kashkari:

During the pandemic, when we were all working from home, you couldn't go out to restaurants, couldn't get on planes. So people shifted what they were buying. You weren't buying services anymore. You were buying goods. Supply chain started getting overwhelmed, and then COVID continued to spread around the world.

Neel Kashkari:

So now we are obviously at a time of very high inflation, which I know we're going to talk about. Federal Reserve has moved very aggressively to raise interest rates to bring the economy back into balance. We have more work to do.

## **Fed Unfiltered, Transcript**

### **10/6/22 – Neel Kashkari, Interview: Bremer Financial Corporation’s Fall Leadership Conference**

Neel Kashkari:

The big question everybody's asking is can we achieve a soft landing? Can we cool down the inflation without triggering a recession? My answer is I hope so. We're going to try, but we have to bring inflation down.

Neel Kashkari:

The question is inflation comes from a mismatch between supply and demand. If demand exceeds supply, you're going to have high inflation. So we have the tools with monetary policy to bring demand down. The question is do we have to do all of that work ourselves, or are we going to get some help on the supply side so that both sides move towards each other?

Neel Kashkari:

If we get some more help on the supply side, then I'm more optimistic that we can achieve the soft landing that we all hope for. If we don't get help on the supply side, then it just falls to us to bring demand down, and that's going to be more painful. But either way, we know our jobs and we are going to get inflation back down to 2%. So with that, Jean, I'll turn it back over to you.

Jean:

All right. Thanks so much, Neel. Before we get into some of the questions on inflation, maybe ... I think it'd be really interesting for this group to know ... You mentioned the FOMC. You go out, you have these meetings. Who makes up the voting body? If you're not a voting member, how is your voice heard?

Neel Kashkari:

Sure. So it's curious decisions of Congress and others as they created the system. So there are seven governors in Washington, DC. So Jerome Powell. Vice Chair Lael Brainard is the number two with the Board of Governors. They are appointed by the President of the United States, subject to confirmation from the Senate. We now, for the first time in many years, have a full slate. All seven of those seats are filled, which is great.

Neel Kashkari:

Then we have the 12 Reserve Banks. The Reserve Banks generally rotate on who gets to vote. So I'm not technically a voter this year. I will be a voter next year.

Neel Kashkari:

But I'll just tell you I don't ... And I think this is true for all my colleagues. It doesn't change my preparation at all. My preparation for the meeting is identical. Everybody goes to all the meetings, everybody fully participates, everybody makes the recommendation. Then in the last two minutes of the second day of the meeting, at the very end of the meeting, they call a vote. Then the secretary of the FOMC calls out certain names versus other names, just depending on whether it is your turn to vote. So it doesn't change a lot from my perspective.

Neel Kashkari:

You do have a little bit more influence, so to speak. Let's say if you were to issue a dissent and you're a voter and you vote no, that'll get a lot more national attention. Why did this person choose to vote no?

## **Fed Unfiltered, Transcript**

### **10/6/22 – Neel Kashkari, Interview: Bremer Financial Corporation’s Fall Leadership Conference**

And so, in that sense, there's more scrutiny. But generally speaking, we all listen to one another. We hear each other's arguments. Everybody is exceptionally well-prepared for these meetings, as you might expect. There's nobody phoning it in, so to speak.

Jean:

Thanks, Neel. Well, so you mentioned it. The question on everyone's mind is what's going to happen with inflation? But I would say that I'm particularly interested in your view of looking maybe two to five years out, because it's hard to predict the next few months. You're doing a lot to try to impact that. But I'm wondering now, if you look out more than a few years, are you worried about stagflation at all based on what's going on?

Neel Kashkari:

I'm not. So what is stagflation? Stagflation is a term that I think people think of from the 1970s, where we had very high inflation for many years and very low growth for many years, and those two things together. So stagflation.

Neel Kashkari:

Right now, the transition that we're going through right now feels like stagflation because we have high inflation. The first two quarters of the year, we had negative or zero GDP growth. The housing market is slowing down.

Neel Kashkari:

So this moment does feel like a stagflationary moment. But this moment is a transition. We're going from this pandemic, the reopening, now we've got this high-inflation period. But the Federal Reserve is on the case to bring inflation back down. I am very confident that we are going to get inflation under control.

Neel Kashkari:

Then when we get through this moment ... And this moment might be a year or two, but when we get through this moment, we can have a strong economy with low inflation and reasonable growth on the other end of it. So it's like we're doing this work right now to avoid that extended stagflationary period. But this transition obviously has some stresses.

Jean:

Yeah, okay. Thank you. So now the target range is in the 3% to 3.25% range. So it's really close to reaching the forecasted peak that the Fed has talked about. So what I'm wondering is could the Fed still achieve its policy objective if you maintain the rate as it is today for a little bit longer, just to see the impact of the work that you've been doing these recent efforts? Again, that's to avoid rates going too high and potentially causing this hard landing that you're talking about.

Neel Kashkari:

So this is one of the toughest parts about the environment that we're in right now. First of all, the economy is sending us a lot of mixed signals. I mean it always does. We look at a lot of data of the labor

## **Fed Unfiltered, Transcript**

### **10/6/22 – Neel Kashkari, Interview: Bremer Financial Corporation’s Fall Leadership Conference**

market, of GDP, of wages, et cetera. But now more than ... Any time in my experience at the Fed, almost seven years, the signals are wildly divergent.

Neel Kashkari:

So I mentioned first two quarters of GDP showed negative growth. Typically you say, hey, there's a recession. But typically a recession comes with widespread job losses. The job market was humming over the course of this year, creating a lot of jobs. So that suggests we were not in a recession in the first half of this year.

Neel Kashkari:

So one of the challenges, though, we got these mixed signals. Then as Jean just hinted at, monetary policy takes a couple of years to work its way fully into the system to have its full effect.

Neel Kashkari:

So some parts of the economy that you all deal with a lot, monetary policy affects it right away. So the housing market. Monetary policy affects the housing market really fast because of mortgage rates. So mortgage rates went from around three to almost as high as seven over the course of this year. That is slamming the breaks on the housing market.

Neel Kashkari:

But other parts of the economy, it's going to take much longer to work its way through. It's going to take longer to work its way through to wages. It's going to take longer to work its way through to food prices and other parts of the economy that are not quite so interest rate-sensitive. It will have an effect, but, as you indicated, it's going to take some time.

Neel Kashkari:

So the question is we've done a lot of tightening. There's a lot of tightening that still has to work its way through the economy. As Jean was hinting at, maybe we've done enough. If we keep going, maybe we'll end up doing too much and overshooting because of these lags. That is absolutely a risk. But the challenge is we're seeing almost no evidence that underlying inflation has peaked or is on its way down.

Neel Kashkari:

And so, for a year now we've been wrong on inflation. We kept thinking, hey, it's transitory. I said that. We kept thinking these supply chains are going to heal. People are going to come off the sidelines. People are going to stop buying goods because they're now buying services again. All of that has not happened nearly as quickly as we thought.

Neel Kashkari:

And so, I am not comfortable saying we're just going to pause until we see some actual evidence that the underlying inflation ... So things like wage growth, things like services, inflation, these things that are sticky. Commodity prices move up and down, but underlying inflation like wages and services tend to be stickier. We're not seeing any evidence yet that those things are moving in the right direction.

Neel Kashkari:

## **Fed Unfiltered, Transcript**

### **10/6/22 – Neel Kashkari, Interview: Bremer Financial Corporation’s Fall Leadership Conference**

And so, for me, until I see some evidence that underlying inflation has solidly peaked and is hopefully headed back down, I'm not ready to declare a pause. I think we're quite a ways away from a pause.

Jean:

So you mentioned that ... So we've seen some commodity prices come down. We even start hearing about some retailers saying that they're overstocked, all those kinds of things. So when you talk about the data that you look at, what's most important to you? What are those pieces that you pay most attention to?

Neel Kashkari:

Well, we look at a lot of different measures of inflation and the underlying components to inflation. Housing's a big piece of it, for example.

Neel Kashkari:

So just take housing as an example. Home prices shot up 25 or so percent in the last couple years. Rents went up by a lot, but not as much. The reason that rents have not gone up by as much is because you sign a year lease, or you sign a two-year lease. And so, until your lease turns over, until it expires and you renew, it's not going to get priced up at the higher level. And so, there's a process by which home prices went up and then it drags up the rest of the housing-related industry.

Neel Kashkari:

Now we're seeing some evidence that home prices may have peaked and some markets may be coming down, but there's still a lot of increased rents in the pipeline as your existing leases have not turned over yet. So that's an example. We look at that to try to understand where is inflation headed.

Neel Kashkari:

But ultimately the biggest cost in the economy are the cost of workers. That's the most important part of our economy, and what's happening in the wages. This is another weird thing that's happening.

Neel Kashkari:

So we've got this big spike of inflation, wages are climbing, but, on average, real wages have been falling because real wages have not climbed enough to make up for the fact that inflation went up. And so, now we're seeing wages coming up to try to catch up, but how high are they going to go? Are they going to come halfway and then stay there? Are they going to tick back down? We don't know. So a lot of focus, for me, is on are businesses continuing to hire? What's happening to wage growth and what's happening to real wages?

Neel Kashkari:

I want Americans to earn more money. I want families to have more money to put on the table, food on the table. But it's got to be consistent with a stable economy, an economy of 2% growth.

Neel Kashkari:

And so, right now wages have climbed up a lot, but now wage growth is higher than you would expect for an economy delivering 2% inflation. And so, that gives me some concern.



## **Fed Unfiltered, Transcript**

### **10/6/22 – Neel Kashkari, Interview: Bremer Financial Corporation’s Fall Leadership Conference**

Jean:

So it's interesting when you think about some other impacts to the work that you're trying to do. When I think worldwide, global inflation is driving both financial economic turmoil really around the globe. So I'm wondering if some of those global strains have a constraining effect on what the Fed is trying to do. How big is that?

Neel Kashkari:

It's a big factor because, first of all, just as you said, the inflation that we're seeing in America, most advanced economies around the world are seeing very similar inflation. So this is not uniquely an American problem. Europe is seeing it, the UK is seeing it, Australia is seeing it among others. And so, why is that?

Neel Kashkari:

Well, some of the things we buy are traded all around the world. So when you couldn't buy services and people were buying washing machines and goods, a lot of those goods were maybe made in China or made in Asia, and then they were shipped all around the world. So if prices for washing machines went up in America, they probably also went up in Europe, too. Same thing with automobiles that get shipped all around the world, and semiconductors produced in fabrication facilities in Asia, supplying car manufacturers all around the world.

Neel Kashkari:

So some of these things are common. Then if there's a lot of demand for some of those products in other markets, that could lead to inflation in America.

Neel Kashkari:

Then obviously Russia invading Ukraine was a shock that none of us were expecting. Drove up oil prices, drove up agricultural commodity prices all around the world. Many of those have now come back down, thankfully. Not completely in some cases.

Neel Kashkari:

So some of these are global factors, but it doesn't change the fact that we at the Federal Reserve have a responsibility for the US public to achieve stable prices and maximum employment in the American economy.

Neel Kashkari:

If we had great confidence like I thought we had a year ago that these things would be fading quickly and would be over, then we wouldn't have to react as strongly. But the fact of the matter is many of these things keep happening and we have to get inflation back down to 2%.

Jean:

So then, on a domestic front, I think about the harmony between both fiscal policy and monetary policies. So when you see the recent passage of the Inflation Reduction Act, how does that influence or does that make it more challenging to affect what you're trying to do?

## **Fed Unfiltered, Transcript**

### **10/6/22 – Neel Kashkari, Interview: Bremer Financial Corporation’s Fall Leadership Conference**

Neel Kashkari:

Well, we'll take any help we can get from fiscal authorities to try to help us with the inflation. So what could fiscal authorities do? They could do things that quickly improve the supply potential of the economy. They could do things that might reduce demand in the economy.

Neel Kashkari:

So the Inflation Reduction Act, I think, if I remember correctly, the Congressional Budget Office, which is the nonpartisan team of economists that analyze different proposals, I think they evaluated it and said it would reduce the deficit over around a decade by some modest amount. Well, hey, we'll take it.

Neel Kashkari:

I've actually heard experts say it's a very important piece of climate legislation. Its effect on the deficit on inflation is probably more modest, but it's probably directionally helpful. The way these things tend to work, they tend to take several years before they can have any kind of real effect.

Neel Kashkari:

So I'm not expecting that the Inflation Reduction Act is going to provide a big reduction in inflation in the next year or two. It's probably going to take a lot longer than that. But whatever Congress passes, our economists will analyze it, we'll put it into our forecast of the economy, and then we try to take that on board as we think about the path for monetary policy.

Jean:

So I know this is an important question to those folks in our audience that manage wealth and work with individuals and savings and trying to plan for everything that they're trying to plan for from a personal front. And so, this fear of Fed-induced hard landing has certainly increased some bearishness in the stock market, in the bond markets. At what point in time does the financial stability piece cause you concern, or is that just something that is just an outcome of the work?

Neel Kashkari:

Well, we do pay a lot of attention. We have a team of economists literally focusing on financial stability as their jobs, because the '08 crisis was so dangerous for the US economy and inflicted so much harm. It took a decade to recover from it and putting everybody back to work.

Neel Kashkari:

So we look at it a number of different ways. One way is through the traditional banking sector, which is where ... That was the epicenter of the '08 crisis. I would argue big banks, the giants, need a lot more capital, but we can debate that. They have a lot more capital than they had before the '08 crisis, which suggests that they are in a better position to withstand an economic downturn.

Neel Kashkari:

Another thing is American households' individual balance sheets on average are much better than they were even before the pandemic. Even low-income households, generally speaking, have a lot more savings than they had prior to the pandemic. Homeowners, generally speaking, have a lot more equity

## **Fed Unfiltered, Transcript**

### **10/6/22 – Neel Kashkari, Interview: Bremer Financial Corporation’s Fall Leadership Conference**

than they had in a prior downturn. So for those reasons, I'm more confident about the resilience of the US economy right now.

Neel Kashkari:

But as we saw in Europe over the last couple of weeks, in the UK, their pension plans had some exposure to derivatives and to interest rate risk that they didn't fully appreciate. And so, when interest rates were going up quickly in the UK, all of a sudden some pension plans saw big losses, forcing fire sales, forcing the Bank of England to step in to try to provide some relief just to calm things down to get through this period.

Neel Kashkari:

So when you've had low interest rates for a long period of time, it's not unexpected that investors would try to reach for yield, as they talk about it, and maybe buy some instruments that they don't fully understand or maybe have some risk that they don't fully appreciate.

Neel Kashkari:

I fully expect that there are going to be some losses and there are going to be some failures around the global economy as we transition to a higher interest rate environment. That's the nature of capitalism. I mean we need to keep our eyes open for risks that could be destabilizing for the American economy as a whole. But to me, the bar to actually shifting our stance on policy is very high.

Neel Kashkari:

I mean we live in a market economy. If you take some risks, you get the rewards, but you should bear the losses. It should not be up to the Federal Reserve or the American taxpayer to bail people out.

Neel Kashkari:

Now I say that recognizing I was the guy who ran the TARP, which was a \$700 billion bailout of the banking system. I'll just tell you, we hated that we had to do something like that, because I was appointed by President Bush. We were a free market conservative administration believing that if you take risks, you should get the rewards, but you should also bear the consequences.

Neel Kashkari:

But in '08, the destabilizing of the banking sector had the potential to crush the entire economy, plunging us into something like the Great Depression. In that situation, you have no choice but to step in and act. But that's a high bar. That's a high bar before we should change course.

Jean:

So you mentioned balance sheets. At the beginning of the year, the Fed announced plans to reduce its own balance sheets. So how are you feeling about the balance sheet now that here we are at the fourth quarter of 2022?

Neel Kashkari:

Well, it's coming down, and we are shrinking our balance sheet at roughly twice the rate that we shrank it after the last run. We did quantitative easing in the '08 crisis and following that, and then we began to

## **Fed Unfiltered, Transcript**

### **10/6/22 – Neel Kashkari, Interview: Bremer Financial Corporation’s Fall Leadership Conference**

shrink it to basically its lowest level for a functioning financial system. We're now shrinking it roughly twice the rate that we shrank it at last time. So we're withdrawing some liquidity from the financial system.

Neel Kashkari:

That's important. It's important that the balance sheet is one way of providing more stimulus to the economy. Once the federal funds rate is basically at zero, it's a way of providing yet more stimulus, and now we're withdrawing that stimulus. And so, we just need to keep at it.

Neel Kashkari:

Now the way this works, it's a funny thing. A lot of the way it works is through expectations. When we signal this is what's going to happen to the balance sheet, this is the path it's going to shrink, a lot of the tightening happens right away because markets are generally forward-looking and you can see markets reprice based on that expectation. So we just now need to stay the course. We said we're going to do this. We need to follow through and validate the expectations that we've set in markets.

Jean:

So raising interest rates also had an impact on the Fed's own balance sheet in terms of the expenses that you're incurring as well. So can you explain to this group why the Fed is likely moving into a negative income position? Does that get in the way at all of conducting your monetary policy?

Neel Kashkari:

So the Fed, because we have assets ... So at the peak, we call it \$8 trillion of assets, of treasury bonds and mortgage-backed securities. Those generate income. The US Treasury pays out its coupons to anybody who owns a treasury bond, and the Fed owns a lot of treasury bonds.

Neel Kashkari:

So we collect a lot of coupons from the Treasury. When the federal funds rate was at zero, we were basically paying close to zero on the reserves that banks park at the Fed. So you're earning a lot of income in this hand, not paying out in this hand. You're making a lot of profit.

Neel Kashkari:

So we have modest expenses to fund the operations and employees of the Fed. Then every year, our net income, net of our expenses, gets dividended back to the Treasury Department. So we don't retain any earnings, so to speak.

Neel Kashkari:

So we are generating tens of billions of dollars a year. At the end of the year, it would get dividended back to Treasury. No retained earnings on our balance sheet.

Neel Kashkari:

Well, now that we're raising interest rates a lot, we're paying a lot more on the reserves that banks park to us, the deposits they have with us, and we're not earning an increased amount on the existing

## **Fed Unfiltered, Transcript**

### **10/6/22 – Neel Kashkari, Interview: Bremer Financial Corporation’s Fall Leadership Conference**

portfolio of treasury bonds and mortgage-backed securities. So we're now moving into a net negative income position.

Neel Kashkari:

It doesn't actually change our operations at all. We end up just creating a deferred asset. Then once we get through this transition period and we start generating profits again, we pay down our deferred asset. Then once we've replenished the deferred asset, then we start sending dividends back to Treasury at the end of the year. So this is an accounting exercise that we're going through that doesn't affect our ability to conduct monetary policy at all.

Jean:

Yeah. Thanks, Neel. Maybe one last question on policy before we move on to other topics. But talking about the strong dollar right now. The strong dollar has actually dealt a blow to a lot of US companies because so much of what their bottom line are driven by earnings overseas. And so, the pace of that increase that you're doing for interest rates has only added, frankly, more confidence to the dollar. I'm just wondering if that has, again, any impact to the monetary policy work that you're doing.

Neel Kashkari:

Well, we pay attention to currencies all around the world. We model what happens to economies around the world, because they do come back and affect America. So as the dollar appreciates, it affects certain American companies for the better and other American companies for the worse. But it also makes the imports that Americans buy cheaper.

Neel Kashkari:

So when the dollar goes up, that has an effect, on average, of lowering inflation somewhat in America. That's not raising interest rates to try to control the dollar. That's not a policy goal of ours at all. But we do model what happens to currencies because it does have an effect on our economy.

Neel Kashkari:

And so, why is the dollar strengthening? All advanced economy central banks now are raising rates. The UK's been raising rates, the ECB is raising rates. We've probably moved more quickly than some. But ultimately it reflects an outlook for interest rates, but it also reflects underlying economic fundamentals.

Neel Kashkari:

I think one thing that has become clear ... We have our challenges. We have economic challenges in America. We have political challenges. We have lots of challenges. But I wouldn't trade places with any other major economy in the world by a mile, because whatever challenges we have, there are bigger challenges in other countries, whether it's demographics or it's technology or it's innovation or it's the rule of law, et cetera, et cetera.

Neel Kashkari:

And so, ultimately I think investors around the world are saying, "Where can we put our money for the near future?" Where do they have most confidence? I think they're basically saying they have most

## **Fed Unfiltered, Transcript**

### **10/6/22 – Neel Kashkari, Interview: Bremer Financial Corporation’s Fall Leadership Conference**

confidence in the American economy among the major economies, and I agree. I mean I have more confidence in the American economy than any other major economy.

Jean:

Yeah. So you mentioned innovation, so let's talk about FedNow. The launch of that's about maybe less than a year away right now. What's your sense of that being interoperable with other private networks? What does that mean, or how do you personally view that? Because I know there's differing views.

Neel Kashkari:

Well, I personally ... So FedNow, we run an ACH network and we run wire transfer networks. But these things tend to be ... The ACH network takes a few days to settle. It's not overnight, it's not weekends, et cetera. The clearing house has a real-time payment system. We're now saying we're going to launch our own real-time payment system that we call FedNow.

Neel Kashkari:

The reason we're doing that ... We debated whether we should do it or not, or just leave it up to the private sector. A lot of small banks came to us and expressed concern that, yes, the big banks have set up this new payment network, but the small community banks were nervous that maybe they wouldn't be on equal terms as the big banks that were controlling the network.

Neel Kashkari:

And so, we do think that payments is a fundamental part of the American economy, of American commerce, of how people get paid, and that we should have a payment system that everybody can be comfortable, is going to treat everybody fairly. And so, that's what FedNow is. An initial version of it should be launching next year.

Neel Kashkari:

I don't actually know the details of where the negotiations are in terms of interoperability. I would tell you from my individual perspective, we want this to be interoperable for everybody. I mean think about when cellphones came out. I mean does it make any sense that if you're on Verizon, you can't call somebody on AT&T or can't call somebody on T-Mobile? That doesn't make sense. That's not very useful for anybody. I mean maybe for those individual companies, it might be useful, but it's not useful for the American people.

Neel Kashkari:

So ultimately you ought to be able to transact with anybody else in America who's plugged into our various systems. So I hope we get to full interoperability as quickly as possible.

Jean:

Yeah, terrific. So staying on the theme of innovation, there's a lot of vigorous debate right now on a central bank digital currency as well. Proponents say that it's important for the US dollar to be maintained as that world reserve, that currency. Critics warn that CBDC could undermine the current system with banks. So what's your view on that?

## **Fed Unfiltered, Transcript**

### **10/6/22 – Neel Kashkari, Interview: Bremer Financial Corporation’s Fall Leadership Conference**

Neel Kashkari:

So I'm still open-minded, but thus far my views have become pretty strong to keep hardening, because I keep asking questions that nobody can answer, very basic questions, and I've been asking these questions for years.

Neel Kashkari:

First of all, digital currencies exist today. I can send anybody in this room \$5 with Venmo or Zelle or PayPal. That is a digital currency. So what is it that a central bank digital currency, or Bitcoin, can do that Venmo can't do?

Neel Kashkari:

So people will say, well, maybe it's better for financial inclusion, because there are a lot of Americans who are unbanked. I ask them, is it better for financial inclusion? They say maybe. I say why would it be better for financial inclusion? The arguments that I get are, well, it's a lot easier to set up a Gmail account than it is to set up an online banking account, because in a Gmail account, you don't need a driver's license, you don't need a social security number, you don't need an address, you don't need a phone number. It's completely anonymous. See, it's better.

Neel Kashkari:

Well, if that's the source of advantage, getting rid of all of your customer requirements, let's have that discussion. But let's not say that this thing over here is better because it circumvents a bunch of regulations. So is it better for financial inclusion? Nobody's offered any evidence that it is. Then they say, well, cross-border remittances are so expensive. It could be better for cross-border remittances. I say, "How?"

Neel Kashkari:

My wife is from the Philippines. My in-laws live in the Philippines. If I want to send my in-laws \$100 to buy groceries, how do I do it? Well, it's expensive if you go through the banking system. Okay, I agree. So let's say I send them \$100 of Bitcoin. How does my father-in-law buy groceries with \$100 of Bitcoin? Well, if his grocery accepts Bitcoin, then he can do it.

Neel Kashkari:

Well, what they're describing is the magic of ubiquity. If everybody in the world uses the same payment network, then you get rid of all these frictions. That's true. But then all these countries have to give up their own monetary policies. So no evidence that it's better for cross-border remittances. One more minute on this.

Neel Kashkari:

I was at a dinner with a bunch of wealthy people, then somebody asked me this question. I asked a question. I said, "Has anybody in this room ever bought something or transacted in Bitcoin? Not buying Bitcoin, bought something with Bitcoin. Tell me what it is." I've never had anybody raise their hand. I ask this on college campuses all the time, too.

Neel Kashkari:

## **Fed Unfiltered, Transcript**

### **10/6/22 – Neel Kashkari, Interview: Bremer Financial Corporation’s Fall Leadership Conference**

One person in this dinner said, "I executed a transaction that I could do with Bitcoin and I could do no other way." I said, "My gosh, tell me. I want to learn." He said after Russia invaded Ukraine, he wanted to send money to somebody in Ukraine and he sent them Bitcoin. He couldn't get them dollars.

Neel Kashkari:

I said, "That's amazing. What did they do with the Bitcoin? How did they buy medicine or how did they buy food?" He's like, "No, no, no, no," and he waved his hands. I said, "No, explain this to me. What did they do with the Bitcoin?"

Neel Kashkari:

Then after a lot of back and forth, he finally said, "Look, I was helping them buy weapons. It was a lot of money." I said, "Well, how did they buy weapons?" He said, well, they sent the Bitcoin to an arms dealer in Germany, and then the Germans sent the weapons. He couldn't send the dollars directly to the arms dealer because he didn't know who to send it to. I said, "Okay, you got me. If you want to enter cross-border arms transactions, Bitcoin might have an advantage over the dollar."

Neel Kashkari:

That is the first example anybody has given me of an actual transaction that they could do in crypto that they could not do in dollars, and I stand corrected.

Jean:

I actually knew that would get them going. One last question on the CBDC. Can the Fed do that without legislation from Congress? How would something like that that get done?

Neel Kashkari:

No, I don't believe so, and I think Chairman Powell has said it. I mean a decision like this is really fundamental about what the Fed does. Treasury prints the dollars that we transact in. So the dollar production is a coordination between Fed and Treasury. This would have to be authorized by our political leaders.

Neel Kashkari:

We would want it ultimately to have the full backing of the US government. And so, it should be authorized. If we were to go down this path, it should be authorized by Congress. Then everybody would know, hey, the American government, the American people have decided to do this.

Jean:

Yeah, okay. Well, let's talk a little bit about our industry. So there are banks of all sizes in this country. There's been a ton of consolidation. I've been in the industry 40 years now, and there's 10,000 fewer banks than when I first entered this industry. Our conference here is all about what's today but it's also what's tomorrow. We're trying to look into the future and understand. So what do you see as maybe some of the biggest challenges and opportunities as well for mid-size banks maybe as far as you can see in the future?

Neel Kashkari:



## **Fed Unfiltered, Transcript**

### **10/6/22 – Neel Kashkari, Interview: Bremer Financial Corporation’s Fall Leadership Conference**

Well, I think that the consolidation is driven in part by, especially in recent decades, the adoption of technology. How much of my banking is just done through a very nice app on my phone versus going back into a branch the way that I grew up doing that? That's expensive to offer the latest technologies and it's hard for a community bank to be able to do that, although there are service providers that try to help them.

Neel Kashkari:

So those trends are probably going to continue. So continue to invest in technology, and finding efficient ways of deploying that technology I think are going to be important.

Neel Kashkari:

But let me tell you something. Since I've been involved in policy, I've heard from smaller banks, community banks, you guys are much larger than a community bank, but who've said, "Look at the critical role we play in our communities." It sounds like the expression motherhood and apple pie, like community banks play this important role.

Neel Kashkari:

Man, did we see that was true in the pandemic, because when Congress stepped up with the PPP program to help small businesses survive the pandemic, it is remarkable how smaller institutions filled the void to reach their small businesses that the big banks simply could not or would not. I've heard this story a hundred times, not from the bankers but from their customers, or customers of very large national banks who said, "I couldn't get through. I've been banking with this bank for 20 years. They wouldn't take my calls. I went down the street to a local bank. They were there for me."

Neel Kashkari:

And so, I've now realized, hey, it's actually true. It's not just nice talk. It's actually true about the role that smaller banks play in our economy all across the country. And so, we need to make sure that there's a level playing field.

Neel Kashkari:

One of the things, going back to bank regulation, that drives me crazy, smaller banks are not systemically risky for the US economy. If a small bank gets into trouble ... We don't want that to happen. We don't want it to happen for their customers. We don't want it to happen for their employees or for anybody. But it's not going to bring down the US economy the way a global giant bank can do. And yet most small banks in America have much stronger cap levels of capitalization than do the big banks. That's odd. If the big banks actually have these wonderful economies of scale, they ought to be able to afford higher capital levels than small banks, not lower capital levels.

Neel Kashkari:

And so, that's an example of, as I look at it, it's not a level playing field today. So, yes, it's more expensive on a per customer basis to deploy technology, but you've also got a lot more capital that's also harder to compete against the big banks. So I think there's some regulatory things that we need to rationalize so that the regulations are proportionate to the risk. I don't think that we've got that quite right today. But I am a believer, I just learned it firsthand in the pandemic, about the role that regional and smaller banks play in our economy that the giants simply can't fill.

## **Fed Unfiltered, Transcript**

### **10/6/22 – Neel Kashkari, Interview: Bremer Financial Corporation’s Fall Leadership Conference**

Jean:

Well, we're happy to help you rationalize regulation wherever needed.

Neel Kashkari:

By the way, you just reminded me, when Congress was designing the PPP program, we heard from congressional leaders who said, "Can you give us some feedback on some of the terms that we ought to think about designing into this program?" Jean was one of the people that I called and said, "Hey, can you call some of your clients to say Congress is considering A, B, C, and D. Which of these would actually be useful?"

Neel Kashkari:

And so, Jean, I really appreciate you ... You dropped what you were doing and reached out to a bunch of different people and got us some feedback that we then passed on to elected leaders as they thought about how to craft the program. So that's an example of leaders like Jean stepping up and providing some really necessary input. So thank you for doing that.

Jean:

Yeah. No, thanks. You mentioned this earlier, that you led TARP. You were in Washington, DC, in the eye of the storm with that financial crisis. So there's been movies made about that. It was just amazing. What a scary time. What are your memories, what are your takeaways from that? Living through that, is that influencing how you're approaching what's going on in the world today?

Neel Kashkari:

'08 was terrifying. I mean, first of all, I was younger then. I was 35 at the time. But it was terrifying for everybody who was there. So I was one of the young people on the team, but we had a really good team of people at Treasury and the Fed working together.

Neel Kashkari:

It was terrifying. It felt like the economic equivalent of 9/11, where we literally didn't know if we were going to make it another day without the financial system collapsing. Then the question we would ask ourselves is if the 8,000 or 10,000 banks in America collapse in widespread catastrophic failures, how do we put the system back together again?

Neel Kashkari:

Then all you can do in those moments is focus on what you can control. What we could control was getting our programs up and running as quickly as we could. We were taking our best shot and we didn't know if our programs would ultimately be successful. Then it ended up we did get through it. Though it took 10 years to put the American people back to work, which is much, much, much too slow.

Neel Kashkari:

So it affected me a lot of different ways in terms of how I saw the 2020 pandemic downturn. First of all, it gave me confidence we're going to get through this. We learned a lot in '08. The Fed learned a lot. There's a lot of institutional memory. We were able to respond much faster in 2020 than we were in '08 because we had the benefit of that. So I had this underlying confidence we're going to get through this.

## **Fed Unfiltered, Transcript**

### **10/6/22 – Neel Kashkari, Interview: Bremer Financial Corporation’s Fall Leadership Conference**

Neel Kashkari:

I also learned in '08 that the mistake in '08 was we didn't do enough. Then we ended up having a 10-year recovery putting people back to work. So I was very vocal that it's better to err on doing too much than too little. I think a lot of other people agreed with that. I think Congress agreed with that and they were very generous in supporting businesses and workers to get through the pandemic.

Neel Kashkari:

Then I mentioned earlier we had the happy surprise that vaccines came along much sooner than anybody expected. And so, it ended up that I think, with the benefit of hindsight, the fiscal stimulus was oversized relative to how long the downturn actually lasted. Again, that's a better problem in my view than having people out of work for 10 years. But now the economy's out of balance and we have to bring it back into balance.

Jean:

So I really want to ask you about this because it's just been amazing work by the Minneapolis Fed, and that's been your focus on diversity, equity, and inclusion efforts. You personally were really passionate about the Racism and the Economy Series. For those of you who aren't familiar, that was an 11-part series of really focusing on understanding the implications of structural racism. It actually received national attention, got a lot of great media. So congratulations-

Neel Kashkari:

Thanks.

Jean:

... first and foremost, for you and your team for doing that work. What was your passion around that? How did you get the team engaged to ... It was a big undertaking.

Neel Kashkari:

It was a big undertaking. Well, George Floyd was obviously murdered here in our town. It was shocking for everybody. We asked ourselves, my colleagues and I, at the Minneapolis Fed, what more can we do? We're doing research on economic inclusion and whatnot, and we're doing a lot of work on diversity. What more can we do?

Neel Kashkari:

Then we reached out to my friend at the Atlanta Fed, Raphael Bostic. I reached out to Raphael because Atlanta is also an epicenter for many of these challenges, too. I said, "Is there something our two institutions could do together?" We've ended up bringing the Boston Fed in and we've launched the series examining racism in different aspects of the economy.

Neel Kashkari:

Before we knew it, all 12 Federal Reserve banks had partnered in sponsoring the series. It examined healthcare, financial services, criminal justice, et cetera. I learned a lot. Let me give you an example that is relevant to all of you.

## **Fed Unfiltered, Transcript**

### **10/6/22 – Neel Kashkari, Interview: Bremer Financial Corporation’s Fall Leadership Conference**

Neel Kashkari:

So racism in financial services ... I talked about how financial inclusion. There are a bunch of Americans who are not engaged in the banking sector. Well, we had experts come in and explain why do some people who have jobs go to payday lenders instead of going to Bremer Bank. Let me tell you what I learned. I didn't know this because I've never been to a payday lender. I grew up going to my parents bank with them.

Neel Kashkari:

Well, when you walk into a bank, and you've never been to a bank before, what do you see? You see a very clean office. It's very quiet. Everybody's whispering. Some people are behind the counter whispering. There are no signs anywhere. Maybe it says FDIC in the corner and maybe the logo of your ... Name of your bank. And that's it.

Neel Kashkari:

If you walk into a payday lender, what do you see? It looks like McDonald's. You have signs on the wall, "Here are our products. Here's what you get. Here's what they cost." Anybody can walk into a payday lender and immediately see what's being offered, what it costs, what do they want.

Neel Kashkari:

If you've never been to a bank before and you walk into one of your branches, and I'm not picking on you, it's true for every traditional bank in America, I could now understand how totally intimidating it is. You'd walk in, you'd say, "Shoot, I don't know anything. I don't belong here," and I'm going to walk back out.

Neel Kashkari:

So that is not you all or your peers saying we want to be exclusionary. That is not your goal. But without realizing it, we're all perpetuating this. So that was just one very visible example that registered with me, and there are lots of examples like that in financial service, in healthcare, across the economy.

Neel Kashkari:

And so, it's important for us all to recognize that so that we can reach the people we want to reach. I know Jean pretty well. I know that you and your colleagues absolutely want to serve all of the people in the regions that you operate, but there are some unspoken barriers like this that many of us don't even realize. Once you see it, now all of a sudden you see it.

Neel Kashkari:

Anyway, that was one example. I appreciate you raising it, that I'm proud of that work and there's a lot of work that we all have to do.

Jean:

Yeah. No, I think we learned a lot from that. We all benefit from it. I think we are all trying to understand how we move forward in new ways and take different types of action than we ever have before.

Jean:

## Fed Unfiltered, Transcript

### 10/6/22 – Neel Kashkari, Interview: Bremer Financial Corporation’s Fall Leadership Conference

I want to make sure we offer enough time for some questions, we're down to about the last 10 minutes with Neel, and invite anybody in the audience. We've got people walking around with mics. So I'll just open it up to the floor here and see who might have a question for Neel. We've got one right here.

Neel Kashkari:

The microphone's coming to you.

Speaker 4:

Thanks. 17 years ago, and I know this because I was pregnant at the time, someone ... Rob Grunewald, I believe his name was, from the Federal Reserve in Minneapolis, spoke at a chamber dinner. I was in banking at the time, of course, and he was discussing this early childhood family education research project that spanned a 25-year period studying children from basically birth to age 25. I'm just curious if that study, which if I'm remembering correctly, was in three different areas of the country, if that played in at all with this study that you're working on now or this research that you're working on now.

Neel Kashkari:

Yeah. So thank you for the question. So when I got to Minneapolis Fed, the one thing I heard wherever I went is, "Thank you for the research that you all have been doing on the value of early childhood education." Rob Grunewald and the prior research director, Art Rolnick, really pioneered this work, saying that if you invest a dollar in low-income kids to get early education, there are profound positive returns to society over the next 20 years.

Neel Kashkari:

We continue to do that work. We continue to stand by that work. I'm really proud of the fact that the Minneapolis Fed did that work. It's really influenced policy in Minnesota. The legislature's not adopted exactly what we proposed, but they got the message. It's quite remarkable how powerful it is to get to low-income kids early.

Neel Kashkari:

I have two young children. I have a three and a half year old and now almost two-year-old. My kids don't need help from the state to get early education because my wife and I are in a very privileged economic position. We can get them access to wonderful childcare, very education-oriented. So the taxpayer dollars should be concentrated on the lower income families so that their kids can get the same opportunities that my children have.

Neel Kashkari:

And so, that's a great foundation. The work that we've done more recently on education is focused on older kids, so K through 12, but they completely complement each other. The early ed is critical to get kids off to a good start, but then obviously they need access to really high-quality schools from kindergarten on up, so that they can reach their full potential and that our economy can fully benefit from their abilities. Thank you for asking. There's a question over here in the front.

Speaker 5:

## **Fed Unfiltered, Transcript**

### **10/6/22 – Neel Kashkari, Interview: Bremer Financial Corporation’s Fall Leadership Conference**

Hi, I appreciate your talk. You perfectly laid out every challenge that you have in our economy and everything that you're doing to try to resolve that. If you look at the Fed's balance sheet the last 10 years, it's exponentially growing, almost five to 10 times growth.

Speaker 5:

When you step back, do you have any concern that the Fed's growing impact in the economy and reliance on the Fed is growing too fast as we continue to move forward here, as we move forward in the economy?

Neel Kashkari:

I don't think so. We are the only central bank ... Which this was news to me when I learned it. We are the only central bank that actually shrunk its balance sheet after doing quantitative easing the first time around coming out of the pandemic. We're quite serious about it and we're shrinking it again now.

Neel Kashkari:

The size of the Fed's balance sheet is going to grow over time because the demand for dollars continues to grow around the world faster than our own GDP is growing, because people have confidence in the dollar. If the demand for dollars grows, the other side of our balance sheet is also going to grow to balance those things out. Then the demand for reserves, which are digital dollars held by banks, the demand for reserves in the banking system has continued to grow for liquidity reasons among others.

Neel Kashkari:

So the balance sheet is exactly where it was prior to the pandemic because of that underlying demand growth. But we're going to bring it back down to whatever balances the economy, is the ... Provides what we call ample reserves into the financial system.

Neel Kashkari:

And so, I don't think so, but I do think this transition period, the cracks that we saw in the UK pensions, is an example of central banks reducing the liquidity, and now all of a sudden some market participants have risks that they didn't understand.

Neel Kashkari:

I expect we're going to see more things like that. I'm not saying in the UK. I don't know where they're going to happen. But that's the nature of a market economy, that people make lots of bets and they want to go one direction. When they go the other way, they're going to have to deal with it. Again, for me, the bar's going to be very high to change what we need to do just because some market participants didn't appreciate the risk that they were taking.

Speaker 6:

Thank you. The CARES Act was a big part of the last series of funding.

Neel Kashkari:

Can you start at the beginning? I'm sorry, I didn't hear that.

## **Fed Unfiltered, Transcript**

### **10/6/22 – Neel Kashkari, Interview: Bremer Financial Corporation’s Fall Leadership Conference**

Speaker 6:

Oh, the CARES Act.

Neel Kashkari:

Yes.

Speaker 6:

We took part in that obviously as a financial institution. The SBA just announced an additional subsidy going into this next fiscal year. I'm wondering, are there other stimulus programs coming that you're talking about right now or that you see just to continue to forecast into the next 12 to 18 months?

Neel Kashkari:

I'm not aware of more that are coming, but obviously that's up to Congress and the president to decide. An example of this would, of course, be the student loan relief that was passed. I don't think that was designed to be stimulus per se. It was designed to support people who have a lot of student loans. I've been asked about it and I said that I don't think the effect on inflation is going to be that large, the student loan relief.

Neel Kashkari:

Curiously, the lowest income Americans generally don't have student debt because they didn't go to college. So student loan relief, the way I think about it, though it's intended to be progressive, is actually somewhat regressive.

Neel Kashkari:

And so, curiously, the more it's regressive, which is not the intent, but the more it's regressive, the less inflationary it is, because higher income folks tend to save their extra money. They don't end up consuming every extra dollar that they get.

Neel Kashkari:

A perfect stimulus program would be you put a dollar in somebody's hands, they go out and spend a dollar, and then that would have to be really targeted towards the lowest income Americans to get that kind of a boost.

Neel Kashkari:

So I'm not sure if more acts are coming. I'm not aware of any. But the recent things that have been passed I don't think are going to have a big impact one way or another on inflation over the next couple of years, either the Inflation Reduction Act or the student loan forgiveness.

Speaker 7:

All right. Thanks. I work for Braver Wealth. So this is very exciting to talk to a Fed governor and someone on the local board.

Neel Kashkari:

## **Fed Unfiltered, Transcript**

### **10/6/22 – Neel Kashkari, Interview: Bremer Financial Corporation’s Fall Leadership Conference**

Wait. Can you say ... Speak closer to the mic. I'm sorry.

Speaker 7:

Oh, sorry. I'll talk really close. I work with Braver Wealth. So with the clients who are very concerned about where markets are headed and everything. But actually one thing I wanted to ask ... You did a great job at the start, overview of the Federal Reserve history.

Speaker 7:

27 years ago, when I took my first background economics class, we talked a lot about federal open market operations, buying and selling of securities to influence the interest rate. Since then, the Fed has new tools to really get that range where they want it. Could you just talk about that? What rates and levers are you pulling now to make sure that we're between three and three and a quarter or four and four and a quarter as opposed to just that traditional open market operations from 25 years ago?

Neel Kashkari:

Yeah, so great question. So 20, 25 years ago, actually more recently than that, just prior to that '08 downturn, up until that point, the Fed would get the federal funds rate that it wanted by trading open market operations, buying and selling bonds, short-term bonds, until they got the rate about where they wanted it. It takes a lot of activity and a lot of work to get it in there.

Neel Kashkari:

Congress passed a law giving the Fed the ability to pay interest on excess reserves. And so, now we basically just set an interest rate. We set an interest rate on the reserves that Bremer and other banks park at the Fed. We say, "We're going to pay you this rate," and it's what we call an administered rate. Then that rate then flows through different financial markets.

Neel Kashkari:

And so, operationalizing it is now much, much simpler than it was in the past. We can basically dial in a rate, and then it flows through to other markets.

Neel Kashkari:

Now sometimes things will happen where we set that rate and it doesn't flow through perfectly to other markets the way we think it should. Then we may have to step in the open market desk in New York. We'll step in with some trades to bring these things into alignment.

Neel Kashkari:

Ultimately, we want our policy rate to flow through to all sorts of related short-term interest rates, and then those flow through into the yield curve, and then those flow through into the economy more broadly. But you're right, the way that we implement monetary policy has fundamentally changed once Congress gave us the ability to pay interest on excess reserves.

Jean:

Any other questions? Here we go. We've got one right here.



## **Fed Unfiltered, Transcript**

### **10/6/22 – Neel Kashkari, Interview: Bremer Financial Corporation’s Fall Leadership Conference**

Neel Kashkari:

Up here in the front.

Speaker 8:

The employment participation rate in the United States is about 62% as of August, with about 3.7% unemployment. But here in Minnesota, the participation rate is higher at 68%, roughly, with 1.8% unemployment, which seems to suggest that finding employees are going to be more difficult and more expensive here than the rest of the country, which then also seems to suggest that the inflationary pressures on wages here will last longer than elsewhere in the country. If that's accurate, are there unique public policy or monetary policies that we should be considering here in Minnesota compared to the rest of the country to help alleviate some of that pressure?

Neel Kashkari:

Yeah, I would say, very quickly, our education system in Minnesota is really critical to make sure we're educating all of the Minnesotans who are here. We're not doing a good job of that today. That's a source of labor that if we educate everybody would help meet the needs of our businesses across the state.

Neel Kashkari:

Then make Minnesota a cheaper place to live. Minnesota's a very expensive place to live. Housing policies are local. Everybody asking, "Why is it so expensive?" I'll tell you why it's so expensive, because people like most of you and me who own our own homes don't want anybody building more homes in our neighborhoods.

Neel Kashkari:

We come up with all sorts of fancy arguments about we have to preserve this and preserve that and preserve this and preserve that. We all do it. We're all guilty of it. And this makes it an unaffordable place to live.

Neel Kashkari:

Until we're willing to look in the mirror and be honest about that, it's going to continue to be an unaffordable place to live and people are going to choose to move elsewhere. That's something in our control if we choose to do something about it.

Jean:

All right. Well, Neel, we are out of time. I know you've got a crazy busy calendar. I can't thank you enough-

Neel Kashkari:

Thank you.

Jean:

... for sharing your time with us this morning. I know we learned a lot, and really, really, really appreciate you being here. So pleased to have you.

**Fed Unfiltered, Transcript**

**10/6/22 – Neel Kashkari, Interview: Bremer Financial Corporation’s Fall Leadership Conference**

Neel Kashkari:

Well, thank you for having me.

Jean:

Thanks.