Speaker 1:

The Economic Club of Minnesota's mission is to provide a world-class nonpartisan forum for national and international leaders in business and public policy to discuss ideas that affect how Minnesota can better compete in the global economy. The Economic Club of Minnesota, engaging the world, strengthening Minnesota.

Chris Cumming:

Welcome. I'm Chris Cumming. I'm a member of the Economic Club of Minnesota Board, and it's really my honor and pleasure to introduce Jim Bullard, president of the St. Louis Fed. Jim, I've tried to think of things to say that you can't just read on the bio that you have, and so I thought of two things. I also worked for the Fed for a while, not in quite as an exalted position as Jim is in, but sat in a lot of meetings at the Fed and got to see Jim a lot. And there are two things that you should know about him apart from the fact that he of course was born in Minnesota and what's better than that.

But the first thing is that he really had a very meteoric rise in the Federal Reserve system. The St. Louis Fed has a reputation for having had really strong presidents in the past. And Bill Poole, who was his predecessor, was one of the really great monetary economist of his generation. So when they went to look for a replacement, they found Jim right in the St. Louis Fed, and they kind of pulled him up a couple ranks and made him the president. But of course, all of us in the Fed were very envious of the rapid rise of Jim.

But there was a reason for that and that's the other thing that I really experienced listening to Jim in meetings, particularly the FLMC meeting where as you know interest rates are set. And that is that Jim is, what I would call very agile thinker. If he's confronts a problem, he really thinks about it almost from square one. What are the issues? What are some of the possible solutions? And so he brings that to the table. He's ready for change, ready for something different if we need to do something different.

That's a great strength in the kind of times that we are. And it's no coincidence or it's our good fortune maybe that having a thinker like Jim in the Federal Reserve is really important because he started in 2008 as president and we've had nothing but trouble ever since. So I really am pleased to introduce Jim and Neel Kashkari will be interviewing him. Thank you.

Neel Kashkari:

Good to see everyone. Good afternoon. I'm Neel. Thanks for being with us here today. I've got the honor of getting to interview Jim. We are leaving time for Q&A with the audience, and so there will be some roving mics that go around. So please think of your questions. Jim likes whatever questions are on your mind. He likes to address them directly. And so I think this will be a lot of fun for everybody. So Jim, I'm going to start. This week you and I were in Washington DC. The Federal Open Market Committee voted to raise the federal funds rate by 25 basis points. Let's just start at the top. Did you support that decision?

James Bullard:

Yes.

Neel Kashkari:

Okay.

James Bullard:

No, I did support it. I thought it was a good next step for the committee. We have talked about as a group, the level of the policy rate that we were looking for. If I recall the dot plot correctly, I think all the dots are above 5% and maybe one wasn't. But basically the preponderance of the committee wanted to be above 5%. So this move puts us above 5%. We've done a lot in the last year or a little more than a year, but we have a lot of inflation in the US economy and more than we've had since the early 1980s. And so I think it's appropriate to put the policy rate at a higher level so we can try to get the inflation problem behind us sooner and get back to the 2% inflation environment that we enjoyed earlier. So I did think it was a good decision here at this meeting, and I thought it'd made a lot of sense.

Neel Kashkari:

The range of possible outcomes for the economy is still quite large. Some people talk about a hard landing, some people talk about, "Well, we're trying to achieve a soft landing." Some people are still saying there may be no landing, that inflation is just going to continue. When you think about these range of possible outcomes, how do you weight these possible different destinations? And then what does the Fed need to do to achieve the soft landing that I think we all agree we want to achieve?

James Bullard:

Yeah. I mean, on the hard landing side, I think there have only been four recessions in the last 40 years in the US. So it would be a minor miracle indeed, if we could happen to predict one six months or nine months ahead of time. So I don't think you should have that as your base case. We live with recession probabilities every day and things happen, shocks happen. And yes, the economy could go into recession, but that's not the base case. I think the base case is slow growth, probably somewhat softer labor market and declining inflation.

So that would be the soft landing scenario, and I think all of you should put most of your weight on that scenario. And then yes, there are risks out there, other things can happen. We understand that, but I wouldn't make those the base case. You don't want to make the meteor coming from outer space and hitting us. You want to understand that risk, but you don't want that to be your base case. So there is a wide range of outcomes. There's a lot going on. I think we're going to get into it in the other questions here.

Maybe just comment on today's jobs report, which was stronger than expected. Again, so this is 12 reports in a row that Wall Street has been surprised to the upside. Guys, maybe you should change your model a little bit. That's 12 in a row. That's never happened as far as the chart I saw today anyway. So I think unemployment lower today than it was a year ago, and the lowest since 1969. So job openings 40% higher than they were in 2019 before the pandemic, 40% higher.

So this is a very tight labor market. It's going to take a while to cool it off, and I think we have to be patient on that dimension and understand that. So the rumors of the imminent demise of the economy are greatly exaggerated, I guess is what I would say.

Neel Kashkari:

Okay.

James Bullard:

Citing a Missourian.

Neel Kashkari:

Speaking of shocks from outer space, we have a near term shock that we're all trying to navigate, which is stresses in the regional banking sector. Obviously, Silicon Valley Bank failed, Signature Bank failed. First Republic was acquired earlier this week. There'd been stresses in the banking sector. We thought they'd diminished and then they flared back up again. That seems like a nearer term risk facing the economy. How do you think about that? Is that behind us? Could that be what tips us into recession?

James Bullard:

Yeah. I think for the banking sector, just a couple thoughts. Financial intermediation in the US is not bank centric. About 80% of the total amount of intermediation goes through other channels other than the banking sector, so that's one thing to keep in mind. I think you have these too-big-to-fail institutions, which you've talked about a lot. They have the lions share of the banking part of the intermediation. They're doing well. They've reported good profits and so on.

You can argue about whether they should be too big to fail or not, but they're doing well and they're very large. So you're really talking about a fraction of the banking sector, which is only a fraction of the total intermediation that's going on. And these regional banks have... Obviously we've had a couple of issues in the last two months or so. But I'd have to say that I think Silicon Valley Bank in particular was very quirky based where it was in one of the most unusual economic places in the whole world.

And venture capital funded by billionaire investors with small startup firms and very little financial sophistication around that. Huge amounts of uninsured deposits. It's just a very unusual situation. If you look at the other banks, and there's a lot out here in this audience, but the other banks are nothing like that. It's totally different. Far more conservatively run. Far more orthodox in there, the way they handle both liquidity and their loan portfolio.

And the economy generally is doing pretty well. So the loan portfolios are paying. Yes, interest rates are higher, but we're going to replace lower interest rate loans with higher interest rate loans as time goes on here. I think all this can be managed and we'll be in pretty good shape in the medium term here. Markets comprise things as they wish, and there have been a lot of short selling and stuff going on.

I'm not really against that. You're trying to get a fair market value for all these organizations, but my sense is that the regional banks will do just fine coming out of there. There's a lot of good businesses out there.

Neel Kashkari:

So let's talk more about the banking stresses and the Fed's response. So the Fed does a lot of different things. Monetary policy we've been talking about. One of the things we do is we supervise banks. There's been a lot of handwringing. We were the supervisor of Silicon Valley Bank and obviously Silicon Valley Bank failed. The FDIC was a supervisor of Signature Bank and First Republic. Those institutions also collapsed.

The last week, the Board of Governors released a review, a self-review of what happened in our supervision of Silicon Valley Bank. What do you make of the findings of the BAR report that came out last week?

James Bullard:

So the BARR report said the top line is that the management of Silicon Valley Bank didn't take up their risks appropriately into account, and now all the equity holders are wiped out. So this is what happens when failure occurs. It's really the business decisions that were made. And that's the number one thing I think to take away from the report that all the regulation in the world isn't going to stop a company that doesn't have the right risk management in place that then gets hit by shocks. You're not going to be able to stop that from occurring.

Again, they had a huge exposure to uninsured deposits. They had these small startup firms, but with a lot of money in their checking accounts, they could easily communicate with one another. You had not enough attention to interest rate risk, and you had rapid growth. And I think for anybody in this room, anything that's growing that rapidly is very, very hard to manage.

It's hard to get the right people in the right places and thinking fast enough about how to adjust the business as it's growing that quickly and those things combined and the enterprise went down. But that doesn't sound like something that's copied across the country. That's something that's very unique, I think, to that institution. Could the Fed have done more? I think the report details how our regulatory teams reacted. We did do, I think the normal kinds of things that you would do in this situation, but probably not fast enough given the growth of the institution and probably not tough enough given what happened in the end and the report details, all of that.

So I would say though that Monday morning quarterbacking is the number one sport in America, and it's always easy to look at the thorough on Monday morning and think it could have been done a little differently. But I think basically there's a fair report and a detailed report that gives us a good picture about how regulation works.

Neel Kashkari:

So on that, can you talk a little bit about... People always ask us, so we've got these 12 reserve banks. The nation is divided into 12 federal reserve districts. Jim and the St. Louis Fed is the eighth district. The Minneapolis Fed is the ninth district. What is the role of reserve banks in supervising banks versus the role of Washington DC in supervising banks? It's kind of a complex relationship.

James Bullard:

Maybe you can explain it to me. Washington controls the policy part. So the board of governors itself is setting policy, and there's no ifs, ands, or buts about that. They're setting the policy. The banks are implementing the policy with the banks in their district. We have all bank holding companies in the eighth district. We also have a portfolio of about 125 banks or so that we supervise directly in conjunction with the state regulators.

So you've also got FDIC in there, OCC. So you've got a lot going on, but we're the implementers. I think the process works pretty well on the whole, but you do have to understand who's doing what. I've been taught since being in this job that great regulation is great communication. What you want to do is get to the management team of the bank and tell them, "Don't do that because that'll get you in trouble." And then we'll have to spend a lot of time. And so if you can get that process going, get the communication up ahead of time, keep the banks out of trouble and rigorously enforce the policy, you'll have a very smooth running banking system if you can do that.

Sometimes you get management teams that want to go in a different direction. They want to do something different. They want to take some other risks or whatever, and maybe it doesn't work that well. But I think great regulation is great communication.

Neel Kashkari:

And related to this, some people have asked questions. So by law, there are 12 Federal Reserve banks. By law, each of our reserve banks has a board of directors. By law each of those board of directors has three of those nine directors that are bankers elected by banks. So people have asked a question, is it appropriate that bankers are sitting on the boards of directors of reserve banks? Doesn't that create some potential conflict of interest? And without putting her on the spot, Kate Kelly, very capably served as a director of the Minneapolis Fed for six years. We really appreciated her service, contributed a lot. What's your view of the role of bankers on the boards of directors of the Reserve banks?

James Bullard:

If you read about the history of the Federal Reserve Act, which is over a hundred years old and was in the Woodrow Wilson era, it was a delicate compromise to decide who would be on these boards of directors at these banks. But it has some logic to it. The notion was that the bankers would represent the suppliers of credit, and then you'd have have three business type appointees. They would be the demanders of credit, and then Washington would put its three directors on, and they would be the unbiased arbitrators because Washington is so unbiased.

So you would get this balance. Actually I think that's not too bad a way to think about it. I mean, the guys that were thinking about it were very careful and they were working very hard to find a way to set up the Central Bank that it would work. The first two central banks in the US failed. First Bank of the United States, Second Bank of the United States. Andrew Jackson famously campaigned on getting rid of the Second Bank of the United States. There was no central bank through the Civil War and up till the eve of World War I until the panic of 1907.

Then people said, "Something has to be done." So in order to do this, they decentralized it. That's why we're here today and let's move it out across the country. Let's get input on these important decisions from all parts of the country, and let's set up the boards of directors so that you don't have everything tilting toward the demanders of credit. You don't have everything tilting toward the suppliers. Somehow you're balancing that out on these boards.

So that's my explanation for why it is the way it is, but I haven't heard a good reason why you'd want to tilt it in some other direction. So it's always for demanders of credit.

Neel Kashkari:

That's a very helpful question. I would just add that all of the banks have adjusted over time so that the bankers who are on a board of directors are completely excluded for many supervisory matters. So they don't get to pick... Kate was on the board, but she didn't get to hire me as an example. So there are a bunch of provisions put in place to manage these potential conflicts.

All right. Let's shift gears a little bit then we're going to get to the audience here in just couple minutes. One thing that comes up a lot, especially with students, are digital currencies. Bitcoin was all the rage. It was less of the rage. Maybe it's percolating out there. Related to that, a lot of people like to talk about Central Bank digital currencies. Do you have a view about Central Bank digital currencies? Should the Fed issue one? Apparently China is gung-ho in trying to issue a Chinese digital currency.

James Bullard:

I think it's up and running, if I'm not mistaken.

Neel Kashkari:

The Chinese yuan?

James Bullard:

China, yeah. Doesn't seem to be catching too much take up. I don't know. There's a lot of talk here in this space. I don't see a lot happening near term on this. I think if the United States was going to go to a Central Bank digital currency, and Jay Powell has said this, we would need congressional direction and congressional support. So I think this is going to remain in the realm of debate, at least in the near term, until Congress decides what it might want to do. I think the issue of being able to get electronic payments around the country or around the world quickly is not really an issue.

Things were electronified a long time ago, and so payments moved very quickly and are even there. There's updates to how fast payments can move. So I don't really think it's about that. I would say this to the cryptocurrency advocates. They need a business case that is not based on regulatory arbitrage. It can't just be that somebody is taxing you somewhere and you're going to try to make a payment in a way that's going to get around the taxes or illegal goods or illegal services or something like that.

If that's going to be what it is, it's not going to go very far. And authorities are going to crack down eventually and maybe already are. So I think it's interesting technology, but you're going to need a good business case in order to get this to become a mainstream part of the payment system.

Neel Kashkari:

Great. Let me just ask one more question and then I'm going to open it up. I'm sure this is not a shy audience. As Christine said when she introduced you, you're a Minnesota kid, so you grew up in Forest Lake. You attended St. Cloud State, graduated from St. Cloud State before going to Indiana for your PhD. We have a lot of young people in the audience, a lot of students in the audience. Talk about your own path to economics. What led you into economics? What led you to the Fed and policy making? Any advice for students?

James Bullard:

My idea as an undergrad was to combine stuff about artificial intelligence with stuff from economics and piece that together. So it kind of happened. That was certainly the path I went down. It was a good path because you're talking about something that's technically challenging and I think getting technical skills and developing them is always a good idea in the labor market because you'll be more specialized and more sought after in that world.

I think you also have to be able to turn around and communicate ideas to a broader audience that isn't versed in the technicalities that you know. So I think that's also an important thing to do, and that has helped me a lot in my career. Not actually a good communicator, but I benefit from the fact that all the other economists are worse than me.

So it's like when you're running from the bear, you only have to run faster than your friend who's also running for the bear. But I do think that this idea, which I got advice from people at the time, but the idea of really pursuing as rigorously as you can, technical fields and having some vision about how you want to combine that with other aspects of your career, I think that has paid off for me. So that's my spiel on that.

Neel Kashkari:

Great. Well, let's open it up. If you've got questions, raise your hand. We'll bring a microphone to you. All we ask is that you please introduce yourself. There in the front. This is going to be an economist objecting to your claim that economist can't [inaudible 00:23:57]

Speaker 5:

Quick question, and you started the conversation off with this. If you look at the economy, we are strong, consumers are strong, businesses are strong, balance sheets are strong, which gave you the confidence in raising 25 basis points. But if you look at the business surveys, business confidence, consumer confidence, those are the two variables where they are down in the dumps. They are not looking at an optimistic future. So should we be reading anything into that? Is that just noise? Thank you.

James Bullard:

Yeah. On the consumer confidence numbers, I don't like to put a lot of weight on them. I think they tend to reflect the kind of national discussion that might be going on at any one time, some of which might be the economy, but a lot of which is the political ups and downs or just news that's coming in from other angles, war in Ukraine or other features. So people are responding to the survey and they say, "Yeah, I feel down because I read this story about what the Russians were doing in Ukraine."

That's not helping me as a macro economist to predict. Also, I think with consumer confidence, it's not what I say, but it's what I do. What are the consumers actually doing with their spending as opposed to how do they say they feel about the world? So they might feel down, but they buy more ice cream or something. So I've found it not that use... The consumer confidence. Now, the business confidence, I would take more seriously there. I think people are more disciplined and focused. They're trying to think about their own business and their outlook for their own business. So I do take it seriously. We're talking to businesses all the time in the eighth district and across the country and trying to get a read on that in real time.

I think that's a very important thing of what the Fed does is collect anecdotal information because by the time it shows up in the data, two months has gone by, or six months has gone by and you're getting the old news. So to find out what's going on in real time, you have to continually talk to audiences like this, but also to other groups and just get a sense of what's really going on on the ground. So that's my take on business and consumer confidence.

Also, I would say strong labor markets, that conventional wisdom is strong labor markets mean consumption is going to hold up pretty well. That's 70% of the economy says it's going to do pretty well. So that gives me confidence about my prediction about continued slow growth for the US economy.

Speaker 6:

I wonder if you could talk some more about your expectations on the impact of labor participation rates and structural changes in employment?

James Bullard:

Yeah. My read of the data is that nonfarm payroll employment still is not back to the trend level that would've been drawn from the 2016 to 2019 era. So you're still a little bit under where you'd be there and other ideas about, you kind of have a structural shortage of workers, maybe not quite as much as you would've had a year ago, but a couple million people that aren't here for various... Aren't in the labor force for various reasons. Older workers less inclined to come back into the labor force than they would've been pre-COVID.

We did some work on that. If you get a person that retires in the old days, within a year, they might have picked up another job or done something else. But if they go beyond a year, then they're unlikely to reenter the labor force. So I think COVID made people go beyond that year and now they're unlikely to come back in. You've got immigration. Immigration is now picked up back to the pace that would've been pre-COVID, but you still have a bunch of people that didn't come during that intervening period. They're just not here. So those workers aren't here.

I think daycare is still a problem. I think daycare got crushed by COVID. I think that's keeping some parents out of the labor force that otherwise would've been able to come in. So there's some things that you can point... COVID itself, if you've got more sick people than you would've had in steady state before COVID. So these are some factors that are tending to depress the amount of available workers. And as a consequence, you have this very tight labor market that is going to take a long time to soften up.

So I'm not a Phillips Curve person, so the Phillips Curve, people should be telling this story, but I don't really think that the tight labor market necessarily feeds into inflation. I think we can bring inflation down without having... And just allowing the labor market to come back to normal, not go beyond coming back to normal. So that's why I've got the more of a soft landing scenario in my head maybe than others. Sometimes you hear pundits say, "Well, until unemployment goes to very high levels or whatever, you won't get inflation to come down." I don't think that's the right analysis.

Hector Fernandez:

Hector Fernandez, and you mentioned AI, and I privy to you that I was going to ask you this. So ChatGPT has an answer on what the dominant theme is for your research since 1994. So curious as to what you think the dominant theme is. And second question is around ZIRP, you were quite critical in 2015, 2016, the Cato papers around zero interest rate policy. Just curious, what's your view now looking back and what its effect has had on things like SVB with the asset bubble? Thank you.

James Bullard:

So the first part is what would ChatGPT-

Neel Kashkari:

He looked up what ChatGPT describes your research. How would you describe your research?

James Bullard:

Yeah, what would ChatGPT say about me? Well, I think the theme is the role of expectations in macroeconomics.

Hector Fernandez:

It's pretty close to that. It does talk a lot about the natural rate of interest [inaudible 00:30:52]

James Bullard:

Yeah. A lot of my work is on learning and macroeconomics, which means in macroeconomics, expectations are a big part of how the whole thing works. That's why it's harder than physics. The particles don't know they're going to smash into another particle. Okay? Our particles do know and they go like that. So it's a role of expectations in macro. And I got obsessed with that in graduate school and I wrote all these papers about it.

You can say a lot of interesting things about that and combine that with the artificial intelligence literature. So that's a lot of what I tried to do. Some of it was popular. Others have not been that cited. And the second part of the question. Sorry?

Hector Fernandez:

On ZIRP.

James Bullard:

Oh, ZIRP. Yeah. So even today, one of the biggest mysteries of macroeconomics has been Japan. And what the heck happened? Japan was a booming economy. It was expected to dominate the world economy at one point in the late '80s and early '90s. It crashed. And then they really have not had the policy rate in Japan above 50 basis points for 25 years or more. So it's just shocking how long this has gone on. So I think you have to think of that as some kind of steady state. They've also had slow growth, so there's some kind of steady state there. And if the United States gets mired in whatever that is in Tokyo. We could be sentenced to extremely low interest rates and slow growth for a very long time. So I was concerned during the period that we were at low interest rates that we not get stuck there and not be able to get out of that.

That was most of the discussion from 2010. I wrote a paper called Seven Faces of the Peril and then many much stuff after that in 2010 up to 2019. I think the pandemic has completely changed the complexion now. Now, you had such a big reaction to the pandemic that we generate a lot of inflation and now we're back in '80s and '90s style macroeconomics where we're trying to tamp down inflation and get back to a reasonable outcomes on inflation.

So inflation has been very costly. It's very disruptive to low and moderate income households. Real wages have been falling. Just looked at the picture this morning. Our average hourly earnings trailing behind CPI inflation for the last two years. So this is why I come back to consumer confidence. Why don't people feel happy? Well, real wages are declining and they can't afford all the stuff that they used to be able to afford.

So they're having to cut back here and there. I think consumers are pretty savvy about how to do that. I would also warn businesses that think they can raise prices forever, they're going to get hit hard at some point when a consumer decides I'm going to switch away from your product and not come back. Cost of customer acquisition is very high. And if you lose customers because of that process, you'll never get them back.

Neel Kashkari:

Let me ask a follow up. Once we get through this high inflation period, back to whatever, the new normal economy, do you think we're going to be back at the low interest rate environment again? Or is something more fundamentally changed long term?

James Bullard:

Yeah, I would say there's two regimes. There's the Japanese regime and the regime that we're in now, or we're in the 1990s. We've switched back to this high one. We could be here for a very long time, but now that we know this other one is out there, we know it's possible to switch to that one too. I'm not anticipating that, but it can happen.

Neel Kashkari:

Yep.

Speaker 8:

Hi, Emilio Rivera. So it seems that the market is anticipating different scenario in terms of interest rate and recession than the Fed. What's your view on credibility or even the trust that people have right now?

James Bullard:

The credibility of...

Speaker 8:

The Fed?

James Bullard:

Of the Fed.

Neel Kashkari:

Of the Fed. 'Cause the market is expecting rate cuts later this year. Okay.

Speaker 8:

Yeah. They're expecting more like rate cuts even though-

James Bullard:

Wall Street is obviously betting heavily on a recession scenario. I said at the beginning, I don't think that should be a base case. It's fine to say that there's recession risk. It's fine to say recession risk are elevated, but to make recession your base case, there have only been four of these in the last 40 years. So all of a sudden we're going to have a beautiful crystal ball that tells us exactly what's going to happen. I don't think so.

So your base case should be slow growth, inflation comes down. And then, yes, there's a risk there that... Another thing about recessions is they're caused by shocks. So something else would have to happen and things can happen. War in Ukraine expands, for instance. It's a very dangerous situation over there. That's something, but that would be a shock. And then global supply chains would again go in a tizzy and you'd have all kinds of problems and maybe it would send the US economy into recession, but recessions are caused by shocks.

Those shocks are not predictable. So you're sitting here today. You should not be saying, "I know that the big shock is going to occur in October or December or February of next year." You do not know that those things are going to happen. But there's some probability on it, and I think you should just leave it that way and analyze the two cases. You can also think about value at risk. In the recession case, how severe would it be? Banking stress is multiplied. And you want to look at that scenario. You can look at it and put some probability on it, but I wouldn't make it the base case.

Neel Kashkari:

But just to follow up, you're basically saying that the monetary policy shock going from zero to 5% is not the shock that sends us into recession?

James Bullard:

Yeah, I don't think so. One thing about this tightening episode is we started close to zero. So I like to say the first 250 basis points don't count because you're just trying to get back to ordinary at that point. And then after that, we did do another 250 basis points. Okay. So that's tighter policy and you see some of that in real interest rates and so on. Now, I think the committee feels like we're in the territory at least, of being sufficiently restrictive so that we can put downward pressure on inflation, get it back to 2% in a reasonable timeframe. So no, I don't think that you can count the whole 500 basis points as a monetary policy shock.

Neel Kashkari:

Kate, you said there's an online question.

Kate:

Yeah, but we can go over here first.

Neel Kashkari:

Then we'll come back to you. Okay, go ahead.

Speaker 10:

Thank you. One component of price inflation and our deflation is money supply and M2 money supplies declined by about 5% or about a trillion dollars. How important is money supply M2 to the F1C? Could it be a leading indicator and is there an end target for the decline in M2 or do you feel like we're there now?

James Bullard:

Yeah, it's a great question and thanks for keeping the monetarist faith alive. St. Louis Fed is known as the monetarist bank within the system, and we published monetary statistics for the last 50 years. So I think this was a case where M2 growth exploded during the pandemic, and sure enough, inflation followed right behind it. So it's going to reignite monetarist ideas about inflation. It's been difficult to connect money growth rates directly with inflation on a timely basis, and that's why a lot of the monetarist discussion broke down over the last couple of decades.

But I think this is a fascinating episode, and for those that are hoping the inflation goes away soon, the monetarist answer is, yes, it will go away pretty soon because the money growth has gone away. You guys can check my friend and colleague, Jeremy Siegel. He's an advocate of this theory and he's been talking about it quite a bit. He's at Penn Wharton.

Neel Kashkari:

Okay.

Kate:

I'll do it without a microphone. So a question from an e-comm sponsor online, "The US dollar appears to be weakening. Does that make inflation even more challenging to overcome?"

Neel Kashkari:

The question online, I'll just repeat it so Jim can answer it. The US dollar appears to be weakening. Does that make tackling inflation more challenging?

James Bullard:

Maybe you want to take this one?

Neel Kashkari:

No.

James Bullard:

I'll give you a simple-minded idea about what's going on with the dollar. The Fed has raised the policy rate a lot, but looks like it's coming toward the end of the tightening process. That's what markets think anyway. The ECB has come up but has further to go. The ECB is looking more hawkish than the Fed, and so this should lead to a stronger Euro and a weaker dollar. All of that gets priced in ahead of time anyway. But maybe markets have been surprised a little bit in recent weeks on that dimension.

Neel Kashkari:

Good answer.

Will Roach:

Good afternoon. My name is Will Roach with Baker Tilly. With June 1st quickly approaching, what do you believe the implications may be and likely consequences may happen if the national debt ceiling is not extended?

James Bullard:

The debt ceiling is a must pass vote for the Congress, and it does with a divided government. It's going to require negotiation between the two parties in order to get the deal done. They're going to have to put their heads together and decide what they can live with as far as negotiated settlement on this. And that's the way it is. So I just don't see any way around it. One party controls the house, the other party controls the Senate. They're going to have to agree. And there are some hopeful signs that maybe they're getting a little closer to serious negotiations. So hopefully we'll get this done.

Neel Kashkari:

Oh, go ahead. Whoever's got the mic, go ahead.

Speaker 12:

William Reshmerg. What effect do you think the Chinese yuan will have on the US dollar as it has come to fruition that they're making deals with countries to trade specifically in the yuan when it comes to oil and other investments?

James Bullard:

So our Chinese friends do want to have a reserve currency. They have that as a long run goal. However, they don't seem to be taking any of the steps that they would have to take to actually accomplish that. You have to have a freely floating exchange rate. They're not really willing to do that. You have to allow free capital flows. They're not really willing to do that, so it doesn't look like they're going to succeed. There have been only three reserve currencies in the world in the last 500 years. One was the Dutch gilder when the Netherlands was the highest per capita income in the world.

It later shifted to the British pound when the British Empire had the highest per capita income in the world. It later shifted to the dollar when the US had the highest per capita income in the world. So it looks like the world leader, the largest and highest income economy. That's usually where the reserve currency is located. The only rivals to the dollar would be the euro. The euro has its own problems. The yen. The yen has its own problems. China has got a long ways to go in order to get to the reserve currency status.

Speaker 13:

Hi. My name is Brock Mann, MCTC. And my question was more so with the recent AI development, there's been growing fears that AI is slowly but sure surely taking over the workforce. Do you think those fears are warranted? And then also, do you think that has a play on our fears of a recession?

James Bullard:

No, I don't think it's going to take over the workforce. I think there has been labor saving, technological change going on in the US since the Industrial Revolution, 1750. So 270 years of this. The classic example is the mechanization of agriculture. In 1900 50% of all workers worked on farms in the US. Today, it's less than 2%, might be less than 1%. I'm not quite sure if I've checked that number recently. But so you automated a lot of the tasks that otherwise would've occurred on farms, but that freed up labor to other things in the economy that were higher values. So I think that will continue to occur with artificial intelligence.

I'm not one that thinks that computers are really thinking. If you look at the chess problem, so you can't beat the computer at chess anymore. When I was growing up, you could, but you can't anymore. Chess playing computer, Deep Blue beat the world Human Champion in 1998. So it's been 25 years, I guess. But if you look at how they solve that problem, it's really Moore's Law. It's really Moore's Law. So you're just computing more and more and more positions and looking farther and farther ahead at all. The permutations and computations and combination, sorry. And then evaluating all those various positions and then picking a move today.

So it's really just that you can process so much more data because of Moore's Law. The computer didn't really learn how to play chess, it's just brute force that made them better than any humans. So the lesson from that is that computers would be better drivers than humans probably as well. If you can get all the right information coming in and process the information fast enough in real time, they're going to start to get better than humans at driving and we're not going to want to drive anymore. What does that mean for the economy? Probably means labor saving, technical change, which has been the driver of economic growth for a century. So that's my take on it. It's too long of an answer, sorry.

Neel Kashkari:

We have time for one more round. I'll just say, Elon Musk predicted that long haul truck drivers were already going to be all out of work by now. Remember that? Self-driving trucks should already be ubiquitous and we're no closer than we were 10 years ago when he started talking about it. Our last question.

Gene Munster:

Gene Munster from Deepwater Asset Management. Question about commercial real estate. It's been more in the headlines. What's your view? How big of a problem this is going to be in the next two to five years?

James Bullard:

Okay. On commercial real estate, I'd like all of you to draw a distinction between let's say Manhattan or downtown Chicago versus commercial real estate as it's described in smaller places around America that aren't necessarily center cities and other things. So I think the latter group of commercial real estate is probably fine and probably not having any trouble. If you go to New York City, you have to scratch your head about what's going to happen. I agree with that, but I don't think you should lump everything together and say that it's all the same.

I don't think it is commercial real estate in Florida. It's not the same as in New York or other big cities. So the other thing is that I think that capital around commercial real estate is extremely patient. And yes, the valuations of the buildings change. And yes, they have to adapt and they have to think about what to do.

But these are long-term investments. They were long-term investments from the very get-go. It takes a couple years to build one of these things. It takes time to rent it out. The rents change. So it's very slow moving kind of thing. It will ripple through the economy, but it's not a very rapidly moving type of thing. So we built a lot of stuff. Maybe some of it has become obsolete. It'll have to be shifted around. It'll have to be revalued. Some of it might even get torn down. All that has to happen. I don't think it happens very quickly, but it will happen over a long period of time.

Neel Kashkari:

Well, Jim, this is great. Great discussion.

James Bullard:

All right. Thanks, everyone.

Neel Kashkari:

Great questions. Thank you, all.

Speaker 1:

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