

# **Opportunity and Inclusive Growth**



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Thank you, Steven, for that kind introduction. I appreciate you and the Minneapolis Urban League for hosting this event today, and I look forward to our discussion. Before I begin, I would like to remind everyone that my remarks today are my own and don't necessarily reflect those of the Federal Open Market Committee.

One hundred four years ago, Congress created the Federal Reserve, our nation's central bank, but they did something unique: They distributed the central bank across 12 regional, independent Federal Reserve Banks, rather than having it all housed at the Board of Governors in Washington, D.C. Congress did this to ensure that different regions of the country were directly represented in economic policymaking and so that the many local varying conditions across the United States were appropriately considered. That's literally why we have a Federal Reserve Bank in Minneapolis—to understand and represent the economic conditions in our region, which we call the Ninth Federal Reserve District.

I have been president of the Minneapolis Fed for just over one year. Although I grew up in the Midwest, I am new to the Ninth District, so getting out across the district and getting to know our many communities, their strengths and their challenges is very important to me. In that regard, we've had a productive first year: I've traveled across the Ninth District, visiting many parts of Minnesota, but also North and South Dakota, Montana, Wisconsin and the Upper Peninsula of Michigan.

People have repeatedly asked me what has most surprised me about our region and, specifically, about Minnesota. Our region has many strengths: a diverse economy, with agriculture, manufacturing, natural resources, health care and technology sectors all represented. The business community here has an unusually strong, genuine interest in civic engagement and giving back to the community, complemented by strong nonprofit and philanthropic sectors. We also have an educated, high-performing workforce and, on average, low unemployment. That workforce is supported by an education system that consistently ranks near the top in national surveys. Minnesota ranks number three in the country according to test scores, with 45 percent of our students above the proficiency level. Our high school graduation rate is 92.4 percent, which is the second best in the country. Our labor force participation rate is seventh highest, and our poverty rate ties for the third lowest in the United States.

Those are some of the positives—there is indeed much to be proud of. Yet I was surprised to learn with all that success, our region and Minnesota in particular have some of the worst racial and economic disparities in the country. Difference in median income between whites and African Americans is \$30,000, giving us a rank of 41st across states. Moreover, we rank 40th in unemployment gap, 40th in test score gaps and 42nd in differences in high school graduation rates. I didn't expect to find this, and I don't understand why it is that way.

So I began to ask questions of our research economists at the Minneapolis Fed. Why do we have these gaps? The truth is we don't know for sure. I asked community leaders. I asked nonprofit leaders. I heard a variety of answers: education issues, lack of economic development, discrimination, among other explanations. But none of the answers seemed complete to me—nor did they seem complete to those offering the suggestions.

I began looking around the country and asking researchers across the Federal Reserve System. For example, David Wilcox, the Director of Research and Statistics at the Federal Reserve's Board of Governors in Washington, D.C., and I discussed the fact that unemployment among African Americans is

generally about twice the level for whites. If the economy is strong and white unemployment is 4 percent, African American unemployment will likely be around 8 percent. At the worst of the last recession, when white unemployment was around 8 percent, African American unemployment was around 16 percent. Even if you compare college graduates against college graduates, the relative position is similar. Why is that? What are the structural factors leading to those disparities? To be honest, we don't really know. And we need to know the answers to these fundamental questions if we hope to develop effective solutions.

But this isn't just about racial disparities, though those are very important. Instead of having this discussion at the Urban League in North Minneapolis, we could be having a similar discussion on the Iron Range, one of the first regions I visited after joining the Bank, where many workers and families are struggling because of low iron ore prices and few mining jobs. We could be having this conversation about a lack of economic opportunity and inclusive growth in rural communities around the Ninth District that are struggling. We could be having this meeting in Wisconsin or Michigan, where some manufacturing plants have downsized or shut down altogether in recent decades. We could be having this conversation in almost any state in our nation. A lack of economic opportunity does not know racial or ethnic or even geographic boundaries. There are people in all communities who are struggling to get a fair chance at a good education and a good job. How do we create a robust, growing economy that includes all Americans in the context of globalization and ongoing technological change? How do we ensure that all Americans have genuine economic opportunity for themselves and their families?

The American Dream is a central tenet of our society, yet, in the last 30 years the proportion of Americans who have stopped believing in it has tripled: from 10 percent to 30 percent. And quite aside from believing it, many no longer are seeing it: As Raj Chetty's work has shown, a far smaller portion of people born in 1980 have achieved a higher standard of living than their parents, compared with what was true 25 or 50 years earlier.

Earlier this week we celebrated the life and legacy of Martin Luther King, Jr., but we also remember the principles he committed his life to—justice, equality, the inherent human dignity of every man, woman and child. When we measure ourselves against these principles, we can acknowledge progress, but we must be honest in our assessment and continue with a renewed energy because there is much work yet to be done.

Congress has given the Federal Reserve a dual mandate: stable prices and maximum employment. I translate stable prices as an economy that's not overheating but also not limping along—steady growth. Maximum employment is conceptually clear, though difficult to measure: How do we have an economy that is growing at the highest sustainable level such that as many Americans who want to work are able to work? That's the mandate that Congress has given us.

Now the traditional view among central bankers is that there's not much we can do about economic opportunity and inclusive growth. The reason is that monetary policy, our primary policy tool, is a blunt instrument. We have to set one interest rate for the whole nation, for all of our people and businesses. We can't target it to certain sectors, industries, regions, communities or ethnic groups. So we have to look at the aggregate data on the national economy to see if we are achieving our dual mandate *on average over time*.

But is it really true that we shouldn't look underneath the averages to see what effect our national policies are having on different groups? I think we should be open to re-examining that assumption. For example, Minnesota is ranked number one in the country for home ownership at 74.7 percent of occupied houses. But if we look across different groups, we find that while 77.1 percent of whites in our state own their homes, only 27.6 percent of African Americans do so.

And, perhaps most importantly, the Federal Reserve System employs some of the best researchers in the world, with hundreds of Ph.D. economists on staff around the country. Even if we conclude that monetary policy isn't the best tool for addressing issues around economic opportunity and inclusive growth because it is too blunt, we still have an important role to play. If we can do the research to understand the root causes of the problems and identify potential fiscal policy solutions or other approaches, I believe it is appropriate for the Federal Reserve to do that research and inform the public about our findings. Achieving our maximum employment mandate might require a combination of traditional monetary policy tools as well as research into nonmonetary solutions for other policymakers to consider.

I have discussed these issues at length with Federal Reserve Chair Janet Yellen, and she is in full agreement that the Federal Reserve has an important role to play in addressing these issues.

So today I am announcing that we are establishing the Opportunity and Inclusive Growth Institute (the Institute), which will be housed at the Minneapolis Fed. The mission of the Institute will be to conduct and promote research that will increase economic opportunity and inclusive growth for all Americans and help the Federal Reserve achieve its maximum employment mandate.

Serious academic work on many of these issues is being done at universities across the country, and some is already being done across the Federal Reserve System. We don't want to duplicate what researchers are already doing. We want to complement their work and bring the focused perspective of one of the most important economic policy institutions in our nation to these issues. Our Institute will adopt a multidisciplinary approach that includes the participation of leading academics from a variety of fields, including economics, education, law, public health, public policy and sociology.

"The Opportunity and Inclusive Growth Institute is an important research initiative focusing on some of the most pressing economic issues we face as a nation. This work has the potential to help more Americans find real economic opportunity. I hope that scholars inside and outside the Federal Reserve System will contribute to this important work," said Federal Reserve Chair Janet Yellen.

The Institute will have a number of important components to start.

First, we have recruited a world-class Advisory Board to help us identify topics where the Federal Reserve System can make a significant contribution that complements work already being done elsewhere.

Second, we are launching an annual Visiting Scholar program, which will invite scholars to pursue research while in residence at the Minneapolis Fed, working side by side with Federal Reserve researchers. If you are a scholar working on issues of economic opportunity and inclusive growth, we want you! Detailed information about how scholars can apply is on our website at [minneapolisfed.org](http://minneapolisfed.org).

Third, we are launching a conference series to bring together experts from within and from outside the Federal Reserve System to learn as much as we can from each other on these important issues. The first conference will be on May 22 of this year when we will explore where the Federal Reserve can best focus our talents and resources to make growth and opportunity more inclusive.

Finally, we are creating a working paper series to showcase the research that people across the Federal Reserve System and affiliated experts are producing so that other researchers and practitioners can learn, comment and take it forward.

Today is just the kickoff. The hard work is yet to come. In many cases, these issues are decades in the making. We aren't going to find a silver bullet in six months or a year. But we need to ramp up our efforts, in partnership with leading researchers around the country. This is going to be a long-term, research-driven initiative focused on helping all Americans have real economic opportunity and participate in a growing economy.

We know that these issues are not going to be solved by the Federal Reserve alone. But we are going to do our part. Researchers in universities around the country are already playing an important role, as are educators, community leaders and local, state and federal policymakers. The nonprofit and philanthropic communities are doing critically important work on the ground, putting theoretical ideas into action. The Institute will focus on world class research. But this is not an effort divorced from all of you. Ideas on where we should investigate, feedback on our efforts and work to turn the research into practical policy falls to all of us. We look forward to working with and learning from you.

Thank you. I look forward to the discussion with Steven and then opening it to the audience.