Opening Remarks[1]

Town Hall Forum

North Dakota State University

Fargo, North Dakota

April 15, 2014

Narayana Kocherlakota
President
Federal Reserve Bank of Minneapolis

[1] Thanks to David Fettig, Terry Fitzgerald and Sam Schulhofer-Wohl for their assistance with these remarks.

Thanks for the introduction, Howard, and thank you for the invitation to join you here today. It's a pleasure to be back in Fargo.

I'll kick things off with some basics about the Federal Reserve System and the Federal Open Market Committee (the FOMC). But the plan is for us to spend the bulk of our evening on your questions. One key point before I start: The views I express today are my own and are not necessarily those of others in the Federal Reserve System, including my colleagues on the FOMC.

In terms of basics about the Fed: I like to tell people that the Fed is a uniquely American institution. What do I mean by that? Well, relative to its counterparts around the world, the U.S. central bank is highly decentralized. The Federal Reserve Bank of Minneapolis is one of 12 regional Reserve Banks that, along with the Board of Governors in Washington, D.C., make up the Federal Reserve System. Our Bank represents the ninth of the 12 Federal Reserve districts and includes Montana, the Dakotas, Minnesota, northwestern Wisconsin and the Upper Peninsula of Michigan.

Eight times per year, the FOMC meets to set the path of interest rates over the next six to seven weeks. All 12 presidents of the various regional Federal Reserve Banks—including me—and the seven governors of the Federal Reserve Board contribute to these deliberations. However, the Committee itself consists only of the governors, the president of the Federal Reserve Bank of New York and a rotating group of four other presidents. I'm one of those four presidents this year. In this way, the structure of the FOMC mirrors the federalist structure of our government, because representatives from different regions of the country—the various presidents—have input into FOMC deliberations.

This basic federalist structure has a long history. In fact, this year is the centennial of the opening of the 12 Reserve Banks and the start of the work undertaken by the Federal Reserve System. It's been a fascinating hundred years, with many twists and turns along the way. I'm sure that many of you have questions about that journey. The answers to all of your questions—and probably more—are on a new website that the Fed has created at federalreservehistory.org. I encourage you to visit this site to learn more about the people, places and events that have shaped Federal Reserve history.

I won't say too much more about Fed history—perhaps to the relief of some of you!—but I do want to address one of the things that I think has changed the most over the Federal Reserve's history: our communication with the public. A hundred years ago, Congress created a system that was designed specifically so that the residents of Main Street would have a voice in monetary policy. Technology has changed a lot since 1914—I'm told that they didn't even have smartphones back then—and so the ways that we gather information from Main Street have

changed. But this fact-finding is still an important part of the making of monetary policy. Indeed, earlier today, I met with Fargo business leaders to gather exactly this kind of information.

Communication is a two-way street, however. During the past century, the Federal Reserve's communications to the public about its monetary policy actions have also evolved greatly. The pace of change was especially rapid in the past eight years under Chairman Bernanke's leadership. During that time, the Federal Reserve specified an explicit target for inflation, began holding regular press conferences and greatly expanded its use of forward guidance—that is, its communications about the likely future evolution of policy. So, as the Federal Reserve System plans for its second century, I would say that the importance of two-way communication is a key lesson from the System's first century. In order for the Fed to continue to be effective, it needs to communicate its policy decisions transparently to the public. Conversely, it also needs the public's input into how those policies are affecting them. Events like the one today, and my meeting with business leaders earlier today, are a key part of fostering that two-way communication.

With that background in mind, let me turn back to the Federal Open Market Committee and the making of monetary policy. I mentioned that the FOMC meets eight times per year. At those meetings, we decide on the level of monetary stimulus for the economy. I won't get into too many details of what that term "monetary stimulus" means, although I'm sure that I'll be taking questions about it later.

What is the FOMC seeking to achieve by varying the level of monetary stimulus? Congress has charged the FOMC with making monetary policy to promote price stability and to promote maximum employment. The FOMC has interpreted the first goal, price stability, to mean keeping inflation close to 2 percent.

The FOMC's job is to vary monetary stimulus over time to meet these mandated objectives. Right now, personal consumption expenditure (PCE) inflation is running well below 2 percent and is expected to continue to do so for several years. By many measures, employment remains low and is expected to remain so for several years. Those results are not as good as they should be—we're undershooting on inflation and underperforming on employment. I look forward to working with my colleagues to use our monetary policy tools to achieve better macroeconomic outcomes.

Thanks again, and now let's move on to your questions.