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Kashkari Bucks Fed Norms Adding Emojis to Public Debate on Rates

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Since the financial crisis, Federal Reserve officials have tried to communicate their policies to a wider constituency. With Neel Kashkari, the boundaries are being tested.

“.@Six1FourCapital 4 me it’s a q of r we hitting dual mandate? Is there still labor slack? R we hitting infl [target emoji]. Where r expectations going?” the Minneapolis Fed president said in aTwitter post May 25, in response to an online question from a commodities trader.

In the cloistered world of central banking, Kashkari is updating Fed watchers in 140 Twitter characters or less -- social-media blurbs that can drop anytime, from anywhere, on any subject, including his dog Webster. A former Goldman Sachs Group Inc. vice president whose pet project now is creating a plan to break up big banks, Kashkari views his unconventional, folksy approach as one way to engage with people who don’t work on Wall Street.

“For 30 years, or maybe longer, the Fed had adopted this Wizard of Oz posture, that we’re so mysterious, we’re so powerful, don’t ask any questions,” Kashkari, who at 42 is the youngest regional Fed bank president, said in a July 7 interview. “At the end of the day, we’re here to work on behalf of Main Street.”

Strange Bedfellows

Not everyone agrees with his agenda. While his push to find a new solution for dealing with large banks has been lauded by Democratic Senator Bernie Sanders and a policy wonk at the libertarian Cato Institute alike, he’s been criticized for appearing on the scene with his own proposals to fix problems the Fed has been grappling with for years.

In his inaugural speech in February, Kashkari declared that “now is the right time” for Congress to consider going beyond the Dodd-Frank financial oversight law and that some banks still pose too big a risk to the broader economy. He used the event at the Brookings Institution in Washington to announce that the Minneapolis Fed -- among the smallest Fed district banks by operating expenses -- would be holding policy symposiums throughout 2016 to explore the big-bank threat.

Gaining traction may be difficult if Kashkari, a failed California gubernatorial candidate, can't convince a wider group of his peers and lawmakers. Dallas Fed President Robert Kaplan, himself a Goldman Sachs alum, has said that "size, in and of itself, does not pose a systemic risk" and that he doesn't think "breaking up the big banks today would reduce risk." San Francisco's John Williams says "the approach we've taken so far has been the right one."

Former Fed Chairman Ben Bernanke, who spoke at the second Minneapolis forum, said in a blog post that he welcomes discussion on how to tackle large systemic institutions, but much has been done to that end and that a forced breakup of large firms "doesn't seem to be a smart way" to promote financial stability.

"It was very presumptuous of him to come in at the end of this process and say, 'Everybody screwed it up,'" said Tony Fratto, managing partner in Washington at Hamilton Place Strategies, which has represented banks, and a former assistant Treasury secretary in the administration of President George W. Bush.

Yellen Kinship

In other respects, Kashkari is proving more conformist. On monetary policy, he says he cleaves closely to Fed Chair Janet Yellen, who economists often view as the center of the Federal Open Market Committee. "She and I agree on a lot -- or, I find myself sympathizing with her view quite a bit of the time," he said, calling Yellen "a great sounding board."

One thing Kashkari thinks the Fed should communicate better on the monetary policy front is its commitment to a symmetric 2 percent inflation target, making it clear that the number is not a ceiling.

"Before I came to the Fed in January, I interpreted 2 percent as a ceiling and not a target, despite the formal pronouncements to the contrary," he said. "So I understand why a lot of people in the market interpret it as a ceiling rather than a target."

Kashkari almost wound up in Texas. The Dallas Fed considered him as a candidate in its president search last year, but he wasn't selected. Minneapolis tapped him instead, and he started in January. It's been a good fit because it's "a little bit non-traditional" in its approach and has economists who think differently, Kashkari said.

His path to the Fed wasn't the customary route through an Ivy League school for a Ph.D. in economics. Raised outside of Akron, Ohio, by parents who emigrated from India, Kashkari attended Western Reserve Academy, a prep school in Hudson, Ohio, where he wrestled and showed an early interest in science. He graduated with a master's from the University of Illinois at Urbana-Champaign in 1997.

'Cool Nerd'

"Neel was kind of a cool nerd," said Eric Weldy, who was on a solar-car competition team that Kashkari led in 1997. Weldy said he always had a strategy for precisely what the team needed to do. "He had lots of energy, but not over the top."

Kashkari worked as an aerospace engineer developing technology for NASA missions, then went to business school at the University of Pennsylvania after being rejected from Harvard. From Wharton, he took a job at Goldman Sachs in San Francisco.

During his four years at Goldman, Kashkari advised technology companies on mergers and financing, a role he said he didn't find "intellectually challenging" like engineering. "I always had an interest in the back of my mind about politics. Not politics, so much, but public policy," he said.

He applied for a prestigious White House fellowship -- which he didn't get -- and had one 15-minute conversation with Henry Paulson, then the bank's CEO. When Paulson left to become Treasury secretary, Kashkari asked to follow him in what he described as "pretty much a cold call."

After a background check, Paulson agreed, and Kashkari moved to Washington. He worked first a senior adviser and later became one of the key officials overseeing the implementation of the Troubled Asset Relief Program, a politically unpopular program that purchased assets and equity from financial institutions to stabilize them during the crisis.

Kashkari, whose wife used to work for Bloomberg, left Treasury in 2009 -- he's since headed up a global equities division at PIMCO and run an unsuccessful campaign against incumbent Democratic California Governor Jerry Brown. But his time working on TARP laid the foundation for his current push.

Career Aspirations

Kashkari's district bank intends to publish policy briefs summarizing the results of the forums, followed by a plan aimed at legislators and policy makers. One problem: There's no clear path to push those suggestions from ideas to reality. Kashkari says he'd be happy if members of Congress put it forward as legislation.

"I did not come here saying, 'I'm going to work on too-big-to-fail,' I came here saying, 'I want us to take on the biggest public-policy economic challenges we face as a country,"' Kashkari said. His staff, especially Executive Vice President and Senior Policy Adviser Ron Feldman, pointed to big banks as an issue ripe for action and had decades of experience with the topic.

Feldman said in an interview that the research agenda of risks posed by big banks, an issue on which he co-authored a 2004 book with then-Minneapolis Fed President Gary Stern, took a backseat under the purview of Stern's successor and Kashkari's predecessor, Narayana Kocherlakota, who was more focused on monetary policy issues.

While Kashkari's well-publicized straying from the Fed herd has led some to question his end-game, he says it's undefined and he has no plan to spring back into politics anytime soon. In the meantime, he's not shying away from acknowledging the Fed's shortcomings, saying at an event in St. Louis just last week that the central bank has been wrong on the economic data.

"People ask me that -- there's no grand plan on my career, and there never has been," said Kashkari, an FOMC voter in 2017 and the only Fed district bank president who posts regularly on a Twitter account. “I hope I’m at the Minneapolis Fed for a long time, and who knows what could come after that.”