

## **Narayana Kocherlakota: Reflections on diversity**

Speech by Mr Narayana Kocherlakota, President of the Federal Reserve Bank of Minneapolis, at the Council on Asian Pacific Minnesotans 2014 Asian Heritage Dinner, St. Paul, Minnesota, 9 May 2014.

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I would like to thank state Senator Alice Johnson and Executive Director Sia Her for the invitation to attend the 2014 Asian Heritage Dinner. I am honored to participate in this prestigious event.

My talk tonight will consist of some reflections on diversity. I'll first talk about the *regional* diversity that lies at the heart of the Federal Reserve System. I'll talk next about my journey to my current position and the role that international diversity played in that journey. Finally, I'll close with some thoughts on the role of *workplace* diversity.

My remarks represent my own views, which are not necessarily those of anyone else in the Federal Reserve System.

### **The Federal Reserve System: a regionally diverse central bank**

I'll begin by telling you a few things about my organization, the Federal Reserve System. I will be highlighting the role of regional diversity in the Federal Reserve's formulation of economic policy.

Relative to other central banks around the world, the Federal Reserve System 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.

This basic 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](http://federalreservehistory.org). I encourage you to visit this site to learn more about the people, places and events that have shaped Federal Reserve history.

Over the course of its long history, the Federal Reserve System has performed many economic functions. In my view, its regional diversity improves its effectiveness with respect to virtually all of those functions. However, tonight I'll focus on one of the most important: monetary policy. Eight times per year, the Federal Open Market Committee – 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 governors of the Federal Reserve Board participate in these meetings.

How does its regional structure help the Federal Reserve System make better monetary policy? The answer lies in the nature of the regional Bank presidents' contributions during FOMC meetings. During the course of the meetings, the presidents typically comment on the behavior of their district economies – in my case, the economies of the six states that make up the Ninth District. This region-specific information helps to provide a granular, more forward-looking foundation for the making of national monetary policy.

Where do the presidents get this region-specific information? There are many answers to this question. But we are especially indebted to the members of our boards of directors and advisory councils, who use their extensive contacts in the local community to provide us with valuable economic intelligence. The Reserve Banks know that our district economies are all complex systems, and so we need “intel” from a wide range of perspectives. Accordingly, the Reserve Banks work hard to ensure that the members of our boards and advisory councils come from many walks of life – farming, banking, Fortune 500 companies, nonprofits, labor unions and start-ups to name but a few – and many parts of our districts.

So, the 12 presidents contribute to monetary policy deliberations by providing local economic intelligence about their districts. But the presidents also often make comments about economic research being done within their Banks that helps shed light on national economic conditions. Hence, the geographic diversity within the System is important for another reason: It generates valuable intellectual diversity across the System. For example, back in the 1970s, the Minneapolis Fed Research department played a key role in fostering the “rational expectations revolution” that has helped transform the making of monetary policy around the world. I’d love to take a few hours to explain this important development in policymaking – but it’s a Friday night. The relevant point is this: Would these economists have played this same role had they been working in Washington, or anywhere else in the System, for that matter? I believe that the answer to this question is no. The ideas in the Research department were generated by synergistic interactions between Minneapolis Fed economists and University of Minnesota economists – synergies that owed a lot to the geographical proximity between the two institutions.

To sum up: My organization, the Federal Reserve System, is grounded in a decentralized regional structure. This decentralized regional structure ensures that national policymakers have access to information about local economies – information that is often more forward-looking than lagged aggregate data. But, just as importantly, the regional structure also promotes intellectual diversity in the way policymakers think about the economy.

## **My diverse beginnings**

I’ll now turn to a different set of reflections on diversity – reflections about my journey to my current position.

I was born in Baltimore, Maryland, but my parents moved me to Canada when I was less than a year old. I suspect that they did not consult extensively with me first! For most of my childhood, I grew up in Winnipeg, which is about 300 miles northwest of here as the crow flies, before returning to the United States to attend college. I’ve lived in my home country ever since.

Both of my parents spent most of their professional careers as professors of statistics at the University of Manitoba. Given their example, it is probably not surprising that I ended up becoming a professor myself – albeit in economics, rather than statistics. After getting my doctorate, I worked in a number of economics departments around the country, including the University of Minnesota for most of the 2000s. Along the way, I was a researcher at the Federal Reserve Bank of Minneapolis in the mid-1990s. I maintained a close working relationship with the Research department following that stint.

In early 2009, it was announced that Gary Stern, the long-time president of the Bank, would be retiring soon. Many of you will remember that, in early 2009, we were in the depths of the Great Recession. I was highly motivated to serve my country as best I could in this hour of need, and so I applied for the job. I was fortunate enough to win the approval of the Minneapolis Fed’s board of directors and the Board of Governors in Washington, and so I became president in October 2009. The job has, to put it mildly, been a highly rewarding one.

This description – with its emphasis on my training and experience – captures much of what matters about my journey to my current position. Nonetheless, I also feel that it glosses over

something important. That missing piece can be summed up in a question that I often get: Why do you have such an unusual name?

The answer to this question is that my father was Asian Indian – and was, more specifically, from the state of Andhra Pradesh. (I add that specificity because it matters: My last name is very much identified with that particular state – a state that has roughly one-fourth the population of the United States.) My father immigrated to the United States in 1960 to attend graduate school in statistics, which is where he met my mother. My mother is of European descent. She grew up in a suburb of Pittsburgh, Pennsylvania, and her parents were both born in the United States. My parents got married when they were in grad school, and so I was able to attend my father's Ph.D. graduation ceremony. I probably didn't appreciate the event as much as I should have. In my defense, I was only nine months old.

My parents' household was – automatically – a *diverse* household. It was diverse in terms of food – something that mattered a lot to me as a child. It was diverse in terms of our family and friends. Perhaps most importantly, it was diverse in terms of *ideas*. As a child, I read the lives and words of American heroes like Abraham Lincoln. But I also read the lives and words of Indian heroes like Mohandas Gandhi. In this way, I learned at a young age that two different cultures can give us at least two different ways to think about a problem. I learned too that both of those different ways can provide valuable insights, even if they seem to be in conflict. Perhaps as a consequence, I tend to follow many tracks – almost at once – in my thinking about problems. I have found this multipronged approach to problems helpful in many facets of my life. But it does have the potential to create communication challenges!

I can sum up the overall impact of my beginnings in this way. When I was a child, and especially when I was a teen, my parents seemed, well, old-fashioned. I suspect that I was not the first nor the last child or teen to feel that way! But, looking back, I realize that, in many ways, my upbringing in the 1960s and 1970s was surprisingly well-designed for the 21st century that was to come. In particular, our internationally diverse household was ideal preparation for our increasingly diverse country and interconnected world.

### **Some final reflections on workplace diversity**

I've talked about two kinds of diversity. The first kind is the regional and economic diversity that lies at the heart of the Federal Reserve System. The second kind is the international diversity that lay at the heart of my parents' household. But you will observe that I implicitly argued that both kinds of diversity are valuable in large part because they are associated with a diversity of ideas.

That brings me to some final thoughts about diversity and, more specifically, diversity in the workplace. Many organizations, including my own, emphasize that they aim to attract and retain a diverse workforce. Of course, as we just discussed, the word diversity has many meanings. But certainly, when we talk about a "diverse" workforce, we typically mean to include gender and ethnic diversity. In the case of the Federal Reserve Bank of Minneapolis, part of the mission of our Office of Minority and Women Inclusion is to promote exactly that kind of diversity within our workforce.

The emphasis on this aim in public communications is mostly beneficial. But it can have an unfortunate side effect. Some observers could be led to think that diversity is an ultimate objective of the organization, and so there is an implicit trade-off between achieving a diversity objective and achieving the other goals of the organization. I don't see any such trade-off. Rather, I believe that an organization like the Minneapolis Fed will be less effective at achieving its core missions unless it is able to attract and retain a diverse workplace. I'll put this as an economist: I do not see diversity as an objective unto itself. Rather, like the electricity that powers our building or the computers that fill our offices, diversity is simply a fundamental input to our being able to achieve our goals.

Why won't we be effective without a diverse workplace? There are many answers to this question. But, again, I think one of the main answers is about ideas. Ultimately, a person's ideas are a culmination of his or her journey through life. We will have access to more and better ideas if our employees have a large number of distinct life journeys. And we need those more and better ideas if we are to be effective in solving the various public policy challenges that we confront.

Thanks for listening.