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MARKETPLACE, Morning Report

Interview Transcript

Susan M. Collins is about to mark her first year as the president of the Federal Reserve Bank of Boston. Her tenure is also historic — she's the first person of color to head the Boston Fed.

Collins recently joined Marketplace Morning Report host David Brancaccio to talk fighting inflation, avoiding future bank runs, and new infrastructure to help people more easily transfer money instantly to their accounts.

Below is an edited transcript of their conversation.

David Brancaccio: Some of the remedy for inflation is higher interest rates. But the remedy is putting pressure on banks. Is this problem with some banks making it harder for your colleagues to fight inflation?

Susan Collins: So what I would say about that is that these topics are very much interrelated. Overall, our banks are sound, they're resilient, they're well capitalized. And of course, important to monitor. I do think that the recent stresses are quite likely to cause some financial tightening. And that's something that I factor in as I think about what appropriate monetary policy is.

Brancaccio: That's really interesting. In other words, some of these stresses in the banking system will themselves be a drag on growth, and that could pull the correct direction on inflation…

Collins: They might. And so it's important to monitor the data and to watch how various institutions, how the economy is responding. But it is correct, that some banks may choose to increase their liquidity a bit, perhaps, tightening conditions for credit. And that would help to slow the economy. And of course, that's exactly what the Fed is doing, as we work hard to bring inflation down, given the toll that inflation is taking on people and businesses.

Brancaccio: But you worry too about this because people have been moving deposits, often out of smaller banks into bigger ones in recent weeks. Smaller banks are often very good at making loans to smaller businesses, they know their customers. If the smaller banks have less deposits, are you worried that they might be able to lend less and that might affect emerging businesses?

Collins: You know, as you say, David, that banks of different sizes are really critical for a vibrant, inclusive economy. Small and medium sized banks play a really important role in saving and credit needs in communities throughout our country. And so the vibrancy of banks of all sizes really matters. Again, it is important to watch and to see whether there are flows. But I think it's also important to reiterate that our banking system overall remains sound, resilient, well-capitalized, and the Fed remains committed to providing liquidity as needed.

Brancaccio: You have said that the costs of higher inflation and the costs of higher unemployment are disproportionately borne, shouldered by the most vulnerable people. And paying for more food, paying more for energy, more for housing is hard, but getting thrown out of work by higher interest rates is especially hard. How do you think about these tradeoffs? That the remedy for inflation can be damaging in itself?

Collins: Yeah, that's a really important question. And it's absolutely true that both the toll of inflation and costs of unemployment tend to be borne by the most vulnerable. In particular, we know that unemployment often, when unemployment rises, it often rises by more for Blacks, for Latinos, for people with less education. At the same time, I think it's really important to understand that inflation takes a toll on all of us. It influences businesses' investment and project decisions, and it hurts consumers. When I'm through my district, I hear so many stories of the cost of inflation, people having to take on more jobs to make ends meet. Businesses stopping projects, as I mentioned. And so that's the why of the resolute focus on bringing inflation down so that we can get back to price stability and focusing on maximum employment.

Brancaccio: I mean, you're not on the committee right now that votes on interest rates, your bank, Boston goes back onto that committee, I think in 2025, but you can shape the discussion, I suppose. What is it, you would want to be sure your interest rate setting colleagues fully understand from your perspective?

Collins: Yeah, let me start by saying that all of the voices around the table, those who vote and I was a voting member on 2022, and those who don't, are certainly heard, and the robust discussion around the FOMC table, I think is really important. And there is a range of views. And we take that seriously. In terms of my perspective, I think there are many things that are important. Let me highlight two. One is that a holistic look at the data before each meeting, not making decisions in advance is really important. And following through on our commitment to bringing inflation down, given the costs and the toll that I just mentioned is really important.

Brancaccio: Are you expecting many more interest rate increases this year?

Collins: Well, in March, we just released our summary of economic projections, my view at the time, and this was of course, just last week, was that perhaps one more increase might be sufficiently tight and then holding for some time. But I want to emphasize that I don't make decisions in advance. There'll be new information that we receive between now and the next meeting, which is in May. And I will holistically review both the statistical analysis, what our models are saying, and what I hear from my conversations around the first district, in order to make a decision about what I think is the best policy.

Brancaccio: I keep using the metaphor of remedy, like it's medicine, the higher interest rates to try to cure inflation. But I'm going to keep with this slightly tortured metaphor for just another second. Sometimes when you administer medicine, you wait for it to really sink in. Are we close to wanting to wait a little bit for the higher interest rate medicine to fully seep into the economy?

Collins: So you're absolutely right, that it does take time for tighter financial conditions to work their way through the economy, impacting some sectors relatively quickly. We saw that mortgage rates increased rapidly. And we certainly saw implications in the housing market pretty quickly. But some other parts of the economy, for example, labor markets, we know it takes somewhat longer, hard to estimate the lags, there's a discussion about whether some of the lags might be shorter, or perhaps even longer. There's some unusual aspects of our economy at the moment. But it was not until the second half of 2022, that rates actually became tight. And so I do think that we need to hold for some time to let the effects of the tighter financial conditions fully moved through the economy.

Brancaccio: I'm about to mention something from a survey done before the banking mess a few weeks before. 60% of business economists surveyed were thinking we'll be in a recession sometime between now and next winter. What are you thinking about recession?

Collins: I think that there are of course, risks and uncertainties. And it's important to take those very seriously. At the same time, I see a lot of resilience in the economy. And my baseline case, is that we bring inflation down without requiring a significant downturn. One of the key risks is a loss of confidence that could actually be self-fulfilling, but there are many other risks as well. And again, there are many dimensions in which our economy is proving quite resilient. And so that makes me think that a significant downturn is actually not needed.

Brancaccio: I mean, soft landing, that's what you're talking about. They're rare. Is there something special about the economy now that lends you to take heart in the idea that we could actually pull a soft-landing off this time?

Collins: There are a number of unusual aspects of our economy at the moment and important to continue monitoring them. One is that business balance sheets are actually overall quite strong. Household balance sheets as well. We know there was a lot of excess savings related to the pandemic. Many of those have been depleted. But overall, there remains quite a bit of excess savings. All of those things contribute to, you know, the resilient demand that we're still seeing. And firms had so much difficulty hiring, that a number of firms can tell you to tell us that unless there were a significant downturn, they are less likely to be letting go of workers. So there are some unusual, resilient factors that do make me what I call realistically optimistic.

Brancaccio: Let's talk about how we watch over our banks, given what we've seen in recent weeks. In your view, was supervision adequate at these two banks?

Collins: I think that there were clearly some challenges that were not met in terms of bank decisions. As as you may know, there is a kind of thorough review underway of what happened and it will look at supervision and regulation. And I think it is premature to to try to say what the findings for that will be. I will say that it's important with a degree of humility, to take those findings to heart and really act on what's learned about what went wrong and how we can do things better.

Brancaccio: And remarks for the Senate hearing the other day, Michael Barr, the Fed's vice chair for supervision, said quote, "It's not the job of supervisors to fix the issues identified. It is the job of the bank's senior management and board of directors to fix its problems." That sounds to some people including thing was Representative Maxine Waters of California as what she called "light touch supervision." What's your view that supervisors? Can they only point out problems and not follow up?

Collins: So again, I do think it's premature before the full analysis of what actually happened, and how we can learn from it before that analysis comes out. And of course, it will be made public. I think it's premature to really say too much in detail about what changes might be helpful with supervision and regulation.

Brancaccio: I mean, pending that analysis, might you be open to talking about more accountability for bank supervisors? Should the ratings that supervisors give banks be made public, maybe with some kind of delay so that the depositors have a sense of what the supervisors knew?

Collins: So again, I don't want to get out ahead of what I fully believe and expect will be a thorough, candid, unfettered report, I will say that I do think that we need to take our responsibilities very seriously. You know, and that is something that is true across the Federal Reserve. And as part of why such decisive actions were taken to make sure that there is ample liquidity in the system, and to really support confidence in our banks of all sizes, because of their importance to a vibrant, inclusive economy.

Brancaccio: Would you agree that there's work to do to understand the new technology, how social media can feed into bank runs, stuff like that?

Collins: Conditions certainly are evolving. We saw that the flows were much more I mean, they were remarkable how rapidly flows move. That's not something that we've really seen before. And that's certainly something to be examined, and maybe part of the recommendations that come out, but again, don't want to get out ahead of what we will see.

Brancaccio: Tell me about this new FedNow, thing. I can already use Venmo, or maybe Zelle to get money to someone quickly. What can your folks at the Fed offer with this new thing that might be out by the summer?

Collins: Yeah, so we have announced that we are in the process of putting together a new payments rail. It's the first time in 50 years that the Federal Reserve is building new infrastructure for how we make payments. And you know, just as you mentioned, there is a strong demand for instant payments to be able to get access to funds immediately for businesses and for households for a variety of different reasons. And what the new FedNow service will do, and as you say, launch in July, is provide access for participating financial institutions, 10,000 financial institutions across our country, to be able to provide that resource for their customers.

Brancaccio: It will be fast, like if you're due to you have to pay your electric bill in a hurry. This was literally expedite that?

Collins: So instant payments 24/7, 365. That is the intent of FedNow and a real time payment system, you know, that will be incredibly valuable for households, to be able to pay bills, avoid late fees, in some cases, for firms to be able to make transactions with suppliers and others, the value of this will be tremendous. And again, for participating institutions will provide real time payments access in a way that is safe, secure and innovative.

Brancaccio: But the private sector isn't just doing this. I mean, like I have the Venmo app …

Collins: The options of having all of the financial institutions able to participate in real time, that accessibility and security is what the Fed focuses on. And again, the scale of our financial institutions across the country is extensive. And so we're actually quite excited about this new payments rail.