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WEBINAR

BOSTON FED'S SUSAN M. COLLINS:
PERSPECTIVES ON THE ECONOMY AND MONETARY POLICY

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PARTICIPANTS:

Keynote and Q&A:

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The Brookings Institution

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PROCEEDINGS

MR. WESSEL: Good morning. I'm David Wessel, director of the Hutchins Center on Fiscal and Monetary Policy at the Brookings Institution. It's a pleasure to welcome our online audience today for a conversation with Susan Collins, the new president of the Federal Reserve Bank of Boston and currently a voting member on the Federal Open Market Committee. President Collins was previously provost and executive vice president of the University of Michigan. And before that she spent a decade as dean of the Gerald Ford School of Public Policy there at Michigan.

She has a PhD in economics from MIT, specializing in international economics. And in that role in her life, she has had a long relationship with the Brookings Institution. So, I'm very pleased to welcome her to the virtual stage at Brookings and the Hutchins Center for what will be her first speech on monetary policy since taking this important job.

Susan Collins has some remarks which she'll make and then I'll ask her some questions, some of my own, and some supplied by the audience. If you have a question, you can send them to events@brookings.edu or use Twitter or sli.do, S-L-I-D-O, the website sli.do at #FedCollins. We've received a number of questions already but we're happy to receive more. So, with that, I'd like to turn the virtual mike over to President Collins. Welcome to Brookings.

MS. COLLINS: Thank you very much. Good morning, everybody. And I especially appreciate you having me here to speak with you today. And it really is a pleasure to be hosted by the Brookings Institution for this talk. My association, as David mentioned, with the Brookings economic studies area extends back 30 years.

MR. WESSEL: Yes.

MS. COLLINS: And I have many very fond memories of my time as a senior fellow. The nonpartisanship, the rigor, the open-minded inquiry, the emphasis on impact at Brookings, those are values that we share at the Federal Reserve Bank of Boston. And I also wanted to mention my appreciation for David, and his decades of work helping people better understand the economy and policymaking, most recently as Director of the Hutchins Center. As a lifelong educator, this work is

something that I see as really important.

So, I did join the Boston Fed as President just a few months ago. And in this role, I have the privilege and the responsibility of serving on the Federal Open Market Committee, or FOMC, which sets national monetary policy. And this year I am a voting member. The Committee met earlier this week and at this time of intense focus on the FOMC, I want to share my perspectives on macroeconomic conditions and discuss some of the key dimensions of monetary policymaking in the current environment. But before beginning, I want to note that, of course, these views are my own, and I am not speaking for my colleagues at the other reserve banks or the board in Washington.

So, I'll start by providing some historical context for current monetary policy. And then I'll turn to inflation and explore how we got to today's environment, which is an important context for thinking about mapping out future policy discussions. And then I'll talk about the recent path of monetary policy and explore some of the challenges to determining appropriate policy going forward, including some of my own perspectives on monetary policymaking. And then I do look forward to answering some questions.

So, let me start with some context. Not long ago, the challenge facing policymakers was persistently low inflation and how to increase it to the FOMC's target. Clearly, this is no longer the issue. Inflation has surged, and remains much too high, with serious repercussions for households, businesses, and the economy.

Congress has charged the Federal Reserve, the U.S. Central Bank, with a dual mandate, price stability and maximum employment. We define price stability as 2 percent inflation, which is a low level where consumers and businesses do not have to focus on protecting themselves from eroding purchasing power. The other facet of our mandate, maximum employment, is less specifically defined. It refers to the broad, inclusive goal of job opportunities for all.

And history has shown that low and predictable inflation is an important precondition for sustaining maximum employment over time. In other words, the two dimensions of the Fed's mandate are intertwined. They work together in the long run. Price stability is foundational to achieving the Fed's

overarching mission, which is a vibrant, resilient, and inclusive economy.

At the moment, with inflation well above the Fed's 2 percent target, the Fed's central task must be to restore price stability. And the FOMC has moved aggressively towards accomplishing this important goal, but the job is clearly not done yet. And I expect that more tightening will be needed.

The higher interest rate environment necessary to restore price stability has challenging implications for real people. I take this, as well as the costs associated with too high inflation, very seriously. Indeed, policymakers must balance the risk that inflation remains elevated and becomes entrenched in expectations, against the risk that policy actions excessively slow down economic activity.

The economic environment is, admittedly, highly uncertain but today I'll discuss why I am still optimistic about the possibility of restoring price stability while maintaining a relatively robust labor market. And more generally, I'll also discuss my perspectives about monetary policy going forward as we move from an initial policy phase focused on moving rates into restrictive territory very quickly, to a second policy phase with a focus on determining how high rates need to go to return inflation to the 2 percent target over a reasonable horizon. This requires a careful, holistic assessment of available information and deliberate actions. And I'll say more about this in my remarks as well.

I want to briefly review how inflation got to where it is since this is important for assessing how best to go forward. The initial rise in inflation, which of course, occurred across many countries, resulted mostly from supply disruptions rooted in repeated waves of the COVID-19 pandemic. They caused commodity prices to jump and the cost of transportation to rise, particularly for imported goods.

And then, Russia's war in Ukraine disrupted production and trade for several key commodities, such as energy and wheat. Over time, it became apparent that problems with supply were not going to fade as quickly as expected, while demand was noticeably exceeding the economy's productive capacity. To restore price stability, monetary policy needed to respond to align demand with supply.

As the acute phases of the pandemic eased, the strength in U.S. consumer demand led to a very hot job market, characterized by widespread job vacancies, rising quit rates, and what I'll call

hesitant labor supply. All of these factors had employers competing fiercely for workers. And this led to wage increases that are inconsistent with a sustainable rate of overall inflation.

A number of factors have played, and continue to play, a role in the shortage of workers, and these include a population that's aging, early retirements, lower immigration, and some potential workers remaining on the sidelines with pandemic-related concerns. So far, high wages and job availability have yet to prompt a more robust return to the labor force. So, clearly, the evolution of the labor market and jobs during and after the pandemic is a vital topic and, parenthetically, I want to mention that it's the focus of this year's Boston Fed Annual Economic Conference, which will take place in two weeks.

Returning to inflation, unfortunately there's little the central bank can do to address supply constraints, whether related to COVID-19, Russia's war in Ukraine, or workers' decisions about labor force participation. But monetary policy can influence demand, and our job right now is to slow demand, to bring it back into alignment with our economy's productive capacity, and to relieve pressures on inflation.

Irrespective of the source, current levels of inflation are just simply too high, and they're taking a significant toll on households and firms. And if not addressed, inflation will be increasingly damaging to the economy and its participants. And so, I'd like to spend just a bit of time discussing some of these costs, and why bringing inflation down is so important.

Of course, the Fed conducts extensive analysis of economic data. We augment this analysis by working to understand the experiences and the economic realities of people and organizations in the economy across the country. For example, an increase in inflation can reduce consumers' spending power. That problem is more acute for lower-income individuals. And I have heard about the increasing difficulties that many lower-income households are having making ends meet as costs for food, housing, and transportation rise.

The rise in fuel and auto prices has also made it difficult for some low wage workers to accept jobs that require a car to get to work. In addition, many operators of small businesses have told

me about the challenges they are experiencing with inflation's effect on their raw inputs and supplies. And I have also heard about firms putting their expansion plans on hold because of the uncertainty created by inflation.

Importantly, high inflation also risks upsetting the stability in inflation expectations that we've seen over the past 25 years. Without well-anchored inflation expectations, and by that, I mean expectations that are consistent with the Fed's 2 percent target, the cost of bringing inflation down, which involves slowing economic growth and therefore, lost output, those costs would be much higher. Unfortunately, recent data on price inflation show that PCE inflation, which is one of our key preferred measures, only slowly drifting down from its year-over-year peak of 7 percent that was reached in June. This has been disappointing. There's clearly more work to do to bring inflation down, as I'll discuss shortly.

But I'll note that other related price indicators are providing some more encouraging signs. In particular, some global supply chain problems that have contributed to inflation since early 2021 are beginning to fade. Transportation costs and commodity prices have significantly retrenched from their peaks, and broader measures of prices paid by manufacturers have noticeably declined in recent months. In addition, recent wage data, specifically the private sector Employment Cost Index, grew more slowly than anticipated in the third quarter of 2022.

So, there are some hopeful signs, although not yet clear evidence, that inflation may be beginning to moderate. It's also reassuring that long-run inflation expectations, measured in a variety of ways, do remain well anchored overall.

So, let me turn to monetary policy actions to date. Monetary policymakers reacted to this significant rise in inflation by raising interest rates rapidly. I'd like to briefly discuss the recent path of monetary policy. And in doing so, I will examine some factors that add challenges to determining appropriate policy going forward.

Given the uncertainty surrounding the pandemic and concerns over additional waves of COVID-19, the federal funds rate remained near zero from the beginning of the pandemic until this spring.

Since March, the FOMC has embarked on an appropriately aggressive path of interest rate increases, moving the federal funds rate from near zero to nearly 4 percent, including the action taken this week. The strong pace of these increases in a very short time period has brought monetary policy from a very accommodative stance in March to restrictive territory now, with the goal of slowing demand.

Importantly, however, the work to tame inflation is not yet finished. As Wednesday's FOMC policy statement noted, the Committee anticipates that ongoing increases in the target range will be appropriate until the stance of policy is sufficiently restrictive to return inflation to 2 percent over time. Various indicators do suggest that the policy tightening underway since March is having an effect. Raising the federal funds rate, which is a short-term rate, impacts the longer-term interest rates that affect people and firms' economic decisions. The runoff of assets from the Fed's balance sheet that was initiated earlier this year, is also increasing interest rates at longer maturities.

In all, longer-term rates have proven to be more responsive than in some previous economic cycles, and this amplifies the restrictiveness of the current level of the funds rate. This has been especially notable with mortgage rates. They had risen 75 basis points at the beginning of the year, then rose from roughly 4 percent in March to around 7 percent in October. And this has had a strong impact on what was an extremely hot housing market. Demand is also slowing for appliances and other durable goods that go along with home purchases.

Again, the path to price stability involves bringing what has been very strong demand into better balance with supply. So, I believe we need to see growth at a below trend pace in interest-sensitive sectors of the economy, and more broadly as well, growth that is hopefully still positive but down from the rapid pace we saw last year. And, indeed, there are early signs, some early signs that growth in consumer spending is slowing to a pace that is closer to trend.

Ultimately, this broader slowdown in demand will affect the labor market. And restoring a better balance between demand and supply in the labor market will play an important role in reducing unsustainable wage inflation, and with it, price inflation. In this context, it is notable that wage inflation is now much higher than it was pre-pandemic, despite a very similar unemployment rate. A possible

explanation for this is that demand for labor is stronger, relative to labor supply, than it was pre-pandemic.

There's some evidence of this and that can be gleaned from the fact that vacancies per unemployed worker are now considerably higher than they were in 2019. Another sign is that workers have been quitting their jobs for other opportunities at considerably higher rates than before the pandemic. With a very low unemployment rate, and very high vacancy and quit rates, wages were bound to increase sharply.

And I hope it will be possible to see a decline in wage inflation with only a relatively modest increase in the unemployment rate, as demand in the labor market cools and vacancies and quits decline. The possibility of re-equilibrating the labor market with only a modest increase in the unemployment rate is one important reason for optimism about reducing inflation without a significant downturn.

There are also other reasons for optimism. Household balance sheets remain strong and there do not appear to be significant imbalances in the nonfinancial business sector. So, households and businesses are fairly well positioned to support spending and weather tighter financial conditions. And that has not typically been the case in earlier cycles.

In particular, households accumulated more than $2 trillion dollars in excess savings over the course of 2020 and 2021. And while they've started to spend out of this stock, the buffer is still large. Moreover, many firms may be reluctant to lay off workers that they have had considerable difficulty hiring. And well anchored medium to longer-term inflation expectations, as I've noted, will reduce the extent of the slowdown in activity needed to reduce inflation.

I recognize that this scenario might sound rosy, and I acknowledge that there are a number of significant risks. The continued stresses and uncertainties of the pandemic period have been extremely challenging, taking a toll on individuals, families, and communities. And understandably, this has also dented consumer sentiment, which implies a risk that expectations of a downturn could become self-fulfilling, with a sudden curtailing of spending. And, unfortunately, we cannot rule out additional supply or demand shocks, whether from a resurgence of COVID-19 or from food and energy supply

disruptions due to other factors.

We have also seen a sharp appreciation of the dollar, interest rate hikes around the globe, and growth slowdowns in many nations. These factors increase the risks of a more rapid decline in global and domestic demand. But overall, while a realist and very attuned to the significant risks, I am optimistic about the path for our economy, as we do the essential work to restore price stability, which is foundational to an economy that works well for everyone.

So, going forward, given all the imperatives and uncertainties that I've mentioned, what is the way forward for monetary policymaking? The FOMC's goal is to bring inflation back down to the Committee's 2 percent target over time. And as Wednesday's FOMC statement and communications stressed, this will likely entail raising rates to a sufficiently restrictive level and then holding there for some time.

Back in March, rates were far from being restrictive. They were near zero. Since then, the FOMC has tightened policy at a very fast pace to reach a level of the federal funds rate near 4 percent. The swiftness of these actions was appropriate and reflected the FOMC's commitment to price stability. With rates now in restrictive territory, I believe it's time to shift focus from how rapidly to raise rates, or the pace, to how high. In other words, to determine what is sufficiently restrictive. And down the road, once we get there, in my view we'll need to shift again to focus on how long to hold rates at that level.

So, in thinking about how to reach the level of the funds rate at which the Committee will deem appropriate to hold policy, I believe it's important for us to consider the various options for policy moves, all of the various options. This will include 75 basis points, as well as smaller increments. And I note that a 50 basis-point move was considered a large move in the past. In my view, smaller increments will often be appropriate as we work to determine how much tightening is needed to reach a level of the funds rate that is sufficiently restrictive. And a focus on the level, not the pace, is what resolve looks like in this second phase.

Importantly, as policy tightens further, the risks of overtightening do increase. As I've

discussed, I do not believe a significant slowdown is required to accomplish our goal of restoring price stability. Therefore, it will be increasingly important to balance the risk of possibly slowing demand in the economy too much, with the risk of allowing inflation to persist too long, and possibly de-anchoring inflation expectations.

Making policy decisions going forward will not be easy. It never is at this stage in the economic cycle. There's no one single indicator that will be sufficient by itself to guide policy. Decisions, even more than usual, will require a careful, holistic assessment of the range of information available. And our task is further complicated by some unusual challenges of extracting the signal from what can be very noisy data.

For example, demand indicators and the labor market may send somewhat different signals as the need by businesses to fill vacant positions might persist even with some slowdown of demand. The continued above-trend growth in payrolls this morning, for this morning’s October employment report, is consistent with this view. It's premature to signal how high rates should go. However, I will say that the median path in September’s Summary of Economic Projections can be taken as a starting point for my current thinking, with the possibility of a higher path needed depending on incoming information.

In determining appropriate policy, I'll assess how much financial conditions have tightened and look for evidence that our cumulative policy actions are slowing demand, cooling labor markets, and having the desired effects on wages and prices. Indeed, as noted in this week’s FOMC statement, the Committee will take into account the cumulative tightening of monetary policy, the lags with which monetary policy affects economic activity and inflation, and economic and financial developments.

So, to conclude, let me reiterate my commitment to the Fed’s dual mandate, price stability and maximum employment, and specifically, my resolve to restore price stability. Policy has moved expeditiously into restrictive territory, but there's more work to do. And in this next phase for policymaking, my focus is shifting from raising rates rapidly to determining the level that the funds rate

must reach to be sufficiently restrictive to achieve the desired outcomes. This recognizes that the risks of inflation falling too slowly and of the economy weakening too quickly are becoming more balanced. Returning to price stability will set the foundation for sustainable maximum employment and for achieving the mission of a vibrant, inclusive economy that works best for all in the long run.

Thank you again for hosting me today to discuss my perspectives on the economy and monetary policy. And, David, I look forward to your questions. Thank you.

MR. WESSEL: Thank you very much, President Collins, for quite a comprehensive set of comments. Let me start by asking you about the jobs report. As you mentioned, the labor market continues to be quite strong, 260,000 jobs added in October, an average of about 390,000 jobs over the last three months. Unemployment rose a little bit to 3.7. It is still very low. If that's all we knew about the economy, we would say this is a pretty strong economy. Wages rose some 4.7 percent. Average hourly earnings have risen over the past year. I'm curious, what did you learn from this report that's significant from the point of view of a monetary policymaker, if anything?

MS. COLLINS: Yeah, so, let me say a few things about that. And I'll start by saying that monthly data like the jobs report we know is particularly noisy. And we always want to assess the information in that report in the context exactly as you did of what we've seen over time. And so, I see the information that we received this morning as very consistent with the point that I made in my remarks that the payroll -- the job growth may be not as much a coincident indicator of what's happening with output, with demand in the economy as it typically is. It may actually be working more as lagged indicator at the moment because so many firms are still trying to catch up with the hiring that they were unable to do because of some of the labor supply challenges that I mentioned earlier.

And so, I think we need to be careful not to read too much first of all into one month's job number. But as you say, the job creation has been well above what we would expect trend employment growth to be based on, you know, labor force dynamics. That would be more like 80 to 90,000 a month. But we should be careful not to necessarily read into that that demand isn't slowing. It may simply be an indicator that firms are still catching up with the increase in demand that happened earlier.

It's also true that hourly earnings, you know, were not -- this indicator does not show them coming down. They were slightly above what they had been. So, the earnings numbers in these data are still not consistent with a 2 percent inflation. And so, there's clearly more work to do there. But there has been in some indicators a bit of movement in the right direction. And the fact that the unemployment rate ticked up, I mean, since March it's pretty much been in the range of 3.5 to 3.7. And so, I would read that as saying that we're really not seeing a lot of movement there yet.

But again, it does take time for things to feed through. So, again, I think that these are still things to watch carefully and are quite consistent with the framing that I gave earlier.

MR. WESSEL: You've said in your remarks that you anticipate and, indeed, I think it would be fair to say, would welcome a modest increase in the unemployment rate. What do you have in mind there? What's a modest increase?

MS. COLLINS: So, it's always hard to give any specific numbers. I mean, I will say that the unemployment rate that we have now is really very low by historic standards. And one could see, you know, increases that would still be consistent with a relatively robust labor market. There are a lot of unusual aspects of what's happening in our labor market right now. And so, you know, and there's unevenness as well. So, I again do think that we would not need to see a huge spike, especially because being able to bring down vacancies would also reduce significantly the pressure in our labor markets and could contribute to bringing wage growth down.

MR. WESSEL: And a couple times in your remarks you said you didn't think we needed a significant downturn in the economy to bring inflation down. I think you made quite clear that you're a little worried that if we talk too much about recession, it become a self-fulfilling prophecy. But I'm curious what you have in mind there. I think the consensus is that a recession is more likely than not over the next 18 months. In part because of the Fed's efforts to slow demand. Do you challenge that view or are you just saying it doesn't have to be deep recession?

MS. COLLINS: So, it's clear that we need to slow down demand. You know, I will say, and I certainly don't think that it needs to be a very deep one. There are risks, of course, in terms of what

the dynamics look like. And I think it's important to be realistic about that.

You know, I think there are different estimates and certainly, how the amount of tightening unfolds, both here and abroad, and a variety of other kinds of things that can happen will influence what those probabilities are. You know, I think there's a range of views in terms how likely different degrees of slowdown would be.

Again, we are trying to engineer a slowdown in demand because demand exceeds productive capacity at this point. That means bringing it down below trend. And there are pathways then which growth slows again without a significant increase in unemployment. And the fact that the labor market dynamics are, you know, not as coordinated directly with some of the output numbers, kind of complicates exactly how we talk about what a downturn might or might now look like.

So, again, I think, you know, there are probabilities that are important to keep in mind. And I'm certainly not challenging that. That's a reality. I do have concerns that if we only focus on the path in which there's a significant slowdown, that can make it more likely. There are concerns about self-fulfilling dynamics that matter. And so, looking holistically at the different considerations as we work to balance them, I think is going to be very important going forward.

Mr. WESSEL: Thank you. So, as Chair Powell did the other day, you focused on the terminal rate. That is how high will the Fed have to raise the short-term interest rates to achieve its goals? You said your starting point was the median of the September Summary of Economic Projections that was 4.6 percent. So, I'm curious, have you increased your view about what the terminal rate is since September? And what factors are you going to look at to figure out where that will actually be?

MS. COLLINS: So, I would say that, you know, there has been a bit of disappointment in some of the data. And so, that has, I would say, widened my view of where the rate that will be sufficiently restrictive might be. But again, I really do think it's premature to be too specific about what that might actually look like because things are still evolving and we'll have to assess, you know, at each decision point.

So, you know, my views certainly are influenced by the additional data as it comes in and

again, we have to look at that in context of all of the other data that we have and are receiving. But, yes, my view of where we might need to go has evolved a bit since September. And, of course, in December we will be -- we will have a new Summary of Economic Projections, which will give an update on the thinking of the members of the Committee.

MR. WESSEL: When you say evolved a bit, I'm interpreting that to mean more likely higher than lower given the data that's come in.

MS. COLLINS: Yeah, I would say that that, yes.

MR. WESSEL: Yeah.

MS. COLLINS: That's right. I mean, as I said, some of the information has been a bit disappointing. Yeah, there are some signs of things moving in the right direction. I think --

MR. WESSEL: Right.

MS. COLLINS: -- there are, you know, as I mentioned, financial markets have tightened. The responsiveness to higher interest rates in some markets like the mortgage markets, housing markets, has perhaps been greater than one might have anticipated. And we know that it takes time to kind of show through in the less interest-sensitive parts of our economy, and so that's still working its way through. We've also just recently moved into the area where rates are in restrictive territory. So, there is some work to be done still.

MR. WESSEL: Right. I think one question that I hear a bit and a number of people in the audience have asked is given that we know that monetary policy works with a lag, how concerned are you that the Fed may be at risk of overdoing it? You pointed out that the lags might be shorter now because financial markets react so quickly to what the Fed does, and the Fed is so much more open about its forward guidance and what it's thinking about the economy. But it's not instant.

And so, as you pointed out, at zero and 6 or 8 percent inflation, it's a pretty easy decision. Rates have to go up. But you're now at the point where you really have to weigh are you at risk of doing too much, as well as at risk of doing too little? And I wonder how you think about that and how you're going to make that decision. And what do you say to people who read Milton Friedman and long and

variable lags and say, surely you guys can't keep raising interest rates until you actually see inflation at 2 percent. So, how's this going to work?

MS. COLLINS: Yeah, so, let me say a couple of things about that. One of them is that this is part of why I really do think it's important for us to really look at a range of what the increments might look like. It makes a lot of sense to me to move rates a bit more slowly as the risks that we're trying to balance become, you know, closer. So, the information that we're looking at is everything from statistical information to the implications of a wide range of different kinds of models, historical analyses, et cetera.

And it's absolutely true that we can't say exactly what the lags will be and when we should start to see what effects. The current context is very unusual and lot of it is really different from the historic episodes. But as we continue to monitor all of that we'll use the best assessment of the range of existing data to make each of those different decisions. And, you know, that's the commitment that we have.

So, I do think that there's some reasons to think that those lags might have gotten shorter. At the same time, there continue to be a range of unexpected dimensions to how our economy is performing. And as I mentioned, there are lots of uncertainties about the potential for future shocks. And so, we'll have to keep monitoring that and then make a decision.

Just one other point that I wanted to make is that in this context, the thing we're looking for is not inflation coming dramatically down. That is not the decision point. It's a range of different indicators related to how financial conditions are influencing different parts of the economy, recognizing that those work through in different stages.

And so, I mentioned the, you know, looking at what's happening in some of the less sensitive interest -- the less interest-sensitive aspects. Having it be more broad-based and consistent so that's it's not just a one-month indicator. And some indications that the labor markets are cooling. All of those things would be part of what we would be looking for. It's not simply an indicator like how much has this measure of the inflation rate ticked down.

MR. WESSEL: I see. Another question I've heard, and this one came in from one of your constituents in Maine, is given that so much of the inflation -- how much is a subject of debate -- are supply chain related things, COVID-related things, whether it's Chinese factories shutting down or Russia's invasion of Ukraine, the economic implications of that, or the reluctance of people to go to work because they're afraid of COVID or whatever. Those things are not really sensitive to monetary policy. And to the extent that inflation is driven by these supply chain things, why should the Fed be so aggressive about raising rates to slow demand? How do you explain that to someone who's puzzled about why you're doing what you're doing?

MS. COLLINS: Yeah, so that's a good question. It's absolutely true that there are a number of supply factors that have led to the high inflation that we're seeing. And the Fed's actions do not work directly on those actions. So, those points are absolutely true. And at the same time, it's also very clear that part of the reason for the inflation that we're seeing does come from a surge in demand and very strong demand across our economy. We can see that through the extent to which the price growth how broad it is across different sectors.

If you were focusing on commodity or energy price shocks, that would be more concentrated and there's certainly been some of that. At the same time, the data that we're looking makes it very clear that demand factors also matter. The Fed's mandate is price stability. And so, it's our job to bring inflation down. And the realigning demand with supply in our economy works directly on the demand component. And it also works indirectly on some of those other supply factors. And so, you know, recognizing that our tools, raising interest rates, don't directly impact the supply factors really doesn't change the need and the approach for bringing inflation back down.

MR. WESSEL: As you know, the Federal Reserve has a lot of authority. And sometimes at times when the political system is unable to act, people look to the Fed, you have independence, please, can you fix all our problems. So, I got a question from somebody in New York, Betty Wiesel, who said, how do you think about the Fed's role in reducing inequality even as it fights inflation, if there's a role for the Fed at all?

MS. COLLINS: So, I think about that in the context of the Fed's overarching mission, which I see as a vibrant, resilient, and inclusive economy that works for all. And I take that mission to heart. I take it very seriously. That involves, of course, monetary policy as we work to achieve the dual mandate of price stability and maximum employment.

It's broader than that and, again, aligned with the mandate. And so, we do a number of things. For example, the research that we do helps us understand economic experiences, the impact of different kinds of policies on different members of our society. And that's really important for a variety of groups. One of the things that the Federal Reserve does, and I think should continue to do is really deepen our understanding of our economy, how it works, and how it impacts different groups.

We also have, you know, a commitment to nonpartisan convening. And we can help to foster engagement across different parts of our society from businesses, and nonprofit groups, and governments, as well as research arms to address ways to help our economy work well for all. And I'll mention an initiative at the Federal Reserve, you know, through our community development organizations that really help to understand how to revitalize communities that might be struggling. Again, by bringing people together, drawing on research, and finding ways to help with, you know, revitalize struggling communities in worker pipelines, small business engagements, and activities like that.

So, there's a variety of things that the Federal Reserve does to accomplish its mission that are complementary and work hand-in-hand with things that I think are perhaps better known. And they all align directly with fulfilling our mission.

MR. WESSEL: Before the pandemic, the Fed argued, Jay Powell, and others, that we have learned that running a very tight labor market and keeping unemployment down was really important to making sure that prosperity was broadly shared. And there are some people who think that that was overdone and that allowed -- that led the Fed to be a little bit complacent when inflation perked up. And that, of course, will come up when the Fed reviews the framework, the five-year framework in a few years. I'm just curious if you've thought about that at all or what you think that we learned from all that. Did we overdo it on the employment side at the risk of creating a problem on the inflation side?

MS. COLLINS: So, as you say, I do think that we have a lot to learn from how the economy has evolved. There have been a variety of surprises including, you know, why inflation what stayed so low and seemed to be so unresponsive to the very low unemployment rate during that time period. And so, I think that with a benefit of a little bit more hindsight, we will be in a better place to really analyze and study what the dynamics were.

But, you know, I do think that we don't have all the answers certainly. And so, we're still learning what the best ways are as our economy evolves to balance out those different considerations. I mean, certainly the situation the economy was in pre-pandemic did contribute to the dynamics that we've seen. But I don't know that we can yet attribute what factors were playing what role.

MR. WESSEL: Yeah. What about climate change? How do you think about the Fed's role in society's resistance to climate change?

MS. COLLINS: So, I would say that, you know, part of the Fed's mission is relates to, you know, safety and soundness of financial institutions. I mean, there are a number of things that are directly related to what the Fed is charged with managing that can be influenced by dynamics including climate change that, you know, are underway and that we can anticipate will evolve in the future. And I think it's important for us to be aware of those dynamics and to be kind of thinking through what the implications might be and how best to address them.

MR. WESSEL: So, it's primarily through your role as overseer of the banking system, from what you see.

MS. COLLINS: Well, that is certainly one key role. And, you know, there are also, you know, we will -- so, that's not an area that I have focused on explicitly.

MR. WESSEL: Yeah.

MS. COLLINS: And so, that is one of the key areas. And, you know, that I would mention in that context.

MR. WESSEL: So, as you know, and maybe many of our listeners do, the Federal Reserve Bank of Boston was asked by the system to do some work on things like digital currencies and

whether the Fed should have its own central bank digital currency. And I'm just wondering if to the extent that you've thought about this, do you think a central bank digital currency in the U.S. is a good idea? And how will we decide when and how to do it?

MS. COLLINS: Yeah, so, there's actually, this is a really interesting question. And I'll only just maybe provide a touch of context.

MR. WESSEL: Please.

MS. COLLINS: So, I mean, the technological changes in financial services have just changed dramatically and are continuing to change. Everything from how people pay for things to how they manage their money. I mean, all of those things have changed dramatically because of technology. And one of the things that, you know, we are charged to do is to make sure that we have efficient, accessible, safe set of financial services. That involves understanding a variety of aspects, including digital currencies and things like stablecoin.

So, a central bank digital currency is something that we need to be well aware of. As you know, many countries around the world are exploring those. We have made no decisions about whether a central bank digital currency is the right thing for the United States. And, of course, the Congress would be essential for making that decision.

But what the Federal Reserve is doing and I do think it's really important is fostering a kind of an active dialog on what the costs and benefits would be. There's a White Paper that the board put out earlier this year that is part of that. And the Boston Fed is working actively with the -- MIT has a digital innovation group, and we have a multiyear project. It's actually the Hamilton Project. To try to understand not whether we should have a digital currency or not, or what the cost or benefits might be, but technological aspects. If there were a decision made, how would this actually work? What would be the technological design aspects? And so, that work is well underway. And I think it's really important to understand that so that we would be ready if such a decision were to be made going forward.

I just also wanted to very quickly mention an aspect of the payment system that is well underway and that is FedNow. The FedNow service which we have announced is scheduled for launch

May to June of 2023. So, very soon. What that would be is a real-time payment system that would enable all banks throughout our country, all financial institutions, to provide, you know, immediate payment services 24/7, every day of the year. And really address challenges for many households, many individuals, and firms from current structures in which often they have to wait for payments to be delivered. And so, that's something that is well underway and will make a real difference for the payment systems in, you know, just a matter of months.

MR. WESSEL: Right, just to be clear. It means that if you deposit your paycheck, you won't have to wait three or four days to be able to take the money out.

MS. COLLINS: Yes.

MR. WESSEL: Do you anticipate that the Fed will require banks to participate in this or just make it optional and encourage them? Or is that not a decision you've taken yet?

MS. COLLINS: So, this is something it's certainly not a requirement. This is something that is available to all financial institutions that would be, you know, and there's a lot of work underway to provide help so that they are aware of what they would need to do to be able to avail themselves of an opportunity. And so, you know, as you know, the Federal Reserve has a public mission. And we see this very much as part of fulfilling that public mission as the technology of payments and, you know, facilitating that in our country as that has really evolved to a very different place from where it was a few years ago.

MR. WESSEL: If I may, I'd like to ask you just a couple of personal questions about your job. So, one thing I'm just curious about is so, you've been around economists for a long time for better or worse. I'm just curious what it's like to show up at the Federal Reserve Bank of Boston and to sit around the FOMC table in Washington? What's it been like? How do get up to speed? Is it overwhelming? Do you worry that you might say the wrong thing in a conversation like this and send the markets scurrying?

MS. COLLINS: So, first of all, I have been so impressed with the team here at the Boston Fed who have just been wonderful and are doing the extensive, you know, committed expertise of the people who work here and around the system who are incredibly supportive and very -- a phenomenal resource. Is there a lot to learn? Absolutely. It is a position that is both a privilege and a

responsibility, which I take really seriously. And so, I'm learning as fast as I can.

And, you know, there's always more to learn and we're doing that together. I think it's important to have new perspectives and new voices around the FOMC table. I have been not surprised and really positively impressed by the kind of substantive conversation around the FOMC table about the challenging issues that we're dealing with, and the kind of range of questions that people are asking, and that people are trying to understand as they make decisions that they think are best for our economy.

And so, those are some of my big takeaways. And, yes, we have important work to do and it's challenging. I have to put my economics academic hat on. It's a challenging and a very interesting time. And appropriately, there's a huge amount of work underway and it's really good that people are bringing different perspectives and different types of analysis to that. And, you know, we will need to weigh all of that working together.

MR. WESSEL: So, do you like bring home thick briefing books very night or listen to podcasts of economists? How do you prepare for this?

MS. COLLINS: A little bit of all of it, right? I mean, I am an avid reader. I certainly get lots of briefing materials, have conversations. Three months has -- well, I guess it's about four months by now, it's gone very quickly. There's a lot going on. And, yeah, I mean, one does need to be thoughtful in terms of what one says. It is quite different from being an academic and again, it's an honor and a privilege. And I, you know, will do the best I can in that context.

MR. WESSEL: You know, supposedly at the Supreme Court the newest justice has to answer the door when there's a knock or something. Is there any hazing of the new FOMC members or are the more polite than that at the Fed?

MS. COLLINS: My experience has been that my FOMC colleagues have been very welcoming and, you know, this is a roll up your sleeves and we have a lot of work to do. And the, you know, let's all pitch in, and do our best together. So, I would certainly not describe my experience as having anything like a hazing experience at all.

MR. WESSEL: That's good. And finally, I want to ask you about immigration. I'm the

son of an immigrant. You were born, for reasons I don't know, in Scotland to Jamaican immigrants. I'm curious what role you think immigration -- how should people think about immigration in our society particularly from the economic lens and the state of where we are now?

MS. COLLINS: So, of course, the Federal Reserve has no role in --

MR. WESSEL: Right.

MS. COLLINS: -- immigration or immigration policy. I will say that one of the things that I mentioned in my talk is that labor supply has been, you know, one of the things contributing to our very high job market and, you know, some of the wage and inflation pressures that we have. And one of the -- you know, that's partly related to retirements. Lower migration, lower immigration is a key factor there. In my district of New England, you know, I spend time talking with contacts and I have heard many who are really struggling because of the challenges of immigrants who in previous years would have been available in particular industries and are not available at the moment.

And so, there are challenges related to the kind of different current immigration --

MR. WESSEL: Right.

MS. COLLINS: -- trajectory. And, you know, and that's a reality. And these things impact our economy unevenly. There's some parts that are, you know, in which there's not much of an impact, and there are other locations in which it is much more substantive.

So, you know, I think there are implications and there are I know many people who are studying these issues and, you know. So, I did mention that there is a conference that the Boston Fed is organizing. And there is a session as part of that conference that looks at immigration. But again, this is a large topic, and it has many dimensions, as you know.

MR. WESSEL: And finally, how will you decide whether you've succeeded in this job? What are your goals? How do you think about what success is for a Fed Bank president like yourself.

MS. COLLINS: Yeah, well, so certainly, others will have to judge ultimately.

MR. WESSEL: We will, don't worry.

MS. COLLINS: As you should. You know what, as I think about it, I really am committed

to that overarching mission which I had mentioned a number of times. And that is a vibrant, resilient economy that works for all. You know, the goal is not an economy that works for some people. It's really an economy that works more broadly. And the range of things in our portfolio that we do to fulfill that mission it's moving that forward working with the experts, the committed experts who are here and part of the Boston Fed and Federal Reserve team, and also, the many others in the private sector, in research, and nonprofits, and state, and local governments who are committed to a very similar mission.

So, helping to move that agenda forward, understanding the experiences that kind of a wider swath of our population has economically, and things that help that really make a difference in terms of creating those vibrant economic communities. So, what I'll judge as success is having moved that agenda forward in ways that really helps improve people's lives.

MR. WESSEL: Great. Well, that sounds like a worthy goal. So, with that I want to thank you very much for spending an hour with us. And we're honored to have posted this speech. And I want to thank everybody who listened in. And I also want to thank the staff at the Boston Fed and the staff at Brookings who makes these things work. You never know whether it's going to be seamless. This one was. So, I don’t want to take anything for granted. And I want to thank them as well.

MS. COLLINS: Thank you. It's a pleasure to be here. Thank you very much, David.

MR. WESSEL: Good.

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