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A CONVERSATION WITH SAN FRANCISCO FED PRESIDENT MARY DALY

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DISCUSSION

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WESSEL: Morning. I'm David Wessel, director of the Hutchins Center here at Brookings. I want to welcome everybody. And I'm very pleased to have Mary Daly, the president of the Federal Reserve Bank of San Francisco with us today. Mary Daly, who is an economist, joined the San Francisco Fed in 1996. And she worked on a number of issues -- labor market dynamics, income inequality -- rose to be the director of research, and she became president in 2018. Now, she's one of 12 Reserve Bank presidents. And except for New York, the other 11 are sort of considered the same, but Mary Daly has the distinction in her district, because we drew the lines in 1913, represents a fifth of the nation's population. But unfortunately for her, they don't do population weighting when you vote on the FOMC.

DALY: No, maybe they should, we could propose that.

WESSEL: So I, President Daly, I wanted to start by talking a little bit about how you read the economy right today. And there seems to be a sense of the Federal Open Market Committee that we need to raise interest rates at least a couple more times in order to bring inflation down to the 2% target. And I wonder how you think about that.

DALY: Sure. Absolutely. And thanks, everyone for being here. And thanks for having me. So let me start with the economy. One of the surprising things about the economy is just how much momentum it continues to have. So what's been notable is if you start at the beginning, at the end of last year or December, if you looked at the summary of economic projections that the FOMC put out in December, it was forecasting slower growth than we have now. More in, higher increase in the unemployment rate and more slowing in inflation than we see. So the data have come in in a surprising strength with inflation persistently printing too high. So against that backdrop, you think, well, there's more that we need to do. We need to continue to raise rates in order to bridle those, the economy more, so that demand comes back in line with supply. But in that context, we also had the banking stresses in March, and those banking stresses can act, that can act like a credit shock and they can themselves restrain. So we're balancing the risks to the economy going forward against the incoming information, which is about strength. And I am very, I was very supportive, in fact, a proponent of slowing the pace of tightening in and doing that by standing pat at the June meeting, but also recognizing, like the median of the ACP projections does, that we're likely to need a couple more rate hikes over the course of this year to really bring inflation back into a path that's a longer, sustainable 2% path. The important thing about all of this, though, is the word in projections is projections. Those are things that you suspect could be true. But we have to be data-dependent right now to really understand how to make policy.

WESSEL: So when interest rates were at zero and inflation was at 9% and unemployment was at historic lows, I don't think you needed a Ph..D to decide that interest rates probably had to go up. But the Fed has raised interest rates quite a bit, five percentage points in a relatively short period of time. And as you said in public, the decisions get harder as you get closer to your destination. So I wonder, when you look at the economy today, do you worry more about the Fed doing too much and unnecessarily causing a deep recession, or do you worry about the Fed doing too little and failing to get inflation down towards the 2% target?

DALY: That's a great question. In my mind, the risks have become more balanced. So if you look to even last year, the risks were decidedly, and I said this publicly, a lot of my attention was on doing too littlem that we could really run the risk of doing too little, and then we would end up with persistently high inflation, which we know is a tax on everyone, but especially a tax on those least able to bear it. So that was where my focus was. Over the course of the econ- of time, as the economy has started to show signs of slowing, and importantly, we have put in over 500 basis points of tightening already, well, then I see the risk is more balanced. But today, right now, with the labor market still being very strong, with GDP growth coming in above what we think we need to do to get demand and supply back in balance and inflation persistently high. Yes, there's coming down, but it's still not 2%. It's not our target. Then I still am waiting on doing -- the risks of doing too little are outweighing the risks of doing too much, but that gap is getting narrower and narrower. So that's why the decisions get harder. And that's why I was completely supportive and think it was appropriate to to turn back the dial on the speed at which we adjust and standing pat in the June meeting is just slowing the pace so we have more time to assess the economy and determine that, ultimately in order to make any error. You don't want to go too far, you don't want to go too little. But, you know, it's a, it's a tough problem. So more time to evaluate is really what we took in June.

WESSEL: But more time to evaluate. But if you had, looking at everything we know today, you still think we need at least a couple more rate hikes?

DALY: I think it's a very reasonable projection to say a couple of rate hikes will be necessary. But I'm also holding myself to what I think my team calls extreme data-dependance where, you know, I'm going to be watching and looking. And people ask me this question; I think it's really an important one: Well, how many more public data releases will we get before the meeting? Can't you decide today? And I said, Well, if data just meant public data releases, we'll probably we could decide the last one that comes out, we'll make the decision. But that's actually not what we mean by data. We mean talking to firms and households and, you know, worker groups and community groups. And you can do that all the way up to the meeting. And then, of course, you have the debates and conversation at the meeting which help us make the best decisions.

WESSEL: So besides looking at all the data that comes in and all the economists who work for you, parsing the different ways to slice and dice inflation and labor market data, how else do you go about getting information about what's going on in the economy?

DALY: So the regional reserve banks are very well equipped to do this. And it's one of the things that, if you're president of the Reserve Bank, you take quite seriously and have teams of people helping you with. So there's some very formal ways we do it through the Beige Book. Many of you have heard of the Beige Book, so we have a formal survey that the banks do and put together. Another way we do this is through our we have boards of directors, so we have boards of directors for the head offices of each of the 12 reserve banks, but also the branches. We have councils and you have a community advisory council, an economic advisory council, a community depository institution council. And we're looking at those councils regularly, meeting regularly to understand what the economy's doing and what they see in the economy. I also, you know, have CEO roundtables and worker group roundtables. We have teams out in the field each month doing focus groups to collect this information. And then as you might imagine, I enjoy talking to people. So I'm out in the in my communities and I travel all over that - my district, I have nine states, a big portion of the population and the geography, and we spend a lot of time just talking with people.

WESSEL: Talk about your Sunday afternoons.

DALY: Okay, my Sunday afternoons, I will do that. So I, on Sunday afternoons I like to go to, you know, fairly sizable retail outlets and it could be retail outlets that you buy lots of goods at or you can be, you know, ones you buy home improvement things out. But I like to go to retail outlets and I like to just wander around and talk to people. And I've managed to do this without getting thrown out of the store. So that's the first thing. But I just go up to talk to people and I tell them, Look, I'm an economist and I'm really interested in how you're feeling about the trade-offs between jobs and price increases. And interestingly, what I keep hearing and I like to go to areas where those, those margins will be more binding for people, right? If I go to the wealthiest areas, they then say, well, neither one is affecting me. It's really the low- and moderate-income communities where they're going to be least able to bear any of these trade-offs that I go. And I keep hearing the same thing and I have been hearing this for over well over a year: inflation is our number one problem. And one young man, this was several months back, you know, probably earlier this year or late last year here, I can't actually remember. But it was so striking to me. So he has a daughter, wife, and he tells me, I said, what's what's problematic for you or what's challenging to you, what do you worry about? He said, I have more job opportunities than I can take because there's only 24 hours a day in day and seven days in a week. And I'm working already three jobs and I can't do any more jobs. But every time I come to the store, I can afford less in my cart. And then he picks up the eggs and he picks up the milk and he says, I can't afford this. And so I'm making trade-offs. I'm making more money than I've ever made in my life. And I and I'm falling behind. And he said it was a treadmill. And in my mind, it's a treadmill of indignity, right? Because inflation, you know, you work hard, you do everything you're supposed to do and inflation erodes. So people ask me, why are you so determined to get inflation down? And one of the key reasons is because people like that young man and then all the other Americans whose trade-offs might be less severe but still are, believe in the Fed, that our job is to have price stability and and the current inflation rate is not the definition of price stability. So that's how I spend my Sunday afternoons. But it really informs me as a policymaker because we, you know, being resolute is something we need to do. You've heard all of the policymakers say it, but being thoughtful about how we carry that out is also important. So I don't want to take that young man's job, nor do I want him to have to worry about the price of eggs doubling every time he goes to the market. So those are the kinds of things that I learned on Sunday afternoon.

WESSEL: And people don't look at you like, what are you, some kind of nut?

DALY: Well, I have that Midwestern personality that I get away with a lot of stuff. I, I don't think I'm very threatening, but I also I, I mean, I think one of the things you have to have is, as a policymaker and it's such an interesting thing, I'm an economist by training, so people don't think I mean, you know --

WESSEL: They don't think you have a personality.

DALY: A personality or an emotion, you know, emotions, what are they good for? Kind of mentality. But truthfully, people want to tell their stories about how they're faring in the world. But you have to be willing to listen and not say, well, here's how I think you're feeling. Do you agree? It's really how are you feeling in the world? How is, what are your struggles? And so I don't ever ask, do you care more about inflation or employment? I say, you know, you're here at the place. How's how's the job going for you? Or how is it how are you faring in terms of this basket of goods you're purchasing? And those questions tend to invite people to speak without thinking I'm crazy. I think if I was just walking around with -- and I never take a book -- but if I was walking around with a book and saying, okay, one on inflation, two on employment, then I might get thrown out of the store.

WESSEL: So how do you make sense of where we are in the economy now? I think most of us thought if you raised interest rates by five percentage points that the labor market in particular would be, at least if not screeching to a halt, we wouldn't be - we have 200,000 jobs last month and people say, wow, like we finally got it down. But from what you've said, that's about twice what we need to keep up with growing population. So why do you think the economy has been so resilient given the amount of tightening that you've done?

DALY: I think that's going to be a question that many economists and a lot of young researchers study. How did this happen? And so there's many theories, right? So let me start with things that I think must be material. First, we put a lot of support into the economy. The Fed did. We had interest rates move to zero very rapidly with lots of support through the balance sheet and forward guidance. So that was one piece of support. The fiscal agents also gave lots of support to the economy. I mean, we were fighting a pandemic and then desire, I think of all policymakers, monetary or fiscal, certainly of mine, was to not let something that nobody had created, nobody had done this to themselves, derail lives and livelihoods for long periods of time. So there's a pouring-in of resources to support, to get people through the pandemic. But then that coupled, that support, coupled with the fact that for many people they're just stuck at home. You can't do anything. So you start saving money, saving money accidentally because you can't use the money. The job market for many people remained strong. I mean, you know, we know of the people who got laid off en masse and were given support. But for if you're a tech worker, you were living well, right? You're working at home. You don't pay any commuting costs, your salaries are going up and you have lots of demand for your services. So those are all money in people's pockets. So you get a stacking up of lots of support for the next part of the puzzle, which is we don't like to be locked down as a people. I have learned that. And so we got locked down for good reasons, for health reasons, and then we came out with a vengeance in spending. So we end up with lots of money to spend and a great desire to do so. And supply did not cooperate. And that's true. National supply chains were not cooperating. Global supply chains weren't cooperating. COVID left its wake in different ways at different times across the world. So it just took for a long time for global supply chains to get back to where they were. Meanwhile, demand recovered very rapidly. And it doesn't matter what country you're in, right? All countries' demand recovered rapidly once the restraints were lifted for health reasons and people had income. And so then we missed it.

So I think when I look back here, you get three reasons why the economy hasn't slowed more given what we've done. One is that there's just longer lags than we assumed. Two is that the monetary policy transmission mechanism just is weaker than it used to be. And three is the economy had more underlying momentum than we have really understood. And I think all of those could be true and we should study all of them. But I really do see again and again and again this idea that the economy has a lot of momentum and it takes a while and we do have lag. So that's why we have to be so data-dependent. But you just reflect on your own way of being. We really want to get back out and participate and so does everyone else on the globe, and we have the income to do it so far.

WESSEL: And so what do you look at to know, when you say you're data-dependent, what data are you talking about?

DALY: So I look at a wide range of data, as many of you may know, but I think it's useful to, to remind everybody of. So we have a lot of data that we can -- a lot of it you see in the newspapers on, you know, inflation, employment, dashboards underlying each of those things. It's not like we look at a single data point and say, okay, that's now we know what's going on with inflation and employment. We have a labor market dashboard looking at all kinds of things, geographic, you know, collection of real time data, data that looks behind. So all of these are publicly available, published data and those are rich. And then we have our models and things that

that understand how they're behaving relative to history. But the the data -- and data is, you know, the first thing you learn when you go to school is data is a plural term -- and so data plural is also qualitative and quantitative data and systematically collected, both of those data, pieces of data are important. And so we learn a lot from our conversations, not just the Sunday conversations, but all the conversations that my colleagues at the FOMC are having, when we're out in the communities, we're talking to firms. We put that together. And really they're important because the data we get from published sources, there are a few leading indicators, but by and large, they're telling us about what happened last month or the last six months, but they're not, or even if they're real time, they're just as of today. But what we really need to know to make policy well and reduce the chances we'll make over- or under-correction errors is to look forward. And so we have surveys about what are people planning to do. Are they planning to hire more? Are you planning to quit? Are you planning to raise wages? Are you planning to ask for a wage increase? These are all things that that help us fill out the picture. And I and I believe, make better policy for us.

WESSEL: What are those tell you, those latter category? What do they tell you now about what's happening to the pace of the economy?

DALY: So what I hear and this is we just had our economic advisory council meeting. And so that's people from, you know, people who have businesses from all over the the nine Western states. And that's a very diverse set of states; I have the intermountain states, I have the coastal states, and then I have Alaska and Hawaii. So this is a very diverse group of businesses and firms. And what I'm hearing is that there are signs the economy is slowing. Here's an example. It's easier to find workers than it was last year. And then right after that, they say, but it's still hard. Prices - input prices aren't rising as fast as they were last year, but they're still rising. It's not as easy for me to pass along cost increases to final goods or my sales, but I still can. So what I'm hearing is things are getting better in terms of the sustainability we're trying to get between supply and demand, but we're not there yet. It's too early to declare victory. And that's why if you look at the SEP projections from the FOMC for June --

WESSEL: Summary of economic projections

DALY: -- yeah, summary of economic projections, sorry, the summary of economic projections that we released where it said the median was two additional rate hikes this year, I consider that a reasonable projection with a great deal of data dependance around it. We may end up doing less because we need to do less. We may end up doing just that. We could end up doing more. The data will tell us and it's data like these.

WESSEL: So I'd say that when you look back over the last three years how the Fed handled the pandemic, how we got this unwelcome, unanticipated burst of inflation, how the economy performed differently than many of us, including those at the Fed forecast. What are the two or three lessons you think you've learned about making monetary policy from the past three years?

DALY: It's a great question, and we are, I will start by saying we'll continue to learn these lessons, right? We're just really at the beginnings of learning the things we will need to learn. And we'll have another framework review coming up. And that's one of the things I hope we will dig into is what have we learned from the last five years that will help us inform the next five years? But when I think back to what I've learned, I've learned this, that it's really challenging. It is challenging. Hindsight's always your friend in these regards, but it's challenging to just know how long the impact will be of a kind of seismic shock like a pandemic. I had the same experience when we came through the financial crisis, right? The financial crisis, the big shock, and economic models are not built to understand exactly how long that tail will be from that shock. And what we've found here in the pandemic is things just persisted for longer. It took longer than we imagined for supply to come back. It took, it's been taking longer than we imagine for people to get past the idea that the revenge spending. It's just been a learning period that we have to be bring a lot of humility.

When a big shock occurs, our models don't usually incorporate how that's going to play out in the economy. So I think that's a lesson.

Yet another lesson I've, I've learned and definitely I'm thinking about it as we go through the next framework, is, you know, we came out of the financial crisis with a whole suite of tools. We have the balance sheet tool, we have forward guidance, and we were using that to some extent before that. But we have all these tools, forward guidance, the funds rate, the balance sheet, and they were all very, very helpful. I mean, essential, I would say. But one of the things you learn from them is that they're not all equally agile. And so for guidance, that's a fairly easy and agile tool. We can change what we say. The Fed funds rate turns out to be a pretty agile tool. The balance sheet, that's not such an agile tool, right? You get that thing going and it takes a while to change its direction because abrupt changes could influence or dislocate financial markets. So when you think of that, we've got to be very thoughtful about how we communicate the stance of policy and how we don't make all those tools work exactly the same way at exactly the same time. So I've learned to have a lot more comfort with raising the funds rate while we're still tapering asset purchases and figuring out how to communicate that well so that people understand we're normalizing, we're starting to normalize, but we can't wait to raise the funds rate until the balance sheet, you know, we can get that the tapering the assets, because it could be then later than we would like. And forward guidance can't solve all of the problems we have. So I think that's another lesson.

And then the third lesson is that, you know, it's true of, I think most institutions, whether you're in private sector or you're a public sector institution, we're often fighting the last war. So the last war in this case was inflation. We couldn't get inflation up to our target no matter what we did, right? We were keep working, working, working, remember 2019, we're trying to get it up to a 2%. And so you go into any next piece saying, okay, the same features are going to be with us, and so the transitory blip in in inflation will be pulled down by the gravitational force of inflation's going back to 1.8 and then didn't turn out to be true. And so I think this discipline of not always fighting the last war, having an eye on the last war and the lessons we learn, and having an eye on the future so that you can say, okay, where are we headed and what features might make that, just makes us more agile and more able to to move forward. The thing you have to learn, though, if you're a central banker, perhaps any public servant, is it's a humbling experience because you you do your very best work. You're as earnest as you can be. You try as hard as you can, and you still have to find that you didn't do everything as you wish you would do if you had the benefit of hindsight. But we have the benefit of learning. So I think we have to take those lessons in and use them for going forward.

WESSEL: So let's see, I make sure I understand. So lesson one is these big shocks are have longer lasting effects. Yes. Yeah, it's true of the great global financial crisis, through the pandemic. Secondly, the Fed had said we're not going to raise interest rates until we get done with the tapering of the quantitative easing or the quantitative tightening. And that linking those was not we wouldn't do that again. You wouldn't?

DALY: I wouldn't do it again. I would always speak for anybody else. I don't think linking them has served us well.

WESSEL: Right. And then the third thing is sort of a mindset thing. We were so used to having too little inflation that it was hard to conceive that we needed to deal with the other.

DALY: Right. Yeah, those are my three things. But again, we, I think, do another call to young researchers, or older researchers, any researcher. This is ripe for study and I'm open to whatever you want to point me to.

WESSEL: Right. Right. I want to turn to the banking situation. So just to review, we had a couple of bank failures. There are for reasons, historical reasons, we have many different bank regulators in the U.S. The Federal Reserve is responsible for the overall financial stability and has responsibility assigned by law for the very biggest banks, but the smaller and mid-sized banks, it kind of depends how they're organized. So some of the banks that failed were not, quote, members of the Federal Reserve system. So you don't have to take the blame for their failure. But probably the most spectacular one, Silicon Valley bank was in the San Francisco district. So, first of all, could you talk a little bit about, so exactly how does this bank supervision work? What is the responsibility of the Board of Governors in Washington and what is the responsibility of the supervisors who are on your payroll in San Francisco?

DALY: Sure. Absolutely. Happy to take that question and unpack the supervisory efforts of the Fed. So as the vice chair of supervision, Michael Barr and the chair of the Fed, Jay Powell, Jerome Powell, have said, supervision is a system-wide activity, but different parts of the system have different roles and responsibilities. So let me walk through what those roles and responsibilities are because they're very well defined and definitive and often given to us by Congress. So at the very top, I'll start with regulatory policy. The regulatory framework, as we call it, that is the responsibility of the vice chair of supervision in this case, Michael Barr. It was Randy Quarles, and before that, Dan Tarullo, right? So there's, there are different vice chairs of supervision. And those individuals hold the decision rights and the responsibility to set the regulatory framework. But as David mentioned, you know, there's other, we have a complex regulatory system in the United States and there's regulators internationally, so the vice chair of supervision would work in that ecosystem not just by himself, but work on that. But he sets the the regulatory agenda. He just spoke this morning talking about that, and then that, if there's a vote required, that would be a Board of Governors vote in Washington, that the governors would vote on this. The reserve banks don't play any role in policy. That's the very first thing to know. We don't have a voice in policy. We don't have a pen in policy and we don't have a a vote in policy.

So the second piece of of the supervisory system is, once the regulatory framework is in place -- and it evolves and changes, it's not a static framework -- but once that's there, then there's the second thing, which is the supervisory framework. And that's how are we going to take the regulatory policies in place and apply them to the banks, in this case, in the Fed's purview. And that, again, is the responsibility of the vice chair of supervision, done at the Board of Governors. So in this case, Michael Barr would set the supervisory framework, and that's going to be everything from how many exams are performed for banks of different sizes. What's the intensity of exams? What's in the stress test? How do we do those stress tests? That's all the the purview of the the vice chair of supervision.

And then the third thing, and this is where reserve banks will come in, is the execution of supervision. So once the regulatory framework and the supervisory framework are set, then you have to go out and actually do the day to day work to supervise the institutions in the Fed system. And there it's a joint process. It's a joint effort. That's the effort of the teams in each of the Reserve Banks. So San Francisco has a team and so to all the other 11 banks in the Federal Reserve system, and the Board of Governors has a team. And those teams work together to supervise the institutions across the country. Now, you asked specifically what is the responsibility of the team in San Francisco? And here's something that, you know, many know, some may not. The team in San Francisco, they work for the San Francisco Fed as any, you know, if you worked in Kansas City, you work for the Kansas City Fed. But the supervisory activities that those individuals do are, report up to the Board of Governors. And the reason you want that to be the case is because you want supervision to be executed homogeneously similarly across the country. You want a bank in North Dakota to have the same experience as a bank in New York, as a bank in Florida, bank in Texas, or a bank in California. You don't want variation depending on which regional Fed you're at or who's the president.

So we presidents play an important role in the following way. The most important thing to take up is it's a support role. My job is to support the supervision that the vice chair of supervision has set out. So how do I do that? How do all regional Fed presidents do that? We staff a bank with people who can do the job and do the job well. We ensure that they are being the best in public service, doing what's required of them as supervisors. We're interacting on a regular basis with the board because the board oversees these teams. And when we're, when gaps are exposed, we work collectively to fix them. Or if we see gaps, we raise them to the vice chair of supervision and the supervisory staff so that we can get better. The second role that that a regional bank president would play, that I play, is banks in our system, they don't work in a vacuum. They work in an ecosystem of the economy. And so one of the things that I take responsibility for is saying, here's what's going on in the economy in the district, and here's what I see happening in the banks. We talk to banks all the time about their experiences in the economy. They can influence the economy and the economy can influence them. And the report that back, it's some of the input for monetary policy, but it's also the input for Michael Barr and supervision.

I'll conclude because I want to make sure that you'll ask me more questions wherever the clarification is needed. But I want to conclude with this. The thing about what Vice Chair Barr and Chair Powell said, and I want to just reemphasize, is that supervision in the Fed is a system effort. And while many of us do not own the decisions, those rests solely with the Board of Governors or Michael Barr, the vice chair. We all own the outcomes. And so when the outcomes aren't what we want them to be, we collectively work to make them better going forward.

WESSEL: All right. So roughly how many supervisors work for the San Francisco Fed?

DALY: Our tally, roughly, is a little bit under 400.

WESSEL: And they work for you in that you're their boss, but what they do is dictated or overseen by the Board of Governors?

DALY: Yup. That's that's absolutely correct. So they as we say, they're badged to the San Francisco Fed. But when the badge that they have to get in would be to the San Francisco Fed, they would be an employee of the San Francisco Fed. They participate in all the the aspects of being a San Francisco Fed employee, holding up to the to the values and things that we espouse. But their work would be dictated and overseen by the Board of Governors. And again, I just want to add, because it's so important, this is a feature of the system that's built in to get continuity. Right. And it's also because Congress gave the Board of Governors the responsibility of supervising and regulating banks, not the Reserve Banks.

WESSEL: Right. So it's often said that the Federal Reserve Board in Washington has delegated their responsibilities.

DALY: That's correct.

WESSEL: Okay. So this was not a great example of excellent supervision. I know there's lots of issues of the management of Silicon Valley Bank, but Michael Barr's report has said things like the supervisory approach at Silicon Valley was too deliberative, focused on the continual accumulation of supporting evidence before you did anything and stuff. So I'm sort of curious, what lessons have you learned from this recent experience and how are they put, what's changing as a result?

DALY: Sure. And so I, you know, one of the reasons that we do reviews and I was very supportive of the review that Michael Barr did, the GAO also did a review. There's another GAO report coming out in the fall and an OIG report. And these reports and reviews are essential to us learning from people outside of the exact system what, where they think that we could have lessons. But the the vice chair's report has already identified several areas.

And I want to pull on one of them that you mentioned specifically, and that is the deliberative nature of of things, which is another piece of language to say that there's a slowness between when things are spotted and when their enforcement actions or other things are taken, and that that pipeline of speed is well, that pipeline is not very speedy at any juncture. So one of the things that we can do exactly at the San Francisco Fed with the teams is is not make everything perfect before you raise your hand, right? So they're raising their hands. You see it clearly in the report. Identifying issues. But at every juncture, if you're identifying issues, but then there's another level of of vetting, then you sometimes can be slower than you need to be. And I think that's one of the things that the report has pulled out. That's not just a San Francisco thing or a Board of Governors thing. That's a way in which you can improve the supervisory process by just making it, we're spotting things, we're raising our hands, you don't have to be absolutely sure, because we are we are capable people. We can raise this -- and by we I mean the system, not me, because again, I don't play an active role in supervision -- but raise issues and have deliberations and see. So I think that's the the bias has to be to raise issues as opposed to wait until you have every shred of evidence. And that's what being too deliberative, I think has meant. So that's a lesson.

The other lesson that I got from this and it's kind of a it's something we can use. So you say, well, Mary, do you not have the strength at all there? And I would say absolutely not. We have a lot of strength in this area. We know from periods of banking stress or from periods where it's an all hands on deck moment like the pandemic where there wasn't really banking stress, but we needed the banks to intermediate. We are really good at moving things speedily. I mean, look at the agility with which the Fed, the FDIC, backed by Treasury, acted after Silicon Valley Bank and Signature Bank failed. It was a weekend and we have a new facility open. We have banks that were caught up in any spillovers getting the kind of liquidity they needed. That's that's a rapidity that is obvious. So the question is, how do we bring that same sense of agile-ness -- I would call this agility -- how do we bring that to our everyday work so that we continue to do things as well and as studiously and as carefully as we're used to, and we still can move agility through them so that we don't end up with a finding of, it's too deliberative?

I'll conclude, though, with the lesson is that -- and I want to use a specific example, but the lessons can be broader than a specific example, and I already mentioned we're always fighting the last war. So if you think about the financial stability report, you think about all the things we do after the financial crisis. We're ver,y I mean, we have lots of study going out, looking at vulnerabilities in things. But we also have to really have an eye at what's going on around the corner. So an example is the difference between uninsured and insured deposits. Right. There was a the the stickiness factor that we believe we had on uninsured deposits. I think banks believe they had it. But we as regulator supervisors, not just here in the United States, but across the globe, thought that these were near-neighbors, right? That, and they turned out not to be when people can move money quickly and you have, you know, people who know each other, you can have runs on institutions, and when they're not insured up to, when they're past the limit, those runs are easy to think about doing, right? When you have, oh, my money may not be safe, I'm moving. So I think we have to look around the corner and ask ourselves, how can we see things that could be occurring more quickly? But ultimately we won't know everything. We don't have a crystal ball. And so that's why having a well-capitalized banking system is critical to having a healthy banking system.

WESSEL: So have you changed anything in supervision at the San Francisco Fed as a result of this?

DALY: So we're working actively with Michael Barr, and I would say it's not just San Francisco. This is one aspect of the Fed I hope you all will take away. So the way we work is as a system. So the vice chair is working on, how do we think about revising the supervisory framework writ large? How do we use all of us to do that? How do we work together and and things? So it's not just the San Francisco Fed, it's supervision in general, because ultimately, yes, it happened in San Francisco, but what, but when a bank fails in another district, the the the thing I have in my mind is what do we learn from that? Because ultimately it's a system and it could have happened anywhere. It happened in San Francisco. There were lessons for me are very direct. I'm owning them. I'm taking account of them and making sure that my teams, you know, I tell my teams all the time, Our job is really simple. We learn from what happened. We take on the feedback very, very seriously and we get better right away. And so one of the ways we do that is we we raise our hands and we go in there. We were always raising our hands, but maybe you raise them higher or you say, what's the escalation pattern for that? And I think that's what is desired of us.

WESSEL: Did your staff feel that their concerns weren't heard loudly enough in Washington?

DALY: You know, I think that I don't think I could say that. No. In fact. Well, let me just be very clear. I cannot say that. That is not, this is not a failure of a specific group in the Fed system. This is, and I think the vice chair's report really detailed this, this is a step back, let's look at the process and let's find that the process of deliberation -- and just what we think about deliberation, I want to be very clear. Why are supervisors deliberative? Because they want to be careful. They want to be right. These are private sector companies doing jobs. They want to make sure that they're not -- back to over- and under-correcting. You don't want to ratchet down the financial system out of fear. So you want to be careful, but you can easily move yourself one way or another. So I think this is a delicate balance and my teams are going to work with the teams across the system and do their best work.

WESSEL: Let me ask you one final question on this before I turn to the audience. Each Federal Reserve Bank has a nine-member board of directors. Three of the directors are banks, bankers elected by the bankers in the district. Three are not bankers elected by the bankers in the district, and three are appointed by the Federal Reserve Board of Governors in Washington. Of the of the bankers on your board, one of them was the CEO of Silicon Valley Bank. And that leads, of course, to speculation that somehow the supervisors went easy on SVB because the president was on the board of directors. So when people tell you that, I'm not, I'm not the first person to say that, what do you tell them?

DALY: It's it's not true. But let me tell you why. Because I think when you look at it, you wonder. So let me tell you why that isn't happening. How that what the mitigates in place are, what the ring fences are to protect that from happening. So the very first thing to know is supervision and the board of directors are completely separate from one another. Remember when we started the conversation about banks, we talked about how supervision is done in the United States. It's done through the Board of Governors. My teams in San Francisco work for the Board of Governors on the supervisory role, and those issues are never, ever discussed at the board of directors meetings. The board of directors meetings are about managing the other aspects of the bank and about learning about the economy and and getting the votes on the discount rate for monetary policy. So we never talk about supervisory issues at board meetings. We never talk about bank supervision at board meetings. We're focused on the economy writ large and also the aspects of running the bank more generally. That ring fence is critical and it's what allows us to have, by statute, bankers on the system. Another fact that people don't know is the bankers are recused from any decisions around appointing bank presidents. They don't get to choose. They don't get to be involved. They don't get to do any interviews. They're just completely separated. And I see all of these checks and balances in place as the right things to do. Given that you want to get information from the banking system, it's part of collecting information from about the economy, but you definitely don't want to blur those lines. So while I understand that optics would be such to ask the question, I can absolutely say that the the protections in place prevent those types of things from happening.

WESSEL: Just to clarify, so I believe it's since Dodd-Frank that when new bank presidents are chosen, it's the six members of the board of directors who are not bankers who have that authority to recommend a choice to the board.

DALY: That's correct. Bankers are not participators in that process.

WESSEL: Okay. I think we have time for some questions. Here's what I recommend. There's mic coming over here. Stand up so we can see you. Tell us who you are and try not to give a speech. Or I'll cut you off.

AUDIENCE MEMBER: Hi. Bill Arnold with the National Academy of Social Insurance. You mentioned, Mary, at the beginning, your focus on data. Could you talk about the extent to which you feel the Fed has access to high quality, granular racial and ethnic data so that you can look at impacts of monetary policy on different groups from a disparity perspective?

DALY: Sure. So as I think many of you in the audience know and you would certainly know, there's a lot more information available now and a lot more attention paid to disaggregating the data, if you will, so that we understand what's happening not only in different geographic areas, but also in different ethnicities, racial groups, by gender, by skill. And we do have a lot of information about that. The limits to understanding that more completely are about the data that are collected, which is why we have to go out and talk to our communities as well to augment that. You know, we couldn't just look at the current population survey data, do the cuts, and feel like, because there just aren't, the sample sizes aren't sufficient to look in communities like that, and get real time information, you know, information you can make policy on. It's why we have a community advisory council. It's why we meet with groups regularly to ask how they're experiencing the economy. It's why we've added in San Francisco and many other districts a community insights or community perspective section to the Beige Book. That was a recent addition over the last couple of years where we're actually going into communities, largely communities of color or different ethnicities where we had not as much information. So I feel like we are, you know, relative to when I started at the Fed in 1996, we are eons further along. But this is all a journey. And it's also true that you think you have insight into one group, you've a pretty good handle on it, but it's a pretty diverse world out there where the aggregates don't really reflect the experience of anyone. And so we have to keep digging and finding those types of information.

WESSEL: The gentleman in the middle. And then Pedro on the back. Yeah, start there.

AUDIENCE MEMBER: And I'm Sam I'm just representing 2020 Vision D.C. I was wondering, you spoke a bit about the FSOC guidance. You know, it's undergoing a comment period right now and I know that they're moving away potentially from a required, you know, cost-benefit analyses for potential non-banks to be designated as non-banks under FSOC guidance. Are there other quantitative ways you have of designating companies as formal non-banks to collect come under increased scrutiny through through Basel FSOC evaluation?

DALY: So let me start by and this is an example of where a Federal Reserve Bank president doesn't have a policy. I don't have any imports into the policy process, so I can't really speak to what you're asking directly. But I can say that we, there are processes in place to designate the different groups, banks, non-banks, etc. And part of the public comment and part of the getting the information is is understanding how people feel about those distinctions. But I can't really comment on the specifics because that's the vice chair.

WESSEL: Pedro.

AUDIENCE MEMBER: Thank you. Thanks. President Daly. Pedro da Costa from Market News. I was wondering how much credit tightening have you actually seen or heard about since the SVB crisis? And is there any concern that the rebound in and bond yields back to the levels that we saw in March could lead to another wave of regional bank issues?

DALY: Thanks. So let me start with back in March and this will be again, just reflecting my views. There is no, as far as I know, precise way to calculate this, so you're thinking about what's happened to loan volumes, what's happened to lending standards, and is that more or less than we would expect given the slowing in the economy? So back in early, in March, I actually, and I've said this publicly back then, you know, I was thinking that the credit tightening that could come from the banking stresses, not just the failure of Silicon Valley Bank, but the Signature, First Republic and the other banks that were on, you know, risk lists from investors, that that could end up with, you know, maybe a 25 to 50 basis point equivalent rate hike. At this point, it seems to be less than that so far. And in fact, if you plot aggregate lending, you would see that it's not really different than what you would expect given the projected slowing of the economy. And when you talk to when you look at the the SLOOS to look at lending standards, they've been --

WESSEL: SLOOS: Senior loan officer survey.

DALY: Survey, senior loan officer survey.

WESSEL: We're an acronym-free zone up here.

DALY: Well luckily I have an interpreter. That's really important to me because sometimes I remember the acronym, but forget what it stands for because you just it's embedded into my DNA now.

So but we if you look at all of those indicators, what you see is they were starting to show tightening and slowing loan growth before the bank stresses. And that's consistent with what we would expect, we're raising interest rates. Banks, you want banks to look at their balance sheets, understand that the economy is going to slow and start positioning for interest rate risk and other things. And this is exactly how we would want them to behave. So at this juncture, here's what I, here's my sense of things. If you look at history, it takes a while. Banking, credit shocks have a little bit of a they have a lag. So I don't think we can declare there is no credit shock from the banking stresses. I think we still could see it coming in the next, you know, number of months. So I have an open mind about what that's going to be and it's another reason I was very supportive of standing pat in June and waiting for more data to come out. The other thing I will say about them is that we're seeing a lot of difference depending on what size the bank is. So the big banks and even the pretty large regionals, they seem to be just in line with the slowing in the economy. But I still hear from my community banks that they are definitely tightening more out of a concern about larger banking stresses. But how much more is is hard to say at this point. And then the final thing is that that ultimately what I walk away with is that the banking sector is sound and resilient. And that's partly because of the swift and decisive action that the Fed, this would be the Board of Governors -- Board of Governors with the FDIC and the Treasury help -- took and the backstop facility we have, the the BTFP, the bank term lending facility. I feel like, you know, it's really hard to do it when you're on stage. Actually, if I was in my office, I'd be lik --.

WESSEL: There should be like some regulation, no acronyms without vowels.

DALY: That would be helpful. Yeah. That would be really helpful. But, you know, you're doing it on a weekend, and so it's hard to come up with a name. I think that's another part that's hard. So the but, you know, you have.

WESSEL: That's what GPT is for.

DALY: But you have the you have the swift action, which has calmed the stresses quite considerably. And so now it's about, you know, understanding banks are getting their balance sheets in order. They're responding to the fact that investors and consumers have a new line of sight into balance sheets of their their institutions and managing through that. And our job, as in my job as a policymaker, is to understand that that can still have a potential, an impact on the economy and be watchful for that as we do the very hard job of trying to get to the the last part of our rate hiking cycle before we can --

WESSEL: The other part of the question was, is bond yields have gone up. That means that the bank losses on their portfolios --

DALY: Sure, but, you know, that's just recently happened. And so I guess I, I try to hold myself to not a week's worth of market data, not a month's worth of employment data. So we'll come back to that if it should stick.

WESSEL: All right. I want to. There are the economics profession has a problem with diversity. It has a problem that it has been seen as hostile to women and people of color. It has become very much physics-like on the math. So I think that that may turn off some people because it seems so unconnected to their lives. I wonder if you could think for a minute as if the audience here were first and second year students in economics about why you think it has been rewarding for you and how you dealt with the fact that you didn't look like most of the other people who were getting Ph.Ds when you got yours?

DALY: Yeah, absolutely. So here's the thing about economics. It's, in order to do economics well, you have to know a lot about human behavior. You have to be a student of psychology and a student of psychology in the masses. And economics, I mean, I love that, my profession. Why do I love it? Because every day I do something. It matters for lots and lots of people. And I don't take that responsibility lightly. But I like that I get up every morning thinking what I study, what I say, how I think about the world matters for people I will never meet. And I better do my job well. And when I don't do it as well as I'd like, I'd better do it again and try harder the next time. So I there are few professions for me that I found that had that kind of rewarding thing that you have to deeply understand human behavior. You have to go on Sunday afternoons and ask people what they're thinking, and you have to combine that with an adeptness at using models, in using history. You have to be a great student of history as well, and you have to put all that together and you have to combine the science of that with the art of of understanding that the data won't fit together today the same way they fit together, you know, just a year ago or two years ago and figuring out what that picture is so you can get the best policy outcome is extremely rewarding.

And when I, like many young people, when I said, well, not too many people around here look like me or think like me or want to do what I want to do, so is this the right profession to me? One of my early, early mentors said, Well, if not you, then who? And the world needs you, Mary, to do this. And so my my response to each and every one of you who might get a little wiggly and say, I don't know, it's not that welcoming. Well, our job is to make it more welcoming. So my job is to make it more welcoming than what was welcomed me. And that will pass on to you. And then you'll come. But my bottom line for inviting you to be dedicated to the profession like I have is I'm, extreme, it's extremely rewarding. And we need you. I mean, look at the world we live in. It needs a lot of support from people who have a great empathy for humans, a great understanding of the data and a dedication to history and doing better. So you put all those things together and every young person I meet, I'm like, I'm an ambassador for economics. And the thing I say is, if you ever get you're on a dark night and it doesn't feel like you belong, just call me. And a lot of people have my text, by the way, but luckily they text me instead of calling me at three in the morning.

WESSEL: Great. Please join me in thanking President Daly. And if I can ask a favor for the people in the room, just stay in your seats and tell President Dale leaves and then you're free to go about the rest of your day. Again, thank you all for coming.