

FED SHADOW

Stanley Fischer: Game of Chairs

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Is this brilliant man supposed to play Dick Cheney to Janet Yellen's George W. Bush?

[Reports yesterday](#) that "Obama has already offered the job" of Federal Reserve vice chair to Stanley Fischer, "who accepted it," only reinforce our worries that the Fed under Janet Yellen will be a fiasco (see ["Yellen and Screamin' at the Fed"](#) December 5, 2013). And it reveals the utter incompetence and political cynicism with which the Obama administration has managed this critical succession.

- *Fischer is eminently qualified.*
- He has the stellar academic credentials of Ben Bernanke (at MIT he taught Mario Draghi, Larry Summers, and Bernanke who, perhaps not by coincidence, heaped praise upon him [in a speech last month](#) as "a role model and a frequent adviser").
- He has the political and business savvy of Alan Greenspan (he held senior positions at the World Bank and the IMF, and was vice chair at Citibank).
- And he is a proven leader (he was Governor of the Bank of Israel, where Bernanke [says](#) he "deftly managed monetary policy" -- Israel's was the first central bank in the developed world to raise interest rates after the global financial crisis).
- *Fischer should have been Obama's nominee for chair, after his preferred nominee, Larry Summers, fell through* (see ["On Larry Summers' Withdrawal"](#) September 15, 2013). Fischer was almost never mentioned in reported short-lists, but in conversations with clients his name invariably came up as a dream candidate.
- Obama picked Yellen in a panic during October's government shutdown, caving in to pressure from hard-left Democrats in the Senate (see ["On Yellen for Fed Chair"](#) October 9, 2013).
- *Ah, yes -- marry in haste, repent at leisure.* Now with the crisis passed, Obama must have gotten clued into one of the best-kept secrets in Washington and Wall Street -- that Yellen isn't all that smart, doesn't play well with others, and has no experience with banking regulation or crisis management (again, see ["Yellen and Screamin' at the Fed"](#)).
- *And so Obama is obliged to scrape the top of the barrel.* The call goes out to Stanley Fischer -- the decision [reportedly](#) having been "made jointly by the president and Yellen."

Update to strategic view

US FED: Rumors that Fischer will be nominated for Fed vice chair are a disquieting reminder of what a poor choice Yellen was for chair -- a choice made by Obama under pressure and in a panic. He is so vastly better qualified than Yellen both as a theorist, a politician and a leader, his presence as vice chair will amplify the risk that the FOMC will mutiny under what we feel certain will be Yellen's very poor leadership. Fischer is a policy pragmatist, not a dogmatist like Yellen. His name in the mix ups the odds that tapering will begin either at next week's FOMC, or at January's. The Ryan/Murray budget deal cuts the same way, loosening the fiscal restraint the Fed has felt it had to fight, and lessening the political risk the Fed has felt it had to hedge.

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- We can only imagine the groveling promises from Yellen -- "We'll be a team! *We'll be co-equals!*" -- that were necessary to persuade Fischer to take the Number Two slot, having been passed up for Number One, which he deserved.
- *The problem is that Fischer is so vastly better qualified than Yellen, his nomination now only reveals Obama's buyer's remorse.*
- *And Fischer's presence on the Fed Board of Governors as vice chair will make Yellen look bad by comparison -- and politically weak. So it amplifies the risk that the FOMC will mutiny under what we feel certain will be Yellen's very poor leadership.*

We heard it said yesterday that Fischer is a hawk, who will balance Yellen's dovishness. We don't think that's a fair or full characterization.

- *It's better to say that Fischer is a realist, much as Alan Greenspan was, and even more than Ben Bernanke has been. As such, he could balance Yellen's dogmatism -- if only she would permit it to be balanced.*
- Fischer is skeptical of forward guidance, saying "We don't know what we'll be doing a year from now. It's a mistake to try and get too precise." Bernanke should have been so realistic, having put himself in the embarrassing position of saying in June that tapering would be all done by the time the unemployment rate hit 7% -- which it did in last Friday's jobs report, before the Fed has even begun to taper (see "On the November Jobs Report" December 6, 2013).
- And Fischer is cautious about QE, as Bernanke is, saying that asset purchases are "dangerous, but necessary." Unlike Yellen, he recognizes that there are cost/benefit trade-offs here.

Though he's not a congenital hawk, his presence in the mix as a potential modifying influence on Yellen's dogmatism does open up more mind-space at next week's FOMC for getting started on tapering (again, see "Yellen and Screamin' at the Fed", and "On the November Jobs Report").

- The budget deal announced Tuesday by Representative Paul Ryan (R-WI) and Senator Patty Murray (D-WA) cuts the same way.
- *The Fed has argued repeatedly that growth is being held back by fiscal restraint -- and the Ryan/Murray deal relaxes that somewhat.*
- Even though it purports to lower deficits cumulatively over ten years, in the early years it raises government spending. The offsetting savings are in the out-years (indeed, they may or may not actually materialize).
- *Further, an excuse for not tapering given by Bernanke at the September FOMC press conference was the risk of "the upcoming fiscal debates" in Washington (see "On the September FOMC" September 18, 2013). While the Ryan/Murray deal wouldn't remove the risk of a debt ceiling crisis early next year, it would remove for two years the risk of a government shutdown for lack of funding.*

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Bottom line

Rumors that Fischer will be nominated for Fed vice chair are a disquieting reminder of what a poor choice Yellen was for chair -- a choice made by Obama under pressure and in a panic. He is so vastly better qualified than Yellen both as a theorist, a politician and a leader, his presence as vice chair will amplify the risk that the FOMC will mutiny under what we feel certain will be Yellen's very poor leadership. Fischer is a policy pragmatist, not a dogmatist like Yellen. His name in the mix ups the odds that tapering will begin either at next week's FOMC, or at January's. The Ryan/Murray budget deal cuts the same way, loosening the fiscal restraint the Fed has felt it had to fight, and lessening the political risk the Fed has felt it had to hedge. ▶