

Bernanke-Draghi Policies are MIT Lessons, Fischer Says of His Pupils

By Simon Kennedy & Alisa Odenheimer - Jun 30, 2013 11:00 PM GMT+0200
WSimon Kennedy and Alisa Odenheimer of Bloomberg comment on Bernanke and Draghi teacher at MIT.

When it comes to economics, the professor has become the pupil as far as Stanley Fischer is concerned. Fischer stepped down yesterday as governor of the Bank of Israel after eight years. His mark on global policy-making will endure through onetime students Federal Reserve Chairman Ben S. Bernanke and European Central Bank President Mario Draghi.

Having taught both as an academic at the Massachusetts Institute of Technology, Fischer credits each with helping to rescue the world economy and says future students will study their policies. His only lament is the policy community he's just departed has been unable to deliver as strong a recovery in global growth as he once anticipated. "I'd like to be able to say all the things they are doing were from what they learned in lectures at MIT, but it wouldn't be true," Fischer said in a recent interview in London. "From now on when we teach these courses, we'll teach the lessons we've learned from Bernanke and Draghi." Fischer stands down with the International Monetary Fund having cut its estimate for world economic expansion this year to 3.3 percent. The Israeli economy probably will grow by 3.8 percent this year, slowing to 3.2 percent in 2014 due to fiscal

tightening, the central bank said on June 24.

“A major source of worry is just how long it’s taken for the global economy to recover,” said Fischer. “It’s taken a very long time, longer than I thought it would.”

MIT Experience

Fischer, 69, is in a unique position to comment on the state of economics. The Bank of Israel and MIT jostle for space on his resume with spells as No. 2 at the IMF, a vice chairman at New York-based Citigroup Inc. and chief economist at the World Bank.

He spent multiple periods of time at MIT in Cambridge, Massachusetts, having won his PhD in economics there in 1969 and then joining the school’s faculty as an associate professor in 1973 and becoming an endowed professor in the early 1990s. It was there he oversaw the thesis of Bernanke and taught Draghi. Former U.S. Treasury Secretary Lawrence Summers and Greg Mankiw, who chaired President George W. Bush’s Council of Economic Advisers, also studied under him.

The career-combination of academia, finance and policy making has led to speculation Fischer could make President Barack Obama’s shortlist to replace Bernanke as Fed chairman early next year. He has a 4 percent chance of replacing Bernanke, according to a June 19-20 Bloomberg survey of 54 economists. “When I first entered the job market, our professor said to us never accept an offer that you haven’t been given,” Fischer told Bloomberg Television on June 13. “I haven’t been given any offer. I’m not about to accept it. I’m certainly not about to reject it because it doesn’t exist.”

At the Bank of Israel, Fischer has been credited with helping the country weather the global economic crisis better than most developed countries. Between 2005, when he took office, and last year, the economy grew at an annual average of 4.3

percent, and per capita growth averaged 2.5 percent, Fischer said at a parliamentary finance committee meeting on June 3. "It is testament to Stan's skillful handling of Israel's economy that it is one of the very few advanced economies whose output increased every year through the crisis period," former Bank of England Governor Mervyn King said June 12. King also worked at MIT.

Global Finance magazine gave Fischer a "A" grade last August, compared with Bernanke's "B" and Draghi's "B-".

Rate Surprises

Fischer earned a reputation as a trailblazer as the first central banker to cut rates in 2008 at the start of the global economic crisis, and the first to raise rates the following year in response to signs of financial recovery.

He also bought up foreign currency in unprecedented amounts to drive down the value of the shekel and boost exports, more than doubling reserves. In April, the Bank of Israel bought foreign currency for the first time since July 2011, after the currency rallied to an 18-month high. The central bank said last month it would purchase about \$2.1 billion by the end of the year to help offset the effects of natural gas sales.

The Fischer-led Bank of Israel has surprised economists in about a quarter of its rate decisions, more often than any other OECD country for which comparable data is tracked by Bloomberg.

Of the eight rate cuts Fischer and his panel have made since September 2011, only two were forecast by the median estimate in Bloomberg surveys. Fischer said during his farewell news conference last month that the monetary policy committee tried to stay "ahead of the curve."

Great Depression

It is still taking longer than most expected to restore the world to full health by working off the debt excesses that helped trigger

the 2008 financial crisis and subsequent global recession, said Fischer, who is due to be replaced by former Bank of Israel Governor Jacob Frenkel, 70.

“We should see monetary policy being based on changes in interest rates well before we fully return to normal,” he said. In the case of Bernanke, the U.S. economy is in much better shape thanks to him and the fact his studying of the Great Depression meant he knew how to respond to its slump, said Fischer. Bernanke cut the Fed’s benchmark to near zero and oversaw asset purchases that have pushed the Fed’s balance sheet to a record \$3.47 trillion.

“Without Ben, and the fact based on his academic research that he knew what to do in a recession of this magnitude, we’d all be in much worse shape,” said Fischer.

Euro’s Future

Draghi wins the kudos of his former teacher for his pledge of last July to do “whatever it takes” to save the euro, ending a selloff in the debt of cash-strapped euro-area economies which had raised questions about the single currency’s existence.

“Mario, with one sentence, was able to change the dynamics of the European crisis,” said Fischer. “Both of them have done remarkably well.”

Fischer receives compliments in kind and the hint his lessons will still be sought.

“You will be told that you will be sorely missed and that is true for them, but not true for me because I know for sure I can count on your advice, wisdom and friendship,” Draghi said June 18 at an event for Fischer in Jerusalem.