

Erkki Liikanen: A tribute to Stanley Fischer

A tribute to Mr Stanley Fischer, Vice Chair of the Board of Governors of the Federal Reserve System, by Mr Erkki Liikanen, Governor of the Bank of Finland, 13 October 2017.

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Stanley Fischer is leaving the Fed today. Not very many people excel during their careers as both academics and practitioners at the very highest level. Stanley Fischer is an outstanding example of those rare people: A first-rank researcher and teacher, who is also one of the world's most influential policy-makers, a man who has led some of the most important policy institutions on earth.

Stan Fischer's experience and achievements are such that they defy all attempts to summarize them. Larry Summers was right to write that Stan's departure is the end of an era.

On a personal level, I appreciate our many encounters and our continuing friendship. It is actually remarkable how many contacts Stan has had with my home country, Finland, and Finnish economists.

I will mention just four of them.

The first goes back to the 1970's. Stan had just published the famous macroeconomics textbook he wrote together with Rudi Dornbusch. Soon after that, Stan spent twice two weeks in Finland, together with Dornbusch, teaching the graduate course organized by the Yrjö Jahnsson Foundation.

These courses were invaluable for the growth of the economics profession in Finland, and dominated graduate education in the country for a decade. As the lead instructors of the 1979 course, Stan and Rudi Dornbusch made a durable contribution to the development of the burgeoning economics profession in Finland.

The second is linked to his role as a thesis advisor. As we know, Stan is famous for having been the thesis advisor or teacher of many of the giants of the economic profession. Ben Bernanke, Larry Summers, Olivier Blanchard and others come to mind.

For us Finns but for others, too, the late Pentti Kouri is a particularly evocative name: a brilliant Finnish economist who during his short academic career made a big impression in the field of international monetary economics. Pentti Kouri hailed from Lapland. His career as a researcher was like the Lapland summer: bright, but did not last long. Stanley Fischer was Pentti's thesis supervisor at the MIT. Stan told me about Pentti: "He came almost every day after 4 o'clock to talk. Pentti had an incredibly wide scope of interest. So it was very interesting. But finally in April, I told to him that it is nice to talk but not much has happened with your thesis. Only two months later he came back with a very good thesis."

That happened in about 1974. The story describes well Stan's general approach to leadership: he is one of the friendliest and warmest people, but also firm when needed.

Third, he also made great recruitments. At the MIT, Stan was the one who recruited Bengt Holmstrom, the recent Nobel laureate and a University of Helsinki alumnus, from Yale to the faculty of his department. Bengt has told me that the presence of Stan at the department was an important attraction for him, so he was actually quite disappointed when Stan was soon asked move to the IMF.

Stan's move to the IMF in 1994 occurred on the eve of very momentous events. Together with managing director Michel Camdessus, they navigated the Fund, and the global economy,

through the turbulence of the 1990's, which included the Asian and Russian crises, for example. They also witnessed the formation of the euro area. We all know that Stan, as the first deputy managing director at the IMF, was much respected and admired in the Fund, by the staff and by the executive directors.

Stan is one of the fathers of New Keynesian economics, which is now the dominant and evolving approach in leading economics departments and policy institutions. His choice of approach has been motivated by the desire to combine theoretical rigor with applicability to real-world problems of real-world people.

When I was appointed Governor of the Bank of Finland, before starting my term I naturally asked for some briefings about what was going on in the world of central banks. Our head of research told me, before you read anything else, start with this. And he gave me a copy of Stan's essay written for the Bank of England tercentenary conference of 1994, titled "Modern central banking". Indeed, it is all there: price stability, independence, accountability and transparency. That gave me a good start, for which I am grateful.

Finally, I come to the fourth connection between Stan and Finland. As Governor of the Bank of Finland, I have had the privilege of meeting Stan often and in different places: in the U.S., at the BIS meetings, in Israel, and elsewhere. We were particularly honoured when Stan, then Governor of the Bank of Israel, took the time to participate in the Bank of Finland's 200th anniversary conference in Helsinki in 2011.

In the remarks he gave in that conference, Stan asked whether a more developed financial system is associated with higher growth rates. He expressed some skepticism on the issue. In his early research, Stan had found a negative correlation between financial liberalization and economic growth. For example, Japan growing much faster than the U.S. and the U.K. Stan's question, does tighter financial regulation necessarily come with a cost in terms of growth, is just as timely now as then.

I visited the Bank of Israel twice while Stanley was the Governor there. During my first visit, Stan organized a seminar where I gave a talk about the ECB and the Eurosystem. I told the audience that it was my first visit to Israel, but I had had a particular opportunity to learn about the country and the culture. During my high school years, I had been an exchange student in Yeshivah of Flatbush in Brooklyn, New York. Then a tall man in the audience stood up and asked: "Do you remember me, I was the captain of the basketball team?" Of course: he was Ed Offenbach, now a senior economist at the Bank of Israel.

Stanley Fischer has left a deep impact on me and others by his intellectual and moral integrity. We feel having been in a particularly privileged position to have worked with him.

My wife Assi and I have also enjoyed our many encounters with Rhoda and Stanley Fischer during our many years in the central banking community. They stay in our memory.

Thank you.