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# Fed's Fisher talks about the economy, Fed stimulus and the need for monetary policy limits

**By Brendan Case** **19 January 2011**

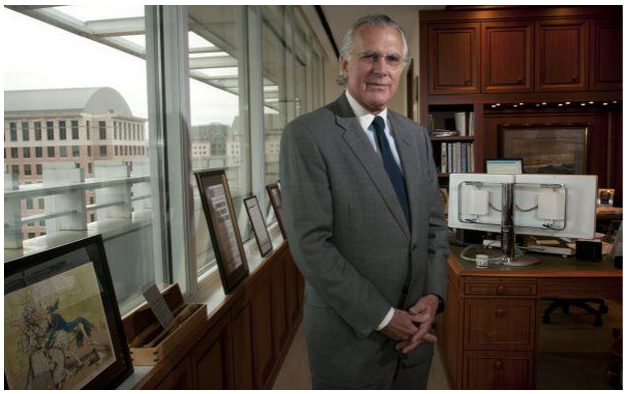

Photo: Rex C. Curry/Special Contributor

In November, the Federal Reserve launched a $600 billion program to buy up longer-term U.S. Treasury debt, describing the plan as a way to promote a stronger pace of economic recovery.

Dallas Fed President Richard Fisher — a member of the Fed committee that formulates monetary policy — publicly opposed the plan and says he would have voted against it "had I had the vote."

Now Fisher has a vote. He's set to become a voting member of the Federal Open Market Committee at its meetings on Jan. 25 and 26. But he isn't entirely showing his hand. He says he's focused not just on what the Fed can do — but also on what it can't.

"What's going through my mind is, 'What are the limits to monetary policy?'" Fisher said in an interview last week. "We've done about as much as I think we can do, barring a reversal in the direction of the economy."

Over the last three years, the Fed, led by Chairman Ben Bernanke , has taken a series of extraordinary steps in response to the severe U.S. recession and its aftermath. In 2011, analysts say the challenge lies in gauging the strength of the recovery — and how much support the economy still needs.

"The real question is, 'Do you believe recovery is real and self-sustaining?'" said David Wyss, chief economist at Standard & Poor's in New York. "And therefore, could you start removing some of the stimulus that the Fed's been shoving into the system the last few years?"

The Fed's $600 billion bond-buying program, which is scheduled to last through June, was just the latest in a string of moves the central bank made in response to the bad economy. It bought up even more assets during the depths of the financial crisis, providing much-needed liquidity. It has kept short-term interest rates near zero since December 2008.

One question that's apt to emerge soon, Fisher said, is when and how the Fed should pull back.

"You don't want to do it too early, because you don't want to put a stick in the spokes of recovery," he said. "But you also don't want to do it too late, because then you get behind the curve and it's tougher to fight inflation if inflation starts to pick up."

Core inflation, which excludes food and energy costs, is currently very low. But it could rise as the economy recovers, analysts say.

**Committee of many**

Bernanke chairs the FOMC, and leads on decision-making. But he's far from alone.

Seven governors including the chairman sit on the FOMC (only six of the seven slots are currently filled).

In addition, all 12 regional Fed presidents are on the committee. All the governors vote at FOMC meetings, as does the president of the New York Fed. The other regional Fed presidents vote on a rotating basis.

Fisher, who last served as a voting member in 2008, is one of four regional Fed presidents who will take a turn voting this year. The others are Charles Evans of Chicago; Narayana Kocherlakota of Minneapolis; and Charles Plosser of Philadelphia.

Evans has expressed support for the $600 billion bond-buying program. Kocherlakota has raised questions about it, but he said last week that he was "comfortable" with the Fed's current approach.

Plosser and Fisher are both seen as potential dissenters. Last week, Plosser said the Fed's easy money approach could backfire by stoking inflation. Fisher told *The News* that he expects the bond-buying program to run its course, adding that he "would be wary of further accommodation."

But dissent is not the goal, said Fisher, who dissented four times in 2008.

"I'm not itching to dissent," he said.

Meanwhile, the Fed may be under increased pressure from Congress. U.S. Rep. Ron Paul, R-Lake Jackson, who wrote a book called *End the Fed* , now chairs a subcommittee of the House Financial Services Committee, overseeing the Fed.

“He’s going to be quizzing Bernanke, and people are going to be paying more attention to it than they normally would,” said Robert McTeer, a former Dallas Fed president who’s now a fellow at the National Center for Policy Analysis, a Dallas think tank. “They’re going to enjoy it as a spectator sport, like bullfighting or dogfighting.”

Fisher, referring to Paul, said, “I obviously don’t accept his premise of ending the Fed.” He also sounded a diplomatic note.

“He is an elected member of Congress,” he said. “He has the right to question us. We need to deliver responsible answers.”

**Focus on jobs**

Fisher is known as one of the Fed’s leading inflation hawks. Since the middle of last year, however, he has given a series of speeches focusing on jobs.

He recently described his thinking over a chopped beef sandwich and fried zucchini at a barbecue joint across the street from the Dallas Fed, and later in his office.

“You have to remember how I grew up,” he said. “I had a dad who sometimes just couldn’t keep a job. He got laid off. It’s awful.”

The Fed has slashed borrowing costs, made liquidity available and brought the economy back from the brink, Fisher said. But job creation has remained weak, and the U.S. unemployment rate remains painfully high.

One problem is that many businesspeople don’t want to expand payrolls until they’re sure the recovery is strong and sustainable.

“The best businesspeople I know don’t think of humans as expendable, and many of them found the process of shedding workers over the last few years to be anguishing,” he said. “They don’t want to go through that again. So they’re going to hire deliberately.”

Another looming challenge is the U.S. government’s long-term projected deficits and growing debt, he said.

Finally, he argued, Congress and the Obama administration need to do more to make fiscal and regulatory policy more amenable to job creation. Asked for additional details, he declined, saying those policies aren’t the Fed’s business.

But he did cite business-friendly policies as one ingredient in Texas’ relative economic strength compared to many other states.

“It’s not my role to prescribe the specifics,” he said. “The only things I would suggest is that they do it in a way that incents businesses to grow and hire Americans. People that have the means to make investments are going to search for the best return.”