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Now Playing at a Theater of the Absurd Near You

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Compared with the narrow range of macroeconomic outcomes in advanced economies, the scope of political possibilities over the past few years has been Cinemascopic. Movies provide the right metaphors. My deeply held suspicion is that sixty years ago, a teenage Donald Trump stowed away in the back seat of Doc Brown's DeLorean from *Back to the Future* fame. The refugee from another era nabbed the 2030 version of *The Almanac of Politics*. Scanning the pages back home, the young man with a mission learned that a splintered Republican party could not settle soon enough on a plausible candidate in 2016 to defeat the disliked Democratic standard-bearer. Young Donald realized he could do better. The Almanac also listed New York City mayors and borough chiefs for the next half-century, providing a decided edge for the budding builder in the endemic political dealing of that city's real estate industry. The rest is history.

The more recent suspicion is that Doc Brown's back seat is more capacious than it looks from the outside and the car travels both directions along the arrow of time. In particular, many trips have been made back and forth to the late 1960s with the heads of major economies in tow. How else can we explain job selections in the European Union (EU) and the US and the drift everywhere else?

In Europe, sovereign leaders opted for a backroom solution to populate senior positions, balancing geography, gender and party affiliation. From a US context, it smells of Richard Nixon and Nelson Rockefeller apportioning which presidential election they would contest (1964 and 1968, respectively), and Democratic bosses handing Hubert Humphrey the pole position in 1968. As for the former, the 1964 deal ignited the Goldwater insurgency, and for the latter, there were riots in the streets of Chicago.

EU leaders ground each other down in extended negotiations, with tit-for-tat elimination rounds of each other's lead candidates. Their picks further down the list produced some surprises. In order:

- Ursula von der Leyen, defense minister of Germany, will be president of the EU.
- Christine Lagarde, managing director of the International Monetary Fund (IMF), will succeed Mario Draghi as president of the European Central Bank (ECB).
- Charles Michel, prime minister of Belgium, will become president of the European Commission.

Some passed-over candidates will be offered second-tier jobs, but none of this likely satisfies anyone. Indeed, Angela Merkel abstained from her own deal because of objections from coalition partners back home. Confirmation awaits, normally a formality, but this time will be somewhat more challenging given the mixed German views of Ms. von der Leyen and EU parliamentarians' objections about being shunted aside.

Ms. Lagarde is picked from the same part of the candidate pool as Federal Reserve (Fed) Chair Powell. Both are lawyers by training with substantive finance ministry experience. Mr. Powell, at least, had five years of exposure to monetary policy as a Fed governor. As managing director of the IMF, Ms. Lagarde had less exposure. Policy direction was set at the staff level, and she was a "rain maker," pitching those views among officialdom in the many forums that major leaders hold and she participated (by tradition) as a head of state. Thus, there is no point combing through her speeches to discern the future direction of the ECB. Rather, those remarks represent the current conventional wisdom as drafted by IMF staff. I think she will view herself as the chief executive officer of the ECB, seeking consensus support among the governing council for staff views and serving as the institution's public face. (In that regard, listen if she mentions her stint on the French Olympic team for synchronized swimming.)

I had not thought an outcome possible where Mario Draghi's successor was at least as equally dovish. EU leaders succeeded because Ms. Lagarde's elevation puts the chief economist, Phil Lane, (normally an influential role to begin with) in position to define the thrust of policy. Mr. Lane's inclination is Draghi dovish, but whether he can put it in motion depends on his skill as a bureaucrat and his ability to make his boss feel not threatened. That said, the safety net of a skilled staff is limited, in that the ECB president does a monthly high-wire act with the global financial media during press conferences following meetings. As with the Powell precedent, the results do not always reassure financial market participants.

As for the other two president picks, European leaders chose polar extremes in their view on the United Kingdom's exit from the EU. Ms. von der Leyen is firmly in the Merkel fold of a slow process and welcoming support. Mr. Michel, in French President Macron's camp, evinces more impatience, arguing that closure is critical, with or without a deal. It will be of interest to learn who Boris Johnson visits first once he assumes his role as British prime minister.

The next battle will be about who replaces the exiting Ms. Lagarde at the IMF. Around the time of her selection for that post, there was a sense that the European lock on that position was giving way (perhaps in favor of someone from an emerging market economy with the Chinese throwing around its weight). The backroom deal making in the latest policy choices on the other side of the Atlantic suggests that the European grasp on power is tenacious, especially as emerging market officials typically fight about personnel as much on their side of the table as across it. In any event, the choice is constrained by having to clear the hurdle of the largest shareholder in the IMF, the US.

Leaders of advanced economies are not alone in their inconsistency. The president of Turkey fired the governor of the central bank, obviously not following the rule of law. The governor, who served three years and was widely viewed as the lackey of President Erdogan's son-in-law, the finance minister, did not cut rates fast enough to satisfy a low rate kind of leader (sound familiar?) and an even more accommodating lackey slid into the position.

Financial markets took it as good news that a conservative government took the helm in Greece. Their platform channels the early 1980s in the US about cutting taxes and reducing waste, fraud and abuse. (Another DeLorean ride?) Business friendly is for the good, but budget busting is not. The consolation about Greece for some time had been that parliamentary gridlock prevented outsized political outcomes. The parliament is no longer gridlocked.

In Latin America, recently elected leaders are choosing from both ends of the political menu. Brazilian President Bolsonaro has a poorly hidden attraction to autocrats (sound familiar?) and Mexican President Lopez Amador gave one son a middle name to honor Che Guevara.

In the United States, the 1960s throwback was the White House's nomination of Judy Shelton and Chris Waller to become governors of the Federal Reserve Board. The latter is easier to fathom. A respected monetary economist with roots in academia and the Federal Reserve System, Mr. Waller's principles presumably lean in the dovish direction of his principal, James Bullard. If confirmed by the Senate, and there is no reason to think not as long as he is willing to suffer the indignities of the modern Senate staff vetting process, his position on the Board will depend on his emotional intelligence and that of Vice Chair Rich Clarida. Refugees from Reserve Banks who come ashore to the Board often harbor the grievance that they are excluded from policy deliberations by Washington, DC, locals. This is understandable because they were, are, and will be by the Board-centric institution. If Mr. Waller gets over that and the chief economist at the top of the heap, Vice Chair Clarida, finds him a role, it could work. If there are failures on one or both ends, the result will be an embittered governor sniping from the sidelines. (Does anyone remember Wayne Angell?)

Judy Shelton will be a harder new member to bring under the Board big tent. The professional staff does not share her apparent intellectual framework, and extant policymakers likely do not appreciate her weather-vane swings in advice. The likely destination is the outskirts of officialdom. (Does anyone remember Martha Seger?)

Neither confirmation should be too disquieting to the status quo and only add noise to an already noisy process. After all, it is not like the status quo at the Fed appears firmly anchored. At the turn of the year, the charitable talk was that Chair Powell "pivoted" in his policy pronouncements. Seven months on, he seems to be following a "serpentine" path worthy of Alan Arkin and Peter Falk in the 1979 movie *The In-Laws*. Do not follow a straight line on the far that, well, it might be predictable. Chair Powell, Vice Chairs Clarida and Quarles, and Federal Reserve Bank of New York Williams are wending a serpentine path through the financial landscape. When their models, Messrs. Arkin and Falk, were doing it, they were avoiding the thugs of a Central American dictator. When the Fed quartet bobs and weaves, it is to avoid the criticism of investors and politicians, but still in the ineluctable direction of easier policy. Presumably, the Fed does not want to get out of sync with its peers, even if the US economy is out of sync with the rest of the world.

This is so 1960s. That was the last time the unemployment rate was as low, the federal budget deficit as gaping, and monetary policy as accommodative as now. A note to Presidents Macron and Trump and Chancellor Markel: the 1960s were followed by the 1970s, a lost decade of high inflation, low economic growth and widespread societal dislocations. All this is threatening to our foreign-exchange-rate call of US dollar depreciation. The dollar has to depreciate against something, and a more dovish ECB that communicates more tentatively may not offer confidence in that alternative. Meanwhile, if major emerging market economies also slide back to the future, the safe haven of the US dollar will still seem safe.

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Vincent is Mellon's Chief Economist and Macro Strategist. In this role, he is responsible for developing views on the global economy and making relative value recommendations across global bond markets, currencies and sectors.

Previously, Vincent served as the Chief US Economist and a managing director at Morgan Stanley. For the prior four years, he was a resident scholar at the American Enterprise Institute (AEI). Vincent also worked in several roles at the Federal Reserve over 24 years, including Director of the Division of Monetary Affairs and Secretary and Economist of the Federal Open Market Committee (FOMC). His responsibilities at the Federal Reserve included directing research and analysis of monetary policy strategies and the conduct of policy through open market operations, discount window lending and reserve requirements. Prior to these roles, he was the principal liaison with the domestic desk at the Federal Reserve Bank of New York and was responsible for preparing a document outlining policy alternatives for each FOMC meeting. He was Deputy Director in the Division of International Finance and Associate Economist of the FOMC and spent five years at the Federal Reserve Bank of New York in both the domestic and international research departments.

His academic publications primarily concern the conduct of policy and issues related to the monetary transmission mechanism as well as an analysis of alternative auction techniques and Treasury debt management. After an undergraduate training at Fordham University, he received graduate degrees in economics at Columbia University.