Dr. Robert Barbera - Biography

Executive Vice President and Chief Economist at Hoenig & Co. Responsible for Hoenig's global economic and financial market forecasts. Dr. Barbera has spent the last 17 years as a Wall street economist, earning a wide institutional following and consistently ranking highly in the Institutional Investor poll. Dr. Barbera was Chief Economist and Director of Economic Research at Lehman Brothors, and prior to that was Chief Economist at E.F. Hutton. Before arriving on Wall Street, Dr. Barbera served as a staff economist for U.S. Senator Paul Tsongas and as an economist for the Congressional Budget Office. Dr. Barbera also lectured at M.I.T. From mid 1994 through mid 1996, he was Co-Chairman of Capital Investment International, a New York based research boutique. He earned both his B.A. and Ph.D. from Johns Hopkins University.

Dr. Robert J. Barbtra

PROFESSIONAL HISTORY

9/96-Present	Executive Vice President and Chief Economist, Hoenig and Company. Responsible for Hocnig's global and financial market forecasts. Economic advisor to 50 institutional investors.
12/94-8/96	Co-Chairman and Economist, Capital investments International. One of three founding members of CII, a research boutique providing **economic, strategy** and stock specific analyses to institutional-investors.
11/87-5/94	**Chief** Economist and Director of Global Economic Research, Lehman Brothers (formerly, Shearson Lehman, Shearson Lehman Hutton). Responsible for Lehman's economic research product. Chief spokesperson on the global economy, interest rates, and currencies. Orchestrated Lehman's annual *economic* and strategy overview conferences in New York, London and Tokyo.
8/82- 11-87	Chief Economist, E.F. Hutton and Company Inc. Responsible for Hutton's economic research product. Chief spokesperson on the economy, interest rates and currencies.
8/81-8/82	Economist, U.S. Congressional Budget Office. Natural Resource Division.
8/80-8/81	Legislative Assistant for Economics, Office of U.S. Senator Paul E. Tsongas. Assisted the Senator on Banking Committee hearings and legislation.
8/79-8/80	U.S. Congressional Science Fellow. Stewardship for one year in the office of Senator Paul E. Tsongas.
8/77-8/79	Lecturer, The Massachusetts Institute of Technology. Taught public expenditure theory to Operations Research students. Research Associate, the Energy Lab at M.I.T.

EDUCATION

May 1978	Ph.D., The Johns Hopkins University
May 1974	B.A., The Johns Hopkins University

AWARDS

1985-1993	Named as one of the top Wall Street economists in the Institutional Investors annual poll of Investment managers.
1979-1980	U.S. Congressional Science Fellowship.
1974	All-American Defenseman on the Johns Hopkins University 74 National Lacrosse Champion Team.

PERSONAL Married to Avis Barbera. Three boys, Michael, Gianni, Nicholas.

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December 10, 1999

The U.S. Trade Deficit As A Badge Of Honor

The U.S. Fed and the U.S. consumer deserve medals for their performance over the 1998-1999 period. Asia's collapse could well have triggered a global deflationary bust, but for the timely and aggressive case of the U.S. Fed last year, and unrelenting spending of U.S. households both this year and last. One way to frame the past two years is to view both the Fed's actions and the actions of U.S. consumers as enlightened surrender of a *Goldilocks growth* rate for the U.S. economy in order to preserve a *Goldilocks* growth rate for the globe. The spectacular surge in the U.S. trade deficit, registered over the past two years, in this light, can be viewed as the price the U.S. paid for taking responsibility for the global economy.

Going forward, the newly emerging reality of rest-of-world recovery ends the need for booming U.S. spending. Moreover, the U.S. would be wise to steer a course aimed at slowing U.S. deficit growth, given the large and rapidly growing U.S. need for foreign capital inflows to finance this imbalance. This year's Fed tightening, which is likely to continue next year, in concert with higher import prices and consequent slower real wage gains, all point to a slower trajectory for U.S. spending next year. A substantially slower U.S. spending trajectory will stem the growth in the U.S. deficit in year 2000. With intelligent Fed policy and a bit of luck the U.S. can slow its spending pace, stabilize its external imbalance and return to a Goldilocks real economy backdrop.

Crisis Abroad, Not U.S. Competitiveness, Drove The U.S. Deficit Higher

Over the early and middle years of this expansion the U.S. external deficit was relatively stable, and at 1% of GDP, relatively harmless from a macro-economic standpoint. The macro U.S. backdrop was nearly ideal, with firm U.S. output growth, ample job growth and a falling rate of inflation. Morcova, U.S. industrial age corporations had regained reasonably competitive global positions and U.S. technology companies emerged as the world's preeminent players. Thus despite a small external imbalance, on most fronts it was clear that the aggressive U.S. commitment to trade liberalization was justified.

Over the past two years, howcvcr, a benign U.S. trade deficit has been replaced by a large and rapidly growing external imbalance. As of the third quarter of this year the net export imbalance stood at 3% of GDP, and in real terms the net exports deficit was 3.8% of GDP, eclipsing the 3% mid- 1980s record by a wide margin.

What happened? Quite straightforwardly crisis abroad generated a number of violent economic waves which worked together to drive U.S. deficits into record-breaking territory. To no one's surprise, U.S. exports to collapsing emerging Asian economies fell precipitously in late 1997 end throughout 1998. U.S. export growth, in aggregate, slowed sharply in real terms, with 1998 registering a meager 2% year-on-year advance.

The surprise, however, came on the import side of the ltdgcr. Collapsing Asian economies lost access to global capital inflows. Capital raced back to the U.S. and this drove U.S. long-term interest rates sharply lower. Fed policymakers, in *reaction* to rest-of-world duress eased three times, contributing to the overall fall for U.S. interest rates (see appendix). Asia's depression drove demand for energy sharply lower, which led to a halving of oil prices. Lastly Asia's desperate need for foreign exchange, and their collapsed currencies combined to push the dollar prices of Asian manufactured goods down by a whopping 16%. For U.S. households this amounted to a spectacular bonanza Fixed rate mortgagee fell to levels not seen in decades, generating a violent U.S. housing boom. Falling energy and other import prices slashed overall price pressures. In 1998 the CPI rose by a scant 1.6%. With wages climbing by 4%. U.S. wage earners garnered their highest real wage gain in over 30 years. Hefty real wage gains and a housing boom generated a surge in U.S. consumer spending. U.S. consumers, at all times, spend substantial sums on imported goods. Thus, quite predictably the strength in spending stimulated the growth of U.S. imports. Despite worldwide shrinkage of trade volumes, U.S. import volumes, in 1998, grew by 11%. With real exports stagnant, reflecting rest-of-world retrenchment, continued strength for import growth led to a surge for the U.S. external imbalance.

It bears repeating that the U.S. domestic demand boom allowed global purveyors of goods and services to weather the collapse of Asian demand. The U.S. lending and spending rescue succeeded. Pan Asian recovery is now in full view, Latin American recessions are receding, and the globe, year 2000, is likely to register its strongest expansion performance since 1996. Two cheers for U.S. lenders and spenders of last resort.

The problem the U.S. faces, as we contemplate the U.S. trade deficit in the year 2000 and beyond, comes down to the challenge of engineering a return to a Goldilocks U.S. real economy growth rate. Simply put, rest-of-world recovery leaves little room for an extension of the 1998- 1999 U.S. domestic spending boom. The largo and rapidly growing U.S. current account imbalance, in this context, is the simplest measure that speaks to the long run unsustainable trajectory of the U.S. economy in recent quarters. A downshift for U.S. domestic spending is necessary, in the near term, to both contain the growth of the U.S. international deficit and to return the U.S. to long run sustainable Goldilocks growth backdrop.

Coming to terms with today's outsized U.S. external imbalance, using this framework, requires one to think about macro-economic dynamics. Again this reflects the fact that the spectacular swelling of the external deficit, 1998-1999. was almost exclusively a consequence of U.S. boom and rest-of-world bust. A desire to shrink the U.S. imbalance, therefore, would require that U.S. policymakers lobby for faster spending abroad aud acquiesce to additional Fed tightening at home.

Why Not Export Away The U.S. External Imbalance?

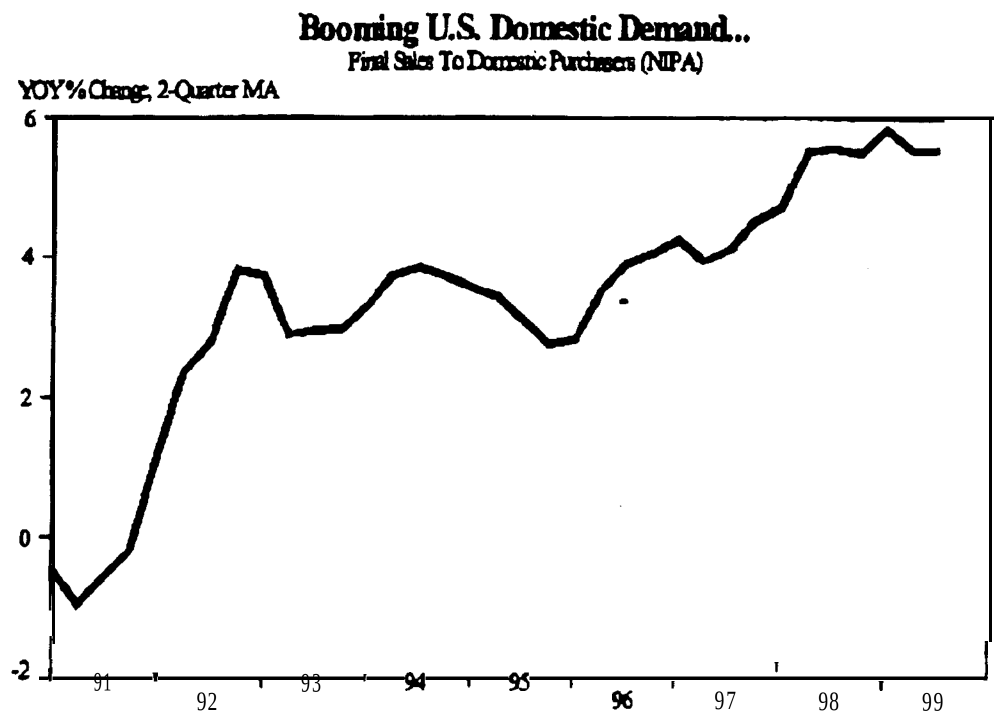
If collapsing exports to Asia played an important role in the creation of today's large deficit, can a case be made that the U.S. can export its way back to a benign external position? In a word, No. If U.S. spending continues to grow at 5% per year, pressures on an already super-tight labor market will continue. An acceleration for export growth, superimposed upon booming domestic spending, would simply push U.S. output growth into boom territory. Faster growth for the U.S. economy, starting from a 4.1%

unemployment rate, is destined to produce wage and/or price pressures in a very short period. Thus to lower the trajectory for U.S. external deficits, U.S. domestic spending must slow over the years immediately ahead.

Does The Allure Of U.S. Asset Markets Permit An Extended Period Of Large And Growing Trade Deficits

Over the past two years, the U.S. external imbalance has nearly doubled as a share of GDP and, at 3% of GDP, equals its record level set in the mid-1980s. Nonetheless, increasingly enthusiastic investors in dollar assets, both U.S. and foreign, have kept demand for dollar denominated assets strung enough to propel quity share prices higher and to limit the downside for bond prices. On the face of it, to date, the U.S. has had nearly no problem financing its external liabilities. The temptation is to assert that the current backdrop is long run sustainable. This logic, however, crumbles, when one focuses on the recent growth of the U.S. external imbalance. If we project an extended period of booming U.S. domestic spending, we implicitly must forecast an external imbalance whose size grows by one percent of GDP per year. Three more years like the last two would put the U.S. external deficit at 6% of GDP-almost twice! its previous record. Absent another three years of 30% per year gains for the U.S. equity market, how can WC expect foreign investors to finance such spending without demanding substantially higher rates of interest?

On balance, therefore, the Federal Reserve Board's pursuit of a slower trajectory for top line spending for the U.S. economy, makes good sense when viewed within the context of the U.S. external position. The Fed's direct focus is tight labor markets. Its desire to downshift domestic spending, however, can work to moderate growth in the U.S. external imbalance over the next two years.


Booming U.S. Domestic Demand...
Final Sales To Domestic Purchasers (NIPA)
YOY% Change, 2-Quarter MA
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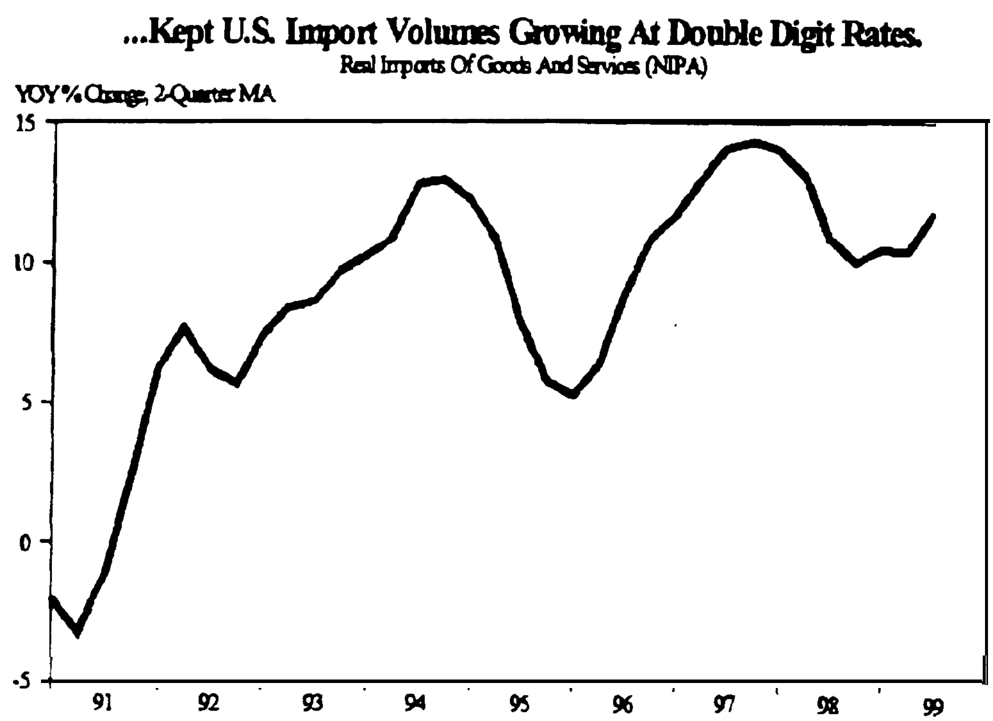
...Kept U.S. Import Volumes Growing At Double Digit Rates.
Real Imports Of Goods And Services (NIPA)
YOY% Change, 2-Quarter MA
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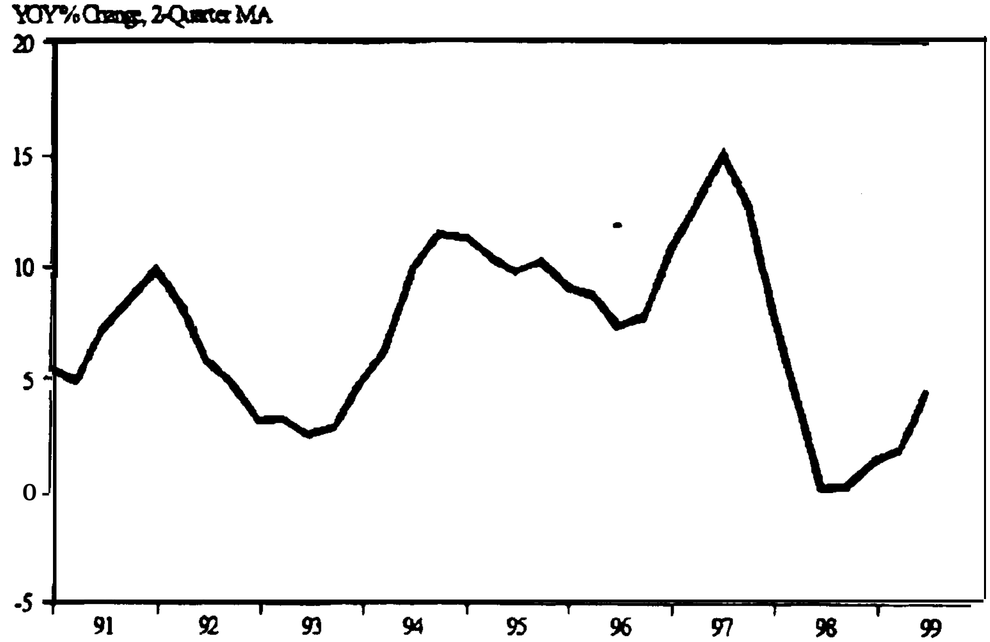
The Collapse In Asia Slowed U.S. Export Volumes To A Crawl.

Real Exports Of Goods And Services (NIPA)



The U.S. Real Net Export Shortfall As A Share Of GDP, Over The Past Two Years, Has Been Growing By A Percentage Point Per Year.

Yearly Growth Of Real Net Exports As A Share Of Real GDP

APPENDIX

***This article appeared in the September 7th, 1998 issue of* Barron's.**

Pity Alan **Greenspan.** Just one **year** ago, he **adorned** the cover of ***Business Week, anointed as* the premier** architect and champion of a ***brave new world vision. Savvy* corporate *managers,*** exploiting new **information** technologies and untapped emerging economies **were** set to deliver an **inflation-free, earnings-rich** supercycle of economic boom. Today, the tragic ***irony*** is **that Greenspan** has had to stand idly by **as** much of the developing world crumbles. ***The*** Fed chairman controls the **printing** press that delivers U.S. **dollars** to the world. His charge as head of the Fed, **however,** tics his decisions to the American economy. Emerging nations, caught in a downward spiral and saddled with dollar- denominated **debt,** confront a parochial, and therefore unyielding, Fed. Malaysia's move to imposo capital controls **stands as** evidence that tho dovcloping world is ready to quit **the** game. Quite straightforwardly, **Greenspan's** brave **new framework** is **coming** apart because the world lacks a global **lender** of last resort.

"We have the right **stuff** — the technology, the money, and the business know-how — for creating wealth and lifting living standards in your country. Welcome **us** in, play by **our rules, and you'll profit With us."** **This,** in effect, **was** the offer the U.S., Europa, and Japan made to the emerging world, on **the heels** of communism's collapse. In Asia and Latin America and among former communist bloc nations, **the** offer was resoundingly accepted.

In the developed world, communism's collapse led to ***the*** **firing** of **country-risk** analysts. **Investments** in **the** developing world were judged on their micro-merits. **When** you eliminate worries about **government** stability and focus on **$10-a-month** labor, most projects are approved. Enthusiastic borrowers and lenders generated an **enormous** north/south flow over the first half of the **1990s.**

Institute for International Finance **reports** show net inflows **from developed** to developing economic6 growing at unprecedented rates. The $300 billion inflow in 1996 was **fifteen *times the size*** of the previous cycle's peak, ***reached* in *1989. The*** boom in **finance** far emerging nations engendered a **real** economic boom for them **as well.**

Eighteen months ago, it was reasonable to label **entrepreneurial** capitalists a6 agents of change **for** the better in the **developing** world. **Success,** however, **led** to excess. Crony capitalism, empty office buildings, golf **courses** a thousand **miles** from nowhere. **Late-in-the-game** project6 **were** being approved that benefited a handful of individual6 and had little economic justification. **When** tho **excesses began** to appear, investors started backing out. As disappointments multiplied, **they** sold indiscriminately. In the past six montbs, **in** fact, capital flight **from** emerging nations has produced a self-fulfilling prophecy, as the resultant surge in interest rates in developing nations **all** but dooms them to sharp deterioration in **their economic** fundamentals.

Remember the junk-bond collapse in 1990? It began when a substantial number of leveraged-buyout credits collapsed under the weight of deteriorating fundamentals and extreme interest burdens. As the selling momentum built, however, all junk credits came under pressure. Panic selling drove borrowing costs for all high-yield credits to pernicious levels. In the end, selling on the speculation that all junk credits would disappoint became a self-fulfilling prediction. Unbearable interest rates led to changes for the worse in the fundamentals of all junk credits.

In the U.S., in late 1990, as the debacle was in full force, most every junk credit was labeled hopeless; Citibank was trading at $10 a share. But the American economy didn't collapse; the federal funds rate did. Au engineered decline of this risk-free rate, to 3% from 8%, prevented a debt-deflation depression. By collapsing the risk-free rate, the Fed forced money back out along the risk curve. Excessive junk investments failed. Many S&Ls were closed_ But the majority of high-yield investments avoided bankruptcy, the financial system endured and recession, not debt-deflation depression, was the price paid in the real economy.

Today, in the developing world, the same sort of brutal cleansing of excesses is going on. As an unavoidable by-product of entrepreneurial capitalism, this is to the good. But the violent loss of appetite for risk among developed-economy investors in the developing world has created a downward spiral for these economies that only a radical reduction in the risk-free borrowing rate can change.

And since these developing economies have dollar-denominated debt burdens, they need tbe risk-free rate on dollar assets — the fed funds rata — to collapse. Again, however, Fed decisions pivot on domestic considerations. And in the U.S., despite the free fall in the developing world, creeping wage pressures, a super-tight labor market and, through midyear, an irrepressible stock market, have conspired to keep the Fed on hold.

Quite perversely, panic in the developing world during the first half of 1998 energized much of America's economy and helped to catapult the U.S. stock market to breathtaking heights. Fed policy kept short rates high, but violent capital inflows pushed down long rates dramatically, engendering a boom for housing not seen since the early 'Eighties. Laid alongside hourly earnings gains of 4%, the collapse of gasoline prices and the sharp fall in the cost of goods made in Asia translated to a whopping 3% gain for real wages in the first half — the biggeat jump seen since the mid-1960s. Safe-haven buying in the U.S. also contributed to the fantastic run up for equity market averages in 1998's initial six months.

Amazingly, despite an obvious break in profit growth, a handful of U.S. stocks drove the Dow and S&P to meaningful new highs. With housing booming, real wages soaring, and Wall Street setting records, small wonder that real consumer spending in the U.S. grew faster in the first half than it had at any other time in the 1990s expansion.

For the Fed, all this had, until last week, conspired to squelch any talk of ease. The August employment report tells a real-economy story of more of the same. U.S. financial markets, however, now are loudly telling a different story. The spectacular inversion of the yield curve, the skyrocketing widening of government/corporate bond spreads, and, of course, the break in the U.S. equity market all strongly suggest a turn for the worse in the American economy.

Nonetheless, historically, financial-market signals of impending changes in the real economic fundamentals haven't triggered policy changes at the Fed. Only when the data break does the Fed reverse course. Thus, U.S. economists, tied to data flow, protest the notion of any imminent easing by the Fed.

Where does that leave the developing world7 One step from quitting the game. Celebrated economist Paul Krugman broke ranks with most of his profession a few weeks ago by putting his imprimatur on capital controls. And last week, Malaysia put them into place. Capital controls, quite straightforwardly, allow an emerging nation to engineer its own interest-rate relief, without suffering from capital flight. How? By refusing to let foreign investors take their money out. One can argue, on moral grounds, that capital controls are the developing world's way of saying, "Hey, we're in this together!"

What about the downside of freezing flows? As Krugman wryly noted in his defense of this strategy: "After Mexico imposed exchange controls during the 1982 debt crisis, it went through five years of stagnation — a dismal result, but when your GDP has contracted by 5%, 10%, or 20%, stagnation looks like a big improvement."

But the downside to capital controls goes much deeper. Entrepreneurial capitalism did, until some eighteen months ago, dtlivn on its promise of rapid economic growth in the developing world. Moreover, it was the instrument that exported American values around the world.

However, investors from America and other developed countries are unlikely to return to emerging economies for a long time if governments freeze their funds over the next several quarters. In the intermediate term, much-reduced access to financing from the developed world radically reduces the developing world's upside. Put simply, a world stripped of globe-bopping entrepreneurs reverts to one in which official capital flows bear the burden of reducing north/south, rich/poor disparities. And that would be a pity. A central banker with a global vision simply wouldn't stand for it.

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