



Checks &



Dean Maki '87, chief U.S. economist at Barclays Capital in New York, spends his days analyzing and forecasting the U.S. economy and monetary and fiscal policy.

BY KIM ODE | PHOTOGRAPHED BY MICHAEL SOFRONSKI

Balances

“Feel free to stop me,” Dean Maki says. He was about to begin answering the first question that comes to mind when you get a moment with an economist who was named “the most accurate forecaster” for 2009 by *Bloomberg News*. Here is a person who has surpassed all others in their ability to prognosticate, or even guesstimate, during one of the more chaotic periods in the history of the U.S. economy.

Maki, a 1987 St. Olaf graduate, suspected that his answer might prove befuddling. He realizes that however many bread crumbs he might drop as navigational aids through the language of economists, they may as well be birdseed to those who give themselves high fives when their checkbooks balance.

Still, the question about his skills comes as much from awe as from curiosity: How do you *do* that?

“We use a mixture of econometric models as well as previous business cycles and look at how the economy has both gone into and come out of recession,” Maki says. As he elaborates, you really don’t think to stop him, because in the midst of talking about the wealth effect and quintiles and high-income spending events, he speaks in a way that enables you to grasp the concepts.

Maki, forty-four, is explaining a recent economic situation that, for many Americans, has seemed inexplicable, or perhaps just depressing. But he says that we’re moving toward the proverbial light at the end of the tunnel. It may be little more than a soft glow so far, but it sure beats clacking along in the dull darkness of recession.

“We do think that the recession is over,” says Maki, who is the chief U.S. economist at Barclay’s Capital in New York City. “It ended last summer and the economy is growing.

“What’s debatable is whether the economy is acting as it has coming out of previous recessions. The consensus view was that this time was different from all other previous cycles and the standard dynamics wouldn’t work.

“Our view was that the standard dynamics *would* work, and so far that has proven true. Deep recessions have been followed by pretty strong recoveries, so we’re expecting a pretty strong recovery.”

Growing up in Forest Lake, Minnesota, Maki hadn’t imagined life as a skilled practitioner of “the dismal science.” That’s the nickname bestowed on economics by Thomas Carlyle, a historian from the Victorian age, responding to an essay predicting that starvation would result as the population rose faster than the food supply.



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Maki was interested in business, “but I didn’t really know what that meant.” His father, Franklin, was a guidance counselor at the junior high school in town; his mother, Ellen, a homemaker. He enrolled at St. Olaf and was immediately intrigued by his first economics course.

“It was a way of understanding the world that I hadn’t thought of before, hadn’t encountered before,” he says. “The idea that you could put economics and unemployment into equations and describe them in that way was interesting to me, even exciting. It made sense out of the economy.”

Among those instructors whom Maki singled out as



especially influential are Professor Emeritus of Economics William Carlson, who retired in 2004 and who was Maki's advisor, and Theodore Vessey, professor emeritus of mathematics, statistics, and computer science, who retired in 2005.

"Vessey almost made me become a math major," Maki says. "He really made math come alive."

Maki believes it would be helpful for many high school students if they had more instruction in economic matters.

"Some of the research I've done shows that certainly exposure to personal finance courses when a person is young changed their behavior when they were adults in terms of savings rates, etc. A familiarity with

economics and finance would help most people."

Not surprisingly, his kids, Alina, 12, and Ari, 9, are getting an in-house education in economics. "They do get an allowance, so they know savings versus spending. I tend to talk to them when they're buying something [telling them] that someone is making their living by making that item, and you do pay a price for that."

Maki also tries to instill in them a sense of history that has, in certain quarters, seemed absent during the latest tumultuousness.

"My daughter was asking about whether we're going into another Great Depression, and we talked a lot about how hard policy makers are working to prevent a depression," he says. "That's what I want her to know, that there are people working hard to prevent that, and that we know more than we knew in the 1930s to prevent or recover from such a thing."

After graduating from St. Olaf, Maki went on to earn a Ph.D. from Stanford University and then studied in Finland on a Fulbright scholarship — an inspired destination, given his Finnish heritage. There, he studied Finnish-Soviet trade.

"It was a barter system and not the standard trade between countries," he says. The Finns traded industrial goods for Soviet oil, a system that eventually grew imbalanced and led to a recession in Finland. Returning to the United States, Maki worked as an investment banking analyst at Norwest in Minneapolis for about two years before getting a job as a senior economist at the Federal Reserve.

At the Fed, Maki's research focused on how consumer spending was linked to how households budgeted their money. He worked closely with Alan Greenspan, who in 1987 became chairman of the Federal Reserve.

"We looked at the relationship between household balance sheets and savings rates by income group — what we call quintiles," or five equal populations into which a statistical sample can be divided.

"We found that the large part of the wealth increase in the late '90s was in the top income quintile, the top 20 percent. But the entire decline in the savings rate was in the top quintile as well.

"There was a strong indication that the stock market's wealth effect was driving spending," Maki says. The wealth effect is when an increase in wealth directly causes households to increase their consumption and decrease their rate of saving. Maki explains that when the stock holdings among the wealthy increased in value, they spent more, which helped describe why consumer spending was so strong.

The late '90s, Maki says in a typically low-key statement of fact, "was a high-income spending event."

Maki's Minnesotan reserve suits the style of Barclays Capital, says Dean Kantor, Barclays's head of research. "Our clients value substance over flashy catchphrases, and Dean delivers that in spades," Kantor says. "What is particularly refreshing about Dean is that he always behaves with great humility. He has not allowed his success to go to his head."

Listening well and respectfully is another Maki hallmark. "Although his views are backed by detailed and careful analysis, he does not ram it down people's throats. This approach really impresses our clients, since much of the richness of Dean's analysis comes out of his answers to clients' questions, rather than flaunting it all out front," Kantor says.

Consider Maki's take on how we regard debt. Consumers generally consider debt in a negative light, but Maki is more concerned with how the media follow suit. When the Fed looked at all references to consumer debt in *The New York Times* since 1950, it found that 80 percent of the references had a negative context.

"There's a strong presumption in much of the economic coverage that consumer debt is always a problem," Maki says. "But there is very little relationship between household debt levels and consumer spending."

Here's why that presumption doesn't hold water: Granted, he says, credit problems often are overwhelming among lower-income households, especially over the past two years. But consumer spending by those in the top quintile is responsible for half of the nation's spending and very rarely goes delinquent.

"So although debt levels remain quite high, you are seeing consumer spending bounce back," he says. "There's just not much of a relationship here. Income growth and the wealth effect drives consumer spending. Income rebounds as production rises, and wealth effects are becoming less negative."

Maki left the Fed to work at JP Morgan Chase, where he was vice president of economic research responsible for forecasts of Federal Reserve policy and treasury debt. In 2005, he joined Barclays Capital; last year, he was promoted to its chief U.S. economist.

“Dean’s experience and deep knowledge of the U.S. economy is valued by our clients worldwide,” Kantor said in making the announcement.

Perhaps one reason Maki can successfully explain the intricacies of econometrics stems from the liberal arts aspect of his education, especially all the writing he did.

“I write constantly in my current job, and having English, history, and liberal arts courses was invaluable.”

And then there was the hockey. Being a Minnesotan, and a Finnish Minnesotan, Maki says he spent many hours on local rinks and also played goalie while at St. Olaf.

“That certainly was useful in learning how to persevere through adversity, learning to set goals, learning not to be intimidated. That also was an important part of the St. Olaf experience.”

His hockey days are history. “As a goalie, it’s not as much fun to get shot at when you’re not in excellent hockey shape,” he says, laughing.

increasingly out of sync with their values.”

Another looming issue the impact of which extends far beyond a two-year horizon is the aging of the Baby Boom generation and its entry into the ranks of the retired. This transition has a number of aspects, but chief among them is that as baby boomers leave the workforce, the economy’s rate of growth will slow a bit, or at least grow less rapidly.

“The potential growth in the economy will be much slower than we’ve been used to,” he says, adding that the unemployment rate will drop “a lot faster than others expect.”

As more Americans draw on the government’s entitlement programs such as Medicare and Social Security, a “significant deficit” could emerge. The question, he says, is, “Will the public and politicians be willing to make the difficult choices to fund the entitlement programs?”

Difficult choices, of course, mean choices that “involve someone giving up something,” whether that’s raising the retirement age, raising taxes, or giving up some health benefits.

“An important question is whether our political system will be up to the task.”

Maki, who lives in Rye, New York, with his wife, Jody [Kamrowski], a 1989 St. Olaf grad, seems to approach life with an essential optimism.

“The economy will do fine if households decide what is best for their household, decide what to spend today versus what to save today.”

In his forecasting work, Maki views the world in two-year increments. “After that, the zone of uncertainty grows bigger.”

That’s one reason it’s difficult to predict much of what may follow the passage of the health care reform legislation, he says.

“I don’t think the health care bill is going to have a major impact on economic growth in the near term,” Maki notes, adding that the Congressional Budget Office says that the budget deficit will be reduced over ten years.

“The risk is that the major revenues increases are a number of years off,” he says. “Will some future Congress find it less desirable to put those revenue increases in place?”

Pressed for more specifics, Maki politely but firmly says that he cannot comment much further on personalities or policies, given his public profile. “It may be perceived not as me speaking, but as Barclays’s speaking,” he says.

Bottom line, as painful as this recession has been, it has served a purpose of slowing down some of the economy’s excesses. “Ideally, policy makers would be able to stop these excesses, but that’s not always possible,” he says. “An economy that never slows down could develop asset bubbles, in which prices for goods or stocks grow

“Most consumers are not as irrational as some media would suggest,” he says. “There’s uncertainty now, yes, but it’s interesting that corporations seemed to panic even more than households did. They pulled back on investment spending and employment.”

Kantor stresses the value of Maki’s ability and willingness to look at issues “with fresh eyes and in depth, rather than going with the easy, consensus view.”

Regarding consumer attitudes during the recent crisis, “Dean found that the popular media characterizations — that consumers were using their home equity like a piggybank or an ATM — were simply not true,” Kantor says.

In Maki’s considered opinion, the foundations of the nation’s economy may be found around its kitchen tables.

Going forward, he says, it’s not so important for Congress, or the administration, or the Fed, or anyone to decide what the proper level for the saving rate should be. “The economy will do fine if households decide what is best for their household, decide what to spend today versus what to save today.”

The most accurate forecaster has spoken. 🦁

KIM ODE is a longtime staff writer for the *Minneapolis Star Tribune* and a frequent contributor to *St. Olaf Magazine*.



In an interview with Bloomberg Television earlier this year, Dean Maki said: "The overall picture for 2010 will be an economy growing rapidly enough to bring down the unemployment rate to an average of 9.6 percent. The rate will reach about 9 percent by the end of 2010."