The multiple hats of a Global Business Economist

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Abstract

A Global Business Economist should look at the world as it is, not as it ought to be. We need to be mind-readers, anticipating questions to come and pre-emptively searching for answers. Global interactions are making economic analysis increasingly complex. We must incorporate these linkages into the analysis, enriching the models and the story with global flavour and supplementing both with on-the-field expert assessment. Our most valuable asset is our independence and credibility, so we must tell it just how it is. Finally, communication is key. It is paramount to make the story and our deliberations easy to understand, regardless of the complexity of the analysis.

Keywords Global Business Economist · Globalization · Forecasts · Economic models

It is a pleasure to be with all of you, even if it is only virtually on my part. I wish I could be there but, you know the saying: “Man proposes, God disposes.” Or in this case the US immigration authorities.

When thinking of what to give my remarks on, the obvious first thought was to speak on what we are all thinking about: the world post-COVID. However, there is little I could add to the great line-up assembled in this conference. Hence, I have opted to share my views on the role of a Global Business Economist in these tumultuous times. I would like to focus on the double dimension of being a Global Business Economist: global economist and business economist.

The world economy has experienced two black swans in little over a decade. Black swans that were only supposed to occur once a generation. In truth, there are very few similarities between the two crises. The global financial crisis had economic underpinnings. As such, economists had a lot to say about its causes, its consequences, and the probable ramifications. The excesses in the residential sector were clearly anticipated. What was not, except for a very few economists, Bill White and Raghuram Rajan come to mind,

were the global interconnections of financial markets, the contagion and the meltdown that ensued.

The COVID-19 crisis was not caused by previous economic excesses. It was the measures taken to curtail the spread of the virus that led to the economic downturn. All economic policy could do was react to the evolution of the health indicators, trying to minimize the economic fallout from the restrictions enacted. The business economist’s job was first to speculate as to the depth and breadth of the recession (the alphabet soup: V, L, W, ...). Turning later on to the analysis of the impact of the aggressive policy initiatives put into effect on our businesses and the speed of the recovery, the metric being how quickly we would recover pre-COVID levels. Activity evolved better than anticipated, and now the focus has turned to the evaluation of what the “new normal” will be like. Or should I say the “new new normal”?, as the “new normal” was already coined for the “new economic reality” after the global financial crisis. And, as after the global financial crisis, the question is how new and how normal? If in the aftermath of the global financial crisis Central Bank heterodoxy became the norm, or as Constance put it last year in her presidential address (Hunter 2021), “Making the Quixotic Quotidian,” in the aftermath of the COVID crisis we may encounter a few long lasting, maybe structural, changes. For example: increased role of governments and greater toleration for fiscal deficits, a new work-from-home culture, increased protectionism, etc.

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1 The relevance of global analysis

1.1 The world is shrinking

In any case, these past crises have a clear common denominator: the global nature of the crisis. Obvious in the case of the global financial crisis, but not quite as obvious in the case of the pandemic. However, COVID-19 has shown us how interconnected the world really is. Closing borders did not, could not, prevent the spread of the virus. And despite little policy coordination, most countries followed similar approaches to combat the pandemic and implemented, to the extent that they could, similar policies. In spite of the protectionist rhetoric, the world is becoming increasingly global.

Back in 2010 Lynn Reaser, in her NABE presidential address (Reaser 2011), already brought up the fact that our analysis was, in her words, too “US-centric” and the need to pay more attention to the actions and interactions with the 20% that is moving to 40% or 50% of the world. And that was 10 years ago! The US share of global GDP, according to the OECD, has dropped from 25% in 2000 to 20% now, and it is expected to continue falling to around 15% by 2030. But not only that, the traditional large global economies of the “old” G7 are yielding their leadership positions to the likes of India, Indonesia, Brazil, Mexico, Nigeria ..., not to speak of China, the second largest economy already, and a global player today in its own right. These economies present a big challenge for business economists. They have higher growth rates but are much more volatile and unstable. Their economic models differ, to a smaller or larger extent, from the market economies of the West. In such a world, events outside our borders will have an incrementally larger impact on the US economy, in general, and even more dramatically so in each of our own specific sectors. As business economists we need to be attuned to these interactions and incorporate global dynamics in to our analysis.

1.2 There is more to globalization than goods

Recent trends would seem to suggest that there may be a retrenchment in the globalization process. Let me disagree, or at least let me qualify that statement. There may be a growing push towards re-nationalization of production, particularly manufacturing production, and the shortening of supply chains. The realization during the pandemic that 84% of paracetamol, the most widely used drug ingredient in America, came from China and India, with China accounting for two-thirds of it, and the recent supply shortages in semiconductors and other intermediate

components, seem to give validity to these initiatives to curtail global trade, as if relative self-sufficiency were the solution, or even possible. The highly interconnected nature of value chains limits the economic case for making large-scale changes to where their links are located. With thousands of companies involved, supply chains as they are offer specialization, economies of scale, and access to consumer markets around the world.

In any case, when we speak about globalization we seem to be only referring to trade. More specifically, to trade in goods. Even if there is some pullback in goods trade dynamics, the same is not the case for services. Service trade continues to thrive globally, in spite of the lapses caused by COVID. And on the wake of technological advancement, an increasing portion of the service sector, traditionally considered non-tradeable, could become tradeable.

But globalization goes well beyond trade. As a matter of fact, the deep global interdependence of financial markets was at the core of Great Recession. And this interconnectedness among financial markets globally seems to be advancing, not retreating. Also, in the last year and a half, the pandemic has led to the establishment of a growing culture of work from home. While some employers seem to be reticent about it, there is a growing demand from employees for this to continue. It is not clear whether work from home is here to stay indefinitely, will revert to the previous norm or whether we will settle somewhere in between. In any case, work from home could boost the globalization of the labor market, one of the traditionally more protected markets. So, not only is globalization not likely to be derailed, I would argue that it is a force that will continue evolving. Besides, globalization and technological advancement go hand in hand.

1.3 Learning from other's experiences

Regardless of globalization trends, being aware of what is going on globally and the interactions among economies allow us, business economists, to better understand shocks and to anticipate evolving dynamics. In the auto sector, for example, there are multilayered connections between U.S. and Mexican suppliers and assembly points. A car produced in the United States, for example, can have thousands of parts that come from different U.S. states and various Mexican locations. The place of final assembly may have little bearing on where its components are made.

Being aware of the political and economic outlook in Central America may give us some indications of migratory pressures. Similarly, recognizing the investment retrenchment in some countries and the global accumulation of consumer savings in the last year helps understand the strength of consumer demand today and the ensuing supply bottlenecks. Also, there are important lessons to be learned from past experiences in other areas. For example,

an understanding of “sudden stops” and contagion, prevalent in Latin American economies in the 1980s and 1990s, helps us understand other similar events, such as the Asian crisis of the late 90s or the Euro area crisis of 2010–2012 following the Great Financial crisis.

It is quite clear that global dynamics are increasingly important to understand our businesses and adopt the appropriate strategic decisions. This is the case not only for companies that operate internationally, but also for domestic businesses as we are all exposed directly or indirectly to global competition. Without a global view, we would be half-blind.

2 The challenges of a business economist

2.1 Being a mind-reader

Having a global perspective is a must for any business economist. In 2015, Lisa Emsbo-Mattingly, in her presidential address (Emsbo-Mattingly 2016), “The Business Economist’s Toolbox,” spoke of the aspects that defined a business economist. She identified a business economist as “anyone who is interested in looking at empirical information and trying to understand how the world works.” Let me relate to you how I see the job of a global business (industry) economist:

I tend to differentiate between economists that take the world as it is and those who look at how it ought to be. As an academic economist the first thing in my mind would be: “What should be done or what would I do if the decision were mine to take?”. The role of a policy economist is to aspire to a world as it ought to be, implementing policies and making decisions to bridge the gap between the *is* and the *should be*. However, as a business economist the question is not what should be done, but what will be done. We must become mind-readers, predicting how others, especially policymakers, will interpret the data and what they may conclude from it, regardless of whether we agree or not with the policy decision. As economists, we all have an opinion of how policy *should be*. However, our decision making should be guided by how the World is, not by how it ought to be.

In this same spirit of *is vs. ought to be* falls political analysis. As business economists we need to be aware of the interaction between political economy and economic policy. One must include “politics” into the economic analysis, particularly if you are examining emerging economies (although nowadays it seems it has become more relevant everywhere). Politics will drive economic policy that affects our businesses. Remember that sometimes the wrong policy may be positive for your particular industry, at least in the short run. The danger is allowing “our individual” politics to cloud the analysis. One risks not only making a wrong

assessment but also losing one’s credibility. And that is the most important asset of a business economist.

As mind-readers business economists need to be preemptive, up to date on economic events globally, anticipating requests, and working on the things that your clients, and bosses, will be interested in tomorrow.

2.2 Models as guides

Our approach to forecasting should be multi-faceted. On the one hand, obviously, we have models. The more the better—not just a one-model approach. Remember, however, that people behave the way they do, not the way they ought to behave, the way that economic models used to predict their behavior. Models should guide our analysis, but “high church orthodoxy in economics is—by far—the most dangerous thing in our industry. In our role, it’s important to look at all the different perspectives when we start making decisions.” Those are Lisa’s words, not mine. And I agree wholeheartedly.

However, models are only as good as your data. As a global economist that may be one of the tougher restrictions. You don’t find the same data everywhere or in every country. In the U.S., we have good reliable data, a very well-maintained system which we should fight to preserve. It always amazes me that when we model, we let our junior colleagues collect the data and set it up for us. We do the modeling, not realizing that the data are probably the cornerstone of our analysis.

2.3 Supplement models with expert analysis

A business economist should always complement models with in-the-field analysis: discussions with local experts, policymakers, businesspeople, etc., etc., “reading” cues telegraphed by the words, emotions, and body language of the other person. These exchanges will enrich our analysis and will allow us to understand and foresee events that our models cannot capture. Sometimes just a sparkle of experience and common sense can be a lifesaver. When one gets used to having this source of information, when one is not able to access it, like over the past year because of the travel restrictions, one feels that one does not have the whole picture, regardless of the wealth of models one has at its disposal. As David Taguas, an old colleague of mine, use to say: “visiting a country and seeing whether coffee shops were full or empty would tell you more about the state of the economy than your models.” In this respect NABE Conferences and the whole club of NABE friends and colleagues are the best, or one of the best, sources of information and ideas that we can aspire to have.

2.4 Nothing beats education

In analysis, the devil hides in the details. As economists we learn to go beyond the first derivative, direct impact, and examine indirect impacts of policies or events, for example, the unintended consequences of policies, whether they be shortages, retaliation, etc. To achieve this, nothing beats education and knowledge of the tools needed to master our jobs. NABE also excels in this respect. The CBE program is designed precisely to fulfill the education requirements and the necessary tools for business economists.

2.5 Make the complex easy

Finally, a business economist must be able to communicate its findings clearly, particularly as our audiences are not economists most of the time. Stuart Mackintosh, in his presidential address in 2016 (Mackintosh 2017) made reference to economists being storytellers. He made the reference in the context that business economists “should be a repository of collective memories and stories.” I also like to refer us economists as storytellers, but with another connotation. As important as our forecasts is the story behind them. We know that our forecasts are not precise, they are probabilistic estimations, but our clients, bosses, etc., may not relate to that. Our forecast ends up in an Excel as if it were a very precise estimate. That is why the story behind the forecast is so important. As long as the story does not change, the forecast remains valid, or close enough. And when our forecasts are wrong, it gives us a way to explain where things have gone astray. The story also makes it easier for our different clients to understand and follow our logic. Economics can be quite dry at times, telling a story makes it more palatable for non-economists.

3 The multiple hats of a business economist

In sum, global interactions are making the business economist job more challenging, but also more interesting. One must be a mind-reader, anticipating both, global events and the needs of the clients, knowledgeable about empirical methods and economic theory, in order to make use of the increasing availability of technical tools and capable of following the chain of economic impacts. And a good communicator, making the complex global dynamics easy to understand by our non-economist audiences. For all these reasons, NABE, with its wealth of conferences, webinars, courses and colleagues, is the perfect partner.

Let me conclude by putting forth a few final thoughts on the role of the global business economist:

- We must be advocates for policies that enhance welfare and growth.
- We must analyze policy choices and their impacts, in particular on our businesses, taking into account the prevailing interactions in the global economy.
- Remember that we are paid for our expertise, our credibility, our independence and telling it how it is, with our best analysis, popular or not.
- Finally, trust your gut, it usually reflects your experience, but trust your analysis and your team much more than your gut.

Let me close by thanking you all for allowing me to serve as your president and the NABE staff for a very special year. It is always a pleasure, and an honor, to work with a team like NABE's.

Thank you very much for your attention. I hope you enjoy the rest of the conference.

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