Who Is Nouriel Roubini?

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Is economist Nouriel Roubini a prophet or a perpetual pessimist who happened to get it right? In 2004, the New York University professor started to see disturbing trends he thought would lead to a crippling U.S. recession and a global slowdown. While other economists echoed his view at times, Roubini was the most consistent and bearish, even when his predictions failed to happen. So, most mainstream economists dismissed him simply as a perma-bear.

Five years after his initial warnings, he's one of the most sought-after advisers in the world, strategizing with entities like Congress and international finance ministries.

Key Stats

- **Name:** Nouriel Roubini
- **Also known as:** “Dr. Doom”
- **Age:** 50
- **Profession:** NYU economics professor, co-founder of the economic-analysis firm RGE Monitor.
- **Why he matters:** Since 2004, Roubini has been the most pessimistic — and most accurate — predictor of the economic crisis. People ignored him then. They don't anymore.

His Predictions

While other economists thought the real estate bubble would burst, they didn't realize the extent of the devastation because housing is only about 6 percent of America's GDP. Roubini, however, was one of the few who saw the link between housing and consumer spending, which makes up more than 70 percent of the U.S. GDP and about 25 percent of the world's purchases of goods and services. As real estate prices soared, consumers used home equity loans to finance more expenditures.“(T)he only way you can liquefy your wealth is by using your home as your ATM machine, and that is exactly what has happened in the last few years,” Roubini told an audience at the International Monetary Foundation in 2006.

Roubini also saw the makings of a massive, global trade imbalance. The U.S. was borrowing from China to purchase Chinese goods. China was buying commodities from Latin America and the Middle East to produce those goods. If China experienced any internal disruptions and it stopped financing the U.S., the dollar would devalue, consumer spending would drop, and a global economic slowdown would result.

Bottom line: America was borrowing from other countries to fund consumption and housing rather than productive investments that create exportable goods and services. Roubini concluded the trend was unsustainable. “The bursting of the housing bubble is going to lead to broader systemic banking problems,” he told the IMF audience. “The rest of the world is not going to be able to decouple from the U.S. even if it is not going to experience an outright recession like the United States.”

His Method

While many economists rely mostly on rigorous econometric formulas, Roubini assumes that quantitative methods alone can't explain unprecedented moves in the global economy. So, he adds a heavy dose of intuition, historical analogies, and circumstantial observation to his work. He derives most of his forecasts from simple data like supply-and-demand models and ratios of home price versus rent and home price versus income. Other economists use computers to crunch data, but Roubini uses his brain, says Christian Menegatti, lead analyst at Roubini's firm RGE Monitor.

His nontechnical framework has been likened to those used by noted economists Joseph Stiglitz and Paul Krugman. And Roubini told the *New York Times* that Alan Greenspan and John Maynard Keynes have influenced his methodology. His approach to economics isn't radical, but his style can be considered flamboyant, says Brad Setser, who co-wrote a book with Roubini and is now a fellow at the Council on Foreign Relations Center for Geoeconomics. A recent Roubini blog post illustrates the point: “(T)hese Bush hypocrites who spewed for years the glory of unfettered wild west laissez faire jungle capitalism allowed the biggest debt bubble ever to fester without any control (and) have caused the biggest financial crisis since the Great Depression.”

The Debate

Anirvan Banerji, director of research at the Economic Cycle Research Institute, praises Roubini for correctly capturing the nature of the crisis but points out that his timing was repeatedly off. What if the Fed had adjusted interest rates or businesses stopped hiring based on impending recessions that didn't occur?

But, Darrell Duffee, a finance professor at Stanford's Graduate School of Business, says timing is not so important. "His skeptical commentary has been very, very useful," says Duffee, who added that Roubini's warnings were meant to straighten out the financial sector. Indeed, in November 2004, Roubini warned on his blog, “(S)erious financial distress from unsustainable fiscal and current account deficits cannot be ruled out.”

Banerji also criticizes Roubini for changing his justifications for the recession as he kept missing the timing. First it was the trade deficit, then oil price shocks, then the housing downturn, and finally the credit crisis, Banerji says. "There's something lacking in terms of understanding what triggered the recession," he adds.

Supporters argue that Roubini emphasized different vulnerabilities but his overarching argument remained the same. "The U.S. wasn't borrowing from the world to finance productive investment (and) that process would end badly," says Setser.

His Solution

Roubini expects things to get worse before they get better and predicts the recession will last at least until the end of 2009. In general, he advocates for the government to stabilize the economy through monetary and fiscal policy. Here are his recommendations to stop the credit crisis:

- Temporarily freeze all foreclosures.
- Create massive fiscal stimulus packages of at least $400 billion for public works, infrastructure spending, unemployment benefits, and tax rebates to lower-income households. Provide grants to state and local governments in dire need of funding.
- Coordinate interest-rate cuts globally.
- Temporarily insure all bank deposits. Allow insolvent banks to shut down and partially nationalize solvent but distressed banks.
- Open credit lines to solvent financial institutions and companies.
- Inject money into banks by buying equity.
- Coordinate a global effort to gradually adjust trade imbalances.

Policy makers around the world have heeded most of Roubini's suggestions. Hopefully the one who saw it all coming sees the correct solution as well.