

## KEHOE from D1 Influential old friends from Spain and Mexico

Kehoe builds economic models that spin through computers and churn out scenarios of the consequences of imposing new taxes and scrapping old ones or opening borders to imports of food or manufactured goods.

But don't call Kehoe a "consultant" — a word that makes him recoil because he associates it with the image of a hired gun. Kehoe's goal is about advancing research and building a new generation of economic thinkers.

### Ease with languages

But Kehoe's interests now are a long way from where he started.

The son of a Navy engineer and a mother trained in mathematics and Latin, Kehoe showed an early interest in numbers, language and science.

His younger brother, University of Minnesota economist Patrick Kehoe, recalls Tim winning an Ohio state science fair in high school by simulating the thin atmosphere in Mars. He grew moss and bacteria under a bell jar and used dry ice to create an other-world atmosphere.

In an earlier childhood experiment, Tim spun Patrick in a clothes dryer in emulous astronaut training. The elder brother notes that the dryer

heat was off and that he gave his brother a pillow as a cushion. No one was injured.

When Tim was an undergraduate at Providence College in Rhode Island (the Kehoes settled long enough in New England for him to acquire a distinct Yankee accent), he switched majors from chemistry to economics after being inspired by a gifted professor.

While at Yale University in the 1970s and Cambridge University in the 1980s, Kehoe made friends with a number of Spanish and Mexican students who later went on to become influential economists or government officials in their own countries. Those links put Kehoe on the path to working on questions involving trade and other international economic issues.

With the encouragement of friends, Kehoe brushed up on his high school Spanish and hired a tutor to acquire fluency in Catalan, a language spoken chiefly in the northeast of Spain.

Many colleagues volunteer that they're impressed by Kehoe's facility for languages, especially his decision to learn Catalan. His wife, Jean O'Brien-Kehoe, characterizes it as Catalan "with a Rhode Island accent."

Jose-Victor Rios-Rull, a Spanish economist who now teaches at the University of Pennsylvania, said he, Kehoe and other economists take part in annual summer trips to Spain, where they hold seminars and critique the work of budding economists unaccustomed to rigorous examination of their research.

"We have better things to do than listen to students from other universities," Rios-Rull said.



Jeff Wheeler/Star Tribune

**Tim Kehoe kept a counterfeit five-peso note he unwittingly acquired during a trip to Argentina in August. A real five-peso bill was worth nearly \$5 a year ago — it would only fetch about \$1.40 now.**

"But we want to improve their economics."

Kehoe said he hopes to encourage economists in Spain and Latin America to become more adept as researchers and policy advisers. "Better economists can elevate the level of debate," Kehoe said.

### Rubbing elbows

Friends and associates describe Kehoe as a man who likes to rub elbows almost as much as he likes to massage numbers.

Nobel Prize-winning economist Robert Lucas remembers hanging out with Kehoe and friends in the mid-1980s on a trip to Cambridge University, where Kehoe was a lecturer.

"He was super-hospitable," Lucas said. "He knew what to do after the pubs closed at 11, and we kept going all night. He was a live wire."

His wife can attest to that.

Happy-hour get-togethers with students and faculty members are a routine for Kehoe, who is known to be generous

with his words and his wallet. "He's often picking up the tab," O'Brien-Kehoe said.

Kehoe is almost as mobile as his Navy father, who moved the family a dozen times during Kehoe's childhood. In the past 16 years, Kehoe's home base has been Minneapolis, but he's often on the go.

During the past two decades, Kehoe and collaborators have won more than \$1 million in grants from the likes of the National Science Foundation, the Ford Foundation and the U.S. Air Force Office of Scientific Research.

The money pays for thinking time, for the labor of graduate students who gather and process data and for travel that gives Kehoe first-hand knowledge of what's going on in countries with economic troubles they're trying to treat.

Kehoe believes computer simulations can help solve real-world problems, albeit within limits.

The limits — the vulnerability of computer models to miss the mark on real-world forecasts — involve mathematical and economic problems that Kehoe and experts in his field continue to try to solve.

"We have a long way to go," Kehoe said. "As a researcher, I find it exciting. As a policy adviser, I find it a little bit appalling."

even after their troubles became apparent.

"It is now pretty apparent that most companies manage their earnings. There are so many accounting tricks that companies use. . . . And analysts have lost a lot of credibility," said Bob Schu, a semiretired freelance writer who lives in New York City. His "decimated" individual retirement account includes shares of AOL Time Warner Inc. and Xerox Corp.

There are some professional investors who consider vanishing earnings outlooks to be beneficial to both companies and their shareholders.

"It is terribly, terribly positive," said Joseph Keating, chief investment officer at AmSouth Asset Management. "[Before, companies] had to do whatever they had to do to meet their numbers because it was all that people were focused on. Long-term strategic planning suffered at short-term tactics."

But Jim Crisman, of Keene, N.H., disagrees.

"If you don't focus on the short term, there isn't going to be a long term. We can't get to the goal line unless we make first downs," said Crisman, who does consulting work for universities and has two IRAs — one that holds mutual funds and another in which he trades stocks.

### Progress made

Kehoe gets high praise from prominent colleagues for the progress he's made in meeting such challenges.

Herbert Scarf, Kehoe's thesis adviser at Yale, said Kehoe's computer models anticipating the economic consequences of the North American Free Trade Agreement (NAFTA) helped give trade negotiators evidence that the United States, Mexico and Canada all would be better off after the treaty.

"Can you say anything other than vague and wild things about the sounds of jobs being sucked below the U.S.-Mexico border?" Scarf said. "Tim did."

If Kehoe's forecasts had flaws, the errors were on the side of underestimating the economic growth spawned by NAFTA.

"I think a lot of productivity gains that we've had in the last eight years have been driven by trade, not just with Mexico but with Canada," Kehoe said. "Yet we've seen U.S. trade with Canada has boomed over last eight years, as well."

Lucas, at the University of Chicago, said Kehoe has been a leader in tracking government acts on tax and trade and their economic consequences — moving targets that are hard to pin down.

"He's one of the people trying to make economic theory dynamic," Lucas said. "He's had a big influence."

That influence extends to the classroom, where Kehoe has trained many economists on both sides of the Atlantic. "He's an inspiring teacher," Lucas said. "His enthusiasm is infectious."

Kehoe's interests extend far beyond economics, research and teaching.

An incessant reader, he brings four or five books to bed every night. "Histories, biographies, junky novels — anything," O'Brien-Kehoe said of Kehoe's reading list.

Reading sometimes has gotten him in trouble, however.

O'Brien-Kehoe, a historian at the University of Minnesota who met her husband through friends, recalled her frustration when she helped Kehoe move into a condo before they were married.

"I had to kick him out of the living room," she said. "He was supposed to be unpacking the books, but he kept reading them."

### 'Very highly respected'

Jaime Serra-Puche, who later went on to become secretary of trade and secretary of finance in Mexico, met Kehoe when they were working on their doctorates at Yale. They became close friends and collaborators on projects involving study of trade and international finance.

"He's a very highly respected economist in Mexico," Serra-Puche said. "I know he's the same in Spain."

Kehoe's latest work promises to be as important as his earlier computer models of economic actions and reactions, Serra-Puche said.

In recent work, Kehoe has examined questions of self-fulfilling prophecies. For example, when everyone in Argentina thinks the government is going to devalue the currency, their behavior — converting their pesos to U.S. dollars, for instance — can make peso devaluation inevitable.

Governments need orderly plans for dealing with financial shocks, Kehoe said. Otherwise, they prolong the pain. "Argentina is going to take a long, long time to recuperate from this crisis," he said.

Serra-Puche calls Kehoe's research "what could be absolutely path-breaking work on currency crises."

"He's absolutely brilliant," Serra-Puche said of Kehoe. And, he added, "He's not bad at beer drinking."

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## OUTLOOKS from D1

### Investors get nervous with no targets

"I think you ought to let it all hang out to avoid surprises down the road and to demonstrate that you are on top of, and know, what is going on with your business."

Hill hopes companies, even those who stop giving their own estimates of upcoming earnings per share, will continue to give analysts enough information to make their own projections.

"If you don't want estimates to turn into guesstimates, you have to give the analysts some tools," he said.

Telecom analyst Pat Comack said he and other analysts will be forced to lower price targets on companies that don't offer guidance.

"The bottom line is it can make investors nervous that a company is not willing to put up a target," said Comack, who works for Guzman & Co. "Some investors could interpret that as they are not confident in their financial controls."

It is unclear exactly what information companies will con-

tinue to divulge. In reporting its results Wednesday, McDonald's chief financial officer, Matthew Paull, declined to predict same-store sales, which are those at stores open at least one year and are used to gauge profit growth for restaurants and retailers. The fast-food chain also gave no earnings estimates for its current quarter, or projections for the year. Coke, meanwhile, is due to report earnings Feb. 12.

Other companies may continue to talk about their future prospects but may choose to withhold some details on operations, such as sales figures, that analysts would use to form their own projections.

Some investors are happy to see companies focus less on short-term results and more on long-term performance. They have become skeptical, after last year's corporate scandals and after the steady — and, in hindsight, unreliable — drone of upbeat outlooks during the boom of the late 1990s, when companies always managed to make or exceed their projections.

Investors now know that some companies relied on deceptive bookkeeping to post those stellar results, and many became cozy with analysts to score positive ratings on their stocks. Both Enron and WorldCom enjoyed positive ratings

### PUBLIC NOTICE NOTICE OF AVAILABILITY OF FINAL JOINT FEDERAL ENVIRONMENTAL ASSESSMENT — STATE ENVIRONMENTAL IMPACT STATEMENT METROPOLITAN AIRPORTS COMMISSION ANOKA COUNTY — BLAINE AIRPORT

The Metropolitan Airports Commission (MAC) has prepared a joint Federal Environmental Assessment (EA) and State Environmental Impact Statement (EIS) to describe proposed improvements at the Anoka County - Blaine Airport. The proposed improvements are those included in the seven-year Capital Improvement Plan (CIP), including extension of the existing east/west runway (Runway 9/27) and the parallel taxiway 1,000 feet to a total length of 5,000 feet; establishment of a Precision Approach and Instrument Landing System (ILS); construction of additional building areas; and use of the northwest portion of the airport site for construction of the National Youth Golf Center.

Permits will be obtained from the U.S. Army Corps of Engineers, Minnesota Department of Natural Resources, Coon Creek Watershed District and Rice Creek Watershed District for wetland impacts. A second permit from the Minnesota Department of Natural Resources will be obtained for impacts to state-listed threatened and endangered species. All of the permits include mitigation for unavoidable impacts.

The Draft EA/EIS was prepared and made available for public review between August 9, 2002 and September 23, 2002. Comments received have been addressed and the Final EA/EIS is available for review. Comments on the Final EA/EIS will be accepted through February 26, 2003. Copies of the Final EA/EIS will be available at the Metropolitan Airports Commission office at 6040 - 28th Avenue South, Minneapolis, Monday through Friday during regular office hours. Copies are also available for review at the Anoka County Library - Northtown - Central Branch at 771 Highway 10 NE; the Minneapolis Public Library, Environmental Conservation Library at 300 Nicollet Mall, Minneapolis; and at the Legislative Reference Library at 645 State Office Building, St. Paul, during regular business hours. An additional copy of the EA will be available for public review at the office of the Blaine City Engineer, Blaine City Hall, 10801 Town Square Drive, Blaine, MN 55449-8101.

Comments can be directed in writing to  
Mr. Gary Warren, Director - Airside Development,  
Metropolitan Airports Commission,  
6040 - 28th Avenue South, Minneapolis, MN 55450.



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