

LAUDATIO: RUDIGER DORNBUSCH

Stanley Fischer¹

It is an honor for me to introduce this year's Distinguished CES Fellow who is to deliver the Munich Lectures in Economics, Professor Rudiger Dornbusch; it is an enormous pleasure for me to introduce to you a superb economist, an outstanding speaker, a remarkable person, my co-author, and my friend for nearly thirty years, Rudi Dornbusch.

I would like to tell you about four aspects of Rudi: the young scholar; the policy economist and polemicist; the teacher; and the human being.

The young scholar

I first met Rudi Dornbusch at the University of Chicago in the autumn of 1969. I was a freshly minted Ph.D. from MIT, and he was one of an outstanding group of graduate students, among them Jacob Frenkel and Michael Mussa. They were students of Harry Johnson and Robert Mundell, in Milton Friedman's Chicago. Some, among them especially Rudi and Jacob Frenkel, honored the great Lloyd Metzler, who was still at Chicago.

It must have been a wonderful place and time to be a graduate student in international macroeconomics, not only because of the world-famous faculty, even more because of the synergy among outstanding students.

Somehow I found myself on Rudi's thesis committee, a very junior third to Mundell and Johnson. At the time I valued mathematical virtuosity more than I should have. But I looked at Rudi's thesis, "A Monetary Theory of Currency Depreciation" again this week, and realized how excellent it is, displaying a mind so clear and expositional talents so formidable that it can have been written only by a young master. It is also obviously the work of a student of Robert Mundell's -- and Rudi was most of all a Mundell student. I know that because I was there. But if you should doubt it, look at the beautiful series of papers Mundell produced from the late 1950s to the mid 1960s, reprinted in his 1965 classic book, Monetary Theory, and see how similar is the elegance and clarity of style, exposition, and thought in the classic papers Rudi wrote in the 1970s.

That was the young Rudi Dornbusch: the scholar who left Chicago for Rochester, where

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he spent two years, before returning to Chicago to teach at the Business School; the teacher whose notes for his business school students later provided the basis of the aggregate demand and supply apparatus in the Dornbusch-Fischer textbook; the scholar who wrote a series of path-breaking papers, several of which later appeared in his own classic book, Open-Economy Macroeconomics.

I left Chicago to return to MIT at the same time as Rudi joined the Chicago Business School faculty in 1973. But when in 1975, MIT needed an international macro-economist, it did not take very much to persuade my senior colleagues that he was the person we wanted. So Rudi came to MIT. It was MIT's good fortune; it was certainly my good fortune; and it was also Rudi's, for he needed to move on to another intellectual environment -- albeit, an environment that at the beginning, he did not like. But within a short time of arriving he had written his classic overshooting article, he was soon recognized as an outstanding classroom teacher and thesis adviser, and he soon became central to the MIT Department of Economics.

And for the next decade, he continued to produce outstanding theoretical articles, at the same time as his interest in policy issues grew. Some of the best articles of that period are collected in Exchange Rates and Inflation (1988). One of my favorites in that book is his paper on the problem of disinflation, "Inflation Stabilization and Capital Mobility", a paper whose relevance to the problems confronting countries trying to stabilize from high inflation using an exchange rate anchor has grown over the years.

The policy economist

In the introduction to Exchange Rates and Inflation, written in 1988, Rudi explained

Over time my interests, and some beliefs, have changed very much. As a student, and early in my career, models and results were exciting, and there could not be enough of it. Today my interest is mostly in policy and policy-oriented research. The difference is subtle: in modeling, the main interest is in the structure and the implications; in policy-oriented research, by contrast, the central issue is to capture a problem, even if one does not write down the whole maximization problem. That is a weakness of the policy approach, and it might even be enough to reject it altogether. I do not think so. On the contrary, there is a broad complementarity between modeling and identifying and 'painting' issues.

I am not sure this characterization of the difference between modeling and policy work is entirely right, for the problem in both cases is to capture the essence of a complicated situation in a tractable and relevant form. But no doubt there is more latitude for pursuing the logically more interesting and empirically less relevant angles in modeling than in policy analysis.

Rudi is one of the outstanding policy economists of our time. He has worked on a range

of applied problems, typically the major international and national economic issues of the day, but also -- as in his exceptional work on hyperinflation -- on the most interesting parts of economic history. But even when he is working on economic history, he is thinking about policy issues, for instance in applying the lessons of the dissolution of the Austro-Hungarian empire to the breakup of the Soviet bloc. Among his policy papers, the most famous may well be the Brookings paper predicting the Mexican peso crisis, but that is only one of many papers on the economic problems of Latin American countries. Another that repays rereading is his 1990 paper with Sebastian Edwards, "Macroeconomic Populism", which accurately depicts a temptation to which policymakers in Latin America and other countries used often to succumb, and no doubt sometimes will succumb in future.

Although Rudi describes himself as having shifted to working on policy issues by 1988, the change was gradual, and analytic articles -- albeit on more clearly policy-related issues than before -- continued to appear in the 1980s and into the 1990s.

In his more popular articles, in his columns, and sometimes on the podium -- where his wit and the speed of his mind make him an exciting and formidable presence, Rudi is one of the finest polemicists in the profession. He seems to take as his leitmotif a statement of Keynes "Words ought to be a little wild for they are the assault of thoughts on the unthinking" -- and no one could accuse him of not erring on the wild side.

You may wonder how anyone can write as much as Rudi does. The technique is simple -- it is to *stop agonizing and start writing*. Rudi will make three or four bullet points on the page, typically in the midst of a mess of doodles, and then start writing. His first drafts are just that, drafts to be improved. The technique works.

The teacher

Rudi is a spectacularly successful teacher, in the classroom, in supervising theses, and through his textbooks. In the classroom the secret of his success is careful preparation: in earlier years, the well-developed lecture notes that he handed out, more recently, the shorter notes summarizing the models and facts that are to be the subject of the lecture. As his interests have shifted to policy, he has also shifted to teaching in the Sloan School. Business School students are known to be excessively demanding, but by all accounts Rudi's courses in the Sloan School are regularly sold out.

As a thesis adviser, Rudi has had few peers. Every outstanding American international macroeconomist who has been to MIT -- and many of them have -- including Jeff Frankel, Paul Krugman, Maury Obstfeld and Ken Rogoff is a Rudi student, and so are most of the best macroeconomists who were at MIT. There are outstanding Rudi students all over the globe: the Italians, among them Mario Draghi, Francesco Giavazzi, and Alberto Giovannini; Pedro Aspe in Mexico; and Andre Lara Resende in Brazil; and many more. While they all acknowledge their

debts to Rudi, it is not the best economists who have benefitted most from working with him, for they would have been outstanding anyway. Rather it is the legion of students, many of them from abroad, who have been part of Rudi's *schule*, the group that meets weekly at 8 a.m. to discuss their theses, who reflect what his intellectual generosity has meant for generations of MIT students. He has students who are devoted to him all over Latin America, and in much of the rest of the world. In that richly deserved devotion lies the greatest compliment to his teaching.

I have had the good fortune to collaborate with Rudi in the writing of two textbooks. One of them Macroeconomics, has given me as much satisfaction as anything else I have done in my scholarly life. The book has sold well over a million copies worldwide, and we can justly feel that we have contributed to educating many readers, many of them in developing countries. Few things are as pleasant as to encounter a student who says that he or she used our book, and even better, that they remember something in it. We have both had that experience all over the world, from Sweden and Russia in the North, all the way to Tasmania, Chile and South Africa in the South -- and I thank Rudi for having made that possible. However not all encounters with students are totally encouraging: in one country I saw a group of students with copies of Dornbusch and Fischer in hand, standing shyly at the back of a group of officials with whom I was talking, so walked over to chat with them. One of them said, "Professor, thank you, this is such an excellent book. But please sir, could you recommend an easier one?"

Rudi

Finally, let me salute the exceptional person who you will hear tonight. Rudi is among the most talented of men, and among the warmest, the most generous, with his time and himself, available for his students and his friends whenever they need him. My life is far richer for having had the good fortune to meet Rudi, and to have him as a friend.

That is why it is a such a pleasure for me to introduce to you, Rudi Dornbusch.