WORLD NEWS - Demanding but inspirational to the very last.

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606 words
29 July 2002
Financial Times
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English

Rudiger Dornbusch, always known as Rudi, died last week at the age of 60. He was one of the most inspirational and innovative academic economists of his generation.

Born in Germany, Prof Dornbusch studied at Geneva and Chicago universities before moving to the Massachusetts Institute of Technology in 1975, where he remained until his death. While at MIT, his research helped to found the basis of modern international macroeconomics. Through his demanding but inspirational teaching, he served as mentor and adviser to policy-make around the world.

Prof Dornbusch's most famous contribution was his seminal 1976 paper on exchange rates and overshooting. Published just three years after the break down of the postwar fixed exchange rate Bretton Woods system, it was one of the first systematic attempts explain why currencies fluctuated so violently after being allowed to float.

Its essential insight was in marrying the rationality and rapidity of financial market movements with the real-world phenomenon that the prices of goods and services take longer to adjust. The Dornbusch overshooting model argued that when exchange rates adjusted to a new fair value, the faster adjustment of financial markets meant that currencies would overshoot their long-run valu while waiting for prices to change.

In the event, the model turned out to be less than perfect at explaining exchange rate behaviour. But it helped to usher in a new generation of thinking which explained that for perfectly rational reasons, economies might not always work as classical economic theory suggested. He went on to make many other contributions in international economics and is also known to generations of students as the co-author, with former International Monetary Fund first deputy managing director Stanley Fischer, of a classic textbook of undergraduate macroeconomics.

Prof Dornbusch's teaching style was lively and confrontational, frequently bombarding his students with challenging questions. A generation of policymakers, including Larry Summers, the former US Treasury secretary, Jeffrey Sachs, the academic and adviser, and Kenneth Rogoff, presently IMF chief economist, passed through his seminars.

Later in his career, Prof Dornbusch himself became more interested in the application of his ideas to policy and became a frequent commentator, particularly on the debt and currency crises that afflicted many emerging market countries during the 1990s. In these, he took a staunchly free-market view, as befitted an economist educated at Chicago University.

Unlike many of his contemporaries and students, Prof Dornbusch's contributions to policy were always delivered from the side of t stage. Rather than aspiring to office himself, he proffered advice in his characteristically entertaining and forthright style.

Placing the blame for the Asian financial crisis firmly on the crony capitalism of the countries themselves, Prof Dornbusch memorably said: "These are places where the government knows everybody's shoe size but doesn't know how much they have borrowed offshore." He also correctly predicted the collapse of the Mexican peso in the crisis of 1994-95 and the devaluation of th Brazilian real, which happened in early 1999.

In the last months of his life, he was prescribing radical solutions to the Argentine crisis, involving an international takeover of mu of its economic policymaking akin to the interventions by the League of Nations in Austria after the first world war.

Friends say he realised he would probably have been too eclectic and outspoken to build a sustained career as a policymaker. But as one who had taught a generation of the world's brightest aca demics-turned-policymakers, his views were often sought and freely given.

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London Edition 1.

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