Keys to Prosperity

Free Markets, Sound Money, and a Bit of Luck

Rudi Dornbusch

The MIT Press
Cambridge, Massachusetts___
London, England

Contents

Preface

I

ix

The Big Picture

1 A Century of Unrivaled Prosperity 3

2	The Come and Go of the State 25
Ι	Macroeconomic Ingredients for Growth and Prosperity 39
3	Long-Run Growth in Emerging Countries 41
1 "	Containing High Inflation 47
5	Free Markets Work Best—But They Need a Little Tweaking 57
5	And You Thought Social Security Was in Trouble 61
7	Growth Forever 65
8	Germany's Economic Future 69 ¹
Ш	Global Financial Markets: Ideas Whose Time Has Come 77
9	Capital Controls: An Idea Whose Time Is Gone 79
10	Why Bailouts Are Bad Medicine 87
11	Check the Laws Before You Invest Abroad 91
12	How the Fed Can Tame the Savage Currency Markets 95
13	The Effectiveness of Exchange-Rate Changes 99
14	No Way to Rescue the Greenback—And No Need To 121
15	Lessons from the Mexican Crisis 125
16	After Asia: New Directions for the International Financial System 129

17	The Target Zone Controversy 141
18	New Challenges for World Financial Markets 147
IV	No Apologies for Free Trade 153
19	Is Free Trade at a Crossroads? 155
20	2005: A Trade Odyssey 161
21	U.SMexico Free Trade: Goods Jobs at Good Wages 171
22	U.SJapan Relations Fifty Years after Pearl Harbor 181
23	Trade with China: Add Bite to America's Bark 189
V	European Union: Fantasies, Problems, and Impact 193
24	Euro Realities, Fantasies, and Problems 195
25	EMU: Will It Happen, Will ¹ It Not, and What Difference Does It Make? 211
26	If the Franc Falls, So Will Europe's Dream of a Common Currency 217
27	Why the Mighty Mark Is a Sitting Duck 221
28	Europe's Money: Implications for the Dollar 225
29	Fifty Years Deutsche Mark 237
30	Scenarios for Europe 241.
VI	A Latin Disease? Or Triangle? 245
31	The Latin Triangle 247
32	Mexico—The Folly, the Crash, and Beyond 265
33	Another Peso Disaster May Be Waiting in the Wings 281
34	Brazil Has Run Out of Excuses 285
35	Argentina's Monetary Policy Lesson for Mexico 289
36	How Not to Safeguard South Africa's Democracy 293
37	Mexico Should Ditch the Peso for the Dollar 297
38	Brazil's Policy Options for the Second Term 301
39	Brazil Beyond Tropical Illusion 305

VII	The East Asian Miracle, Not Quite 309
40	Paper Tigers, the IMF, and the World Capital Market 311
41	Way Is Japan Shooting Itself in the Foot? 315
42	What's the Weakest Link in the World Economy? Japan 319
43	Mexico Learned Its Lesson. Now, Will East Asia? 323
44	A Bailout Won't Do the Trick in Korea 327
45	An Achilles' Heel That Could Cripple China 331
46	Next, China? 335
VHI	Good People and Bad Ideas 339
47	A Requiem for Chancellor Kohl 341
48	Oskar Is Trouble 343
49	The Crisis of Global Capitalism: Mixed Praise for Soros 347

Index 351