

IMF Conference in Honor of Michael Mussa: MussaFest—Opening Remarks

AGUSTÍN CARSTENS*

Good morning colleagues, ladies, and gentlemen. We will be gathered here today and tomorrow to celebrate the sixtieth birthday of a great economist and, more than that, an extraordinary human being, namely Mike Mussa. I consider it a real privilege to deliver the introductory remarks for this conference, which Bob Flood appropriately baptized “MussaFest.”

I first learned about Mike in the late 1970s, in a course on international economics at Itam in México that was being taught by Saul Lizondo, who had just finished his graduate work at the University of Chicago. There was not a single section of the syllabus that did not have a paper written by Mike: in trade theory, exchange rate dynamics, the monetary approach to the balance of payments, Mundell-Fleming economics—you name it. Among other factors, this early exposure to Mike’s work enticed me to apply to the economics program at the University of Chicago and meet *the man*. I took several courses with Mike, and he was generous enough to direct my thesis dissertation in the mid-1980s.

Since then our friendship and professional relationship have continued unabated, with one constant: if we could think of a balance of transfer to knowledge and insight, year after year I have been running substantial deficits vis-à-vis Mike, having accumulated already a considerable debt. I hope that a good bottle of wine will settle this debt.

But my relationship with Mike is not the reason why we are holding MussaFest here at the Fund. The real reason is that this is a modest way to recognize the huge legacy Mike left here at the IMF, which comes on top of his major intellectual contributions to the profession.

*Agustín Carstens is Deputy Managing Director of the International Monetary Fund.

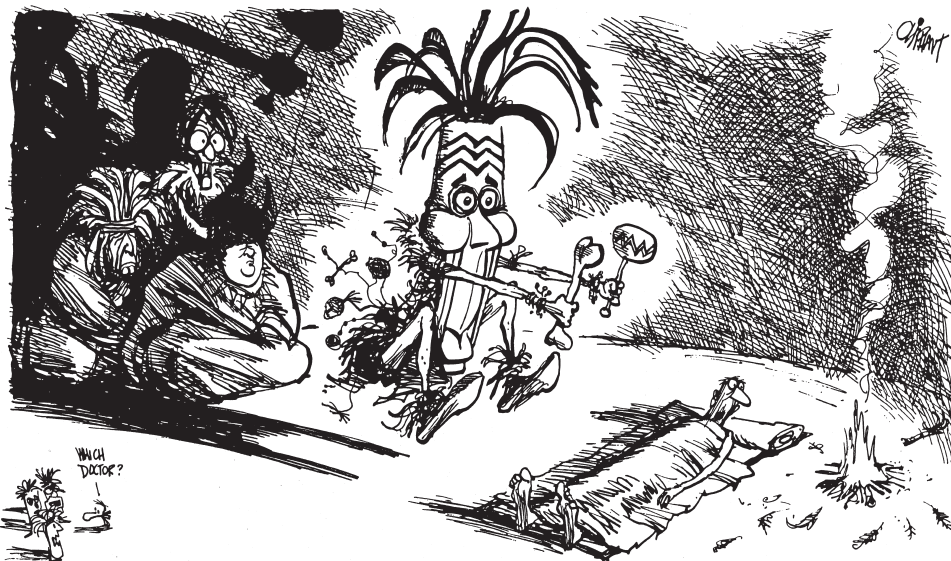
As director of the Research Department and economic counselor, Mike directed 21 WEOs, conducted 70 World Economic and Market Developments sessions, and delivered 250 speeches on the world economy. Stan Fischer, in a speech during one of the several farewells held for Mike in 2001, said: “Mike Mussa kept the world economy at a pretty even keel over the past decade; he can look back on a 36 percent growth in world GDP, an 85 percent rise in world trade, and a more than doubling of international capital flows, compared with the decade or two before his arrival. Mike has also delivered an average rise in the world growth rate and a quadrupling of U.S. productivity growth. It will be hard to match this record after he leaves the Fund.”

One of the reasons Mike has been such a successful professor, Fund official, and economist in general is that he is an outstanding communicator. He has the uncanny ability to grasp extremely difficult issues, distill the true economic essence of the subject matter at hand, and present his analysis in a way that makes *sense* to practically everybody. By seeing Mike at work, you understand why some people say that a good economist is a person with *refined* common sense.

And to give you a taste of Mike’s outstanding ability as an economist and a communicator, I would like to present to you the Top 10 Quotable Quotes from Mike Mussa.

Quote Number 10—Mike Mussa’s Definition of Economics

Economics, of course, is not only science; it is also an art—some would say, a black art. Indeed, a man I had the privilege to serve for some years in Washington was widely accused of ‘voodoo economics.’ Then and now, the only appropriate reply to that accusation comes from an old song, ‘Please do that voodoo that you do so well.’



‘IS THERE A DOCTOR OF ECONOMICS IN THE HOUSE?’

Credit: OLIPHANT © 1982 UNIVERSAL PRESS SYNDICATE. Reprinted with permission. All rights reserved.

Quote Number 9—Mike Mussa’s Strong Opinion on Statism

The fundamental tenets of statist economics are as dead as the Russian monk Rasputin—whom you may recall was poisoned, strangled, stabbed, shot, cut into pieces, burned to ashes, and fired through a cannon.

Quote Number 8—The Story of the Three Little Pigs and the Big Bad Wolf, and Its Applicability to Economic Policies

The moral of the story on the three little pigs and the big bad wolf is that you need to build a brick house in order to be able to withstand the huffing and puffing of the big bad wolf. So there is a key message for most of the economies around the world: that your economic policies and your financial institutions need to be sufficiently strong so that if the big bad wolf comes huffing and puffing, you can survive the incident.

Quote Number 7—On Human Race, Fire, and Capital Account Liberalization

I like to think of the issue of whether capital account liberalization is good or bad, and how we should deal with it, as similar to the issue of how the human race should make use of fire. Fire warms our homes. It cooks our food. It powers our automobiles and trucks and our turbojets. It powers our airplanes. No doubt, fire is very useful, and we are not going to give up its manifold benefits. On the other hand, fire can also burn you down and do a great deal of damage, and that seems to me to be the main concern with capital account liberalization, that it does have important benefits, and few of us would want to give up the benefits of living in an economy that has both a fairly liberal domestic financial order and a fairly liberal international financial order. On the other hand, liberalization in the financial sector—and I would emphasize here both domestically and internationally—has far too often in far too many countries around the world been associated with a variety of economic disasters.

Quote Number 6—Mike Mussa on Globalization

To be clear, my grandfather’s move to America in 1907 was not motivated solely by narrow economic considerations. As a teenager, he witnessed the siege of Paris by the Prussian army in the winter of 1870–71. By 1907, he had three sons. He understood the significance of the words of the French national anthem—Arise sons of France, the day of glory is here, form your battalions. Expecting that war would come, sooner or later, departure beyond the grasp of French conscription seemed prudent. Viewing this aspect of my grandfather’s decision as an economist and thinking of the military draft as a form of taxation in kind, one could say that the move to America was partly motivated by tax avoidance. Again, there is a general lesson here—indeed two of them. First, economic globalization does tend to put limits on the ability of governments to enforce taxes and other policies. . . . Second, it is not necessarily a bad thing that globalization places some limits on the power of government.

Quote Number 5—Mike Mussa on ODA

Well I guess to correct the downtrend in official development assistance, the action that is clearly required is action by the advanced industrial countries, and I think particularly the United States. So I guess the specific advice I would give is that all the demonstrators who are planning to be outside the Fund and the Bank should instead go up to Capitol Hill.

Quote Number 4—Economists as Forecasters

We've been forecasting a slowdown in the U.S. economy for a while now, and we'll continue to forecast a slowdown until it happens.

Quote Number 3—Titanic 101, or the Value of not Defending the Indefensible

The argument that the real exchange rate appreciation of the Mexican peso and the size of the current account deficit are irrelevant in explaining the Tequila Crisis has the same credibility as if the captain of the Titanic, on being questioned about the iceberg that brought the ship down, would have answered: 'An iceberg? What iceberg?'

Quote Number 2—Titanic 102, or Is There an Optimal Amount of Moral Hazard?

If we hadn't rescued the 800 people we rescued from the Titanic, we would have taught an even more valuable lesson about people being careful about getting on ocean liners. But there is a trade-off here: if every time national default threatens, we say, 'Let's force it,' then we are not only going to get the creditors; we are also going to do a lot more damage to a lot of innocent victims.

The objective is not to make a crisis as large and costly as possible so that we can discourage all risk taking. . . . Some amount of moral hazard is almost inevitably a consequence of international support packages. But the issue is a balancing one. As President Abraham Lincoln put it, 'There are few things wholly evil or wholly good.'

Quote Number 1—Mike Mussa's Bottom Line

This is how Mike Mussa concluded a convocation address at the University of Chicago in August 1991:

To conclude on a personal note, next Tuesday, I shall take leave of the university to assume the duties of Economic Counsellor and Director of Research at the International Monetary Fund—an institution that has helped to shape the economic policies of many countries around the globe. Important as that institution may be, however, its influence pales in significance to the power of an idea. Free people, guided by their self-interest in building better lives for themselves, their families, and their

IMF CONFERENCE IN HONOR OF MICHAEL MUSSA

communities—disciplined by the forces of competition of a market-oriented economy within a law-abiding society—are the fundamental engine of economic progress. This is the foremost practical lesson of economic science.

Mike: Happy birthday and thank you very much for all your contributions.

I would like also to acknowledge the hard work of Bob Flood, who has been instrumental in putting all of this together. I wish all of you a very successful MussaFest.