The Economy in Perspective

My dinner with André …"Of course. I'd be delighted to come to Washington for dinner. I'll take the afternoon train and meet you at the Meniscus at 7:00." I knew better than to pepper André with questions over the telephone; there would be time enough that evening to discover why my old friend—now finance minister of Nedlaw—had so unpredictably appeared.

As I left Penn Station, my thoughts turned to André and to Nedlaw, where he was leading a charmed life, rising to his exalted post after several minor government positions and some vaguely defined business endeavors. André enjoys traveling, and for many years had been urging his country to expand its trade with the rest of the world. As its economic development reached fever pitch, Nedlaw joined the "High Rollers," a group of seven neighboring countries that were enjoying enormous growth. Despite financial instability in other regions, Nedlaw and her neighbors were still riding the crest.

Long the choice of the discerning, the Meniscus occupies a dark corner on a side street not far from Dupont Circle. His Excellency was perusing the wine list when I arrived. We exchanged greetings, and I knew at once that the evening would be exceptional in every respect: My friend is a gourmet, a raconteur, and a visionary. "I've given certain instructions to the chef," he informed me. "I trust you will not be disappointed."

Over country duck paté, he recounted the blunders of his peers at various finance ministers' meetings. The schemes of several well-known Brazilian businessmen tumbled out during a salad of greens, goat cheese, and walnuts. But he did not divulge the purpose of his visit to Washington until the filet de boeuf had been set between us. "You have heard, my friend, of our country's good fortune these past few years? I am here to see that it continues: I meet tomorrow with International Monetary Fund officials to safeguard Nedlaw against economic collapse."

What foresight! Before the first hint of a problem, André was demonstrating his leadership and wisdom. Filled with awe (or possibly paté), I asked, "How do countries embroil themselves in these difficulties in the first place? And how have you avoided falling victim?"

Spooning béarnaise sauce over his asparagus, André looked smug. "Countries get themselves into trouble by tolerating unsustainable economic growth and permitting reckless speculation. Nedlaw has been careful to keep real economic growth to a mere 8 to 10 percent per year, and has encouraged allocation of credit in land development and commercial real estate. When existing banks reach their limits, we simply charter new ones! We also limit our own exposure by encouraging foreign capital to find a home in Nedlaw. Let the other guy take a chance, if you catch my drift!"

"I'm confused," I admitted. "Those growth rates seem extraordinarily high. Isn't real estate development the most risky kind of lending? Aren't new banks likely to make poor lending decisions? And aren't you worried that foreign investors might be more skittish than your own citizens? They could pull out their funds on a moment's notice."

André just laughed. "If you think logically, it all fits together. Firms borrow money to clear land and erect buildings. People occupy the buildings and conduct business. When Nedlawnian companies export products, they get paid in foreign currencies, which they exchange at the central bank in return for Nedlawnian façados. The central bank keeps creating all the façados that native and foreign borrowers need to finance transactions in Nedlaw. The more foreign capital flows in, the more façados we print; that guarantees us a stable exchange rate. The buildings keep going up, the exports keep steaming out, and the credit process lubricates all the wheels. Everyone is working, and many people are becoming rich. It's a beautiful thing, my friend."

"But André," I asked, "what if some of those office buildings stay empty? What if your trading partners won't buy dehydrated kale, three-wheeled autos, and solar-powered ice cream makers? What if hundreds of thousands of tourists don't flock to Nedlaw World? What will happen then?"

"That's why I'm going to the IMF tomorrow," André beamed, winking at me as he raised his dessert spoon. "When the world hears about the backup line of credit I negotiated, confidence in Nedlaw will rise like this rum soufflé. I just hope you're not too late to get in on the ground floor, if you know what I mean."