

RAFFAELE MATTIOLI LECTURES

In honour of the memory of Raffaele Mattioli, who was for many years its manager and chairman, Banca Commerciale Italiana has established the Mattioli Fund as a testimony to the continuing survival and influence of his deep interest in economics, the humanities and sciences.

As its first enterprise the Fund has established a series of annual lectures on the history of economic thought, to be called the Raffaele Mattioli Lectures.

In view of the long association between the Università Commerciale Luigi Bocconi and Raffaele Mattioli, who was an active scholar, adviser and member of the governing body of the University, it was decided that the lectures in honour of his memory should be delivered at the University, which together with Banca Commerciale Italiana, has undertaken the task of organizing them.

Distinguished academics of all nationalities, researchers and others concerned with economic problems will be invited to take part in this enterprise, in the hope of linking pure historical research with a debate on economic theory and practical policy.

In creating a memorial to the cultural legacy left by Raffaele Mattioli, it is hoped above all that these lectures and the debates to which they give rise will prove a fruitful inspiration and starting point for the development of a tradition of research and academic studies like that already long established in other countries, and that this tradition will flourish thanks to the new partnership between the Università Commerciale Luigi Bocconi and Banca Commerciale Italiana.

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MONEY AND THE ECONOMY
ISSUES IN MONETARY ANALYSIS

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RAFFAELE MATTIOLI FOUNDATION

*Money and the Economy
Issues in Monetary Analysis*

KARL BRUNNER
AND
ALLAN H. MELTZER



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PREFACE

For the past thirty years, we have worked – alone and together – on various problems in monetary theory. Although we often discussed bringing our ideas together, we had not done so. The 1987 Raffaele Mattioli Lectures provided an opportunity to present many of these ideas in a single volume, to review them in the light of new information and developments in the intervening years and to extend some aspects to new problems or in new directions.

Our lectures give particular attention to uncertainty, the role of information and particularly to costs of acquiring information. Costs of acquiring information have been a missing element in the development of macroeconomic theories, in discussions of sticky prices and wages and in discussion of policy rules. While the lectures are not the place to develop the role of these costs formally, we suggest some of the ways in which formal work might proceed.

We are indebted to the organizers for providing the opportunity to present and extend our ideas. We are grateful particularly to Bernardo Crippa of the Raffaele Mattioli Foundation and the Banca Commerciale Italiana for the excellent arrangements and many kindnesses he showed before, during and after the lectures. The faculty and students of Università Commerciale Luigi Bocconi provided an attentive audience, and our discussants – Professors Mario Arcelli, Eduard Bomhoff and Mario Monti, Dr. Rainer S. Masera, Prof. Gianluigi Mengarelli and Prof. Riccardo Rovelli provided stimulating discussion and helpful comments.

Many colleagues offered suggestions and comments. We are indebted particularly to Michael Bordo, Phillip Cagan, Alex Cukierman, Robert King, Alvin Marty, Johan Myrman, Charles Plosser, Scott Richard and Guido Tabellini.

Giovanna Nicodano provided gracious and helpful assistance from preparation to final publication. We are in her debt.

KARL BRUNNER

ALLAN H. MELTZER

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KARL BRUNNER

These lectures were the last project on which Karl Brunner worked. Our last conversation about the volume took place about a month before he died.

In early April, 1989 I sent Karl a draft of our reply to the discussants, based on conversations we had in February or March. He was not entirely in agreement with the draft. Although his voice was weak, his mind was clear, and his comments were sharp and to the point. As we had done on scores of previous occasions, we discussed the issues and the wording or formulation where one or the other of us wanted changes. When we agreed we turned to other matters.

So it was on that April day. There was one major difference. We both knew it was the last time we would work together. Karl was pleased to see the volume finished. I am sure he did not expect to see the printed version. He knew his remaining time was short.

I would like to remember him by describing how we worked together. Our work on this volume was typical of our collaboration. We discussed the general framework, the topics to be covered and the main ideas that we would address. These discussions never went into details and rarely went beyond broad agreement about what we would try to bring out. For example, the importance of information and costs of acquiring information had been a theme in some of our previous work. We could easily agree that it would be one of the themes in these lectures. We left to each other decisions about how it would be incorporated, but each always expected to make whatever changes he believed useful.

We put a bit more flesh on this loose framework at Interlaken in the spring of 1987, divided the work of writing first drafts, and agreed on a date, in early August, when we would exchange drafts. Karl was much better at taking criticism of what he planned to do than at giving criticism of what I planned to do, so much of our time was spent on his plans. Karl remained in Switzerland, but we talked on the telephone at least weekly throughout the summer. He was often in pain, and he could not

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use his right hand. He summoned all of the courage, personal strength, and that unbending will that I knew so well from the past. He learned to write with his left hand. He was much too proud, too determined, too committed to the task to consider shirking or not completing what he had agreed to do. In late August or early September we exchanged second drafts and discussed some remaining issues on the telephone. Of course, the lectures were completed and sent to the discussants in ample time for them to prepare their presentations.

Karl was a penetrating critic of parts of the material I had written. Although his eyesight was poor, very little escaped him. He would often call during the week, on the weekend, in the evening, anytime, about a paper he was reading. Whether it was mine, or someone else's, we would go through the argument step by step until we were both satisfied. I work very differently, often preferring to think through as much of the issue as I can before beginning a discussion. Sometimes this takes me in a wrong direction. We used the telephone to discuss these differences. On occasion, we supplemented the discussion by exchanging written notes. Usually, we worked out differences in a series of phone calls, at times interrupted to complete analytic work which we communicated by phone.

Despite his illness, Karl was determined to present half of the lectures in Milan. Since he could not see to read notes, he memorized four hours of material and presented it without a mistake at two of the sessions. It was a remarkable performance, and I am sure that many of those who were present share my admiration of his outstanding presentation.

Although we collaborated for many years, we also worked with others and alone. Usually we talked about the topic and the substance of these papers in our telephone conversations. Karl often made a contribution to what I was doing, and vice versa. I cannot recall that we ever discussed whether something was part of our collaboration, and I know that we did not have a formal rule for making such decisions. Yet, we never disputed each other's judgment about whether the work was collaborative. Perhaps that was why we were able to work together so long and, I believe, so fruitfully.

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Karl Brunner was a remarkable man of great intellectual ability, courage and iron determination, capable of giving and receiving a deep and lasting friendship. Many will miss him, none more than I.

ALLAN H. MELTZER