

Who was Karl Brunner?

Karl Brunner was born in Zurich 100 years ago on 16 February 1916. He studied economics at the University of Zurich and the London School of Economics, and earned a doctorate at the University of Zurich in 1943. After a short period as an economist at the SNB and as a research assistant and lecturer at the University of St. Gallen, he received a grant from the Rockefeller Foundation. He left Switzerland in 1949 to take up a position as a visiting fellow at the Cowles Commission, University of Chicago. After a two-year fellowship, he moved to Los Angeles in 1951 to begin an academic career at the University of California, where he worked his way up from Assistant Professor to Associate Professor and, from 1961, to Full Professor. In 1966, he was appointed Professor at the Ohio State University, before moving to the University of Rochester in 1971, where he became the Director of the Center for Research in Government Policy and Business. In the 1970s, Karl Brunner frequently returned to Europe after accepting a professorship at the University of Konstanz, Germany (1969–1973) and subsequently the University of Bern, Switzerland (1974–1985). In 1979, Karl Brunner was named the Fred H. Gowen Professor of Economics at the University of Rochester, a position he held until his death on 9 May 1989.

A list of his extensive academic oeuvre makes for impressive numbers: over his professional career of 43 years, he wrote 87 journal articles, 24 position papers for the Shadow Open Market Committee, 4 books, edited or co-edited 36 volumes, contributed 71 articles to books, volumes, conferences and congressional hearings, and left behind 12 unpublished papers. In contrast to the life-cycle productivity model, his writing became more prolific as he got older: 2 works in the late 1940s, 10 in the 1950s, 40 in the 1960s, 87 in the 1970s, and 95 in the 1980s. Altogether, he wrote 234 works on a whole range of economic disciplines, including monetary theory, monetary policy, macroeconomics, econometrics, international finance and public choice. He also focused on philosophy of science and moral philosophy issues.¹ The following focuses on just two fields in his impressive research output: money and the role of information, and monetary policy.

¹ Cf. Michele Fratianni. 1990. A Scholar and a Friend Has Died: In Memoriam of Karl Brunner. *Open Economies Review* 1: 297–307.

Money and information: Karl Brunner declared costly information to be the *raison d'être* of money as a medium of exchange. People use money to save themselves information and transaction costs. A world of free information and no transaction costs gives no rationale for the existence of money. Models with full information are unable to explain the use of money as a medium of exchange. By contrast, the continually developing structure of information and transaction costs causes an evolution in what society uses as money. Information costs would also explain why prices and salaries only adjust gradually.

Monetary policy: Against the background of a reality characterised by incomplete information and uncertainty, Karl Brunner was unconvinced by activist monetary policy – policy solely committed to stabilising the economy. He felt that activism is only justified if a central bank (and the state as a whole) has access to privileged information, which it has to use in the general interest of the country. He doubted that this situation ever actually occurred. He believed that, although activism could promise stabilisation, the risk of destabilisation would persist. Destabilisation was a consequence of our incomplete knowledge of the structure of the economy. He concluded that it was better for a central bank to announce a monetary target and then do everything in its power to attain this target, thus pursuing a rule-based and not a discretionary monetary policy.

Karl Brunner is also famous for strongly criticising central banks for a lack of transparency and accountability of their decisions. He believed that central banks exercise enormous power. As a counterpart, he demanded that central banks provide open communication, maximum transparency and regular accountability.