Why is the first award going to Kenneth Rogoff?

Kenneth Rogoff is the first academic to be honoured in the Karl Brunner Lecture Series, owing to his numerous groundbreaking studies on research topics that are highly relevant to central banking.

After obtaining his PhD from MIT, he started his professional career at the Board of Governors of the Federal Reserve System (1980–1983), before opting to follow an academic path. This is probably one reason why his research is always of relevance for economic policy. His research is often motivated by a desire to improve the analytical foundations for economic policy decision-making. In particular, he has done important work on topics of relevance for central banking, such as exchange rates, central bank independence, sovereign debt and financial crises.

After his time at the Federal Reserve, he went first to Wisconsin and then to Berkeley. It was during this period that he published some major contributions on macroeconomics in open economies. According to a first empirical study, written together with Richard Meese and published in 1983, exchange rates appear to follow 'random walks'. This means that macroeconomic models are of no help in forecasting short-term exchange rate movements. The best forecast for an exchange rate is that it will stay unchanged. At the time, this insight was the exact opposite of what many had been thinking – and what most models had been predicting. Today, it is a generally accepted empirical fact.

The next important study, published in 1985, was of great significance for the theory of central banking. In it, Rogoff proposed a new institutional approach, as a way of dealing with credibility problems in monetary policy. Using a model, he demonstrated why a country can benefit from having an independent central bank, even if the aims of society and the central bank appear to be at odds with each other in the short term. To achieve welfare gains, central bankers should be more inflation-averse than the society which appoints them. However, the central bank should not be totally conservative and concentrate solely on inflation, but should also factor labour market conditions into its decision-making. When the study was published, there were only a few central banks that had the necessary autonomy from the world of politics and hence the incentive to meet inflation objectives. Nowadays, this is the norm around the globe.

In those years, Rogoff also developed a keen interest in sovereign debt. This resulted in him presenting (together with Jeremy Bulow, 1988, 1989) the first formal model of the moral hazard which faced international creditors. The central question was: why should sovereign states voluntarily choose to repay external debt? One conclusion of these analyses was that models in which states repay their debts out of concern for their reputation and future access to credit are too simplistic. The decisive factors in the repayment of external debt are things like the legal institutions in the creditor countries.

Another question on which he has focused is the influence of electoral cycles on budget deficits. Here, he investigated (together with Anne Sibert, 1988) the incentives that lead politicians to expand government budgets in the run-up to an election. The authors show that this can be understood as the result of a signalling process, in which politicians try to demonstrate their competency to the voters.

In 1992, Rogoff moved to Princeton, where he stayed until 1999, and followed a very demanding research programme, together with Maurice Obstfeld. In the main, the objective was to replace the Mundell-Fleming-Dornbusch open-economy model, which had in the past been the central model for practically all analyses of external economy, with a modern micro-based macro model. The model adopts the empirical constructs of the earlier analytical framework, but underpins it with microfoundations and uniformly integrates dynamic relations. Thanks to this new approach, important intertemporal themes can be investigated, such as current account and government budget deficits, as well as exchange rates and international monetary policy transmission mechanisms. This research gave rise to a seminal paper on the dynamics of exchange rates ('Exchange Rate Dynamics Redux') and a famous textbook on the *Foundations of International Macroeconomics*, which heralded the advent of 'new open economy macroeconomics'.

In 1999, he moved to Harvard, where he embarked on another ambitious, multi-year research project, this time with Carmen Reinhart. This involved them spending seven years collecting and evaluating data on financial crises in 70 countries over an 800-year period. Thanks to this very comprehensive data set, they were able to investigate the development of macroeconomic key indicators such as unemployment, housing and share prices, economic growth and debt during a financial crisis. The result was their book *This Time is Different: Eight Centuries of Financial Folly*, published in 2009. The book shows the relationship between debt and crisis through history. The authors argue that too much debt will at some point lead to a crisis. They also show that financial crises are much more widespread, and have many more quantitative similarities in the aftermath, than previously believed. When the book was published, its bestseller potential was by no means assured. Despite the auspicious timing – there was an urgent need for a clear portrayal of what was happening on the financial markets at the time – the book is decidedly scientific in its approach and is replete with data, tables and footnotes.

Kenneth Rogoff’s latest work, *The Curse of Cash*, was recently published by Princeton University Press, and has already been shortlisted by the Financial Times in its Business Book of the Year competition for 2016. Kenneth Rogoff, who held the inaugural lecture at the Karl Brunner Lecture Series in 2016, was being honoured by the SNB for his entire oeuvre.