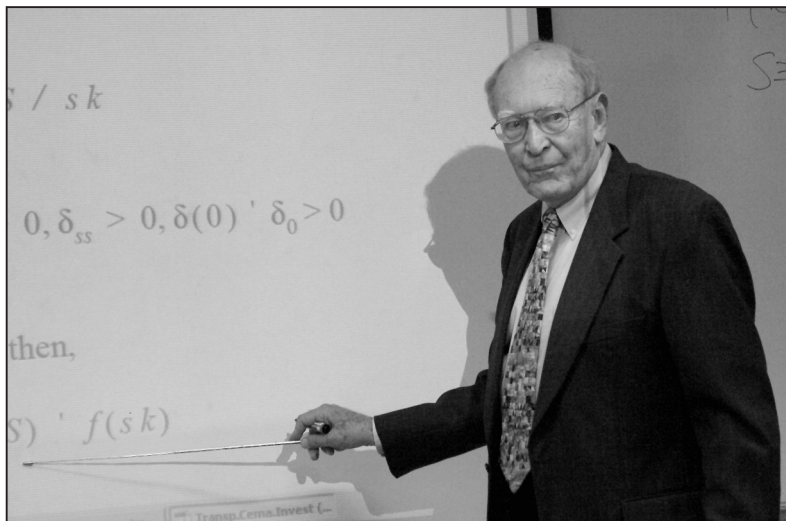


LEONARDO “PEPE” AUERNHEIMER

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Leonardo Auernheimer, 1936-2010

I met Pepe in the early 1960s, and if my memory does not fail me, we met at the Teubal family’s extensive “quinta” in the outskirts of Buenos Aires, where it felt that there was always room for “one more.” The quinta became the meeting place of a group of (mostly) economists, many of whom were about to make the “who-is-who” list of economics in Argentina. Miguel “Michel” Teubal, who had recently returned from Berkeley, had the key to the door, and made everyone feel at home. We discussed art, mathematics, theater, economics and politics in an environment that was decidedly liberal (in the Anglo-Saxon sense). Pepe was not a regular but he showed up a couple of times. That was enough for me to like him. I immediately sensed that I was dealing with an inquisitive mind. But what made Pepe stand out in that exceptional group was that he was not after your life, trying to find a hole

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in your logic, as many bright economists are. He was genuinely interested in learning about what was churning in your mind. Don't be mistaken, though. Pepe was not a bore, a geek or a nerd as they say these days. He was also fun, and he loved to have fun: a happy bright young man.

Soon after we met, we headed in different directions, and stopped seeing each other for more than ten years! He went to Europe and New York; he studied in Chicago; I in Yale. Afterwards we worked in different parts of the world (Pepe in Brazil, I in Peru and Colombia). Distance is not an issue these days, but it was like living in different galaxies then. We met again at Columbia University in 1973 through Carlos Rodríguez, who met Pepe in Chicago University, and became close friends. Pepe was then a budding celebrity. He was about to publish his seminal paper "The Honest Government's Guide to the Creation of Money," in the *Journal of Political Economy*. The first time I heard about his insight was from Larry Sjaastad, his thesis adviser, in 1972, when we were both working for the Ford Foundation in Bogota, Colombia. We discussed Pepe's insights many times – switching from saying that it was just a "trick" to that it represented a deep new finding. Now we know better. This paper opened the door to ideas that were to become fundamental for the new macro that was beginning to stir in the early 1970s, and that eventually helped to establish the logical basis for the statement that, as a general rule, policymaking is subject to Time Inconsistency: policies that look optimal from the perspective of time t stop being so at $t + 1$. Not because policymakers are born cheaters. Under incomplete markets, the Time Inconsistency literature shows that even do-gooders change their minds! The problem is that if the public anticipates that policymakers are going to switch direction at every turn of the way, the public will start disbelieving policy announcements. Policy announcements become a charade and policymakers lose credibility. In a monetary economy, for example, this situation may send the economy careening towards hyperinflation! This insight is the main intellectual basis for initiatives aimed at trying to keep politics out of policymaking – for instance, making the central bank independent of the vagaries of the political apparatus.

Finn Kydland and Ed Prescott won a Nobel Prize for fleshing out the above insight (among other things). Why not Pepe? The formal answer is that he did not pursue his insight far enough and left it dangling for others to take advantage of (I was one of the beneficiaries, see my Time Inconsistency paper in *Econometrica* 1978). But if you ask for a short answer, mine would be: "because he was too much of a good guy." I think he never thought he could be better than thou, which probably led him to conclude (wrongly) that his finding in the *JPE* paper was just a "trick."

We will never know, but what makes me think so is that this was not his only home run. I think it is fair to say that he was one of the founders of the Fiscal Theory of the Price Level, a topic that attracted the likes of Sims and Woodford. His paper presents the central results of such a theory in terms of an elegant model, where the message jumps out at you with a minimum of effort – a style that the profession should aim to emulate. He sent it around but it was largely ignored. Pepe, being too much of a good guy, was not the type to go to conferences and shout for everyone to hear: “I am the father of this beautiful baby!” Besides, his model was “too simple” for a profession that already was increasingly focused on technique, to the detriment of substance. All of which made it easy for the profession to ignore his contribution. As a result, he kept the paper under wraps and published it many years later (to my delight, it can be found in the *Festschrift* in my honor edited by Carmen Reinhart, Carlos Végh and Andrés Velasco, MIT Press 2008).

I had the privilege of being Pepe’s steady friend since we met for the second time in the 1970s. Our friendship solidified when we were both guests at the *Centro de Estudios Macroeconómicos de Argentina* (CEMA), Buenos Aires, for one semester in 1980. Those were exciting times in Argentina. Petrodollars were flowing in and the foreign exchange “tablita” system (an exogenous crawling peg) was born. Inspired by simple-minded monetarism, the hope was raised that the new monetary anchor would help win the almost century-long battle against inflation. It didn’t. But the constant and rigorous discussion about these issues at CEMA – with Carlos Rodríguez, Rolf Mantel, Larry Sjaastad, Roque Fernandez, Pedro Pou and many others – created a cauldron of ideas about inflation stabilization that are still relevant today. Pepe was an active participant and put forward challenging ideas but, despite the sometimes rough debate, he was always the quiet and thoughtful voice that gave constructive comments. Comments that led the rest of us to try new versions of the papers rather than fall into despair and dump them in the trash can.

Over the years, our conversations roamed in different directions. We talked a lot about our families and friends. We talked about travel, art... and wine. We cried at unison about an Argentina that we both deeply loved, and the frustration of seeing it helplessly fall into the abyss. Our conversations continued until the very end. But his silent voice is still strong in my mind. As is his example. He never expressed self-pity, not even when the chips were clearly down, and hope was waning. He was worried, yes, but worried about his family, making sure that they had all the necessary tools to keep the household running without a hitch – revealing once again the wonderful human traits that he displayed all his life.

Dear Pepe: Everyone who knew you will miss you dearly!