

## Laudation for Alberto Alesina's First Munich Lecture, November 14, 2006

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### Mr. President, Mr. Finance Minister, Ladies and Gentlemen

It is a great honor and a personal privilege to give this laudation for the Distinguished CES Fellow Prize. For Alberto Alesina is not only a great economist, but also a good friend.

Let me begin with a few glimpses from his illustrious career. Like several other top economists, Alberto took his first steps into the profession at Bocconi University in Milan. Part of his undergraduate thesis there became his first publication. In fact, the book where Alberto's paper appeared in 1982 was edited by another young economist, one year his senior: the 1999 CES Fellow, Guido Tabellini.

As a brilliant Bocconi undergraduate, you were expected to get a doctorate abroad, which traditionally had meant Cambridge, UK. By the 1980s, the tides had turned towards Cambridge, MA. While others had obtained an MIT degree, Alberto was one of the first Italian economists to enter the Harvard PhD program. As other fellow countrymen, he was inspired by the mess in Italian policymaking at the time. So he decided to work on political economics and became a student of Jeff Sachs. Luckily enough, at least for Alberto, Sachs broke his leg and couldn't travel for six weeks, and during this unusual period of uninterrupted access the most important ideas of the thesis were developed.

When the thesis was finished in 1986, Alberto's first academic job took him to Pittsburgh and Carnegie-Mellon University, where I remember having our first serious discussion about economics. After only two years, however, he was back in Cambridge and has remained at Harvard ever since, with only brief interludes elsewhere.

Harvard has certainly been a very productive place for Alberto, who is one prolific economist. His CV mentions 10 books, 85 journal articles and quite a few more in the pipeline. Two dozens of the articles are published in the five most prestigious journals of the profession, a rate well above one top publication per year, over a 20-year career. While such a publication record is certainly very, very impressive, it is not completely exceptional among top economists.

What is exceptional, however, is the originality you find in Alberto's work. He has simply come up with a cascade of new and exciting ideas on a range of different topics. This presents a slight problem for me, because – in the short time I have – I can only tell you about a trickle of that cascade. Let me briefly talk about three themes in Alberto's research.

A first theme, which appeared already in the PhD thesis, was the *convergence* of economic policy to the *political midfield*. Ever since the classic work by Anthony Downs, political scientists and economists had modeled such convergence as the result of electoral competition for the median voter. But that work relied on a critical assumption: political candidates make binding promises during electoral campaigns what policies they will pursue in office. Real-world observations cast doubt on this assumption; recall the read-my-lips promise by George Bush the older about no new taxes. Seeing this credibility problem – and noting how game theory was being applied in industrial organization and macroeconomics – Alberto decided to analyze electoral competition between policy-motivated parties that are unable to make binding campaign promises.

This approach led him to several new findings. First, you may get a political business cycle driven by shifts in political power, even if voters are forward-looking and have rational expectations. Such partisan cycles appear in several economies: in the US, virtually all new Democratic administrations since WWII have come with a post-election expansion, while Republican administrations have come with a post-election contraction.

Second, policy-motivated parties find large swings in policy to be costly. Over a longer horizon, each party may therefore prefer a tacit agreement where they do not push policy too far if they get a temporary hold on political power. In this case, any convergence towards the political midfield is driven by collusion between the parties, rather than by competition between them.

Third, under some political institutions the voters themselves have the ability to implement a policy compromise. In particular, US voters may want to balance a president from one party with a congressional majority from the other. The US election outcome we observed last week is therefore just an example of a more general phenomenon: the mid-term cycle.

Another theme in Alberto's early work was the *budget deficits* observed in many western economies in the 1970s and 80s. Rather than thinking about budget deficits as isolated policy mistakes, he tried to explain their occurrence by systematic political forces.

One such force is a kind of short-sightedness induced by political turnover. Deficit-financed spending today imposes cuts in future spending. But if these spending cuts – with some probability – will not be carried out by today's government, but by a political rival with different spending priorities, the current benefits of deficit-financed spending prevail over the future costs. Similar dynamic games between government and opposition have since been used by others to shed light on various policies with long-run consequences.

Another force that may explain deficits is power struggles *within* government. Curbing a deficit requires cuts of specific spending programs or hikes of specific taxes. This provokes conflicts of interest between different groups, each of which would rather see another group bearing the cost of stabilization. The result may be a war of attrition, where each group waits for others to give in and the public debt keeps accumulating. As Alberto has shown, this mechanism may explain why deficits are larger and more prevalent under coalition governments than under single-party governments.

The early 1990s were exciting times in macroeconomics, because of the breakthroughs in “new growth theory”. Alberto quickly saw the connection between *economic growth and politics*, and turned his research to a third theme: the interplay between growth and income distribution.

His first paper on this issue, which is probably his most influential paper to date, showed how income inequality may slow down economic growth. The theory showed how high inequality might trigger redistributive policies at the expense of more growth-promoting policies, such as investments in infrastructure. But the paper also discovered that the predicted relation seemed to hold empirically: more equal income distributions go hand in hand with higher economic growth.

In subsequent empirical work, Alberto found that the mechanism whereby unequal income distributions harm growth, may involve political instability rather than redistributive policies. Be that as it may, his work helped to kick-start a new research field on politics and growth, which is still highly active.

This short description has only covered part of the research in the first half of Alberto's career. He has also done outstanding work on a range of other questions. If central bank independence reduces inflation, what's the cost for the real economy? How does ethnic and linguistic heterogeneity impinge on economic policymaking? What are the forces driving the size of nations? Why do European states redistribute so much more than the United States? Why do some countries adopt the currencies of others? How should we think about the choice of political institutions, such as electoral systems, and their effects on economic policy? By the way, the last question will be the topic of tonight's lecture.

Alberto's work has been extraordinarily influential in economics, and in parts of political science. The usual way to measure the influence of a scholar is to look at citations to his published work. A modern and easily available source is Google Scholar, which basically records all citations on the web to scientific papers. If you are an economist and one of your papers has 100 hits in Google Scholar, you can be pretty sure that your peers are paying close attention to the contents. Alberto has 44 papers with more than 100 hits, which – I'm willing to bet – is close to the very top of the profession.

Why has Alberto's research been so influential? I have already mentioned his ability to come up with new ideas and questions, well in tune with the current thinking of the profession? But there is more than that. Alberto is an unreconstructed macroeconomist, in that he does not shy away from asking "big questions". He also does not shy away from making his points in a simple way. When Alberto writes down a model, or carries out an empirical analysis, his main aim is not maximal generality, but maximal transparency in bringing home the main idea. This allows other researchers to see the force of the argument and to stand on his shoulders, building their own analysis, extension, or counterargument around Alberto's work.

**Dear Alberto:** Your research has helped build the field of modern political economics as part of the professional mainstream. This field has brought along new and extensive research on what types of policies are politically feasible, questions which earlier analyses had not posed. As a result, the discussion of economic policy has shifted from isolated policy measures to the institutions of policymaking. In short summary, your work has changed the way economists, and political scientists, think about the interaction between the economy and the polity.

Let me end by conveying to you the warmest congratulations upon this important award, on behalf of myself and of many colleagues and friends. At this point, all of us here tonight, just want to see you accept the Prize and deliver the first Munich Lecture.