

BBVA Foundation Frontiers of Knowledge Award in Economics, Finance and Management

The BBVA Foundation distinguishes the economist Daron Acemoglu for establishing the key role of institutions in fostering economic development

- Contrary to the hypothesis of geographic determinism, his research into the development of former colonies uncovered empirical evidence that quality of institutions was a key driver of economic development
- Acemoglu developed the concepts of inclusive institutions, which contribute to prosperity, and extractive institutions, which hold back development to the detriment of most of society
- He has also researched into labor market differences, explaining the seeming paradox that an increased supply of skilled workers does not translate as lower wages

Madrid, February 21, 2017.- The BBVA Foundation Frontiers of Knowledge Award in the Economics, Finance and Management category goes, in this ninth edition, to Daron Acemoglu, a professor at Massachusetts Institute of Technology (MIT), for identifying the causal impact of institutions on economic development, through an innovative mix of theoretical and empirical analysis “that has been influential not only in economics, but also in political science, history, and social sciences more broadly.”

Jury secretary Manuel Arellano describes Acemoglu as “outstanding in his ability to combine a prolific output of exceptional quality in diverse research fields, with major contributions in each, with an approach that is at once empirical and theoretical.”

The new laureate, he continues, “has helped elucidate the determinants of long-term economic development, with particular emphasis on the important role played by institutions and social organization. Acemoglu's novel contribution was to deploy a strategy that led him to empirical evidence identifying the causal effect of institutions on development.” His research has opened up a whole new

field where researchers can measure and quantify the impact of the institutional model on a society's development at different scales.

Growth economics explores the question of why some countries are richer than others. A research field brought to prominence from the 1950s onwards by the work of Robert Solow, the 1987 Nobel Laureate and one of Acemoglu's nominators, it nonetheless had to contend with a lack of consensus over the determinants of growth, and a dearth of empirical evidence to support the contesting theories.

Solow himself in his nomination statement cites Acemoglu's *Introduction to Modern Economic Growth* (2009), now a standard work of reference setting out tools, models and background knowledge for researchers in the field. But it was before this, in 2001, that Acemoglu published "The Colonial Origins of Comparative Development: An Empirical Investigation," with professors Simon Johnson and James Robinson. In this paper, the authors took issue with the dominant current of geographical determinism, producing empirical evidence of institutions' causal role in economic growth. Their evidentiary starting point was settler mortality: in colonies with a greater chance of survival, settlers sought to replicate the governance institutions of their home countries, and this eventually set their economies on a trajectory of stronger, more sustained growth. For instance, comparing Nigeria and Chile in 1995, they concluded that with institutions similar to Chile's, the income of Nigeria would have increased seven fold.

Acemoglu employs a broad definition of institution, extending to "all the formal and informal rules that govern human interaction," from labor legislation to property and contract rights (legal certainty), by way of transaction costs, infrastructures or the education system as a means to spread out opportunity.

In 2012, he published *Why Nations Fail. The Origins of Power, Poverty and Prosperity*, again with James Robinson, in which the two men developed the concept of inclusive and extractive institutions. As Acemoglu defines them, "inclusive institutions provide incentives for investment and innovation and they provide a level playing field so that the majority of a nation's population can deploy their talent. These economic institutions generate prosperity. But most societies are ruled by extractive institutions, which create insecure property rights, don't allow contracts, discourage innovation and technology adoption, and most importantly, create a very tilted playing field, advantaging a small segment of society, and sometimes even coercing people to work at low wages in occupations they shouldn't be in, and banning them from occupations they wish to enter."

On the question of how a society can get from an extractive to an inclusive institutional framework, Acemoglu says that "there is no easy way, but summarizing our research briefly, we have also found no other way of ensuring long-run prosperity for a nation than striving towards achieving inclusive institutions." It is possible for an economy in the grip of extractive institutions to

experience vigorous growth for a time, but “long-run, sustained economic growth needs technological change, innovation and creativity, and all those things flourish under inclusive economic institutions.”

Angus Deaton, also a nominator and Nobel laureate in 2015, explains that Acemoglu's leadership in this field relies on “a mixture of deep historical analysis, research into politics, and a range of imaginative econometric investigations.”

The jury also makes mention of Acemoglu's incisive analyses of labor market differences, showing, for instance, “how directed technical change can explain a number of puzzling observations such as the concomitant increases in the wages of skilled workers and their supply.” It might seem counterintuitive that a growing supply of skilled workers would serve to increase rather than lower their wages, but Acemoglu showed that with the right technology complement, the resulting advance in productivity permits an accompanying advance in wages.

He has recently been drawn to analysis of the linkage between new technologies and the economy, with particular regard to network interactions.

Daron Acemoglu bio notes

Daron Acemoglu (born in 1967 in Istanbul, Turkey, of Armenian descent and now American citizen) graduated from the University of York (United Kingdom) in 1989 then went on to earn a PhD in 1992 from the London School of Economics, where he stayed on teaching for a year. In 1993, he joined the faculty at Massachusetts Institute of Technology (MIT) where he is currently Elizabeth and James Killian Professor of Economics.

He has authored around 120 papers in leading international publications like the *American Economic Review*, *Journal of Political Economy* or *Review of Economic Studies*, as well as four books.

A member of the American Academy of Arts and Sciences, the European Economic Association and the Econometric Society, at the age of just forty he was appointed editor of the society's journal *Econometrica*. His multiple distinctions include the 2005 John Bates Clark Medal, which the American Economic Association then bestowed biennially on the most outstanding U.S. economist under forty.

About the BBVA Foundation Frontiers of Knowledge Awards

The BBVA Foundation has as its core objectives the promotion of scientific knowledge, the transmission to society of scientific and technological culture, and the recognition of talent and excellence across a broad spectrum of disciplines, from science to the arts and humanities.

The **BBVA Foundation Frontiers of Knowledge Awards** were established in 2008 to recognize outstanding contributions in a range of scientific, technological and artistic areas, along with knowledge-based responses to the central challenges

of our times. The areas covered by the Frontiers Awards are congruent with the knowledge map of the 21st century, in terms of the disciplines they address and their assertion of the value of cross-disciplinary interaction.

Their **eight categories** include classical areas like Basic Sciences and Biomedicine, and other, more recent areas characteristic of our time, ranging from Information and Communication Technologies, Ecology and Conservation Biology, Climate Change and Economics, Finance and Management to Development Cooperation and the innovative artistic realm that is Contemporary Music.

The BBVA Foundation is aided in the organization of the awards by the **Spanish National Research Council (CSIC)**, the country's premier public research agency. As well as designating each jury chair, the CSIC is responsible for appointing the technical evaluation committees that undertake an initial assessment of the candidates put forward by numerous institutions across the world, and draw up a reasoned shortlist for the consideration of the juries.

Economics, Finance and Management jury and technical committee

The jury in this category was chaired by **Eric S. Maskin**, Nobel Laureate in Economics and Adams University Professor at Harvard University (United States), with **Manuel Arellano**, Professor of Econometrics in the Center for Monetary and Financial Studies (CEMFI) of Banco de España (Spain), acting as secretary. Remaining members were **Pinelopi Goldberg**, William K. Lanman, Jr. Professor of Economics at Yale University (United States); **Andreu Mas-Colell**, Professor of Economics at Pompeu Fabra University in Barcelona (Spain); **Lucrezia Reichlin**, Professor of Economics at the London Business School (United Kingdom); and **Jean Tirole**, Nobel Laureate in Economics and Chairman of the Foundation Jean-Jacques Laffont at Toulouse School of Economics (France).

The **CSIC technical committee** was coordinated by **Ana Guerrero**, the Council's Deputy Vice President for Scientific and Technical Areas, and formed by: **José Luis Oviedo**, Tenured Researcher at the Institute of Public Goods and Policies (IPP); **Francisco Javier Sanz Cañada**, Tenured Researcher at the Institute of Economics, Geography and Demography (IEGD); **Esther Hauk**, Research Scientist at the Institute for Economic Analysis (IAE); **Laura Beatriz Mayoral Santamaría**, Research Scientist at the Institute for Economic Analysis (IAE); and **José Antonio Berenguer Sánchez**, Coordinator of the CSIC Humanities and Social Sciences Area and Research Scientist at the Institute of Languages and Cultures of the Mediterranean and the Middle East (ILC).

CALENDAR OF UPCOMING AWARD ANNOUNCEMENTS

Development Cooperation	Tuesday, February 28, 2017
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Previous awardee in this category

The **Economics, Finance and Management** award in last year's edition went to **Robert B. Wilson** for his research on auctions, electricity pricing and reputation, and his analysis of strategic interactions when economic agents have limited and different information about their environment.

Five of the 79 winners in earlier editions of the BBVA Foundation Frontiers of Knowledge Awards have gone on to win the Nobel Prize. **Shinya Yamanaka**, the 2010 Biomedicine laureate, won the Nobel Prize in Medicine in 2012; **Robert J. Lefkowitz**, awardee in the same Frontiers category in 2009, won the Chemistry Nobel in 2012. In Economics, Finance and Management, three Frontiers laureates were later honored with the Nobel: **Lars Peter Hansen**, winner of the Frontiers Award in 2010 and the Nobel Prize in 2013; **Jean Tirole**, Frontiers laureate in 2008 and Nobel laureate in 2014; and **Angus Deaton**, 2011 Frontiers laureate and Nobel laureate in 2015.

LAUREATE'S FIRST DECLARATIONS AND IMAGES

A video recording of the new laureate's first interview on receiving news of the award is available from the Atlas FTP with the following coordinates:

Server: **5.40.40.61**

Username: **agenciaatlas5**

Password: **premios**

The name of the video is:

"PREMIO ECONOMÍA"

In the event of connection difficulties, please contact Alejandro Martín at Atlas:

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