

Economics, Finance and Management is the seventh category to be decided in the sixth edition of these awards

Elhanan Helpman wins the BBVA Foundation Frontiers of Knowledge Award for explaining how the behavior of firms and investment shapes the global marketplace

- Helpman's name is associated with two theories that have redefined key areas in modern economics: international trade and output growth
- His contributions include the analysis of the production location choices of multinational firms and the relationship between organizations and protectionist political economy

Madrid, February 18, 2014.- The BBVA Foundation Frontiers of Knowledge Award in the Economics, Finance and Management category goes in this sixth edition to Elhanan Helpman for his outstanding work in two key areas in modern economics: international trade and output growth. Helpman's name is the common strand in two theories that transformed these fields: in the first case, through the integration of multinational corporations into standard trade models, and, in the second, by casting innovation as an engine of growth alongside the traditional factors of labor and capital.

Helpman take the award, in the words of the jury's citation, for "his fundamental contributions to the understanding of modern international economics and of economic growth." On receiving the news, Helpman expressed his profound satisfaction "because I know it has gone in the past to extremely distinguished economists, and I feel honored to join them."

Helpman, an Israeli national born in the former Soviet Union, spent his childhood in Poland and later Israel, where he studied economics. In 1971, he moved to the United States to complete his training at Harvard University. After many years on the faculty at Tel Aviv University, he returned to Harvard to take up the post of Professor of International Trade, which he combines with his leadership of the Program on Institutions, Organizations and Growth of the Canadian Institute for Advanced Research.

Originally drawn to the study of engineering, his mind was changed for him during military service in Israel, when a female comrade lent him Paul Samuelson's book *Economics: An Introductory Analysis*: "I started to read it and simply could not stop. By the end of the book I knew that it was economics that interested me most."

Asked why he chose to focus on international trade, Helpman explains "it's a field where you simultaneously study aspects of macroeconomics, microeconomics, public economy and labor policy. I've always been attracted to areas where you can bring new approaches to bear on fundamental issues."

In the 1970s, he began to analyze trade flow patterns and reached two conclusions that refused to fit with the model taught during his student years: firstly, that world trade was mediated more by multinational corporations than homogeneous sectors; and, secondly, that most trade was happening between countries of a similar economic level, contrary to the then-prevailing theory of comparative advantage.

The jury goes on to say in its citation that "his research has highlighted the role of market structure as well as multinational firms." And adds that "Helpman's research has transformed the theory of international trade by giving it a strong grounding in the theory of the firm and of monopolistic competition. In several papers, he laid the foundations for integrating the traditional theory of comparative advantage with the behavior of transnational firms and foreign direct investment. This work helped to initiate a large literature on the location of production of final and intermediate goods across countries."

Helpman considers that much still needs doing on the question of multinational firms and their influence on world trade: "We can imagine models that multinationals work with and we know they are influential in economic policy formation, but there's not enough research coming up with hard evidence."

Where we can point to solid advance is in the analysis of non-cost determinants of production location: "To choose a location firms have to decide what production they want in a given market and the proportion they are looking for between export and domestic sales, but they also have to consider the country's legal system and the certainty of contracts. Multinationals tend to work with numerous suppliers and they have to be sure that they will all abide by their contracts. Another big factor is taxes, which vary a lot from one country to the next."

Theoretical and empirical economics

Helpman is a theoretical economist for whom "a model is good if it is able to address some interesting questions and provide non-trivial answers." But he is also keenly aware of the value of empirical work, citing for example "descriptive work that offers revealing data on what is happening in a country," and carries this conviction into his own writing: "As much as I like to know facts and understand real-world phenomena, I feel that my comparative advantage is in applied

theory. For these reasons, I much prefer to have a co-author who is well versed in empirical methods.”

In the case of international trade theory, he is co-author with Paul Krugman of the 1985 book *Market Structure and Foreign Trade*. The two men, however, differed in their approach, with Helpman more interested in exploring the links between trade, foreign direct investment, economic growth and political economy. This interest would lead him to develop a new theory of economic growth with colleague Gene Grossman, whose fruit was their 1991 publication *Innovation and Growth in the Global Economy*.

In the words of the jury: “Helpman’s model of quality ladders contributes to the literature analyzing how cumulative innovation promotes economic growth.” This is among the issues explored in his 2004 book *The Mystery of Economic Growth*, where he reviews in detail the factors and processes that have helped rich countries grow and left poor countries struggling. In particular, he points to institutions – including property rights protection, legal systems, customs, and political systems – as the key to the mystery of economic growth. A mystery whose solution could lead to policies capable of setting the poorest countries on the path of sustained growth.

“Another set of contributions,” the citation continues, “analyzes the competition for protection among political interest groups. His research on the politics of protection has suggested that an industry’s level of protection is related, among other things, to the level of its political organization, its exposure to foreign trade, and the responsiveness of domestic prices to variations in tariff protection.”

Helpman recalls that “when we talk about the politics of trade and its quotas, taxes, free-trade areas... there are a lot of players in the game. Also important is the interaction between domestic and international policy. Part of the research effort in the political economy of protection involves understanding how these forces combine and what results we can expect in policy terms. In analytical terms, the goal is to predict the level of protection each industry can afford.”

The BBVA Foundation Frontiers of Knowledge Awards

The BBVA Foundation promotes, funds and disseminates world-class scientific research and artistic creation, in the conviction that science, culture and knowledge in its broadest sense hold the key to a better future for people. The Foundation designs and implements its programs in partnership with leading scientific and cultural organizations in Spain and abroad, seeking to identify and prioritize those projects with the power to move forward the frontiers of the known world.

The BBVA Foundation established its Frontiers of Knowledge Awards in 2008 to recognize the authors of outstanding contributions and radical advances in a broad range of scientific and technological areas congruent with the knowledge map of the late 20th and 21st centuries, and others that address central challenges, such as climate change and development cooperation, deserving of

greater visibility and recognition. Their **eight categories** include classical areas like *Basic Sciences (Physics, Chemistry and Mathematics)* 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 realm of artistic creation that is *Contemporary Music*.

The **juries** in each category are made up of leading international experts in their respective fields, whose involvement endorses the rigor of the awards and has indeed been instrumental in consolidating their prestige. The BBVA Foundation is aided in the organization of the awards by the **Spanish National Research Council (CSIC)**, the country's premier multidisciplinary research organization. As well as proposing each jury chair, the CSIC is responsible for appointing the Technical Evaluation Committees that undertake an initial assessment of candidates and draw up a reasoned shortlist for the consideration of the juries.

In the Economics, Finance and Management category, Committee members were Luis Sanz Menéndez, research professor in the Institute of Public Goods and Policies (CSIC); Cristina de la Puente González, research scientist in the Institute of Languages and Culture of the Mediterranean and Middle East (CSIC), and Ángel de la Fuente, of the Institute for Economic Analysis (CSIC).

Economics, Finance and Management jury

The jury in this category was chaired by **Kenneth J. Arrow**, Nobel laureate in Economics and Professor of Economics and of Operations Research, Emeritus, at Stanford University (United States), with **Manuel Arellano**, Professor of Econometrics at the Center for Monetary and Financial Studies (CEMFI) (Spain), acting as secretary. Remaining members were **Andreu Mas-Colell**, Professor of Economics at Pompeu Fabra University (Spain); **Albrecht Ritschl**, Professor of Economic History at the London School of Economics (United Kingdom); and **Jean Tirole**, Chairman of the Board of the Fondation Jean-Jacques Laffont at Toulouse School of Economics (TSE) and Scientific Director of Toulouse University's Institute for Industrial Economics (France).

Previous laureates

Last year's winner in this category was **Paul R. Milgrom** for "his seminal contributions to an unusually wide range of fields of economics including auctions, market design, contracts and incentives, industrial economics, economics of organizations, finance, and game theory." Preceding him were **Angus Deaton** "for his fundamental contributions to the theory of consumption, savings and the measurement of economic wellbeing," in the words of the award citation, and, in the third edition, **Lars Peter Hansen**, "for devising a statistical framework founded on economic science." In the second edition, the award was shared by **Hugo Sonnenschein** and **Andres Mas-Colell** "for extending the reach and applicability of general equilibrium analysis and for establishing the modern theory of aggregate demand." Finally, the winner in the inaugural edition was **Jean Tirole**,

“for his economic analysis of optimal contracts and optimal design of public policies in a variety of contexts where asymmetry of information and conflicting incentives play a key role, including regulation, corporate finance and the analysis of economic organizations.”

UPCOMING AWARD ANNOUNCEMENTS

CATEGORY	DATE
Development Cooperation	February 25, 2014



For more information, contact the BBVA Foundation Communication Department (+34 91 374 5210 / +34 91 537 3769, comunicacion@fbbva.es) or visit www.fbbva.es

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