

Acceptance speech

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Guido Tabellini, awardee in the Economics, Finance and Management category (15th edition)

It is a great honor and pleasure to receive the BBVA Frontiers of Knowledge Award. Thank you to the BBVA Foundation and the selection committee! It is an even greater honor and pleasure to share the award with my long-time friend and coauthor Torsten Persson, whom I was so lucky to encounter early in my career, and with Tim Besley from whom I have learnt so much over the years.

Accomplishments in life are always the result of team work. In my case, they are also the fruit of a long collaboration with my late friend Alberto Alesina, who would have been here with us if he was still alive. But I also want to thank Bocconi University for its longstanding support, my colleagues and my students. And a big thank you to my family, and particularly to my wife Giovanna.

I grew up in Italy in the 1970s. That was a period of stark ideological and political conflicts, widespread strikes, frequent government crises, and political terrorism. It was also a period of high inflation, spiraling public debt, devaluations and capital flight. It seemed obvious that there was a link between the two. Policy failures were not just random mistakes. But exactly how political conflict led to policy failures was not clear.

The first stage of my research addressed this question. When I finished my PhD in Economics at UCLA in the mid-1980s, new powerful tools had just been developed to study strategic interactions and expectation formation. My coauthors and I saw that these tools could be used to explain how policy failures result from deliberate choices of sophisticated politicians who navigate political conflict. In joint work with Alberto, we showed that political uncertainty and polarization leads to the accumulation of large public debts. With Torsten, we studied how inequality and redistributive conflict can hamper economic growth, and how electoral competition leads to systematic under-

provision of public goods that benefit all, despite large government spending. With other coauthors, we showed that the same political forces that lead to debt accumulation (instability and polarization) also discourage the building of tax capacity.

But explaining policy failures is not enough. How can they be prevented, if policymakers have distorted incentives? This question led us, and others, to study specific institutions, such as policy delegation to independent agencies with a specific mandate, balanced budget amendments, political checks and balances. It was particularly exciting to work on these issues in the 1990s, when the institutional foundations of the Euro were taking shape.

Thinking about the normative aspects of institution design led Torsten and myself to study the economic effects of political constitutions, extending to the economic domain insights from comparative politics: how the electoral rule, the form of government or the structure of the state influence the size and composition of government spending, and what happens to economic growth during democratic transitions. Some of this work was joint with Gerard Roland. By then, other economists and political scientists were working on these issues (something that was not true early on). Progress by us and by others made it clear that economic and political outcomes are not uniquely determined by institutions. The same institutions can lead to very different outcomes, depending on the cultural and social environment. For instance, the same judicial system functions very differently in Northern and Southern Italy. To explain why, the next and still ongoing stage in my research studies how culture interacts with institutions, how citizens' values evolve and shape the functioning and resilience of democracy, and how social identity influences political beliefs in different domains.

The journey in exploring the interconnections between economics and politics continues, and many scholars, particularly young cohorts, are shifting the frontiers of our knowledge in this area. This is one more reason to rejoice and be honored by this award: because it recognizes the importance of a line of research that cuts across different disciplines, continues to reinvent itself, and keeps attracting bright minds to fundamental social problems.