

Acceptance speech

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I am grateful that the BBVA Foundation has chosen to recognize my research.

The work cited by the Foundation has emerged from an intellectual journey over fifty years.

I have sought to combine perspectives in three distinct fields:

- welfare economics
- decision theory
- econometrics.

Welfare economic study of public policy began in the 1700s and was formalized in the 1900s.

Decision theoretic study of choice under uncertainty has advanced since the early 1900s.

Econometrics has progressed from the 1930s onward.

I have sought to build connections and to make the results useful to policy evaluation.

From the late 1980s on, my research in econometrics has studied partial identification.

Empirical research must deal with problems of statistical imprecision and identification.

Statistical imprecision occurs in study of small data samples.

Identification problems stem from weak data quality and from limited understanding of the policy environment.

Prominent identification problems arise from missing data.

- In survey research, one does not observe data for persons who are not interviewed or who do not answer specific questions.
- In analysis of treatment response, outcomes are unobservable for treatments that persons do not receive.

The norm in empirical research has been to assume that data quality is high and understanding of the environment is strong, enabling increasingly precise inference as sample size grows.

Researchers measure and report statistical imprecision, which disappears in large samples.

Partial identification analysis studies realistic settings, where data quality and knowledge of the environment often are weak.

In these settings, one cannot credibly predict policy impacts with precision, even with large data samples.

One may be able to credibly form partially informative bounds on policy impacts.

I first connected econometric study of identification to welfare economics in an article published in 2000.

I sketched the basic problem: Combining available data with credible assumptions commonly does not reveal whether one policy outperforms another.

Hence, policy formation is a problem of decision making under uncertainty.

I have used statistical decision theory to study this problem.

Part of my work has been abstract, studying general conceptual and technical issues.

Part has analyzed specific policy problems, including

- climate policy,
- criminal justice policy,
- income tax policy,
- clinical decisions in medicine,
- public health policy.

I will now aim to explain in a bit more depth.

Welfare economics becomes operational when several questions are answered:

- What constitutes social welfare?
- What are the feasible actions?
- What is known about the consequences of alternative actions?

Welfare maximization is a well-defined objective if one knows enough about the consequences of alternative actions to determine a clear best choice.

Determination of an optimal policy is not feasible if the consequences are too uncertain to conclude what action is best.

My concern is societal decision making in these settings, which are very common.

Economists have unrealistically assumed enough knowledge to recommend optimal policies.

I have referred to this as policy analysis with incredible certitude.

I have argued that policy choice with incredible certitude harms society in several ways.

- It seeks to maximize some hypothetical social welfare rather than actual welfare.
- It does not recognize the value of research aiming to improve knowledge.
- It does not appreciate the usefulness of decision strategies that help society cope with uncertainty.

To characterize policy uncertainty, I have drawn on my research on partial identification.

A fundamental identification problem arises from the unobservability of outcomes under counterfactual policies.

At most one can observe the outcomes that have occurred under realized past policies.

The outcomes of proposed new policies are logically unobservable.

Yet determination of an optimal policy requires comparison of all feasible policies.

Thus, we have only partial knowledge of the welfare achieved by alternative policies.

Some researchers optimistically argue that experimentation can provide the absent information on policy impacts.

I encourage policy-relevant experimentation when it is feasible, but I caution that it is far from a panacea.

To conclude, I reiterate that policy analysis with incredible certitude does not serve society well.

In my econometric and welfare economic research, I have argued that policy analysis should face up to uncertainty.

It is sometimes said that policy makers and the public are unwilling or unable to cope with uncertainty.

I believe that salutary change can occur if awareness grows that incredible certitude is harmful.

Researchers should strive to provide credible policy analysis, recognizing the subtlety of decision making under uncertainty.