IN MEMORIAM

Important Questions and Out-of-the-Ordinary Answers

ALBERTO ALESINA

1957–2020

BY VERONIQUE DE RUGY

In his 2019 book *Range: Why Generalists Triumph in a Specialized World*, journalist David Epstein explains how, contrary to common belief, a person can excel and leave a mark on the world without narrow specialization. In fact, data show that people who are better positioned to succeed, revolutionize, or dominate in their field are often not the highly specialized experts, but those with wide-ranging interests and an ability to think in adaptable ways. The athlete—think Bo Jackson or Pat Mahomes—who tried all sorts of sports before settling on one is more likely to excel than the one who specialized in one sport early, thanks to an ability to leverage skills and movements from other sports. Likewise, a non-expert crashing a highly specialized meeting could very well be the key to figuring out the solution to a problem that eludes the experts in the room. And an economist with wide-ranging interests, including some outside of economics, is more likely to create a new field based on the blending of disciplines than those who simply stay in their lanes.

One such economist was Alberto Alesina, an incredibly creative and innovative thinker and one of the pioneers in the field of modern political economy. Alesina was the Nathaniel Ropes Professor of Political Economy at Harvard University. He died unexpectedly in late May while on a walk with his wife Susan. What makes his death all the more tragic, in addition to the all-too-soon departure of a 63-year-old man renowned for his love of extreme adventures, is that he was a rare interdisciplinary thinker. He had a penchant for asking important questions and finding out-of-the-ordinary answers. In addition, he was able to do highly technical economics. Alesina was respected by the policy wonks, the out-of-the-box thinkers, and the technical economists, which is quite an accomplishment.

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When austerity works / I first learned of Alesina from his work on fiscal austerity. In a paper written just before the 2007–2009 crisis, he and Goldman Sachs economist Silvia Ardagna (then at Harvard) showed that fiscal adjustment packages based on expenditure cuts by government are more effective at reducing the public-debt-to-GDP ratio than are packages based on tax increases. Their paper also shows that expenditure cuts are not just conducive to long-term growth, but, under the right circumstances, generate growth in the short term. Finally, if cuts in spending triggered some initial contraction of the economy, it would be mild and short-lived. Do not hope for such mild negative effects with adjustment packages based on tax increases.

These findings made quite a splash in an intellectual climate dominated by the presumptions of Keynesians. How could someone find that withdrawing government spending from the economy would not necessarily throw it into a recession? Was this Alesina guy a "budget hawk" who lets his ideology drive his research? Nothing could be further from the truth. Based on my experience and the many testimonials from his mourning colleagues at the time of his passing, he was always rigorous and objective. The man loved a challenge and he thrived on going after the hard questions, no matter where the answers took him.

To answer his critics, he responded with ever-more peer-reviewed publications, with more refined data, and eventually with a book co-written with Bocconi University (Italy) economists Carlo Favero and Francesco Giavazzi. Entitled *Austerity: When It Works and When It Doesn't*, the 2019 volume is a must-read for policymakers around the world and won the Manhattan Institute's 2020 Hayek Book Prize.

His work also tackled the question of how different austerity measures affect politicians' prospects at the polls. The running assumption is that cutting spending is a high-risk undertaking for politicians hoping to get reelected. Alesina showed that this is not necessarily the case, and that in many cases throughout history the party in power that initiated expenditure-based austerity measures stayed in power. He refined his conclusions in a new paper with Davide Furceri, Jonathan D. Ostry, Chris Papageorgiou, and Dennis Quinn, released not long before his death. They found that reforms can be politically dangerous if implemented while the economy is slumping and that it is politically better to wait for good economic times, when electoral consequences of reforms are less severe. So much for ideological inflexibility.

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Political economy / His work went far beyond fiscal adjustments. For decades he had been asking and answering important questions at the intersection of politics and economics. According to his Harvard colleague Dani Rodrik, Alesina deserves most of the credit for establishing the interdisciplinary field of political economy. Likewise, Lawrence Summers, the former president of Harvard and Alesina's sometimes co-author, wrote "It is hard to imagine the field of political economy without Alberto Alesina." Not surprisingly, Alesina had directed the National Bureau of Economic Research's political economy program since its creation in 2006.

One question at the crossroad of economics and politics is: what institutional design can best control inflation? According to his research, independent central banks, as compared to those directly under the control of the governing party, produce lower inflation rates. This finding prompted the idea that, to discover inflation's causes, one must look beyond mere day-to-day monetary policy choices. One needs to ask how monetary policy decisions are made: who is really in charge? It turns out that who is in charge matters enormously: politics shape economics.

In one paper, he and Summers found evidence that not only do central banks have lower and less volatile inflation rates when they are independent, but also that there is no effect on real macroeconomic performance. This is largely in line with the monetarist school of thought, which holds that changes in nominal variables, such as the quantity of money, do not have long-run effects on real economic variables such as economic growth.

Alesina also studied the effects of trust, values, beliefs, and norms on all sorts of economic outcomes. His research shined a light on the effects of trust and social capital, and their effect on welfare-state policies. The result is a deeper explanation of differences in the performance of the public sector in Europe as compared to the United States.

He also did a lot of work on political fragmentation and polarization. For instance, his research showed that polarization within a nation is often greater than between nations. In a paper co-authored with Harvard doctoral student Armando Miano and colleague Stefanie Stantcheva, he explained that factions in a society do not just have differing policy views, but also different *perspectives* when looking at an issue, even when the facts about the issue are reasonably objective and readily available for all to see. While this finding might not come as a surprise to anyone in today's political environment, Alesina predicted it years ago.

He explored many other aspects of states and nations. In "The Size of Nations," he and Tufts economist Enrico Spolaore make a case that, contrary to what economists and political scientists had tacitly assumed for decades, the sizes of nations and their composition are not exogenous. Instead, nations and international unions are defined by a tradeoff between the benefits of size and the detriments of heterogeneity. Large nations are more diverse and thus have more trouble internally reaching agreements. However, large nations have large domestic markets and can reduce certain per-capita costs by sharing the high fixed costs of public goods. Smaller countries, in contrast, can more easily satisfy

Regulation was first published in July 1977 "because the extension of regulation is piecemeal, the sources and targets diverse, the language complex and often opaque, and the volume overwhelming." Regulation is devoted to analyzing the implications of government regulatory policy and its effects on our public and private endeavors.

IN MEMORIAM

their populations' demands and expectations. Those are simple insights with important implications because they confirm the pointlessness of adopting one-size-fits-all or federal top-down policies in large unions and countries.

Alesina was also interested in how people thought about various factors in the economy. His research suggests that people have systemically wrong ideas about immigration in so far as they overestimate the prevalence of immigrants as well as the poverty levels of immigrants in their own nation. Additionally, he found various regions of the world had different views on other topics, such as the degree to which people believe that hard work drives success. He found opposing assumptions in Europe and the United States, with Europeans underestimating the relative effect of hard work on individual outcomes and Americans overestimating it.

As a professor at Harvard University for 32 years, Alesina was beloved by students and colleagues for his humor, warmth, and insights. Since his passing, many students have recounted his passion for economics, for his students, and for their research.

As for me, I will remember a fun-loving Italian with a great laugh and a rare appreciation for all that life has to offer. And, despite being a brilliant economist, he had no qualms collaborating with a non-academic scholar like me. Like many others, I will also remember fondly his incredible ability to add typos to every single word of both the emails that he sent and every comment he would make in the policy paper on fiscal adjustments we wrote together at the time of the austerity debate back in 2012 and the few op-eds on the same issues we co-authored. R

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