

ACCEPTANCE SPEECH FOR THE HOROWITZ AWARD FOR LIFETIME CONTRIBUTION —"DVAR TORAH"

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More than two thousand years ago, a curious Torah student asked his rabbinical teachers a question that continues to echo through time: “How could one person—even King Solomon—have written three such radically different books?”

He was referring, of course, to *The Song of Songs*, *Proverbs*, and *Ecclesiastes*—works attributed to the wisest of kings, yet strikingly diverse in tone and message. The rabbis answered with characteristic simplicity and depth:

Solomon wrote The Song of Songs in his youth, when his heart overflowed with love and longing — poetic, sensual celebration of passion.

He wrote Proverbs in his middle years, when maturity brought balance, discipline, and moral clarity. *And he wrote Ecclesiastes in old age*, when reflection gave rise to philosophy—questioning, somber, and searching for deeper truths.

This parable has always resonated with me, not only for its literary beauty, but because it so clearly captures the intellectual arc of a scholar’s life.

Like Solomon, I too have lived and written through these stages:

- A youthful phase of passionate discovery—my *Song of Songs*—where curiosity drove me to understand the engines of economic growth.
- A mature phase of disciplined modeling and empirical rigor—my *Book of Proverbs* —grounded in structure and principle.
- And a later phase of reflection—my *Ecclesiastes*—confronting the complex interplay between economics, institutions, and the erosion of democratic norms.

While Solomon wrote each of his books alone, I had the wisdom to seek out collaboration. Across all phases of my career, I have been fortunate to work with brilliant colleagues, drawing strength from shared inquiry and mutual challenge.

PHASE I – PASSION AND DISCOVERY: MY SONG OF SONGS

In my early years, I was driven by the pure excitement of ideas. I wanted to understand how the world works—especially how economies grow. This was the intellectual passion of my youth—an economic *Song of Songs*.

My doctoral work focused on human capital and endogenous growth. It was based on the insight that ideas, education, and skill formation lie at the heart of long-term economic progress. Growth is not just capital deepening — it is human deepening.

I was inspired by the great development economists, but also by the dynamism of a young Israel—a society striving to convert knowledge into prosperity. Back in the 1970s, trade theory faced a nagging puzzle: comparative advantage made sense—as long as markets moved in a deterministic equilibrium. But throw in a little uncertainty, and the logic unraveled. That’s when Elhanan Helpman and I stepped in, adding a twist: not just trade in goods, but trade in securities too. Suddenly, the capital account wasn’t just an accounting record—it had a fundamental role. And I started pursuing the macro implications further.

While King Solomon, in his youth, wrote *The Song of Songs* by himself, as we learned, I had the wisdom early on to work together with brilliant colleagues—and in that collaboration, found strength and clarity that no solitary effort could match.

PHASE II – PROFESSIONAL MATURITY: MY BOOK OF PROVERBS

With time came the discipline of modeling, and the rigor of confronting data and theory. Like Solomon’s *Proverbs*, this phase was about structure, rules, and the hard work of crafting general principles.

I explored the role of uncertainty and risk aversion in international trade; the impact of global capital mobility on comparative advantage; and the interplay between national tax systems in a world of mobile firms and investors. A highlight of this phase was my work with Lars Svensson on the Lerner Symmetry Theorem. In our 1983 paper, we showed that the textbook symmetry between import tariffs and export taxes can break down in an intertemporal setting. When consumers are forward-looking, and capital flows freely, the effects of trade policy depend on expectations, asset positions, and the permanence of interventions. This helped policymakers understand why trade balances don’t always move as predicted in models with static assumptions.

Building on the intertemporal approach to the balance of payments, Jacob Frenkel and I developed a theoretical framework to analyze how domestic fiscal policies generate international spillovers—showing how budgetary decisions in one country can ripple across borders through capital markets, exchange rates, and global demand. This phase also included collaborations with Gian Maria Milesi-Ferretti. Together, we examined the sustainability of current account imbalances. Are persistent deficits a sign of future adjustment trouble, or can they reflect optimal intertemporal smoothing? We introduced diagnostics that helped distinguish between the two. These tools remain relevant today — especially as countries face post-pandemic debt overhangs and growing protectionist pressures. We argue that not all deficits are dangerous—but unsustainable ones often hide in plain sight until it’s too late.

One of the enduring challenges we tackled together with Efraim Sadka was the distortionary effect of international double taxation—a problem that undermines both cross-

border investment and trade. In a world of mobile capital and globally integrated production, the overlapping claims of national tax authorities can create severe inefficiencies, discouraging the very transactions that globalization relies on. We developed analytic frameworks to understand and design tax coordination mechanisms that minimize these frictions. By clarifying the principles of capital export neutrality and capital import neutrality, and by analyzing their practical implementation through bilateral tax treaties and multilateral guidelines, our work aimed to reconcile national tax sovereignty with the global efficiency imperative. In essence, we sought to ensure that globalization would not be undone by the fiscal misalignment of nation-states.

PHASE III – REFLECTION AND RECKONING: MY ECCLESIASTES

In more recent years, my research has turned to deep political-economic transformations—questions about institutions, legitimacy, and the erosion of liberal democratic norms. This is my *Ecclesiastes* period—more contemplative, less optimistic perhaps, but also more urgent.

As I observed the drift toward illiberal democracy—in the US under Trump, in Hungary and Poland, and in Israel under Netanyahu—I felt compelled to study how economic forces interact with institutional decay.

One key thread in this research has been the welfare state–migration nexus, which I explored with Efraim Sadka and Phil Swagel. In this work, we asked: *How does the generosity of the welfare state affect the skill composition of immigrants?* We showed that welfare benefits tend to attract unskilled migrants, while repelling the skilled—unless tax and transfer structures are carefully designed. The implication is profound: migration policy, fiscal policy, and political stability are deeply interlinked. In a world of mobile people and immobile voters, the sustainability of the welfare state hinges on its ability to align economic incentives with social cohesion.

FINAL WORDS

I was born and raised in a collectivist society in Kibbutz Shamir, where our calling was to safeguard the frontier, not to pursue academic ambitions. Yet through a series of unorthodox choices, I was fortunate to chart a different path. That path led me to a life of ideas, inquiry, and collaboration—and for that, I remain deeply grateful.

To my astonishment, some of the books I wrote 40 or 50 years ago still attract over 100 weekly readers in PhD programs around the world. I am grateful that so many young scholars still find them useful.

Thank you.

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