

ASSAF RAZIN: THE SECOND DAVID HOROWITZ AWARD FOR LIFETIME CONTRIBUTION

REMARKS BY THE HEAD OF THE AWARD COMMITTEE, JOSEPH ZEIRA

In 2023, the following textual proposition was delivered to the Israel Economic Association:

"The years pass, and the people who founded and shaped the community of economists in Israel are growing older, and some have even departed from us. We believe that there is merit in recognizing their pioneering contributions in a modest way, by honoring their lifetime achievements at the Israel Economic Association's annual conference. This recognition may be awarded for several types of contributions: scientific contributions in the field of economics, contributions to teaching and the establishment of the academic discipline, as well as contributions through work in economic policy in Israel and even abroad.

It is proposed that the Association establish a small committee to deliberate on the choice of the honoree every two years. The Committee's decision will be brought for approval by the Association's Council. The Committee will also ensure the publication of a short article in *The Economic Quarterly*, describing the honoree's lifetime work. In this way, we will acknowledge our teachers and mentors, who have greatly contributed to the development and shaping of the community of economists in Israel".

Following these guidelines, a new Committee was nominated to award the prize for the second time, named in honor of David Horowitz, who was the first governor of the Bank of Israel. The Committee included Joseph Zeira (Head of the Committee and former Director of the Israel Economic Association, the Hebrew University of Jerusalem), Daniel Levy (former Director of the Israel Economic Association, Bar Ilan University), Karnit Flug (former Governor of the Bank of Israel and incoming Director of the Israel Economic Association, the Hebrew University of Jerusalem), and Yossi Spiegel (acting Director of the Israel Economic Association, Tel Aviv University).

The first recipient of the award was Micha Michaely, one of the pioneers of international economics research in Israel. The prize was awarded to him at the Association's conference in 2023. On January 14, 2025, the Committee met again and chose Assaf Razin to be the second recipient of the award.

Assaf Razin is Professor Emeritus at the School of Economics at Tel Aviv University, and a world-renowned scholar in international economics. For fifteen years, Assaf also served as a professor in the Department of Economics at Cornell University in the United States, one of the prestigious Ivy League universities.

Throughout his long career, Assaf stood out above all as a first-rate economic researcher. It is impossible to review all of his research here, so I will highlight only a few groundbreaking works of major importance, particularly to Israel.

The first important study I will describe was coauthored with Uri Ben-Zion and published in 1974. This study analyzed the determination of population growth within economic growth theory. The work is important not only because it connects population growth with output growth—a topic of particular significance in Israel—but also because it proposed a simple way to introduce population growth into dynamic economic theory: through the individual's utility from the number of children they have. This contribution was pioneering for several reasons. First, it allowed population growth to be modeled as an endogenous variable—determined within the theoretical model—rather than as an exogenous one, as in Robert Solow's famous work. In addition, the study added another crucial intergenerational link: the utility of an individual derived from the wellbeing of their offspring. Interestingly, in the same year, Robert Barro's well-known article on public debt appeared, which also adopted a similar assumption. Furthermore, this extension allowed Razin and Ben-Zion to study the family's dilemma regarding children—quantity versus quality. This is a subject that has attracted significant research interest in recent years, and it is striking to see that Assaf was a pioneer exploring it long before others.

Four years later, in 1978, Assaf, together with Elhanan Helpman, his colleague in Tel Aviv University's Department of Economics, published their important book on *Uncertainty and International Trade*. The book demonstrated that the then-prevailing theories of international trade, primarily Ricardo's and Heckscher–Ohlin's, needed significant adaptation in a world of risk, where risk-averse economic agents seek ways to mitigate exposure. The work influenced international trade theory in several crucial ways. For example, in a world without risk, a country should specialize in areas of comparative advantage, which for a small country would mean specialization in only a few products. But such specialization increases economic vulnerability. Thus, countries may prefer to diversify in order to reduce exposure to global demand shocks in their key industries. The book also examined the relationship between standard risk reduction methods in economics, such as portfolio diversification, and international trade. In doing so, it created an important and original link between international trade—a microeconomic phenomenon—and investment in financial assets—a macroeconomic one.

From there, Assaf's work evolved from the microeconomics of international trade to the macroeconomics of the balance of payments, i.e., international macroeconomics. His next major contribution, coauthored with Lars Svensson of Stockholm, was published in 1983. It was among a set of pioneering works that introduced the intertemporal theory of the balance of payments to the forefront of research. Other leading contributors included Jeff Sachs, Maurice Obstfeld, and Olivier Blanchard. According to this theory, the trade balance in any given period reflects the smoothing of consumption over time by the economy's residents, with consumption serving as a proxy for permanent income—current and expected future income. Thus, a trade deficit signals expectations of higher future income, while a surplus

reflects the opposite. The theory emphasizes that the impact of shocks on the trade balance depends on whether they are temporary or permanent. Razin and Svensson's study applied this specifically to changes in the terms of trade. In this sense, the research still linked microeconomic and macroeconomic questions in an open economy, but more broadly it represented a breakthrough in macroeconomics, contributing to a more comprehensive theory of the balance of payments and its role in intertemporal resource allocation.

Several decades later, I tested this theory against Israel's economic history, which included huge trade balance fluctuations, from deep deficits to near balance. The evidence confirmed that the theory indeed explained these swings, driven by temporary—not permanent—factors such as economic growth, waves of immigration, outbreaks of conflict, and external assistance (from Germany in the distant past and from the US later on).

Razin then applied the intertemporal balance of payments framework to fiscal policy. Clearly, fiscal policy, which undergoes both temporary and permanent shifts, is one of the most important determinants of the trade balance. At this stage, Razin joined with another leading economist, Jacob Frenkel, and together they published a series of papers and an important book analyzing the links between fiscal policy and the balance of payments. Their first paper on this topic appeared in 1986, about three years after Razin and Svensson's pioneering article. This body of work, to which Efraim Sadka also contributed, greatly advanced understanding of both the effects of fiscal policy on the balance of payments and the constraints that globalization imposes on budgetary policy.

I know I am doing Assaf an injustice by not reviewing many additional research directions he pursued later—such as the economics of migration, or the interplay between globalization and welfare policy. But I would like to pause and concentrate on another area highly relevant to our Association: Assaf's extensive work on the Israeli economy.

His involvement in Israeli economic issues began in the late 1970s, when he was appointed Economic Adviser to the Government. Unsurprisingly, the appointment was short-lived, as he strongly opposed the inflationary policies of the time. But his interest in Israel's economy only deepened. He went on to write a series of important books, of which I will mention just two.

The first, coauthored with Efraim Sadka in 1993, appeared during the massive wave of immigration from the former Soviet Union. The book argued that not only would absorption occur mainly through private markets, but that Israel's economy had, in fact, operated in this way throughout its history—and portraying it as a centrally planned socialist economy was a complete distortion.

The second book I will highlight is more recent, published in 2018. It analyzes Israel's economy within the international context, i.e., as a small open economy facing globalization's challenges, especially over the past three decades. It focuses on key processes such as migration, brain drain, specialization in high tech sectors, and more. One pioneering theme it explores—unfortunately still neglected by many economists—is the impact of Israeli-Palestinian conflict on Israel's economy.

An interesting point about Razin's scholarly career is that although he concentrated on international economics—both micro and macro—his coauthors were mostly Israelis. This is no coincidence: as a relatively small economy, Israel is far more dependent on international trade than large economies such as the United States, which can meet most of their needs domestically. A closer look at Razin's other collaborators also reveals that even those who were not Israeli, such as Lars Svensson from Sweden, came from relatively small economies.

It is also no coincidence that the previous recipient of the Horowitz Award, Micha Michaely, was likewise a scholar of international trade. Economists, like all people, are naturally drawn to questions that resonate with their own lived realities. Assaf is another example of this: his research was nourished by questions arising from the world he inhabited. Yet like any great scholar, his work was never parochial. On the contrary, it addressed issues of global significance, to which he brought his exceptional talent and the objectivity demanded by the scientific discipline to which he remained devoted throughout his career.