

## **Laudation for Andrei Shleifer:**

**Timothy Besley, Professor of Economics and Political Science,  
LSE**

It is an honour and pleasure to be giving this laudation for Andrei Shleifer on occasion of his receipt of this prestigious prize. Andrei is the Whipple V.N. Jones Professor at Harvard University and has taught both Chicago and Princeton. He received his PhD from MIT and was an undergraduate at Harvard.

I have known Andrei for a number of years and have for even longer been an admirer of his work. I do, in fact, have a distinct recollection of when I first read a paper by Andrei. It was his celebrated paper with Rob Vishny and Kevin Murphy on Industrialization and the Big Push (published in the Journal of Political Economy). I recall being amazed by it. The idea of a big push had been around for at least fifty years prior to this paper, but a simple and persuasive account had been elusive. This paper not only provided the requisite formalization, but also gave a clear insight into the kinds of assumptions that would be needed to deliver it. In their simplest model they showed that a wage premium in the industrialized sector did the job along side a suitable amount of imperfect competition. Once you see it, you wonder how any one could have missed it before. It was my first introduction to Andrei's work – one his earliest famous papers and I have since been an avid consumer of his work.

I cannot claim to be an expert in all the areas that Andrei works in – few could. One of his amazing feats is to have made substantial contributions in a wide range of fields – finance, development, public economics, political economy and law and economics. His research productivity is quite amazing. It is clear that I cannot do justice to Andrei's work in the short time I have available. Thus, what I am offering is unashamedly a subjective view with due apologies to Andrei at the outset – especially if the works that I discuss are not among his personal favourites.

Let me begin by discussing his work in finance. As we shall see, this work establishes many of the themes played out in his research in general. Andrei has made landmark contributions (particularly with Rob Vishny) to our understanding the role of large shareholders in corporate governance, to the dangers of management entrenchment, to understanding the limits to arbitrage, to appreciating the role of noise traders in financial markets (an early contribution to the now popular behavioural finance literature), and to concerns about the inefficiency of the mutual fund industry. In all cases, the work has spawned a host of follow-up contributions.

In subsequent work, he has linked these ideas to the legal structure in which the financial industry operates and the role of legal origins in cultivating financial development. The latter has become part of a large project to appreciate the pros and cons of two broadly different ways of dealing with market failures – the more regulatory and formulaic approach of the civil law systems as against the greater use of courts and private actions with its systems of codes that typify common law systems. Not only has he explored the empirical significance of these “legal origins”. These ideas are now highly influential, sometimes in surprising ways. I was recently at a seminar by one of Andrei’s colleague of whom I was repeatedly asking the same question. Eventually his colleague replied – “you know you ask your question repeatedly and yet so politely – it must have something to do with your legal origin”! In recent work with Ed Glaser, he has shown how these systems grew out of the distinctive political histories of the countries in which these systems had their origins. It seems fair to say that Andrei is a champion of the common law system – something which I perhaps should not have mentioned given that I am presenting these remarks in Munich!

This work is reinvigorating debates in law and economics and comparative economic systems. Indeed, there is a New Comparative Economics being built on the back of it – a literature which plays much more central attention to the way in which institutions affect economic transactions. In Andrei’s emerging view, these

institutions are themselves endogenous – reflecting the available social and human capital in a society. The approach is opening new avenues of enquiry that will keep us busy for years to come.

This research is linked to an impressive cross-country data collection exercise trying to understanding a wide range of influences on doing business around the world. For example, Andrei has collected, along with his co-authors, data sets on the speed with which justice is enacted, the difficulty of starting a new business, the way in which labor is regulated and the nature of securities law. There is now a whole office in the World Bank working on this project under Andrei's influence.

Finally, I will mention Andrei's work on privatization. His work here shifted thinking among economists away from the traditional technocratic mode. At the heart of Andrei's approach has been the political economy problems that arise when politicians interfere in the workings of publicly owned firms. He has also written on the trade offs between public and private ownership that arise in a world of incomplete contracts. His work has heavily influenced the practical process of privatization in Easter Europe.

So what makes Andrei's approach distinctive? Andrei is neither a theorist nor an empiricist in any standard sense of either term. He uses evidence and does build theoretical models, but these are servants of a wider commitment to the issues at hand. His work is above all driven by understanding issues. He is a true applied economist in the best tradition.

There is also a healthy disregard for convention in Andrei's work – a trait that I associate with his mentor Larry Summers. Andrei is willing to challenge accepted wisdom on any topic and many of his contributions take on entrenched views.

Andrei's work in many ways follows an older tradition in economics which has roots in the work of great figures like Hayek, Coase and Schumpeter – even Adam Smith (especially book V. of the Wealth of Nations). The continental Europe tradition has al-

ways been to view economics in its links with Law and Politics. Ladies and Gentlemen, you will be pleased to hear – since we are in Munich this evening – that Andrei is in many ways the modern incarnation of this continental European tradition. One of the exciting things about modern economics is how -- having become quite narrow in its view of motivation and the sharp boundaries that it created with other social sciences – it is now once again regaining its breadth. Andrei is at the forefront of this.

In his latest work in comparative economics Andrei draws an interesting diagram with two axes – on one of these axes is the amount of disorder and on the other is the extent of authoritarianism. He draws on it an institutional possibility frontier that shows the possible combinations of authoritarianism and disorder that can be achieved by a society. It occurred to me in preparing these remarks that I could apply this diagram to the economics profession and to Andrei's contribution to it. As economists, we have a tendency towards authoritarianism in the form of widely respected senior figures in our profession being guardians of received wisdom. When one looks at the degree of disorder in other branches of the social sciences, the merits of this are pretty clear. But there is an optimal amount of disorder. It is important to generate new insights and to disrupt conventional wisdom. In his work, perhaps because of his early upbringing in the Soviet Union, Andrei tends to be most concerned about the downside of authoritarianism. But this concern is reflected also in the way in which he works. Andrei has been a creative source of disorder in economics – coming up with new ideas and not bowing to the authoritarianism of received wisdom.

As I said at the outset, it is an honour for me to be involved in this proceeding. I like so many others have learned a huge amount from Andrei's papers. I am sure that his lectures this evening and in the coming days will be no less illuminating.