

DISAPPEARANCES • ECONOMY

Emmanuel Farhi, economist and professor at Harvard, is dead

A brilliant theorist, he received the Prize for the best young economist in France in 2013. He has worked in particular on taxation, macroeconomics and international finance. Emmanuel Farhi died on July 23, at the age of 41.

By Jean Tirole • Posted on July 30, 2020 at 6:48 p.m., updated yesterday at 8:51 a.m.



Economist Emmanuel Farhi, at Harvard University (Massachusetts), United States, September 23, 2014. Jacob SILBERBERG / PANOS-REA

Emmanuel Farhi passed away, Thursday July 23, at the age of 41. Tenured professor at Harvard only five years after his doctorate at the Massachusetts Institute of Technology (MIT), he was the best macroeconomist, and arguably one of the best economists of his generation. This economic theorist, who was promised the Nobel Prize, transformed the theory of taxation, macroeconomics and international finance. He was born on September 8, 1978, in Paris. His father, André Farhi, was like him an economist and his mother, Danièle Debordeaux, a specialist in social policies.

During his doctorate, obtained in 2006, he conceptualized, in collaboration with Ricardo Caballero and Pierre-Olivier Gourinchas, the consequences of global financial imbalances generated by a shortage of securities that can be mobilized in countries with high savings, and the influx of liquidity that follows in the United States. Premonitory of the 2008 crisis, as this imbalance contributed to the real estate boom and the increase in securitization in the United States ...

Still in his thesis, he and Ivan Werning lay the foundations for a progressive taxation of heritage and capital to build a reasoned debate on a very sensitive subject. The first sentence of the article says a lot about its content: *"One of the biggest risks in life is the family you are born into."* These authors also allowed us to better understand the dual role of taxes as a redistribution tool (the richest to the poorest) and as social insurance (asset to the unemployed, for example) made necessary by the heterogeneity of individual trajectories.

Innovative ideas

A series of articles by Emmanuel Farhi transforms Keynesian macroeconomics. By analyzing the conditions of its validity and also its limits, without ever falling into the trap of these a priori which put blinders on reflection. By explaining the imperfections at the microeconomic level, the only way to base a normative analysis and therefore to formulate economic policy recommendations: slow adjustment of prices, difficulty for the central bank to lower nominal interest rates below zero when cash guarantees the maintenance of the nominal value, solvency constraints of banks and companies, liquidity available in the economy, and, with Xavier Gabaix, behavioral aspects of agents. His work, which will keep all their relevance in the post-Covid economy, in fact, had a unique purpose: deeply concerned with the common good,

His insatiable curiosity then led him to the foundations of international finance.

For example, he had the idea of using fiscal policy to lower real interest rates when the central bank can no longer adjust nominal rates downwards: an increase in VAT recreating some inflation, accompanied by a decreasing trajectory of taxes on labor to neutralize the impact of this adjustment in consumer prices on the incentives of companies to change their prices. Very technical for the layman, but innovative ideas to guide public policy, which only deep thinking can bring.

His insatiable curiosity then led him to the foundations of international finance. His work with Matteo Maggiori focuses on a world in which risk-free assets, one of Emmanuel Farhi's favorite themes, are provided by one or more reserve countries. These works illustrate its ability to capture in a very simple model the essence of an important question that had not been understood before. One country - think of the United States, whose dollar has long served as a reserve currency - is responding to a demand for investments from investors in the rest of the world.

His intellectual qualities and his discourse, always perfectly argued, made him a highly listened adviser to public decision-makers.

The need to provide the required liquidity abroad when necessary may ultimately lead to a risk of sovereign default and therefore undermine confidence in this currency; or the dominant country does not provide this liquidity and its currency may be dethroned by another currency: this is the "Triffin's dilemma". They analyze the possibility that a multipolar world is more unstable than a single reserve currency world and reconcile the Keynesian point of view with that of financial stability.

With his former student David Baqaee, he was lately working on new methods to analyze macroeconomics as a network of interacting industries and to see how economic shocks spill over and cascade effects, tripling the economy. impact of the oil shock in the 1970s, or causing today the devastating economic effects of the coronavirus pandemic.

Quest for the common good

I have had the privilege of working with Emmanuel Farhi since his years as a doctoral student. Starting with the link between liquidity and financial stability: first to analyze the consequences of financial bubbles on booms and economic recessions; then on the idea that the high indebtedness of short-term banks before 2008 was the subject of a natural herd behavior forcing central banks to implement monetary bailouts. These two studies called for macroprudential regulation, implemented in the past decade. We then analyzed the vicious circles created by the mutual financial interdependence between banks and their sovereigns, a major current concern in Europe.

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More recently, we have insisted on the need to adopt sound policies in the face of the growth of *shadow banking*. Finally, in recent months, we have been working on "industrial monetary policy", capturing all the strategies of states like the United States, and now China, intended to attract savings and economic activity to their countries. territory. Emmanuel Farhi was constantly a collaborator concerned with rigor in his quest for the common good; and his generosity, his humor and his communicative good humor made him a dear friend.

Emmanuel Farhi never stayed in his ivory tower. Member of the Economic Analysis Council from 2010, he became involved in French political and intellectual life. A few hours before his death, he took part in a meeting of the committee of experts on the major economic challenges that Olivier Blanchard and I have the honor to chair. His intellectual qualities and his discourse always perfectly argued made him a highly listened adviser to public decision-makers and our institutions, such as the Banque de France, from which he had received an award and whom he actively advised.

"A real model"

He had stayed very close to France, where he was returning as soon as possible. He appreciated its culture and its art of living. Lover of French poetry and literature, lover of opera, he was very sociable and full of humor. A pure product of the meritocratic republican school, he was also involved in the scientific life of his country.

"I admired his extraordinary intelligence and his depth of mind when we spoke of research", Nicolas Werquin, researcher at the Toulouse School of Economics

He came several times a year to the Toulouse School of Economics (TSE), shared his passion for economics with our young researchers and students, sat on its scientific council for a long time and belonged to its board of directors. He organized conferences in France and in Europe (like one, very noticed, in September 2019 at the Central Bank of Luxembourg with the world's leading experts of the international monetary system).

With all his talent, he could have been steeped in certainties, but he always remained modest and attentive to others. *"Emmanuel was a real model for me. I admired his extraordinary intelligence and depth of mind when we spoke of research, of course, but also the attention he paid to young researchers, his humility, his generosity and his kindness."* » So Nicolas Werquin, a young researcher from the TSE, summed it up in a testimony, representative of dozens of others, that I received.

All my thoughts are with his mother, his partner, Micol, his relatives, as well as all his students, collaborators and the scientific and professional community. We have lost a peerless thinker and a wonderful human being.

Emmanuel Farhi in 5 dates

September 8, 1978 Born in Paris

2006 Associate researcher, Toulouse School of Economics

2010 Professor of Economics, Harvard University

2013 Prize for the best young economist in France

July 23, 2020 Death in Cambridge (Massachusetts, United States)

Jean Tirole (2014 Nobel Prize in Economics and Honorary President of the
Toulouse School of Economics)