

LAUDATIO OF VITTORIO CORBO

Klaus Schmidt-Hebbel

Pontificia Universidad Católica de Chile

Vittorio Corbo is one of Latin America's outstanding economists and, like some of his peers in the region, his contributions and his influence includes academia but goes well beyond academia. While academic economists in developed countries tend to focus more narrowly on research and teaching, the diversity of social demands and professional opportunities for first-rate economists is much larger in the developing world. Vittorio's 40 years of post-graduate career span a large range of contributions, commensurate with his broad talents and his enthusiasm for taking up new challenges. Hence I will refer to Vittorio's work and achievements as researcher, teacher, policy maker, and advisor. And obviously I will end by referring to Vittorio as a wonderful human being. But let me start with his early years.

The early years

Vittorio was born in Iquique, a port city in Northern Chile, on March 22, 1943. He is the youngest of five children of Italian parents. His father emigrated from the Basilicata region of Italy to Chile in 1927 and his mother was born in Chile to Italian parents. Vittorio attended public school in Iquique and enrolled in the Economics undergraduate program at University of Chile in Santiago in 1961.

His most influential teacher at University of Chile was Eduardo García d'Acuña, Chile's first Economics Ph.D. graduate from the

The references to Vittorio Corbo's academic achievements and professional experience are made at the time of the Conference and the publications mentioned here are listed in Vittorio Corbo's Curriculum Vitae, published at the end of this volume. I thank Ricardo Caballero for his kind and insightful comments made to this Laudatio.

Economic Policies in Emerging-Market Economies, Festschrift in Honor of Vittorio Corbo, edited by Ricardo J. Caballero and Klaus Schmidt-Hebbel, Santiago, Chile. © 2015 Central Bank of Chile.

Massachusetts Institute of Technology (M.I.T.). As a student, Vittorio joined as a research assistant the first professional team of economists working with a Chilean government: the group comprised by Jorge Cauas, Álvaro Marfán, Eduardo García, and Joaquín Undurraga that advised President Eduardo Frei Montalva on economic matters. Subsequently Joaquín Undurraga and Eduardo García were part of the core group that formed ODEPLAN, the government's planning office, where Alejandro Foxley was a division chief and Jere Behrman a foreign advisor. Vittorio assisted research of this group during 1965-1967, contributing to the development of Chile's first macroeconomic model, a two-gap Keynesian development model, which turned into his first monograph, published in 1966.

Vittorio met Verónica Urzúa at University of Chile, where they studied economics together from day one through graduation. Quick both in his thinking and in seizing key opportunities, Vittorio graduated on July 13, 1967, got married to Verónica on July 14, and both departed Chile on July 15 for the United States to start Vittorio's Ph.D. studies at M.I.T.

The M.I.T. years were key for the Corbos, intellectually and family-wise. Marcello was born to Verónica and Vittorio in April 1968. Vittorio majored in Econometrics and Development Economics. Among his classmates at M.I.T. were Nobel prize recipients Robert Merton and Robert Shiller, as well as Jeremy Siegel and his subsequent co-authors and friends, Stanley Fischer and Hossein Askari. His dissertation on "Inflation in Developing Countries" combined frontier macroeconomics and econometrics and was guided by Ed Kuh, Robert Solow, and Frank Fisher. The two latter professors, as well as professors Paul Samuelson and Franco Modigliani, were his most influential teachers at M.I.T. Three of them are Nobel prize recipients, too.

Vittorio completed his dissertation in February 1971, graduating after three and half years at M.I.T. Then he received a job offer from Franco Modigliani and Robert Solow to be the director of an advisory M.I.T. team to Governor Ferrer of Puerto Rico. But Vittorio and Verónica had already decided to return to Chile. There Vittorio got an offer from Rolf Lüders to start his academic career at the Institute of Economics of Catholic University of Chile, which he accepted. The Corbo family returned to Chile in March 1971, when Vittorio joined as a young assistant professor our Catholic University. Three months later Ximena was born to Verónica and Vittorio.

The researcher

Vittorio's outstanding list of publications comprises until 2011 9 books, 75 journal articles, 67 book chapters, and more than 200 monographs, research reports, and policy assessments. His range of research fields and sub-fields is amazingly broad. Vittorio's work spans microeconomic theory of production functions; econometric theory; industrial organization and competition models of public services (particularly in telecoms); structural reforms in general and trade reform in particular; technical efficiency, productivity, and growth; closed-economy and open-economy macroeconomics; monetary policy, money demand, and inflation; monetary and exchange-rate regimes; fiscal policy; and international financial crises. In many of these fields, Vittorio has conducted theoretical work, empirical analysis, and policy evaluation.

His research is highly influential and very much quoted, as reflected by the almost 4000 citations of his work reported by Google Scholar until late 2011.

Let me describe, somewhat arbitrarily, a few highly quoted publications and areas of stellar research of Vittorio's intellectual output, representing the more than four decades of post-Ph.D. research started in early 1971 at Catholic University of Chile.

First I refer to his 1974 North-Holland/Elsevier book on "Inflation in Developing Countries", published in the prestigious series on "Contributions to Economic Analysis". This book was written in response to an invitation by Dale Jorgenson, the book series editor, to extend Vittorio's Ph.D. dissertation. With a Rockefeller Foundation scholarship for a post-doctorate at M.I.T., Vittorio returned during the Summer of 1972 to his alma mater to finish the aforementioned book. This is an exceptional volume that combines a review of the history of inflation modeling and of inflation in Chile with the development of a large macroeconomic model and the application of frontier econometric techniques to estimate the model on Chilean data. In the book's final chapter the model is put to work by Vittorio to simulate the macroeconomic effects of counter-factual policies that were acutely relevant to policy discussions in developing countries at that time (and are relevant to over-indebted emerging-market and industrial countries today): lower wages, relaxation of foreign resource constraints, and sale of foreign reserves.

Ten years later, in 1985, Vittorio publishes probably his most quoted and influential work in open-economy macroeconomics, namely

his 1985 Review of Economics and Statistics paper on “International Prices, Wages, and Inflation in an Open Economy: A Chilean Model”. Paraphrasing and extending the previous Australian and Scandinavian open-economy models in the Salter-Swan-Corden-Bruno-Lindbeck tradition, his “Chilean model” broadens the previous literature in important dimensions that are today still at the core of the New Keynesian DSGE models for open economies: disaggregation of tradable goods into primary and manufactured goods, sector wage inflation rates specified as inflation-augmented Phillips curves, and inflation expectations modeled as partly rational and partly backward-looking. Then he validates the model for Chile, simulating the frequently-observed consequences of exchange-rate based stabilizations, namely real exchange-rate over-appreciation, unsustainable current-account deficits, and currency crises. Vittorio’s model provides in this paper the analytical underpinnings of the disastrous Southern-Cone *tablita*-based experiences of the late 1970s and the subsequent likewise disastrous exchange-rate based stabilizations pursued by Argentina and Brazil in the late 1980s and 1990s.

Vittorio’s most quoted paper (more than 200 citations according to Google Scholar) is his 1991 Journal of International Economics article on “The Effects of Trade Reforms on Scale and Technical Efficiency”, co-authored with Jim de Melo and James Tybout. The authors analyze the change in industrial sector performance that came with Chile’s radical trade liberalization of the 1970s. Comparison of pre- and post-liberalization manufacturing census data reveals little aggregate productivity improvement. However, industries undergoing reduction in protection showed improvements in efficiency levels and reductions in cross-plant efficiency dispersion. Why is this an important paper? Because it exploits micro data and applies frontier econometric techniques to address pressing questions about trade reform effects, which previously had been analyzed, in Chile and elsewhere, by using aggregate data.

Vittorio focused much of his research in the 1980s and 1990s on structural reform, macroeconomic adjustment, development strategies, and growth in developing countries—the main topics of his research division at the World Bank. He published 50 papers in these fields between the late 1980s and 2000, including his 3 chapters in North-Holland Handbook series and his AER paper on trade reform. He wrote much about development problems in Latin America. Yet he also shifted his attention beyond this region to address issues on structural reform, adjustment, and growth in Africa, Eastern Europe, and Asia, with a particular focus on Korea.

Just at the turn of the millennium, Vittorio began to work on monetary and exchange-rate regimes, central bank independence, and the conduct of monetary policy. This new research interest matched the spreading of regime shifts toward inflation targeting, flexible exchange rates, and rule-based conduct of monetary policy by newly independent central banks. Among his most original contributions on these issues are the following: his research on the evolution of monetary policy rules in Latin America toward more standard forward-looking Taylor rules as regimes shift toward inflation targeting and exchange-rate floats (the 2002 book chapter on “Monetary Policy in Latin America in the 1990s”), his negative evaluation of dollarization or a common currency for most Latin American countries (“Is it Time for a Common Currency in the Americas?”, *Journal of Policy Modeling*, 2001), and his early and positive empirical assessment of the results of inflation targeting in the region (in half a dozen papers).

Finally I want to refer to a different output, not a scientific paper. I mean the policy report prepared at the request of Finance Minister Felipe Larraín, the 2011 “Report of the Advisory Committee for the Design of a Fiscal Policy of Structural Balance of Second Generation for Chile”. While this is a collective work of the seven members of the ad hoc Committee, this volume bears clearly the imprint of the Committee’s Chairman, Vittorio Corbo. It takes stock of the world policy frontier in fiscal institutions and fiscal policy rules, identifies the shortcomings of the current fiscal policy framework and fiscal rule, and makes recommendations for their improvement. While the report is on Chile, considering its relevance and its depth makes it very likely that it will influence future fiscal policy reforms in other countries, as already reflected in the recent adoption of a fiscal rule in Colombia.

Beyond his research output, Vittorio’s academic career includes presentation of hundreds of seminars world-wide; reception of twenty research grants, awards, and distinctions; and holding many board positions in international professional societies, including the Vice Presidency of the International Economic Association.

The teacher

Vittorio’s teaching career spans 41 years. He has taught at Catholic University of Chile, Clark University, Concordia University, Georgetown University, and University of Chile. He is Full Professor of Catholic University of Chile and Extraordinary Professor of

University of Chile, and has been Full Professor at Concordia University. His undergraduate and graduate courses span from econometrics to microeconomics, from macroeconomics to monetary theory, and from development economics to economic policy reform.

Vittorio is an amazing teacher who gets the highest student evaluations. For 12 years Vittorio and I shared teaching of the graduate seminar course on economic policy reform at Catholic University. It was very hard for me to get the same outstanding marks he would regularly get from our students.

Vittorio is a gifted presenter of complex ideas and loves engaging in lively discussion with his audiences of academics, policy makers, CEOs, and students. He is admired and appreciated by hundreds of students in Latin America, who have been taught and mentored by him. In every country in Latin America—and some countries in other regions—that is visited by a Chilean economist, he or she will be asked with keen interest and affection about Vittorio when that economist meets Vittorio's former students, which are typically holding high academic, private, or public sector positions.

Vittorio is enormously supportive of students applying to doctoral programs abroad. He always goes to the last mile in supporting selected applicants, calling up admission committee members to argue for admission of his student—as witnessed by Ricardo Caballero, who now is often on the other end of Vittorio's telephone line.

The policy maker

Inflation and monetary policy take central stage in Vittorio's research agenda. Hence it is not surprising that Vittorio came to serve his country as Governor of the Central Bank of Chile. When President Lagos, at a politically difficult juncture, nominated Vittorio as Board Member of the Central Bank, he said that he had selected “the best of all possible candidates”. Vittorio's nomination was approved by a huge majority of Chile's Senators and then President Lagos appointed Vittorio Governor of the Central Bank of Chile, a position he held from May 2003 to December 2007.

Under Vittorio's leadership, the Central Bank of Chile was strengthened very significantly in two key dimensions of its mandate and performance. First, the Bank's policy framework, based on inflation targeting, a floating exchange rate, and careful monitoring of financial stability, was significantly strengthened. Transparency and accountability in the conduct of monetary policy and Central

Bank operations were improved significantly, inflation targets were met closely, and the peso floated freely, as the Bank did not engage in any exchange-rate intervention.

Second, internal efficiency and external accountability were significantly improved during Vittorio's tenure, by streamlining management and procedures of business functions, and improving financial transparency and public accountability.

The advisor

Since the beginning of his career, Vittorio has complemented his academic work with advising governments, central banks, international financial institutions, and, in recent years, private corporations. For example, as research advisor of a Chilean private corporation during 1979-1982, Vittorio mentored the work of half a dozen young economists during or before they attended graduate school in the U.S.

Vittorio, together with Patricio Meller, met Anne Krueger in the first half of the 1970s, when they were invited by Anne to join the famous NBER project on Trade and Employment, a project that led to many publications. One decade later, in the mid-1980s, Anne Krueger, then Senior Vice President of Research and Chief Economist of the World Bank, invited Vittorio to join the Bank as Senior Policy Adviser in the Development Research Department. He accepted her invitation, holding several managerial position in the World Bank's Operations and Research Departments. In these positions, Vittorio displayed intellectual leadership, managerial talents, and a great capacity in attracting young and motivated economists to work on the main development challenges of the day. Many participants and attendants of the 2011 Conference held in Vittorio's honor, including Ricardo Caballero, Giancarlo Corsetti, William Easterly, Ibrahim Elbadawi, Miguel Kiguel, Raúl Labán, Luis Riveros, Patricio Rojas, José Miguel Sánchez, Andrés Solimano, Luis Servén, Jaume Ventura, Rodrigo Vergara, Raimundo Soto, and I, were invited as staff or summer interns to work at Vittorio's Macroeconomic and Growth Division (DECMG). Other participants at the Conference, including Guillermo Calvo, Sebastián Edwards, Felipe Larraín, and Felipe Morandé, visited DECMG for shorter terms or participated actively in DECMG conferences.

Vittorio returned from Washington to academic life at Catholic University of Chile in 1991. Over the last two decades, Vittorio's

complementary role and reputation as highly-sought advisor grew steadily. After his period at the helm of Chile's Central Bank, Vittorio has expanded his portfolio of research, teaching, and advisory activities. Today he serves as Senior Research Associate at the Centro de Estudios Públicos, a leading public policy think tank in Chile. He also chairs or serves as a member of four major private corporate boards and as a member of advisory councils of the IMF and the World Bank. He advises governments and international financial institutions, and gives talks and seminars all over the world.

The human being

Is there a man beyond Vittorio Oeconomicus? Certainly. Among his private passions are reading, cooking, and skiing, preferably in the company of his beloved family. Vittorio is a devout family person. *Per Don Vito la famiglia viene prima di tutto.*

Yet Vittorio's gentleness extends much beyond his family. As countless colleagues, co-authors, and students attest, Vittorio exudes warmth and affection to all people that are lucky enough to meet and come to know him.

As Rick Mishkin says about our common friend: "Vittorio is a *mensch*". This wonderful yiddish noun of German origin, *mensch*, means "a person of integrity and honor". Yes, Vittorio is certainly a person of enormous integrity, honor, and fairness. And he treats with equal respect and gentleness a man on the street or a student, a company CEO or a nation's president. He is simply a gentleman.

Vittorio Corbo—*un uomo di famiglia, un caballero de tomo y lomo*, a true *mensch*. Vittorio is simply an exceptional human being.