



## Featured Economist

### Deaton Wins the Nobel Prize in Economic Sciences

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The Royal Swedish Academy of Sciences awarded the 46<sup>th</sup> Nobel Memorial Prize in Economic Sciences on October 12<sup>th</sup>, 2015 to Professor Angus Deaton, of Princeton University, “for his analysis of consumption, poverty, and welfare.” Deaton is a renowned econometrician whose work transcended the orthodox relationship between data and detail in order to facilitate the design of economic models that addressed the nuances of economic variance. Deaton is the first economist to be acknowledged in such explicit terms for his contribution to the increasingly empirical nature of modern economic research. As the New York Times commented, “There are probably more such Nobels to come.”

As the Academy’s announcement read, Deaton’s work cited for the Prize revolves around three main questions: “1) How do consumers distribute their spending among different goods? 2) How much of society’s income is spent and how much is saved? 3) How do we best measure and analyze welfare and poverty?” These broad questions were not treated by Deaton with sweeping answers as might be expected from an econometrician. Deaton instead often focused on the “important pitfalls” of policies, and their implication and implementation, across time and space. As the Times explained, “the observation that a particular government intervention worked is no guarantee that it will work again, or in another context [...] Data are imperfect, surveys can be unrepresentative, people misreport, and attempts to recontact survey participants often fail.” Thus, Deaton often resorted to using microeconomic concepts to narrow down the effects of macro-policy on the end users, from whole economies to households.



Deaton's life work has focused on explaining the minutia of complicated aggregate data and challenging previous conventions that were rooted in economic thought. For example, in 1974, Deaton challenged the Rotterdam Demand model arguing that individuals can sometimes behave irrationally, and even if they do not, individual rationality cannot be expanded to mean rationality on the aggregate level. Deaton, along with his partner Muellbauer, introduced the Almost Ideal Demand System (AID) in 1980 to replace the model, introducing parameters that better reflected real economic dynamics. The paper that the pair published on the AID system became one of the 20 most influential articles published by the *American Economic Review* in its first 100 years (Arrow et al., 2011).

Another example is Deaton's contribution to development econometrics research. During his tenure with the World Bank, Deaton was central to the development of household survey techniques as well as making consumption the central measuring stick in developing countries to replace income. In what has become almost universally accepted since, Deaton established that consumption is "often easier to measure and provides a more accurate measure of material welfare when income varies seasonally throughout the year" (Deaton and Grosh, 2000). In his Nobel Lecture, Deaton still championed his methods of understanding macro data through micro techniques.

Awarding Deaton at this time is perhaps a nod to the rising importance of income and inequality research during the post-2007 economic climate. It would be difficult not to afford more recognition to the contributions of poverty and development economists in the years to come.