

Munich Lectures 2002
Laudatio for Nicholas Stern

Rector, Professor Sinn, Ladies and Gentlemen, it is my pleasure to introduce to you Nicholas Stern, this year's CES Distinguished Fellow.

Nick is an extraordinarily distinguished economist, who began his career as an economic theorist, working on growth economics and public economics and who has contributed to an astonishingly wide range of topics, including almost everything to do with economic development. As befits such a fine economist, he is currently helping to run the world. It is nearly always a good idea for economists to be running things, but it is especially so when that economist has the intellectual and personal skills that are possessed in such abundance by Nick Stern.

Nick and I were almost exact contemporaries as mathematics undergraduates in Cambridge, but I did not know him there. Instead, we first met when he was at Oxford, where he had written his thesis with Jim Mirrlees, working on economic growth, and had then been quickly elected to a Lectureship and Fellowship at St Catherine's College. Like many of the economists of his generation, he had spent time in Kenya and, like his mentor, his work used theory, sometimes difficult and sometimes new, to think about applied problems, especially the economic problems of development, such as growth, project evaluation, and taxation. From this period dates Nick's important work on duality and growth, as well as the celebrated paper with Tony Atkinson on Pigovian taxation and public goods. Somehow, he also found time to write a book on crime, an early showing of the breadth of interest that has always characterized his work.

After Oxford, he had a stellar academic career in Britain, with a Chair at Warwick at age 32, and the Hicks Chair at the London School of Economics at 40. At both institutions he built productive research groups on economic development, groups that were especially notable for the start that they gave to a generation of young scholars, many from the subcontinent and then later, at the LSE, also from China and around the world. At the LSE, he was part of a distinguished collaboration with Tony Atkinson and Mervyn King working on taxation and incentives in Britain. Such collaborations

have always been the way that Nick has worked. Other people like to work with him, not only because he is so smart, but because working with him is such a great pleasure.

Nick has long had a very special relationship with India. In 1974, he and Christopher Bliss, both with a year's sabbatical in hand, decided that they were going to spend most of the year living in and studying an Indian village, Palanpur in Uttar Pradesh. They learned Hindi before they left, but Oxford Hindi is perhaps a little different, and they were met with blank incomprehension by the villagers, and it was only many weeks later, when the children began to giggle at them, that they realized that they were beginning to be understood. Susie was there too, and spent much of her time deflecting fertility recipes from the villagers, to whom the western pattern of delayed childbearing could only be interpreted as the result of illness or malediction. Out of this year came perhaps the finest of the village studies in economics, which uses data collection, the theory of agrarian institutions, and econometric analysis to understand both the agriculture of Palanpur and the strengths and weaknesses of the economic theories of tenancy, landholding, uncertainty, technological change and rural markets. It is a model of its kind, and it has been much copied. Nick's students and friends, if indeed there is a difference, have returned again and again to Palanpur, and the most recent volume, the culmination of nearly five decades of research on the village, was published as recently as 1998. One of my favorite by-products of this research is Christopher and Nick's survey paper on the nutritional wage hypothesis; it is full of insights and wisdom and remains to this day a staple of reading lists. One of the many gems is that Nick understood from the outset how difficult it is to construct a convincing test of the nutritional wage story, and that key insight, which is still too often ignored (perhaps British understatement is lost on American readers?), is a fine demonstration of Nick's dual skills in theory and measurement, here the understanding that the empirical implications of the theory are much more subtle than at first appears.

Another line of enquiry has been on the structure of taxation in developing countries, a topic that has been transformed by Nick's work. He has taken the modern theory of optimal pricing, starting from Diamond and Mirrlees, and brought it to bear on the problems of developing countries. He has done so in papers of great power and generality, in his papers on taxation and on cost-benefit analysis in the Handbooks of Development Economics and of Public Economics, but also with

reference to specific countries, such as Pakistan, India, and China. Together with David Newbery, he put together the definitive volume on tax reform in developing countries.

It is not surprising that, given his talent for building research groups, as well as his record of policy related research at the highest levels of theory and empirics, Nick should eventually be tapped to help run the world. (Or actually, perhaps it *is* surprising!) He has been doing so for the better part of the last decade, first at the European Bank for Reconstruction and Development in London, with primary responsibility “only” for the transition countries, and later and currently, as chief economist of the World Bank, where he has responsibility for the world. This is not an easy time to be an international policymaker in Washington, international development is not a popular topic, particularly in the current atmosphere in Washington. Yet those of us who have observed Nick at work know that he is the man for the job, that good economics is needed to run the world, that it only works in the hands of someone with the right personal and management talents, and that the world is in safe hands.

Nick’s father came to Britain as a refugee in the 1930s, was interred by the British as an “enemy” alien after hostilities broke out, and was transported to Alice Springs in Australia for the duration of the war. In spite of this awful start, he made a successful career in postwar Britain, passing on to his talented children the confidence, humanity, and compassion that comes from having triumphantly overcome such a history. He also gave Nick the gift of a close family life, as well as a disgraceful sense of humor (which is a great bond between us), and a life-long dedication to socialist, or at least to Labor Party causes. His experience of the byzantine intrigues and infighting of local Labor Party politics in Britain probably did as much to prepare him for being chief economist of the World Bank as did all the economics he ever learned or created. Like his father, Nick’s life is rooted in his family, and I believe because of this, he has a deep calm that seems imperturbable, even in the madhouse of the World Bank, the Bush administration, and the world’s finance and development ministers. His friendship is loyal and unchanging; we have spent many happy hours together, talking about economics, or even better, watching cricket, for some reason, nearly always in India.

Tonight you will hear from one of the world's best economists, who is also one of its most important and talented policymakers. You have a treat in store.

Angus Deaton

Princeton University, Princeton, NJ

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