

On Angus Deaton Nobel Prize: Consumption, Poverty and Well-being

The Royal Sweden Academy of Sciences titled Angus Deaton's award "Consumption, Poverty and Welfare". In the evaluation commission's text, the scientific his contributions in the last 40 years were organized under three headings: i) demand models for groups of consumption expenditures, such as food, housing, etc, that had already laureate his master, Sir Richard Stone (1913-1991), with a Nobel in 1984; ii) The study of the choice between consumption and saving, object of the prizes awarded to Franco Modigliani (1918-2003) in 1985 and Milton Friedman (1912-2006) in 1976; iii) Finally, studies about "Poverty" and "Welfare" that had already awarded Amartya Sen with a Nobel in 1998. I still would include a forth element – not cited by the commission - of Deaton's work: "Subjective Indicators and Well-being", which had also awarded Daniel Kahneman a Nobel in 2002.

If all the aforementioned issues were subject of previous awards, what is the logic that yields a Nobel to Angus Deaton? In my opinion, the award comes from his ability to face the most fundamental human choices involving people, things, moments of time and states of nature through a rare combination of rigor and relevance, covering different aspects, such as measurement, theory and empirical evaluation. According to Deaton, his greatest contribution was to integrate statistics, sociology and economics. More than the sum of his isolated original contributions, the prize can be explained by his vast work altogether.

Another motivation for the award are the direct consequences of Angus Deaton's work in people's lives, either by the best design of indicators, the construction of solid basis for public policy or the best empirical evaluation of the impacts achieved. He has this ability to innovate in key parts of the course without losing the direction of progress taken as a whole.

As a professor, Deaton transmits to his students an irresistible will to follow his steps, multiplying results along the way. I had the great pleasure to tell him that personally last year. The books published by Deaton can be better than his seminal articles, reflecting his ability to align the core elements of his narrative, involving principles and evidences, choices and results, individuals and societies.

Consumption is the main aggregate expenditure of the entire economy, particularly among the poor. It is a present theme in the first pages of both microeconomics and macroeconomics text-books. In fact, no one addressed the link between these two levels of analysis with the precision and clarity of Deaton's book with John Muellbauer, *Economics and Consumer Behaviour*, published in 1980.

Angus Deaton, born in Scotland, birthplace of economics, knows the importance of adapt to demands and challenges of his time. In 1974, he estimated equations of household consumption expenditures and formulated the Almost Ideal Demand System (AIDS) that became the cornerstone of the field.

In macroeconomics, when the fashion was the cointegration of macroeconomic series (analysis of common properties of long-run statistical time series), the so-called *Deaton's Paradox* showed that consumption should be more volatile than income, but it is not, revealing the need of using disaggregated databases. In 1985, he invented the so-called pseudo-panels that allowed studying the dynamics of

income and consumption over the life of the people, without having to follow the trajectory of each individual. Then he showed how inequality in the same generation tends to grow across the life-cycle. His 1992 book, *Understanding Poverty*, is still the most complete work on the dilemma of the choice between present and future consumption.

He was instrumental in the design, utilization and dissemination of household microdata bases around the world (these surveys collect information about individuals in their homes). The construction of Living Standard Measurement Surveys (LSMS), applied in many developing countries by the World Bank, transformed the approach of public policy in these places. His 1997 book, *The Analysis of Household Surveys*, is an obligatory reference.

The author transcended the role of rigorous academic and rescued the tradition of public intellectual that, through the debate of ideas, influenced the design of policies in several countries such as South Africa, Pakistan and India. He proved in his 2013 book, *The Great Escape: Health, Wealth and the origins of Inequality*, that the reduction of poverty experienced in the world in the past 30 years was the largest in statistically documented history of humanity, despite the rising inequality within most countries. At the same time, he decisively contributed with the construction of global poverty goals such as the Millennium Development Goals and the UN Sustainable Development Goals, what proves his ability to adapt and also shape new times.

Overall, his several studies did not reject the central importance of the consumption- income nexus, if appropriately treated, in various aspects of economic discipline, also known as the Dismal Science. In recent years, Angus Deaton connected “means to ends”, entering into the psychology of preferences formation of the *Homo Economicus*, something generally seen as exogenous in the field. Therefore, he aligns theory with evidence using subjective indicators of well-being (term that gives name to his new Center at Princeton).

Deaton demonstrates, still in his 2013 book, that if we look at a sufficient large set of countries, including the poorest, there is a closer relationship between happiness and income than previous studies have suggested. He also shows that there is a saturation point within countries at U\$75 thousand a year, where more money does not bring more happiness.

Ironically, according to this evidence, the impact of the Nobel Prize in economics in his life will be due to recognition and not to resources.

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