

# On Deaton and development: consumption, poverty and well-being



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The Royal Sweden Academy of Sciences titled Angus Deaton's Nobel prize "Consumption, Poverty and Welfare." The evaluation commission organised Deaton's scientific contributions during the last 40 years under three headings: i) demand models for groups of consumption expenditures, such as food, housing, etc., that already had earned his mentor, Sir Richard Stone (1913-1991), a Nobel in 1984; ii) the study of the choice between consumption and saving, which was the object of the prizes awarded to Franco Modigliani (1918-2003) in 1985 and Milton Friedman (1912-2006) in 1976; and iii) studies about "poverty" and "welfare" that already had conferred Amartya Sen with a Nobel in 1998. I would include a fourth element of Deaton's work, not cited by the commission, on "subjective indicators and well-being" for which Daniel Kahneman earned a Nobel in 2002.

If all the aforementioned issues were subjects of previous awards, what is the logic behind a Nobel for 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. Deaton's greatest contribution is to integrate statistics, sociology and economics. More than the sum of his isolated original contributions, the prize can be explained by Deaton's vast work taken altogether.

What also justifies the award are the direct consequences of Deaton's work in people's lives. These include the better design of indicators, solid public policy or better empirical evaluation of the impacts achieved. He has this ability to innovate in key parts of the journey without losing the direction development takes 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 in 2014. The books Deaton published are better than his seminal articles, reflecting his ability to align core elements in a powerful narrative, involving principles and evidences, choices and results, individuals and societies.

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

## *Consumer Behavior.*

Angus Deaton was born in Scotland, the birthplace of economics. He knows the importance of adapting to the 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. When the fashion was the co-integration of macroeconomic series, or the analysis of common properties of long-run statistical time series, *Deaton's Paradox* showed that consumption should be more volatile than income, but it is not. This revealed the need to use disaggregated databases. In 1985, he invented the so-called pseudo-panels that allowed studying the dynamics of income and consumption over the life-cycle 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 Consumption*, is still the best-written piece on the dilemma between present and future consumption. Deaton is instrumental in designing, utilising and disseminating household microdata bases around the world. These surveys collect information about individuals in their homes. His 1997 book, *The Analysis of Household Surveys*, is an obligatory reference.

Indeed, the author transcends the role of rigorous academic and revives the tradition of public intellectual. In other words, by leading a debate of ideas, Deaton influenced the design of policies in several countries, including in 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 and the rise in social welfare the world experienced in the past 30 years was the largest statistically documented in humanity's history, despite rising inequality within most countries. His decisive contributions to constructing global goals, such as the United Nations Sustainable Development Goals, prove his ability to adapt to and shape new times.

Deaton connected "means to ends" in recent years. This thinking enters the psychology of preferences formation, generally treated as exogenous in the field. He, thus, aligns theory with evidence using subjective indicators of well-being, a term that gives name to his new center at Princeton University.

Deaton demonstrates, still in his 2013 book, that in a sufficiently large set of countries, including the poorest, a closer relationship between overall life-satisfaction and income emerges than previous studies suggested. He also shows elsewhere a saturation point of \$75,000 a year, where more money does not bring more happiness.

Clearly, according to this evidence, Angus Deaton's Nobel Prize in economics is a source of happiness not because of its generous resources but rather its well-deserved recognition.

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