

## *A Nobel Memorial Prize Laureate In Economics Who Has Inspired Me*

“Life is better now than at almost any time in history. More people are richer and fewer people live in dire poverty. Lives are longer and parents no longer routinely watch a quarter of their children die.” These were the optimistic words written by Sir Angus Stewart Deaton, FBA in his book *The Great Escape*. Sir Angus Deaton was awarded the Nobel Memorial Prize in Economics in the year 2015 for his analysis of consumption, poverty and welfare according to Nobelprize.org (2015, accessed on 9<sup>th</sup> July 2017).

Before I proceed further in answering the main point of this essay on why Sir Angus Deaton inspired me, allow me to first introduce the man himself. The Faculty of Princeton University stated that Deaton was born and raised in Edinburgh, Scotland. He has taught at the renowned Cambridge University and the University of Bristol. He was President of the American Economic Association in 2009. He holds honorary doctorates from the University of Rome, Tor Vergata, University College, London, the University of St Andrews, the University of Edinburgh, the University of Cyprus, and Brown University. He was the recipient of the Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel in 2015. In 2016, he was made a Knight Bachelor for his services to economics and international affairs. Sir Angus Deaton is now a Senior Scholar at the Woodrow Wilson School, where his main interests are in poverty, inequality, health, development, well-being, and the use of evidence in social science and medicine.

According to Nobelprize.org (2015, accessed on 10<sup>th</sup> July 2017), his work has helped to provide answers for three big questions in economics that is (1) how do consumers disseminate their expenditure among different goods?, (2) How much of society's income is spent and how much is saved?, and (3) what is the best measurement and analysis for welfare and poverty? To be honest, Sir Angus Deaton's analysis of consumption, poverty and welfare was one that truly struck me as it was something I could personally relate to it quite well since all three of those elements are cardinal in my life. Since I was seven years old, I learnt to allocate my RM 1.00 pocket money according to what I believed at that time would yield the highest satisfaction or in other words, make me happiest. If I spent RM0.80 for *nasi lemak* in the canteen, I would not have enough money to buy the latest mechanical pencil which was RM 1 in the bookstore. Therefore, I calculated that if I saved at least RM0.20 per day, I would be able to buy the mechanical pencil in five days. That was my first experience of saving and

eventually spending. I did not know that I was making economic choices or that I was acting in a way many other consumers would act as well. Who would have thought that my small and almost miniscule choices would affect the demand of a product in a business and the GDP of Malaysia. Deaton has opened my eyes in showing me that my individual choices of consumption had a link to aggregate outcomes.

The simple definition of consumption according to Merriam Webster (accessed on 7<sup>th</sup> July 2017) is the action of using up a resource. Human beings are consumers and consuming is part of our everyday life. Our simple act of having a meal and buying groceries is a form of consumption. Bamford & Grant (2015) stated that consumption is an important component of aggregate demand and is also known as consumer expenditure. It consists of spending by households on goods and services. Over the past thirty to forty years, the study of consumption has developed tremendously. While many academics have contributed to this progress, Angus Deaton stood out among others. Wolfers (2015) wrote that a lot of Deaton's research has been emphasised on the measures of the food people eat, the condition of their housing and the services they consume. Deaton was also a pioneer in averting the attention of economists away from the behaviour of economy wide aggregates such as gross domestic product and toward the analysis of individual households. As the Nobel committee put it, Deaton's work covers a wide spectrum, from the deepest implications of theory to the grittiest detail of measurement.

The next and most pertinent part of his analysis is on poverty. As I type this essay out on a laptop with a roof over my head, I have the privilege to say that I do not suffer from poverty. As a child, I was always told to count my blessings and that's exactly what I did. A small bowl of rice was sufficient to keep me full, healthy and happy. Access to clean water was a great immunity. I learnt to focus not on what I do not have but on what I do have. Growing up, I began to learn that I was tremendously blessed to be born in a country where I can have access to quality education and healthcare. Unfortunately, this is not the case for everyone.

The poor in some societies are by comparison fabulously rich by the conditions of another society. For example, a poor man in Norway, would be considered rich in a country like Malawi which is among the lowest income countries in the world with a Gross National Income (GNI) per capita of \$320 as of 2016 (The World Bank, accessed on 8<sup>th</sup> July 2017). The rich of the past seem poorer by today's standard. There is a popular theory challenged by Deaton in his book *The Great Escape*. He illustrated this theory states that world poverty could be eliminated if every American adult donated \$0.30 a day; or, \$0.15 a day from a combined

action from adults in developed countries such as Britain, France, Germany and Japan. Deaton argued how that approach may have the opposite of the desired effect. He stated that “If poverty is not a result of lack of resources or opportunities, but of poor institutions, poor government, and toxic politics, giving money to poor countries – particularly giving money to *governments* of poor countries – is likely to perpetuate and prolong poverty, not eliminate it.”

On the other hand, Deaton’s study on welfare was a complex one as it cannot be condensed by definition simply in one sentence. According to Pettinger (2008) welfare is the level of prosperity and quality of living standards in an economy. Economic welfare is a general concept which doesn’t lend to easy definition. Basically, it refers to how well people are doing. Economic welfare is usually measured in terms of Real Income, real GDP. An increase in Real Output and real incomes suggests people are better off and therefore there is an increase in economic welfare.

However, economic welfare will be concerned with more than just levels of income. For example, people’s living standards are also influenced by factors such as levels of congestion and pollution. These quality of life factors are important in determining economic welfare. The reduction in welfare benefits in many developing countries has led to higher inequality and relative poverty. Inequality affects the poor by reducing their ability to invest in their health and human capital formation (Galor & Moav, 2004). It also influences social activity across generations, as children’s future earnings are significantly affected by their parent’s earning profiles (Corak, 2013). It is a vicious cycle. Deaton (2015) wrote that poor people can see the new opportunities, and understand that, with education and luck, their sons and daughters can prosper too. He continues to explain that there are also terrible dangers of inequality, if those who have escaped from destitution use their wealth to block those who are still imprisoned by it. Decent education, available and effective healthcare, and functioning sanitation are goods that benefit everyone, and the new middle class should be more than happy to pay the taxes that help others share their good fortune. Deaton even quotes the famous Adam Smith who said that “Every tax is to the person who pays it a badge, not of slavery, but of liberty.” And if taxes are spent wisely, liberty can be widely shared.

Deaton has made a positive change in the study of consumption, poverty and welfare and has strived for a profound and comprehensive switch for a cause bigger than himself. Even

through all that, Deaton has never stopped openly sharing compassion and care for humanity. Deaton spoke beautifully on the ways to overcome inequality as the topic of freedom came about which is generally what humans strive to be. To be free. Free from oppressive restrictions and of any type of discrimination. Angus Deaton continues to portray the person who I aspire to be. Although, maybe not entirely on the awards and recognition but on his determination, perseverance and his overall focus. Lastly, allow me to end this essay with a poem that I hold very close to my heart.

*If you can dream—and not make dreams your master;*

*If you can think—and not make thoughts your aim;*

*If you can meet with Triumph and Disaster*

*And treat those two impostors just the same;*

Sources: 'If' by Rudyard Kipling (1910)

(1,543 words)

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