



# Consumption, great and small

Angus Deaton's research has enhanced our understanding of different aspects of consumption. It addresses issues of central importance to human welfare, particularly in poorer countries. By illuminating the links between individual consumption choices and the outcomes for society, his work has had a great influence on both practical economic policy and the methodology of economic research.

The work of Angus Deaton revolves around three central questions:

*How do consumers distribute their spending among different goods?* Answering this question is not only necessary for explaining and forecasting actual consumption patterns, it is also crucial in evaluating how policy reforms, such as changes in consumption taxes, affect the welfare of different social groups.

In his early work, from around 1980, Deaton developed the Almost Ideal Demand System – a flexible, yet simple, way of estimating how the demand for each good depends on the prices of all goods and on individual incomes. This system and later modifications to it are now standard tools, both in academic research and in practical policy evaluation.

*How much of society's income is spent and how much is saved?* In order to explain capital formation and the magnitudes of business cycles, it is necessary to understand the interplay between income and consumption over time. Around 1990, Deaton showed that prevailing consumption theory could not explain these relationships if the starting point was total income and total consumption.

Instead, one should start from each individual's behavior, using individual income and consumption, and then aggregate to obtain total values. This research clearly demonstrated why the analysis of individual data is key to unravelling the patterns observed in aggregate data, an approach that has since been widely adopted in modern macroeconomic research.

*How do we best measure and analyse welfare and poverty?* In recent decades, Deaton has highlighted how reliable measures of individual household consumption can be used to discern the mechanisms behind economic development. His research has uncovered important pitfalls when comparing the extent of poverty over time and between countries.

It has also exemplified how the clever use of household data may shed light on specific issues, such as the relationships between income and calorie intake, or the extent of gender discrimination within the family. Deaton's emphasis on household surveys has helped transform development economics from a theoretical research field, based on aggregate data, to an empirical field based on detailed individual data.



### The individual

To understand important economic and social issues at the macro level, one must first understand individual choices at the micro level.



### The Almost Ideal Demand System

The Almost Ideal Demand System is a model for analysing which products and services people consume over a given period.



### The poverty line

To improve consumption for those who are worst off, it is necessary to know who they are and how improvements will be measured: what actually happens in every individual's life, who is better off than whom, and why.

### Angus Deaton

UK and U.S. citizen. Born 1945 in Edinburgh, UK. Professor of Economics and International Affairs, Princeton University, NJ, USA, since 1983.



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