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Book Reviews

Income, Saving and the Theory of Consumer Behavior. By JAMES S. DUESENBERRY. Harvard University Press, Cambridge, Mass. 128 pages. 1949. (Harvard Econ. Studies, Vol. 87.)

THERE CAN BE NO DOUBT that formal demand, or consumption, theory is in need of the kind of overhauling represented by this book. In recent years, production theory has become increasingly satisfying, not only in its structure but also in its contribution to practical, daily problems. But demand theory has not been so blessed with the same progress probably because of the complexity of man as a consumer. This is Professor Duesenberry's focus in this book.

Recognizing that ". . . we have to face up to the problems of the psychological bases of consumer choice," the book evaluates the consequences for income, saving, and consumer behavior theory. It first discusses the empirical basis of the theory of consumers' choice. Next is a reformulation of the theory of saving which is necessitated by recognizing the psychological bases of consumers' choice. The remainder of the book is devoted to testing the validity of such a reformulation.

To keep from being bogged down, the author does not attempt to create an analytical scheme which will explain in detail every purchase by every individual. He is ". . . primarily concerned with the central tendencies of the relations between economic variables and consumer choices."

This central tendency in our society revolves around one of our principal social goals—a higher standard of living. The author formulates this goal in comparative terms with emulation considered as being of great importance. "Once a group of high income people are recognized as a group of superior status, their consumption standard itself becomes one of the criteria for judging success." So that, " . . . it seems quite possible that after some minimum income is reached, the frequency and strength of impulses to increase expenditures for one individual depend entirely on the ratio of his expenditures to the expenditures of those with whom he associates". It is, thus, necessary to discard the implicit assumptions of consumption theory which says that individual consumer choice is independent of the choices of other consumers. At the same time, that element in the choice of the consumer which is guided by the wish to be judged successful on the basis of one's comparative status denies the reversibility of the consumer's choice. That is, he does not consider himself in a position to curtail his consumption merely because of a rise in price or a fall in income. This general statement is familiar to readers of Veblen's works.

The author concludes, as a result of this situation, that the rate of saving for the whole economy is not dependent upon the level of income existing in the economy. The propensity of an individual to save depends upon his position in the income distribution of the economy. As his income increases in relation to that of other individuals there will be a tendency for his savings to increase. The rate at which his savings will increase will depend on where he is in the income distribution and how the income is distributed at that particular time. Also the rate of saving will change if the shape of the income distribution changes.

At the same time saving (and consumption, since savings plus consumption equals income) is affected by changes in income over time. The author concludes that it is the relation of current income to the previous peak which regulates the rate of saving over the business cycle.

Of course, the rate of savings is also affected by other things, for example, interest rates, income expectations, the rate of growth of income and the age distribution of the population. But the author concludes, "On balance, changes in these variables have not been sufficiently large to have had much effect on the savings ratio."

In conclusion, it is gratifying to see someone trying to work these ideas into formal consumption theory. It is hoped that not only Professor Duesenberry but also other economists will continue to work in this area. Revisions in formal consumption theory are long overdue.

Howard L. Parsons