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## THE DIRECTION OF CHANGE IN INCOME

Many times in the foregoing discussion we have paid lip service to the thought that first and last reactions to change in income may differ. The supposition that they do is one reason why we need be very cautious in assuming that a response of buying to change in income can be measured along the interfamily buying-income regression. Can we obtain any evidence concerning the response to change in income per se?

There are, as far as I know, no empirical explorations of how shoe buying differs, depending upon the direction and extent of recent changes in income, other things the same. I reviewed such material as could be assembled on the buying of thirteen major commodity groups in an article in the *Review of Economics and Statistics*, November 1948. The purchase of all clothing seemed to show (on the basis of very slim evidence) a more or less neutral reaction to the recent direction of change in income. Unlike the big majority of categories of purchases, it did not seem to show "negative" income-change elasticity: it was not higher when income was falling (or stable) than when it was rising, other things, including the level of income, the same. The commodities that show a strong negative elasticity "seem, for the most part, to fall in one of two categories: items, such as education, fuel and light, and housing, which involve long-term commitments; or items such as reading, personal care, tobacco, which typically involve highly prized goods of small unit value."[1] The commodities having the reverse characteristic – a tendency for fallen-income families to spend less than risen-income families – were autos, furniture, and equipment. These share the characteristic of fairly large unit expenditure and durability, so that the selection of the *time* when the article is bought is both important and subject to real option. Shoes are less durable than a large proportion of items of clothing and of smaller unit value than some and more than others. This would suggest, though it is a touchy and marginal judgment, that shoes would not have a higher income-change elasticity than clothing as a whole and might well have a slightly lower – that is, negative – one. In other words, families of a given income level whose income had recently fallen might be expected to spend slightly more on shoes than other families having the same current income. One would not expect the difference to be large or sure, except perhaps for farm families.[2] But because of the important theoretical implications

[1] Ruth P. Mack, "The Direction of Change in Income and the Consumption Function," *Review of Economics and Statistics*, November 1948, p. 250. The term "incremental income-elasticity" was used in the article to refer to what I here call "income-change elasticity."

[2] For farm families, negative income-change elasticity for total spending appears very strong indeed. (See Willard W. Cochrane, "Farm Family Budgets – A Moving Picture," *Review of Economics and Statistics*, August 1947, and discussion of this and an earlier study by Cochrane

in the study of business fluctuations of the possible influence on consumer buying of change in income per se, we shall want to test for its presence in time series.

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and Mary Grigg by Mack, *op. cit.;* see also, Margaret Reid, "Effect of Income Concept upon Expenditure Curves of Farm Families," Conference on Research in Income and Wealth, *Studies in Income and Wealth, Volume Fifteen* (National Bureau of Economic Research, 1952). Although we have no information for each class of expenditure, there is no reason to suppose that shoes would be one for which expenses would be especially easily curtailed when income dropped – quite the contrary. For farm income, consequently, the income-change elasticity of shoe buying might be clearly negative, so that last year's income might influence current shoe expenditure quite strongly.