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## EXPECTATIONS

It seems probable that whatever humor perennially characterizes a given individual, it can be shifted toward the melancholy or toward the sanguine by external circumstance. In our age of radio and daily newspapers, of work in large factories where news of layoffs flame from one department to another, shifts in mood will often tend to synchronize for large groups of individuals and may at such times affect decisions to buy. Optimistic or pessimistic expectations about *future income* may be the most regular influence bearing on buying decisions in the short run. But expectations about future prices and availability of goods certainly are at times capable of playing a dramatic part. Over longer periods, expectations about the value of the dollar, hazards of old age, atom bombs, may exert an influence.

Just how shoe buying will change, other things the same, depending on how people evaluate their income prospects, is hard to say. Picture two groups of consumers alike in all respects that influence buying except their expectations: one group believes strongly that their income will rise and the other that their income will fall in the coming year or two. The optimistic group will on the average, one would suppose, buy less insurance against the future — one of the major purchases made by the “saved” dollar. Will they buy more of everything else? At least, there is little reason to suppose that they would buy materially *less* of anything else (as in the case of the dichotomy between fallen and risen income families); but surely some articles will be more affected than others. Among the more affected would be those for which the *timing* of purchases is subject to considerable discretion. Durable goods, to which this characterization applies, belong in this category; moreover, they are often bought on installment credit, so that optimism can take the objective form of a request for credit as well as the willingness on the part of the seller to grant it. Whether shoes would

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durable or semidurable goods is a function of ownership — both of individuals and their peer groups — and standards *must* affect buying, other things the same. Consequently, if past levels of income or consumption should be incorporated in the consumption function, and I think they should, there might be much to be said in favor of doing so in the form of stocks rather than either as income in the manner advocated by Modigliani, Duesenberry, and others (see B. F. Haley [ed.], *A Survey of Contemporary Economics* [Irwin, 1952], Chap. II, p. 54, note 16) or as consumption, as suggested by T. E. Davis, “The Consumption Function as a Tool for Prediction,” *Econometrica*, July 1952, p. 495.

The discussion also, I think, brings out some of the problems of realistic handling of the influence of stocks of durable capital equipment on new equipment buying.  $S^*$  becomes the usual ratio of capital to output times the output expected for the period over which the new equipment would normally last (or at least be required “to pay for itself”). Obviously, the difference between available stock and these requirements, as well as current replacement needs, must exert a pressure on the buying of durable capital. But equally clear is the importance of those factors in the total explanation of buying which determine *when* buying responds to these basic requirements — factors involving short-term prospects for the volume of sales (and consequently how long it would take for new equipment to pay for itself), the availability of capital funds (from profits and other sources), capital costs, and the like.

be one of the articles for which buying would differ materially for the two groups cannot be answered a priori; I would expect it to be most marked for people with small incomes and small capital.

Empirical evidence on the subject is scarce. For saving and purchase of durable goods the influence of expectations has been studied in the area surveys conducted jointly by the Federal Reserve Board and the Survey Research Center of the University of Michigan. These studies seem to show that, other things the same, families who expect their incomes to fall save more than others. But area surveys have not as yet tackled this question for various sorts of consumer goods. Time series, therefore, are for the moment our only source of empirical evidence on whether shoe buying responds to expectations about income. An appropriate monthly series on expectations, were one available, could be included in a multi-correlation scheme for the explanation of shoe buying.

For this purpose we require, ideally, monthly statistics bearing on the character and intensity of an inner state — expectations about future income. Verbalized statements may not reflect it adequately; further, since it may be irrational, external circumstance that might be expected to generate the inner state may not be an ideal barometer, though perhaps as good a one as we could hope for. Because of the fact that the poor, and especially the urban poor, seem to have a considerably higher marginal propensity to buy shoes than the rich, we are especially interested about expectations of the factory worker. It seemed likely that the level of employment would influence the working man's expectations about future income — the level as expressed through the number of hours worked as well as the number of people employed. Consequently, factory man-hours was the index selected to include in the multiple correlation scheme.