Book Review

The Psychology of Saving: A Study on Economic Psychology; Karl-Erik Wärneryd;

EdwardElgar,Cheltenham,1999;pp.ix+389,ISBN1840640162£65.00)

This book is a major scholarly achievement, which deserves to be held in any academic library and should find its way onto the reading lists of a diverse range of courses. It will also be of considerable interest to public policymakers, who in the final chapter will find a rich array of suggestions of ways of affecting savings rates that focus on education and managing expectations rather than financial incentives such as interest rates and tax provisions. Wärneryd combines a comprehensive but very readable survey of the literature on saving with reports of recent work based on survey material from the VSB Panel database of the Centre for Economic Re- search at Tilburg University, garnishing the mix with many delightful quotations. It is a substantial volume and probably could have been pruned somewhat to avoid repetition ± for example, there are identical expositions of the Life Cycle Hypothesis on pages 135–6 and 301; other summary material is repeated on pages 117 and 303 and there are even two doses of the same Samuel Smiles quotation on pages 264 and 280. In general, however, the material is very systematically organized, the plan of each chapter well explained, and some acts of duplication may actually make the book easier to use by dierent audiences who will be interested in dierent parts of it.

Students of economic method should find the opening chapter very useful as a survey of the origins of economic psychology and its relationship with its parent disciplines. Those concerned with the history of economic thought should also glean much from chapter one, as well as from chapter three (`A Historical Perspective on the Psychology of Sav ing') and chapter four (`The Psychology of Saving in Modern Economic Theories of Saving'). Even chapter two, which covers the problem of deciding `What Saving Is and Is Not', is interesting in history of thought terms as the ideas of writer such as Adam Smith, J.S. Mill and W.S. Jevons are compared with modern thinking in economic psychology. The index makes clear the importance that Wärneryd ascribes to earlier writers: even John Rae, who has only lately been attracting much attention, appears on nine pages. As so often is the case, Alfred Marshall's thinking seems to run ahead of many modern economists: his ideas are employed on over 25 pages (though the book's true length means we must discount the index listing of him for page 425!). I particularly liked the idea from Rae, Bohm-Bawerk and Marshall that consumers with a capacity to conjure up vivid images of the future may be much better able to resist temptations towards present gratification and will themselves to save up to turn their visions into reality. This is just one of many instances where the book reveals areas where there are excellent opportunities for further empirical research on saving.

It is particularly to be hoped that the book is widely listed for students of macroeconomics. It provides much useful material on expectations and modern variations on well-known consumption function theories (such as the contribution of theories of self-control) as well as providing a thorough coverage of the work of George Katona and others who have worked with indices of consumer sentiment. I was somewhat surprised that the coverage of Duesenberry's Relative Income Hypothesis was quite brief and was not linked in detail to the literature on conspicuous consumption. Post Keynesian macroeconomists would also be disappointed that, despite citing the work of George Shackle and being careful (on page 226) to distinguish between risk and uncertainty, Wärneryd does not criticize mainstream models much for their probabilistic foundations. Although insurance-based instruments such as annuities are available to individuals who manage to save up lump sums as a basis for a retirement income, many choices involving superannuation are of a one-off, crucial nature.

Contrary to the philosophy of the rational expectations theorists, history does matter: Choosing an optimal saving strategy is problematic in a fog of genuine uncertainty where it may be difficult to change a path that has been embarked upon.

Despite the generally impressive compass of this book, I suspect that many readers will end up feeling rather disappointed with the psychology of saving that has been offered so far. This will be due largely to the nature of the literature for, as Wärneryd notes, `Except for the work of George Katona, psychological research has contributed little to the psychology of saving. Economists produced most of the thinking in this area, but today's economists seem to have lost some worthwhile details in their theories of saving' (p. 297). The consumption function theories that are normally taught to students of macroeconomics have set aside the earlier economists' interest in thriftiness, willpower, and intrinsic motivations for saving. Instead, modern analysis is typically framed as inter-temporal choice in terms of relative prices and time-preference. This is unsurprising since the notion of `will' – defined by Wärneryd (p. 281) as a state in which a `desired end is in our power and we expect to be able to overcome the difficulties' – is rather difficult to square with conventional notions of maximization subject to well-defined constraints.

Worse still for mainstream macroeconomists who like to work with aggregates, Wärneryd repeatedly notes how saving behaviour exhibits striking variations among different market segments even at similar levels of income and stage of life-cycle. Prior to any aggregation, different models may be needed for different segments. It is quite possible there is much to be learned from ethnographic, oral history investigations of diverse savings patterns, but little has been done so far (cf. pages 204–5 and 346). Furthermore, despite Wärneryd's emphasis on international differences, the field remains ripe for a genuine attempt to use psychology to make sense of why, say, the Japanese save so much, and people of many other developed nations save so little. Habit and socialization may certainly play a part in explaining persistent behaviour patterns but knowledge of differences in national psyche past and present might be necessary to make sense of how the process began and why high-saving nations remain impervious to the exhortations of advertisers to spend more.

The book would probably have been less likely to leave readers disappointed with the contribution of psychologists to understanding savings behaviour if Wärneryd had made more attempts to pick up psychology and use it to frame plausible hypotheses, if not also to test them. He suggests (p. 327) that the lack of attention by psychologists to saving `probably lies in the behaviouristic approach that long dominated. The future could only be predicted by interpolation of observable behaviour and this limited the researchers' interest in reactions to the future'. However, Foxall (1994, pp. 48–51) has already shown that it is perfectly possible to model savings choices in terms of a radical behaviorist perspective. Wärneryd mentions cognitive dissonance theory a couple of times but is not so bold as to suggest its potential for explaining why some segments of the population may opt to bury their heads in the sand in the face of official advertisements about the need to engage in retirement saving. An opportunity was also missed to develop a discussion of satisficing behaviour in relation to goal-based saving based on a major simplification of the choice situation, or of the role of investment advisers in providing consumers with simple decision rules. (For example, `If you can accumulate half a million dollars, then you can retire'.)

Finally, I would note that reading the book got me thinking about scope for investigating savings behaviour using research methods from personal construct psychology, such as repertory grid analysis, construct laddering and implication grids. (These are discussed at length in Earl, 1986.) It would be particularly interesting to look at differences in the ways that consumers structure their thinking about saving and consumption choices, and at the different patterns of implications that they attach to alternative courses of action. For example, many consumers could advance their retirement dates considerably if they opted to refrain from purchasing brand new cars every two or three years. Consumers who insist on possessing virgin motor cars incur huge depreciation costs compared with those who get high quality motoring by purchasing ex-lease fleet vehicles. What kinds of thought processes make some consumers place such a premium on new car ownership over extra leisure? Are they status-obsessed and/or workaholics? Do they suffer from anxieties about the reliability of slightly older cars, or about what they would do with their lives if they retired earlier? More generally, one might study how far saving relates to the openness of individuals' worldviews to ideas concerning unfamiliar parts of life that require the development of new decision making competencies or ways of looking at themselves. (Such investigations could also be linked up with cognitive dissonance theory.) Some consumers may face major anxieties in relation to difficulties in working out how much to save for retirement, given the uncertainties that they construe, and about how to divide up their portfolios among different assets. Some may find it far easier in cognitive terms to take an optimistic view of the welfare state and their inheritance prospects and hence stay with familiar environments, such as shopping malls. They thereby avoid getting embroiled in the money management problems that would arise if they started saving in a big way. Other consumers, by contrast, might instead find it hard to see themselves as dependent on public policy or bequests and find it much easier to see themselves as capable of solving the retirement savings conundrum.

References

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