

Components of household income and elasticity of consumption expenditure in Kurnool and Prakasam districts of AP

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Abstract

This paper explores the nature of the different income sources, consumption expenditure and income elasticity of different group of items and the relationship among them as exhibited in the study areas. Both households sources of income and consumption expenditure shows similar trend in the two districts. From the two models used: total consumption expenditure and family size elasticities of consumption expenditure and income and family size elasticities of consumption expenditure, the former provide accurate prediction of Engel laws of consumption for classification consumption goods into inferior, normal and luxuries goods. It was found that increase in family size has an adverse effect in consumption of most luxuries and normal goods. It was noted that normal and inferior goods become luxuries goods as family size increases. It implies that increase in the family size affects standard of living and quality of life adversely. Hence, appropriate strategies should be put in place to curb the negative impacts of population explosion to hasten the nation move towards prosperity.

Key words: Household sources of income, Consumption Expenditure, elasticity of expenditure and income, Andhra Pradesh

Introduction

The study of household budget allocation is mainly concerned with how the budget of a household is spent to buy different commodities. Household budget shares contain useful information to shed light with this regard. Indeed, the household budget share for a given commodity category j is defined as the ratio between the expenditure for the commodity category j and total household resources —as measured by, e.g., total expenditure or total income. The relationship between consumption expenditure (household budget) and disposable income is an intensively studied topic both in theoretical and applied economics (Prais and Houthakker, 1955). It has been a well established wisdom that increase in the latter often leads to less than proportionate increase on the former.

It has also been found that the structure of consumption expenditure undergoes a marked change when income rises beyond a certain critical minimum threshold level. The households with lower income spend a larger part of it on the necessities of life such as food, shelter and other pressing biological needs. As income increases, and biologically pressing but easily satiable needs are already met, the socially determined and psychologically spurred wants take over. It is interesting to note that the range of biologically determined wants are bound by the physique of a human being, but socially and psychologically spurred wants have much larger range and multidimensionality due to their non-physical origin. In addition, the intensity of competition for biological survival is much less than the intensity of competition for social survival, positional goods (Hirsch, 1978) and the ultimate urge to satisfy the will to power and recognition. As Nietzsche (1968) has pointed out, the will to power is the ultimate motive force that knows no bounds. In a different vein, Veblen (1899) held that affluence commands social approval due to its propensity to spend wastefully, unproductively and vainly. Usefulness is bounded from below as well as from above. But vanity or wastefulness has no upper bound. A lavish and wasteful expenditure of the affluent creates an awful impact on those who toil and submit themselves to the commands of the affluent. This impact is transformed into the sense of self-pity and in turn a sense of respect for the affluent (Ngullie, ML and Mishra, SK, 2008). Further, this impact translates itself into the practice of the poor to imitate the life style of the affluent whenever feasible.

This capitalizes that consumption has both evil and good side and striking a balance is always the interest of all governments. The consumption expenditure of a nation is the foregone investment and whenever it exceeds the normal level it affects the health of an economy and its players. Not only this, affluent and wasteful expenditure also leads the allocation of scarce sources to meet these needs at the expense of biological and necessities. Hence, in consumption studies, heterogeneity of household consumption-expenditure patterns is widely considered as a crucial feature. According to Pasinetti (1981): “At any given level of per capita income and at any given price structure, the proportion of income spent by each consumer on any specific commodity may be very different from one commodity to another”. This suggests that, in order to fully characterize the likely impact consumption expenditure, periodical studies are necessary and it is particularly so in burgeoning economies where the change are rapid.

Objective and data base

The objective of this paper is to investigate into the nature of the different income sources, consumption expenditure and income elasticity of different group of items and the relationship among them as exhibited in the study areas. This study is based on primary data collected by ANGRAU - ICRISAT collaborative project on Tropical Legumes, for the purpose of baseline survey from two major chickpea producer districts in Andhra Pradesh viz., Kurnool and Prakasam. From each district six villages i.e. three villages that adopted chickpea varietal demonstrations known as adopted villages and other three where no demonstration held called as control villages which exhibit similar agro-climatic complex were selected purposefully. Hence, a total of twelve villages were selected for the study. Using proportionate stratified sampling techniques 30 farmers in each demonstration adopted village and 15 in each control village were selected. The overall sample size was 270¹. A semi structured pre-tested questionnaire was designed and is used to elicit relevant information using personal interview method. The heads of the selected household were contacted by personally visiting them and enquiries were made directly in the presence of other family members. Information on the amount of income from different sources and expenditure on different items of consumption was obtained on different bases; some monthly, some others yearly and yet some others in between them. For the purpose of analysis the information is standardized to monthly basis. Pitfalls in such a procedure of obtaining data and inaccuracy in the figures so obtained are obvious. We did our best to minimize this pitfall to the lowest as possible.

Analytical framework

In this study power function which is popularly known as double log or log linear was employed. The specification of a multiple power function is presented as:

$$Y = b_o x_1^{b_1} x_2^{b_2}$$

Where y is consumption expenditure of j^{th} item

¹ One household is excluded in income and expenditure class computation and elasticities analysis as both income and expenditure is found to be an outlier.

x_1 monthly income of household i /monthly total expenditure of household i

x_2 family size

b_o is constant term

b_1 and b_2 are respectively the marginal propensity to consume for income and family size respectively.

For the purpose of estimation by ordinary least square method (OLS), the above power function is transformed into log linear model as follows:

$$\log Y = \log b_o + b_1 \log x_1 + b_2 \log x_2$$

The partial derivative of $\log y$ (expenditure on j^{th} item) with respect to $\log x_1$ (monthly household income) is computed as follows:

$$\frac{\partial \log y}{\partial \log x_1} = \frac{\frac{\partial y}{y}}{\frac{\partial x_1}{x_1}} = b_1$$

$$= \frac{\partial y}{\partial x_1} * \frac{x_1}{y} = b_1$$

Similarly the partial derivative of $\log y$ (expenditure on j^{th} item) with respect to family size is derived and it yields b_2 . That is

$$\frac{\partial \log y}{\partial \log x_2} = b_2$$

Hence the regression coefficients of monthly household income and family size are constant elasticities. One of the merits of this model is the sum of the partial elasticities of expenditure with respect to monthly household income and family size gives an idea about the nature of the economics of scale² in consumption expenditure (Upende, 2008).

² If $b_1+b_2=1$ (linear homogenous Engel function) that means no economies of scale in consumption expenditure
If $b_1 + b_2 < 1$ (Non-linear homogenous Engel function). There is economies of scale in consumption expenditure

Result and discussion

As presented in Table 1 respondent households generate income from diverse sources. About fifteen sources of income were recorded. However, crop (68.61%), livestock (8.83%) and farm labour (8.47%) together make up about 90% of respondent income. About 3 % of households draw part of their income form salaries. Non-farm labour and tractor and auto service were also contributed 2.2 and 1.8% of the household income respectively. Comparison of income sources percent share between Kurnool and Prakasam districts indicates that there is a similarity in terms of the level of contribution of the different sources. For instance, the three top contributors of percent share to household income viz., crop, farm labour and livestock are similarly ranked in both districts. Despite the similarities there are also differences, while non-farm labour contributes about 4 % to household income in Kurnool its percent share in Prakasam is 0.44. The percent share of business in Prakasam was 3.2 where as it was 1.11 in Kurnool. Onset of industrialization and migration of labour from farm sector to non farm sector confirm the findings showing the activity of petty business catching up.

Table 1: Percentage Distribution of Household Income from Different Sources

Source of income	Overall Mean	Mean income by district		Overall Percent share	Percent share by district	
		Kurnool	Prakasam		Kurnool	Prakasam
Crop	112267.9	98938.52	125696.7	68.61	65.06	71.99
Farm labour	4613.011	5389.63	3830.597	8.49	10.24	6.74
Non farm labour	1430.855	2654.815	197.7612	2.19	3.94	0.44
Livestock	8218.067	9426.074	7001.045	8.86	9.22	8.50
Bullock service	579.9257	944.4444	212.6866	0.49	0.80	0.18
Tractor and auto	3342.007	2814.815	3873.134	1.79	1.22	2.37
Land and building rental	1260.223	2437.037	74.62687	0.76	1.49	0.04
Business	2249.071	911.1111	3597.015	2.15	1.11	3.20
Salary	4066.914	5207.407	2917.91	3.04	3.04	3.04

If $b_1 + b_2 > 1$ (Non-linear homogenous Engel function). There is diseconomies of scale in consumption expenditure

Remittance	438.29	305.1852	572.3881	0.52	0.38	0.66
Saving and money lending	1334.498	1946.519	717.9104	0.65	0.92	0.40
Gifts	1058.736	2011.111	99.25373	0.74	1.41	0.06
Pension	672.119	640	704.4776	0.51	0.48	0.54
Government welfare	315.9851	348.1481	283.5821	0.21	0.27	0.15
Other	1113.755	573.3333	1658.209	1.05	0.43	1.69

In Kurnool and Prakasam districts education is the major household expenditure which accounts 39 and 45 percent respectively. Clothes and health expenditure each constituted 17 percent of the household expenditure in Kurnool while the same category of expenditure made up 15 and 14 per cent in Prakasam. Entertainment and expenditure on ceremonies equally accounts 6 percent of household expenditure in Kurnool where as their share in Prakasam was 9 and 5 percent respectively. One can learn from the household budget share that despite differences in the proportion of expenditure category, the pattern of expenditure is similar in the study districts. Households' expenditure on education is a productive expenditure and expected to have a long term payoff both to the individual household incurred the expenses as well as to the society. However, the expenses on health should be suppressed through promoting preventive health education measure against curative approach which could inflate household expense.

Table 2: Percentage Distribution of Household Consumption Expenditure on Non-food Items

Source of non-food expenditure	District						Total		
	Kurnool			Prakasam					
	Mean Exp.	MSE	Exp. (%)	Mean Exp.	MSE	Exp. (%)	Mean Exp.	MSE	Exp. (%)
Health care	4559.26	348.99	17.17	4737.78	572.64	12.21	4648.52	334.72	14.23
Entertainment	1678.52	128.33	6.32	4537.04	484.48	11.69	3107.78	264.88	9.51
Education	10401.88	1549.33	39.17	19246.97	2125.53	49.61	14807.74	1339.08	45.32
Clothes	4493.33	277.49	16.92	5125.19	352.03	13.21	4809.26	224.53	14.72
Ceremonies	1687.78	123.55	6.36	1495.15	108.12	3.85	1591.82	82.19	4.87

Toddy and alcohol	703.76	123.01	2.65	541.48	93.18	1.40	622.01	77.02	1.90
Cosmetics	937.78	76.35	3.53	997.78	73.66	2.57	967.78	52.98	2.96
Taxes	1270.00	139.00	4.78	1617.54	199.68	4.17	1447.75	122.88	4.43
Pan and cigarettes	842.86	116.10	3.17	920.74	139.38	2.37	882.09	90.69	2.70
Others	223.88	223.88	0.84	32.00	23.24	0.08	131.27	116.31	0.40
Total non-Food exp.	26554.5	1932.1	100	38798.5	2845.6	100	32676.5	1756.7	100

Among the expenses on food items the percent share of cereals and milk including milk products accounts for more than 50 percent in both districts. Other major items of consumption expenditure include pulses, fruits and vegetables, non-vegetables, cooking oils, tea and coffee etc. expenditure on other food items accounts 5.11 percentage share in Prakasam while it was very negligible in Kurnool.

While the distribution of income is exogenous to family size in most cases expenditure is not. A perusal of figure 1 indicates that total consumption expenditure showed a steady increase with the increase in family size. On the other hand household income has an inverted bowl shape as presented in figure 2.

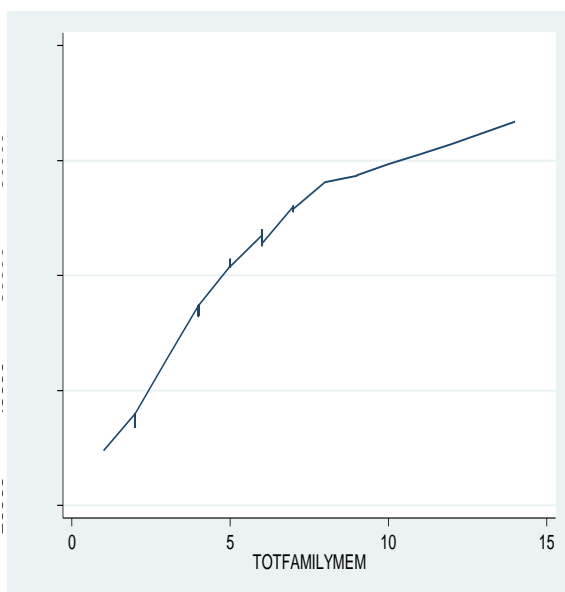


Figure 1: Distribution of expenditure with Family size

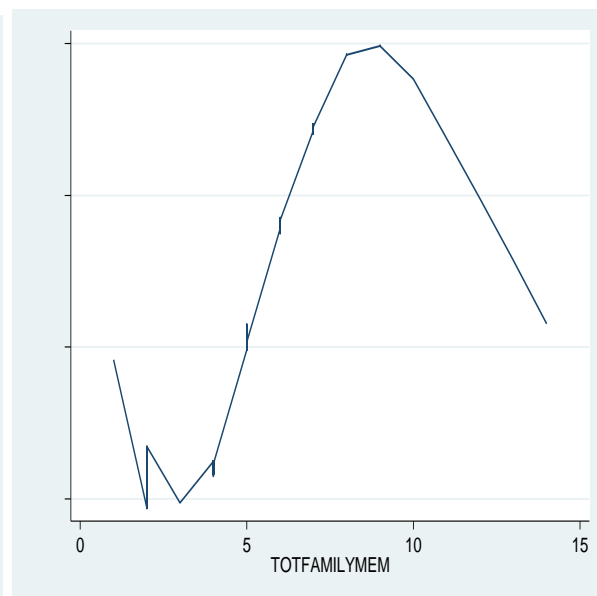


Figure 2: distribution of income with family size

The per capita distribution of total consumption expenditure declined with increase in family size at faster rate where as per capita income decline at lesser rate. The implication of total consumption expenditure with family size is very clear. Keeping income constant increase in family size decline the per capita expenditure, which means family size leads to deterioration of quality life. For a standard of living to maintain its position and pace along the path of prosperity, it should be accompanied by proportionate and more than proportionate rise in income to satisfy the ever rising wants consumption.

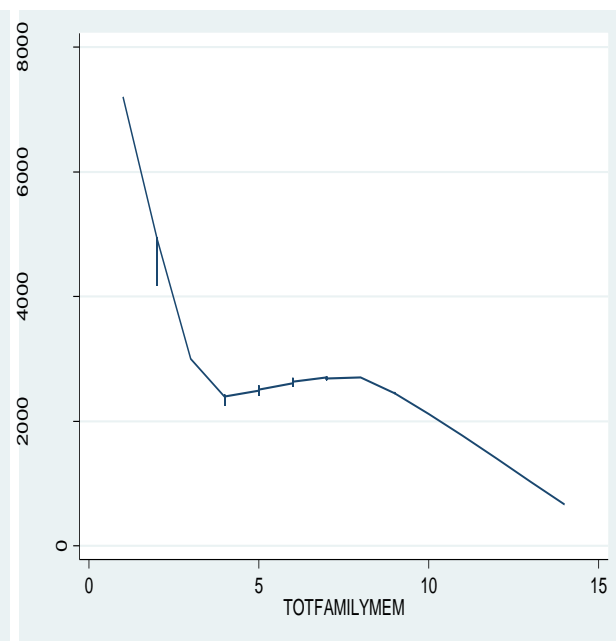
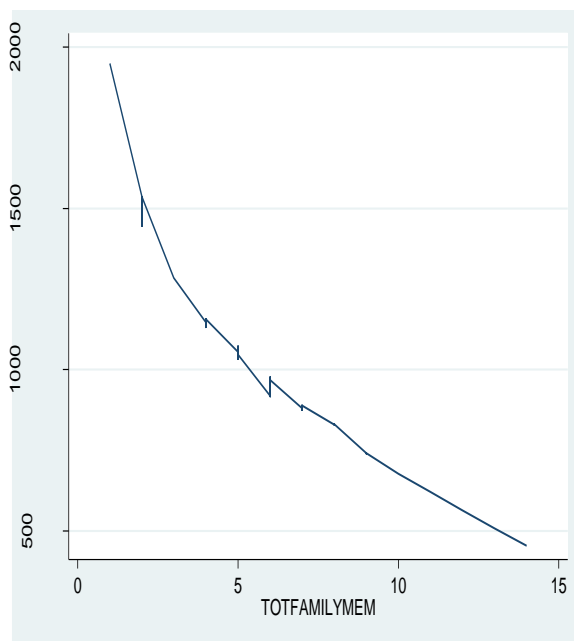


Figure 3: Per capita expenditure and family size Figure 4: Per capita income and family size

Table 3: Percentage Distribution of Household Consumption Expenditure on Food Items

Source of food expenditure	District						Total		
	Kurnool			Prakasam					
	Mean	MSE	Exp. (%)	Mean	MSE	Exp. (%)	Mean	MSE	Exp. (%)
Cereals	10242.9	474.52	37.55	9457.96	370.16	34.45	9850.47	301.30	35.99
Pulses	3929.56	262.66	14.40	2576.33	158.00	9.38	3252.95	158.44	11.89
Milk & milk products	4403.59	215.73	16.14	5621.59	314.70	20.48	5012.59	194.00	18.32
Non-Veg.	2040.39	120.97	7.48	1678.18	86.03	6.11	1852.45	74.22	6.77

Fruits & veg.	2674.80	142.05	9.80	3413.48	162.09	12.43	3044.14	109.90	11.12
Tea & Coffee	1222.89	71.31	4.48	1250.08	77.31	4.55	1238.09	53.35	4.52
Spices	677.39	45.84	2.48	515.57	36.84	1.88	599.77	30.12	2.19
Processed food	775.78	112.30	2.84	1198.65	69.81	4.37	1002.54	66.38	3.66
Cooking oil	2167.25	83.20	7.94	2513.90	85.15	9.16	2341.87	60.37	8.56
Groundnut kernel	747.12	95.43	2.74	290.37	21.13	1.06	541.43	56.31	1.98
Other food items	31.25	31.25	0.11	1428.57	316.77	5.20	282.05	105.19	1.03
Food exp.	27281.3	1014.9	100	27455.2	908.0	100	27368.3	679.65	100

We have assumed that the household consumption expenditure responds to three variables, monthly income, monthly total expenditure and family size. In fact, and also pointed out by [Tobin \(1975\)](#), when family size and household income are correlated estimation of income elasticity without inclusion of family size would yield biased results. In our data the correlation between income and family size was 0.282 while expenditure and family size was 0.366. Hence, both total consumption expenditure and family size in model 1 and income and family size in model 2 included in the estimation procedure. Accordingly, we obtain two types of elasticity in the models: total consumption expenditure and family size in the first model and income and family size in the second model. The some of the two elasticities in the respective models give us economies of scale to the consumption expenditure of the respective items.

The Engel's law states that the income (its proxy i.e. total consumption expenditure) elasticity of consumption expenditure is negative for the inferior goods, zero for the 'sticky' goods and positive for the normal goods. For the necessity (normal) goods the income elasticity is fractional but for the luxuries (or superior goods) it is larger than unity. In the first model entertainment, education, ceremonies, toddy and alcohol, cosmetics, pan and cigarettes, taxes were found to be luxuries non-food consumption goods while health and clothes were necessity. In the second model only tax had above unity elasticity which left all other consumption good under the category of necessity. Among the food item expenditure, the elasticities of wheat, black gram, chickpea, groundnut kernel, non-vegetable food and tea, coffee and sugar greater than unity. With negative elasticities sorghum and green gram was

found to be inferior goods while rice, pigeon pea, milk, cooking oil, fruits and spices with positive and less than unity elasticities were normal goods. In model 2 only chickpea and cooking oil was categorized as luxuries good.

Family-size elasticity of consumption measures the effects of a percentage increase in the family size on the percentage change in consumption expenditure. The percentage change in family size would result in greater than proportionate change of percentage in consumption expenditure of education, sorghum, chickpea, non-vegetable food, and fruits. The percentage change in consumption expenditure of health service, black gram and ceremonies would decline more than proportionately for the percentage increase in family size. In this study from the two models used: total consumption expenditure and family size elasticities of consumption expenditure and income and family size elasticities of consumption expenditure, the former provide accurate prediction of Engel consumption function laws of goods classification i.e. inferior, normal and luxuries goods.

Table 4: Total consumption expenditure, income and family size elasticity of consumption expenditure

Item of expenditure	Model 1 Elasticity			Constant	Model 2 Elasticity			Constant
	Total exp.	Family size	Total		Income	Family size	Total	
Health	0.931	-0.657	0.274	-1.043	0.276	-0.281	-0.005	5.23
	5.09**	-2.06**		-0.56ns	2.41**	-0.88n		4.08***
Entertainment	1.78	0.265	2.045	12.92	0.743	0.816	1.559	-3.09
	6.02***	0.56ns		4.73***	4.37***	1.72*		-1.63ns
Education	4.06	2.04	6.1	-41.05	0.518	4.24	4.758	-6.71
	9.73***	2.81***		-9.69***	1.77*	5.2***		-2.06**
Clothes	0.86	0.172	1.032	-1.47	0.325	0.466	0.791	3.62
	8.10***	0.93ns		-1.36ns	4.71***	2.42**		4.71***
Ceremonies	1.36	-0.224	1.136	-7.876	0.696	0.096	0.792	-1.65
	5.19***	-0.49ns		-2.96**	4.32***	0.21ns		-0.92ns
Toddy and alcohol	0.535	0.819	1.354	-4.82	0.374	0.866	1.24	-3.39
	1.29ns	1.13ns		-1.15ns	1.49ns	1.23ns		-1.21ns
Cosmetics	1.677	0.421	2.098	-13.31	0.781	0.875	1.656	-4.88

	5.51***	0.79ns		-4.31***	4.15***	1.66*		-2.32**
Taxes	2.846	-0.314	2.532	-25.29	1.66	0.186	1.846	-14.44
	7.54***	-0.48ns		-6.60***	7.25***	0.29ns		-5.62***
Pan and cigarettes	0.972	0.58	1.552	-8.5	0.142	1.09	1.232	-0.472
	2.23**	0.76ns		-1.92*	0.53ns	1.46ns		-0.16ns
Others	0.086	0.193	0.279	-1.17	0.052	0.208	0.26	-0.862
	0.80ns	1.02ns		-1.07ns	0.79ns	1.13n		-1.18ns
PDS rice	-1.93	2.33	0.4	21.52	-1.494	2.286	0.792	17.82
	-4.97***	3.46***		5.47***	-6.55***	3.6***		7.01***
Rice	0.657	0.18	0.837	1.33	0.246	0.404	0.65	5.22
	4.07***	1.11ns		1.41ns	4.14***	2.43**		7.86***
Wheat	1.562	-0.396	1.166	-14.11	0.823	-0.047	0.776	-7.21
	4.73***	-0.69ns		-4.21***	4.07***	-0.08ns		-3.20***
Sorghum	-1.191	1.73	0.539	13.7	0.242	0.776	1.018	-3.34
	-2.82***	2.35**		3.20***	0.94ns	1.07ns		-0.12ns
Pigeon pea	0.337	0.63	0.967	2.38	0.223	0.67	0.893	3.41
	2.54**	2.72***		1.77*	2.78***	3.0***		3.88***
Chickpea	1.07	1.06	2.13	-6.69	1.13	0.065	1.195	-7.75
	3.60**	0.54ns		-2.23**	6.66***	0.14ns		-4.09***
Green gram	-0.409	0.769	0.36	5.04	0.599	0.034	0.633	-5
	-1.16ns	1.25ns		1.41ns	2.84***	0.06ns		-2.12**
Black gram	1.72	-0.659	1.061	-14.38	0.488	0.057	0.545	-2.54
	4.56***	-1.00ns		-3.75***	2.07**	0.09ns		-0.97ns
Milk	0.559	0.092	0.651	2.02	0.193	0.297	0.49	5.52
	5.25***	0.49ns		1.87*	2.88***	1.59ns		7.14***
Cooking oil	0.304	0.48	0.784	3.44	2.88	0.623	3.503	5.75
	3.05***	2.75***		3.39***	1.06ns	3.6***		8.38***
Groundnut kernels	1.32	0.182	1.502	-11.72	0.781	0.414	1.195	-6.67
	3.72***	0.29ns		-3.23***	3.60***	0.68		-2.76***
Non-veg.	1.26	1.16	2.42	-10.06	0.547	1.54	2.087	-3.25
	3.51***	1.85*		-2.74***	2.47**	2.50**		-1.32ns
Fruits	0.52	1.03	1.55	-1.7	0.32	1.11	1.43	0.124
	1.97**	2.24**		-0.64ns	2.01**	2.49**		0.07ns
Vegetables	0.313	0.468	0.781	3.21	0.22	0.495	0.715	4.04

	2.25**	1.92*		2.27**	2.62***	2.10**		4.30***
Tea, coffee,	1.26	0.033	1.293	-7.65	0.371	0.544	0.915	0.835
sugar and gur	4.55***	0.70ns		-2.73***	2.16**	1.13ns		0.44ns
Spices	0.987	0.442	1.429	-6.46	0.775	0.461	1.236	-4.67
	3.40***	0.87ns		-2.19**	4.47***	0.95ns		-2.41**

Note: ***, ** and * are significant at 1%, 5% and 10% respectively

The first row under each item is the measure of elasticity while the 2nd row under each item gives computed *t-values* of the estimated elasticity of expenditure.

Generally increase in family size has an adverse effect in consumption of most luxuries and normal goods. Perusal of Table 5 reveals that most of normal and inferior goods become luxuries goods as family size increases. It clearly shows that increase in the family size affects standard of living and quality of life adversely. On the other hand an increase in income would stimulate consumption of education service, entertainment, cosmetics, non-vegetable foods and wheat and pulses.

Table 5: Assorted total consumption expenditure and family size elasticity of consumption expenditure

Item	Elasticity of exp. ϵ	Item	Elasticity of family size η	Item	Sum of elasticities' $\epsilon + \eta$
Education	4.06	PDS rice	2.33	Education	6.1
Taxes	2.846	Education	2.04	Taxes	2.532
Entertainment	1.78	Sorghum	1.73	Non-veg.	2.42
Black gram	1.72	Non-veg.	1.16	Chickpea	2.13
Cosmetics	1.677	Chickpea	1.06	Cosmetics	2.098
Wheat	1.562	Fruits	1.03	Entertainment	2.045
Ceremonies	1.36	Toddy and alcohol	0.819	Pan and cigarettes	1.552
Groundnut kernels	1.32	Green gram	0.769	Fruits	1.55
Non-veg.	1.26	Pigeon pea	0.63	Groundnut kernels	1.502
Tea, coffee, sugar and gur	1.26	Pan and cigarettes	0.58	Spices	1.429

Chickpea	1.07	Cooking oil	0.48	Toddy and alcohol	1.354
Spices	0.987	Vegetables	0.468	Tea, coffee, sugar and gur	1.293
Pan and cigarettes	0.972	Spices	0.442	Wheat	1.166
Health	0.931	Cosmetics	0.421	Ceremonies	1.136
Clothes	0.86	Entertainment	0.265	Black gram	1.061
Rice	0.657	Others	0.193	Clothes	1.032
Milk	0.559	Groundnut kernels	0.182	Pigeon pea	0.967
Toddy and alcohol	0.535	Rice	0.18	Rice	0.837
Fruits	0.52	Clothes	0.172	Cooking oil	0.784
Pigeon pea	0.337	Milk	0.092	Vegetables	0.781
Vegetables	0.313	Tea, coffee, sugar and gur	0.033	Milk	0.651
Cooking oil	0.304	Ceremonies	-0.224	Sorghum	0.539
Others	0.086	Taxes	-0.314	PDS rice	0.4
Green gram	-0.409	Wheat	-0.396	Green gram	0.36
Sorghum	-1.191	Health	-0.657	Others	0.279
PDS rice	-1.93	Black gram	-0.659	Health	0.274

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