FINANCIAL PROBLEMS OF MIDDLE INCOME FAMILIES

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I shall not attempt to define middle-income families, but leave that to you. I have been working on a revision of the U. S. Department of Agriculture pamphlet, "Guiding Family Spending", (1949, out of print) which, as some of you know, was drafted by Margaret Reid with assistance from others on the staff of the Institute of Home Economics. Our original thought was merely to update the tables on average family spending -- based on field surveys of the U. S. Department of Agriculture for farm operator families and of the U. S. Bureau of Labor Statistics for city families -- and to make corresponding minor changes in the text.

As we looked more carefully, however, we found not only out-of-date illustrations, such as going to the movies as a chief form of recreational expense, but that many examples were based on rather low income levels. It was implied, for example, that most families should space out through the year and perhaps over periods of several years such major purchases as the winter fuel or a rug for the parlor, so as to accumulate enough to pay cash and avoid going into debt.

This is certainly sound family financial practice and saves money as compared with paying on installment. But it does not accord with the increasing use of credit as a means of acquiring use of an article while it is still being paid for.

Many of the basic problems treated by the old bulletin remain the same:-- problems that arise from irregularity in family income or receipts; those that come from irregularity in peaks of spending needs (seasonal peaks and peaks at various periods in the family life cycle); and the need to clarify the goals the family wishes to reach, and to consider and evaluate its spending as a plan that can be shaped better to reach those goals.

We have tried, in the forthcoming bulletin, to restate these in terms that are meaningful today to families at all income levels. Insofar as selection has been necessary, we have pitched our discussion toward middle-income families. We have tried to take account of some of the major post-war changes in spending habits -- the commonness of buying on installment credit, the almost universal ownership of automobiles, the greater coverage and benefits of social security, increased usage of prepaid medical plans or medical insurance, increasing proportion of families who need to plan for expense of college educations, and so on. We have emphasized that buying on credit costs more and therefore takes money away from other things, but that the choice is up to the family after it has weighed the facts and alternatives.

As I see it, the financial problems of middle-income families are the same as those of families at both lower and higher incomes, except in emphasis. With somewhat higher incomes, they have a little more cushion for manipulation and hence should not face emergency needs without cash reserves or insurance protection as often as may be the experience of lower income families. Likewise, lacking extremely large funds, they need not be so preoccupied with the problems of investment, tax avoidance, gifts and transfers of funds as families of great wealth.

But middle-income families are concerned, in a degree, with both these things, funds to meet emergencies and for investment. In addition, they, as well as families at other income levels, are concerned with getting an income and apportioning it (after deductions withheld at the source) among all the demands of current consumption, the basic needs plus all the nice extras. They must also apportion some income to payment of debt, to the extent that they have used credit to finance their current living. And, if some big future wishes are to come true, some income must be saved; for at all except the very top income levels, families can meet their future big-ticket items best by building some provision for them into their current spending plans; otherwise the future plans will remain only dreams, they will always be crowded out by the insistence of the demands of the moment and the voraciousness of committed installment payments.

There are a great many factors that make the goals and hence the needs of each family individual, factors which preclude any single budget from being appropriate as a standard or guide. A partial listing of these factors includes:

Income, its amount and regularity and possibilites for home production or other do-it-yourself supplements;

Where the family lives -- region, urban or rural, owner or renter, house or apartment, alone or doubled up with others;

Family size and stage in family life cycle;

Occupation of head, homemaker and others in the family and kinds of occupations looked forward to for the children;

State of health of all members, especially of the breadwinner and of the homemaker;

Education -- amount and kind received, being received or anticipated by family head, homemaker and children;

Interests, talents, hobbies, ambitions, preferences, value judgments, knowledge of family members and their friends;

Previous experience of the family -- things it is accustomed to doing and its habits of planning (or lack of planning) in spending;

Facilities in the community for transportation, shopping, education, worship, cultural activities, recreation, health care, and so on.

I shall continue with a few necessarily condensed highlights of the kind of thing it seems feasible to say in a government publication designed for teachers, extension workers and other specialists who may be called on to advise families in financial emergencies or regarding their more long-run financial plans.

Whatever the special crisis or problem situation that causes a family to seek outside help or to take a more critical look at its own financial income and outgo, it will almost always rest upon implicit assumptions as to what kinds of things or ways of life the family values most, what it is striving toward and how efficiently it is using what it has to reach these goals. Helping the family to recognize and decide more squarely must what it is going after, and then to assess the practical steps it is taking or can take in the future to achieve what it seeks may be a byproduct more valuable than any emergency counsel.

The problem of family financial management is to use income and resources in the most effective way to accomplish desired goals. Whereas a business manager has a clear measure of his success in the profit or loss his business shows, the family's success in managing its resources may be measured quite differently. Its purely financial progress from one date to another can, it is true, be measured in the amount of change in the family's <u>net worth</u>, that is the total of its assets minus any debts.

If liabilities exceed assets, as they may for a young family in the process of acquiring a home and equipment, it is still making financial progress if, from one date to another, the difference has been whittled down somewhat. The family which sees a steadily growing excess of assets over liabilities is still farther along on the way to a long-run goal of substantial net worth. Reckoning its net worth from time to time, say once a year on the first of January, or a income tax time, can be very helpful. It may increase a family's determination to save and thereby increase its reserves for accomplishment of future goals.

<u>But other signs</u> of successful money management may be equally, if not more, important than a family's increase in net worth -- such signs as well-fed, healthy, well-educated, responsible members, an attractive home and worthwhile family activities, or other indicators of progress toward important goals of family living.

The most basic decisions a family needs to reach are in its choice of goals. What does it want to achieve with its money this month, this year, 5 years from now and 20 years hence -- not just what things does it want to buy, but what values and ends -- such as health, optimum growth and development, education, esthetic and social participation, financial independence, etc. -- does it expect these purchases to lead toward?

The chart shown on the screen attempts to show family financial management as the crucial narrow channel of decision through which all the family resources (income, savings, credit, supplemented by various kinds of nonmoney resources) must pass on their way to use in attaining goals of family living. The resources are potentials. Until such time as they have been committed to one particular use, they can be used for anything the family may decide. Here is the great challenge and opportunity. By considering its spending as parts of a plan, more or less detailed as desired (and much value can be derived from a plan that is only sketchy), which can be examined in parts and revised where it is failing to accomplish what the family wants most, a family can go a long way toward achieving the kind of living and goals it values.