STATISTICAL ADEQUACY OF FAMILY FINANCIAL COUNSELING DATA

Edward L. Rada

They be blind leaders of the blind. And if the blind lead the blind, both shall fall into the ditch. Mathew 15:14

Jesus was referring to the Pharisees but I have reference to family financial counselors. The blindness of counselors may occur for a number of reasons, but chiefly because of lack of training, skill, interest or information. My assignment is to dwell on the statistical information and aids available to financial counselors. No amount of statistical assistance is adequate, however, for counselors not qualified to use it.

Family budget information is voluminous in quantity and generality but often wanting in quality and specificality. Most family budget studies and statistics suffer from several defects. First, they are dated. Second, they deal in aggregates and averages and hence conceal a wide range of differences. Third, many so-called current budgets are constructed from dated statistics, which are corrected for imperfections, and adjusted to the biases of the compilers. Fourth, they are static. Let me illustrate.

The most recent and comprehensive set of budget data are the 12 volumes, bearing the general title of Study of Consumer Expenditures, Incomes and Savings, published in 1956 by the Wharton School of Business and Commerce, University of Pennsylvania. A summary of these statistics was published by the Bureau of Labor Statistics in 1953.[1] In the 12-volume work, one can find detailed dollar receipts and disbursement figures by family size, family composition, income class, location, occupation, education, by types of commodities and services, and in addition, family financial balance sheets. However, all are 1950 figures gathered by the BLS for the purpose of revising the consumer price index. The survey obtained some 1,500 items of bubget information from 12,500 families in 91 cities in the United States. This is a small sample of the 35 to 40 million families; consequently the reliability of the detailed statistics for small family subgroups is open to question. Most of the budget statistics published in the past decade have been based on these data. With the passage of time, one's faith in these figures is further weakened in view of (a) rising incomes, (b) rising taxes and prices, (d) changing composition and residence of families, and (d) changing consumer tastes. On the other hand, for guidance purposes the figures are better than none. The BLS is presently undertaking a similar survey which in due time should provide a new set of benchmark family budget statistics.

The Department of Commerce attempts to provide current aggregate statistics of annual consumption expenditures by commodity groups, and for savings, as reported in the Survey of Current Business. The data are useful for correcting historical expenditure statistics. The most comprehensive consumer savings data are published by the Securities and Exchange Commission in its series called "Volume and Composition of Individuals' Savings." The Annual Surveys of Consumer Finances prepared by the University of Michigan's Survey Research Center from 1946 through 1959, and reported annually in the Federal Reserve Bulletins, have provided much valuable historical information on income distribution, assets, and debts. Currently, these data are reported in Business Week these reports are useful to a counselor for background information but little of the data can be applied to specific family situations.

All of these family and consumer economics studies have yielded a bonanza of side benefits. Two that stemmed from the 1950 BLS survey of consumer expenditures are worth citing. First, the wealth of statistics for different family sizes has facilitated the compilation of what is termed "equivalent incomes or budget costs."[2] The spending of the most typical family, which is a family of four, age of head 35-55, containing two children under age 16, is used as the base and is assigned an index of 100. The spending of other types of families can be assigned "equivalent" indexes. A family of 2, age of head under 35, for example, was given an index of 63; a family of 4, age of head 55-65, 2 children 16-18 years of age, had an index of 125. The equivalent index has practical applications for specific families if the counselor knows the dollar spending of the base family. The dollar spending may change from year to year but the relative equivalents remain fairly stable.

Second, the statistics revealed that most families disburse more money than their current money income. Families with a \$6,000 annual income may disburse, on the average, \$8,500. In addition to money income, money for current spending may come from past savings, consumer credit, windfalls, inheritances, sales of assets and so forth. Because of their information, a family's balance sheet and net worth position have become more important as tests of a family's financial solvency and progress, and "need" in welfare programs.

Mention must be made of the quantity and cost budgets issued by the Bureau of Labor Statistics and the Heller Committee. The BLS recently revised its city worker's and elderly couple's standard budgets.[3] The Heller Committee publishes yearly wage earner and executive workers' budgets for the San Francisco Bay Area.[4] In addition, there are many "welfare" budgets in existence, too. In general, quantity and cost budgets are consumption budgets with no provision for savings. The quantitier and dollar amounts of the budgets are what the compilers consider. to be necessary for health and reasonably comfortable living. This is where value judgments enter since only food and housing requirements can be said to have a "scientific" base. There is reason to believe that these budgets have an upward bias in them, which in itself is not harmful except for the political potentials of such biases.

For counseling purposes, the most useful data would be actual disbursement statistics, stated in terms of an average and a standard deviation or two around the average, for specific types of families living in specific locations. This would be the ideal but too costly to provide on a current basis. Fowle and Harwood use this approach in their, How to Make Your Budget Balance, which presents a range of expenditures by commodities in terms of family size and income.[5]

Virtually all of these budgets are static in their make-up; a cross-section of a community is financial receipts and spending at a point of time. Needed are longitudinal, family-life cycle studies of budget changes induced by internal and external events. Counselors could use such information for long-range planning and forecasting.

Budget statistics are not very useful without budgeting aids and techniques. They too are in the process of evolution. Most people detest budgeting that is nothing more than record keeping. They want a dynamic budget that provides for goals and for progress. Four formats are presented for your study and consideration. The basic budgetary principles are presented simply in the Institute of Life Insurance's The Family Money Manager. The Household Finance Corporation's, Money Management, Your Budget, is particularly appropriate for lower-income families. The University of California's, Agricultural Extension publication, Family Accounts, is excellent for middle-income families that periodically seem to run on monthly surpluses and deficits. Chicago's Harris Trust and Savings Bank offers a more sophisticated budget for upper-income groups in its Your Money: A New Approach to Budgeting. In addition, there are many textbooks in the field of personal and family finance.

In conclusion, family financial connseling is much more than statistics, budgeting and bookkeeping techniques; it's plumbing souls for basic values; its stripping the husk of pretense from the cob of reality; its giving guidance without steering; and its accepting failures without judging. A financial failure is easily diagnosed but curing the cause is not as easy. The counselor who follows dollar signs only is likely to be a blind leader of the blind.

References

[1]United States Department of Labor, Bureau of Labor Statistics, Family Income, Expenditures, and Savings in 1950, Bulletin No. 1097, June 1953.

[2]"Estimating Equivalent Incomes or Budget Costs by Family Types," Monthly Labor Review, November 1960, pp. 1198.

[3]"The BLS Interim Budget for a Retired Couple," Monthly Labor Review, November 1960, p. 1141; and, "The Interim City Worker's Family Budget," Monthly Labor Review, August 1960, p. 785.

[4]Heller Committee for Research in Social Economics, Quantity and Cost Budgets for Two Income Levels (Berkeley: University of California, 1960).

[5]Helen Fowle and E. C. Harwood, How To Make Your Budget Balance (Great Barrington, Mass., American Institute for Economic Research, 1960).