Measurement of Family Economic Status

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Abstract: The concept of family economic has become important around the world. It has been realized that communities based family economic can play a fundamental role in poverty alleviation. Measuring of family economic status is an important step in developing family economic strategies to achieve poverty reduction. This paper used qualitative approaches to illustrated family economic status. The purpose of this study is to explore the concept and indictors of family economic. The literature derived from my study in family economic management.

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1. Introduction

Family Economy used to denote the basic structure of production and consumption in the preindustrial Europe. In the family economy there were regional variations, which were how different places were different in family economy (Wikipedia, 2010). Economic status represents the economic capacity of families to meet their material and non-material needs. Income and ownership of physical assets are means that can use to acquire suitable economic status of families. According to Friedman (1957) families with low income levels are disproportionately represented by a provisional reduction in the current income that will usually suggest a high ratio of consumption to income. Expenditure also largely depends on income and assets. It represents an even more direct means to achieve human well-being. Families' perception on availability of money to make ends meet are not uniform, however, it is even closer to indicating overall family economic status. In otherwise, families with high-income levels are representing by those with temporary increases in income and will demonstrate low ratios of consumption to income.

2. Indicators of Family Economic Status

The word family raises powerful pervasive images. The institution of the family can be seen as the foundation within our society, the most powerful emotional system to which we will ever belong. However, the meaning of the world family can vary significantly depending on how it is used and by whom. Bindon and Vitzhum (2003) in their studies have reported a number of significant factors affecting family economic resources. These included education, occupation, and economic behaviour including number of household members involved in family production activities. Some researchers have categorized the family economic status into three categories, poor, average and rich (Dao et al., 2006).

Quality of life is another construct related to family economic status. Several indicators were used by Xavier et al., (2003) to measure quality of life. These indicators were included level of satisfaction and well-being of health, activity, income, social life, and relationship with family members (Xavier et al., 2003). The search for these indicators is an effort to achieve new information that will be valuable to assess the past, direct the activities of the present, and plan for future.

Family economic status also can categorize into two levels. The first is 'not enough to live', and the second is 'enough to live' (Xavier et al., 2008). Conventionally, indicators of socio economic status is measured financially using income or consumption expenditure, based on the proposition that material living standards reflects well-being (Falkingham & Namazie, 2002). The empirical measures of different

levels of family economic status used by different researchers are aimed at the recognition of strengths and weaknesses of the family economic dimensions (Lundberg & Pollak, 2007). There is a long-standing debate about whether income or expenditure is a superior measure of socio economic status. Income is commonly more obtainable than consumption. According to Friedman (1957) permanent income hypothesis confirmed that families are likely to base their consumption on times of income fluctuation, for example, by borrowing or drawing on savings during times of low income (Friedman, 1957). Consequently, it broadly asserted that consumption expenditure is a superior indicator of the long-term socio-economic status than income. This argument holds true in low-income countries, where income maybe derived from a diversity of sources and may vary significantly across seasons. The long-term aspects of the socio economic status take a while before being related to various health outcomes, adding to the reasons for choosing consumption expenditure over income (Laura et al., 2008). Within low-income countries, the measure of consumption expenditure is fraught with problems. There is the inconvenience concerning recall and an unwillingness to reveal information (Deaton & Zaidi, 1999). In addition, collecting consumption expenditure data requires an extended questionnaire that must be done by skilful and experienced interviewers (Lauraa et al., 2008).

Other indicator to measure family socio economic status is an asset-based approach. It is an option to income and consumption expenditure. In the case of data on income or consumption expenditure lacking, information on possession of a range of durable property can be used (Falkingham & Namazie, 2002; Rutstein & Johnson, 2004). Gathering of data concerning assets has claimed to be more consistent than income or consumption expenditure. This is because, it uses uncomplicated questions or straight observation by the interviewer and, therefore, should suffer less from recall or social desirability related problems (Sahn & Stifel, 2003).

Educational level, occupational status and income are the most widely used indicators of socio-economic status (SES). Though moderately correlated, each of these indicators can capture distinctive aspects of social position, and they are not interchangeable. Income has employed broadly as an indicator of SES, with the majority of typical income-based measures being a family's total cash income, measured over some period such as a monthly, or yearly preceding measurement. Some researchers suggest that income is perhaps the strongest and most robust predictor of health (Lantz et al., 1998; McDonough et al., 1997), because, to some degree, the impact of other SES variables are mediated through it (House & Williams, 2000). Others would disagree, since a strong case can be made that education alters health-related behaviour as well as some psychosocial factors, and these influence health independently of education's effect on income (John et al., 2002).

In assessing socio-economic status, particularly economic status, measuring variables other than family income may be useful, for example, assets such as inherited wealth, savings, employment benefits, or ownership of homes or motor vehicles (Berkman & Macintyre, 1997). While income represents a flow of resources over some period, wealth captures the stock of assets at a given point in time, and, thus, economic reserves. Wealth is a source of economic security providing an index of a family's ability to meet emergencies or absorb economic shocks such as unemployment. However, the importance of wealth as a source of economic security may vary among societies. Income and wealth are completely correlated, but they are not exchangeable, as revealed by the example of an elderly person with a modest fixed income but substantial accumulated wealth (John et al., 2002).

Socio-economic status typically is divided into three categories – high SES, middle SES, and low SES. When placing a family into one of these categories some or all of the three variables (income, education, and occupation) can be assessed (Werner et al., Goode, 1999; Marmot, 2004; 2007). Other studies have attempted to explain family economic status using two categories –high and low family economic status (Ahmed et al., 2000, 2003). Chuma and Molynexu measured family economic status by using expenditure and assets. They determined that household economic status categorized in rural and urban areas (Chuma & Molyneux, 2009).

Many Americans consider that there are three straight forward class models of family or society that separate the better off, the middle class, and the poor based on economic status (Eichar, 1989). Mainly, definitions of class differentiate people according to wealth, income, education, type of occupation and association in a particular social system. Several explanations of class merely look at

numerical measures such as wealth or income. Additional factors taken into account include qualitative factors, such as education, culture, and social status (Gilbert, 1998).

Salasberry and Reagan (2009) in their research comparing the influence of childhood and adult economic status on midlife obesity used three income categories. An income variable was then used to categorize the sample into three categorize (i) below the 33.3 percentile of sample, (ii) between the 33.33 percentile and the 66.7 percentile, and (iii) above the 66.7 percentile (Salsberry & Reagan, 2009). Frederic (2007) also in his research about the anatomy of increasing income inequality of US family used five income categories based on percentile. These categories were from the first income level (0-20), (20.1-40), (40.1-60), (60.1-80) and the last one was (80.1-100) percent (Frederic, 2007; Meyrick & Yusuf, 2006). World Bank (1998) also used five categories of income to investigate world annual consumption. In these categories, per capita income for the first level was less than $1,000, second level $1,001 to $4,000, third category $4,001 to $10,000, fourth level $10,000 to $20,000, and the last level $20,000 and above (World Bank, 1998).

2.1 Income

Income is the most important indicator of family economic status, as it provides a direct means to acquire goods and services that are consider fundamental to sustaining a healthy lifestyle. Income can be use as a quantitative variable and can be group into categories. The categorical approach is more common since individuals tend to be reticent about providing exact income information or they uninformed. Thus, they are more willing to indicate their placement in categories. Despite the use of the categorical approach to income responses, refusal rates are higher than for the other two commonly used indicators (i.e., education and occupation). Categories often determined by the expected range of income of participants. This fact reduces comparability across studies since the ranges of income levels are affect by the geographic area, characteristics of the respondents, and the time of study. For purposes of analysis, income categories are usually recoded to their midpoints and are often transformed to logarithms (John et al., 2002). An important consideration in the construction of survey questions is the scope of the income sources the respondent should consider when determining "household income". According to John et al., (2002) Questions about income received from jobs, social security, retirement annuities, unemployment benefits, and public assistance. The income sources such as interest dividends, income from rental properties, child support and alimony also might be consider in a calculation of family income. In addition, family income may also include income earned from the "informal economy" (e.g., jobs that pay cash but have no benefits or job security), particularly in communities of immigrants and minorities, as well as informal transfers (e.g., of goods and services) (John et al., 2002).

Family incomes cannot be comparing without knowledge of the family size. The impact of a given income is significantly dependent on family size and composition. A total family income of $30,000 would mean something quite different to a family of two and a family of eight. It also means something different depending on whether one breadwinner earns all or most of the income while the other is able to attend to other household responsibilities in comparison to two adults having to work full-time to earn an equivalent income. While some researchers ignore the issue of family size and composition, others divide the total household income by the number of household members to produce a per capita income. This tends to overcompensate because the costs of maintaining a given standard of living do not increase proportionately. Other researchers suggested an intermediate adjustment, dividing the family income by the square root of the family size. This approach suggests that a family of four needs about double the income of a single person to have a comparable standard of living (Buhmann et al., 1998). There are a number of limitations inns using income as an indicator of FES. Firstly, analysis of income is likely to be open to reverse causation arguments. Secondly, income is a more unstable measure of FES than education or occupation, and is sensitive to changes in life circumstances (thus, the advantage of using, for example, 5-year income). Income information is especially sensitive for some people, resulting in greater errors in reporting and non-response for income questions than for some other FES indicators. In other ways, measuring income can be costly and time consuming.

2.2 Ownership of Physical Assets

Historically, property and ownership of physical assets carry an interesting connotation in Iran, since they are mostly immovable as land and buildings and transferred through generations.

Physical assets can classify according to household assets such as whether the family home are owned or rented, and whether there is a car or garden. Wealth in the form of assets maybe offset by accumulated debt, thus, suggesting that getting a sense of the balance of assets to debt is important. Some people's wealth derives from their ability to borrow, or find investors for very large sums of money to invest; and in these less frequent cases they may be "making a living" off borrowed wealth. The distributions of income are related to the division and concentration of wealth – although the two bear no similarity. Wealth is a much broader concept than income, and contains ownership of both monetary (income, savings, investments, stocks and bonds, etc.) and other assets (real estate, home ownership, buildings, land, art, etc.). Assets maybe more strongly linked to social class than earned income. Assets also associated with health independent of other SES indicators. There are some limitations to measure of assets. These limitations are associated with the indexing of income. Given the multiple categories that may contribute to assets, assessment can be difficult for some respondents. The information also is sensitive for some people than for other FES indicators. Lastly, the measuring of assets can be costly and time consuming.

2.3 Expenditure

Expenditure includes consumption and non-consumption items such as education and taxes. Usually, to a certain degree, the household expenditure depends on family size; however, some families tend to spend more than others, even with the same size. Therefore, family expenditure also is use to examine the inequality in distribution of expenses. Any consumption estimate largely depends on what items are counted as consumption. It will be the aggregation of family expenditure on food, house rental, utilities, health, clothing, transportation, entertainment, furniture and appliances. The largest component of expenditure for all consumer units in Iran until 2001 has been housing, with compare other expenditures (Ministry of housing and urban, 2010). Magrabi, et al (1992) also confirmed that the housing is the largest expenditure for most of families (Magrabi et al., 1992). In developed countries, family economic status dose not directly affected to the household consumption. Studies on well-being and economic variables have dealt with the relation between income and assets rather than with consumption. Even though income and assets are not strongly relate to well-being, but the goods and services that families buy with their money affect their satisfaction with consumption.

3. Conclusion

The literature review revealed the importance relevance of family economic for poverty reduction in households' communities. This study showed dimensions of family economic status that are involved in processes of family economic development. The findings of this study contribute to family economic literature. The outcome of this study also assists researchers in the field of family management and family economic.

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