# Living Within Your Income

Circular 1163



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**This publication is a discussion of how a family can live within its income. It was written in answer to many requests from individuals and families throughout Illinois for help in getting out of debt and coping with price increases.**

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Living within the available income seems to be hard for more and more families today. Employment problems (layoffs, strikes, and job losses) and a long period of rising prices have made families more aware of financial problems. When families have less income relative to their needs and wants, it becomes especially important for them to manage their incomes and other resources carefully to attain their family goals.

If your family wants to, it can live within its income — any family can, if its income is above the subsistence level. Living within your income is the way to happiness, satisfaction, and a feeling of security for your family. All of these are within reach of your family and can be attained, to some extent, through the wise use of money.

Whether your family is in the low-income, average-income, or high-income bracket, there are things your family can do to improve the amount of satisfaction you receive from the money you spend. By planning, working, and spending together, your family can achieve a sense of economic security — and its side effects of happiness and satisfaction.

## *HOW CAN ECONOMIC SECURITY BE ATTAINED?*

Attaining economic security is a matter of degree. At one extreme, it may mean being able to pay all of your bills as they come due. At the other extreme, it may mean adequately providing for your retirement period as well as for the economic independence of your children. Whatever degree of economic security you wish to achieve, there are a number of positive steps your family can take to help reach its objectives.

In the beginning, an economic security program will require time from all members of your family who are old enough to be involved. It will take time for understanding, reading, planning, and discussing. In addition, such a program for your family will take willpower, stick-to-itiveness, and cooperation.

When you reach the advanced stages of your economic security program, you will feel that it has been worthwhile. Your family will have a foothold on economic security. You will be managing your money instead of just working to pay bills. Happiness and satisfaction are bonuses for families who really work at and stick to an economic security program. In the process you may find your family developing a greater feeling of closeness as well as a greater interest in discussing all kinds of family problems and working them out together.

*No two family programs will be identical, since no two families spend their money in exactly the same way.* You may know some families who seem to get everything they want on an annual take-home pay that is not very different from your own. On the other hand, you may know some families who are always fussing over money; they are always in debt, and sometimes their monthly payments exceed their monthly incomes.

In this circular we will examine the situations of two families who have the same annual pay: $10,500 ($8,952 take-home pay). The Websters have learned the secret of family economic security. The Cunninghams, however, never seem to be able to buy the things they want. If your family is like the Cunninghams, who sought and followed the advice of the authors, there is a way for you to live within your income — to reach economic security.

The way the Cunninghams tackled their financial program is outlined in the following pages. While this particular family is used as an example, families at higher or lower income levels could use a family financial program like the one developed here.

## CAN YOUR FAMILY LIVE WITHIN ITS INCOME?

The Websters can. Their present position of economic security did not just miraculously happen. They worked out a program to reach economic security on their $8,952 annual take-home income. The program they adopted was similar to the one worked out for the Cunningham family in this circular.

The Cunninghams can now. Their marriage was about to break up because of their financial problems. They could see no way out of debt. They could see no way to get everything they wanted on their $8,952 annual take-home pay. But they were willing to commit themselves to an intensive program. A modified version of their economic security program could work for you and your family too.

## HOW IS YOUR FAMILY INCOME SPENT?

Many factors influence the way your family spends its income. The size of your family, the age and sex of its members, and what stage of its life cycle your family is in are all important influences. Also to be considered are the breadwinner's occupation and in what section of the country your family lives. The size of the city in which you live or the fact that you live on a farm also is important.

Before we examine the Cunninghams' financial situation, let's take a look at the Cunningham family. That's the first thing to do in evaluating a family's financial situation. The members of the Cunningham family are as follows:

| | Age | Years of school completed |
|---|---|---|
| George (father) | 34 | 12 |
| Louise (mother) | 32 | 12 |
| Bill (son) | 12 | 7 |
| Mary (daughter) | 11 | 6 |

Families generally go through seven stages in the family life cycle. Naturally, expenditures will vary from the first stage (establishment of the family) to the final stage (retirement period). The Cunninghams are in the elementary school period in the family life cycle. During this stage, families usually have continual increases in current expenses, especially for such items as food, clothing, and education. (Other stages in the cycle are preschool, high school, college, and "empty nest.")

Often people want to know how other families are spending their money so they can compare expenditures. That is why we have chosen to present the Cunningham family as a specific example. But remember that families with which you might compare your family should be as nearly like your own as possible to make the comparison meaningful. Obviously, it would not be particularly helpful for a young married couple who have just established a family to compare their expenditures with those of older couples who are retired. The factors mentioned at the first of this section are the most important ones to consider if you are to make a meaningful comparison of your expenditures with those of other families.

## *HOW MUCH MONEY DOES YOUR FAMILY HAVE TO SPEND?*

Now we are ready to look at the income side of your family's balance sheet. Generally, the most important determinant of expenditures will be your family's income. When the Cunninghams listed information about their family income, they were careful to include only the amounts they were sure of receiving. They started their planning in January. Their income list is shown below:

*Our January Income*

| DATE | ITEM | AMOUNT | |
|---|---|---|---|
| 1 | Wages (after taxes and other deductions) | $ 373.00 | 337.00 |
| 15 | Wages " " | 373.00 | |

The Cunninghams received all their income from wages. Your income list also might include interest, dividends, rental income, transfer from farm or business accounts for family living expenses, gifts of money, pension, or inheritances.

It is not difficult for families like the Cunninghams, who receive a set wage or salary payment, to make income lists for each month. It is more difficult, but especially important, for families of self-employed farmers or business people, who receive varying amounts of income from month to month, to be able to estimate their monthly income. Often these families work out a plan whereby a certain sum is transferred each month from their farm or business account to the family. A family needs to have a fairly good notion of the minimum amount it can count on each month if it is to plan its expenditures realistically.

After calculation, the Cunninghams decided they would have $8,952 a year or $746 a month to spend after payroll deductions had been made.

Follow the example of the Cunninghams. After figuring the amount of money you have available for each month, you are ready for the next step.

## WHAT ARE YOUR FAMILY'S FIXED FINANCIAL COMMITMENTS?

Now the Cunninghams needed to determine their fixed financial commitments for each month. They did this by getting out all of their bills, their credit commitments, and their checkbook. Then Mr. and Mrs. Cunningham had their children, who they felt were ready to participate in family planning, join them at the kitchen table. Each member of the family contributed information and help. Starting with January, they made a list of one month's money commitments, as shown (page 7).

The Cunninghams were amazed. They had no idea that they had committed themselves to so many things for one month. Next, they took the amount of income they had available for January — $746 — and subtracted their total fixed commitments for January — $540.87 — as shown below. This showed them that the total amount of money they had left in January for their remaining family living expenses was only $205.13.

They did some figuring on how much they had been spending at the grocery store. If they followed the pattern of their past purchases, they would spend around $250 for food and some household operating supplies. If they were going to live within their means this month, it meant not spending more than $205.13 at the grocery store. And, even if they reduced their grocery expenses, they would have no money left for clothing, recreation and entertainment, books and magazines, haircuts, personal supplies, or school materials in January.

## What we owe - January

| Item | Amount owed |
|---|---|
| House Payment | $ 205.00 |
| Gas and Electricity | 70.66 |
| Telephone | 25.36 |
| Church Pledge | 15.00 |
| Revolving Charge Account | 20.56 |
| Coat Payment - Mom | 27.50 |
| Gasoline Credit Bill | 33.71 |
| Car Payment | 76.43 |
| Range Payment | 20.00 |
| Dad's Life Insurance | 22.00 |
| Health Insurance | 24.65 |
| TOTAL FIXED COMMITMENTS -- JANUARY | $540.87 |

## What we have left to spend in January

| | |
|---|---|
| Jan. income | $ 746.00 |
| Jan. Total Fixed Commitments | 540.87 |
| Remainder - January | $ 205.13 |

Their first reaction was one of hopelessness. Then, for the first time in their family life, the Cunninghams decided to be realistic about money. They made similar lists for income and expenses for the remaining months in the year. They used their records of expenses from the previous year (as listed by their cancelled checks) to guide them in estimating costs of utilities, car expenses, life insurance premiums, etc. They added to these the monthly credit payments they still owed.

After they finished, the Cunninghams had a realistic picture of their expected fixed commitments for the year. They had a realistic picture of how much "left-over" money they would have each month for their remaining family living expenses, especially food and operating expenses. They realized that they could expect to have little or no money during the year to buy the higher priced durable goods, such as refrigerators or washing machines, or for that matter to spend for a two-week family vacation.

But this look into the future did something else for the Cunninghams. It actually gave them a glimmer of hope. By looking at their lists, they could see that Mom's coat would be paid for in March, that the last payment on the range was due in September, and that the final car payment would be made in December. These ending dates, however, would be possible only if the Cunninghams were able to meet their payments. It was apparent they would not be able to do this if they continued their pattern of past purchases.

If your family has a problem similar to that of the Cunninghams, if you always seem to be spending every cent you make without "getting ahead," try doing what the Cunninghams did. Make a list of your fixed commitments for the month and then for as many more months as you can, preferably for a year. Use the pages at the end of this book, if you wish. This will give you a realistic picture of what your family has left to spend after its fixed commitments have been met.

## WHAT ARE YOUR FAMILY'S GOALS?

After the Cunninghams had realistically faced their family's financial situation for the current year, it was time to take a critical look at their past spending pattern. It was time to decide what they really wanted to buy with their money. Now they were ready to discuss their family's goals.

In general terms a family goal may be thought of as an object or an end that your family strives to attain. Some of your family's goals will be of a short-term nature, others will be intermediary, and still others will be long term.

When you are concerned with short-term goals, you are concerned with the question, "What does our family need and want this month or next?" Examples of short-term goals are listed below:

| Short-term goals | Approximate cost |
|---|---|
| *Make some payment on each bill | $40.00 |
| *New tire for the automobile | $32.00 |
| New jacket for Dad | $35.00 |
| *School books | $25.00 |
| Have a party | $30.00 |
| A permanent for Mom | $19.50 |
| A bicycle for the children | $65.00 |

* Must item.

Intermediary goals are concerned with what will be the family's needs and wants in six months or a year. Intermediary-term goals take more planning, more thought, and, of course, more time to carry out. They are goals your family will want to implement sometime during this year or next. Examples of intermediary-term goals are listed below:

| Intermediary-term goals | Approximate cost |
|---|---|
| Purchase a new sofa | $ 250 |
| *Have the children's teeth fixed | $ 175 |
| Buy a different automobile | $2,500 |
| Landscape the yard | $ 200 |
| *Pay off all current credit commitments by end of year | $ 400 |
| "Save for a rainy day" | $ 240 a year |

* Must item.

Finally, your family may have some needs or wants of a long-term nature, which may be translated into long-term goals. These long-term goals may take 5, 10, or even 20 years to accomplish. Examples of long-term goals are listed below:

| Long-term goals | Approximate cost |
|---|---|
| *Buy a house or pay off a house loan | $35,000 |
| Send the children to college | $ 5,200 each |
| Add a family room to the house | $ 4,000 |
| *Provide for family income in the case of disability or death of the breadwinner | $ 350 a year |
| Take a trip to Europe | $ 3,200 |

* Must item.

With a few goals and a list of fixed commitments, most families can attain some level of economic security. They can avoid the pitfalls that befall the haphazard spenders. They can avoid the financial situation the Cunninghams found themselves facing.

## *HOW CAN YOUR FAMILY REACH ITS GOALS?*

The way your family decides to reach its goals is an individual family matter. Many goals may be attained through a good family financial management program that includes the following steps:

1. Keep track of where your money is spent.

2. Examine these expenditures to be certain they are enabling you to reach your goals in the order of their importance to your family. Expenditures that do not conform to your goals, or that do not enable you to meet your goals in the most efficient manner, should be reduced or dropped entirely.

3. If you find that you have money left over after going through the above process, this money may be used to reach other goals.

Your family may find that its goals or at least some of them take more money than you can make available through careful financial management. If this is the case, there are two courses of action open to you. Your family may change its goals to correspond to the amount of money available, or it may find some way to increase its income to encompass its goals.

If you decide more income is the solution, perhaps one or more of your children are old enough to earn money to buy their own bicycles, or school books, or clothing.[1] This would relieve your income of some of the strain. On the other hand, your family may decide to increase its income by having one of the adults take a temporary job or a second job until bills are paid or other necessary goals are reached.

Such decisions are individual matters, and family members should consider all aspects of the situation before reaching a decision. If teenage members of the family want to get jobs to help with family finances, will their school work suffer? Are they capable of carrying the additional responsibilities? Will this give them an opportunity to learn how to handle money?

If the parent at home gets a job, some of the following questions will need to be considered: Will the amount of money that can be earned cover the cost of any additional expenses incurred by employment — transportation, clothing, lunches away from home, etc.? Are the children old enough to take care of themselves if no one is home by the time they are out of school, or must a "sitter" be hired? Are the other family members willing to help with more of the work at home, or must one parent take care of work away from home as well as all the home responsibilities?

If a second job for the main wage earner seems to be the way to bring extra money into the family, what will be the effect of a longer absence from home on the children, on the other parent, and on the worker? What will be the effect of the strain of longer hours of work? Will the wage earner's health suffer?

Your family should consider all aspects of the situation, pro and con, before reaching a decision on whether additional income is needed and, if it is needed, who should bring the additional income into the family.

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[1] For further discussion of children's privileges and responsibilities in money matters, see *What You Need To Know About Money and Your Child,* by Jeanne L. Hafstrom and Marilyn M. Dunsing, Cooperative Extension Circular 1043, University of Illinois at Urbana-Champaign.

## THE CHANGING NATURE OF GOALS

You can expect your family's goals to change as circumstances change. Therefore, your family will need to refer to its list of goals from time to time. Sometimes you will want to change your goals when your family's financial circumstances improve. For example, you may receive an inheritance or a tax refund, or another member of your family may secure a job. Other circumstances may change, such as the birth or marriage of a child, the relocation of your family in another city or part of the country, and so forth.

Sometimes your family's financial condition may get worse, even though your income stays the same or perhaps increases slightly. This could happen in a period of steadily rising prices when the increase in your income does not keep up with the increase in inflation.

Sometimes you will want to change your goals when your family's financial circumstances worsen. Sickness of the breadwinner or a tax increase would be examples. This could make it necessary to put off certain goals to a later time or, in extreme cases, eliminate some goals from your family's plan. This could also happen if you find that your present income, even with careful financial management, is insufficient to meet your "essential" family goals.

## HOW DID THE CUNNINGHAMS REACH THEIR GOALS?

Now it is time to look at the goals of the Cunningham family. As indicated earlier, the Cunninghams could see that it would not be possible to have enough money to meet all their commitments on time and still pay for the variable expenses that all families have. They also saw that no money would be available to pay for the extras they wanted during the current year.

Because fixed commitments plus food and household expenses took all of the Cunninghams' current income, the only short-term goal the family could manage was to make some payment on each bill every month. In addition, they decided that their intermediary-term goal for the current year would be to pay off all their current debts and not take on any new fixed commitments during the year. They realized that to reach these goals they would need to cut their current expenditures to the minimum.

Since a great deal of their family income seemed to be disappearing, the Cunninghams decided to keep track of their day-to-day expenditures in a family account book. This activity did three things for them:

1. It made them more careful about small expenditures — helped them to think as they spent.

2. It gave them a record[1] they could use in estimating their financial needs for next year — supplied useful information for planning next year's goals.

3. It helped them see where cuts could be made in current expenditures.

To reach their goal of getting out of current debt, the Cunninghams discussed the possibilities of both increasing their income and decreasing their current expenditures. They looked at their financial situation and realized that, in addition to striving to reach their goal, they must also allow enough money for food, clothing, recreation, reading materials, and other variable expenses that would arise during the year.

To help relieve the strain on variable expenses, the Cunninghams' son Bill got a paper route. He also found odd jobs shoveling snow, cleaning basements, and doing small repairs around the neighborhood. He had wanted to be earning his own money for the past six months, so this worked out very well. With this money he was able to pay for a winter jacket and slacks, school supplies, and all his personal needs.

Cutting their current expenses for the time being was quite a challenge to the Cunninghams. First of all, they decided to cut utility expenses by limiting long-distance calls to absolute necessity, by closing windows and doors tightly to keep heating costs down, and by watching their use of electricity closely.

The responsibility of keeping the automobile expenses to a minimum became Mr. Cunningham's job. He organized a car pool so he would need to use the car only one week in every five. At first he found this inconvenient. But soon he began to know much better some of the men with whom he worked and to enjoy the daily trip. Besides, he saved a great deal of transportation money as well as other automobile expenses.

Very shortly, keeping the automobile expenses to a minimum became a challenge that the other family members accepted readily. The children walked to school and to extracurricular activities five blocks or less from home. Because of their doing this, Mrs. Cunningham found that not only did the family save transportation money but also she had free time which she had previously spent as a chauffeur.

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[1] Such a book, *Illinois Family Account Book,* may be obtained for 75¢ from the office of the extension adviser in home economics in each county or from the Office of Agricultural Publications, 123 Mumford Hall, University of Illinois at Urbana-Champaign, Urbana, Ill. 61801. This is a ruled columnar book that provides space for entering receipts and expenditures by months throughout the year.

This free time of Mrs. Cunningham's became an asset. You will recall that she had purchased a new coat for herself. Now, instead of buying a much needed coat for her daughter Mary, she decided to try her hand at using the material in her old coat to make a new one for Mary. Mrs. Cunningham had learned to be quite an adept seamstress from her mother and from the sewing classes she had taken in high school. The important thing was the satisfaction she got from making the garment, now that she had the time to do so. Mary was so pleased with the coat that she asked her mother to use material in some of their out-of-style dresses to make new outfits for her.

The family became very concerned about food expenses, since these were taking all of the money remaining after their fixed commitments were met. Mrs. Cunningham went to the county extension adviser and got a copy of a low-cost food plan that had been set up by the U.S. Department of Agriculture.[1] Together she and the adviser figured out a plan that would cost the Cunningham family $52.80 a week.

Mrs. Cunningham was very upset — this plan would mean food expenses of about $228.90 a month, and her family had only $205.13 remaining each month after paying their fixed commitments. If they could continue to save on transportation costs, they should have enough money to be able to spend $228.90 a month on groceries after March, when Mrs. Cunningham's last coat payment would be made, but not before then. What could they do?

The extension adviser told Mrs. Cunningham about the thrifty food plan, which was designed especially to fit a temporary need of families like the Cunninghams. It would cost about 20 percent less than the low-cost plan. Mrs. Cunningham was relieved. The adviser helped her figure out the thrifty food plan for the Cunninghams to use for three months. It would cost $176.50 a month. In April, when they would have the additional money to be able to purchase the variety of food in the low-cost plan, they would begin having more choice in what foods to fix.

At first, Mrs. Cunningham found that following this plan meant more time spent in food preparation. Soon Mary became interested in this plan, and mother and daughter began spending more time together in planning, grocery shopping, and cooking. They felt that it was a challenge to prepare tempting, low-cost meals for the family.

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[1] *Food for the Family — A Cost-Saving Plan,* by Betty Peterkin, Cynthia Cromwell, and Ruth Vettel. USDA Home and Garden Bulletin 209, Superintendent of Documents, Washington, D.C. 20402 (45¢).

## WHAT HAPPENED TO THE CUNNINGHAMS?

By the end of the year the Cunninghams had been successful in attaining the beginning levels of economic security. They had been successful in reaching their goal of paying off all of their current debts. They had achieved this by being willing to make some fairly drastic changes in their expenditures for a short time. When they sat down to discuss their goals for the new year, they were not faced with fixed commitments to take the bulk of their take-home pay.

Naturally, the Cunninghams' first reaction when they finally saw the end of their debt was to want to buy all of the things they had gone without during the year. Mrs. Cunningham's reaction was to want to buy an automatic washer and to replace the refrigerator. Mr. Cunningham and Bill saw just the motorboat they wanted, which could be purchased for a small downpayment and easy monthly terms. Mary had her heart set on a deluxe bicycle. They had other ideas, too, for clothing, workshop equipment, toys, vacations, and even a new house.

Fortunately, the Cunninghams had learned their lesson; they didn't go on a buying spree. They remembered that during the past year they had often asked themselves why they had decided to make some of their commitments in the first place. For example, why had they purchased the range when their old one was still in good working condition? Why had they bought that new car?

By now, they had the answer to these questions. At a County Homemakers' Extension meeting Mrs. Cunningham had first learned about the choice-making process. Afterwards she had taken home some reading material explaining the process.[1] After reading the materials, the Cunninghams realized that an understanding of what takes place when a family makes an economic choice would help them to make intelligent decisions in the future on how to spend their money. They learned of the three steps in the choice-making process: deliberation, value judgment, and choice.

## WHAT HAPPENS WHEN YOU MAKE A CHOICE?

Before we go on with the Cunninghams, let's pause a moment and examine these three steps in the choice-making process so that we may understand more about our own purchasing behavior. For example, to begin with, let's assume that your family, like the Cunninghams, is considering spending its money either to buy a new automatic washer or to replace the present refrigerator. What is involved?

[1] *Economic Choices of Illinois Families, 1962,* by Marilyn M. Dunsing, HEE-3735, pp. 2-6, University of Illinois at Urbana-Champaign.

### Deliberation

The first step in the choice-making process is to deliberate, to think over the various factors of a situation. Deliberation is a search for a way to act when you have too many preferences. It is an experiment in finding out what alternatives are available to you before you act.

The problem is that your family can afford to buy either the automatic washer or the refrigerator, but not both. There are, also, at least two other alternatives for your family: (1) You can purchase neither the washer nor the refrigerator and save the money, or (2) you can purchase something else with the money. Therefore, your family must decide which of the alternatives it wants most. Which alternative will give your family the most satisfaction?

If you decide you will purchase either the automatic washer or the refrigerator, the next step is to try to find out which is the better purchase for your family. You can read about the equipment. You can talk to relatives, friends, home adviser, and salespersons to get information. In other words, try to find all the information available that will help you make your choice. You can make a comparison similar to the one below, listing advantages and disadvantages of your own:

| | **Automatic washer to replace nonautomatic** | **Larger refrigerator to replace smaller one** |
|---|---|---|
| **Description** | 12-lb. capacity.<br>Available as electric or gas. | 100-lb. freezing unit.<br>Automatic defrost on refrigerator part. |
| **Advantages** | Can put in a few clothes; not necessary to do all washing at one time.<br>No separate rinse tub necessary.<br>No wringing or handling of heavy water-soaked clothes.<br>I am free to do other things while machine goes through cycle. | Fewer shopping trips will be needed.<br>Holds more food in the refrigerator part.<br>Holds more in freezer.<br>Has adjustable shelves. |
| **Disadvantages** | Will take away some present storage space.<br>Uses more water than a nonautomatic. | Will have to trade in present well-performing refrigerator for small trade-in allowance. |
| **Price** | $300 | $300 |

After you have made a comparison, based on advantages and disadvantages as well as price, you are ready for the second step in the choice-making process. You are ready to make a value judgment.

### Value judgment

When you make a value judgment, you put your preferences in order — you decide that one alternative or preference is better or more important to you than a competing alternative or preference.

Going back to the situation of the automatic washer and refrigerator, how would you choose? Suppose you decide that your family will get more satisfaction from the automatic washer and the continued use of the old refrigerator than it would from a new refrigerator. This would be your value judgment; this would be preferring one thing above the other.

Value judgments are the basis for our choices. They are the internal part of choice — the part of the choice-making process that you don't see but that influences the final choice you make.

### Choice

The third and final step in the choice-making process — the external part — is the action of making the choice, of buying the automatic washer. It is a conscious expression of preferences of alternatives, the selecting of one thing when you have other things available that you would also very much like to have. It is a human behavior that assumes purposive action, consciousness, and free will on the part of the person or the family. Choice is a fundamental part of family life which has to do with the tastes and values of the family — of what is important to the family.

## *HOW DOES YOUR FAMILY USE THE CHOICE-MAKING PROCESS?*

You don't go through the choice-making process every time you make a purchase. Many routine items are purchased on the basis of value judgments made in the past.

How are value judgments acquired? We are all influenced by the persons or groups with whom we associate, such as our immediate family, our teachers, our peer groups, or our church and community groups. Suppose, for example, that your family has bought one brand of toothpaste for many years. Sometime in the past — perhaps from your parents or from a hygiene class in school — you acquired a value judgment that it was good to brush your teeth. Your parents used a certain brand of toothpaste and so you accepted their value judgment as your own. After you were married, you may have decided that you preferred your spouse's brand of toothpaste to your own. You made a value judgment. Then you may have gone for years buying one brand of toothpaste without needing to give a thought to its purchase. A value judgment made in the past enables you to act on the basis of habit. There is no need to make another value judgment until something happens to interrupt your continued purchase of the product.

For example, suppose you are given a free sample of a new brand of toothpaste and your family likes it just as well as the brand they have been using for years. The price for the new brand is less than the old for the same size tube. At this point, you may make the value judgment that the less expensive toothpaste is the one your family will use in the future — it will help save money for your family.

Let's take another situation. Suppose something rather serious happens; for example, your family has a cut in income. Whether because of sickness of the breadwinner, seasonal layoff, or a poor crop year, your family will now need to make a value judgment. Should you cut down on expenditures, use your savings, borrow money, or what? Your family will need to choose the action it would prefer to take from among the alternatives available. This is how the choice-making process works.

## *WHAT ARE SOME EXPLANATIONS OF THE CHOICE-MAKING PROCESS?*

Let's get back to the Cunninghams. Once they were aware of what happens when they make economic choices, they asked another question, "Why do we make the choices we do?" They wanted to know some of the reasons for the choice-making process.

### Marginal utility principle

Economists explain economic choices as follows: Families will continue to purchase a given article as long as the satisfaction they get from it is greater than the satisfaction they could derive from some other use of their money; whenever they can derive greater satisfaction from the purchase of some other article, they will shift their spending to it. This pattern of choosing is an example of the marginal utility principle.

The marginal utility principle assumes that people will act rationally — that they will choose appropriate means to accomplish a given end. It explains why families might spend 25 percent of their income for food rather than 20 percent, or 8 percent of their income for clothing rather than 12 percent. They behave the way they do to maximize their satisfaction.

### Standard of living

Income and expenditure studies indicate that family living expenditures increase as income increases. Why do families spend more money, for example, on clothing or recreation when their incomes increase? This type of economic behavior is commonly explained in terms of a family's standard of living.[1] By standard of living we mean the goods and services that a family feels are necessary or essential to have. A rising standard of living is considered by many families as one of the major goals of our society. For example, as soon as a family accomplishes one of its goals, such as repainting rooms in the house, another goal takes its place, such as buying new furniture for the living room.

According to this view, families think of their current expenditure or consumption pattern as a temporary adjustment to circumstances — they expect to take the first available opportunity to change the pattern to improve their level of living. In view of this attitude, it is easy to understand why a family's spending will increase when the family moves into a higher income group.

This explanation of a rising standard of living struck a note of recognition in the Cunningham family. Mr. Cunningham recalled that when he had come home with a pay raise two years before, he'd said that now they could afford to trade in their old car on a brand new model! The rest of the family had agreed with him. Striving for a higher standard of living was certainly a major part of the Cunninghams' new car purchase.

### Demonstration effect

But how do we explain the behavior of families who increase their expenditures even though their income remains the same? Assume that people believe the consumption of high-quality goods is desirable and important. Then it follows that they can be made dissatisfied with the goods they habitually use if the "superiority" of other goods is demonstrated to them (the "demonstration effect").

Just knowing of the existence of "superior" goods is not enough to make families dissatisfied with their present goods. But if they come into frequent contact with "superior" goods, they are apt to become dissatisfied. In other words, the frequency and strength of our desire to increase expenditures depend upon the frequency of contact with goods we believe are superior to those we habitually use.

Knowing about the "demonstration effect" gave the Cunninghams insight into two purchases they had made: the range and the new coat for Mrs. Cunningham.

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[1] *Income, Savings, and the Theory of Consumer Behavior,* by James Duesenberry, Harvard University Press, Cambridge, Mass., 1967. See chapter 3.

After morning coffee hours in neighbors' kitchens, Mrs. Cunningham had begun to talk about how nice it would be to have a range with a rotisserie — Mrs. Miller and Mrs. Bye had each purchased one during the past few months. When the Cunninghams had gone to dinner at the Millers and found how delicious a roast tasted that had been cooked on a rotisserie, they were sold on that type of range. So they had traded in their range for a deluxe model and began making the payments.

And, although Mrs. Cunningham recognized that her old untrimmed winter coat was still serviceable, she had become dissatisfied with it after having seen new fur-trimmed coats on four of her friends. "Nothing would do" until she had purchased one for herself so that she could feel that she was in style once again.

But this year, as pointed out earlier, the Cunninghams had learned their lesson. No longer would they buy something just because others had it. From now on they would deliberate, examine their value judgments, and make a choice among alternatives before committing themselves to purchases.

## *THE CUNNINGHAMS' ECONOMIC SECURITY — ONE YEAR LATER*

A year has passed since the Cunninghams embarked on their program of economic security. Have they made real progress during this period? To help them answer this question, the Cunninghams made a list of their money commitments for this January (see next page). Then they took the amount of income they had available for the month (after payroll deductions) and subtracted their total fixed commitments.

The Cunninghams felt good. This month's remainder of $390.95 was quite a pleasant change from last January's remainder of $205.13. The Cunninghams decided they would increase their food expenses to $255 for the month so they could buy some extra treats. This meant that they would still have $140.95 each month for other family living expenditures such as clothing, recreation, reading materials, etc. They also decided to set aside $25 each month to be used on a short vacation in July.

The Cunninghams agreed that there were times during the past 12 months when they had become discouraged and were ready to give up their economic security program, but fortunately Mr. and Mrs. Cunningham never both felt this way at the same time. With the children's encouragement and enthusiasm to spur them on, they had stuck with their program, and it had been successful.

## What we owe - January

| Item | Amount owed |
|---|---|
| House Payment | $ 205.00 |
| Gas and Electricity | 55.82 |
| Telephone | 6.70 |
| Church Pledge | 15.00 |
| 30-day Charge Account | 8.55 |
| Gasoline Credit Bill | 23.15 |
| Dad's Life Insurance | 19.60 |
| Health Insurance | 7.17 |
| Washer Payment | 14.06 |
| TOTAL FIXED COMMITMENTS -- JANUARY | $ 355.05 |

## What we have left to spend in January

| | |
|---|---|
| Jan. Income | $ 746.00 |
| Jan. Total Fixed Commitments | 355.05 |
| Remainder - January | $ 390.95 |

Soon Mr. Cunningham would be receiving an increase in salary, which would mean additional money to use for family living expenses or to save for future use. This year, the question of continuing their economic security program didn't arise. They would, of course, modify their program from time to time to fit in with their changing goals and their financial resources, but they would always want some program to keep them working for economic security.

### WHAT ABOUT INFLATION AND RISK PROTECTION?

As mentioned earlier, another family, the Websters, had already worked out a program to reach economic security on their $8,952 annual take-home income. They were able to buy most of the things they really needed and many of the things they wanted. They were able to keep themselves out of debt. Best of all, they always felt secure about their finances.

Gradually, however, they began to notice that their family income did not go as far as it once had. First, the Websters complained about the rising prices in the food store. Next, Mrs. Webster mentioned that she needed more money to buy shoes for the children. Then Mr. Webster said that every time he bought gasoline the price seemed higher. They began to worry that they would not be able to stick to the budget they had planned for themselves for the year ahead.

At the same time, another thing began to bother the family. Some of the people where Mr. Webster worked were laid off or lost their jobs. The family began to worry about how they would manage if Mr. Webster's salary suddenly stopped, whether from layoff, job loss, or even death.

At first the Websters were depressed. But they remembered that they had been able to solve their problems before, and they felt they could do it again. They talked about ways to deal with rising prices. As one alternative, they could use their savings. Then they talked about how they would use credit if it became necessary for them to go into debt again. They did not want to go into debt again, but it might be necessary if their savings could not get them through a bad time. For the first time, they wondered what would really happen to the family if Mr. Webster lost his job. How could they protect themselves against this risk?

Since they had once had the satisfaction of being economically secure, they took a positive approach and resolved to think through four major questions: Should we use our savings? Can we use credit wisely? What can we do in case of Mr. or Mrs. Webster's untimely death? How can we cope with rising living costs?

### Using savings

Every month the Websters had the bank transfer money from their checking to their savings account, so they would have money for emergencies. Was this an emergency? Should they use their savings just to keep up with rising prices?

Mrs. Webster didn't want to touch their savings account. It made her feel secure to know that some money was there when they *really* needed it. The children agreed with her. The Websters decided the savings would not be used to help the family keep up with rising prices.

However, if Mr. Webster were laid off or lost his job, the Websters knew what they had to do. If he were laid off for a short time, or if he could find another job soon, the savings would help tide them over.

After all, that was the real reason they had saved. However, if the layoff period were more than a couple of months, Mrs. Webster said she would go back to work. Her former employer was always trying to talk her into working again.

### Using credit wisely

A recent article by the home economics extension adviser in the local newspaper had pointed out some ways to save when using credit. It had listed a booklet to send for to get more information.[1] The Websters thought it seemed like a good idea and sent for the booklet.

They were not surprised to find out how many different kinds of places offered credit to consumers. What did startle them was the variety of charges made for using credit. They noticed that an automobile loan, for example, could cost $159.60 more from one type of lender than from another. They also found out that lenders, even department stores that offer credit, must tell consumers exactly what it will cost to buy on credit or to borrow money.

Mr. and Mrs. Webster talked about how the family had used credit in the past. Now they could see ways they might have saved money on finance charges. If they had known more about how to use credit wisely, they could have made better choices with their money.

Before deciding to use credit again, they would do several things. They would talk about how much of their income they could realistically commit each month for credit payments. They would discuss the appropriateness of using credit for different kinds of goods. If they decided to use credit, they would compare various sources of credit and different payment terms. From now on, they would use credit wisely. The Websters kept the booklet handy for reference to help answer questions about credit and to remind them how to use it effectively.

### Using life insurance for protection

Next, the Websters faced the question of what to do in the event of either parent's premature death. They knew that Mr. Webster was covered with a life insurance plan where he worked. But they knew it would not provide enough income for the family if Mrs. Webster and the children had to live on it for many years.

They reviewed what their living expenses had been during the past few years. They talked about how living costs were steadily increasing. The Websters took another look at the long-range goals they had written down. They discussed how these goals might be changed if the fam-

[1] *Consumer Credit: Uses, Costs, Laws*, by Jeanne L. Hafstrom, Marilyn M. Dunsing, and Karen P. Schnittgrund, Cooperative Extension Circular 1087, University of Illinois at Urbana-Champaign.

ily no longer had its present steady income. They knew that expenses for the children would continue to increase. How could they protect their present economic security and guard against the risk of losing it if either Mr. or Mrs. Webster should die?

Again, they started by contacting their county extension home economics adviser for some basic information. From an extension circular[1] they discovered new ideas for risk protection of family income through various types of insurance. The Websters decided to set a new goal — to build more risk protection into their economic security program. In addition, they thought of ways that Mrs. Webster might prepare herself if she should want or need to find employment. Tom and Sue, the Webster children, seemed glad to know that plans were being made for their care in case one or both of their parents should die prematurely.

The Websters decided to buy all the group insurance they could — health and life — at the place where Mr. Webster worked. They found out that this usually would be the least expensive form of insurance they could get. Then the Websters decided to contact three insurance salespersons to talk about different programs to take care of additional insurance needs.

### Coping with inflation

The Webster children knew their parents talked a lot about rising prices these days. Because Tom ran a lot of errands to the grocery store, he knew that many food, soap, and paper items cost more than they used to. Tom and Sue also had noticed that most of the things they wanted seemed to cost more. Even their after-school snacks took a larger part of their allowances than before.

When their parents asked them to think of ways to make the family income stretch, the Webster children already had some ideas. Sue and Tom were thinking about taking on a newspaper route. In addition, they wanted to ask their neighbors if they could help with yard work or do special chores to earn some extra money. They also talked about learning to sew and to do other handicrafts, so they could make gifts for friends and relatives instead of buying them. The Websters were pleased to hear about the children's plans.

The four of them sat around the kitchen table and talked about other ways to cut costs at home. Mrs. Webster wrote all the ideas on a large sheet of paper. The next day she organized these ideas and put each one under a certain heading. It was then that Mrs. Webster real-

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[1] *Changing Life Insurance Needs for Families,* by Jeanne L. Hafstrom, Marilyn M. Dunsing, and Karen P. Schnittgrund, Cooperative Extension Circular 1110, University of Illinois at Urbana-Champaign.

ized that many of the cost-saving ideas were things the family usually did on a regular basis. She noticed that they had not been sticking as closely as they could to some of these ideas. Right away she could see ways they could get themselves back into cost-saving shopping practices. She knew the other family members also would be able to use the list for a quick reminder of ways to cut costs.

During the days and weeks that followed, the Websters tried to practice the money-saving ideas they had talked about. Here are a few of the things on their list:

*Car* —

Continue carpool (Dad)
Share rides for shopping (Mom)
Ride bike or walk (Tom and Sue)
Eliminate driving short distances
Drive slowly, under the speed limit
Wash and wax car at home
Keep this car at least two more years
Get regular maintenance and service checkups
Shop around for prices and services at various gasoline stations

*Food* —

Have a home garden; freeze and can food
Check newspaper ads for "specials"
Buy food in season
Plan meals a week ahead
Shop only once a week
Make and follow a shopping list
Compare stores and brands for best prices
Cut impulse buying
Eat out less often
Use fewer convenience foods

*Clothing* —

Shop mostly during sales
Check yard and garage sales for bargains
Hang up clothes after wearing them
Don't drag shoes on street when riding bikes
Wear old clothes to play in and for rough jobs
Sew more clothes for the family
Make repairs promptly when needed
Use coin-operated machines for some drycleaning
Wear boots and overshoes in bad weather

*Housing* —

Turn off lights when not in use
Use less water in tub and shower

- Make repairs quickly when needed
- Open and close outside doors quickly in winter and when air conditioner is on in summer
- Keep temperature at 68° F. in winter and 75° to 78° F. in summer
- Add more insulation to house if necessary
- Do own painting and repairs when possible
- Clean rugs, furniture, and draperies regularly to prolong wear
- Keep feet off furniture

*Purchasing* —

- Get information about products and services from extension and government booklets
- Use credit with care; pay cash when possible (save ahead)
- Read labels, warranties, and contracts carefully

When the Websters thought of new ways to save, they added them to the list. The whole family gently reminded each other when anyone would forget to practice what they had listed.

With all of them working at it, the Websters soon found they were cutting out a lot of unnecessary expenses. All the little shortcuts they were taking paid off in considerable savings. Together, they proved they could effectively cope with many inflation problems.

## HOW CAN YOUR FAMILY BUILD ECONOMIC SECURITY AND DEAL WITH UNCERTAINTY AND INFLATION?

Your family may want to make some plans to live within your income, as the Cunninghams did. Or your family may want to reestablish a feeling of economic security in times of inflation and rising unemployment, as the Websters did. Like those families, your family, too, can embark on a program leading to a higher level of economic security.

Your family, too, can list your monthly income after deductions and subtract your fixed commitments each month to see how much remains. Then you can determine how you will spend this remainder for the variable household expenses. To do this, you will need to decide on your family's goals — whether short, intermediary, or long term. This is one of the most important steps in the process.

Your next, and perhaps hardest, job is to stick to your program once you have adopted it. You should, of course, modify your program from time to time as your circumstances change. If you do these things, your family will be launched on a sound program of living within your income — a program of economic security. In addition, this program should bring a feeling of closeness to all members of your family as you work together toward common goals.

YOUR FAMILY'S GOALS

| Short term | Approximate cost |
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| Intermediary term | |
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| Long term | |
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WHAT YOUR FAMILY OWES — THIS MONTH

| Item | Amount owed |
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| | |
| | |
| | |
| Total fixed commitments | |

WHAT YOUR FAMILY HAS LEFT TO SPEND — THIS MONTH

| | |
|---|---|
| Income | |
| Total fixed commitments — this month | |
| Remainder — this month | |