JURNAL KEPENDUDUKAN INDONESIA

p-ISSN : 1907-2902 (Print)
e-ISSN : 2502-8537 (Online)

LESSONS FROM COVID-19: SMALL AND FINANCIALLY STRONG FAMILY

(PEMBELAJARAN DARI COVID19: KELUARGA KECIL DENGAN KEMAMPUAN KEUANGAN YG KUAT)

Thomas Soseco
Universitas Negeri Malang, Indonesia

Korespondensi penulis: thomas.soseco.fe@um.ac.id

Abstract

Households should small and but financially strong, especially to deal with a crisis where most families face a reduction in income but relatively constant expenditure. To maintain the standard of living, they need a buffer, measured from net wealth, i.e. total value of assets deducted by debts. There is no justification for how small the family size should be. For most households, higher net wealth is achieved when they have smaller household size, while only the poorest and richest households can get benefits from additional household members. However, we should also aware of the pseudo-increase of net wealth, i.e. households obtain an increasing net wealth because of additional household members but unable to push them to higher decile.

Keywords: wellbeing, total fertility rate, household's size, net wealth, debts

The pandemic COVID-19 reshapes the urgency of building small and financially strong families, as, during a crisis, most households face a reduction in income but relatively constant expenditure. The small household's size paradigm is a contrary position of the old proverb *banyak anak banyak rezeki* (more children mean more blessings/sustenance/luck). However, this proverb never mentions the ideal number of children but implicitly mentions that *rezeki* is attached to each child, and parents should never worry about his/her future. Therefore, the paradigm should be dynamic as well, i.e. rather than decide the ideal number of children, we should mention the benefits of having a small household's size.

Small and Financially Strong Households

A small household's size is encouraged by the *Keluarga Berencana* (family planning) programme that significantly cut half of the total fertility rate (TFR) in four decades, from 5.666 in 1960 to 2.512 in 2000. However, slower progress occurs after 2000, make Indonesia's TFR is the highest among neighbour countries, e.g. Malaysia, Singapore, and Thailand. At the household level, higher TFR reflects higher financial challenges. Families with more household members will have higher expenditure (with the same standard of living) or a lower standard of living (with the same expenditure level) than smaller families. Unfortunately, large families sometimes earn money at a similar level with small families; make lower savings and asset accumulation for them.

Household's inability to maintain a standard of living can wider the gap between the rich and poor (Soseco, 2010, 2018, 2019). When inequality becomes too high, it harms the economy, deters investment, makes a less-resilient economy, and even brings about political and social instability (Ostry & Berg, 2011; Wah, 2000). Other impacts of inequality are for example health issues, crime, and education (Wilkinson & Pickett, 2009). Children who have poor parents are highly likely to be trapped in low net wealth conditions, as their parents did. On the other hand, the richest people can easily generate more wealth through inheritance, monopoly, and cronyism (Oxfam, 2018).

During a crisis, families need a buffer to maintain their living standards. The short-term emergency financial sources usually borrowing from other parties or withdraw savings. While for the longer period e.g. in a prolonged crisis, households earn money from wealth conversion (i.e. sell their property, farm, vehicles, jewellery). Households should also manage their debts carefully because debts will reduce the total value of household wealth. High wealth but if accompanied with high debts will leave a small amount of net wealth for families or even negative net wealth.

Wealth is an objective measurement to replaces the abstract concept, *rezeki*. Theoretically, more monetary or non-monetary *rezeki* means a household's ability to obtain higher income, savings, and asset ownership. Wealth can also reflect wellbeing, i.e. purchasing power to buy goods and services (Fitzsimmons & Leach, 1994; Wakita, Fitzsimmons, & Liao, 2000; Williams & Manning, 1972). Moreover, wealth can also be inherited, makes wealthy parents usually have wealthy children (Oliver & Shapiro, 1990). People with higher incomes generally have more wealth, but these measures are not interchangeable, i.e. people with more wealth do not mean always have a high income. (Filmer & Pritchett, 2001; Gibson, 2017; Oliver & Shapiro, 1990).

Comparing to income, wealth is better to reflect wellbeing as households tend to conceal their income (e.g. for security reasons or to avoid tax) or prefer not to report irregularly received-income. (Birdsall, 2010; Brown & Gray, 2014). Besides, income is a transitory character, meaning that past income does not necessarily reflect future income or wellbeing (Oliver & Shapiro, 1990). Wealth also better than expenditure to reflect wellbeing as households will always have an expenditure even though they have zero income; to pay their expenses, households can use convert their assets (Friedman, 1957). This idea also supported by McKenzie (2005), Birdsall (2010), Senik (2014), Rothwell and Robson (2018), and Clementi, Dabalen, Molini, and Schettino (2018). More specifically, the Expenditure report usually biased downward for the top and bottom of the distribution (Brown & Gray, 2014; Clementi *et al*., 2018; Ward, 2013).

Focus is then aimed at the household level as household members can enjoy high wealth even though the wealth is registered under other household members. Besides, social stratification cannot easily be recognized from individuals' attributes but households' attributes. (Filandri & Olagnero, 2014; Parkin, 1971; Wakita *et al*., 2000). A more specific approach to measure financial strength is through net wealth that is obtained from total wealth deducted by debts (Fitzsimmons & Leach, 1994). Then, the equivalence factor plays a role, i.e. to adjust net wealth with the number of household members (Clementi, Gallegati, & Kaniadakis, 2012).

The Benefits of Small Household Size

The benefits of a small household's size can be revealed by investigating the relationship between the household's size and household's net wealth over time. From the observation for 1993-2014, only the richest (decile 10) and the poorest households (decile 1 and 2) have a positive effect while households in deciles 3-9 have a negative impact.

For the richest households (decile 10), additional family members increase household's net wealth as children from this decile usually have characteristics that enable them to get higher income and net wealth (e.g. better health, education, or experience). Besides, they usually married with spouses from the same socio-economic class, allowing them to preserve and inherit high net wealth. While for the poorest households (decile 1 and 2), additional family members increase their net wealth as children from these classes usually have low education and enter the workforce earlier than others. Besides, they tend to marry at an early age, driven by an image that marriage is a financial solution. For deciles 3-9, additional family member reduces their net wealth because the rising expenditure is not easily covered by the increasing income. Larger household's size prohibits themselves to find other occupation, move temporary, or relocate permanently. Besides, households usually use debts to finance their large expenses (e.g. buy property or vehicles) resulting in a negative component of net wealth.

CONCLUSION

We ought to aware of the pseudo-increase of net wealth, i.e. households able to increase their net wealth but unable to push them to higher decile. As the household's relative position is affected by responses from other households, there will be three alternative conditions. First, the increase of household's net wealth keeps it to the same decile as other households experience a similar increase. Second, the increase of household's net wealth pushes it to higher decile as other households receive smaller net wealth increases. Third, the increase of household's net wealth drags it down to lower decile as other households enjoy a higher increase in net wealth. To be considered as wealthier than others, one household should significantly increase its net wealth, allow it to move to a higher class, and leave other households in the same decile. Therefore, poverty reduction is not achieved just from increasing household's net wealth but also enabling them to move to higher decile.

The above explanation should lead us to the urgency of the small household's size. More children are not always can make family wealthier than before, as it is only valid for the richest (decile 10) and poorest households (decile 1 and 2). For families outside those classes, more children make them less wealthy than before. The increase of household's net wealth should also consider other households' performance; otherwise, the household will enjoy a pseudo-increase of net wealth and its position will remain unchanged or even dragged down to the lower class.

To sum up, small and financially strong families is important as it gives benefits in building net wealth for most families. Besides, it is also beneficial to minimize the pseudo-increase of net wealth. This paradigm should be our focus to build better families, especially to cope with a future crisis.

REFERENCES

Birdsall, N. (2010). *The (Indispensable) Middle Class in Developing Countries; or, The Rich and the Rest, Not the Poor and the Rest* (Working Papers 207). Center for Global Development

Brown, S., & Gray, D. (2014). *Household Finances and Well-Being:An Empirical Analysis of Comparison Effects* (IZA DP No. 8530). Forschungsinstitut zur Zukunft der Arbeit Institute for the Study of Labor

Clementi, F., Dabalen, A. L., Molini, V., & Schettino, F. (2018). *We Forgot the Middle Class!: Inequality Underestimation in a Changing Sub-Saharan Africa*. SSRN. https://ssrn.com/abstract=3243750

Clementi, F., Gallegati, M., & Kaniadakis, G. (2012). A generalized statistical model for the size distribution of wealth *Journal of Statistical Mechanics: Theory and Experiment 2012*(12), 1-25. https://doi.org/10.1088/1742-5468/2012/12/P12006

Filandri, M., & Olagnero, M. (2014). Housing Inequality and Social Class in Europe. *Housing Studies, 29*(7), 977-993. https://doi.org/10.1080/02673037.2014.925096

Filmer, D., & Pritchett, L. H. (2001). Estimating Wealth Effects without Expenditure Data-or Tears: An Application to Educational Enrollments in States of India. *Demography*, *38*(1), 115-132. https://doi.org/10.2307/3088292

Fitzsimmons, V., & Leach, L. J. (1994). Net Worth Change: Beginning and Expanding Life Cycle Stages. *Journal of Financial Counseling and Planning 5*(1)

Friedman, M. (1957). *A Theory of the Consumption Function*: National Bureau of Economic Research, Inc.

Gibson, L. (2017). *Towards a more equal Indonesia*. OXFAM International. https://oxf.am/2FK0Pae

McKenzie, D. J. (2005). Measuring inequality with asset indicators. *Journal of Population Economics, 18*(2), 229-260. https://doi.org/10.1007/s00148-005-0224-7

Oliver, M. L., & Shapiro, T. M. (1990). Wealth of a Nation: A Reassessment of Asset Inequality in America Shows at Least One Third of Households Are Asset-Poor. *The American Journal of Economics and Sociology, 49*(2), 129-151.

Ostry, J. D., & Berg, A. (2011). *Inequality and Unsustainable Growth; Two Sides of the Same Coin?* : International Monetary Fund

Oxfam. (2018). Reward work, not wealth: To end the inequality Crisis, we must build an economy for ordinary working People, not the rich and powerful. *[Oxfam Briefing Paper]*

Parkin, F. (1971). *Class inequality and political order*. London: MacGibbon & Kee

Rothwell, D., & Robson, J. (2018). The prevalence and composition of asset poverty in Canada: 1999, 2005, and 2012. *International Journal of Social Welfare, 27*(1), 17-27. https://doi.org/10.1111/ijsw.12275

Senik, C. (2014). Wealth and happiness. *Oxford Review of Economic Policy, 30*(1), 92-108. httpd://doi.org/10.1093/oxrep/gru004

Soseco, T. (2010). Perkiraan Ketimpangan Distribusi Pendapatan di Indonesia dengan Indeks Theil. *Jurnal Ekonomi dan Studi Pembangunan, 2*, 110-116.

______. (2018). The Composition and Distribution of Household Wealth in Indonesia. *Jurnal Ekonomi dan Studi Pembangunan, 10*(2), 153-167.

______. (2019). *Application of Dagum Type III Model to Measure Net Wealth Inequality in Indonesia* Paper presented at the Asian and Australasian Society of Labour Economics 2019 Conference, Singapore

Wah, C. K. (2000). Prosperity or inequality: deconstructing the myth of home ownership in Hong Kong. *Housing Studies, 15*(1), 28-43. https://doi.org/10.1080/02673030082450

Wakita, S., Fitzsimmons, V. S., & Liao, T. F. (2000). Wealth: Determinants of Savings Net Worth and Housing Net Worth of Pre-Retired Households. *Journal of Family and Economic Issues, 21*(4), 387-418. https://doi.org/10.1023/a:1026432705410

Ward, P. (2013). Measuring the Level and Inequality of Wealth: An Application to China. *Review of Income and Wealth, 60*(4), 613-635. https://doi.org/10.1111/roiw.12063

Wilkinson, R., & Pickett, K. (2009). *The Spirit Level: Why Greater Equality Makes Societies Stronger*. New York: Bloomsbury Press.

Williams, F. L., & Manning, S. L. (1972). Net Worth Change of Selected Families 1. *Family and Consumer Sciences Research Journal, 1*(2), 104-113. https://doi.org/10.1177/1077727x7200100205