

INCOME POOLING REGIMES AND MONEY MANAGEMENT: AN EXPLORATORY STUDY OF MALAYSIAN URBAN HOUSEHOLDS

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Abstract

This paper explores the flow and management of household resources at the point at which income enters into the household to the point at which they are expended. The organization of money varies across different income pooling systems. This study aims to identify the various forms of pooling decisions generated by urban Malaysian households. Using a quantitative paradigm via survey questionnaire approach, 70 households were selected as samples for this study. The findings indicate that the different ethnic households displayed common pool, joint pool or multiple pool systems. Pooling decisions differed between couples with the possibility of individual pools maintained for each member. Their spending pattern and money management also varied. Findings of this study have implications on family economics, to marketers and financial planning.

Introduction and Background of the Study

The unitary model of intrafamily resource allocation assumes the household as the basic unit of decision

that is either as a household utility function or a common representative agent for the family (Becker, 1981). This traditional approach assumes that all household behave as a single decision making unit in which all members of the family's income is pooled into a common pool. However, this common preference model has methodological and empirical deficiencies (Duncan, 1990). An alternative approach is the collective approach to household behaviour. This approach takes into account the fact that multi-person households may have different preferences. This in turn has a different impact on household expenditure pattern and the way in which household resources are pooled.

There has been growing evidence that families do not pool their income but allocate consumption based on source of income thus rejecting the income-pooling hypothesis (Pezzin and Schone, 2001; Hotchkiss, 2005). While income may be pooled for certain categories of household expenditure such as housing, however the income-pooling hypothesis has rejected others (Phipps and Burton, 1998). As family size increase, there could be a shift in increased spending on clothing for children expended from the wife's incomes. With more women actively seeking employment

and rise of dual income families typical found in urban areas, this could signal higher expenditure on child care and spending on clothing. These expenditures increase only when the women's incomes increase – higher male income however is not associated with higher expenditure on child care and clothing (Phipps and Burton, 1998; Hotchkiss, 2005). In some households, women have become the chief wage earners and this has influence on the household's utility framework. Thus, there is a need to explore how members of the family allocate their income for private consumption and gender-related expenditures on household public goods.

The purpose of this paper is to examine the typology of income pooling systems adopted by urban Malaysian households and its related household consumption decisions. In particular, households that subscribe to different income pooling regimes either common pooling or partial pooling, such as modified pool or multiple pool is identified in terms of its money management and how income is expended. The various income pooling decisions are also analysed across different urban ethnic Malaysian households.

Literature Review

Empirical analysis of household expenditure has traditionally been based on the unitary model which assumes that household members share identical preferences. Numerous studies have provided empirical evidence that rejects the unitary approach. Alternative work supports the view that household members take decisions non-cooperatively (Chiuri, 2000). Test for global pooling of resources for households which

correspond to the unitary model of household decision-making confirmed rejections of income pooling (Attanasio and Lechene, 2002).

An alternative approach to the unitary model is the collective approach to household behaviour which takes into account that multi-person households comprise of different individual members with different preferences. Thus, intra-household bargaining process and decision making can take various forms. This approach shows more of intra-household distribution of resources than the unitary model (Vermeulen, 2002). More recently, Chiuri (2000) introduced non-unitary models to compare the differences in household consumption and leisure demands. It was found that both consumptions depend on the intra-household distribution of income together with other variables such as sociological variables and individual abilities in home production.

Blood and Wolfe (1960) introduced resource theory regarding the main determinant of who has the financial decision making in the family which means that who controls the most resources in the household. Intra-household resource allocation includes the resource flow as well as management of resources. Wilk (1986) concluded that the dominant assumption of resource allocation in household decision making is that a household gathers its resources into a common pool. The larger the amount of resources that are contributed into the household by a marital partner, the greater the power to control the resources (Blood and Wolfe, 1960).

Couple's perceptions are significant in the household resource exchange. In single income families, the husband is the primary financial resource provider, and the wife would be charge in homemaking decision. Dual income couples share marital power more equitably due to their resources (Sidin, Zawawi, Wong, Busu and Hamzah, 2004). Research on household money management found that the level of combined household income is not significant in determining who is the financial controller in financial decision making areas (McConocha and Tully, 1993). However, proportional income contribution to the household was relevant.

Past research have shown resources accruing to different members of the household and from different sources have differential impacts on household expenditure patterns. Evidence is generally supportive of the hypothesis of resource pooling by the income earners in their spending decisions mainly on food, clothing and energy (Maitra and Ray, 2006). Commuri and Gentry (2005) found that when women is the chief wage earner, joint pools of money were used to cover routine expenses but separate pools were used for individual's private expenses. It was found that many households do not conform to common pool model of resource allocation. Another study by Burns, Burgoyne and Clarke (2008) showed that partial pooling and independent money management are the most popular regime with emphasis placed on equality and devising a fair money management strategy. Significant income disparities between most partners necessitated the adoption of a system of proportional contributions to joint expenses.

Methodology

This study employs the method of primary data collection using close-ended questionnaires as the research instrument. The definitions of the different income pool systems and decisions were provided to the subjects. The questionnaire comprises of five sections. Three sections elicit response on the types of income pool systems that respondents had adopted in their household resource pooling decisions. One section was apportioned for respondents to identify the type of expenses that individual and spouse allocate their money. The last section tapped on the demographic profile of the respondents.

A sample size of 70 couples living in the Klang Valley were conveniently selected to participate in the survey. Respondents comprise of married couples in households with dual income earners. In the data collection effort, the subjects answered a self-administered questionnaire. Only one member of the head of household answered the questionnaire. Care was taken to ensure that the racial composition of respondents reflects the population composition in the urban areas. Data were analysed using descriptive statistics, one-way ANOVA, cross tabulation and factor analysis.

Findings and Discussion

A total of 70 sets of questionnaires were distributed to sample urban households in the Klang Valley. The response rate was 87.1%. From Table 1, the majority of the respondents were between 41-50 years of age (49.2%) and 31-40 years (26.2%). Males consisted 41% and females 59% respectively. In terms of ethnic group,

Chinese made up 49.2% while Malays consist of 44.3% and the Indians (6.6%). This is typical of the racial composition of household in the urban areas. More than half of the respondents (57.4%) were from the public sector. The monthly household income of the respondents were in the range of RM9, 001-RM12,000 (32.8%) followed by RM3,001- RM6,000 (23%), RM6,001-RM9,000 (19.7%) and above RM15,000 (13.2%). This relatively high income reflects the earning capacity of the majority of urban households.

Table 1: Demographic Profile of Respondents

Characteristics	Frequency	Percent (%)
Age (years)		
25-30	5	8.2
31-40	16	26.2
41-50	30	49.2
over 50	10	16.4
Total	61	100
Gender		
Male	25	41
Female	36	59
Total	61	100.0
Ethnicity		
Malay	27	44.3
Chinese	30	49.2
Indian	4	6.6
Total	61	100.0
Occupation		
Public sector	35	57.4
Private sector	26	42.6
Total	61	100.0

Household Monthly Income (RM)		
Below RM3,000	3	4.9
RM3,001- RM6,000	14	23.0
RM6,001- RM9,000	12	19.7
RM9,001- RM12,000	20	32.8
RM12,001- RM15,000	4	6.6
Above RM15,000	8	13.2
	61	100.0

Typology of Income Pooling Regimes

Findings from the survey in this study found that 31.1% of urban Malaysian households subscribe to this system. A total of 59% of the respondents indicated multiple pools as their choice of money allocation. This forms the main income pooling decision of the urban households while only a minority (9.8%) indicated modified pool system (Refer to Table 2).

Table 2: Income Pool Decision by Households

	Frequency	Percent(%)
Common pool	19	31.1
Modified Pool	6	9.8
Multiple pool	36	59.0
Total	61	100.0

In the common pool system (Figure 1) the whole wage of the household is contributed into the common account. None of the spouses had any allowance system. Both partners combine their total income into a joint account with either the husband or wife or both managing the account. In this unitary model of household resource allocation, the members pool their resources together.

Figure 1: Common Pool Model

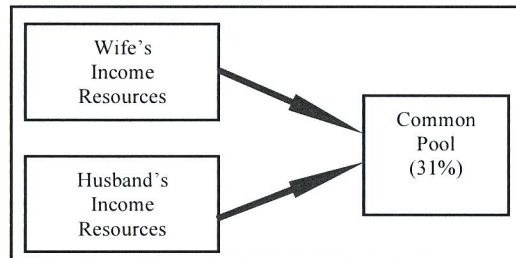


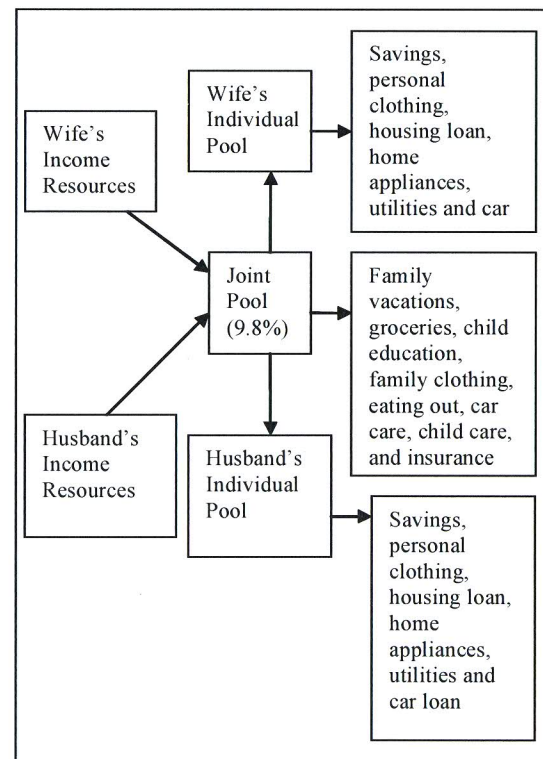
Table 3 shows that the wives in the households which use the common pool system have a more dominant control in managing the income when compared to the husbands. Findings revealed that more Malaysian wives (31.1%) had taken the responsibility in the financial control and spending allocation for their family more than the husbands (27.9%). Only a minority (6.6%) reported the couple managing the pool together.

Table 3: Income Management in Common Pool

	Frequency	Percent (%)
Husband	17	27.9
Wife	19	31.1
Both	4	6.6
Total	40	65.6

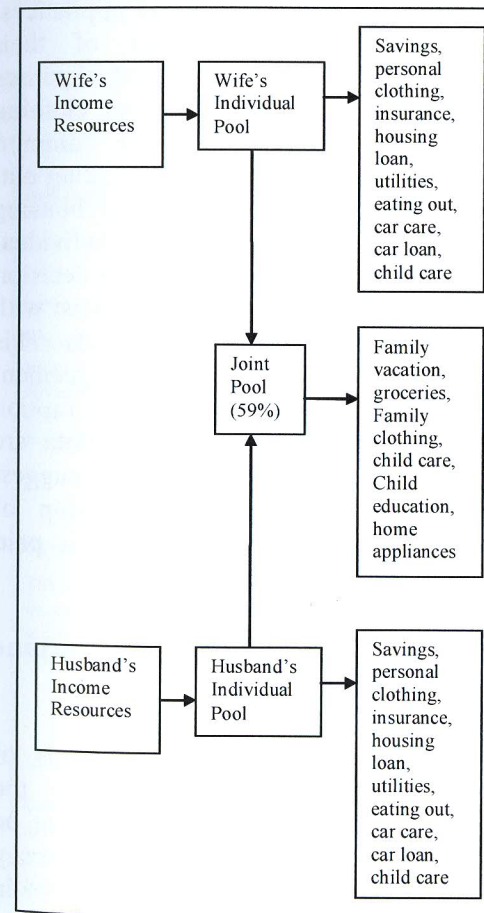
In the modified partial pool system (Figure 2), there is a pooling of all household income into a joint pool but some money is taken out, giving each spouse individual control over one's own pool with the rest staying in the joint pool. This system provides some independent money management where both spouses have some control to the remainder of the money after fulfilling the monthly family expenses. This forms a partial pooling system that falls between pooling and independent money management. For these couples, combining resources and drawing from the joint pool for personal spending was related to a commitment to sharing and strong ethic of togetherness.

Figure 2: Modified Partial Pool Model



In the multiple pool system (Figure 3), each spouse has full control of their money earned but takes out some money to add to the joint pool with the rest of their money under individual control. This pooling system is similar to an independent money management for each member with equal contribution or proportionate sum or some combinations of contribution agreed between spouses. This system provided some financial independence to each spouse characterized by some control over and access to one's own money autonomously from one's partner.

Figure 3: Multiple Partial Pool Model



In their money management, the respondents had full knowledge of their partner's income despite keeping their finances separate and making some form of proportional/agreed upon contribution to household and other family expenses. Some couples (39.3%) even agreed on 50/50 contribution of their income. Most of the couples (70.5%) had agreed on the contribution of their income into the joint pool (Table 4).

Table 4: Partial Multiple Pool Income Allocation

	YES (%)	NO (%)
Does your spouse know how much is your monthly salary?	73.8	8.2
Do you know how much your spouse is earning?	62.3	19.7
Is the contribution equal in amount for you and your spouse?	39.3	41.6
Do you and your spouse agree on the proportion of money that is contributed into the joint pool?	70.5	9.8

With reference to Table 5, in terms of salary contribution into the joint pool, 21.3% of the couples had agreed to an income allocation between the ranges of 21%-40% into the household's joint pool. Another 14.8% indicated a high contribution of 61%-80% of their income into the family's joint pool. A total of 14.8% made relatively low contribution of 1%-20% of their income into the joint pool. This implies that the emphasis on financial autonomy and individual ownership did not indicate a lack of commitment between them and their partner

but rather a valuing of independence and self reliance together with the commitment to the relationship.

Table 5: Percentage of Salary Contributed into Joint Pool

Percentage of Income Contribution	Frequency	Percent (%)
1-20	9	14.8
21-40	13	21.3
41-60	8	13.1
61-80	9	14.8
81-100	4	6.6
Total	43	70.5

Household Expenditure Patterns

Modified Pooling System

In the modified pool, household consumption decision from the joint pool are mainly for family vacations, groceries, child education, family clothing, eating out, car care and insurance. This system also implies there is a mutual agreement for joint leisure activities (eating out and family vacations) and joint household bills (groceries, child education, car care and insurance). Each spouse has access to the money from the joint pool to expend on savings, child care, personal clothing, housing loan, home appliances, utilities and car loan. Mundane money management and simple financial decision making for the family appear to be shared and negotiated between partners. This also implies there is financial interdependence between couples on individual activities such as purchase of

personal clothing, home appliances and personal savings whereas the remainders were for payments on housing loan, utilities, car loan and child care.

Multiple pooling system

In the multiple pooling system, household expenses was largely expended from the joint pool to which both members had paid an agreed upon proportionate contribution. Variations on this system included each partner taking responsibility for a particular area of expenditures. Expenses from the joint pool were mainly utilised for family vacations, groceries, family clothing, child education, child care and home appliances. Expenses from each spouse of their individual income pool included expenses such as their own savings, personal clothing and insurance. However, some common family expenses such as utilities, eating out, car care, car loan, childcare and housing loan were also taken from the individual pool. This household consumption decision and expenditure pattern vary in contrast with other studies of Western households. This implies there is some level of agreement between spouses on household consumption decision to share expenses since both are dual earners. This pattern seems to suggest where there is individual ownership of properties such as car or house; it is paid from the individual pool.

Money Management of Income Pooling Systems

Table 6 shows that the three forms of income pooling systems adopted by the respondents were significantly different on several characteristics of their money management patterns. Respondents differ in

their opinions on "Each spouse is aware of spending and money in the pool" ($F = 4.47, p = 0.016$) and "I need to consult spouse to make expenses from joint/ common pool" ($F = 3.67, p = 0.032$). Each spouse is aware of the spending and money in the multiple pool system (4.6) and common pool (4.09) but this was significantly less obvious in the modified pool system (3.56). In the multiple pool system, partners consulted each other to make household bills and leisure expenses from the joint pool. Mean score (4.40) was significantly higher for multiple pool compared to common pool (3.34) and modified pool (3.78).

Table 6: Money Management of Income Pools

		Mean	F-value	Sig.
Money well managed	Common pool	4.00	1.693	0.194
	Modified Pool	4.00		
	Multiple pool	4.60		
Spouse aware of spending & money in pool	Common pool	4.08	4.469	0.016 *
	Modified Pool	3.55		
	Multiple pool	4.60		
Take out money without referring	Common pool	3.94	1.013	0.370
	Modified Pool	3.66		
	Multiple pool	3.00		
Consult spouse to spend from pool	Common pool	3.33	3.677	0.032 *

Trust spouse to manage money	Modified Pool	3.77	0.056	0.945
	Multiple pool	4.40		
	Common pool	3.52		
Enough money in pool	Modified Pool	4.22	1.529	0.226
	Multiple pool	4.20		
	Common pool	4.25		
Agree amount to spend from pool	Modified Pool	4.60	2.065	0.137
	Multiple pool	4.00		
	Common pool	3.92		
Favoured pool	Modified Pool	4.40	1.090	0.344
	Multiple pool	3.78		
	Common pool	4.00		

* Test of significance based on One-way ANOVA, $p < 0.05$

Income Pooling Regimes and Ethnicity

With reference to Table 7, in terms of ethnicity, preference of income pooling decisions showed that most of the Indians (50%) subscribe to common pool decision and about one-third of the Chinese samples (33.3%) also use common pooling. A total of 26% of Malay households also allocate their income resources into a common pool (Table 3). Modified pool was found to be the most uncommon form of pooling decision (9.8%) among urban Malaysian households. Only a small number of households (7.4% Malays, 10% Chinese and

25% Indians) used the modified pool system and it was the least preferred form of income pooling. On the whole, the multiple pool system is the most popular with the majority of respondents using this system to allocate their income resources. Both the urban Malays samples (66.7%) and the Chinese (56.7%) resort to multiple income pooling decisions.

Table 7: Income Pool Decision by Race

	Race		
	Malays	Chinese	Indians
Common pool	25.9%	33.3%	50.0%
Modified Pool	7.4%	10.0%	25.0%
Multiple pool	66.7%	56.7%	25.0%
Total	100.0%	100.0%	100.0%

Conclusion

The present results suggest that there is no total rejection of income pooling hypothesis. Some households among urban Malaysians, although a minority, still adopt common pool system from the dual income families. In terms of expenditure items, some mundane family expenses such as family clothing, child care, insurance, child education, groceries and family education are taken from the common pool. However, nor is there full support of income pooling for all items. Private consumption of car loan, housing loan, personal savings, and personal clothing are under individual money management. However, there appears to be an overlap in terms of common expenses where individuals take

responsibility in certain household bills e.g. utilities, child care, and meals out. The findings is consistent with the study on Australian evidence that suggest rejection of income pooling for some items, notably housing and transport but not for clothing (Lancaster and Ray, 2002). It is also consistent with UK samples (Ward-Batts, 2008) on rejection of income pooling hypothesis. The present findings showed that in common pooling system, the wife had more autonomy in the in control of expenses. This supports the analysis found another study (Bonke and Poulsen, 2007) that the more women control the household's resources, the more income is pooled.

Implications and Future Research

This study has implications for financial decision making in multi-person households with important emphasis on financial autonomy, status and control of household members with different earning power. In addition, the money management strategies for income pooling systems from common to joint and partial pooling is important in terms of financial outcomes, financial independence and interdependence and the value of fairness and equality of contributions which exacerbates the money management complexities of particular income pooling systems. While this study is limited only to an exploratory level confined to a small number of household samples, it does provide some insight into the varied income pooling regimes among urban Malaysian households and the allocation of income for family expenses which are influenced by individual and household factors. It is hoped that future researchs will conduct in-depth

investigations on determinants of income pooling systems, identification of type of non-unitary model such as bargaining model or collective model typical of Malaysian households and explore intergenerational household effects.

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