The Family as an Economic Unit

Friedrich Baerwald
parents to concentrate not on the manifest injustice of the present arrange-
ment, but on its many sound features.

a. Religious school systems here operate largely in freedom, and
without undue interference from the state or the public school system.
Only the lunatic fringe, and not the American people generally, agitate
for the dissolution of all religious and private schools. There is freedom
for religious education; and that fact is more important than the further
fact that the price is very high.

b. The control of the religious school systems is where it belongs,
in the hands of religious, not public, authorities.

c. With the exception until last year of California, all property of
religious schools is tax exempt. This is an indirect subsidy of religious
education on the part of the American people generally, the non-religious
as well as the religious.

d. It is the mark of adults to be happy in choosing, not the ideally
best, but simply the lesser evil. To be the victim of injustice is certainly
a lesser evil than to disturb the public peace by untimely demands. We
knew well enough that the majority is often wrong when we agreed to live
by majority rule. But it is less often wrong than any other type of rule.
We must, with tolerance and good humor, live out the implications of our
commitment to this democracy even when it pinches.

THE FAMILY AS AN ECONOMIC UNIT

FRIEDRICH BAERWALD*

A LENGTHY discussion of the proposition that a family requires a
solid economic basis in order to carry out the natural functions
assigned to it would amount to belaboring the obvious. It is also evident
that whenever the drift of social and economic forces is leading even to
a partial breakup of this economic basis, the institution of the family is
in great peril. Consequently, an economic system which ceases to produce
conditions permitting families to continue living together as a unit, eco-

domic and otherwise, would fail to measure up to the requirements of the
natural law.

The social scientist cannot disregard the natural law because it is rooted
in the very dynamics of human nature. It is therefore at the core of the
social reality with which he has to deal. A proper understanding of
natural law rejects the widespread but nevertheless false idea, that its
concepts are extrinsic to the real structure of society. On the contrary,

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no understanding of this structure is possible without the realization of the requirements of natural law.

However, the social scientist in accepting the reality and the validity of the natural law is fully aware of the complexities, inconsistencies, and the precariousness of any actual situation with which he has to deal. The formulation of the postulates of natural law does not of itself provide a blueprint for meeting the ever changing problems of social situations; it establishes a framework within which solutions must be sought. This applies also to the modern problems arising from the change of the economic function of the family in contemporary urban and industrial society. The task of the social scientist is to analyze what these changes are and then to investigate how the lasting requirements of the natural law can be translated into workable arrangements in our present day economic setting.

A first glance at marriage in modern society reveals a strange paradox. While it is true that the proportion of broken homes and of divorce cases has seldom been higher than at present, it is also true that at mid-century the proportion of married people relative to the total population fourteen years and over in the United States, is substantially higher than it was before World War I. In 1910, 37.2% of males and females fourteen years and over were married, widowed or divorced. In 1950, the corresponding figure was 43.2%. Furthermore, if we compare the number of single males and females over fourteen years of age in the years 1940 and 1950, we find that despite the increase in the total population of the United States of about nineteen million people, the number of unmarried men declined by about three million and that of unmarried women by somewhat more than two million in the same period. This seems to indicate that while the breakup of families continues to occur with alarming frequency, the formation of families on the other side seems to have become easier with the result that there are fewer bachelors and spinsters in the United States now than in that period when the family bond was much stronger and divorce was not socially accepted by the majority of the population.

In order to explore the implications of these seemingly inconsistent trends, we will discuss the change in the structure of the economic basis of a majority of families; certain transformations in the sphere of private property; and lastly, recent experiences with attempts of remedial action designed to strengthen the weakening bond of the family.

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**Prior to the Industrial Revolution**

Just because natural law deals with the ever valid requirements of human conduct and social organization, it is well to consider it in the
historical perspective. This is particularly necessary in a time of rapid social change when we must learn to distinguish between specific historical realization of basic social institutions and their nature, regardless of the peculiar circumstances of a given period. However, it is necessary to clarify first the somewhat ambiguous term “economic unit.” People living together in a household and consuming all or part of a joint income are referred to in current statistical classifications as a spending unit. If the income is being produced and earned entirely outside the home, these families constitute economic units only in terms of consumption. But in the long experience of mankind the vast majority of families were also producer units, working together on the land and in small shops to earn the family income with their own productive assets. This was the case to such an extent that there has been an almost de facto identification between families and ownership of income-producing assets such as land or business capital. In this way, the fact was virtually forgotten that, while de jure—from the viewpoint of natural law—the family always requires economic resources to support it, the family is not of itself and by itself an economic unit of producers. But prior to the industrial revolution of the last two hundred years, most economic units in business and farming were centered around the family. Families were coextensive with productive economic units to such a degree that one did not seem to be viable without the other.

If we compare economic arrangements in different cultural settings we discover soon that despite many external variations, the feudal system in the rural economy and the guild system in the cities were widespread and continued in many parts of the world almost to the present time. The feudal system in particular can be considered as a grouping of families around a Lord of the Manor, with tenants having their own houses and some land to work for their own needs, and serfs living in huts or cottages without land of their own. The feudal economy, then, with all its rigid social stratification and labor services, was organized around families in the various status groups, all attached in various ways to the soil and living from it. This family character of the feudal economy was strengthened in the course of time and the more it became hereditary, the more it projected the relation between lords and tenants from one generation to the next. Under the guild system, the identification between a family and an economic unit was equally apparent. In the later Middle Ages of our civilization, only those could become masters who were freemen, owned land and a house in the city, where they would have their shop and their living quarters under the same roof.

Now this identification between family and productive economic unit in the pre-industrial era had definite implications concerning the formation of families. Usually, it made the founding of a family contingent on
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the possibility of securing or inheriting control over land or the possession of a workshop. In the early part of the history of Western civilization, when there was an internal frontier in all European countries and when cities were still in the process of formation, this economic basis for the formation of a family could be easily found by what we would call in American terms pioneer farming or settling in frontier towns.

But once all free land in Europe had been occupied towards the end of the Middle Ages and cities had a full complement of craftsmen, the close relationship between productive property and the family led to increasing difficulties. In many cases they were met for one generation or more by a dividing up of the original productive property among the several descendants of the original head of the family. This occurred among royal families as well as among peasants. In many parts of the world this led eventually to the development of extremely small sized farms which ceased to provide an adequate income. This can be noted in such diverse areas as parts of southern Germany and Japan. It is obvious, then, that the continuous division of hereditary property from one generation to the next cannot go on for any length of time. In the Hindu family system, a somewhat different solution was customary. Here, where the patriarchal pattern of the family continued much longer than in Europe, all fourth generation descendants had a claim to be supported from the family property if they were in need. We must consider, however, that due to the extremely early marriage age in India, coupled with an extremely low life expectancy, this had a completely different meaning than it would assume given current population trends. In our own civilization, difficulties in the formation of families become greater towards the end of the Middle Ages. The early poor law legislation in England makes it only too clear that in the sixteenth century there had developed a large floating rural population without a sound economic basis. In the suburbs, journeymen who had no chance of becoming masters in their own right, accumulated. This explains why prior to the industrial revolution the proportion of married people was much lower than it became later. Even today we can observe that in parts of the world which have either not been touched at all by modern industry, or are at the fringes of highly industrialized areas, the marriage age is far higher than it is in an industrial setting. For instance, in South African tribes where the prerequisite to marriage is the purchase of a given number of heads of cattle by the bridegroom, young men have to work in the compounds of gold mines for a considerable period of time before they qualify to enter into a marriage relationship. It is also well known that in rural sections of Ireland marriage of the son slated to take over the farm is often postponed until such time that the father is willing to turn over the property to him. The greater the emphasis on productive property as prerequisite for the formation of a family, the greater become the obstacles to early
marriage; and as a result the smaller is the percentage of married couples relative to the total population. This trend is also borne out by well known conditions south of the border of this country. On some West Indian islands the rate of legitimate marriage among agricultural laborers is appallingly low. However, it has been shown that once people with this background succeed in moving into cities and finding industrial employment, the proportion of marriages increases rapidly.

The preceding illustrations are not intended to develop an argument against productive property as an economic basis for the family. It still remains true that this type of economic foundation of family life is the most desirable arrangement and that it will make for a healthy development of all the functions of the family. However, it would be erroneous to conclude from this statement that this ideal requirement can be fulfilled at all times. Especially in our day and age, when the population trends are breaking through the former ceilings of a short life expectancy and when as a consequence the rate of growth of the world population is accelerating, the natural limitations of providing a productive economic basis for all families become only too apparent under these conditions. Let us, therefore, examine now the current relation between the family and productive economic property.

FAMILIES AND THE BUSINESS POPULATION OF THE UNITED STATES

The lessening significance of productive units as a basis for family life in the United States can be easily seen by glancing at some basic figures. Between 1940 and 1950, the number of households increased from 34.9 million to 42.5 million. At the same time, the number of farms decreased from about 6.1 million to 5.3 million. In 1950 when the population of the United States was twice as large as in 1900, there were 400,000 fewer farms than at the beginning of the century. If we turn from farming to business, we find that there are over 4.2 million businesses in operation at the present time. The overwhelming majority of these businesses are small in size and almost half of the more than 4,000,000 units are in retail trade, 740,000 others cover the field of the service industries, and 432,000 operate in contract construction. These three branches can be considered as predominantly family owned and operated. On the other hand, it must be remembered that the total number of business units mentioned above include more than 600,000 corporations. While the majority of these firms are small and many of them represent family enterprises, it is well known on the other hand that due to concentrations in basic industries and in many phases of retailing, a very small number of corporations have a very large share in the total business transactions of their field. With few exceptions, these large corporations have long ceased to be controlled by the families of their original founders. In fact, in the public relations
activities of some of them, it is stressed that share ownership is widely dispersed. Although the argument is virtually meaningless, it is often emphasized that the number of stockholders of certain corporations exceeds the sum total of employees.

These few data suffice to give some quantitative expression to the well-known fact, that as industrialization and concentration within the economy proceed, more and more families are being cut off from direct control, contact and ownership of productive economic units. The business of making a living is not only being transferred outside the home, but for the majority of families in this country at least it has to be carried out in the employ of others. As, economically speaking, the family is being reduced to a consumer unit, the home since it becomes merely a place for the joint consumption and use of material things and of mass-produced entertainment, has a tendency to become smaller. This has serious consequences for the structure of the contemporary family. It becomes predominantly a two-generation family no longer equipped to take care of elderly parents at home. Coupled with the simultaneous increase in longevity this has created novel social situations and problems. If we consider also that the average marriage age has dropped in recent years for females and males alike, we see the evolution of a society in this country in which various age groups are being increasingly separated from each other physically and emotionally. On the upper scales of the age structure, pensions and old age benefits are constantly being raised to take care of the economic consequences of this development. On the lower scales, the continued high levels of employment have lowered the age at which children can leave their families and start homes of their own. This means that even the pattern of the two-generation family has become quite transitory and that couples in their early middle age are reduced to conditions of living as a one-generation family. It is apparent, then, that the decline of the family as a productive economic unit has substantially narrowed the framework of effective family relations. The number of families relative to the total population has increased but simultaneously the range of family living has been contracting.

While the two-generation family of our industrial age is not in contradiction to the requirements of the natural law, there can be no doubt that much of the concern and uneasiness about the status of the institution of the family today is based on these structural changes of family life. It is, therefore, understandable that much thought is being given as to how this trend can be reversed. Obviously, this is a matter of public and private morality. But beyond that, questions of economic policies must be considered with great care. It is necessary to debate these problems without wishful thinking and in the cold light of an analysis of contemporary social and economic conditions. There can be no turning back to former
systems of economic organization which were to a much greater degree centered around families. This type of solution is ruled out already by one of the outstanding social phenomena of our period: the very rapid increase of the world population. If these multitudes are to survive, more efficient methods of production must be applied speedily in many parts of the world. Unfortunately, this often puts an end to tradition-bound, family-based economic units. Even in the United States, which is so far ahead in productivity, that improvements in farming techniques still keep production ahead of the prodigious birth rate in this country, the problem is not one of the revival of pre-industrial forms of economic organization but rather that of strengthening the economic basis of the family in a nation predominantly made up of wage and salary earners. It is advisable to analyze this situation in some detail in order to clarify the conditions under which remedial action has to be inaugurated.

**Shifts in the Structure and Meaning of Private Property**

An application of the principles of natural law to the institution of private property leads to some clear conclusions: every person has a right to own private property lawfully acquired. Such property cannot be taken away without due process and compensation. Furthermore, there are many authoritative statements stressing the significance of private property for maintaining personal dignity and independence. The great objective outlined in the Encyclical, *Quadragesimo Anno*, of "Uplifting the Proletariat" which means the deproletarization of the industrial workers is conceived primarily as enabling them to acquire some property. This is being achieved in this country to a large degree but in a manner perhaps not completely foreseen. Due to the steady improvement in the national income and its distribution, the ability of the lower and middle income groups in this country to acquire private property has increased tremendously. But the type of private property now being owned and continuously acquired is different from the type which was the economic basis of families in former times. The assets now held by families do not fall under the title of productive private property. They are largely items of use and consumption. For instance, home ownership reached an all time high in this century after World War II. The average American family still desires a house of their own and due to the assistance given to veterans, this goal is being reached for a large proportion of people. But these homes, while they are private property in the true sense of the word, do not contribute to the income of the family. In fact they require a continuous allocation of current earnings to pay for interest and amortization. If we also take into account the rapid depreciation in value of used houses, the cash value of this asset is not considerable. The one-family house so prevalent in this country, can contribute at least potentially to the main-
tenance and the strengthening of family living. It is, however, not the economic basis of the family unit. The same is true of the rapidly increasing number of other "hard goods" so typical of the American standard of living. Automobiles and the indispensable modern home furnishings have all the characteristics of private property. They can be sold in case of need. But they are not revenue-producing assets. Their possession establishes the material framework for the unfolding of the life of the family in well-equipped kitchens and before television sets; but all this, far from creating an economic unit, presupposes the existence of a continuous flow of income into the family which must always come from the outside. Private property has not only increased in these tangible goods. Over the last fifteen years there has been a vast rise in claims such as insurance policies of all descriptions and in the individual ownerships of Government bonds and savings accounts. This development has strengthened the economic basis of the family greatly. But it must be realized that in order to maintain these policies and these savings a steady income stream is required, otherwise these assets may soon be lost.

If we consider further the great concentration in our basic industries and businesses, we realize that private property of productive assets has lost to a great extent its direct connection with natural persons and families. We have an order of private property which is indeed the basis of our economic institutions. But this order is no longer the expression of the distribution of property of persons living in families. The former co-extensivity of private property and family organization does no longer exist. This has not changed the nature of private property. It has given it, however, a novel social significance, narrowing its scope in terms of productive assets while at the same time widening it in terms of the ownership of expensive items of use and consumption. Inasmuch as this type of private property requires a considerable proportion of current income to be retained in the family, we now come to the basic fact of our contemporary economic order which must be faced frankly: the maintenance of this system of private property depends largely on levels of employment and of income. We have been very fortunate in the last fifteen years in this respect and there are no signs of an immediate worsening of conditions on the labor market. Furthermore, the realization is widespread, that money incomes should be kept stable or even increasing with the rise in the productivity of the economy. But all this should not induce us to develop a sense of overconfidence and false security. Should full employment cease to be the predominant pattern of our economic condition, much more is at stake than the jobs of a large number of heads of families. Our current system of private property, itself, could be weakened tremendously in such an economic downward trend.

The fact that the greater part of the national income is being received
in the form of wages and salaries has long been established. In 1929, 55.5% of the private national income consisted of compensation of employees. In 1950, the corresponding figure was 60.3%. It is noteworthy, however, that most of the increase in this percentage share is due to a rise in such supplements to wages and salaries as pension and welfare benefits. While the proportion of wages and salaries in the national income was trending up slightly in the period under review, the share of such proprietary incomes as rents and dividends decreased sharply between 1929 and 1950. All this gives additional emphasis to the fact that productive private property has ceased to be the preeminent economic basis of the family unit.

The problem therefore arises—How can the economic basis of the family be preserved and strengthened in a social setting in which the structure and meaning of private property have changed considerably compared to the preceding phases of economic development? Before we outline briefly some approaches to this problem made in other countries, it is advisable to survey recent changes in the distribution of income in this country.

Let us go back to the year 1929. At that time, when the post-World War I prosperity was coming to an end, more than 60% of all spending units had incomes of less than $2000 a year. Only 6.4% of all families had an income of $5000.1 The majority of American families was in the lowest income groups. On the other hand, an income of at least $2000 was considered necessary at that time to provide for an adequate minimum standard of living for a family of four. It was clear, then, that in the interwar period a distressingly large number of families in this country did not have a living wage, that is to say a wage taking care of the needs of the wage and salary earner and his family. The war-induced changes in the American economy have brought about a decisive turn for the better. Whereas prior to World War II the greatest concentration of family units was to be found in the three lowest income groups, we now find that there are more family units in the middle groups up to $7500 than in the lower categories up to $3000 a year. While this study of income distribution was made prior to the impact of the partial return to a defense economy in 1950, more recent information indicates that this remarkable improvement in the pattern of income distribution has been maintained. In 1952, the annual dollar incomes of skilled and semi-skilled workers were $4200 per annum; clerical and sales employees fared slightly worse with $4180.2 It is well to realize that these are figures for the nation as a whole in which the considerable differentials in earnings in

the various regions of the country are being evened out. Even after taking fully into account the decrease in the purchasing power of the dollar, these figures indicate a substantial net gain in real earnings of significant sectors of American families. These developments must be borne in mind as we enter into a consideration of the system of family allowances which has been introduced in so many countries, including our neighbor to the north, the Dominion of Canada.

THE LIVING WAGE AND THE SYSTEM OF FAMILY ALLOWANCES

The great social Encyclicals are quite explicit in the matter of a living wage: it has to take into account not only the needs of the individual wage earner but also those of his family. It follows that the earnings of workers should vary according to the size of their families and that those with no or only small family responsibilities should have a somewhat smaller income than heads of large families. While this principle is entirely clear, there remain practical problems to be resolved in carrying it out.

A survey of the family allowances introduced in a large number of countries shows that the family status of the worker is not considered in the wage rates but is being taken into account in a graduated supplementary income which is paid to families not by the employer, but by agencies of government. For all practical purposes, the wage earner with a large family will receive a larger income, but this does not increase the cost of his employment. In fact, it is hard to see how the differences in the size of the family could be worked into the wage structure of private industry. If that were done, safeguards would have to be created by legislation prohibiting discrimination in employment against workers with large families. This would result in the additional regulation and regimentation of industry that almost everyone desires to avoid.

The objective of a family wage can be achieved more effectively by making the allowances independent of a specific employment relationship. It is also important to note that while the need for such a system is obviously greatest in the lowest income groups, almost everywhere family allowances are paid to all regardless of the actual income of the family. This was done, for instance, in Great Britain for two important reasons. First, the general payment of such allowances will remove from such a system all connotations of charity or public assistance procedures. There is no mean test and only the number of children is taken into account. Secondly, this method is intended to indicate that the community is in favor of and actually desires larger families.

Actually, in most Western European countries, especially France and

Great Britain, family allowances were introduced not so much for strictly economic as for demographic reasons. The main intention was to reverse the alarming decline in the birth rate which existed prior to the outbreak of World War II. Sufficient time has now elapsed to permit at least the tentative conclusion that this objective of the family allowance system has been reached in these two countries. Especially the birth rate in France, which now lies above the rates in Italy and in the German Federal Republic, seems to indicate that the desired result has been achieved.

The high birth rate in the United States seems to rule out family allowances on strictly demographic grounds. But this is, after all, only one side of the question. There is also the economic side to be considered. We have stressed the great improvement in the income distribution in this country. Yet it remains true even today, that the size of the family seems to increase as we move down on the income scale.\(^4\) Whereas the median income of families with one child under 18 was $4,109 in 1952, the corresponding figure for families with five children under 18 was $3,206. In interpreting these data, it is well to bear in mind that they represent national averages and include, therefore, urban and rural families whose living conditions and cash income vary widely. Furthermore, the higher income of families with fewer children under 18 years of age is attributable to some extent to the fact, that wage and salary earners usually do not reach the top of their earning power until their early middle age. As a result of the prevalence of early marriage in this country, the number of children under 18 is bound to be rather small once parents have reached the mid-forties of their lives.

This condition is, however, an argument for family allowances in this country. The largest burden of rearing children seems to come here before the earnings of the head of the family reach a maximum. The large family is therefore at an economic disadvantage compared to a smaller one precisely during the most crucial period of raising children. On the other hand, since a case for family allowances cannot really be advanced in this country on demographic grounds but rather for reasons of economics and of social justice, it does not seem necessary to adopt the very far reaching British scheme of granting such allowances for each child after the first. It might be sufficient to consider only the third and the following children of a family.\(^5\)

While there is no need to copy the British system with regard to the

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5. Such a system has also been proposed in the German Federal Republic. Since in that country the population outlook is very discouraging, what seems to be adequate for the United States is patently insufficient in Germany.
number of children covered, it would be advisable to follow it at least in one important aspect, its all-inclusiveness. The criterion should be the size of the family, not its income. Apart from the considerations of social psychology which we already mentioned, the experience with the rigid income ceilings in public housing should prevent us from repeating some of the errors and inflexibilities of administration in a system of family allowances. These payments could very well be administered by the several states with Congress providing the legislative framework and the Federal government sharing in the expenses of the scheme on a per capita basis. Since no mean test will be applied, family allowances would have a structure entirely different from that of Aid to Dependent Children. The program should if possible not be administered by state welfare departments. While these allowances are required by social justice, they ought not to come under the general heading of welfare programs. Furthermore, like in England, the system ought to be financed out of general tax revenue. The French system of special funds set up for various industries and professions, which has also been proposed in Western Germany, presents considerable administrative complexities and might enahance further the already alarming rigidity and stratification of the occupational structure in this country.

Family allowances in themselves are not enough to deal with the all-important problem of providing an adequate economic basis for sound family living in our age of industrialization. Here a great challenge presents itself for the building industry. The early post-World War II type of family home in the price range feasible for the great majority of families simply was too small for a growing family. At best, it provided a temporary shelter for young people just starting a family. It seems that now this is being recognized and that larger homes are supplied at relatively moderate prices. The improved credit facilities for non-veterans introduced by the Federal Housing Act of 1954 are a step in the right direction. All efforts must be made to create again some of the spaciousness so typical of the American home of several decades ago. This is compatible with contemporary design. Due consideration must also be given to maintaining a sound population structure in our urban centers, and to reverse the now discernible trend which will make them the residences only of the very rich and the very poor. This could be done by further developing programs for middle income housing within the cities.

This discussion of economic trends and programs should not for one moment becloud the fact that we are dealing here with a moral issue. No amount of allowances and credit facilities can strengthen the institution of the family if its moral basis is being weakened and undermined. The demands of the natural law must be considered in the deliberations of legislators and in the operations of social agencies. But all these actions