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Personal Economic Indicator and Its Distribution on Household Consumption Level

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Abstract

Economic progress has changed views of people in interpreting welfare and this affects the level of household consumption expenditure. An analysis of this issue is important to do so that the community may encourage the utilization and distribution of community welfare to be wiser and balanced in order to achieve the properness and appropriateness of welfare programs management with the development goals. **Purpose**: This study aims to analyze the impact of personal income, experience on lifestyle, and its distribution to household consumption of Makassar City Industrial workers. **Research Design, Data, and Methodology**: Data collection in this study was carried out by distributing questionnaires to 100 respondents in Makassar City, South Sulawesi. Partial Least Square (PLS) analysis was used as data analysis. **Result:** This study indicated income has a positive and significant effect on lifestyle, while experience has no significant effect on lifestyle, and family member has a positive and significant effect on lifestyle. This study also indicated that lifestyle has a significant effect on Household Consumption. **Conclusion:** Consumption patterns are influenced by many factors, so people need to be wise in regulating consumption patterns and managing the distribution of their economic resources in order to achieve balance of economic in family.

Keywords : Economic Indicator, Distribution, Household Consumption

JEL Classification Code : D14, D31, D33

1. Introduction

Consumption is important for human life from birth until death, hence its problems should be analyzed in economic studies throughout the ages. The empirical philosophy of consumption was defined by (Schumpeter & Keynes, 1936) in his book "The General Theory of Employment, Interest and Money," which described the theory of the relationship between income and consumption. In general, it explained that income influences a country's consumption level (Schumpeter & Keynes, 1936).

Fischer (2003) offered an intertemporal choice, which created a model for economists to analyze consumers' rationality in future expectations and intertemporal choices for consuming and saving. This theory explained that consumption is influenced by current, previous, and future income, unlike (Schumpeter & Keynes, 1936), which stated that current consumption is influenced by current income.

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Modigliani and Brumberg (2005) solved the contradiction between (Schumpeter & Keynes, 1936) consumption function and the observed data by adding life cycle assumptions in (Fischer's, 2003) theoretical model. Furthermore, savings help households manage future problems due to income changes and decline. This life cycle assumption originated from retirement based on an individual's lifetime disposable income and health.

Following Fisher's Model and PIH (Permanent Income Hypothesis), Hall (1978) proposed the Random-Walk Hypothesis, assuming that the society has rational expectations based on the available information to forecast variables like income. Considering that PIH is true and consumers have rational expectations, consumption follows a random walk with unpredictable changes.

Household consumption indicates the level of community welfare in a region. The household consumption consisting of food and non-food in developed countries is stagnant and does not increase compared to developing countries. Furthermore, Törmälehto, Kannas, and Säylä, (2013) found a relatively significant relationship between household consumption and better life.

People have a consumptive behavior in developing countries than developed due to low price levels, several choices, and psychological impacts, such as low education level, knowledge, chain information, and the desire to have something owned by others in the society (Bagozzi, 2006; Disdier & Marette, 2012). Therefore, household expenditure is influenced by psychological problems and individual characteristics. This was supported by (Liu, Lu, Wang, & Long, 2021), which proved that individual characteristics affect household consumption.

2. Literature Review

2.1. Effects of Income on Household Consumption Expenditure

Keynes emphasized that households' consumption expenditure varies directly with disposable income due to economic matters. The relationship between consumption and income is called the consumption function, written with the following (Herispon, 2018).

$$Y = a + b\ Yd\ (a > 0, 0 < b < 1)$$

Where C and Yd are consumption and real income modifiers, respectively. Parameter 'a' shows the amount of autonomous consumption expenditure, namely expenditure based on income, but is influenced by factors outside income, such as economic expectations, availability, terms of credit, and expected standard of living. Furthermore, 'b' describes the marginal propensity to consume as the ratio between the change in consumption with a change in income or $b = MPC = C/\Delta Yd$, with a value between 0 and 1. The equation implies that at low-income levels, consumption exceeds income and vice versa. This was in line with Keynes' basic psychological consumption law, which states that increased income is followed by increases consumption in a small amount.

Household consumption decisions are influenced by long and short-term behavior. Furthermore, long-term decisions are essential in economic growth, and short-term ones determine aggregate demand. Higher-income increases household consumption by a lower amount than the prevailing income increase (Melicharová, 2006).

All income might be used for consumption at a lower income level, reducing the savings to zero. This condition is worse when consumption is financed from wealth or past income, namely, dissaving or scraping savings.

2.2. Individual Characteristics and Income

Conditions like age influences peoples' actions, where older ones have better jobs than the immature. Similarly, well-educated people have a greater chance of finding a job and achieving duties, while happy ones take meaningful actions which increase their income (Carroll, 2001; Weber, 2006; Becker & Murphy, 2007; Hagerty & Veenhoven, 2003) argued that income brought happiness and assumed the rich are happier than the poor. This was supported by Cui, Wu, and Chen, (2016), which stated that increased absolute income increases happiness for individuals and the country.

Income is influenced by gender, dominated by working men, especially in countries that view them responsible for household finances. Therefore, they are more dominant in increasing income than women. (Gopaldas & Fischer, 2012).

Efforts to increase income are motivated by the number of household members. Therefore, those with more dependents are motivated to increase their income, affecting the pattern of household consumption expenditure (Akee, Copeland, Keeler, Angold, & Costello, 2010; Auzina & Počs, 2010).

2.3. LifeStyle

Lifestyle describes the behavior pattern that distinguishes people as a set of practices and attitudes in a given context. This was in line with (Wilska, 2002), which stated that lifestyle is a personal identity. Therefore, it is described by an individual's behavior, such as obtaining or utilizing goods and services. This is categorized into knowledge, attitudes, and actions. Furthermore, it is created by the influence of various things, such as increasing

financial capability, which increases one's income and affects lifestyle changes (Tufail, Humayon, Shahid, & Murtza, 2018). Therefore, it is influenced by various social symptoms and affects a person's and family's consumption level.

Jin, Park, and Youn (2017) stated that a department store is affected by consumer needs from increased income and lifestyle. Some people imitate others' lifestyles, such as celebrities' symbolizing social stability shown on TV or other media. This affects the consumptive lifestyle and personal and household consumption (Batshugar & Kim, 2016).

Lifestyle also increases the use of social media technology, which is used massively as a transaction media which then increases spending on transaction tools, this also increases household spending (Hidayat, Latief, Widiawati, Asbara, & Zaeni, 2021).

2.4. Consumption

Consumption is a human activity of using goods or services to meet needs. The quality and quantity of goods or services reflect the consumer's prosperity; higher quality and quantity increase prosperity. Furthermore, the consumption goal is to maximize the satisfaction of goods or services. Satisfaction increases individuals' demand for certain commodities, where increased units of a consumed commodity per time increase the total utility received. On the other hand, Samuelson argued that increased prices with constant nominal income decrease real income, reducing the consumers' purchases of all goods.

Consumption is the use of goods and services that directly meet human needs. Additionally, it shows the household expenditures on final goods and services to fulfill workers' needs. Household income is received from labor and capital, determining income and savings by the amount left after paying government tax.

2.5. The Influence of Income, Experience and Family Members on Lifestyle

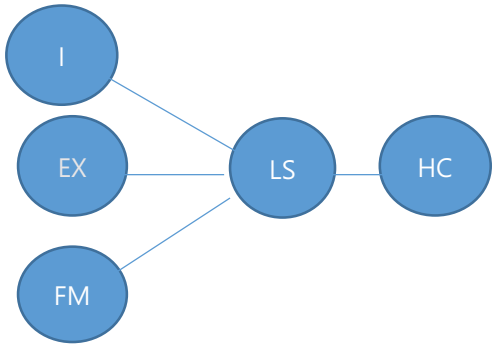
The income of people with family responsibilities impacts household consumption. Consumption increases with higher income, increasing household spending and affecting lifestyle (Auzina & Počs, 2010).

Households with low wages or income spend most of it on basic needs. On the other hand, high-income households spend a small part of the total expenditure on basic needs. Based on this, income affects lifestyle and household spending.

A person's experience influences their thinking to try new things in the current economic conditions. Furthermore, knowledge provides experiences that promote one's lifestyle (Amornrat, 2013). Easier communication and places that provide experience stimulate a lifestyle change and affect consumption expenditure.

The statements above are reinforced by studies that found consumer experience affects consumer decisions to buy or repurchase (Mustikasari, Krisnawati, & Sutrisno, 2021). Additionally, increasing family members affect lifestyle because one's previous perspective affects their appearance and level of household consumption (Young & Hamdok, 1994; Akee et al., 2010; Auzina & Počs, 2010).

This shows that income, experience, and family influence public consumption expenditure for non-durable and durable goods and services. Therefore, this facilitated the development of the conceptual framework and hypotheses as follows:



Note: I: Income, FM: Family Member, EX: Experience, HC: Household Consumption

Figure 1: Research Conceptual Framework

H1: Consumption changes are influenced by economic stability, such as increased income. The income effect is based on changes in the consumption of goods based on income. This means that consumers increase spending with increased income, and vice versa. However, this effect does not dictate the kind of goods purchased. Based on this, this study stated that income directly influences household consumption expenditures in Makassar City.

H2: Experience is an important asset that helps people perform their job. Furthermore, good experience increases one's achievements, affecting income when associated with a job. Alsulami (2018) proved the relationship between education and experience on wages, while Hemaid found that in Saudi Arabia, higher education level and experience increase income. Therefore, work experience positively affects income levels.

H3: The number of dependent family members encourages one to find a decent income to meet all needs.

Therefore, burdened individuals maximize their efforts to find a decent and sufficient income. Young and Hamdok (1994), Akee et al. (2010), and Auzina and Počs (2010) stated that the amount of burden affects expenses, motivating one to have sufficient income. Therefore, the total number of burdens positively affects income.

H4: Era development and modernization have changed people's lifestyle as increasingly consumptive. Modernization increases lifestyles, which is also influenced by increased income, family conditions, and experiences. Furthermore, lifestyle strongly influences consumption (Géci, Krivošíková, Nagyová, & Cagáňová, 2020). This shows that other factors influence lifestyle, including income, family members, and experience.

H5: Hypothesis 4 showed that lifestyle affects household consumption levels.

3. Research Design and Methodology

3.1. Samples

The study population included residents working in companies in Makassar, South Sulawesi, selecting those in large companies to represent household consumption patterns and with a pluralistic society following the proposed variables, especially to determine their educational background, work experience, age, and responsibilities.

The large population was sampled using the Hair technique, (Hair, Sarstedt, Hopkins, & Kuppelwieser, 2014) which stated that factor analysis should not be below 50 but above 100. As a general rule, the sample minimum should be at least 5 times and is more acceptable when it is 10 times the number of variables. This study used 14 indicators with at least 70 respondents, obtained through a purposive sample, where 99 met the requirements as the minimum based on Hair.

The sample demographic was described as follows:

Respondents were dominated by 76 or 77% male, with 47 or 48% aged between 31 and 40. The average work experience was 11 to 15 years, while 46 or 47% had established jobs and sufficient work experience. These demographics are shown in the following table.

Table 1: Respondent Demography

Attributes	Item	F	%
Gender	Men	76	77%
	Women	23	23%
Age (years)	25-30 year	21	21%
	31-40 year	47	48%
	>41 year	31	32%
Work Experience	1 – 5 Years	11	11%
	6 -10 Years	17	17%
	11 – 15 Years	46	47%
	16 – 20 Years	20	20%
	21 – 25 Years	5	5%
Monthly Income (in a million rupiahs)	< 5 million	28	28%
	5 – 15 million	48	49%
	. >15 million	23	23%

The calculations showed a total sample of 99.

3.2. Measurement

Reliability and validity tests were conducted to ensure that the questionnaire was reliable and valid as a data collection tool. The stages of data analysis were based on the standards of Partial Least Square (PLS), namely algorithm analysis, to measure the feasibility of sizes on dimensions, such as validity and reliability (AVE, Cronbach alpha, and Critical Ratio). The Bootstrapping analysis determined the coefficient value between variables and tested the hypotheses and significance of the influence between variables.

Table 2: Research Questionnaire Structure Guide

Variable	Item Questionnaire		Major References
Income	Sufficient permanent income	I1	Melicharová (2006)
	Ability to Earn Additional Income	I2	
	Adequacy of income after deducting fixed expenses	I3	
Experience	Knowledge and skills level	FM1	Alsulami, (2018)
	Self-confidence in the ability to generate value	FM2	
Family Member	Decisions based on experience	EX1	Akee et al. (2010) (Auzina & Počs, 2010)
	Attention to the welfare of all family members	EX2	
	Consumption decisions based on the number of dependents	EX3	
LifeStyle	Community push	LS1	Wilska (2002) Géci, A., Géci et al. (2020)
	Self-actualization needs in the association	LS2	
	Personal concept and identity	LS3	
Household Consumption	Fulfillment of basic needs	HC1	Wilska (2002)
	Health care	HC2	
	Meeting the needs of togetherness with family	HC3	

4. Results & Discussion

4.1. Statistics Test Results

The PLS software data analysis showed that all loading factors had a value of (λ)> 0.5. Therefore, these results showed that the data could be used in further analysis.

The good fit model showed that the data was valid, with a value above 0.7. The AVE value indicated the data quality required for the good fit above 0.5. Furthermore, the reliability analysis ensured that the data was reliable, indicated by the Cronbach alpha value above 0.6. The composite reliability value determined the data quality testing above 0.7 for all indicators. Table 3 shows the data analysis.

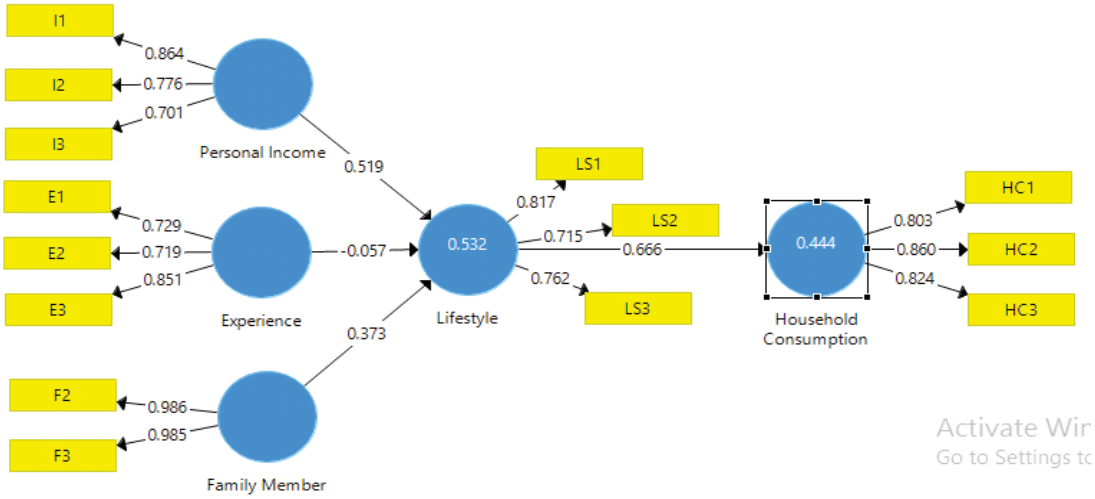


Figure 2: PLS Analysis

Table 3: The Good of Fit Model

Variable	Items	Validity	AVE	Composite Reliability	Cronbach Alfa
Income	I1 I2 !3	0.864 0.776 0.701	0.614	0.825	0.681
Experience	E1 E2 E3	0.729 0.719 0.851	0.591	0.812	0.664
Family Member	F1 F2	0.986 0.985	0.971	0.985	0.970
Lifestyle	LS1 LS2 LS3	0.817 0.715 0.762	0.587	0.809	0.646
Household Consumption	HC1 HC2 HC3	0.803 0.860 0.824	0.688	0.869	0.773

4.2. Hypothesis Result

Table 4 shows the hypothesis testing for each latent variable relationship, indicating that income positively and significantly affects lifestyle (sig. p-value 0.000<0.05), hence hypothesis H1 is accepted. Subsequently, experience insignificantly affected lifestyle (sig. p-value 0.639>0.05), implying hypothesis H2 is rejected. Family members significantly affect lifestyle (p-value 0.000<0.05) implying hypothesis H3 is accepted. Furthermore, lifestyle positively and significantly affects household consumption (sig. p-value 0.000<0.05), leading to the acceptance of hypothesis H4.

Table 4: Hypothesis Result

	Sample Mean	Std. Deviation	T Statistic	P. Value
The Influence of Income on Lifestyle	0.519	0.090	5.770	0.000
The Influence of Experience on Lifestyle	0.057	0.121	0,469	0.639
The Influence of Family Members on Lifestyle	0.373	0.091	4.115	0.000
The Influence of Lifestyle on Household Consumption	0.666	0.059	11.219	0.000

5. Discussion

Income is a reward for sacrificed work, motivating a person to distribute it and fulfill needs. Generally, everyone has an unlimited desire with limited resources, distributing income to meet needs based on their resources (Samuelson). The law states that high income increases consumption, fulfilling several postponed needs over time. The increase in consumption is influenced by increased income and other factors, including the changing times that improve lifestyle and experiences. Economic growth increases welfare and modernization, shifting consumption behavior patterns from a traditional to modern consumptive society.

Changing times help people learn and make experiences, determining their consumption patterns. However, this study proved that experience does not strongly influence consumption as it is naturally incidental based on needs and desires. Furthermore, the number of family members determines individual and family consumption activities. This considers the family as a burden that affects overall consumption activities.

5.1. Practical Implication

Practically, the community ought to understand their income which normatively requires wisdom in meeting all needs, especially for married people whose consumption decisions consider all family needs. Modern life pattern is similar to consumptive society needs, which requires maturity to prevent the community welfare from unmeasured actions, compulsively increasing needs. Therefore, income distribution should be managed to balance social and family life.

5.2. Theoretical Implication

The findings supported the economic theory that increasing income increases needs. However, future studies on economic theory should be expanded with implications, especially on the achievement of welfare in socio-economic problems and economic ethics, to offer a broader perspective through a qualitative approach.

6. Conclusion

The community should consider factors influencing increased consumption patterns to wisely utilize and distribute their economic resources to balance life with sustainable happiness and prosperity. The pattern of consumptive society is indicated by increased consumption with income increase. Unfixed income fluctuates excess and limited resources, requiring people to reserve income and achieve equilibrium.

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