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Organization of Financial Management in a Household

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Abstract: Development of economics and culture, progress in science and technology combined with other changes in the life of the contemporary society make the population to adapt to the new style of life, new models of consuming and models of financial relations in the structure of households. Financial relations, which are set up between members of households and which are connected with control of received money as well as with its allocation and reallocation, differ depending on the organization of financial management and the accepted model of managing the family budget. At the study of the models of household budget management, it is necessary to take into account the personal behavior factor, the contribution and the opinion of each member of the family and not to use recommended joint collective decisions as a guide. At forming and ranking incentives of satisfaction of demands of the individuals who live within the household, family plays the main and decisive role and is one of the most important objects of the study.

Key words: Household · Family · Budget management models · Cash funds · Economic status

INTRODUCTION

Lately, various theories gain popularity, which are connected with the discussion of models of allocation and utilization of household budget means and delineation of borders of the family sovereignty.

Representatives of various scientific fields consider the issues of organization of financial behavior of households, their income and expenditures, the content and the structure of consumption, etc.

Some periodicals introduced special sections and computer software, which offer various models of intra-familial financial management with recommendations on household management and efficient and proper utilization of the family budget, etc.

In publications dedicated to the issues of household management, which are offered to the readers, topics that cover a wide range of subjects are suggested, but the issues related to the peculiarities of establishing financial relations within a household, among its family members and people who permanently live with them are often omitted.

At that, the financial behavior of all individuals who are members of the household is analyzed as a whole, even when only one person, the main breadwinner, takes decisions.

Along with that, economic motives of all family members that encourage them to participate in the joint management of the household stay beyond the research, yet it is the main cause of those contradictions in financial interrelations, which are mostly connected with satisfaction of personal needs.

At the same time, a household cannot be treated as a homogeneous structure, in which not only individual interests of each member are satisfied, but also group interests of all families, which are its members; and the finance management must be considered from a wider perspective than just a calculation of income and expenditures of the household.

According to V. Zelizer, since the end of XIX century, the financial problem of US families became one of the top stories for magazines and newspapers; the flow of letters to publishers as well as the number of columns with various advices increased and this topic was actively discussed at meetings of women's clubs [1].

Proper management and understanding of appropriate allocation of free financial resources allowed to view the family budget from another point and became the basis for organization of optimal cash flows both within households and outside them.

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Every society has its own cultural values and traditions, which are connected with the load allocation between men and women in a family, their external labor activity and distribution of responsibility for maintaining life-sustaining activity of the household between its members [2].

Financial policy of a family can also be correlated with the existing traditional or newly appeared modern models of its organization, based on various forms of family budget management and limited in their range by economic interrelations of individual members of a household.

Models of household solutions include not only the general, national concept, which allows to estimate the resource flow and the values of economic growth, but also the analysis of internal capacities, which evaluates the different extent of independence of a household from the dominant economy [3].

Research works dedicated to studying models of family finance management have revealed a large variety of used forms and types: they include both the common budget model, which unites financial resources of all members of a family and independent individual budgets model.

Financial relations set up between members of households and connected with control of incoming money as well as with its allocation and reallocation, differ depending on the accepted model of family budget management and the extent of influence on its formation.

If we consider the budget of a family, it will be more correct to concern a system of budgets within a unified family budget, because every member of the family accounts his/her income and expenses individually, regardless what model of budget management is typical for the particular household or whether it exists at all.

The study of the models of household budget management requires taking into account the personal behavior factor, the contribution and opinion of each member of the family and not using recommended joint collective decisions as a guide.

The reason is that incentives of personal individual finance formation can differ from the household's goals of common welfare, especially when it is related to load distribution inside the family.

Some researchers believe that taking decisions on allocation of a family (household) budget is the result of uniting various preferences of its members and focuses on the processes, which take place during their implementation:

- Based on a consensus;
- Based on the method adopted in cooperatives;
- Based on the market balance inside a household, etc. [4; 5].

Some researchers break up the processes of decision-making in a household into unitary and collective models.

Having selected the unitary model, a household is considered a single entity, which takes coordinated decisions on allocation and management of its budget [6].

Yet, according to S. Zagorodnikov, various funds can be formed within a household's budget:

- *Individual fund,* meant for individual family members and used for purchasing various commodities;
- *Mutual fund,* dedicated for purchasing goods of common use;
- *Fund of accumulation and provisioning* (reserve fund), used for future capital investments or formation of initial capital for commercial activity [7].

Along with that, the mentioned differences can be ignored on the macroeconomic scale.

Collective models of family budget allocation can be cooperative and non-cooperative and treat a household as a joint venture and the process of decision-making as optimization of preferences caused by the marriage to both partners; at that, the only restriction is the total income of the spouses [8, 9].

At the same time, R. Pollak noticed that up to now economists have been dealing only with three models describing the processes of resource and income allocation in a family.

They are the model of family consensus by Samuelson, the altruistic model by Becker and the modern negotiation models of a family. Despite the fact that they all are focused on relationships between the husband and the wife, the grounds for studying the problem of parents and children relations are also created within their framework [10].

The formation of financial relations inside a household concerns a wide range of issues at the discussion and allocation of the roles of participation of all family members in the formation of the family's financial welfare.

Though income calculation is quite simple for understanding, provided all working family members contribute all or part of their financial resources in the household budget, there may be many issues when the expenditures of the budget are formed.

Who and how is to allocate money in a family? In the case when a common budget is used at managing the finance of a household, who will manage it? Should it be someone of the family members or are all of them entitled depending on the size of his contribution with respect to some his own individual part?

Who is to decide how much money to be spent for purchasing groceries and consumer goods? The wife, because she is believed to be the domestic goddess, or the husband, as he is the breadwinner?

According to Pfau-Effinger, currently, there are at least two conventional models that correspond to the way of life in XX century and other three contemporary models of a postindustrial society:

- The family economy model;
- The model of the husband being the breadwinner and the wife being the domestic goddess;
- The model of the husband being the breadwinner with partial involvement of the wife;
- The model of two breadwinners, which can have various versions;
- The model of two breadwinners with partial involvement of both spouses [2].

Blumberg R. and M. Coleman, based on their research, concluded that the prevailing income of a spouse, the ratio of their incomes and the extent of independence of their budgets from each other are the main factors for assignment of economic roles in a family [11].

Pahl J. suggested the following forms of managing family finance, which are based on identifying responsibility spheres in its management taking into account the sexes of the spouses:

"The *Female Whole Wage System,* in which the wife assumes the full scope of finance management in the family.

The *Male Whole Wage System,* in which the husband assumes the full control of finance in the family, providing all the things needed by the family members.

The *Housekeeping Allowance System,* which assumes allocation of responsibilities between the spouses at forming the family budget.

The *Independent Management System,* which takes place when both spouses have independent budgets and do not pretend for the whole family money.

The *Pooling System* is used when both spouses are equally entitled to use the common finance of the family [12].

Historically, it remained common for married women and expectant mothers to exit the labour market, with their return uncertain. At that time, many European countries retained classical male breadwinner models, wherein the structure of the labour market and the institutions and policies supporting it assumed a man was the primary income provider for a family, or main ‘breadwinner’ and women were primarily caregivers or homemakers [13].

It is necessary to note that the transactional approach extends the concept of the structure and organization of a household, within which a family is considered as a managed structure represented by its members who have their own preferences and economic interests.

The past few generations have seen a profound change in the way we think about family, ushering in a broader idea of what the term really means. In fact, 72 percent of adults now agree that there is more than one way to define the term family and 99 percent say families have changed compared to a generation ago, according to a Harris Interactive poll commissioned by REDBOOK and Lawyers.com. But at the same time we are struggling to accept this transformation: 70 percent of those polled say families have changed for the worse, even as much of family life has changed for the better [14].

To summarize the existing models of the household budget management, we can identify three most popular models of organizing financial management:

- Common family budget. In this case, all financial resources that belong to both spouses are grossed up and expended jointly.
- Two personal budgets. Each spouse holds his/her own budget and pays his/her personal expenses on his /her own account.
- Three budgets (the family and personal budgets). The most optimal option: Each spouse has his/her personal budget and there is a common budget of both spouses related to household management (every one of them contributes predetermined amount in the family budget).

It is a commonly accepted fact that men and women contribute in different amounts in the organization of family economy and household management. At the same time, the types and forms of household activity change as the society develops; the gender difference in the attitude to family budget management and role allocation within a family change, too.

Expenses for household management are not always expressed in money terms, but the housing labor cannot be treated as unmeasurable.

Research by I. Kozina confirmed the point of view with regard to conventional understanding of woman's destination, which lies very deep in the minds of both men and women: the man is the breadwinner for the family and the woman's function is the serving family members, which corresponds to the nature of sexes and gender differences [15].

Any society is loaded with ideological dogmas and convictions, for example, that women must keep the house and men must earn money.

The main breadwinners in a family have more authority to do what they want and to influence on decisions; this refers to both spouses and children. Those who earn more are less engaged in the housekeeping work. Elderly parents in exchange of some support do what they can, for example, they watch after children. This contradicts to the concept that exchanges are made only with homogeneous remunerations [16].

Formation of financial relations in the structure of consumer budget is a complex phenomenon, which determines the nature of relations inside a household and allows to identify the principal characters among those who take decisions and those for whom the decisions are taken.

The research work of G. Davis and B. Rigo is believed to be a fundamental research in the sphere of influence of a husband and a wife on the formation of a family budget, because they stated the relative influence of a man and a woman on the decision-making and the extent of their roles' specialization in the process of taking decisions in purchasing goods and services [17].

Regardless of what a family member purchases, he/she uses at the same time the family and personal budgets, which are expended for purchasing goods and services. If groceries are purchased for consumption by all family members, the common family budget is expended, which consists of financial contributions of all family members and if goods of personal use are purchased, the personal budget is partially utilized. Therefore, all purchases made with the purposes of household maintaining can be assessed by the presence of the economic and time elements in it, which will be paid for by all members of the family.

In this case, the relation of personal dependence, personal interests of an individual are replaced with his dependence on interrelations that arise within a household, in which the interests of people who live there are expressed through economic relations.

Consequently, the relations of personal dependence of family members on each other (children on parents, the wife on the husband, the dependents on the breadwinner and vice versa) will prevail in a household.

The relations of personal dependence are expressed through creation of conditions for living, provisioning with resources required for purchasing groceries and consumer goods, etc., i.e. the relations of personal dependence are replaced with material dependence of one family member on the other.

The strive of a person for personal and, first of all, material independence leads to isolating his/her personal finances, holding his/her own budget, forming personal welfare and developing individuality.

Economic relations between family members are expressed as economic interests, which are expressed through the system of interrelations oriented to creation of personal welfare within a household.

At forming and ranking incentives of satisfaction of demands of the individuals who live within the household, family plays the main and decisive role and is one of the most important objects of the study.

And economic relations, which are oriented to forming individual economic status of a person that is the basis of personal welfare and behavior of the person, are the uppermost among them.

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