

Influence of the Form of the Polity on the Structure of Finances of Household

Vladimir Vladimirovich Glukhov

Far Eastern Federal University, Vladivostok, Sukhanova 8, Russia

Submitted: Jul 31, 2013; **Accepted:** Aug 29, 2013; **Published:** Aug 29, 2013

Abstract: Recently, there are numerous publications in different sources devoted to the study of the structure, composition, functions and essence of finances of households and their influence on the organization of economic relations between the main elements of the financial system of a state. Current financial science represents some theoretical and scientific concepts in terms of activities of households, which provide a comprehensive scope of the household as the complex group of different relationships between its members and other physical and legal entities. Thus, it is necessary to emphasize that the state plays the *dominant* role ensuring the welfare of the population divided to the families and households, which are the basic element of any socio-economic and financial system. However, the formation and development of economic relations in the household are affected by the *form of polity*, which is the *matrix*, a common form and a model. A matrix model of the structure of financial relations in the household characterizes by certain pattern and copies the form of the existing state system. Changing the form of polity, with some time delay, always entailed by changes in the structure of household's budget, affecting primarily the economic interests of all its members accomplishing through the formation and use of both overall family and personal budgets.

Key words: Household • Family • Polity • Finances • Matrix.

INTRODUCTION

Recently, there are numerous publications in different sources devoted to the study of the structure, composition, functions and essence of finances of households and their influence on the organization of economic relations between the main elements of the financial system of a state.

In conditions of economic globalization and the increased influence of the state on socio-economic processes, focus on individuality in interpersonal relationships that are formed between family members, the questions related with the influence of the polity on the structure of finances of the households are particularly important.

Theoretical awareness of the importance of the economic activities of households, the study of their influence on the economics of the state rise the specific interest among representatives of different scientific schools.

Meanwhile, the analysis of numerous information sources revealed the fact that foreign and national scientists have different interpretation of the concept of "finances of households".

Numerous authors determine this category differently in regards to their place and role in the system of social reproduction and a common conceptual framework, although use the same terminology to different study objects. Thus, there is no single opinion in the definition of finances of households.

The peculiarity of the household as a basic element of economic relations of the state financial system is that it concentrates majority of the characteristics related with appreciation of the different-natural-biological, social, psychological and financial inherent in each individual as the family member.

Modern financial science considers the activities of households according to existing theoretical and scientific concepts, which conclusions provide a comprehensive view of the household as the complex of different relationships emerging among its members and other physical and legal entities.

The specificity of the Russian economic reality, the current financial and economic crisis requires revision of the neoclassical concept of household and additional research as a separate historical institution, which becomes an economic subject or the subject of transformation of the economics [1, p. 25].

Thus, it is necessary to emphasize the state plays the *dominant* role ensuring the welfare of the population divided to the families and households, which are the basic element of any socio-economic and financial systems and create specific conditions for them.

From the position of the individual household, it is transferred to all family members, through the organization of the internal system of financial relations-the system of financial management of households. This is related with the prevalence of private property because only households are the key factor for other economic subjects including the state, because the population that represents the interests of legal entities and natural persons are the main taxpayers to the different level budgets.

According to majority of researchers, the finances of households is an important and independent part of any national economics, which similarly to corporations using various financial instruments to achieve the goals such as the payment for commodities and services using different means-cash, checks, credit cards etc. [2, 3].

At the same time, the finances of households have their own specific features related with the short-and long-term planning, the complexities of taxation and borrowing, market and non-market assets, different types of investments including to human capital.

During everyday activities, the households face the questions of organization of financial management, the various risks related with the health of their members and the own property. All this related with different money resources such as financing, insurance, investments and others that require additional knowledge and information.

In addition, the formation and development of economic relations in the household are affected by a form of *polity*, which is the *matrix*, a common form and a model. The matrix model of the structure of financial relations characterizes by certain pattern and copies the form of the existing polity.

According to Zukhba E., the household is the unique micromodel, “mirror” of reproduction of the economic system, recreating the all organizational steps during the process of in-house commercial reproduction. The economic role of household in the market economics is very difficult and many-sided, this is multifunctional economic subject and its functions are largely determined by the socio-economic processes occurring in the society [4, p. 33].

In modern society as the institutional matrix, the questions related with the value and role of the individual in a family, household or individual groups (in residence, education, work, etc.) are important.

In the Soviet Union as a *unitary* (united) state, the model of relations inside of a family was mainly similar to the *authoritarian type* of relations, i.e. when a man was the main breadwinner (earner) and managed the financial resources (the family’s budget) on his own.

This model of relations inside of a family replicated the overall polity of the USSR, when all *governmental functions* were concentrated in the *central government* bodies and characterized by a principle of power distribution between central and local authorities.

In this case, the state was considered as a *whole* in the form of one large *family* composed of the administrative-territorial units as the members and characterized by a total budget financing the all parts of whole.

The most spread form of management of financial resources of the household was the model of the total budget (common stock) combining the financial resources of all members of the family. The role of the “treasurer” belonged to the wife, but the man decided on financial resources solely.

During the transition from socialist system of the countries to a market economic model, the majority of households were unprepared to the new economic conditions.

The state did not provide the necessary structural elements of the social system, which would ensure the effective support to households during economic reforms that resulted in negative social events. Besides of that, numerous problems of post-Soviet economics affecting the well-being of households as institutional element of the financial system were not considered.

After the disintegration of the USSR and the emergence of the Russian Federation as the *Federal* State, the recognition of the household as the full participant of the financial system of the country and family relations characterized by some features of *federalism*.

New values specific for elements of a market economics and characterizing by the economic relations between the members of the household, create completely new system of internal social relations. These are built on different roles of society and the state in relation to the fact that the individual should undertake some activities to ensure their participation in reproduction in different forms.

Federal state as a large *family*, is represented as a Union state composed of the subjects (*family members*) with certain defined status as relatively independent territorial entities with state sovereignty, partially delegated to the central federal authorities characterizing by own administrative-territorial division. Budget system of Federal States has also been divided to the single budgets corresponding to the power levels.

According to Ponomarenko E., the main theoretical idea in the definition of public interest is in effective mechanisms of self-regulation of the market. Microeconomic approach in the area of state finances stipulates the need in the balance between the state budget based on the principles of the family budget, without certain differences between public finances and finances of private household [5, p. 14].

This form of polity and the organization of the budget of a household correspond to the Federal polity reflecting in several models:

- A part of Russian households still has the total budget, but the main breadwinner (earner) delegates a part of own command functions in financial management of a family to other family members;
- If a household includes only one family, i.e. finances of household are identical to finances of a family then the model of budget formation can be presented by several budgets:
- Total family budget, which consists of the agreed part of the financial resources contributed by each of the spouses;
- Separated budgets of husband and wife, each of those may have personal own independent finances.

Formation of new models of financial behavior of households is related first, with the change of polity and values of citizens. Traditional relationships in society providing for a statutory role of moral customs and principles rooted traditions and family prestige of the main earner are substituted by personified model of autonomy of each family member in case of the choice of an agreed form of intra-organizational relations.

Model of this type household implies decentralization of power relations or the distribution of power between all members of the family and is a *matrix* or *template* of the existing form of polity, rather than the authority hierarchy “center-periphery” or “main breadwinner-family” specific for unitary states.

According to Altuzius I., if the family is originally considered as a voluntary union of individuals then

tribes, communities, etc. can act as a linking element between the individuals and state.

Elazar D.J. notes that federalism before the New time characterized by a strong family basis and individuals were identified as members of the multigeneration groups which rights and obligations depend on membership status. The family is the natural association based on marital and family relations, which can be considered as a kind of agreement.

Altuzius I. does not develop the theory of confederation and considers it as a special type of federated formation-universal association formed by natural communities [6].

At the same time, the organizational process of contractual relations between family members of the household is difficult and comprehensive in terms of overcoming differences rising during formation and management of the overall budget.

In present, increasingly more families implement the federative form of the organization of their relations to ensure the activities of the household.

In the *extended household*, which includes several families, the budget consists of the total household budget, the budgets of participating families and personal budgets of all family members. Thus, the form of the organization and management of the finances of the extended household will correspond to *confederation* as a form of the polity [7, p. 86].

Confederative polity is a union of the states in which every state is independent with own public authorities, administration, justice, etc. This Union is established to ensure the common interests or achieve the certain goals.

In addition, the states united in to confederation maintain unlimited right of secession in any time.

The household-confederation characterizes by several independent budgets. Each member of this household will financially contribute to the total budget to ensure the solution of the “collective” problems, but at the same time, has the possibility to manage the finances independently, which remains at his disposal and can leave this “economic” of the Union any time.

The individuality of interpersonal relations at the level of the family, household and society in general, revealed during interaction of the individual with other people.

The size of the household or the number of the families in household influences a budget, the structure of expenses and various models of interaction between the members.

This interaction results in the emergence of different forms of economic relations, the emergence of the internal rules in the household, which must be followed by every member of the family [8].

The formation of economic relations in the household is affected by different factors, which can be divided into *external* which depend on a form of polity and *internal* (inside of a family) related with the form of the relationships between family members.

External factors are related with the influence of the state on the formation of finances of households as an element of the decentralized sector of the economics (change in the state financial policy, the current tax rates, provision of various benefits and types of social transfers, etc.) [7, p. 87].

At the same time, the internal factors also include the conditions affected by the households themselves organizing their own financial management aimed at efficient management of the total family budget including short and long-term cost planning, education, transport or property, different investments, etc. [9].

Alternation of the form of polity with some time delay, always entails by the changes in the structure of household's budget primarily affecting the economic interests of all members, which are implemented through the save and use of both total family and personal budgets. Consequently, the households are forced to include different reserve funds in their budgets to provide "the cash insurance" in case of unforeseen actions like economic and other crises [10].

The study of the essence and specificity of finances of the households as an important subject of market economics, fully considering the socio-economic aspects of the processes, will enable the people to develop an adaptation mechanism of the principles, forms and methods of managing the family budget in current form of polity.

REFERENCES

1. Ivanova, N.A., 2010. Organization of Market-Type Household in Unstable Economic Conditions. Vestnik Orenburgskogo Gosudarstvennogo Universiteta, 8(114): 25-29.
2. Campbell, J.Y., 2006. Household Finances. Journal of Finances, 61(4): 1553-1604.
3. Guiso, L. and P. Sodini, 0000. Household Finances: An Emerging Field. www.pzp.hhs.se/media/5530/hf%20chapter%20-%20final%20ii%20-%20num.pdf.
4. Zukhba, E.N., 2009. Households in the System of Property Relations. Nauchnye Trudy Donetskogo Natsionalnogo Tekhnicheskogo Universiteta, Ser.: Ekonomicheskaya, 36: 28-34.
5. Ponomarenko, E.V., 2001. Finances of Public Sector of Russia. Moscow: Ekonomika, pp: 191.
6. Elazar, D.J., 0000. The European Community: between State Sovereignty and Subsidiary, or Hierarchy Versus Collegiality in the Governance of the European Community. www.jcpa.org/dje/articles2/eurcomm.htm.
7. Glukhov, V.V., 2011. Matrix Model of Financial Relationships in Household. Problemy Teorii i Praktiki Upravleniya, 1: 80-88.
8. Logan, T.D., 2007. Economies of Scale in the Household: Evidence and Implications from the American Past. www.aeaweb.org/committees/CSMGEP/pipeline/archives/07conference_files/Trevon_Logans_Paper.pdf.
9. Hilgert, M.A., J.M. Hogarth and S.G. Beverly, 2003. Household Financial Management: The Connection between Knowledge and Behavior. Federal Reserve Bulletin, pp: 309-322.
10. Hatcher, C.B., 2000. Should Households Establish Emergency Funds?// Financial Counseling and Planning, 11(2): 77-85.