Formation of Basics of Hidden Economy in Households. Theoretical Aspect

Vladimir Vladimirovich Glukhov and Elena Vyacheslavovna Zhilina

Far Eastern Federal University, Sukhanova street, 8, 690950, Vladivostok, Russia

Abstract: In the process of their everyday activity, members of households create various special purpose funds (individual, mutual, consumption, saving and so on) of cash resources. The process of monetary funding, when household members withdraw money from their family budget to create hidden cash funds, is quite a different story. Basics of financial literacy and tax honesty, received from parents, are projected onto the role of an individual and his behaviour in the corresponding position and status in the social field when he forms, allocates or redistributes money funds at his disposal.

Key words: State · Hidden economy · Private finance

INTRODUCTION

Formulation of conceptual basics of household finance as a principal element of decentralized sector of economy and indicator of modern society takes an important part in developing guidelines and purposes of scientific research.

Major changes and transformations in life of modern society find their reflection in household economy and all consequences of national economy modernization are first and foremost projected on the household.

Under the influence of financial and economic crisis, having sufficiently affected material welfare of population, households experience profound changes that mirror the whole structure of economic relations arising among the members, who possess certain material and non-material assets that contribute to household finance and private finance of individuals.

At the same time, when studying the essence, structure and role of households in the process of interactions with other elements of financial system, the emphasis is laid on revealing the motifs of investment activity of population. The latter is usually seen as development of private entrepreneurship and participation of individuals in financial markets operations.

What is beyond thorough research are the issues concerning the study of the household as a complex of economic interests of an individual, who often possess his private finance, staying unaccounted in the family budget.

In the process of their everyday activity, members of households create various special purpose funds (individual, mutual, consumption, saving and so on) of cash resources. The process of monetary funding, when household members withdraw money from their family budget to create hidden cash funds, is quite a different story.

The term “hidden economy” is frequent enough in information sources of all kinds as at nearly all times in all states there were people who strived for earning illegal money.

Research works of both home and foreign scholars who represent various branches of science – politics, law, psychology, sociology, economics, etc. – are devoted to the study of essence, reasons, forms, kinds and scope of hidden economy and the degree of its impact on the development of society [1-9].

However, those scientific studies do not always take into consideration motifs and reasons why members of households create hidden funds, staying off the family budget, in the process of their interpersonal interaction.

As a rule, in academic literature households are associated with hidden economy when they produce goods or render services that are not reflected in official statistics, so they are treated as informal sector of economy.

To name economic activities beyond official accounting researchers use different terms – second, underground, grey, hidden, shadow, black market, off-the-books, informal, invisible, criminal, illegal, parallel
economy [10-18]. Meanwhile, scholars have variegated understanding of “hidden economy”. Some of them are of the opinion that the term implies illegal production of goods and rendering of services, others – tax deductions, hidden from the state, the third group – undocumented operations with cash and non-cash resources, the fourth ones – criminal money and so on.

Estimation of hidden economy is rather relative and segmentary as the applied methods of data collection can not evaluate either its true scope, or quantity of population and economic agents involved, or volume of produced and consumed goods and services.

And the thing is that most scientists do not pay enough attention to the fact that it’s the family and household where the basics of this phenomenon are build up.

The new generation of Russian citizens, brought up in families of the market economy period, differ in their mentality and attitude to life, traditions, value structure from the senior ones, who grew in the Soviet Union period, when social values were put forward and prevailed over private ones.

It comes from the fact that processes of socialization and up-bringing, including economic one, have the uniform basis for any society, that is, the family. The family lays the foundation for mechanism of adaptation of an individual to the environment and the results of such impact are projected onto different spheres of public activity.

In everyday life the concepts “family” and “household” function as synonyms. In fact it’s not really true. Households are larger thanks to individuals whom are not relatives but keep common house with the family. In its turn, the family bases itself on kinship, common housekeeping, mutual social, economic and spiritual needs. A household can consist of several families, but the family, if it has common budget, can represent only one household. Besides, speaking about the differences of concepts “family” and “household”, one should be aware of semantic shades of their usage. Thus, the term “household” implies economic activity of the family [19].

In this context it should be noted that today both households and families function in changed social and economic environment. For example, interpretation of the bond “man - society” has become cardinally different: today the priority is given to the interests of man and the concerns of society are of secondary nature. And this is another factor that puts forward the private interests of an individual.

And it is in the households where foundations of financial literacy are laid, traditions, customs, norms of behaviour, basics of private finance management are told. All these are further projected beyond the family onto economic relations with other individuals and legal entities. Though it’s more correct to speak not about origination of black economy, but of a form of “grey”, hidden intra-family economy that is still not contrary to law, but such funds are not regulated and calculated in the family budget due to many reasons [19].

Nowadays there appeared a lot of scientific and popular periodicals that publish special sections covering issues of managing private finance, models of such management, pieces of advice how to budget your household, recommendations at which age and how often to give pocket money to children, the amount of pocket money, etc. [20-23].

On the other hand, the situation with adaptation of such tools and advice on how to teach children financial literacy is quite different in real life.

The main function of children with average income is help to parents about the house – taking care for senior and junior relatives, cleaning the house, washing up, putting out the garbage and so on. In the course of growing, parents involve their children in the process of money flow, they ask children to buy foodstuffs and consumer goods, foot some bills, etc.

On receiving a certain sum of money for buying necessary goods, food or making appropriate payments on hand, children leave smaller part of money (change) left for themselves, without giving it back to their parents. And the grown-ups, still remembering how they were children, do not insist on receiving the change back and close their eyes at some sum of money left at teenagers’ disposal [24].

Besides, parents give children weekly or monthly sums of money for out-of-pocket expenses (school meals, presents, cinema, theatre with classmates or friends, pocket money, etc.), so the youths gain their funds of their own, that are periodically increasing.

Getting money for school meals and other things, some teenagers do no use them according to the intended purpose, misinform their parents and start to form hidden funds, withdrawn from the family budget. This is how “grey” or hidden money flows, unaccounted in the family budget, appear in the structure of a family. They can be directed to totally different and nor rather rational purposes by their owners.
Consequently, one of the main tasks of parents is to teach their children to work with private finance on the earliest stages of life journey: explain how to use money: show its essence, attract junior family members to more often make joint financial decisions.

Creation of private finance and individual money funds affect not only psychological and social peculiarities of individuals, but also their surrounding environment, both interior (family, parents, relatives) and exterior (educational establishment, peers, friends and the like) and, evidently, teenagers show different response to money.

This is connected with the fact that in real life an individual simultaneously positions himself not only in his own social field, but also in the field of things, surrounding him, which he perceives through the prism of his individual features, in the consciousness of not only close people, but total strangers as well. All these things establish a certain system of distinctions, different for individuals of various values, up-bringing and psychological peculiarities that private finance allows to even.

Those who didn’t learn to handle money in early childhood, doesn’t know how to do it when a grown-up. It means not only to give a child pocket money and forget about it. It’s important to demonstrate children where money comes from, what it’s spent for, persuade them that people must work to pay for satisfaction of their needs, both individual and public ones.

As soon as the child starts to receive money, he has to gain skills of handling it to create his own budget, accounting his expenses and savings. Involvement of children into discussion of how to draw up a family budget, financial and other issues connected with spending doesn’t go without leaving a trace and exerts a positive impact on teenagers who acquire skills of using money resources, sticking to models of economic behaviour accepted in the families they were raised, especially in the early years of their independent lives [25].

Individual peculiarities towards private finance are revealed in the structure of expenses and savings, attitude to less well-to-do and economically disadvantaged peers, in the issues of money distribution among the members of the family.

Child’s perception of money is determined by the amount of private property at his disposal. It can vary, depending on his age: a toy, a bicycle, a cell phone, contents of coin box, etc. Parents do not always buy children what the latter want and aspiring to obtain the thing of interest, children start to form their own funds from available money flows for acquisition of such things.

Teenagers, taking part in some money relations, tend to demonstrate their personality determinants, comparing them with models of economic behaviour accepted in their family (household). Growing up with idea of necessity of private funds and forming in their minds some stereotypes of behaviour and forms of financial relations connected with uncalculated money flows, teenagers transfer them to their adult lives.

And models of behaviour worked out by the child in the process of interaction with each member of his family, are projected onto his role and behaviour in the new social field, in the corresponding position and status, when he forms, allocates or redistributes money funds at his disposal.

Absence, lack or limit of money funds have a definitive effect on formation of life way of an individual. Aspiration for financial independence makes individuals choose spheres and sectors of economy associated with high revenues, often irrelevant of their capabilities, professional competence and material opportunities.

In everyday interaction among the family members there arise models of economic behaviour how to handle money resources, that stay long in the form of individual patterns aimed at private consumption after recurrent reiteration. Selected models of private finance management turn out to be more appropriate than other possible variants for an individual and they secure him conditions for obtaining private, personified material goods. Under the influence of former stereotypes an individual as a manager of financial resources, taking part in more complex economic interrelations copies fixed models of economic behaviour and attitude to money funds in his independent life.

Available volume of cash funds at the disposal of an individual allows him as a manager and proprietor of financial resources exert influence on other members of family, household, society when taking corresponding decisions.

Specificity of family relationship, significance of finance in their lives, determined by economic motifs, is revealed in the attitude to money, structure of revenues, spending, savings, drawing up of unaccounted money funds, the so-called “nest-eggs”, initially created on the level of a household.
In case of having a common family budget, there occur different situations, when an appeal to a spouse, who administrates financial resources, with a request to allocate money for sports, entertainment with friends or buying cosmetics and accessories presupposes refusal. In family life, one of spouses often perceives spending of the other as violation of his personal plans for acquiring something. Then a contradiction between common family needs and individual wants for getting the things of interest arises. The loser feels deprived and offended and confrontation connected with fight for one’s rights and control over the family budget begins.

Logically speaking, it’s beneficial to have a money fund, self-managed by its owner separately from other family members. This gives him a degree of personal financial freedom and allows him to feel more self-assured and comfortable. In this case we speak about formation of hidden private savings (hidden revenues) of family members that represent a part of money funds withdrawn from a common family budget and imply some hidden, unaccounted aspect of financial relations in the household, that other family members do not think of and such a situation can contradict the mutual interests and morals of the family [26].

The question of property of finance doesn’t imply any intermediary decisions. Private finance do not change their owners as it happens in the outer world. Family economy functions the way, as if family finance is in mutual property or belong to some members of the family longer than others and those members own it for some time until it goes to another member.

An individual always contrapositions his private finance to his family finance, household finance, funds of other individuals and legal entities and state as a whole not only because he wants to manage his financial resources independently, but due to the fact that it is directed to meet his personal needs and enforce his individual economic status that secures him financial independence from other members of society [27].

In the unpredictable and uncertain market environment and lack of social guarantees on the part of the state, members of households are guided by their own logics and morals that in separate cases lead to their involvement in some kinds of hidden economy while producing or consuming goods and services.

Finally, the above said aspects imprint the relations arising between the basic elements of financial system – the state, economic agents and population, when as a result of such an interaction a part of money funds is of a hidden unaccounted nature that lays the foundation for illegal activities of all kinds.

Absence of due understanding of significance of family and household in forming financial literacy and tax honesty of population on the part of the state, distorts true scope of hidden economy, deforms results of macro- and microeconomic processes taking place in the Russian society, hinders efficiency of reforms implemented.

REFERENCES