ECONOMIC THEORIES AND MODELS OF HOUSEHOLDS

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Abstract

The household bases on a two spouse social structure or on diverse types of inter-person relationships that make not too much diverse economic structure come up. First noticing that household is the typical area of non-formal human relationships within and its proper economy is quite informal as correspondingly. Moreover, given and besides all these above, household is unanimously admitted among economic entities - i.e. as manuals do explain that it is autonomous in its economic functions, never subordinated to anyone else, and enough influenced by its environment. The whole literature exposed below will see the household making its own: (i) production, (ii) consumption and (iii) time reserve allowing - i.e. production, consumption and time being basic household's economic concepts.

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Introduction

Roots of the current literature about the household could be at least divided into two contribution areas. The one is formed by the contributions of Karl Marx, called *Grundrisse* or *Capital*, i.e. the second half of the 19th Century, continued not only by V.I. Lenin's contribution - as a follower socialist -, but equally by that of the Belgian Henry Pirenne (1936, pp. 103-104). For both Marx and Pirenne the ‚old household' was the one in place between Neolitics and the Europe's early Middle Ages and called *natural economy,* basically *opposite* to the rest of social community economic area and at least for Marx it

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was especially *self-sufficient* as much as a ‚production unit' of the type of all commercial enterprizes.

The other ‚old area' of literature contributions on household are due to even much earlier contributions of François Quesnay (1694-1774)[2] and Jean Baptiste Say (1767-1832), both these then basing the famous *Macro-Model* of John Maynard Keynes (1936). Despite its perspective as much older literature, the household is here no longer natural economy, although enough similar to that type of 'production unit', isn't (on the contrary) any more confronting to the community, to which it makes savings for investments, besides consuming and accessing imports for consumption. And not only, but also the whole gross national income goes, in the Keynes' model, first to households (all of them in the macroeconomic area) before reaching firms, State and the rest of institutions.

Then, the corresponding contemporary literature approaches the household[3] by either (1) concepts and *theories,* or by (2) *modeling* contributions, as described below and especially all these approaches are today claimed on the *neoclassic* thinking side.

1. Theory of the individual consumer

This theory primaryly assumes the *individual utility (consumption) maximising* (Matilla-Wiro 1999, p. 33; Eastwood 1985, p. 48), as part of the *consumer's theory* that keeps the exogenous of (1) individual *preferences,* (2) *price level* and (3) consumer's *income.* The consumer's decision draws the *demand* or *demand function* basing on these factors (Gravelle & Rees 1981). The today neoclassics feel nearly forced to admit, or even to notice the *uneven welfare distribution* within the household (Matilla-Wiro 1999, pp. 7-8), as both general feature and in detail dealing with some kind of *traditions* in the Third World (Hannad&Kanbur (1990).

When *household*, in its turn, is taken like *the individual,* it is assumed that: (1) the individual stays efficient when the number of characteristics is

[2] This author is seen as a member of pre-classic Physiocrates and his capital paper was at its time something that could compare to the contemporary Leontiev's 'Input-Output model'.
[3] i.e. more or less starting with names like Sen(1966), Alderman and co.(1995) or

lower than the one of goods around (R<M) and so goods chosen will automatically be fewer than their total available number; (2) *substitution* predominates for the *consumption demand*, together with corresponding *budget constraint,* and so two further alternatives get equivalent: (a) *Slutsky matrix*[4], as symmetrical and *negative semi-definite*; (b) both the strong and weak *axioms of revealed preference*, as satisfied (Lancaster 1975, p.7).

2. The household's production function

Conceptually, this function is assumed as a unique objectives/goals set one aferrent to all members (Ellis 1988). The *production unit* here reiterates as similarly to all (production) firms working in the competitive market area. The function does include *labour division* between household members - e.g. sex based - up to *specializing* - e.g. similarly to acting as nations, in the international trade area (Matilla-Wiro 1999, p. 14); i.e. the example in which international *arrangements* are all over supposed to come out (Krugman 1991, p. 11). *Specializing,* for household, works as such on labour distribution first between market and household, according to the *comparative advantage* rule.

Gary Becker (1993) then comes on this *production function* one. Simply, this production means acquiring market goods and combining them basing on the household's *time* resource to make specific *household goods* - e.g. children, healthcare, watching shows, other diverse pleasures and leisure (Bergstrom 1997). The *Gary Becker's theory-model* on the household - that is called the 'new theory'-- is actually seen as achieving what previously had been the *individual consumer* theory and this through a new thinking phase - i.e. actually, this 'new' thinking phase doesn't aim any true reply to the 'old' thinking in the area. The scholar uses an *economic* research tools approach to the household's behavioural understanding - i.e. assuming: (1) *maximizing behaviour,* (2) market equilibrium and (3) stable *preferences.*

[4] This is a theorem in which the names of Eugen Slutsky and John Hicks are involved, of course besides the one of the (neo)classic Alfred Marshall. It says that price changes induce to consumption demand two specific effects: (a) income effect - i.e. influencing the counsumer's purchasing power - and (b) substitution effect - i.e. influencing and causing mutations to the consumer's goods preference system by inside.

The household's specific *productions* do classify as: (1) *subsistence (*part of) production - e.g. hunting, fishing, seeding, farming -, (2) *volunteer* production - i.e. unrewarded, as well - to the help of other households, (3) *public* production - e.g. army, healthcare, education, justice, road building (Ironmonger 2001, pp. 4-5).

Eisner (1989), once more, draws attention about the opposite idea to the above Becker's one in which the household made goods were basically specific and quite 'different from market goods' - i.e. there are equally to be accounted those household made goods that are quite the same as market goods, e.g. food meals, as in restaurants and related places, transportation, like by common transport means, healthcare, like by special care centers.

Eisner (1989) equally adds his proposal for *gross households product (GHP),* as cumulating *value added* of all households and so, once more, *households' production* would be underlined as the result of its 'specific' factors: (i) labour (i.e. not rewarded) and (ii) capital - e.g. technical means, time, supermarket and other market goods sources accessed. All these, compulsorily related to the national economic structure.

There is equally a third group of studies to talk about in context. Boulding (1972) was estimating household purchases at about 60% of GNP, plus most of the whole economy's subsidies, here including intra-household transfers, the year of publication, about three times higher than the concomitant US Government's charity (similar) transfers. Burns (1977, p. 8) highlighted that such intra-household transfers - i.e. that usually are as unpaid as works done and labour used in the household - might be higher value than similar transfers within the neighbouring market economy - i.e. those, of course, are paid. Waring (1988a,b) adds to these a different view point, the one of the *unrewarded female activity* that is supposed to contribute not only to the economy and economic life.

3. The household's time factor

Back to Gary Becker (1993) for here making distinct: (A) *work* time - i.e. production, that is out of household - from (B)*consumption* time - i.e. that is inside the household. But, as the result it remains difficult to identify that part of *extra-time* - i.e. off the *work time* - that exactly matches the *household consumption time*. Moreover, *time* may see its value rising inside the household - e.g. when leisure-recreation time in the household lowers, this might increase the household's access to market goods and services; on the contrary, the household time rise might equalize some ‚forgone' income, resource and utility (Matilla-Wiro 1999, p. 12).

Becker further considers technological progress and improvements able to rise *‚consumption time productivity'* in the household - e.g. new access to supermarkets, to telecommunications[5].

4. Others on the household

What is '*humane human capital'* and even counteracts the old (just) 'human capital' concept - i.e. that, of course, isn't any about capital, but on the contrary, about its opposite labour - is finally something that belongs to the household only - i.e. and never to the economy beyond. What is more than human capital in the 'humane human' capital includes linkages and all interactions among people - e.g. real networks shaped as such -, together with promoting these, plus ideas that so move around between people and always regard either economic substrate, unhindered decisions, here including about maximizing utility, or comparative advantage and so on (Matilla-Wiro 1999).

5. Modeling approach of the household

5.1 The ‚unitary' model, versus ‚collective' models

Matilla-Wiro (1999, pp. 5 and the following) makes separation between what the author calls (1) *unitary model* and (2) the group of *collective models*. For the previous, the household is (i) an *economic entity* - i.e. to be approached the same as productive firms, as also seen above[6]; (ii) an economic entity that is *rational* in the sense of its *unique set of objectives/goals* (Ellis 1988). As in more detail, Ruuskanen (1997) does enumerate three reasons for such a communion of goals among household members: (a) ‚dictatorship' - i.e. that is imposing the

[5] *Critics of the author reproach on his unclear separation between works that are supposed to make the household labour division, as there will be deepened in Chapter 5.*

[6] On the unchanged pattern shaped by the old literature.