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Household Finance and its Effective Organization of Financial Resources

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ABSTRACT

This article provides information on the effective organization of household finance, its main functions, the balance of income and expenses. The article also examines the composition of household financial resources and its important aspects.

KEYWORDS: *household, family, household finance, function of household finance, household income and spending, financial resources of households and etc*

One of the integral parts of the public financial system is undoubtedly the household system. It is known that in a system of market relations, the financial importance of a household is determined by what it is used for economically. Clearly, on the one hand, households are private owners of factors of production (labor, land, capital, entrepreneurial ability, etc.) and form their own sources of income on the same basis, on the other hand, households consumer goods and services in the economy emerges as buyers and on this basis determines market demand. At the same time, households accumulate a portion of society's gross income, participate in the creation of financial reserves through the purchase of real and financial assets, and also play a key role in the formation of centralized financial funds of the state through tax payments.

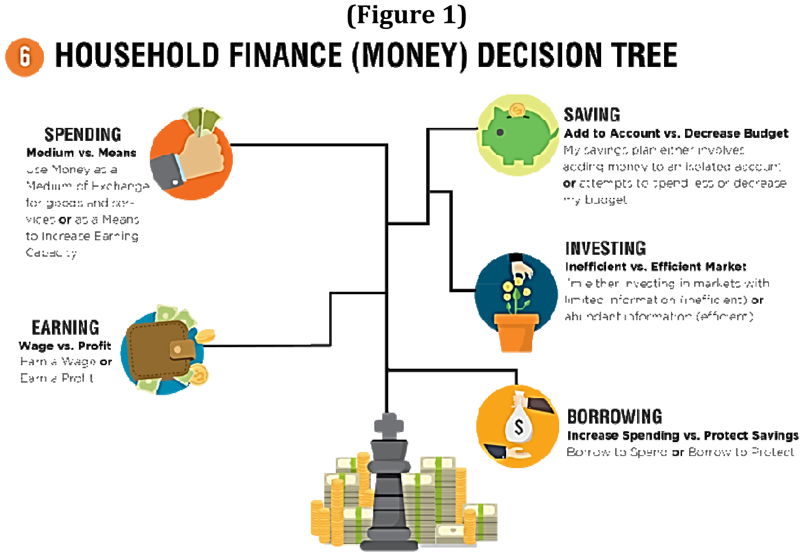
Typically, the term "household" is used in national statistics to refer to an institutional unit consisting of a population or a group of citizens. According to the modern international standard of the *System of National Accounts* (SNA) recommended by the *United Nations* (UN), *"households - a small group of people who live together in a single living space (area), fully or partially transfer their income and wealth to the common fund, and consume certain goods and services, especially housing and consumer goods, in general*".

In some cases, the Uzbek economic literature allows the term "household" to be replaced by the term "household" or "family". Accordingly, the terms "household finance" and "family finance" are used interchangeably or as synonyms instead of "household finance". However, the concept of "family" or "household" is different from the concept of "household". First of all, it should be noted that the level of accuracy of the "household" is less clear than the concept of "family". For example, an elderly parent who lives in a place or in a house which belongs to their son cannot be a family member, even if they are members of the household. Similarly, a student who rents a room is part of the landlord's household, but cannot be part of his or her family, and so on. In other words, the household may include non-relatives or may consist of one person.

Summarizing the above, it can be said that households are one of the main actors in economic activity, as the outcome of this activity affects the well-being of not only one family, but the entire population of the country. A household is a household that is run by one or more people who live together and have a common budget. Depending on the type of activity, households perform both production and non-production functions. The former involves engaging in some kind of business activity, while the latter involves engaging in a variety of securities, banking, or leasing transactions.

Every business or organization has its own finances, that is, a system that regulates the movement of cash. Similarly, households have their own finances. Household finance is one of the most important elements of the financial system. As an economic category, it consists of a set of economic relations related to the formation, distribution and use of funds in households for consumption purposes and savings. Therefore, household finance consists of a set of activities. These include: spending, savings (or investments), earnings and borrowings. (Figure 1)

(Figure 1)



Based on the above, *household finance can be defined as follows: a set of economic (financial) relations related to the formation, distribution and use of funds for household consumption and savings in households called household finance*. Some economic literature defines household finance as an expression of the economic monetary relationship that arises from the formation and use of a cash fund to provide for the material and social well-being of household members. It is also generally accepted in the economic sciences that relations that occur uniformly and continuously in a particular field of socio-economic activity constitute the content of an independent economic category. Here we are talking about the socio-economic content of the category of "household finance". With this in mind, the definition of household finance can be defined as follows: in the course of their socio-economic activities, households and their individual members are involved in the formation, distribution and use of funds. The set of incoming monetary relations is called household finance. In our opinion, household finance is a set of activities related to the purpose for which the members of the household use the money they have for their livelihood. Household finance also has several functions:

- *The function of providing for the vital needs of the family*
- *Distribution function*

The first function of household finances is to create the conditions for family members to live. The development of market relations has a direct impact on the manifestation of this function. In a subsistence farm, the products created by the members of the household are mainly intended to meet their own needs. As a result of the emergence of the market and the formation of commodity-money relations:

- *The material, social, cultural, and other needs of the family expand;*
- *Household cash is created and multiplied;*
- *The family budget is formed - a monetary fund aimed at providing the family with material benefits.*

The distribution function of household finances includes the primary distribution of national income and the formation of primary family income. The distribution function of household finances consists of three stages itself:

- *formation of monetary funds*
- *distribution*
- *usage*

Both functions of household finance are interrelated and complementary. From the point of view of the microeconomic approach, the economy of the household is based on a complex set of relations between its various participants, which is quite complex. These relationships are determined by age differences, character traits, people's behaviors, and their different levels of income and needs. At the same time, healthy household development is possible only if its participants agree on economic (financial) decisions. In turn, the economic interests of the various participants in the household are coordinated through their regulation. By "regulating them" here is meant a change in the portion of income that per household member. Thus, it is clear that another function of household finance is to perform a regulatory function that supports the balanced development of the household as an economic unit.

Another incentive function of household finance is expressed in various forms and contexts. On the one hand, it is manifested due to the desire of households to increase the income needed to meet their growing needs, on the other hand, the growth of household income depends on the quality and results of labor activities should be based. The incentive function of household finance is realized through the creation of an incentive financing mechanism based on the development of the production process and effective fiscal policy aimed at increasing the real incomes of the population. Nonetheless, the view that the social function is a separate function related to household finance can be considered, in a sense, well-founded. Because household incomes, expenditures, and savings directly reflect the socio-economic status of the population and its individual groups, they have an impact on personality formation and demographic processes. In this sense, household finance determines the formation of living standards of all members of society and the characteristics of the structure of consumer demand, represents the dependence on the distribution of income, influences the socio-economic stratification of society. is the main factor.

The effectiveness of household finance depends on the scale of financial relations in households - the completeness of diversity in the manifestation of relations and the mechanisms that ensure their development. No matter what the financial decisions of the household, it still depends on the formation and use of their monetary funds. In this context, household financial decisions cover the following areas that are inextricably linked:

- *formation of household income;*
- *volume and structure of consumption expenditures (household consumption fund);*
- *opportunity and necessity to create savings funds.*

The process of household income generation is of fundamental importance. The total amount of money that a household receives over a period of time is called the income of the household. Such revenues come in different forms, are measured by a system of quantitative and qualitative indicators, and come from different sources according to their economic content Natural income is not a commodity and is the result of the labor of members of the household who are self-sufficient. The higher the income, the higher the financial capacity of households and the wider the range of financial decisions. The structure of household income is shown in Figure 2:

Figure 2

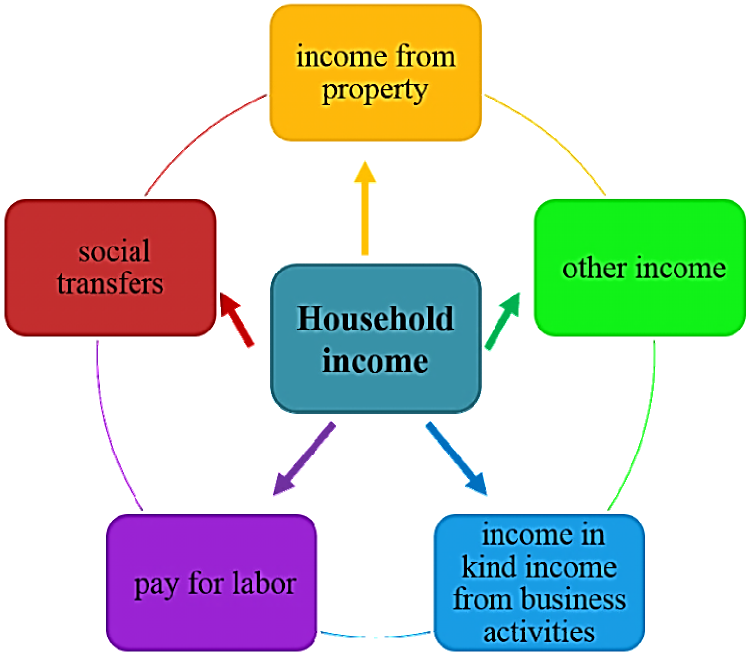


Figure 2 Household income structure

If a household's income is only enough to cover the subsistence minimum, then financial decisions should be made to minimize the household consumption fund and at the same time seek new sources of income and adapt mechanisms of subsistence (self-employment), self-sufficiency, secondary employment, assistance from relatives and the state, retail trade, etc.) Should be focused on 'application'. It is clear that as your income grows, the volume of consumption increases and its structure changes. However, even in this case, the growth rate of consumption may remain lower than the growth rate of income.

In general, the share of natural income in total household income is insignificant. However, its level, or weight, may vary according to the traditions, priorities, preferences, demographics, and social characteristics of the individual households.

The financial resources created by household members as a result of productive activities were part of the national income. The size of the household fund depends on the actions of each family member. The structure of household financial resources is as follows:

- *private funds, ie wages earned by each member of the family, income from subsidiary farms, profits from commercial activities;*
- *market-oriented funds, ie dividends, interest, loans*
- *redistribution funds - pensions, various benefits.*

In general, the financial resources of households are decentralized financial resources and are directly related to the turnover of financial resources of the country.

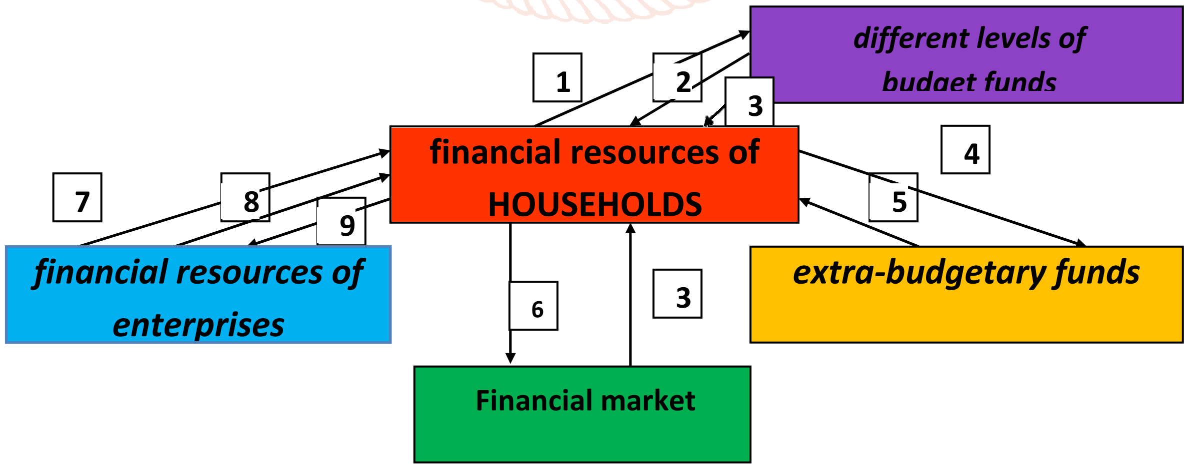


Figure 3. Diagram of the turnover of financial resources of households
1 - taxes, 2 - transfer payments, 3 - loans, 4 - insurance premiums, 5 - social security,
6 - savings, 7 - interest, profit, rent, 8 - wages, 9 - prices for goods and services, labor

Household finance is interrelated with centralized finance (state and local budgets, extra-budgetary social funds) and decentralized finance (enterprise finance, financial market). There is a continuous flow of one-way, two-way and multi-way cash between them. There is a constant flow of cash between the government and households. Household members provide their labor to the public sector and sell their goods and services to the state. In return, they receive a salary and income. Financial relations also arise in the payment of taxes, levies, duties and various deductions to the budget and extra-budgetary social funds. In addition, households receive various transfer payments from the state, as well as in-kind benefits and services. There is also cash flow between the household and the non-governmental sector - enterprises, organizations, and companies. Households use the goods and services of businesses and organizations and return their prices in cash. Legal entities can also provide households with credit resources, income in the form of dividends, interest, and rent. As a result of the flow of financial resources, households are able to meet their personal needs on a regular basis today and in the future.

In short, the household financial system is the most important link in the public financial system. The efficient organization of financial resources, that is, the balanced management of income and expenses, savings and investments, has a direct impact not only on themselves, but also on the system as a whole.

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