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*The Household:  
An Underappreciated Entity  
in Economic Theory*

ABSTRACT

The purpose of this study was to present the evolution of the understanding of the category and contexts of the household against the backdrop of the development of economic theory, to highlight the cognitive deficit regarding this entity, and to attempt to identify potential components of a theory of the household, along with sources of support for such a theory within the existing body of work of economic schools and schools of thought.

The study is based on an analysis of schools and trends in economic theory and the history of economic thought. It employs a broadly critical analysis of the relevant literature and the findings of the history of economic thought.

The research conducted allowed us to conclude that in economic theory, or in contemporary times, much more attention is devoted to the individual (the person) than to the group of people constituting a household, and even when studies are conducted with regard to these complex entities, the analyses do not

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always reflect the processes (choices, decision-making) occurring within them, which result from the reactions and counter-reactions of its members to their broadly understood environment. Therefore, in the authors' view, households as research subjects deserve a comprehensive theory that describes the relationships occurring within them, including decision-making processes, based on their past experiences and learning capabilities.

*KEYWORDS: household; economic theory; consumption; decisions; behavior*

## INTRODUCTION

The focus of economic theory on the producers of goods and services and their consumers has accompanied economics from its pre-scientific origins through to contemporary, methodologically sophisticated analyses, in which researchers have turned their attention to the institutional environment with which these traditional actors interact. This has enriched the theoretical body of economic thought; however, the multitude of doctrinal conventions, schools, and trends, the diversity of positions and their non-transferable dependence on sometimes hermetic assumptions, as well as the incompleteness of findings – especially with regard to a dynamically changing environment – render the efforts of researchers to date far from sufficient from the perspective of the current needs of economic discourse.

In the authors' view, the expected growing role of consumption in stimulating economic growth necessitates, in particular, a deeper examination of the entities that represent this consumption. The intense and dynamic transformations that contemporary societies are undergoing mean that the call to adapt theory primarily concerns not so much the behavior of individual consumers, but rather the groups of people that make up households. The practices and actions of households regarding the choices they make – which are not always rational and are not a simple sum of their members' choices – require a theoretical description in the

form of a theory of households. This theory would account for the determinants of decision-making, relating, among other things, to specific issues such as: financial contributions to household budgets, the characteristics of the individuals comprising these households, the growing role of women in contemporary society, attitudes toward having children, technological innovations that improve household financial management, and the learning abilities of these individuals.

According to the authors, the key considerations from the perspective of designing state policies aimed at households are: understanding how they behave in the market, what values guide them, whether and how they prepare for the inevitable old age of their members, and what and how influences their current and future decisions. In particular, this concerns tools designed to ensure the greatest possible effectiveness of actions consistent with the intentions of the state authorities employing them.

The category of the household is constitutive for economics, in its most fundamental sense – one rooted in its etymology. Ever since Xenophon's (1997) "οἰκονομικός", used to describe a competent steward managing a household, became the basis for the emergence of a new discipline of knowledge (οικονομία; Xenophon, 1994, p. 31), the relationship between economics and the household has become enduring. Thus, it is not possible to use the term "economics" in any context (scientific or colloquial) without linking it to its original meaning, which refers to the household.

The focus on purposeful human activity (in terms of using limited resources to achieve specific goals), characteristic of economics, centered on processes taking place within households. However, these households were identified as family units responsible for agricultural production – the primary form of economic activity – from early antiquity until the spread of manufacturing. This subject-oriented approach to economics was supplemented, in the wake of institutional and organizational development, by firms and state entities.

The household enjoyed a constant, unshakeable position in economic theory, even as the referents of both “households” and “firms” (enterprises) changed over time, and the role of the state in the economy was subordinated to successive political systems. As societies transformed, the list of identified problems was updated, which consequently led to adjustments in the theoretical framework of inquiry. This process can be summarized by referring to doctrinal progress in economics, with its marked reevaluation associated with the initiation of the classical school by Scottish empiricists. At the same time, both in the pre-scientific period and after the formulation of the classical school’s principles, historically conditioned pressure for change seemed to bypass the category of the “household”, which retained an apparent subjective identity despite actual transformations relating both to the determinants responsible for identifying the “household” and to its relations with the social environment or relations within this analytical unit.

The initial identification of the “household” with an economic agent primarily responsible for agricultural production was indeed replaced by the “family”, yet the family model – along with its functions, roles, structure, intra-family relations, and decision-making patterns – gradually evolved. These facts, however, found no reference in economic theory. Today – when researchers’ attention is more often occupied by the phenomenon of the “family crisis” – the alienation of the “household” as an analytical category in economics is felt even more acutely. The canonically leading entity, on which interest was focused even in the pre-scientific era, has ceased to represent social facts in economic theory. The question must therefore be posed: how can the subjectivity of the household be restored in a discipline whose origins are so closely linked to it (in reference to G. Stigler’s Nobel lecture [Stigler, 1983, p. 531])?

In the authors’ opinion, a reasonable answer to this question may be the creation of a coherent concept aspiring to the role

of a multifaceted yet comprehensive theory of the household. It should accept that: 1) models of contemporary households are characterized by heterogeneity, and the previously dominant role of the nuclear family has been challenged; 2) households that are similar in their basic structure may behave differently; 3) their decision-making should not be reduced to individual decisions made by arbitrarily selected representatives. The proposed theory should take into account an updated list of current issues, and consequently, the theoretical context of research related to households and their behavior would also undergo changes.

The hypothesis of this study is that economic theory currently lacks a theory of households, and that partial considerations are insufficient for a characterization of household behavior that is adequate for economic practice. In light of the above, the aim of this study is: 1) to present the evolution of the understanding of the category and contexts of household perception against the backdrop of the development of economic theory and to identify the cognitive deficit regarding this entity, 2) to identify sources of support for a theory of the household in the existing body of work of economic schools and trends, 3) to define the potential components of such a theory.

This study makes an original contribution to the literature on the perception of households, providing evidence that changing conditions, technical progress, the growing role of women, technological innovations, etc., appear to be sufficient grounds for – in the form of the proposed comprehensive theory – to describe how households behave in practice and what determines their decision-making processes. In this study, the authors present an original proposal for the components of the proposed theory of the household, taking into account the existing body of economic theory. The study is based on a comparative analysis of trends and schools of economic theory as well as the history of economic thought.

## HISTORICAL EXPLORATION – REFERENCES TO DOCTRINE

Representatives of various schools of economic thought – or trends in economics, which often intertwined and influenced one another – devoted varying degrees of attention to households, most often focusing on their: agricultural production, consumption, financial needs, savings, and, more recently, the profitability of labor, inequality, poverty, etc.

Physiocracy can be regarded as the doctrinal summary of the tradition linking the household to the organizational unit of agricultural production. It glorified the growth potential of agricultural production, advocating for improved farm productivity by merging small production units into larger ones (Blaug, 1996, p. 25; Théré & Loïc, 2008). Despite their essentially systemic aspirations, the Physiocrats treated farms as the fundamental entities for a nation's wealth by subordinating them to the income-generating efficiency of agricultural production, including the shaping of consumer behavior (Dupuy, 2013).

Civilizational changes – promoting non-agricultural production, trade, and the development of financial institutions – which shifted sources of income beyond the real sector – prevented representatives of the classical school from developing the physiocrats' ideas, despite a shared set of values regarding individual freedom within the economic system and a demonstrated respect for private property, both of which were valued by both the classics and the physiocrats (Carey, 2020; Samuels, 1961). However, they did influence the understanding of “domestic” economic agents, expanding the group of “households” to include non-agricultural producer units, and later – simply families, which, regardless of the resources they owned, represented decision-making entities (capital owners, producers, labor resources) in a systemically diverse environment.

The Industrial Revolution and the capitalism that accompanied it served as the foundation for explaining the essence of the

“enrichment” of societies and individuals. Although the origins of this revolution have been extensively described, from the perspective of the doctrinal development of economics, the most significant aspect was the assimilation of its causes and multidimensional effects, carried out within the classical school and in the works of its successors. The fact that classical economics emerged from Anglo-Saxon experiences (Allen, 2011; Hartwell, 2017) resulted in its domination by issues of capital accumulation and the market mechanism for the distribution of production, which radically limited the agency of households in economic theory. The fascination with innovation marginalized the economic significance of decisions made in households, focusing attention on the conditions for improving income efficiency in industrial production (Othmar Spann even used the term “Adam Smith’s industrial system” in this context; Spann, 2011, p. 97). In this way, the real processes shaping the capitalist socio-economic order were brought into alignment with a theory that, while serving as its description, was not devoid of practical potential, thereby moderating the further directions of change.

To some extent, this restructuring was foreshadowed by the tenets of mercantilism (merchant capitalism; Galbraith, 1987, p. 31), which marginalized the economic potential of households – a development that can be viewed as a necessary cost of strengthening the centralization of state power and the state’s assumption of a leading role in the economic system of the communities in question. Economic strength was equated with the quantity of mineral resources obtained primarily through trade. This led to a reassessment of the importance of the entities building the economic potential of states. While the significance of non-agricultural manufacturing was recognized, it was always viewed in the context of a desired, positive trade balance (Stern & Wennerlind, 2014, pp. 137–138). This stigmatized domestic consumption, excluding it from the group of analytical factors worthy of attention, while intensifying interest in state guarantees for the profitability of

trade. Thus, conditions were created that justified interventionist practices, which in turn strengthened the role of state authority among economic actors, despite acknowledging some significance of industrial production guaranteeing the supply of tradable goods, which could be indirectly linked to households (though it must be emphasized that the accepted scope of interventionism varied across countries – see Heckscher, 1994).

Parallel civilizational transformations in the organization of contemporary societies, particularly through the abolitionist movement, led to an increase in the significance of wage costs for the economic efficiency of both households and the nascent industrial sector (Huston, 1987; Huston, 2000), resulted in the need to professionalize economics as an independent research discipline (Dowd, 2000; Christodoulakis, 2015). However, the new set of problems facing the economic systems of nations building their future on the basis of industrial economic transformation was formulated in the shadow of the mercantilist ideal of social organization. Scholarly attention focused particularly on explaining the price mechanism. Production, especially industrial production, remained the primary analytical reference point. The result was a supply-side interpretation of national income (Backhouse, 2002; Snowdon et al., 1994, pp. 51–56), which – despite its connection to the labor theory of value adopted by the classical school – not only made price theory one-dimensionally dependent on exchange value for years (diverting attention from use value and, as a result, delaying the marginalist revolution), but also led to a distancing from demand as a stimulus for economic growth. Meanwhile, as a result of the ongoing socio-economic transformation of reality, it was precisely on the consumption side that the economic power of households could manifest itself, complementing the economic potential of the enterprises referred to by Adam Smith (Smith, 1979, p. 263) “household manufacture,” which were in fact family-run manufacturing enterprises (soon, thanks to capital accumulation and advancing industrialization,

some of them would come to represent enterprises in economic theory and cease to be associated with households in the canonical framework).

The utilitarian-driven cognitive individualism of the methodology practiced in the classical school, as championed by Smith and Mill,<sup>1</sup> also contributed to a reevaluation of the traditional understanding of the household. The basis for further analysis is the individual self-interest underlying transactional decisions, which is unintentionally transferred through market mechanisms to the welfare of the general public (Smith, 1979, p. 456; Wight, 2007). The household formally remained the subject of study, but it no longer represented the agents of the traditional economy. It was assigned only the function of a decision-making unit useful – in a given analytical context – (Mokyr, 1999, pp. 58–66), or possibly a synonym for “family,” which was ultimately reduced to an individual transactional decision anyway.

The household had effectively lost its significance among the economic agents studied by economists. The resulting gap was filled by the state, which, in the spirit of mercantilism but under capitalist conditions, was treated not so much as an economic agent as an organizer and guarantor of the potential economic success of other agents, based on the profitability of trade and capitalist production (Wilson, 1959).

Even during the Industrial Revolution, the focus was not on households, although the needs and capabilities of macro-entities such as the state or social class were pitted against their needs and economic potential. Households – and, in essence, family businesses – were viewed at that time primarily as a locus of capital (Colli, 2003) necessary for industrial development, with

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<sup>1</sup> The distinction was introduced by Schumpeter (2010, pp. 57–63) and popularized by Machlup (1978, pp. 471–473) and Blaug (1992, pp. 44–45), despite skeptical remarks by Macfie (1961, p. 23) and Denis (1999), as well as reservations expressed by Udehn (2002, p. 482).

no basis for distinguishing the “subjective specificity” of this category. This was confirmed by the support for collective forms of ownership (Acheson et al., 2015; Barker, 2017).<sup>2</sup> The analytical ideal of this perspective was only shaken by the renaissance of the microeconomic approach in economics, which enriched classical theory with the subjective-marginalist orientation of the Austrian, neoclassical, and Lausanne schools (Black et al., 1973; Blaug, 1996, pp. 277–548; Martins, 2015). These schools supplemented systemic analyses of the economic foundations of the capitalist socio-economic order with elements of economic calculus, the basis of which was seen in individual utility (Birken, 1988; Perelman, 2000). In this way, without rejecting the supply-side interpretation of economic reality, they permanently restored the microeconomic perspective to economic theory. The marginalist orientation of these deliberations allowed for a redefinition of economic value. The cost perspective characteristic of the classical approach (value based on the valuation of necessary labor inputs) was supplemented by the subjective category of utility, based on the conscious decision of a given agent (Dobb, 1973, pp. 166–210). It was precisely this decision-making aspect that inspired subsequent theoretical deliberations conducted within the doctrinal framework of the classical school, which could extend to the activities of households. This refers in particular to the theory of rational expectations by J. Tinbergen, J. Muth, and R. Lucas (Snowdon et al., 1994, pp. 188–235; Snowdon & Vane, 1999, pp. 145–165) and G. Becker’s economic theory of behavior (Becker, 1976; 1993). It is a fact, however, that the mere introduction of the concept of utility into these discussions and its initial use in economic theory did not significantly strengthen the position of the household in the economic models being developed.

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<sup>2</sup> Alfred Chandler interprets this process in terms of the professionalization of business, linking it to the later “managerial revolution” (Chandler, 1977, 1990; Teece, 1993).

The marginalist revolution highlighted the role that individual choices and decisions play in the wealth of nations (Gill, 1981). These became microeconomic determinants of overall welfare; however, this did not automatically lead to a reevaluation of the role of households in economic theory. Supplementing the supply side of the economy with demand based on utility maximization did not alter the significance attributed to supply-side factors in long-run analysis. Although the role of consumers in real economic processes was already recognized at that time (Ekelund & Hébert, 1985; Boulding, 1945; Zalega, 2014), they were not treated for a long time as actors as significant to these processes as producers.

A significant change in this regard occurred only under the influence of Keynes's proposal (Keynes, 2013), which was a response to the experience of the greatest socio-economic crisis of the 1920s (Snowdon et al., 1994, pp. 1–88; Snowdon & Vane, 1999, pp. 1–39).

Keynes's analysis was a significant step toward the evolution of economic doctrine, with implications also for the perception of the systemic impact of households. Thanks to Keynes, the emphasis shifted regarding the role traditionally attributed to economic agents in the modern economy. Optimism regarding the internal mechanisms of the market economy – which were supposed to result in the full utilization of resources in the long run – was also called into question. The identification of insufficient demand as a constraint on the development of the market economy formed the basis for a new interpretation of national income, in which economic growth is explained by consumer and investment demand. Consequently, the well-being of society became dependent on the spending decisions of economic agents (let us add: through the call for stimulus, which inspired interventionism as the basis of economic policy).

The focus on individual consumption choices equated (somewhat uncritically) the behavior of individuals with that of households, as entities managing income. Thus, the modeling

of households' economic behavior was undertaken within the conceptual tradition of neoclassical consumer and choice theory, linked to the issue of consumption in the broad sense. The central issue in this convention is the analysis of income and expenditure, which is, however, supplemented by issues related to utility, extending beyond the framework of short-term consumption and, more broadly, the question of satisfying needs. This is a tradition that, by design, has been subordinated to an analysis focused on firm theory and is thus burdened with a microeconomic perspective in its classical, supply-side form. Keynes's argument was, in fact, macroeconomic<sup>3</sup> – even more so than that of his classical opponents, who focused economic potential on production (Keynes, 2013, pp. 89–131). At the same time, the dependence of achieving equilibrium and full employment on demand stimulation, even if it was concentrated on justifying state intervention, nevertheless influenced economic theory through a paradigm shift in the understanding of the relationship between supply and demand, especially in the context of interpreting equilibrium, economic growth, and national income (Snowdon et al., 1994, pp. 74–75). From the perspective of the doctrinal development of economics, it is reasonable to assume that the resurgence of interest in the household and its decisions is a natural consequence of this process, even if this has not yet been properly summarized either in the form of a comprehensive economic theory of households or

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<sup>3</sup> It is important to emphasize that Keynes viewed his theory not so much as a counterproposal, but rather as a generalization of the theory formulated within the canon of classical economics – something he himself already noted in the highlighted one-paragraph first chapter (Keynes, 2013, p. 3): “The object of such a title is to contrast the character of my arguments and conclusions with those of the classical theory of the subject, upon which I was brought up and which dominates the economic thought, both practical and theoretical, of the governing and academic classes of this generation, as it has for a hundred years past. I shall argue that the postulates of the classical theory are applicable to a special case only and not to the general case, the situation which it assumes being a limiting point of the possible positions of equilibrium.”

in the form of satisfactory results from partial empirical studies that bring us closer to its formulation.

Modeling the economic behavior of households has most often been undertaken within the conceptual tradition of neoclassical consumer and choice theory, which is specifically linked to the issue of consumption in the broadest sense. However, Keynes's demand-side orientation is counterbalanced by the perspective of the new classical economics – with the theory of rational expectations, in its mature form associated primarily with R. Lucas (Young & Darity, 2001). Keynes's adoption of neoclassical price theory and production theory enabled a neoclassical synthesis (P. Samuelson, J. Hicks), but it permanently reinforced the burden of explaining and interpreting economic processes through the automatism of reaching market equilibrium, thereby weakening the agency of demand-side actors. Thus, the actual acceptance of neoclassical production theory in Keynes's proposal constituted the source of its potential undermining. Consequently, this excluded from Keynes's theory such non-model factors essential to it as: uncertainty, information asymmetry, the impact of environmental turbulence, dependence on the accumulation of knowledge, the issue of ignorance, or the influence of randomness. While attempts are made to defend the essence of the demand-side reorientation<sup>4</sup>, regardless of how these attempts are evaluated, they are undertaken entirely from a perspective that does not contribute new content to household theory.

Taking into account the analytical approach to these agents, it must ultimately be concluded that there is a lack in economics of a theory describing the decision-making processes occurring in

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<sup>4</sup> Within the conceptually heterogeneous field of New Keynesian economics, figures such as G. Mankiw, O. Blanchard, D. Romer, R. Hall, and J. Taylor, as well as the similarly diverse group of Post-Keynesians – including R. Harrod, L. Klein, P. Davidson, D. Worswick, H. Minsky, and G. Mongiovi, drawing on P. Sraffa – can be identified.

households, understood as free agents making various choices. While this gap has not been diagnosed in mainstream economics (the concepts and schools dominant in contemporary economic theory, which accept the neoclassical paradigm), it has certainly been revealed through G. Becker's modeling of economic agents' behavior. The theoretical foundations of his economic analysis of behavior are based on several assumptions: 1) the rationality of household behavior, meaning the freedom to decide how to use limited resources to achieve competing goals, which requires their prioritization based on an assessment of the utility and appropriateness of using those resources; 2) the assertion that the market mechanism enables the allocation of resources based on their subjective valuation, subordinated to the achievement of goals; 3) the belief that economic agents' preferences are fixed regarding the assessment of fundamental values produced by the household that are not subject to market exchange.

Becker's theory is consistent with the model of economic agent behavior, defined as *homo economicus*, which is prevalent within the classical school. The essence of both this model and economic behavioral theory lies in the agent's strategic ability to value utility, tactical ability to prioritize goals, and operational ability to select means that ensure compliance with the requirements of normative rationality. However, this model is an idealization of actual decision-making situations, subordinating the complexity of human motivations to utility (devoid of objectivity). Additionally, it abstracts from turbulence in the environment, from various crisis situations of an objective nature, or from individual random factors. For these reasons, Becker's approach is an insufficient basis for describing the behavior of economic agents, including households, and the simplifications made by the author further exacerbate this cognitive deficit of households. This stems from two reasons. J. Galbraith drew attention to one of them when, citing R. Lipsey and P. Steiner, he emphasized that despite the complexity of the household, "all neoclassical theory holds it to be the same as an

individual" (Galbraith, 1975, p. 34); in models – which is a convenient simplification – the specifics of collective decision-making are abstracted away. The second relates to the psychological context of the decision-making process. It concerns the specific nature of individual valuation regarding goals and the selection of means, which sometimes leads to the objective irrationality of the decisions made and the processes implemented, despite their perceived compliance with the requirements of economic rationality – at least subjectively (even if only by some members of the household). Decisions made within a household, which are subjectively justified due to individual motivations, only reveal objectively undesirable effects from a supra-individual perspective as a result of situational assessment. Thus, in the proposed models, actual decision-making processes are not presented. Simplifying them by focusing on the final, individual transactional decision does not comprehensively explain household behavior.

In the neoclassical tradition, an attempt to incorporate the conditions of uncertainty present in the social environment into the individual assessment of phenomena was made by M. Friedman (Friedman, 1957) and E. Phelps, a hypothesis that was adopted and developed within Lucas's theory. It concerned adaptive expectations and indicated how, through the endogenous nature of explanatory variables, to represent in the model the incorporation of expectations regarding their future values. However, this model was not used in the analysis of households, which means that the aforementioned lack of a household theory that would accurately reflect the decision-making processes actually occurring within them persists.

Another interesting proposal was Leibenstein's atomistic theory of consumer behavior, which was based on the conviction that conventional microeconomics fails to account for the relationship between the behavior of households entering the market and operating within it, and the behavior of household members who act within this economic unit but outside the market (Leibenstein,

1976b, p. 179). Although this proposal also did not find wider application, it is worth noting if only because it supplements analytical tools with game theory methods, reflecting – at least at the level of formalized (mathematical) abstractions – the dilemmas of actual decision-making processes. In the problem under analysis, it is necessary to seek new methods that will overcome the existing limitations of doctrinal conventions, which prevent the construction of a theory of households adequate to the current conditions of their economic impact.

The current lack of a theoretical description of households' impacts on their environment weakens the effectiveness of actions taken within the framework of economic policy, including the use of social policy instruments. Various proposals for specific solutions are most often based on a demand-side interpretation of national income. An open question remains: how should the principles and instruments of economic policy be shaped so that they are adequate to the socially (collectively) conditioned realities of decision-making? This question also requires a deeper understanding of household behavior in the context of its economic impact, taking into account the modeling of these entities' behavior based on that understanding. Previous attempts suggest that a set of instruments representing a heterodox complement to mainstream economics may be helpful, allowing for the inclusion in these considerations of aspects of psychological decision-making theory, the psychological entanglement of individual behaviors within a group, and the socio-institutional determinants of decision-making processes. While the latter element is explored by the now uncontroversial strand of institutional economics – still sometimes treated as a representation of doctrinal heterodoxy (Fischer et al., 2018), yet particularly in the version of “new institutional economics” so uncontroversial as to be acceptable even as a necessary complement to mainstream economics – the first two have a more complicated history. It seems that the most mature summary of this history is currently the analytical perspective

promoted by behavioral economics, which develops and complements the body of work in economic psychology.

Psychological aspects have long been present in economic theory (Drakopoulos, Katselidis, 2017). They supported the marginalist revolution within the Austrian School, which, due to its emphasis on the role of individual needs in the context of value theory, is sometimes referred to as the psychological school (Lachmann, 1977, p. 53).

The choice of psychology as a complementary and inspiring discipline for economic theory is obvious. The case of consumer theory, necessarily supported by observations of individual behaviors subject to generalizations, is the best illustration of this. The interaction between the two disciplines across several dimensions (e.g., the exchange of scientific insights, the refinement of empirical methods) yields mutual benefits inspired by the potential of interdisciplinary relationships. The research perspective of behavioral economics involves abandoning the neoclassical model of rationality (Young, 2018, p. 76), by broadening the scope of analyses of individual decision-making to include social factors and psychological conditions. In part, this is a continuation of the postulates of institutionalists, who advocated for the inclusion of the influence of social institutions in the description of behavior (Veblen, 2007, p. 126).

Behavioral economics indicates that the actual implementation of decision-making processes is determined by socially accumulated experiences, knowledge, habits, and norms, which broaden the one-sided rationality of individual benefits. It draws on individual conceptualizations of social experiences, which is intended to protect research from persistent alienation in relation to the complex motivations of economic agents. Recognizing individually absorbed heuristics (which constitute specific cognitive patterns and thus co-create the framework of rationality) as significant determinants of actual decision-making processes brings economics closer to psychology and cognitive science.

Organizational learning in this context refers to changes within a collective entity, evident in the perception of the environment and its conceptualization – which takes into account the conditions of a new decision-making situation – and which influence the course of the processes associated with it.

#### TOWARD A THEORY OF THE HOUSEHOLD: FINDINGS FROM THE ANALYSIS

From the perspective of the doctrinal development of economics, it has been recognized that the renewed interest in the household and its decisions is a natural consequence that has not yet been properly institutionalized, either in the form of a comprehensive economic theory of households or in the form of satisfactory results from partial empirical studies that bring us closer to its formulation. Both microeconomic theories [consumer surplus (Button, 1979; Currie et al., 1971), new consumer demand (Lancaster, 1966; 1971) or selective rationality (Leibenstein, 1976a)], as well as macroeconomic theories [the permanent income hypothesis modifying the Keynesian absolute income hypothesis (Fredman, 1957), the life cycle hypothesis (Modigliani & Brumberg, 2005; Modigliani & Ando, 1963; Deaton 2005) or its behavioral form (Shefrin & Thaler, 1988)], abstract from the complexity of decision-making processes undertaken by households as well as the diversity of the households themselves.

Modeling of consumption behavior, inspired by references to psychology and the theories formulated within it to explain human action, also simplifies the understanding of household behavior (Katona, 1960; 1975; Strumpel et al., 1972; Lesourne, 1977; Haugtvedt et al., 2008). It reduces the relational interactivity of household members to a simple transactional decision. However, it does not capture the complexity of group decisions, and even if it once adequately described the consumption of households

interpreted in a familial spirit (the household as a family), today it is insufficient. The shortcoming of this model stems from the democratization of intra-family relations occurring within the household among its members (adults, adult parents, and children). It also fails to capture the complexity of negotiation and the diversity of goals currently associated with family decisions.

Attempts to account for decision-making complexity in the characterization of household behavior are associated with the negotiation approach proposed in the works of Manser, Brown, McElroy, and Horney (Manser & Brown, 1980; McElroy & Horney, 1981), in which the modeling of decision-making situations is based on the application of the aforementioned game theory. Without prejudging the adequacy of abstract, complex formalizations in describing actual decision-making processes, negotiation models reveal the importance of the intra-systemic clash of interests (individual utility functions), which, through cooperation in the decision-making process, tends toward the rationalization of the welfare function of the entire household. This is a promising approach – all the more so as it continues to be developed (Chiappori & Mazzocco, 2017, and, in an extension to non-cooperative models, for example: Lundberg & Pollak, 1994) – due to its attempt at a model-based integration of team decisions. Unfortunately, game theory – contrary to expectations raised by J. Nash’s solution to the equilibrium problem in the mid-20th century – has so far failed to address the problem of empirical verification of results, which limits its application potential. Additionally, the familiar household model also currently requires expansion, which is significant both for modeling the behavior of non-traditional households (due to limitations related to the availability of social policy instruments affecting the profitability of such households) and for household theory in the economic sense.

The contemporary approach to households focuses on analyzing their role in various social and economic processes, as well as on issues that have not appeared in analyses to date – or

have appeared only very rarely – namely: income inequality, demographic changes, the role of women in the household, and recognizing the importance of their work at home. Therefore, there is a need to develop a theory dedicated to households as real entities participating in decision-making processes with economic consequences, operating within contemporary conditions. The proposal presented below (Table 1), which outlines the foundational concepts, constitutes the author’s formulation of a theoretical framework for specific issues whose consideration is deemed helpful in shaping a theoretical solution that accounts for the contemporary realities of the economic landscape. Identifying these issues does not imply that the conclusions or theses formulated within specific schools of thought are suitable for automatic incorporation into a general theory of households.

Table 1. Components of household theory – a proposal

| Component name                          | Definition            | Possibility of incorporating and drawing on the contributions of the following schools and trends in economics and the social sciences   |
|---|-----------------------|--|
| 1. subject of interest in the theory    | household             | <ul style="list-style-type: none"> <li>➤ sociology of the family, social institutionalism</li> <li>➤ institutional economics</li> <li>➤ social economics</li> <li>➤ demography</li> <li>➤ social and cultural anthropology</li> </ul>  |
| 2. purpose of the subject of the theory | satisfaction of needs | <ul style="list-style-type: none"> <li>– Samuelson’s theory of social welfare</li> <li>– social choice theory</li> <li>– human capital theories</li> <li>– <i>New Home Economics</i> and G. Becker’s theory of economic behavior</li> <li>– P. Doeringer and M. Piore’s dual labor market theory</li> <li>– innovation economics</li> <li>– behavioral economics</li> <li>– social psychology</li> </ul> |

| Component name                                     | Definition                           | <b>Possibility of incorporating and drawing on the contributions of the following schools and trends in economics and the social sciences</b>   |
|--|--------------------------------------|---|
| 3. ways of satisfying needs                        | consumption<br>saving<br>investing   | <ul style="list-style-type: none"> <li>- microeconomic theory of consumer choice</li> <li>- household economics and finance</li> <li>- M. Friedman's permanent income theory</li> <li>- F. Modigliani's household life cycle theory</li> <li>- Keynesian macroeconomics</li> <li>- theories of saving (equivalence theory, permanent income theory)</li> <li>- institutional economics</li> <li>- behavioral economics</li> <li>- social psychology</li> </ul>  |
| 4. behavior and decision-making                    | expectations<br>choices<br>decisions | <ul style="list-style-type: none"> <li>➤ microeconomic theories of demand, supply, and equilibrium</li> <li>➤ new institutional economics</li> <li>➤ psychological theory of decision-making</li> <li>➤ theory of rational choice, K. Arrow's social choice theory, J. Buchanan's public choice theory</li> <li>➤ J. Muth and R. Lucas's rational expectations theory</li> <li>➤ G. Becker's economic theory of behavior</li> <li>➤ theories of human capital</li> <li>➤ cultural and social anthropology</li> <li>➤ behavioral economics</li> <li>➤ complexity economics</li> <li>➤ social psychology</li> </ul> |
| 5. tools, methods, and means of achieving the goal | interest<br>rent<br>capital          | <ul style="list-style-type: none"> <li>➤ Böhm-Bawerk's theory of capital</li> <li>➤ theories of ground rent</li> <li>➤ theories of money and credit</li> </ul>  |

| Component name           | Definition                                   | Possibility of incorporating and drawing on the contributions of the following schools and trends in economics and the social sciences  |
|--------------------------|--|---|
| 6. role in the economy   | household production value of domestic labor | <ul style="list-style-type: none"> <li>– <i>New Home Economics</i> and G. Becker's theory of economic behavior</li> <li>– feminist economics: S. Federici's domestic labor, N. Folbre's care economy</li> <li>– complexity economics</li> </ul> |
| 7. environmental factors | government policy toward households          | <ul style="list-style-type: none"> <li>– institutional economics and social institutionalism (pro-family, senior citizen, and social policies)</li> </ul>   |

*Note.* Own elaboration.

## CONCLUSIONS

In an environment characterized by volatility, uncertainty, complexity, and ambiguity, economic agents adjust their strategies and modes of operation. This also applies to households, which must be able to adapt flexibly to such operating conditions.

In seeking the fundamental issues justifying the development of a theory of the household in economics, the following should be considered leading: (1) the inadequacy of piecemeal attempts to explain household behavior in economic contexts, (2) the unification of decision-making within a factually diverse population, whose characteristics necessarily require reference to the specifics of intra-group interactions influencing the final decisions made, (3) the rapid evolution of social entities currently designated as households, and (4) the absence of a household theory within the doctrinal framework of economics.

A comprehensive theory of the household should combine neoclassical economics (optimization of consumption and labor decisions), behavioral economics (psychological and social

determinants of decisions), and heterodox perspectives (the role of unpaid labor, inequality, and financialization), as well as take into account various aspects of functioning – from financial decisions to social and institutional conditions. Given the expansion of the functions of households – including families – and the roles assigned to their members, it is not appropriate to limit analyses to issues of consumption.

### **Implications and recommendations**

The observations, conclusions, and proposals contained in this study may facilitate the formulation of policies, targeting interventions, and monitoring household behavior in a changing environment influenced by various types of external turbulence, which affect both household decision-making directly and the scale of their reported consumer demand, demand for financial sector services, or transfer support from public budgets.

### **Originality/value**

This study contributes to the literature on household perceptions by providing evidence that changing conditions, technological progress, the growing role of women, implemented technological innovations, etc. appear to be sufficient grounds for describing how households behave in practice and what determines their decision-making processes. In the study, the authors present proposals for selected components of household theory, taking into account existing theoretical and conceptual work that could be used to develop it.

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