Economics of the Family

by Martin Browning, Pierre-André Chiappori, and Yoram Weiss
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This very fine book by three prominent economists—Browning at Oxford, Chiappori at Columbia, and Weiss at Tel Aviv—will provide an invaluable tool not only to population economists but also to labour economists (especially those with an interest in explaining the gender gap) and all economists with an interest in inequality and household consumption (which is to say, almost all economists). The book offers a summary of knowledge (empirical and theoretical), presented in a unified framework, and has "sufficient material for one or two [graduate level] semesters of lectures on family economics." It is at the frontier of research, and the reader will find novel insights and thought-provoking models—for instance, on the mechanisms of assortative matching and their impact on inequality. Of special note, the welfare consequences of the analyses are sometimes counter-intuitive (e.g., the authors show that divorce can be welfare-improving).

It is the hope of the authors (and of these reviewers) that the book will appeal also to non-economists with interests in the family. To that end, the authors have presented the "somewhat technical" discussions in each chapter in non-technical terms, so that "the main ideas … [can be understood] by scholars from other fields who wish to understand the economic approach without necessarily agreeing with it" (p. 5). One aspect of that approach is the (heroic) attempt to account for, and possibly predict, changes in family behaviour—with respect to marriage, divorce, fertility, labour supply, schooling and consumption—without having to rely on changes in preferences, either individual or societal. That is the standard assumption in economics and the basic tenet of the unified framework of this book: individuals make rational decisions based on stable preferences, and decisions change only when the environment changes. Moreover, changes in the environment are most often conveyed by changes in relative prices. We are reminded of the famous quip by James Duesenberry, "Economics is all about how people make choices. Sociology is all about why they don't have any choices to make" (NBER 1960: 233).

That said, non-economists might be disappointed by what they see as the naiveté of economists in assuming stable preferences, and by their (sometimes unacknowledged) reliance on changing norms. A case in point is basing the gender wage gap on the fact that women bear most of the burden of having children (p. 439). It may be true that biology helps to explain the gender wage gap, but what explains the observed change over time in that gap? If not grounded in empirical work, such comments can appear as a patch on a leaky theory.

While different disciplinary approaches bring different understandings and insights into what are inevitably complex matters, this book demonstrates that the focus on production and distribution, how prices affect the choices we make as producers and consumers, and how that directs the allocation of resources yields much insight into the functioning of modern families. An important aspect of the approach in this volume is what is observable or potentially observable, i.e., evidence that could help us assess the relative merits of alternative frameworks in yielding insights. In this regard, the authors bring subtlety and nuance as well as intellectual rigour to the discussion.

Chapter 1, entitled "Facts," presents some evidence—a carefully prepared selection of tables and figures "intended to motivate the analysis … by showing how presumably noneconomic activities, such as marriage and fertility, interact with economic considerations such as work, wages, and schooling" (p. 11). That sets the stage for addressing two aspects of family economics that are central to this volume—"what happens inside existing unions and who married whom" (p. 3). Within unions are questions of joint production (the time that each partner spends in market and home production, including child rearing) and joint consumption or resource sharing (how much goes to each member of the household). Such questions, as they relate to decision making within families, are addressed in "Part I: Models of Household Behavior." "Who marries whom" is addressed in "Part II: Equilibrium Models of the Marriage Market," where the concern is to gain insights at a more aggregative level into how partnerships (marriages) are formed and how environmental factors influence how resources are shared. Here the analysis depends importantly on how much information about possible alternative unions is available and the stability of relationships. The first part of the book (within households) presents findings and insights that are relatively well-known (due mostly to past work of the three authors), whereas the second part is more at the cutting edge of research in the field and, as a result, more exploratory in nature.

While it is recognized that other reasons for living together may dominate, "five broad sources of potential material gains from marriage" (p. 58) are identified and their implications explored. The sources of potential gain are: (1) Sharing goods that are public to the family unit, such as children and housing; (2) Division of labour to take advantage of the differing market abilities of the partners (i.e., specialization based on comparative advantage) and of increasing returns to scale; (3) Credit and coordination of investment (e.g., one partner works while the other pursues further education); (4) Risk taking (e.g., to deal with spells of sickness or unemployment); and (5) Coordinating child care. Weak markets, for example for credit, make the potential gains from marriage and family larger and durable relationships "economize on search, transaction costs, and monitoring" (p. 76).

Cooperative models—and a rejection of the unitary model of household decision making—underlie much of the analysis. They are built on the assumption that stable decision processes exist (although they need not be specified) and that "partners will find a way to take advantage of opportunities that make both of them better off" (p. 102). That implies, at least in typical applications, that outcomes are efficient—in the sense that nothing is wasted and no feasible choice would have been preferred by all members of the household. Another implication is that power sharing within households can be related to the environment in which the household makes its decisions, such as laws governing divorce or access to contraception, or the sex ratio in the population.

Among the many insights that can be gained from analyzing such models:

Does it matter who receives the cheque? Government transfer payments related to children do not affect preferences, and would have the same impact on family budgets whether the transfer is made in the name of the mother or the father. However, consistent with widely held perceptions, the one named may affect how the funds are spent and hence have an impact on the well-being of the children. Results based on the economic model add precision to this notion, and identify the conditions under which the result would hold: if the mother's marginal willingness to pay for children is more income-sensitive than the father's, she would spend more of the transfer on children than would her husband (p. 162).

How are the (material) gains from marriage shared? The major insight here is that what is happening in the broader society, not just within a given marriage, can have a dominant role on how the gains from marriage are distributed within the family. That is because the possibility of divorce and remarriage imply competition from potential spouses outside the marriage, which means that environmental changes can affect the relevant prices. In that situation, changes in legislation, whether in relation to a tax provision or abortion, could affect how income is shared within the household, even if the level of income itself is unaffected. A change in technology and restrictions on its use can be important also, and the effects can be paradoxical when the full (general equilibrium) effects are taken into account. By way of example, better birth control technology benefits all women (p. 353), but limiting its use to married women, as happened in the early years with the pill, would worsen their situation (p. 354).

Readers need not work through the more technical aspects to understand the approach to gain an understanding of how economists approach the family, and to appreciate some of the insights that result. It will come as no surprise to non-economists that treating the family as a single unit ignores the sometimes conflicting interests of individual family members. Analyzing how such differences might be resolved through the use of formal models of family units, and also of those units in a broader society, has yielded informative insights, as this volume amply demonstrates. We note that there is little discussion of transfers to or from elders (the intergenerational transmission of resources) or of the impact that divorce has on the welfare of children. Of course, no one volume can address everything, and the many aspects of family that are touched on in this volume are addressed exceptionally well.

Reference

NBER (National Bureau of Economic Research). 1960. *Demographic and Economic Change in Developed Countries*. Princeton NJ: Princeton Univ. Press.