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Rational Economic Families? Economics, the Family and the Economy[1]

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Introduction

Does rational economic man have a family life? It is difficult to imagine this '... lightning calculator of pleasures and pains, who oscillates like a homogeneous globule of desire of happiness ...' (Veblen, 1919: 73–4) wearing slippers, playing with his children or taking out the garbage. Yet the family is an important economic institution enabling consumers to produce their own utility or satisfaction, using as inputs both purchased and homemade goods and constrained by time. Its organization is crucial to understanding market exchange. To take a pertinent example, the unequal division of domestic responsibilities has long been recognized as disadvantaging women in paid work. Women come to the labour market burdened down with domestic baggage. This is the common sense which Becker, doyen of the New Household Economics, has dressed up in formal mathematics. It is a common sense which can be readily supported by references to married women's earnings in comparison with single women's earnings, or, more dramatically, with reference to mothers' earnings in comparison with the earnings of women who have no children (Polachek, 1975; Joshi, 1987; Blau and Khan, 1992; Joshi, Paci and Waldfogel, 1998). Not surprisingly, therefore, feminist economics has as one of its core demands that economic analysis should take account of the social division of labour as a whole including domestic labour (Gardiner, 1997).

Yet the organization of the family is not something which features in standard neoclassical economic analyses, even when these are concerned with labour market discrimination. Instead standard analyses focus on employers' demand and behaviour which distorts the relationship between relative prices and relative products and thereby produces an inefficient allocation of resources. But feminist discontent with economics goes beyond its failure to fit the structure and functioning of the family into stories about labour market discrimination. It is not that orthodox economics has neglected the family. Recently, the opposite has been the case.

But economists' new-found interest in the family does not originate in its discovery as economic subject matter, so much as in the imperialistic spread of economics as a method. An understanding of economics as a discipline is essential to an understanding of feminist economists' uneasy relationship with their mainstream and to an appreciation of how they might contribute to the broad-based and more interdisciplinary development of a gendered political economy.

Economics is peculiar among the empirical sciences in being defined by an approach, a way of looking at the world, rather than by a subject matter. Neoclassical economists practise by applying constrained maximization in models peopled by rational, calculating, self-interested individuals. 'The combined assumptions of maximizing behaviour, market equilibrium, and stable preferences, used relentlessly and unflinchingly, form the heart of the economic approach ...' (Becker, 1976: 4). This 'hard core' of rational choice model, equilibria and stable preferences has given the discipline its muscle, and powered expansion into the traditional domains of sociology, political science, anthropology, law and sociobiology (Hirschleifer, 1986; Eggertsson, 1990). Yet it is precisely these essential elements of 'the economic approach' which feminists found difficult to reconcile with their view of the world. Feminists were suspicious that women's preferences were endogenous to their experience (Sawhill, 1980; Woolley, 1993); they were unenthusiastic about what appeared a masculine version of rationality (England, 1989; Nelson, 1992); they felt that women faced particular constraints (Bergmann, 1987; Boserup, 1987); and, they argued that current outcomes could operate through feedback effects to produce self-fulfiling prophecies (Humphries and Rubery, 1984; Folbre, 1994). Above all, they were uneasy about the tendency, well-known in orthodox theory, to rationalize the status quo, which to them seemed unequal and oppressive as 'the best available' (Eggertsson, 1990: 214).

This chapter addresses the interaction between feminist analyses of the links between the family and the economy and the treatment of the same issue within mainstream economics. Feminist arguments that the organization of the family might not be the best available are shown to be difficult to develop within the mainstream framework, forcing their proponents to go outside that framework or to attack the hard core of the neoclassical research programme: in either case cutting themselves off from a discipline defined by methodological uniformity. These issues are not academic. Important policy initiatives, such as family-friendly employment practices, rise or fall on the case which feminist economists are able to make (Humphries and Rubery, 1995). Thus the outcome of feminist economists' struggles with their own mainstream bear crucially on the ability of a gendered political economy to play a practical role in policy design. Section one looks briefly at attempts in the 1960s and 1970s, starting usually from a heterodox theoretical tradition, to establish the economic importance of

domestic labour. The way in which the structure of orthodox economics not merely resisted the impact of the domestic labour debate but rendered it irrelevant is an important lesson for feminists today. Section two looks at the mainstream treatment of the family in the 1970s, particularly in the New Household Economics, and shows how feminists starting from a critical response to this literature were drawn to attack basic features of their discipline. Section three pursues analyses of the family associated with the emergence of the Neoinstitutional Economics and asks if game theoretic approaches or transactions cost analyses can help to challenge the conviction that existing family organization is optimal. The conclusion advocates a compromise strategy. The absolute dominance of the orthodox approach requires feminists interested in policy issues to use the small chinks of opportunity afforded their arguments identified in sections two and three, while simultaneously arguing that the orthodox method is biased towards conservative conclusions.

Making domestic labour part of economics

In the early 1960s, the social sciences in general ignored the organization of the family. The division of labour in the family, despite its widespread impact on men's and women's lives, was simply not considered a topic for study. It was 'natural', part of the private sphere separated from the public and governed by personal choice and moral imperative: hence not amenable to political or economic analysis (Gardiner, 1997: 4). These ideas resonated within the orthodox economics of the time.

Feminists challenged these views. The unequal allocation of responsibility for housework and childcare was the central issue in the 1970s feminist movement (Rowbotham, 1990). Women's domestic labour was identified as a key component in their subordinate status. The experience of women in the USSR and Eastern Europe confirmed that women's participation in paid work alone was not a liberation. It merely left women doing a double shift, and as participation rates rose in Western Europe and North America, women saw themselves as trapped in the same long hours and undervalued jobs both at home and in the workplace. Moreover it became clear that housework and childcare (particularly) were not simply going to wither away in advanced industrial society. The unequal disposition of caring work implicit in the traditional division of labour compounded by women's increasing role in paid work, appeared a grinding injustice which most women actually experienced in their day-to-day life.

The source of the bitterness was intellectualized. Why was it that domestic labour had not disappeared in advanced capitalist economies? What role did it play? Why was it mainly performed by women? Most of the feminist economists involved in these discussions had studied heterodox economics, testimony to a less homogeneous approach to the subject at this time. They sought to understand the role of domestic labour within frameworks provided by classical and above all Marxist economics. Protagonists hoped that Marx's labour theory of value would allow the conceptualization of domestic labour as integral to capitalism. Much of the discussion focused on whether domestic labour created value (Gardiner, Himmelweit and Mackintosh, 1975). The eventual conclusion that it did not, as Gardiner has recently noted, confirmed many feminists in their view that 'economics did not speak to the economic reality they experienced' (Gardiner, 1997: 6). The alienation they felt was not offset by acknowledgements that domestic labour was important to capitalism, that it functioned in a variety of ways to secure political, cultural and social conditions which reinforced the capitalist order (Himmelweit and Mohun, 1977). Frustrated by the resistance to feminist concerns which Marxist theory apparently offered, one response was to see gender as a parallel and fundamental contradiction in society. The immediate issue looking back seems petty: who benefited from domestic labour? Men or the capitalist class? But attempts to integrate the Marxist political economy with contradictory gender relations at a structural level in a so-called 'dual systems' approach proved more useful. Patriarchy theory proposed structural models in which men as a socioeconomic group oppressed women. The 'dual systems approach' allowed these to be combined with a historically-specific form of economic organization to explain gender divisions. The integration of patriarchal social relations into a macro political economy drew in historical and cultural factors and allowed feminists to return to the analysis of power relations frustrated in the contemporaneous New Household Economics.[2]

Patriarchy theory has had a major impact in disciplines such as sociology and history.[3] Much debate has concerned the precise nature of the structural relationship between patriarchal social relations and the economy (Humphries and Rubery, 1984). Hartmann (1979) provides an influential account suggesting that patriarchy exists in articulation with capitalism and that men have organized to ensure that they maintain patriarchal power within the workforce and the home. Patriarchy theory thus has clear links to the earlier feminist theme that women's responsibility for unpaid domestic labour is the key to their oppression (for a recent summary of the 'domestic labour debate' see Fine, 1992). The gendered division of labour in the household is not the rational and neutral outcome of an ahistorical comparative advantage but a manifestation of male power in a form functional for the reproduction of the capitalist system. Unpaid domestic workers provide crucial services less expensively than could the state or private enterprise. But the status and nature of this work both denigrates the women who undertake it and handicaps them in their pursuit of paid employment. Housework is a source of conflict between men and women and its potential for generating discord has increased historically as women's entry into paid work has not been accompanied by a parallel reallocation of work in the home.

Hartmann's (1979) paper founded a literature which attempted to unravel the complex relationships between capital and labour and between men and women beginning from housework. In so doing it inverts social scientists' emphasis on the home as the domain of altruism by underlining its potential as the site for exploitation and conflict. The relative openness of structural analysis may prove attractive to feminists disillusioned with the restrictions of neoclassical economics. But the same openness has also proved frustrating to authors unable to establish a hierarchy of determinations in the articulation of patriarchy and capitalism (Humphries and Rubery, 1984).

But despite their (lasting) impact in cognate disciplines, the concept of patriarchy and even attempts to integrate patriarchy into models of economic development through dual systems theory have had little or no impact in mainstream economics. The reasons are obvious. Interest in first domestic labour and second power relations between men and women was initiated by feminist economists who worked in a heterodox tradition. The debate was published in a subset of journals devoted to non-orthodox research. In contrast to other social sciences, mainstream economics, defined by its methodology not its terrain, is cut off from such 'peripheral' literatures. There is no cross-fertilization. Although some of the discussion about domestic labour, for example, was technical (see, for example, Folbre, 1982), it was conducted within a framework alien to neoclassical economists. At the micro level, the labour theory of value was a barrier; at the macro level the structural approach was perhaps even more alien (after all some economists had studied Smith if not Marx!). Much feminist dissatisfaction with orthodox economics can be traced back to precisely this privileging of agency over structure (Folbre, 1982: 1). Of course, the problems are more general than the feminist representations. It is not just the sources of women's preferences which economists neglect. Their methodology has widely been criticized for its naive failure to problematize the relationship between structure and agency (Granovetter, 1985). But it would be equally naive to see these failings as amenable to some marginal readjustment of economic theory. To respond to these feminist criticisms would involve major changes in the practice of economics (Humphries, 1995).

The conclusions from this retrospective are not heartening. There are many reasons why the domestic labour debate fizzled out, including its lack of obvious practical conclusions and its tendency to overemphasize men's freedom from structural constraints (Humphries, 1977, 1991). Patriarchy theory and dual systems approaches have deficiencies which have been widely discussed (see Creighton, 1996, for a recent retrospective evaluation). But both left important legacies in cognate disciplines. The hard conclusion has to be that orthodox economics is impervious to concepts and approaches which lie outside a mainstream defined by an individualist methodology. If feminists working outside the mainstream made little impact, how did those who started off responding to the orthodox treatment of the family fare?

Orthodox economics and family organization

How is the relationship between the family and the economy understood in orthodox economics? The first problem was to explain the existence of marriage as an institution. Why don't men and women buy the services obtained from wives and husbands on specialized spot markets? Economists' interest in this question illustrates the move to generalize economic theory and to pursue applications of 'the economic approach' to exchange outside price-making markets, which culminated in the development of Neo-institutional Economics, and their answers informed this new approach (Eggertsson, 1990). People marry because by so doing they increase their welfare. The gain from marriage, compared with remaining single, is positively related to the incomes of the two individuals, to the difference in their wage rates, and to the level of non-market productivity-enhancing variables such as beauty. The gains from marriage are greater the more complementary are the inputs of husband and wife. Complementarity is acute in the case of children, so the gains from marriage are positively related to the importance of children. Divorce can be handled symmetrically. Marriage-specific capital which increases productivity within the household but is worthless if the particular marriage dissolves stabilizes marriage and reduces the risk of investment in further marriage-specific capital (Becker, Landes and Michael, 1977: 1152; Becker, 1981: 224). Children are the archetypal marriage-specific investment, though Becker, Landes and Michael (1977: 1142) also regard working in the home as in this category.

What of the division of labour in these economically constituted families? Early studies simply took the household division of labour as given, reflecting the preferences of men and women. Women choose to be primarily housewives and only secondarily workers and invest accordingly. If the trained eye of the economist can 'penetrate facades of pompous pretence, cunning deceit and impassioned demagoguery to discern the rational pursuit of self-interest in martyr, merchant and murderer' (Winter, 1987: 616), however unprepossessing her circumstances, the housewife offers small challenge.

But feminists were dissatisfied and sought a deeper understanding of the household division of labour (Ferber and Lowry, 1976). As an explanation 'tastes' was inadequate. Feminists were drawn to ask where such tastes originated and how they were reproduced. In seeing the formation of tastes as part of the economic project they joined forces with other critics of

neoclassical economics to question the core assumption of stable preferences. But in the New Household Economics, neoclassical economists themselves offered an alternative. The division of labour in the household was to be *explained* not taken as given.

Marriage, according to one of the most widely quoted phrases in economics, is conceptualized as 'a two person firm with either member being the "entrepreneur" who "hires" the other' (Becker, 1974). Specialization in market or household activities is an efficient outcome of the allocation of time by family members and the associated increased output one of the most important gains from marriage. But why is it that women specialize in domestic labour and men in paid work? Specialization is explained by comparative advantage. But the gendered outcomes require gendered comparative advantage. Either the argument is circular, women hire men as breadwinners because they earn more while women earn less because they opt out of market work to rear children, or it relies on women's comparative advantage in childrearing following from their biological (absolute) advantage in childbearing. If childbearing and childrearing are even weakly complementary, it is efficient for the family to have women specialize in both non-market tasks, in which case sex-typed socialization prepares individuals for anticipated roles rather than being constitutive of unequal opportunities.

Feminists can still challenge the assumption of complementarity in childbearing and rearing. Becker's own argument involves biological determinism disguised as economic analysis: pregnancy is a prior investment which gives women a greater stake in their children and encourages further investment (Becker, 1981; for objections here see Humphries, 1982). But it is difficult to argue that there are no complementarities in childbearing and rearing. The family and its division of labour may be an efficient solution to the coordination problem, dictated largely by the biological differences between men and women. The gains from specialization in the household presumably compensate women for their reduced capacity to earn in the market, otherwise they would not participate in arrangements which were disadvantageous. In place of the competition which weeded out inefficient firms and workers, neoclassical economists cited natural selection and biological evolution as ensuring that efficient institutions and behaviours were the ones which came to predominate. It is significant that this seminal contribution of the new neoclassicism rationalized the status quo at a new level of sophistication.

More recently, Becker has turned to other factors to ensure the consistency of his model with the gendered division of labour characteristic of the real world. The starting point is 'intrinsically identical household members' (Becker, 1985: S35). But once the traditional division of labour is adopted, and Becker is deliberately vague about why this occurs (perhaps because of high fertility, perhaps even because of discrimination against women which reduces their relative market earnings), increasing returns to specialized human capital becomes a powerful force maintaining and exaggerating the division of labour. Moreover, since housework is more labour intensive than leisure, given again an initial division of labour and a fixed amount of total effort available, married women spend less energy on each hour of market work than married men working the same number of hours. As a result they have lower hourly earnings and will not only work less than they would have done otherwise but will reduce their investment in market capital even when they work the same number of hours as married men.

Becker's latest (1985) argument is one variant of human capital theory, the central approach to wage determination within orthodox economics. Human capital theory explains women's relatively low pay primarily as the outcome of women's free choice: specifically their decision to make smaller investments in productivity-enhancing human capital. Earnings commanded in the labour market depend on an individual's productivity which in turn relates both to his/her innate abilities and to acquired characteristics like education and training, summarized as human capital (Becker, 1964). Rationally, how much an individual invests in him/herself depends on the costs and benefits. Benefits accrue in the future in the form of enhanced wages. The payoff is clearly sensitive to lifetime labour force participation: those who work long hours and anticipate many years in the workforce have the highest expected returns. Women then rationally invest less than men in human capital because they spend proportionally less time in the labour force, interrupting paid work to bear and raise children (Mincer and Polachek, 1974). Moreover while women are out of the labour force they are unable to engage in on-the-job training, they fail to accumulate work experience and their human capital depreciates, contributing to an earnings gap should they re-enter.[4]

Much rides on the source of women's interrupted market activity. If it results from so-called free choice, then it is argued that there is no case for policy intervention; if it is the product of market discrimination or social norms constructed to benefit dominant males, it is discriminatory, a priori inefficient and an appropriate target for equal opportunities policy. Economists subscribe to the former view. Their very description of non-participation as 'specialization' implies rational calculation. By implication, policies which attempt to shift the domestic division of labour would interfere with optimization by husbands and wives based on their specific preferences and be distortionary. 'Investment must be motivated by economic returns. Being shackled with home responsibilities, either by one's own choice or for some other external reason, does not bode well for providing sufficient economic incentives for women to invest at levels comparable to men,' acknowledges Solomon Polachek, leading figure in the human capital school (1995: 71). But he is quick to distance human capital theory in particular and economics in general from the need to study why women may systematically make a choice which disadvantages them. 'Whereas I have not researched why there is a division of labor in the home which causes this gendered dichotomy, I do note societal and government forces at work' (1995: 71). The former are later expanded as the relative youth of wives as compared with husbands and their lesser education; the latter are said to involve 'marriage taxes, restrictive work rules and the unavailability of daycare' (1995: 71). Apart from attempts to neutralize the effects of taxation on husbands' and wives' labour supply, the conditioning influence of family organization on the supply side of the labour market lies beyond the economists' remit: '... it is not up to the state to legislate how many children families should have or whether the husband or wife must take responsibility in raising children' (Polachek, 1995: 75).

Whatever motivates the family division of labour, the distribution of the efficiently produced household product remains crucial in the description of the arrangements as socially efficient. Feminists were not so sure that women were compensated for the baggage that handicapped them in the market (Ferber and Birnbaum, 1977; Blau and Ferber, 1986) and suspicious of assumptions that women's powers to exit inhibited exploitation in the family. The debate moved inexorably to discussion of household decision-making. Here the New Household Economics was weak.

The difficulty involved in aggregating individual preferences into a collective preference ordering has been widely discussed in economic theory (Arrow, 1951). The aggregation of family members' preferences into a household ordering poses the same problem on a smaller scale, and bedevils all analyses which posit a household decision-maker. Early work cut through this problem by simply postulating a family social welfare function (Samuelson, 1956). But Becker, explicitly concerned with allocation and distribution within the family, developed an alternative 'altruist model' (1981). A household is understood to contain one 'altruistic' member whose preferences reflect concern with the welfare of the others. This person (the household head) is wealthy enough to control the intra-family distribution of income. Purely selfish but rational family members will then behave altruistically too as they have an incentive to consider the welfare of the family as a whole ('the rotten kid theorem'), and the intra-family allocation will be the one which reflects the altruist's utility function subject to the family's resource constraints. Becker concludes that individual differences can be ignored and the family treated as a single harmonious unit with consistent preferences, those of the altruist. But this result is *deduced* not *asserted* as in the older approach (see Pollak, 1985, and below; and for doubts about the argument see Manser and Brown, 1980).

Although simple, this solution has proven unpalatable for feminists, highlighting a seeming arbitrariness in economists' view of human nature. The dichotomous assumptions of perfect selfishness in the market and perfect altruism in the home, go back, of course, to Adam Smith and are only formally elaborated in Becker (1981). But feminist unease with economists' model of human agency is surely exacerbated by this bifurcation of behavioural norms (Strassmann, 1993). Not surprisingly feminists have suspected that masculine self-interest underlies its acceptance (Folbre and Hartmann, 1988). What is most objectionable is the way in which the model debars from the discussion issues of power and control. Significantly, Becker never considers a family with *two* household heads for which the rotten kid theorem would fail in general with each head providing too little support to offset selfish behaviour (Hammond, 1987).

Thus economists' standard analysis of the family like economists' analysis of much of their more conventional subject matter, perhaps not surprisingly, comes to similar conservative conclusions: supporting the status quo as 'efficient'. Competition works not only to drive out inefficient firms (including those that hire and pay according to anything other than economic standards) but also inefficient institutions more generally. Women choose freely to participate in families which disadvantage them on the labour market: they reveal their preference for this institutional mix by their choice. By a logic which should be familiar to anyone who has studied orthodox economics, economists square choices, which patently disadvantage women in the labour market, with their assumption of rational behaviour by arguing that the mix of participation and home life chosen is the best (given their preferences) that can be obtained. If there were an alternative superior way of organizing family life and economic participation then individuals would opt out of the traditional family and begin to build these alternative institutions. Indeed we can read current trends both in family formation and structure and in work organization and practices as a slow but efficient restructuring of the institutional fit between the family and the labour market. Out of the voluntary interaction of individuals comes efficient change. Only if the alternative arrangements make somebody better off and no one else worse off will they come into existence, otherwise the individual(s) whose welfare is threatened will block the adjustment. Intervention in either family organization or work practices would only distort the efficient organization of family life and its integration in the market. Thus family-friendly policies which are efficient will be introduced by employers anxious to attract and retain good employees and will be solicited by employees prepared to sacrifice pay for flexible employment. The introduction and spread of innovations in work organization, like working from home, testify to the responsiveness of employers to the needs of employees to fit work around family lives. Employers and employees know the costs and benefits (including many subjective benefits) much better than could any regulatory agency so adjustment is best left to private negotiation otherwise inefficient arrangements will be foisted on employers and employees alike with adverse effects on economic efficiency and competitivity, arguments widely used in opposition to mandatory family leave for example.

The new Neoinstitutional Economics

It is not only the fit between family organization and the economy that has been changing. As suggested above, neoclassical economics itself has been undergoing changes. A new research programme has evolved aimed at generalizing neoclassical economic theory which relaxes the neoclassical assumptions of full information and costless exchange and examines the consequences of positive *transaction costs*. The new approach makes explicit attempts to model the constraints of rules and contracts that govern exchange with the idealized property rights of the neoclassical model taken only as a benchmark. Neoinstitutional economics amounts to a modification of the 'protective belt' of the neoclassical paradigm in Lakatosian terms, and is to be distinguished from approaches which seek to combine positive transaction costs with revisions of the hard core of the theory which constitutes a paradigm switch (Eggertsson, 1990).

Markets and exchange, hitherto the be all and end all of economics, now appear as only one solution to the coordination problem. A large number of complex social institutions are also seen to meet the same ends as markets, more efficiently in certain circumstances highlighted in Neoinstitutional Economics. The family is one such social institution, the firm another. Through these institutions, interest groups as well as individuals bargain and negotiate as well as exchange. More generally, social norms are now included as social institutions facilitating coordination.

The meta-similarity between the old and the new neoclassicism is a belief in efficient outcomes. In the past competition and self-interest were relied upon to weed out inefficient practices. In the new neoclassicism the story is more complex. The new realism suggests a variety of ways in which market economies might malfunction and inefficient outcomes may persist over time. But in the end individuals and interest groups will respond if more attractive alternatives are possible, shaping and reshaping institutions along the way (North, 1981; Eggertsson, 1990). Does the new neoinstitutional economics provide a better framework for understanding these issues or is it simply the same old wine in new bottles and just as likely to give feminists a hangover?

Recent work in the tradition of neoinstitutionalism highlights the importance, obfuscated in the New Household Economics, of studying the internal organization of families as a governance structure for economic activities. Initially developed to understand the emergence of hierarchy in the firm, transaction costs models are readily adapted to explain the existence and stability of marriage. Complex, continuing relationships are difficult to govern via contracts, hence agents resort to a more complete form of integration. Marriage is just such an institution: 'flexible enough to allow adaptive, sequential decision making in the face of unfolding events and rigid enough to safeguard each spouse against opportunistic exploitation by the other' (Pollak, 1985: 595).

But does marriage offer the same level of protection to each spouse? The transaction costs framework allows the feminist point that specialization may not benefit women equivalently to men to be pressed home. The specialized investments in marital human capital must be made in advance of multi-period intra-household production and trading. The nature of the investment may well depend on the transactions price in terms of the rate of exchange between the wife's specialized contributions and other output, which may in turn depend on information revealed after the investment is made. A limited agreement on investment and trading may be optimal, leaving transactions price to future negotiation. Husbands and wives may not specify precisely the terms on which earnings, domestic labour and childcare are to be shared throughout the marriage, but agree in general terms that they will specialize and then exchange. But as in the case of other types of incomplete contracts, this may lead to a moral hazard problem within marriage. Restricted or incomplete contracts prevent the assignment of full damages (benefits) and allow individuals to maximize their own utility to the detriment of others. Opportunistic behaviour by the spouse who has not specialized in marriage-specific capital may lead to termination of trading or unfavourable contract terms for the spouse who has invested in specialized capital. Women who are trapped in marriages by their lack of general capital are exploited. But it is not simply that marriage is stabilized at women's expense, but that women, knowing that this may occur, have less incentive to invest. A suboptimal level of investment in marriage-specific capital, essentially in children, results.

If the internalization of externalities implicit in marriage does not prevent such opportunistic behaviour, other conventional solutions involve third-party policing of the implicit contract. Divorce courts insure women against the bad outcomes implicit in heavy and asymmetric investment in marriage-specific capital. But as theory predicts, third-party investigation and policing does not provide complete protection. The evidence is overwhelming that women and children suffer economically from divorce much more than men.

Investment in market capital might strengthen women's position within marriage by ensuring that they retain options outside marriage. But any incentive which this greater security provides to invest in marriage-specific capital runs into the constraints of women's available time. A more innovative approach, which might produce a better level of investment in marriage-specific capital, albeit at the expense of the gains from specialization, involves persuading husbands to become less specialized alongside wives. Simply making such options as paternity leave available is consistent with

allowing individual couples to optimize, perhaps trading off the efficiency of specialization for a different distribution of work, household production and leisure, and a better level of investment in family capital. Whether or not families avail themselves of the opportunities to decrease men's specialization depends on the value of the forgone benefits of specialization, the power of cultural constraints and the weighting of spouses' preferences in the process of family decision-making.

Bargaining models have also been used within the Neoinstitutional Economics to investigate intra-household decision-making. They too abandon the concept of a joint preference ordering and model household decisions as a result of intra-family bargaining (Manser and Brown, 1980; McElroy and Horney, 1981; Pollak, 1985; Lundberg and Pollak, 1993; Ott, 1992). Formal game-theoretic models and non-formalized bargaining frameworks have been applied to a range of household issues, including topics such as domestic violence, fertility decisions, divorce, divorce settlements, dowry and excess female mortality, but the most common is the allocation and distribution within the family.

In the altruist model allocations within households are determined by total income not the contributions of individuals; in bargaining models and the transaction costs approach, the allocation depends systematically on the wealth, income and earning power of individual family members as well as on their sum. Partial specialization in household production makes wives more dependent on their husbands; the earnings which they can command in the market are reduced and the capital built up in marriage is specific and not readily transferable. Women's bargaining power relative to their husbands is likely to be reduced. To be credible their threat points have to conform with the negative economic consequences which such specialized women face on divorce. Again this suggests that the gains from marriage will be captured disproportionately by husbands. Significantly the case of coordinated activities and several possible equilibria is usually illustrated by economists using the so-called 'battle of the sexes game'. Let us assume the following situation. When deciding where to spend the vacations, the wife, W, prefers to go to the beach, while the husband, H, likes to holiday in the mountains. But if W and H are at loggerheads about their ideal destination they coincide in their preference to holiday together. For each partner it is better to be together than to be alone in the individually preferred venue. The satisfaction levels associated with the choices are shown in Figure 3.1.

The assumption of a strong preference to spend the vacation together rules out the upper right-hand and lower left-hand boxes as possible. The end result will be one of the two boxes offering values of 8 and 10. But which one?

Both the upper left-hand box and the lower right-hand box represent Nash equilibria and, from an efficiency point of view, it is impossible to

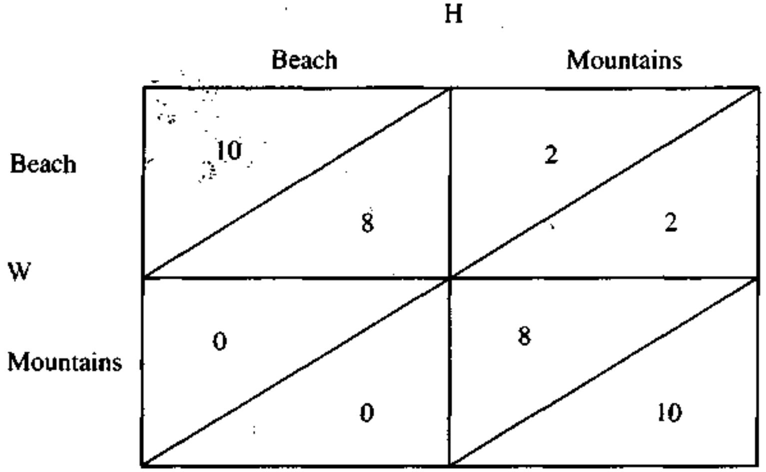

Figure 3.1 Satisfaction levels in husbands' and wives' holiday choices

judge between them. The choice has to be based on other criteria. If both partners are equal and if their preferences are equally strong, the decision to go to the beach one year and the mountains the next would be the way to reinforce cooperative behaviour in the marriage partnership. But other solutions are possible. If one of the partners is dominant for some reason (for example by bringing more money into the household), then it is more likely his/her preference will prevail. In this case he/she will benefit more from the vacations. The 'battle between the sexes' demonstrates both the indeterminacy of the solution to this kind of game and the way in which power enters behind the scenes to select a particular (unequal) outcome.

Empirical evidence that marriage is an increasingly unstable institution has been interpreted in terms of these models. Early contributions chose to steer clear of issues to do with distribution within the family and explain increased rates of divorce in terms of technical changes which reduced the overall returns from marriage (Becker, Landes and Michael, 1977). But increased instability has been associated with the rise in female activity rates in recent years. Increased participation means improved options for women outside marriage so they opt out. Tentative evidence of distributional change within marriage also hints at institutional revision in the face of improved opportunities for women. Just as the conventional neoclassical perspective interprets the status quo as optimal, so the new institutionalism cannot but help seeing institutional change in Panglossian terms, as an efficient institutional response to individuals' and interest groups' pursuit of their self-interest in changed economic circumstances.

However, in the meantime, before we get to the best of all possible worlds, perhaps as a result of institutional transition, there seems to be a gap between women's expectations and reality. The drops in income, which women and children suffer as a result of divorce, are so large that it seems unlikely that they could be offset by psychic gains from changed marital status. It is more likely that women's and children's measured share of family income overestimates their actual share and paints too rosy a picture of their economic situation within marriage.

The problems which remain are not just the formidable ones involved in rendering the alternative models amenable to empirical testing. One-period games, in which negotiation about possible cooperation occurs just once after which the players disperse never to interact again, are clearly inappropriate for analysing the ongoing interaction and decision-making families undertake. But both the multi-period bargaining models and the more general transaction-cost approach seem to require a sacrifice in determinacy: 'one in effect abandons the sharp testable implications of ... [the conventional model] ... without necessarily putting alternative clearcut predictions in their place' (Killingsworth and Heckman, 1986: 133). The multiple equilibria found in the 'battle of the sexes' is a relatively common result.

Feminist economists have been lukewarm about modelling family decisions as bargaining games fearing that the technical characteristics of game theory and the constraints they impose may well limit the insights about gender relations inside and outside the family that this approach can produce (Seiz, 1991). The looser framework imposed by the transaction costs approach may be preferred by feminists anxious, for example, to integrate institutional and cultural variables into their analyses (see Woolley, 1993). However, it is important to emphasize that bargaining models lead to very different predictions about household decisions in comparison with the traditional approach where decisions are understood in terms of maximizing a joint utility function. The predictions are especially different with respect to labour supply and fertility behaviour (Ott, 1995). Not only does empirical evidence suggest that the bargaining approach is more relevant but also the predictions are not necessarily consistent with efficient organization. Two important examples are sketched.

It has already been emphasized that intra-family specialization results in different human capital accumulation. Specialization in market work increases the individual earning power that can be utilized independent of household composition. Specialization in work at home on the other hand implies a denouncement of human capital accumulation and consequently a loss in earning power. Additional skills in household production are acquired, but utilization of these skills is limited to the household. Therefore the returns on investments in household-specific human capital depend on the persistence of the household in a particular form.

Thus intra-family specialization affects the external alternatives of the spouses and consequently their bargaining power within the family will change. If the family contract is not binding for a whole lifetime and renegotiations are expected to occur at later dates, rational individuals will take these dependencies into account when making their decisions. Time allocation in the household is chosen not only with the goal of maximizing household production but also with regard to the future bargaining positions of the spouses. Ott suggests that such a negotiation situation can be described by a dynamic model with subgame consistency as proposed by Selten and Guth (1982). In this case it can be demonstrated that the reservation wage for the person with the lower participation will be higher than it is in traditional models. This results in higher labour force participation rates. The need to shore up negotiating power within marriage drives weaker partners into higher participation in paid work.

The basic assumption in the traditional model is that all family members are interested in maximizing household production because all family members share in the additional production. It is assumed a priori that all possible gains in the family will be realized and that the optimal allocation of household resources is Pareto efficient. In the bargaining model, however, the same decision parameter determines both the total welfare produced and its intra-family distribution. Therefore, situations are possible in which an increase in household production is combined with an intra-family distribution that leads to a reduction in welfare for one member. This person would block such a decision and possible welfare gains would not be realized. Such a situation is very similar to the well-known prisoner's dilemma. It has been dramatically expounded in the context of the decision to have children (Ott, 1995).

Assume a child increases the utility of both spouses. Assume also that having a child would result in a net welfare gain for the family, that is the gains in total welfare exceed the costs. Then the traditional model would predict that the decision would be in favour of having a child. The shifts in intra-family bargaining power associated with having a child are not considered. However these changes are highlighted in the bargaining model. Consider the situation where having a child can only be accomplished by disrupting the working life of one spouse, realistically the wife. Maternity leave affects the wife's bargaining power because her earnings capacity, and consequently her threat point, are weakened. If the change in her bargaining position is large then the new outcome may reduce her welfare below the status quo level and she will not agree to the decision to have a child. To reach a Pareto efficient solution a contract about future distribution is necessary. The spouses are free to fix the future distribution and to agree that they will not renegotiate. But if the contract is not enforceable, its asymmetric structure works as an incentive for the spouse with the improving position to renege at a later date. The woman stopping market work makes her contribution immediately and the loss in her earnings is irreversible; the husband is to contribute in period two when the additional welfare benefits have already been obtained and the outcomes in the case of disagreement changed. If he breaks the contract here and asks for renegotiation, he can gain additional benefits. In the absence of external sanctions to enforce the contract, the risk of break-up is high. By anticipating this risk, rational individuals will not agree to such a contract and possible welfare gains will not be realized (Ott, 1995: 91). Ott's own empirical evidence in support of the bargaining model in the context of the fertility decision can be readily supported by the collapse in the reproduction rate across Europe as marital instability has risen and the costs of women interrupting their work histories have been publicized (Bettio and Villa, 1998; Davies and Joshi, 1995). This particular example has great current resonance and political economic importance in the context of pay-as-you-go pensions, but the point is that the analysis is general. The main difference in comparison to traditional models is that in the dynamic bargaining model a solution may result that is not Pareto efficient. If the long-term contracts are not enforceable in the second and subsequent time periods, optimal behaviour is not welfare maximizing. The complacency of neoclassical economics is undermined.

The new approaches to marriage and the family are of use to feminist economists in that they expose the ways in which women, as the persons who specialize in home production, may be disadvantaged, and go on to predict that to defend themselves against future opportunistic behaviour by husbands will under-produce marriage specific capital. We have seen specifically that market failure in marriage may mean that mutually advantageous trades (decisions to have children) will not be taken up because of fears about the future sharing of the costs and benefits. The general interpretation of these results is that contemporary marriage is likely to underproduce the quantity and quality of children. This important result is strengthened by the argument that children are (to some extent) public goods. Although not widely discussed in the orthodox literature, such a view underpins the collective provision of education. The extension of state support for childcare and other family supports is usually presented in terms of equality policy (Gardiner, 1997: 207). But it can be strengthened by the result demonstrated above that if left to be carried out by mothers in privatized families childcare will be underproduced. Mounting evidence from child psychologists and child development experts on the importance of childcare and the costs imposed on society of inadequately nurtured children as well as the lasting social benefits of a 'headstart' take the case beyond the equality issue and have broad political appeal. Moreover, while clearest in the case of children, the externalities argument can apply more generally to the mutual nurturing that takes place within the family.

Conclusion

Economics really matters. It shapes debates about policy and often determines outcomes. The debate about the organization of the family and its relationship to the economy has played a key role in high profile public debates about the reconciliation of work and family life generally and the case for family-friendly policies in particular in Western Europe, the UK and the USA (Trzcinski, 1995; Humphries and Rubery, 1995; Laufer, 1998). The economics that matters is neoclassical economics and to argue a case for policy intervention feminists must operate with the *method* of the mainstream. The failure of the domestic labour debate to be of interest within, let alone influence, mainstream economics teaches this. It is a lesson which must influence feminist economics and the contribution of feminist economics to a gendered political economy. It is possible to cast feminist arguments within the framework of orthodox economics broadened out by neoinstitutionalism (see Bruegel and Perrons, 1995). Trzcinski (1995) describes how it was done by the proponents of the Family and Medical Leave Act in the USA following its veto by President Bush in September 1992. They chose to present children as public goods and emphasize the social costs involved in childrearing.

But it is not easy to cast feminist arguments within the framework of orthodox economics which offers key advantages to the opponents of intervention. Again in the case of the Family and Medical Leave Act, employer organizations rejected the argument that children are public goods and denied their responsibility to share the social costs of raising them. Both the theoretical and empirical cases for intervention were novel and the latter, in particular, involved proponents of the legislation in urgent and difficult research (Trzcinski, 1995; see also Holtermann, 1995). Moreover, opponents of the Act relied on standard neoclassical analyses to form the cornerstone of ideological and theoretical opposition to mandated job-guaranteed family and medical leave. In justifying his decision Bush stated that he opposed mandates in general and claimed that such policies did not meet the needs of US families. Essentially he argued that mandating family and medical leave would impose an undue burden on employers and ultimately cost jobs. Similar arguments were used in the UK to fend off various family-friendly initiatives emanating from the social charter.

As these examples suggest, feminist economists are a long way from establishing a theoretical and applied family-friendly economics. Perhaps the best strategy is to use whatever arguments are available within the mainstream paradigm (see Folbre, 1994), while expressing reservations about an approach well-known for its sympathy with the status quo. As Trzcinski notes 'Neoclassical economics, as it is applied and taught in the US, more often serves conservative than progressive agenda' (1995: 246). And despite the changes neoclassical economics has been undergoing so

long as it continues to privilege the individual over the social in the hierarchy of causation, whatever exists must be optimal otherwise it would have already been changed. As Eggertsson says:

> According to the Pareto criteria, changes must be voluntary, and it follows logically from the assumptions of the neoclassical model that all adjustments where benefits exceed costs will take place. Note that an involuntary change...can lead to a very large increase in total output...but involuntary changes cannot be evaluated in terms of the neoclassical concept of efficiency...
>
> (Eggertsson, 1990: 214)

According to this view if rational economic man does have a family life, it must be the best available, otherwise he and the other family members would have voluntarily renegotiated it!

Notes

1 An earlier version of this chapter appeared in *New Political Economy*, 3(2), July 1998.
2 Diane Elson presents an alternative formulation of gender at the macro level in Chapter 5 of this volume.
3 *Recent surveys include Walby (1986), Fine (1992) and Charles (1993).*
4 See also Jean Gardiner's discussion of human capital in Chapter 4 of this volume.

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