

The Economics of Marriage

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- Lecture 1: An overview of major theories of marriage
- Lecture 2: Marriage markets, quasi-wages for household production, and female labor supply
- Lecture 3: Selected topics in the law and economics of marriage

Lecture 3: Selected topics in law and economics of marriage

- Law and economics, generally, is about applying economic analysis to understand the effects of laws and the economic logic behind various laws.
- So far, “marriage” has been used in a broad sense and has included partnerships similar to marriage. From a Law&Econ perspective, the institutional arrangement matters too.
- Some ideas about marriage contracts
- Analyzing individual choice of institutional arrangement regulating family life:
 - Marriage vs cohabitation
 - Marriage or cohabitation (couple) vs non-couple families
 - Four-way choice between marriage, cohabitation, visitation, and no co-parenting

- Policy question: what is the optimum government intervention?
- Statutory law versus regulation of private contracts?
- Important role of religious regulations and other institutions; not only 'law and economics of marriage and family' also religion and economics of marriage and family

Some ideas about marriage contracts

- The following equilibrium condition assumes individuals make decisions at the margin. It ignores institutional constraints such as limits on freedom of exit and transaction costs involved in contracting;
- Institutions matter; in the case of marriage these are laws such as laws regulating polygamy, age at marriage, and divorce.

Equilibrium condition

$$\frac{MU_s}{MU_x} = y + \frac{MU_{hi}}{MU_x} = w + \frac{MU_{li}}{MU_x}$$

- MU: marginal utility
- $y + \frac{MU_{hi}}{MU_x}$: Total compensation and benefits per hour of own hh labor
MU_x MU from x
- $w + \frac{MU_{li}}{MU_x}$: total compensation per hour of labor in labor market

Marriage markets and quasi-wages

y

- An element of these quasi-wages is established in markets. Effect of Demand and Supply, as discussed in sex ratio effects
- Another element is that laws affect the equilibrium y .
- Example 1: the effect of imposition of monogamy.
- Example 2: permitting divorce, i.e. giving freedom of exit; or making divorce easier.
- Example 3: laws regarding the division of property at divorce

Prohibition on polygamy

- If men and women are otherwise free to contract on their own, it is expected to favor women!!!—
show graph
- However, societies allowing polygamy typically also exert oppression over women who are denied some basic property rights over themselves
- More on this topic can be found in Grossbard-Shechtman 1993

Effect of no-fault divorce

- See Grossbard-Shechtman: “Marriage Market Models” in Tomassi and Ierulli eds The New Economics of Human Behavior, Cambridge U Press, 1995.
- No-fault divorce could mean a lower y_f if old law was boosting y_f and men now leave long time marriages; it could mean less alimony, fewer ‘housekeepers’, and more women in the labor force.

Becker's (1981) application of Coase theorem to divorce law

- It does not matter who gets more gains from marriage as a result of different divorce laws as far as the probability of divorce is concerned. Showed that introduction of no-fault divorce only had temporary impact on divorce rate
- Big controversy on this topic. Large literature, including Elizabeth Peters, AER 1986, and Leora Friedberg AER 1999.

Does Community Property Discourage Unpartnered Births?

With Olivia Ekert-Jaffe
Institut National d'Etudes
Demographiques, France

Introduction

- In recent years in the West, number of children born out-of-wedlock has increased dramatically. We are interested in out-of-couple births, and for the purpose of this paper ignore the differences between children born to married or cohabiting couples. From a perspective of policy, UNPARTNERED BIRTHS are a major problem.
- Number of children born out-of-couple has not increased as much. In some countries it has been higher (15% of all first births in survey for years 1963-1992 in the U.S, 20% in Austria; 19% in Common Law Canada), and in some other countries it has been much lower (e.g. in Italy only 4% of all first births in similar survey). This paper offers a novel explanation for the likelihood that women have unpartnered births: variation in **rules of property division at divorce. We study the effect of cross-country variation in those rules, using a sample of 12 Western countries and 17 legal regimes.**

Overview

- Major prediction from the theory: **the more the law protects low earning mothers in case of dissolution, the higher women's financial advantages of giving birth in couple, and the lower the odds of an unpartnered birth.**
- Classification of Rules for Division of Joint Property (RDJP) in case of divorce: 12 Western countries placed in 4 categories: Low Community (includes Common Law), Medium and High Community and No Divorce.

Theoretical framework

- **Rational** choice model based on marriage market analysis
- Model develops decision-rule for women; men influence decision by affecting the opportunities that women choose from

Decision rule

- women willing to work in marriage value financial and material benefits in marriage (y) relative to A , the benefits of having a child alone. An element of y is influenced by D and S and therefore a function of decisions by both men and women

$$R^* = A - Y$$

is defined as a latent variable but we observe R , the decision to have an unpartnered birth. We assume the decision rule:

- $R^* > 0$ then $R = 1$
- $R^* < 0$ then $R = 0$

y, Financial benefits from having a child in couple

y includes the following components:

- B, financial material benefits from being married x probability of being married
(the higher B, the fewer unpartnered births)
- D, financial material benefits from being divorced x probability of being divorced or separated): fewer unpartnered births if tradition-bound women can expect higher material benefits in case of divorce
- Probability of divorce

Financial benefits from having a child in couple (Cont.)

$$y = f [(1 - pd) B + pd D],$$

Other explanatory variables in our analysis:

- three kinds of observable variables :
 - macro-societal factors,
 - women's individual characteristics, and
 - interactions between macro factors and individual characteristics.

Predicted Macro Effects: RDJP and sex Ratio

Rules for the Division of Joint Property in case of dissolution (RDJP):

When tradition-bound men and women form couples, the men typically earn more than the women. The more such a couple's joint property is considered community property, the more women are likely to benefit in case of dissolution (the higher the expected D). We therefore predict that *the higher the degree of community of joint property, the lower the probability of an unpartnered birth.*

Sex Ratio and unpartnered births

- sex ratio, defined as the number of men divided by the number of women participating in the same markets for marriage and cohabitation:
 - When sex ratios are lower, tradition-bound women get lower y (low demand by men relative to supply by women)
 - When y are low, Unpartnered Births are high

Prediction: sex ratios and unpartnered births are inversely related

application: Women born right after WWII faced with lower sex ratios and therefore experienced higher rates of Unpartnered Births

Note: How rapidly did births grow in 1946-50?

- In 2000, in many of the countries covered in our study:

the number of people born in the years 1946-1950 was substantially larger than the number of people born in the early 1940s: it was 28% higher in Norway, 30% in New Zealand, 31% in Belgium and the U.S.A., 43% in Finland, and 47% higher in France.

Note: not so for Germany, Italy, and Spain (pronatalist policies during WWII) or for Sweden (neutral in WWII)

Summary of Predicted Effects on Unpartnered Births, part I

<u>Variable</u>	<u>Effect on Unpartnered Birth</u>
<u>Aggregate Variables:</u>	
Rule for Division of Joint Property (RDJP)	
Low degree of Community Property	+
(LG) High degree of Community Property	-
(HC) Cohort of 1946-1950	+
<u>Mother's Personal Characteristics:</u>	
Teenage mother	+
Mother comes from a Non-Intact (NI) family	+
Mother has low education	+
Mother out of labor force	-

Predicted interaction effects

- **Interaction between RDJP and teenager:** Teenagers are less rational and have a higher discount rate. *We therefore predict that legal regime will have less impact on unpartnered births among teenagers than among women in their twenties.*

Interaction between RDJP and religiosity

- Predicted effect of religiosity: not clear
 - If it discourages premarital relations: negative effect on UB
 - If it discourages abortions w/o encouraging adoptions: positive effect on UB
- BUT A CLEAR PREDICTION REGARDING THIS INTERACTION Effect of RDJP if religiosity reduces R by discouraging premarital relations: religious women better equipped to be responsive to financial incentives that discourage unpartnered births In this case both religiosity and the interaction between favorable RDJP and religiosity will have negative effects on R .
- Effect of RDJP if religiosity leads to fewer abortions: religious women will be less responsive to RDJP. Therefore, the effect of religiosity on R and the effect of the interaction between favorable RDJP and religiosity on R are both expected to be positive.
- Either way, ***the simple effect of religiosity on unpartnered births and the combined effect of religiosity and favorable RDJP are predicted to go in the same direction.***

<u>Interactions with RDJP</u>	
Teenager in LC country	-
Teenager in HC country	+
Non-intact family in LC country	?
Observant of religion in LC country	Sign in opposite direction than the main effect of religious observance
Observant of religion in HC country	Sign same as the sign of the main effect of religious observance

Cross-Country Differences in Law

- For each country in our sample we examined the Rules for Division of Joint Property at divorce (RDJP, see Vogel 2002).
- From the perspective of a tradition-bound woman, *Community Property* rules are more advantageous; rules based on *Common Law*, where personal discretion of judges plays an important role, tend to be less favorable to tradition-bound women.

Unpartenored First Births and Rule for Division of Joint Property

Group of Countries	Rule for Division of Joint Property	Degree of	Percent of Unpartnere d Births
Group 1: New Zealand	Common Law Change in '76	LOW	11-
USA, Canada (part of),	Predominant: common law	LOW	15-19
Group 1bis: Austria	Separation of Assets/Some Acquired Assets	LOW/Medium	20
West Germany	Acquired Assets/separati on	Medium	11-
Group 2			
Flanders, Quebec + Ontario, France, Finland	Acquired Assets ^c	MEDIUM	3-11

More simple evidence of a negative correlation between RDJP protecting tradition-bound women and unpartnered births

- New Zealand exhibited a rate as high as 15% before the Matrimonial Property Act of 1976 was passed, instituting Community Property; unpartnered births for the period 1976-1995 then fell to 9%.

Data

- *Demographic Data.* From Family Fertility Surveys (FFS) retrospective data collected for women aged 15-59 in the mid-1990s
- We selected a sample of women who had their first birth in the years 1963-1992. For countries that experienced changes in RDJP during this period, we dropped years of transition between legal regimes. For instance, we dropped observations for the transition period 1978-1984 in Ontario, Canada.
- We selected 12 Western countries (or parts thereof) that had all or some of the data crucial to our study, including mother's year of birth and whether a woman was married or cohabited during the nine months preceding the birth of her first child.
- Divorce law variable based on cross-country variation as well as intra-country variation over time, where relevant,³⁰ and distinction between two kinds of legal regime in

Variables

- Our twelve-country model includes
 - RDJP dummies
 - child's year of birth, an indicator of time trend
 - mother's age at birth and the square of age, centered at its sample mean (23 years).
 - categorical value of age (older than 29).
 - dummy 'mother born in the years 1946-1950'. This cohort, born right after World War II, was part of a dramatically rapid baby-boom.
 - Interactions between RDJP and age variables
- The countries: A, Be, Ca, Fi, Fr, Ge, It, NZ, No, Sp, Swe, and US

More models

- Ten-country model: adds information on whether a woman's parents were divorced when she was 15 years old (excludes No and NZ)
- Eight-country model: adds religiosity variable and interaction between religiosity and RDJP (excludes No, NZ, Be, and Fr)
- Seven-country model: + individual histories, thus making it possible to calculate a woman's occupation and education nine months prior to giving birth to her first child. (includes Au, Fi, Ge, It, Sp, Swe, and US)

Method

- **Weighted logit,**
- **Robust Estimated Standard Errors are Adjusted for correlation intra countries.**
- **Pseudo-likelihood Estimation**

Tests for Robustness

- We tried models that included other country-level variables that are correlated with our RDJP dummies. We also estimated regressions including country-level divorce rate and country-level religiosity (not reported)
- We tried multi-level analysis modeling two levels (country and individual, see Goldstein 2003) gives almost the same estimates of direct effects.
- We tried inclusion of dummies capturing whether a country has a catholic majority and dummies for the year a country legalized abortions

Basic finding

In countries with RDJP that are more advantageous to tradition-bound women the likelihood of an unpartnered birth is lower.

Women living in countries with medium levels of Community Property (MC) have a lower likelihood of giving birth without a partner than women in countries with low levels of Community Property (LC) and women in countries with a high degree of community in joint property (HC) have a significantly lower percent of unpartnered births than women in countries with MC (medium levels of Community Property).

Further finding confirming our prediction:

- the generation born right after WWII--a generation characterized by very low sex ratios--diverges from the trend and has a particularly high rate of unpartnered births.