

Family Formation and Risk Aversion

*Peter McDonald and Ann Evans

* Demography Program, Research School of Social Sciences, Australian National University

The purpose of our study is to examine how decisions about relationships, children and living arrangements in Australia have been made in the context of changing education and work trajectories, and how pathways have changed over time. We are not simply concerned with average experience but with the extent of variation (heterogeneity) in the population and with the factors that are associated with heterogeneity. Are the gaps between the experience of the highly educated and the lowly educated getting wider or narrower?

The theoretical framework that we bring to the study is the notion that young people have increasingly taken on a risk aversion strategy in negotiating their life courses. We postulate that young people today have a much more highly developed sense of risk than young people of a generation ago (the baby boom generation). A central feature of globalization has been the emergence of a new labor market that is competitive and insecure but potentially lucrative for the most successful workers. Jobs that were once secure, lifetime positions have become insecure under labor market reforms that make it easier for employees to be fired or downgraded. Computerization has meant that many new jobs are in small, high-risk firms and contracting out of services has given rise to a broader range of short-term contract or casual jobs. Previously, high risk was associated primarily with low-level jobs. What is different now is that a high risk of variable outcomes has been extended across and up the labor market. Restructuring has led to an accompanying shift of jobs to the qualified and credentialed workers. These new labor market conditions have affected young workers to a greater extent than older workers because older workers often have defined benefits as part of their employment that are not easily removed. New entrants, however, have not been afforded the same job protections. The rate at which companies come and go is also on a steeply rising curve. Most of the bankruptcies are in small companies and are largely unseen but we have also witnessed the demise of some very large corporations, a visibility that promotes the perception of risk. Globalization also means that decisions about a person's job are often made very remotely and impersonally. At the other end of risk, the new labor market also offers great financial rewards to those who are successful in its terms. The deregulated

labor market increases inequality and, hence, provides great incentive for young people to strive to be on the upper end of the Lorenz curve.

Investment in personal human capital is the most effective hedge for individuals against the risks of the new labor market. In the new economy, if a person's level of human capital is high, he or she can maximize returns while employed but also regain employment more quickly when the work or job ends. Young people today expect to change jobs relatively frequently and expectations are borne out by experience. This is not an argument only about high level positions and skills; the same argument applies at lower levels as well. For example, a person working in the retail industry today is expected to have sales skills, people skills, computer skills and perceptive skills that enable them to report trends observed on the shop floor to higher levels. These skills are gained increasingly through academic education, on the job training and cumulated work experience. As security is normally higher at higher levels of the firm, the employee behind the counter needs to have an eye to promotion to a more secure position. Likewise, a tradesman today relies upon knowledge of more advanced skills obtained through tertiary education and the accumulation of a reputation for good and reliable work. However, the accumulation of personal human capital, as argued below, conflicts with the pursuit of family formation, especially for women in societies where the level of gender equity is low.

The family and the market

Whether related or not, the new identification of workers corresponded neatly with the restructuring of economies in the 1980s in line with a philosophy that the free operation of the market is the most efficient and effective form of economic organization. In the past 20 years, regulations and restrictions have been reduced so that capital can flow easily in the direction that maximizes business efficiency and profit. The theory is that profitable businesses mean improvements in employment and wages and, hence, in economic wellbeing. The characteristics of this new economic regime are small government and low taxation, free flow of capital across international boundaries, free

trade, freedom for employers and workers to determine wages and working conditions, and curtailment of government-funded social welfare. In distributional terms, the system rewards innovation and hard work and, hence, provides incentives for both. The individual worker has greater freedom to sell his or her skills to the highest bidder. Governments, both national and international, take on a new role as facilitators and regulators of the system. And employers have no interest in the family status of their workers and, accordingly, feel little or no responsibility for workers' families.

In the 1990s, it can be argued that the free market system, on average, has produced greater levels of prosperity in most industrialized countries. However, there are questions about its distributional outcomes. While handsomely rewarding those who are successful in its terms, the new market economy tends to be unforgiving of its casualties and laggards whether they be individuals, companies or nations. Companies and nations are penalized for less than acceptable performance through the outflow of capital at short notice. Individuals are penalized for less than acceptable performance by loss of their income source, or by stagnation in their career path. The rewards may be greater under this system than under the former system of protection, but the risks are also greater. The casualties of the system become a problem for the system only in so far as they disrupt the free operation of the market. Most advanced countries deal with the casualties of the system through their welfare systems, but these are increasingly seen as being under threat because they absorb capital that could be used more productively. Like the market itself, life for the workers has become much more of a gamble with high stakes.

The market approach deals with individuals as inputs to the system of production. Consequently, in order to protect themselves from risk, individuals must maximize their utility to the market. This means that they need to focus upon the acquisition of saleable skills, work experience and a marketable reputation. At the same time, they need to accumulate savings or wealth as a personal safety net. They also need to maintain flexibility of time and place so that they can react to opportunities as they arise. The canny player in a game that rewards market production is unwise to devote time or money to social reproduction. Social reproduction involves altruism, that is, time and

money devoted to others or to the society at large. For the risk averse in a free market economy, altruism is equivalent to foolhardiness (Folbre 2001).

There are people and politicians who believe that the public world of the market economy and the private world of the family are separate worlds: that an individual can be highly competitive, individualistic and risk averse in the market but then, just hours afterwards, be self-sacrificing, altruistic and risk accepting within the family. The only explanation we can give for this logic is that these are people who still believe in the rigid separation of the roles of men and women; that market production is a male responsibility and social reproduction is a female responsibility and that the male breadwinner model of the family is the way that people do (or should) lead their family lives. This thinking is much more likely to apply in societies that continue to hold to older models of the family that are characterized by gender inequity.

Young women today are equipped for market production at a level at least equivalent to young men and employers are very happy to employ women in the market economy. Where human capital counts, the free market will employ a skilled woman before an unskilled man, even before a man slightly less skilled than the woman. The risk-averse woman of today will ensure that she is able to support herself and, where there is a high probability of divorce, will be careful not to put herself at the risk of dependency upon a man. Couples recognize that dual employment provides a hedge against job loss for either one and banks reinforce this by providing housing mortgages on the basis of two incomes. Parents and schools encourage young women to accumulate skills that will enable them to remain attached to the labor force. As a result, there are very few young women in today's modern economies who see their future lives in terms of finding a husband and never thereafter being engaged in market work.

The broad demographic outcomes of the emergence of the new economy have been longer dependence of children upon their parents, increased participation and longer durations in education, difficulty in forming and maintaining relationships, delayed marriage or non-marriage, delay of childbearing, childlessness and overall low fertility.

The study will document these changes and examine social variation in outcomes. The trends we discuss are common to most advanced countries.

Evidence for other countries

Baizan et al (2002) provide a comprehensive study of the lives of young people in Spain very much in the framework that we have postulated. They find that years in education have increased dramatically. From the 1950-54 birth cohort to the 1960-64 birth cohort, years in education increased from a mean of 15.4 years to 25.6 years for men and from 10.6 years to 25.4 years for women. Again between these two cohorts, the number of episodes of unemployment and the number of job changes also increased significantly. They also record an increase in the heterogeneity of experience from the older to the younger cohort, especially in employment. Finally, they observe that women's careers are becoming more similar to those of men. They conclude that all of these trends in combination with the Spanish family system and the costs of housing have led to the postponement of family and household formation. Young people, both men and women, wish to be well established in their employment before they marry and have children. Also in relation to Spain, Ahn and Mira (1998) observed that the lack of stable jobs among men is one important factor that has forced many young people to delay marriage and childbearing. Between 1987 and 1995, the proportion of employed Spanish men aged 25-39 years who held permanent work contracts fell from 55 per cent to 37 per cent. Ahn and Mira (1998: 15) concluded that the key to increased family formation in Spain lies in 'increasing the level of confidence among young workers about their future employment prospects'.

A norm of achieving a good income situation before having children has also emerged in Sweden (Andersson 2002). Indeed, Andersson makes the interesting suggestion that where a parental leave payment is earnings-related, there is an incentive to delay the birth of the first child until a couple reaches a higher income level. de Wit and Ravanera (1998) also argue that young Canadians are inclined to wait until they are secure in work before having children but they make the additional observation that, where young people

have been successful in attaining a good income and employment situation at a relatively early age, this speeds up entry to marriage and reproduction. This underlines the hypothesis of increasing heterogeneity among young people. For the Netherlands, Liefbroer using attitudinal data from a panel survey, found that the timing of the first birth is influenced by the perceived costs of having a child for one's career opportunities but that children were also seen as reducing life's uncertainties because of the stabilizing effect that they had on life (this in keeping with the hypothesis of Freidman, Hechter and Kanazawa 1994).

These findings sit within an interesting theoretical debate. Happel, Hill and Low (1984) presented a theoretical argument and empirical evidence using data for the United States to argue that there is a greater economic incentive for couples to postpone childbirth where women acquire high-paying jobs because of the potential loss of earnings and job skill depreciation that would ensue from time out of the labor force. Counter to this, using better measures, Kravdal (1994) found that accumulated economic and material resources have a large effect upon the timing of the first birth, whereas economic potential has little influence. Cigno and Ermisch had made the same argument for the United Kingdom but the available data were inadequate for the purpose. The reconciliation between the two arguments, as intimated originally by Happel, Hill and Low, may be the capacity to purchase childcare and other child-related needs that comes with the accumulation of wealth and the acquisition of a high income-earning husband.

Beets and Dourleijn (2001) have documented the increase in durations and levels of education in the Netherlands and its impact on the timing of the first birth. Britta Hoem (2000), in explaining the fall in fertility in Sweden in the 1990s, described a remarkable shift towards education among young women in Sweden as the Swedish economy came under increased pressure. In 1989, 14 per cent of Swedish women aged 21-24 years received an educational allowance that is payable to all adult students (ages 20-50 years); in 1996, the figure was 41 per cent. At ages 25-28, the equivalent change was from 9 per cent to 22 per cent. Using municipal data, she also observed that delays of childbearing

were positively correlated with regional levels of unemployment. Similar observations for Sweden have been made by Andersson and Liu (2001).

These findings suggest that, as education levels continue to rise in response to the demands of the liberalised labour market, first births will be delayed even longer. With very lengthy delays, the chance that the first birth does not occur at all increases.

In Australia, the percentage of 20-24 year-old women who were in full-time education rose from 9.5 per cent in 1988 (July) to 24.6 per cent in 2002 (March). The labour force participation rate of women aged 25-34 years rose in the same period from 63.0 per cent to 70.5 per cent. The percentage of 28 year-old women who had never married rose from 31.0 per cent in 1992 to 45.4 per cent in 2000. Finally, the age at which cumulated fertility reached 1.0 has risen sharply in recent years (overhead).

Wage rates and opportunity costs

As women invest more in human capital and as they work longer because of the delay of the first birth, their wage rates rise. The opportunity costs associated with leaving the labour force to bear and rear a child therefore are likely to have been rising significantly across time. These opportunity costs are offset by the extent to which women with children are able to return to work.

The opportunity costs of having a child rise with a woman's wage whereas direct costs of children are less responsive to rising incomes (except in so far as wealthier parents have higher discretionary expenditure on children). This means that as the wage rate rises, women will be more likely to favor the combination of work and childcare than that of staying at home and receiving a direct cost subsidy for children. Across the lifetime, it is almost certain that income earned by women when they are supported to remain attached to the labor force will be higher than any likely level of government cash transfer. The higher a woman's income, the more likely this is to be the case. In addition, where a woman remains attached to the labor force, governments receive a greater return in terms

of taxes paid and in the return on public investment in the woman's human capital. Furthermore, research has indicated that where a woman is attached to the labor force at the time a marriage breaks down, she is less likely to make calls upon public assistance as a sole parent. All in all, as the educational level and human capital of women rises, the arguments in favor of spending limited public funds on measures to assist women to remain attached to the labor force rather than on direct financial subsidies to families with children seem overwhelming.

The perceived indirect or opportunity cost of having children (lost earnings) appears to be the central constraint that leads to differing fertility levels in wealthy countries. There is less evidence about the salience of the direct costs of children, although, in expensive cities, additional housing costs for those with children are likely to be relevant. It seems that people consider that, if they have confidence in their capacity to earn income and to maintain their attachment to the labor force, they will be able to meet the direct costs of at least two children. There is also evidence that couples gain this confidence in two ways: first, by being in this situation at present (having human capital, two good jobs and some accumulated wealth) and; second, by living in a country that provides guarantees that, having had children, the couple will be able to have time to care for their children and to maintain the labor force attachment of both the father and the mother. In the absence of these circumstances and where social arrangements prevent the formation of unions other than marriage, as in Southern Europe and the wealthy countries of Asia, late or non-marriage becomes the manifestation of very low fertility. In countries where cohabitation before marriage is common, lack of confidence about economic futures and the need to pursue individual economic security puts pressure upon relationships leading to their breakdown. For example, over recent decades, cohabiting first unions in Australia have become much more likely to end in breakdown rather than in marriage (McDonald 2000c). Formation of a viable new relationship then takes time delaying the progression to family formation. Despite this, with some exceptions, those countries in which cohabitation before marriage is common tend to have moderately low levels of fertility while those where cohabitation is largely taboo tend to have very low fertility.

The policy conclusion from the above is that, in wealthy countries, incentives in the form of reduced opportunity costs of having children will be more effective than incentives in the form of cash subsidies (subsidizing direct costs). Beyond the logic of the theory and the empirical evidence at the individual couple level, this conclusion is confirmed by a comparison of wealthy countries with moderately low fertility with those with very low fertility. The conclusion is also confirmed by the failure of substantial direct financial incentives in various levels and forms to influence the fertility level of Singapore Chinese. After years of such attempts, the fertility rate of Singapore Chinese today is 1.3 births per woman. Countries with moderately low fertility are countries that have implemented major programs that support the combination of work and family. Effective policies include leave arrangements sufficient to meet income needs while a couple has two children, guaranteed return to work with an option of reduced hours, and subsidized, high quality childcare (early childhood education, in fact). Family-friendly workplaces and encouragement of higher levels of gender equity at home are also part of the package.