Marriage can be a matter of fact

Having conquered inflation, economists are turning their gaze on marriage and divorce, writes economics editor Alan Mitchell.

Did you know there is a set of economic theories to explain and predict marriage and divorce? The American Economic Association’s *Journal of Economic Perspectives* has just published papers from a symposium on household economics. One of these papers, by Betsey Stevenson and Justin Wolfers of University of Pennsylvania, is a survey of the big changes in marriage and divorce rates in the United States and the economic factors thought to be driving them.

The two big changes since the start of the 1980s have been the decline in the rate of marriage and the even sharper fall in the number of divorces per 1000 married couples. Marriage is at its lowest rate in recorded history. And divorce, after a dramatic rise in the 1960s and 1970s, has now fallen back to a level consistent with the trend established in the 19th century.

Stevenson and Wolfers start with the iron law of almost everything in economics: couples marry and stay married when the gains from marriage exceed the opportunity cost, which is the gain from being single.

The economic gains from marriage come from production complementarities (one spouse specialising in market production and earning the family income, the other specialising in household production), from consumption complementarities (two living “as cheaply as one” and sharing their leisure activities) and risk pooling.

It is argued that the decline in the marriage and divorce rates can be at least partly explained by factors affecting the relative gains of being married and single.

The big technological change affecting marriage and sexual relations in the 20th century was the development of the birth control pill, which became available in 1960.

The pill, and to a lesser extent the availability of legal abortion in the US from the early 1970s, is said to have facilitated the investment in women’s “human capital” (education, training and work experience) by reducing the risk of unplanned pregnancies. It also affected the timing of marriages and births, and is credited with reducing the rate of divorce.

The pill reduced the cost of waiting to marry. It allowed sex outside marriage with little risk of unwanted pregnancies and, say Stevenson and Wolfers, it led to longer courtships.

This meant that people entered marriage more informed about their compatibility, and therefore the risk of making bad matches was reduced.

“Couples stay married when the gains from marriage exceed the opportunity cost.”

As more people deferred getting married, it became easier for others to wait. There was less reason to fear that those who remained unmarried past their mid-20s would have difficulty finding a suitable mate.

Differences in access to the birth control pill across both US states and cohorts of women has allowed econometricians to test these theories. Stevenson and Wolfers say there is a robust relationship between access to the pill and subsequent higher ages for first marriages, lower divorce rates and lower marriage rates.

The diffusion of labour-saving electrical appliances in the 1950s and 1960s also had important effects on family formation. The appliances dramatically increased the labour productivity of home production. The authors quote a study that showed the time taken to clean a load of laundry had dropped from four hours to 41 minutes using a 1940s-era electric washing machine and clothes dryer.
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Women needed to spend less time working on home production, and were able to increase their participation in the paid labour force.

And, say Stevenson and Wolters, the new labour-saving technology was unlikely to be “skill neutral”. Washing in electric washing machines and cooking on electric stoves and ovens required less skill. This, in turn, reduced the returns to specialisation in home production. Teaching of home economics such as cooking and sewing began to go into decline.

At the same time, the growing service sector offered a range of cheap products that previously were available only through home production. A revolution in the mass preparation of food began in the second half of the 1960s and continued throughout to the present. Innovations included vacuum packing, improved preservatives, deep-freezing, artificial flavours and microwaves.

As the returns to specialisation in home production fell, the opportunity cost of remaining single also fell. Women with market skills had less to gain from marriage.

The decline of specialisation in home production and the rise in real incomes and leisure may also have had a significant effect on the selection of marriage partners. The share of more spouse specialising in market production fell, leading to an increased pairing of people with similar incomes and interests.

At the same time, Stevenson and Wolters argue that the growing inequality of wages since the 1970s has increased the importance of searching for a potentially high-earning partner. That rules me out, I guess.

**Harder to call volatile forex**

After eight years of plain sailing, the future of speculative carry trading is looking precarious, writes Corinne Lim.

It isn’t the carry trade itself that’s the hazard for a market crowded with high-risk investments. Rather, it’s the prospect of its unravelling that’s making policymakers and the textbook-hugging macro-economics mob anxious.

The near-ubiquitous term “carry trade” pertains to a strategy whereby speculative financial players, such as hedge funds and commodity-trading advisers, borrow cheaply in a low-yielding currency such as the Japanese yen to buy higher-yielding currencies such as the Australian or New Zealand dollar.

It’s been a grand profit spinner for some eight years for the foreign exchange market’s large investors, most notably in the past couple of years when gaps between worldwide interest rates have widened alarmingly, allowing lenders of leverage to continue to borrow relatively cheaply to fund increasingly high-return assets.

What’s not to like? From a nimble speculator’s perspective, probably nothing. But policymakers are increasingly irked by the effects of the trade on exchange rates.

Long positions — bets on currency appreciation — are heavily skewed towards high-yielders like the SA and NZ dollar at the expense of funding currencies, mainly the yen and Swiss franc. Should a shock trigger an unwinding on mass of such bloated positions, the move would be sudden and disrupt other global markets, such as equities and bonds.

Carry trades have dominated the forex world this year. The taste for exploiting rate gaps intensified as unusually strong economic data in some countries spawned unexpected rate rises. High-yielding currencies appreciated at low-yielders depreciated or lagged.

In the past six months, the $NZ is up 14 per cent to a 22-year high against the US dollar, undaunted by the Reserve Bank of New Zealand’s first-time interest-rate rise in four years. The market last month to stem the relentless rise. Australia isn’t far behind, with a 10 per cent gain and perched at an 18-year high. Canada’s dollar is up 11 per cent, the euro 4.6 per cent and the British pound 4.3 per cent.

The yen, with a 3.7 per cent over the past six months, a Swiss franc, up just 1.4 per cent were favourite funding currencies even though short-term rates increased in both countries.

A Japanese rate of 0.5 per cent and a Swiss rate of 2.5 per cent compete with Australia’s 6.25 per cent (with increases expected the track), New Zealand’s 6.5 per cent, Britain’s 5.75 per cent and Canada’s 4.25 per cent. The zone’s 4 per cent rate is expected to rise by September.

With the exception of the European Central Bank, would like to see more warning about the risk. Japanese officials and Taiwanese have noted that a shock trigger could add to Switzerland’s problems. Others are warning the Swiss franc is undervalued. Of these, the US is the least likely to cause economists to turn their backs on the carry trade.

**“Policymakers are increasingly irked by the effects of the carry trade on exchange rates.”**

The RBNZ’s first-ever irate was the most visible, while Switzerland chose to move stealthily, allowing the office overnight rate to drift with its last formal rate rise.

A minor reversal of the long-term trends in exchange rates in recent days suggests the US dollar may be paying heed to verbal barraging. A deeper and lasting reversal may, in any case, slow. French officials, along with the Bundesbank, are likely to become more chary of carry trades, whose sustainability depends on trends in exchange and economies.