

Gary becker's contribution to family economics

[Family](#)



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Gary Becker's research on economics has also been his life's work and garnered him the Nobel Prize in Economics in 1992 for "having extended the domain of the microeconomic Analysis to a wide range of human behavior and interactions, including non-market behavior." (Federal, p. 1).

Becker's entire life has been spent taking the typical economic approach and extending it to a wider range of social issues. In addition to sheer monetary issues, Becker goes further and shows that individuals, contrary to widely held belief do not operate solely under financial gain and, in fact can show great acts of altruism as well.

It has been said that Becker's analysis should perhaps be known as the theory of rational choice, or purposeful behavior rather than simply as the straight economic approach generally seen. (The Prize p. 1). Becker himself notes that economic analysis can be applied to many issues in our daily social lives, other than the ones we traditionally believe to be strictly "economic." He further states that "the horizons of economics need to be expanded. Economists can talk not only about the demand for cars, but also about matters such as the family, discrimination, and religion, and about prejudice, guilt and love.

" (Religion p. 1). He very staunchly states that economic imperialism is not the same thing at all as crude materialism and that the idea that the total of a person's value lies in their material worth has more in common with Marxist analysis than his own. (Religion p. 1). Robert Pollack, a self-stated critic of Becker's concedes that he is really more of a follower of Becker's than a critic, and that in all reality Becker put the family on the economic professions research agenda. (Pollack p. 5). The economics of the family is a

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creation of Gary Becker, and exhibits incredible significance in our lives today. B.

Objectives/Hypotheses/Position Becker calls the form of interdependent preferences within the family "altruism." These preferences are introduced by supposing that one spouse is egoistic, while the other is altruistic, or cares both about his or her own consumption as well as the spouse's utility. Pollack argues that rather than altruistic, the word should be known as "deferential," as it is much more descriptive, denoting that, for instance the husband defers to his wife's preferences regarding her consumption pattern. (Pollack pg. 12). Regardless of the terminology used, we can take Pollack's model for explanation.

Family members often have non-deferential preferences wherein each spouse cares about each other's consumption habits either instead of or in addition to caring about their own. For the laymen, Pollack lays out Becker's theory even simpler: A wife may have non-deferential preferences in that she wants her husband to spend more time jogging "because it's good for him," and less time watching TV. In other words, non-deferential preferences tend to mean that each spouse prefers a different consumption pattern for the other spouse, than the other spouse would choose for him/herself. (Pollack p. 14).

Becker would state that the altruist, or deferential partner does not give anymore weight to his own well-being or self-interests than he gives to any other family member. Becker typically allows that the head of the household is regarded as an altruistic agent of the interests of all family members. (Pollack p. 14). Martha Nussbaum, a philosopher, finds this theory to be full

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of holes. Because the typical head of the household is male, Nussbaum feels that Becker's theory becomes flawed as " males are often neglectful of the interests of females, whether wives or children, and makes decisions inimical to those interests.

" (Pollack p. 14). Whether or not you agree with Nussbaum that the typical male head of household is far from altruistic, or deferential, I think we can all agree that in theory there is generally one altruistic or deferential spouse in a relationship, along with the other who is the non-deferential spouse, or is more concerned with their own financial issues than of those of their spouse. Becker's deferential preferences as related to parents and children would state that parents were not only concerned with their children's utilities, but with their consumption patterns as well.

In other words, while parents might be willing to pay for college, or perhaps a down payment on their children's first house, they will be much less inclined to pay for a Hummer, or a trip to Europe. (Pollack p. 16). So the deferential model has parents willing to fund the " necessities" of life, such as education or a roof over their children's heads, but are much less likely to want to pay for the frills. C. Methodology Becker's household production model theorizes that households " combine both time and market goods to produce more basic commodities that directly enter their utility functions.

" (Pollack p. 16). This is, of course, based on the assumed absence of joint production in the family as well as the assumed observability and measurability of commodities. Becker denotes " commodity shadow prices" in his household production model, which is the ratio at which a household can transform one commodity into another. All time and market goods that

produce more basic commodities means treating all household functions as commodities. Therefore, time spent cooking, time spent cleaning, time spent helping children with homework all become commodities.

Please note, that Becker defines commodities as anything that is observable or measurable, therefore in his model, time spent watching a pay with the children, sleeping, or listening to music is measurable, while stating these same things differently, such as "music appreciation," makes them unable to be measured or observed. So, the same activity, stated differently might or might not be a commodity. (Pollack p. 19). Becker's altruistic model in the context of family consisted of a "brood of egoistic but rational "kids" and one deferential or altruistic parent.

In his "Rotten Kid Theorem," Becker notes that "Each beneficiary, no matter how selfish, maximizes the family income of his benefactor and thereby internalizes all effects of his actions on other beneficiaries." (Pollack p. 21). Becker frequently uses the wife in the family model as the Rotten Kid, and Pollack's example is that an altruist (or his selfish beneficiary) would eat with his fingers only when its value to him exceeds the value of the disgust suffered by another family member, or the altruist would read in bed late at night only when its value to him far exceeds the loss of sleep suffered by his spouse.

(Pollack p. 21). D. Innovating Aspects of Paper Becker basically looked upon the family, or the household as a miniature factory which produced services for the members of the household, "with an input of time and purchased consumer goods, the latter being regarded as intermediate inputs in the production process taking place in the household." (The Prize p. 1). In this

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particular context, then, a wage rise can lead to less time-consuming production of services within the household.

In other words, the father's increase in pay might well enable the mother to hire a maid to help with the household chores, thereby freeing up more of her own time for the children or for leisure activities. In a really innovative step, Becker also applied his economic family theories to the area of crime and punishment, making the assumption that except for a certain number of true psychopaths, " individuals who behave criminally react in predictable ways to different stimuli in the form of benefits and the costs of criminal activities.

" (The Prize p. 2). This theory would then offer fairly solid predictions about which groups of citizens could reasonably be expected to commit which types of crime. Studies on this subject have shown that an increase in the probability of being convicted at all is more a deterrent to the would-be criminal than the expectation of a certain level of harshness of punishment. (The Prize, pg. 2). D. Brief Critical Literature Survey Another famous book of Gary Becker's is entitled " The Economics of

Discrimination. " The theory of this book is that discrimination carries certain costs. For example, let's assume that a certain businessman doesn't like hiring women, or blacks, or any specific group, for that matter. In our present day highly competitive marketplace this businessman must then bear the cost of his particular discrimination. If he hires a high-wage white worker as opposed to an equally productive but lower-wage female worker, he has then foregone profits that could accrue to his firm.

Although he may still decide to discriminate based on his strong feelings about one group or another, essentially the stronger his prejudices, the higher the cost. Although in some situations these costs might be hidden, and even though a competitive market will never completely eliminate discrimination, the market will, in itself, tend to reduce discrimination purely because the company that discriminates must pay the monetary costs associated with discrimination. (Economic p. 3).

Becker also discusses Richard Epstein's book, "Forbidden Grounds," calling it a very "thoughtful book, which raises good questions." (Economic p. 3). Epstein stresses the difficulties in implementing civil rights legislation, stressing the huge gap between the promise and the practice; Becker agrees with Epstein's conclusion that there should be no civil rights legislation. (Economic p. 4). II. Analysis A. Hypotheses/Model Becker believes his model of household production puts economics into a simpler form that can be more easily understood by the general public.

In fact, the American people as a whole tend to be frightened by economics, to the point, Becker says, that when you mention you are an economist, the typical response is that people say they took an economics class in college and either hated it or were terrible at it, or both. Becker believes that we should relax over the whole issue of economics, and that economists should attempt to express economic concepts in simple language, and detail the solving of economics in a straightforward, simple way. (Federal, p. 6).

Becker continues by saying that many intellectuals and economists use big words and obscure language when they are writing about economics. "Sometimes it is a way of disguising that they are not saying a heck of a lot.

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Of course, some propositions are tougher to express. " (Federal p. 6). The challenge to a writer of economics, or any subject considered by the average person to be difficult, is to give a reasonably intelligent person a feel for the basics, and let their own intellect take it from that point. B. Analytical Discussion of Topic/Model In an interview with Gary Becker, he was asked if it was a true story that the initial

Inspiration for his work on the economics of crime was found while searching for a parking spot, and he agrees, " True story. " As he tells the story, he was coming down to Columbus University for an oral exam. He was to ask students a half-hour's worth of questions on price theory. Becker was living in the suburbs at the time and drove to Columbia. He was running a bit late—never a good thing in New York City with parking spaces at such a premium. Because in those days Columbia had no designated parking for their faculty members, the choice was to either park illegally or go into a parking lot.

Realizing how late he was, Becker pondered on the two choices, mentally calculating his chances of getting caught if he parked illegally versus parking a couple of blocks away which would entail a longer walk, as well as costing money. As Becker walked to the exam—a walk that took about ten minutes—he suddenly realized that if he was thinking about his chances of getting caught while parked illegally, that in all likelihood, the police were thinking about the same thing. They must, if they were rational human beings, be thinking about the likelihood of catching someone who was illegally parked.

When Becker reached his student's oral exam, the first question he presented was the one he had been pondering, and while he remembers the student didn't do too well with an answer, Becker realized what an interesting topic it was, and started working seriously on it from that point out. Becker states that " I set it up so that society was trying to minimize the expected loss from criminals, taking account of the damage done by the crime, cost of policing, cost of taking somebody to trial, cost of punishment, how much deterrence there would be if criminals expected greater punishment or lesser punishment and so on.

" (Federal p. 2). In the end, Becker was grateful to his parking problem, as it led him to one of his most " famous" theories of crime and economics. C. Theoretical Analysis Gary Becker was a great believer that family law would be a good area in which to do more law and economics work. He notes that family law is often looked down on in law school, not being a field that " top" people should consider going into, yet the family is such an important institution in society, that family law should certainly garner more respect from the legal industry.

Families have been ever-changing, particularly in the last few decades, and now there are more and more areas of family law such as divorce, fertility, child care, homosexual marriages, homosexual parenting, marriage contracts, custody provision...the list goes on and on. Therefore Becker finds family law an area of great interest, ready to have more law students making it their specialty. Becker feels that family law is clearly one area that can have much more done with it using the tools of laws and economics. (Federal p. 3). D. Experts' Insights and Findings

Pollack finds Becker's earlier talked about altruistic model as an " ultimatum game. " Pollack's example is that the first player, or the proposer, offers a division of a fixed sum of money between himself and the second player. The second player, or the responder, is informed of the proposed division, and must then choose between two alternatives which are:

- She can accept the proposed division, in which case both players receive the proposed payoffs,
- or • She can reject the proposed division, in which case both players receive exactly nothing.

Therefore, Pollack reasons, the ultimatum game is a one-shot non-cooperative game in which the " proposer moves first and confronts the potential recipient with a take it or leave it offer. Commitment is essential to ultimatum games—if the responder rejects the offer, the game ends; the proposer cannot improve his offer. " (Pollack p. 24). E. Regressions/Correlation Analysis/data/tables To relate the above ultimatum game to Becker's altruistic model, consider the game in which the proposer and the responder divide a fixed sum of money. Further consider that the proposer has egoistic tendencies.

Therefore, the proposer offers a division in which he gets the entire sum, and the responder accepts, because she can do no better. If, on the other hand the proposer cares about the responder's utility, then the proposer is going to offer a division that benefits the responder above himself. F. Findings/Arguments/Evidence The take it or leave it family ultimatum game provides " a model in which all Becker's claims about efficiency, distribution, and family demand functions hold. The altruist attains his most preferred

feasible point, subject to the constraint that others receive enough to remain in the family. " (Pollack p. 25).

G. Statistical Data/Tables " Empirical work on pooling began with articles by Duncan Thomas and T. Paul Schultz. " (Pollack p. 33). Thomas showed that kids do better in terms of mortality and morbidity when their mothers control a larger fraction of the family resources. Beck's alternative theory to this assumption is the " better mothers" story, or the fact that mothers with more energy and ability are more likely to control a larger fraction of family nonlabor resources, and thus to have kids who do better. Thomas and Shultz, however, do not observe energy or ability. III. Policy Findings and Conclusions A. Basic Findings/Summary

According to Pollack, Becker's economic approach to the family is often believed to imply that certain types of government policies cannot and do not affect allocation within families because they " will be fully neutralized by individuals' responses. " (Pollack, p. 39). Both Becker's altruist model and Rotten Kid Theorem imply that which parent receives the child benefit must be irrelevant, however Pollack feels that the conclusion that parents will neutralize the child benefit " depends on the assumption that family collective choice is determined by the altruist model, and that preferences exhibit transferable utility.

" (Pollack p. 40). B. Policy Recommendations from your findings The role of technology and its place in facilitating the ability of human capital is both critical and important in today's world. Becker felt that modern economies depend on modern technology, and you can't have one without the other. Additionally, these various technologies are generally produced by people
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who have lots of human capital. Without that human capital there would not be the opportunity to build and make effective use of technology.

Lastly, according to Becker, these new technologies are going to significantly impact the acquiring of this capital. People are beginning to use the various forms of technology to work at home, or earn degrees at home, thereby reducing the cost of gathering many people under one roof. (Manville, p. 3).

The possibilities of the new technologies, along with the specific economics of these same technologies offer incredible opportunities for our future. C.

Limitations of your study The limitations of the study on Gary Becker's contributions to Family Economics

exist only in the capacity to devote enough information to each subject in the required amount of space. D. Suggestions for Future Research Reading

Gary Becker's " Human Capital andPovertyAlleviation" would be my number one suggestion for future research. Becker believes that the main purpose of economics is to both understand and help alleviate poverty and this issue seems to be one that requires further investigation and study. IV.

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(Accessed June 12, 2006). V. Appendix A. Mathematical/statistical elaboration There was little mathematical elaboration in the sources I used, although Pollack used a specific mathematical equation to explain Becker's household production model. B. Data Data used consisted of both Gary Becker's writings and interviews as well as the views of other professionals regarding his conclusions. C. Results The results of this paper are to explore Becker's theories of economics and present the results in a format that is hopefully more easily read by the laymen.