

Legitimizing unpaid household work by monetization - achievements and problems

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Overview

Introduction

- 1 Theoretical discussion
 - 1.1 Microeconomic approaches
 - 1.2 Macroeconomic view
 - 1.2.1 Unpaid household work and the economy
 - 1.2.2 National accounts
- 2 Achievements and problems
 - 2.1 Legitimation - arguments and political implications
 - 2.2 Monetization and actual payments

Introduction

Let me start by asking the following questions. Why, how, to whom and with what objective should we feel obliged to legitimize unpaid household work? The answer to the question of "why" seems obvious. We feel obliged to justify, to explain the legitimacy of activities, if they do not, or are not supposed to, comply with common expectations. In a labour society, calling activities within private households "work" can in itself be interpreted as a piece of legitimation. Historically, this interpretation is very new. It was only in the late 19th century that Lorenz von Stein, a member of the German Historical School, first used the term (cf. von Stein 1996). In this way some of the activities within private households are legitimized by defining them as "productive" - though this does not correspond with the view of classical economics.

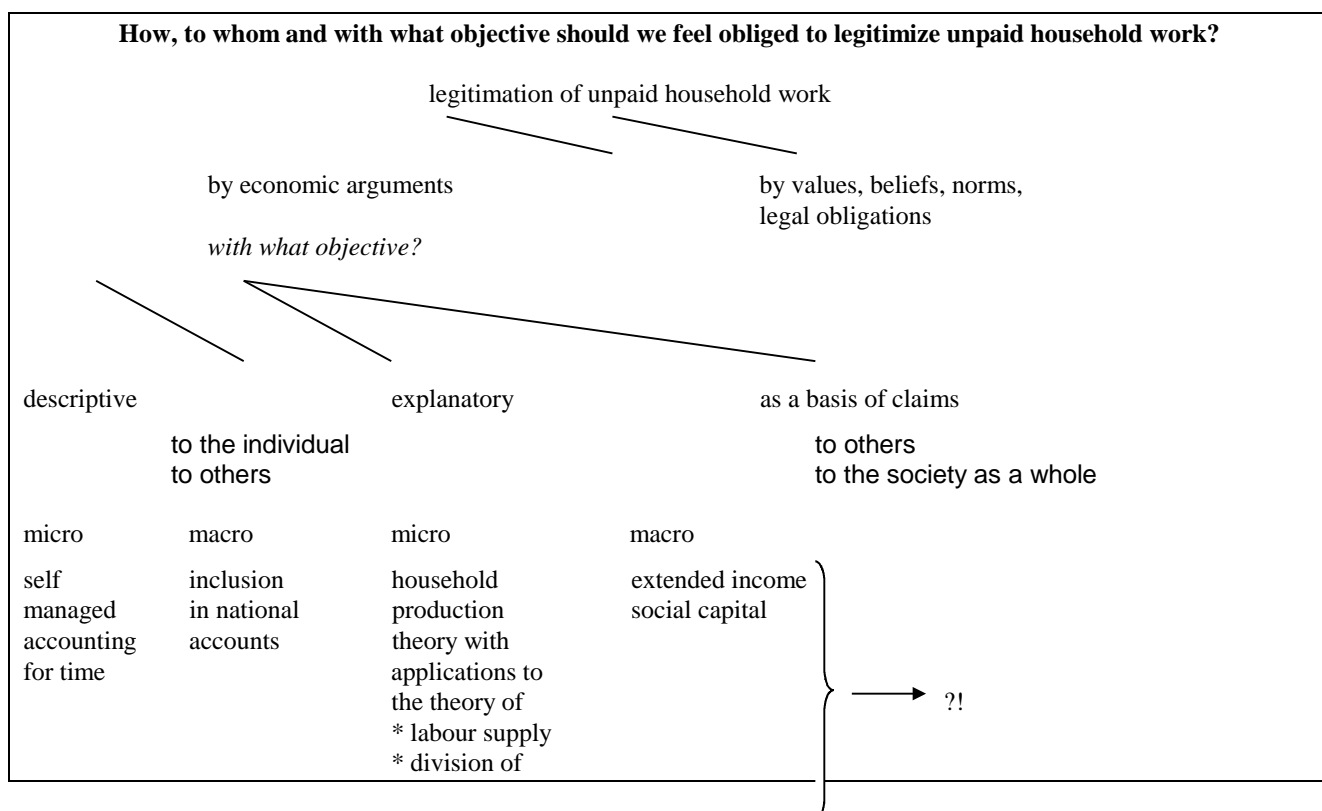
Looking at it this way, it is not surprising that, in the 20s and 30s of the 20th century, the initial discussion about the methodology of valuing household work in monetary terms was concerned with looking for an operational definition of that part of household activity which is not an end in itself (that

is "leisure" or what Juster and Stafford, 1991: p. 491, called "process benefits") but rather a means to an end, that is, what is generally understood by work. The well known "third party principle" (Reid 1934) determines that "household production consists of those unpaid activities which are carried on, by and for the members, which activities might be replaced by market goods or paid services ..." (see Fig. 1). This could be interpreted as saying that the legitimation for unpaid household work is the money saved that otherwise would have to be used to pay for it.

"Household production consists of those unpaid activities which are carried on, by and for the members, which activities might be replaced by market goods or paid services, if circumstances such as income, market conditions and personal inclinations permit the service being delegated to someone outside the household group" (Reid 1934).

Fig. 1

This leads to the question of how legitimation could be substantiated (see Fig. 2). Obviously the recourse to values, beliefs, norms or even legal obligations must be seen as one main way to legitimate unpaid household work. In this paper, however, we deal with the economic approach. More precisely, in our argument we take into account the background of a commercialised society and a market philosophy which attributes values to things in terms of how much people are willing to pay for them. In this context the possibility of monetization could mean legitimation.



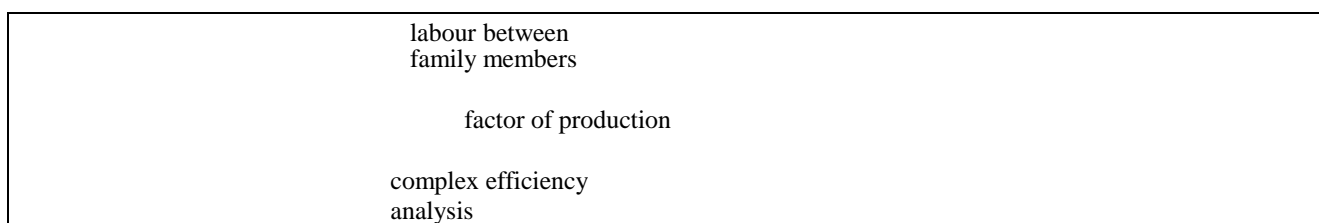


Fig. 2

The question of to whom we could want to legitimize household work is a more interesting one. In the spirit of the philosophy of the age of enlightenment which underlies modern economics, the court before which there is a need to legitimize activities in the first place is the individual. The microeconomic approaches to monetary evaluation of unpaid household work are a contribution to this subject, as they are based on models which explain allocation of time to household work as a decision which - under specified conditions - is rational. This interpretation might serve as a legitimation to the individual, and also to those who want to understand the importance of household work to individuals. We shall refer to this in part 1.1 of this paper.

Household work might also be meaningful for the economy and the society as a whole. In the spirit of this idea, descriptive and explanatory approaches to household work have been extended to the macro level. In part 1.2 of this paper we shall deal with this field of research.

The last part of the question we asked at the beginning concerns the objective for suggesting the legitimation of unpaid household work. This could merely be description, as it is when unpaid household work is explicitly included in the framework of national accounts – an issue which we discuss in part 1.2.2 of this paper. Legitimation here is a merely proclamatory one. It is also possible, however, for legitimation to serve as a basis for claims on society. We deal with this issue in part 2.

Now let me start with a look at the theoretical discussion.

1 Theoretical discussion

In the early 1920s national accountants drew attention to the fact that ignoring income generated by unpaid household work might cause bias in estimates of national income, gross domestic product, household's final consumption, growth rates, and distribution of household income and consumption. In

addition, labour market analysts and sociologists, too, have stressed the necessity of looking not only at paid work but also at unpaid work when dealing with subjects such as men's and women's participation in the labour market, their respective contributions to household income and welfare, and the division of labour between family members (Chadeau 1999: 27). The discussion about how to measure unpaid household work in monetary terms was largely carried out by earlier and new production theoretic approaches to household work at the micro level. We shall outline some of them.

1.1 Microeconomic approaches

Thinking of household work in terms of productiveness suggests defining a household production process which consumes inputs and generates outputs. Traditionally, household work time was conceived of as an input, home produced goods and services as an output. Approaches to valuing unpaid household work refer to both aspects, however, in the earlier period the emphasis was on the input aspect. Here, the main problem is choosing which calculatory wages to use to weigh the empirical data on the hours of household work so as to arrive at a monetary value. The main alternatives are:

- 1) Market substitute method
 - general substitute (wage of a housekeeper is applied)
 - specialized substitute (specialist's wages are applied to the hours spent on the different household tasks)
- 2) Opportunity cost method (wage is applied which is foregone by not participating in the labour market) (see Fig. 3)

Typology of Economic Evaluation Methods related to Unpaid Household Work (see Goldschmidt-Clermont 1982: 6)	
Input oriented	Output oriented
<p>Volume of Input volume of work inputs volume of inputs other than work, i.e. goods consumed in the production process</p> <p>Monetary Value of Input value of work inputs</p> <p>based on</p> <p>! <u>wages of substitute household workers polyvalent or specialised;</u> wages of workers performing in market enterprises functions similar to household production functions; wages of workers performing in the market sector, tasks requiring qualifications similar to those required by household tasks;</p> <p>! <u>wage forgone, i.e. opportunity cost of time;</u> average wages of market workers or legal minimum wages; wage in kind, i.e. non-cash benefits.</p>	<p>Volume of Output i.e. goods or services produced</p> <p>Monetary Value of Output i.e. goods or services produced</p> <p>based on</p> <p>price of a market replacement of household product "value added" "return to labour" (Goldschmidt-Clermont 1993) related consumer expenditures</p>



Fig. 3

The problem with the market substitute method is that it is theoretically not consistent to weigh hours which are not spent under market conditions, like competition and pressure on efficiency, with market prices which reflect market situations. By contrast the opportunity cost method has the advantage of referring in a theoretically consistent way to the implicit valuation of time by household members which they express by renouncing the market income which they would be able to earn. The problem here is that, in this valuation, valuation of work and valuation of leisure and process benefits are inextricably mixed up.

The criticism of the input oriented methods has resulted in proposals to value unpaid household work by measuring household output (Goldschmidt-Clermont 1993).

The modern development consists of establishing and refining the concept of an explicit household production function. Functional relationships between labour and capital as inputs and complex consumption aggregates as outputs have been introduced. Simultaneous modelling of time allocation and consumption technology in the context of individual preferences and restrictions has been proposed instead of the traditional partial view. This way, the value of unpaid household work is conceived of as a shadow price which results from a multitude of reallocation processes which would take place when the household moved away from an assumed optimal allocation of time. Such a valuation takes account of both the costs and benefits of unpaid household work. Costs are opportunity costs including foregone market income, benefits the contribution of household work to the satisfaction of individual needs and wants. From this standpoint the value of unpaid household work looks ambiguous because it is not a priori certain whether cost effects are overcompensated by benefit effects (Becker 1965, Lancaster 1966; applications by Seel 1988, 1999).

1.2 Macroeconomic view

1.2.1 Unpaid household work and the economy

At the macroeconomic level, the valuation of unpaid household work looks less differentiated. I would like to refer to two lines of discussion: 1) Extended income and consumption, 2) Social capital.

1) The partial approaches to the evaluation of time inputs into household production which have been worked out at the micro level have been taken up by extended income / extended consumption analyses at the macro level (e.g. Aldershoff/Kasper 1986, Jenkins/O'Leary 1996, Merz/Kirsten 1999, Goldschmidt-Clermont 1999). The argument here is that time inputs into household production are a proxy for the goods and services which are produced within the households, and that physical income (consumption goods) generated this way should be added to market income (consumption) in order to get a complete picture of the distribution of income (consumption) within the population.

The authors point out that such a "complete picture" could shed new light on e.g. the impact of changing employment conditions on income and consumption or the impact of tax reforms on the relative welfare position e.g. of families in which one spouse specialises in home work (Jenkins/O'Leary: 404).

With this partial view, unpaid household work appears as a proxy for benefits. These benefits are isolated and aggregated to benefits of household groups.

2) A different way of putting things is to think of unpaid household work as a contribution to the performance of the economy as a whole which is not necessarily congruent with individual benefits. Here the social capital argument should be mentioned. It says that social competency of individuals is the basis for the climate of "trustworthiness" which is necessary for efficient market transactions and thus for social welfare (Coleman 1988, Becker 1996). Advocates of the argument stress that social competency is produced in the first place by socialization work done within the families (Coleman 1988: S 109 ff.). The problem is that the optimal amount of social capital might not be produced because of a sort of "prisoner's dilemma" situation, that means a situation in which the individual's optimum is not congruent with the social optimum (Coleman 1988: S 116 ff., Putnam 1995, 74 f., Meier 1996).

Unpaid household work in such a context shows the characteristics of a good which contains elements of a private and of a public good (Sauerland 1998). As far as I know, monetary valuation has not (yet)

been undertaken, but an implicit monetary valuation could be to subsidize families with children within the context of the tax and transfer system.

1.2.2 National accounts

The debate on including unpaid household work in the national accounts is one of the roots of the literature on monetization. It has now been shown that, for various reasons, the micro level approaches do not fit with the philosophy of national accounting. The opportunity cost approach because national accounts refer to actual transactions rather than calculatory ones, the market cost approach, for the reasons mentioned earlier, the output oriented approach, for lack of data, the simultaneous approach, because at the macro level it is not possible to integrate input and output aspects by the decision oriented view which only can be taken at the micro level. The solution now seems to be to complement national accounts by so called "Satellite accounts" which are mainly based upon physical time budget data. Pioneering work in this context has been done by the Statistisches Bundesamt (Statistisches Bundesamt (Ed.) 1995). Data on the monetary value of unpaid household work which have been published by this institution cannot claim to have meaning other than an informative one.

2 Achievements and problems

2.1 Legitimation - arguments and political implications

1) Explanatory models at the micro level

The formalization of non-market decisions at the micro level, taking explicit account of the institutional framework of a commercialized society, is an important achievement with regard to possibilities for legitimation. Legitimation in this context seems possible if decisions about household work can be said to be rational, where rationality is defined as making decisions in terms of individual preferences,

taking into account restrictions and the available consumption technology. The problem with monetary valuation is that, in most cases, the decision situation is so complex that the monetary value of hours of household work is not in itself a sufficient rationale. The ambiguous character of household work in terms of the definition of work as a means to an end (and not an end in itself) already makes it difficult to believe in the operationality of the third party principle. By making use of appropriate simultaneous modelling, however, it is possible to explain the rationality of decisions for household work at the micro level and, in this way, legitimize it from an economic point of view either in monetary or non-monetary terms.

2) Explanatory models at the macro level

At the macro level legitimation which would be consistent in terms of a defined decision situation, which is feasible at the micro level, is not possible. Approaches such as the extended income approach or the social capital approach pick out partial aspects of the decision situation of households at the micro level and aggregate them to values which pretend to be meaningful for economic analysis.

The problem with extended income is that time spent on household work is not necessarily a proxy for valuable household output (Goldschmidt-Clermont 1999: 528). Productivity depends, e.g., on capital equipment. In the case of unemployment, where time resources could be expected to be an important supplement to monetary income, it has been shown that spare time is less productive if contacts to a formal occupational status are lost (Jessen et al. 1985, Merz and Wolff 1988, Goldschmidt-Clermont 1999: 525 f.). Looked at in this way, social policy conclusions from measuring the distribution of income and consumption by the extended income/consumption approach might turn out cynical. E.g. Aldershoff and Kasper stress the necessity of differentiating the analysis, at least by household types (Aldershoff and Kasper 1986: 309). Methodological considerations are in progress (s.e.g. Goldschmidt-Clermont 1999) but there are doubts which remain.

With regard to the social capital argument, things are even more complicated because of the character of social capital as a mixture of elements of a private and a public good and because of the complex interrelations between the institutional arrangements through which social capital is produced, as has been shown for the case of efficiency of schooling (Coleman 1988, Schneider et al. 1997). There obviously is no straightforward way of deriving the necessity of concrete subsidies which sometimes

are postulated as a means of legitimizing unpaid household work by means of actual payments. Taking the complexity of institutional interdependencies into account, it may easily turn out that policy measures set wrong incentives.

The fact that the new concepts of national accounting have been able to show that including a monetary value for unpaid household work in the national accounts is not systematically consistent, and that such inclusion is unnecessary because the task of legitimation can be carried out by means of satellite accounts, can be considered as an achievement.

2.2 Monetization and actual payments

As we already indicated in the last part of the paper, explanatory and even descriptive approaches to legitimizing unpaid household work have given rise to claims to actual payments by the society which are postulated as a means of legitimation.

It should be noted that the present German tax and transfer system already takes unpaid household work into account e.g. with regulations such as non-contributory coverage of family members by the statutory health and nursing insurance fund, consideration in the statutory pension scheme of time spent bringing up children, and husband and wife tax splitting. Further extension of these regulations are currently being discussed. The problem is that the issues connected with these regulations are ideologically sensitive. There are already ongoing controversies which are concerned with the relative importance of the individual and the independence of woman on the one hand and family values on the other, and others which oppose individual responsibility with social solidarity. There are authors who argue that the present tax and transfer system is already overburdened by the functions involved in the redistribution of monetary income. There are good reasons for sticking to the principles which structure the present tax system and the different branches of the present transfer system such as e.g. ability to pay and fairness principle, principle of equivalence with insurance, subsidiarity principle, and principle of the social basic minimum income (e.g. Hauser 1996)], because it is problematic to deal with imputed incomes within a framework of transfer payments which is based on the category of monetary income.

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