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Institutions, Family and Economic Performance

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Abstract

It is usual to formulate policies that react on the consequences, not the causes of family structure. In the design of policies, it is important to consider that institutions evolve in response to individual incentives and affect the performance of political and economic systems. Formal rules influence transaction and production costs (costs for families to offer their services) and could induce development or economic stagnation in the long run. It is necessary to work on incentives toward efficient institutions.

The purposes of this paper are: a) to analyse the family trends in past decades; b) to consider the economic externalities of the family (child rearing and human capital investment; social assistance for the elderly, sick and unemployed; economies of scale; mechanism of socialization) and how they are affected by the recent trends of households decisions; c) to identify policies related directly and indirectly on the families structure that could be fostering or preventing faster economic growth in the long run; d) to suggest some new directions for policies that could affect households decisions.

Households have experienced enormous changes. However, they are still crucial to a well functioning economy and society: the families play a major role in human capital investment and these investments in people are an essential ingredient to economic progress.

JEL Classification: J12, J13

Key words: family economics; population; human capital; institutions and economics.

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“Without the appropriate institutions, no market economy is possible” (Coase 1994, 6)

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I. Family Structure: World Trends

a. Latin -American Countries

Attanasio (2003) shows that many Latin-American countries have recently experienced an intensive transformation process in family structure and household decisions. Household decisions affecting family structure can vary across income groups, across generations, across points of life cycle. The most significant transformations are:

- Increase in the labour force participation of women
- Growth in the number of divorces

- Drop in the number of children for younger cohorts.
- Increase in the proportion of individuals over 65 years of age.
- People have been waiting longer to get married (pushing to a later point in the household's life, the peak of the number of children per household).
- Lower fertility rates

Attanasio and Székely (2003) show that although children live mainly in nuclear households (58 percent in the 1993-1997 generation), the proportion that live in extended ones has increased (from 30 percent before 1993 to 36 percent for those born 1993-1997).

b. Developed Countries

“Starting in the mid-1960s, in North America, Europe, and Australia, there was an upheaval across the whole set of demographic indicators. It came on so rapidly that it caught even professional demographers by surprise: birth rates and marriage rates fell, while divorce rates, birth of children out of marriage, and the incidence of non-marital cohabitation rose to high levels. Louis Roussel of the French National Demographic Institute correctly characterized the changes as widespread, profound, and sudden: widespread, because all “industrialized” nations have been affected to varying degrees; profound, because the changes involved increases or decreases of more than fifty percent; and sudden, because the changes took place in less than twenty years” (Glendon, 2004).

A list of European countries according to the incidence of some types of family units in the 90's					
% of couples without children		% of couples with children		% of single-parent units (a)	
Sweden	58,0	Spain	68,1	Ireland	14,8 (83)
Finland	50,2	Ireland	66,3	Norway	14,5 (85)
Denmark	45,4	Portugal	62,8	Belgium	13,5 (80)
Switzerland	41,8	Italy	62,6	United Kingdom	13,0 (84)
United Kingdom	39,4	Greece	62,2	Austria	12,4 (86)
Germany	38,7	Luxembourg	57,1	Italy	11,4 (76)
Netherlands	36,1	Norway	54,9	Luxembourg	11,2 (82)
France	35,5	France	54,2	Germany	10,5 (81)
Belgium	33,8	Austria	54,1	France	10,2 (85)
Austria	33,6	Netherlands	53,7	Netherlands	10,1 (76)
Luxembourg	31,6	Belgium	52,7	Spain	10,0 (86)
Norway	30,5	Germany	50,8	Denmark	9,8 (84)
Greece	30,1	Switzerland	50,2	Portugal	8,6 (86)
Portugal	28,6	United Kingdom	47,7	Switzerland	8,0 (84)
Italy	25,9	Denmark	44,8	Greece	7,6 (80)
Spain	21,9	Finland	43,0	Finland	6,8 (87)
Ireland	19,0	Sweden	35,7	Sweden	6,3 (86)
(a) In brackets shows the % of mothers with children on the total of single-parents units					
Source: Blangiardo 2001 (elaboration in Eurostat data, Annuaire Demographique, 1997)					

A list of European countries according to some structural characteristics of the families in the 90's							
Average number of components		% of single-person families		% of units with children		Average number of children per unit (a)	
Sweden	2,1	Sweden	39,4	Ireland	80,9	Ireland	2,5
Denmark	2,2	Denmark	34,4	Spain	78,1	Spain	2,0
Switzerland	2,3	Norway	34,3	Italy	73,5	United Kingdom	1,9
Finland	2,4	Germany	33,6	Portugal	70,1	Netherlands	1,9
Norway	2,4	Switzerland	32,4	Greece	69,8	France	1,9
Netherlands	2,4	Finland	31,7	Austria	66,9	Sweden	1,8
Austria	2,5	Netherlands	29,9	Luxembourg	66,7	Portugal	1,8
Belgium	2,5	Austria	29,7	Belgium	66,2	Greece	1,8
Germany	2,5	Belgium	28,4	France	64,3	Finland	1,8
United Kingdom	2,5	France	27,1	Finland	64,1	Switzerland	1,8
France	2,6	United Kingdom	26,7	Netherlands	63,7	Belgium	1,8
Luxembourg	2,6	Luxembourg	25,5	Germany	61,9	Luxembourg	1,7
Italy	2,8	Italy	20,6	United Kingdom	60,8	Italy	1,7
Greece	3,0	Ireland	20,2	Switzerland	58,1	Austria	1,7
Portugal	3,1	Greece	16,2	Norway	53,5	Denmark	1,6
Spain	3,3	Portugal	13,8	Denmark	47,2	Germany	1,6
Ireland	3,3	Spain	13,4	Sweden	46,9	Norway	na
(a) Children of every age are considered except for: Denmark, Finland and Norway (< 18 years), Luxembourg (< 25 years) and Sweden (< 16 years)							
Source: Blangiardo 2001 (elaboration in Eurostat data, Annuaire Démographique, 1997)							

Now, consider the cases of United Kingdom and Spain.

Kate Smith² illustrates the British case: “Although the results also indicate that the nuclear traditional household, compounded by married parents and children, are still the most common scenario for child raising, the referred trends combine themselves together to produce an increasing variety in the conformation of families. Through each consecutive cohort it is more frequent to find single-parent households (generally constituted by the mothers) and a complex diversity of situations with compounded families”.

² Smith, Kate. “Medio siglos de cambios en la familia: evidencia aportada por tres cohortes de nacimiento británicas” in (UNICEF - UDELAR 2003)

In this sense, we can also observe the Spanish case³. From 1998 until 2002, the number of married couples decreased from 5.22 to 5.07 per thousand inhabitants, while the number of divorces rose from 0.91 to 1.01 per thousand inhabitants. The fertility rate in Spain (1.25 children per woman in 2001) is one of the lowest in the whole world and the minimum within the European Union. The Spanish rate fell below the threshold of replacement (2.1 percent in 1981), and it has been registering an almost continuous decline. Another fact to consider is that the 19.5 percent of children born in 2001 occurred out of wedlock. Moreover, it is also observed an augmentation of the average age at getting married accompanied with a procrastination in having the first child.

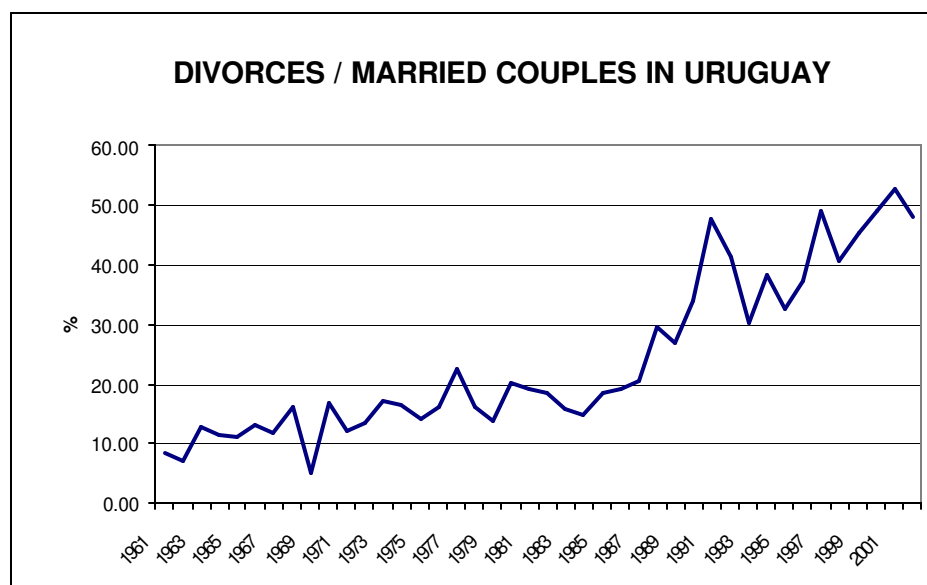
c. The Uruguayan Case

Uruguay has also experienced many of these changes. Attanasio and Székely (2003) resume them as follows:

- Sharp decline in fertility levels long before its neighbours (2.3 children per woman in the 1990's);
- Ageing population (the over-65s are 13 percent of the total population);
- Waiting longer to get married;
- Growth in the number of divorces;
- Increase in the labour force participation of women (“For example, 74 percent of women born in 1953-67 are active at age 35-44, which is 14 percentage points higher than in the 1942-45 cohorts at that age”).

STYLISEDFACTS

Figure 1.

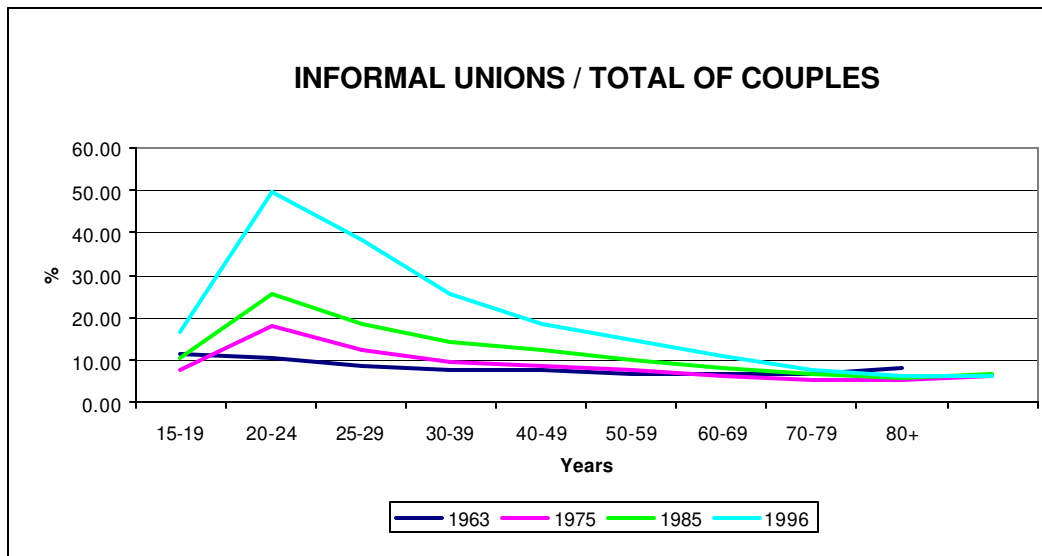


Source: Ministry of Education and Culture. General Registry Office.

³ Aceprensa 21/04, February 11th. 2004.

Figure 1 shows the ratio of divorces to wed locks in Uruguay from 1961 until 2002. This ratio presents an ascending trend in the whole period, climbing from around 8 percent in 1961 to around 48 percent in 2002. This stylised fact is attributed to two causes. On one hand, the number of divorces has increased from 1,798 in 1961 to 6,761 in 2002. On the other hand, the number of married couples in Uruguay has reduced from 21,561 to 14,073 during the same period. It is interesting to consider that the latter partially results from the fact that over time more people have been chosen to form an informal relationship instead of getting married. The proportion of informal unions in total of couples rose from 7.65 percent in 1963 to 16.45 percent in 1996. As Figure 2 illustrates, this augmentation occurred basically in the younger age groups. For example, for the 15-19 age group the ratio multiplied by more than three times. Among the years, the change is less pronounced, even having a negative sign for the elderly, as it is documented in the four consecutives census (1963, 1975, 1985, 1996).

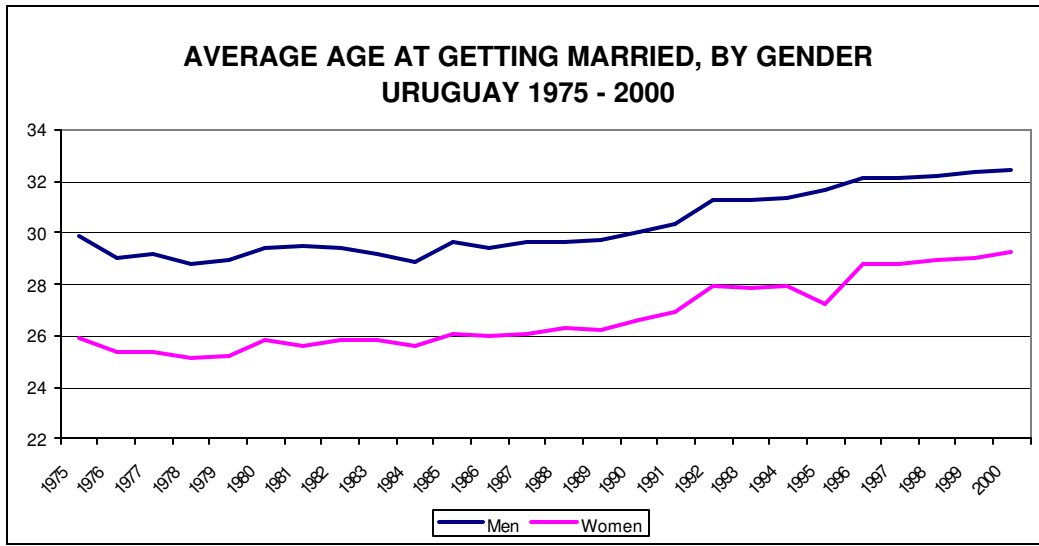
Figure 2.



Source: INE with data from census.

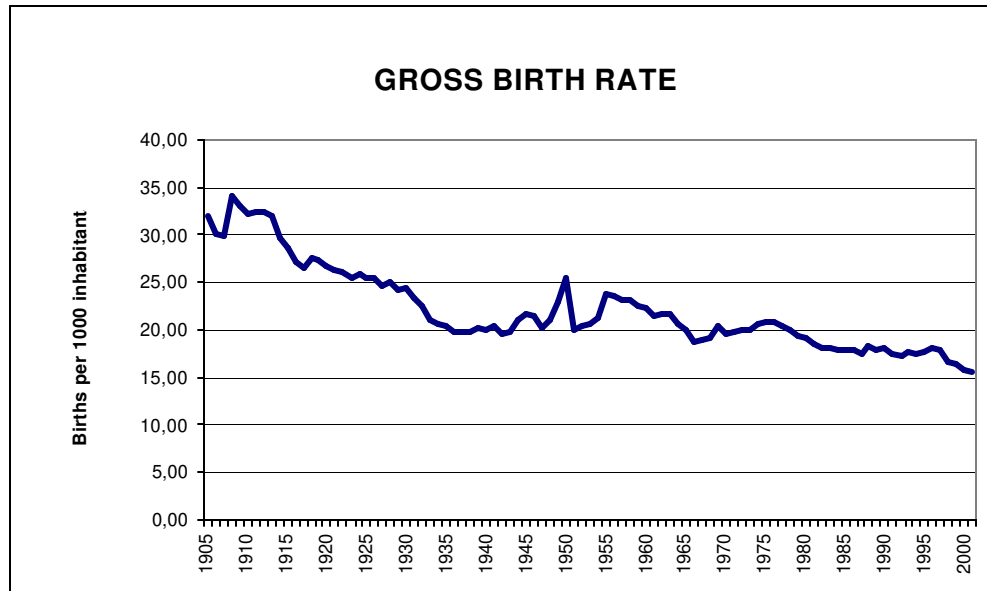
Another fact that mainly caused the decrease in the number of married couples is the rise in the average age at getting married, both for men and women. As shown in Figure 3, on average, in 2002 men are getting married at 32, that is around two years older than they did in 1975. Likely, the average age of women at reaching marriage grown from around 26 in 1975 to more than 29 in 2002.

Figure 3.



Source: Population Programme. School of Social Sciences.
 UdelaR.
 “Nuevas Formas de Familia” – (UNICEF – UDELAR, 2003, 80).

Figure 4.

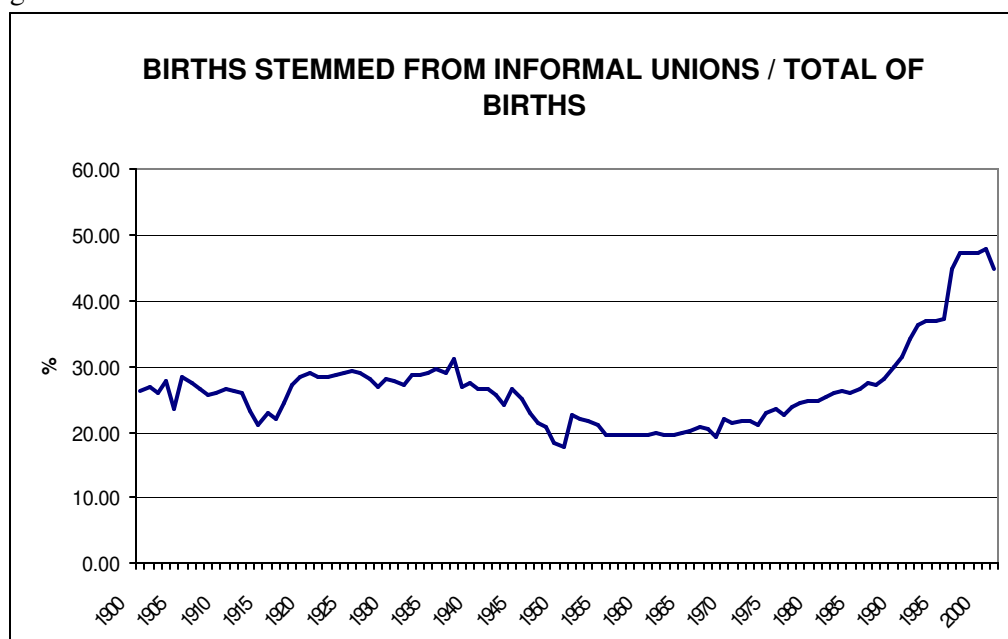


Source: National Institute of Statistics
 Note: The years 1955-67 and 1989-92 are estimated values by the INE

Figure 4 plots the gross birth rate in Uruguay for the period 1900-2001. It is clearly seen a diminishing trend in the rate, which is more than halved in the whole century, falling from around 33 births per 1,000 inhabitants in 1900 to around 15,5 in 2001. However, the share of births out of wedlock in total of births rose near 70 percent,

climbing from around 26 in 1900 to around 45 in 2001. Figure 5 presents the evolution of the rate, which remained inside a range of 20 and 30 percent until the beginnings of the 80's, when it rocketed to almost 50 percent.

Figure 5.



Source: National Institute of Statistics, with information from Statistics Division of the Ministry of Public Health

Table 1 documents the fact that the main increase in the percentage of births out of wedlock was registered in the younger age group of the mothers. For mothers between 15 and 24 years old, the rate was more than doubled during the last two decades. Although there was an increment too for the other age groups of mothers, this was of less scale.

Table 1

Percentage of births out of civil wedlock, according to age group of mothers (Uruguay, 1970-2000)						
Age group	1970	1980	1988	1993	1997	2000
15-19	26,4	32,0	47,9	60,0	71,3	76,2
20-24	17,6	28,5	30,5	41,6	54,9	59,9
25-29	14,9	23,0	20,9	27,0	37,5	41,0
30-34	12,3	18,2	21,2	25,8	33,0	27,7
Total	21,3	24,9	28,0	36,5	47,7	48,1

Source: Peri and Filgueira, 1993 and Ministry of Public Health, 1999 and 2001; From: "Nuevas Formas de Familia" – (UNICEF – UDELAR, 2003, 86)

As Table 2 reports, the majority of all women with children are married. Nevertheless, if only are considered the women between 15 and 24 years old, married ones do not reach the 50 percent. Even for the total of all the mothers with children, around 9 percent are either separated or divorced. And around 8 percent are solo mothers. That means that approximately one of six non-widowed women with children lives in a single-parent household.

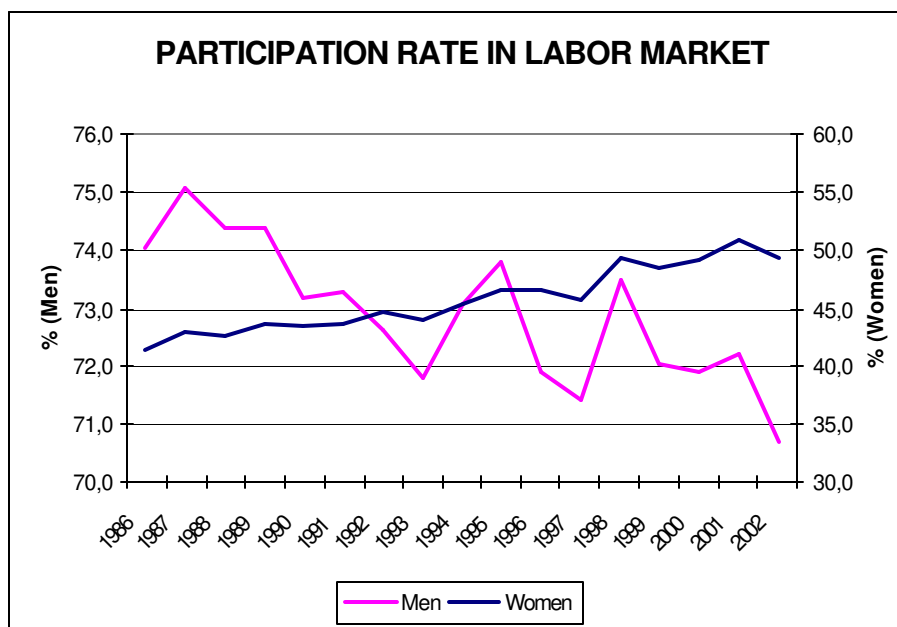
Table 2

Distribution of the women with children by conjugal state. Census 1996							
	Free Union	Married	Divorced / Separated	Widow	Singles	Total	% of women with children
15-19	24,9	30,6	2,5	0,2	41,8	100	13,9
20-24	26,0	48,9	5,0	0,3	19,8	100	40,7
25-29	19,7	64,4	6,6	0,4	8,9	100	65,2
30-34	15,5	70,3	8,3	0,6	5,3	100	82,1
35-39	13,8	70,2	10,5	1,1	4,3	100	88,2
40-44	11,9	69,9	12,1	2,4	3,8	100	89,4
45-49	9,6	69,3	13,3	4,5	3,3	100	88,9
Total	15,6	65,6	9,4	1,6	7,8	100	

Source: Population Programme. School of Social Sciences. UdelaR. "Nuevas Formas de Familia". – (UNICEF – UDELAR, 2003, 87)

Below, in Figure 6, it can be find another stylised fact of Uruguay that is present in worldwide trends: the augmentation in the participation of women in labour market.

Figure 6.



Source: National Institute of Statistics

Table 3

Distribution of families by type of household - Montevideo – 2001	
	Percentage of the total of households
Single person families⁴	18,4 %
Nuclear	60,5 %
<i>Couple without children</i>	16,4 %
<i>Couple with children</i>	33,9 %
<i>Single parent with children</i>	10,2 %
Extended	18,3 %
Compounded	2,8 %
Total	100 %

Source: Program of Population. School of Social Sciences. Udelar. From: "Nuevas Formas de Familia"

-(UNICEF-UDELAR, 2003)

As Table 3 reports, nuclear families are the most predominant types of household in Uruguay.

"In Uruguay the extended households are the most affected by poverty, followed by the couples with children and the single-parent families..."⁵.

Also, the distribution of buildings for poor people is not an irrelevant matter. Recent data (source: INE, 1998) shows that 348 illegitimate neighbourhoods are in Montevideo and surroundings. 132,400 persons live in 32,203 buildings in those places (they represent 11.5 percent of the population of Montevideo). Moreover, this trend should have increased during the last economic recession. The formation of new households by young couples seems to have played an important role in the augmentation of the illegitimate neighbourhoods⁶. "...31 percent of the people of the inquiry state that the cause to have moved themselves to illegitimate neighbourhoods was the formation of a new household"⁷.

⁴ "Single parent families" = Mother or Father only with one or more children;

"Extended families" = Families with more than two generations in the same unit, for example when grandparents cohabit with married children and the relative grandchildren;

"Compounded families" = Nuclear or extended families plus other persons who are not relatives.

⁵ Vigorito, Andrea. "Arreglos familiares y bienestar económico de los niños en Montevideo" in (UNICEF-UDELAR, 2003).

⁶ Amarante, V. y Caffera, M. 2003. "Los factores determinantes de la formación de asentamientos irregulares". Revista de Ciencias Empresariales y Economía. Universidad de Montevideo, page 66.

⁷ Amarante, V. 2004. "Economía y Mercado", "El País", page 4, January 22th. 2004.

II: Law and Incentives Framework

“The legal system has a very deep effect on the economic system and is able to, in some sense, control it” (Coase, 1994, 11).

“Institutions are the rules of the game in a society or, more formally, are the humanly devised constraints that shape human interaction. In consequence they structure incentives in human exchange, whether political, social, or economic. (...) Institutions define and limit the set of choices of individuals” (North, 1998, 3).

The laws (constitutions, decrees, resolutions,...) of any society are formal rules which give the institutional framework. In this sense, the legal system form a motivational structure which gives rewards and penalties. If there is no law that states the need to pay debts, the debtors probably wouldn't pay and finally people would be discouraged to lend money. When the law punishes firms that pollute water, a signalling is being sent to those firms in order to make them avoid to contaminate water. When the law obliges the cigarettes firms to advise clearly to there customers that “Smoking is bad for health”, the law is encouraging people no to buy cigarettes. And so on. “Institutional constraints include both what individuals are prohibited from doing and, sometimes, under what conditions some individuals are permitted to undertake certain activities” (North, 1998, 4).

One target of this article is to analyse the formal institutions (“the rules of the game”) which may be producing positive incentives or disincentives towards the family (“the players”).

Videla (2003) gives us references about Stark's (1995), Kranton's (1996) models, and the dynamics studies of Sacco and Zamagni (1997).

Oded Stark's model arrives to the conclusion that if self-motivated market relationships are replaced by altruistic ones, the final result will be a superior market optimum. This outcome is based on the fact that altruism produces trust and highly reduces the transaction costs. This altruistic behaviour is promoted by the family because it is an environment where takes place a large number of these unselfish transactions.

Contrary to the market exchange, Kranton defines the “reciprocal exchange” as those informal relationships in which people agree to exchange goods and services for future compensation. There is a mutual trust and respect among the people who take part in this exchange, and also this relationship is based on non-written but very well known rules. This behaviour is typical of the family. This reciprocal exchange may be more efficient than the market itself, reveals Kranton.

The dynamic studies of Sacco and Zamagni show that people rationally choose either altruistic or selfish strategies. In other words, behaving as an altruist or selfish is not an inherited condition, what happens is that an agent observes the other agents and chooses his most convenient strategy in terms of welfare. This conduct to altruist and selfish behaviour in the society.

These models show that institutions and rules can strengthen selfish or altruist behaviour, market exchange, “reciprocal exchange”. That is why the motivation structure, created by the laws, is so relevant, therefore it is very important to be careful at legislating in order not to produce negative effects. Not only the policies for the family are important, but also all those policies (building, education, work...) which produce adverse motivational-effects indirectly over the family, because they could be motivating selfish and not altruist conducts, which would go against the welfare of society.

To be able to understand this statement, we need to consider the economic benefits that families give to the society.

III. Links Between Family and Economy

“the family continues to fulfill a crucial function, but this function is not carried out in the same way in all families” (Belardinelli, 2004)

As a result of the recent trends which intent to reach reconceptualizations of marriage and family under influence if ideas about individual rights and neutrality toward diverse life-styles⁸, it is necessary to define which concept of “family” we are using in this paper before showing the “Links Between Family and Economy”.

Donati (2004) argues that not all forms of co-habitation could be called “family”: this is not a discriminatory criterion, but, on the contrary, it respects the characteristics of the relations chosen by the subjects (persons could create multiple forms of co-habitation –all the different situations of living together- in which there is no assumption of social responsibility towards the community around and, thus, they could not be called *families*). “We must never confuse mere co-habitation with that specific relationship which we call, in the real sense and not analogically or generally, *family*”.

Also, in the present paper, we avoid the term “traditional family”: Belardinelli (2004) states that “the term *traditional family* is itself quite ambiguous, due to the fact that the adjective *traditional* takes us back to the past, to the families of yesteryear, to a type of family that in many ways no longer exists: the so-called *extended* family with many children, grandparents living under the same roof, a rigid definition of roles, a more or less marked subordination of the women, rather linear inter-generational relationships and routine social functions carried out almost automatically”. Taking into account the arguments of Donati and Belardinelli, the definition adopted in this paper is to identify family with a stable union of a man and a woman, their children and, possibly, other relatives; a specific relationship with common goals. In other

⁸ Glendon (2004) offers a clear and extended summary of the significant trends in family law and the process of reconceptualization of marriage and family in the late twentieth century .

words, we refer to what is known as “extended families” and/or “normal-constituted nuclear families” in Rossi (2004) classification.

a. **Natural Insurance for the Old, Sick and Unemployed**

Every family is like an *insurance policy against the ageing problem*: the grandparents with little resources are sustained by the incomes of the rest of the family; if those grandparents were alone, the State should take care of them spending money, and perhaps in the wrong way. Becker (1987) shows that: “relative’s altruism and care has helped to protect the members of a family against the uncertainties and dangers of childhood and the old age”.

This home could also be seen as an *insurance policy against illnesses and unemployment*: if a member of this home suffers from one of these troubles he would be supported by the rest of the family (avoiding the State’s expenditure or helping to substitute it). For this reasons the family is recognised as “the school for humanity and social virtues”: taking care of the children, the weak, the ill, the old, the poor people; learning the value of reciprocal service.

b. **Human Capital Investments**

Each family could be building *an efficient mechanism of children’s growing-up and investment in human capital*, where parents devote resources to technical formation (educational expenditure) and put in practice cultural and moral costumes. Families are influential in many dimensions of their children’s lives, affecting their future performance (and the society itself). “As an important concept, the family teaches about our ethic behaviour and our virtues, creating human capital in the real meaning: men and women, willing to arrive to an agreement, to compromise themselves, to trust in people and help them. Without these ethic and social foundations, it is impossible to develop a solid economy” (Becker, 1996). Trust and confidence are very relevant factors for economic development. “(Aguirre, 1999, 5) Gary Becker, in his theory of human capital, when considering investment in human beings (education) and its effect on real economic growth, points out that “no discussion of human capital can omit the influence of families on the knowledge, skills, values, and habits of their children”.

Videla (2003, 35) quotes the experiment ordered by Frederich the II of Hohenstaufen who wanted to investigate the primary language of humankind. According to the story, the king ordered to confine many orphans to a house still in lactation and ordered his servants to take care of them but without talking or showing them any affective sign. The children didn’t started to talk, they died soon. This indicates the need of affection at the bringing-up: the family is the typical institution oriented in this sense.

Consider for example about the role of the mother and the father in the teaching of moral costumes in order to prevent early childbearing, which “is of particular concern because of its implications for the accumulation of human capital. Adolescents who became mothers are at elevated risk of interrupting their schooling permanently” (Cox Edwards, 2003, 9).

“It is said that adolescence is a time of enormous opportunity and enormous risks; scientists believe that the way in which teens spend these years has a crucial impact on the final development and structure of the brain. Where adolescents live, moreover, can shape the way they spend their time and the decisions they make. In the Latin American region, it is estimated that 95% of adolescents live with their parents and/or other adults, which suggests that adolescents’ opportunities regarding basic living standards and access to schools are strongly influenced by the household where they reside” (Cox Edwards et al., 2003, 1). In Cox Edwards et al. (2003, 10), the authors also try to gauge the importance of family factors in the decision of the adolescents to only work, work and study, or only study. “As adolescents and young adults gradually leave school for good, they are faced with a new set of decisions. They must choose whether to look for work, and upon finding employment, they must decide how much to work. Also, they will make choices regarding the occupation and the industry where they will work”.

Zamagni (2004) states that “the family is the ideal type of environment for nurturing human resources in the individual. Interaction among members, including *spill over* effects, permits a reciprocal exchange of knowledge and this increases, of its own accord, the stock of human resources. Within its structure, systematic transference of knowledge between the members takes place, a transference which is encouraged by intimacy and family ties. This is why where family structures are more solid, *ceteris paribus*, the effective stock of acquired abilities of the individuals is greater and the average productivity of the system higher”.

c. Preventing Drop-outs

Cox Edwards et al. –editors- (2003)⁹ affirms that “while access to education cannot be defined as the major problem in the region (Latin America), drop-out rates remain a daunting challenge leading to low schooling rates and low overall educational achievements”

In the case of Uruguay, at age 15 the drop-out rate reaches 22,2 percent. “The early drop-out in this country cannot be attributed to problems of educational supply”.

“Many Latin American countries have invested considerable economic resources in order to improve their educational supply, particularly in terms of school infrastructure, human and material resources, and innovative strategies to make schools more appealing to students. For the most part however, politicians, experts and policymakers show frustration with the small returns on the investments made so far, as policies are simply not producing the expected outcomes. The key to this failure is not on the supply side but on the demand side: little is known regarding how and why the targeted population behaves as it does. Thus, the primary focus of diagnosis and policy should go from supply to demand”.

And in the demand side of education, the family plays a crucial role.

⁹ Filgueira, Carlos; Filgueira, Fernando and Fuentes, Alvaro. “School Attainment and Transitions to Adulthood in Latin America” (Chapter Five of Cox Edwards et al., 2003).

“In order to guide policy appropriately, it is necessary for researchers to open the black box where structural and personal factors interact to produce educational outcomes. This interaction involves adolescents’ choices and behaviour as they move into adult life”.

“Demographic factors are important, especially the share of extended households, which affect hazard rates for educational attainment. Countries at the beginning of their demographic transitions confront huge obstacles in increasing their educational performance, and their only advantage may lie in extended households and the protective function they provide”.

“Uruguay represents the opposite scenario. Among lower-income sectors, the simultaneous adoption of very “modern” roles and family structures, has left a vacuum of basic integrative and protective mechanisms. This has resulted in very weak educational demand among the lower income groups.”

Then, family matters to understand and solve drop-out rates and education attainment.

d. Mechanism of Socializing

Households could also be an *efficient mechanism of people’s socialization*. Kaztman y Filgueira (2001) point out that biparental and stable families present the lowest percentages of *teenagers who do not study, do not work and are not willing to work* (a constant disaffiliation of educational and job institutions may cause teenagers serious problems because it destroys the contacts with the sources of knowledge, job experience and society which is the same as an interruption of the process of incorporation of the most important goods to approach to a welfare future). The family constitutes a large number of relationships between the people: these relationships introduce and support every people in the society: relationships in marriage, paternity, filiations, fraternity.

Belardinelli (2004) says that “we must not forget that, so that discussion and contractual agreements can have their place, we need a society which has a particular type of attitude arising from trust, a sense of the common good, tolerance and responsibility. This cannot be produced by contract, but only through the long process of *socialization* which starts in the family and continues in schools and all other institutes where there are social relations”. (...) “ empirical research tells us that many young people seem not to exist as a *generation*. They have no sense of belonging to anything or anyone. They do not feel as if they have been *generated* and believe that they in turn are not capable of generating anything of significance. One could say they are without roots and without future. (...) Young people especially seem to find it difficult to have a sense of their heritage and of the fact that they can also pass this on (...) the family can offer the best environment for safeguarding this sense of a generational chain”.

e. Economies of Scale

In these families the existence of *economies of scale* (savings generated by the large number of people living at home) is very common: it takes down the costs per capita of food, building, education,...

When there are problems at home, the fixed costs could be multiplied and the economies of scale are reduced. This could crack the transferences of the progenitor who is not resident and finally, this failed transference prejudices the woman because, in Uruguay, “in the majority of cases, children of broken marriages still live with their mothers”¹⁰. We can see this idea in the English case: “in the 60’s in fact the fathers were allowed to dedicate their incomes to support the new-created homes while the State was in charge of the old family by the new Social Security System. Then, only 16 percent of the payments made for single parent families was recovered. The authorities had the power to put pressure but they never did it because according to Finner Committee the real problem of the support is not that the man is not willing to pay, the problem is that they are not able to pay. There isn’t enough money to live.” (Universidad de los Andes, 2002, 73).

That is why, when there are some problems in the family, there could be possible troubles in the intergenerational transferences of possessions. Videla (2003, 105) affirms: “In Argentina, for instance, the father who is divorced often avoids his essential (food) obligations with the children of his first woman, either because of lack of concern, or because he is not able to support two families in case he get married again.” This means that the State must increase its expenditures in order to do what the father does not carry out or does wrong. The State takes part in the post-marriage relationship to force the parts to accomplish the justice’s resolutions, but this intervention is expensive and it means that society must pay more taxes

f. Society Stability

Videla (2003, pages 92-93) affirms that the family also contributes to the harmony and stability of all the society because it encourages people to act in a cooperative way. According to this point, Videla cites works from Sen (2000), Becker (1987) y Cabrillo (1996). Sen uses game theory to show that the strategy based on cooperation has more advantages and the couple obtains better and more efficient individual results. Becker affirms that in a family which behaviour is dominated by the parents altruism, a cooperative behaviour is more reasonable, even with a selfish motivation. In other words, Cabrillo proves the proposition which says that it would be more reasonable to establish consecutive marriage-contracts of short term so as to low down the uncertainty and high up the participant’s welfare: however, cooperative games show that if cooperative will exists at the beginning, the most efficient model is the long-term contract or the perpetual contract. “(Aguirre, 1999, 4) It is within the family domain that private property encounters its meaning because it is in the family that the economic agent

¹⁰ Bucheli, Marisa. “Transferencias y visitas entre hijos y padres no corresidentes” in (UNICEF-UDELAR, 2003). Aprox. 95 percent of the people below 18 years old live with their mother (cfr. Vigorito, Andrea: “Arreglos familiares y bienestar económico de los niños en Montevideo”).

finds motivation to work. At the same time, it is in the family where pure selfish motives for economic activity are overcome because the person's work is directed to meet the needs of the other members of that family.”

In the family the people are recognised because of what they are and not because of what they have. Videla (2003, 38) affirms this fact is very relevant because “the market economy, which works by competition, is creating constantly losers and winners. The rescue and support of the permanent or temporary loser’s self-confidence is the first task of the family. Without this function of social stability, the market correction, should logically behave as Herbert Spencer’s version of struggle of life and the endurance of the stronger. The family allows many losers of the competence process to find the sense of life”.

g. Mechanism of income distribution

Zamagni (2004) argues that a positive influence of the family on welfare concerns the integration and redistribution of earnings. “The capacity of a family to balance the distribution of earnings for the individual is well known. This becomes even more egalitarian when it passes from the individual to the family as a whole. In this sense, the family becomes a powerful social “cushion”, serving as a reference point for collecting and apportioning the earnings of its own members and functioning in this way as an efficient distributor of its own wealth”.

“The family is a natural institution which often does those things much better than other bigger institutions”(Becker, 1996).

These positive consequences over the society, mentioned above, are known in the economical literature as *externalities*. Definitely, externalities are effects which an agent’s activity (in this case the family) has in others (the rest of the society) and is not necessarily noticed by the market prices: in other words, as we saw before, these homes may have many profitable consequences for the society (insurance for aging, unemployment, and sicknesses; human capital investment; socialisation mechanisms; economies of scale..) however the society do not pay back these families their benefits (what is more, laws and regulations could be punishing! many times these families). In consequence, these families are not rewarded for their “production”, they are motivated to low the “production” of this kind of goods (insurances for aging, unemployment, sicknesses, human capital investment, socialisation) and that is why not only those families are damaged but also the whole society because “ the raise of familiar instability (...) is increasing the isolation of the poor urban people and activates mechanisms that gives advantage to intergenerational reproduction of poverty, which is a threat for the children who will live with more poverty in the future” (Kaztman and Filgueira. 2001, 117).

IV. Family Breakdowns and The Children

In this section I will centralise in the positive externalities over the children.

a) Effects of familiar instability over the educational and social performance of children

Some authors (C. Filgueira, 1996; Kaztman 2001) point out the negative consequences of conjugal instability on the socialization and educational levels of the children. In this logic, family breakdowns deteriorate the intergenerational transmission of actives mechanisms and attempt against the future of children.

Other investigations (UNICEF-UDELAR, 2003)¹¹ doubt about the causal relationship between families breakdowns and welfare of the future generations, and they state that:

- i. It is necessary to distinguish the short-term effects and the long-term effects (it is in the short term where the harmful effects on the children could be critical);
- ii. it is necessary to study the differential effects according to the gender and age of children at the moment of the breakdown;
- iii. even if there is no divorce, the children experiment problems in their psycho-social performance when their parents are in trouble;

This controversy between these positions has contributed to discover the complexity of the relationship between conjugal instability and the children's performance.

b) Familiar stability and absence of parental conflict is favourable to the children.

Conjugal stability has been a good mechanism of transmission of assets from parents to their children. When breakdowns are produced, the relationship between the children and one of the progenitors¹² is harmed, damaging the transmission of assets. This effect is more noticeable after more years¹³. Bucheli¹⁴ (UNICEF – UDELAR,

¹¹ Cabella, Wanda. "Efectos del divorcio sobre el desempeño educativo y social de los niños".

¹² Universidad de Los Andes (Chile). 2002. "Informe sobre el divorcio. La evidencia empírica internacional", page 49.

¹³ Universidad de Los Andes (Chile). 2002. "Informe sobre el divorcio. La evidencia empírica internacional", página 49.

¹⁴ Bucheli, Marisa. "Transferencias y visitas entre hijos y padres no corresidentes".

2003) affirms that, in Uruguay, only “42 percent of fathers who doesn’t live with their children transfers some money where his children live” and 32 percent of the children have no contact with their father. Besides, Bucheli’s paper concludes that “ the constitution of a new union of any of the progenitors takes down the frequency of visits of the father”. The Universidad de los Andes (2002, 71) cites problems in the transferences similar to the Uruguayan case in United States, England, France and Sweden. Videla (2003, 105) refers to the Argentinean case.

Furstenberg¹⁵ observes that “the majority of children have more possibilities of prosperity when they receive a continuous care of their parents, when they invest in the relationship, when they provide money and resources, when they control their children actions in a confident way according to their age, and when they show their affection, interest and trust in their abilities. All these qualifications are supported, without any doubt, by the presence of both parents”. They point out that it should be studied if the substitution of the relative by other person is as effective as if it where with the progenitor.

To conclude this part: different reasons are presented about the level of the damage caused by familiar breakdowns on the children. Burt what we can affirm is that familiar stability has a positive influence in the children and hence, it is a common good for the whole society. In other words, familiar stability provided by the parents has proved to be a good-working mechanism to transmit social and human capital to the children. It works.

V. Family vs. Larger Organizations?

Above, we observed that many countries recently experienced huge changes on family structure and households decision making: lower fertility rates and drop in the number of children for younger cohorts; growth of divorces and of labour force participation of women; ageing population; people waiting longer to get married.

Towards these changes that are affecting the family, we should question the convenience of going to: a) societies where other organisations, like the Welfare State, will take the families’ place in the supply of services because the family can’t provide them in these new circumstances; or b) make the family receive satisfactory incentives so as to strengthen it so it can plenty offer its services.

Lindbeck (1995) affirms that, contrary to the possibility of increase the presence of the welfare state, we should remember its perverse dynamic: when an aid is given, the number of users grow with time.

“The achievements and costs of modern welfare state are both usually analysed in static terms. Some consequences of welfare-state arrangements, however, could rather be characterized as dynamic, in the sense of reflecting the interacting adjustments over time of basic behaviour patterns of households, firms, interest-group organizations, politicians and public -sector administrators. Many of these dynamic adjustments are no doubt regarded by most observers as positive, or virtuous.

¹⁵ Furstenberg Jr., Frank. “El cambio familiar estadounidense en el último tercio del siglo XX”.

Other dynamic adjustments are more problematic and “hazardous”.

But if we do not watch out for hazardous dynamics, there is a risk that the welfare state will destroy its own economic foundations. That risk is today a reality in several countries.

The basic dilemma of the welfare state, however, is that the more generous the benefits, the greater will be not only the tax distortions but also, because of moral hazard and benefits cheating, the number of beneficiaries. This is a field where Say’s law certainly holds in the long run: the supply of benefits creates its own demand. Indeed, moral hazard and cheating are, in my judgement, the weakest spots of the welfare state” (Lindbeck, 1995).

Another problem which is presented when the family is substituted by a group of structures and organizations was signed by Hayek against Lange and Lerner’s solution¹⁶: the information is atomised in thousands of particles and it is impossible for any centralized organization to reach it on time.

Lange (1904-65) and Lerner (1905-82) tried to demonstrate the virtual equivalence between central planning and the free market in the efficient allocation of resources by an iterative “trial-and-error” procedure. In their view, Socialism must be able to combine efficient allocation of resources with a distribution of income which maximizes collective welfare (this involves the elimination of private ownership and the disasters caused by cyclical fluctuations in a market economy). “In reply to this argument, von Hayek (1899-92) developed his interpretation of the operation of the market as a *discovery process*, in which information scattered among a myriad of economic agents is mobilized and used in an efficient way. (...) Each individual is a unique repository, maintained Hayek, of specific elements of knowledge, and it is only through free interaction among the economic agents that this scattered knowledge is disseminated beneficially to whole society. (...) Yet individuals are the only repository of the relevant information.” Reasoning by analogy, the members of the family, rather than larger organizations, are usually in a better position to reach the information of the necessities of the other parts of the family: before the State detects it, the mother will hear the cry of her baby.

VI. Policy Suggestions

For further research, the present paper suggests the study of the implementation of formal incentives which empower the family and, at the end, foster economic development.

Donati (2004) summarizes the principal models of family policy inherited from the 20th century and proposes new principles for family policy able to promote a society that is “family-friendly”, rather than “family destructive”. Three models of family policy and their drawbacks:

¹⁶ Screpanti and Zamagni (1995) offers an extended summary of this controversy in the history of economic thought.

i. Lib Model

Its fundamental inspiring principle is one of individual liberty and the protection of privacy. The family is defined as a contractual institution between individuals: a joint venture of private individuals.

ii. Corporate Model

It is based on the assumption of the collective solidarity of the family: an institution based on complementarity between men and women, and on subsidiarity among generations. These relationships refer specially to social security and participation in the labour market.

iii. Lab Model

This model is based in the principle of social equality: the tendency is to make married and non married couples equal in what pertains to rights, duties and benefits.

An outline of success/failure of the three models of family policies (from Donati, 2004):

Models of family and welfare policies	Positive aspects	Negative aspects	Overall valuation
Lib	Freedom of choice for the family	Individualism and fragmentation	The family becomes an utility/dis-utility for individuals
Corporate	Public support to family solidarity	Lack of equity among men and women, and among generations	The family becomes a support to the State (subsidiarity in reverse)
Lab	Equity and redistribution for the more disadvantaged conditions	Poverty traps and loss of social bonds	The family becomes a purely affective aggregate of individuals.

Donati (2004) states that family policies are in crisis. Some of the reasons for the crisis:

- a) substituting family roles with services of the outside collectivity, the *publicizing of familial functions*: a logical outcome when support to the responsibilities of the family is given in a way which substitutes family roles with external collective services lacking a family-friendly attitude;
- b) there is a strong tendency towards making family policies coincide with “matrifocal” policies centered on the woman and on the mother-child relationship. The consequence is a loss of

- the masculine role and the weakening of the exchange between generations;
- c) family policies lose the explicit character of an instrument which would sustain family bonds. They concentrate on the needs of the single individual along her/his life cycle. One's preference is to speak of policy for infancy, the youth, the aged, instead of policies for sons/daughters, parents, and grandparents.
 - d) To a large extent, family policies are turned into policies against poverty and against social exclusion, with a reductionist view of the social capital inherent to the family.

Donati suggests new orienting principles for family policies:

a. The collectivization or publicizing of functions should give way to a well understood principle of subsidiarity according to which larger social formations ought not substitute for smaller ones but rather support them in their autonomy, laying down rules and supplying necessary means so that they themselves can carry out their specific duties. Families should be in a position to decide: to choose the services they require and to be able to influence the way they are organized. The state should help them through further associative forms, such as associations of families, to manage on their own the services that they need. One thinks of family counseling services, day care centers, care for children and the elderly, domiciliary services, etc.

Orientations already discussed (lib, lab, corporate) have a reduced vision of the subsidiarity principle for the following distinct reasons. (i) The lib model defines subsidiarity as freedom for the private spheres. For this model subsidiarity is privatization. (ii) The corporate model defines subsidiarity as assistance from the state. (iii) The lab model defines it as a delegation of the social policies to organisms controlled by the state or in some way dependent on its regulations.

But a well understood principle of subsidiarity not only defends, but also promotes the family. It is not limited to defending the family from the interference of communities of higher orders, but actively sustains it in its autonomy, empowers the family.

b. A policy is defined as family-oriented if it is oriented according to a guiding distinction between the family well being and the non-family well being. Family-oriented policies are those which recognize the family as a social subject itself (those who marry give rise to a relationship of trust and cooperation, based on reciprocity, and this creates social capital for themselves and for the community around them). On this basis this relationship (= family) may claim the right to be recognized as a social and legal and referential subject accountable for its freedom and autonomy.

Glendon (2004) presents some propositions for family policy discussion:

- a. "The family form that state and society have the greatest interest in promoting is that which provides optimal conditions for child-raising

and thus is most important for the common future; the stable child-raising household with a married mother and father present. If this is correct, it is appropriate to single out for encouragement and preferential treatment married couple households where children are being or have been raised –just as it is appropriate to give special treatment to veterans and others who made sacrifices for the common good”.

- b. “Society and the state also have interest in other households where children are being raised, but here the interests are of different kind: the social interest in providing all children with the best possible life-chances and the social interest in responding to the needs of disadvantaged. But these social goals must be pursued without encouraging the proliferation of sub-optimal arrangements. If this is correct, it is appropriate to single out some non-marital child-raising households for special assistance”.

Zamagni (2004) suggests other pillar for family policy. “If it is true that the family today is the principal producer of positive social influence in our society, economic support should be seen as restitution or compensation and not only, as it continues to be, as a question of compassion or paternalistic assistance. In other words, family policies cannot be confused with policies for the struggle against poverty which are also necessary”.

VII. Concluding Remarks

“I believe that family is the most important institution in any society (...); in the long run those economies that will advance most rapidly will tend to have strong family structures...” (Becker, 2000).

The family is an important decision-making entity in allocating the scarce resources, and plays a critical role in human capital investments in the children and adolescents. “In the year 2000 approximately 21 percent of the Latin American population was aged 10 to 19 according to UN population estimates. Comprising such a considerable share of the population, the current generation of adolescents is widely recognized as vital to the region’s future” (Cox Edwards, 2003, 2).

The present research has considered the benefits (for further research: empirically estimations of them in our society would be relevant) that the family carries to the economy of any society (child rearing and human capital investment; social assistance for the elderly, sick and unemployed; economies of scale; mechanism of socialization; prevents drop-outs; society stability; mechanism of income distribution). However, family structure has experienced dramatic changes as we have observed in the recent worldwide trends: these changes affect the benefits produced by the family. Those who propose to substitute the family for larger organizations have found critical problems such as Lindbeck and Hayek mentioned: the perverse dynamic of welfare state (moral hazard and benefits cheating) and the fact that the information is atomised in thousands of particles and it is impossible to any central organisation to reach it on time (the members of the family, rather than larger organizations, are usually in a better position to reach the information of the necessities of the other parts of the family). Thus, based on the fact that family stability and the absence of parental conflict seem to be favourable to the children and the human capital investment, in this paper we suggest to explore other directions for policy: family-friendly policies (i.e. policies that favour families and, so, foster economic development) in terms of Donati (2004).

In the design of policies, it is important to consider that institutions evolve in response to individual incentives and affect the performance of political and economic systems. Formal rules influence transaction and production costs (costs for families to offer their services) and could induce economic stagnation or foster real development. It is necessary to work on incentives toward efficient institutions.

For further research, this paper suggests to try to estimate empirically the possible costs for our society of breakdowns and instabilities of the family structure (Aguirre, 1999, shows some estimations of social welfare costs including social security plus family and health welfare expenditures for developed countries: they have experienced significant increases as their family institution has undergone a serious crisis).

The family is a fundamental institution for the society and so it cannot be treated with carelessness. It requires a serious and prudent study. Gary Becker indicates: “The family is the most important institution of every society... the family plays a crucial role

in the reparation of the inefficiencies of the market-system... The family is responsible for the majority of the human capital investment in the children (knowledge, skills, health of people...). Given the fact that human capital is essential for the development of a modern economy, this role of the families is specially important... Human capital position people more than machines in the center of economic progress... The family is crucial not only because of the human capital investment it carry outs, but also for the huge contributions to the formation of attitudes and values of the population: values like honesty, responsibility, hard work, determine not merely the quality of economic life, but also the political and social behavior of the persons” (Becker, 2002)

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IX. Annex: Family-friendly Policies

Below, the reader could find brief suggestions, by different authors, of family-friendly policies. These ideas may be useful for further research.

Montano (2004) suggests:

- “Familiar help: it is proposed to make easier the possibility of other people to help directly with economical support to poor families *with the special intention* of being for the education and maintenance of the children. By this way, the children of poor families are not distant of their natural home, and they receive an efficient assistance when they need it. These benefactors could also be compensated if they are people as well as organizations”.
- Conciliation between work and family: “In Canada, the Women Statute Council has begun to grant annual rewards to enterprises which take concrete initiatives to conciliate work and family. Some of these programs are: the job flexibility; the authorization to the work over distances; the compression of the job-week -more hours in less days-; the possibility of a part-time job, or sharing the day of work with another partner. It doesn’t matter the presence of the worker, what really matters is that the job is done. In Germany, part of the contributions of the workers from the pensions system, are established in relation to the number of children the worker has, because according to The German Constitutional Court, “who has children is contributing to the survival of the Social Security System, and that is why they should enjoy of more benefits than the ones who are not contributing”.
- Study fiscal stimulus in order to protect gravid women without causing an economic damage to the firm in which she works, avoiding the handicap which results of the possibility of become pregnant¹⁷.

Becker et al. (1996) suggests:

- Taking into account the home labour in the GDP statistics, at least to demonstrate the great contribution of the mothers who assign part of their time to these tasks of the household. The equal rights and dignity of men and women justify the woman access to public functions and other professions. But the real promotion of woman also demands that the society recognize the value of her maternal and familiar role, respecting the freedom of wives and mothers in order to not force them to work out of home.

¹⁷ In Cox Edwards et al. (2003), the authors show that in many cases the rules governing formal employment are inadequate and lead to discrimination against the young, women and part-time workers.

In this sense, Zamagni (2004) argues that “the idea that work is only that which is paid in the well accepted ways, that is what produces goods and services for the private market, is outdated. (...) Today we are in a situation where we can add to the monetary, those activities which are not monetary, that is those which have an implicit value and can be rewarded by the exchange of an equivalent. Even though it is true that there are obvious difficulties of a technical nature, some countries are developing the so-called *satellite accounting* whereby they try to calculate unpaid work. According to the UNDP Report on Human Development, 1995, the value of non-monetary total production is estimated to be, worldwide, 16,000 billion dollars, corresponding to about 70 percent of the 23,000 billion dollars of monetary activity. It does not take much to conclude that such an important part of the economy cannot continue for long to be left out of official statistics”.

Becker et al. (1996) continues:

- In some societies, the poorest families are damaged because of the lack of a real possibility of access to an education of good quality for their children. Parents should be free to choose the education of their children.
- Families should be able to participate directly in the decisions of the education that their children receive at school.
- Fiscal policies should not discriminate against spouses, large families and those people who care for the sick and the old ones.
- Labor conditions and holidays should be flexible in order to give some resources (such as time) for spouses: they are necessary for parents to care and educate their children.

“Frequently, people regret the lack of time available to advocate to their family. But when the personal dedication for the job grows, damaging familiar life, finally this personal disequilibria damages precisely the job. The effects of an excess of work negatively affects our private life. The instability of the private life has negative effects on our productivity and labor relations”¹⁸.

“We need to be aware that today the main obstacle to the formation of new families, and within them new births, is the fact that quite a lot of couples perceive it as impossible to make the trade-off between the demands of career and/or professional advancement and the need of dedicating the necessary attention to their children’s education. If things are seen in these terms, as seems to be the case, the urgent problem to face is that of finding specific types of time management, taking into consideration that the problem is not so much reducing the weekly or monthly hours of work as, something rather more complex, organizing the time spent on paid work in such a way as to permit people to adjust their working hours to their own needs in the different stages of their working lives and to allow businesses to reduce the costs of reorganizing their production process to fit the implementation of new ways of working. (...) It is in

¹⁸ Aceprensa 52/04, April 14th. 2004.

the interests of a company to have men and women working for it who feel fulfilled and satisfied at a personal level because they have no conflict of needs between work and family” (Glendon, 2004).

In reference to the family access to proper buildings, Amarante y Caffera (2003) suggests some factors to correct in the Uruguayan case:

- Problems in the supply of lands: there are public and private lands without use because of speculative reasons or because the legal rules which regulate the division of new lands is too restrictive in relation of the times of the demand;
- Public policy on housing for the sector of low income seems to be insufficient or ineffective, without mentioning their huge cost. The authors suggests to study the possibility of implementing tax instruments to direct private investment (in building and services) to some neighborhoods;
- The current policy of regularization of poor and illegitimate neighborhoods could create incentives in the wrong way: the people who illegally take a land, besides the implicit benefits (they don't pay services of water, taxes...), obtain the property of the land by law. Moreover, when the property of their new house is regularized, the family has to pay public services (water, taxes...): an incentive to move to another illegitimate neighborhood.

Amarante y Caffera conclude their paper suggesting the study of the possible convenience of a policy of vouchers for a long term solution. The idea is to give vouchers to the sector of low income in order to offer to those people the real possibility of rent a house. This policy of subsidies for renting could be cheaper than the current policy of regularization of illegitimate neighborhoods.

Recently, the Ministry of Portugal has presented a new plan of social actions towards the family: “100 compromises for a family policy”. “In the chapter of family work relations, this policy includes the approbation of an unemployment insurance that takes into consideration the number of children of the worker; incentives to part-time works...

The government also promise to support specially those families with old and seriously ill members.

The chapter of education includes the reduction of cost of school materials for children; free access to museums; courses for parents; promote cooperation of parents in the schools; guarantee real free choice in education for parents”¹⁹.

Other measures to consider:

¹⁹ Aceprensa 56/04, April 21st. 2004.

- Improve the Policy of Subsidy per Children of the Family: (“the family subsidy program is very limited in Uruguay: it is estimated that 40 percent of children in households in the first decile of income distribution are left out. (...) In 1995, a change was approved in the design in order to redistribute the benefits toward the poorest strata, subjecting the coverage and amount of the allowance to the income of the couple responsible for the child. The entitlement for children in the care of couples with income over 10 national minimum wages (SMN) was eliminated. For the rest, the benefit was set at 16 percent or 8 percent, based on whether the income of the adults responsible for the child was lower or higher than six SMN, respectively. Although this favoured the lower income strata, the fall in the SMN in real terms has been gradually decreasing the amount of the benefit”²⁰).
- Give real possibilities to carry out a family and hold the appropriate resources for its maintenance - even in poor levels -;
- Warrant proper conditions for domestic labour;
- Make possible to families their expression and representation towards public, economic, social and cultural authorities; to favour the creation of associations between families and other institutions that allow them to promote their values and defend them from external attacks, such as from mass-media;
- Medical, juridical and social protection for mother and childhood.

²⁰ Bucheli, M. 1997a “Equidad en las asignaciones familiares de Uruguay”. Quoted in Attanasio (2003).