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The Economics of Cohabitation

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I. THE ECONOMICS OF COHABITATION

Beginning around 1970, most Western societies began to experience a profound change in the union formation behavior of individuals. Marriage rates declined sharply, while increases occurred in the rates of divorce, the age at first marriage, and the proportion of the population remaining single. At the same time, the proportion of couples cohabiting outside of marriage increased greatly (London 1990). In general, in the last 25 years Western societies have shown a greater acceptance of individual choices including premarital sex, remaining single throughout life, voluntary childlessness, divorce, and cohabitation (Thornton 1989). These changes in attitudes and behavior are of particular interest and significance given their international scope. Evidence from varying industrialized countries, e.g., the United States, France, Scandinavia, Australia, Canada, and New Zealand, among others, indicates strikingly similar patterns (Bumpass, Sweet, and Cherlin 1991).

Many questions arise from this fundamental transformation of union formation processes over the past few decades. Why have cohabitation rates and divorce rates increased? Why are individuals postponing marriage? Has the increase in the number of cohabiting unions offset the decline in the marriage rate? Did the increasing divorce rate cause the increase in cohabitational unions, or does the causality run in the opposite direction? How have these union formation changes affected fertility behavior?

This paper focuses on the determination of one variable among the myriad interrelationships involved in the demographic process of union formation: the cohabitation rate. Although a great deal of sociological research has been

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conducted in this area, few if any economic studies have focused specifically on cohabitation. The purpose of this paper is to present an economic model of cohabitation derived from the standard utility-maximizing model of consumer choice. Section II contains a review of the sociology studies of cohabitation. An economic model of cohabitation is presented in Section III, and Section IV contains the results of an empirical test of the model. This test utilizes data from the United States for 1990, aggregated to the state level. The conclusion is contained in Section V, along with suggestions for future research.

II. RESEARCH ON COHABITATIONAL UNIONS

As noted, sociologists have conducted the existing studies focusing explicitly on cohabitation in the United States. Estimates of American cohabitation rates and trends are contained in Bumpass and Sweet (1989), and indicate that almost half of the United States population has cohabited at some time by their early 30's. Furthermore, among separated or divorced people under the age of 35, the proportion which had cohabited is fully two-thirds. Cohabitation is typically a union of short duration: the median duration of cohabitation was found by Bumpass and Sweet to be just 1.3 years, after which the couple either marries or terminates the union. Despite this short duration, cohabitation is considered to be a true family status, with studies indicating that most cohabitors expect to marry their partner (Bumpass, Sweet, and Cherlin 1991). According to United States data contained in the 1988 National Survey of Family Growth (NSFG), about 53% of all first cohabiting unions studied resulted in marriage, about 37% of them dissolved, and 10% remained intact at the time of the survey (London 1990).

Studies from other Western countries on cohabitational behavior and trends indicate a similar pattern. As in America, a 1985 survey of French adults finds sharp increases in premarital cohabitation which began around 1970 (Leridon and Villeneuve-Gokalp 1989, as cited by Bumpass, Sweet, and Cherlin 1991). The survey indicated that more than 40% of all ever married individuals aged 34 or younger had cohabited prior to marriage, compared to only about 20% among earlier cohorts.

An important question in the sociology literature concerns the relationship between increasing cohabitation rates and declining marriage rates. Data for the United States, France, Sweden, Australia, and Canada all indicate that most of the decline in first marriage rates has been offset by the increase in cohabitation (Bumpass and Sweet 1989, Bumpass, Sweet, and Cherlin 1991). In addition, data from the United States, Sweden, and Norway show that cohabitation has

completely offset the decline in *remarriage* (Bumpass and Sweet 1989, Bumpass, Sweet, and Cherlin 1991, Blanc 1987). The mere presentation of these statistics begs the question of causality, however, and very few studies address this issue empirically. An exception is an American study by Axinn and Thornton (1993). In a model examining the reciprocal relationships between parents' attitudes and children's behavior, they conclude that increases in the formation of cohabitational unions are *causal* in the accompanying decrease in marriage rates.

In a similar vein, very few studies examine the issue of causality between increasing cohabitation rates and increasing divorce rates. One model proposes that the causality runs from divorce rates to cohabitation rates: the increasing prevalence of marital instability and divorce has caused a shift in preferences towards cohabiting (Bumpass and Sweet 1989). Relative to marriage, cohabitational unions are less formal, less legally entangling, and are associated with lower expected costs resulting from termination of the union.

On the other hand, is it possible that cohabitation which precedes marriage influences the propensity to divorce? If cohabitation is viewed as a trial marriage, with successful trials followed by formal marriage, then marriages preceded by cohabitation might be presumed to be more stable and have a longer expected duration. Interestingly, however, research indicates that the opposite is true: cohabitation prior to marriage is associated with *higher* divorce rates (Axinn and Thornton 1992). Using the 1988 NSFG data, Bumpass and Sweet (1989) found that the proportion of American couples separating or divorcing within 10 years of marriage was one-third higher among those who cohabited before marriage than among those who did not cohabit before marriage. Several researchers have reported a similar pattern for Sweden, Canada, New Zealand, and Australia (Bumpass and Sweet 1989, Axinn and Thornton 1992, Cunningham and Antill 1994).

Axinn and Thornton (1992) addressed the issue of causality between cohabitation and divorce, presenting two possible hypotheses. The first is that cohabitation prior to marriage exerts no independent influence on the observed increased probability of divorce. This is the selectivity argument, or taste hypothesis, which states that those who select cohabitation are themselves more approving of divorce than those who do not cohabit prior to marriage. Thus, it is more likely that cohabitors who marry will subsequently divorce due to the beliefs and values they initially held. The second hypothesis holds that cohabitation prior to marriage is *causal* in the accompanying higher incidence of divorce if, through mechanisms not explicitly identified, the act of cohabiting itself *produces* attitudes more accepting of divorce. Based on their empirical analysis of American couples, Axinn and Thornton find evidence supporting

the selectivity argument, but also claim support for the second hypothesis as well. These results are open to question, however. Due to the young ages of the participants in the panel data used for their study, actual divorce behavior is not an included variable. This prevents the authors from

> 'examining the extent to which the factors identified can account for the relationship between cohabitation and divorce.' (p. 360).

Empirical support for the second hypothesis rests on the assumption that measures of divorce acceptance are accurate predictors of divorce behavior[1]. More research is required in this area before any valid inferences may be drawn.

The sociology research has also established some reliable correlates of cohabitational probability. Among these demographic variables are income and education levels, religious participation and affiliation, and family of origin characteristics. The latter includes parents' education levels, history of premarital pregnancy by parents, parents' divorce and remarriage, family poverty and receipt of welfare, and growing up in a single-parent household. These will be discussed more fully in Section IV. The following section develops an economic model of cohabitation by combining the application of economic maximizing behavior with the knowledge gained from the descriptive sociological research describing the correlates of cohabitation.

III. AN ECONOMIC MODEL OF COHABITATION DEMAND: THE NET BENEFITS OF COHABITATION VS. MARRIAGE

Among economists, Schultz (1974) and Becker (1981) provide a firm theoretical reasoning behind the decline of marriage in recent years; as men and women have become more similar with regard to marketable characteristics (that is, as the production possibilities frontiers of men and women begin to duplicate one another), the gains from trade via marriage decline. The result, as dictated by purely economic incentives, is a decline in the prevalence of marriage. As noted, no economic studies have focused specifically on the issue of cohabitation.

When asked to list the benefits of cohabitation over marriage, one's response is likely to include 'lack of commitment' or 'flexibility'. Bumpass, Sweet, and Cherlin (1991) report that among polled cohabitors under the age of 35,

1. Perhaps more importantly, Axinn and Thornton's specification consists of separate estimation of the equations. Two-way causality may only be inferred within the context of a simultaneous equations model. As the authors note, the ideal specification for this model makes great demands on the data, which at this time are not met.

'important' reasons[2] why a person might want to cohabit include the following: 1) 'It requires less personal commitment than marriage' (14% of males, 18% of females), 2) 'It requires less sexual faithfulness than marriage' (12% and 10%), 3) 'Couples can be sure they are compatible before marriage' (51% and 56%), and 4) 'It allows each partner to be more independent than marriage' (17% and 19%). Each of these answers encompasses the desire for flexibility. Moreover, based on the findings of Bumpass *et al.*, women appear to be more concerned with flexibility than men[3].

It appears, then, that flexibility or lack of commitment is the primary benefit of cohabitation as an alternative to formal marriage. The increase in the demand for cohabitation that has occurred over the past few decades reflects, in large part, the demand for increased flexibility in consensual unions. The hypothesis proposed in this paper is that the primary reason individuals, and women in particular, have shown a desire for this flexibility is the pronounced shift in the labor force participation of women. The evolving status of women, the increased participation and acceptance of women in the work place, and the increasing proportion of women in male dominated occupations and in highly skilled professions have fundamentally changed the nature of consensual unions.

In two career households, each partner's career decisions are influenced by the other partner's career. One of the most important issues for which one partner may incur high costs career-wise is the prospect of geographic relocation initiated by a spouse's employment change. Assume that for any given year, a worker faces a positive probability that employment transfer or termination will occur:

$$\gamma_i > 0, \tag{1}$$

where γ_i is the probability of employment change of worker i. Some employment changes, either transfers or being rehired with another employer, require geographic relocation:

2. The quoted reasons were among possible multiple choice answers. The percentages of male and female cohabitors that felt the reason was 'important' are contained in the parentheses.
3. An anonymous referee of this journal suggests that women's 'value' decreases with age. If this is the case, women should be *more* interested in a binding contract (marriage) than men. Perhaps the findings of Bumpass *et al.* are not consistent with this notion due to the rather young age of the responders: under 35 years old. The impetus of the results could also be that traditionally, it is *women* who are forced to choose between leaving a job or leaving their spouse.

$$\eta_i = f(\gamma_i), \tag{2}$$

where η_i is the probability that geographic relocation is required for transfer or re-employment of worker i. Therefore, the probability of geographic relocation is greater than 0, but is bounded by the probability of employment change:

$$\gamma_i > \eta_i > 0. \tag{3}$$

As the number of workers per household (n) exceeds one, the following terms are introduced:

$$\phi = \sum_{i=1}^{n} \gamma_i \quad \text{and} \quad \rho = \sum_{i=1}^{n} \eta_i, \tag{4}$$

where ϕ is the probability that the household contains a member who will change employers, and ρ is the probability that the household contains a member who will be subject to job-related geographic relocation. As the number of workers per household increases, both ϕ and ρ will increase. Furthermore, ρ is greater than 0 but bounded by ϕ:

$$\phi > \rho > 0. \tag{5}$$

As women enter the work force in greater numbers, the average household will experience an increase in ϕ, and more importantly to the issue of cohabitation, an increase in ρ.

In a household with one partner engaging in market work, geographic relocation comes at a lower cost to the household than if both partners work. Thus, the household with both partners engaging in market production is not only more likely to experience work related geographic relocation, but furthermore this relocation comes at a greater cost. Traditionally, or perhaps stereotypically, geographic relocation involves the male partner taking new employment and the female partner giving up her job to move with her spouse. Obviously, such a scenario usually damages the woman's career, particularly with regard to job tenure. Cohabitation lessens the commitment[4] to one's

4. The word 'commitment' refers to economic and legalistic ties, rather than emotional ones.

partner, thus lowering the cost of choosing one's career over one's relationship. Therefore, as more women enter the workforce, the flexibility afforded by cohabitation increases in value, thus increasing the demand for cohabitation.

The following economic model attempts to explain variations across states in the cohabitation rate of Americans for 1990:

$$\begin{aligned} \text{COHABIT} = {} & \alpha + \beta_1\text{FLFPR} + \beta_2\text{FTECAP} + \beta_3\text{SPLITCAP} + \\ & \beta_4\text{HOUSING} + b_5\text{FUNDCAP} + \beta_6\text{CATHCAP} + \\ & \beta_7\text{POVERTY} + \beta_8\text{UNEMPLOY} + \\ & \beta_9\text{DEEPSOUTH} + \varepsilon. \end{aligned} \tag{6}$$

where

COHABIT is the number of opposite sex, unmarried-partner households in each state divided by the state's population,
FLFPR is the female labor force participation rate of the state,
FTECAP is full-time equivalent enrollment in higher education in the state divided by the state's population,
SPLITCAP is the divorce rate of the state,
HOUSING is the percentage of household income devoted to housing costs in each state[5],
FUNDCAP is the percentage of the state's population who are categorized as fundamentalist (or theologically conservative) Protestants[6],
CATHCAP is the percentage of the state's population who are Catholic,
POVERTY is the percentage of the state's families living below the poverty level,

5. This variable is constructed as a weighted average. The percentage of home owners is multiplied by median monthly owner costs as a percentage of household income. This product is summed with the percentage of renters multiplied by median gross rent as a percentage of household income. This calculation is performed for each state.
6. The following denominations are included in percent fundamentalist (those with fewer than 100,000 adherents were excluded): Assemblies of God, Church of God (Anderson), Church of God (Cleveland), Latter Day Saints (Mormon), Church of the Brethren, Church of the Nazarene, Churches of Christ, Free Methodists of North America, International Church of the Foursquare Gospel, Lutheran-Missouri Synod, Mennonite, The Pentecostal Holiness, Salvation Army, Seventh-Day Adventist, and Southern Baptist Convention. Although not true fundamentalists in the American Protestant tradition, the Latter Day Saints are included because their faith is similar in many ways to that of theologically conservative Protestants, as is their moral and political conservatism.

UNEMPLOY is the percentage of the state's civilian labor force which is unemployed,

DEEPSOUTH is a dummy variable equal to one if the state is a 'Deep South' state[7], zero otherwise,

α is the vertical intercept, and

ε is the disturbance term.

As argued above, higher levels of female labor market participation imply a greater probability that a member of a household will relocate due to the dynamics of the labor market. As opposed to cohabitational unions, formal marriage is an institution more likely to involve higher levels of commitment. Therefore, career-minded women may find it in their best interest to cohabit rather than marry. For these reasons, the coefficient of FLFPR is expected to be positive.

Research into the correlates of cohabitation indicates that the probability of an individual cohabiting is related to education levels. Contrary to popular expectations of cohabitation as a college student phenomenon, the sociological literature indicates that an individual's education level is negatively related to the probability of cohabiting[8]. The commitment to marriage is often seen as requiring a certain level of economic security at the outset, certainly a higher level than is associated with cohabitation. In addition, for many couples the act of marrying itself involves a significant cash outlay. Due to the economic constraints associated with low levels of schooling, less educated individuals may substitute cohabitational unions for formal marriage (Bumpass, Sweet, and

7. Deep South states include the following: Alabama, Arkansas, Georgia, Louisiana, Mississippi, North Carolina, South Carolina, and Tennessee.
8. In addition to own education level, an individual's probability of cohabitation is affected by his or her parents' education levels. Bumpass and Sweet (1989) found evidence supporting their hypothesis that both father's and mother's education levels are positively related to the probability of their children cohabiting. This is assumed to reflect more liberal social/moral attitudes held by more highly educated parents; among these liberal attitudes is a greater willingness to accept their children engaging in cohabitational unions.

Cherlin 1991, Bumpass and Sweet 1989). The estimated coefficient on FTECAP is thus expected to be negative[9].

As discussed in Section II, a state's per capita divorce rate may exert an independent influence on the cohabitation rate if increasing evidence of marital instability causes a shift in preferences toward the more informal cohabitational arrangement. The divorce rate per capita may serve as an indicator of the relative success of marriage. A high divorce rate may imply that marriage is an out-of-date social institution with little meaning in a 'modern' world. A high divorce rate also serves as a reminder to partners that relationships are sometimes tenuous, with higher expected costs associated with the dissolution of more formal commitments. For these reasons, the estimated coefficient on SPLITCAP is expected to be positive; as the divorce rate increases, many couples will choose to cohabit rather than marry formally.

HOUSING provides a rough proxy for the potential savings to individual members of a couple if they cohabit. Rather than maintaining two separate residences, couples may be induced to cohabit if there are substantial financial rewards for doing so. Therefore, cohabitation is expected to increase with increases in housing costs; the estimated coefficient on HOUSING should be positive.

FUNDCAP and CATHCAP provide some indication of the significance of the values and norms associated with religious affiliation and practice. Previous empirical work has indicated that both religious participation and religious affiliation influence union formation behavior (Thornton, Axinn, and Hill 1992). Among the major religious groups in the United States, both Catholics and fundamentalist Protestants are notable for their emphasis on conservative social/moral values. The Roman Catholic church declared marriage to be a sacra-

9. In an adaptation of a complicated, unpublished 1981 paper on economic theories of marriage, Grossbard-Shechtman (1993, p. 71) posits a negative relationship between *women's educational levels* and their probability of cohabiting, while hypothesizing a positive relationship between *men's income levels* and their probability of cohabiting. Here, a woman's education level is one measure of her productivity in producing spousal labor; as such, the higher is her spousal labor productivity, the more likely she is to be married and the less likely to cohabit. The rationale for a positive relationship between male income levels and cohabiting rests on the assumption that women experience a trade-off in the marriage market between material benefits earned from formal marriage, and marital stability. This is similar to the labor market trade-off between job security and the wage rate (p. 165). Therefore, men with higher income and education levels may be less likely to formally marry and more likely to cohabit than men with lower income and education levels. This result (a positive relationship between male income and the probability of cohabiting) holds true only if it is not dominated by an opposing effect: the income elasticity of the male's demand for spousal labor. If this demand is highly elastic, its positive effect on marriage probability (and thus its *negative* effect on cohabiting probability) could dominate.

ment, and sex outside of marriage is proscribed. Relative to mainstream, or theologically liberal-to-moderate Protestants, fundamentalists are significantly more conservative on moral and family value issues. Data indicate that fundamentalists are generally less tolerant of extra-marital and pre-marital sex than are other religious groups, and more strongly in favor of a traditional, patriarchal household order (Iannaccone 1992, p. 353). For these reasons, both religion variables are expected to exert a negative influence on the propensity to cohabit.

As mentioned previously, certain aspects of parents' behavior have been found to influence their children's probability of cohabiting. Bumpass and Sweet (1989) found that while the mother's employment was positively but only weakly associated with children's cohabiting probability, two other family environmental factors were positively and strongly associated with this probability. Children who grow up in a household with only one parent present, and those whose family received welfare benefits were found to be significantly more likely to cohabit as adults than those lacking these childhood family characteristics. As a proxy for the number of poor families who are likely to receive welfare or other government benefits, the variable POVERTY is included and represents the proportion of a state's population living below the poverty level. States with larger proportions of poor families on welfare are likely to be associated with higher levels of cohabitation. If the proportion of poor families is relatively stable over time, the estimated coefficient on POVERTY is expected to be positive.

The economic opportunities facing the individuals themselves (as opposed to their family of origin) are also a key factor influencing union formation. An economic study by Olsen and Farkas (1990) of the effects of employment opportunity on fertility rates among low income black youths sheds some light on this relationship. These authors found support for Wilson's (1987) hypothesis that the root cause of high rates of out-of-wedlock fertility is limited employment opportunities faced by males. The resulting lack of economic resources depresses the marriage rate, and thus increases the out-of-wedlock fertility rate. Greater employment opportunities, then, should increase the marriage rate and decrease the out-of-wedlock birth rate among lower income blacks[10]. One might then expect greater overall employment opportunities to

10. Although the title of the Olsen and Farkas paper is 'The Effect of Economic Opportunity and Family Background on Adolescent Cohabitation and Childbearing among Low-Income Blacks,' there is no analysis of cohabitation *per se*. Due to data limitations, cohabitational unions and marriages are treated as identical. The purpose of the paper is to examine fertility *outside of any form of consensual union*, marital or cohabitational. As such, the relevant distinction is between households with both parents present, and single mother households.

decrease the cohabitation rate. As a measure of a lack of employment opportunities, UNEMPLOY should have a positive influence on the cohabitation rate: as unemployment rises, couples will tend to cohabit rather than formally marry[11].

The final explanatory variable is DEEPSOUTH. As a region, the South is viewed as being more conservative on social and moral issues than the rest of the country. In so far as this perception is correct, and it goes beyond religious affiliation, the estimated coefficient on DEEPSOUTH is expected to be negative.

The data employed are aggregated to the state level and are taken from the 1990 Census[12]. This is the only year for which state-wide cohabitation data are available.

IV. EMPIRICAL RESULTS

The model was estimated by Ordinary Least Squares, and produced the following results[13]. The estimated coefficient on FLFPR is significant and positive, as predicted. Higher rates of female labor force participation are associated with greater cohabitation rates. An increase of fifty percent in the labor force participation rate of women is associated with a rise of 0.6 percent in the cohabitation rate. This is consistent with the primary hypothesis that the changing role of women in the labor force has caused an increased demand for flexibility in consensual unions. More specifically, the higher costs faced by two-career households resulting from the job decisions (such as geographic relocation) of one partner demand greater flexibility within the union. As noted,

11. In common with all demographic models, collinearity among the explanatory variables is unavoidable. Both UNEMPLOY and FTBCAP are measures of economic opportunity, as is POVERTY. The primary problems associated with multicollinearity, i.e., large standard errors on the estimated coefficients and a general lack of model robustness, have not been judged to be a substantial problem in this application based on various model specifications.
12. The variable COHABIT is from the 1990 Decennial Census - Summary Tape File 4, PB12. All other variables are taken from the U.S. Bureau of the Census, *Statistical Abstract of the United States*, various years.
13. Several heteroscedasticity tests were performed, with a few of them indicating the presence of some form of heteroscedasticity. Based on these tests, various standard transformations were applied to the data, but were unsuccessful in eliminating the problem. Therefore, White's (1980) Heteroscedastic-Consistent Covariance matrix estimation procedure was applied to correct for unknown forms of heteroscedasticity. The advantage of this procedure is that it provides a robust estimator of the variance-covariance matrix of the OLS estimator; in other words, the estimator is not sensitive to violations of assumptions regarding the variance of the error term.

flexibility and a lower level of commitment have been identified as the key benefits of cohabitation relative to formal marriage[14].

Previous sociological studies have found that FTECAP, or higher education enrollment per capita, exerts a negative influence on cohabitation rates as less educated individuals substitute cohabitation for marriage due to economic constraints. Although negative, the coefficient on FTECAP is not statistically significant. The estimated coefficient on the variable SPLITCAP was expected to be positive, supporting the hypothesis that greater evidence of marital instability has caused individuals to prefer less formal unions for which the expected costs of union termination are lower. As reported in *Table 1*, the coefficient on SPLITCAP is positive and significant.

As a measure of a cost saving benefit of cohabitation, HOUSING exerts a positive and significant influence on the propensity to cohabit. As housing costs rise, the potential savings from cohabiting are greater, thus increasing the cohabitation rate as expected.

Both of the variables reflecting religious affiliation significantly and negatively influence cohabitation, although the magnitude and statistical significance of FUNDCAP's coefficient are greater than those of CATHCAP. This is consistent with sociological micro data studies indicating that religious affiliation and participation significantly reduce the probability of an individual cohabiting. This finding appears to be particularly strong for theologically conservative Protestants[15].

14. Although the results of only one model are reported, several different econometric specifications were tested in order to assess the robustness of the reported estimates. The results indicated that the estimated coefficients of the included variables consistently remained very similar (i.e., they ranged within a very narrow bound). Thus, it was concluded that the data yielded quite robust estimates (see Leamer and Lenord 1983) for a discussion and example of extreme bound analysis). In addition, an examination of the DFBETAS indicated an absence of influential observations, which is consistent with the conclusion of robustness (Belsley, Kuh, and Welsch 1980).

15. Using Catholic as the only religion variable, Bumpass and Sweet (1989) found that being raised Catholic did not significantly influence an individual's probability of cohabiting. Thornton, Axinn, and Hill (1992) concluded that religious participation was a more important determinant of union formation behavior than was religious affiliation. However, their results suggested that relative to nonfundamentalist Protestant females, both Catholic and fundamentalist Protestant females may experience lower rates of union formation (both cohabitation and marriage).

Table 1

Dependent Variable: COHABIT

Regressors	Coefficient Estimates
FLFPR	0.016**
	(1.661)
FTECAP	-3.119
	-(0.559)
SPLITCAP	208.64**
	(1.646)
HOUSING	0.104***
	(5.021)
FUNDCAP	-0.0129***
	-(5.059)
CATHCAP	-0.989E-02***
	-(2.404)
POVERTY	0.509E-02
	(0.370)
UNEMPLOY	0.0334*
	(1.345)
DEEPSOUTH	-0.178**
	-(2.313)
constant	-0.017
	-(2.242)
Adjusted R^2	0.6481
n	48

Asymptotic t-statistics in parentheses.
Levels of significance are for the appropriate one-tailed test.
*** = .01 level of significance
** = .05 level of significance
* = .10 level of significance

The variable POVERTY attempted to capture, on a macro level, the micro data result that individuals who grew up in households which received welfare benefits were more likely as adults to cohabit than those whose families did not receive welfare. Although positive, the coefficient on this variable is not statistically significant[16]. Turning to the variable UNEMPLOY, its positive and statistically significant coefficient supports the hypothesis that reduced employment opportunities induce a shift away from formal marriage and toward cohabitation.

Finally, as predicted the coefficient on the dummy variable DEEPSOUTH is negative and statistically significant. This tends to support the perception of the South as a region which is more conservative on moral and social issues than the rest of the country.

V. CONCLUSION

Economic theory provides the foundation for an analysis of the factors influencing union formation and dissolution. Despite this, economists have contributed relatively few empirical studies examining the fundamental changes since 1970 in the union formation behavior experienced by most Western countries. Furthermore, no economic studies at all focus explicitly on cohabitation. Instead, sociologists have provided a wealth of information regarding the correlates of various types of behavior, but these studies have typically lacked any sort of unifying theoretical foundation. As a result, the issue of causality has not been adequately addressed in the literature on union formation processes.

This paper has provided one initial step in the process of applying the standard principles of utility maximization in an empirical examination of the determinants of the cohabitation rate. The increasing prevalence of cohabitation at the expense of marriage has been well documented. This fundamental transformation of union formation behavior has far reaching implications for both household and market production activities.

Using data for the United States for 1990, the empirical results presented in this paper provide support for an economic model of cohabitational demand in which emphasis is placed on the net benefits of cohabitation relative to formal

16. Although POVERTY's lack of statistical significance could reflect the consequences of collinearity with other explanatory variables capturing economic opportunities, the difficulty of distinguishing between family and individual traits in a macro data model is likely to be a contributing factor.

marriage. Specifically, the labor market participation rates of women have been shown to be correlated with cohabitation rates. This result is consistent with the proposition that the flexibility associated with cohabitation (as opposed to marriage) has increased in value as women have entered the labor market in greater numbers. As noted, this paper represents only an initial step. Many questions regarding the complex interrelationships among cohabitation rates, marriage rates, and divorce rates remain. Future research will attempt to infer causality among these demographic processes through simultaneous equations models. At this time, a great many facts about demographic changes over time in union formation and dissolution are known. Combining the existing knowledge with economic principles of utility maximization will generate models which may explain the processes which produce these outcomes.

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SUMMARY

Union formation behavior has undergone vast changes over the past 25 years in virtually all Western countries. Key components of the change have been the increase in cohabitational unions and the decline in the marriage rate. Although this has important implications for both household and market production activities, no previous economic studies have focused explicitly on cohabitation. This paper develops an economic model of cohabitational demand based on the standard theory of consumer choice. Regression analysis of United States' data aggregated at the state level provides support for this economic model. Specifically, it suggests that the increased labor force participation of women has generated a higher level of demand for the greater flexibility offered by cohabitational unions relative to formal marriage.

ZUSAMMENFASSUNG

In den letzten fünfundzwanzig Jahren hat sich die Partnerschaftgründung in praktisch allen westlichen Ländern grundlegend verändert. Wesentliche Bestandteile dieser Veränderung sind die zunehmende Anzahl von ehelähnlichen Partnerschaften und die Abnahme der Heiratsrate. Obwohl dies grosse Auswirkungen auf die Haushalts- wie auch auf die Erwerbstätigkeit hat, wurden bisherige Studien auf das Zusammenleben in ehelähnlichen Gemeinschaften nicht ökonomisch untersucht. Die vorliegende Arbeit entwickelt ein ökonomisches Modell der Nachfrage nach diesen ehelähnlichen Gemeinschaften, basierend auf der gängigen Theorie der Konsumentenwahl. Eine Regressionsanalyse für die Vereinigten Staaten stützt dieses ökonomische Modell ab. Die Untersuchung deutet darauf hin, dass die steigende Erwerbsquote der Frauen mit einem höheren Wunsch nach Flexibilität verbunden ist. Ehelähnliche Partnerschaften sind flexibler als die traditionelle Ehe.

RÉSUMÉ

La façon dans laquelle les unions sont formées entre les hommes et les femmes a subi des changements énormes pendant les dernières 25 années dans la plupart des pays occidentaux. Les raisons principales pour ces changements sont l'augmentation des unions cohabitationales et la chute du taux de mariage. Pourtant il y a des implications importantes pour les activités de production en vente aussi bien que domestiques, aucune étude économique n'a jamais mis au point le concept de la cohabitation. Cette thèse développe un modèle économique de la demande cohabitationale fondé sur la théorie du choix des consommateurs. Une analyse de regression des données américaines au niveau d'état soutient ce modèle économique. Specifiquement, il suggère que l'augmentation de la participation des femmes au milieu de travail a généré une plus grande demande pour la flexibilité offerte par des unions cohabitationales rélatif au mariage formel.