The Evolving Economic Consequences of Divorce

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September 27, 2013

PAA Extended Abstract submitted for consideration for presentation at the 2014 meetings of the Population Association of America

1 Introduction

It is well documented that marriage has many economic consequences for both men and women (see, e.g., Waite [1995]). It allows couples to share resources and take advantage of economies of scale in consumption, and it also allows partners to specialize in various aspects of household production while taking advantage of their partner's specialization in others [Becker, 1981]. Historically, the social norm had been for men to specialize in earning money in the labor market, while women specialized in most aspects of household production, in particular child-rearing and various tasks required to maintain a home. Since men and women tended to specialize in different aspects of household production within marriage, it is natural that the economic impact of a marriage ending will be significantly different for the two sexes, to the extent, that such specialization existed in that marriage. After a divorce, a woman who previously specialized in work outside the labor market, may find herself with a much lower family income, unless she receives a substantial alimony award. Her ex-husband will no longer have a spouse who can specialize in child-rearing or household production, and he may also have a smaller income if his ex-wife was also working. However, if he does not have custody of the children, his need for childcare and income will be significantly diminished. Therefore, when traditional social norms of the roles of men and women in marriage hold, we would expect women's economic prospects to be harmed by divorce, and men's to potentially be improved.

The social norms that historically governed the relative specializations of men and women were by no means universal, and they have shifted considerably over the last few decades. Increased labor force participation among married women and changing social norms regarding the roles of men and women in marriage may influence the economic consequences of divorce. The pace and extent of these changes over the last four decades has been different across demographic groups. This study aims to explore how the relative impact of divorce on men and women has changed over the last four decades, as the norms governing the division of labor in the household have changed.

2 Previous Literature

There is already ample evidence that the economic effects of divorce can differ significantly between men and women. Duncan and Hoffman [1985] used PSID data to measure the economic impact of divorce on women and men, based on divorces that occurred between 1969 and 1975. They measured economic impact by comparing the ratio of family income of a divorcee to the poverty threshold after divorce to the ratio of family income to the poverty threshold pre-divorce. They found that among all divorced women, the income-to-needs ratio declined by nine percent in the year after divorce, whereas for divorced men it increased by 13 percent. If the analysis is restricted to divorced women who did not remarry in the year immediately following divorce, the ratio falls by 13 percent. Peterson [1996] found a 27 percent decrease in standard of living for divorced women based on data from Los Angeles in the late 1970s; in contrast, he found a ten percent increase in standard of living for divorced men.

Smock et al. [1999] used the National Survey of Families and Households to track the effect of divorces occurring in the interval between 1987-88 and 1993-94. They found that on average, a single (not remarried) divorced woman had a family income of 1.6 times the poverty threshold in 1993-1994, but they estimated that the average divorced woman would have had a family income of 3.5 times the poverty threshold, had she remained married. This translates into a much larger reduction in living standards than what was reported by Duncan and Hoffman or Peterson. They also estimate that divorced women who remarry have an average family income of 3.1 times the poverty threshold, or 11.4 percent less than the estimated 3.5 if they had remained in their first marriage.

McManus and DiPrete [2001] studied the impact of divorce on men, and concluded that there was significantly more heterogeneity in the impact of divorce on men than had previously been recognized. They found that men who were contributing more than 80 percent to family income prior to divorce improved their living standards after divorce by approximately ten percent at the median, but that for men who contributed a smaller share to family income, divorce resulted in a reduction in living standards. Twenty-two percent of the men in the sample earned between 40 and 60 percent of family income, and the median loss in standard of living for this group was 12 percent. For the 11 percent of divorced men who contributed less than 40 percent of pre-separation family income, the decline was 22 percent. They also found that there are significant variations in custody arrangements, which can have a major effect on the relationship between divorce and men's subsequent standard of living.

One of the concerns in measuring the economic impact of divorce, is that the evolving economic prospects of the family and the individual partners is potentially endogenous to the decision to divorce. If divorce is going to be an economic disaster, staying married becomes more appealing. Aassve et al. [2007] attempted to address this issue by using propensity score matching to compare couples who have approximately equal estimated probabilities of divorce, and once each divorced couple was matched, they used difference-in-differences to isolate an estimated causal impact of divorce on men and women's economic well-being. They used the European Community Household Panel, which drew data from many European countries spanning

1994-2001. They found that divorce has a significant effect on the likelihood that a woman will fall into poverty, but it does not seem to have much of an effect on the likelihood that men will fall into poverty.

Bedard and Deschenes [2005] used an instrumental variables approach to obtain a consistent estimate of the economic effect of divorce using 1980 Census data. They used the sex of a couple's first-born child as their excluded instrument because the probability of divorce rises if the first child is a girl, and sex of the first-born is presumably exogenous to economic circumstances. They found that divorced women had roughly equivalent living standards on average to those who were married, in contrast with the previous literature. However, Ananat and Michaels [2008] used the same data source, and the same instrument to study the quantile treatment effect of divorce. Essentially, they examined the effect of divorce on income at each income quantile, and they found that it lowered income at the bottom of the income distribution, and raised it at the top of the income distribution, relative to married women. They conclude that the mean effect of zero found by Bedard and Deschenes [2005] masks the fact that divorce raises the probability that women will go into poverty because that effect is offset by gains at the top of the income distribution.

3 Our Contribution

While many studies have examined the relative economic impact of divorce on men and women, none of them, to our knowledge, has studied it over a long time frame, and none of the U.S. studies has examined the question in the most recent decade.

Our study aims to measure how the relative economic impact of divorce on men and women has changed over the last four decades, and how it differs across demographic groups with different evolving norms governing the roles of men and women in marriage. We will examine how the relationship changes across different marriage cohorts, since older marriage cohorts are more likely to conform to more traditional norms than younger cohorts.

We will also explore how the relative economic impact between men and women differs across different education levels, income levels, and demographic groups. Finally, we will look at how cohabiting couples fare post-divorce relative to married couples. This comparison is of particular interest due to the different norms existing among nonmarital couples. We will explore these questions using the Panel Study of Income Dynamics, following on the example of Duncan and Hoffman [1985] and McManus and DiPrete [2001]. While their studies examine divorces over a limited span of time, and study a limited number of sub-groups, we will examine PSID data spanning from the 1970s to the most recent wave, in order to examine cohorts with a wide range of norms about the division of household labor.

Annual family income is just one component of the total economic resources available to a household; another major component is assets. Starting with the 2001 wave, up to the most recent one, the PSID has detailed questions on family assets, including cash, checking and savings accounts, certificates of deposit, home equity, retirement savings, stocks, bonds, and other assets. In the years when the data are available, we will construct an alternative measure of family economic well-being that includes assets and adjusts for where the individual is in the life-cycle. This could potentially be very important because many divorce settlements involve large transfers of assets. Using an alternative measure of well-being that includes assets, we will be able to construct a second estimate of the economic effects of divorce after 2001. By comparing the post-2011 income-only estimates with our estimates that use both income and assets as a measure of well-being, we will be able to determine whether results from previous studies were biased by excluding assets from the definition of economic well-being. To our knowledge, all other divorce studies have focused only on annual family income.

Note: Below please find a mock-up of results that we will present. We will also, of course, conduct our analyses in a multivariate framework with suitable controls, in order to be able to properly infer the role of divorce in subsequent economic well-being.

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Example Table 1

Ratio of Family Income/Needs Pre-Separation to Income/Needs Post- Separation			
	Men	Women	Difference
1970s Marriage Cohort			
All			
High Education			
Low Education			
White			
Black			
High-Income			
Low-Income			
Married			
Cohabiting			
1980s Marriage Cohort			
All			
High Education			
Low Education			
White			
Black			
High-Income			
Low-Income			
Married			
Cohabiting			
1990s Marriage Cohort			
All			
High Education			
Low Education			
White			
Black			
High-Income			
Low-Income			
Married			
Cohabiting			
2000s Marriage Cohort			
All			
High Education			
Low Education			
White			
Black			
High-Income			
Low-Income			
Married			
Cohabiting			

Example Table 2

	Economic Well-Being Definition					
	Income Only			Income and Assets		
	Men	Women	Difference	Men	Women	Difference
All						
White						
Black						
High-Education						
Low-Education						
Low-income						
High-Income						
Married						
Cohabiting						