Effects of Marriage on Financial Stability

Synthesis Paper: Marriage and Economic Well Being: The Economy Rises or Falls with Marriage
Synthesis Paper: The Family GDP: How Marriage and Fertility Drive the Economy
Synthesis Paper: How Broken Families Rob Children of their Chance for Future Prosperity

1. Income

Married families generally earn higher incomes than stepfamilies, cohabiting families, divorced families, separated families, and single-parent families. According to one study, the median household income of married families is twice that of divorced households and four times that of separated households.[1]

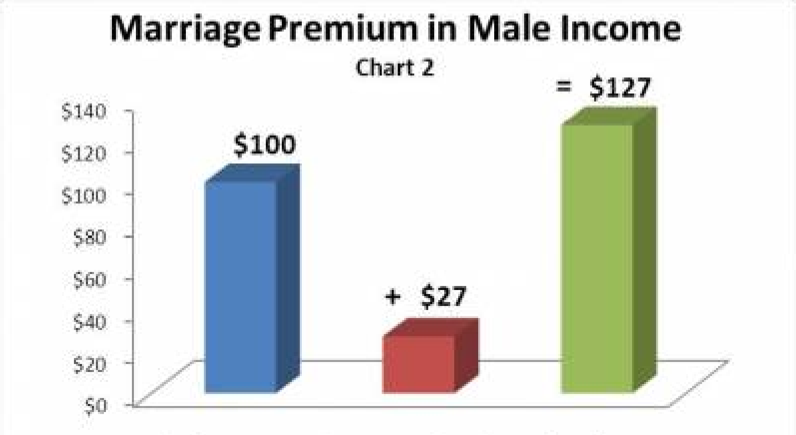
The Survey of Consumer Finances shows that married couples with children under 18 years of age had the highest median-household income ($67,900) in 2007 of all family households, including single-parent households with or without children under 18 and even married-parent households without children under 18.[2] Data from an earlier wave of the survey reveal the disparities of household income among a greater range of household types with children under 18. For 2001: intact, married families had a median income of $54,000; stepfamilies, $50,000; cohabitants, $30,000; divorced-single parents, $23,000; separated-single parents, $20,000; widow parents, $9,100; never-married single parents, $9,400.[3]

Census data likewise confirm that married parents fall into the highest income brackets. In 2006, 67 percent of married-parent families had median incomes of more than $50,000 and 30 percent of such families had median incomes of more than $100,000. In comparison, only 26 percent of single mothers had median incomes of more than $50,000; in fact, 59 percent of single mothers had median incomes of less than $35,000.[4] According to Internal Revenue Service data, the reported income of more than one out of every three married couples places them in the top-income quintile of tax filers, whereas only one of every seven single or non-joint tax filers fall in the top 20-percent category. Consequently, even as married couples file less than half of all income-tax returns, they pay nearly three-quarters of all income taxes paid by the American people. In fact, 85 percent of filers in the top-income quintile are married joint filers. The numbers reverse themselves at the bottom quintile of the income spectrum, where single and non-joint filers, including single parents (who file as heads of households), make up 85 percent of filers of that quintile.[5]

Furthermore, married households have the highest income-to-needs ratio.[6] Men enjoy a larger “wage premium” (the financial gain men enjoy when they join a female partner) when they marry rather than cohabit.[7] Overall, the marriage premium produces an annual income increase of approximately .9 percent for men.[8] Women in intact marriages have a higher income-to-needs ratio than divorced, separated, widowed, and never-married women. Mothers in stable marriages also have higher income-to-needs ratios than women with a long-term history of single motherhood.[9] Marriage increases the income of single African-American women by 81 percent and single white women by 45 percent; African-American men also see an increase in income after marriage.[10]

1.1 The Marriage Premium

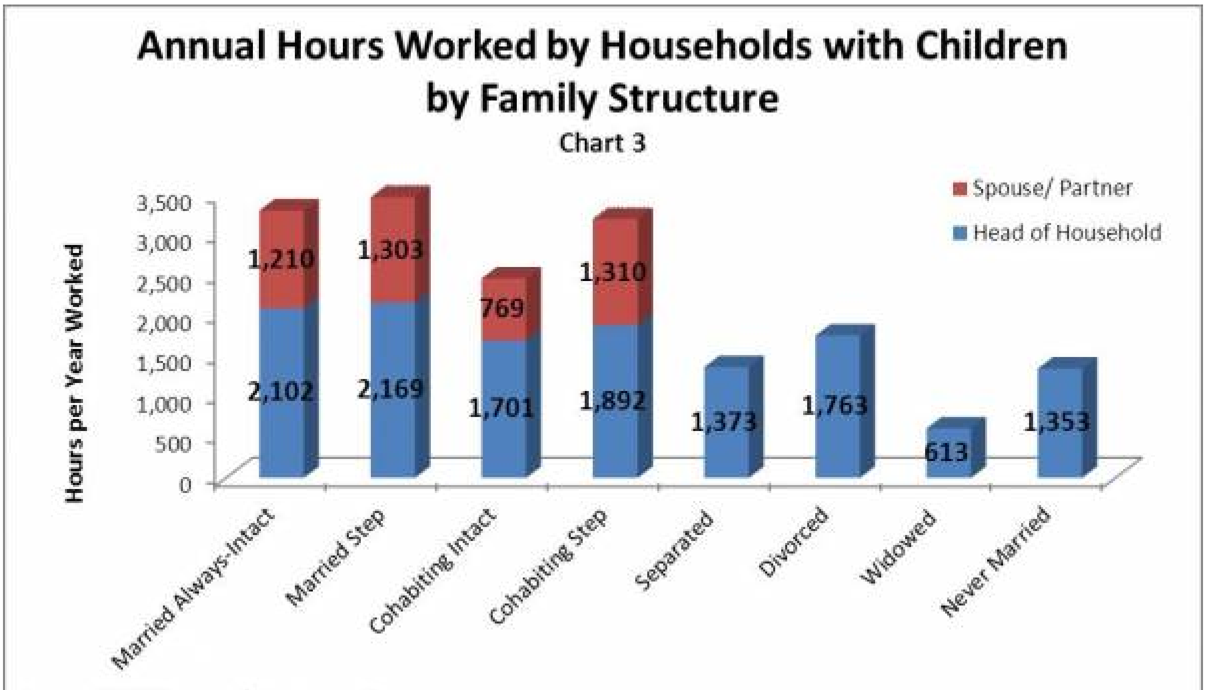
The "marriage premium" is the name economists give to the increase in husbands' productivity and earnings caused by their entering marriage. One study claims that married men make, on average, almost 30 percent more than their non-married counterparts in hourly wages.[11] In accord with this,



Source: Antonovics & Town, *American Economic Review* 94 (2004), 317-321

Chart 2 from a study which controlled for all factors, including genetics, puts the marriage premium at 27 percent.[12] Marriage increases earnings for white men by approximately 24 percent and for black men by approximately 20 percent.[13] Twice as many (32 percent) married fathers worked 45 hours or more per week in 1997, compared to cohabiting fathers (16 percent).[14] Chart 3 summarizes our findings in analyzing the Federal Reserve Board's 2007 Survey of Consumer Finance on average hours worked by householders by family structure. Gary Becker in his *Treatise on the Family* [15] argues that working longer and more regularly incentivizes a worker to increase his productivity (to further reap income benefits); hence we have one synergistic path to the marriage premium, a significant strength that is missing in most of the other family structures.

This difference in earnings for men increases significantly as they age. Nobel Laureate George Akerlof found that young married men are more likely to be in the labor force, employed, and working a full-time job than their non-married counterparts.[16] Twenty- to 24-year-old married men earn 11-14 percent more than single men their age.[17] Married white men between 55 and 64 years old make 19.5 percent more than divorced, separated, and widowed men, and 32 percent more than all unattached men.[18]



Source: 2007 Survey of Consumer Finance

The marriage premium is a general economic phenomenon, and these results are not restricted to the United States. In South Africa, the marriage premium for men is 23 percent after controlling for education, occupation and industry categories.[19] Between 1979 and 1986, married men in seven developed countries (Australia, France, United States, Germany, Israel, Luxembourg, and Switzerland) earned at least 20 percent more than unmarried or never-married men. Married men earned 10-20 percent more than unmarried or never-married men in the United Kingdom, Norway, the Netherlands, Italy, and Canada.[20] The marriage premium does not hold at the same level in the stepfamily. Among married men with children, men in stepfamilies make about 15 percent less per hour than fathers in intact families.[21]

2. Workforce Participation

The average number of hours worked per year in the labor force also differs by family structure. All three types of two-parent families with children under 18—intact-married families, stepfamilies, and cohabitants—put many more hours into the workplace, on average, than do the single-parent families. This observation may not seem all that profound, as two adults can work more hours than one. However, the always-intact family, which works slightly fewer hours in the workplace than the stepfamily, actually earns more. It works smarter and more efficiently. The time difference is due to the greater number of hours that the stepfamilies' secondary-wage earner (normally the wife) works outside the home, relative to the secondary-wage earner of always-intact families. The fact that during one stage of her life, the stepmother was divorced and thus worked a regular workweek as the sole family provider may explain her longer hours in the workplace. A stepfamily mother, therefore, tends to report higher levels of labor-force participation than does the mother of an always-intact family.

3. Net Worth

A family's net worth is the value of all its assets minus any liabilities it holds. Married households tend to have the largest net worth, but the difference is due to more than the mere presence of two adults in the household. Data on asset formation show very significant differences in the economic strength of the married family compared to divorced, cohabiting, and always-single parent families. RAND Corporation economist James P. Smith studied the assets of married couples in their fifties and found that, according to data from the 1984, 1989, and 1994 waves of the Panel Study of Income Dynamics, the median value of the assets owned by married families was $132,200. The medians among other family structures were significantly lower: $35,000 among never-married households, $33,670 among divorced households, and $7,600 among separated households.[22]

Our own analysis of the Federal Reserve Board's Survey of Consumer Finance (2007) shows a similar trend but with a more detailed break-out of wealth by family type. This is summarized in Chart 5.

Earlier analyses are in line with the findings shown in Chart 5, which is of households with children. Other researchers found that the median net worth of married households is three times greater than the median net worth of widows, four times greater than that of divorced and never-married individuals, and over 16 times greater than that of separated individuals.[23] Non-married men have 63 percent less net worth than married men, on average.[24]

Married couples generally save more,[25] have higher net worth,[26] and enjoy greater net worth growth from year to year.[27] Married households have net worth growth rates ranging from $3,000 to $17,000 per annum more than all other households.[28] Interestingly, black married couples benefit more economically from marriage than whites do.[29]

A similar pattern holds even in much poorer nations: For example, in Guatemala, married households had 29 percent higher indexed wealth, and single mothers were the least likely to own a house or have any form of savings. Divorced and separated households fared slightly better than single-mother households. Married-couple households were the most likely of all family structures to own a house and to have other investments and savings plans.[30)]

4. Asset Accumulation

Asset accumulation also occurs at much higher rates in married, intact families. Married households enjoyed net worth growth $3,000-17,000 higher (over two years) than did other family structures, according to 1992-2006 data.[31)] In 2000, the median net worth of families with children under 18 was highest in always-intact families ($120,000) and second highest in stepfamilies ($105,360). But after stepfamilies, the net worth of other family structures experiences a massive drop-off. At the bottom of the heap are never-married parents, who had a median net worth of $350. This “never-married” category is composed almost exclusively of single mothers, who overwhelmingly have paltry assets in terms of real estate, savings, or automobiles.[32)] That married-parent families are more likely to have received an inheritance, own a business, nonresidential real estate, a vacation home, and savings bonds—and carry less debt relative to their assets—helps to explain why they stand apart from all other family types. Their heightened capacity to accumulate wealth, therefore, enables married-parent families not only to invest in retirement accounts and pass on greater wealth to their children but also provide needed capital to fuel economic expansion. To the degree that Americans marry less, and have fewer children, less savings are correspondingly available for capital markets.

That Americans, on average, have been saving less for decades may be related to the fact that the percentage of Americans who live in a married-based household has also declined. The ability to pass on wealth is greatest in the intact family. According to a RAND study among Americans between the ages of 51 and 61—those who are in their peak savings period—median household wealth is greatest among married-parent families. The median household wealth of married Americans ($132,000) was in 1994 almost four times higher than never-married Americans ($35,500) and divorced Americans ($33,670).[33)]

Moreover, that nearly 40 percent of all children born today in the United States are born out of wedlock, a factor that impairs the capacity of these children to save and invest in their adulthood, suggests that the economy will suffer from the diminished capacity of a good portion of Americans to save and invest for the future. In fact, David Goldman believes the growth in the number of single-parent households in the United States has played a key role in current real-estate downturn. Given that single parents, relative to married parents, face greater difficulties qualifying for a mortgage, he claims that the rise in single-parenthood has diminished and continues to diminish the demand for housing, which drives the economy downwards.[34)]

5. Poverty

Poverty[35)] is principally the problem of non-intact family structures. Compared to married families, six times as many female-headed families are impoverished. There are differences in the financial well-being of always-single mothers and divorced mothers, but poverty and welfare needs are major problems for female-headed households.

Only 5.8 percent of married families were living in poverty in 2009, compared to 16.9 percent of male householders and 29.9 percent of female householders.[36] Additionally, intact families are less likely than cohabiting families or single individuals to have ever participated in the Food Stamp Program[37] (now SNAP, the Supplemental Nutrition Assistance Program).

6. Impact on Children

Marriage among the very poor helps them leave poverty and keep their children from entering the "low-income state."[38]

The children of married parents enjoy relatively strong upward mobility (significantly more than the children of divorced parents).[39] Fifty-four percent of children born to always-married mothers whose earnings are in the top third of the income distribution will themselves (as adults) earn incomes in the top third of the income distribution. Half of children born to always-married mothers who earn incomes in the bottom third of the income distribution will themselves earn an income within that income bracket. Fifteen percent will earn an income in top third of the income distribution as adults.[40]

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