The economic consequences of marital disruption in Germany

1 Introduction

Much research has been published on the economic consequences of marital disruption in the US (for a recent overview see McKeever / Wolfinger 2001). In many articles it has been shown that income losses outweigh income gains both in terms of family and per capita income. Women and their (dependent) children are usually found among the losers, while men either maintain or even improve their economic status. Although this common picture has been challenged in recent years by the rising dependency of US families on women's income (McManus / Diprete 2001), similar findings have been found in Sweden (Fritzell 1990, Gähler 1998), The Netherlands (Poortman 2001), Great Britain (Jarvis / Jenkins 1997) and Canada (Finnie 1993). The evidence for Germany points in the same direction, is however rather limited. Besides an earlier analysis by Burkhauser et al. (1990, 1991), based on 56 women and 45 men, and a comparative study (Diprete / McManus 2000) on income dynamics resulting from different life events, among them separation and divorce, no large scale analysis exists, although a huge longitudinal data base, the German Socio-Economic Panel (GSOEP), is now available including a wealth of information on marital status, partnership relations, household structure, income, employment, child care, and satisfaction in various life domains. The following analysis uses data from sixteen GSOEP panel waves, covering the period from 1984 to 1999. A similar study has been presented as a working paper by Schwarze and Häpfner (2000).

Compared to other countries, the institutional features of the German welfare state are characterized by a strong support for the male breadwinner model. Joint taxation of married partners, for example, imposes strong incentives to combine a large primary income, the breadwinner's income, with a comparatively small secondary income, because married couples are allowed to split their incomes equally between both partners for taxation ("Ehegatten-Splitting"), which results in a much lower tax rate for the splitted incomes than for the larger primary income given the German tax progression (Dingeldey 2001). Besides that, married partners (and children) do not have to care for their own health insurance. They are insured at reasonable prices with the household head, which in turn gives them the opportunity to accept part-time and marginal employment that may be more in accord with their family obligations, but does not pay enough income for a health insurance on their own.

The insufficient state of the German care system for children, disabled persons, and the elderly places severe restrictions on the employment opportunities of family members doing the care work, which in most cases are women. For example, in 1996 service levels for children under 3 years of age were estimated at 7.5% (BMFSFJ 1999). For children between 3 and 5 years of age the figures are better (67.1%), but traditionally day care is organized for somewhat older preschool children and on a part-time basis, intended only to complement caring work within the family. These problems continue when children enter school, because of uncoordinated school and work hours and the lack of full-time day schools. On the other hand, the generous parental leave system, both in terms of time ("Erziehungsurlaub") and money paid ("Erziehungsgeld"), motivates parents to retreat from the labor market for several years and care exclusively for their children, at least until they can enter a pre-school child care facility. Although great progress has been made to grant fathers the same rights as mothers, it are predominantly women who make use of them, because their husbands, on
average, earn higher incomes and fear greater opportunity costs when interrupting their careers.

Therefore, female employment is moderate in Germany and consists to a large part of part-time employment. In an international comparison, based on data from the late 1990s, the overall economic activity rate of adult German women (47%) is about the same size as in other European continental states (e.g., France, Netherlands), but far below the activity rates of women in the Scandinavian countries and the US (UN 2000: 148). The proportion of adult women's employment that is part-time amounts to nearly on third (30%) and is succeeded only in a few European countries like The Netherlands, Switzerland, and the United Kingdom (UN 2000: 139). If one looks at employment in the household context, Germany is in Europe one of the countries with the lowest percentage of dual earner and the highest percentage of single earner households (Dingeldey 2002: 157, cf. also Anxo et al. 2000). This picture is especially pronounced for families with children. In only one fifth of these families both parents work full time. Much more frequent (29%) is the combination of women's part-time with men's full-time employment (ibid.). Correspondingly, an analysis of women’s share of total household labor market earnings shows Germany in the lower ranks, especially when looking at families with children under 6 years of age (Gornick 1999). This result is also a consequence of higher income disparities between men and women in Germany than in other countries. Women's wages in manufacturing equal three quarters of men's wages in Germany (74%), which is lower than in most other European countries (UN 2000: 132).

Given this dependence on the male breadwinner model, even in its "modernized" version with a part-time working women (Pfau-Effinger 1995), one expects marital disruption to be much more consequential for German women than for women in countries, where female autonomy (Orloff 1993) in terms of income and employment is much higher. On the other hand, it is assumed that the German welfare state buffers the most severe of these consequences. It guarantees a minimum income for everyone in need ("Sozialhilfe"), and for resident parents an advanced payment scheme for child maintenance exists, when the liable parent does not or cannot comply ("Unterhaltsvorschub"). Therefore, the economic consequences of marital disruption may be negative for women, but not as severe as one might expect from the data on female employment and income.

The legal system is another source of protection, but its effect is hard to assess, since empirical data are scarce (for an overview see Andreß / Lohmann 2000). In 1977 a new divorce law was introduced allowing divorce by consent after one year of separation. During divorce or in separate court proceedings various ancillary consequential matters can be determined given a formal petition, e.g., child maintenance and spousal support. Only pension splitting ("Versorgungsausgleich") and child custody are decided ex officio. Court statistics indicate that not all families with children make use of the court system to find an agreement on child maintenance (Andreß / Lohmann 2000: 57). This is even more true for spousal support, for which specific eligibility criteria exist, of which practically only child-care and/or economic need are used (Andreß / Lohmann 2000: 50p., 57, 62pp.; Caesar-Wolf / Eidmann 1985; Willenbacher et al. 1987). Therefore, many scholars and practitioners suspect that a substantial number of agreements is reached on a private basis with and without notarial authentication. Scarce (and rather outdated) survey data (Neubauer 1988, Neubauer et al. 1993, Napp-Peters 1985) indicate that only a minority of single mothers is entitled to spousal support and compliance is rather low. For child support the situation is better, but far from being satisfactory. Given the small amounts of spousal and child support usually paid (Andreß / Lohmann 2000: 60pp.), it is no surprise that private transfers (including support payments) constitute a much smaller part of total household income of single mothers and divorced women than government transfers (Hauser / Fischer 1980, Wong et al. 1993, Burkhauser et al. 1991).
In sum, there are not many reasons to expect that the legal system and maintenance payments resulting from it will enhance significantly the economic situation of the entitled, mostly female persons. Furthermore, problems resulting from inadequate legal procedures, insufficient amounts of maintenance, and incomplete enforcement procedures are increased by poor paying habits and insufficient solvency due to low incomes or unemployment (Martiny 1987). However, although the probability of negative economic consequences of marital disruption is high, German divorce rates do not differ very much from the figures in other countries. And it is surprising that more than two thirds of the petitioners are women (Andreß / Lohmann 2000: 46), in spite of the fact that economic consequences, according to scholarly and public wisdom, are more severe for women than for men. Of course, there are a lot of other reasons for marital disruption, which may outweigh their adverse effects. Therefore, it is necessary to show that other measures of individual welfare improve. Otherwise it would be hard to understand why a person initiates divorce proceedings when its economic situation is more disadvantageous afterwards than before.

Given the scarce empirical knowledge of the economic consequences of marital disruption in Germany, the following study emphasizes descriptive analyses of different material and non-material life domains for a sample of married individuals separating between 1984 and 1999. Where necessary multivariate statistical procedures are used: e.g., when gender differences in post-separation incomes are corrected for variations in human capital and household structure.

2 Research questions

In order to understand the economic risks of marital disruption it is helpful to think about the opposite: the economic advantages of marriage. The economic theory of private households and the family analyzes such an association of individuals as a small firm allowing production of private and public goods and protection against common life risks at much lower prices than individuals had to pay if they had to produce them on their own or buy them at market prices (for a textbook summary see, e.g., Bryant 1990, Cigno 1991). In case of separation or divorce, most of these advantages are lost: separate homes are necessary, someone is needed to care for the children or earn money for living, life becomes more expensive because economies of scale are lost, and so on. Sörensen (1994: 178) has estimated these losses of economies of scale between 27 and 36% and, of course, both men and women are equally affected.

Gender differences in post-separation income are usually attributed to the division of labor within the family, for which strong economic incentives exist when both partners are differently productive in home and market activities. As the economic theory of the household has shown, it is efficient, at least in the short run, if the partner with the lower market income, usually the wife, specializes in home work and child care, while the other partner, usually the husband, specializes in market activities. This cooperation remains efficient as long as this relationship continues. But as rising divorce rates demonstrate, marriage is no more a life-long commitment. In case of an early break up, the chances of an unequal distribution of marital gains and losses between both partners are high (Ott 1999). Four risk factors are usually named (cf. Holden / Smock 1991: 68pp., Sörensen: 173p.):

- **Risk 1**: If children exist, economic needs are higher for the resident parent and this is in most cases the mother.

- **Risk 2**: Besides that, the risk is high that the resident parent does not get half of the child maintenance costs from the non-resident liable parent.
• **Risk 3**: If gender differences in market incomes exist, women do not as much participate in men’s higher incomes as they did during marriage, because the chances are high that they will not get the same economic support from their former spouse after separation as they did before.

• **Risk 4**: Finally, changes in material wealth, pension entitlements, and human capital that both partners experience during marriage are only imperfectly measurable and therefore hard to equalize after separation.

This is especially true for the gains and losses in human capital. Given the frequent division of labor with a husband employed full-time and a part-time working wife, who takes care of home work and children, it is probable that the gains in human capital by continued employment on the side of the husband (cf. Kenny 1983) are not set off against the losses of human capital by interrupted or delayed working careers on the side of the wife.

German maintenance law has implemented several regulations to minimize these risk factors. Parents, irrespective of marital status, have an obligation to support their children until the completion of education or training (risk 1, 2). Although this is primarily a private matter, the state (local youth authorities) intervenes where a parent cannot or will not meet these responsibilities, by helping to establish paternity, enforcing legal responsibility, and advancing maintenance payments at a minimum level ("Regelunterhalt"). Parents must share their income with their children: payment in kind by the resident and cash payments by the non-resident parent. Courts expect that the non-resident parent does everything possible to be able to pay the determined amount of child support. The amount depends on the child’s age, the number of entitled persons (other children, previous spouse) and the liable person’s income. Therefore, depending on the total number of entitled persons and the available income, neither the child’s economic need nor the actual child costs are guaranteed. Besides that, the liable parent is allowed to retain an amount for its basic needs while the resident parent's basic needs are not considered. In sum, the chances are high that child costs are not met and disproportionately shared by both parents.

Spousal support is completely a private matter and it is assumed that each partner has to care for his/her own living. Maintenance claims are restricted to specific facts of the former marriage, among them child care (risk 2, 4) and interrupted educational and working careers (risk 4). However, if current own income does not allow a standard of living comparable to the former standard during marriage (risk 3), a special maintenance claim exists ("Aufstockungsunterhalt"). There is much discussion in the public about the significance of this maintenance claim, but the scarce empirical knowledge indicates that it concerns predominantly high income groups. Therefore, its practical relevance for the average divorce is rather limited. Empirical analyses from the 1980s show that essentially mothers and long-standing house-wives are awarded spousal support. Employed women in most cases go away empty-handed, except their personal income is below the poverty line (Caesar-Wolf / Eidmann 1985, Willenbacher et al. 1987). It seems that the practice of spousal support is much more dominated by the principle of current need than by the principle of equalizing marriage-specific changes in income capacity. The question seems not to be how to compensate for past investments into marriage and the family, but how to cover current demands, which are perceived more a function of the number of needy children than of the wife’s own necessities (Caesar-Wolf / Eidmann 1985: 183p.).

The situation is a little bit different for material wealth and pension entitlements (risk 4), where the obligation to equalize marriage-specific changes is more explicitly regulated and ex
officio decided, at least with respect to pensions. Since many divorced couples in Germany due to their young age are not very wealthy in the moment of separation and since divorced marriages on average do not last long enough to acquire large pension entitlements, the practical effect of these regulations on the economic position of the average divorced person is however rather low. Voegeli and Willenbacher conclude: "The transfer of pension assets can only *supplement* individual assets acquired through participation in the workforce. Here women who have raised children are generally disadvantaged, compared with men" (1992: 181; emphasis added).

In sum, a detailed analysis of economic risks of divorce and corresponding regulations of German maintenance and divorce law does not change our introductory presumption that divorce has adverse economic effects on the afflicted persons and especially so on women and their dependent children. As already noted, however, the evidence for these negative effects comes mostly from other countries and our knowledge of the practice of law in Germany is based on studies from the 1980s. Accordingly, we start with two rather descriptive research questions:

Q, How large are the economic changes for married men and women with respect to separation and divorce?

Q, What are the effects of private transfers, especially between the former spouses and in contrast to government transfers?

The interest in government transfers is related to our suspicion that private transfers are inadequate and have to be augmented for those with restricted income capacities by other non-work income sources. Nevertheless, if adverse effects of separation and divorce can be confirmed, the question remains whether they are substantially significant:

Q, How do the economic changes observed for marriages compare to similar changes of consensual unions, to other kinds of partnership dissolution (partner's death), and to the economic changes observed in stable marriages, e.g., as a result of unemployment?

Since the German welfare state has an institutionalized system of insurance against various social risks, among them unemployment and death, but not divorce, we expect the economic consequences of divorce to be much larger than death or unemployment of the main income earner. We also expect a more equal division of labor and correspondingly less differences in human capital in consensual unions due to the lack of binding (marriage) contracts. Therefore, the economic consequences of separation should have less negative effects for consensual unions than for marriages.

Given the gender differences in market incomes all comparisons between men and women after separation have to be checked against the alternative hypothesis that they are simply a result of better income prospects due to higher human capital on the side of the men and restricted employment possibilities due to child care on the side of the women. Therefore, we analyze:

Q, How much of the income differences between men and women after separation can be explained by differences in human capital and family obligations?

Besides that, analyzing the economic position of individuals within the household context, i.e., using household instead of personal incomes, is a difficult matter depending on various methodological assumptions concerning income sharing, economies of scale, and different economic needs with respect to age and other socio-demographic variables. It is usually
presupposed that all personal incomes are shared and the individual needs of each household member are satisfied adequately from this income pool, an assumption which has been questioned especially by feminist scholars (e.g., Millar / Glendinning 1989). Various equivalence scales are used in the literature to control for economies of scale and varying income needs (for an overview see Buhmann et al. 1988), but a common standard has not been found. Hence, we have to control:

Q. How much do the results depend on methodological assumptions about economies of scale or about inequalities within the household?

Finally, we have to bear in mind that changes in material well-being in connection with separation and divorce cannot be reduced to the question of income. Although it is an important one, changes in labor supply, housing, child care, and dependency on incomes from outside the household (private and government transfers) have to be considered as well.

As second focus of our research concerns the question why couples separate, although the economic consequences are negative. Information on individual reasons for separation and divorce is hardly available in representative surveys, which we usually use to analyze the economic consequences. However, indicators of subjective well-being and satisfaction measures in various life domains are included in many surveys. These indicators are rather crude and therefore difficult to use in causal models, but it is interesting how changes in these alternative indicators of individual welfare compare to the (possibly) negative changes in material well-being.

Q. Do negative economic consequences result in correspondingly negative accounts of satisfaction with live and income?

Again, we will compare (separating) men and women, controlling for their living conditions with respect to (un)employment and household structure, and we expect less negative changes for women than for men. Otherwise it would be hard to understand why women separate from their partners, if both their economic position and their subjective well-being decrease. On the other hand, it is rather implausible that these subjective indicators do not at all react to changes in partnership relations. The question remains:

Q. What are the relevant determinants of changes in subjective well-being and how do they identify the groups most at risk?

Research on subjective well-being (SWB) has a long tradition (for an overview see Diener et al. 1999), but has not yet agreed on one theoretical paradigm explaining differences in SWB. But as Diener et al. (1999: 286) note: "Various resources and demographic factors [...] often are responsible for only a small part of the variance in SWB. One's temperament and cognitions, goals, culture, and adaptation coping efforts moderate the influence of life circumstances and events on SWB." Most of these "psychological" variables, however, are not available in representative surveys and we are left with standard socio-demographic variables already discussed by Wilson (1967): health, income, religion, marriage, age, employment, gender, education. "Wilson's conclusion regarding the greater happiness of the married, religious, extraverted, optimistic person have stood the test of time and also appear to have some degree of cross-cultural generality. Researchers do not know, however, all of the limits of these findings -- the conditions in which they do not hold. Other of Wilson's assertions, such as those regarding sex differences or the effects of self-esteem, must be qualified by the measures used or the culture studied. Women do report approximately the same level of global happiness and life satisfaction as men, but at the same time they are more likely to report greater levels of both negative and positive affect. Self-esteem is a strong
correlate of SWB primarily in individualistic societies. Wilson’s conclusion about the elderly appears to be too pessimistic in light of recent data" (Diener et al. 1999: 294).

Given our interest in the economic consequences of separation and divorce, we are especially interested in the effects of income and employment changes on SWB. Current research shows that the absolute level of income has only small effects, because individuals adapt to a particular level of wealth. More effective are changes in income, although only temporarily because, again, individuals adapt to the new situation (Diener et al. 1999: 287p.). Unemployment, on the other hand, has been shown to have rather strong negative effects on SWB and quite generally it has been demonstrated that employment status is related to SWB (Diener et al. 1999: 293).