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Economic Consequences of Family Break-Ups

Income Before and After Family Break-Ups of Women in Germany and the United States

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Abstract

This paper analyzes the economic consequences of family break-ups on women's household income using fixed effects panel regression on German (SOEP) and US American (PSID) panel data. Since Germany and the United States are two examples of opposing social models, reflected in their policy framework regarding family break-ups, country differences in the economic consequences are assumed. The cross-national comparison shows that the welfare state effect is higher for women in Germany. Over time, the effect decreases only slightly in Germany, whereas the decline is more distinct for US women.

JEL Classifications: J12, J16

1. Introduction

Since the mid-1960s, the Second Demographic Transition (Van de Kaa, 1987) has brought about changes in every area affecting families and private living arrangements, including a decreasing marriage propensity, increasing divorce rates, declining birth rates, rising childlessness, and marriage and childbirth at a later age. These have been accompanied by changing employment structures, especially for women. The eroding of the male breadwinner model has led to more independence but also to more personal responsibility. The increasing participation of women in the labor force, combined with a changed conception of gender roles and relations, has led to issues of employment and family responsibilities being distributed between the partners. The reconcilia-

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tion of work and family life is one of the most salient issues confronting families – primarily women – today. The new social risks (Bonoli, 2005; Esping-Andersen, 1999; Taylor-Gooby, 2004) stand in contrast to old risks, i.e., risks the welfare state has traditionally provided for, such as unemployment, illness or old age. In terms of social protection, we tend to see retrenchments in insurance protecting against old risks, while there have been improvements for families. In light of these developments, we are particularly interested in the changes in the economic consequences over time, i.e., whether the welfare state now mitigates more of the financial losses than before.

Previous research on the economic consequences of separation and divorce agrees on the fact that women – and mothers even more so – are extraordinarily hard hit in financial terms by the dissolution of their family. At the same time, the variance in the economic consequences has increased for men, too (McManus / DiPrete, 2001). Comparing Germany and the US, Burkhauser et al. (1990; 1991) find levels of loss for German women which are at least as high as for American women. However, as far as we know, only McKeever/Wolfinger (2001) and McKernan / Ratcliffe (2005) offer more recent studies on the changes of the consequences over time. These authors find that the impact of separation on income has decreased overall. In Germany, the economic consequences of union dissolution have only been sparsely explored. Andress / Bröckel (2007) present the most recent results for Germany but their observation period ends back in 1999. Our analyses methodologically follow those of DiPrete / McManus (2000) who use a variant of fixed effects regressions instead of standard OLS regressions, supplemented by an updated comparison of the effects over time which has been lacking thus far in both Germany and the United States.

In the following sections, this paper proceeds with a very short description of the policy framework provided for families experiencing a break-up. Then the data and method are described, followed by the results of the fixed effects panel regression models for German and American women.[1] The paper concludes with an assessment of the cross-national differences and the changes over time within each country.

2. The Policy Framework of Family Break-Ups

The reason for using Germany and the United States as subjects of this study is that these countries represent the paragons of the conservative and liberal welfare regime, respectively (Esping-Andersen, 1990). As will be shown, the differences in the welfare regimes are also reflected in the policy framework of

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[1] Since women are the party who suffers most from union dissolution, we report results for women only.

family break-ups; hence cross-national differences in the economic consequences of family break-ups can be expected. However, the main purpose is to analyze changes in these consequences over time within each country.

In both countries, there are provisions targeted at families in general and at "broken families" specifically (see Grell, 2011 for Germany, and Wörz, 2011 for the US). Table 1 gives a very abridged and incomplete overview of the most relevant policies and programs. The actual design (eligibility criteria, amounts, duration, and actual uptake), beyond the mere existence of the programs, can vary substantially between Germany and the United States, and particularly *within* the United States. The main differences between German and US family policies are a generally higher level of social welfare in Germany and the existence of direct cash benefits such as child benefit or advance payments in cases where the non-custodial parent does not pay child support. In contrast, in the US support for families is mainly based on tax credits to create work incentives. Also, sufficient child care is provided as a prerequisite for participation in the labor force. Accordingly, German women are expected to be better protected by the welfare state in the event of union dissolution.

Table 1

Overview of Relevant Policies Providing Support to Families With Children

	Germany	**United States**
Direct support for broken families	– Alimony and child support – Child support advance payments	– Alimony and child support
Indirect support for families with children in general	– Child benefit – Tax exemptions for children and child care – Subsidized child care – Maternity leave policies and payments	– Tax credit for low-income families (EITC) – Tax exemptions for children and child care – Unpaid maternity leave
Support for the needy	– Welfare	– Food stamps – Medicaid – Welfare (AFDC / TANF)

Over time, there have been improvements for families. In Germany, child benefits and tax exemptions have been steadily increased. The receipt of advance payments replacing inadequately paid child support was prolonged from a maximum of three to a maximum of six years in 1993. The availability of child care has been expanded during the observation period, but still the demand has not yet been met, and furthermore generous maternity leave policies make women hesitate to re-enter the labor market after the birth of a child. In the United States, major changes were brought about with the welfare reform of 1996, which once again emphasized self-responsibility by placing the focus on work instead of welfare (Blank, 2010). However, the change from AFDC to TANF and thus to time-limited receipt of welfare benefits meant substantial financial cutbacks for the mothers concerned. Yet even in the United States, new tax schemes were introduced during the observation period, or existing ones were expanded. Since the Family Support Act of 1988 took effect, great efforts have been made to enforce child support payments from the absent to the custodial parent. The above-mentioned policy changes in both countries suggest that the welfare state has not refrained from securing against the risk of family break-up.

3. Data and Method

The economic consequences of a family break-up are conceptualized as the difference in income before and after the break-up. The German Socio-Economic Panel (SOEP) and the American Panel Study of Income Dynamics (PSID) both allow family break-ups to be operationalized in a comparable way, using the information that one partner has left the household or that there is no longer a couple together in the household. Separations of married and cohabiting couples with children up to the age of 14 are considered as family break-ups. According to this operationalization, we observe 361 family break-ups experienced by women in the SOEP.[2] In the PSID occur 1,020 family break-ups among women.

The economic situation is operationalized using pre- and post-government household income, i.e., income before and after taxes and transfers.[3] The income concepts are used as delivered by the Cross-National Equivalence File (CNEF; Frick et al., 2007), offering comparable definitions of the relevant income concepts. Household incomes are adjusted for household composition by applying the OECD-modified scale. The difference in the income before and after a family break-up will be analyzed by means of fixed effects panel regression models while controlling for historical time using time dummies. The estimated equation takes the form

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2 From 1990, eastern Germany is included in our analysis. The results remain stable when East German women are excluded from the sample (see also Andress/Bröckel, 2007, 204 f.).

3 Pre-government household income includes labor earnings, asset income, private transfers (including alimony and child support), and private retirement income of all household members aged 16 or older. Post-government household income includes, in addition, private transfers and social security pensions, minus total household taxes (Grabka, 2008).

$$(y_{it} - \bar{y}_i) = b_1{}^*(x_{it} - \bar{x}_i) + e_{it}\,,$$

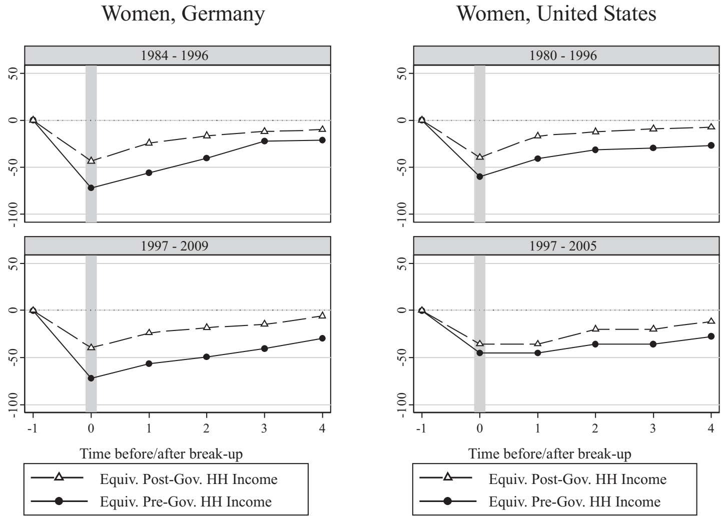
where y_{it} denotes the income of person i at time t, and x_{it} denotes the time-specific values for person i on one or more independent variables. Hence, the dependent variable of this model is the difference between the income at a specific point in time and the average income of a specific respondent across time. High values of this difference indicate an unusually high income, given what is "normal" for that respondent. Unlike standard OLS regression, the regression coefficients of fixed effects models are not based on differences between different individuals but only on differences within each individual (c.f. Allison, 1994; Halaby, 2004).

4. Results

Figure 1 shows the results from the fixed effects regressions on log equivalent pre- and post-government household income for German and US American women. The coefficients of the regression are rescaled such that positive values mean percentage gains in income and values below zero imply percentage income losses.

Turning to the cross-national differences first, we find that German women experience higher immediate pre-government income losses than their American counterparts. Due to lower employment rates during the observation period and more part-time and less full-time work than among American women, German women contribute less individual income to the total household income on average before the break-up. Also, further regressions showed that American women take up employment or increase their working hours immediately in the year of the break-up, which already minimizes the loss of pre-government income in that year. In contrast, German women adjust their employment behavior only slowly but steadily so that their relative increase exceeds that of American women after one or two years.

However, the fact that women in Germany exhibit higher pre-government income losses is only half the truth. While this applies to the first few years after the break-up t and $t + 1$, the picture is different for the years following the break-up. After four years, German women almost reach the base level of household income, i.e., the average income situation before the break-up, while American women lag somewhat behind their pre-break-up income level. Diverging employment structures might be one of the reasons for this, yet pre-government household income is not only driven by personal gainful employment but also by private transfers. Since public transfers are scarce, American women in particular might receive financial support from family members outside the household, including support payments from former spouses. Chances of receiving financial support, for instance, from parents or other family mem-



Source: SOEP, PSID, CNEF.

Figure 1: Welfare State Mitigation Effect in Germany and the United States: Equivalent Pre-Government and Post-Government Household Income, for women, Germany 1984–1996 and 1997–2008, United States 1980–1996 and 1997–2005

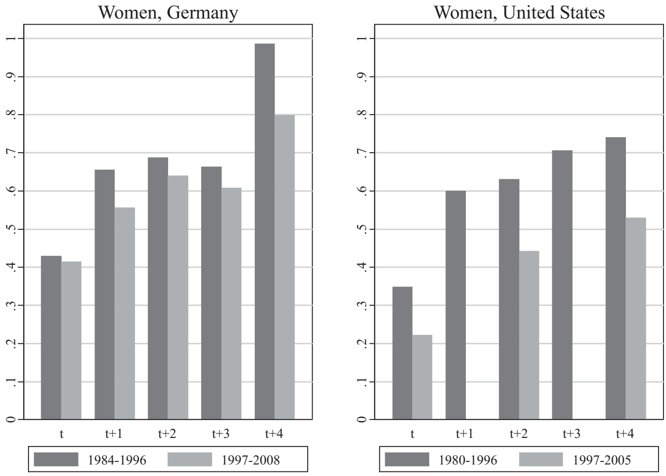
bers, are highest in the year of break-up (Leopold/Schneider, 2010, 273) and new partners joining the household might contribute to pre-government household income.

In contrast to the differing relative pre-government income losses, the differences in losses after accounting for taxes and transfers vanish. We find that in both countries a considerable portion of the pre-government income loss is compensated by the welfare state. However, despite lower immediate income drops, in the aftermath of a break-up, American women still have higher post-government income losses than German women.

We turn now to the changes in financial consequences over time, first of all in Germany. We differentiate between events that occurred up until 1996 and those that occurred in 1997 and later.[4] Women experiencing a family break-up suffer significant losses, reaching virtually the same level of loss in the two

4 To assess the changes over time, we decided to split the sample using the US welfare reform of 1996 as the cut-off point. Another reason for doing so is the change to biannual data collection of the PSID in 1997. The later time period then consists of time series with two-year information only. Therefore, the figures show only two-year changes for American women in the period 1997 to 2005. We then applied these periods to Germany as well, mainly due to uniformity. The trends remain stable when other time periods are chosen. For Germany, the results are then less significant, however, especially from t+2 on, due to the small number of cases.

periods (-73% and -76%). After four years, in $t+4$, these losses still amount to -11% and -15%, respectively, though insignificantly, and thus again arriving at similar levels for the two periods. However, in between these years, the pre-government income develops differently. Over time, pre-government income losses become more persistent. It takes longer for German women to adjust to the changing circumstances. Yet, the fact that pre-government income drops turn out to become higher over time is counterintuitive. Women contribute higher amounts of individual earnings to household income over time, so the relative loss should be lower. However, a worsening labor market situation that made the increase in working hours and the take-up of employment difficult for women during the mid to late 1990s and 2000s could be one reason why the loss is higher. Also, men's incomes are no longer as stable and thus might constitute a decreasing part of household income. Moreover, since pre-government household income includes the partner's income as well, the fact that women repartner more slowly over time leads to a slower recovery of income losses.



Source: SOEP, PSID, CNEF.

Figure 2: Percent reduction of pre-government income loss through the welfare state, for women, Germany 1984–1996 and 1997–2008, United States 1980–1996 and 1997–2005

The development of equivalent post-government household income over time points in a similar direction. While women breaking up in the 1980s or early to mid 1990s had virtually recovered from their income losses within three years (- 4%, insignificant), those breaking up between 1997 and 2008 still suffer a significant loss of 17% of their pre-break-up household income three years after the union dissolution. Since pre-government losses are lower in the

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early period, the welfare state mitigates these losses to a larger extent, as can be seen in Figure 2. Nevertheless, despite these increasing losses, the mitigating effect of the welfare state has decreased only slightly over time. However, since pre-government income already includes parts of the welfare state effect through child support and child support advance payments (both declared as private payments although implemented by the state, or in the case of advance payments even paid directly by the state), the welfare state effect cannot clearly be disentangled from private transfers.

The differences across time for American women are more obvious. Women's immediate pre-government household income loss decreases over time, from a significant loss of 60% in the period before 1997 down to a significant loss of 46% for those breaking up in 1997 or later. In the aftermath of the break-up, women recover to comparable levels of income loss in the two periods. After four years, they lag significantly behind their pre-break-up income by 26% and 30%, respectively. The strict working requirements and time limits attached to TANF might have forced women into poor jobs which provide market income immediately in the year of break-up but do not provide opportunities for promotion or a salary raise in the longer run. The distance between the coefficients of pre- and post-government household income narrows visibly over time, which means the welfare state effect has decreased. Figure 2 illustrates this quite clearly. Women are not lifted to levels as high as before the welfare reform. The remaining post-government losses after four years following a break-up amount to a significant 7% before the welfare reform and to a significant 14% for women breaking up after the welfare reform. Since the American welfare state puts effort into promoting employment as a way to enhance household incomes (instead of direct cash transfers), support in the form of tax credits only helps individuals who are employed. Therefore, welfare recipients are extraordinarily burdended.

5. Conclusion

The aim of this paper was to analyze the economic consequences of family break-ups in two different welfare state contexts and their development over time, based on institutional changes since the beginning of the 1980s. Choosing Germany and the United States as representatives of the conservative and liberal welfare regime, respectively, we expected diverging outcomes for German and American parents hit by family break-ups.

The differences between German and US American women are rather diffuse regarding the two measures of household income. In the year of break-up, German women lose more of their equivalent pre-government household income than American women. Looking at equivalent post-government household income, we find that the welfare state compensates a considerable share of pre-government income loss for both German and American women during the years following a family break-up. However, the German welfare state compensates this loss to such a level that German women almost recover to their pre-break-up income level. Thus, we can confirm our assumption that the German welfare state compensates more of the income losses than the American one, especially after the mid 1990s.

Over time, German women experience pre-government income losses that are more persistent in the years after the split. Although the welfare state still compensates a large proportion of this loss over time, women are not elevated to levels of loss compared to pre-1996 levels. The additional increase in pre-government loss over time is not compensated by the German welfare state, which results in a slightly lower welfare state support in the long run. Since the welfare reform of 1996, American women experience lower pre-government income losses in the year of break-up, yet the speed of recovery in the subsequent years remains the same. Although the pre-government income losses are virtually constant over time, the welfare state mitigates less after the welfare reform. Even with state support, women do not recover to their pre-break-up income levels in either of the periods; they even remain at a lower level compared to pre-1997 levels. It appears that the income situation regarding pre-government household income, i.e., market income plus private transfers, has not changed but state support has decreased.

To summarize, despite improvements in the policy framework provided for families we do not find them mirrored in alleviated economic consequences for women. German women experience slightly less support, and American women considerably less support from the welfare state over time when it comes to protection against the new social risk of family break-up.

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