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Income distribution and financial satisfaction between spouses in Europe

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Abstract

The article analyses the distribution of income between spouses and the consequences for their financial satisfaction within different welfare regimes. We find that the financial satisfaction of husbands declines and that the financial satisfaction of wives increases the more a wife earns relative to her husband. However, the relationships are often of an inversed U-shaped form for both sexes, with men achieving the highest satisfaction at an earlier stage than women. Within the Scandinavian welfare state regime this optimal distribution is found closer to the actual income distribution than in the continental European and liberal regimes, and in the southern European regime the optimal distribution is far from being achieved.

JEL classification: D13; D31; P51

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1. Introduction

Since the 1960' a trend towards a more equal distribution of income between spouses has appeared in most advanced countries. Nevertheless, there is still great deviance in spousal income shares. The Scandinavian countries are the most equal followed by the continental European countries with the southern European countries as the least equal. The important question is if this inequality in income distribution has an impact on the distribution of output within the family and/or if it affects the satisfaction of the individual family member.

As there are no reliable data on the distribution of output within the family,[1] this article focuses only on the relationship between the income distribution between the spouses and their individual financial satisfaction.[2] Furthermore, the discrepancy between the income distribution yielding the highest level of satisfaction and the actual income distribution is examined for the European union countries. The assumption is that neither spouse is in an optimal situation, because spousal preferences and aspirations might not be met due to the different preference structures and bargaining powers of the two parties. Thus, the optimal income share[3] is most likely higher for the wife and lower for the husband than

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[1] An exception is the Danish Household Expenditure Survey, see Bonke and Browning (2006).

[2] Financial satisfaction refers to domain satisfaction not to overall satisfaction/wellbeing/happiness, see Easterlin (2004) for this distinction.

[3] Income shares are used synonymous with income distribution, whereas income sharing refers to redistribution of income within the family.

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the actual income share in the household. However, it is expected that the "optimum" point falls near the actual point of sharing, as disparity could imply spousal dissatisfaction threatening the stability of the marriage, ultimately leading to divorce.

This paper comprises seven sections: the first section is the introduction; Section 2 gives the theoretical background for studying the relationship between the distribution of income and the distribution of financial satisfaction between spouses; Section 3 describes the different hypotheses addressed in the analyses; Section 4 describes the data; Section 5 explains the methodology applied in Section 6; Section 6 includes non-parametric analyses of the distribution of income and of satisfaction within couples and parametric analyses of the relationship between income shares and financial satisfaction, and, finally, it is investigated if there is any indication of an actual sharing of resources in the family, controlling for economies of scale by formatting a marriage/cohabitation; Section 7 gives the conclusion.

2. Theory

Women in most European countries are now active on the labour market to such an extent that the prevalence of the traditional family, with the husband as the breadwinner and the wife as the housekeeper, is questioned. The aspiration of individuality and economic independency – traditionally, realms of the husband – has encouraged women to improve their educational skills, allowing them to obtain better positions on the labour market (Blossfeld and Drobnic, 2001; Cohen and Bianchi, 1999). The implicit assumption is that income earned by women is used more for their own disposal and gives them more economic independency than income earned by the husband. This changes the spousal power balance and the distribution of consumption in favour of the wife (e.g. Bonke and Browning, 2006).

Nevertheless, in some countries the traditional distribution of income between spouses still prevails. Even in countries with many double-career families, where the spouses supply the same amount of work to the labour market, different wages, partly due to discrimination, may give different incomes among the spouses. If this means that the spouses have different standards of living or that they achieve the same standard by sharing their incomes equally is a question to which there seems to be no definite answer.

Nonetheless, an increasing number of studies question whether families are pooling their incomes and sharing them equally, even in advanced societies. For UK, Pahl (1989); for Sweden, Nyman (1996); for Denmark, Bonke and Uldall-Poulsen (2007) find that different allocation regimes – whole-wage system, allowance system and independent system – exist concurrently with the equal sharing regime; Pahl (1989) argues that the family may have different allocation regimes during their life stages. Furthermore, several studies find significant correlations between the distribution of income between spouses and their expenditure on specific goods, such as clothing and footwear, so that relatively more income earned by the woman increases her consumption relatively to the man's consumption (Thomas, 1990; Phipps and Burton, 1998; Browning et al., 1994; Ruuskanen, 1997).

Income distribution and the sharing of resources within families are subject to different theories: the human capital, the resource bargaining and the resource dependency models are the most frequently discussed. The human capital theory is based on a neo-classical approach assuming that the initial resources of the spouses are being used in a joint way to maximize the household's economic utility (Becker, 1981). In contrast, the resource bargaining model allows for conflicts between the spouses, and the power relationship thus becomes the determinant of how resources are distributed within the family (Blood and Wolfe, 1960). Finally, the resource dependency model assumes that the distribution of spousal income is a proxy for the power balance between the parties, and thereby for the degree of economic dependency of the least earning person, i.e. usually the wife (Sørensen and McLanahan, 1987).

From an economic viewpoint marriage might be the best choice for many women in the short run, as it increases their standard of living more than having a job does. That parallel to the money transfer, goods and services – housework and personal care – (see Browning and Goertz, 2006) are being giving in exchange, implying an opposite dependency, does not support the argument of marriage being the best choice, as the value of household work is usually low. This puts the spouse performing in the household – the wife – into a weak bargaining situation concerning the sharing of the other spouse's – the husband's – income. Halleröd (2005) finds that a high personal income coincides with the ability to avoid housework.

If considering only the distribution of income, an unequal income distribution might imply different consumption levels or some transfers of income, favouring the lower-earning spouse, but which also increases economic dependency of the lower-earning spouse (Heimdal and Houseknecht, 2003; Halleröd, 2005). That is, if the wife is dependent on her husband's income, the smaller the influence she has over the spending of the household's aggregate money, and the