

## **Transaction Costs, Value Structures, and the Economic Organization of Marital Incomes**

Although most couples pool their incomes into a common pot, others do not. The choice between "collectivized" and "privatized" financial organization depends, in part, on which is more efficient which minimizes transaction costs in organizing marital exchanges. Insights from the "new institutional economics" suggest that segregated incomes are associated with lower expectations for marital continuity. Social psychological theory suggests value orientations influence income-pooling behaviors. Data from the National Longitudinal Study of the Class of 1972 support the notion that both economic and social psychological variables explain the economic organization of marital incomes.

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### **Introduction**

A tension exists in American families between individualism and commitment to the group (Bumpass, 1990). The financial arrangements of American couples offer one example of the competing pulls between the individual and the collective (Treas, 1993). Both the privatized or "separate purses" and the collectivized or "common pot" modes occur among U.S. couples, however a recent study found just one-fifth of the married couples surveyed had separate bank accounts (Dortch, 1994). Public opinion expects (Blumstein & Schwartz, 1983) and economic theory assumes (Becker, 1973) that families pool their economic resources. Treas argues that "Privatized versus collectivized economic resources go to the heart of the conjugal family's identity--as a corporate unit or as a collection of individuals" (p. 723).

The question about the organization of family economic resources is fundamentally a sociological question of social organization (Tönnies, 1957; Durkheim, 1933). However, similar questions have been raised by the "new institutional economics" regarding a firm's "efficient boundaries" (Coase, 1937; Dietrich, 1994). Economists argue that a particular organizational structure is favored if it incurs lower transaction costs--the costs of organizing and carrying out exchanges. Sociologists have suggested that transaction cost economics offers insights into family organization as well (Treas, 1993).

This study builds upon the conceptual and methodological approach developed by Treas to study the economic organization of the family from a transaction cost perspective. It expands the framework to incorporate value structures. The paper explores the conditions under which collectivized versus privatized

organization of marriages exist. The choice of one over another is apt to hinge, in part, on their relative transaction costs and, in part, on the influence of values (e.g. self-interest, altruism) and sense of self (e.g. self-esteem). It is hypothesized that couples will establish an organizational form that facilitates efficient exchanges and is consistent with personal values.

### **Transaction Costs and Income Pooling**

Despite the unique nature of transaction costs in the family, the factors that determine organizational economics in families are much like those that lead to market or non-market solutions in firms. According to Williamson (1975, 1985), non-market solutions have an advantage in reducing transaction costs under three conditions: (1) when exchanges are complex, frequent, and on-going (i.e. where there is continuity); (2) when the value of goods and services are closely tied to those exchanging them (i.e. where there are sunk costs); and (3) when high costs are involved in monitoring quantity and quality of exchanged goods and services. In general, families are characterized by these conditions. This analysis will test two of these conditions: expected continuity and sunk costs.

Continuity discourages self-serving behaviors and fosters trust and collectivized organization. In contrast, privatized exchange is based on time-delimited contracts and protection of self-interest. Measures that capture previous marital disruption experienced by either spouse will be used as indicators of expected continuity. The probability of divorce is greater among individuals who have experienced previous marital disruption (Bumpass, 1990). People who think their marriage is

likely to continue have less incentive to hold funds back in separate accounts.

Sunk costs create incentives for people to remain in relationships and call for a less market-oriented organization. Many investments in marriage are made early in a relationship, and such costs are only recovered over time. These investments may include expectations as well as time and financial commitments. Expected and actual number of children, marital duration, and homeownership are used as indicators of sunk costs. Couples who have made big investments in their marriage are more likely to find income pooling advantageous.

### **Value Structures and Other Considerations**

Transaction costs are not the only plausible explanations for collectivized versus privatized forms of organization. Individuals choose separate or pooled incomes not only to minimize transaction costs, but also to express personal values and one's sense of self. Attitudinal scales measuring altruism (Cronbach's  $\alpha=.8667$ ), self-interest (Cronbach's  $\alpha=.8705$ ), and self-esteem (Cronbach's  $\alpha=.7918$ ) are used to measure respondents' value structures. Social psychological theory would suggest that the relationship between values and income-pooling behaviors will vary by sex (Rosenberg, 1979).

Other variables are also expected to influence organization of finances or to give rise to possible spurious relationships. Treas (1993) argues that two conflicting arguments point to income as an influence. High income may facilitate separate accounts since it affords the luxury to forego economies that result from sharing. Or, one may argue that high income facilitates pooling because there is less need to budget (Pahl, 1980). Previous research has shown racial differences in patterns of asset ownership (Treas, 1993). Also, race is associated with other predictor variables (e.g. income). Log of earned income of each spouse and a dummy variable measuring race of respondent are included in the analysis.

### **Data and Variables**

The analysis uses data from the National Longitudinal Study of the High School Class of 1972 (NLS'72). The NLS'72 is a national probability sample of over 22,000 persons who were high school seniors in 1972. The survey has followed the lives of its respondents as they have entered the job market and formed families. The fifth follow-up survey (1986), which provides the data for this study, was administered

to an unequal probability subsample of 14,489 of the original respondents (see Spencer, Sebring, & Campbell, 1987).

The original sample was conditioned on respondents having attained the senior year of high school. Results of this analysis, therefore, pertain only to that subset of the population who reached their senior year in this grade cohort, and the conclusions cannot be generalized to those populations that failed to reach their senior year of high school.

The data from the 1986 follow-up survey have several strengths. Although reported by one spouse only, the data contain information on family income, marital history, and familial income pooling. Respondents were specifically asked to select a statement that most closely matched the financial arrangements they had with persons in their household. Income poolers selected the following statement: "People combine their incomes and this money is used to pay most household expenses." Most studies of income pooling between husbands and wives have not had the benefit of national probability samples (Blumstein & Schwartz, 1983; Hertz, 1986; Smith & Reid, 1986). A recent analysis by Treas (1993) utilized the national Survey of Income and Program Participation (SIPP), but explored joint versus separate ownership of bank accounts--a somewhat different aspect of the economic organization of marriage.

This analysis includes 4,771 respondents who were married at the time of the survey and reported that both spouses had earned income. Chart 1 defines the variables. Table 1 contains the weighted means and standard deviations of the variables that are included in the logit model of income pooling. As Table 1 shows, income pooling is reported by 79 percent of the respondents.

### **Results and Discussion**

Table 2 presents the results of the dichotomous logit analysis of the determinants of income pooling. Weighted parameter estimates are given for a model that includes interaction terms between the variable sex and the value scale variables. The results offer some support for the transaction cost argument as well as the predicted influence of value structures.

In contrast to the findings of Treas (1993), results do not suggest that previous marital disruption works for or against the collectivized organization of finances: The logit coefficients for the marital history of husbands and wives are not statistically significant. Two variables measuring sunk costs--homeownership and the duration of the marriage--are both statistically significant

Chart 1  
Variable Definitions

Variable	Definition
Income pooling	1 if couple pools incomes, zero otherwise
Wife's marital history	1 if in first marriage, zero otherwise
Husband's marital history	1 if in first marriage, zero otherwise
Expected number of children	Total number of children couple expects to have
Homeownership	1 if homeowner, zero otherwise
Number of months married	Total number of months couple married
Number of children with spouse	Total number of biological children respondent has with current spouse
Wife's income	Wife's 1985 earned income
Husband's income	Husband's 1985 earned income
Race of respondent	1 if non-white, zero otherwise
Sex of respondent	1 if female, zero otherwise
Altruism	Likert-type scale <sup>1</sup> composed of six statements: - Finding the right person to marry and having a happy family life - Having strong friendships - Being a leader in the community - Being able to give my children better opportunities than I've had - Living close to my parents and relatives - Working to correct social and economic inequities
Self-interest	Likert-type scale <sup>1</sup> composed of four statements: - Being successful in my line of work - Having lots of money - Being able to find steady work - Having leisure time to enjoy my own interests
Self-esteem	Likert-type scale <sup>2</sup> composed of four statements: - I take a positive attitude toward myself - I feel I am a person of worth, on an equal plan with others - I am able to do things as well as most other people - On the whole, I'm satisfied with myself

<sup>1</sup>Question asked respondents "How important is each of the following to you in life?" (1=not important, 2=somewhat important, 3=very important).

<sup>2</sup>Question asked respondents "How do you feel about each of the following statements?" (1=disagree strongly, 2=disagree, 3=no opinion, 4=agree, 5=agree strongly).

Table 1  
Sample Statistics

	Full Sample (n=4771)	
	Mean	Standard Deviation
Income Pooling	0.794	0.405
<b>Continuity</b>		
Wife's marital history	0.826	0.379
Husband's marital history	0.834	0.372
<b>Sunk Costs</b>		
Expected number of children	2.142	1.114
Homeownership	0.791	0.407
Number of months married	94.079	43.603
Number of children with spouse	1.259	1.072
<b>Values</b>		
Altruism	10.743	1.718
Self-interest	6.017	1.281
Self-esteem	17.216	2.118
<b>Other</b>		
Wife's income (\$)	14,117	10,160
Husband's income (\$)	26,951	14,903
Race of respondent	0.150	0.357
Sex of respondent	0.542	0.499

Table 2  
Logit Model of Income Pooling

Variable	Model Coefficients
Constant	-0.111
Wife's marital history	0.120
Husband's marital history	0.183
Expected number of children	-0.024
Homeownership	0.260**
Number of months married	0.003**
Number of children with spouse	-0.054
Log wife's income	0.823**
Log husband's income	-0.425**
Race of respondent	-0.110
Sex of respondent	-1.57
Altruism	0.003
Self-interest	-0.072
Self-esteem	-0.096**
Altruism*Sex	0.086*
Self-interest*Sex	-0.149
Self-esteem*Sex	0.087**
-Log Likelihood	2069.287

\*p<0.10

\*\*p<0.05

and in the hypothesized positive direction. Findings are mixed in response to the argument that pooling is favored by the affluent who need not impose the consequences of spending on the spender (Treas, 1993). The coefficient on wife's income is positive and significant. Interestingly, the opposite is true for husband's income. Men with higher incomes are less likely to pool incomes with their wives.

Perhaps the most intriguing findings explore the influence of values on income pooling and the hypothesized differences between the sexes. To explore the question that the role of values will differ between the sexes, an additive model (not shown) without interaction terms was compared to the model which includes variables measuring the interaction of sex and value orientations. Results provide some support for the notion that men's and women's value orientations have different effects on income-pooling behaviors. The relationship between altruism and self-esteem and income pooling are different for women compared to men.

### Summary

Results from this analysis provide some support that American couples do weigh transaction costs in the decision to collectivize or privatize their finances. Pooling incomes was hypothesized to depend on the expected continuity of the marriage and marriage-specific investments which are conceptualized as sunk costs. No evidence was found to support the idea that expected continuity of the marital union will encourage market-like organization. Support was found for the idea that marital investments foster a common pot and discourage separate purses.

Transaction costs are not the only considerations influencing the choice of collectivized versus privatized family finances. Individuals are influenced by their personal values and sense of self-worth, and this relationship appears to vary by sex. These findings raise fundamental questions about the process by which families opt for one form of internal organization over another. Data on the economic organization of both income and assets and on the value structures of both husbands and wives from a broad sample of married couples would allow us to explore further the process of collectivized behaviors.

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### Endnote

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