Household Debt and Marital Instability: Evidence from Korean Labor and Income Panel Study

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Abstract

This study investigates whether household debt is a factor that decreases marital stability and increases divorce. The research question was largely motivated by a growing perception that the expansion of excessive borrowing and insolvency problems was responsible for the dramatic increase in divorce rates in Korea during the past decade. The sample for empirical analysis was taken from a survey of six-year panels of nearly 5,000 households, and was analyzed in pooled and population-averaged Logit models. Using the panel structure of the data, we took into account the yearly variations of economy-wide factors that might also have affected household financial conditions. Despite the widespread belief among Koreans that financial strain of the family lowers marital stability and causes divorce, none of the variously configured regressions in this study found significant evidence that household financial strain increased the likelihood of divorce. We found that the financial liability due to deposits received could increase the probability of divorce, but in the absence of asset value measures, this is more likely to reflect the effect of property ownership than reveal the consequence of financial strain. The stronger and more consistent predictors of divorce this study found were the low household earnings and the lack of financial assets rather than the size of debt or the debt-to-income ratio.

The empirical findings in this study have several implications for financial management of married couples. First, additional borrowing by a household does not weaken its marital stability. Second, one may be able to strengthen marriage by earning additional income but not by spending within the present income. Third, saving can increase marital stability.

The irrelevance of debt in predicting marital stability is not consistent with our conceptual model or with the existing reports based on perceptions. Several explanations can be provided. First, a number of variables that might have influenced the way debt affects marital stability are unavailable and omitted from the analysis. Second, the size of debt, especially for so-called problematic debt, might have been underreported in the survey. Third, the effect of debt on marital instability can vary across different subgroups, which cannot be captured with regressions that use averages of heterogeneous agents even after controlling for various demographic and economic factors.

The empirical findings from this study need to be interpreted with caution because of such limitations. However, this study shows that the relationship between household financial strain and divorce may not be as evident as what the perception-based statistics claim. Although we do not find a significant effect of the size of debt or the debt-to-income ratio, we find that household asset holdings or household net worth can be important factors of marital stability. Further research on the interface between households' financial and demographic behaviors would be worthwhile.

Endnotes

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