The cost of breaking up

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Household income instability in the United States has doubled since the 1970s. As a result, children are now more likely to experience significant fluctuations in their family's resources than they were four decades ago.[1] Theory suggests that instability in household income may reduce parents' ability to maintain their current standard of living and plan for the future.[2] Most research on rising income volatility has looked at how labor market transformations have increased the volatility of individual earnings. In this article we argue that changes in family structure through divorce or cohabitation dissolution are another important source of income instability, and that the ending of cohabitating relationships has increased income instability for less-advantaged children. Whether growing family instability in fact contributes to rising income instability depends in part on the economic effects of relationships ending.

Prior research has found large income drops following divorce or the end of a cohabiting relationship, particularly for women, but these studies have looked at a single time period or cohort.[3] The earlier work does not examine whether changes in mothers' labor force participation, government cash transfer programs, and cash assistance from social networks may have altered these economic effects over time. In addition, prior research has not examined whether and how family instability has contributed to growing income instability for children. Large-scale changes in family structure, maternal labor force attachment, and government cash transfer programs may have altered both the frequency of union dissolution and mothers' ability to cushion associated economic losses. In this article, we combine the literatures on income volatility and family instability to examine trends in the economic effects of relationships ending. We ask whether the magnitude of income loss from family dissolution has changed over time, and whether it differs between families with married versus cohabiting parents. We also look at changes in how families use the labor market, and public and private safety nets, to smooth the economic costs of family instability.

Income volatility and family instability

The increase in household income volatility in the United States since the 1970s is largely due to rising earnings instability.[4] Evidence of the trend includes the doubling in the annual variance in men's earnings between 1974 and 2000.[5] In addition, jobs are increasingly likely to be of shorter tenure, have unstable work hours, and be part time or temporary. Most studies of income volatility trends have focused on individual labor market earnings, but studies that looked at household income also found increased volatility, especially among poor families.[6]

While researchers looking for the sources of rising income volatility have focused primarily on labor market causes, rising family instability may also have contributed to the growth in household income volatility in the United States. In 1960, only 5 percent of births were to unmarried mothers; in 2010, the proportion had risen to over 40 percent.[7] The majority of nonmarital births are to cohabiting couples, whose unions are considerably less stable than those of married couples.[8] The rise in childbearing within cohabiting relationships and the relative instability of those unions has led to greater instability within families.

Economic effects of family instability

When parents end relationships with partners who contributed to household income, children are affected by the income loss. Most prior research on the economic effects of relationship instability has focused on changes in parents' individual household incomes following divorce, within a single cohort. Mothers have been found to experience significant drops in household income after divorce, and a substantial number end up in poverty.[9] Although initial incomes differ for higher- and lower-income households, and across racial and ethnic groups, the proportion by which income falls is similar. Estimates of the drop in women's household income a year after divorce range from 23 percent to 40 percent.[10] For men, the economic effects of divorce are less severe than they are for women, and some studies have reported income gains.[11]

Couples who cohabit are significantly less likely than married couples to pool their incomes; they also tend to have less-traditional gender role expectations, lower levels of commitment and planning for the future together, and lower average socioeconomic status.[12] These differences suggest that the economic costs of relationship dissolution may be proportionally less for cohabiting women than for married women. Few studies have examined the economic consequences for these two groups separately, but one that did indeed found that the average income loss for women following the end of a cohabiting relationship was 33 percent, compared to 58 percent following divorce.[13] The absolute levels of post-dissolution income were similar for married and cohabiting women.

Changes in the public and private safety nets

While the argument that the household plays a central role in socioeconomic stratification is not new, there has been little attention paid to whether the economic effects of family instability have changed over time in ways that either contributed to, or offset, children's household income volatility. There are a number of strategies that parents can use to moderate the economic effects of losing a partner's income after the end of a relationship, including getting a job or increasing work hours, obtaining cash assistance from government programs, and obtaining economic assistance through their social networks. Changes over time in maternal labor force attachment and in government cash transfer programs may have in turn altered parents' ability to use these resources to address economic loss after union dissolution.

Maternal labor force participation

A mitigating factor in the effects of rising income and familial instability on household income is the increase in mothers' participation in the workforce. In 1960, less than 20 percent of married women with children under six years old were in the labor market; by 2012, this proportion had soared to over 70 percent.[14] Households with two adults now constitute just over half of all households with children.[15] The pay gap between men and women has declined since the 1970s, and women and mothers are more likely to work full time and year round.[16] If women's earnings now constitute a larger proportion of shared household earnings during relationships, then relationship endings might mean a relatively smaller drop in women's household income than in the past. Women may also now be more easily able to increase their hours of work either in anticipation of or in response to the end of a relationship, further minimizing the dissolution's economic effects.

Public safety net

Public programs that provide a buffer against poverty for low-income families include cash welfare, the Earned Income Tax Credit (EITC), and Supplemental Security Income. Cash welfare benefits—first through Aid to Families with Dependent Children (AFDC), then after 1996, through Temporary Assistance for Needy Families (TANF)—have become considerably less generous since the 1970s.[17] Caseloads also dropped dramatically after the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 introduced a block grant system that included diversions, sanctions, and time limits.[18] TANF now provides a weaker safety net than it did in the past, as evidenced most recently by the fact that caseloads rose only modestly during the severe recession that began in 2007.[19]

The declining generosity of cash welfare benefits has been at least partially offset by expansions in other cash transfer programs. The EITC provides a refundable tax credit to low-to-moderate income individuals and families, primarily those with children. For tax year 2013, the maximum available federal credit ranges from $487 for those with no qualifying children, to $6,044 for those with three or more qualifying children. After expanding in the 1980s and 1990s, the EITC is now the largest antipoverty program in the United States. The Center on Budget and Policy Priorities estimates that in 2011, the EITC and the related Child Tax Credit together lifted 9.4 million people out of poverty, including 4.9 million children.[20] Supplemental Security Income, which provides mean-tested cash assistance to the disabled, has also expanded dramatically since it began in the 1970s.

In addition to cash transfer programs, stronger government enforcement of child support laws has also increased cash flow to mothers. New legislation in the 1980s and 1990s required states to withhold child support obligations from fathers' paychecks, strengthen paternity establishment requirements, and standardize child support order formulas.[21] As a result, the likelihood of paternity establishment, child support order amounts for unmarried mothers, and total child support transfers to mothers all have increased.[22]

Private safety net

Single parents may also rely on their social networks, including relatives, friends, and romantic partners, as sources of cash and in-kind assistance when needed.[23] Although these resources play an important role in making ends meet, researchers have found that financial transfers are less common within the social networks of low-income households, and the amounts tend to be small in both relative and absolute terms.[24] However, lower-income families are more likely than more-advantaged families to live in extended family households—with parents, boyfriends, or other relatives—which provides another important way to cope with economic loss. Indeed, moving in with a new romantic partner often returns women's incomes to nearly pre-dissolution levels.[25]

Study results

In our study, we examine how the economic costs of union dissolution have changed over time. We track changes in the economic costs of dissolution of both marital and cohabiting unions from the 1980s through the 2000s, a time period that encompasses periods of dramatic change in both labor markets and the public safety net. We assess how changes in maternal labor force participation and public and private support systems have affected the economic costs of dissolution. By including both married and cohabiting couples in our analysis, we are able to provide the first assessment of whether the relative costs of ending marriage and cohabitation have changed over time, and whether married and cohabiting mothers use different strategies to mitigate those costs.

Looking first at trends in children's family structures over time, we found results consistent with earlier studies. The proportion of children living with married parents during the course of a year decreased from 80 percent in 1984 to 72 percent in 2010, while the proportion living with cohabiting parents doubled from 3 percent to 6 percent over the same

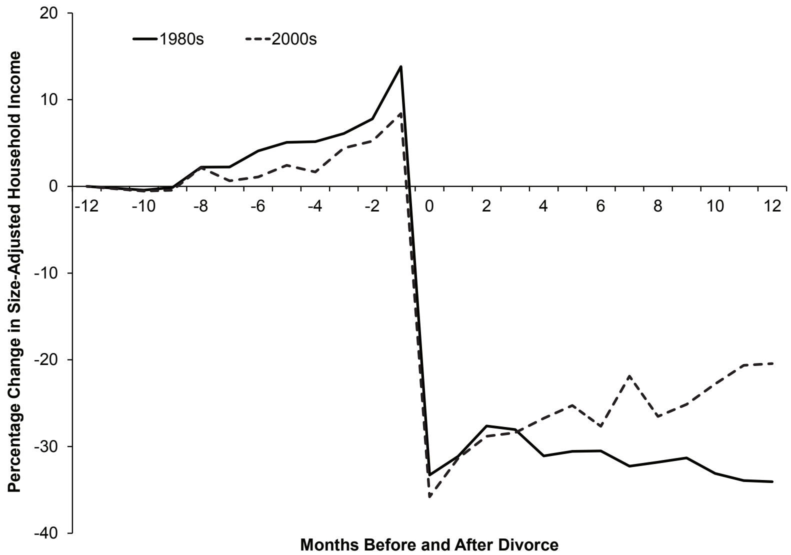

Figure 1. Median percentage change in household income before and after divorce.

time period. Children's families also become more stable, with only 2.9 percent experiencing a parental union dissolution in 2010, compared to 4.5 percent in 1984. This increase in stability was true for both married and cohabiting families, although cohabiting families remain more likely to break up; about 10 percent in the 2000s, compared to just over a 3 percent divorce rate for married families.

Trends in the economic costs of union dissolution

Looking at trends over time in a child's total household income in the year prior to and following the end of a relationship, we find first that there was little change in children's economic losses from parental divorce. While children's average household incomes were higher in the 2000s than in the 1980s, as Figure 1 shows, the loss of household income immediately following divorce was about the same in each decade, around 35 percent. Incomes rose slightly in the 12 months following divorce, leaving children with a net 30 percent loss in household income after one year in the 1980s, and a net 20 percent loss in the 2000s. One notable pattern is that household incomes "ramp up" by around 10 percent in the year prior to divorce.

In contrast to married families, cohabiting families experienced greater economic losses associated with union dissolution over time. In the 1980s, economic loss was only about 20 percent, but their incomes did not recover in the year following the breakup. Figure 2 shows that by the 2000s, the pattern for cohabiters was similar to that for married families (albeit at lower income levels); household incomes dropped

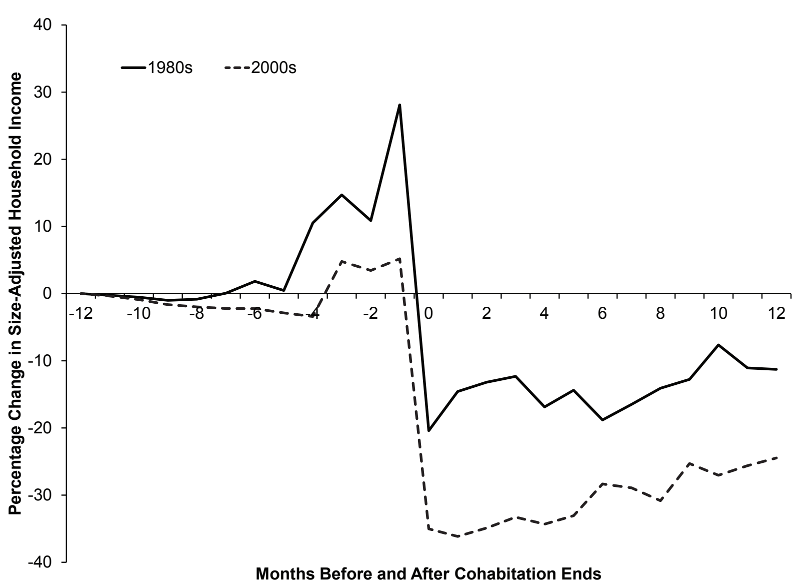

Figure 2. Median percentage change in household income before and after the end of a cohabiting relationship.

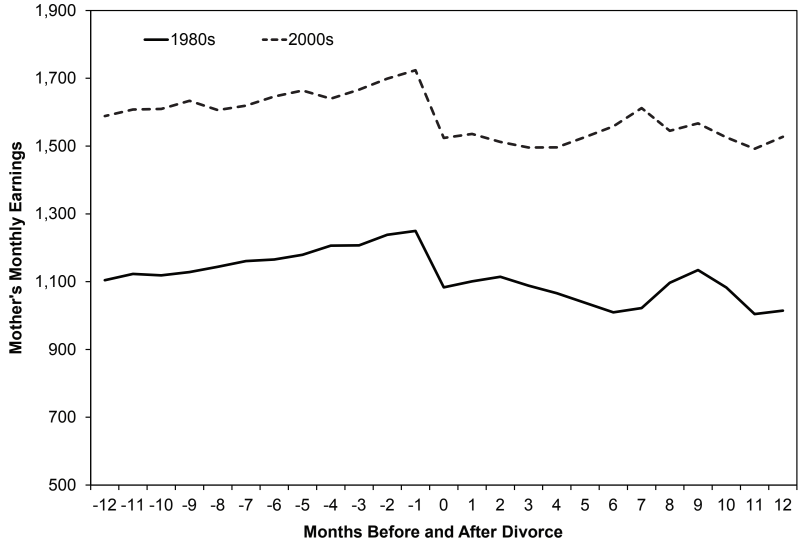

Figure 3. Trends in mothers' earnings before and after divorce.

by about 35 percent immediately after the relationship ended, then rose in the following year, for a net loss of 25 percent. Cohabiters' incomes also increased greatly between the 1980s and the 2000s, though their household incomes remain lower than married parents' incomes at all points in the timeline. The pattern of ramping up income prior to relationship end also differs from that of married parents; in the 1980s, cohabiters ramped up their income by almost 30 percent, but by the 2000s, household income went up by less than 10 percent in the year before the breakup, a level similar to that in divorced families. Overall, the economic consequences for children of cohabitation dissolution have grown since the 1980s, and have also become more similar to the economic consequences for the children of divorce.

Trends in earnings, cash transfers, and income pooling

As married women have participated in the labor force at increasing rates over time, they have also had higher monthly earnings in each decade from the 1980s to the 2000s. As a result, married mothers' earnings (adjusted for inflation to 2012 dollars) averaged about $1,100 per month during the 1980s, and rose to about $1,500 per month in the 2000s. Despite this growth, Figure 3 shows that there was little overall change in married women's labor supply response to divorce over time. Married women's earnings increased in the three months prior to divorce, but dropped by about $100 in the month of divorce, and do not recover in the following year. While these women's earnings are higher in absolute terms in the 2000s than in the 1980s, we find no evidence that married women are increasingly altering their labor supply in response to a divorce. Figure 4 shows the same trends for women's earnings before and after the end of a cohabiting relationship. Like married women, cohabiting women's earnings increase over time, but unlike married women, there is no clear association between relationship dissolution and earnings.

Cash transfers also rose over time for children in married households. While cash transfers increased in the months following a divorce in each decade, the increases were proportionally larger in the 2000s than in the 1980s. In the 1980s, the amount of monthly cash transfers from government sources and from child support increased by about 20 percent following a divorce, but in the 2000s increased by over 50 percent. Thus, children in married households in the 2000s received greater cash transfers than those in the 1980s, and their mothers relied more on this source of money in the wake of a divorce.

Children in cohabiting households receive more from public transfers than do children in married households, but the amount of those transfers does not rise following the end of a cohabiting relationship. Instead, there is a general downward trend in cash transfer payments over time, and a small drop in cash transfers at the time of the dissolution. These trends are likely explained by the declining generosity of cash welfare programs over this time period, the fact that unmarried mothers are less likely to have child support orders than divorced parents, and the loss from household income of government transfers paid to cohabiting men (since these men may be more likely to receive such transfers than men in married households).

The private safety net is another potential source of household income following a union dissolution. Direct cash transfers from family or friends constitute a very small part of household budgets, amounting to less than $50 per month on average. However, income pooling through sharing a household with other adults is both more common and more consequential. Adult relatives contributed just over $50 per month to married household incomes in the 1980s; by the 2000s, that amount was around $250. Relatives also contributed more over time to post-divorce incomes; about

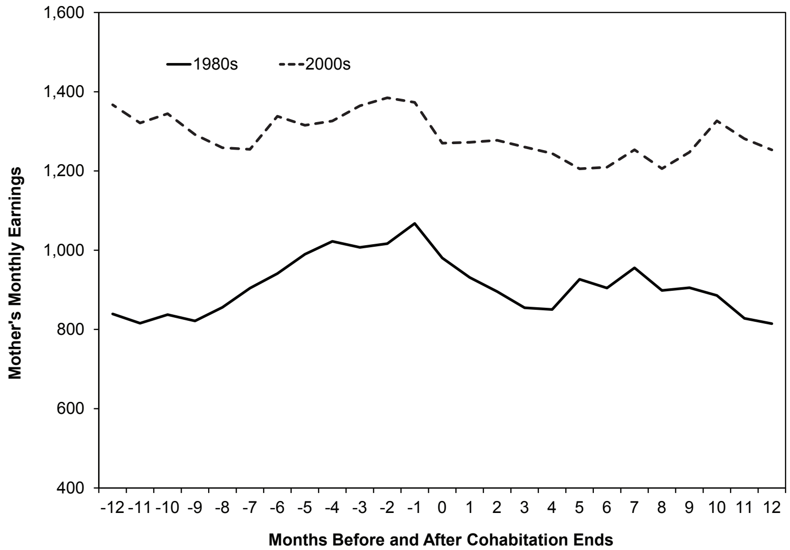

Figure 4. Trends in mothers' earnings before and after the end of a cohabiting relationship.

$200 on average in the 1980s, compared to about $500 in the 2000s. There is a very similar pattern of results for cohabiting households.

The largest source of new income after a breakup is from new coresidential partners, either married or cohabiting. New partners' contributions to household incomes increase steadily in the months following the dissolution of both marriages and cohabitations. This pattern, and the amount contributed by new partners, changes little over time, indicating that much of the increase in post-dissolution household income noted above is attributable to repartnering. However, because mothers' earnings increase over this time period, new partners' contributions constitute a smaller percentage of post-dissolution incomes in the 2000s than they did in the 1980s.

Implications

The growth in women's labor force participation and the changing structure of public cash transfer programs has led some scholars to suggest that the economic costs of family dissolution for children's household incomes have declined over time. However, our results show that the net economic consequences of divorce have changed little since the 1980s, although married women have relied more on government transfers like the EITC and more on their own earnings and private safety nets over time. In contrast, the economic consequences of cohabitation dissolution have increased markedly since the 1980s, so that mothers' income losses associated with cohabitation dissolution now more closely resemble those of divorced mothers. We find that the growing economic consequences of dissolution for cohabiting parents are attributable to the rising earnings of male cohabiting partners over time combined with smaller growth in women's earnings and receipt of government transfers, which in turn increases the economic shock associated with their exit from the household.

The results of this study have implications for research on trends in income instability. First, we find little evidence that changes in marital stability have contributed to rising income instability. Marriages became slightly more stable over time, and the economic consequences, while large, have changed little since the 1980s. Despite the lack of change in the economic costs of divorce, we find that divorced mothers rely comparatively more than cohabiting mothers on labor market earnings and public cash transfers from the EITC (that are conditional on work) following dissolution, which could potentially make them more vulnerable to labor market volatility. Second, we find that more children live in cohabiting households in the 2000s, and that while these households have become more stable over time, they remain less stable than married households. The economic costs associated with the end of a cohabiting relationship have also increased over time. Finally, cohabiting households with children tend to be at the lower end of the income distribution. As a result, trends in the growth of cohabitation and the economic costs of cohabitation dissolution have likely contributed to rising income instability for less-advantaged children.

These findings also have implications for family theories of the meaning of cohabitation. Our results are consistent with prior work that has found that cohabiting relationships have become more stable over time. In part, our research supports prior work showing that cohabiting couples have lower levels of commitment and are less certain about the future of their unions. We find little relationship between cohabiting women's labor supply and government transfer payments before and after a union dissolution, suggesting that cohabiting mothers are not specializing in domestic labor as married women might; their lack of response suggests that they were perhaps more prepared for a relationship ending, and may qualify for some benefits while still cohabiting that married women would not qualify for. We do find, however, that the economic consequences of cohabitation dissolution have grown for children and that patterns of behavior for cohabiting parents have broadly become more similar to those for married parents. Taken together, these finding suggest that cohabitation has come to play an economic function more similar to marriage, at least among cohabitations that involve children. ■

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