The Economic Consequences of Divorce and the Little Understood Role of Child Custody Arrangements

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1 Introduction

There is an extensive literature comparing the economic impact of divorce on women to its impact on men. The consensus in this literature is that the economic consequences of divorce are worse for women, although how much worse is not firmly established. There are two major reasons for this: one is that women earn less than men and therefore tend to suffer a larger decline in household income upon divorce; the second is that men typically are not awarded custody of the children and there-

fore enjoy a sizable reduction in their economic needs. Alimony and child support are designed to mitigate these factors, but the consensus from many previous studies is that women still suffer more economically from divorce. In prior work (Roeper and Bennett, 2014), we decomposed the impact of divorce on the economic well-being of men and women into the impact due to change in income and an impact due to change in family size (and thus economic need). We found that the differences in change in family size between the divorcing spouses accounted for a larger portion of the difference in economic well-being outcomes for them than the differences between them in change in household income. In other words, custody is critical to determining economic well-being. We also found that among childless couples, the economic impact of divorce on men and women was more even. In this paper we will push that idea further by constructing a counterfactual scenario: What would be the economic consequences of divorce if men were always awarded primary custody of children?

2 Previous Literature

Duncan and Hoffman [1985] measured the economic impact of divorce by comparing the ratio of household income of a divorcée's household to their poverty threshold before and after the divorce. They found, based on data collected between 1969 and 1975 for the Panel Study of Income Dynamics (PSID), that among all divorced women, the income-to-needs ratio declined nine percent after a divorce, and for divorcing men it increased by 13 percent. Peterson [1996] found a 27 percent decrease

in standard of living for divorcing women and a 10 percent increase in standard of living for divorcing men based on data from Los Angeles in the late 1970s.

Smock *et al.* [1999], using the National Survey of Families and Households, found that the average divorced woman had a family income equal to 1.6 times the poverty threshold, but they estimated that if those women had remain married they would have had a family income of 3.5 times the poverty threshold. This 55 percent reduction in economic well-being is much larger than the effects found by Duncan and Hoffman or Peterson.

McManus and DiPrete [2001] studied heterogeneity in the economic impact of divorce using PSID data. They found that despite the positive average impact of divorce on men's economic well-being, there was significant heterogeneity, and that men who earned less than 60 percent of family income prior to divorce experienced a negative economic effect.

The focus of this paper is on another source of heterogeneity in the economic impact of divorce on both men and women, namely custody of children.

3 Decomposing the Impacts of Income and Family Size

In earlier work (Roeper and Bennett, 2014), we decomposed the impact of divorce on economic well-being into two components: the change in household income and the change in poverty threshold. We followed the example of previous papers in this literature by measuring overall economic well-being (EWB) as the ratio of household

income (I) to the family poverty threshold (PT):

$$EWB = \frac{I}{PT} \tag{1}$$

Our measure for change in economic well-being used the log of the ratio of economic well-being two years after divorce (EWB_{t+2}) to economic well-being two years prior to divorce (EWB_{t-2}). This measure of economic well-being can be easily decomposed into the change in poverty threshold and change in income:

$$\begin{aligned}
\text{Change in Economic Well-Being} = \log\ EWB \text{ ratio}_t &= \log\left(\frac{EWB_{t+2}}{EWB_{t-2}}\right) \\
&= \log\left(\frac{I_{t+2}/PT_{t+2}}{I_{t-2}/PT_{t-2}}\right) \\
&= \log\left(\frac{I_{t+2}}{I_{t-2}} \times \frac{PT_{t-2}}{PT_{t+2}}\right) \\
&= \underbrace{\log\left(\frac{I_{t+2}}{I_{t-2}}\right)}_{\log\ I \text{ ratio}_t} + \underbrace{\log\left(\frac{PT_{t-2}}{PT_{t+2}}\right)}_{\log\ PT \text{ ratio}_t}
\end{aligned}$$

Using this decomposition as a basis, we estimated three regression models using data from the PSID, in which the dependent variable was log I ratio$_t$, log PT ratio$_t$, and the composite measure, log EWB ratio$_t$. The results of these regressions (Table 1) show that of the 24 percent gap in economic outcomes between divorcing men and women, 14 percentage points can be attributed to differences in change in poverty thresholds and 10 percentage points can be attributed to differences in change in income. Changes in poverty thresholds are driven almost entirely by custodial arrangements (absent, for example, remarriage, for which we control in our models).

Table 1: Ordinary Least Squares Results

Variables	(1) log EWB ratio	(2) log I ratio	(3) log PT ratio
Female	0	0	0
Divorce	-0.100***	-0.441***	0.341***
	(0.0351)	(0.0351)	(0.0128)
Female × Divorce	-0.243***	-0.0970**	-0.146***
	(0.0494)	(0.0491)	(0.0168)
Remarried	0.220***	0.440***	-0.220***
	(0.0703)	(0.0672)	(0.0315)
Female × Remarried	0.252***	0.205**	0.0469
	(0.0950)	(0.0902)	(0.0362)
Constant	0.0400***	0.0568***	-0.0167***
	(0.00225)	(0.00222)	(0.000768)
Observations	102,934	102,934	102,934

Robust standard errors in parentheses
*** p< 0.01, ** p< 0.05, * p< 0.1

The relative importance of custody in determining the economic consequences of divorce has not been deeply explored in the literature.

Our results based on the analysis of only childless couples confirm this finding. The point estimate for the disparity in outcomes between men and women is just 10 percent, which is equal to the disparity due to income for all couples, although it is not statistically significant (see Table 2).

Table 2: Childless Couples and Parents

Variables	(1) Childless Couples	(2) Parents	(3) All Couples
Female	0	0	0
Divorce	-0.234***	-0.0348	-0.100***
	(0.0584)	(0.0366)	(0.0307)
Female × Divorce	-0.0927	-0.311***	-0.243***
	(0.0815)	(0.0426)	(0.0428)
Remarried	0.129	0.228***	0.220***
	(0.108)	(0.0659)	(0.0568)
Female × Remarried	0.393***	0.222**	0.252***
	(0.145)	(0.0925)	(0.0799)
Constant	-0.0121***	0.0592***	0.0400***
	(0.00444)	(0.00260)	(0.00225)
Observations	27,732	75,202	102,934

Standard errors in parentheses
*** p< 0.01, ** p< 0.05, * p< 0.1

4 What if Men Got Custody?

The results in Table 1 suggest that, in a world where custody over children was typically awarded to men, the economic consequences of divorce might look very different. If men got custody of children, their economic needs post-divorce would be greater than their ex-wives' which might even out the impact of divorce on men and women. However, if men got custody over children it would not only change poverty thresholds, it would also significantly change divorcing men's and women's incomes. Men would receive child support instead of paying it, and their tax burdens would be significantly reduced by having dependents. Women would have to pay child support instead of receiving it, and lose the tax benefits of having children. In work in progress for this PAA paper, we construct an estimate of what the economic consequences of divorce would be in that hypothetical scenario. We will test whether the child support and tax benefits of custody adequately compensate for the economic burden of increased family size.

Our work begins by estimating child support obligations in the existing custody arrangements and under the counterfactual scenario. For example, if a couple in the PSID divorced and the wife received custody of their two children, the couple lived in New York State, and the husband had $50,000 in pre-tax income, then the husband would owe $12,500 in child support based on New York's child support guidelines.[1] In our counterfactual scenario, the husband would be awarded custody of the two children, and we would use the same methods to estimate the child support owed to him by his ex-wife. If the wife had a pre-tax income of $40,000, then she would

[1] https://www.childsupport.ny.gov/dcse/pdfs/cssa_2013.pdf

owe her ex-husband $10,000 in child support rather than receive $12,500 from the husband.

Next we compute each household's tax obligation in both the existing custody arrangements and the counterfactual scenario using the National Bureau of Economic Research's TAXSIM program. To continue with the previous example of the divorced couple with two children, we would estimate the husband and wife's tax obligations under the existing custody arrangements based on the fact that the wife's household has two dependents, the husband's household has zero, and many other household characteristics such as pre-tax income and state of residence. Then we re-estimate their tax obligations for the counterfactual scenario assuming that the husband had two dependents and the wife had zero.

Finally, we adjust each household's level of economic well-being based on their poverty threshold. For our example couple, in the existing custody scenario, the wife's income will be adjusted by the poverty threshold for a family of three, and the husband's income will be adjusted by the poverty threshold for a single adult. Under the counterfactual scenario in which the husband has custody over the two children, the poverty thresholds for the husband and wife would be reversed.

Once we adjust for the changes in child support, poverty thresholds, and tax burdens, we can compare the economic outcomes of divorcing men and women in both the counterfactual scenario and the existing custody arrangements to assess how well tax policy and child support requirements alleviate the economic burden of custody. The counterfactual custody arrangements may improve the welfare of divorcing women, which would indicate that tax benefits and child support income

do not compensate for the impact of custody on economic needs. Women could also potentially be equally well off relative to men in the counterfactual scenario, which would imply that the child support and tax policies are working as intended. Finally, it is also possible that tax benefits and child support more than offset the economic burden of custody and assigning custody of children to men would make men even better off relative to women than they are in the current custody arrangements.

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