



HOW SHOULD WE THINK ABOUT THE TAXPAYER CONSEQUENCES OF DIVORCE?

A Briefing Paper Prepared for the
Council on Contemporary Families

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A new report, "The Taxpayer Costs of Divorce and Unwed Childbearing: First-Ever Estimates for the Nation and all 50 States", raises the question of how much divorce costs taxpayers. This is an intriguing question, but unfortunately this report falls short on providing the answer. In the worst traditions of "advocacy science" the authors pick and choose among the costs and benefits, highlighting big costs and ignoring all taxpayer savings. Not surprisingly then, this report, produced by a coalition of family values groups comes up with a large taxpayer cost, finding that family fragmentation costs the U.S. taxpayer \$112 billion per year, or \$1 trillion each decade.

They suggest that if poor single women were to marry, around 60 percent of them would no longer be in poverty, leading to a decline in total poverty of about one third. Thus, they attribute one-third of the cost of anti-poverty programs to the costs of "family fragmentation". Citing research by Harry Holzer linking childhood poverty to crime, they also attribute one-third of the costs of poverty-related crime to divorce, and factor in further tax costs caused by the intergenerational transmission of poverty. Add enough of this stuff up, and you hit over \$100 billion per year.

But the research by Ananat and Michael (2008) that they rely on actually shows that divorce helps the financial situation of almost as many women as it hurts, and among those who gain, the gains are larger than the losses among those who lose. This report counts up the costs to the taxpayer from the women who lose income, but refuses to count even a single dollar of the rise in taxes or the decrease in poverty linked to those who gained income. They also ignore the financial benefits of divorces that allow women to escape domestic violence.

If one wanted to do a taxpayer account of divorce in the US, the starting point is to consider the household taxation system used in the United States. Unlike most other industrialized countries, the US tax system is not marriage neutral. In other words, when two people marry in the US their tax bill is likely to change. For most couples, chances are that marriage will lead their tax bill to go down. While this is not true for everyone (in particular, it is not true for high earners who have similar earnings), the majority of couples face tax savings and this savings is particularly large when men (or, less frequently, women) marry someone who stays at home rather than working in the labor market. So what happens when people divorce? Their tax bill is likely to go up. That's right: divorce actually raises tax revenues. Moreover, research has shown that as family situations become less stable women increase their labor force participation (Johnson and Skinner,

1986) and when public policy shifted divorce law to allow unilateral divorce women's labor force participation increased (Stevenson, 2008). As women put more hours in at work their taxable income goes up and they therefore pay more income tax. Why few people would advocate increasing marital instability in order to increase tax revenue, this is a factor that needs to be added in if one wants to come to the total tax consequences of divorce.

Marriage provides households with economies of scale and income sharing that may keep some people out of poverty. Research has been concerned for a number of years with understanding the financial consequences of divorce for women. However, a key problem with research linking divorce and income is that we cannot tell whether divorce causes lower income, or whether lower income (or its correlates) cause divorce. The same concern has made it difficult to know whether children born into single-headed households or who experience a parental divorce have different outcomes because of these family relationships or because of the factors that created these family relationships in the first place.

To understand the tax consequences of divorce we need to assess how much of the various outcomes associated with divorce are causal. This observation has led economists to analyze a set of divorces that are somewhat random. Kelly Bedard and Olivier Deschenes (2005) noted that people have a greater tendency to divorce if their first-born was a girl. Reasoning that the gender of the child is random, they explore the consequences of this higher divorce risk on income and came to a rather striking conclusion: divorce may not be a financial harm to women. They find, on average, that divorce actually led women to live in households with greater income per person. Further research by Ananat and Michaels agrees with this finding, but they then slice and dice this surprising finding, concluding that divorce may raise incomes on average, but it leads some women to lower incomes, and some to higher incomes. Those who gain tend to be in a (slight) minority, but they tend to gain more, which explains the rise in average income. The "Taxpayer Costs" study, only analyzes the fiscal consequences of half of these - those whose incomes decline.

No one would deny that there are personal and financial costs of divorce, both to individuals and to taxpayers. But to know the true consequences of divorce for taxpayers, we need to account for the gains among those who move to a better financial situation. Many of these women, and their children, are made better off because they move back in with their parents who are financially better off. Others remarry into a better family situation. Indeed, the majority of divorced women have remarried within 5 years of divorce. The only exception to this occurs among college-educated women who tend to be both better off financially and slightly less likely to remarry following a divorce (Isen and Stevenson, 2008). These improvements in many women's situations lead to reductions in poverty and perhaps even reductions in criminal behavior by their children, both of which reduce their likely impacts on government expenditures.

Research by Mark Hoekstra (2008) found that children who were in families considering divorce, but not actually divorcing, had school and discipline outcomes that were just as bad as kids in households who did divorce. His research reminds us that many of the

problems that children from divorced households face stem from their overall family situation and preventing that family from divorcing may have little impact on the likelihood that the child continues into adulthood to face poverty or to engage in crime. Since divorce may prevent some of these marriages from creating children who end up as criminals or in poverty, the tax consequences of divorce would need to take into account the costs of encourage unstable couples to raise more children together. Perhaps one of the benefits of policies making it easier to divorce is the fall in the number of children involved in each divorce. Because more divorces now occur before there are children, the average number of children involved in each divorce has fallen dramatically since 1968 (Stevenson and Wolfers, 2007).

Domestic violence often plays a large role in divorce and divorce law can play an important role in reducing violence. Our research (Stevenson and Wolfers, 2006) has shown that making divorce easier through the implementation of unilateral divorce laws led to large declines in female suicide and domestic violence. In states that introduced unilateral divorce we found a 8-16 percent decline in female suicide, roughly a 30 percent decline in domestic violence for both men and women, and a 10 percent decline in females murdered by their partners. These declines did not simply come because all couples in violent relationships split up, but rather, the legal availability of divorce plays an important role in setting up the parameters that govern how couples bargain. With easier access to divorce, couples are better behaved and violence falls across the board. In some cases divorce does allow people to end relationships that contain violence. In both cases, the decrease in violence and its attendant consequences must be taken into account when tallying up the taxpayer consequences of divorce.

In sum, the recent report of a large taxpayer cost of divorce is reminiscent of telling your spouse that you saved \$200 during a shopping spree, while neglecting to mention the \$1500 you had to spend to get that savings. To know the true social consequences of divorce you have to tally up both sides of the ledger and consider all aspects-including the positive aspects-of divorce.

Finally, it is worth noting that even once we have come up with the total tax costs or tax savings stemming from divorce we cannot directly apply these to public marriage initiatives to assess their value to society. Just like we need to know both the costs and the benefits of divorce, we need to assess both the costs and the benefits of the program under question. If a policy promoting healthy marriages has little impact on family behavior then we might be better off spending our resources elsewhere.

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