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Beyond the Bottom Line: Relationship Reasons to Practice Thrift

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"Annual income twenty pounds, annual expenditure nineteen nineteen six, result happiness. Annual income twenty pounds, annual expenditure twenty pounds ought and six, result misery." Dickens, 1911 p. 208).

Speaking through the bankrupt debtor Mr. Micawber, Charles Dickens laid out a case against debt. He suggested that spending 4 pence less than one's yearly income results in happiness whereas spending six pence more than one's yearly income results in unhappiness. The difference between these two sums is a mere 10 pence. Dickens was not merely making a financial case for thrift, however, as the rest of David Copperfield's interactions with Mr. Micawber shows. Rather, he made Mr. Micawber a case study for the emotional, relational, and societal costs of debt. Over 100 years have passed since the publication of *David Copperfield*, yet Dickens's main point – that debt exacts a toll beyond its financial cost – is still as valid today as it was then.

Although financial educators and counselors rightly inform their clients of the financial benefits of sound financial management, peer-reviewed empirical research has begun to show that relationship benefits of sound financial management also exist. Examining these findings may help broaden the importance of helping families obtain financial security. That is, I think it would be helpful to this panel to explore the relationship reasons to practice thrift. To this end, I review research that has examined the association between debt, assets, financial management and marriage quality. I also present a new analysis linking financial assets and consumer debt to divorce.

Consumer Debt, Assets, and Relationship Quality

Consumer Debt

The recession brought consumer credit to the forefront of the public and political debate. In 2009, Congress passed, and President Obama signed, the Credit Card Accountability, Responsibility, and Disclosure Act act to make the practices associated with credit cards more consumer oriented. Consumer debt – including credit card debt and installment loans – generally has higher interest rates and higher fees than other debt types. Until the credit card act took effect, credit card debt also had practices that made it more difficult for consumers to pay down or pay off their balance and maintain a low interest rate.

Interestingly, studies examining the association between consumer debt and relationship quality have only existed since the early 1990s (Conger et al., 1993). Most of these studies have found that consumer debt is indirectly associated with marital conflict and distress. The family stress model of economic pressure and marital distress specifies pathways through which financial difficulties negatively influence marriage (Conger & Elder, 1994, see Figure 1). In the family stress model, financial difficulties lead to feelings of economic pressure (Conger & Elder, 1994; Conger et al., 1990). These feelings of economic pressure then increase negative emotions in marriage including hostility and depression. As negative affective states increase, they lead to increased marital conflict and distress (Conger & Elder, 1994; Gudmunson, Beutler, Israelsen, McCoy, & Hill, 2007). High levels of consumer debt have been shown to be associated with higher levels of economic pressure within the family stress model (Conger, et al., 1993; Dew, 2007).

Other studies have linked consumer debt directly to marital conflict. For example, even after accounting for the family stress model, consumer debt directly predicted increases in marital conflict over time (Dew, 2007). This study is noteworthy because financial conflict was not considered. Rather only conflict about other common marital problems like spending time together and the division of housework was analyzed. Thus, consumer debt seems to be related to generalized marital conflict or to the conflict that goes beyond fighting about money.

Some studies have also focused on consumer debt at different points in the life course. For example, studies have shown that newlyweds and young people are more susceptible to the financial stress brought about by consumer debt (Dew, 2008; Drentea, 2000). Recently married couples' martial satisfaction changed as their consumer debt levels changed (Dew, 2008). Those couples who paid off their debt experienced increases in their marital satisfaction or only slight satisfaction declines whereas those who assumed debt experienced relatively large marital satisfaction declines. By way of contrast, consumer debt was not linked to economic pressure among most retirement-aged couples (Dew & Yorgason, 2010). Taken together, these findings indicate that the association between consumer debt and marital quality might be more salient at certain ages or stages of the life course.

Financial Assets

Financial assets are interesting because they not only have obvious financial benefits, but they may also have emotional and psychological benefits as well. Some scholars have asserted that financial assets are linked to an increased future orientation, appropriate risk taking, enhanced personal efficacy, and greater social participation (Sherraden, 1991; Yadama & Sherraden, 1996).

Within the family stress model, financial assets have been shown to be indirectly related to marital distress by lowering feelings of economic pressure (Conger, et al., 1993; Dew, 2007). Unlike consumer debt, though, they are not directly related to marital conflict. Further, although consumer debt was unrelated to retirement-aged couples' marital quality, financial assets were negatively associated with marital distress among these couples (Dew & Yorgason, 2010). Thus, financial assets seem to play an indirect role in alleviating marital distress resulting from financial difficulties.

Financial Management and Relationship Quality

The association between financial management behavior and relationship quality might be the most interesting topic to this conference. Financial management behaviors are distinct from consumer debt and financial assets in that debt and assets are the products of financial management. Further, financial management behaviors include not only savings and credit behaviors, but also consumption, taxation, and insurance behaviors. Unfortunately, few studies have examined how financial management behaviors relate to marital quality.

The studies that do exist have findings that are similar to the studies on debt and assets. For example, couples that were in financial counseling reported levels of marital difficulties that were comparable to couples in marital counseling (Aniol & Snyder, 1997). Further, in a regional sample, couples who reported that they managed money well reported higher levels of marital satisfaction than those who did not (Kerkmann, Lee, Lown, & Allgood, 2000). A qualitative study of couples with highly satisfactory marriages found that they lived within their means and managed their money in positive ways (Skogrand, Johnson, Horrocks, & Defrain, 2010). Finally, using data from the recession, I found that couples who reported positive financial management behaviors had no change in their relationship satisfaction regardless of how badly the recession impacted them financially (Dew & Xiao, 2010). For couples who reported negative financial management behaviors, however, the more they were hurt by the recession, the more their relationship satisfaction declined. Interestingly, sound financial management behaviors predicted stable relationship quality even after accounting for couples' levels of assets, consumer debt, and income (Dew & Xiao, 2010).

Sometimes poor financial management may bring about lower marital happiness because one partner is mismanaging the money. In a study of Midwestern married couples, participants who felt that their partners spent too much money without consulting them reported lower relationship satisfaction than participants who were not in this situation (Britt, Grable, Nelson-Goff, & White, 2008). Interestingly, however, when the participants felt that they both spent too much, their relationship satisfaction was unaffected.

Financial Issues and Divorce

Very few studies have examined whether financial issues such as consumer debt or financial assets are linked to divorce. One study has suggested that neither consumer debt nor financial assets are associated with divorce (Sanchez & Gager, 2000). Moreover, some scholars have asserted that financial issues do not predict divorce without actually testing the proposition (Andersen, 2005; Dean, et al., 2007). However, one study found that feeling that one's spouse spends money foolishly was the third strongest predictor of divorce – behind only infidelity and alcohol/drug abuse (Amato & Rogers, 1997). Further, another study showed that financial assets decrease wives' likelihood of divorce (Dew, 2009).

For the purposes of this conference I decided to assess the question of whether consumer debt, assets, and income were associated with divorce. An analysis that I conducted for this conference, showed that assets and consumer debt – but not income – were related to divorce. I used a nationally representative longitudinal data set (the National Survey of Families and Households) that measured couples' consumer debt, asset, and income levels at the first wave. As the study followed couples over time, some of them divorced. I tested whether consumer debt, assets, and income were associated with their likelihoods of divorce using an event history analysis. I also tested whether increased reports of conflict, increased reports of conflict intensity, increased reports of unfairness in the marriage, and decreased reports of marital satisfaction explained the association between consumer debt, assets, income and divorce.

Every ten-fold increase in consumer debt was associated with an 8% increase in the likelihood of divorce for husbands and a 7% increase for wives (see Tables 1a and 1b). For husbands, many different issues explained the association between consumer debt and an increased likelihood of divorce. Consumer debt was associated with husbands reporting an increased level of conflict, an increased level of intensity during conflict, increased levels of financial unfairness in the marriage, and decreased levels of marital happiness (Table 1a). Together these issues completely mediated the association between consumer debt and divorce for husbands. That is, as consumer debt increased these marital problems for husbands, their likelihood of divorce also increased. For wives, consumer debt was only linked to reports of decreased levels of marital satisfaction. Despite this, marital satisfaction completely mediated the association between consumer debt and divorce (Table 1b).

Assets were also related to divorce, but they were associated with a decline in the likelihood of divorce rather than an increase. Interestingly, none of the proposed mechanisms explained the relationship between assets and divorce for husbands. Since I am using couple data, this suggests that assets worked through wives' characteristics. For wives, financial assets were associated with a decrease in reports of financial unfairness in the marriage and an increase their reports of marital happiness. These two variables fully explained the association between assets and divorce for wives.

Income was not associated with divorce in this sample – at least not after including consumer debt and assets in model. This is striking given the fact that divorce trends have split across income lines. That is, over the past two decades, divorce rates have become lower among middle- and upper-income families than among low-income couples. This finding supports the idea often found in popular self-help books that income is not the problem for families but rather it is what families do with their income that makes the difference (Poduska, 1995).

These findings need to be peer-reviewed and replicated with newer data (the second wave of the NSFH took place between 1992 and 1994). However, these findings do suggest that assets and consumer debt change the likelihood of divorce by changing the dynamics within marriage. For husbands, consumer debt seems to influence many issues but for wives, consumer debt seems to simply decrease their overall levels of happiness with the marriage. Assets seem to be related to divorce through wives' characteristics rather than husbands' characteristics.

Conclusion

The accumulating weight of evidence in this emerging field is slowly becoming clear. Financial behaviors that fifty years ago might have been characterized as "thrifty" or "wasteful" have implications for married couples that go beyond their financial bottom lines. These behaviors and the financial distress or well being that they create influence couples' relationship processes, their relationship happiness, and ultimately their relationship stability. When couples use sound financial management behaviors, when they accumulate assets, and when they pay down their debt they report that their relationships are happier, have less conflict, and they are ultimately less likely to divorce. Consequently, in addition to the obvious financial reasons to practice thrift, married couples also have relationship reasons to do so.

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Tables 1a and 1b
The association between consumer debt, assets, income and the likelihood of divorce

1a. Husbands

	Change in Likelihood of Divorce	What explains the relationship?
Consumer Debt	+ 8 %	Increased reports of conflict, conflict intensity, and unfairness. Decreased reports of marital satisfaction.
Assets	– 9%	None of the hypothesized mechanisms.
Income	No Change	Nothing to explain

1b. Wives

	Change in Likelihood of Divorce	What explains the relationship?
Consumer Debt	+ 7 %	Decreased reports of marital satisfaction.
Assets	– 7 %	Decreased reports of marital unfairness Increased reports of marital happiness.
Income	No Change	Nothing to Explain

Note. Husbands' and wives' models were run separately. Proportional hazards models were used for these analyses. All models controlled participants' age, education, race, number of marriages. All models were adjust for the left truncation of the data using participants' marital duration. Consumer debt and assets and the explanatory mediator variables were significant at the $p < .05$ level or better. Post-hoc Sobel tests showed that the significant mediator variables were plausible at the $p < .05$ level or better.

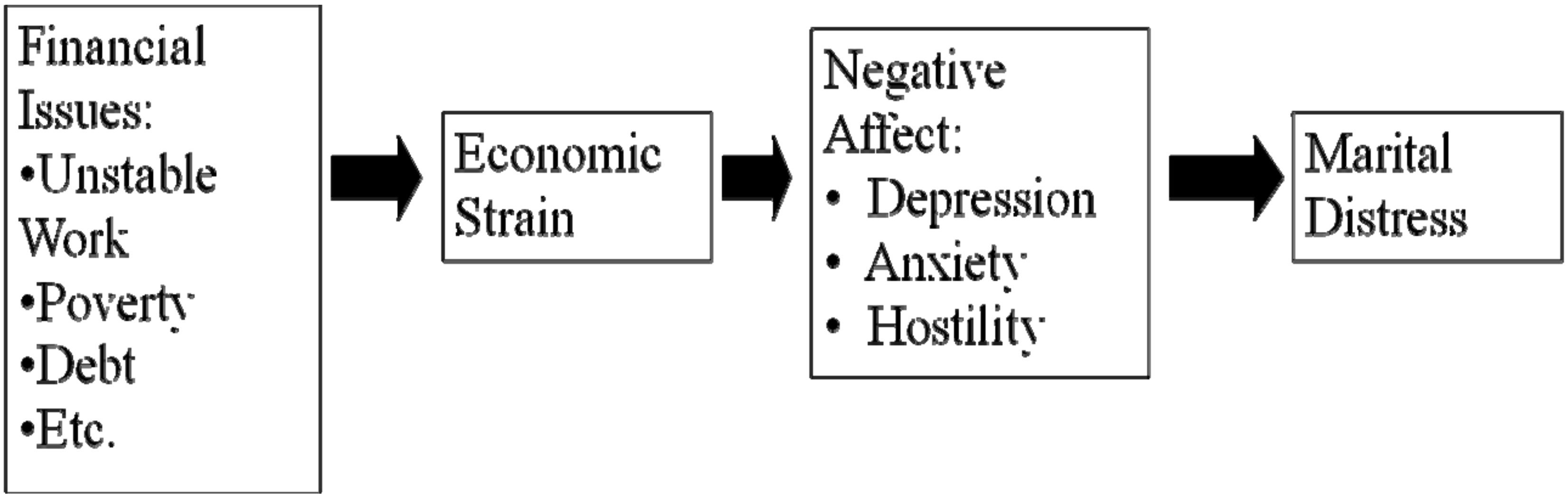

Figure 1 The family stress model of economic pressure and marital distress. (Adapted from Conger & Elder, 1994)