FINANCIAL ARRANGEMENTS WITHIN FAMILIES

EMPIRICAL RESULTS AND TAX IMPLICATIONS

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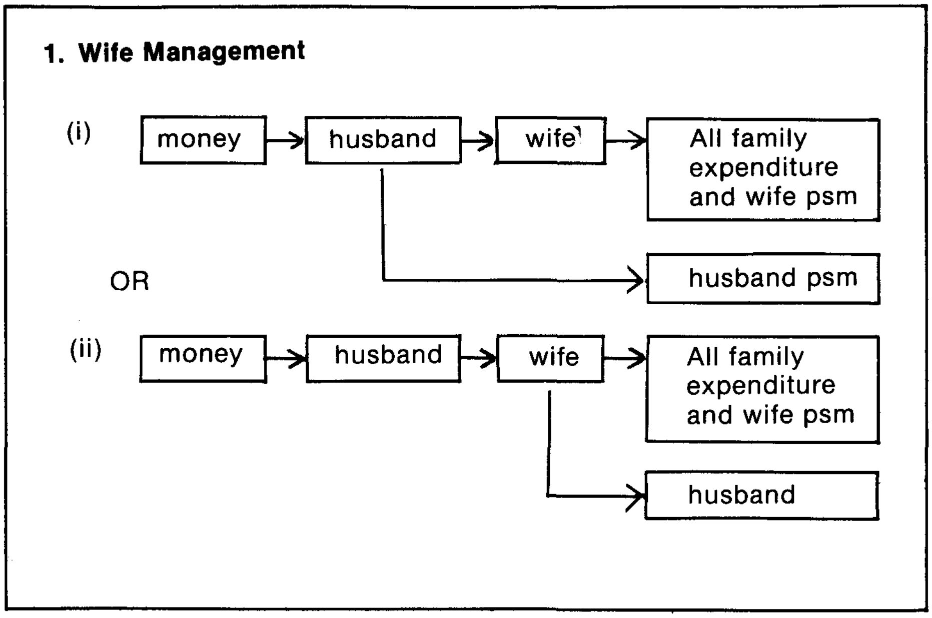
Last year, on behalf of the National Women's Advisory Council, I undertook an exploratory survey to obtain information on the ways in which married couples arrange their financial affairs. Much of social policy is based on the assumption that husband and wife pool their income and that the welfare of an individual family member can be determined by reference to total family income irrespective of its source. This assumption is convenient to policy makers and social analysts which is a probable reason for its perpetuation. But this does not justify its continued use in the absence of supporting evidence. The survey was motivated by a concern that social policy decisions, which at present are made on largely intuitive grounds, should, rather, be based on facts about the extent to which families pooled income and shared in its benefits.

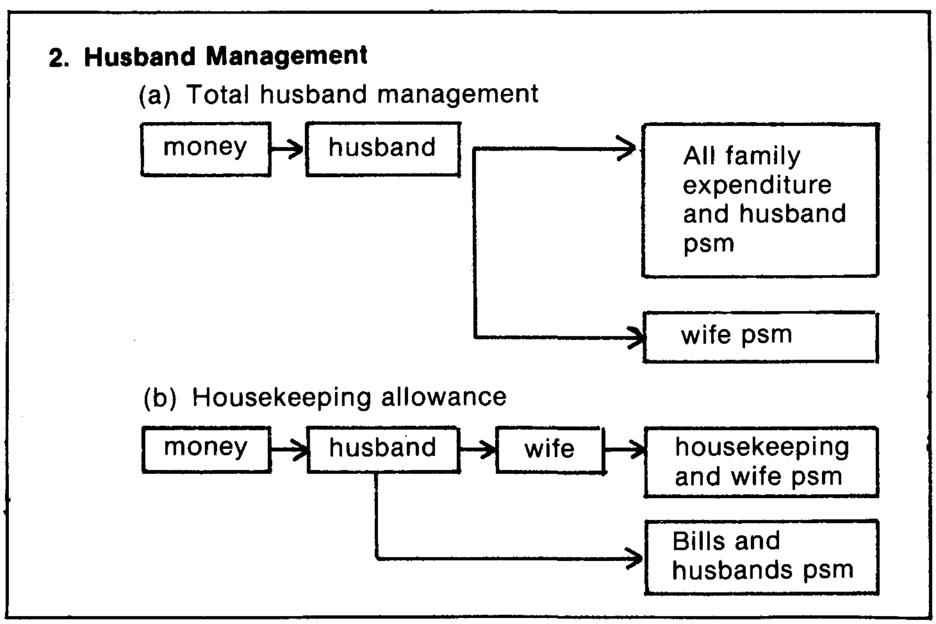
The survey was small and exploratory. Fifty couples were interviewed simultaneously but separately. The couples were stratified into three groups: twenty one-income couples, twenty couples in which there were two income-earners but in which the wife earned more than thirty per cent of family income and ten couples in which the wife earned less than thirty per cent of family income. Families were selected to give about equal numbers of high and low income earners. Only couples with dependent children under the age of sixteen were interviewed.

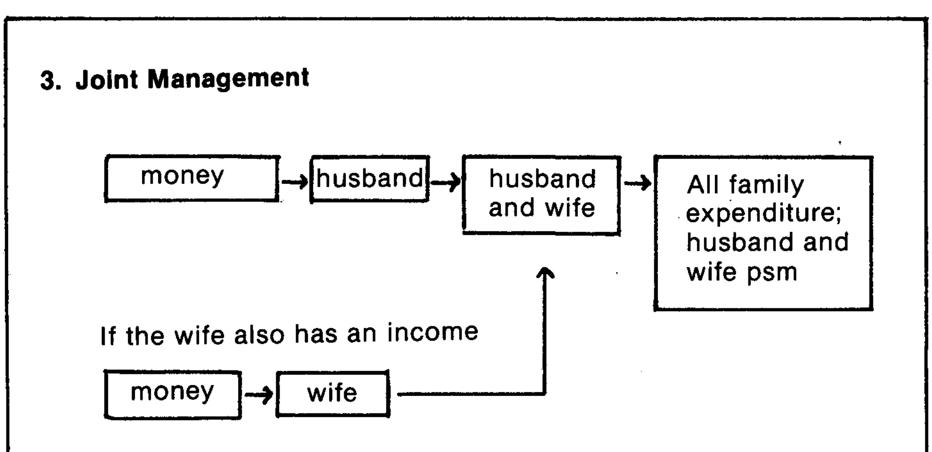
Respondents were asked a wide range of questions, in particular about their housekeeping expenditure, their personal spending money, their use of and attitude to credit, the use and importance of family allowances and, more generally, their attitudes to their financial arrangements.

Not all of the main findings of the survey will I discuss in this paper. Details are provided in a report on the survey to be published shortly by the National Women's Advisory Council. I shall deal only with the findings of greatest relevance to the taxing of women and present them as generalities.

Overall we found great diversity in the financial arrangements of the fifty couples. We found a pattern in types of financial management which related to income level. In lower income families, particularly where the wife did not earn, the wife was more likely to manage the finances. If the wife did earn, either she managed the finances herself or she and her husband did so jointly. At higher income levels, if the wife did not have paid employment, the husband was likely either to manage the finances totally or to give his wife a housekeeping allowance (see diagrams). At higher income levels, if the wife did earn, either a joint management system or an independent management system was likely; the latter form of financial management was more likely if the wife made a significant contribution to family income.







The study made an important distinction between the extent to which husband and wife participated in the management of family finances — who made actual payments — and the extent to which husband and wife participated in financial decision-making. The report includes a Section on the factors taken into account in determining where overall control of finances lay. One factor of importance was the amount of money husbands and wives spent on themselves and how they felt about that expenditure. Women who managed family finances and women who managed their own incomes were likely to have more say in how total family income was spent than were women who played a smaller part in the management of finances. However, it is important to note that even of the women who managed the family's finances, only three had a dominant role in financial decision-making and all three had taken over control of the finances because of debt problems. In fact in many cases, even women who managed the family finances or managed their own incomes had husbands who were in overall control of family finances.

Women who earned their own incomes were likely to have more say in the spending of total family income than were women who did not earn, so that when women were in paid employment some of the husband's control was reduced. However, nearly all husbands either had a joint say in financial decisions or overall control of finances, even if their wives had paid employment.

Women who neither managed the finances nor earned an income were much less likely than women who did earn to have a joint say with their husbands in financial matters. Many of the women in this category were also less well educated than their husbands, had young children, felt guilty spending on themselves and were bothered by not having their own income. The income level of the couple and whether or not the wife had paid employment then, were two factors which appeared to be important in affecting the financial arrangements of couples.

The benefit of income to individual family members varied according to the type of financial arrangements the couple adopted as well as the amount of personal spending money each partner had.

In lower income families, wife management of finances was common but so too was the custom of setting aside a certain amount each payday for the husband's personal spending money. Women frequently regarded their husbands' personal spending money as an item to be set aside, like money for urgent bills, before the amount available for the housekeeping was determined.

At *higher income levels*, many wives without their own income exercised restraint in spending on themselves from what they regarded as their husband's income. This was so even when wives had access to a joint bank account and when their husbands showed no objection to a higher spending pattern. But it was the women whose husbands managed the finances who were most likely to have much less personal spending money than their husbands, hence could be judged to receive an *inadequate transfer of income from their husbands*.

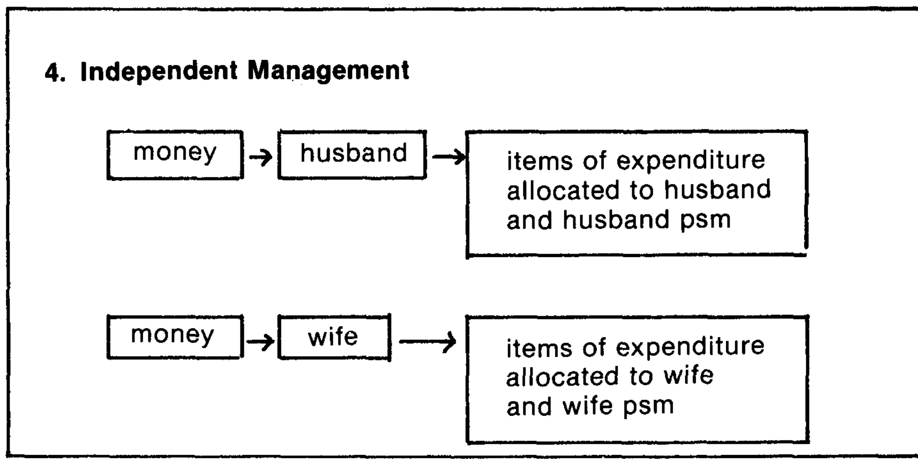
In all but one case, the husband's *personal spending money* (excluding petrol and lunches) exceeded that of the wife. It was common for women to identify the money they managed on behalf of the family as their income in their role as managers of family finances. Their own personal spending money was what was left over. In lower income families women spent on themselves only if they were desperate. Family allowances, the only independent source for twenty of the women surveyed, were most commonly used for children's clothing.

The findings indicate clearly that for the families surveyed the source of income and to whom that income was paid were important factors in determining expenditure patterns.

With that brief overview of some of the survey findings, what are some possible tax implications? It must be remembered that the survey was small. We can only generalise from the results insofar as they are consistent with theoretical expectations and with findings of other empirical work. Further, it needs to be pointed out that any tax changes may lead to behavioural changes — for example, in how husbands and wives arrange their finances or their labour force participation.

Let us deal first with *indirect taxation* and discuss the possible effects on family members of higher levels of indirect taxation before we discuss the possible effects of a cut in personal income taxes.

An increase in existing indirect taxes, or, an extension of the base of indirect taxation would, in two types of situations we found, affect husbands and wives



psm = personal spending money

differently: in families in which the husband expected a regular amount of personal spending money and in families in which the couple budgeted a certain amount for housekeeping.

Husband's personal spending money was most commonly used for beer, cigarettes, petrol and for forms of gambling. These are items the consumption of which is little affected by price changes. Following increased price with taxation of such goods, a higher proportion of family income could be expected to be used for husband's personal spending.

As British evidence would suggest, it was not unusual in the low income families surveyed for expenditure on even essential food and clothing to depend on what was left over out of the pay packet after urgent bills and after husband's personal spending money had been set aside. Increases in indirect taxes would adversely affect many of the women and children in our sample, some of whom were already at a low standard of living, by reducing what would be left over after husband's personal spending money had been set aside.

An extension of the indirect tax base to items of food, clothing etc would reduce the buying power of money for housekeeping. Our finding was that the *amount which husbands handed over* for housekeeping or which a couple budgeted for housekeeping did not rise automatically with increased prices or increased incomes.

In the short term many bills are difficult to avoid. This fact combined with the relatively fixed value (in real terms) of husband's personal spending money, means that a reduction in the real value of the allowance for housekeeping with increased indirect taxes could only be offset by a reduction in savings (the majority of our families were paying off mortgages and not saving) or by *an increase in disposable income*. The effect of inflation on the real value of the housekeeping budget to a large extent probably accounts for the fact that several families relied on the wife's earnings to supplement the housekeeping budget.

How would the surveyed families be affected by personal income tax cuts?

For families in which the wife managed all income except husband's personal spending money — i.e., commonly low income families — a tax cut for the husband is likely to mean that more money would be passed on to the wife, out of which she would meet bills, other household expenses and obtain personal spending money. A different picture emerges in households in which the wife received a set housekeeping allowance (higher income families) or whose husband managed the finances. Our findings give no guarantee that the amount of money for housekeeping or the amount of money for the personal spending by wives would rise automatically with an increase in husband's take-home pay.

What if existing indirect taxes or the *introduction of new ones* were combined with cuts in personal income taxes?

In families in which the wife managed the finances, taxation of personal items purchased by the husband would be financed by the reduction in direct taxes. So long as the real disposable income of the couple remained the same, the distribution of this real disposable income between husband and wife would also remain the same. But, in families in which the wife did not manage the finances, a relatively fixed housekeeping budget would buy less following an extension of indirect taxes and there would be no guarantee that the tax cut would reflect itself in a larger housekeeping budget. That is, there could well be some redistribution of *income within the family in favour of the* husband.

In the United Kingdom context, Jan Pahl writes:

> . . . in the second half of 1979 the British Government adopted a policy of reducing taxation and increasing indirect taxation: this policy assumed that the change would be reflected in an equivalent flow of resources *within* households, a flow from those who now received more as a result of tax cuts to those who were obliged to pay the higher prices in shops.
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> (Pahl, J. "Patterns of Money Management Within Marriage". *Journal of Social Policy,* July 1980)

What difference might it make if instead of increasing the take-home pay of husbands (and of wives) by a cut in taxes, family allowances were increased?

We found family allowances of importance in two main circumstances. For women in low income families who managed family finances, family allowances were important because they helped to meet family expenditures. Women in these cases could be expected to see little difference between a tax cut for their husbands, the benefit of which they would have anyway as managers of family finances, and an increase in family allowances.

For women without paid employment and whose husbands were on higher incomes and/or for women who had little say in the management and control of family finances, family allowances were important because they provided a sum of money the wife could use as she liked without having to ask her husband for some of what many women regarded as 'his' income. Women's attitudes to spending what they regarded as their income were quite different. Although mostly family allowances were used on the children, women with least say in family finances did use family allowances for their own personal spending money. In some families, family allowances did, at least in a small way, cater for an otherwise inadequate distribution of family income.

Our limited empirical data point to the need for re-examination of tax policies which are based on the assumption of the pooling of incomes by husband and wife and the equal sharing in the benefits of that income. Australia's dependent spouse rebate seems to rest on the assumption that there is adequate distribution of income from taxpayer to spouse and for which the taxpayer is being partially compensated.

The question of the appropriate income unit for tax policy is intricately bound up with the extent to which pooling of income occurs in households, particularly in two-income households. Proponents of income splitting who argue that married couple units with the same total income should pay the same tax regardless of the distribution of income between them need also to argue that husband and wife usually share their total income equally. Our *evidence does not support that position.*

A further tax implication which emerged from the survey is that it may be to the financial interest of children for wives to seek employment rather than husbands to increase family income by working overtime. For some families, the standard of living of children would have been increased more by the mother taking a job than the father earning the same increase in disposable income in overtime. Particularly could this be expected *in families in which overtime* earnings were regarded as part of the husband's personal spending money. There is some British evidence that they are so regarded.

The evidence on the lack of sharing of the benefits of family income in some families could lead to consideration of some form of direct payment to women who would not otherwise have an income of their own; it could lead to consideration of direct cash assistance *to all mothers irrespective of their labour* force status — in the form of family allowances; it could in the longer term lead to consideration of unemployment benefits for women in their own right. But the direction of policy would depend on the desired outcome with respect to women's participation in the wider community. One of the conclusions of the study was that a woman's status outside the home had an impact on her financial arrangements within the home. *The relationship between the market* place and the domestic economy and its effects on women deserves closer examination by researchers.