

## **Risk and Gain Sharing in Marriage: What Can We Learn From Happiness Research?**

There is much talk in our society today about the importance of marriage as an institution. Why do people choose to get married? What kinds of benefit can marriage offer us as individuals? With the growing popularity of cohabitation as a form of partnership, and not to mention the rapid increase in the number of divorces over the past few decades, it does make one wonder about the whole point of saying the word "*I do*".

But not all hope is lost for the newly wed reading this article. Social scientists have spent decades arguing that there is something special about signing that piece of paper and walking down the aisle. According to sociologists, marital institutions help to regulate sexual relations and encourage commitment between spouses. And it is this commitment that has positive effects on spouses' health over the course of their life. It is also reflected in the medical literature's finding of lower mortality rates among married individuals across different countries, cultures, social and economic groups<sup>1</sup>. According to evolutionary scientists, the fundamental reason for marriage is the creation of one's own children. The idea is that parents would much rather rear their own children than rear those of others, and given that much of child-rearing is most conveniently done in the home of the rearer, it is helpful if a child's parents are married to each other.

Economists – that's people like me – prefer to think of marriage as a rather odd sort of a package deal, an exchange between two parties in which couples agree to share common resources such as income and housing, as well as a collection of productive activities that may include cooking, washing dishes, and cleaning. Seen from this standpoint, the motivation for marriage is, in part, the existence of economies of scale in household production and, in part, the advantage of the division of labour. For example, I may be better than my wife at fixing a roof, but she may be better than me at cooking. Being married and sharing the same household with someone therefore helps to reduce the transaction costs of having to, say, hire a carpenter to fix the roof every time it leaks, or a cook to conjure up a nice meal every time one of us is hungry. The division of labour in household production is also attractive to married individuals in the sense that, even though a carpenter may be better at fixing the roof than I am, it is my wife and I who will get wet if the roof leaks. This means that I have an incentive to do a good job even if nobody is watching me. And I have no incentive to waste my time and energy haggling with myself over the price of fixing my own roof. With practice, I will also get better at fixing the roof, whilst my wife will get better at cooking for us. Marriage thus encourages specialization within the family, which for some forms of household production can be beneficial for either one of the spouses in the labour market.

Another way of looking at the motivation for marriage is that marital institutions offer an opportunity for couples to share earning-risks. Given that marriage would allow me and my wife to consume out of common resources, and assuming that my wife loves and cares affectionately about my well-being, a drop in my labour income will effectively lead to a rise in the money transfer from my wife to me. This makes it easier for me to suddenly be earning less income than before. And if I too love and care about my wife, her well-being will also be one of the main factors determining

mine; I would also have done the same thing in order to make her pay-cut more tolerable. Seen from this angle, marriage is simply a particular kind of consumption insurance for both spouses.

But are these - the transfers of incomes and other material possessions between spouses - all that marriage can offer in terms of risk and gain sharing? If so, economists have made marriage sound more like a two-person firm than what it's supposed to be - a sacred institution, whereby two individuals agree to a long-term contract of sharing every aspect of their lives. Not just money. Not just housing. But it's for better or worse. In sickness and in health, 'till death do them part.

Thus, one question of interest is whether married couples also share the kind of gains and risks that are not directly transferable between spouses. For example, lets just say that Gillingham F.C. - the football team that I have been supporting for the past ten years - has just won the national cup for the first time in club history. I would be happy beyond my wildest dreams. But what if my wife doesn't even like football, let alone the team that I support? Will she be happier merely because I am happier about my team's good fortune at winning the cup? Basically, will she be happier *merely* because *I* am happy? This is an important question for any married couple, but also extremely tricky to answer.

The standard economic assumption is that if the things that matter to my personal happiness are not something I can easily share with or transfer to my wife, acquiring them should not have made any difference to her happiness at all. But we all know it in our hearts that that's not always the case. This is because we see it all the time in real life; a married person becomes happier whenever his or her spouse has just had a very good day at work, or the death of one of the spouse's relatives has the potential to cause as much grief for the other person through its effects on the spouse's psychological well-being. Seen from this standpoint, the happiness of one's spouse is simply a nonmarketable (in the sense that it cannot be purchased by the other spouse in the open market) but transferable good within the household.

### **The Economics of Happiness**

So how do we go about testing whether (and to what extent) the happiness of individuals bound by marriage are interdependent? This is where the new research in the economics of happiness comes in.

For about three decades now, economists have been made aware of what psychologists refer to as 'happiness data'. This particular kind of proxy well-being data, which has been studied intensively by psychologists, is collected from surveys that ask individuals to rate their own happiness or life satisfaction. For instance, the cross-country survey of the *World Value Survey* contains a self-completed, happiness question that asks, "*Taken all together, how happy would you say you are? 1.not at all happy, 2.not very happy, 3.quite happy, 4.very happy.*" While there are limitations to such statistics, economists have come round to the idea that, if the aim is to learn about what makes people tick, listening to what they say seems likely to be a natural first step to take. Studies carried out using this data, as well as several other happiness or life satisfaction data taken from other surveys, have shown remarkable correlations between happiness and micro- and macroeconomic conditions in the form

of income, unemployment, and inflation. Some of the main conclusions are that happiness rises with income, whereas unemployment and inflation nurture unhappiness<sup>ii</sup>.

The broad concept of happiness or life satisfaction, which is subject to however the individual chooses to define it, also allows researchers to investigate a wide range of socio-economic issues. For example, researchers have used these subjective well-being responses to investigate how much money is required to compensate an unemployed person in terms of his or her personal happiness; whether marriage makes people happier; and whether inequality in wealth and status is as important a source of dissatisfaction as we might think.

In our latest research on the risk and gain sharing in marriage, we studied responses to the life satisfaction question (“*How dissatisfied or satisfied are you with your life overall: from 1.not satisfied at all to 7.completely satisfied?*”) from 16,815 individuals presented in the *British Household Panel Survey* for the periods 1996-2000 and 2002. Of those, 9,704 people were married. We began our analysis by showing that the chosen measure of life satisfaction presents the same regularities found elsewhere; life satisfaction was U-shaped in age (minimising around the late-30’s); people with higher incomes were more satisfied with their life than those with lower incomes; the unemployed were very unhappy with the life that they lead; poor health – either physically or subjectively – lowered life satisfaction markedly; and married people reported significantly higher levels of life satisfaction than people who were single, cohabiting with a partner, separated, and divorced.

The preliminary results from the analysis of self-rated life satisfaction from the 9,704 married individuals showed that spouses tend to report a very similar level of life satisfaction score on average. All else (e.g. age, income, education, and employment status) being equal, this positive relationship of life satisfaction between spouses at the cross-section implied that happy people tend to marry an equally happy person. However, it still did not mean that the happiness of individuals bound by marriage are interdependent.

A further analysis on the sample was carried out longitudinally. Repeated observations on the same individual allowed us to study the changes in one’s self-rated life satisfaction and contrasting them with the changes in the self-rated life satisfaction of one’s spouse over time. In other words, the longitudinal nature of the data allowed us to test whether a married man is significantly more satisfied with his life when his wife becomes more satisfied with hers, and *vice versa*. In the first of our longitudinal results, we found the changes in the life satisfaction of one’s spouse were associated positively with the changes in one’s life satisfaction. There seemed to be some preliminary evidence of mental risk and gain sharing in marriage; a married man tended to be more satisfied with his life when his wife became more satisfied with hers, and *vice versa*.

While we were able to show that spouses tend to report similar changes in their life satisfaction, we were not able to say whether a married person was happier *merely* because his or her spouse was happier, or that a married person was happier because he or she has had some fair share of the same good fortune as his or her spouse. In order to disentangle some of these effects, we took a measure of each spouse’s

“innate” health traits – basically, it is each spouse’s evaluation of own health that is not related to events that affect both persons in the couple at the same time – to help with the estimation of the extent of mental risk and gain sharing in marriage. The assumption was that people with a poor view of their health were more likely to be less satisfied with their life, and that spouses could not share their innate health traits in the same way as they could share each other’s happiness. This way we were able to say that, holding other things equal, a husband became more satisfied with his life *merely* because his wife became more satisfied with hers, and *vice versa*.

After correcting for the identification problem in the reported life satisfaction between spouses, we continued to find strong evidence of happiness interdependence among married partners. The estimated effect of one’s spouse’s life satisfaction on one’s life satisfaction was also sizeable as well as statistically significant. Given the distribution of life satisfaction over the years, the results from the longitudinal analysis of self-rated life satisfaction among married couples implied that a 30% increase in the spouse’s life satisfaction score from the previous year could completely offset the negative impact of current unemployment on the respondent’s life satisfaction; it could offset the negative effect disability has on one’s life satisfaction; it was even large enough to compensate an average individual from having to spend around two months in a hospital last year.

Our results have shown that there is clearly an element of mental risk and gain sharing in marriage in the sense that a husband tends to become significantly happier with his life when his wife becomes happier with hers, and *vice versa*. We also carried out the same analysis of life satisfaction between partners on the 3,325 cohabiting individuals in the sample. However, we did not find the same robust evidence of mental risk and gain sharing among those couples that may prefer cohabitation to marriage. One possible explanation for the absence of happiness interdependence among partners in a cohabiting union comes from the recent findings in the U.S. that these individuals tend not to be as committed to each other as married couples. Consequently, they tend to care more about their own personal autonomy and less about the happiness of their partner<sup>iii</sup>.

We also looked at a similar question for Russia. Using the *Russia Longitudinal Monitoring Survey* data, we studied the reported life satisfaction of the 5,482 married individuals living in Russia over the period 1995-2001. Consistent with the UK results, the estimated longitudinal impact of one’s spouse’s life satisfaction on one’s life satisfaction continued to be positive and statistically significant. There is clearly some evidence of mental risk and gain sharing among the married individuals in Russia, as well as in the UK.

### **So What Have We Learnt?**

Economists have, over the years, built up a huge arsenal of behavioural predictions of individuals in marriage. One of the better-known behavioural models is based on the idea that married individuals share earning risks with each other in the household. Perhaps surprisingly, and likely resulting from economists’ apparent mistrust of what people say, as opposed to what they do, relatively little is known about the sharing of ‘happiness’ itself. However, with help from happiness research, we were able to

show that the happiness levels of individuals bound by marriage, as opposed to those who are merely cohabiting, are interdependent.

It is also important to remember that, while it may be beneficial for us to be able to receive a particular kind of transfer payment from our spouse every time we get a pay-cut, the event that leads up to the drop in our labour income, as well as personal consumption, is unlikely to take place everyday. However, when one considers the existence of loving and caring in marriage it may even be possible for a married person to be experiencing his or her spouse's changes in happiness levels whenever an interaction between spouses takes place, which could be *everyday* of their married life. This is partly due to the very broad concept of happiness – it is however the individual chooses to define it – and partly due to the fact that our spouse's happiness is not entirely unobservable to us – with enough love and care, I should be able to predict with some accuracy the happiness level of my wife, and *vice versa*.

In short the conclusion of this article can be summed up simply by the lyrics in one of Barry Manilow's songs - "...*I feel glad when you're glad. I feel sad when you're sad. And if you only knew what I'm going through, I just can't smile without you.*" But only if you are married, of course.

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<sup>i</sup> For a more detail description of the literature studying the relationship between marriage and mortality, see Gardner and Oswald (2004) "*How is Mortality Affected by Money, Marriage, and Stress?*", *Journal of Health Economics*, 23, 1181-1207.

<sup>ii</sup> For a comprehensive review on the findings of the economics of happiness research, see Frey and Stutzer (2002) "*Happiness and Economics: How the Economy and Institutions Affect Human Well-Being*", Princeton University Press, Princeton and Oxford.

<sup>iii</sup> See Popenoe and Whitehead (2002) "*Should We Live Together? What Young Adults Need to Know About Cohabitation Before Marriage: A Comprehensive Review of Recent Research. Second Edition*", *The National Marriage Project: Rutgers University*.