DIVORCE LAWS AND THE MARRIAGE EARNINGS PREMIUM

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Abstract: This study investigates whether the adoption of unilateral divorce laws affects the earnings of married men. The adoption of unilateral divorce can affect married men's wages through (a) a higher divorce probability and (b) changes in household specialization and other marriage-specific investments. We find that married men in states that adopt unilateral divorce laws earn approximately five percent less, on average, than married men in states that do not adopt unilateral divorce laws. The negative effect is statistically robust throughout the earnings distribution, but it is not uniform. In particular, married men at the lower end of the earnings distribution are the most adversely affected. Taken together, our findings indicate an important role for household specialization as a determinant of the marriage premium.

Key words: marriage premium, divorce laws, household specialization, marital investment

JEL Classifications: J53, J10

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Abstract: This study investigates whether the adoption of unilateral divorce laws affects the earnings of married men. The adoption of unilateral divorce can affect married men's wages through (a) a higher divorce probability and (b) changes in household specialization and other marriage-specific investments. We find that married men in states that adopt unilateral divorce laws earn approximately five percent less, on average, than married men in states that do not adopt unilateral divorce laws. The negative effect is statistically robust throughout the earnings distribution, but it is not uniform. In particular, married men at the lower end of the earnings distribution are the most adversely affected. Taken together, our findings indicate an important role for household specialization as a determinant of the marriage premium.

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1. Introduction

A large empirical literature finds that married men earn more, on average, than comparable single men. The majority of this literature attempts to determine the explanation for the observed marriage premium. A number of hypotheses have been put forward to explain the marriage premium, including discrimination in favor of married men, compensating wage differentials, and productivity differences. While each of these hypotheses has received some empirical support, the consensus from the literature is that married men are more productive than single men (Gray and Vanderhart 2000). However, the direction of causality remains unclear, as marriage could increase productivity or more productive men could be more likely to marry. The former is called the "specialization" hypothesis, while the latter is called the "selection" hypothesis. A number of studies find evidence consistent selection hypothesis (Cornwell and Rupert 1997, Dougherty 2005, Hersch and Stratton 2000, Loh 1996), while other studies find support for the specialization hypothesis (Antonovics and Town 2004, Chun and Lee 2001, Ginther and Zavodny 2001, Korenman and Neumark 1991).

We build on this literature by investigating the impact of unilateral divorce laws on the earnings of married men. Variation in the timing of unilateral divorce reforms across states provides a natural experiment framework for examining how an exogenous shock to household specialization and other marriage-specific investments affects the earnings of married men, as researchers have shown that married women participate in the labor force at greater rates (Stevenson 2008) and make fewer marital investments (Stevenson 2007) following unilateral divorce. If marriage has a causal impact through the gains from household specialization and other marital investments, the marriage premium should be lower in states that adopt unilateral divorce laws. We test this hypothesis by comparing the earnings of married men in states that

adopt unilateral divorce laws (treatment group) to the earnings of married men in states that do not adopt unilateral divorce laws (comparison group).

Investigating the impact of divorce law reforms on married men's earnings is potentially confounded by important selection effects. In particular, unilateral divorce has the potential to alter the composition of married couples by changing who marries and who divorces. We address these selection concerns by examining couples in their first two years of marriage, which follows the work of Stevenson (2007). Couples in their first two years of marriage are less likely to select out of marriage. However, unilateral divorce may have affected selection into marriage. As a result, our results should be interpreted as the "full effect" of the unilateral divorce reforms on married men's earnings.

While the marriage premium appears to be a robust empirical finding, the existing literature focuses on the mean effect of marriage on earnings (Antonovics and Town 2004, Chun and Lee 2001, Dougherty 2005, Ginther and Zavodny 2001, J. S. Gray 1997, Hersch and Stratton 2000, Loh 1996). However, the size and robustness of the marriage premium may vary throughout the earnings distribution. Likewise, the explanation(s) for the marriage premium may differ throughout the earnings distribution. For example, Gary Becker has argued that men with high earnings are more likely to gain from household specialization than men with lower earnings (See Daniel 2003). To investigate this, we examine whether the impact of unilateral divorce on married men's earnings is robust and uniform throughout the earnings distribution by using the quantile regression methodology developed by Koenker and Basset (1978).

We find that married men's earnings are, on average, approximately five percentage points lower in states that adopt unilateral divorce laws. The sign and statistical significance of this effect is robust to alternative specifications and the inclusion of additional control variables.

Additionally, the impact of unilateral divorce is negative and statistically significant throughout the earnings distribution. However, it is not uniform. In particular, the negative effects of unilateral divorce are largest for recently married men at the lower end of the earnings distribution and smallest for recently married men at the upper end of the earnings distribution. Taken together, our findings provide support for the specialization hypothesis, with married men at the lower end of the earnings benefiting more from household specialization and other marital investments than those at the upper end of the earnings distribution.

2. Background

The marriage premium has received a great deal of attention from economists. Although the explanations for the marriage-earnings premium differ, most studies have identified higher earnings for married men relative to comparable single men (Antonovics and Town 2004, Chun and Lee 2001, Dougherty 2005, Ginther and Zavodny 2001, J. S. Gray 1997, Hersch and Stratton 2000, Loh 1996). There are four primary hypotheses put forward to explain the marriage-earnings premium, including (a) marriage causes higher earnings via the gains from household specialization, (b) unobservable characteristics that make men more productive are also valued in the marriage market, (c) compensating wage differentials, and (d) discrimination in favor of married men. Hypotheses (a) and (b) are considered the most likely, as researchers question whether compensating wage differentials and discrimination can explain the marriage-earnings premium for men (Daniel 1995, Gray and Vanderhart 2000).[1]

[1] It is difficult, perhaps impossible, to test for discrimination in favor of married men using survey data. While discrimination may explain a portion of the marriage premium in the past, it is unlikely to account for the observed marriage premium over the course of marriage due to four observed factors: (*i*) the marriage premium increases the longer a man has been married, (*ii*) the size of the premium is affected by the wife's characteristics and behavior, (*iii*) the premium declines as the divorce risk increases, and (*iv*) cohabitating single men also earn a premium. Similarly, the marriage premium does not appear to result from compensating wage differentials, i.e. the selection of

Empirical work on the marriage premium has used a variety of strategies to investigate whether the premium reflects the gains for household specialization or selection into marriage, including fixed effects models (Cornwell and Rupert 1997, Hersch and Stratton 2000, Korenman and Neumark 1991, Loh 1996), examining monozygotic twins (Antonovics and Town 2004), comparing shotgun and nonshotgun weddings (Ginther and Zavodny 2001), and instrumental variables (Maasoumi, Millimet and Sarkar 2009).

The literature using fixed effects models has produced mixed results, with Korenman and Nuemark (1991) finding support for the specialization hypothesis and other studies finding support for the selection hypothesis (Cornwell and Rupert 1997, Hersch and Stratton 2000, Loh 1996). Studies using fixed effects estimation may be biased (a) if earning shocks in the past make marriage more/less likely or (b) if unobserved productivity varies over time. For example, it could be that single men who experience positive income shocks may be more likely to marry. In fact, recent work by Dougherty (2005) contends that much of the marriage premium can be explained by a maturation process, which is tested by converting the traditional marriage dummy variable into a set of dummy variables for the years before marriage, the year of marriage, and the years after marriage. Dougherty (2005) finds that to-be married men begin earning more than their ever-single counterparts in the years before marriage, with the marriage premium continuing to grow for a few years after marriage takes place. These findings cast doubt on the specialization hypothesis.

Ginther and Zavodny (2001), in an attempt to account for selection bias, compare marriages that were preceded by an out-of-wedlock birth to marriages not preceded by an out-of-wedlock birth. Such an identification strategy assumes that marriages occurring after an out-of-wedlock

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married men into jobs with higher pay but lower non-pecuniary benefits (Duncan and Holmlund 1983, Hersch 1991).

birth are random events, allowing them to account for the bias. Antonovics and Town (2004) compare the earnings of monozygotic twins, one of which is married while the other is single, to investigate whether selection and specialization hypotheses. Within-twin comparisons allows researchers to account for time invariant unobserved genetic and family differences that may influence both the marriage decision and earnings. Both of these studies find strong support for the specialization hypothesis.

Given the mixed results in the literature, the explanation for the marriage premium remains uncertain. We add to this debate by making use of the quasi-experimental setting provided by unilateral divorce reforms to examine the specialization hypothesis.[2] The adoption of unilateral divorce laws can affect married men's earnings through two primary channels: (*i*) changes in household specialization and other marriage-specific investments and (*ii*) an increase in the divorce rate.

Stevenson (2007) finds that the adoption of unilateral divorce laws reduced investment in marriage-specific capital, which includes measures of household specialization. Specifically, she shows that couples in adopting states are eight percent more likely to have both spouses working full-time, five percent more likely to have a wife in the labor force, six percent less likely to have a child, and 10 percent less likely to have a wife supporting a spouse through school. In addition, a number of other studies show that unilateral divorce increased the labor force participation rates of all women, including those who are married (e.g., see Stevenson 2008).[3] If the marriage premium is due to an increase in married men's productivity because their wives are making

[2] Unilateral divorce allows either spouse to file for divorce without consent or proof of marital wrongdoing. See Jacob (1988) for a thorough discussion of divorce law reforms in the United States.

[3] Gray (1998) finds that the effect of unilateral divorce laws on married women's labor force participation is dependent on the underlying property division laws in place across states. However, Stevenson (2008) shows that Gray's results are misleading because of problems with model misspecification.

marriage-specific investments, we should observe a decline in married men's earnings in states that enact unilateral divorce laws.

A large literature investigates the impact divorce law reforms on the divorce rate (Friedberg 1998, Matouschek and Rasul 2008, Wolfers 2006). While the results of these studies are mixed, a reconciliation of the results from this literature suggests that unilateral divorce lowers the expected duration of marriage (Rasul 2006), even though it had only a modest, temporary, positive impact on the divorce rate (Wolfers 2006). Even if unilateral divorce does not increase the divorce rate, such reforms can still have an impact on intrahousehold resource allocation through changes in bargaining power within households (Chiappori, Fortin and Lacroix 2002).

Gray and Vanderhart (2000) examine whether an increased risk of divorce lowers the marriage premium. Augmenting the human capital of husbands can be beneficial for wives, as such investments could lead to higher household income in the future. However, the benefits of such investments depend entirely on the marriage surviving. As such, couples who face a higher probability of divorce should make fewer marriage-specific investments. Because it is difficult to identify the causal effect of an exogenous increase in the probability on divorce on the earnings of married men, Gray and Vanderhart use unilateral divorce reforms as a natural experiment to investigate how a higher risk of divorce affects married men's earnings. They find that the marriage earnings premium is lower in unilateral divorce states.

A potential limitation of their study is the bias stemming from selection out of marriage. In particular, unilateral divorce could cause bad matches to dissolve, leaving primarily couples who are better matched. Examining couples of all martial durations is potentially misleading because the sample would include a relatively larger proportion of couples who are more likely to invest in their marriage and to specialize in domestic and market spheres. We address this issue by

examining couples in the first two years of their first marriage, which allows us to attribute any differences in adopting and nonadopting states to reductions in household specialization and other marriage-specific investments (See Stevenson 2007). If selection out of marriage is a problem for Gray and Vanderhart's study, the effect of unilateral divorce should be larger (in absolute value) when newlyweds are considered.

While almost all studies on the marriage premium examine its mean effect, the impact of marriage on men's earnings may vary and may not be uniform throughout the earnings distribution. A recent study by Maasoumi, Millimet and Sarkar (2009) examines the distributional effects of marriage on men's earnings, finding that the premium is largest for men at the lower end of the earnings distribution and smallest for men at the upper end of the earnings distribution. In addition, they argue that the marriage premium above the median is explained by selection, while the marriage premium at the lower end of the earnings distribution reflects discrimination. To reach these conclusions, they employ a variety of different empirical techniques to examine the casual effect of marriage on men's earnings, including various comparisons (e.g., soon-to-be married men versus single men), fixed effects models, and instrumental variables estimation. We also examine whether unilateral divorce reform has robust and uniform effects throughout the earnings distribution.

3. Data and Econometric Methodology

We use data from the 1970 and 1980 Integrated Public Use Microdata Series (IPUMS) to investigate the impact of unilateral divorce on the earnings of recently married men. These data are appropriate for analyzing the impact of unilateral divorce reform on married men's wages, as

23 states adopted unilateral divorce laws between the two decennial years.[4] In addition, the IPUMS data provide information on age at first marriage, which allows us to calculate the duration of marriages. Our units of observation are working men in the first two years of their first marriage.

We make use of the variation in the timing of unilateral divorce reforms across states as a quasi-experimental setting with which to examine the impact of divorce laws on the marriage premium.[5] Recently married men in states that adopt unilateral divorce laws are the treatment group, while recently married in states that do not adopt unilateral divorce laws are the comparison group. We estimate the following equation:

$$\ln(earnings_{i,s,t}) = \alpha_0 + \alpha_1 Unilateral_{s,t} + \alpha_2 \mathbf{H}_{i,s,t} + \alpha_3 \mathbf{S}_{s,t} + \lambda_s + \tau_t + \varepsilon_{i,s,t} \quad (1)$$

The terms *i*, *s*, and *t* index married men, states, and time, respectively. The outcome variable, ln(*earnings*), is the natural log of the earnings; *Unilateral* equals one if the state has provisions for unilateral divorce and zero otherwise; **H** is a set of household-level controls, including ages, races, ethnicities, and educational attainments for husbands and wives; **S** is a set of time-varying state-level controls, including whether states have no-fault property division laws, the type of property division laws in place (i.e., community property, common law, or equitable division), the age distribution of the population, the share of the population who are white and black, the dollar amount of Food Stamp outlays, dollar amounts of government assistance for low-income families, and per-capita income; λ and τ are state and year fixed effects, respectively; and ε is the error term. The α_i are parameters to be estimated. We are primarily interested in the

[4] The unilateral divorce law coding follows Gruber (2004).

[5] Researchers have used the fact that unilateral divorce reforms came about due to routine policy refinement as support for its experimental validity (e.g., see Wolfers 2006). See Jacob (1988) for a complete discussion on how unilateral divorce passed state legislatures.

parameter α_1, which measures the difference in the earnings of recently married men in states that adopt unilateral divorce and the earnings of recently married men in states that do not adopt unilateral divorce.

We examine both the mean and distributional effects of divorce laws on married men's earnings. Ordinary least squares (OLS) regressions are used to estimate the mean effects, and the quanitle regression methodology is used to estimate the distributional effects. Frolich and Melly (2010) provide a review of various quantile regression estimators, including those advanced by Abadie, Angrist and Imbens (2002), Firpo (2007), Frolich (2007), Frolich and Melly (2008), and Koenker and Basset (1978). We follow the approach developed by Koenker and Basset (1978), as we are interested in estimating conditional quantile treatment effects with an exogenous treatment.[6]

We contend that using variation in the timing of unilateral divorce reforms across states to examine the source of the marriage premium has advantages over other methodologies. For example, the work of Dougherty (2005) suggests the presence of an unobserved time-varying component that is driving both marital status and earnings. As a result, fixed effects models are unlikely to adequately control for selection bias. In the instrumental variables framework, identification requires that the instrument is significantly correlated with the marriage decision but that it does not otherwise affect married men's wages (Staiger and Stock 1997), an assumption that is unlikely to hold given the large effects of divorce law reforms on numerous family behaviors.[7] Hence, the difference-in-differences (DD) approach used in our analysis provides a unique opportunity to study the marriage premium, as we are able to control for

[6] In terms of estimating the models, we use the **ivqte** command in STATA, as this command will generate the same point estimate as the **qreg** command but will produce consistent standard errors.

[7] Bound, Baker and Baker (1995) and Nelson and Startz (1990a, 1990b) examine the problems that arise in practice when the instrumental variables estimation techniques are used.

unobserved heterogeneity through the separation of married men into treatment and comparison groups. However, there are well known problems associated with the DD estimator, most notably the standard errors are often understated (Bertrand, Duflo and Mullainathan 2004). We cluster standard errors at the state-time level to address this issue.[8]

4 Results

Table 1 shows the mean effects of unilateral divorce reform on the earnings of recently married men. Column 1 shows the results from the simple DD estimator, which includes only state and year fixed effects as controls; Column 2 adds household-level controls; and Column 3 adds time-varying state-level controls. The effect of unilateral divorce on the earnings of recently married men is negative and statistically significant in all models (Columns 1, 2, and 3). However, the magnitudes of the estimated effects vary depending on which controls are included. The estimates indicate that married men's earnings fall by 3.04 percent (Column 1), 3.12 percent, and 4.85 percent (Columns 3) in states that adopt unilateral divorce laws. The estimate shown in Column 3 is likely the most reliable, as the primary source of omitted variable bias enters at the state level (See Angrist and Pischke 2009, Ch. 5).

Table 2 shows the results from equation (1) estimated for various quantiles. The negative effect of unilateral divorce on the earnings of recently married men is statistically robust throughout the earnings distribution. Note, however, that the statistical significance of the estimated effects is strongest at the lower end of the earnings distribution (e.g., one-percent level of statistical significance at the 0.1, 0.2, and 0.3 quantiles). While the effect of unilateral divorce is statistically robust, the magnitudes of the estimates are not uniform, as the negative impact is

[8] Bertrand, Duflo and Mullainathan (2004) and Angrist and Pischke (2009) provide suggestions for adjusting the standard errors of the DD estimator.

relatively larger at the lower end of the earnings distribution. The earnings of recently married men in adopting states fall by 13 percent at the 0.1 quantile; eight percent at the 0.2 quantile; six percent at the 0.3 quantile; four percent at the 0.4 quantile; and three percent at the median. At quantiles above the median, the negative marginal effects of unilateral divorce reform range from two to three percent.

Given that unilateral divorce reforms serves as an exogenous negative shock to household specialization and other types of marriage-specific investment, these findings support the idea that, at least, a portion of the marriage premium can be explained by the specialization hypothesis. It is possible that selection into marriage stemming from unilateral divorce reform affects our estimates, as the reform has been shown to generate "incentive" and "selection" effects (Matouschek and Rasul 2008).[9] The incentive effect increases the divorce rate by lowering the cost of divorce, while the selection effect reduces the divorce rate through improvements in marriage match quality. Our examination of newlyweds minimizes the bias created by the incentive effect. However, the marriages of the couples in our analysis take place after unilateral divorce has been implemented. As a result, our estimates reflect the full effect (i.e. the reductions in marital investments and selection into marriage) of unilateral divorce reform on married men's wages. Regardless, our findings provide strong support for the specialization hypothesis.

The results from the distributional analysis suggest a role for household specialization and other marital investments throughout the earnings distribution. While the effects of unilateral divorce laws are negative and statistically significant throughout the earnings distribution, the size of the effect is not uniform. In particular, the earnings of recently married men fall by more

[9] The selection and incentive effects generated by unilateral divorce reform are consistent with patterns in the divorce rate over time and the findings of Wolfers (2006): divorce rates in adopting states rose sharply but declined quickly.

at the lower end of the earnings distribution than at the upper end of the earnings distribution. These findings differ from the results in Maasoumi, Millimet and Sarkar (2009). They argue that the marriage premium observed at the lower end of the distribution reflects discrimination, while selection explains the entire marriage premium above the median. In addition, our results are also at odds with the idea that high-earning men likely gain more from household specialization that their low-earning counterparts.

5. Conclusions

We investigate the impact of unilateral divorce reforms on the earnings of married men. Our analysis provides three important extensions to the existing literature. First, we use the adoption of unilateral divorce reforms between 1970 and 1980 as a natural experiment with which to examine the source of the marriage premium. Our analysis allows us to control for unobserved heterogeneity by constructing treatment and comparison groups. Married men in states that adopt unilateral divorce are the treatment group, while married men in states that do not adopt unilateral divorce are the comparison group. Second, following the work of Stevenson (2007), we restrict our sample to include only newlyweds, which corrects for important selection biases created by unilateral divorce reform (i.e. selection in and selection out of marriage). Third, we use the quantile regression methodology to examine whether unilateral divorce has robust and uniform effects on the earnings of married men.

We find that married men's earnings are, on average, approximately five percentage points lower in states that adopt unilateral divorce laws. The sign and statistical significance of this effect is robust to alternative specifications and the inclusion of additional control variables. Additionally, the impact of unilateral divorce is negative and statistically significant throughout

the earnings distribution. However, it is not uniform. In particular, the negative effects of unilateral divorce are largest for recently married men at the lower end of the earnings distribution and smallest for recently married men at the upper end of the earnings distribution. These findings provide support for the specialization hypothesis, with married men at the lower end of the earnings benefiting more from household specialization and other marital investments than those at the upper end of the earnings distribution.

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Table 1—Mean Effects of Unilateral Divorce on the Earnings of Recently Married Men

Variable Name	Column 1	Column 2	Column 3
Unilateral Divorce	-0.0304* (0.018)	-0.0312* (0.018)	-0.0485*** (0.012)
R-squared	0.1889	0.2636	0.2648
Number of Observations	42,980	42,980	42,980
Control Variables:			
Year Fixed Effects	X	X	X
State Fixed Effects	X	X	X
Household Characteristics		X	X
Time-Varying State-Level Variables			X

Notes: Standard errors clustered at the state-year level are in parentheses. * and *** indicate statistical significance at the ten and one-percent levels, respectively.

Table 2—Distributional Effects of Unilateral Divorce on the Earnings of Recently Married Men

	Quantiles								
Variable	*0.1*	*0.2*	*0.3*	*0.4*	*0.5*	*0.6*	*0.7*	*0.8*	*0.9*
Unilateral Divorce	-0.1295[a]	-0.0763[a]	-0.0581[a]	-0.0366[b]	-0.0338[b]	-0.0244[b]	-0.0290[b]	-0.0256[b]	-0.0275[c]
	(0.051)	(0.027)	(0.022)	(0.016)	(0.015)	(0.009)	(0.012)	(0.012)	(0.015)
Psuedo R-squared	0.1093	0.1489	0.1702	0.1894	0.2076	0.2262	0.2438	0.2588	0.2613
Number of Observations	42,980	42,980	42,980	42,980	42,980	42,980	42,980	42,980	42,980
Control Variables:									
Year Fixed Effects	X	X	X	X	X	X	X	X	X
State Fixed Effects	X	X	X	X	X	X	X	X	X
Household Characteristics	X	X	X	X	X	X	X	X	X
Time-Varying State Variables	X	X	X	X	X	X	X	X	X

Notes: Standard errors are in parentheses. The superscripts a, b, and c indicate statistical significant at the one, five, and ten percent levels, respectively.