MONEY IN THE BANK:  
TRANSACTION COSTS AND THE ECONOMIC  
ORGANIZATION OF MARRIAGE*

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Although most husbands and wives pool their assets, others hold money back from the common pot. The choice between "collectivized" and "privatized" financial organization depends, in part, on which is more efficient — which minimizes transaction costs in organizing marital exchanges. Insights from the "new institutional economics" suggest that segregated assets are associated with lower expectations for marital continuity, fewer investments unique to the relationship, and ease in measuring contributions to the marriage. Data from the Survey of Income and Program Participation support the notion that couples organize their finances in order to minimize the transaction costs of married life.

Families are supposed to be buffers against self-interested individualism because they emphasize love rather than the divisive monetary preoccupations of the marketplace (Bellah, Madsen, Sullivan, Swidler, and Tipton 1985; Aldous 1987). Sociologists, however, point to a tension in American families between individualism and commitment to the group (Bumpass 1990). The financial arrangements of American couples offer one example of the competing pulls between the individual and the collective.

"Separate purses" describes the financial strategies of husbands and wives who preserve individual property rights by holding resources back. The "common pot" characterizes couples who merge their individual interests into a single economic collective. Privatized versus collectivized economic resources go to the heart of the conjugal family's identity — as a corporate unit or as a collection of individuals.

Both modes of organization occur among American families. Americans expect married couples to pool their income and assets. When Blumstein and Schwartz (1983, p. 101) asked couples whether "the two partners should pool all their property and financial assets," 69 percent of wives and 75 percent of husbands favored pooling. Community property laws in some states hold that virtually all property acquired in marriage is jointly owned (Weitzman 1985). Despite general normative support for common ownership, some married individuals hold money back from the common pot, as demonstrated by studies of British working-class couples (Pahl 1980), of readers of an American women's magazine (Bird 1979), and of dual career couples in Chicago (Hertz 1986). In extreme cases, all money is segregated and common expenditures are met according to an agreed-upon formula or end-of-the-month bargaining. Separate accounting systems are apparently on the rise — the proportion of married women with checking or savings accounts in their own names nearly doubled between 1972 and 1980 (National Organization of Women 1980).

Why do some couples live by the common pot and others by separate purses? Why do some couples see themselves as an integral economic unit with inseparable fates and fortunes rather than as two free agents joined expeditiously for the exchange of goods and services? These are fundamental questions about social organization. On a domestic scale, these questions recall Tönnies's (1957) concern with Gemeinschaft and Gesellschaft, Durkheim's (1933) preoccupation with organic and mechanical solidarity, and Homans's (1974) and Blau's (1964) interest in social exchange.
These questions about family organization parallel the questions raised recently by the "new institutional economics" about what determines an enterprise's "efficient boundaries" (Williamson 1981; Ouchi 1980; Oberschall and Leifer 1976). Just as marital partners may opt to pool their resources, two firms may merge, thus foregoing market trading for exchanges governed by the authority structure of a single company.

Institutional economists invoke efficiency considerations to account for the organization of firms. A particular organizational form is favored if it incurs lower transaction costs — the costs of organizing and carrying out exchanges. Transaction cost economies offer insights into family organization as well. Under some conditions, I argue, exchange is more efficient in a "collectivized" marriage. Under other circumstances, a marital analog of the market — a "privatized" marriage of bargaining individuals — offers greater economies in organizing marital relations. The joint and separate bank accounts of American couples represent one example of the collectivized versus privatized organization of marriages. Applying a transaction cost approach, I test models of banking that incorporate factors determining the relative advantages of alternative financial arrangements.

TRANSACTION COSTS AND THE FAMILY

By recognizing individual economic interests, a separate purses arrangement permits self-serving bargaining and a market-like exchange of goods and services between husbands and wives. By subordinating the individual to the conjugal unit, the common pot approach to family finances demands that nonmarket mechanisms of exchange overrule economic principles of self-interest. Social norms (e.g., reciprocity), values (e.g., altruism), and authority structures (e.g., patriarchy) govern exchanges in the nonmarket institution of the collectivized marriage.

Behavior that is economically rational for the individual often has undesirable consequences for the collectivity, but nonmarket institutions reduce these negative externalities. Families do this by inculcating sentiments like family loyalty that, when coupled with incentives and controls, rein in the unbridled pursuit of self-interest (Pollack 1985). When individuals cast their lots together as a couple (i.e., opt for collectivized rather than privatized organization), they do so in part to reduce negative consequences of self interest.

As illustrated by the "tragedy of the commons" in which shared ownership led to overgrazing the land (Demsetz 1967), common ownership has pitfalls. If income is pooled, one spouse need not assume full responsibility for an extravagant expenditure benefiting only himself or herself. Private property, not joint ownership, is a typical response to this sort of free-riding. There is, then, a tension between private ownership and common ownership, between market and nonmarket organizations of exchange, between individualism and commitment to the group. The choice of one over another is apt to hinge, in part, on their relative transaction costs.

Couples will favor the organizational form that best facilitates their exchanges. The common pot of the collectivized marriage has an edge over privatized marriage when income-pooling requires less coordination, leads to fewer disagreements, and makes monitoring of the many exchanges of married life easier. Because the give and take of married life usually involves some friction, couples should favor an organizational form that minimizes these transaction costs. Couples who pool resources see pooling as more efficient: "It took less time, thought, and energy to pool their money than to figure out who should pay for what and to devise a system for handling common expenses from separate accounts" (Smith and Reid 1986, p. 55). Couples who do not pool their resources say their arrangements are more efficient and less conflicted because neither partner is affected by the spending that benefits the other spouse alone.

Family transaction costs differ from transaction costs in commercial settings. Firms organize their affairs to minimize the costs of drafting contracts, conducting audits, and transporting goods. Most families structure their lives to reduce day-to-day hassles of negotiating and coordinating exchanges (i.e., to avoid distasteful haggling, minimize unpleasant disputes, eliminate awkward misunderstandings, cut down on time wasted policing the performance of others). Despite the unique nature of transaction costs in the family, the factors determining organizational economies in families are
much like those that lead to market or nonmarket solutions in commercial settings.

Nonmarket solutions have an edge in reducing transaction costs under three conditions: (1) when exchanges are expected to be complex, frequent, and long-term; (2) when the value of goods and services rides largely on who is exchanging them (i.e., when there are sunk costs in a trading relationship); and (3) when high costs are involved in monitoring or metering the quantity and quality of goods and services exchanged (Williamson 1975). Given these three conditions, market solutions may still govern exchange, but these solutions will incur higher costs in terms of bargaining, monitoring, and enforcing contractual agreements than will nonmarket mechanisms of exchange.

In general, families are characterized by conditions promoting the highly personalized, social regulation of exchange embodied in nonmarket organization.

Continuity

Exchanges of goods and services between family members are varied, frequent, and enduring. Each exchange offers a new opportunity to instill family values, foster dependence on one another, and demonstrate the family's personalized mechanisms of surveillance and control. Continuity discourages self-serving "market" strategies because pressing a short-run advantage can only trigger tit-for-tat retribution later on. Indeed, bargaining is antithetical to commitment to the permanence of the relationship. As one wife interviewed by Blumstein and Schwartz (1983) pointed out, "Either you are married or you're not . . . . Some of my friends made specific contracts about whose money was whose before they remarried again, which strikes me as setting up the end before you have tried to make it last forever" (p. 96).

Because market contracts cannot anticipate contingencies far into the future, the family's extended time horizon argues for relations based on trust. As Curtis (1986) pointed out, "When humans carry out a collective enterprise such as having and rearing a child, they must lay plans about unknown events far in the future. They cannot, therefore, rely on current economic exchanges . . . ., but must try to establish some basis for trust in one another" (p. 175). The ongoing nature of family life permits this trust to develop gradually as obligations are incurred and dispatched (Blau 1964, p. 94). Trust enables the family to serve a social insurance function, indemnifying members against misfortune over the long run (Pollack 1985).

By way of contrast, economic exchange is based on time-delimited contracts specifying exactly what is to be exchanged between parties (Tönnies 1957). Because these parties may not know one another, impersonal public institutions (e.g., courts, consumer protection agencies, arbitration boards) necessarily play a large role in enforcing market contracts. Nonmarket institutions are based on social relations in which exchanges assume a different form (Ben-Porath 1980). "Social exchange . . . involves favors that create diffuse future obligations, not precisely specified ones, and the nature of the return cannot be bargained about but must be left to the discretion of the one who makes it" (Blau 1964, p. 93). Enforcement is apt to be highly personal, taking the form of internalized norms (Ben-Porath 1980, p. 3) or the approval of intimates (Blau 1964, p. 91).

Sunk Costs

Kin make many investments in one another that can only be recouped in the context of the particular relationship. Children, for example, are an investment that is more valuable to fathers in the context of the marital union. Divorced fathers, who are less likely than mothers to get custody of their children (Weitzman 1985), find that contact with children falls off (Furstenberg and Nord 1985), and they receive less support from adult children in old age (Cooney and Uhlenberg 1990).

Sunk costs lock people into relationships and call for a different, less market-oriented structure for their associations. To channel diffuse obligations among kin, the family offers an authority structure, normative guidelines, and the continuity to realize a payback on person-specific investments. Marriage-specific investments demand collectivization, as tacitly acknowledged by one husband: "I don't know what is her money and what is my money. It's our money. Otherwise it gets ridiculous. We don't divide up our children! Andrea isn't Linda's or mine; she's ours" (Blumstein and Schwartz 1983, p. 96).

With costs sunk in individuals, the value of what family members swap depends heavily on
the identities of the transactors. At the extreme is the "diffuse social support we derive in a love relationship, the significance of which depends entirely on the individual who supplies it" (Blau 1964, p. 95). Even leaving aside such "intrinsic" rewards of a relationship, sunk costs in individuals arise whenever people learn by doing (Williamson 1981). For example, although satisfying someone else's preferences for sexual gratification takes some learning, this skill is neither readily transferred nor immediately replaced. Of course, couples master a totality of person-specific information (e.g., about one another's likes and dislikes, communication styles, abilities). This information not only raises the value of what is exchanged, but also lowers the transaction costs involved in negotiating exchanges. Much learning takes place early in a relationship, and front-loaded learning costs can be recovered only over the long haul.

Metering and Monitoring

Family members find it hard to measure the quantity and quality of what they exchange. Problems of metering and monitoring the exchange of goods and services raise the relative transaction costs of market exchanges. This transaction cost premium argues for organizing exchange on the basis of carefully cultivated trust and commitment to the collectivity; it argues for the common pot.

Consider some of the metering problems of family life. Affection can only be roughly inferred — perhaps from the effort lavished on a gift. In joint production activities like parenting, individual contributions to productivity cannot be gauged from outputs (e.g., children's school success), but only from inputs (e.g., time devoted to tasks). Stubbornly resisting commodification, housework's economic value has yet to be reduced to a common money metric that would make metering easy (Goldman and Tickameyer 1984). The market value of the homemaker's services defies meaningful calculation because housekeeping preserves an element of mystification, reflecting "a primordial concern for order, for protection from pollution" (Davidoff 1976, p. 133). Performance is laden with cultural meaning as a way to strengthen social bonds (Valadez and Clignet 1984) or celebrate gender (Berk 1985, p. 201–204). Quality is highly subjective, given the lack of scientific validation for the "best" way to clean a kitchen counter or deal with children who don't sleep through the night (Ehrenreich and English 1979).

Although family living provides unique monitoring opportunities (Pollack 1985), the physical separation of home, school, and workplace prevents family members from directly observing one another in many activities. Age- and gender-based segregation work against learning the role-specific standards necessary to judge whether kin are Shirley or cutting corners in doing housework, studying, or earning a living. Because metering disappointing performance is itself painful, some couples pool resources to avoid metering altogether — pooling allows them to avoid confronting the fact that the wife earns more than the husband (Hertz 1986, p. 97).

To sum up, continuity, sunk costs, and metering favor families organized as social institutions, rather than market institutions. As the examples of the common pot and separate purses demonstrate, however, families differ in their economic organization. Some married couples adopt distinctly market-like features like personal property rights, prenuptial contracts, separate accounting systems, bargaining, and sharp dealing. Of course, expectations for continuity of the relationship, sunk costs, and the ease of metering exchanges may vary less across married couples than across firms or even friends. It remains to be seen whether these factors can account for the economic organization of married life.

OTHER CONSIDERATIONS

While transaction costs are appealing explanations for collectivized versus privatized marriage forms, other explanations are plausible. Transaction costs, for example, are not the only economies that affect how couples organize their finances. Couples face a host of institutional constraints imposed by law and commercial practice. Rational planners choose joint or separate accounts not only to minimize transaction costs, but also to avoid probate, cut taxes, obtain loans, reduce account fees.

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1 The quality of services exchanged in the market (e.g., counseling, teaching) may be equally subjective, but their commodification permits assignment of value.
qualify for higher interest on jumbo accounts, and shelter assets from creditors and litigants (Sprouse 1991).

From another perspective, financial arrangements — like many other decisions in married life — may be cast as issues of marital power. The partner with greater power is more likely to have his/her banking preferences realized. The relative economic resources of husbands and wives are one determinant of power in a marital relationship (Blumstein and Schwartz 1983). Testing this theory, however, requires some knowledge or assumptions about the preferences of individual partners.

If control over economic resources begets power (Blumberg 1991), control is surely desired. The separate purse offers greater control, but not under all circumstances. Custom sometimes limits women’s separate money to designated uses, e.g., buying household luxuries (Zeliser 1989). Even when assets are shared, decisions about their allocation may fall to one or another partner (Wilson 1987). However, control over money is not particularly empowering when there is not enough money to meet basic needs (Pahl 1980).

Finally, family financial practices exist in a context of cultural values and societal ideologies. It was perfectly acceptable for nineteenth-century American husbands to control all family funds and dole out money only when the wife asked (Zeliser 1989). With the shift to ideals of egalitarian marriage, this economic dependency came to be seen as demeaning to women. Thus, in the early 1900s, popular periodicals initially espoused the wife’s allowance — a fixed entitlement from the husband but under her discretionary control — and later favored the more democratic practice of joint control that is now widely accepted (Zeliser 1989).

Today’s cultural and ideological currents do not ordain a particular outcome for family organization. Whether they opt for the interdependence of the common pot or the independence of separate purses, contemporary American couples can find support for their choices in the most recent ideological “blueprints of love” (Cancian 1987). Advice columns even invoke values of efficiency. A married couple, billed as “the first family of finances,” shared with Money magazine readers their secret for avoiding fights over money (Dolan and Dolan 1993). Having joint accounts, they advised, not only “fosters partnership,” but also facilitates monitoring because “the monthly statement can serve as a warning to you both if one of you is getting overextended” (p. 23).

Neither the broader culture nor social intimates offer couples much concrete advice on the prickly dilemma of how to organize their finances. Although the upper class has always had established guidelines for the preservation of family wealth (e.g., guard the principal), the modest fortunes of the American middle class have not required explicit cultural rules for money management (Millman 1991). Models for managing money are notably lacking. Accounting strategies of peers are not readily observable. Couples don’t even discuss finances with parents, siblings, or friends, because money falls under a “class of silences” that doesn’t lend itself to conversation (Hertz 1992; Wilson 1987). Not surprisingly, couples profess ignorance of how other people actually manage money (Hertz 1992). Lacking socially appropriate models, couples’ banking strategies are unlikely to respond to social embeddedness, which is often cited as a determinant of other organizational forms (Granovetter 1985). Even the most intimate of social networks seems not to penetrate the privacy of marital finances. If social influences on couples’ financial organizations are relatively weak, efficiency concerns may play a large role.

DATA AND VARIABLES

Data

At issue in this transaction cost analysis is whether couples choose an organizing system for their finances that minimizes the difficulties associated with negotiating, monitoring, and enforcing exchanges. Results are based on data from the initial wave of the 1984 panel of the Survey of Income and Program Participation (SIPP) fielded by the U.S. Bureau of the Census (1984). Most studies of income pooling between husbands and wives have not had the benefit of national probability samples (Blumstein and Schwartz 1983; Hertz 1986; Smith and Reid 1986). The SIPP offers data on a nationally representative sample of over 9,000 married, spouse-present couples with bank accounts.

Bank accounts are defined by the SIPP to include a wide range of financial instruments—regular passbook savings accounts in a bank,
savings and loan institution, or credit union as well as money market deposit accounts, certificates of deposit or other savings certificates, and NOW, SuperNOW, or other interest-earning assets. Excluded are IRA and Keogh accounts. Unfortunately, it is not possible to distinguish checking accounts from savings accounts or to determine how much money is in each account.

Variables

Independent variables tap the continuity, metering, and sunk cost issues associated with the transaction cost perspective.

Continuity. People who think their marriage is likely to continue have less incentive to hold back money in a separate bank account. An individual whose previous marriage ended in divorce or widowhood has less reason to expect permanence. Someone whose spouse has been married previously may have similar reservations. Thus, the model considers whether the husband and wife have ever been divorced or widowed.

Sunk costs. Couples who have made big investments in their relationship are apt to find separate accounts less advantageous. Because children are an investment that does not transfer readily to a new marriage, couples are identified who have one or more of their own children less than 18 years old living with them. Investments in the relationship probably also increase with marital duration. Lacking an explicit measure of marital duration, I rely on wife’s age, net of whether the partners have been widowed or divorced.

Metering. Couples find pooling more advantageous when the value of what they exchange is hard to gauge. The economic contribution of a working wife can be quantified more readily than can a homemaker’s, and a working woman learns workplace standards for evaluating what her husband puts into the marital relationship. The analysis focuses on whether the wife usually works 35 or more hours per week because pay from full-time work is less transitory.2

If wife’s work facilitates bargaining by making the wife’s contribution easier to gauge, then both partners will be more likely to bank separately. On the other hand, if the wife’s work is a source of power for her, she will be more likely to keep money to herself — banking separately alone or in combination with her husband’s separate account — while he will be less likely to have the only separate account.

Institutional arrangements. Legal considerations can raise or lower the costs of pooling. People at high risk of being sued have an incentive to place assets solely in their spouse’s name (Wall Street Journal 1986). Enough husbands work in high liability medical and legal professions to justify a dummy variable for occupation. Couples who live in a state with community property laws may not find separate accounts advantageous, because the law need not treat money in a separate account as personal property. Finally, elderly couples (e.g., those in which the wife is age 70 or older) may segregate some assets in order to lower inheritance taxes, bypass probate, or divert assets from nursing home payments in a Medicaid spend-down.

Other considerations. Other variables are also expected to influence financial practices directly or to give rise to spurious relationships between banking arrangements and the transaction cost variables.

Two conflicting arguments point to income as an influence. On the one hand, high income may facilitate separate accounts because high-income couples can afford to forego economies of scale to avoid the inconvenience of sharing (Lindenberg 1982). On the other hand, prosperous couples can afford to pool income because there is less need to budget carefully (i.e., to impose costs on spendthrifts) (Pahl 1980, p. 331). The log of the couple’s total income is used in the analysis.

For each spouse, additional years of formal education are hypothesized to lead to separate banking. If education only enhances an individual’s money management skills, a wife’s additional years of education should increase her probability of banking separately, but not affect her husband’s probability (and vice versa for his education). If education is a power resource, a wife’s additional years of education should increase the probability that she has the only separate account, possibly increase the probability of tit-for-tat strategies in

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2 Husband’s work status was not a significant determinant of banking arrangements. Because men who are not working typically have pension income or unemployment benefits, work status does not distinguish men with menterable contributions from those without.
which both spouses bank separately, and decrease the probability of the husband defecting from the common pot to bank separately. Husband's education will also affect his wife's banking differently than his own.

In preliminary tabulations, African-American couples were found to be more likely to bank separately — an unanticipated finding given their high rates of women's labor force participation and their low incomes and educations. This finding is consistent with other aspects of family economic organization that show greater spousal independence among African-Americans. Wives' labor force participation decisions, for example, are less dependent on husband's income for African-Americans than for others (Treas 1987). Because race is associated with other independent variables (e.g., women's labor force participation and divorce), its inclusion in the model eliminates one source of bias in the transaction cost coefficients. Race is a dummy variable coded 1 for nonblack wives and 0 otherwise.

FINDINGS

American couples prefer pooling: Table 1 indicates that almost two-thirds of couples with bank accounts keep joint accounts only — they have no separate accounts. However, over one-third report at least one separate account. Couples with separate accounts are about evenly divided between those who opt for separate accounts exclusively (18.0 percent) and those who hold separate accounts in combination with joint bank accounts (17.6 percent). Among couples who choose not to commingle assets, husbands and wives are about equally likely to maintain their own account. Among couples who pool and have separate accounts, wives are more likely to hold something back in their own name, reflecting perhaps the persistence of the "pin money" tradition (Zelizer 1989). Only 5 percent of couples forego pooling entirely and opt for two separate accounts.

Modeling Separate Assets

Two analyses focus on financial arrangements of couples with bank accounts. A dichotomous logit analysis considers the determinants of pooling. What influences the likelihood of a couple maintaining one or more joint bank ac-

<table>
<thead>
<tr>
<th>Type of Bank Account</th>
<th>Percent</th>
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<tr>
<td>Joint only</td>
<td>64.4</td>
</tr>
<tr>
<td>Separate only</td>
<td>18.0</td>
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<tr>
<td>Husband only</td>
<td>6.5</td>
</tr>
<tr>
<td>Wife only</td>
<td>6.1</td>
</tr>
<tr>
<td>Husband and wife</td>
<td>5.4</td>
</tr>
<tr>
<td>Joint and separate</td>
<td>17.6</td>
</tr>
<tr>
<td>Joint and husband separate</td>
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counts versus no joint accounts? A multinomial logit analysis concerns the determinants of holding money back. This analysis focuses on three states of separate accounts — wife only separate, husband only separate, and both separate — as contrasted with the omitted category of no separate accounts. Because couples with no separate accounts rely on joint accounts exclusively, the multinomial logit coefficient contrasts the likelihood of a given state of separate banking versus uncompromised income pooling.3

The three types of separate banking invite somewhat different expectations. Separate accounts for both husband and wife suggest either a tit-for-tat balance of power or a coordinated strategy. Because coordination of individual accounts is a rational response to constraints, institutional variables should be particularly prominent determinants of this banking option as compared with joint accounts only.

Money in the wife's name is distinct by custom (e.g., pin money) and ideology (e.g., autonomy for women) from money in the joint account. Her account, however, may be more

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3 I also estimated a seven-category multinomial logit model incorporating all combinations of joint, husband, and wife accounts as contrasted with the joint-only option. The results largely replicate those of the simpler model.
collective in character than his. Women’s separate accounts are more likely to coexist with joint accounts than are men’s separate accounts, and women’s resources are more likely than men’s monies to be used for joint domestic consumption as opposed to personal expenditures (Wilson 1987; Blumberg 1991). If wives’ separate accounts combine elements of collectivized and privatized resources, they should be less sensitive to transaction costs as compared to men’s separate accounts.  

Determinants of Joint Accounts

Pooling is the dominant banking pattern for American couples with bank accounts. Column 1 of Table 2 presents the results of the dichotomous logit analysis of the determinants of a couple’s decision to adopt or forego joint banking. The results offer considerable support for the transaction cost argument. Marital disruption clearly works against the collectivized organization of finances: The
logit coefficients for all four indicators of marital disruption are statistically significant and in the hypothesized negative direction. When the husband or wife has been widowed or divorced, the likelihood of a joint account (as opposed to no joint account) is reduced.

Sunk costs in the marital union were predicted to prompt income pooling. As anticipated, the proxy for marital duration — wife's age net of the marital history variables — increases the likelihood of joint bank accounts. Children, however, are not a statistically significant influence (but the measure itself may be flawed as not all own children are from the current union). According to the metering argument, the tangible contributions to the marriage by the working wife make collectivized relations based on trust less necessary. Wife's full-time work has the hypothesized negative effect on pooled accounts.

Aside from transaction cost considerations, institutional and other characteristics also affect banking practices. As a possible defense against litigants, a couple's likelihood of a joint account is reduced if the husband is a doctor or a lawyer. Living in a state with community property laws or being elderly, however, are not significant influences. Consistent with the argument that pooling is favored by the affluent who need not impose the consequences of spending on the spender, high income increases the likelihood of a joint account. The higher the husband's education, the more likely the couple is to keep a joint account. As anticipated, nonblack couples are also more likely to have a joint account than are their African-American counterparts.

**Determinants of Separate Accounts**

If transaction cost factors offer insights into why married couples pool their money, can they account for why spouses hold money back in separate accounts? A multinomial logit analysis considers the probability of each alternative (wife only separate, husband only separate, both separate) in contrast to a fourth option — no separate account, joint accounts only (columns 2 through 4 of Table 2).

Among the variables thought to inspire low confidence in the continuity of the relationship, all four measures of previous marital disruption increase the likelihood of only the husband having a separate account (relative to the couple having no separate accounts) (column 2). In contrast, the relative likelihood of the wife alone banking separately (column 3) is positively and significantly influenced by only two continuity measures — the husband's divorce and the wife's widowhood. A smaller role for transaction cost variables is not unexpected given the collective elements in the wife's separate account. The likelihood of both spouses (as opposed to neither spouse) banking separately (column 4) is influenced by all continuity indicators except the wife's divorce.

Turning to sunk cost indicators, the likelihood of only the husband banking separately (versus no separate accounts) is predictably decreased by marital duration, as measured by wife's age net of marital history. The presence of children is not statistically significant. Neither variable, however, accounts for the relative likelihood of only the wife maintaining a separate account — a finding again consistent with the notion that wives' accounts combine features of collectivized and privatized resources. The likelihood that both spouses (versus neither spouse) keep separate accounts is significantly decreased by the presence of children and by increased marital duration.

The effect of wife's work is more consistent with the marital power argument than with the metering interpretation. Relative to maintaining only joint accounts, a working wife is significantly more likely to bank separately — either alone or in combination with a separate account for her husband. The likelihood of the husband being the only one to bank separately is significantly decreased by the wife's full-time work.

Institutional factors also influence the decision to bank separately. The relative likelihood of a wife-only account (as opposed to no separate accounts) increases if the husband is a doctor or a lawyer. Husband-only accounts are similarly affected. Living in a state with community property laws or being elderly does not significantly affect the likelihood of these two options. The likelihood of both husband and wife (versus neither) banking separately increases if the husband is a doctor or lawyer, decreases with residence in a community property state, and increases for elderly couples. This "coordinated" choice was hypothesized to be more sensitive to institutional constraints than other separate banking options, and the findings are consistent with this expectation.
The couple’s income affects the likelihood of both spouses (versus neither spouse) segregating assets. Although the logit coefficients for joint banking showed that high income increases the likelihood of pooling, the multinomial analysis indicates that high income raises the relative likelihood of both spouses having separate accounts. A seven-category multinomial analysis (not shown) that focuses on the possible combinations of joint, husband, and/or wife accounts sheds light on this seeming inconsistency. High income increases the relative likelihood of having multiple accounts (e.g., both husband and wife separate) while reducing the relative likelihood of only one account — whether joint only, wife only, or husband only. High-income couples apparently can afford to incur additional banking fees from multiple accounts and have less need to monitor one another’s expenditures closely. This is not readily apparent in the joint account versus no joint account model, because joint accounts are sometimes combined with other accounts.

The effect of wife’s education is consistent with the marital power interpretation. The higher the wife’s education, the greater the relative likelihood that she alone will bank separately; education also increases the relative likelihood that she will counter her husband’s separate banking with her own separate account. However, her additional schooling decreases the likelihood of only the husband banking separately. Husband’s schooling is not consistent with either the augmented power or the acquired banking skills interpretations: The only statistically significant effect is to lower the likelihood that only the wife banks apart (as opposed to no separate accounts).

As anticipated, nonblacks have a significantly lower likelihood of separate accounts versus only joint accounts — a finding that holds for each of the three separate banking options.

SUMMARY AND DISCUSSION

American couples weigh transaction costs in the decision to collectivize or privatize their finances. Pooling incomes and holding income back were both hypothesized to depend on the likely continuity of the marriage, marriage-specific investments, and the ease of metering. Because couples vary less along these dimensions than do firms and because the transaction cost variables are crudely operationalized using data collected for very different purposes, the influence of transaction cost variables on banking arrangements is impressive.

By undermining the expected continuity of the marital union, previous experiences with marital disruption compromise the conditions that make the collective organization of married life preferable to a market-like organization. The analyses generally found that marital disruption discourages pooling and encourages separate purses. Person-specific investments locking partners into the relationship foster a common pot and discourage separate purses. The investments embodied in long-lasting marriages had this effect on most of the banking options considered. Although not impervious to transaction cost considerations, one banking option — the wife banking separately as contrasted with only joint accounts — was indifferent to sunk costs and significantly influenced by few continuity indicators. This is consistent with the notion that assets in a woman’s name serve both collective and privatized ends. The metering effect of women’s labor force participation operates predictably in accounting for pooling, but not for separate financial arrangements.

Transaction costs are not the only considerations influencing the choice of collectivized versus privatized family finances. Rational calculations also arise in response to institutional constraints that make some options more attractive than others. If the husband is a physician or an attorney, for example, couples apparently foil potential litigants with less pooling and more segregation of assets. The impacts of wife’s work and wife’s education suggest that marital power differentials are at work, preventing the husband from unilaterally defecting from the common pot.

Couples apparently set up their accounts, in part, to minimize disputes, hassles, and annoyances — the transaction costs of intimate exchanges. Whether joint or separate finances better meet this end depends on the couple’s circumstances. In fact, a couple that keeps separate accounts when both are working may switch to income pooling when the wife quits work to have a baby (Smith and Reid 1986, p. 52). In this case, greater ambiguity in metering the wife’s contribution and the relation-specific investment in a child argues that collectivized
finances will be preferred over privatized arrangements.

This analysis focuses on only one aspect of marital organization — bank accounts — but the findings argue for a broader attention to transaction cost considerations in families. A certain rationality underlies family organization. The collectivist orientation, nonmarket regulation of exchange, and common ownership that characterize family life can be seen as reasonable adaptations to the continuity, sunk costs, and metering ambiguity associated with transactions between kin. As separate bank accounts make clear, family life may take on more individualized or privatized arrangements under different conditions. On one level, this is a question of how preordained family units opt for one form of internal organization over another. On another level, the transaction cost approach raises fundamental questions about what constitutes a family, particularly where its boundaries are drawn. This approach can be fruitfully extended to other aspects of family life, including bequests, cohabitation, intergenerational support of the aged, child support by custodial and noncustodial parents, and divorce.

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