The ‘Quintessential Problem Debtor’?

Mother-Led Households in Economic Hard Times

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Abstract

As the world slides deeper into economic recession, rising levels of personal and household debt become more of a policy concern, especially when combined with increasing unemployment and high rates of separation and divorce. While most household debt relates to mortgage costs that are gradually paid off over time, British research has suggested that the quintessential ‘problem debtor’ is a young single parent living in rental accommodation (Balmer et al 2005). When relationships break down, couples usually divide their marital assets but most couples have few assets and considerable debts. Furthermore, the living arrangements, family responsibilities and earning capacity of separated mothers and fathers continue to differ substantially. This paper examines the gendered patterns of family debt in the liberal welfare states, arguing that the social circumstances of sole mothers particularly contribute to unmanageable debt levels and reduce their strategies for recovery. The paper argues that policy strategies need to better acknowledge the interconnectedness of problem debt with relationship breakdown, the challenges of the ‘post-divorce family’ and the reduced earning capacity often related to mothering alone.

Introduction

In past decades, household incomes have been maintained by the rising employment rates of wives, and assets have generally increased among higher-income households (Girouard et al 2006). However, levels of household debt have also increased since 1990, reaching more than double the level of disposable household income in Australia and New Zealand (Reserve Bank of Australia 2003, Reserve Bank of NZ 2006). Rising material aspirations, lower inflation rates, financial deregulation, higher house prices and greater access to credit all encourage the accumulation of household debt (Legge & Heynes 2008). Now that the world is sliding into recession, personal debt-to-equity ratios are rising. When combined with high levels of marital separation, more households are unable to repay their debts.

In the liberal welfare states, [1] most household debt comes from mortgages and rising debt levels have been influenced by recent buoyant housing markets. However, non-mortgage debt (including car and student loans, credit card debt, and inability to pay rent or utility bills) is also rising, and is particularly high in New Zealand (Girouard et al 2006: 19). Mortgage debt is usually less detrimental than non-mortgage debt because most homeowners gradually repay their mortgages over the years while their incomes rise and their house values increase. British home owners are less likely than tenants to experience debt problems and are five times less likely to fall behind in their mortgage payments than tenants are with their rent (DWP & DTI 2004).

Debt problems are often (but not always) related to low household income, but they are often associated with sudden income losses – such as from redundancy, over-use of credit or loss of a household earner (Balmer et al 2005). Research has differentiated between chronic debtors (who tend to be young, single, impulsive and unable to control expenditures) and temporary indebtedness influenced by sudden changes in circumstances (ibid). These circumstances could relate to ill health, accidents, unemployment, civil justice problems, or marriage breakdown but people who fall into serious debt often experience multiple problems making recovery difficult. British studies have found that the quintessential ‘problem debtor’ is a young single parent living in rental accommodation, and that one in three lone parents falls into arrears (Edwards 2003, Balmer et al 2005).

This paper focuses on structural factors influencing debt after marital separation, examining the gendered dimensions of ‘problem debt’ in liberal welfare states that are often glossed over in financial discussions. Problem debt has been defined in various ways but in

[1] This concept refers to Esping-Andersen’s (1990) idea that the English-speaking countries of Australia, Canada, New Zealand, United Kingdom and the United States can be discussed together because they share similar systems of welfare and government regulation, although this has certainly be disputed.

this paper it refers to unmanageable debt that can lead to repossession, eviction, mortgagee sales, bankruptcy and utility disconnections. This level of debt reduces living standards but also contributes to stress and poor health at the personal level, and growing wealth disparities at the national level (Legge & Heynes 2008).

I argue in this paper that separation and marriage breakdown frequently contribute to problem debt and financial insecurity for sole mothers, even those with adequate education and employment experience. These financial problems are influenced by gendered patterns of earning, partnering, and caring, and their solution requires multiple but co-ordinated policy initiatives.

Household Assets and Net Worth

Families generally accumulate most assets through home ownership but over the past 30 years home ownership rates have declined in Canada and New Zealand to about 68% of households (NZHRC no date, VIF 2004: 117) but have remained stable in Australia at about 70% (Reserve Bank of Australia 2003). Australian data show that home ownership rates rise with age and relationship formation, and are higher for married than cohabiting or separated people (Baxter & McDonald 2004).

Canadian figures indicate that among the richest fifth of households, 91% own their own home compared to 37% of the poorest households (VIF 2004: 117). Elderly couples have the highest rate of home ownership at 88%, but rates are the lowest for the unattached elderly (who are mainly women) at 44% and sole-mother families at 48%. Women without male breadwinners or retired earners are particularly disadvantaged in the housing market. Home ownership rates could decline further with more cohabitation, separations and re-partnering, combined with increased job insecurity.

Net worth is especially low for households with a woman as the main income recipient (VIF 2004: 122) but is higher in couple households with male earners because men’s higher incomes enable them to accumulate more savings (OECD 2007b). Net worth usually reaches a peak when male earners are 55 to 64 years old but it declines with separation for both men and women.

In the recent housing boom, more families were unable to find affordable housing, especially those with more than three children, new immigrants or mother-led families. Low-income families are most likely to live in rental accommodation and most pay market rents in the liberal welfare states rather than living in state housing (Baker 2006). Reliance on private housing means that many families are forced to live in unhealthy, overcrowded and unsafe accommodation, which encourages the development of respiratory ailments, the spread of infectious diseases, depression and anti-social behaviour (Jackson & Roberts 2001).

The assets of non-employed wives can be enhanced by transfers of cash and assets from their husband, and widows are more likely than widowers to inherit assets from deceased partners as wives tend to outlive their husbands. Wives’ assets have also increased since marriage partners were obliged to share ‘marital assets.’ However, none of this means that women have equal access to household money during marriage or after separation. Even when shared earnings are held in joint accounts, husbands have greater control over them, as well as more access to credit (Pahl 2001, 2005).

Despite the emphasis on rational decision-making in financial transactions, discussions of household money often involve strong emotions. Singh (1997) differentiated between ‘marriage money’, which is domestic and co-operative and typically held in a joint account, and ‘market money’ which is impersonal and subject to contract. The difference between the two is particularly important if couples divorce or use their family home as collateral for a

husband's business loan. When the divorce settlement is finalized or the bank demands repayment, the financial arrangements that had represented trust and love suddenly become impersonal and contractual (Pahl 2001). Lawton (1991: 7) uses the concept of 'sexually-transmitted debt' to discuss the ways that financial co-operation within marriage can end in serious problems if trust is broken or the relationship sours.

Gendered Earnings

Although labour force segregation has recently declined (OECD 2002), men are more likely than women to occupy lucrative managerial and professional positions and men's jobs tend to receive higher remuneration regardless of qualifications or skills required (Daly & Rake 2003). Men also work longer hours for pay while women are more likely to work part-time or opt out of paid work, especially during early parenthood (OECD 2007b: 53).

Parenthood and children's ages interact with gender to influence earning patterns. Mothers with preschool children are less likely to be employed than fathers or mothers with older children (ibid: 57). In addition, the more children women have, the less likely they are to be employed full-time, but fathers with many children tend to work full-time or overtime. Among employed women with two or more children, 63.1% worked part-time in Australia, 32.4% in New Zealand and 21.4% in Canada, compared to 5.5% or less of fathers (OECD 2002: 78). A gender gap is also apparent in hourly earnings, and persists for full-time employees and all workers. This gap has declined since 1980 in most OECD countries but persists partly because of labour force segregation (OECD 2007b: 73).

Women's financial contributions to their households are reduced by lower employment rates, shorter working hours and lower pay than their male partners (who are often older). If women live with men who earn adequate wages, their lower earnings may be less

consequential to household finances although they may alter spousal power relations (Potuchek 1997, Baker 2007). The financial consequences of lower female incomes are particularly apparent when mothers raise children without a male partner in the household.

The gap between high- and low-income families is growing, attributed to factors such as rising rates of marital separation, welfare restructuring, and market conditions that pay some workers high wages while encouraging low minimum wages and temporary or part-time jobs (OECD 2005). Consequently, couples with two full-time incomes, higher education and no children tend to have the highest incomes, whilst large ‘visible minority’ families, beneficiaries and sole-mother households tend to experience lower incomes and higher levels of household debt (ibid).

Marriage Breakdown, Low Income and Debt

Since the 1970s, separation and divorce rates have increased. More couples are also cohabiting without legal marriage, and cohabiters tend to have higher rates of separation than married couples (Bradbury & Norris 2005, Qu & Weston 2008). This suggests more relationship instability in the future. Separating partners are usually required to divide their ‘family assets’ equally, unless for some reason this would be deemed unfair, but many such couples have few assets and considerable debt (Baker 2006). They are permitted to retain any personal inheritance and business assets but disputes sometimes arise about whether assets belong to the business or family.

Former wives are no longer awarded life-long spousal support as they were in common-law countries before the 1970s, although they may be granted temporary support based on need. However, spousal support was ordered in only 10% of divorce cases in Canada in 2004 (VIF 2004: 37). Both men and women are usually expected to support themselves but

parents must support their children regardless of living arrangements. Enforcing child support is clearly a problem, especially when couples never married or cohabited, or where the father is unemployed or in debt (Boyd 2003, Smyth 2004). In New Zealand, more non-resident parents (usually fathers) now pay child support since enforcement was tightened in the 1990s, but many pay the minimum of $10 per week or fail to pay (Baker 2008).

Failure to pay child support is often associated with paternal perceptions of access difficulties to the child (Amato 2004). The Australian 'Caring for Children After Separation' Project found that 79% of children live with their mothers after separation (Qu 2004). About 51% of non-resident parents maintain regular face-to-face contact with their children after separation but 30% have little or no contact and do not pay child support (Smyth 2004). This suggests that many mother-led households are dependent on their employment earnings and/or income support but may be dealing with major debts and lingering family conflicts.

The employment rates of sole mothers have increased over the years but they also vary by country, with one half employed in Australia compared to three-quarters in the United States, as Table 1 indicates. This table also reveals that having a job does not mean that the children live above the poverty line. In the United States, 36% of children living with an employed sole parent are considered 'poor'[2] but if the parent is living on social benefits, 92% are poor. This table suggests that cross-national variations exist in the pressures and opportunities to become self-supporting but also that welfare levels vary considerably.

A Canadian study of recently divorced or separated mothers and fathers[3] revealed that personal incomes were much lower for mothers. For example, 44% of mothers but only 19% of fathers received less than $30,000 per year in 2006, while 37% of fathers and 11% of

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[2] Child poverty is defined as living in a household with an after-tax income less than 50% of the national median, adjusted for family size.
[3] Defined as separated or divorced between 2001-2006 and parents of children under 18 years.

mothers received more than $60,000 (Lochhead & Tipper 2008). However, the educational qualifications of these parents were comparable and women's employment rates were relatively high. Household incomes, which could include income from new and former partners, are more equitable but substantial gender differences remain. This study also indicates that 25% of fathers but only 6% of mothers live alone, while 66% of mothers live as lone parents compared to only 30% of fathers. More fathers also live with their parents and with a new partner, with or without children (ibid).

Table 1: Employment and Poverty in One-Parent Households

Country	Percentage of Sole Parents Employed	Child poverty rate in 1-parent households with employed parent	Child poverty rate in 1-parent households with non-employed parent
United States	73.8	36	92
Canada	67.6	32	89
New Zealand	53.2	30	48
United Kingdom	56.2	7	39
Australia	49.9	6	68

Source: OECD 2007a: Table 1.1; OECD 2008a: 138.

Beneficiary mothers are often unable to keep their children out of poverty because family problems interfere with paid work and loan repayment. Our New Zealand research (Baker 2002, Baker & Tippin 2004, Worth & Macmillan 2004) found that neither the social benefit system nor the public health system adequately addressed the poor mental and physical health of many sole mothers expected to exit from welfare. Poverty, family conflict and unsafe communities dominated their lives, encouraging sole mothers to focus on short-term goals yet increasing their vulnerability to violence, disrespect, depression and health-related setbacks. Many of these mothers reported debts to banks, finance companies, landlords, relatives,

friends, family doctors, pharmacists and the welfare office, but they were also owed money by former partners, relatives and tenants.

Dealing with Problem Debt

Policies to address problem debt tend to focus on counselling and suggest that falling into debt is merely the result of personal decision-making (Balmer et al 2005). These policy 'solutions' tend to overlook the underlying economics of poverty and social exclusion, the politics of restructuring, and the gendered dimensions of earning. Growing social inequality, cuts to income support, the shortage of social housing, rising health care expenses, the gender wage gap, and the expansion of low-paid work all contribute to a problem that cannot easily be resolved only through advice and counselling. Living in poverty and serious debt also increases stress levels and contributes to poor health, disability, and earlier mortality (Baker 2002, Edin & Lein 1997, Legge & Heynes 2008).

Sole mothers often employ creative strategies to manage debts, including postponing expenses (such as visiting the doctor when sick), going without food so the children can eat, 'robbing Peter to pay Paul', dealing in the 'grey market', working without reporting income to the welfare or tax offices, and sharing accommodation (Edin & Lein 1997, Hunsley 1997, Tippin & Baker 2002). Hunsley (1997) found in his comparative study that sole mothers relying on income support were more likely to improve their economic status through marriage rather than paid work. However, cohabitation or marriage is only beneficial to sole mothers if the male partner has a steady job, shares his earnings, is debt-free, is a loving partner, and assists with childrearing.

Sole mothers are typically limited in their strategies to deal with financial problems through the relative lack of socio-cultural resources, which can lead to regrettable choices.

Many sole parents face challenges to their earning capacity with the lack of affordable and reliable childcare, transportation problems, unpredictable and harmful relationships with former partners, and family health issues. These problems can also interfere with finding suitable new partners who can help them out of debt. The social welfare system may view low income, depression, poor health, childcare problems, and paid work as discrete policy issues but beneficiary mothers know from experience that they are related (Baker & Tippin 2004).

Policy Implications

Problem debt can result from poor decision-making and impulsive behaviour but also from difficult socio-economic circumstances. In this paper, I have focused on the circumstances, arguing that long-term and 'problem debt' is more prevalent among certain categories of people, especially young sole mothers with low incomes who are caring for children. Fewer sole mothers than couples are able to find high-paying jobs and to buy their own homes but mother-led households retain substantial child-related expenses and sometimes inherit debts from previous relationships. Although non-resident fathers are expected to pay child support, these payments are sometimes sporadic, low or even non-existent. Consequently, many sole mothers rely on state income support and their own (low) earnings.

The structural patterns of problem debt highlight the importance of integrating various types of social services, including financial advice, income support, relationship counselling, and health care (Balmer et al 2005), as well as attempting to diminish the gender pay gap and to ensure that childcare services meet the needs of employed mothers. Welfare offices and private agencies often cooperate with service delivery. Yet some jurisdictions have restricted eligibility to income support, assume that debt results only from poor money management, and imply that nothing should prevent beneficiaries from finding and keeping paid work.

Labour markets have been rapidly changing, however, providing fewer long-term secure jobs and more part-time work, and requiring longer working hours. Although many officials view employment as the answer to family debt and poverty, this is only true when job markets are booming, wages match living costs, workers are healthy and well-qualified, potential employees do not have to consider spousal access to the children, and when high-quality child care is available and affordable. Finding employment sometimes requires relocation but this is particularly difficult for low-income sole mothers with daily childcare responsibilities and access agreements with their former partners.

As the recession deepens, a focus on infrastructure development is emerging as a popular policy option for many governments but this option is inherently biased towards male employment if it concentrates on building and construction. Job creation also needs to be bolstered in occupations with large numbers of women workers, such as education, social services and health care, and more mothers need to be offered the necessary employment or social supports to retain full-time earnings. Furthermore, credit practices needs to be restricted to discourage borrowing without adequate equity or earnings. Also, welfare programs need to provide sustained support for sole mothers who were homemakers in the past, who experience family illness or conflict, and have low incomes and debts to repay.

Generally, social programs need to acknowledge more overtly that access to earnings and credit remains gendered and that indebtedness often accompanies marriage breakdown and sole responsibility for children. Low-income sole mothers living in rental accommodation with their children could indeed be the quintessential problem debtors requiring additional social services in economic hard times.

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