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DOES EQUAL OPPORTUNITY BRING MEN AND WOMEN CLOSER TO WEALTH EQUALITY?

Review of *Shortchanged: Why Women Have Less Wealth and What Can Be Done About It*, by Mariko Chang (Oxford University Press, USA, 2012)

Introduction

The typical question asked, at the beginning of lectures on differences in wealth holdings within couples is: Why does this matter? For the most part, the people under consideration are married and the decision-making is at the household level. So why is this an important topic? At the end of the lecture, there usually remains a group of people unconvinced that this issue is worth examining, because there is an assumption that in a marriage couples share everything and divorce is assumed to result in a 50:50 split of assets. The book by Mariko Chang, *Shortchanged*, challenges this assumption and goes into much detail explaining why the issue is not as simple as it may seem by discussing the exact forces at work behind wealth accumulation.

The author argues that processes that exist at the workplace, in the society, but most importantly within couples are in fact the cause and root of the existing gender wealth gap. In the end, she explains why a reduction in the gender wealth gap should be addressed for the society to benefit as a whole. Her book tackles the general problem of wealth differences among women and men and is focused not only on the situation among couples, but also on the increasing number of single-person households. This book is an important contribution to the scarce literature on wealth distribution, differences in accumulation across different household types and within couples for women and men.[1]

Overview and Content

Unlike the gender wage gap, the gender wealth gap has been relatively understudied. Reasons for this have been: the relative shortage of wealth data compared to income data, and when it comes to couples, the difficulty in untangling ownership information (or even, yet, control of assets). One of the author's goals was to begin the dialogue regarding women's economic future by including the importance of wealth building in the agenda. Her style is clear, simple, and right to the point. From the first chapter in which the author explains the importance of the wealth gap, we are provided with a long range of citations, interviews and loan calculations, which identify the nature of the problem in the United States. We are

[1]See, for example, Deere and Doss (2006) and Gordon Nembhard and Chiteji (2006).

presented with facts about the gender wealth gap and are (re-)introduced to the concept of the *wealth escalator* and *debt anchor*—two opposite forces that affect wealth building. The former helps us climb the wealth ladder. The latter—the debt anchor—shows us how easy it is to fall off the wealth escalator, particularly for women, which compounds their wealth disadvantage. In the book, we learn about the differential effect of parenthood on wealth for women and men and about the motherhood tax. We are shown how gender differences in investment affect wealth outcomes. Also discussed are reasons behind wealth differences that exist within a marriage. In the end, the author explains why current family and equal pay-policy in the United States cannot close the wealth gap and proposes alternative policies.

Issues and Approaches

The book points to several underlying issues of the gender wealth gap and provides empirical evidence using the 2004 Survey of Consumer Finances (SCF) data. The SCF does not collect data at the person-level, but it is known to provide extremely detailed wealth information. Another characteristic of the survey is that it is designed to capture information about households in the top of the wealth distribution to a better extent than other household surveys. The author does not shed light on the well-being of other demographic groups (such as immigrant women or low-income households), possibly because other studies have looked at these topics (e.g., Shapiro and Wolff, 2003) and a different dataset would need to be used.

The study of within-couple money management, presented by Chang in the book, would not be feasible using the SCF alone, thus the microdata analysis is supplemented with 50 in-depth couple interviews on financial decision making within couples. The book is largely descriptive and will surely inspire economists to perform more technical analyses.

The Facts

Women earn 78 percent[2] of what men do in the U.S., while they own 36 percent as much wealth. Never-married women working full-time earn 95 percent as much as similar never-married men, but only have 16 percent as much wealth. In case of job loss or other emergencies, this can make women extremely economically vulnerable.

The importance of having one's own wealth should not be underestimated since about half of all households are headed by single people. People are getting married later and later in life and women nowadays are spending more of their adult years single rather than married. After examining the facts presented in Chang's book, one can conclude that marriage is less and less about sharing financial resources and financial stability than it used to be. About half of marriages end up in divorce (Taylor *et al.*, 2010), therefore there is a big

[2]Based on median annual earnings.

chance that any inequalities with respect to ownership of household wealth in a marriage may become an unwelcome reality for women. Consequently, the wealth gap has become a more important issue than ever, regardless of one's marital status.

Opportunities to Build and Lose Wealth

A nice contribution of the book is conceptualizing the explanations for the differential wealth holdings between women and men. Traditionally, income or earnings were seen as a big source of inequality between the genders that together with differential investment patterns and inheritance have translated into the wealth gap. The author argues that a much stronger mechanism that allows for the creation (or destruction) of large wealth comes through access to the *wealth escalator* (*debt anchor*).

By conceptualizing elements contributing to wealth creation in this way the author provides us with new food for thought on why wealth differences exist. It is not just due to the jobs that women hold or their reduced labor market attachment. It is due to the fringe benefits that are attached to these jobs. These direct and indirect fringe benefits, which often reduce tax obligations, are mostly benefiting men, while women are left out of this important avenue of wealth creation. The solution to these problems seems quite simple and leaves the reader surprised as to why this evident unfairness has not yet been addressed in a rich economy in the twenty-first century.

The other spectrum of the wealth escalator is the *debt anchor*. Here, the author defines two types of debt: the "good" and the "bad." Women are argued to have more of the "bad" destructive type of debt that is used purely for consumption purposes (mostly by women in financial distress). "Good" debt includes mortgages and educational loans; this debt allows people to accumulate more wealth and to benefit from tax advantages. The author does not mention the relevance of risk attitudes of both genders in this respect, which potentially could be important. For example, in the case of women, there is in fact evidence that their relative higher risk-aversion and their propensity to take up more sensible mortgages sheltered them from some of the effects of the financial crisis and recession (Do and Paley, 2013). In addition, recent higher graduation rates for women also suggest that they may have been taking more advantage of educational loans than suggested in the book.

Saving and investing is another aspect of wealth building. Controlling for differences in characteristics between women and men, surprisingly the author finds that the same investment patterns prevail for both. But, women tend to have businesses in sectors yielding lower revenues. The author points out that owning one's own businesses is what drives wealth at the top of the wealth distribution. So why do these gender differences in portfolio composition exist? Here the author points to several facts that have been confirmed in the literature. Assets that allow wealth building generally require more risk taking and women have been found to have lower financial risk tolerance and lower financial literacy (Jianakoplos and Bernasek, 1998).

A Special Tax for Mothers?

The discussion of there being a special tax for mothers is not new. We know children are a public good and affect women's outcomes in the labor market. The author provides us with a new perspective on these elements, by calculating what this translates into in terms of wealth building. For example, we are shown how the unexplained wage penalty for women restricts women's access to the wealth escalator (lost opportunities to save for retirement) due to reduced labor market attachment (particularly for married women); and for single mothers, how the additional financial burden of being a sole custodial parent (since the financial responsibility of raising children is not divided equally between men and women) limits wealth building. What could also be considered new is the author's presentation on how our everyday decisions regarding the split of household tasks could have a long-lasting impact on the ability to accumulate wealth. The multivariate analysis in this case could be improved by at least allowing for independent effects for women and men for many of the variables that are being controlled for.

The message from the author seems to be that marriage is not what it used to be.[3] Due to the loosening impact of family ties on our life decisions and inability to rely on the state for support, women need to think more about their future than ever before. I think there is a strong message here for well-educated women, as well, who give up their careers and encourage men to perform well by accommodating their schedules. This sacrifice is good for overall household income, but not their wealth. The counter argument for this would always be: but why does this matter if wealth building is not at the top of the agenda and other preferences are at play? The answer would be: this is a book about finding the sources of wealth accumulation differentials and this is one of them.

The author calls for both parents to work and share after-school activities as the division of labor has huge implications for women's ability to attain financial well-being.

Sharing within Couples

A key point of the book is the importance of financial independence, which via the words of Virginia Woolf (a well-known feminist icon) "is by far more important than the right to vote" (Woolf, 1929). Wealth sharing within couples is often disregarded as not a serious issue since intra-household sharing is assumed and, in case of divorce, a 50:50 split of assets is assumed mandatory. The author points out that only nine states in the U.S. are community property states requiring this split, while in the remaining 41 common law prevails.

The author argues that within the marriage, the gap transfers from having less wealth to having less control over it.[4] Based on individual interviews, Chang distinguishes three patterns of control over money; all of them are seen by women to be compatible with equality, but in fact, they have very different consequences

[3]A recent report shows men gain disproportionately more from marriage (Taylor *et al.*, 2010).

[4]Research for Germany finds that only 15 percent of couples report within-household equality (Sierminska *et al.*, 2010).

in terms of women's wealth accumulation and their well-being while being in the couple and in case of divorce. As the author puts it:

> Women are . . . thrown into the financial "deep end" at the time when they are already stressed and vulnerable—at the time of divorce or widowhood. If women are left in the dark with respect to finances or do not gain financial knowledge or the confidence that comes with experience, they are at a disadvantage when they must manage their assets to make ends meet as a single woman. (p. 106)

To me, this indicates that the author is arguing for higher financial literacy among women, which would allow them to make more sound financial decisions.[5]

Finally

It is refreshing that, apart from documenting the precarious wealth situation for women, the author also proposes various solutions to help diminish the wealth gap. The existing policies in the U.S. are designed to help with equality of earnings and balance full-time employment and family responsibilities, but they do not necessarily place women on the wealth escalator.

We learn why this is the case and are proposed various solutions. Some of these may be controversial, but most are common sense and are well in place in other corners of the world, for example in Europe. The book would benefit from providing a few such examples (see, for example, Gornick and Meyers, 2003).

This book will be greatly enjoyed by economists and sociologist alike interested in learning more about the sources of differences in wealth accumulation between women, men, and different household types. It is a clear, comprehensible, and delightful read appropriate for interested readers outside the field, as well. The author shows not just how decisions and preferences of individuals and households are formed, but that the system in which Americans live has far-reaching consequences in terms of wealth accumulation and ultimately economic well-being. Given that reliance on private assets upon retirement will only increase, this debate needs to be taken up.

Mariko Chang has (re-)started the debate. She has identified the key sources of the wealth gap, which are often immeasurable with ordinary microdata. Some questions remain unanswered (What is the gap among immigrants, among lower income households, or what are the regional disparities?), but others have been raised and the discussion may move closer to the forefront on how to begin reducing the wealth gap between women and men in order to improve the well-being of the society as a whole.

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[5]Another paper looking at Germany has also found that the wealth gap is lowest in couples where the woman has the last word in financial decision-making. In fact, these couples are not the richest and it is difficult to determine causality, but it seems that equality of decision-making within couples allows for equality of wealth within couples (Grabka *et al.*, 2013).

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