

# Disagreement in Partners' Reports of Financial Difficulty

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## Abstract

We use unique data in which both partners report about household finances to demonstrate that there is often disagreement about whether the household has experienced financial difficulty in the past year. Four alternative explanations for this disagreement are tested using the data. The results indicate that disagreement may be related to the severity of the underlying material hardship rather than to gender differences or individual (as opposed to household) views of financial difficulty. We find only weak evidence that information asymmetries explain couple disagreement about financial difficulty. This implies that standard surveys which collect information about the household's financial position from a representative individual may fail to completely characterize the nature of material hardship.

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# 1 Introduction

Moving beyond standard poverty statistics – which reflect low income – to consider the material hardship that stems from a lack of consumption provides a fuller picture of households’ overall economic well-being. There is often only a weak relationship between low income and deprivation since family needs are as important as economic resources in understanding which families are at risk of material hardship (see Bauman, 1999a; 1999b; Layte, et al., 2000; Mayer and Jencks, 1988; Whelan, et al., 2001). Consequently, many surveys such as the Survey of Income and Program Participation, the British Household Panel Survey, the U.S. General Social Survey, the German Socio-Economic Panel, and the European Community Household Panel have begun to ask directly about a household’s inability to, for example, make rent or mortgage payments, pay for utilities, purchase adequate food or receive medical treatment. In each of these surveys, a single individual (i.e., the reference person, household head, or random individual) is called upon to report incidents of financial difficulty on behalf of the entire household. These individual reports of financial difficulty are then often used to make inferences about consumption poverty or underlying material hardship in the household<sup>1</sup>.

It would appear, however, that family members rarely have the same view of the household’s financial situation. Men report higher levels of income and assets than their partners, while women report higher levels of debt (Zagorsky, 2003). Moreover, husbands and wives often disagree on the system they use to organize their household finances (Dobbelsteen and Kooreman, 1997) and the minimum income needed by the family to make ends meet (Plug and van Praag, 1998). Very little is known about how partners see other dimensions of the family’s finances, however.

In this paper we investigate partners’ views of household financial difficulty using data which to our knowledge is unique in asking both partners separately about the household’s inability to pay its bills.<sup>2</sup> We have three objectives. First, we wish to

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<sup>1</sup>These surveys often indicate extensive material hardship. For example, Bauman (1999a) finds that in 1995 approximately 49 million people in the United States – about one in five – lived in a household that had at least one difficulty in meeting basic needs.

<sup>2</sup>The National Longitudinal Surveys (NLS) are the only U.S. data sets with financial information collected separately from each partner (see Zagorsky, 2003 for a discussion). However, the NLS does

analyze the extent to which partners disagree about whether or not the household has experienced financial difficulty in the previous year. Secondly, we test alternative explanations for this disagreement. Lastly, we examine whether having two reports of financial difficulty provides any additional information about the family's material hardship relative to studies which use the report of only one individual. Understanding the source of partners' disagreement has important implications for surveys which rely upon a representative agent to report on the household's finances. Our results indicate disagreement is not random, but is closely related to the household's income level, demographic structure, housing status, and the nature of partners' relationship. More specifically, disagreement appears to be related to the severity of material hardship. We find only weak evidence that differential knowledge of household finances explains disagreement. This implies that surveys which rely upon a representative individual may be misleading about the degree of material hardship experienced by couples by failing to measure some cases of intermediate hardship.

Finally we examine whether cohabiting couples who are not legally married are similar to married couples in their propensity to report financial difficulty and their disagreement about household experiences of financial difficulty. Since many US surveys do not gather data on unmarried couples, this question also has an important bearing on survey design. The relationship between disagreement and informational asymmetries appears to be stronger for cohabiting couples than for married couples.

## 2 Data

The data come from the second wave of the Household Income and Labour Dynamics in Australia (HILDA) Survey.<sup>3</sup> The HILDA Survey is a nationally representative panel survey of Australian households. The population frame is all members of private dwellings in Australia with the exception of overseas residents temporarily living in Australia, diplomatic personnel of overseas governments, and members of non-Australian defence forces. The institutionalized are excluded from the frame as are people living in very remote areas. Relative to population estimates, the HILDA

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not ask directly about incidents of financial difficulty.

<sup>3</sup>See Watson and Wooden (2002) for more details.

sample appears to slightly under-represent residents of Sydney, men, non-English speaking immigrants, and non-married individuals. (See HILDA Survey Annual Report 2002). In other respects the sample composition is not significantly different from other estimates of the Australian population.

Each individual over the age of 15 in the selected households completed a personal questionnaire (PQ) which was administered in a face-to-face interview. All household members over the age of 15 were also asked to fill out a self-completion questionnaire (SCQ) which was left with individuals after completing the PQ and either completed immediately, returned by mail or picked up by the interviewer in the two weeks following the face-to-face interview. The survey protocol outlined a preferred strategy of conducting the face-to-face interviews separately with each member of the household. Since SCQs were primarily completed by individuals after the interviewer had left the household, there is no way to know whether or not individuals in the same household coordinated their responses in the SCQ. However, given the large amount of disagreement about incidence of financial difficulty documented in Table 1 below, it would appear that this was not the case.

The income, housing tenure, education and demographic data used in this analysis are from the PQ. The main variable definitions and some summary statistics are provided in Appendix Table A1. The SCQ asked about a range of negative financial events. Specifically, individuals were asked “Since January of 2002 did any of the following happen to you because of a shortage of money?” Possible responses included 1) an inability to pay utility bills on time; 2) an inability to pay the mortgage or rent on time; 3) pawning or selling something; 4) asking for financial help from family or friends; and 5) asking for help from welfare or community organizations.<sup>4</sup> We refer to these various outcomes generically as “financial difficulty” or “financial problems.” We use this information to create indicator (0,1) variables for each financial problem as well as indicators for experiencing at least one and more than one form of financial difficulty.<sup>5</sup> Our sample consists of married (2714) and cohabiting (442) couples

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<sup>4</sup>The HILDA Survey also asked about incidents of missed meals and an inability to heat the home. Missing meals is very uncommon amongst the couples in our sample, however, while heating is not a requirement for many Australian households. Consequently, we have chosen not to analyze these two outcomes in depth.

<sup>5</sup>We conducted factor analysis on the individual and household responses. We find that two

in which both partners answered the PQ and the SCQ items relating to financial difficulty.<sup>6</sup>

### 3 Disagreement about Financial Difficulty

Table 1 shows that the proportion of Australian couples reporting specific financial problems ranges from 19.5 percent (utilities) to 3.5 percent (welfare) with 26.7 percent of all couples reporting some form of financial difficulty. Partners often disagree, however, and more than half the time only one partner reports the problem. Although the incidence of financial problems is in general twice as high amongst cohabiting couples, conditional on experiencing some form of financial difficulty they are no more likely to disagree than are married couples.<sup>7</sup>

[Table 1 about here]

Given the extent to which partners disagree about incidents of financial difficulty, it is interesting to look at the factors that explain this disagreement. To address this issue, we use a standard probit model to estimate the determinants of a couple's propensity to disagree about incidents of financial difficulty. Couples are coded as disagreeing whenever one person reports at least one incident of financial difficulty and his or her partner reports no incidents. These results (i.e., probit marginal effects and standard errors) are presented in column 2 of Table 2. Because approximately three in four couples agree that they have not experienced financial difficulty (see Table 1) however, estimates of disagreement based upon the entire sample of couples

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factors account for most of the variation in these measures—one is a combination of the questions on utilities, mortgage payments, and help from friends and the other a combination of pawning, asking for help from welfare agencies, and asking for help from friends. The determinants of these factors are identical in sign and significance to the determinants of the 'any difficulty' measure which we analyze below and we therefore do not present the results for the derived variables from the factor analysis. These results are available from the authors upon request.

<sup>6</sup>Same sex couples and couples living with others who are not their own children have been excluded. Moreover, we deleted 459 couples in which at least one partner did not answer the PQ and a further 502 couples in which at least one partner did not completely answer the SCQ. The age and household characteristics of couples in our sample who did not complete the SCQ are generally similar to those who did. However, the couples who did not complete the SCQ have lower income, on average, than those who did and are more likely to be renting instead of holding a mortgage.

<sup>7</sup>One might worry that these results are driven by the longer average duration of married relationships relative to cohabiting relationships. However, results are substantially the same if we restrict our sample to couples who have been together for less than 10 years.

largely reflect the distinction between couples who do and do not experience any financial problems at all. Consequently, we also present estimates of the propensity for at least one partner to report financial difficulty (column 1) as well as conditional estimates (column 3) based upon the restricted sample of couples in which at least one partner reports financial difficulty.<sup>8</sup>

[Table 2 about here]

Disagreement (see column 2) is more common in couples who are cohabiting, have less income from the wife, rent or are paying off a mortgage, and have been together for a shorter period. Higher education among wives is associated with a lower probability of disagreeing about financial difficulty, though husbands' education level has no significant effect on disagreement.

Not surprisingly, these patterns are sharpened when we consider the incidence of financial difficulty (see column 1). Financial difficulty is clearly related to a lack of financial resources (i.e., low income and educational attainment) as well as to increased needs (larger household size, rent and mortgage payments) with cohabiting couples reporting more problems in paying their bills than their married counterparts. When we condition on experiencing some form of financial difficulty (column 3), we find that couples are more likely to disagree about whether financial difficulty has occurred when the husband's income is higher, the household is smaller in terms of both adults and children and the couple has been together longer.<sup>9</sup> For completeness, column 4 reports the estimates of the determinants of disagreement, conditioning on at least one person in the household not reporting financial stress. Taken together, these results show that households where both members report financial difficulty are distinctly different than those where only one member reports financial difficulty. The latter group, likewise, is different from those where neither partner reports financial difficulty. Consistent with previous results (see Table 1), given that they experience financial difficulty, cohabiting couples are no more likely

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<sup>8</sup>Estimates are reported for our summary measure of any report of financial difficulty. Results for the specific financial problems are similar.

<sup>9</sup>Age of both husband and wife are insignificant in these regressions once we control for length of relationship. We therefore report regressions without age variables.

to disagree about the experience than are married couples. They are more likely to experience financial difficulty, however, as is clear from column 4 of Table 2.

Why do partners disagree about whether the household has experienced financial difficulty? In what follows we explore four potential sources of disagreement: gender differences, information asymmetries, an individual (as opposed to a household) view of financial difficulty, and severity of material hardship. Each of these has implications for assessing household material hardship on the basis of individual accounts of household financial problems. In concluding, we also consider whether or not disagreement appears to be in some sense “random” in which case it can be ignored in standard estimation models.

It is worth noting at this point that our interest, in addition to documenting and exploring the source of this disagreement itself, is in whether disagreement limits the usefulness of reported financial difficulty as a signal of a household’s level of material hardship. We adopt the standard interpretation that the latent variable in the propensity to report financial difficulty equation (column 1 of Table 2) is the underlying level of material hardship. Propensity to report financial difficulty increases with need and decreases with resources, consistent with this interpretation. In cases where a couple disagrees about the occurrence of a specific financial difficulty, we are not particularly interested in establishing the ‘truth’ of whether the actual financial difficulty occurred—even if we thought that this were possible. Rather, we are interested in understanding why it is that partners disagree and what this disagreement implies about the measurement of material hardship.

### 3.1 A Bivariate Probit Model of Disagreement

Consideration of those characteristics that are important in explaining each partner’s report of financial difficulty is useful in testing a number of explanations for disagreement in reports of household financial difficulty. Consider the following model:

$$\begin{aligned}
 y_{1i} &= X_{1i}\beta_1 + \mu_i + \varepsilon_{1i} = X_{1i}\beta_1 + \gamma_{1i} \\
 y_{2i} &= X_{2i}\beta_2 + \mu_i + \varepsilon_{2i} = X_{2i}\beta_2 + \gamma_{2i}
 \end{aligned}
 \tag{1}$$

where  $y_{ji}$  is a latent variable which determines whether partner  $j$  ( $j = 1, 2$ ) reports financial difficulty,  $X_{ji}$  is a vector of household and personal characteristics for both partners,<sup>10</sup>  $\mu_i$  is an unobserved household-specific effect, and we assume that  $\gamma_{1i}$  and  $\gamma_{2i}$  are bivariate normally distributed error terms.  $i$  indexes the household. In addition to being viewed as the propensity to report financial difficulty, the latent variable in (1) may be viewed as an underlying measure of the degree of material hardship experienced by the household. In the literature which uses reported financial difficulty to assess material hardship, the occurrence (and report) of financial difficulty is assumed to be increasing in material hardship.

This bivariate probit structure, in which there are common unobserved factors which affect the propensity of each member within a couple to report financial difficulty, seems natural in this case. Couples are likely to be matched on the basis of unobserved characteristics such as attitude towards risk, time preferences (which determine savings behavior), and approach to financial management which will influence the propensity to experience material hardship and to experience (and report) financial difficulty.

### 3.1.1 Gender Differences

Previous evidence suggests that husbands and wives often view household finances differently (Zagorsky, 2003; Dobbelsteen and Kooreman, 1997; Plug and van Praag, 1998) and disagreement about financial difficulty may stem from gender differences in perceptions of household finances and the nature of financial events.<sup>11</sup> If this is the case we would expect significant gender differences in both the propensity to report and the determinants of financial difficulty. We find, however, that while women in cohabiting relationships are slightly less likely than their partners to report needing help from a welfare or community agency, on all other measures there are no significant gender differences in reported rates of financial difficulty (see Table 3).

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<sup>10</sup>The model includes household financial resources (disposable income for each individual, housing tenure, and household size), partners' educational qualifications, length of relationship, and dummy variables indicating agreement/disagreement about who makes day-to-day decisions regarding household finances.

<sup>11</sup>Interestingly, sociological evidence suggests that men are more likely to report exposure to and be distressed by negative financial events (Conger, et al., 1993).

[Table 3 about here]

Moreover, using our bivariate probit estimates, we also tested the joint equality of all coefficients across the equations for men and women. The results (reported in Table 4) indicate that there are very few systematic differences in men and women's reports of financial difficulty.<sup>12</sup> Gender differences are important in understanding couples' propensity to report that they could not pay their utility bills.<sup>13</sup> However, in all other cases, we fail to reject the hypothesis that the determinants of men's and women's reports of financial problems are the same. Thus, it does not appear that gender differences in perceptions of financial events are the source of the disagreement in partners' reports of the financial difficulty experienced by households. This is good news for surveys relying on a representative individual because women are often disproportionately likely to respond to questions about the household (see Zagorsky, 2003).

[Table 4 about here]

### 3.1.2 Information Asymmetries

The distribution of power between partners – which is often associated with bringing income into the household – can affect the organization of household finances including whether or not the couple chooses to maintain joint or separate bank accounts (Dobbelsteen and Kooreman, 1997; Pahl, 1995). Consequently, disagreement about whether or not the household has experienced financial difficulty may occur if one partner has less information about the household's financial position either because he or she is not involved in financial decision-making or because the household's finances are not fully integrated.

Table 5 documents the extent to which married and cohabiting couples maintain joint bank accounts and share financial decision-making about 1) day-to-day finances, 2) large purchases and 3) investments. The majority of couples agree that they share responsibility for day-to-day financial decisions and it is interesting that there

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<sup>12</sup>Detailed coefficient estimates are in the appendix.

<sup>13</sup>This appears to be largely driven by gender differences in the effect of couples' disagreement about who makes the day-to-day financial decisions for the household.

is much less disagreement about who in the family makes financial decisions than about whether the family has experienced financial difficulty. Not surprisingly, joint decision-making is more commonly used in making large purchases or investment decisions than in day-to-day financial management. Cohabiting couples are as (or even more) likely to share financial decision-making, but are much less likely to integrate their household finances. While 54.9 percent of married couples agree that they maintain some joint accounts, the same is true of only 27.6 percent of cohabiting couples. The majority of cohabiting couples manage their household finances using individual bank accounts only.

[Table 5 about here]

Using information about the shared responsibility for day-to-day financial decisions and the integration of household banking, we can assess whether disagreement about financial difficulty stems from information asymmetries between the two partners.<sup>14</sup> We begin by incorporating these measures directly into our probit model of the determinants of a couple's propensity to disagree about experiencing negative financial events.<sup>15</sup> The results indicate that – everything else equal – sharing day-to-day financial decision making and maintaining joint bank accounts are not significantly related to the probability that the couple will disagree about financial difficulty (see Table 6). In particular, undertaking joint decision making (the omitted category) and maintaining integrated bank accounts are generally associated with less disagreement (as one would expect), but these differences are not significant. At the same time, couples who disagree about who makes the day-to-day financial decisions in their household are 11 percentage points more likely to report some form of financial difficulty (see column 1). If we exclude households where both partners report financial problems, we also find that couples who disagree about who makes the day-to-day financial decisions are 10.6 percentage points more likely to have one member who reports a negative financial event (column 4).

[Table 6 about here]

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<sup>14</sup>We do not separately consider shared responsibility for decisions about large purchases and investments because the overwhelming majority of couples agree that these decisions are made jointly.

<sup>15</sup>See Table 2.

We also considered the incidence of financial difficulty reported by the subsample of 1053 married and 114 cohabiting couples who agree that only one partner makes the day-to-day financial decisions for the household. These results (presented in Table 7) indicate that decision makers are more likely to report financial difficulty than are their non-decision making partners, though this disparity is in general not significant. Individuals making day-to-day financial decisions are significantly more likely than their partners to indicate that the household was unable to pay its utility bills on time, however. Results for the overall measure of financial difficulty are likewise determined primarily by the utility bill question.

[Table 7 about here]

Interestingly, when we consider married couples separately from cohabiting couples, we see that the differences are in general much larger for the cohabiting couples. These differences are not often statistically significant, however, due to the small sample size of this sub-group. For failure to pay the utility bills, when the married couples are considered alone, the difference between decision-makers and non-decision-makers is no longer statistically significant. One may interpret these results as indicating that decision-maker status is more informative about communication (or the lack thereof) between partners for cohabiting couples than it is for married couples.

Finally, we reestimated equation (1) using decision-maker status – rather than gender – to classify partners. We then tested whether or not there are systematic differences in the determinants of decision makers’ and non-decision makers’ propensity to report financial difficulty. In all cases, we fail to reject the hypothesis that the determinants are jointly equal for the two partners.<sup>16</sup>

Overall, information asymmetries between partners do not seem to be strongly related to more disagreement about financial problems. Couples who share financial decision making and maintain joint bank accounts are not significantly less likely to disagree about financial difficulty than couples who do not. Many surveys attempt to direct questions about household finances to the individual who is most knowledgeable

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<sup>16</sup>As before the null hypothesis is that the determinants of reported financial difficulty are jointly equal for the two partners.

about those finances. These results indicate that – at least with respect to financial difficulty – there is only slight evidence that responses about the household’s financial position are related to the degree of information that the responding individual has about those finances. Furthermore, there is some evidence that this relationship is more important for cohabiting couples than for married couples.

### 3.1.3 Individual vs. Household Hardship

There is an extensive literature in economics which centers on the distribution of consumption within the household. It demonstrates that the nature of family preferences, partners’ outside options, and the way in which income enters the household can all influence the way in which the household allocates resources to various family members.<sup>17</sup> Because consumption within the household is not completely public, disagreement in reports of financial difficulty may also occur if partners are reporting financial events which are – at least in part – individual rather than household in nature.

Clearly, we do expect there to be an important common element in partners’ reports of financial difficulty. This can be quantified by constructing the predicted probability that an individual will report financial difficulty conditional on his or her partner’s response. If partners’ responses about financial difficulty were completely independent then we would expect that the probability that partner  $i$  reports some financial difficulty would not depend on what his or her partner had reported so that  $P(H_i = 1|H_j = 1)$  and  $P(H_i = 1|H_j = 0)$  would be approximately equal. This proposition is soundly rejected in the data (see Table 8).

[Table 8 about here]

Another way to test the same proposition is to use the estimated correlations from the bivariate probit model in (1). The estimated correlations are always highly significant, taking values from .72 for the summary measure of any financial difficulty to .80 for the measure of asking friends for financial help. Both of these tests indicate that there is an important common element in partners’ reports of financial difficulty.

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<sup>17</sup>See Behrman (1997) for a review of the empirical literature on the intrahousehold distribution of resources, while Bergstrom (1997) reviews theoretical models of the family.

At the same time, financial difficulty may not be experienced equally by all members of the household and this might result in some disagreement about whether the household has in fact experienced the negative financial event. There is, for example, evidence that the income of a cohabiting partner contributes less than the income of a married partner to reducing the material hardship experienced by household heads (Bauman, 1999b).<sup>18</sup> Consequently, we might expect that financial difficulty is more an individual- and less a household-specific experience in cohabiting couples and that disagreement between cohabiting partners would be higher. The evidence presented in Tables 1 and 2 does not support this proposition however. Though cohabiting couples experience more financial difficulty, conditional on experiencing some financial difficulty they are not more likely to disagree about it.

We might also expect that some reported events (such as borrowing money from friends or pawning something) are more individual experiences than others (for example, paying the rent or utilities). To investigate this, we define a measure of “public” hardship based on an inability to pay the utilities or rent/mortgage and a measure of “private” financial difficulty based on the need to pawn something or borrow money from friends.<sup>19</sup> While disagreement about “private” experiences does seem to be more common (59.8 vs. 55.9 percent overall), the differences are small in magnitude and generally not significant (see Table 9).

[Table 9 about here]

In short, while there is strong evidence that there is an important household-specific effect in reported financial difficulty, there is little evidence that within couples individual differences in experiences of financial difficulty are important in producing the extent of disagreement we observe in the data. Thus, it does seem to be the case that individuals are reporting about household rather than individual experiences.

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<sup>18</sup>There is also evidence that cohabiting relationships are generally shorter than marriages and that on other dimensions – fertility, housework allocation, school enrollment and labor force participation – cohabiting couples fall somewhere between single individuals and married couples (see Bauman, 1999b for a review).

<sup>19</sup>While this distinction is not completely clear cut, it nonetheless is useful in drawing distinctions between those forms of hardship which are more likely to be shared by others in the household and those which may not be.

### 3.2 The Severity of Hardship

Finally, disagreement between partners may be related to the severity of the underlying material hardship. Couples who disagree about whether they have been unable to pay the rent, for example, may be more financially constrained than couples who agree that they have paid the rent on time, but less constrained than couples who agree that they did not.

Indeed the above analysis suggests that relative to couples who agree that they experience financial difficulty, it is more financially-secure couples – i.e., those with higher incomes, living in smaller households, and in longer term relationships – who are more likely to disagree about incidents of material hardship (see column 3, Table 2). Further insight into this issue can be gained by directly examining the relationship between the likelihood of disagreement and a household’s disposable income. In particular, Figure 1 shows that disagreement is most common in the middle income ranges and less common at the extremes of the distribution with high-income partners agreeing that they have not experienced financial difficulty and low-income partners agreeing that they have.<sup>20</sup>

[Figure 1 about here]

We can test the relationship between disagreement and the severity of hardship more formally by comparing a multivariate logit with an ordered probit model, using the non-nested model selection testing procedure outlined in Vuong (1989). In each case, the dependent variable takes value zero if hardship is reported by neither partner, one if it is reported by only one partner, and two if it is reported by both partners.<sup>21</sup> The reasoning behind the test is that if disagreement reflects severity, then the categorical variable should exhibit an ordered feature, otherwise, it is best modelled as having no natural order. In the former case an ordered model

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<sup>20</sup>In Figure 1, financial difficulty is defined as reporting any of the negative financial events. The proportion of couples in which neither partner reports financial difficulty (0,0) is one minus the proportion of couples who disagree ((0,1) or (1,0)) minus the proportion of those who agree they have experienced financial difficulty (1,1).

<sup>21</sup>The independent variables include: log of husband’s and wife’s income; number of children; number of adults; housing tenure; years the couple has been living together; each partner’s education; and agreement/disagreement dummies regarding day-to-day financial decision-making. The models are tested separately for married and cohabiting couples.

(the multinomial probit) should fit the data better than an unordered model (the multinomial logit.) The null hypothesis is that the multinomial logit model fits the data at least as well as the ordered probit model. Rejection of the null implies that the ordered probit model, incorporating the severity hypothesis, is preferred.

The results (see Table 10) indicate that there is an ordering in the extent to which couples report financial difficulty. For married couples, the multinomial logit model is rejected (at 95 percent) in favor of the ordered probit model suggesting that there is a relationship between disagreement about financial difficulty and the severity of material hardship. Disagreement may be less closely related to the severity of the hardship faced by cohabiting couples, however. For these couples, we cannot reject the null hypothesis of no ordering for the payment of mortgages/rent, pawning something, and seeking financial help from friends.<sup>22</sup>

[Table 10 about here]

Overall, these results imply that surveys which rely on a representative individual to report about household experiences of financial difficulty miss information that is available by asking both partners. Specifically, couples in the intermediate category of material hardship—where one reports financial difficulty while the other does not—may be mis-classified as experiencing hardship (or not experiencing hardship) depending upon which partner is surveyed.<sup>23</sup>

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<sup>22</sup>This may be driven by the relatively small number of cohabiting couples rather than a fundamental difference deriving from marital status.

<sup>23</sup>This difference may in part explain the divergence in the levels of reported financial difficulty in Australian households captured in the 1998-99 Household Expenditure Survey (HES) and in HILDA data (see Bray, 2001 and La Cava and Simon, 2003). The underlying questions in the two surveys are similar. However, Bray (2001) concludes that 6.6 percent of couples with dependent children reported some form of financial difficulty in 1998-99 using HES data. Other couple-headed households experienced somewhat less financial difficulty (pg. 29: Table 6). In contrast, HILDA estimates suggest that approximately 23.7 percent of couples experienced financial difficulty in the previous year. By relying on a representative individual to report on household experiences, the HES may not be capturing all the financial difficulty experienced by couples. HILDA's higher rates of negative financial events may also be due to the confidentiality of the self-completion questionnaire or to the difference in time periods.

## 4 Conclusions

We use unique data in which both partners report about household finances to first demonstrate that there is often disagreement about whether the household has experienced financial difficulty, and, to second, test alternative explanations for this disagreement. Although previous research suggests that there are important differences in the way in which men and women perceive – and report about – household finances (see Zagorsky, 2003; Dobbelsteen and Kooreman, 1997; and Plug and van Praag, 1998), we find no evidence that gender differences in the propensity to report financial difficulty contribute to disagreement within couples about the household’s experiences. Moreover, disagreement does not appear to be driven by partners taking an individual (rather than household) perspective with respect to financial difficulty. The individual who makes the day-to-day decisions about household purchasing is generally more likely than the non-decision maker to report financial difficulty, but these differences are only statistically significant for failure to pay the utility bills. The evidence that disagreement stems from asymmetries in the extent to which partners are informed about the household’s financial position is stronger for cohabiting couples than for married couples, but fairly weak for both. There is, however, strong evidence that disagreement may be related to the severity of the underlying material hardship. Couples who disagree that they have experienced financial difficulty seem to be less financially constrained than couples who agree that they have experienced hardship, but more constrained than couples who agree that they did not.

These results have a number of implications for standard surveys which collect information about the household’s financial position from a representative individual. In particular, if disparity in partners’ reports of financial difficulty were random noise, then it might be sensible to ignore it when estimating standard models. Unfortunately, our results clearly indicate that this is not the case. Disagreement is not random, but is closely related to the household’s income level, demographic structure, housing status, and the nature of partners’ relationship. More specifically, disagreement informs us about the severity of material hardship. This implies that surveys which rely upon a representative individual to report about financial difficulty are

missing important information in understanding the degree of material hardship experienced by couples. Furthermore, if responses to questions about financial difficulty are being used to distinguish between households which do and do not experience material hardship, the high degree of disagreement indicates that many households will be mis-classified.

Given the strikingly large number of couples who disagree and the relatively low fit of our model of the propensity to report financial difficulty, it is clear that financial difficulty is a noisy signal of material hardship. If such a noisy signal is to be used to determine material hardship, it is clear that two measurements would be better than one, again pointing to a need to ask both members of the couple about their experiences of financial difficulty.

At the same time, the lack of significant gender differences in reported financial difficulty is encouraging given that women are disproportionately likely to respond to questions about the household (see Zagorsky, 2003). Moreover, there is a large common element in partners' reports of financial difficulty indicating that respondents are by and large reporting about household rather than personal experiences. Interestingly, however, information asymmetries between partners do not seem to be strongly related to disagreement about financial difficulty. Although many surveys direct questions about household finances to the person who is most knowledgeable, our results indicate that there is little evidence that responses about the household's experiences of financial difficulty depend on the extent to which the responding individual claims to be informed about those finances. However, this information may be more informative in the case of cohabiting partners than in the case of married couples.

Our results also point to a need to gather information about cohabiting couples as well as about married couples. U.S. surveys have not traditionally asked about cohabiting partners. The data we use provide information on both married and cohabiting couples and allow us to analyze whether or not they behave similarly. We find that cohabiting couples are no more likely to disagree about the experience of financial difficulty than their married counterparts, however they are more likely to experience financial difficulty, even after controlling for income and other household

characteristics.

It is interesting to speculate on what might be happening in couples where one partner reports the occurrence of the financial difficulty but the other does not. Disagreement amongst partners regarding subjective evaluation of household finances is perhaps not surprising (see for example, Plug and van Praag, 1998), but in our case, survey respondents are being asked about the occurrence of an objective event in the preceding 10 months. It is in this light that we find the level of disagreement, particularly about things like failing to make a rent payment or failing to pay a utility bill, surprising.

This disagreement may arise because although the event did occur, one partner fails to recall it. For example, one partner may be simply ignorant of the event, e.g. one spouse borrowed money from family members without informing his or her partner. However, as we have shown, this ignorance of the event is not related to making expenditure decisions or integration of bank accounts. Likewise, the event may not have occurred, but one partner nonetheless recalls that event. A common example of this is ‘telescoping’, where the event did not occur in the specified time frame (since January, 2002) but did occur further in the past and is mistakenly recalled as having happened within the specified time frame. Both of these stories are consistent with our hypothesis that couples who disagree are suffering from intermediate levels of financial difficulty. If financial problems are neither persistent nor severe, then it is more likely that one member of the couple may fail to remember or may mis-report them.

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