8 Money Management in Households

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8.1 Introduction

Private households dispose of a major part of a nation's financial resources. Consequently, financial decisions taken by households affect a nation's overall welfare. Regulators, marketers, consumer protectionists, businesses and economists are in need of knowledge about how households operate if they are to understand and shape household decisions. Economic models that fail to take account of systematic variations in household financial practices will inevitably be less accurate in predicting the impact of policies aimed (for example) at enhancing the well-being of children, encouraging debt avoidance or combatting poverty.

The standard economic concept of a household has perhaps been best described by Becker (1973). He applied the notion of maximisation of (human) capital to the household level and described the stereotypical roles of male breadwinner and female carer as a rational use of human capital. His thesis was that households as exemplified by marriage offer gains in trade and economies of scale by means of specialised human capital. Since women have a 'comparative advantage' in bearing and caring for children, they should invest primarily in domestic capital. To date, it makes economic sense for couples to adhere to this pattern when male earnings are (typically) higher than women's and the latter bear the children (Burgoyne et al., 2007). This normative economic ideal contrasts with the reality of households which are driven by multiple factors beyond the maximisation of economic benefits through role specialisation. Psychologists, in particular, have been concerned with describing financial household dynamics as a multidetermined set of socially negotiated practices.

But what is a household? The concept is widely used as the main unit of analysis by researchers and policy makers, yet few present a clear definition. Given that most people share a household, we are interested in households composed of more than one member. Such multiperson households have either been broadly defined as 'a group of people who share resources, activities and expenditures' (Casimir and Tobi, 2011, p. 503) or, more pragmatically, as all persons living together in a housing unit (United Nations, 2016).

Regardless of which definition is being used, various compositions of households exist. Households come in a variety of sizes and may consist of

romantically or economically attached, legally bound, related or unrelated members of both sexes at various ages. Due to societal and economic developments, the potpourri of household compositions is ever changing, and they affect the financial decisions households make. Beyond being influenced by the relationships household members have with each other (Kirchler et al., 2001), households are influenced by a multifacetted interplay of their context (e.g., culture, economic situation) and the individual characteristics (e.g., Donnelly, Iyer and Howell, 2012) household members bring into the situation (Kamleitner, Mengay and Kirchler, 2017). Together, these factors determine a household's resources and who in the household disposes of these resources, that is, they determine a household's money management (van Raaij, 2016).

In this chapter, we review and discuss how households manage money. We start our review by providing evidence on the multifacetted reality of household compositions. Before that background, we proceed to address the question of how households manage the money available to them and whether the assumption of the household as a unit is at all warranted. After unveiling essential dynamics shaping money management, we briefly address how the financial practices of a household may in turn influence its members and their interplay. We end the chapter with a juxtaposition of various insights across different household compositions and a systematic identification of what appear to be the most significant themes, implications, gaps and research directions in the study of household money management.

8.2 Composition of Households

The boundaries of households are fuzzy and they may shift over time (Kirchler et al., 2001). For example, the arrival and departure of children or movements in and out of the labour market affect a household's composition and activities. The household is thus a dynamic concept that comes in many guises.

In many Western societies, the average household size has been declining. The reasons are manifold and include decreasing fertility rates, high divorce rates and a trend towards living alone (Eurostat, 2015). To name an example, in the European Union (EU) the average household comprises 2.4 persons, but single-person households account for almost one-third (32 per cent) of households. Another third (32 per cent) of households comprises two persons, and it is only roughly a third of households (36 per cent) that comprises at least three persons. It is only among this last segment that the proverbial family comprising a breadwinning husband, a wife and one or more children can be found. This 'traditional' household format has been steadily declining (Antonides and van Raaij, 1998), as in 2008 only 21 per cent of households in the EU consisted of a couple with children (Iacovou and Skew, 2011).

Another change to households that affects money management and that we know little about to date (for initial insights, see Burgoyne et al., 2006, 2007) is a decline in the formal bond of marriage. In most Western societies, marriage used to be a 'societal prerequisite'. Now it is often just an option (Sweeney, 2010). In the EU, the marriage rate has nearly halved between 1964 and 2011 and the age at which people get married has increased (Eurostat, 2015). Many women now spend time developing a career before considering marriage and giving birth to children (Mills et al., 2011). Moreover, a substantial number of women continue in paid employment thereafter, which entails an increase in multiple-income households. For example, in both the United Kingdom (UK) and the United States (US), working wives contribute an average of close to 40 per cent of the family's income (Bureau of Labor Statistics, 2015; Cory and Stirling, 2015).

Marriage also used to be an enduring civil state. It no longer is. Following the liberalisation of divorce laws, divorce and remarriage have become more common. In the EU, today almost 50 per cent of marriages end in a divorce; that is twice as many as in the 1970s (Eurostat, 2015). In the United States, where remarriage is fairly widespread, three-quarters of divorced persons go on to remarry, and 65 per cent of these remarriages include children from one or more previous marriages (Bramlett and Mosher, 2001; van Eeden-Moorefield et al., 2007). Beyond the immediate implications to the prior household, as we shall see, such disruptions influence how individuals behave in a new household (van Eeden-Moorefield et al., 2007).

Alternatives to marriage have also become more acceptable and widespread (Barlow et al., 2008). Cohabitation is no longer a simple prelude to marriage. It has become a legitimate alternative and 'a normal context in which to bear and parent children' (Kennedy and Bumpass, 2008, p. 1686). For example, in the United Kingdom 14 per cent of dependent children were living with unmarried, cohabiting parents in 2015, and more than a third of the population had been in a cohabiting relationship at some point (Office for National Statistics, 2015).

A further household composition pattern results from the increasing acceptability of same-sex unions. Some countries have adopted laws which offer marriage for same-sex couples in a similar way to heterosexual couples. At the time of writing, same-sex marriage is possible in Argentina, Belgium, Brazil, Canada, Colombia, Denmark, England/Wales, Finland, France, Greenland, Iceland, Ireland, Luxembourg, Mexico, Netherlands, New Zealand, Norway, Portugal, Scotland, South Africa, Spain, Sweden, the United States and Uruguay (Pew Research Center, 2015).

Though the decrease in fertility rates tends to decrease average household size, there is another trend opposing this effect: a trend back towards extended-family households with at least two adult generations. In 2008, 16 per cent of the total US population lived in such extended-family households, that is, one-third more than in 1980 (Pew Research Center, 2010; Taylor et al., 2010).

In Europe, extended households are also increasing, though their prevalence sees strong variations, ranging from 7 per cent in northern Europe to up to 40 per cent in some eastern European countries such as Bulgaria (Iacovou and Skew, 2011).[1] In many Western societies, the average age at which young adults leave their parents' house has also increased (Kins et al., 2009). Both the rising number of extended-family households and the trend of young adults living with their parents are at least in part a response to the economic situation. Economic crises, which have not equally hit all parts of Europe, often lead to an increase in housing costs, and hit the younger generation harder than their parents' generation (e.g., Manacorda and Moretti, 2006), forcing them to stay home. How the increasing reality of multiple generations in a household affects households' money management is an interesting but largely open question.

Some countries also experience an increase in households consisting of non-related adults who are neither married nor cohabiting partners. In the United States, for example, such shared households were reported to account for 19 per cent of all households, and the trend is rising (Mykyta and Macartney, 2012). Once again, challenging economic circumstances and the subsequent urge to reduce the costs of living have been suggested to underlie such developments (Steinführer and Haase, 2009). What such household compositions imply for the way money is managed across the different household members has yet to be established.

All in all, we see an increase in the flexibility and the variety of household composition. Marriage has almost become a lifestyle choice. Its nature, meaning and practice have been shifting in parallel with other social and economic changes, all of which are likely to affect the dynamics at play when making decisions within and as a household. In the upcoming sections, we use this initial backdrop to review what economic psychology currently knows about money management within households.

8.3 Who Owns and Handles a Household's Resources?

The resources owned by a household consist of members' wealth and infrastructure (e.g., house, furniture) as well as their recurring income. In order to understand how money is managed in the household, we have to understand which resources are owned and handled by which household member. Overall, we know quite well how households deal with recurring income. In comparison to the literature on the management of recurring income, literature on the ways in which households perceive and handle wealth and infrastructure is limited. We first discuss the knowledge we hold on how households handle more permanent assets such as wealth and infrastructure. We then review and discuss the considerably broader base of knowledge on how different households handle recurring income.

8.3.1 Holding Possessions – Wealth and Infrastructure

From a legal viewpoint, possessions of a household are either individually or jointly owned, rented, leased or borrowed[2] by one or several members of the household. In case of joint entitlements, household members share ownership rights and obligations regarding the target object.

The way household members actually behave towards resources is, however, also a matter of the extent to which they experience 'psychological ownership', that is, the feeling that something is 'mine' (Pierce, Kostova and Dirks, 2003) or 'ours' (Kamleitner and Rabinovich, 2010; Pierce and Jussila, 2010), over the respective resource. The psychological experience of ownership affects how objects are being handled and decided on (Brasel and Gips, 2014; Brough and Isaac, 2012).

Owning things jointly rather than individually likely affects the extent to which a person feels psychological ownership for an object. On the one hand, joint ownership entails having less control over the object (e.g., in case of a jointly owned car the freedom to use the car at any time). This leads to a decrease in *individual* psychological ownership ('my-ness') and reduced object care. On the other hand, joint ownership can lead to *collective* psychological ownership ('our-ness'). This could cause a more careful handling of the target object. In case of a poor co-owner relationship, it can happen that neither collective nor individual psychological ownership are strongly experienced. Such situations result in low levels of object care (Kamleitner and Rabinovich, 2009).

Situations of low psychological ownership for a household's assets are especially likely for households comprising of cohabiting nonrelated persons. Within these households, jointly owned objects might easily become a source of conflicts both during the cohabitation as well as at the dissolution of the household. More generally, blurred or entangled ownership relations might complicate the division of household items when one or more household members leave the household. Despite an increasing prevalence of the real-world phenomenon, we know little about how different household compositions handle such situations. Rather than looking at the resources that are already at a household's disposition, most scientific attention has been devoted to the recurring resource of household income.

8.3.2 Handling Recurring Income – Money Management

A household may obtain recurring income through any of its members. In essence, most recurring income enters a household through the labour of an individual household member. A question that has received considerable interest in the psychological research community is how and whether it is then turned into a resource for the entire household, that is, who is in charge of and manages the recurring income? Notably, deciding on a certain money management system also affects psychological ownership. Households that pool all their resources are more likely to be explicit about treating all resources collectively, and to say that all of the money is 'ours' (Ashby and Burgoyne, 2009).

Jan Pahl (1989) identifies the following money management systems:

a. *The female whole wage system*: where the wife manages all household money apart from the husband's personal spending money; this system tends to be practiced by less affluent households (Pahl, 1995).
b. *The male whole wage system*: in which the husband manages all finances; this can leave a stay-at-home wife with no access to any money and tends to be practiced by higher-income households (Pahl, 1995).
c. *The housekeeping allowance system:* where the main earner gives his or her partner a sum to cover household expenses and retains control of the rest.
d. *The joint or total pooling system:* where all the household income is combined, often in a joint account; some transfer small amounts purely for personal spending money into separate personal accounts (Burgoyne et al., 2006; Burgoyne et al., 2007).
e. *The partial pooling system:* where some of the household income is combined to cover collective expenses, while the rest is kept separate. An essential difference between joint and partial pooling is that in partial pooling partners usually have their earnings paid directly into their individual accounts, and then transfer an agreed sum (or proportion) into a joint account for shared expenses. Many keep considerable sums of money and other assets separately. Partial pooling is motivated mainly by a desire to achieve independence, autonomy and some financial privacy as well as a sense of financial 'identity' (Burgoyne et al., 2006, 2007).
f. *The independent management system:* where each partner keeps his or her income in a separate account. This system is more typical for dual-earner couples. In independent management, the boundaries between 'mine', 'yours' and 'ours' are blurry. Couples using independent management are 'less individualistic and private than the label … suggests' (Evertsson and Nyman, 2014, p. 65). They do not necessarily spend their own money without considering the couple's and the partner's financial situation. Often partners only feel free to spend their money as they wish after joint expenses have been paid. Couples might have to negotiate how much money each partner contributes (and from which account), what is defined as a joint expense and who ensures that bills are paid. This can be even more tricky when there is a large disparity in earnings (Ashby and Burgoyne, 2005; Elizabeth, 2001). Though perceived as fair, independent management does not provide much protection to the economically weaker partner (Elizabeth, 2001).

An astonishing finding across the body of research building on this typology has been that all money management systems have the potential to replicate financial inequalities at the household level. One reason lies in an important

distinction inherent to Pahl's typology: that between overall control of money (or strategic power) and management (or executive power). Making a significant financial contribution is visible and it is accorded privilege (such as greater access to money for personal use and more 'say' in decision-making) than other types of input such as housework or childcare, thus yielding strategic power. In turn, access to money is not the same as the right to allocate money for different purposes. Thus, the female whole wage system may leave overall control in the hands of a male breadwinner who can set priorities for the use of the money that his wife manages on a day-to-day basis. Pooling likewise is often more apparent than real, with the potential for one partner to have more say on how the money is to be used (Vogler, Lyonette and Wiggins, 2008b). Money is not only an economic medium of exchange, but has an ideological and social value (Pahl, 1989). Even if partners have a joint account, and try to treat money as a collective resource, it might still be 'laden with meaning' (Nyman, Reinikainen and Stocks, 2013, p. 647), and the source of that income – that is, who has earned or contributed it – is difficult to ignore (Burgoyne et al., 2006, 2007).

Although Pahl's typology covers most ways in which money may be managed within a household, the use of the terms 'wife' and 'husband' already suggests that this work was done at a time with less heterogeneity in household compositions. It was guided by money management in traditional heterosexual marriage with the husband being the main breadwinner. Given the aforementioned diversification of households and the shift towards less traditional gender roles within heterosexual relationships (Lindsey, 2015), several scholars have since been reinvestigating actual practices (e.g., Ashby and Burgoyne, 2008; Vogler, Brockmann and Wiggins, 2006). To highlight how differences in household compositions may affect money management practices, we will start by summarising what is known about the money management practiced by heterosexual married couples and go on to juxtapose it with insights on money management practiced in other household compositions.

8.3.2.1 *Money Management in Households Bound by 'Traditional' Heterosexual Marriage*

Heterosexual marriage used to be the traditional unit of analysis and hence received the highest amount of scientific attention (Bennett, 2013). It dominated the reality of households in the past century (Cunningham, 2008), and though it is declining this organisational unit is still widespread. In particular, it remains a stereotype and benchmark for how households are supposed to function.

The classical economic stereotype is that of role specialisation including a male breadwinner and a female carer (Becker, 1973). While this stereotypical practice makes economic sense if the unit of analysis is the household (Burgoyne et al., 2007), the entailed division of labour exposes women to economic risk (e.g., Burgoyne, 2004; Vogler et al., 2006). Despite a public rhetoric depicting (Western) marriage as a partnership of equals (Reibstein and Richards, 1993), few seem to achieve this ideal in practice (Burgoyne, 2004; Webley et al., 2001). To date, men are more likely to start off with higher earnings (e.g., Maume and Ruppanner, 2015) than their wives and are more likely to become the principal breadwinners when a couple has children (Berghammer, 2014). The resulting disparity between male and female incomes can result in a lower standard of living for wives than husbands within the same household, and less say in decision-making. In societies with a high divorce rate, it can make women even more financially vulnerable. In particular, the situation for mothers who reduce their earning power tends to deteriorate over time as their labour market human capital diminishes (James, 1996; Webley et al., 2001).

This vulnerability could potentially be offset by the way that a couple chooses to manage income and other financial assets. Surveys in the United Kingdom during the 1990s (e.g., Laurie and Rose, 1994) show that around half of all couples were pooling their money, typically in a joint account, about 36 per cent used a whole wage system, 11 per cent used a housekeeping allowance system and around 2 per cent practiced independent management. More recent studies (e.g., Pahl, 2008; Vogler, Brockmann and Wiggins, 2008a) show a clear shift towards individualisation of money management. The number of couples using independent management and partial pooling has been rising, while the number of couples opting for joint pooling has remained comparably stable. Whole wage systems, which once were the second most used money management system, are now only used by a small fraction of couples, and housekeeping allowances are no longer popular either. While older couples are more likely to use a male-dominated money management system (Bisdee, Daly and Price, 2013), younger and more affluent couples are increasingly keeping all or parts of their income separate (Pahl, 2005). Longitudinal studies with newlyweds (Burgoyne et al., 2006, 2007) show, however, that marriage still can act as a prelude to pooling income. One year after marriage, the number of couples using total pooling had tripled. Merging finances is, however, often prompted by economic factors, such as taking on a mortgage or starting a family. Mostly couples are likely to go only as far as partial pooling unless there is also a commitment to shared ownership of household resources, that is, a high sense of collective psychological ownership. To some extent, the trend towards individualisation may also reflect the reality of increasing divorce rates. Doubts about a relationship and its stability make couples less likely to see money as collectively owned (whatever system they use) (Vogler et al., 2006), thus strengthening existing inequalities in earning potentials. Finally, market forces, too, are pushing for individualised practices with payment methods such as individualised credit cards being on the rise (Pahl, 2008).

The extent to which couples may subscribe to a traditional view of marriage and of marital roles may also foster financial inequalities within households (Burgoyne, 1990). Gender sets the parameters for several behaviours in households dominated by heterosexual couples. Married couples still practice

stereotypical purchasing patterns. Much like in the 1970s (Davis and Rigaux, 1974), the wife of the twenty-first century still tends to be in charge of buying cleaning products, while the man has more say in the purchase of a car (Belch and Willis, 2002; Kamleitner et al., 2017; Lakshmi and Murugan, 2008; Meier, Kirchler and Hubert, 1999; Xia et al., 2006). The more households subscribe to traditional roles as opposed to egalitarianism, the less they decide jointly and the more influence the man has (Ford, LaTour and Henthorne, 1995; Ganesh, 1997; Norvilitis et al., 2006). Stereotypes also appear able to describe some of the forces at play when it comes to allocating resources. Men are more likely to allocate benefits on the basis of equity, whereas women are more likely to opt for equality (Burgoyne and Lewis, 1994). Even in a country such as Sweden, which is renowned for its attention to equality, Nyman (1999) argues that 'real' equality will remain just an ideal when men are still able to set the overall agenda for money management and women (are expected to) put the interests of the family before their own. In Nyman's study, the couples had arranged to cover all household expenses jointly, leaving each partner with an equal amount of money for personal use. However, as the wives had day-to-day responsibility for meals and childcare, they tended to use their own personal spending money as a buffer to even out household expenses, and this was not accounted for. The men seemed able to ignore their wives' pleas to change the way that these expenses were managed, and the women seemed reluctant to press the issue if it might lead to conflict. Thus, systems of management that should leave these dual-income partners with equal access to personal spending money paradoxically led to the familiar inequalities associated with gender.

We have discussed a number of possible explanations for inequalities in marriage. But do people really think that household money should be shared equally, even when partners are contributing different amounts? This issue was investigated in two studies by Burgoyne and Routh (2001) and Sonnenberg, Burgoyne and Routh (2011). They used a series of vignettes describing (a) a couple who are getting married, and (b) a couple about to have their first baby. In both types of vignette, the relative incomes of the partners were varied so that sometimes they earned equally and sometimes one partner earned more than his or her partner. Participants in Burgoyne and Routh's (2001) study were asked to choose the 'best' and 'fairest' of a list of possible systems of money management (based upon Pahl's typology). Overall, regardless of relative income, the most frequently chosen 'best' option was pooling all money and making joint decisions about it. Respondents also tended to identify their choice as the 'fairest'. However, for a significant minority, the partner earning relatively more money was deemed to be entitled to more personal spending money. A similar pattern of results was obtained by Sonnenberg et al. (2011). One noteworthy new finding was that when the woman was depicted in the role of mother, her income was seen as being by default for the family, with less individual freedom to own and control it. In contrast, the man in the role of father seemed to be accorded a higher degree of financial autonomy. This echoes earlier findings that women typically contribute a larger proportion of their income to the family (Nyman, 1999; Pahl, 1995). Some work on bargaining experiments also supports gender differences: both sexes expect women to be more generous in their allocations and to be content with receiving less (Solnick, 2001).

Thus far, we have seen that equality in marriage is not always achieved, though people generally endorse it and – in principle – would opt for a system of money management that gives both partners a relatively equal say in how the household income is used. Given these insights from a traditional context, a question begs asking: Do other household compositions manage money differently?

8.3.2.2 *Money Management in 'Nontraditional' Households*

A household composition that is similar to that of traditional marriage is the fast-growing population of cohabiting couples. The challenge in studying this population is its heterogeneity. Some couples regard cohabitation as a valid alternative to marriage and feel that they are as good as married already, others see it as a less binding form of relationship and these perceptions may vary over time (Ashby and Burgoyne, 2005; Barlow et al., 2001). To some extent, this is reflected in the broader circumstances the cohabitants face. Kiernan and Estaugh (1993) distinguish between never-married childless cohabitants, never-married cohabiting parents and postmarital cohabitants. In particular, never-married cohabiting parents behave in a similar manner to married respondents, with more than 50 per cent of cohabiting parents using pooling (Vogler et al., 2008a). In contrast, both cohabiting parents without children and postmarital cohabitants are more likely to keep money partly or completely separate. They primarily opt for partial pooling or independent management (Vogler et al., 2008a). On balance, however, gender inequalities in access to finances are reported to be just as likely in cohabiting unions as in marriage (Avellar and Smock, 2005).

One essential difference between cohabitation and marriage is the lack of legal rights and explicit responsibilities of cohabiting partners (Barlow, 2008). Again, this comes primarily to the detriment of the financially worse off partner, usually the woman. Cohabiting women's concerns about their financial future are reported to be deeper and more salient than those of married women. They are also more likely to express fears about becoming a burden for their partner (Malone et al., 2010). Women's fears appear warranted. After dissolution of the partnership, women's income is likely to drop by 33 per cent (compared to 10 per cent for men). Although this drop is somewhat less than for women getting divorced, who interestingly have fewer fears initially, the differences are relatively small when the women have custody of children (Avellar and Smock, 2005).

Taken together, insights on cohabitation paint a picture similar to that of marriage with a tendency for more independence. The main point these insights highlight is that households need to be regarded in their entirety. Just looking at the union of the primary couple is insufficient to explain the financial dynamics within a household. The moment children arrive, households founded by a romantically attached couple appear to behave similarly regardless of whether they are married or not. Likewise, the propensity for women to be worse off within a household remains untouched by whether the partners are legally bound to each other or not.

Given the importance of earning money, that is, strategic power within a household, it is interesting to ask what happens if, in contrast to the model of the male breadwinner, the *female partner is the main breadwinner.* This is the case for more than a third of working wives in the United States (Bureau of Labor Statistics, 2015). The insights available suggest that gender opposes strategic power. A husband's financial satisfaction declines as his wife's income rises (Bonke, 2008). Women who earn more than their husbands have accordingly been observed to downplay their role as the main breadwinner. To achieve this, both husband and wife extend their notion of providing for the family to other tasks that are not related to breadwinning (e.g., meeting emotional and physical needs of family members) (Tichenor, 2005). To bolster the male identity of provider, they also tend to avoid total pooling systems in which the husband's share would show up as minor. Rather, they tend to adopt partial pooling, which enables the husband to incur expenditures with symbolic meaning (e.g., mortgage payments) out of his own account, thus resembling his traditional role as the breadwinner (Commuri and Gentry, 2005). Even in cases of disagreement, women tend to refrain from exercising the power their financial position would afford them. Couples with female main breadwinners tend to disrupt the link between money and power for the female partner, but maintain the possibility of such a link for the male partner (Tichenor, 2005). In a nutshell, this composition is a showcase for the pervasive role of gender stereotypes.

A household composition which teaches something about the role of experience and enhanced relationship complexities is that of *remarriage*. Despite the high rate of remarriage, research on economic behaviour in such couples is somewhat scanty (Allen et al., 2001). In sum, it appears that experience is able to trump gender stereotypes to some extent, although remarriage is unlikely to help combat the effects of income inequalities. Generally, money management in remarriage tends to be more separate than in first marriage (Burgoyne and Morison, 1997; Raijas, 2011; Singh and Morley, 2011). Remarried couples are most likely to use a kind of partial pooling system with some accounts kept separate and others comingled (van Eeden-Moorefield et al., 2007). There appear to be several reasons for this. For one, divorce always entails the question of who is entitled to what, plus it makes the threat of future separation more salient. This appears to sometimes shift the perceptions of

psychological ownership of money. Some of the men feel that they have been 'ripped off' in divorce settlements with former wives and want to keep control of both recurring income and assets they bring into the second marriage. For the women's part, although generally less wealthy than their new partners, many have learned to cherish more independent access to resources than in their first marriages. As a consequence, women are also more involved in money management in a remarriage compared to a first marriage (Burgoyne and Morison, 1997). Another relevant factor is of a more financial nature. Remarried couples may have to deal with maintenance payments or debts to or because of former spouses (Malone et al., 2010). Some couples avoid merging money because they want to keep their current partner out of assessments for maintenance payments (Burgoyne and Morison, 1997). Finally, in particular when children are involved the ensuing range of potential step-relationships can result in complex intrahouseholds relationships and money flows (Singh and Bhandari, 2012). Separation of accounts in remarriage is also observed to occur with children in mind; those with children from previous relationships feel that they are holding resources 'in trust' for their own children (Burgoyne and Morison, 1997). Moreover, remarried partners tend to feel that they are financially responsible for the expenditures of their own biological children (Raijas, 2011; Singh and Morley, 2011).

In sum, insights on remarriage suggest that experience is able to break stereotypes. The ideal of the male breadwinner seems to become somewhat trumped by the experienced need for financial autonomy, and once again the presence of children seems to make a difference. On the whole, however, remarriage is not well suited to remedying intrahousehold income inequalities.

The potential for an interesting point of contrast with regard to inequalities and stereotypes lies in households composed of *same-sex couples*. Similar to heterosexual cohabitation, there is a variety of ways in which same-sex couples live together, ranging from short-term cohabitation to marriagelike relationships. In general, same-sex partners tend to be particularly sensitive to power imbalances (Weeks, Heaphy and Donovan, 2001), and thus more egalitarian in their decision-making (Reiss and Webster, 1997; Solomon, Rothblum and Balsam, 2005). Joint decisions are seen as both a necessity to fulfil the desire for equality and a pleasurable aspect of the relationship (for lesbian couples, see Wilkes and Laverie, 2007). Since it is important that each partner can actively contribute to joint decisions as an egalitarian partner, it is necessary that each partner remains in charge of his or her own financial stake. Similar to heterosexual cohabiting couples without children (Burgoyne, Clarke and Burns, 2011; Vogler et al., 2008a), few lesbian and gay couples pool all their income, though a majority pool some money to cover joint expenses (Burgoyne et al., 2011; Burns, Burgoyne and Clarke, 2008). Income disparities between most partners necessitate the adoption of a system of proportional contributions to joint expenses, and to joint expenses only (Burns et al., 2008).

A frequent theme in same-sex couples is the avoidance of financial dependence on one's partner. This does, however, not equate to unwillingness to support each other. Most members of same-sex households state that they are prepared to support each other financially if necessary. Still, such support seems in many cases to be time-limited, and many seemed to endorse an ethic of co-independence rather than mutual dependence (Burns et al., 2008). Eventually, the money management practiced by same-sex couples tends to reproduce financial inequalities between the partners. Although couples attempt to equalise outcomes, an underlying norm of equality (characterised by equal contributions where feasible) paradoxically (re)produces the status and control of the higher earner in most cases.

8.3.3 Themes Guiding Money Management

The juxtaposition of existing insights on different household compositions suggests that – even in romantic relationships – money management is more than a reflection of the relationship quality of the household members. It follows the rules governing economic exchange as much as those of social exchange (Curtis, 1986; Webley et al., 2001). In particular, three themes emerged: 'power through resources', 'psychological entitlement through relationship' and 'stereotypes versus values'. We discuss them in turn.

8.3.3.1 *Power Through Resources*

The perhaps most dominating theme identified is that of a link between power and resources (e.g., Vogler et al., 2008b). Whoever brings in more resources, in particular monetary resources, also tends to end up with more resources and more say about how the households' resources are to be used. This even holds for children (Flurry, 2007). The influence of monetary contributions is pervasive. Household members earning higher wages are even deemed entitled to more leisure time (Browning and Gørtz, 2012). Moreover, couples who face more inequality in terms of income or education tend to have a more clear-cut division of decision-making, ending in fewer joint decisions (Schneebaum and Mader, 2013). Given that it is still mostly the women who earn less, more income and other resources tend to beget men having more say (Antman, 2014; Carlsson et al., 2013; Lakshmi and Murugan, 2008; Sultana, 2011).

The link between financial contributions to and power within a household appears to be intuitively understood. Its effect on bigger societal phenomena is potentially profound. For example, it may affect how households decide to contribute to the labour market (Knowles, 2013). Given the narrowing of the gender-wage gap, Knowles wondered why it can be that the increase in female wages did not lead to a corresponding reduction in male labour supply. Drawing on longitudinal time-use surveys, he suggests that the answer lies in the bargaining power that income affords men within the household.

8.3.3.2 *Psychological Entitlement Through Relationship*

Although household members appear to be generally aware of who brings what into the household, they differ in terms of whose money they feel this is. Pooling of money – along with high intimacy and quality of the members' relationship – often results in the experience of collective psychological ownership of household resources (Ashby and Burgoyne, 2009), which in turn might counteract intrahousehold inequalities. It is this mechanism that distinguishes the money management practiced by many households from that of purely economic units. An intimate relationship alone does, however, not always appear to suffice to make things 'ours'. Significant joint decisions and acquisitions (e.g., buying a house) may be a necessary catalyst.

One such catalyst is the arrival of children. Though their presence disrupts the woman's earning potential, it facilitates or even necessitates pooling of resources (Vogler et al., 2008a), in particular when children are younger.

One might assume that there is an increase in collective psychological ownership – after all, we live in an age in which the term 'sharing' has become a buzzword (Belk, 2014). In fact, there are no signs that intrahousehold sharing, collective psychological ownership of resources and factual pooling are on the rise. On the contrary, several authors have observed a shift to individual financial independence. Household members appear to become less rather than more likely to pool their resources (e.g. Pahl, 2008; Vogler et al., 2008a).

8.3.3.3 *Stereotypes Versus Values*

One explanation for the trend towards autonomy is an increase in the endorsement of egalitarian values (Reiss and Webster, 1997; Solomon et al., 2005). In particular, in households that are not subject to traditional role stereotypes, values of egalitarianism appear to play an important role. They are also more strongly endorsed in households that are particularly well endowed; there they tend to extend to all household members, including children (Flurry, 2007). At the surface level, this has had positive consequences. For example, with an increase in egalitarian values in a society, women have started to receive somewhat more say in financial decisions, such as the purchase of a car (Belch amd Willis, 2002). But where there is light, there is shadow. The drawback of egalitarian values is that they also tend to involve equal financial obligations. Not all household members are equally well suited to shoulder these.

Stereotypes are a powerful force counteracting egalitarian values. As much as people strive to deny them, stereotypes remain a sculptor of actual behaviours. In particular, gender roles permeate money management and household decision-making in a way that benefits the male provider. Given that stereotypes reflect cultural meanings, cultural notions such as the worth and role of women, children and the elderly are likely to shape what parts they take in household decisions. Values and stereotypes are likely the main factors explaining cultural differences in money management (cf., Xia et al., 2006).

8.4 How Does Money Management Affect the Household?

The quality of the relationship between household members affects how households decide to deal with money (Kirchler et al., 2001).The reverse holds also true. The way households manage money and make financial decisions affects the relationship between household members and their well-being.

The potential for negative consequences of money management is evident. The household is a prime site for cooperation but also for the negotiation of conflicts of interest and settlement of disagreements. Many issues concern money (Kirchler et al., 2001; McGonagle, Kessler and Schilling, 1992), making money management a potential factor in bringing about separation and divorce (Gottman, 2014) and, therefore, the dissolution of the household.

The way households manage money can, however, also bring about positive consequences for its members and society at large. In particular, the process of making joint decisions has been reported to have a positive effect on relationships (Vogler et al., 2008b). Couples who make financial decisions jointly are more satisfied with their relationship compared to couples where either partner controls spending autonomously. This matters because the more satisfied people are with their relationship, the happier they are with life in general. Combined with Kirchler et al.'s (2001) insight that satisfaction with the relationship is directly connected to the tactics used to persuade one's partner, we see a virtuous or vicious circle. Partners who are satisfied with the overall quality of their relationship are more likely to use cooperative tactics, which in turn increases satisfaction with the relationship. On the other hand, dissatisfied couples might opt for less cooperative tactics, which result in a decrease in satisfaction.

Living in the same household implies getting to know each other well. One could assume that people who have decided to spend (a part of) their lives together are able to take each other's preferences into account; over time, this should reduce the need to decide jointly in order to remain happily together. Some evidence suggests that this assumption is not warranted. Couples are surprisingly bad at predicting each other's preferences to begin with and get no better at doing so with relationship duration (Scheibehenne, Todd and Mata, 2011). Even long-term couples can, thus, only ensure that both partners' interests are accounted for if they actively partake in joint decisions.

Apart from happiness and satisfaction, the way households manage money can affect the health of household members. At least in developing countries, the inclusion of women in money management and decision-making has been shown to positively affect their body mass index and chronic energy deficiency (Hindin, 2000). While there is likely a direct effect of financial empowerment, there are also hints at indirect effects. A recent study in Kenya reveals a positive effect of women's decision-making power in the household on household sanitation (Hirai, Graham and Sandberg, 2016), which in turn affects the health of household members. Similarly, research in China shows that an increase in women's income results in more bargaining power in the relationship, which in turn has a positive impact on the survival rate of daughters and educational attainment of both daughters and sons (Qian, 2008).

8.5 Discussion

Money management in the household determines who has access to and control over monetary resources. Consequently, it permeates other financial decisions made by a household's members. A frequent assumption by policy makers and researchers has been that households are an income-pooling entity with a common standard of living. This review has shown that such an assumption is misguided (cf. Lise and Seitz, 2011). Across various household compositions, different dynamics are at play. In particular, three themes have been identified:

a. The higher the resource inequalities between household members to begin with, the more likely it becomes that those members that bring in most resources also control most of the household's monetary resources.
b. The more household members engage in joint endeavours with significant financial implications (e.g., buying a house, getting children), the more likely they are to pool the household's income.
c. The more the household members subscribe to egalitarianism and the more independent they are from role stereotypes, the more likely they will manage their income independently.

Jointly, these themes feed into multiple nuanced practices through which, at the end of the day, intrahousehold inequalities frequently prevail. Often this comes to the detriment of the woman who more or less willingly partakes, for example, by helping to keep stereotypes of the male provider alive. Experience from prior household membership (in particular, in remarried relationships) but also trends towards egalitarian understandings of relationships seem to lead to more (perceived and desired) financial autonomy but to no fewer financial inequalities. Intrahousehold inequalities could only be remedied by total factual and mental pooling of the household's resources, a practice that has seen a decrease rather than an increase in popularity.

The main implication resulting from these insights is that public policy has to aim at the individual as well as the household if it is to affect financial decisions within households. Individual's actual or threatened poverty, in particular, is likely to often go unnoticed if a household's total income is used as a benchmark (Webley et al., 2001).

The insights garnered also enable us to derive informed guesses as to what happens in those household compositions that have still escaped scientific scrutiny. One such composition is that of extended, multiple-generation households. A primary question in these households is whether they perceive

themselves and act as one big household or rather as two (or more) largely independent subhouseholds. All themes identified are likely to play a role. They entail such questions as the following: Who is bringing what into the household? Specifically, how does one account for the natural head start of the parent generation? Who feels psychologically entitled to resources? Specifically, do children feel automatically entitled to resources brought in by their parent generation? Who takes on which roles? Specifically, do stereotypes of the giving parent, the innovative younger generation or the wise elder prevail in who has a say? In short, money management in extended-family households is a largely open field that is potentially ripe with new insights.

One such potentially more generic insight relates to how households deal with an increase in income-generating members. It often happens, and it does so through multiple routes. For example, the woman may start to work after a child break, a child may turn into a money-earning adult or a new related or unrelated member may be accepted into the household for economic or social reasons. Given that resources amount to power within households, it is likely that the addition of a new member also affects the money management system in place. Based on what is known, it may often lead to even more independent money management practices.

An interesting subquestion is how the mere anticipation of an increase in financially contributing household members (e.g., children taking over the family home) influences the way a household manages its resources. Existing investigations are very much focussed on current household composition. How they behave may be as much driven by who is expected to be there in the future.

Another potential research avenue for which extended-family households are fertile ground is the question of what resources lead to power. Does it always have to be money? The likely answer is that money is the dominating factor. For example, recent insights from Africa suggest that retired women have more influence if they receive higher pensions (Ambler, 2016). It would be interesting to find out to which extend other 'resources' such as health or experience may yield power in different types of households.

There are also multiple research avenues that households composed of unrelated and romantically unattached members may open up. The last avenue we address here is one of 'shared space'. There is an increase in the phenomenon of 'living apart – together', where partners do not share space on an everyday basis. Almost a quarter of British adults who are not married and do not cohabit opt for a 'living apart – together' relationship (Duncan, 2015). At the same time, communication and interaction are increasingly becoming independent of space. In state-of-the art 'smart homes' (Harper, 2006), it is even possible to be in another continent and still switch on or off the lights or determine what is available in the fridge. Relationships may increasingly play out across multiple sites and homes that are only partly physically shared. To date, we know next to nothing about how such 'virtual' households manage their money and household practices. It is, however, likely that they will do so even

more independently. The reality of living apart and of technologies facilitating this opens up the question as to how much one space actually needs to be physically shared to still be considered a household by policy makers. To date, homes housing virtual households may be considered as smaller than they are, determined only by those members living there permanently.

8.6 Concluding Remarks

To conclude, we know that a combination of recent trends fosters the desire for individual financial autonomy. It also fosters the appearance of household compositions that are founded on other than romantic motives. Yet, it is romantically attached households that we know most about. Through these households, we know that there are multiple, partly counteracting mechanisms at play (resources as power; relationship strength; and collective ownership, stereotypes and values). These mechanisms play out through different money management systems (from independent to total pooling) which are put in place through nuanced practices. It is these practices that ensure that households replicate and sometimes even foster intrahousehold inequalities across money management systems. In particular, the link between power and money and pervasive role stereotypes are able to turn the desire for more egalitarianism into a reality of inequality. Still, we also know that it is beneficial for households to try and overcome trends for separation. Most evidence suggests that joint decisions and the active inclusion of multiple household members benefit the well-being of the entire household and society at large.

Notes

1. Note that the statistical basis for determining the prevalence of extended households differs between the United States and Europe. The definition used in Europe does not include households with adult children. The figures stated here result from merging all categories considered extended family in the United states. Furthermore, note that the baseline used for the United States is the entire population while for Europe it is households. The figures may thus be similarly high.
2. For the sake of simplicity, we will refer to all of these types of (temporary) ownership as 'owning'.

8.7 References

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9 Socially Responsible Investing

Christopher J. Cowton

9.1 Introduction

Socially responsible investment or investing (SRI) is the practice of integrating social, environmental and ethical (SEE) considerations into investment decisions. In particular, SRI refers to the addition of SEE criteria to conventional financial criteria in the selection and management of portfolios of shares (stocks) of companies listed on stock markets. Socially responsible (SR) investors care not only about the size of their prospective financial return and the risk attached to it, but also about its source – the nature of the company's products and services or how it does business. '[I]t matters where the money comes from' (Lewis, 2002: p. 4).

The addition of nonfinancial considerations stands in stark contrast to conventional approaches to investment. Building on the insights of Markowitz (1952), modern portfolio theory (MPT) provides an elegant, parsimonious treatment of investment decision-making in terms of expected returns (in the form of dividends or capital gains) and risk (based on covariance of returns). Similarly, popular depictions of investment activity are focussed upon the amount of money made, while recognising that past performance is not a guide to future returns and the value of investments may go down as well as up. The conventional or 'mainstream' investor would appear to be a case of *homo economicus par excellence*; morality, and other preferences in general, are not part of the picture.

Not least because of the way in which it stands in contrast to mainstream investing, SRI is a phenomenon worth understanding. Moreover, supported by institutional developments, it is clear that SRI – in different countries, at different times and with different emphases – has over the past three or four decades become an established feature of most developed stock markets. Estimates of the total funds involved vary, depending to some extent on the definition employed, but SRI has undoubtedly become significant. For example, the US SIF Foundation estimates that at the end of 2015 more than 20 per cent of sums under professional management in the United States – or nearly $9 trillion – was invested according to SRI strategies; Hendry (2013) notes claims that 'responsible investment', which might be argued to be associated with SRI, now accounts for about 20 per cent of stock market investment in

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This is dedicated to Paul Webley (1953–2016), a good friend of economic psychology and a good friend of ours.