



# Who holds the purse strings within the household? The determinants of intra-family decision making<sup>☆</sup>



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## ABSTRACT

We study the determinants of intra-household decision-making responsibility over economic and financial choices using a direct measure provided in the 1989–2010 Bank of Italy Survey of Household Income and Wealth. We find that the probability that the wife is responsible for decisions increases as the wife's characteristics in terms of age, education and income become closer or even higher than those of her husband's. Thus, consistently with a bargaining approach, decision-making responsibility is associated with marriage heterogamy, and not only along strictly economic dimensions. However, in support of an alternative household production approach, we also find that the probability that the wife is responsible is lower when she is employed, which suggests the presence of a specialization pattern assigning responsibility to the spouse with more available time. Our results are robust to additional controls and alternative samples.

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## 1. Introduction

The goal of this paper is to investigate the determinants of intra-household decision making with respect to economic and financial choices. Using a direct measure of actual decision-making responsibility, we study its main determinants taking into account individual characteristics of each spouse, household characteristics, and aggregate background factors. To identify the drivers of decision-making responsibility has crucial implications for understanding how resources are distributed within

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the family, how household decisions are made in a variety of economic and non-economic realms, and how gender-based development initiatives should be designed.

Direct measures of decision responsibility are however very rare. Our measure is provided by a repeated cross-sectional survey conducted by the Bank of Italy – the Survey of Household Income and Wealth (SHIW) – that reports who, within the household, is declared as the head, i.e., the person who is responsible for financial and economic choices. Since the dataset now includes eleven waves, covering a 22 years period from 1989 to 2010, it represents a unique tool for the analysis of decision making, its evolution, and its determinants.

Previous theoretical research has developed models of household bargaining improving over the implications of a unitary approach to family economics. The assumption behind the bargaining approach is that individuals prefer to hold the purse strings and that they are more likely to be the household head the more resources they have. At the empirical level the search for the determinants of decision making has considered various factors such as each spouse's relative income, age, education, health, and also cultural factors involving race and religion. The main conclusion from the empirical literature we will review is that economic factors, captured mainly by differences in earnings but also in occupational status, are always decisive in determining which spouse is responsible for household decisions, while the evidence on the influence of other factors is more mixed.

The relative characteristics of the spouses are not the only determinants of decision making within the household. The division of labor among the partners and the associated specialization patterns within a household production framework have also been recognized as a decisive factor. However, according to this perspective a working wife is less likely to take decision responsibility than a wife that specializes in home production. Therefore, specialization carries implications which are opposite to those of the bargaining approach, since it implies that individuals may actually prefer to delegate decision-making responsibility to their spouses.

In this paper we aim at exploring the relative explanatory power of the bargaining and the specialization approach. Moreover, within the former, we investigate whether, beside strictly economic differentials, other sorts of marriage heterogeneity such as age and education emerge as equally important determinants of decision responsibility.

We start by presenting the stylized facts. We show how our measure of female decision-making responsibility, which is captured by the proportion of households headed by the wife, has increased through time. We also illustrate the evolution of the factors that are more likely to be responsible for the observed changes in intra-household dynamics. For individual characteristics such as age, education, income, and occupational status, we document how intra-family gender differentials have changed. We also report trends for aggregate indicators such as female labor market participation, to account for the evolution of women's economic condition, and the incidence of divorce, to understand the evolution of family structure. Italy provides an ideal setting for our investigation. On the one hand, the sample period witnesses significant developments, along the gender dimension, in the economic and financial behavior of Italian households, with a substantial increase in the number of females declared as household heads. At the same time, the Italian society undergoes a number of important changes which may be linked with this phenomenon. For instance, we observe a pronounced transformation of the Italian family structure: while divorce became legal in Italy only in 1974, divorce figures boost in the most recent years of our sample. Moreover, women's participation in the labor market has been slowly increasing since the early post-war period. Even though it remains limited in an international comparison, its expansion is associated with a profound change in the role of women within family and society. The educational attainment of Italian women, particularly at the higher education level, is quickly catching up relative to that of men, a tendency which is common to other countries. Our dataset is rich enough to account for these developments.

Our next step is to study the empirical evolution of decision making by modeling the probability that the wife is in charge of economic and financial decisions as a function of individual characteristics of both spouses, household variables, and aggregate background factors. Among potential determinants of decision responsibility we are especially interested in within-couple differentials in terms of age, education and income, which should account for a bargaining-based explanation, and in the employment status of the female partner, which should reflect specialization patterns.

Firstly, our findings confirm that the probability that the wife is responsible for decisions increases as the wife's characteristics in terms of age, education and income become closer or even higher than the corresponding husband's ones. In other words, the decision-making process involving husband and wife is not just a question of money, but also of other not strictly economic individual characteristics, thus suggesting that factors such as knowledge, human capital accumulation, experience, seniority, and savviness can play an independent role. This pattern appears to be intensifying with time over our sample period.

Second, we also find that the probability that the wife is responsible is lower when she is employed, which suggests the presence of a division of tasks operating within the family, with more responsibility for the spouse who has more time to devote to decision making.

Finally, we show that decision responsibility is also associated with household characteristics such as household size and total income and wealth, while aggregate background factors do not add further explanatory power.

In a series of robustness checks we also show that our results hold even after controlling for the type of tasks households face, distinguished between simple and complex economic and financial decisions. Similarly, using finer definitions of occupational status carries additional explanatory power but does not alter our conclusion. For an alternative sample of non-married couples, we find somewhat different results which confirm the practical relevance of the institution of

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