WORKING PAPER
Executive Summary

JUNE 2006, WP# 2006-13

CENTER FOR RETIREMENT RESEARCH AT BOSTON COLLEGE

DETERMINANTS AND CONSEQUENCES OF BARGAINING POWER IN HOUSEHOLDS

BY LEORA FRIEDBERG AND ANTHONY WEBB

A growing literature offers indirect evidence that the distribution of bargaining power within the household influences decisions made by the household. For example, previous research has shown that the allocation of income to husbands versus wives affects household expenditures on food, alcohol, tobacco, and men's, women's, and children' clothing. Results like these confirm two important implications of models of household bargaining. First, the welfare of individuals depends on the distribution of bargaining power within the household. Second, household decisions are not the outcome of a single individual maximizing utility, as is often assumed when studying data like consumption and wealth measured at the household level.

An important element missing from previous studies, though, was an actual measure of the balance of power. This necessitated a dual test: not only that variables like relative wages influenced the distribution of bargaining power between spouses, but also that spouses cared differently about outcomes like the welfare of their children. This paper makes use of a previously unstudied question in the Health and Retirement Study which directly asked both spouses about the distribution of bargaining power. This enables us to provide the missing link that confirms the importance of household bargaining models.

Individuals in the Health and Retirement Study (HRS), a longitudinal study of over 7,600 households with a member aged 50 to 60 in 1991 were asked:

When it comes to making major family decisions, who has the final say – you or your (husband/wife/partner)? By "major family decisions" we mean things like when to retire, where to live, or how much money to spend on a major purchase."

The paper finds broad agreement between husbands and wives on where power lies and develops an econometric framework to extract information from disagreements. It also finds that decision-making power depends significantly on relative household earnings, and more so on average lifetime earnings than on current earnings. Switching average lifetime earnings of husbands and wives reduces the predicted percentage of men reported by their wives to have the final say from 31.1% to 21.6%. Cultural norms also have a significant impact on the distribution of power, with husbands having significantly more decision-making power in Protestant and especially fundamentalist or evangelical Protestant couples. Children reduce a husband's bargaining power considerably, particularly if they are under the age of eighteen. Lastly, they might help explain the result that wives' earnings matter substantially more than husbands' earnings.

The paper then investigates some financial outcomes that are well-recorded in the HRS. The authors find that when husbands have greater decision-making power, the household invests significantly and substantially more in equities, controlling for important factors like household wealth and stated risk preferences. This shows some important practical consequences of evidence found by others that men are less risk-averse. The authors also find an intriguing twist on the standard life cycle model – when husbands have the final say, household wealth is significantly and substantially higher the older is the husband *but not* the wife, and when wives have the final say, household wealth is higher the older is the wife.

Consider a household in which decision-making power is split equally. Wealth will be about the same whether the husband is 65 and the wife is 55, or the ages are reversed and the wife is 65 and the husband is 55. That does not hold when decision-making power is unequal. When the husband just barely has the final say, then the first household (husband 65, wife 55) will have accumulated 50.8% more wealth, according to the results in the paper, than it would have if the wife just barely had the final say. Moreover, the second household (wife 65, husband 55) will have accumulated 67.5% less wealth than if the wife had the final say. Thus, life cycle planning motives appear to be driven in part by the interests of the spouse in charge.

Thus, the results show that household bargaining can have important effects on the welfare of household members. For example, the relatively high rate of poverty among widows may result not only from aggregate longevity shocks, insurance market failures, and/or poor planning, but also because some wives were in a poor bargaining position while married. This, in turn, has implications for the design of dependent and survivor benefits available through Social Security, especially in the event that the traditional annuitized benefit from Social Security is replaced in part with a lump-sum private account. It also compounds concerns about aged widows outliving their wealth due to the ongoing shift from annuitized defined benefit pensions, often with survivor benefits, to lump-sum defined contribution accounts.

Center for Retirement Research at Boston College

Fulton Hall 550, 140 Commonwealth Avenue, Chestnut Hill, MA 02467-3808

phone 617.552.1762 fax 617.552.0191 crr@bc.edu www.bc.edu/crr