

Discussion of

Consumption Inequality and Intra-Household Allocations

by Jeremy Lise and Shannon Seitz

Fabrizio Perri

NYU, NBER and CEPR

Interactions within the Family Conference, Torino October 2005

## The insight

- Widespread rise in h-hold earnings inequality in last 30 years
- In a dynamic setting inequality in h-hold consumption more relevant for welfare (Blundell, Preston, 1998)

But even in static framework

- **Individual** instead of household consumption. Affects
  - Inequality Levels
  - Inequality Trends

## The logic

Let  $c_{ij} = s_{ij}c_i$  private consumption of member  $j$  in h-hold  $i$

$c_i$  total private consumption of household  $i$

$s_{ij}$  share of private consumption

$$\text{Var}(\log c_{ij}) = \text{Var}(\log c_i) + \text{Var}(\log s_{ij}) + ..$$

- **Level:** If  $\text{Var}(\log s_{ij}) > 0$  (no equal sharing) then  $\text{Var}(\log c_{ij}) > \text{Var}(\log c_i)$
- **Trends:** 1970-2000  $\text{Var}(\log c_i) \uparrow$ , but  $\text{Var}(\log w_{ij}/w_i) \downarrow$ 
  - If  $\text{Var}(\log w_{ij}/w_i) \Rightarrow \text{Var}(\log s_{ij})$  then  $\text{Var}(\log c_{ij})$  does not increase so much (or even decrease)

## The key obstacle

Individual level private consumption (in multi-persons households) is not observed!

Cannot directly measure  $Var(\log s_{ij})$

## The strategy

Use single-person households labor-leisure choice to estimate.

$$w_{ij} = \frac{U_l}{U_c}(c_{ij}, l_{ij}, \alpha)$$

For the married households  $c_{ij}$  is not observed but one can use estimates of  $\alpha$  to back-it out.

Key assumptions

-Efficiency

-Single and married households have the same preferences over private consumption and leisure

## Results

Private consumption split according to

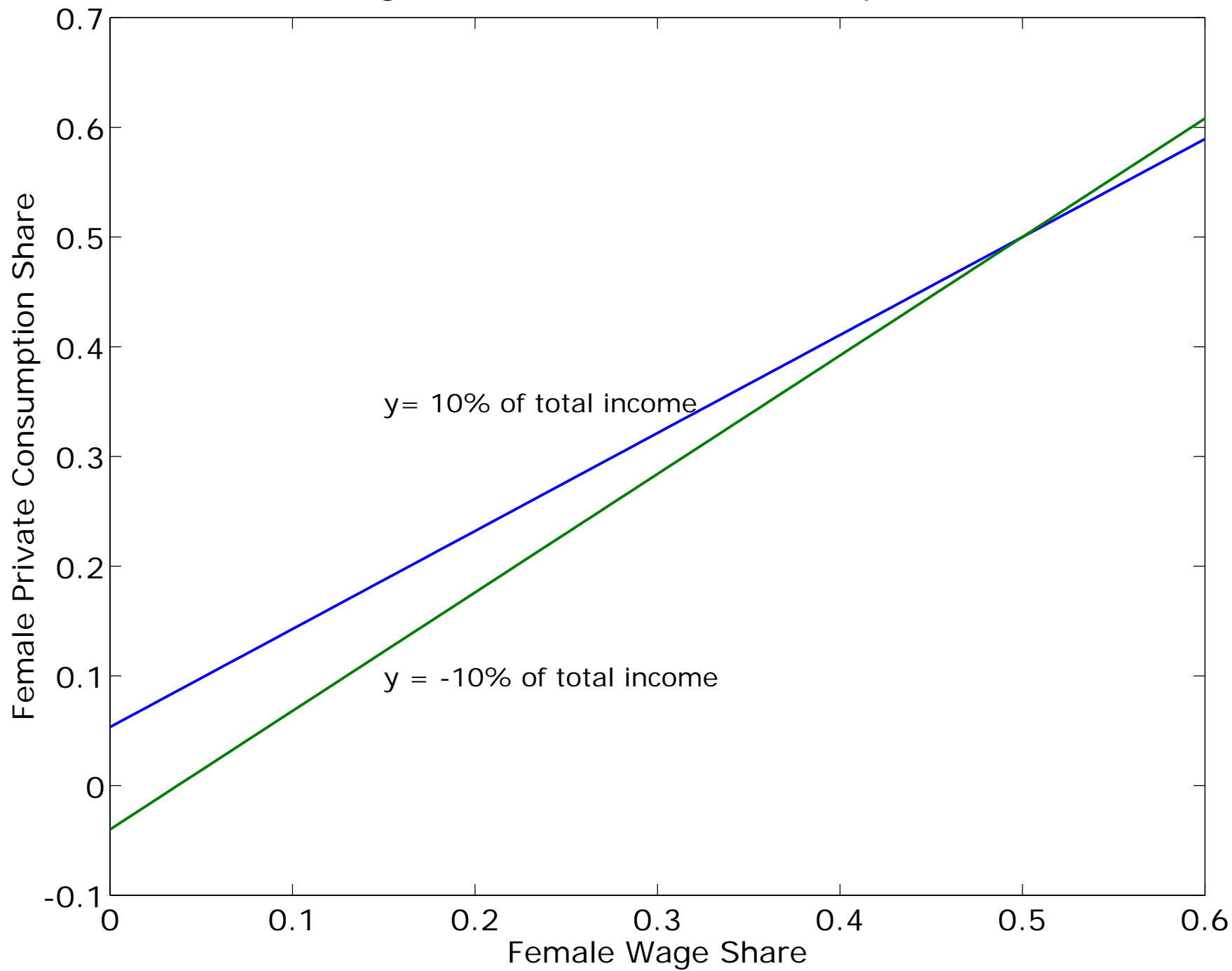
$$c_{pF} = e_F + \left( \phi_0 + \phi_1 \frac{w_F}{w_F + w_M} \right) y$$
$$c_{pM} = e_M + y - \left( \phi_0 - \phi_1 \frac{w_F}{w_F + w_M} \right) y$$

$y$  is non labor income net of public consumption

and  $\phi_0$  and  $\phi_1$  are the estimated sharing rules

How does the split look (ssume full participation of both)?

# How wage differences affect consumption shares

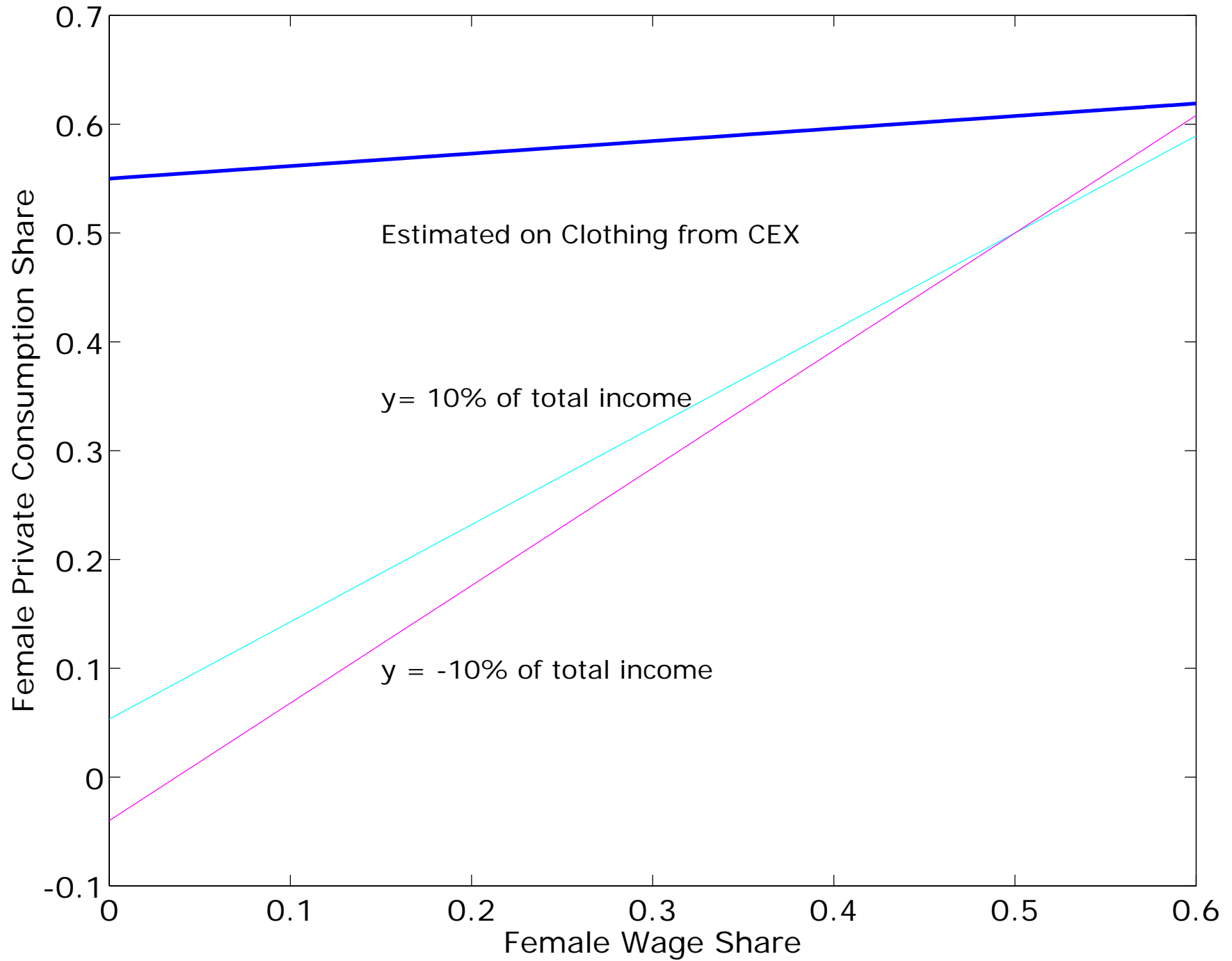


## A more direct test

- Use Man's and Women's clothing from CEX
- Select families with only husband and wife, both work full time
- Estimate the relation between female clothing expenditure shares and female wage share (1995-2003, 1810 year/hh obs)
- Very significant and positive. Confirm qualitative finding of the paper
- Quantitatively not as strong impact as estimated



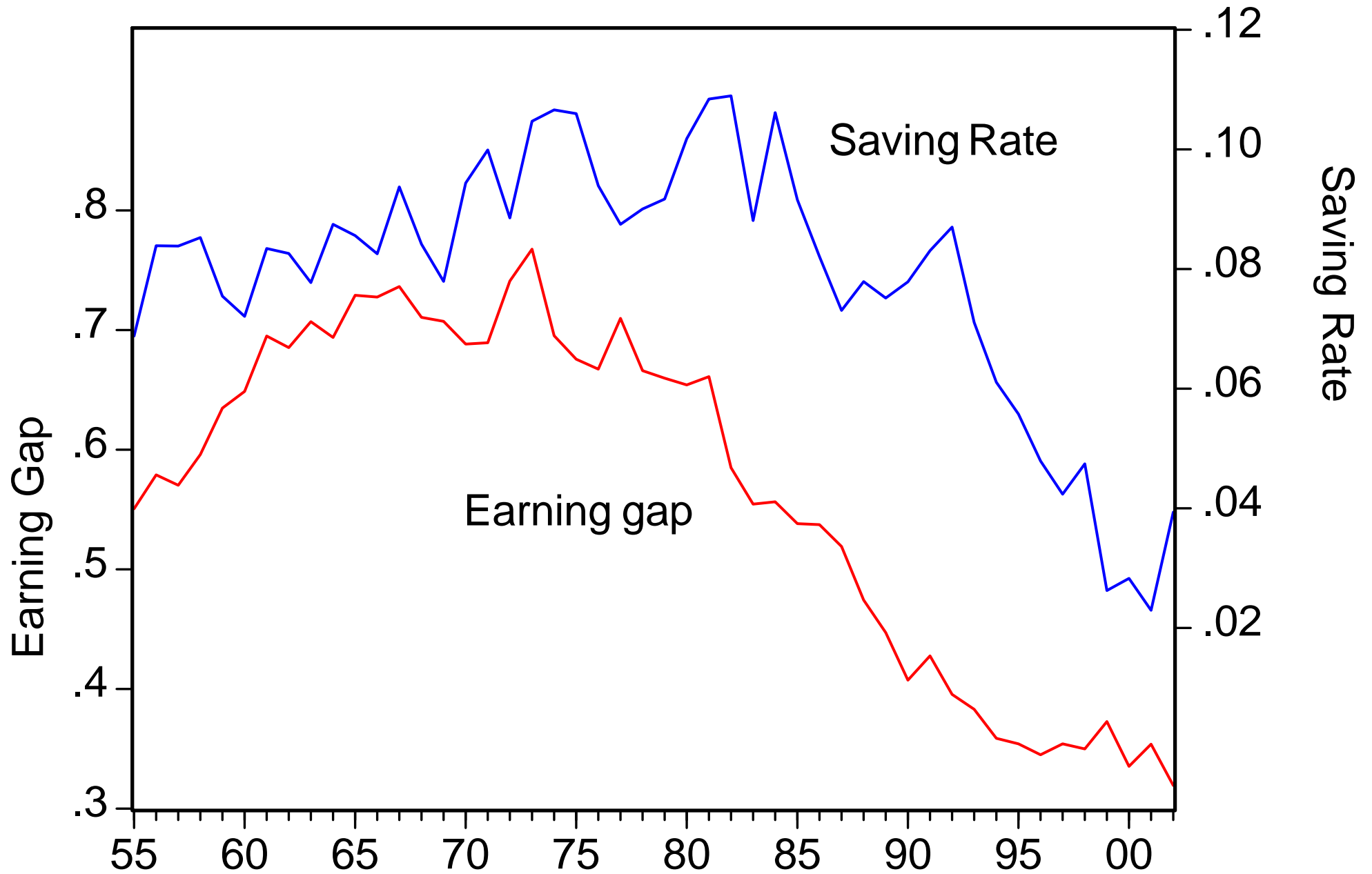
# How wage differences affect consumption shares



## Conclusion

- Very interesting paper
- Provides new estimates of individual consumption inequality which differ significantly from household level inequality
- Quantitatively maybe overestimates the impact of wage differences on individual consumption
- A related very interesting issue is the impact of wage differences on intertemporal consumption choice (Fogli, Perri, 200?)!

# Saving rate and earning gender gap



## Man's Clothing

- 380110 Men's suits
- 380120 Men's sport coats
- 380210 Men's coats, jackets, and furs
- 380311 Men's underwear
- 380312 Men's hosiery
- 380320 Men's nightwear
- 380330 Men's accessories
- 380340 Men's sweaters and vests
- 380350 Men's active sportswear
- 380410 Men's shirts
- 380511 Men's pants
- 380512 Men's shorts and shorts sets, excl. athletic
- 380901 Men's uniforms
- 380902 Men's other clothing, incl. costumes

## Woman's Clothing

- 380311 Women's sport coats and tailored jackets
- 380312 Women's vests, sweaters, and sweater sets
- 380313 Women's shirts, tops, and blouses
- 380320 Women's skirts and culottes
- 380331 Women's pants
- 380332 Women's shorts and shorts sets, excl. athletic
- 380340 Women's active sportswear
- 380410 Women's nightwear
- 380420 Women's undergarments
- 380430 Women's hosiery
- 380510 Women's suits
- 380901 Women's accessories
- 380902 Women's uniforms
- 380903 Women's other clothing, incl. costumes