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Living Arrangements of the Youth: Determinants and Gender Differences*

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ABSTRACT

This paper focuses on gender differences in young adults' living arrangements. It reviews the literature on this topic, discusses the main determinants and presents the recent cross-country trends.

Keywords: Youth, Living Arrangements, Leaving Parental Home, Gender Differences.

Patrones de convivencia de los jóvenes: Determinantes y diferencias por sexos

RESUMEN

Este trabajo estudia las diferencias de género en los patrones de convivencia de los jóvenes en la actualidad. Se revisa la literatura sobre este tema, se analizan los principales determinantes y se presenta las tendencias recientes en varios países.

Palabras clave: Jóvenes, patrones de convivencia, emancipación, diferencias por sexos.

JEL Classification: D10, J12, J16

* The views expressed in this paper are those of the author and do not necessarily reflect those of the Bank of Italy. All the remaining errors are mine.

1. INTRODUCTION

Gender differences are still present in many aspects of life ranging from wages and employment to risk preferences (See Polachek, Tatsiramos, and Zimmermann, 2015). Another aspect of gender differences concerns youth emancipation and family behavior in general. Youth emancipation is an important step in the transition to adulthood and refers to the decision of young adults to continue living with their parents or not. In this paper we review the most recent literature on the living arrangements of young adults with a special focus on gender differences.

There is a large literature in economics that investigates the determinants of youth emancipation as this decision may have long-term effects on the life of the youth. Leaving the parental home is the first step in the transition to adulthood and it may affect future geographic and job mobility (Eurofound, 2006). Moreover, late emancipation may delay the entry of the youth in the labor market and reduce the number of children they will give birth to (Esping-Andersen, 1999 and Chiuri and Del Boca, 2010).

The seminal paper of Rosenzweig and Wolpin (1993) provides with a framework to analyze coresidence and intergenerational transfers. According to the authors, neither a common family budget constraint (common pooling of resources) nor an individual budget constraint (complete separation of resources) is an appropriate setting when studying the living arrangements of adult children. Instead, the budget constraint should include, apart from the earnings of the adult child, a set of rules that determines how the family pools resources. We will briefly describe the main ingredients of their model and some of its implications before moving to the discussion of the vast empirical literature that followed.

In the model parents are altruistic and engage in a non-cooperative game with their adult child. Each individual lives for a certain number of periods, the first half of these as a young adult and the other half as a parent (overlapping generations). Young adults make decisions regarding human capital accumulation while parents decide the amount of transfers towards their adult child and the coresidence status. The young adults cannot transfer resources across periods and they can invest only in the form of human capital either at school or at work. The latter represents forgone earnings for those that accumulate human capital at school. Moreover, schooling entails a direct cost. The parents can borrow and lend at a riskless rate of interest. When the parents decide the amount of monetary transfers and the coresidence status they face a trade-off. On the one hand, coresidence is cheaper than monetary transfers due to economies of scale. On the other hand, coresidence entails a privacy cost.

There are three states: i) no aid, ii) monetary transfers and living apart, and

iii) coresidence. Lastly, there are state-specific preference shocks. The earnings and the preference shocks of the young adults and those of the parents have a permanent and a transitory component and both the parents and the adult children form rational expectations about the future.

Entering into the details and the solution method of the model is beyond the scope of this survey. However, there are some implications of the model that may be useful to understand the various determinants of the coresidence of adult children with their parents. For example, a contemporaneous and unexpected increase in parental income is expected to increase the propensity of parents to provide aid to the adult child. As parental income increases, there is going to be a transition from the no-aid state to the coresidence state and, if income increases further, to the monetary-transfer state. Likewise, a contemporaneous, transitory decrease of the adult child's income for given human capital is expected to increase the amount of aid that parents provide to the adult child in the same period. The next section reviews empirical studies of socioeconomic conditions and unemployment risk as determinants of living arrangements of the youth. Determinants of different type such as the housing and credit market conditions as well as cultural factors are discussed in Sections 3 and 4 while Section 5 is devoted to gender differences. Section 6 describes the evolution of living arrangements of the youth over the business cycle with a focus on the recent trends observed in the US. The final section concludes.

2. SOCIOECONOMIC CONDITIONS AND UNEMPLOYMENT RISK

Socioeconomic status as proxied by the education and the income of the family of origin is one of the main determinants of living arrangements of the youth. In line with the theoretical predictions of their model Rosenzweig and Wolpin (1993) find that low own and parental income is associated with a higher probability of coresidence with parents. More recently, Di Stefano (2008) builds a structural model of coresidence and finds that the youth delay emancipation due to parental transfers but also due to low wages. Similarly, Becker, Bentolila, Fernandes and Ichino (2010) find that an increase in the job insecurity of the father increases the probability of the youth leaving the parental home, while a decrease in own job instability increases the chances of youth emancipation.

Regional differences in wages and employment rates are also found to play a role (Card and Lemieux, 2000). In particular, higher wages and higher employment rates are associated with a lower probability of living with one's parents. Leaving the parental home often coincides with the transition into homeownership. Gathergood (2011) finds that income uncertainty as proxied by industry-level variation in unemployment risk has a sizeable negative effect on

the likelihood of transition into home ownership. However, renting a house can be an alternative to homeownership for the emancipated youth. Garcia-Ferreira and Villanueva (2007) proxy income uncertainty through the different type of employment contracts in Spain (temporary versus permanent) and find evidence that job insecurity favors renting over home-ownership but has no effect on the probability of forming a new household.

3. HOUSING AND CREDIT MARKET CONDITIONS

Apart from the income and the job insecurity of the youth contextual factors are also likely to be associated with household formation. Many studies focus on housing and credit market conditions as determinants of living arrangements (Haurin, Henderschott and Kim, 1993; Ermisch and Di Salvo, 1997; Ermisch, 1999; Martínez-Granado and Ruiz-Castillo, 2002; Martins and Villanueva, 2009; Modena and Rondinelli, 2011). These studies find that high housing prices and reduced access to mortgage debt for the youth are important factors behind the coresidence with parents.

Likewise, Chiuri and Jappelli (2003) show that mortgage-market imperfections as measured by the down payment ratio induce young individuals to postpone home purchases until later in life. This affects the distribution of owner occupancy rates across age groups with countries with high down payment ratios exhibiting low proportion of owner occupation by the youth.

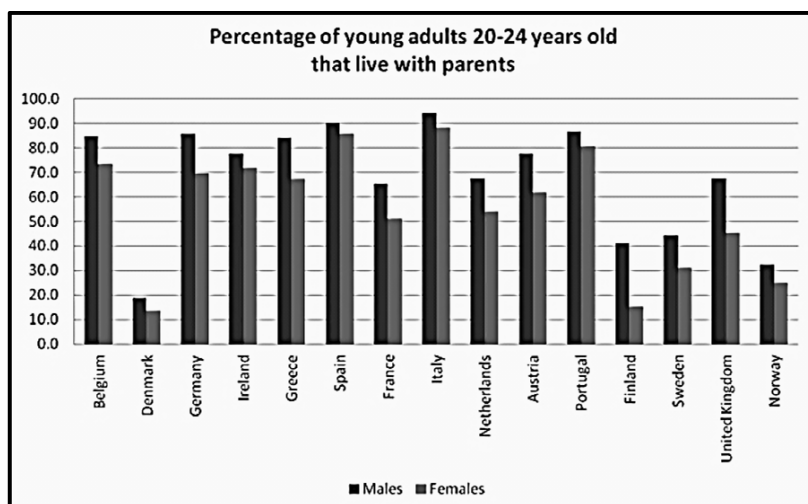
4. CULTURE AND CROSS-COUNTRY DIFFERENCES

A striking feature of youth emancipation rates is the strong and persistent heterogeneity across countries. Figure 1 presents the fraction of young adults aged 20-24 that live with their parents for a group of European countries in 2013. In Southern and Continental Europe the fraction is quite high (it reaches 90 per cent in Italy) while in Scandinavian countries this fraction hardly exceeds 40 per cent. Kiernan (1986) compares the living arrangements of the youth in Denmark, France, Ireland, the Netherlands, Germany and the U.K. in the 1980s and finds similar patterns. Giuliano (2007) shows that these cross-country differences are persistent by comparing the living arrangements of second-generation immigrants in the US to the ones in their countries of origin. Given that in her setting other determinants such as labor and housing market conditions can be held constant, she interprets her findings as a sign that cultural norms influence the living arrangements of the youth.

Bover (2010) argues that the prevailing family systems in Spain and the US can explain part of the differences in the wealth inequality between the two countries. Spain is characterized by strong family ties while the US is a country with weak family ties. In the former children tend to leave home when they get

married while in the latter they settle for independent life as soon as they become adults. Her analysis reveals that for the lower part of the wealth distribution a substantial part of the observed differences between the two countries vanishes as soon as household demographics are controlled for. By contrast, these differences become larger for the upper part of the distribution if one conducts a counterfactual exercise assuming for the US the household structure of Spain.

Figure 1
Living arrangements of the youth by gender and country (2013)



Source: Eurostat.

In mediterranean countries where youth unemployment rates are typically high one could attribute the high percentage of young adults living with their parents to economic difficulties. However, preferences are also part of the story. Manacorda and Moretti (2006) show that parents' preferences also contributed to the high rate of coresidence in Italy. Using household level data they find that parents compensate their children with higher consumption in order to continue living with them.

5. GENDER DIFFERENCES

Another common feature in all countries that is evident in Figure 1 is the gender gap: young women tend to emancipate more than young men both in Northern and Southern European countries. The widest gender gap is observed in Finland and the narrowest in Spain (25.7 and 4.4 percentage points, respectively). This is in accordance with earlier studies that show that women leave the parental home earlier than men in the US (Goldscheider and DaVanzo,

1985; Goldscheider and Waite, 1991; and Iacovou, 2002), in Australia, Canada and the UK (White, 1994) and in China, Japan, and South Korea (Yi, Coale, Choe, Zhiwu and Li, 1994). To some extent, this behavior reflects the difference in the average age at marriage between women and men (Card and Lemieux, 2000).

Parental home leaving is in many cases a joint decision of two young adults that leave their respective homes to form a new household. Bentolila, Mendez and Maeso (2015) analyze the joint moving-out decisions of the couple and find that it depends positively on the degree of assortative mating in the partners' but also in their parents' permanent income. In the case of females, the likelihood to move out jointly with the partner is larger the higher is the partner's job security. By contrast, what matters for the joint moving-out decision of males is the education of the partner's mother and whether she is still alive.

Gender differences need to be taken into account by the policy makers when designing policies that enhance emancipation. Aparicio-Fennol and Oppedisano (2015) study the effects of a rental subsidy in Spain that was targeted at young adults and find that the subsidy fostered emancipation more among females than among males. This is in line with Chiuri and Del Boca (2010) that find that environmental factors like unemployment, downpayment and youth policies affect females' decision to leave parental home more than males'. Adamopoulou and Kaya (2015) analyze the influence of high school friends on the nest-leaving decision of young adults in the US and find statistically significant peer effects. They also find evidence that females tend to conform to the social norm more than males. They conclude that peer effects give rise to a multiplier that may magnify the effect of policies.

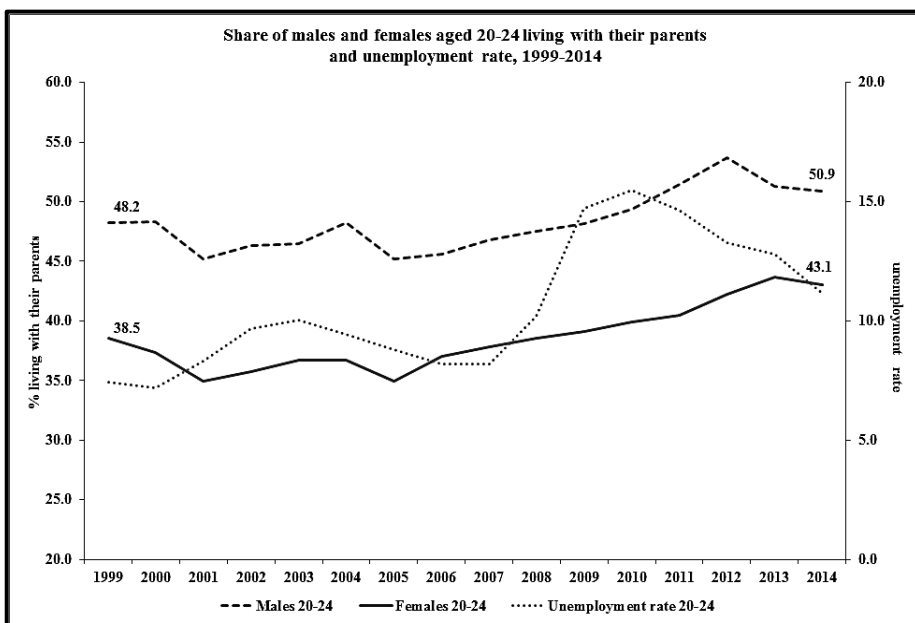
6. THE BUSINESS CYCLE AND RECENT TRENDS IN THE US

The living arrangements of the youth are expected to respond to the business cycle as labor and housing market conditions are some of their main determinants. Indeed, high youth unemployment rates during the Great Recession are associated with an increase in the proportion of young adults living with their parents in the US (Figure 2). Many studies attribute this behavior to insurance-seeking motives as unemployed young adults returned to or never left parental home (Dyrda, Kaplan, and Ríos-Rull, 2012; Kaplan, 2012; Bitler and Hoynes, 2015; Hotz *et al.*, 2015).

Data and studies traditionally pointed out that young adults in the US tend to leave parental home earlier than young adults in Europe (Iacovou, 2002). However, Matsudaira (2015) finds an increasing trend in the percentage of young coresidents with their parents in the US that has been in force since 50 years. Moreover, even after the end of the Great Recession in the US, although

unemployment rates fell, the proportion of young adults living with their parents remained high (Fry, 2015) especially among females (Figure 2). What can explain the apparent recent acyclicity of living arrangements in the US is a combination of different countervailing factors. Bleemer, Brown, Lee and Van der Klaauw (2015) show that while labor and housing market factors suggest a cyclicity in the rate of co-residence with parents, the escalation of student debt leads to a decline in youth emancipation.

Figure 2
Living arrangements by gender and unemployment rate in the US (1999-2014)



Source: Current Population Survey Data on Families and Living Conditions and Labor Force Statistics.

7. CONCLUSIONS

Leaving the parental home is an important first step in the life of young adults that is related to geographical mobility, employment and fertility. The literature has identified labour market and financial conditions but also culture as some of the determinants of the living arrangements. Gender differences characterize living arrangements in many countries. Females tend to emancipate earlier than males, although the reasons behind this decision may be different (family formation versus independence). There is also cross-country heterogeneity, with countries in Southern Europe exhibiting particularly high percentages of youth coresiding with parents. Such cross-country differences are persistent over time.

However, in the recent years, young adults in the US tend to remain in the parental home more than in the past, a trend that is particularly evident among females. It is not clear yet whether this will lead to a gender convergence in the coresidence rates in the US.

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