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Working paper no. 2009-09

Pooling of Income and Sharing of Consumption within Households

Jens Bonke & Martin Browning

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Jens Bonke[a] [1], Martin Browning[b]

[a]*Rockwool Foundation Research Unit, Sejroegade 11, DK-2100, Copenhagen, Denmark*

[b]*Department of Economics. University of Oxford, Manor Road, Oxford, OX1 3UQ, England*

Abstract

There are extensive literatures within economics and economic psychology on the allocation of household income within the household. These two literatures are largely disjoint but both use a concept of 'income pooling'. In economics this refers to the independence of household decisions from who receives the income within the household. In economic psychology it refers to the management of household finances. This article uses a new Danish expenditure survey that gives information on both concepts and on the assignment of expenditures to consider the link between the two. More importantly, we investigate whether either type of pooling is related to the sharing of expenditures between the two partners. We find that sharing does depend on who receives the income within non-pooling households, but not on the economic psychological income pooling regime per se.

JEL classification: D13; D31; C81
PsycINFO classification: 2950

Keywords: Household production and intra-household allocation, Personal income, wealth and their distributions, Methodology for collecting, estimating, and organizing microeconomic data. Marriage and Family.

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[1] Corresponding author. Tel.: +45 3917 3837; fax: +45 3920 5219. E-mail address: jb@rff.dk

1. Introduction

The aim of this article is to close somewhat the gap between the literatures in anthropology, sociology, economic psychology – hereafter mentioned only as economic psychology - and economics that consider within household decision making and intra-household allocation.. Broadly speaking, economic psychological analysis is concerned with 'process' whereas economic analysis is more concerned with 'outcomes'. For example, economic psychologists analyze who makes what decisions and what characterizes the decision-making process. In contrast, economists analyze what impact various factors that are related to power have on the distribution of consumption within the household.

In our data we have, for the first time, respondents in a conventional family expenditure survey who are asked to state for whom the goods purchased are bought. For convenience we shall refer to this as 'intrahousehold sharing' or simply 'sharing'. Furthermore, the respondents were also asked about the decision processes within the family referred to as income pooling regimes or simply income pooling in the following. Having both types of information for the same households facilitates a synthesis of the two strands of research in this area. Here, we focus on the economic psychological and the economists' approaches by investigating the extent to which the households are pooling their resources and sharing their expenditures/consumption.

One potentially confusing term is 'income pooling', because it is used differently within economics and economic psychology. In economics, it refers to the idea (which formally originates with Becker) that sharing is independent of who actually brings the income into household. In economic psychology it denotes that household members report that they pool their incomes for financial purposes and draw on this pooled income for common and individual expenditures. Clearly the two concepts can diverge. For example, the household members may agree on how to spend money independently of who earns it (income pooling in the Becker sense), but also agree to keep separate accounts and pay the agreed amounts from these as convenient. Conversely, the household members may agree to pool income in a joint account but the spending from this may

depend on who is earning the money. To avoid confusion we shall refer to the economists' concept as 'Becker pooling' and reserve the term 'income pooling' for the economic psychologists concept.

Our principal interest is in whether the intra-householld allocation of income and/or income pooling (in the economic psychology sense) has an impact on the allocation of expenditures to the members of the household, without considering possible causal relationships between allocation of income and income pooling. As regards Becker pooling, we simply test for whether the within household allocation of income impacts significantly on the sharing of consumption. The influence of income pooling in the economic psychology sense is more subtle. Here we expect that for couples who report a pooling regime, the intra-household allocation of consumption is concentrated around equal sharing. Consequently, the distribution of income between the partners will have little or no impact on the distribution of expenditure. In contrast, couples who do not pool their income will have a more dispersed distribution of consumption with a mean that may diverge from equal sharing. For this group we would expect that the distribution of income does matter for consumption sharing.

2. Two definitions of income pooling

2.1. Income pooling for economic psychologists

For decades economic psychologists have taken up the systematic study of decision making processes and power-relations within the family (see, for example, McDonald, 1980; Mizan, 1994; Vogler & Pahl, 1994; Pahl, 2005; Vogler et al, 2008). Contemporaneously, economists have questioned the existence of a unitary (Beckerian) set of preferences for the household and have specified models allowing the individuals within the household to have different preferences over how to allocate the time and money available to them.

There is a long-standing tradition among *economic psychologists* to focus on the association between a household's financial organization and inequalities between partners in decision making

(see, for example, Blood & Wolfe, 1960; Blumstein & Schwarz, 1983; Treas, 1993; Woolley, 2003). Most studies argue that the power balance in a family relates to the comparative resources such as income, education and occupational status of husband and wife. Some authors have tested this resource theory (McDonald, 1980; Mizan, 1994), but it is difficult to relate the results of these analyses to the economists analyses of Beckarian pooling. For example, nowhere in the economic psychology literature do we know of a clear and operational definition of 'power within the household' even though this concept is central to much of the discussion.

A complicating factor in this respect is that the financial management of households involves a diversity of decisions varying in importance, frequency and amounts of money involved, see, for example, Dobbelsteen and Kooreman (1997). Thus, Vogler and Pahl (1994) make a distinction between strategic control and executive management, where strategic control concerns important and infrequent decisions with the labour input being small in relation to resulting power so that the power aspect may very well dominate the efficiency argument. Alternatively, for executive management, concerning time-consuming and routine decisions within certain limitations, the efficiency argument is probably more persuasive and the household production approach may be most appropriate. We therefore ask questions relating to management usually referred to as income pooling regime questions. A critical issue is whether responses to these questions on power and income pooling bear any relation to the answers provided by the 'economic' analysis of outcomes.

2.2 Income pooling for economists.

The Beckerian pooling model or more precisely the "unitary" model associated with Becker (1991) treats the household as though it has a set of coherent goals (preferences) which guide the actions of all household members. This is now known as the 'unitary' model. The dissatisfaction with the unitary model arose initially from theoretical concerns. The first of these was the worry about the methodological soundness of assuming that an aggregate (the household) behaves like an individual. This was at odds with a widespread recognition in the aggregation literature that we

cannot typically 'aggregate to a representative agent'. The second broad motivation seems to have been the emergence of an explicitly feminist approach to economic analysis. This emphasized the importance of power within the household and the potential importance of the command or potential command over economic resources in attaining individual goals within the household. Non-unitary analyses in economics were based either on (cooperative) bargaining models (Manser & Brown, 1980; McElroy & Horney, 1981) or on non-cooperative models (Ulph & Ulph, 1988; Woolley, 1993).

The empirical evidence against the unitary model lagged somewhat behind the theoretical literature but there is at present widespread agreement that the unitary model is inconsistent with various facets of household behaviour. In particular, many studies on individual household data reject the principal prediction of the unitary model that the distribution of income within the household should not have any impact on household outcomes such as labour supply, saving and demand patterns. The 'Beckerian pooling' prediction has been tested through observed individual incomes in households surveys (see, for example, Bourguignon et al., 1993; Browning et al., 1994; Browning & Chiappori, 1997; Lundberg et al.,1997; Phipps & Burton, 1998; Thomas, 1990). However, in most cases the information is only on expenditures on clothing or on very aggregate expenditure measures with the exection of Phipps & Wolley (2008), who investigate spouses contribution to retirements savings plans. In this article we use information on all expenditures by the household, although information on a more disaggregated level is available, see Bonke & Browning (2009).

3. Data

The data are collected in conjunction with the Danish Household Expenditure Survey (DHES). This is a continuous survey of approximately 1,000 households per year. After a pilot in September to November 1998, surveying began in early 1999 and, given our sample selection, we have information on 1,747 households by the end of 2004. We only sample households 'headed' by a

married or co-habiting couple. Furthermore, to diminish heterogeneity only couples with both spouses between 18 and 59 years old are included in our sample. We also merged the expenditure survey data to information on income, household characteristics, etc. from administrative registers in Statistics Denmark.

The DHES includes a questionnaire and an accounting book ('diary'), the latter being self-administered and registering the purchases of each household member during a two week period. The innovation in our data collection is that for each item in the diary, the respondent records whether the item was bought for: 'the household'; 'the wife'; 'the husband'; 'the children' or 'other'. In general this extra reporting did not present any difficulties for respondents; see Bonke and Browning (2009) for a detailed analysis of the reponse rates etc.. These responses provide the basis for our analysis of consumption sharing. Specifically, we consider as 'assignable' expenditure that are allocated to the husband or the wife.

From the questionnaire we have information about the spouses management of their incomes. Thus, the respondents were asked if they are pooling all their incomes not distinguishing between his and her money, only some part regarding other parts as his or her money, handling some money to the desposal of their partner, or having complete separate economies with each spouse's earning belonging only to him or herself. These so-called income pooling regimes have been used by economic psychologist for decades, see e.g. Pahl (1989), Vogler (2005) and Ashby & Burgoyne (2008). Most studies find that a majority of households are pooling their incomes, which we also find here with around two-thirds belonging to this distritutional regime (table 1). As the remaining regimes are pretty similar in their orientation towards individuality within the relationship (Burgoyne et al., 2007) and appear very infrequently, we collapse them into a non-pooling regime, which is also done by Bonke and Uldall-Poulsen (2007) using the same dataset.

Also the keeping of separate bank accounts have been used as a proxy for the spouses' jointness in household management, but there seems not to be any high correlation between the declaration of belonging to an income pooling household and the keeping of joint accounts (Burgoyne et al., 2007) nor that separate accounts are more often hold by men than by women (Woolley, 2003).

The descriptive statistics for the information/variables applied in the following analyses are shown in table 1, where the sharing rule factors are expected to impact on the distribution of income within households.

Table 1 around here

4. Hypotheses and non-parametric analysis

The focus of this study is on the interactions between the income share, the pooling regime and the allocation of expenditures. In this section we present a detailed analysis of the relationship between the three, without taking into account other factors. In the next section we shall present a regression analsysis that does allow for other factors.

From Bonke & Uldall-Poulsen (2007) we know that the wife's share of the household income increases the likelihood of income pooling within households, when he earns more than 80 percent of the individual incomes. This is not the case for other income shares, and a possible interpretation is that without income sharing living conditions would be to too skew to keep the marriage going and/or that this pooling regime is simply the norm among traditional breadwinner families. This is in line with the argumentation by Pahl (2005) that couples are becoming more individualized in there finances making income pooling less likely among dual-earner families.

To our knowledge there is no systematic analyses of the effect of pooling on the allocation of expenditures one reason being that there has been no available data on how assignable consumption and not only clothing is distributed within the household. We expect that pooling not necessarily implies another allocation of expenditures, but that the variation in the allocation is smaller among pooling households than among non-pooling households. This follows from the argumentation that shared management and a common household budget usually found within income pooling households makes the distribution of consumption more equal among the spouses (Vogler et al, 2008).

That income shares impact on the distribution of consumption is found in several studies, e.g. Bourguignon et al., 1993; Browning et al., 1994; Browning & Chiappori, 1997; Lundberg et

al.,1997; Phipps & Burton, 1998; Thomas, 1990, and this has been used to reject the unitary model. However, in most cases these findings rely on information on a subset of assignable goods, which is not a binding restriction here because of our data, see chapter 3. We are expecting that the distribution of all assignable goods depends on the income distribution within non-pooling households, whereas this is not the case for income pooling households because of the presence of 'Beckerian pooling'.

Table 2 around here

In Table 2 we present summary statistics for the distribution of the wife's share of expenditures for the two income pooling regimes. Although the mean and median is slightly higher for the 'pooling' households the difference is neither statistically significant for the mean (t-value of 1.01) nor for the median (t-value of .44). Turning to the distribution we see that the pooling distribution is somewhat more dispersed than the non-pooling distribution, while there is no big differential in the inter-quartile ranges. A Kolmogorov-Smirnov test for equality between the two distributions has a probability value of .120, which implies that the two distributions are not significantly different from each other. Thus nonparametric analysis suggests that the location of the wife's share of expenditure and the dispersion are independent of the income pooling regime. Note however, that this is an unconditional analysis that does not take account of the fact that pooling is correlated with other factors which may affect sharing. To investigate this we now turn to a regression analysis of the wife's share of expenditure.

5. Empirical models

In our empirical analysis we consider the determinants of assigned expenditure (CONSSH). These are: her income share (INCSH); the pooling regime (POOLING = 1 if they report they are

pooling income); the interaction between the wife's income share and the distributional regime, and a number of candidate distribution factors (DISTFACT) (see table 1)..

CONSSH = á + âINCSH + óPOOLING + Ö(INCSH * POOLING) + èDISTFACT + å

The form of the equation is designed to capture the differential effects discussed in the previous chapter. For example, a finding that the income share is only important for those who do not pool (an 'insignificant' coefficient on 'INCSH') would indicate that the regime has the expected effect. On the other hand, a finding that the crossed variable was insignificant but the income share is significant would indicate that pooling plays no role for the sharing of expenditures. Finally, if pooling does not become significant it means that the distributional regime has no impact on the sharing of resources within the household.

Because there are some wives and husbands who report no individual assigned consumption within the fortnight period of the booklet accounting, we use two sided censored regression methods.

6. Regression analyses

We see that for individually assigned goods (CONSH) there is a positive and significant correlation between the wife's share of income and the wife's share of consumption, i.e. the more she earns the more is spend on her controlling for total household income, see model 1 in table 3. Furthermore, we find that pooling (POOLING) does not impact on how the spouses are sharing their consumption: at the mean the wife within a pooling regime household does not have a higher proportion of assignable goods than wives within non-pooling regimes. Neither was the dispersion of the shares of consumption found smaller in the pooling regime than in the non-pooling regime, see chapter 3.

Table 3 around here

The model also includes some information about individual characteristics suggesting that these may vary between wives and husbands, and thereby explain somehow why the pooling regime doesn't impact on the distribution of consumption. We find that only living in big cities (URBAN), the husband having had a previous partner (HUSB#PARTNER), years of marriage/cohabitation (YEARSMARRIAGE) and husbands growing up with a full-time working mother (HUSBMOTHERFULLTIME) impact on the distribution of the consumption, i.e. the latter negatively.

To investigate if the effect of income shares and the different individual characteristics/distributional factors, is different within pooling than within non-pooling households, we include in model 2 the interaction between pooling and income shares as well as between pooling and the distributional factors.

As expected, we find a negative coefficient for the pooling*income share interaction term, which indicates that the distribution of income has a stronger (t-value on -1.37) impact on consumption shares among non-pooling households than among pooling households. For the significant distributional variables in model 1 we also find significant impacts when interacted with pooling as well as for no. of children and households, where the wife grew up with both parents, see model 2 in table 3. Thus, living in a bigger city increases her consumption share if living in an income pooling household, and the same holds for wives married to a partner who has had one or more previous partners. Years of marriage is also favoring her share of consumption, whereas children and wives growing up with both of their parents have a smaller share of consumption, if they are pooling their incomes with their partner relatively to if they are not pooling their income.

Finally, if we distinguish between pooling and non-pooling household doing regressions for the two groups separately, table 4 shows that income shares has a significant and positive impact in consumption shares within non-income pooling households but not within income pooling households controlling for the distributional factors used in model 2 in table 3. This is seen as a confirmation of the prediction following Beckerian income pooling for households reporting that

they are pooling their incomes. For non-income pooling households the distribution of income matters for their sharing of consumption.

<center>Table 4 around here</center>

The conclusion therefore is that distributional factors impact on the sharing of consumption within households, and that controlling for these needs imply that the distribution of income matters more within non-income pooling households than within income pooling households.

7. Conclusion

This article investigates the correlation between decision making and intra-household allocation within households, and thereby tries to close the gap between the economic psychology literature and the economic literature on this issue. Thus, where economic psychologists analyze who makes what decisions and what characterizes the decision-making process, economists analyze how spouse's incomes are distributed within the household and with what result.

The data used are from the Danish Household Survey, where additional questions are asked about for whom different goods purchased are bought, and, furthermore, which distributional regime the household belongs to. Having both types of information for the same households allows for investigating income pooling and consumption sharing at the same time.

The results show that a great majority of households declares that they are pooling their incomes, whereas pooling only some fraction of the incomes or running independent economies are rarely happening. We also find that although the wife's income share on average is 43 percent she gets 52 percent of the assigned consumption.

For non-pooling households the distribution of income between the spouses matters for the distribution of the consumption, i.e. the sharing. The more she earns relatively to him the higher becomes her share of the spouses aggregated consumption. For pooling households, on the other

hand, no such relationship is found although we controlled for several distributional factors found important for income regimes and the allocation of resources in other studies.

The conclusion therefore is that when economic psychologists talk about income-pooling this follows what economists consider as Beckerian income pooling, whereas non-income pooling households' consumption sharing is impacted by the spouses income distribution.

Acknowledgements

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Table 1.

Summary statistics – distributional regimes, consumption, income and sharing factors

	Distribution	
Regimes (REGIME)	# cases	
Pooling	1186 (.68%)	
Non-pooling	561 (.32%)	

	Mean	St. dev.
Income (1,000 DKK per year)		
Gross individual income	532.3	217.0
- wife's share of wife and husband's gross incomes	**.419**	**.141**
Gross household income	609.3	27.9
Net individual income	298.8	106.4
- wife's share of wife and husband's net incomes (INCSH)	**.431**	**.154**
Net household income (HHINC)	360.4	177.5
Expenditures (1,000 DKK per year)		
Assignable	122.4	63.8
- individual	53.0	42.2
-- wife's share of wife and husband's consumption	**.533**	**.293**
- joint	69.3	40.7
Non-assignable	161.7	97.7
Distributional factors		
Net household income (logHHINC)	12.70	.428
Husband had a previous partner (HUSBPREVPARTN)	.283	.450
Wife had a previous partner (WIFEPREVPARTN)	.281	.449
Husband 14 years old lived with both parents (HUSBBOTHPAR)	.872	.333
Wife 14 years old lived with both parents (WIFEBOTHPAR)	.866	.341
Husband's mother was full-time worker (HUSBMOTHFULLTIME)	.431	.495
Wife's mother was full-time worker (HUSBMOTHFULLTIME)	.451	.498
Years of marriage and cohabitation in present marriage (YEARSMARR)	13.11	10.15
# of children (#CHILD)	.981	.021
Owned house (OWNHOUSE)	.344	.475
Capital or big towns (URBAN)	.609	.488

Table 2

The distribution of different consumption shares within pooling and non-pooling
regimes. 1998-2004

	Wife's share of wife and husband's consumption (CONSSH)	
	Pooling	Non-pooling
Assigned individual consumption		
Mean	.538	.522
St.dev.	.299	.282
1. quartile	.312	.299
2. quartile/median	.549	.536
3. quartile	.778	.730
Kolmogorov-Smirnov test: p-value	.120	
N:	1186	561

Note: No significant differentials in means and medians between pooling and non-pooling regimes

Table 3

Wife's consumption share explained by income shares, distributional regimes and sharing rule
factors. Two sided censored regressions

Wife's share of wife and husband's consumption (CONSSH)							
Model 1				Model 2			
	Coefficient estimates	Std. Err.	t-values		Coefficient estimates	Std. Err.	t-values
INCSH	**.099***	**.050**	**1.97**	INCSH	.175**	.078	2.25
POOLING	**.010**	**.017**	**0.60**	**INCSH*POOL**	**-.117**	**.086**	**-1.37**
URBAN	.043***	.016	2.68	URBAN*POOL	.044**	.017	2.50
HUSB#PARTNER	.039**	.018	2.17	HUSB#PARTNER*POOL	.042**	.020	2.05
YEARSMARRIAGE	.002**	.001	2.15	YEARSMARRIAGE*POOL	.002**	.001	2.10
HUSBMOTHER				HUSBMOTHERFULLTIME*			
FULLTIME	-.045***	.016	-2.81	POOL	-.046***	.015	-2.89
				#CHILDREN*POOL	-.018**	.009	-2.08
				WIFEBOTHPAR*POOL	-.048*	.026	-1.81
Constant	.365****	.047	7.87	Constant	.470****	.036	13.08
Number of observations/left-censored/ right-censored	1557/ 57/133				1557/ 57/133		
N:	1747				1747		
Pseudo R^2	.0198				.0243		

Note: means significant: * at 5%, ** at 1%, *** at 0.1% and **** at 0.01-level
[1]Stepwise tobit-regression with INCSH and POOLING as lockterms in model 1, and INCSH AND INCSH*POOLING
as lockterms in model 2. For the other variables, see the list in table 1.

Table 4

Wife's consumption share explained by income shares and other other factors[1]. Pooling versus non-pooling households. Tobit-regressions.

	CONSSH			
	Pooling		Non-pooling	
	Coefficient estimates	Std.Err.	Coefficient estimates	Std. Err.
INCSH	**.092**	**.063**	**.170***	**.087**
Constant	.285	.336	-.190	.417
Number of observations/left-censored/right-censored	1046/38/102		511/19/31	
Adjusted R^2	.034		.023	
N:	1186		561	

[+],[*],[**],[***]significant on .1, .05, .01 or .001-levels

[1]The model includes all the variables from the regression in table 3, i.e. exclusive of interaction variables.