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Leaving Home: What Economics Has to Say about the Living Arrangements of Young Australians

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ABSTRACT

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Like their counterparts elsewhere, more young Australians than ever are delaying the move to establish residential independence from their parents. This paper reviews the developing economics literature surrounding young people's decisions to continue living in their parents' homes in order to begin to assess the causes and consequences of this decision. In particular, co-residence with parents appears to be an important form of intergenerational support for young adults. It is important to understand the extent to which young people rely on this form of support as they complete their education, enter the labour market, and establish themselves as independent adults. Specific attention is paid to the ways in which Australian income-support, education, and housing policies may influence these patterns.

JEL Classification: J11, J13

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'However painful the process of leaving home, for parents and for children, the really frightening thing for both would be the prospect of the child never leaving home.'

Bellah et al. (1996, p. 58)

Around the world, young people are delaying taking what is commonly regarded as the first step in an independent adult life – moving out of their parents' home. This trend has received the most attention in Mediterranean Europe where the majority of men now continue to live at home with their parents well into their early thirties (e.g., Becker, et al. 2005a), but has been also observed in the United States (DaVanzo and Goldscheider, 1990; Whittingon and Peters, 1996) and in Australia (Hartley, 1993; Weston, et al., 2001). The Australian Bureau of Statistics (ABS), for example, reports that the proportion of young people aged 20 to 29 living with their parents increased from 20.7 to 29.9 per cent between 1976 and 2001 (ABS 2005).

Relative to other demographic phenomena – for example, population aging, the increased prevalence of family breakdown and the rise in single-headed households, or the large-scale movement of people across international borders – young people's living arrangements remain a relatively understudied issue. This is unfortunate as young adults' decisions about where (and with whom) to live are intricately bound up with other decisions regarding partnering and childbearing. Moreover, co-residence serves as an important mechanism through which parents transfer resources to their adult children. These resources are fundamental in enabling young people to complete their education, enter the labour market, and establish families of their own. The current trends leave little doubt that young people are prolonging the period during which they are financially dependent upon their parents (see for example, Hartley 1993; Whittington and Peters 1996; Schneider 1999; Weston et al. 2001). For these reasons, researchers increasingly see the decision to leave home as fundamental to understanding the life course, intergenerational relationships and the structure of the family (Goldscheider et al. 1993).

This paper reviews the international and domestic research analysing young people's decisions to leave the parental home.[1] The objectives are threefold. First, we are interested in drawing inferences from the literature regarding both the possible causes and consequences of young Australians' decisions to live away from their parents. In particular, how do co-residence patterns vary with family characteristics like age, household income, and family structure? To what extent might young Australians be reliant on co-residence with and financial transfers from parents in completing their education, entering the labour market, and establishing themselves as independent adults? What can we say about the consequences for parents of providing this support? Second, we are interested in understanding how Australian education, income-support, housing, and labour market policy might influence young people's living arrangements. Finally, we are interested in identifying the most pressing areas for future research.

I. Leaving Home: The Big Picture

Demographers have consistently pointed to the close relationship that historically existed between leaving home and marriage, especially for women. With the exception of brief periods away to accommodate further study or military service, few young people left home before marriage. After the Great Depression and World War II, it became increasingly common for young people to experience a substantial period of independent living before marriage. As a result, the incidence of co-residence with parents fell reaching a low point sometime during the 1970s (Glick and Lin 1986; Young 1987; Goldscheider and Goldscheider 1989, 1994; De Jong Gierveld et al. 1991; Hartley 1993; Weston et al. 2001; Becker et al. 2005b). In more recent decades, there has been a global trend towards remaining at home longer which some have speculated has been driven by increases in educational attainment, weakening labour markets, and escalating housing costs (see for example, Giannelli and Monfardini 2003; Martínez-Granado and Ruiz-Castillo 2002).

Although the historical trend in the age at which young people leave their parents' homes is remarkably consistent across countries, there is enormous cross-country variation in the actual age at which residential independence is established. Becker et al. (2005a) report for example that in 2002 co-residence rates for men in their late twenties ranged from 20 to 22 percent in countries such as France, the Netherlands, and the United Kingdom, to 70 to 73 percent in countries such as Italy, Greece, and Finland (see also, Alessie et al. 2005; Manacorda and Moretti 2005; Billari et al. 2001; Le Blanc and Wolff 2003**)**. Canada and the United States lie somewhere on the 'early' rather than the 'late' end of the age spectrum with more than half of young people having left their parents homes by age 24 (Card and Lemieux 1997).

Australia has not been immune to these broader demographic trends. The nature and timing of residential independence for young Australians has also evolved as economic, social, and cultural circumstances have changed. In Australia, as in many other countries, leaving home in the middle of the twentieth century was closely tied to marriage (Hartley 1993; McDonald 1995; Weston et al. 2001). During the 1970s the numbers leaving home to marry fell and more young people left home to be independent (McDonald 1993). A decade later this trend had reversed as the expansion of educational opportunities and a weakening labour market led more young Australians to delay the decision to leave home. In particular, Weston et al. (2001) document the trends in Australian living arrangements between 1979 and 2000 (see Table 1). By the start of the twenty-first century, 52 per cent of men and 39 per cent of women aged 20 to 24 were living with their parents, while 16 per cent of men and 8 per cent of women aged 25 to 29 co-resided with parents. Changes in living arrangements have been particularly pronounced for Australian women. Between 1979 and 2000 the proportion of men aged 20 to 24 living with their parents increased by 14.3 per cent. In contrast, the increase among women was 57 per cent (see Table 1). Cohort analysis also suggests that changes in the propensity to leave home have been much larger for women (Hillman and Marks 2002; Marks 2005). Moreover, Weston et al. (2001) find that among Australian men aged 20 to 24, the increased propensity to live with ones parents over the period 1981 to 1998 stems from an increased probability of returning home. The proportion of 20 to 24 year old men who had never left home was unchanged. For women and men aged 25 to 29 the increased incidence of co-residence results from both increases in the proportion that have never left home and in the proportion that have left and then returned home. These results are largely consistent with Flatau et al. (2003) who also find a gradual rise in the age at which those under the age of 25 are leaving home.

Today the age at which young Australians leave home, while perhaps higher than in the 1970s, is relatively low in comparison to Mediterranean Europe, with Australian co-residence patterns more similar to those in the United States, Canada, and other parts of Europe. At the same time, it seems clear that this delayed residential independence is indicative of a broader pattern of increasing financial dependency of young Australians on their parents. Not only are young adults less likely to leave home, they are more likely to be receiving financial support from their parents when they do live apart and more likely to return home as circumstances change (see Hartley 1993; Schneider 1999).

II. The Issues

The issues surrounding the nature and timing of young adults' decisions to leave their parents' homes are complex. On one level, leaving home is a fundamental demographic transition that is doubtless related to other demographic transitions, perhaps most importantly partnering and parenthood. There is much work to be done in identifying the exact nature of this relationship however. While delayed residential independence might be simply seen as one outcome of the broader economic and social pressures leading to delayed marriage and childbearing more generally, this is perhaps too simplistic. Much of the twentieth century saw the age at which young people left home fall even as the age of marriage was increasing (for example, Young 1987; McDonald 1993) and it is hard to dispute the evidence that the link between marriage and childbearing has weakened considerably since the middle of the last century. These demographic events, while clearly related, are perhaps not so tightly interwoven as they were a generation or two ago. Consequently, it is important to develop a fuller understanding of the ways in which recent declines in marriage, co-habitation, or fertility rates are related to the increasing propensity of young adults to continue co-residing with their parents.

Co-residence also represents an important mechanism through which resources are transferred between generations. In most developed, Western countries the flow of resources is predominantly from parents to their adult children. Where young adults reside is important for understanding their standard of living as empirical evidence rejects the notion that extended family members (regardless of their place of residence) face a common budget constraint (Altonji et al. 1989). Co-residence allows young people to consume, save and invest even in the face of credit constraints (Cox 1990; Fogli 2004; Ermisch, 2003) and to maintain their relative income position in periods of economic downturns (Card and Lemieux 1997). In Mediterranean Europe, resources also flow from adult children to their parents. Martínez-Granado and Ruiz-Castillo (2002) argue, for example, that in Spain the intergenerational family provides support in both directions. In Italy, the income share of co-residing, adult children has a positive effect on the household savings rate (Alessie et al. 2005), while Southern European parents in general report a decline in financial satisfaction once their adult children leave home (Kluve 2004). Shedding light on the exact nature of these resource flows is fundamental to our understanding of both the determinants and consequences of the decision to co-reside.

Moreover, parental transfers may be at least as important as public transfers in supporting young adults. US data indicate, for example, that the proportion of young adults receiving financial transfers from parents is similar to that receiving public support, while the magnitude of parental and public transfers is also much the same (Rosenzweig and Wolpin 1993, 1994). This close link between parental and public transfers raises a number of important issues. In particular, if parental and public support are substitutes, public programs targeted towards young people in part subsidize the parental generation. Laferrère and Le Blanc (2004) conclude, for example, that recent French reforms making housing allowances available to students were in fact a windfall gain to their parents. Additionally, most entrances and exits onto the social assistance rolls are driven by demographic change and not changes in labour supply, making family structure issues at least as important as labour supply issues in understanding the economic status of low-income families (Moffit 1992; Gregory and Klug 2003). In the case of young adults, there is evidence that public policy has a stronger impact on living arrangements than on childbearing or female headship (Hu 2001). Conclusions regarding the effect of social policy on demographic transitions such as leaving home may be misleading, however, if we do not take parental transfers into account (see Rosenzweig and Wolpin 1994).

Finally, decisions about leaving home are by and large family decisions involving both parents and children. These decisions may depend in part on cultural or social norms regarding the appropriate age (and circumstances) for leaving home and almost certainly have implications for the relationship between, as well as life satisfaction of, parents and their adult children.[2] Goldscheider and Goldscheider (1989) note, for example, that parents and their children often do not share the same expectations about the age at which children will leave home leading to the possibility of intergenerational conflict about the issue. Moreover, conflict between parents and co-residing adult children appears to be higher when those children are unemployed or financially dependent on their parents (Aquilino and Supple 1991). Parents' own experiences while young may differ substantially from those of their children making it harder to reach consensus (Goldscheider and Goldscheider 1994). Moreover, Billari et al. (2001) argue that the process of leaving home may have long-term implications for the social obligations that youth feel (or perhaps do not feel) to support their parents in old age.

At the same time, continued co-residence may also involve costs and compromises for both generations. For example, parents whose nests are empty often report higher marital satisfaction (e.g., Clemens and Axelson 1985; DaVanzo and Goldscheider 1990; White and Edwards 1990) and are more satisfied with their housing situation (Kluve 2004). Preferences for living with ones children seem to vary across countries, however, with Italian and Spanish parents happier and US parents less happy when their adult children live with them (Manacorda and Moretti 2005).[3] Ultimately, a deeper understanding of the consequences of children leaving, or failing to leave, their parents' home begs for consideration of the way in which intergenerational co-residence affects life satisfaction and family relationships more generally.

III. The Literature Surrounding Leaving Home

A large literature evaluates the role of various welfare and education policies in supporting young adults as they complete their education and make the transition into the labour market. Only recently has the provision of parental support in the form of co-residence with and financial transfers to young adult children begun to receive explicit attention. Researchers generally began by considering intergenerational financial transfers (e.g., Bernheim et al. 1985; Cox 1987; Cox and Jakubson 1995; Guiso and Jappelli 2002) and co-residence separately (e.g., Ermisch and Di Salvo 1997; Wolf and Soldo 1988). More recently, researchers have begun to consider the relationships between alternative forms of support.

Here we review the international and Australian research on the factors and processes that drive the leaving-home decision. We begin by considering what is known about the social, institutional, and macro-economic forces underlying the extensive cross-country variation in the age of leaving the parental home. We also consider what the literature tells us about three primary questions: first, what are the determinants of co-residence; second, what is the role of co-residence in facilitating human capital or labour market investments; and third, what are the potential tradeoffs between private and public support of young adults. Answers to these questions yield important insights into young adults' decisions to leave home as well as the way that public policies might influence those decisions. A review of this literature provides the basic foundation for a firmer understanding of, or at least more informed speculation about, the consequences of delayed home leaving and the most pressing research questions for the future.

III.a What Underlies National Differences in Leaving Home?

Social norms, institutions, and macro-economic conditions can all shape national patterns in the age, sequence, and circumstances that define the process of leaving home. For example, whether young people leave home before or after completing their education rests in large part on institutional arrangements that might (or might not) facilitate the independent living of students in higher education (Billari et al. 2001; Laferrère and Le Blanc 2004). Similarly, social norms regarding the appropriateness of marriage as the pathway out of the parental home will also influence the decision to leave home (Goldscheider and Goldscheider 1989, 1994). As Billari et al. (2001) note, sorting out the direction of causality is challenging. It is difficult to know whether the institutional setting (e.g., the widespread availability of student housing) is a consequence of a nation's social values (e.g., a preference for young people to live independently) or whether the reverse is true. Whichever is the case, young people tend to leave home sooner in countries that target more public resources towards supporting youth (Billari et al. 2001).

Some researchers have also appealed to differential 'preferences' and 'cultural identity' as factors in explaining the cross-national variation in the age at which young people leave home. Manacorda and Moretti (2005) argue that Italian men's tendency to live at home can be explained by their fathers' preference for living with their sons, while the major reason cited by young Italians for continuing to live at home is that it suits them (Giuliano 2007). These results seem at odds with evidence for the United States indicating that parents value privacy and would prefer their adult children to live independently (Rosenzweig and Wolpin 1993, 1994).

Giuliano (2007) identifies the effect of 'cultural identity' on living arrangements by studying the behaviour of second-generation immigrants to the United States. She argues that the sexual revolution made sex outside of marriage more acceptable and increased the desirability of co-residing more in 'strong families' (those with a tendency towards intergenerational living) than in 'weak families' (those where generations typically live apart). This in turn resulted in differential changes in co-residence patterns across countries over time. Guiliano's finding that the living arrangements of second generation immigrants to the US mimic those of the European sending countries provides support for her view that cultural differences in preferences underpin co-residence patterns across countries.

It also seems clear that macro-economic conditions, and in particular the nature of youth labour and housing markets, have a hand in shaping national trends in leaving home. Fogli (2004) provides evidence, for example, that countries with a high degree of employment protection also have severe credit market imperfections and a higher fraction of young people living at home. She argues that employment protection effectively transfers labour market opportunities from younger to older generations and, in the face of credit market imperfections, young people choose co-residence as a way of smoothing their lifecycle consumption. Similarly, Becker et al. (2005a, 2005b) conclude that while youth job insecurity prolongs co-residence, parental job insecurity promotes emancipation. Leaving home is also sensitive to local labour market conditions and youth wage levels (Card and Lemieux 1997).

Residential independence, not surprisingly, also depends on housing costs. The long-run impact of housing costs on a young person's living arrangements is theoretically ambiguous and depends on the price elasticity of parents' housing demand (Ermisch and Di Salvo 1997; Ermisch 1999, 2003). Empirically, however, there is evidence that increases in local rents are associated with large decreases in the likelihood of living apart from ones parents (Haurin et al. 1993, 1994; Bourassa et al. 1994). Household formation is also influenced by high house prices (Börsch-Supan 1986; Ermisch and Di Salvo 1997; Ermisch 1999). These results imply that a nation's housing policy has implications for patterns of leaving home. Moreover, a full understanding of the impact of housing policy requires that household formation be treated as endogenous (see Börsch-Supan 1986).

Bourassa et al. (1994) investigate some of these issues using data from the 1985 Australian Longitudinal Survey that provides detailed information about Australian youth aged 16 to 25. Their empirical model focuses on two decisions: first, the decision to live independently of ones parents; and second, the decision to own rather than rent. They find that the higher housing costs reduce the likelihood that young Australians live independently, while the availability of subsidised government housing increases it. As expected, higher homeownership costs raise the probability that young people who do live independently are renting rather than purchasing their home. Finally, elimination of the first-time homeowners' subsidy in 1990 is estimated to have had only a negligible effect on the probability that young people live independently, but a large impact on the probability of home ownership.

While there is still much we do not know about the relative contribution of social norms, institutional factors, and macro-economic conditions in the decision to leave home, it is hard to deny that the variation in experiences across countries is enormous. Cordón (1997) examines the living arrangements of young people in a number of European countries and notes ‘in a time of increasing convergence among the EU member countries, it is hard to find differences in social indicators as important as the one just described and, what is more significant, with a clear tendency to their widening’ (p. 582).

III.b What Drives the Decision to Leave Home?

Most economic models treat co-residence as a form of interfamilial transfer similar to financial assistance and other inter vivos transfers. Following McElroy (1985), researchers typically adopt a comparative utility framework in which the decision to co-reside rests upon a comparison of the indirect utility when parents live with their adult children and when they do not. Parents are assumed to be altruistic so that their utility is a function of their child’s utility in addition to their own consumption of housing and private consumption goods. Unlike financial transfers, however, housing is assumed to be a public good so that housing services per person do not depend on household size. The public-good nature of housing implies that co-residence is a less expensive way of transferring resources to children than providing financial transfers directly. At the same time, co-residence may involve additional costs resulting from a lack of privacy and independence.

In a series of papers, Ermisch (1999; 2003) and Ermish and Di Salvo (1997) use this basic framework to develop a theoretical model of household formation in which parents are altruistic, but are assumed to have more bargaining power leading them to effectively have the final say in whether their child continues to live at home. Parents also pre-commit to transferring specific financial resources to their children conditional on the family's living arrangements.

Allowing for financial transfers complicates analysis of the impact of changes in parental or child income on living arrangements because the effects of income changes are intricately tied to the transfer regime.[4] Ermisch (2003) argues that higher parental income is expected to increase the probability of co-residence because it increases the amount of housing services available in the parental home,[5] while co-residence becomes less likely when children's incomes rise because it becomes easier for them to acquire their own housing. In contrast, Le Blanc and Wolff (2003), Laferrère and Bessière (2003), and Laferrère (2006) specify similar models of household formation in which children, rather than parents, face a privacy cost when co-residing and consequently make the decision regarding the family's living arrangements. Given that these models make different assumptions regarding the form of parents' and children's preferences as well as parents' housing consumption if the child leaves, it is not surprising that the predictions regarding the effect of income changes on the decision to leave home also differ. Unfortunately, the literature provides very little information on the appropriateness of these assumptions.

Similar complexities emerge if marriage is explicitly modelled as a catalyst for leaving home. Aassve et al. (2002) use a matching framework rather than a comparative utility framework to model the transitions between living with parents, living alone, and marriage. Young people are assumed to be forward looking agents who maximize the expected value of being in each of the three living arrangements. The value of living with ones parents depends in part on parental income, while the value of being married depends in part on the partner's income. In each period young people living at home or alone receive an offer of marriage with a probability that differs across the two states. Marriage offers are accepted whenever the value of the proposed marital match exceeds the value of alternative living arrangements. Higher income reduces the imperative to marry, but increases the attractiveness of the young person as a potential marriage partner. Thus, this process of search and matching in the marriage market introduces uncertainty into young peoples' decisions about their living arrangements. Moreover, the nature of the marriage market – both the probability of receiving a marriage offer and the income of potential partners – is central to the transition between living with parents and leaving home.

Relative to income changes, the analysis of housing costs on household formation is much more straightforward. Specifically, increased housing costs affect the co-residence decision in a simple, although theoretically ambiguous, way that depends on parents' price elasticity of housing demand (Ermisch and Di Salvo 1997; Ermisch 1999, 2003). Higher housing prices reduce children's utility of living apart. If parents do not adjust their housing consumption in response to a price increase, then we would expect that co-residence would increase. On the other hand, if parents' price elasticity of housing demand is high enough, the corresponding fall in parents' housing consumption may lead young people to prefer to live independently. Ermisch (1999) finds that housing demand is inelastic in Britain suggesting that increases in housing prices will increase the probability of co-residence. Finally, the theoretical effect of income changes on financial transfers is also straightforward with higher parental income increasing and higher child income lowering the amount that parents transfer to their adult children.

Although the theoretical effects of personal income are ambiguous once financial transfers or marriage markets are taken into account, the empirical evidence is surprisingly consistent in documenting that young people are more likely to leave home as their economic resources increase (see Avery et al. 1992; Haurin et al. 1993 1994; Bourassa et al. 1994; Whittington and Peters 1996; Aassve et al. 2002; Laferrère and Bessière 2003). Current income, however, is a function of labour supply which is determined jointly with living arrangements (see Haurin et al. 1993; 1994). This leads to the possibility of endogeneity bias in models that regress living arrangements on current income (for example, Avery et al. 1992). Moreover, current income may not accurately represent potential earnings capacity were a young person to choose to live independently (Haurin et al. 1993; 1994). Consequently, researchers typically model the relationship between predicted or potential wages and living arrangements. Indeed, Bourassa et al. (1994) provide evidence that it is potential wages rather than actual wages which are more closely related to the decision to leave home. The difficulty, however, is that this modelling approach implicitly ignores any effect of credit constraints on young people's housing decisions.

There is also evidence that increased parental income reduces the propensity for young adults to leave their parents' homes (e.g., Aassve et al. 2002; Whittington and Peters 1996; Manacorda and Moretti 2005). The nature of this relationship is complex, however. It appears to be nonlinear (Laferrère and Bessière 2003) as well as nonmonotonic (Laferrère 2006), vary with age (Avery et al. 1992), and depend on the young person's destination. Specifically, Avery et al. (1992) find that higher family income results in a higher probability of leaving home for marriage, but has no effect on the propensity to leave home to be independent. De Jong Gierveld et al. (1991) argue, however, that it is important to distinguish between transferable resources such as income and non-transferable resources such as housing. Transferable parental resources promote residential independence, while non-transferable resources hinder it (De Jong Gierveld et al. 1991). Similarly, Laferrère and Bessière 2003 find that young people's propensity to leave home depends on the nature of the parental home. A lack of space, poor location relative to labour market or educational opportunities, and privacy costs associated with step-parents lead to leaving home earlier.

The decision to leave home also depends on a range of socio-demographic factors, including family structure and household size. Specifically, the presence of step-parents diminishes the likelihood that parents and adult children co-reside (Aquilino 1991; Laferrère and Bessière 2003), though young people growing up in a sole parent family from birth may be no more likely to leave than young people growing up in intact homes (Aquilino 1991). Living arrangements depend both on the nature of the relationship between parents and their children as well as on parents' and youths' normative expectations regarding the appropriate age and reason to leave home (Goldscheider and Goldscheider 1989; De Jong Gierveld et al. 1991). Finally, leaving home is related to gender, race, ethnicity, religion, and culture (see Goldscheider et al. 1993; Murphy and Wang 1998; Garasky et al. 2001; Giuliano 2007).

The Australian evidence is generally consistent with the international patterns. Data from the Household, Income and Labour Dynamics in Australia (HILDA) Survey, for example, also suggest that the probability that young Australians aged 15 to 30 live with their parents is lower among those who live in outer regional or remote areas, have a first language other than English, have more siblings, and have parents who were divorced or separated (Marks 2005). Similarly, Hillman and Marks (2002) analyse data from the Youth in Transition study and find that young people in non-metropolitan areas are less likely to be living with their parents. Also using HILDA Survey data, Flatau et al. (2003), however, find that the probability of never having left home is generally unrelated to geographical area. This suggests that while the process of initially leaving home may be similar across areas, young people are less likely to return to live with parents in remote areas.

Overall, the existing literature is most useful in providing empirical evidence on many of the determinants of leaving home, and in particular, housing costs and parental resources, which have theoretically ambiguous effects. At the same time, there are a number of limitations. First, the empirical literature is particularly weak in providing direct evidence of the role of credit constraints in determining which young people choose to remain at home. Second, interpretation of the existing empirical results is often confounded by the failure to account for unobserved heterogeneity and the intergenerational nature of the co-residence decision. Making progress on these fronts will most likely require the analysis of panel data that follow both generations over time. Finally, the empirical literature has only recently begun to model the decision to leave home simultaneously with related decisions to stay in school, enter the labour market, and to begin a relationship. Consequently, we may need to reassess our understanding of the determinants of leaving home in light of this new evidence as it becomes available.

III.c Does Co-residence Facilitate Human Capital and Labour Market Investments?

Most private intergenerational transfers are *inter vivos* (rather than bequests) and are directed at liquidity-constrained consumers (see Cox 1987, 1990; McGarry 1999). Thus, private transfers from parents or other family members are likely to be quite important in allowing young adults to consume and invest even in the face of quite severe liquidity constraints.[6]

McElroy (1985) investigates this issue by using a Nash bargaining model to model the joint determination of co-residence with parents and employment outcomes for a sample of young men. The interaction of the parents' and children's utility functions and budget constraints imply that decisions about young people's living arrangements and employment (leisure) are made jointly by both generations. Co-residence is found to be a form of non-employment insurance with parents providing their child with a minimum utility level in the event his or her labour market opportunities are poor. This is consistent with other empirical evidence that intergenerational co-residence allows young people to maintain their relative incomes in economic downturns (Card and Lemieux 1997), cope with job insecurity (Becker et al. 2005a; 2005b), and smooth consumption in the face of credit constraints (Fogli 2000).

While McElroy (1985) takes education decisions as given, Rosenzweig and Wolpin (1993) specify an overlapping-generations model incorporating human capital investments, financial transfers between parents and their children, and decisions regarding living arrangements. Young people are credit constrained and can 'save' only by accumulating human capital. Parents, on the other hand, can both borrow and lend. Parents are also altruistic and decide whether to co-reside or make financial transfers based on their child's human capital investment decision. The results indicate that US parents subsidize human capital investments allowing their sons to smooth their consumption in a way that would not be possible without parental help. Similarly, Martínez-Granado and Ruiz-Castillo (2002) use a trivariate probit model to study the joint determination of Spanish youths' decisions to co-reside, to work, and to continue studying. Like Rosenzweig and Wolpin (1993), they also conclude that parents use co-residence as a means of helping their children who are either studying or do not have a job.

III.d How Does Public Support for Young People Affect Private Transfers?

Researchers have also contemplated the relationship between parental and public transfers in supporting young adults. In particular, do parents respond to increased public support for youth by reducing the amount of financial resources they transfer to their children? Are they less likely to co-reside? The answers to these questions fundamentally depend on parents' motivation for co-residing with or making financial transfers to their adult children in the first place. If parents are motivated to transfer resources because they are altruistic and care about their children, then private transfers may adjust so as to neutralize the effect of any additional public transfers, leaving young people's budget constraint more or less unchanged (see, for example, Cox 1987; Cox and Jakubson 1995; McGarry 1999). In effect, public transfers subsidize the parental generation (Rosenzweig and Wolpin 1994). On the other hand, parents may be motivated by a sense of exchange in which they support their adult children today in return for their child's agreement to support them tomorrow in their old-age. In this case, parental transfers represent a form of advanced payment to children for their future services and would not necessarily decrease as public transfers increase.

Unfortunately, the empirical evidence has not firmly resolved the debate over what motivates parental transfers. In particular, Cox (1987) and Cox and Jakubson (1995) provide evidence that inter vivos transfers are consistent with the exchange hypothesis and argue that changes in public transfers will not necessarily have large effects on private financial transfers. At the same time, Altonji et al. (1995, 1996) conclude that the pattern of transfers across income and wealth levels fits reasonably well with an altruism model in which parents are maximizing utility functions that depend on functions of their own consumption and the utility of their children. The glaring exception is that the responsiveness of transfers to income changes is an order of magnitude smaller than that predicted by the altruism model.

Direct evidence is rather limited, but it is hard to escape the conclusion that public policies can have important effects on family structure, often through their impact on living arrangements. Ellwood and Bane (1985), for example, find that welfare benefits in the US have a sizable impact on the probability that young mothers are co-residing with their parents. Similarly, Rosenzweig and Wolpin (1994) estimate that a $1000 single-year decrease in welfare benefits for sole mothers aged 18 to 27 is expected to increase the proportion co-residing with their parents by 4 to 7 per cent.[7] Parents' benefit entitlements also matter with young people more likely to leave the parental home when their parents' benefit loss is smaller (Hu 2001). Not surprisingly, housing and tax policies can also alter the incentives for young people to establish independent households (Börsch-Supan 1986; Whittington and Peters 1996; Laferrère and Le Blanc 2004). While these effects may be smaller than one might expect in a world in which private and public transfers were pure substitutes, they are also not trivial and make a clear case for considering the policy environment when analyzing young people's decisions to leave home.

IV. Discussion and Directions for Future Research

The complex, inter-generational nature of the families' living arrangements argues for more social debate regarding the increasing trend for young people to delay the decision to leave home. At what age should young people be considered independent adults? When and in what circumstances should a parent's financial obligation to his or her child end? Is the increasing tendency for young people to continue living with their parents a social problem? How should the burden of supporting young adults be shared between families, the state, and young people themselves?

It would be helpful of course if any public debate surrounding these issues rested on a solid foundation of research findings. Unfortunately, relative to other social trends there is much we do not know about the causes and consequences of intergenerational co-residence. It is possible that some of the most pressing research questions might be addressed now using current data sources. Others await the development of new and more complex data sources with sampling frames that account for an expanded notion of what constitutes a household. Several areas for future research are considered below.

IV.a What is the Nature of the (Causal) Relationship Between Leaving Home and Other Demographic Events?

Leaving home is almost certainly related to other demographic transitions like marriage and childbearing, but we know very little about the exact nature of these relationships. It would be particularly useful to disentangle the casual relationships between these events. Do changes in partnering and fertility rates cause young people to delay establishing residential independence? If so, we should seek to understand changes in living arrangements by shedding light on the factors underpinning the decline in the propensity to partner and have children more generally.

Alternatively, it is possible that the delay in leaving home which results from changes in the demand for education, the nature of youth labour markets, and social policy itself causes the fall in marriage and childbearing. Casual observation suggests that it is Mediterranean countries with highest median age of leaving home that also have the lowest fertility rates. Are people choosing to have fewer children because they anticipate that the number of effective parenting years and the financial burden associated with those children will be greater now than in the past?

Making progress on these issues will require models that take the joint nature of the decisions regarding the labour market, education, partnering, childbearing and living arrangements into account. Although not a new observation, it remains the case that progress has been slow. Models that account for the simultaneous nature of living arrangements and other economic behaviour are beginning to be estimated (see for example, McElroy 1985; Martínez-Granado and Ruiz-Castillo 2002; Giannelli and Monfardini 2003), but demographic events like cohabitation, marriage and fertility are often largely ignored. Such models need to be extended to include both demographic and economic transitions if we are to fully understand the way in which cohabitation, marriage, fertility, and co-residence are interrelated. As Wyn (2004) points out, the traditional, linear sequence of transitions towards adulthood seem to have given way to pathways which are 'complex, divergent, and multilayered' (p. 9). Our modelling approaches need to be expanded to capture this richness.

IV.b How Does the Australian Policy Context Influence the Process of Leaving Home?

Young people's living arrangements are closely tied to their decisions regarding education and employment. Consequently, a vast array of housing, tax, education, labour market, and income-support policies are potentially relevant to their decision to leave home.[8] Policy can matter in a number of ways. First, public policy often alters the financial incentives to co-reside by making the public support young people and their parents are entitled to dependent on the family's living arrangements. Second, whether or not young people are financially dependent on their families rests in part on government policies that might facilitate their ability to support themselves either through their own labour market activity or through the income-support system. Finally, public policy may contribute to shaping social norms regarding the appropriate age, timing, and circumstances for leaving home. This raises the question, how does the Australian policy context influence the process of leaving home?

In Australia, as in many other countries, there has been an increase in the proportion of young people participating in tertiary education. Although the direct costs of tertiary education can be financed through the Higher Education Contribution Scheme (HECS), students must finance living costs out of their own earnings or by turning to their families and/or the income-support system for help.[9] The international literature highlights the close link between youths' decisions to co-reside and study (see Rosenzweig and Wolpin 1993; Martínez-Granado and Ruiz-Castillo 2002). To what extent then do increasing university enrolment rates underpin the changing pattern of leaving home for young Australians? Do Australia's institutional arrangements for funding higher education help explain the incidence of co-residence in Australia relative to other countries?

Moreover, concerns about the strength of the youth labour market has lead some to argue that public support for young people is even more important today than it has historically been (Welfare Rights Centre 2005). Despite this, the burden of supporting young adults is increasingly being shifted from the public purse to families.[10] Maas (1990) argues that changes to unemployment benefits in the late 1980s contributed towards the financial dependency of young people by setting lower benefit levels for those under the age of 21. Similarly, the introduction of Youth

Allowance in 1998 means that parental income increasingly determines whether young adults receive government support (Smyth 2000).[11] These trends in Australian social policy mirror similar UK initiatives intended to shift more of the burden of supporting young people onto their families (see Schneider 1999). While welfare rights groups argue that the income-support system is failing young people because it does not meet basic living costs (Welfare Rights Centre 2005), the Australian Government counters that whenever possible families should support their children until they have achieved financial independence (Luteria and Bourne 2000; Schneider 1999; Welfare Rights Centre 2005). Despite the political rhetoric, we know very little about the extent to which Australian social policy has led young people to be more financially dependent on their families.

Finally, independent of any effect on dependency levels generally, Australian public policy may also influence the extent to which families have an incentive to use intergenerational co-residence as a means of meeting the financial needs of young people. While some government benefits (for example, Youth Allowance) do not depend on a family's actual living arrangements, others (for example, Rent Assistance) do making it easier for some young people than others to leave home. The international literature provides clear evidence that public policies can affect family structures by altering living arrangements (see Ellwood and Bane 1985; Rosenzweig and Wolpin 1994; Hu 2001). Quantifying this relationship for Australia will be an important first step in our effort to understand the ways in which the Australian social policy context might be linked to the recent trends in young people's living arrangements.

IV.c What are the Consequences of Delays in Leaving Home?

It seems clear that continuing to reside with ones parents into early adulthood helps many young people to finance their education, enter the labour market and establish themselves as independent adults. Though the evidence is less clear, it also seems likely that co-residence has a role to play in supporting young adults as they start to save and acquire financial wealth. Delaying the decision to leave home may come at a cost, however, if young people find relationships with their parents strained or if they are hindered in forming partnerships or in having the children they desire.

What is less clear is what parents are gaining or losing from their children's prolonged period of dependence. How much more retirement wealth would parents have accumulated if they had not faced the additional years of supporting their children? Will the younger generation provide more support to their aging parents in return? Unfortunately, the economic and social consequences for parents of their children's increased financial dependency are almost completely unexamined.

At a macro level, these issues are increasingly being studied in the context of accounting systems that measure aggregate intergenerational transfers (see Mason et al. 2006). At a micro level, these issues must be explored by simultaneously taking into account the perspectives of both generations. This will require cross-generational surveys in which, irrespective of living arrangements, data from both parents and children are collected. The HILDA Survey data provide some scope for cross-generational research for the sample of parents and young adults co-residing at wave 1. In this case, members of both generations are permanent HILDA sample members who will continue to be followed over time irrespective of their living arrangements. Most of these families will be relatively young making the data more useful for studying transfers from parents to their adult children than for studying the consequences of having supported those children once parents reach old age, however.

IV.d How Much Support are Families Capable of Providing?

Despite the trend in public policy to shift the burden of supporting young adults from taxpayers to their families, we know very little about how much support families are actually providing to young people. Even more importantly, we can only speculate about how much support families are capable of providing or about how young people's needs for support might change into the future as Australian social norms and demographic trends continue to evolve.

Addressing these issues requires also rethinking our economic models and expanding our data collections. Australia does not have the equivalent of surveys like the Health and Retirement Survey and the President's Commission on Pension Policy survey that provide data on inter vivos transfers between family members in the United States. Moreover, surveys in which the household is the unit of observation are not sufficiently flexible to account for a notion of 'family' which extends across households and generations. Yet developing an understanding of the support that families provide to their members is critical given the increased tendency for policy to push for individuals (and their families) to become more self-reliant.

V. Conclusions

Like their counterparts elsewhere, more young Australians than ever are delaying the move out of their parents' homes. While the causes of this demographic trend are relatively unstudied and little understood, it seems clear that this delayed residential independence is indicative of a broader pattern of increasing financial dependency (see also Schneider 1999). Co-residence allows parents to efficiently transfer resources to their often credit-constrained, adult children allowing them to maintain their consumption levels even as they make human capital and labour market investments. Moreover, leaving home is a fundamental demographic transition that is doubtless related to other demographic transitions including partnering and parenting.

A fuller understanding of the causes and consequences of the delay in leaving home await the development of richer models and data collections which extend the notion of ‘family’ across generations and households. Only then can we begin to account for the joint nature of young people’s decisions regarding the labour market, education, marriage, childbearing, and living arrangements.

Endnotes

[1] Though the decision of young adults to return home is also of interest, this paper focuses primarily on the decision to leave home. See DaVanzo and Goldscheider (1990) and Goldscheider and Godscheider (1994) for analyses of the returning-home phenomenon.

[2] There is also evidence that family structure and the nature of the relationship between family members are important determinants of when young people choose to leave home (for example, Garasky et al. 2001; de Jong Gierveld et al. 1991).

[3] Italian young people do not share their parents' enthusiasm for co-residence and are less happy when living with their parents (Manacorda and Moretti 2005). See also Kluve (2004) on this issue.

[4] Specifically, there are three transfer regimes possible. These regimes depend on the child's share of total family income (Ermisch 2003). When the child is poor relative to his or her parents, financial transfers are made irrespective of the outcome of the co-residence decision. When the child's share of total family income is sufficiently high, financial transfers do not occur in either state. In the intermediate case, financial transfers are made only to children who have left home.

[5] Manacorda and Moretti (2005) reach a similar view, though for different reasons. In their model, parents prefer that their adult children co-reside with them leading to them to make transfers to their children on the condition that they do not leave home. Higher parental income increases transfers to co-residing children effectively increasing the probability that parents and children co-reside.

[6]Transfers from parents to children appear to be common. Altonji et al. (1996) report, for example, that between 20 to 25 per cent parent-child pairs in the 1988 wave of the Panel Study of Income Dynamics were engaged in transfers from parents to children.

Fully 29 per cent of households in the Health and Retirement Survey report making inter vivos transfers to at least one child (McGarry 1999). Moreover, approximately 40 per cent of white men and 20 per cent of black men aged 18 to 32 living apart from their parents had received a family transfer at some point (Rosenzweig and Wolpin 1993).

[7] Interestingly, parents seem to care only about the level of their daughters' income and not its source, effectively treating an extra dollar in welfare benefits the same as an extra dollar in earnings (Rosenzweig and Wolpin 1994).

[8] It is also possible that compulsory military service, or its absence, may also affect co-residence rates by altering social norms regarding the appropriate age for young people to leave home. Though the issue has not been studied explicitly, Aassve et al (2001) argue that military service results in gender differences in the propensity to leave home.

[9] In contrast, in the United States living costs while studying can be financed through student loans or other forms of financial assistance in the same way as direct educational costs.

[10] This cost is not trivial. Percival and Harding (2003) estimate for example, that supporting an 18 to 24 year old costs $322 per week versus $164 for children aged 5 to 9 years.

[11] Youth Allowance replaced most forms of government support for young people under the age of 25 and was meant to simplify the existing payments system making it more flexible and enhancing the attractiveness of studying (Smyth 2000). At the same time, the parental income test was extended to students between the ages of 23 and 25 and to unemployed youth between the ages of 18 and 21. Youth in these ages qualify for public assistance on the basis of their families' circumstances unless they meet one

of several criteria to be considered ‘independent’ from their parents. Youth Allowance benefit levels are unlikely to completely meet the financial costs of supporting young people.

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Table 1

The Proportion of Young Men and Women Living with Their Parents by Age (per cent)

Year	*Aged 15 to 19*		*Aged 20 to 24*		*Aged 25 to 34*	
	Men	*Women*	*Men*	*Women*	*Men*	*Women*
1979	88.7	80.2	45.5	24.8	9.2	3.3
1985	91.9	86.8	52.8	30.9	11.2	4.7
1990	91.6	85.6	55.9	37.4	12.5	6.5
1995	89.5	83.4	51.9	38.4	14.9	6.3
2000	91.0	84.8	52.0	39.0	16.1	8.3

Source: Weston et al. (2001), based on ABS (various years – June), Labour Force Status and Other Characteristics of Families, Australia, Catalogue no. 6224.0 Canberra.