

Job Displacement, Family Dynamics and Spousal Labor Supply (joint with Martin Halla and Julia Schmieder)

Abstract:

We study interdependencies in spousal labor supply and provide new empirical evidence on the added worker effect, the change in labor supply in response to an income shock to the spouse. Our focus are married couples in which the husband loses his job due to a mass layoff or plant closure using data from the Austrian Social Security Database. Couples in our sample are relatively young and the shock hits households at crucial stages of family formation. The high volatility in wives' pre-displacement labor market careers requires a careful choice of a control group to the model the counterfactual outcome at the household level. We examine three quasi-experimental counterfactual scenarios that are potentially affected by different types of selection on unobservables. Our analysis shows that husbands' and wives' labor market responses are remarkably consistent across all three scenarios and leads to four main conclusions. First, while husbands suffer large and persistent employment and earnings losses over the first 5 years after displacement, wives' labor supply increases only moderately but persistently. Second, wives respond predominantly at the extensive margin. The implied participation elasticity with respect to the husband's earnings shock is very small, about 0.05 in the full sample and 0.08 in the sample of wives not employed at displacement. Third, in terms of non-labor market related outcomes we find a small positive effect on the probability of divorce but no effect of the husband's job displacement on fertility. Fourth, the effect of wives' labor supply responses on household income is negligible compared to the effects of unemployment insurance, which dampens especially the large initial earnings shock from job displacement. A plausible explanation for the very limited spousal labor response are gender identity norms, which prevent mothers of young children to enter the labor force.