

Is There Still an Added Worker Effect?

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Policy Abstract

A potential aspect of marriage is the ability to share risks. If the husband becomes unemployed or ill, for example, the wife may enter the labor force to make up for the loss in family income – a phenomenon labor economists have labeled the “added worker effect.” There are reasons to suspect that the value of marriage as a risk-sharing arrangement has diminished over the past several decades, particularly as the long-run work behavior of married women has changed. Among couples where the wife is not in the labor market, we continue to find evidence of an added worker effect. In these couples, the wife is five to six percentage points more likely to enter the labor force if the husband exits employment than if the husband remains employed. However, while this compensatory behavior still exists, its aggregate impact is smaller, because of the decreasing numbers of one-earner couples. We then look at all labor market transitions and the extent of co-movement in the changes made within couples. Here, again, we find a significant change between the 1960s and today. In 1968, the employment transitions of couples appear to be negatively correlated, compared with a positive correlation in 2005. The positive co-movement of couples’ employment in recent years points to a diminished role for intra-family risk-sharing.