Labor supply behavior of married women

It is well known that women's labor force participation rates—the percent of women working or actively seeking work—increased dramatically in the post-World War II era. In 1950, for example, only 34 percent of women participated in the labor force; by 2000, that figure had nearly doubled to 60 percent. These trends are even more dramatic among married women: twenty-four percent of married women were in the labor force in 1950, compared with 61 percent in 2000. But the increases have slowed considerably in recent years, especially in the last decade. By 1990, for example, the labor force participation rate for both married and unmarried women had reached 58 percent. Hence, the increase between 1990 and 2000 for both groups was slight. Similar patterns can be seen in women's wages relative to men's: women's median weekly earnings, for example, were 64 percent of men's in 1980, 72 percent of men's in 1990, and 77 percent of men's in 2000.

The recent slowdowns in women's labor force participation and relative earnings suggest that women may be moving along their labor supply curves. In a recent study ("Changes in the Labor Supply Behavior of Married Women: 1980–2000," NBER Working Paper No. 11230, National Bureau of Economic Research, March 2005), Cornell University labor economists Francine D. Blau and Lawrence M. Kahn use data from the March Current Population Survey (CPS) to examine this issue. The authors use annual hours as their basic measure to analyze the labor supply behavior of married women from 1980 to 2000. They find that married women's labor supply increased sharply in the 1980s and continued to increase in the 1990s, but at a much slower pace. The study's goal is to explain the slowdown in the latter decade and to "shed light on the connection between wages and labor supply."

Blau and Kahn find that married women's real wages rose in both the 1980s and 1990s, leading to concomitant increases in their labor supply in each decade. But in the 1980s, the entire labor supply function of married women shifted sharply to the right, without a comparable shift in the 1990s. Blau and Kahn argue that the difference in the supply shift between the two decades is the principal reason for the more rapid growth in married women's labor supply in the 1980s. A secondary reason is that real wages among married men fell slightly during the 1980s and rose in the 1990s.

Blau and Kahn write that both the 1980s and the 1990s saw "a dramatic reduction in married women's own labor supply elasticity," meaning that over time, married women became less likely to increase their annual work hours as a result of marginal increases in their wages. At the same time, married women's labor supply became less responsive to their husbands' wages, especially during the 1980s. The authors estimate that, over the entire 1980–2000 period, women's own wage elasticity declined (in absolute value) by 50 to 56 percent, while their cross-wage elasticity declined by 38 to 47 percent. These declines suggest that women's own and cross-wage labor supply elasticities are becoming more like men's, which the authors say could be a reflection of higher divorce rates and an increased career orientation among married women.

Using econometric techniques to test their hypothesis under various alternative specifications, the authors observe similar patterns in nearly all cases. They find, for example, that the decreasing responsiveness of married women to their own and to their spouses' wages occurs at all education levels and whether or not they have small children. These reductions in women's labor supply elasticities suggest that fiscal actions such as increasing the marginal income tax rate are likely to have much less "distortionary effect" on the economy today than they have in the past. Similarly, the study's findings "imply that the potential for marginal tax rate cuts to increase labor supply is much smaller now than 20 years ago."

Aging baby boomers and the labor supply

Since 1950, the U.S. economy has grown at an annual rate of about 3.4 percent, with a substantial portion of that growth resulting from a 1.7-percent annual increase in the supply of workers. The two principal factors driving labor force growth over the period were the entrance of the baby boomers into the labor market and increased labor force participation among women. But in the coming decades, more and more boomers will leave the labor force and women's participation rates will level off. Tim Schiller, a senior economic analyst at the Federal Reserve Bank of Philadelphia, examines the implications of these shifts in a recent issue of the bank's journal, *Business Review* (fourth quarter 2005).

Schiller argues that the aging of the baby boomers "will prompt changes in both the supply of and the demand for workers among different industries and occupations." Over the 2000–50 period, the U.S. labor force (supply) is projected to increase less than 1.0 percent per year while growing older and more racially and ethnically diverse. At the same time, demand will increase for workers in professional and service occupations and in the services industry, especially health care and education. Schiller finds similar but more pronounced trends for the area consisting of Pennsylvania, New Jersey, and Delaware. In this area, the labor force will grow more slowly and the demand for workers in health care and education will be greater.