Women's Labor Force Participation and the Business Cycle*

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Abstract

This paper studies the macroeconomic implications of the rise in participation and attachment to the labor force of women and secondary earners. I develop a business cycle model of couples that features labor market frictions, endogenous labor supply, and human capital accumulation. Households face unemployment risk over the business cycle, and secondary earners adjust their labor supply to respond to this risk, so that they are more likely to participate when primary earners face a high risk of job loss. I validate the model using novel empirical evidence on added worker effect heterogeneity by previous labor market experience and income. A large mass of marginal secondary earners will dampen fluctuations in aggregate employment if the income effect induced by unemployment is greater than the substitution effect due to lower wages. The magnitude of the counter-cyclical effect is proportional to the distance from the participation frontier of secondary earners, which in turn depends on the gap in net wages between partners. For values of the wage gap smaller than 20%, women's aggregate labor supply elasticity converges to men's, and the dampening effect wanes.

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