

Life Cycle of Labor Supply, Marriage and Divorce ^{*}

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Abstract

This paper documents novel findings that Black women experience only half the child penalties as white women, using the Panel Study of Income Dynamics. The racial gap is driven by married Black women with high wages returning to the labor market almost immediately after childbirth. The gap remains after exhaustively controlling for the distribution of all variables in PSID. Motivated by the fact that Black women have a much higher divorce rate over the life course, I estimate a life cycle model of female labor supply, consumption, and savings with uncertainty in divorce shock. Only allowing the marriage rate to be race-specific, the model generates child penalty results similar to empirical estimates. The structural model illustrates that Black women stay in the labor market to prevent human capital from depreciating to self-insure against marriage shocks.

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1 New draft

Divorce Risk and Economic Insecurity: Divorce can lead to significant income loss, especially for women who may not have accumulated enough wealth or human capital to sustain their consumption levels after separation. If Black women perceive a higher divorce risk, they may be more likely to enter the labor force or work more hours to build economic security. Precautionary Labor Supply: If the risk of divorce is higher, women might work more to accumulate savings or increase their earnings potential (through human capital accumulation) in case they need to support themselves in the future. Human Capital Accumulation: In a higher divorce-risk environment, women might also invest more in their human capital to increase their future wage potential, which would influence their current labor supply.

Higher divorce risk could lead to more precautionary savings and labor force participation. In your model, this would manifest as higher labor supply when the expected value of future consumption is lower (due to potential divorce).

2 Appendix

2.1 Data Appendix

MARITAL STATUS 1 This version of marital status is comparable to 1968-1976 data (Are you married, single, widowed, divorced, or separated?), in which no distinction was made between those legally married and those who merely cohabited.

So my definition is Married or permanently cohabitating; spouse may be institutionalized and therefore not in the FU (cohabitor who has lived with Head for 12 months or more).

2 The values for this variable indicate the total number of marriages reported for this individual as of the wave indicated in ER32033. For a detailed description of the types of people about whom marital history information was gathered, see the 1985-2021 Marriage History File Documentation, Section I.

Total labor income This is the sum of the actual amounts of labor part of farm income and business income, bonuses, overtime, commissions, professional practice,

trade.

This variable is the sum of several labor income components from the raw data, including, in addition to wages and salaries (ER20425), any separate reports of bonuses (ER20427), overtime (ER20429), tips (ER20431), commissions (ER20433), professional practice or trade (ER20435), market gardening (ER20437), miscellaneous labor income (ER20439), and extra job income (ER20441).

Childbirth The values for this variable indicate the total number of children born to this individual as of the wave indicated in ER32021. For a detailed description of the types of people about whom birth history information was gathered, see the 1985-2021.

3 Introduction

Following childbirth, mothers experience a significant decrease in their labor market income, while fathers tend to remain unaffected. This phenomenon, often referred to as the 'child penalty,' contributes to approximately two-thirds of the overall gender earnings gap in the United States (?). Several studies by (???) have examined factors such as comparative advantage, biology, and parental leave policies, but have found them insufficient in explaining the child penalty. Instead, the recent literature considers preferences, gender norms, and labor market discrimination as lead candidates (????).

Despite norms and discrimination being potential mechanisms, it is surprising that little is known about the racial difference in child penalties. There are three reasons that we may expect that child penalty may differ between Black and white populations. First and most importantly, racial difference in female labor supply has been a puzzle in economics and sociology literature. ? first and later ? find that Black women had a higher labor force participation than white women and the striking racial difference in female labor supply remains after controlling for environmental, economic, demographic, and family variables. Sociologists suggest that Black households may have more progressive gender attitudes than white counterparts (?). Historians suggest some untested hypotheses that this racial difference in gender norms for work may be potentially due to slavery (?) or discrimination in

masculinity identity construction (?).

A Appendix

A.1 Child penalties by other characteristics

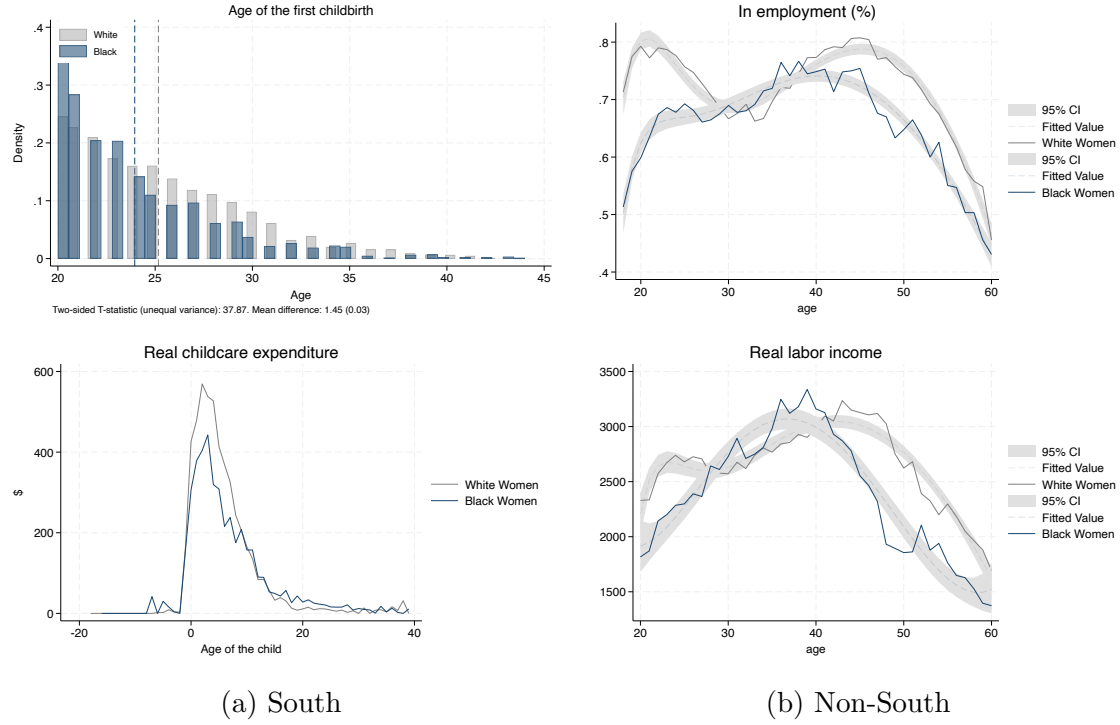


Figure A.1: Racial differences in the child penalties by region

Notes: The sample consists of single women as the head of their households, having their first child between 20 and 45.

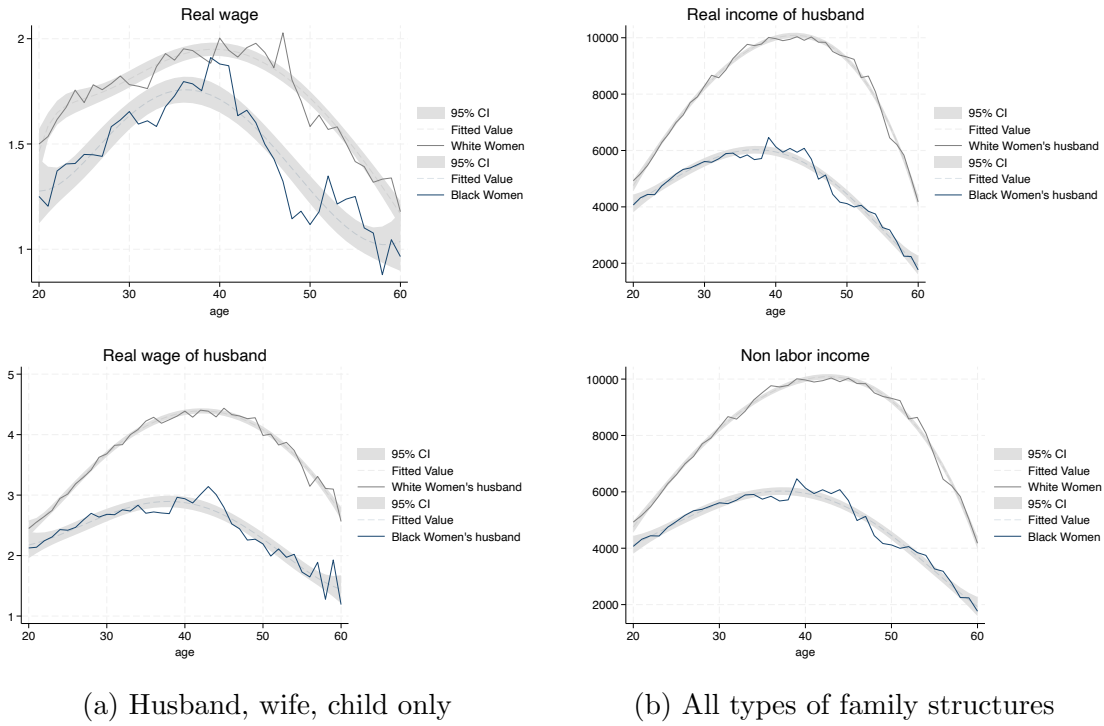


Figure A.2: Racial differences in the child penalties by family structure

Notes: The sample consists of married women in male-headed households with their first child between 20 and 45. Income and wage adjusted by inflation index (1960 price). Wage and income are transformed by inverse hyperbolic sine. Annual hours worked are conditional on being employed. Source: Panel Study of Income Dynamics, 1967 to 2017.