

Literature Review Sample

PREVIOUS RESEARCH: DIVORCE, FERTILITY, AND LABOR FORCE PARTICIPATION

There is a substantial amount of research on the LFP decisions of women and the impacts of divorce and fertility on these decisions. Also relevant to this paper is previous work examining the relationship between fertility and divorce. The existing literature on divorce and labor force participation, labor force participation and fertility, and fertility and divorce are reviewed in this chapter.

Divorce and Labor Force Participation

As noted above and shown in Figure 1, a simultaneous rise in divorce rates and female LFP rates occurred during the post-World War II era. As noted by Becker, et al. (1977), one possible explanation for these trends is that wage increases and greater earnings ability among females increased the opportunity costs of being married. In addition, wives working outside the home may invest less in marriage-specific capital than their non-working counterparts, reducing the gains from marriage for both men and women. This interpretation of Figure 1 suggests that the increase in LFP among women was a causal factor that led to the increased divorce rate. However, it is also possible that the causality moves in the other direction. If a woman becomes divorced, she may need to enter the workforce to support herself and her family. The number of divorced women working would naturally increase as divorce rates increase, thus raising the female LFPR. As more women observe the incidence and impacts of divorce among their mothers and peers, they may adjust their own expectations regarding divorce risk upward, and subsequently increase their own LFP while married to insure financial independence. Becker, et al. (1977, pg. 1181) state, "...the secular growth in wages, which contributed significantly to the growth in the labor force participation of women, especially married women, probably also contributed significantly to the growth in divorce rates. Again causation probably flows both ways: divorced women (and women who anticipate divorce) have higher wages because they spend more time in the labor

force.” To examine the relationship empirically, Michael (1985) included lagged divorce rates and lagged LFP rates as independent variables in time-series equations explaining subsequent divorce and LFP rates. He found that lagged divorce rates were positively correlated with subsequent LFP rates, but there was no significant relationship between lagged LFP rates and subsequent divorce rates.

Johnson and Skinner (1986) analyzed data from the Michigan Panel Study of Income Dynamics (PSID), which allowed them to estimate predicted divorce probabilities based on actual divorce. They then used this predicted probability of divorce and actual divorce in estimates of female LFP, and though both variables had positive coefficients, they were statistically insignificant. Green and Quester (1982) utilized U.S. Census’ Survey of Economic Opportunity data to generate a predicted divorce probability based on the demographic characteristics of married women. They found married women’s labor supply increases with divorce risk. In addition, although it is often hypothesized that working could increase marital instability for married women, this relationship was found to be statistically insignificant in both papers (Becker, et al. 1977).

Haurin (1989) used a dynamic model to estimate the labor market reactions of women who experience a deviation in husband’s actual work hours from the expected amount of work hours, as would occur when a husband loses his job, falls ill, passes away, or when a couple separates. He concluded that there is a significant increase in a woman’s LFP following a divorce or separation. He also confirmed Johnson and Skinner’s (1986) finding that increases in the likelihood of divorce lead to increases in married women’s labor force activity.

More recent studies on divorce suggest that divorce risk may not be as influential on female labor supply as the earlier studies suggested. Sen (2000) compared responses to divorce risk among 1944-1954 and 1957-1964 birth-cohorts using sub-samples from the National Longitudinal Surveys (NLS). The panel structure of this data allowed Sen to proxy current divorce risk using actual divorce in the future, which was then included in an LFP regression. Age at the time of marriage was also used in the LFP estimation as an instrument for divorce risk because research suggests that divorce risk decreases with age at the time of marriage. The results indicated that the impact of divorce risk on labor supply is significantly smaller for the younger cohort than the older group. Though divorce had a positive effect on both cohorts by each measure, divorce risk had a

substantial impact on LFP for the older cohort while having a small (yet still significant) effect on the young cohort. Because having a female child is associated with higher divorce risk, Bedard and Deschenes (2003) used sex of first born child as an instrumental variable for divorce risk when testing for labor market outcomes of divorce. Though the estimates of person-adjusted household income without this variable indicated that the economic well-being of divorced women is lower than married women's economic well-being, the instrumental variable results refute this. They found that ever-divorced mothers have higher levels of income than never-divorced mothers and they concluded that divorce does not affect the decision to participate in the labor force, but does increase the hours and weeks worked by mothers.

As noted in the introduction, the potential endogeneity of using actual divorce or divorce rates to measure divorce risk makes research based on these variables somewhat suspect. In response, researchers have used exogenous changes in divorce law to examine the relationships between divorce and female LFP.¹

Johnson and Skinner (1986) included residence in a state with no-fault divorce legislation in their predicted labor supply equations. They concluded that living in a state with a no-fault divorce law has a negative impact on women's labor supply. However, Johnson and Skinner's (1986) analysis used PSID data from 1972, when only a few states had changed their divorce laws to no-fault; this created a small comparison group and a limited amount of time for the laws' effects to occur. Alternatively, Peters (1986), using 1979 CPS data, found a higher probability of women participating in the labor force in no-fault states.

Parkman (1992) also used the 1979 CPS and a similar methodology to Peters (1986) to estimate the effect of no-fault divorce legislation on married women's labor supply. Consistent with Peters (1986), he also found about 2 percent higher rates of married women's LFP in no-fault states. However, he attributed this difference to lower compensation for women's marriage-specific investments in states with no-fault divorce law. In particular, he used differences in property division laws to illustrate that married women's LFP is greater in states with no-fault divorce because at the time of divorce, women's human capital losses from not engaging in market work are compensated at lower rates than in mutual consent states. In later research using

¹ Such research, of course, hinges on a direct relationship between divorce laws and subsequent divorce outcomes, which was documented in Chapter 2.

the Time Use Longitudinal Panel Study, 1975-1981, Parkman (1998) again concluded that no-fault divorce laws were associated with a greater number of hours worked among married women. He suggested that women work to protect themselves from the potential costs of divorce.

Gray (1998) utilized Census and CPS data, and he tested for the effect of no-fault divorce law in 1980 across states. His results indicated that the probability that a married woman participates in the labor force is 1.6 percent higher in states with no-fault divorce law. He then used data from 1960 to 1980 to measure the change in married women's LFP in states with and without no-fault divorce laws. The results from this analysis found a small and insignificant impact of no-fault divorce law and Gray suggested that without considering the marital property laws of a state, "divorce legislation has no significant impact on married women's increasing labor-force participation rates during the 1970's" (Gray 1998, pg. 634). Gray (1998) categorized states into three types of property law: common property, community property and equitable distribution. With the enactment of no-fault divorce laws, common property favors the wife in divorce settlements, community property tends to lead to redistribution of assets to the husband, and equitable distribution gives the court discretion on property division and thus does not favor either party. The property laws were accounted for in Gray's (1998) analysis by interacting them with the no-fault variable. Consequently, the results from analyses using the Census, CPS and PSID all indicated that the adoption of a no-fault divorce law in a common property states is associated with decreases in married women's LFP. In addition, married women in states with community property laws had significant increases in LFP after no-fault legislation was enacted.

Chiappori, et al. (2002) used PSID data from 1988 to test the effect of divorce and property legislation on married women's labor supply. They created a "divorce index" comprised of four attributes associated with the favorability of each state's divorce law towards women: no-fault divorce laws, property division laws, support order enforcement, and the settlement value of educational degrees. This index was then used in a regression of the hours worked by married women. In their analysis, the "divorce index" was negatively correlated with hours worked. In other words, in states where the divorce laws are more favorable toward

women, married women are likely to work fewer hours than in states where divorce law is less favorable towards married women.

The research presented in this subsection indicates the myriad of findings regarding the relationship between divorce rates and female LFP. Empirical results consistently show that increases in divorce rates are associated with increases in LFP rates for females. Though a causal relationship between female LFP and divorce is theoretically possible, empirical research has not found strong evidence for this; increases in female LFP do not appear to have led to increases in divorce rates. There has also been evidence suggesting that women's LFP response to divorce risk is not as strong for recent cohorts of women when compared to earlier cohorts.

Research addressing the effect of divorce law changes in the United States on the LFP of married women was also presented in this section. Though Johnson and Skinner's (1986) analysis suggested that no-fault divorce had a negative impact on married women's LFP, later research has consistently found that married women living in states with no-fault divorce laws are more likely to work, but the effects are small. Recent research in this area has also highlighted the complexity of the LFP decision for married women because marital property laws and other legal factors are found to be related to the effects of no-fault divorce laws on women's LFP. Previous research has ignored the possibility that the various laws have differential impacts among married women with and without children. The impact of no-fault divorce law on female LFP could be larger than suggested by previous research because the results reported were the average effect for mothers and non-mothers. By separating married women into mothers and non-mothers, this paper allows for varying impacts of no-fault divorce law on the two groups.

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