

## The Added Worker Effect, Employment Contracts, and the Reasons for the Wife's Inactivity.

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The recent literature provides compelling evidence of the existence of a significant added worker effect (henceforth AWE) - wives increase their labour supply in response to the job displacement of their husbands. AWE acts as an intra-household insurance – the decrease in household income will be reduced by the wife entering the labour market. I find that in Poland the job displacement of the husband is associated with an increase in the probability of wife entering the labour market of 11 pp.

Little is known about the heterogeneity of the effect. I study the variation in the AWE depending on the reasons for the wife's inactivity, and on the husband's employment contract type. I distinguish between women who were inactive for reasons of family, health, or discouragement (based on their responses to the question about the reasons for not looking for a job). Discouraged people are defined as inactive individuals who want work, but have not been looking for a job, because they believe that no suitable job is available. They are often referred to as marginally-attached people, because they are more likely to transition to labour force. I find that the responses of discouraged women to the job displacement of their husbands were three times as strong as the responses of those women, who were inactive for reasons of health and family. This finding suggests that discouraged people are highly responsive to the income shocks that occur within a household.

In addition, I find that the size of the AWE also depends on the type of the husband's employment contract. I distinguish between three types of employment: permanent contract, fixed-term contract, and self-employment. The three types differ greatly in the degree of employment protection they provide. Permanent contracts provide a high degree of employment protection, fixed-term contracts are associated with lower employment protection than permanent contracts. Self-employment is associated with the lowest levels of employment protection. Employment protection measures include unemployment benefits, compensation payments and a notice period. Social benefits and dismissal compensation act as buffers after a job displacement, lowering the size of the negative income shock. A notice period reduces the AWE, because the affected households can adjust their labour supply prior to the displacement. Thus, the husband having a high level of employment protection may reduce the wife's incentives to join the labour force after her husband's job displacement. The wives of self-employed husbands respond to the husband's displacement almost three times more strongly than the wives of the husbands working under permanent and fixed-term contracts. No significant difference was found in the size of the AWE depending on whether the husband had been employed under a permanent or a fixed-term contract. The results suggest that the intra-household insurance is crowded out by public social insurance based on employment protection.

**The complete results of our research are published in the article:**

Gromadzki J. (2019). *The Added Worker Effect, Employment Contracts, and the Reasons for the Wife's Inactivity*. IBS Working Paper 01/2019. [http://ibs.org.pl/app/uploads/2019/02/IBS\\_Working\\_Paper\\_02\\_2019.pdf](http://ibs.org.pl/app/uploads/2019/02/IBS_Working_Paper_02_2019.pdf)