Labour Market Matters

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Special points of interest:

- Marriage is examined as a form of "contractual insurance" which allow married individuals to better cope and emerge from negative life-shocks such as illness and disability than singles.
- Study finds that while singles may have the advantage of being more mobile and flexible in the labour market; married individuals ultimately do better during periods of unemployment thanks to better EI and tax-system benefits.

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**Laura Turner*
(University of British Columbia)**

Study shows that couples are better able to cope with health shocks than singles, and spouses may help improve long-term labour market outcomes

Disability and health shocks can have significant and lasting effects on an individual's earning potential and lifetime income. A study by University of British Columbia researchers Giovanni Gallipoli and Laura Turner* examines the responses of men and women to health shocks. They identify large effects on the joint labour supply of couples, and show that marriage provides partial insurance for losses due to health-related risk. Their paper *"Household Responses to Individual Shocks: Disability and Labour Supply"* (CLSRN Working Paper no. 23), finds that although health and disability shocks are experienced at the individual level, responses to such shocks can encompass a whole household. Gallipoli and Turner find evidence that economic responses to disability shocks vary significantly by marital status.

The analysis is based on data from the Canadian Survey of Labour and Income Dynamics (SLID) – which contains a large amount of information about disability and health status. Gallipoli and Turner's analysis relies on three key features to explain the household responses to negative shocks: the linkage between human capital accumulation and life-cycle labour supply, the existence of marriage contracts with limited commitment, and the possibility of transfers of both time and goods between partners in a marital contract.

The paper investigates to what extent a marriage "contract" involves accommodating the possibility of individual life shocks, providing a form of insurance which is unavailable to single agents. The study finds that in marriages "main-earners" (typically husbands) tend to transfer income and compensate "second-earners" (typically wives) who provide conditional time and care transfers in periods of need (such as illness and disability of main-earner). The insurance the second-earner provides to the main-earner in the marital contract serves as an important mechanism to help smooth out household income in periods of health and disability shocks to the main-earner; and as a way to support the future earning potential of the main-earner.

Gallipoli and Turner find that the relative value of marriage changes in different ways for men and women as they age. The study suggests that men who receive bad shocks early in life may lose the insurance offered by marriage by being sorted out of possible matches in the early stages. Marriages become more stable the longer the couple is together, and uncertainty is resolved. The long-term costs associated to health shocks are particularly high for main-earners in the early stages of their working life, because they imply a permanent loss of human capital and earning potential. "Low-risk" marriages where the main-earner is in a low-risk health state are more stable compared to "high-risk" marriages where the health of the main earner is poor. Less renegotiation and termination of marital contracts occur at every stage of the life-cycle for low-risk marriages compared to high-risk marriages.

**Giovanni Gallipoli
(University of British**

Men who are at high risk of receiving health and disability shocks value marriage early in life, when they are poor in both assets and work experience. As these husbands age, their gains from marriage decrease as "buffer stocks" of human capital and assets are accumulated, and they become more likely to trigger a renegotiation of the marital contract. However, all men value marriage at the late stages of their working life as they approach retirement, and the end of their main-earner status, as well as periods of high health risk.

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Singles found to be affected more adversely by unemployment shocks than families

When it comes to overcoming unemployment shocks, at first glance, it may seem that singles may have the advantage over families as unattached workers are likely to be more mobile geographically than married workers, and might be able to take advantage of favourable job offers in other local labour markets more frequently following job loss than their married counterparts. As they do not have the back-up pool of income that comes with a spouse, single workers might search more intensely for new jobs following a layoff, which could reduce the duration of an unemployment spell. Accordingly, it stands to reason that unattached workers might incur smaller earnings losses than married workers following displacement. A study *"How do families and unattached individuals respond to layoffs? Evidence from Canada"* (CLSRN Working Paper no. 40) by Statistics Canada researchers René Morissette and Yuri Ostrovsky find through analyzing a Canadian dataset containing tax-record data over the 1987-2001 period, that layoffs and unemployment shocks in fact affect unattached individuals more adversely than they do families.

Yuri Ostrovsky (Statistics Canada)

One advantage families have over singles is supplemental income from secondary earners. The study found that five years after husbands' layoff, increases in wives' earnings compensated for roughly 22% of the earnings losses by husbands. Morissette and Ostrovsky found that while married men and single men experience similar levels of earnings losses in the long run, unattached males tend to have much lower pre-layoff after-tax income (as they lack supplemental income from spouses), so they end up experiencing much greater relative income shocks than families of laid-off husbands – which contributes to greater income instability for unattached males than married males.

"[F]ive years after husbands' layoff, increases in wives' earnings compensated for roughly 22% of the earnings losses by husbands"

Employment Insurance (EI) and tax-system benefits help families more so than they do unattached individuals in periods of unemployment. In the year during which husbands are laid-off, as well as the following year, income losses before tax of families experiencing layoffs are at least $5000 lower than the earnings losses suffered by husbands due to sharp increases in EI benefits that occur in those years notwithstanding further tax-system benefits. EI benefits combined with tax system benefits appear to reduce the income losses experienced by families and laid-off husbands disproportionately more so than they do for single men. Indeed, five years after layoff, the study found that the earnings losses suffered by husbands amount to $12,300, but the after-tax income losses for their families are only $6,400. By comparison, unattached males were found to not only experience higher gross earnings losses five years after layoff compared to married men - $13,700 for single men compared to $12,300 for married men – but more importantly, single men appear to also experience higher after-tax income losses five years after a layoff than those experienced by families of laid-off husbands - $7,700 for unattached males compared to $6,400 for married men.

"[R]elative after-tax income losses of families of laid-off husbands averaged 10%. In contrast, for unattached males, relative income losses were twice as high at 23%"

Relatively speaking, the impact of these losses are more adverse on singles more than they are on families. The reason for this is that pre-layoff, after-tax income averaged $68,200 for families of laid off husbands – thanks to income-pooling between husbands and wives – which is almost twice as high as the $32,700 observed for unattached males – who draw from only a single-income. This means that relative after-tax income losses of families of laid-off husbands averaged 10%. In contrast, for unattached males, relative income losses were twice as high at 23%.

Endnotes

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