

# The Added Worker Effect across Europe\*

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This version: October 2012

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\*The authors are grateful to Thomas K. Bauer, Ronald Bachmann, and Sandra Schaffner for helpful comments and suggestions. All remaining errors are our own. – All correspondence to: Julia Bredtmann, Chair for Empirical Economics, Ruhr-University Bochum, 44780 Bochum, Germany, Email: [julia.bredtmann@rwi-essen.de](mailto:julia.bredtmann@rwi-essen.de).

## Extended Abstract

This paper investigates the responsiveness of women's labor supply to their husband's loss of employment. Economic models of family utility maximization predict that, to compensate the income losses because of their partners' job loss, inactive wives may choose to enter the labor market and become "added workers". While previous empirical literature on this topic mainly concentrates on a single country, we take an explicit internationally comparative perspective and analyze whether the added worker effect varies across countries in Europe. In doing so, we use longitudinal data from the European Union Statistics on Income and Living Conditions (EU-SILC) covering the period from 2004 to 2009.

Our analysis is based on a sample of married or cohabiting couples with initially inactive wives and employed husbands. For this sample, we investigate four different outcomes of interest: women's transitions (i) from inactivity to activity, (ii) from inactivity to unemployment, (iii) from inactivity to employment, and (iv) changes in women's job search behavior. The added worker effect is identified by a dummy variable indicating if the wives' husband became unemployed. Due to the possible endogeneity of the husbands' unemployment the observed effects have to be considered in terms of correlation rather than causal effects.

For our pooled sample consisting of 27 European countries, we find evidence for the existence of an added worker effect. The results of our Probit regressions indicate that women whose husbands' became unemployed have a significantly higher probability of increasing their labor supply in terms of changes from inactivity to activity. Our results further show that this effect is mainly driven by wives' changes from inactivity to unemployment. Furthermore, we find that wives intensify their job search behavior in reaction to their husbands' unemployment.

In a second step, we conduct our analysis separately for five different groups of countries, namely the (i) Continental European, (ii) the Scandinavian, (iii) the Mediterranean, (iv) the Eastern European, and (v) the Anglo-Saxon countries. These subsample regressions reveal that the magnitude and significance of the added worker effect differs strongly among country groups. Overall, the added worker effect is strongest among couples living in the Mediterranean and the Eastern European countries, while it is less present in the Continental European, the Scandinavian, and the Anglo-Saxon countries. These results suggest that contextual factors, such as the countries' labor market conditions, culture or institutions, ultimately affect household decision-making and thereby the existence and the magnitude of the added worker effect.