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For Better, for Worse: Intra-Household Risk-Sharing over the Business Cycle

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"For Better, For Worse: Marriage and the Business Cycle" (Shore, 2006a)

How do the financial benefits of marriage vary with macroeconomic conditions? One of the major benefits of marriage is the ability to dynamically coordinate labor supply decisions in response to shocks. When one spouse loses a job, the other can work more. This paper argues that dynamic coordination is countercyclical; the innovations to husbands' and wives' labor incomes are more positively correlated when the economy is growing rapidly. As a result, while individuals face substantially more idiosyncratic labor income risk in bad times than good, households do not. Improved intra-household coordination in bad times nearly or completely undoes for couples the increased riskiness that comes to individuals.

Since panel datasets are typically too short to capture more than a few business cycles, I exploit variation in the cross-sectional covariance of husbands and wives incomes to infer the covariance of past innovations to their incomes. Couples who have been married through periods of greater economic expansion have more positively correlated labor incomes in the cross-section, after controlling for a time trend in assortative mating. This implies that the correlation of couples' labor incomes falls by roughly 20 percent (e.g., from 10 percent to -10 percent) from booms to busts.