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Labour Economics 13 (2006) 357–386

LABOUR
ECONOMICS

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Self-employment: the new solution for balancing family and career?

Alison J. Wellington*

Department of Economics, The College of Wooster, Wooster, OH 44691, United States

Received 13 November 2002; received in revised form 18 March 2004; accepted 5 October 2004

Available online 15 January 2005

Abstract

We examine the hypothesis that white married women, particularly more educated women, are increasingly choosing self-employment as a strategy to balance family and career. We test two models using data from the CPS, NLS and NLSY, to examine the determinants of self-employment for women in the late 1970s, 1980s and 1990s. Our findings suggest that married women with greater family responsibilities are more likely to be self-employed, and these impacts are stronger for more educated women. However, we find little support for the hypothesis that women are more likely in recent years to choose self-employment in response to family demands.

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JEL classification: J23; J22

Keywords: Self-employment; women and self-employment; entrepreneurship

1. Introduction

It is well known that women's labor force participation (WLFP) in the United States has increased dramatically over the past century, with the greatest increases coming in the last fifty years. In 1900, only 20 percent of women were in the labor force. By 1950, WLFP rate increased to 34 percent, and it took just 25 more years, until 1975, for it to

* Tel.: +1 330 263 2407; fax: +1 330 263 2276.

E-mail address: awellington@wooster.edu.

rise another 14 percentage points, to 48 percent. By the year 2000, WLF rate was up another 12 percentage points, and slightly greater than 60 percent of women were in the labor force.

In the first half of the 20th century, most women in the workforce were young and single. In 1940, for example, women age 20–24 had the highest participation rate, and rates steadily declined for older cohorts of women. By 1960, rates were highest for younger and older women, and lowest for women between 25 and 44 years, who would be most likely to have young children at home. Since 1960, much of the increase in WLF rates comes from the dramatic increase in the participation rates for women in the 25–44 year range; increasing percentages of women with young children are participating in the workforce. In 1999, 56 percent of women who had a child within the previous year were in the labor force.¹

An examination of labor force participation rates for women by marital and educational status between 1970 and 1995 also indicates that the greatest increase in LFP rates was for married (white) women with more than 12 years of education. (See [Blau \(1998\)](#), Table 3).

Along with increases in women's wage offers inducing women to participate more in the labor force, it is likely that changes in government policies are contributing to women's increased market participation. The Earned Income Tax Credit, while effectively increasing the income of low-income earners, encourages low-income mothers to increase their labor force participation and hours. In 1996, when TANF (Temporary Assistance to Needy Families) replaced AFDC (Aid to Families with Dependent Children), new restrictions on eligibility for government funds increased work incentives. On the other hand, the Family Medical Leave Act (FMLA) of 1993 did not have a large impact on women's labor supply, according to [Ruhm \(2004\)](#). He argues that this is partly because the FMLA only guarantees unpaid leave for covered workers and, partly because most women already were able to return to their previous jobs through the Pregnancy Discrimination Act (PDA) of 1978.

Prior to the 2001 Economic Growth and Tax Reduction Reconciliation Act (EGTRRA), many married couples paid a greater amount in income taxes than they would have if they had filed separately; this is typically referred to as the "marriage penalty". EGTRRA reduced this marriage penalty for many couples by increasing the standard deduction and increasing the upper tax brackets for married couples. In October 2004, President Bush signed a law that extends this relief to married couples through the year 2008. A possible unintended consequence of eliminating or reducing the marriage penalty is that it could also encourage women to participate more in market work and spend less time with their children.

Although women's greater labor force participation can have many positive consequences (e.g. greater family income, increase in skills, positive role model), there may also be important negative effects on their children. Evidence suggests that children's experiences in early childhood are important for their later development

¹ Women's labor force statistics for 1900 and by age categories were obtained from [Blau et al. \(2002\)](#). Other women's labor force participation rates were obtained from the Bureau of Labor Statistics, Series ID LFU600002.

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