



Unemployment information and wives' labor supply responses to husbands' job loss in Taiwan[☆]

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ARTICLE INFO

Article history:

Received 29 September 2010

Received in revised form 22 August 2012

Accepted 7 September 2012

Available online 14 September 2012

JEL classification:

J12

J21

J22

Keywords:

Unemployment information

Wives' labor supply responses

Pseudo-panel data

ABSTRACT

Motivated by declining labor market opportunities in Taiwan, this study examines adjustments to wives' work patterns based on husbands' job loss for both unskilled and skilled labor families. Explicitly taking information acquired before job losses into account, married couples' dynamic labor supply equations are estimated by using a short pseudo-panel data set of Manpower Utilization Survey (MUS) in Taiwan during the period of 1993–2006. Our results indicate that the AWE in skilled families exhibits almost twice as big as those in unskilled families. When husbands' job loss is compounded with district- or industry-specific unemployment information, wives have slightly higher probabilities of labor force entry than those in the traditional model, and the probabilities increase with the length of observation. A comparison of the asymmetric response of the unskilled and the skilled wives suggests that facing husbands' job loss, unskilled wives respond to both economic downturns and upturns, but skilled wives only respond to economic downturns.

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1. Introduction

During the last three decades, China, the world's largest manufacturing economy, has attracted a significant amount of foreign direct investment (FDI) from all over the world, especially from Taiwan and Hong Kong.¹ The massive flows of FDI into China affect the productions and labor market of China and its major source countries. In this process of transition, Taiwan's labor market underwent structural changes beginning in 1994 (Huang, Chen, & Huang, 2006).² Fig. 1 depicts a dramatic increase in unemployment rates in Taiwan since 1994, and followed by consistently high rates starting in 2000. In the meantime, the trend in the real monthly earnings of full-time workers in Taiwan gradually fell from high growth to stagnation. The deterioration in labor

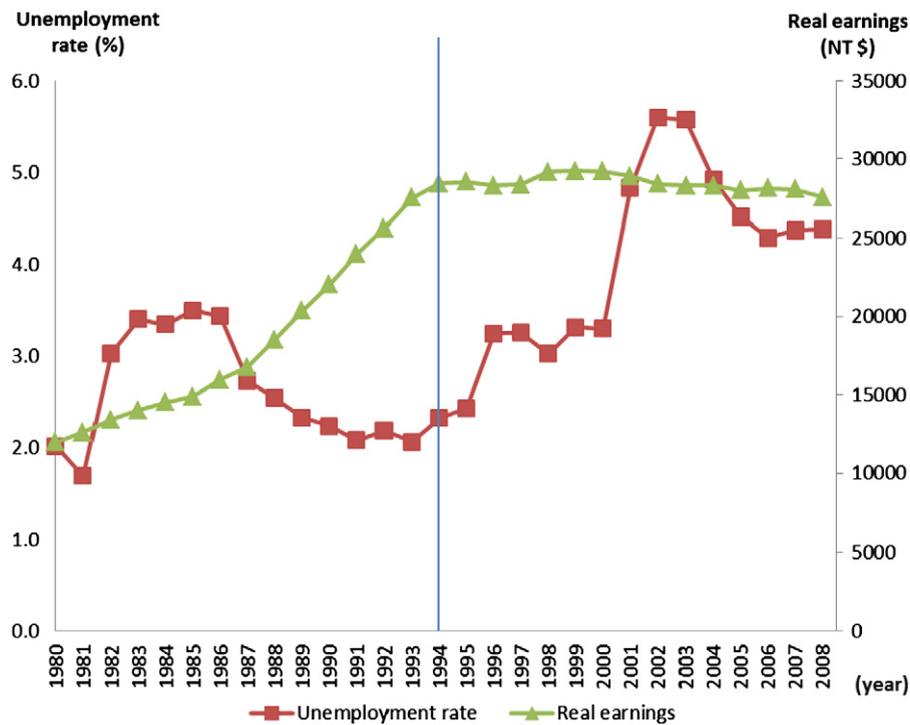
[☆] The authors thank Chang Junxiang and Ren-Chan Weng for their valuable assistance with data processing. We are grateful for financial support from a Taiwan National Science Council grant. Any errors are our own.

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¹ Taiwan's outward direct investment (FDI) began to surge after 1987. By 1989, total outward FDI had exceeded the total outward investment during the previous two decades. Outward FDI continued to accelerate and reached a peak of US\$17 billion in 2010, of which 83.4% was destined for China. Meanwhile, the accumulated outward FDI from 1991 to 2010 was US\$163 billion, of which 61.3% was destined for China. The discussion in Liu & Huang (2005) provided some links of how capital flows into China affect production and employment in Taiwan. A similar trend is also observed in the ratio of Taiwan's FDI to its gross fixed capital formation in the private sector. This ratio increased rapidly, from 0.79% in 1987 to a peak of 32% in 2006.

² International capital flow and labor flow, as reported in Appendix I, may contribute to this structural change and result in a decline in labor market opportunities, especially for unskilled labor. Of the four East Asian NIEs, Taiwan is the only one experiencing outward FDI–GDP ratios that far exceed that of inward FDI, with the gap between the two FDI flows increasing over time. Moreover, the ratio of foreign workers to domestic unskilled workers was at a negligible level of 0.5% in 1990, whereas this ratio dramatically increased to a high of 15.5% in 2006. This surge in foreign workers may be another cause of the declining market opportunities for unskilled workers in Taiwan.



Data source: Manpower Utilization Surveys, DGBAS, Executive Yuan, Taiwan

Fig. 1. The historical trends of real monthly earnings for full-time labor and unemployment rates in Taiwan.

market opportunities is believed to affect family income and, consequently, the labor market participation of family members in Taiwan. Although there has been limited attention paid to the impact of outward FDI on China's source countries (e.g., Liu & Huang, 2005), there is as yet no research focusing on how family members adjust their labor responses to the deterioration of job opportunities following massive outflows of FDI. The purpose of this study, therefore, is to investigate this important issue for Taiwan, China's major source of FDI.

During a period of declining market opportunities, when primary workers become unemployed or drop out of the labor force, the wives' labor supply responses that emerge will be procyclical (discouraged-worker effects, or DWE) or countercyclical (added-worker effects, or AWE) have been widely discussed since the debates between Humphrey (1940) and Woytinsky (1940). This study extends the existing literature in two respects. The first extension of this study takes into account the possibilities of different wives' responses to unskilled husbands' and skilled husbands' job loss. An unskilled husband or family (skilled husband or family) in this study refers to the head of household with education less than (greater than) nine years of schooling.³ There are at least four reasons why the wives of unskilled families may respond differently from wives in skilled families to experiencing a husband's job loss. First, the deterioration of labor market opportunities in Taiwan have a more severe impact on the employment and wages of unskilled husbands than on the skilled husbands, which may lead to a higher risk of unemployment, lower probabilities of reemployment, and more permanent income loss for unskilled husbands. Inactive wives of unskilled families may respond to labor market more positively than the inactive wives of skilled husbands to their husbands' job loss (AWE). Second, due to "assortative mating" in the marriage market, the wives of unskilled husbands are more likely to be unskilled. The deterioration of labor market opportunities for unskilled husbands also applies to their wives and makes the wives less likely to work, in accordance with the "discouraged worker effect" (DWE). Third, if there is "assortative mating" with respect to preferences regarding leisure time, there may be underlying differences in the taste for work between unskilled husbands and skilled husbands (Lundberg, 1985; Maloney, 1991). Therefore, wives of unskilled husbands may be less likely than the wives of skilled husbands to respond to their husbands' job loss. Finally, the degrees of liquidity constraint and the information formation of future employment and wages may differ between unskilled families and skilled families, which may cause different responses of wives to their husbands' job loss.

³ The only major change in Taiwan's education system during the past three decades is the implementation of a nine-year compulsory education system in 1968. There were no major changes following this one. We thus believe that nine years of schooling is a good benchmark for skill level.

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