

# Slowing Labor Force Participation of Married Women: The Role of Rising Income Inequality

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## Abstract:

The entry of married women into the labor force and the rise in women's relative wages are among the most notable economic developments of the twentieth century. These phenomena were particularly pronounced in the 1970s and 1980s, when participation of married women grew from 38% in 1975 to a peak of 60% in 1996 and the male to female ratio in hourly wages dropped from 1.60 to 1.34. Since the early 1990s, the growth in these indicators has stalled. In this paper, we link the decline in the growth in married women's participation and relative wages since the early 1990s to the acceleration in the rise of the skill premium starting in those years. Our hypothesis is that the growth in wages for highly educated men generated a negative wealth effect on the labor supply of their female spouses, reducing their labor supply and their wages relative to men. Disaggregated evidence on relative wages and labor force participation of wives by education and income of the husband provides descriptive support for this mechanism. We develop a model of household labor supply which can qualitatively reproduce a negative effect on wives' participation of a rise in husbands' earnings. We show that a calibrated version of the model can account for a large fraction of the decline relative to trend in married women's participation in 1995-2005, for college educated women and women married to college husbands. The model can also account for the rise in the gender wage gap for college graduates relative to trend in the same period.