

The Aggregate Labor Supply Curve at the Extensive Margin: A Reservation Wedge Approach*

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Abstract

We present a theoretically robust and empirically tractable representation of the aggregate labor supply curve at the extensive (employment) margin. The core concept we define is the household-level reservation (labor) wedge: the tax-like gap between an individual's potential earnings and her marginal rate of substitution. This micro wedge is a sufficient statistic encoding and collapsing rich multi-dimensional heterogeneity in, e.g., tastes for leisure, marginal utilities of consumption, hours constraints, and worker-specific wages. The CDF of the reservation wedges *is* the aggregate labor supply curve. In a meta study, we demonstrate how the reservation wedge serves as a bridge between diverse models where the aggregate labor supply curve is otherwise difficult to characterize and interrelate. The wedges are also empirically tractable: we measure them in a customized household survey for a representative sample of the U.S. population – and thereby map out the complete empirical aggregate labor supply curve at the extensive margin for the U.S. – a potential calibration target for labor supply blocks of macro models. The empirical curve implies large heterogeneity, yet locally implies a Frisch elasticity of around 3. Finally, we study micro covariates of the wedges vis-à-vis theoretical drivers.

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