Inequality and the Marriage Gap

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Abstract

Marriage is one of the most important determinants of economic prosperity, yet most existing theories of inequality ignore the role of the family. This paper documents that the cross-sectional distributions of earnings and wealth display a high degree of concentration, even when disaggregated into single and married households. At the same time, there is a large marriage gap: married people earn on average 27 percent more income, and they hold 34 percent more net worth. To account for these empirical facts, I develop a stochastic OLG model with female and male agents, who (i) are randomly selected into single or married households at the beginning of their economic lives; (ii) face uninsurable labor market risk henceforth; (iii) and make Pareto-efficient decisions if married. In a calibrated version of the model, I show that matching patterns by educational attainment, an effective tax bonus for married couples and directed bequests are key to explaining the marriage gap in earnings and wealth. A policy experiment of moving from joint tax filing for married couples to separate filing yields output and welfare gains.

Keywords: Inequality; Wealth Distribution; Marriage Gap; Incomplete Markets.

JEL Classification Numbers: D13; D31; D91; E21.

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