

LABOR MARKET AND MARRIAGE MARKET SORTING

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Abstract

This paper investigates how the interaction between sorting in the marriage market and the labor market affect gender gaps in career outcomes and household income inequality. We develop a novel equilibrium framework that features rich heterogeneity and matching in both markets. In the model, price-taking individuals decide who to marry, and then partners in a household jointly decide how many hours the woman and the man supply to the labor market. Family labor supply decisions, in turn, affect the equilibrium sorting between workers and firms in the labor market and thus hourly wages, which feeds back into marital and household choices. Crucial to this link between marriage and labor market sorting is our assumption that firms/jobs do not only care about matching with the right skill but also value hours worked – something that finds support in the German Socio Economic Panel where we find a positive relationship between hours worked in the labor market and *hourly* wages. The key insight from our model is that marriage and labor market sorting are linked in an intuitive way by the household’s labor choices. The nature of this link depends on whether spouses’ hours in home production are complementary or substitutable, which shapes both sorting patterns in each market and labor supply choices.

We estimate our model on data from Germany, to quantify how the presence and degree of sorting in both markets affect the gender wage gap and household income inequality. Our preliminary results indicate that primitives associated with more sorting in the marriage market equilibrium feature wives that supply more labor hours and that are better matched in the labor market. As a result, more sorting in the marriage market is associated with a lower gender wage gap. In turn, labor market sorting reinforces the gender wage gap relative to a world with random matching in the labor market. This is because, in equilibrium, individuals supplying more hours (typically men) match with more demanding occupations that pay higher hourly wages.

Our paper sheds new light on long-standing and important issues: We explore a novel factor behind the gender gap in labor market outcomes as well as within and between household income inequality, namely, the interaction between equilibrium on the marriage and on the labor market and the associated disparities in labor supply between women and men.

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