Are marriage-related taxes and Social Security benefits holding back female labor supply?

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U.S. marriage-related policies

- Taxes and old age Social Security benefits depend on marital status
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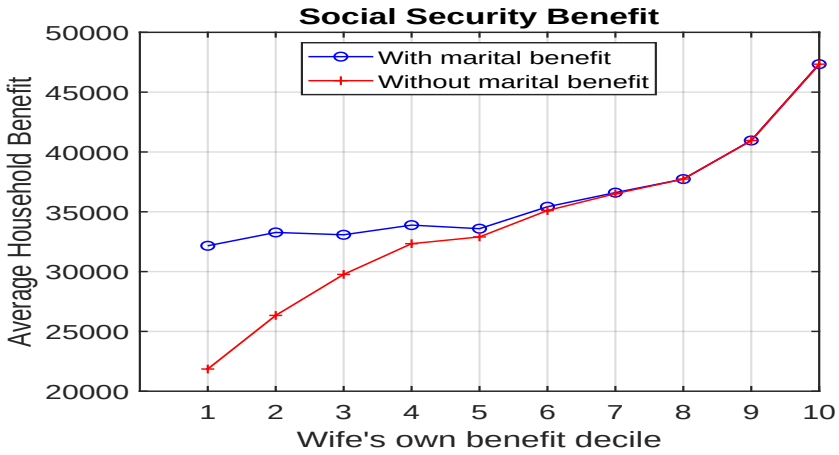
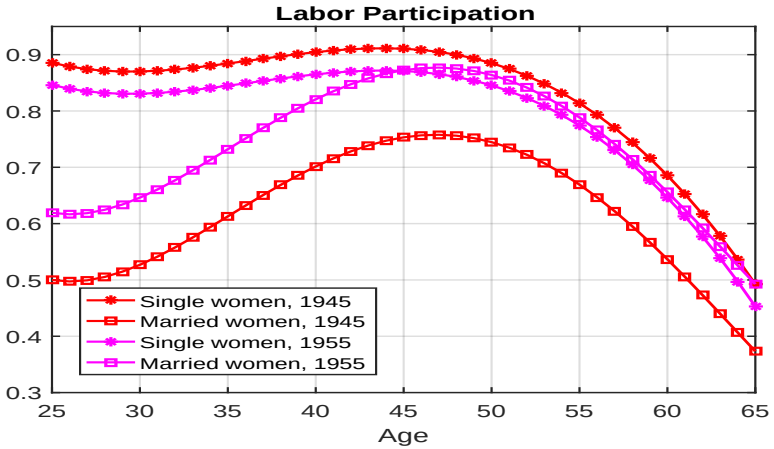
- Question: how do marriage-related policies affect
  - Labor supply of women
  - Labor supply of men
  - Savings
  - Welfare
- Labor supply of married women has been changing over time. Do the effects of these policies depend on the cohort?
  - Two cohorts (1945 cohort and 1955 birth cohorts)

Why might they matter? Marginal tax rate for women

Why might they matter? Social Security benefits



Participation for women, 1945 and 1955 cohorts



Approach

- Partial equilibrium, cohort level analysis

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- Data
  - Panel Study of Income Dynamics (PSID): working period
  - Health and Retirement Study (HRS): retirement period
- Estimate model on each cohort using the Method of Simulated moments (MSM)
- Counterfactuals: eliminate marriage-related provisions

Model's key features

- Single and married people
- Endogenous human capital
- Risks during working period and retirement
- Self-insurance: saving and labor supply (hours)

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- Self-insurance: saving and labor supply (hours)
- Government
  - Taxes married and single people + tax progressivity
  - Social Security payments (survival and spousal benefits)
  - Old-age means-tested transfer programs

Model's key features

- Lifecycle model, period length: one year
- Working stage (t_0=25 to 61)
  - Alive for sure
  - Labor productivity shocks
  - Might get married if single
  - Risk divorce if married
  - Both spouses can work

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- Early retirement stage (62 to 65)
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  - No marriage and divorce risk
- Retirement stage (66 to T=99)
  - Health shocks
  - Medical costs
  - Exogenous probability of death $\rightarrow$ married people might lose their spouse

Wages

- Functions of
  - Human capital, measured as average past earnings
  - Wage shocks which follow an AR(1) that depends on gender

Marriage and divorce

- Marriage
  - Probability of marrying: function of age, gender, and wage shock
  - Conditional on getting married, probability of meeting with a partner with a certain wage shock depends on your wage shock
  - Conditional partner's productivity, distribution of partner's characteristics are assets and human capital
- Divorce probability: function of age and wage shocks of both spouses

Children

- Exogenous fertility
- Number and age structure of children depends on maternal age and marital status
- Time costs of raising children
- Monetary costs of raising children

Health risks (after age 66)

- Age, gender, marital status, and current health affect evolution of
  - Health
  - Medical expenses
  - Survival

Government

- Taxes income, progressive taxation of couples and singles

$$T(Y, i, j, t) = (1 - \lambda_t^{i,j} Y^{-\tau_t^{i,j}})Y.$$

- Taxes labor income, up to Social Security cap $\widetilde{y_t}$, at rate τ_t^{SS} to finance old-age Social Security
- Old age means-tested cons. floor $\underline{c}(j)$ (Medicaid and SSI)

Household preferences

- $\beta =$ discount factor, $i =$ gender, $j =$ marital status
- Time endowment: $L^{i,j}$
- Leisure $l_t^{i,j} = L^{i,j} - n_t^{i,j} - \phi_t^{i,j} I_{n_t^{i,j}}$

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- Singles

$$v(c_t, l_t) = \frac{((c_t/\eta_t^{i,j})^{\omega} l_t^{1-\omega})^{1-\gamma} - 1}{1-\gamma}$$

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$$v(c_t, l_t) = \frac{((c_t/\eta_t^{i,j})^{\omega} l_t^{1-\omega})^{1-\gamma} - 1}{1-\gamma}$$

- Couples

$$w(c_t, l_t^1, l_t^2) = \frac{((c_t/\eta_t^{i,j})^{\omega} (l_t^1)^{1-\omega})^{1-\gamma} - 1}{1-\gamma} + \frac{((c_t/\eta_t^{i,j})^{\omega} (l_t^2)^{1-\omega})^{1-\gamma} - 1}{1-\gamma}$$

Recursive problem for working-age singles

$$W^s(t,i,a_t^i,\epsilon_t^i,\bar{y}_t^i) = \max_{c_t,a_{t+1},n_t^j} \Bigg(v(c_t,l_t^{i,j}) + \beta(1-\nu_{t+1}(\cdot))E_t W^s(t+1,i,a_{t+1}^i,\epsilon_{t+1}^i,\bar{y}_{t+1}^i) + \beta\nu_{t+1}(\cdot)E_t\xi_{t+1}(\cdot)\theta_{t+1}(\cdot)\hat{W}^c(t+1,i,a_{t+1}^i+a_{t+1}^p,\epsilon_{t+1}^i,\epsilon_{t+1}^p,\bar{y}_{t+1}^i,\bar{y}_{t+1}^p) \Bigg)$$

- t : Age
- i : Gender
- a_t : Net worth from previous period
- ϵ_t^i : Current productivity shock
- $\bar{y}_t^i$: Annual accumulated Social Security earnings

Recursive problem for working-age singles

$$Y_t^i = e_t^i \bar{y}_t^i \epsilon_t^i n_t^i$$

$$T(\cdot) = \tau(ra_t + Y_t^i, j)$$

$$\tau_c(i,j,t) = \tau_c^{0,5} f^{0,5}(i,j,t) + \tau_c^{6,11} f^{6,11}(i,j,t)$$

$$c_t + a_{t+1} = (1+r)a_t^i + Y_t^i(1 - \tau_c(i,j,t)) - \tau_t^{SS} \min(Y_t^i, \widetilde{y}_t) - T(\cdot)$$

$$\bar{y}_{t+1}^i = (\bar{y}_t^i(t - t_0) + (\min(Y_t^i, \widetilde{y}_t)))/(t + 1 - t_0),$$

$$a_t \geq 0, \quad n_t \geq 0, \quad \forall t$$

Recursive problem for working-age couples

$$W^c(t, a_t, \epsilon_t^1, \epsilon_t^2, \bar{y}_t^1, \bar{y}_t^2) = \max_{c_t, a_{t+1}, n_t^1, n_t^2} \Bigg(w(c_t, l_t^{1,j}, l_t^{2,j}) + (1 - \zeta_{t+1}(\cdot))\beta E_t W^c(t+1, a_{t+1}, \epsilon_{t+1}^1, \epsilon_{t+1}^2, \bar{y}_{t+1}^1, \bar{y}_{t+1}^2) + \zeta_{t+1}(\cdot)\beta \sum_{i=1}^{2} \Big(E_t W^s(t+1, i, a_{t+1}/2, \epsilon_{t+1}^i, \bar{y}_{t+1}^i) \Big) \Bigg)$$

- t : Age
- a_t : Net worth from previous period
- ϵ_t^i : Current productivity shock for each spouse
- $\bar{y}_t^i$: Annual accumulated SS earnings for each spouse
- Divorce probability $\zeta_t(\cdot) = \zeta_t(\epsilon_t^1, \epsilon_t^2)$

Recursive problem for working-age couples

$$Y_t^i = e_t^i(\bar{y}_t^i)\epsilon_t^i n_t^i,$$

$$T(\cdot) = \tau(ra_t + Y_t^1 + Y_t^2, j)$$

$$\tau_c(i,j,t) = \tau_c^{0,5} f^{0,5}(i,j,t) + \tau_c^{6,11} f^{6,11}(i,j,t),$$

$$c_t + a_{t+1} = (1+r)a_t + Y_t^1 + Y_t^2(1 - \tau_c(2,2,t))$$
$$-\tau_t^{SS}(\min(Y_t^1, \widetilde{y}_t) + \min(Y_t^2, \widetilde{y}_t)) - T(\cdot)$$

$$a_t \geq 0, \quad n_t^1, n_t^2 \geq 0, \quad \forall t$$

Two-step estimation strategy

- First step inputs for each cohort
  - Fix some parameters to calibrated or estimated values (externally to model)
  - Estimate from data directly (taxes, demographics, wage risk, health risk, human capital accumulation function...)

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  - Estimate other parameters matching data targets for 1945 cohort
- Second step, 1955 cohort
  - Fix preference parameters and use rest of parameters to match data targets for 1955 cohort

Model estimates

- Model fits well profiles of
  - Participation of single and married men and women by age
  - Hours worked by workers of single and married men and women by age
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  - Less available time due to home production
  - Marriage-related policies

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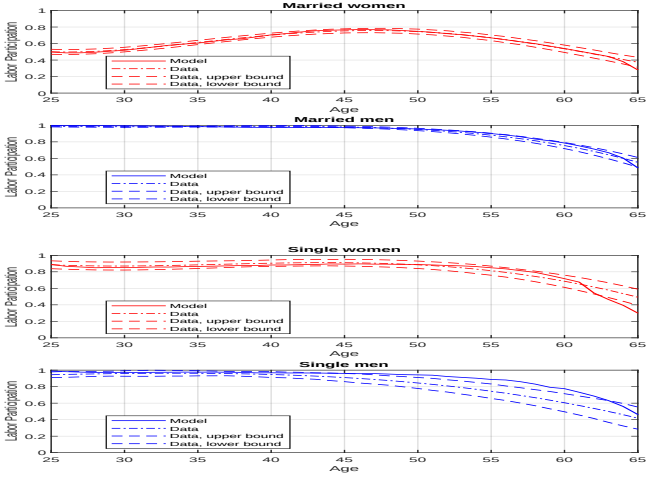
- Model implies empirically plausible elasticities of labor supply (intensive and extensive)

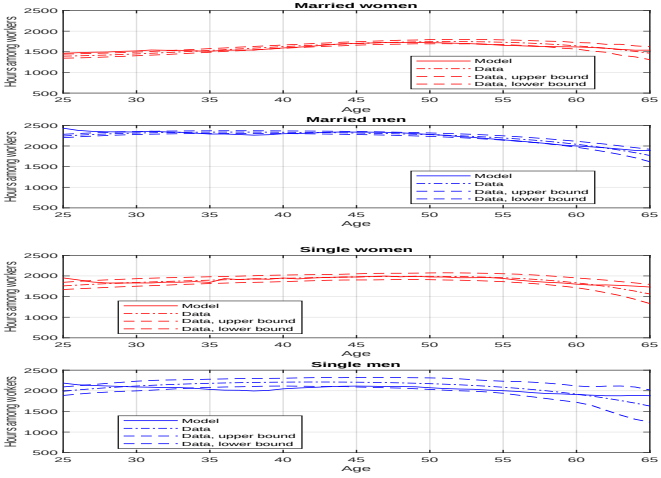
Second-step estimated model parameters

Estimated parameters	1945 cohort	1955 cohort
β: Discount factor	0.990	0.990
ω: Consumption weight	0.406	0.406
$L^{2,1}$: Time endowment (weekly hours), single women	107	112
$L^{1,2}$: Time endowment (weekly hours), married men	107	101
$L^{2,2}$: Time endowment (weekly hours), married women	88	88
$\tau_c^{0,5}$: Prop. child care cost for children age 0-5	30%	25%
$\tau_c^{6,11}$: Prop. child care cost for children age 6-11	7%	19%
$\Phi_t^{i,j}$: Partic. cost	See paper	See paper

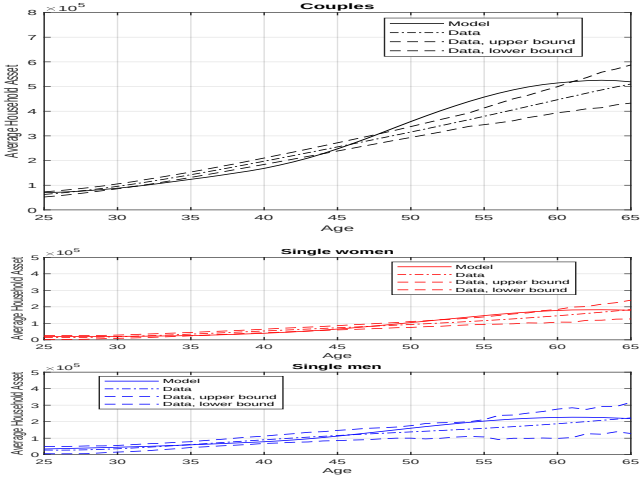
Participation. 1945 cohort



Hours. 1945 cohort



Savings, 1945 cohort

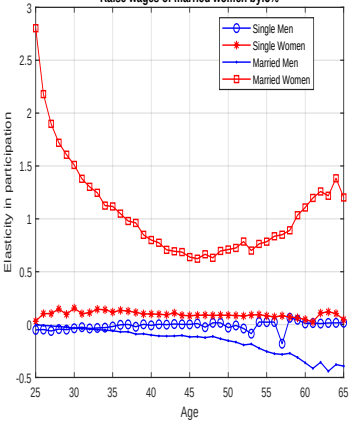


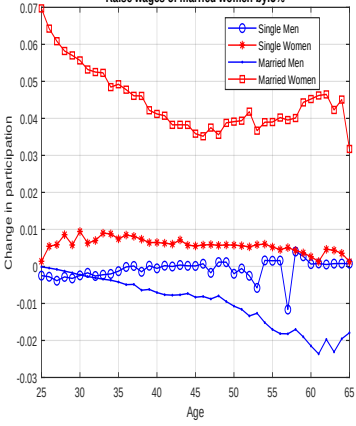
Labor supply elasticity, temporary wage change

	Participation				Hours among workers			
	Married		Single		Married		Single	
	W	M	W	M	W	M	W	M
30	1.0	0.0	0.5	0.2	0.2	0.3	0.4	0.3
40	0.7	0.1	0.4	0.2	0.3	0.5	0.5	0.5
50	0.6	0.2	0.4	0.5	0.5	0.5	0.8	0.5
60	1.1	0.8	1.4	2.0	0.4	0.2	0.5	0.3

Table: Labor supply elasticity, temporary wage change, 1945 cohort

Labor supply elasticity, permanent wage change, 1945 cohort



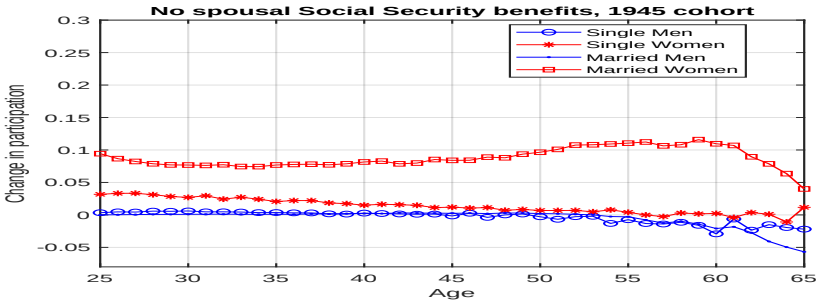


What is the effect of marriage-related policies?

Adjust proportional component of the income tax to maintain revenue neutrality and

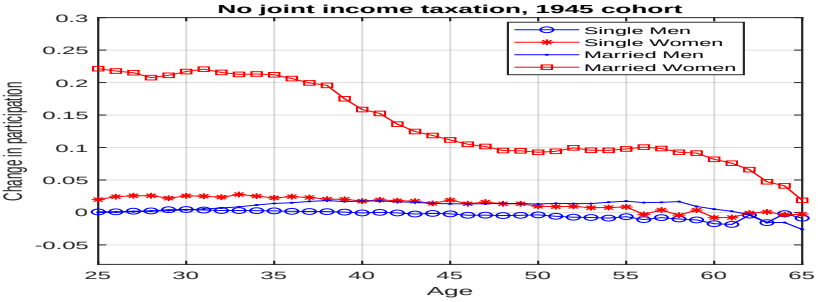
- Eliminate Social Security marital benefits, 1945 cohort
- Tax everyone as singles, 1945 cohort
- Eliminate Social Security marital benefits and tax everyone as singles, 1945 cohort
- Eliminate Social Security marital benefits and tax everyone as singles, 1955 cohort

Remove both Social Security benefits, 1945 cohort

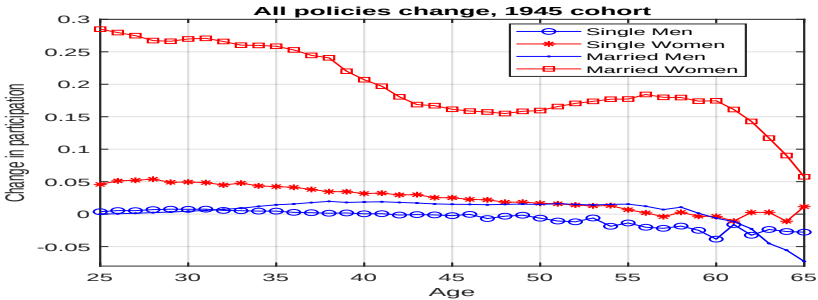


Percentage asset change	Couples	Single men	Single women
Balanced government budget	14.9%	7.8%	11.2%

Tax everyone as singles, 1945 cohort

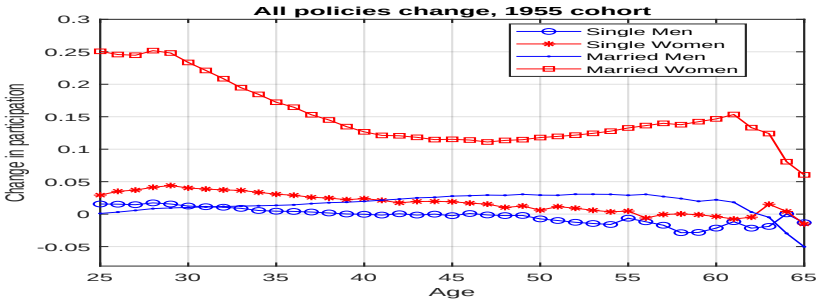


Remove Social Security benefits + joint tax, 1945 cohort



Percentage asset change	Couples	Single women	Single men
Balanced government budget	20.3%	14.8%	8.8%

Remove Social Security benefits + joint tax, 1955 cohort



% asset change	Couples	Single women	Single men
Balanced government budget	19.7%	14.9%	8.4%

Welfare, 1945 cohort

	Winners			Losers		
	Couples	SW	SM	Couples	SW	SM
Remove Social Security spousal benefits, balanced budget						
Fraction	100.0	93.4	100.0	0.0	6.6	0.0
Average gain	0.71	0.22	1.30	0.00	-0.04	0.00
Remove all marriage-related polices, balanced budget						
Fraction	98.9	35.8	100.0	1.1	64.2	0.0
Average gain	0.84	0.31	2.24	-0.04	-0.13	0.00

Welfare, remove all marriage-related polices, balanced budget, 1945 and 1955 cohorts

	Winners			Losers		
	Couples	SW	SM	Couples	SW	SM
1945 cohort						
Fraction	98.9	35.8	100.0	1.1	64.2	0.0
Average gain	0.84	0.31	2.24	-0.04	-0.13	0.00
1955 cohort						
Fraction	97.2	70.9	100.0	2.8	29.1	0.0
Average gain	0.77	0.31	1.31	-0.05	-0.05	-0.02

Conclusions

- Estimate a rich life-cycle model of couples and singles with marriage-related policies:
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  - Increases savings of couples
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  - Reduces participation of married men after age 55
  - Increases savings of couples
  - Is welfare improving for most
- Effects are also large for the 1955 cohort, who had much higher labor market participation of married women to start with

Contributions

- First estimated structural model of couples and singles with participation and hours decisions (both men and women) and savings
- Study all marriage-related taxes and benefits in a unified framework
- Study two different cohorts
- Rich framework
  - Labor market experience can affect wages
  - Survival, health, and medical expenses in old age, heterogeneous by marital status and gender
  - Fit data for participation, hours worked, savings, and labor supply elasticities