



The Effect of Assortative Mating on Wealth Inequality, why do the Rich Choose the Rich?

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ABSTRACT

This paper unravels the effect of assortative mating on wealth inequality. In light of the reviewed literature, it is concluded that there is a significant effect of assortative mating on wealth inequality, it is mainly driven by similarity in background and similar views on lifestyle, including saving habits. These findings are in line with the matching hypothesis. However, the competition hypothesis of having an inherent interest in a partner with a high socio-economic status cannot be ruled out. Another relevant finding highlights how redistributive policies might enable individuals to cross social boundaries when partnering up and foster social cohesion.

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1. Introduction

The exponential wealth inequality has put discussions on the determinants of significant wealth concentration on the top distribution, at the forefront of academic and political debate (Saez and Zucman, 2016).

Data trends highlight that both income and wealth inequalities have been on the rise almost in all regions since the 1980s. This trend can be explained by following a series of deregulation and liberalization policies. However, there are stark differences between countries. There has been a sharp jump in income inequality for US, Russia and India, whilst European countries and China record only moderate increases (World Inequality Report 2022). Currently, 52 percent of income at the global level is earned by the richest 10 percent, whilst 8.5 percent goes to the bottom 50 percent of the population. To highlight the disparity more specifically, on average, a person in the top 10 percent earns 87,200 euro and someone in the bottom 50 percent earns only 2,800 euro. In terms of wealth inequality, the disparity is even larger, the top 10 percent has 76 percent of all wealth and the bottom 50 percent owns almost no wealth at all, with a total of 2 percent. When translating this into amounts of cash, on average, an individual in the top 10 percent in the global distribution owns 550,900 euro adjusted for power purchase parity and someone in the bottom 50 percent owns only 2900 euro (Chancel et al., 2022).

On average, for all 28 OECD countries, wealth concentration is double the level of income inequality and the wealthiest 10% own, on average, 52% of total wealth, while the 60% least wealthy households own little over 12% (Balestra & Tonkin, 2018). (Chancel et al., 2022).

Persisting wealth inequality needs to have the following prerequisites. First, there needs to be a systemic disparity in the returns to wealth, as there is a persistent difference between individuals when it comes the amount of capital income that they can generate from their wealth. Moreover, there also needs to be an intergenerational correlation in wealth and returns. The third prerequisite is sorting based on wealth when it comes to family formation (Barone and Mocetti, 2016). In light of its relatively narrow scope for policy makers, the latter is less present in both academic literature and public debate.

This paper aims at unravelling what is the effect of assortative mating on wealth inequality and what are the mechanisms behind it. Literature from OECD countries will be thoroughly analyzed and the link between assortative mating and wealth inequality will be established. Moreover, the literature review will aim to answer whether do select a partner based on similar levels of wealth.

2. Literature Review

Assortative mating

Social scientists describe assortative mating as the tendency of both men and women to choose partners that have similar social characteristics such as lifestyle, level of attractiveness and religion. A distinction is made for groups characteristics, e.g. given by religion, ethnicity, based on these perspective

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marriages can be either endogamous (in the group) or exogamous (out of the group). The focus in the paper will be the latter distinction, since it is expected that selection on these traits influences wealth inequality. In addition, homogamy and heterogamy are used to describe marriages between people with similar or dissimilar traits when it comes to individual traits, such as level of education, income or level of attractiveness (Becker's 1974, 1981).

There are two different hypotheses in the literature when it comes to what specifically drives homogamy, "the matching hypothesis" entails that both sides of the market prefer partners with characteristics similar to their own. On the other hand, the competition hypothesis entails that both sides of the market aim for partners with specific characteristic, which are more desirable, this assumption is known as "the competition hypothesis". The latter entails that regardless of their own status, individuals prefer a partner with high economic status. It is noteworthy that both these hypotheses have the same outcome, namely homogamy but the matching hypothesis explains that the outcome is due to preference and the competition hypothesis explains that the outcome is the result of competing for specific traits whilst neither side wants a "lesser than" partner and everyone ends up with someone similar to themselves (Schwartz, 2013). Specifically, sociologists argue that individuals with similar characteristics are likely to have similar values, interests, preferences, and economic resources which shape their lifestyles and based on these attributes, they select a partner for marriage (Buss, 1985).. When further exploring the impact of assortative mating on wealth inequality and the mechanism behind it, the distinction between the matching or competition hypothesis will be made.

2. Wealth Inequality

There are recent developments when it comes to data availability on wealth inequality, including the OECD Wealth Distribution Database and World Inequality Database. These efforts provide a detailed picture of inequality worldwide, both OECD and non-OECD countries. The definition used by the World Inequality Database accounts for the sum of financial assets, including deposits, stocks, bonds and equity, and non-financial assets, such as a house or a business, net of all debts at the household level. Measuring wealth inequality has some pitfalls, as the indicators can be poor at measuring inequality, as they don't account for loans, mortgages and other debts, which are higher than the value of their assets. The measure applied by the WDD is the ratio between the mean and the median net wealth. On average, for all 28 OECD countries, wealth concentration is double the level of income inequality and the wealthiest 10% own, on average, 52% of total wealth, while the 60% least wealthy households own little over 12%. The OECD country with the highest level of inequality is in the United States and the Netherlands, followed by Denmark (Balestra & Tonkin, 2018). The most recent report on global wealth inequality, depicts the disparity for all regions in the world. Sub-Saharan Africa, MENA region and Latin America stand out with the highest level of wealth held by the top 10% and the lowest for the bottom 50% (Chancel et al., 2022).

3. Determinants of wealth inequality

The increase in wealth inequality over time is explained by several factors. The most straightforward one is the rising income inequality, explained by differences in education levels and human capital. In addition, there is inequality on saving rates and the rate of return on these amplifies further the level of wealth inequality (Lieberknecht & Vermeulen, 2018). More specifically, the main explanation of the increase in wealth inequality is the snowballing effect of capital accumulation, namely that the wealthy can save more than the poor and they also enjoy higher rates of returns on their investments. Public policy also has a major influence on the level of wealth inequality. Redistributive policies meant to increase public budgets and spread the wealth to the less wealthy ones, such as wealth taxes and capital income taxes can be applied to control or decrease wealth inequality (Piketty, 2020; Boar et al., 2023).

When it comes to rising inequality at the top, financial deregulation and innovation play an important role, as it increases inequality in the rates of return of financial portfolios based on size (Brei and Gambacorta, 2018). Moreover, large transfers from public wealth to private, by privatization of public utilities positively influences wealth inequality, as it favors small groups of the population, for example in Russia (Novokment et al., 2018)

The effect of assortative mating on wealth inequality.

Assortative mating drives up wealth inequality

In this section, empirical evidence from different countries will be analyzed and the link between assortative mating and wealth inequality will be established.

Regardless whether it is explained by the matching or competition hypothesis, homogamy, namely that individuals with similar levels of education, income or inherited wealth, leads to increased wealth disparity between households. This tendency exacerbates the inequality in the intergenerational wealth transfer, which is a main driver of wealth inequality. When individuals with similar wealth marry, their combined resources become attributed to one household. Moreover, the newly wealthier household can provide the future children their advantages while disadvantaged people that form a couple may struggle to accumulate

wealth and pass down further their disadvantage to their children. Pairing up based on similar socio-economic background further perpetuates wealth inequality (Fagereng et al., 2022).

There is a lack of evidence on the size of the effect of assortative mating on wealth inequality specifically but conclusions can be drawn from the research about assortative mating and income inequality.

Evidence from a nationally representative sample in the United States, indicates a significant effect of assortative mating on income inequality. For example, if the matching of married couples in 2005 would have been random in place of selection, the Gini coefficient would be 0.34, much lower than the observed 0.43 (Greenwood et al, 2014)

Similarly, Fremeaux et al (2019) found evidence of the effect of assortative mating on income inequality in France. Assortative mating increases income inequality in comparison with random mating significantly. The size of the effect is 3-9 percent per year. The effect on potential earnings is even higher, between 10-20 percent. Moreover, the results highlight that the strongest determinant for partner selection is education, with a correlation above 0.6. The correlation for annual earnings is lower but significant, at 0.17 but the multi annual year earnings, the correlation is stronger, up to 0.49.

A cross country study sheds light on the extent of assortative mating based on the level of inequality in a given country and also account for returns on education. Findings indicate that when the level of income inequality between education levels is higher, there is a greater trend of assortative mating based on education level. Furthermore, individuals with same level of education but different economic position, they are far less likely to form a couple. Conversely, in countries where the income differences between individuals with different levels of education are smaller, it is more likely that people cross educational differences to form a couple. These findings reinforce the assumption that people choose their partner based on common lifestyle, as in countries with greater disparities to returns to education also implies greater disparity in terms of lifestyle. Moreover, these findings highlight the potential role the state can have on assortative mating, as the difference in returns to education is influenced by tax and transfer policies and these can be used to lessen the barriers between groups with different levels of education and enhance overall social cohesion (Monaghan, 2015).

A recent study from Norway analyzed the wealth held and wealth returns before and after individuals marry. The findings show evidence for assortative mating based on personal wealth, in addition, individuals sort also based on personal returns to wealth. Moreover, the post marriage returns to wealth are mostly explained by the return of the spouse that had the highest return before marriage, indicating that couples choose that their combined wealth is managed by the spouse that can expand it the most. It is noteworthy that there is no evidence of sorting based on parental wealth. When looking at the trends over time, the data show a decline of assortative for both wealth and returns on wealth (Fagereng et al, 2012). These findings suggest that people do not choose partners inherently based on their social status, given by parental wealth, but rather on having similar views on lifestyle and how to manage money since there is evidence of assortative mating not only on wealth but also on wealth returns.

To further explain the effect of assortative mating on wealth inequality, a study on a French sample population found evidence that spouses are very similar in their savings preferences, even after controlling for individual characteristics. These conclusions highlight again that people choose a partner that is more likely to build a common lifestyle together and if the similarity on savings preferences is a factor when choosing a partner, this also explains how assortative mating leads to wealth inequality (Arrondel & Frémeaux 2016).

All the findings mentioned above, especially the studies of Fagereng et al. (2012) and Arrondel & Frémeaux (2016) seem to highlight that assortative mating based on wealth does seem to be driven by the matching hypothesis, namely that individuals choose partners based on similar background, education level, wealth but also expected similarity in terms of saving habits of lifestyle. Although, this is in line with the matching hypothesis and the outcome is clearly homogamy, it is still rather difficult to discard the competition hypothesis. More specifically, Wagner et al. (2020) indicates that “rich” choose the rich, but it does not account for whether the “less rich” would prefer the “rich” and had to settle for someone with similarly less wealth.

4. Conclusions

This paper aimed at unravelling what is the effect of assortative mating on wealth inequality and what are the mechanisms behind it. There is evidence from several OECD countries if a significant effect of assortative mating based on education, income and wealth. Moreover, there is strong evidence of a statistically significant effect of assortative mating on income inequality, of at least 9 percent, in the reviewed literature.

The literature regarding the size of the effect on assortative mating on wealth inequality is scarce and it is challenging to pinpoint it. However, based on the reviewed literature, it can be concluded that there is convincing evidence of assortative mating based on personal wealth, the effect of assortative mating on parental wealth is less conclusive. Moreover, the literature that explains the impact of assortative mating on wealth inequality highlights that the choice of individuals to marry individuals with similar level of wealth

can be attributed to a preference for a similar lifestyle, which is in line with a homogamy outcome, which can be explained by the matching hypothesis but the competition hypothesis cannot be ruled out. It is clear that the rich do choose the rich when partnering up but it is not clear whether the choice is driven by the fact that they are similar or because they have an inherent interest in a partner with a high socio-economic status.

One of the reviewed studies is a cross country analysis and confirms the other studies' findings on assortative mating based on education and highlights that there is a scope for policy intervention, as assortative mating, based on education is stronger in countries with high levels of income inequality, driven by higher differences in returns on education. Conversely, in countries with lower levels of income inequality, assortative mating based on education is less prevalent. This implies that redistributive policies might enable individuals to cross social boundaries when partnering up and foster social cohesion.

To conclude, the reviewed evidence to suggest that the assortative mating based significantly impacts wealth inequality and it is driven by similarity in background but also similar views on lifestyle, including saving habits. However, the hypothesis of having an inherent interest in a partner with a high socio-economic status cannot be ruled out.

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