

# **Beyond Accounting: Inequality, Sorting and Labor Supply in West Germany**

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In this paper, we measure the effect of the association of female and earnings on inequality across couple households in West Germany from 1986 to 2010 by assigning couples randomly to each other and predicting labor supply choices. This allows quantifying the extent of sorting in earnings potential rather than observed earnings which result from both productivity and labor supply coordination in couples. Constructing counterfactuals based on observed earnings might be misleading since labor supply is affected by the household context. Using German microdata as well as a behavioral microsimulation model we find that the impact of observed sorting on earnings inequality among couples turned from equalizing to disequalizing in recent years, but is rather weak. However, after correcting for the effect of labor supply choices, we find that sorting in productivity has a much larger impact on observed earnings inequality.

**JEL Classification:** D31, D63, J12, J22

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