

Abstract: The current U.S. Social Security program redistributes resources from high-wage workers to low-wage workers through its progressive benefit schedule and from two-earner couples and singles to one-earner couples through its spousal and survivors benefits. This paper extends a standard general-equilibrium overlapping-generations model with uninsurable wage shocks to analyze the effect of the spousal and survivors benefits on the labor supply of married households and the overall economy. The heterogeneous-agent model calibrated to the current U.S. economy predicts that, in the long run, removing spousal and survivors benefits would increase the female labor participation rate by 1.6-1.7%, the total working hours of women by 1.9-2.0%, and the total output of the economy by 0.6-0.7%. If the increase in tax revenue due to higher economic activity after the policy change was redistributed in a lump-sum manner, a phased-in cohort-by-cohort removal of these benefits would make all age cohorts, on average, better off, although the policy change would make most young married households worse off in the short run.