# Why women should pay less tax

By Alberto Alesina and Andrea Ichino
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Normally, free-marketeers and those who are worried about the efficiency costs of taxation are in opposite camps from those social activists who believe you need extensive government intervention to achieve a range of social goals. Here is a policy proposal that should make the two camps agree: reduce income taxes on women and increase, by less, income taxes on men.

As surprising as it may look, this can be done while keeping total tax revenue constant and reducing average tax rates. Thus, this policy would at the same time reduce overall tax distortions and increase women's participation in the labour force. It would achieve similar goals to affirmative action policies, quotas or subsidised childcare and could substitute for those policies. It would also make gender discrimination more costly for employers and would be fair because it would compensate women for bearing the brunt of maternity and for the fact that the possibility of having children can negatively affect their career prospects.

How is it possible to achieve the miracle of raising taxes on men by less than the reduction on women while also holding tax revenue constant? The answer is well known to any graduate student in public finance. The supply of labour of women is more responsive to their after-tax wage, so a reduction in taxes increases the labour participation of women substantially. Men's labour supply is more rigid, so an increase in taxes does not reduce their labour supply by much, if at all. Ergo, for a given tax cut on women, with a smaller tax increase on men, one maintains the same total revenue with fewer tax distortions. This is simply an application of the general principle of public finance that goods with a more elastic supply should be taxed less. Our computations, available in our working paper, Gender Based Taxation*, suggest that the difference in tax rates across gender that would be implied by our proposal – based upon different labour responses to wages – could be quite large, especially in countries where the labour participation of women is not as high, such as the Nordic countries.

Since we are talking about people and not goods, one needs to worry about whether such a policy undermines other social goals. In fact it does not, and this is why social activists should favour it as well. Increasing the labour participation of women is an explicit goal of the European Union's Lisbon agenda. It sets a very ambitious target for female employment, especially in southern Europe, where women tend to stay at home more. Reducing the cost of working for women (ie their taxes) is the simplest and most direct way of achieving that goal. Concern over the discrimination against women in the labour force underlies many policies of "quotas" for women or affirmative action. A lower tax on women would lower their pre-tax wage and increase their after-tax wage, making it relatively cheaper for an employer to hire women. Discrimination would then become more costly. As for pollution, it is easier and more effective to tax the undesirable activity (ie make it costly) rather than prevent it by regulation or other forms of government activism.

Often those who care about women's work emphasise the policy of supporting it with publicly funded childcare facilities. A higher take-home salary for women created by our proposal would allow them to buy more childcare at market prices and, since childcare facilities employ mostly women, they would also benefit on their costs. Moreover childcare subsidies target only women who have children; the problems of gender discrimination and low female labour force participation are more general. Not all countries will want to subsidise fertility directly.

In the long run, gender-based taxation may contribute to changing the traditional division of labour within the family, which currently encourages men to work more in the market and women more often at home. If and when a change happens (and many social activists consider that a desirable goal), the response of male and female labour supply (their "elasticities", in technical terms) may become less different from each other then they are today. At that point, one may need to reconsider the differences in tax rates, precisely as the basic principles of optimal taxation suggest.

In conclusion: would it be unfair for the fiscal authority to treat women and men differently? We do not believe so. There is nothing more hypocritical than to invoke equal treatment in some areas (taxation) for those who are not treated equally in many other areas (the labour market; sometimes in the family allocation of tasks, such as rearing children or caring for elder family members). We already have a host of policies that are not gender neutral. We could eliminate many of them by adopting a simple differentiation of tax schedules for men and women. And do not forget that a large part of the redistribution of the tax burden implied by this proposal would occur within the same family: the husbands of married women who choose to work would also benefit from their wife earning a higher take-home salary.

The writers are economics professors respectively at Harvard University and the University of Bologna

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