

# Gender based taxation and the division of family chores

Alberto Alesina, Andrea Ichino, Loukas Karabarbounis

09 January 2008

*Women have a more elastic labor supply than men and participate less in the market because of intra-family bargaining. Their labor income should be taxed less to achieve optimal taxation and to change the allocation of family chores in a way that allows females to work more in the market if they want. This tax approach may be fiscally cheaper, less distortionary and would directly address the source of labor market gender differences: intra-family bargaining.*



Women have a more elastic labour supply than men.<sup>1</sup> By the Ramsey principle of optimal taxation, familiar to any first year graduate student of public finance, women's labour income should be taxed less. We recently brought this idea to the attention of the public debate as a feasible policy proposal rather than an academic curiosum in a series of articles on the *Financial Times*, *Vox*, *Sole24ore* and *LaVoce* which have received a fair amount of attention.<sup>2</sup>

But the issue is far from settled. In particular the critical question is why women have a more elastic labour supply, how would that change with gender based taxation and what would be its effect on the organization of the family. We make a step towards this more comprehensive evaluation in our recent discussion paper (CEPR DP6591) on "Gender Based Taxation and the Division of Family Chores".<sup>3</sup>

## The source of gender differences in labour supply: It's the family.

In modern western societies (and elsewhere) differences in labour supply behaviour of men and women are not rooted only in the functioning of markets and firms but originate within the family. For historical and cultural reasons, the relative bargaining power of spouses is still such that men can get away with a lower share of unpleasant home duties. Hence, they can participate more in the market, exercise more effort, and earn more than their spouses. The avoidance of family chores allows men to engage in careers that offer "upside potential" in terms of wages and promotions. For women, it is the opposite: the division of duties at home forces them to work more for the wage, even if low, than for their intrinsic interest in the specific job. As a result, men are less sensitive to changes in their compensation since they derive more intrinsic expected pleasure from careers and market activity relative to women. Even when a job is just a job and not a career, a man may find it socially unacceptable to stay home as a "househusband" and continue to work even if his salary is lowered, unlike a women who may choose to abandon the labour force if salaries are not high enough to compensate for, say, the cost of household help, child care and care for the elderly. This family-induced gender difference in access to labour market opportunities is the reason behind the difference in labour supply participation rates and elasticities of men and women.

If society values the labour market participation and welfare of women as much as that of men, then the current arrangement can change only if the allocation of home duties becomes more balanced.

## The long run effects of gender-based taxation



Alberto Alesina

Nathaniel Ropes Professor of Political Economy, Harvard University; and Research Fellow, CEPR



Andrea Ichino

Professor of Economics at University of Bologna and Editor-in-Chief of "Labour Economics". CEPR Research Fellow



Loukas Karabarbounis

Associate Professor of Economics at the Booth School of Business, University of Chicago; Senior Research Economist, Federal Reserve Bank of Minneapolis

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Gender-based taxation induces a more balanced allocation of home duties because it increases the implicit bargaining power of women within the marriage by improving their outside option. Despite the change in bargaining power, if family members share enough of their market earnings, gender-based taxation could even be welfare improving for both spouses. And in the long run it will induce a more balanced participation of men and women in the market, both in term of levels and elasticities. Currently women and men work exactly the same amount but women more at home and men more in the market in all countries for which data are available.<sup>4</sup>

Obviously several issues remain open. Women could have a comparative advantage in home duties, but with the exception of child care when children are very young, it is unclear in what sense women should be better than men at washing dishes except for ingrained cultural values. We are not psychologists but we postulate that absent fathers and overbearing mothers may not be the optimal arrangement for children! A second issue is whether to apply gender-based taxation only to married women or to singles as well. The first approach is more consistent with the theory, but it would affect incentives to marry and divorce in ways that may or may not be desirable. Third, one would need to study carefully the redistributive implication of gender-based taxation. However we should remember that redistributive goals can be reached by different level of progressivity of tax schedules.

## Gender-based taxation and other gender policies

Gender based taxation is not the only gender policy that can achieve a more balanced allocation of home duties. But it has been surprisingly neglected as one of the possible options on the table together with more “traditional” (but not less “distortionary”) candidates like affirmative action, hiring and promotion quotas, imposition of equal pre tax salaries by gender, publicly supported family services (like child and old care facilities), and parental leave policies. Note that gender-based taxation would really go to the root of the problem by inducing a more equitable allocation of household duties between husband and wife. Subsidized services to families would not induce any cultural change in that direction but simply help women performing certain tasks, which would still remain a “woman’s job”, while men would still get away without involvement in home duties.

Gender-based taxation could easily be superior to these alternative policies: in addition to achieving social and gender-based goals, gender-based taxation reduces tax distortions! Moreover, it accords with the basic economic principle that, if some imperfection needs to be corrected, society should prefer to correct “prices” (such as the tax rate) in order to induce agents to internalize externalities, rather than interfere with “quantities” (such as affirmative action or quotas) which would prevent the possibility to equalise marginal costs and benefits. By the same token, for instance, in international trade a sort of “folk theorem” states that tariffs are superior to import quotas as a trade policy. Moreover, taxing polluting activities is generally considered superior to controlling them with quantitative restriction. It is difficult to think of a case in which gender based taxation should cause larger distortions than the alternative policies, even without considering the efficiency gains derived from the Ramsey principle, a benefit exclusive to our tax proposal. On these grounds, we argue that there are good reasons to seriously consider gender-based taxation.

## Footnotes

1 Blundell R. and T. Macurdy (1999) “Labor Supply: A Review of Alternative Approaches” in O.

Ashenfelter and D. Card (eds) *Handbook of Labor Economics*, Vol 3 North Holland Amstredam

2 “Why women should pay less tax,” *Financial Times*, 17 April 2007, , “Gender based taxation: A 100 euro bill left on the table?” VoxEU, 8 June 2007.

3 Alberto Alesina, Andrea Ichino and Loukas Karabarbounis “Gender Based Taxation and the Division of Family Chores” CEPR DP6591 December 2007.

4 What changes across countries is only the relative fraction of gender differences in home versus market work, with men working more in the market in every country. See Burda M. D. Hammermesh and P. Weil (2006) “Different but Equal: Total Work, Gender and Social Norms in the US and EU timer Use” unpublished, presented at the Rodolfo De Benedetti Conference, May 2007.

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