

## Unpaid Work and Equal Opportunists

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**T**HE equal opportunity lobby and the feminist movement have alerted us all to the 'unpaid' work that is performed in the home, generally by the senior female member of the family, and to its significant contribution to the true Gross Domestic Product (GDP). But it does not follow that such work should attract some monetary emolument. On the contrary, consistent application of the philosophy of equal opportunity suggests that unpaid work should instead be taxed.

### Why Work for No Pay?

Figures from the Australian Bureau of Statistics (ABS) (out of *dX* by Econdata) suggest that, out of the 5.3m women between 20 and 64 years of age, about 1.9m are not in the labour force at all, and a further 1.4m are in the labour force only part-time.

What is it worth not to be in the labour force? Not being in the full-time labour force is, in the absence of legislation that directly conscripts women into housework, still a voluntary choice. Housework must therefore be worth at least the monetary wage, net of tax, that could have been earned in the market for one's paid services. For example, if Ms Average's salary were A\$30,000 — roughly average earnings — then performing unpaid work full-time must at least be worth this amount minus \$6,642 (tax plus Medicare levy). That is, housework must at least be worth \$23,358 a year after counting costs of production such as amortisation on the vacuum cleaner, Handy Andy, and so forth. Naturally, this figure is a lower bound to a more accurate measure of the value that is created in the home.

If \$23,358 is representative (hypothetically of course) of the average market net wage for women, the 1.9m women in full-time unpaid employment in the home would be generating services worth about \$44.4 billion that are not counted in the GDP statistics. Assume (purely for purposes of the exercise) that the 1.4m part-time paid workers are 'on average' half-time workers, so that that they are half in, but are also half out, of the paid labour marketplace. Taking their salary as \$15,000 yields a net wage of \$12,870 after tax and the Medicare levy. By volunteering for half-time unpaid work, these women sacrifice \$23,358 minus \$12,870, or \$10,488 a year, net of tax. Similar calculations to those used above suggest that additional GDP worth \$14.7 billion would be generated in the part-time unpaid workplace.

The omission of an imputed value of unpaid work seriously underestimates the GDP. The above exercise suggests that the Commonwealth Statistician is overlooking just over \$59 billion. This is a serious, if not a grave, error.

Just think of the political advantage that could be obtained from immediately recognising the value that is generated by unpaid work in the home! Not only would this action cloak the government with an aura that would, in other circles, have almost automatically resulted in canonisation, but it would also result in an immediate leap in the measured GDP of an enormous 14 per cent. What other government would ever have achieved such an awesome rate of economic growth? Even if my rough calculations exaggerate by 100 per cent, a growth in measured GDP of 7 per cent without the need for a calming rise in interest rates would still constitute a momentous political achievement.

There would be other beneficial side-effects. The procedures of estimation that would be required of the ABS would no doubt lead to valuable and original research into the darker corners of labour market theory — a challenge indeed for academics as well as for ABS public servants. Indeed, the ABS (1990, 1994, 1995), as well as several well-known economists, have attempted to measure the value of unpaid work and have discovered a total value that is at least three times as large as my crude estimate. My hypothetical calculations were conducted in terms of averages for earnings and the like, whereas the task of measuring the values of unpaid work for 'non' averages in the real world might pose some insurmountable measurement problems. In the words of the eponymous Forrest Gump, 'You never know what you're gonna get'. (At the end of this essay, I suggest a means of completely removing such measurement problems by a simple device of redefining tax liability.)

### **Unpaid Work, Taxes and Subsidies**

Feminists as well as equal opportunists have argued that unpaid work is evidence of discrimination against those who have chosen to work in the home rather than in the marketplace. This leads them to propose that an unpaid worker should receive a monetary reward on top of the non-money gains that attracted the voluntary choice of 'unpaid' work in the first place.

Yet both the proposition of negative discrimination and the policy for its redress are inconsistent with the philosophy of equal opportunity. As argued above, unpaid work must be at least as valuable to the worker as the net money wage that is necessarily given up when work in the marketplace is forsaken. At the margin of choice, the two alternative occupations must just about balance in respect of remuneration (whether it be in terms of cash or non-money gain), so that a person is indifferent between a little extra paid work and a little extra unpaid work. For example, the margin of choice is evidently such that many people (1.4m of women aged between 20 and 64) strike a balance by working partly in the paid market and partly without pay.

At least at the margin, an unpaid worker is therefore on an absolutely equal footing with the paid worker. An additional monetary reward would disturb this balance. It would impose double negative discrimination upon paid workers, male and female, both because an unpaid worker would receive double pay, and because

a compulsory tax would have to be raised upon paid workers in order to finance the discriminatory subsidy.

On the contrary, strict and fair application of the philosophy of equal opportunity would dictate that an income tax be raised on the imputed income that is produced in unpaid occupations such as housework, and that it be raised according to the same scale that is normally applied to wage and salary earners.

### Consequences of Equal Tax Opportunity

What consequences would flow from such an equitable application of equal opportunity? In terms of my example, if the Commissioner for Taxation imputed \$23,358 to full-time unpaid workers and \$10,488 additional income to part-time unpaid workers, then he or she could raise \$4,291 from each of the former, and an extra \$2,915 from each of the latter, as additional tax and Medicare levy. This would yield a first-round tax revenue of just over \$12.2 billion, or an extra 22 per cent on the personal income tax revenue for 1994/95.

However, imposing a tax on unpaid work would disturb the equilibrium configuration of net rewards as between the paid and unpaid workplaces; the net return to unpaid work would fall below the net return to paid work. People at the margin would no longer remain indifferent between the alternative locations of their labour services, and would tend to drift out of unpaid work and into paid work. This would place downward pressure on gross wages in the paid-work marketplaces, and would, at the same time, raise marginal productivities in the unpaid workplace, so tending to elevate the value of unpaid work. Adjustments of this nature would persist until a point was reached at which the net rewards in each alternative occupation were again in balance. This would occur at a gross pay (cash or imputed value) of somewhere between \$23,358 and \$30,000.

Of course, by now the Commissioner for Taxation sensibly would be imputing the value of unpaid work as the *gross* wage in the paid-work market, thereby facilitating convergence to an efficient equilibrium where marginal product is equal in both paid work and unpaid work. The Commissioner would also grab more tax. The tax yield per person in paid work would fall while that per person in unpaid work would rise. However, in the final equilibrium everybody would receive the same reward for services rendered, adjusted for margins of skill, and would therefore pay the same tax: an equal opportunist's dream come true.

Assume that equilibrium gross pay were to fall to \$27,000. Suppose also that the equilibrating drift of people into paid work had resulted finally in 0.5m extra full-time paid workers, of which 0.3m previously were not 'in the workforce' and another 0.2m had upgraded from part-time paid employment. In this case, to the inestimable joy of the Treasurer, the total tax take would in fact have *risen* by about another \$1.1 billion. Although the equalised gross pay had fallen, the accompanying erosion of the paid-work tax base would have been more than offset by the tax bonanza from unpaid work.

Thus the final equilibrium gain to the Treasury would be about \$13.3 billion in the form of additional tax revenue (minus additional costs of collection), or an in-

crease in total personal income taxes of about 24.5 per cent. Yet even these beneficial reforms would have failed to achieve global equality in opportunity. One reason is that the value of leisure would remain both unrecognised and untaxed. Suppose, then, that the Commissioner of Taxation were to tax leisure, the consumption of which is simultaneous with its (unpaid) production. Because the final equilibrium (after all adjustments into and out of the paid and unpaid workplaces had taken place) would entail an equal net return in each pursuit, the equal opportunist's goal of global equality would finally have been achieved.

But even greater benefits to society are anticipated. The first additional benefit would flow from the calculation of the tax. Because all work and leisure would return the same value at the margin, the Commissioner sensibly would calculate each workplace participant's and non-participant's annual tax liability as equal to 24 hours times 365 days times the hourly tax rate. In this way, achieving the goal of global equality would enable the government to dispense entirely with the complex system of tax thresholds and so greatly simplify the application of tax legislation.

Second, global equality achieved through such a simply administered tax would render the problems of measurement alluded to above completely irrelevant. It would be a simple task indeed for tax office computers to multiply 24 by 365 by the tax hourly rate, and to assign the result as a tax liability to taxable participants in our society. One may even conjecture that, for purposes of effective marketing, the unhappy term 'tax' would be replaced by, say, 'Membership Fee' for Club Australia.

Most important, however, global equality would be achieved through the *de facto* imposition effectively of a head tax that would remove the dreadful distortions to work-effort trade-offs and the like which are frequently cited as the bane of our current tax system.

## References

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