Perspective

Despite the veneer of gender neutrality, many government tax, regulation, and entitlement policies today have a negative impact on women's lives and their choices. It's time for women to push back against this government interference.

Why Women Should Demand Less Government in Their Lives

About the Author

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As you know, March is Women's History Month, so our schoolteachers are going to be teaching the kids of America how women fought for their freedom and won the right to vote and the right to own property. What is going to be utterly lost is the fact that the government intervenes a great amount in women's lives today, and it is hurting them, or, at the very least, influencing the ways in which women can choose to live their lives.

Women are often told that government intervention is "for their own good." However, the road to Hell is paved with good intentions, and government intervention today is clearly one of those instances.

In the past, whether from a sense of chivalry or outright misogyny, women suffered because the state didn't treat women equally with men. Long ago, for example, an assault wasn't considered an assault when men raped and beat their wives. This type of discrimination encouraged women to fight for equality. Many of the 20th century government anti-discrimination policies, such as allowing women to serve in the military, were relatively transparent efforts to achieve gender neutrality.

Yet today many government policies, while they may have the veneer of gender neutrality, actually have an important, negative impact on many women. I'm going to touch on 3 main areas where this occurs today: tax policies, regulations, and entitlements.

Tax Policy

One of the things people don't often realize, even when they live through it, is how heavily discriminatory the tax code is to certain groups of women.

Marriage Penalty—For instance, the tax code absolutely discriminates against married women who are working. Consider this number: 72% of women who are married and file joint tax returns with their husbands earn less than their husbands. These women are what economists call "secondary earners," and their salary is taxed at the higher marginal rate of their husband's salary simply because they file jointly. These married women's tax rates are automatically higher than the tax rate of single women earning the exact same salary.

This is called the "marriage penalty," and it's actually quite punishing. The higher the government's marginal tax rates, the bigger the penalty on married women.

To Work or Not Work—Tax policy makes a significant impact on the way women choose to live their lives. Economic data also show very clearly that in times when marginal tax rates have gone down, married women have joined the work force. When marginal tax rates have gone up, married women have stayed at home.

This is important to remember during the current debate about letting the Bush tax cuts expire, especially on top income earners. Ultimately the decision government makes on this issue will have an impact on millions of married women who will re-evaluate whether it's financially worth it for them to work. If marginal rates go higher, women who have the luxury of choosing to stay home may do so, recognizing they gain little earning a small salary that government taxes at a high rate.

Full or Part-Time—But a lot of women don't have the luxury of staying home, so their decision will be whether to work full or part-time.

In surveys, 80% of working women say that they would rather work part-time because it would improve their quality of life. Yet two-thirds of women end up working full-time. Why? Usually because the tax burden, imposed by the marriage penalty on a married woman's lower salary, means she loses too much money working part-time. Remember: the higher the marginal tax rates, the bigger the penalty—or the tax collected—on the wife's smaller salary. Working full-time makes that gap smaller and the penalty smaller, enabling her to keep more of her salary for her family.

Note that I'm not taking a position on whether women should stay at home or work, or should be married or single. I'm just saying that a lot of the time the tax laws and the way that they're written actually end up being a driver in the choices that women can make and in how they can lead their lives. This shouldn't be the case, especially in the 21st Century.

Earned Income Tax Credit—I said sometimes the road to Hell is paved with good intentions. As part of the 1990s push to move low-income people from government welfare dependency, the government put in place what is called the "earned income tax credit," or EITC. It was also an incentive for low-income single mothers to join the labor force.

The literature shows it had the effect of moving many single mothers into the workforce, but it also had the effect of significantly lowering the participation of married women in the labor force.

Tax Loopholes—I'm an economist, so I don't take a stand on whether policy consequences are good or bad. I do see, though, that policies designed to serve one type of women affects the decisions other women make on how to live their lives.

The marriage penalty and the EITC are examples of the kinds of problems we see throughout the tax code. Whether you are a renter or a homeowner, or you have children or no children, women should be against all loopholes and should be for a flat tax with a low base rate so that there is absolutely no reason for the government to decide what kind of behavior is encouraged, and what kind of behavior is discouraged. No one should decide for us.

Women Business Owners—The tax code and the level of marginal rates also have a huge impact on women-owned businesses. Forty percent of privately-held firms are headed by women. These are usually small firms with fewer than 9 employees.

Most of these women file their business income under their personal income tax. When marginal rates are really high, government is actually penalizing their business because these businesswomen are forced to pay their business income at a much higher rate than most other businesses.

If we believe that small business is the engine of economic growth, this arrangement should give us some pause.

Regulations

Remember that a lot of government policies have a goal to encourage some sort of behavior. The underlying assumption, which I find outrageous, is this idea that government knows best as to what types of behaviors will bring a higher return for society.

There's often complete confusion about productivity and a total misunderstanding about the fact that productivity takes many forms. Who can say if a woman is more productive for society at work or at home with children? Yet government policies try to force women to do one thing versus another.

One of the things economists have repeatedly observed is that the drive to move women into the workforce has had a significant impact on a woman's productivity at home, i.e., in caring for children and in managing the home, so there are always trade-offs in every government policy. What most of the literature concludes is that you can't really say that this was an improvement for society in a global sense.

What we know, however, is that working women need more help at home. Working women would benefit significantly from better immigration laws that would allow them to hire low-skilled workers to help them at home. One of the things you see is a vast discrepancy between the demand for legal low-skilled workers and the actual supply. You can say there are a lot of illegal immigrants, but it's not true everywhere in the country. More importantly, allowing low-skilled workers to work legally in this country would be beneficial to everyone—the people who would employ them and the people employed legally who can then live life above ground.

Workplace Regulations—One big category of regulations that hurt women is workplace regulations, and a lot of them were pushed by feminists. Surprisingly, a lot of good-sounding regulations promoted as preventing discrimination against women—i.e., maternity leave protection, equal pay—actually end up hurting many women.

For instance, economists have shown that states with stricter maternity leave protections see real wages for all women—not just the ones who actually have kids—fall dramatically. They also show that unemployment for women is higher in states with greater labor law regulations.

I can tell you that I come from a country that is very well known for all the workplace protections it has for women, and it's not a great thing. If you're a young person under 25 in France or a woman, you're unemployment rate is about 25 percent. That's quite dramatic.

By trying to protect women *with* children, women *without* children end up getting hurt. Why is this? Women who may never intend to have children are looked at by employers as potential mothers, and it factors into hiring and promotion decisions. Obviously two wrongs don't make a right, but when employers can never ask a woman about whether she plans to have children, government makes things much worse for many women.

As women, we should be against inflexible, rigid workplace regulations and advocate more flexible labor regulations that enable us to set our own goals. Women spend their time entering and exiting the labor market for many reasons. Women are also more likely to ask to work part-time. Over-regulation in the workplace, even when it sounds good, often reduces the choices women would otherwise have.

Whether a renter or a homeowner, married or single, have children or no children, women should be against tax loopholes and for a flat tax with a low base rate.

Government shouldn't use the tax code to coerce behaviors it favors.

No one should decide for us.

Entitlements

Entitlements is one of those issues that's been presented not only as a way to protect women, but also as a way to help the weakest members of society. Sometimes it does serve that function, but it sometimes has very negative unintended consequences.

I find it very interesting that women have fought so long for their independence, and yet now in any country, women are the primary group dependent on government. They have traded dependence on men (fathers, husbands) for dependence on government.

Social security data show that 29% of women over age 65 rely on Social Security for 90% of their income. When you look specifically at single women, that number jumps to almost 50% reliance on Social Security. People will say, *that's great; that's why we need Social Security. What would they have done otherwise?*

This reaction totally ignores the fact that these women have been taxed their entire lives at high rates, and the rate of return makes it a very poor deal for both single and married women.

Under Social Security, if you're in the top 10% of earners, you will get back much less than you put in. If you're in the remaining 90% of earners, the best case scenario is that most of the time you will get back what you put in. But that's all.

This is a terrible return on investment. Imagine the benefits you could have created if you had been able to invest for yourself those taxed wages [see Editor's Note.]. You could certainly have hoped for a greater return on investment—and historically that is the case, since even in this recession, the DOW is as high as before the recession started in 2007.

If you suddenly had an emergency during your life, you could have tapped into those dollars. Or if you died, you could have left your investment to your family. But with Social Security, you can't tap into it, you can't leave it to your family, and you can't make the money work better for you.

I actually think that this dependency, while it looks beneficial on its face, hurts women because taxation destroys their freedom and their incentive to plan, save and invest for themselves.

Risky Dependence—The final point I want to make about entitlements, and Social Security in particular, is how great the risk of government dependence is.

Year after year, lawmakers have misled people into believing they are "entitled" to receive what Congress has promised in the past. They are not at all. Congress can change the laws and the rules of entitlements any time. So what happens if you are counting on it, it's your only source of retirement income, and Congress decides to change the law? You are in trouble.

Since last year, Social Security has been running a cash-flow deficit. That means that the taxes collected on current workers, which is used to pay for current Social Security retirees, is not enough to pay all of the benefits going out.

In theory, when government collected taxes, those assets went into the Social Security Trust Fund. They are real assets, but they have already been spent and the money isn't there anymore. The only way to cover the shortfall is for government to tax workers again, or to borrow more money.

The federal government keeps borrowing and kicking the can—the hard reforms—down the road. But the road is becoming shorter and shorter. What happens when all the IOUs in the Trust Fund are gone? The IOUs are budget authority, i.e., the permission for the program to spend a certain amount. When the IOUs are gone—which is scheduled to be in 2035 but we know it will be much sooner than this—the spending on the program will automatically be cut by at least 25%. Who do you think will pay the biggest price? It will be women because they are the group most dependent on the government program.

Now are women freer today than they used to be? Yes, they definitely are. They can vote and they have choices: to marry or not, to work or not work, an array of jobs if they choose to work, and so on. They have gained so much freedom in the private sphere. Now, however, so much of their hard-won freedom is being regulated and coerced by government that I think it is time for women to push against this.

Year after year, lawmakers mislead people into believing they are "entitled" to receive what Congress has promised in the past, like Social Security, but they are not at all entitled.

Congress can change the laws and the rules of entitlements any time.

Editor's Note: The official total Social Security FICA withholding tax rate, as of this writing, is 15.3% on every worker: self-employed workers pay the full 15.3%; an employed worker and her employer each pay 7.65% (see http://www.ssa.gov/OACT/ProgData/taxRates.html).

Assume Jane Doe earns $100,000 each year. The government collects 15.3%, or $15,300, on Jane's behalf each year "for her own good," promising a monthly pension upon retirement in the future. But Jane doesn't own the money. She can't decide how it's invested. She can't access the money in emergencies before she retires. She may never see the money, even at retirement age, if Congress decides to change the rules and laws of the Social Security entitlement program.

Worse, Jane can't pass it on to her family as an inheritance if she dies before retirement age. So if Jane dies after 40 years of earning $100,000 per year, the total collected by Social Security on her behalf in this example—$612,000—is forfeited to government.

This paper was adapted from Dr. deRugy's remarks to the Conservative Women's Network.