Optimal taxation in occupational choice models: an application to work decisions of couples

Discussion

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Paper summary:

- General model of optimal taxation: finite set of occupations; continuum of agents indexed by type; benevolent planner who observes occupational choices, knows distribution of types but not the individual characteristics.
- First order conditions of program of utilitarian planner define rules for optimal taxation (levels and differences).
- Specific application: work decisions of couples, with 4 possible choices (nobody works, only male works, only female works, or both work).
- A specific focus is on the conditions for positive reinforcement (i.e. financial incentives for individual to work are larger when partner works than when partner does not work) versus negative reinforcement (i.e. financial incentives for individual to work are smaller when partner works than when partner does not work).

Contributions/merits of the paper:

- Encompassing framework: includes many interesting special cases (see Sections 2.3-2.4).
- Versatile framework: see application to work decisions of couples (Section 3) and extensions/generalizations (Section 5).
- Much attention for (graphical) intuition (for the case without income effects and $N = I+1$) of main insights.
- Link with empirics (Section 4).

Comments/questions:

- In their model of couples' work decisions, the authors assume unitary households that are characterized by income pooling (when defining the couples' financial incentives to work).
- However: the assumption of income pooling has been rejected empirically.
- Also, the unitary model has been rejected empirically in favor of the collective model (which explicitly recognizes the two-person nature of households' decisions).
- As a matter of fact, a well-documented result in the collective literature is that individuals' "incomes" (including labor incomes) define individuals' "outcomes" (i.e. the within-household sharing of resources).

Comments/questions:

- For labor force participation decisions of couples: see Donni (2003, JPubEcon) and Blundell et al. (2007, REStud).
- For example: Donni (2003, p.1197) states "The incidence of a change in tax parameters on labor supply is generally indeterminate [...] Theoretically, this indeterminacy could be solved by a model which explains how the resources are actually shared within the household."
- This pleads for a structural model of the within-household bargaining process (e.g. by relating it to the structure of the surrounding marriage market).
- See also Immervoll et al. (2011, JPubEcon) for discussion in the context of optimal taxation.

Comments/questions:

Related questions:

- What about dynamics related to couples' decisions on labor supply ? For example, individuals' abilities may change over time (as a function of labor supply decisions) and this may impact the within-household bargaining position.
- What about household production (e.g. investment in children; cf. empirical results in Section 4) ?
- What if noncooperative (versus cooperative/Pareto efficient) household behavior ?