

From: Alexandre Laurin
To: Bill Morneau, Minister of Finance
Date: March 1, 2018
Re: **EMPLOYMENT AND PAY (IN)EQUALITY: THE BIG CHILDCARE ISSUE
UNADDRESSED IN THE BUDGET**

This week's federal budget contains a host of initiatives, mostly small, to improve labour market outcomes of women. Those include federal pay equity legislation, a national roundtable for gender-based analysis, a female entrepreneurship strategy, apprenticeship and pre-apprenticeship programs for women, support for women in construction, etc. Further, additional weeks of parental benefits may provide indirect help, as with the continuation of transfers to provinces to be used towards adding subsidized child care spaces.

But a bigger bang for the buck could have been achieved by addressing the more significant problem head on: the childcare expense deduction, which is of limited benefit for so many families and mothers. Transforming the deduction into an income-tested refundable benefit, [as we have suggested](#), would induce thousands of mothers to join the workforce, for a likely smaller cost than what's proposed in this budget.

The primary goals pursued in the budget are to close the gender pay gap and increase the labour force participation of mothers. Both goals are related. About half of the pay gap [can be explained by differences in observable skills or job characteristics](#), with which increased participation will help. The unexplained portion can be due to a number of factors, including unobserved characteristics and prejudice, but we also know that balancing work and family is a major challenge affecting career paths of mothers.

Mothers (and also fathers in lower numbers) leaving employment and staying at home to care for young children may have a very difficult time reintegrating into the workforce and catching up to their counterparts, once all their children reach school age. And absence from the labour force may extend well beyond children's preschool years. To make things worse, this is especially true of less educated mothers, and we know that the pay gap is greater on average for the less skilled workforce.

A new approach to childcare tax breaks is needed. The current childcare expense deduction is capped at two-thirds of the income of the lower-earning spouse and limited to a maximum per child (\$8,000 for a preschooler and \$5,000 an older child). As a result, a substantial proportion of families are not able to fully deduct their childcare expenses.

Moving towards a means-tested tax credit system for childcare, as [offered](#) in Quebec, [may induce up to one in five stay-at-home mothers to join the labour force as a result of lower net childcare costs](#). Accounting for the impact of the employment boost on tax revenues, the net fiscal cost for governments would be small – making this initiative one of most cost-effective ways to close the gender gaps.

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