“Motherhood Gap” Could Explain Differences in Gender Wages: TD Economics

Toronto, October 12, 2010 – Motherhood leads to unexplained, but significant wage losses for working women, says a new TD Economics report, *Career Interrupted -- The Economic Impact of Motherhood*.

Report authors Beata Caranci and Pascal Gauthier suggest this “motherhood gap” in wages largely occurs because of wage penalties mothers experience each time they exit and re-enter the workforce.

“Previous studies on wage differences by gender have found that roughly half of an observed 20 per cent gender gap cannot be explained by the usual factors that drive wages, such as experience, hours worked, occupation, industry, age and the like,” said Beata Caranci, Deputy Chief Economist, TD Economics. “The research leads us to conclude that exits from the labour force, most often related to family or motherhood -- not gender -- are the culprit behind this ‘unexplained’ wage gap.”

Women who exit the workforce to have children tend to experience an unexplained, but persistent three per cent wage penalty per year of absence. The report shows this persistent wage penalty is as much as three times more severe for frequent exits (three or more) than it is for long absences. So while a depreciation of skills is an issue with any extended leave, it is not the headwind previously thought. Employers typically use the frequency of entry and exit in the labour force as a signal of attachment or commitment.

For example, a woman today with $60,000 in after-tax income, who works continuously for another six years would see her real (inflation-adjusted) earnings rise to roughly $64,000, assuming a 1% annual gain. If this women takes a single three-year stint out of the labour force before returning and working another continuous 20 years, this woman would incur a cumulative earnings penalty of over $325,000 in today’s dollars (assuming a 55% income replacement ratio in the first year of a child-related absence and a persistent three per cent penalty per year of absence, in accordance to research findings).

Advice for Employers: It’s not all about money

Another contributing factor of the motherhood wage gap is that mothers returning to the workforce have greater responsibility on the home front, which makes work-life flexibility a key underpinning towards retention of women in the workplace. These changing priorities can mean mothers become less responsive to classic job incentives like wages and more attracted to work-life balance.

This is not to say women re-entering the workforce do not want responsibility. The report suggests that if employers want to attract mothers back to the workforce they need to be prepared to offer jobs with fair wages as well as a sense of greater responsibility, in order to entice women to make the trade-off with household responsibilities.

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Reducing the Gap

The report also finds that there are ways for women to reduce the motherhood wage gap. Women incur far less financial penalty if they are able to build more experience before temporarily exiting, irrespective of the length of time they ultimately remain out of the workforce. Returning to the same employer also lends itself to a lower wage penalty, as social networks and other firm-specific skills remain better preserved.

"With a significant portion of the skilled labour force in Canada retiring over the next 10 years, employers will need to do all they can to attract and retain highly-skilled women, including mothers," said Pascal Gauthier, Senior Economist, TD Economics,. "This new insight provides a vantage point for employers on how to re-engineer jobs and provide the flexibility this demographic demands, while helping to put employees and companies ahead of the expected skilled-labour force crunch."

The report's findings will be shared with women who are attending the inaugural Back to Work Program at the University of Toronto's Rotman School of Management. Sponsored by TD, the program is designed to help women re-enter the workforce after an extended leave.

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