

# Policy can work. Just compare the Canadian and U.S. labour markets <sup>[1]</sup>

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## EXCERPTS

For ages, labour participation in the United States and Canada moved virtually in lockstep.

**See article for tables.**

In 1997, about 84 per cent of Americans in their prime working years (ages 25 to 54) were either working or looking for a job, with a similar share of participation in Canada. Then something happened.

The U.S. participation rate went into reverse, falling to just under 82 per cent in 2017, while in Canada it continued to climb, with 87 per cent of prime-age people in the labour force last year, a record in annual Statistics Canada data going back to 1976.

So what happened? The divergence is the subject of a recent paper published by the Federal Reserve Bank of San Francisco, and its authors find a straightforward explanation.

Three-fourths of the gap, they write, is explained by greater labour participation by women in Canada than in the United States. As of 2017, roughly 83 per cent of prime-age Canadian women were either working or looking for a job, eight percentage points higher than for American women.

That wasn't always the case. For decades, more and more women entered each country's labour force, and again, their respective rates were largely similar circa the late 1990s. After that point, the Canadian rate continued higher, while the U.S. drifted lower.

"A key factor" in the participation gap, the authors note, "is the extensive parental leave policies in Canada." There is a striking difference between what's available to new parents in the two countries.

Eligible Canadians can take a maximum of 35 weeks of paid parental leave at 55 per cent of their salary, or a longer leave at a reduced rate, while biological mothers can also claim up to 15 weeks of paid maternity leave. The last federal budget introduced a use-it-or-lose-it policy that would grant an extra five weeks of paid leave, provided a second parent takes at least those five weeks. The move, Ottawa said, was intended to "provide greater flexibility – particularly for mothers – to return to work sooner, if they so choose."

A similar policy has existed in Quebec – which maintains its own system – for more than a decade, and a substantial portion of men use it. Eighty per cent of new fathers claimed parental benefits in 2016, or intended to, compared with 13 per cent in the rest of Canada, Statistics Canada data show. Moreover, Quebec introduced a universal child-care system in the late 1990s, and monthly fees typically run below \$200. Today, 87 per cent of women aged 25 to 54 in Quebec are in the labour force, the second-highest rate among the provinces.

"Parental leave policies in Canada provide strong incentives to remain attached to the labor force following the arrival of a new child," wrote the authors of the San Francisco Fed paper.

By comparison, U.S. parental leave depends on the jurisdiction, but at the federal level, eligible workers can take up to 12 weeks of job-protected leave. However, it's unpaid leave, making the United States the only OECD country that does not mandate paid leave for mothers.

"Not only could a paid family leave program keep women in the workforce and decrease their need for public assistance, but it could reduce employer costs and contribute to U.S. economic growth," said a 2014 report from the Washington-based Institute for Women's Policy Research.

Indeed, the Fed paper finds that if the United States closed its female participation gap with Canada, it could add as many as five million prime-age workers to its labour force.

"The contrast between the incentives Canada and the United States offer prime-age workers to remain attached to the labor force is clear," the authors note. "A large pool of skilled potential workers could be encouraged to join the labour market with the right set of policies."

**Region:** Canada <sup>[3]</sup>

**Tags:** maternity and parental leave <sup>[4]</sup>

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