CHAPTER 5 The "families with a stay-at-home mom are discriminated against" argument

THE FORM OF THIS ARGUMENT IN THE PUBLIC DEBATE

This argument has surfaced in Canada in the last few years. In its more popular version, it suggests that a left-leaning feminist bias in government has led to a series of measures designed to reward families with two employed parents and to discriminate against more traditional families in which the mother stays at home full time to care for the children. In this view, if the money spent on those discriminatory measures were distributed to the more traditional families, mothers would stay at home and care for their children, and those children would be better off.

An example of this view is contained in a recent letter to the Globe and Mail from Beverley Smith, president of the Kids First Association of Canada, commenting on an article concerning a speech in Toronto by Mario Dumont, leader of Québec's Action Démocratique:"By a flat tax,he cuts out the penalty against the single-income family. By vouchers for child-rearing and schooling, he allows funding to flow to the child so parents can even-eek!-get funding for taking care of their own kids".

Kids First has been active politically and judicially in challenging what they perceive to be an unfair treatment of stay-athome mothers. In 1993, Kids First unsuccessfully challenged the Child Care Expense Deduction in a Canadian Income Tax Court. Beginning in 1997, Beverley Smith lodged a formal complaint at the Division for the Advancement of Women at the United Nations arguing that Canada's tax, child care, pension and statistics laws devalue child-rearing. (The U.N. did not support the complaint).

The more academically sophisticated presentation of the same argument suggests that the tax system has evolved in recent years so as to favour families in which both parents are in the labour force over families in which one parent receives a paycheque and the other stays at home (for example, Boessenkool, 1999). Some of this critique has focused on the Child Care Expense Deduction which is seen as a special subsidy to two-earner families.

The same argument might be made about parental leave provisions, which are available to the mother only, if she was in the labour force prior to the birth of the child. The argument could also easily be extended to any direct government spending on child care which directs more funds to children with employed parents than to children with a stay-at-home parent.

The suggestion—sometimes implicit—is that there is some kind of "social agenda" that is encouraging mothers to work outside the home and which is also encouraging those mothers to arrange care for their children within child care institutions. Presumably, this disintegration of the traditional family will lead to an evolution of society that somehow is consistent with the goals of those setting the social agenda.

THE ARGUMENT IS BASED ON AN INAPPROPRIATE COMPARISON

The typical argument suggesting that there is discrimination against single-earner families uses a numerical comparison involving the Canadian tax system. Generally, the example compares the taxes paid by two families who have the same gross (that is, before-tax) earnings. One family has a single-earner husband and a stay-at-home wife; the second family has two earners and child care expenses. The single-earner family pays higher taxes than the two-earner family, which leads to the conclusion that there is discrimination against single-earner households. Because the numbers are usually fairly precise, it would appear that the comparison is unassailable. But the problem with the example is that it is inevitably based upon an inappropriate comparison.

To show this, we will repeat the example that we used in a discussion paper prepared for the Canadian Policy Research Networks on this issue (Krashinsky & Cleveland, 1999). Consider two families that each have two parents and two children. In the first family, only the father is employed and earns \$50,000. The mother stays at home, cares for the children, and does housework. In the second family, both parents are employed. The husband earns \$30,000 and the wife earns \$20,000. There are child care expenses of \$8000, which are fully deductible for tax purposes by the lower-earning spouse. We assumed that the mother had the lower salary to reflect the historical reality that women have been paid less than men, but an increasingly important fraction of households do have wives who outearn their husbands. This example will be referred to as Case 1.

We looked only at the income taxes paid in 1999 for both families (thus, we ignored Canada/Quebec Pension Plan and Employment Insurance contributions, as well as the child tax benefit; for simplicity, we assumed that provincial income taxes were simply 50% of federal income taxes). The single-earner family paid \$12,487 in income taxes, while the two-earner family paid \$6059 on the father's earnings and \$1414 on the mother's earnings, for a total tax bill of \$7473. In other words, the single-earner family paid an extra \$5014 in income taxes.

There have been changes in the tax system over the past few years but the general result has remained the same. Redoing the calculations for 2001, we find that the single-earner family would have paid \$10,292 in income taxes, while the two-earner family would have paid \$5421 on the father's earnings and \$1101 on the mother's earnings, for a total tax bill of \$6522 (the smaller amounts in 2001 reflect the cuts in federal tax rates, especially on income above \$30,000). The single-earner family in 2001 would have paid an extra \$3770 in income taxes.

In either 1999 or 2001, the single-earner household pays higher taxes. Does this mean that the single-earner family faces discrimination? The simple answer is no: the comparison is an inappropriate one. There can be discrimination only if the families are equivalent in some meaningful way, but they are not. In the example given, the husband in the single-earner family has a much higher income than the husband in the two-earner family, which is why that family pays higher taxes.

The proper comparison would begin with two husbands having the same before-tax income (and therefore the same taxes) and with two wives able to find jobs which paid the same wages. Assume that one mother takes the job while the other mother does not. In the family where the mother goes out to work, she pays taxes on her earnings, and her husband's tax bill rises because he loses her as a credit. In the other family, the mother pays no income taxes and the husband keeps the credit. Thus, employed women pay higher taxes than women who are not employed, and families with employed mothers pay higher taxes than equivalent families with stay-at-home mothers. This comparison will be worked out in detail below as Case 2.

There is an even simpler way to show that the two families in Case 1 represent an inap propriate comparison. Consider the types of jobs that the two fathers have in that example. The father with the stay-at-home wife has a good job, and he earns more than \$25 an hour. Conversely, the father with the employed wife has a much less lucrative job, and he earns just over \$15 an hour. In the first family, the mother may be able to afford to stay home, while in the second family, the mother has to work so the family can make ends meet. Even though the two families have the same before-tax income, it takes two workers in the second family to earn what a single worker does in the first family. How can we possibly pretend that these families are the same?

The proper comparison requires us to look at families where the fathers have the same kinds of jobs. When we do this, taxes clearly go up whenever the mother goes out to work, so that there is no way that the tax code discriminates against families with stay-at-home mothers.

INCLUDING CHILD CARE COSTS IN THE CALCULATION

Not only are the two households not equivalent in any real sense, the comparison is done incorrectly. The calculation looks only at taxes paid and ignores the additional expenses faced by the family with two parents in the labour force. That family pays more for transportation (to get the mother to work); more for food (because of less time for food preparation, the family has to use prepared food or eat out in restaurants more often); more for house-cleaning and laundry (either the family has to purchase some of these services or the parents have to work extra hours at night to do housework);and especially more for child care.

Although all these extra expenses are important, we shall focus only on the extra cost of child care. Those who argue that single earners are discriminated against prefer to ignore the extra expenses incurred by working mothers, so these tend not to be mentioned. But the cost of child care has to be made explicit because it is what figures in the Child Care Expense Deduction—and that deduction is a big contributor to the differences in taxes paid by the two families.

Simply put, the two-earner family in the above example pays less taxes because it has fewer dollars that it can spend after paying for child care which is a necessary work expense. When this is taken into account, it becomes clear that there is discrimination against the two-earner family, not in favour of it. To see this,look again at the 2001 calculation. Both families have before-tax earnings of \$50,000. The two-earner family paid \$6522 in income taxes, while the single-earner family paid \$10,292. But the family with two working parents has to pay out \$8000 in child care expenses. This means that they have \$8000 less money for other spending. After paying for child care and after deducting child care expenses and paying taxes, the two-earner family has \$35,478 left to spend. In comparison, after paying their taxes, the single-earner family has \$39,708 left to spend. And we have not even considered all the other work-related expenses. Clearly, it is the two-earner family who is disadvantaged in the Canadian system.

DOING THE COMPARISON CORRECTLY USING EQUAL WAGE RATES

To examine the issue of discrimination, we must compare families who have the same choices available to them but make different decisions on how to lead their lives. If one family pays higher taxes than the other because of those choices, then it is reasonable to argue that those who pay higher taxes are discriminated against. For example, if a family renting an apartment ended up paying higher taxes than another family with the same income who buys an equivalent condominium, then we could legitimately argue that the renter was discriminated against.

To make a proper comparison between single-earner and two-earner households, we would have to start with two identical families and have them make different choices. In a sense, we are performing a "thought-experiment," in which we begin in a world where both families have yet to decide whether or not to have one parent stay at home with the children.

Suppose that both husbands can earn \$50,000 per year and that both wives can earn \$20,000 per year if they choose to work in the labour force. Both families have two young children. Now imagine that the first family chooses to have only the husband go out to work while the wife stays home, cares for the children, and does the house work. In contrast, the second family has both adults in the labour force and spends \$8000 on child care. This is Case 2,mentioned above.

In 2001, the single-earner family would have paid \$10,292 in federal taxes. The calculation used to arrive at this amount is quite simple (because of rounding, not all columns add exactly):

	on the first \$30,754, federal tax	= \$4921
add:	on the next \$19,246, federal tax	= \$4234
less:	personal and spousal tax credit	= \$2294
equals:	total federal tax	= \$6861
plus:	provincial tax (50% of federal tax)	= \$3430
equals:	total tax	= \$10,292

In contrast, the two-earner family (with husband earning \$50,000 and wife earning \$20,000) would have paid \$11,954 on the father's earnings and \$1101 on the mother's earnings, for a total tax bill of \$13,055. This family pays \$2763 more than the single-earner family. The calculation used to obtain this amount is also shown below:

For the husband:

	on the first \$30,754, federal tax	= \$4921	
add:	on the next \$19,246, federal tax	= \$4234	
less:	personal tax credit	= \$1186	
equals:	total federal tax	= \$7969	
plus:	provincial tax (50% of federal tax)	= \$3985	
equals:	total tax	= \$11,954	
For the wife:			
taxable income, after child care deduction, is		\$12,000	
	on \$12,000, federal tax	= \$1920	
less:	personal tax credit	= \$1186	
equals:	total federal tax	= \$734	
plus:	provincial tax (50% of federal tax)	= \$367	
equals:	total tax	= \$1101	

Because these families start in the same position but make different economic choices (the key choice occurs when the mother in the second family enters the labour force), equal treatment requires that they pay the same taxes. Because they pay different taxes, there is discrimination but it runs in favour of the single-earner family, not in favour of the two-earner family.

The situation is even worse than that presented by looking only at the taxes paid. The second family must lay out money for child care expenses, here assumed to be \$8000. Even ignoring all other work related expenses, the second family faces additional costs of \$10,763 (taxes plus child care) and loses the benefits of all the household services provided by the stay-at-home mother.

How is it that anyone can argue that the tax system discriminates against families with a stay-at-home parent when this example makes clear that these families end up paying lower taxes? The answer is straightforward. There is indeed a social agenda in place here, but it is a social agenda held by those making the very arguments in favour of the "discrimination against stay-at-home moms" hypothesis. That social agenda is a strong belief that we would be far better off if women stayed at home and took care of their families full time, rather than participating in the economy by working for money at regular jobs while trying to balance household responsibilities. For those who hold this view, any tax consideration that in any way lowers the taxes paid by two-income households, or any program that allows services to flow to two-income households, makes it more tolerable for mothers to work in the labour market and constitutes discrimination.

THE CLASSIC ECONOMICS APPROACH TO THIS PROBLEM

The discussion of discrimination in the tax system is not new to the economics profession. The branch of economics known as public finance has addressed this issue quite extensively and has concluded that the income tax system invariably discriminates against two-earner families rather than in favour of them, especially when there are young children present. In single-earner families with young children, the stay-at-home parent (usually the mother) is obviously heavily involved in the household production of child care, an extremely valuable service. Because this production is untaxed, economic theory concludes that the tax system will heavily favour these kinds of single-earner households and thus, will discriminate against equivalent two-earner households.

This result is expressed in virtually all standard public finance textbooks. It obviously contradicts the view that the tax system discriminates against single-earner households. To argue that there is discrimination against single-earner households is to misunderstand the way discrimination is defined by economists who specialize in this field.

Public finance economists discuss discrimination within the tax system by using a concept called "horizontal equity." Loosely speaking, horizontal equity occurs when taxpayers who have the same ability to pay end up paying the same taxes. More precisely, horizontal equity means that taxpaying units that are in the position to choose from among fundamentally similar economic alternatives should end up paying the same taxes (even if they make different economic choices).

The concept may seem fairly straightforward but putting it into practice is quite difficult. The argument that single-earner er families are treated unfairly relative to two-earner families amounts to a statement that the two families are fundamentally the same (in the sense that they have available the same economic choices) but are being treated differently because of different economic decisions they have made. The two-earner family has chosen to have both parents work outside the household, while the single-earner family has chosen to have one parent work inside the household. If the two families had available fundamentally the same choices, they should be treated the same way by the tax system. What makes the concept hard to put into practice is determining what constitutes being able to make fundamentally the same choices.

To argue that the current system discriminates against single-earner families, one must argue that the family with two earners and a joint gross income of \$50,000 has available to them the same choices as the family with a single earner, a stay-at-home parent and a gross income of \$50,000. But a closer examination of the concept of horizontal equity reveals that this view is wrong.

In fact, when deciding whether or not to have a parent stay at home with young children, the two families are very much dissimilar. The husband in the single-earner family can earn \$50,000 per year, a gross salary of about \$25 an hour (assuming a 40-hour week and a 50-week year), while the husband in the two-earner family commands only \$30,000 per year, a gross salary of about \$15 an hour. Thus, the families have made different choices but also made those choices facing fundamentally different alternatives, so the concept of horizontal equity is not applicable. Were the second family to make the same choice as the first family (to have a parent stay at home to care for the children), the fundamentally different nature of their alternatives becomes clear. The second family would have a gross income of \$30,000 and a stay-at-home parent, while the first family has a gross income of \$50,000 and a stay-at-home parent.

In order to invoke the principle of horizontal equity, we would have to start with two identical families and have them make different choices. This is in fact what we did in the previous section and the result was unambiguous. When the second adult in the family goes out to work,taxes rise. The public finance economist explains this result by suggesting that there is an underlying and (probably) insoluble problem in equitable taxation of these two families. Theory requires us to tax all forms of production, including the household production of adults who remain at home and care for their families. When you work, you generate income that is taxed. When you work in the home, you generate services which benefit the family but not money income that can be taxed. Since the tax system can tax only income, it unfairly favours those who work producing services for their families. Since in practice it is not likely that we would ever tax household production, there will remain an inequity in the tax system that favours any family that has a disproportionately large amount of home production. That is, there will inevitably be discrimination in favour of households with stay-at-home parents.

CHILD CARE AS A WORK EXPENSE

Two-earner families can deduct child care expenses, subject to some limitations. Once one accepts the logic of our earlier argument that the tax system discriminates against working mothers and not in favour of them, the justification for the Child Care Expense Deduction follows naturally. This provision exists so as to correct some of the inequities that exist

in the tax system and that discriminate against mothers who enter the labour force. Employed mothers face unusual work-related expenses-expenses that are far greater than those facing any other workers. In particular, these expenses are the cost of care for their children. The tax code allows these expenses to be deductible precisely to allow some compensation for this unusual burden.

Again, the argument can be stated in terms of horizontal equity. A mother who earns \$20,000 in gross income and who pays \$8000 in child care expenses has the same spending power (before any taxes) as someone without children who earns \$12,000 in gross income. A provision that makes child care expenses tax deductible makes this adjustment when defining taxable income.

If child care expenses are in fact an unusual expense of working, then the argument for deductibility is the same as the argument for deducting any expenses incurred for the purpose of earning income. For example, a doctor is allowed to deduct office expenses before computing taxable income, and this is a well-accepted provision within the tax system. If the doctor collects \$250,000 in fees from the health care system and pays out \$70,000 in salaries to a nurse and a receptionist and \$30,000 in rent for office space, then quite correctly we would argue that the doctor should pay tax only on the \$150,000 that remains.

It is sometimes argued that the Child Care Expense Deduction is a subsidy to child care and represents discrimination in favour of two-earner families. We disagree with this characterization of the deduction. Since child care is a necessary work expense, deductibility no more subsidizes child care than the office-expense deduction subsidizes the doctor's office rent or nursing expenses. Deductibility is simply part of the proper definition of taxable income.

SUMMARY OF THE ARGUMENTS

The argument being addressed is that there is somehow a growing discrimination against families with a "stay-at-home mom". This argument is based upon inappropriate comparisons. In fact, the discrimination runs the other way-against families in which both parents are employed. This is true for the following reasons:

- Families with two-earners who have the same before tax income as families with single-earners and a stay-at-home parent are not equivalent. Each worker in the two-earner families is earning lower wages than the single-earner in the second family.
- Two-earner families face significant child care expenses that are not incurred by families with a stay-at-home parent. When these are taken into consideration,two-earner families are financially worse off.
- A proper comparison involving equal wage rates reveals that two-earner families always pay much higher taxes than equivalent single-earner families.
- Public finance economists have long argued that single-earner families with a stay-at-home parent are in fact advantaged by the tax system because household production is untaxed.
- · Child care expenses should be deductible as a work expense. Thus, deductibility is not a subsidy to child care.