

# CILNews

Newsletter of the Canadian International Labour Network



## Two Conferences Hosted in September

In September CILN, together with the OECD and the Canadian Employment Research Forum (CERF) hosted an international conference on self employment. Findings on self employment in more than 10 countries were presented to an audience of over 100 academic and government researchers from around the world.

In addition, CILN held its second major conference on Labour Market Institutions and Outcomes immediately following the self employment conference. The conference attracted an international group of researchers and papers were presented in simultaneous sessions on each of the three CILN themes: Wages, Unemployment and Family Welfare. The first such conference was held in 1996 and the third major conference is planned for

2000. Papers and summaries for both conferences are available on the CILN web site:  
<http://labour.ciln.mcmaster.ca>

## New Participants in CILN

As part of its continued evolution, CILN is pleased to welcome Michael Ornstein of the Department of Sociology at York University as a Research Associate. Michael teaches sociology and is Associate Director of the Institute for Social Research at York University. The Institute maintains a computer-assisted telephone survey facility and provides statistical consultation for the York community and outside users. His main research interests are in the areas of survey methodology, material inequality, inter-generation mobility and wage structure. He is currently working on a study of educational and occupational mobility, a 1996 Census-based analysis of socio-economic inequality among ethno-racial groups in Toronto, and an analysis of housing cost and access. He is also beginning work on a broad study of wage and income distribution.

Also, CILN recently expanded its graduate student fellowship

support in a collaborative venture with Queen's University. Following a proposal by Professor Christopher Ferrall of the Department of Economics at Queen's, CILN is now supporting work by Sean Parkinson, a graduate student at Queen's. Parkinson is working on bargaining models of the labour market and the evaluation of the Canadian social welfare system. This research makes use of structural equilibrium models and is based on data drawn from the Self-Sufficiency Project (SSP), a randomized social experiment that provides an earnings supplement to single parent welfare recipients who move into full-time employment. SSP is a major experimental initiative of Human Resources Development Canada.

## Research Profiles

### Martin Dooley

CILN Research Associate Martin Dooley describes below his current areas of research.

*I am currently pursuing two areas of research, the first of which focuses on social assistance policy. Jennifer Stewart (National University*

of Ireland, Galway; formerly a graduate student at McMaster) and I are using welfare caseload data for Ontario between 1983 and 1994 to study the dynamics of social assistance use. Our first paper analyses the duration of spells, both on welfare and off welfare, among lone mothers. We find evidence of duration dependence, that is, that the likelihood of exiting welfare declines during the first year of a spell. Support is weakest, however, in our preferred specification when controls for unobserved heterogeneity are introduced. Evidence is more consistent for duration dependence in off-welfare spells, that is, that the likelihood of returning to welfare declines during the first year after an exit. We also find evidence of lagged duration dependence. Clients who have spent more months on welfare prior to the current spell have longer current spells on welfare and return to the rolls more quickly after an exit, but the magnitude of these effects are very small. We also find that both types of hazards have the expected associations with the level of welfare benefits, the unemployment rate and personal characteristics such as education, employability, and the age and numbers of children. A higher minimum wage is consistently linked with shorter welfare spells and longer off-welfare spells. We are currently extending our analysis of welfare

dynamics to singles and married couples, and using the caseload data, supplemented with population census data, to analyse changes in welfare participation rates.

I have also studied the welfare participation rates of Canadian lone mothers between 1973 and 1991 using the Survey of Consumer Finances. Lone mothers under age 35 show an increasing reliance on welfare income along with stagnant wages and declining levels of market work and earnings. In contrast, lone mothers age 35 and over exhibited a decreasing reliance on welfare income along with rising levels of market work, wages and earnings. A key factor accounting for rising welfare use among younger lone mothers was a decline in wages relative to welfare benefits accompanied by a mixed pattern of demographic change (falling family size offset by growing proportions of lone mothers who are never-married.) Much of the declining welfare use among older lone mothers can be explained by decreasing family size and increasing education accompanied by market wages which grew at the same rate as welfare benefits.

Pierre Lefebvre, Philip Merrigan (both of Université du Québec à Montréal) and I have used a time-series of cross-sections from the Survey of Consumer Finances for the period 1981 through

1993 to estimate a model of lone-female headship. The principal qualifying condition for welfare in Canada, unlike the US, is financial need - there are no demographic criteria. Our findings do not support the hypothesis that welfare benefit levels for one-parent and two-parent families are important determinants of the likelihood that a Canadian woman is a lone mother. In all models with provincial fixed effects, the coefficients for welfare benefits are small, statistically insignificant and often of the unexpected sign. We do find, however, that the probability that a woman is a lone mother is generally associated in the expected fashion with her earnings capacity and the earnings capacity of her potential male partner, and with her age and schooling.

My second area of research is child health. Until very recently, the best Canadian data for this topic came from the Ontario Child Health Study (OCHS) which provided a two-wave survey of families with children aged 4 to 12 in 1983 and 8 to 16 in 1987. Lori Curtis (Dalhousie University; formerly a graduate student at McMaster), Ellen Lipman (McMaster), David Feeny (University of Alberta) and I have used the OCHS data to assess how the empirical association between child health and both low-income and family status (lone-mother versus two-parent) changes when one moves

*from a single cross-section to two waves of data. Our outcome measures include both global child health indicators derived from the Health Utilities Index Mark 2 (HUI2) system and specific indicators of emotional and cognitive impairments which are by far the most common types of problems reported in the OCHS. Consistent with the permanent income hypothesis, we find that health outcomes are much more strongly related to low-average income (in 1982 and 1986) than to low-current income in either year. Lone-mother status is also negatively associated with most of our outcome measures but the size and statistical significance of this coefficient did not vary systematically with the low-income measure used. This implies that the often-found lone-mother coefficient in single cross-sections may not just be a proxy for a more appropriately measured (long-run) low income effect.*

*Until recently, Canada had no national micro-data source with which to study child health. This situation has changed with the advent of the National Longitudinal Survey of Children and Youth (NLSCY). The first cycle in 1994-1995 collected information on 22,831 children who were new-born to eleven years of age. The long term goal is to collect information every two years until these children reach adulthood. Curtis, Lipman, Feeny and I have used data*

*from Cycle One, to study the incidence of psychiatric (conduct, hyperactive and emotional) disorders, and schooling and social problems. We find, as have other early studies with the NLSCY, that the empirical link between these childhood problems and the low-income status of the family is not robust, but that being the child of a lone mother is very strongly associated with virtually all of the child difficulties under study. Interpretation of this lone-mother coefficient is, however, far from obvious when only a single cross-section of data is available. Possibilities include the greater severity and duration of low-income among poor lone-mother families (compared to poor two-parent families), inadequate social support for single parents, and the lagged effect of conflict and abuse within a now-dissolved marriage. Our early research also indicates that child outcomes are strongly related to both parental and interviewer assessments of the quality of the neighbourhood but not strongly related to the market work patterns of either parent or the type of child care used. Future waves of the NLSCY should shed considerable light on all of these early results.*

### Herb Schuetze

Herb Schuetze holds a CILN graduate fellowship in the Department of Economics at McMaster. His work on self-employment has been widely

cited in both academic and policy circles. Here he summarizes his recent research.

*My research has primarily focused on determining the reasons for the recent growth in non-agricultural self-employment in Canada. Between the early 1980s and late 1990s the number of self-employed Canadians rose dramatically relative to wage and salary employment. In particular, because self-employment trends over this period across developed countries were heterogeneous, my research has concentrated on possible determinants which vary across countries and regions.*

*In an early paper I assess the importance of macroeconomic conditions and the tax environment in explaining the divergent trends in male self-employment experienced between 1983 and 1994 in Canada and the US. These two countries which are very similar in many respects had very different trends in self-employment, unemployment and, income tax rates--providing a sort of "natural experiment" that allows one to test the relative importance of these factors. To the extent that self-employment might be used by some individuals as "employment of last resort" and offers individuals greater opportunity to shelter, or hide, income from tax authorities, macroeconomic conditions*

*and tax policy might be expected to contribute to self-employment. My findings suggest that under-reporting of self-employment income is a motivating factor for becoming self-employed for these males. Further, while macroeconomic conditions play a smaller role in determining male self-employment rates, I find evidence that North American males turn to self-employment during downturns.*

*I have also been working on a paper with Peter Kuhn (McMaster & CILN) that examines the dynamics of self-employment among Canadian men and women between 1982 and 1995 to shed some light on the underlying process by which individuals become, or cease to be, self-employed. Changes in the process of selection into self-employment over time are analyzed in the context of a Markov process. Our findings suggest that the underlying reasons for the rise in self-employment were quite different for men and women. For men it appears that increases in self-employment are closely tied to a deterioration in overall labour market conditions, consistent with the "employment of last resort" hypothesis. In contrast self-employment among women is associated with improved overall labour market outcomes, likely because an increase in their skills and experience contributed to a higher survival rate of their*

*businesses.*

*Finally, with research currently in progress, I take an expenditure based approach to estimating the extent of under-reporting among the self-employed in Canada. A number of studies have estimated the degree to which the self-employed under-report income, including one using Canadian data. However, these studies only report estimates for a single point in time. One might expect that the amount of income concealed by entrepreneurs varies with, among other things, changes in the tax environment. This paper answers the question, "Did the under-reporting of income among the self-employed in Canada change between 1969 and 1996?" Second, it asks, "If it has changed, is this a result of changes in the tax code?"*

## Seminar series

CILN holds a regular seminar series and occasional public lectures at McMaster. Copies of some papers presented are available by request. In addition, CILN hosts short-term visitors engaged in research related to CILN themes.

- September 11, 1998  
Isaac Rischall (CILN) "The Roles of Skill, Education and Parental Income in Determining Wages."
- September 17, 1998  
John McCallum (Chief Economist, Royal Bank of Canada) "Global Economic

Conditions and Canada"

- October 14, 1998  
Charles Blackorby (University of British Columbia) "Tax and Employment Subsidies in Optimal Redistribution Programs"

- November 18, 1998  
Tom Crossley (York University and CILN) "The Life Time Costs of Job Displacement"

- November 20, 1998  
Dan Trefler (University of Toronto) "The Canada-U.S. Free Trade Agreement: An Assessment for Canadian Manufacturing"

- November 25, 1998  
Daniel Parent (McGill University) "Job Characteristics and the Form of Compensation"

- December 1, 1998  
Nicole Fortin (Université de Montréal) "Gender Composition and Wages: Why is Canada Different from the United States?"

## Coordinates

Web site:

[labour.ciln.mcmaster.ca](http://labour.ciln.mcmaster.ca)

Email: [ciln@mcmaster.ca](mailto:ciln@mcmaster.ca)

FAX: (905) 521-8232

Mail: CILN,  
Department of Economics,  
McMaster University,  
Hamilton, Ontario, CANADA  
L8S 4M4