

CILN News

Newsletter of the Canadian International Labour Network



New Director for CILN

Effective July 1, 1999, Stephen Jones assumed the position of Director of CILN and principal investigator of the major grant from the Social Sciences and Humanities Research Council of Canada that is a primary source of CILN funding. This change followed the departure of Peter Kuhn, CILN's Director since its inception in 1996, to the University of California, Santa Barbara.

Jones has been a member of the CILN Steering Committee since the outset and directs the "Labour Market Institutions and Unemployment" theme within CILN. His current research addresses issues relating to labour market classification and measurement issues, the definition of unemployment and labour force attachment and the effects of unemployment insurance and related policies, covering Canada, the US and a number of other economies.

Kuhn remains a part of the CILN team as a Research

Associate and, in that capacity, continues to direct the "Labour Market Institutions and Wages and Job Quality" theme. The third CILN theme, "Labour Market Institutions and Family Welfare," is directed by Martin Browning (McMaster, Copenhagen & CILN).

New Participants in CILN

CILN is pleased to welcome Heather Antecol (Illinois State University) and Herb Schuetze (Dartmouth) as Research Associates. Both Antecol and Schuetze were formerly associated with CILN as holders of graduate fellowships and conducted much of their doctoral work supported by CILN funds.

Antecol's current research attempts to explain the sizeable variation in various labour market outcome variables, including the gender wage gap and the gender gap in labor force participation rates, across industrialized countries.

Schuetze, who is affiliated with the Canada Institute at Dartmouth (headed by CILN Research Associate David Blanchflower), continues his program of research on self-employment. His particular interest is to estimate the degree of income tax noncompliance by the self-employed across various dimensions using family expenditure data.

CILN at the CEA Annual Meetings

CILN researchers were active in many sessions at the Canadian Economics Association (CEA) Annual Meetings held this past spring in Toronto. Craig Riddell (UBC) was the President of the CEA this year and, in that capacity, gave the Presidential Address, "Canadian Labour Market Performance in International Perspective." This paper is available as a CILN Working Paper on the CILN web site and will be published shortly in the *Canadian Journal of Economics*. Riddell also organized a President's Panel on "UI and EI Reform: Lessons from Recent Canadian Experience." Panel members included CILN researchers David Green (UBC), Stephen Jones (McMaster) and Marc van Audenrode (Laval).

The other main public lecture given at the CEA Meetings, the Innis Lecture, was given by CILN researcher Shelley Phipps (Dalhousie), following in the footsteps of Peter Kuhn (McMaster) who gave the Innis Lecture the previous year. Phipps spoke on "Economics of Well-Being of Canadian Children" summarizing much of her broad research program in that area. This paper, which is

forthcoming in the *Canadian Journal of Economics*, is also available as a CILN Working Paper on the CILN web site.

Research Profile

Craig Riddell

Two of my current research projects fall under the CILN "Unemployment" theme, while a third falls under the "Wages and Job Quality" rubric.

Stephen Jones (McMaster & CILN) and I are investigating issues relating to the measurement of unemployment and labour force participation. The unemployment rate and participation rate are widely used measures of labour force activity. Both are based on dividing the non-employed into participants, those with a strong attachment to the labour force, and non-participants, those with little or no attachment. However, because the behaviour of individuals is diverse it is unclear how best to distinguish between unemployment and non-participation. Further, any simple categorization into two non-employment states may not adequately capture this diversity.

The conventional approach to these measurement issues has been to use a priori reasoning about appropriate definitions together with the self-reported behaviour of survey respondents. This has led to two principal criteria for distinguishing between unemployment and non-participation: "availability for work" and "job search". Although these criteria are now employed in many countries,

thus yielding data that is to a considerable degree internationally comparable, some controversy and disagreement remains. For example, some of the unemployed may be more eager to find work than are others. Countries such as the United States require "active" job search for classification as unemployed, while in Canada any job search, including "passive" search methods, is sufficient. Similarly there is the issue of what to do with those who state that they want work, but are not searching, perhaps because of discouragement. These issues are difficult to resolve on the basis of a priori reasoning alone. Our approach employs data on behavioural outcomes — such as whether a person will be employed in the future — to test the meaningfulness of different labour force classifications. This approach requires longitudinal data on labour market dynamics.

Our first study used Canadian data over the period 1979-92.¹ We found considerable heterogeneity among those conventionally classified as out-of-the-labour force. Specifically, those who state that they want work but are not searching, a group we refer to as the "marginally attached," are clearly distinct in their dynamic labour force behaviour from the remainder of non-participants. In subsequent research we replicate these results with newly available data from the US Current Population Survey for

the period 1994-96 and from the revised LFS for the period 1997-99.² Thus data from three surveys and two countries tell a similar story: the desire for work among non-searchers conveys considerable information about the degree of labour force attachment.

We also find considerable heterogeneity within the marginal attachment category according to reasons given for not searching. Specifically, a "waiting" subgroup — those not searching because they are waiting for replies from employers, waiting for recall to a former job/employer, or waiting for a job to start — have particularly strong attachment to the labour force. This group displays behaviour similar to the unemployed, raising doubts about the appropriateness of classifying them as non-participants. Other sub-groups of the marginal attachment category — including discouraged workers — fall between the unemployed and the remainder of non-participants in their degree of attachment.

We are currently using this methodology together with newly acquired data to examine the question of whether it is more appropriate to classify passive searchers as out-of-the-labour force (as is done in the US) or unemployed (as is done in Canada).

¹ Stephen R.G. Jones and W. Craig Riddell, "The Measurement of Unemployment: An Empirical Approach," *Econometrica* 67 (January 1999) 147-61.

² See "The Dynamics of Labor Force Attachment in the US Labor Market," mimeo, September 1998, presented at the 1998 CILN Conference, and "Unemployment and Labour Force Attachment: A Study of Canadian Experience 1997-99," background paper prepared for Statistics Canada, August 1999.

The second research project (joint with David Card of Berkeley & CILN) tries to further our understanding of differences in unemployment between Canada and the US. In our 1993 paper we found that the emergence of the Canada - US unemployment gap in the 1980s was due to a relative change in the behaviour of Canadians on the margin between unemployment and out-of-the-labour force rather than on the margin between employment and unemployment.³ During that decade non-employed Canadians became more likely to search for work (and thus be classified as unemployed) whereas non-employed Americans became more likely to withdraw from the labour force. In a subsequent study we find that this relative change in the behaviour of the non-employed appears to be related to changes in UI reciprocity in the two countries in the 1980s.⁴ In current research we are attempting to identify the causal mechanisms at work between UI reciprocity and job search, and to understand better the outcomes observed during the 1990s, when UI reciprocity fell dramatically in Canada.

The third research project

³ David Card and W. Craig Riddell, "A Comparative Analysis of Unemployment in Canada and the United States," in R. Freeman and D. Card (eds.) *Small Differences That Matter*. Chicago: University of Chicago Press, 1993.

⁴ David Card and W. Craig Riddell, "Unemployment in Canada and the United States: A Further Analysis," in B.C. Eaton and R.G. Harris (eds.) *Trade, Technology and Economics: Essays in Honour of Richard G. Lipsey*. Cheltenham: Edward Elgar, 1997.

compares Canada and the US in terms of the changing skill composition of the workforce and analyses the consequences of these inter-country differences for changes in earnings inequality. Previous research with US data concluded that the growing earnings gap between more- and less-educated workers can be attributed to a relative increase in demand for more skilled workers, due to such factors as skill-biased technical change, and a concomitant relative decline in demand for the less skilled. At first glance the Canadian experience would appear to question the generality of this explanation, as the earnings gap between more- and less-educated workers was approximately constant in Canada during the 1980s and 1990s — in contrast to the US where the college-high school wage premium increased steadily during this period. However, Murphy, Romer and I find that, once changes in the relative supplies of more- and less-educated workers are taken into account, both the Canadian and American experiences are consistent with a unified explanation.⁵ Indeed, one cannot reject the hypothesis that the rate of growth of relative demand for more skilled workers is the same in the two countries. These findings suggest that the principal reason why the earnings gap between the well educated and those with less education did not increase in Canada during the past two decades is because of much more rapid growth in the supply of

⁵ Kevin M. Murphy, W. Craig Riddell and Paul M. Romer, "Wages, Skills and Technology in the United States and Canada," in E. Helpman (ed.) *General Purpose Technologies and Economic Growth*. Cambridge: MIT Press, 1998.

highly educated workers in Canada. These results have an important policy implication: increased human capital formation may not only facilitate growth but may also help offset forces that would otherwise lead to widening income inequality. The next step in this research is to investigate the reasons why Canada was able to achieve such a dramatic growth in post-secondary education during the past two decades.

The three research projects I have discussed use comparative labour market data to better understand the Canadian experience. The linkages among these projects and other research are discussed in my Presidential Address to the Canadian Economics Association "Canadian Labour Market Performance in International Perspective."⁶

CILN and Statistics Canada on Measuring Unemployment

Work by CILN Research Associates Stephen Jones and Craig Riddell on the definition and measurement of unemployment and labour force attachment has had a practical influence on the way such statistics are reported in Canada. Following the revisions to the Labour Force Survey implemented in 1997, Statistics Canada recently issued a revised set of Supplementary Measures of Unemployment. These various

⁶ This paper is available as a CILN Working Paper on the CILN web site.

measures, which in 1998 ranged from 1.1 percent (long-term unemployed 1 year or more) to 11.5 percent (official unemployment rate plus discouraged searchers, those waiting for recall, replies, long-term future starts, and the underutilized portion of involuntary part-timers), bracket the official rate which was 8.3 percent in that year. Jones and Riddell's research on the dynamics of many such measures of labour market attachment was influential in the decision to include discouraged searchers (in measure R5) and to include those waiting for recall, replies, and long-term future starts (in measure R6). The full publication is available as *Labour Force Update: Supplementary Measures of Unemployment* (71-005-XPB) from Statistics Canada and was reported in, e.g., "Jobless rate misses workers on fringe," by Bruce Little, *The Globe and Mail*, September 22, 1999.

New Data Resource Person for CILN

Rob Hopkins is the new Data Resource person at CILN, replacing Malik Ljutic who has moved on to a position with the Ontario Department of Finance. Rob is responsible for assisting CILN Research Associates with data needs, maintaining a data and policy library at CILN's base at McMaster, spinning the CILN web pages, and aiding CILN researchers with a variety of computing issues. He can be reached at rh@labour.ciln.mcmaster.ca, or by telephone at (905) 525-9140 ext. 23374.

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.

! January 13, 1999
Adrienne ten Cate (McMaster & CILN) "Labour Market Effects of Maternity and Parental Leave Policies in Canada"

! January 20, 1999
Isaac Rischall (McMaster & CILN) "The Returns on Human Capital Investments for the Marginal Worker: Evidence from the Self-Sufficiency Project"

! March 5, 1999
Julie Berry Cullen (University of Michigan) "Fiscal Incentives and Student Disability Rates"

! March 12, 1999
Leora Friedberg (University of California, San Diego and NBER) "The Impact of Technological Change on Older Workers"

! May 31, 1999
Chris Worswick (University of Melbourne) "A Structural Model of Child Labour Supply: Evidence from Micro Data for Nepal and Pakistan"

! June 1, 1999
Garry Barrett (University of New South Wales) "The Effect of Alcohol Consumption on Earnings"

! July 21, 1999
Susan Johnson (McMaster & CILN) "Automatic Certification or Mandatory Representation Votes? How the Choice of Union Recognition Procedure Affects Union Certification Success"

! August 6, 1999
John DeNew (German Institute for Economic Research/German Socio Economic Panel) "Money for Nothing and Your Chips for Free? The Anatomy of the PC Wage Differential"

Save This Date

The next major CILN Conference will be held September 8-10, 2000, in Burlington, Ontario. Watch this space for further details.

Coordinates

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