

Who Wants to Go to Work Revisited: An Advanced Empirical Analysis Examining Full-Time Weeks of Work Among Canadians

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ABSTRACT

This paper extends and re-examines the author's previous findings using the same 2010 Canada Survey of Household Spending. Using a more advanced econometrics method, this paper empirically re-tests the four potential factors (price, economic, demographic, and geographic) that were significant. This paper concludes that economic and demographic factors are major determinants for hours of work by Canadians. Unlike the previous study, no provincial effects can be found. This means Atlantic Canadians work less not because of lifestyle choices but because of the lack of economic opportunities.

KEYWORDS

Atlantic Canada, Labor Supply, Tobit Analysis

1. INTRODUCTION

Chan (2015) studies four categorical factors (price, economic, demographic and geographic) as potential determinants on how Canadians choose to participate in the labor market. In the previous paper, I conclude that economic and demographic factors, not price or geographic factors, are the major determinants for hours of work by Canadians. The previous finding also suggests that workers from two of the four Maritime Provinces (New Brunswick and Nova Scotia) are working similar full time weeks compared to the rest of Canada whereas the other two Maritimes Provinces (Prince Edwards Island and Newfoundland and Labrador) works more full time weeks. Using the same dataset, this paper wants to further this study by re-examining the dataset using a more advanced econometrics methods and check if the same findings will prevail.

The motivation of the study has always been about the distribution of welfare resources across the nation. The Canadian Equalization Payment enables financial resources to flow from the richer provinces to the poorer ones. The provinces of Quebec, New Brunswick, Nova Scotia, Newfoundland and Prince Edward Island are usually the recipients of these payments, whereas Alberta and British Columbia are generally providers. The purpose of the equalization scheme is to ensure provinces that lack "fiscal capacity" receive support to provide comparable government services to all Canadians wherever they live. However, the "fiscal capacity" of each province depends heavily on its labor force income from individuals. There is a strong correlation between the hours work and income among individuals and, taxpayer's income is a major determinant on provincial government income. With cultural and/or geographical differences, the decision to work or not work plays quite a significant role in determining whether a province is a contributor or a recipient of the equalization payments.

It is generally agreed that the Maritime Provinces are poorer than the rest of Canada, is there evidence to argue that Atlantic Canadians are less engaged in their working habits than other

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Canadians? In the previous paper, workers from two of the four provinces (NB and NS) work less than the other provinces, *ceterus paribus*. This paper re-examines the determinants for the number of full time weeks worked among Canadians to see if Maritimers are more adverse to full time work.

Atlantic Canadians are making less income because of demand side effects. On one hand, with the lower population density in the region, listed enterprises are unlikely to have headquarters in the Maritimes and as a result, it is widely believed the number of higher paid jobs available in the region is likely to be less. However, on the other hand, it is very possible that Atlantic Canadians may need to work more to raise a family since their salaries are likely to be lower than Canadians living in other provinces.

Atlantic Canadians are making less income because of supply side effects. It is also point out that Atlantic Canada is commonly known for its beauty and relaxed lifestyles. Hunting, fishing and hiking are common activities enjoyed by Atlantic Canadians. In economic terms the opportunity cost of working longer hours can be assumed to be higher among Atlantic Canadians. Also, with comparatively affordable housing prices Atlantic Canadians may be wealthier in terms of real income. Therefore, they do not need to work long hours to get a higher standard of living compared to those living in Western Canada. As a result, it would not be surprising to see Atlantic Canadians working less than the residents of the rest of Canada.

For the purpose of this paper, with a focus on supply side effect, I choose to examine the number of weeks worked full time by Canadians in different provinces, not the income generated. Like the previous paper, I am interested in knowing the determinants of hours of work. Working long hours may potentially cause many socio-economic problems including long term effects on interpersonal relationships. Working too little, on the other hand, may reduce economic benefits and cause financial distress. This paper examines the determinants of individual labor supply in terms of hours of full time work weeks per year.

The rest of this paper is organized as follows: Chapter 2 looks at the literature review concerning hours of working full time; Chapter 3 focuses on methodology; Chapter 4 discusses the dataset and the descriptive statistics; Chapter 5 illustrates regressive results and discusses the findings; Chapter 6 concludes and suggests future research.

2. LITERATURE REVIEW

The traditional neoclassical single period model of the leisure and work tradeoff is a good starting point to look at labor supply (hours of work) determinations. This traditional analytical framework allows us to theoretically look at rational choices made by workers to determine the equilibrium level of hours of work. Workers choose the optimal level of Leisure (L) that maximizes their utility level under the constraint of their current wage rate (w) and transfers (G). Mathematically, each worker solves: $Max_L U(Y, L)$ subject to $= w(T^* - L) + G$, where Y is the income level and T^* is the maximum possible hours of work.

As suggested by this single period traditional framework, many studies have tried to determine the effect on work hours with respect to wage changes. It is generally believed that two opposite forces are acting against each other: the negative income effect and the positive substitution effect. The income effect argues with higher wage rate, workers are wealthier. As a result, they will choose to have more leisure, i.e., the hours of work decreases. The substitution effect, however, says as wage rate increases, the opportunity cost of leisure goes up. As a result, workers will not choose more leisure time. Depending on the relative magnitude of these forces, a worker can work more hours or less hours if there is an increase or decrease in wage rate. This gives the famous backward bending individual labor supply function. With this theoretical framework in place, empirical researchers started to make estimates using different datasets. Pioneer empirical studies like Cain and Watts(1973); Masters and Garfinkel(1977); DaVanzo, DeTray and Greenberg (1976) have indicated the net wage

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