

Paid vacation leave have been introduced in workplaces either by government decree or by private employers' initiatives since the 1940s in a number of advanced economies to improve working conditions. However, the implications of this measure on workers have not been analyzed in the context of the employee-employer relationship.

This paper builds on the relatively few existing studies on vacation leave and its relationship to hours worked and wages using instead linked employer-employee data from Canada. Three key questions are asked in this paper:

- What are the determinants of paid vacation offered and vacation used? (by "paid vacation" we mean the vacation leave to which the employee is entitled in a year, and by "vacation used" we mean the vacation leave that is actually used.
- How are work hours related to vacation leave?
- What is the relationship between wages and vacation leave?

It is interesting to examine the determinants of vacation leave in the light of Canadian data, because Canadian labor legislation regarding paid vacation is distinctive: it is less generous than in Europe (a minimum of 4 weeks per year) but more advantageous than the American legislation (the US is the only advanced economy where the employer is under no obligation to grant vacation leaves to his employees). In Canada, provincial labor legislation requires a minimum of 2 weeks of paid vacation per year. Moreover, the relationship between vacation leave and hours worked reflects the way the latter are determined in the labor market.

Our main results can be summarized as follows. First, job- and firm-related factors seem to play more important roles than socio-demographic characteristics in determining the amount of paid vacation and vacation used.

Second, previous studies from the US, using individual level data, have revealed that annual work hours fall by around 53 hours for each additional week of vacation used. Exploiting a linked employer-employee dataset that allows to control for detailed observed demographic, job, and firm characteristics, we find instead that annual hours of work fall by only 29 hours for each additional week of vacation used. Our findings support the hypothesis that pressure at work may lead employees to use more vacation days, but also causes them to work for longer hours.

Third, our results indicate that hourly wage rates vary positively with both paid vacation and vacation used. This seems to suggest that receiving more paid vacation in terms of fringe benefits is an indication of higher wages. A possible explanation is that the heterogeneity of firms implies that some of them adopt a high level of wages and fringe benefits to attract and keep workers or to reduce turnover rate.

The full study is available on CIRANO's Website at:
<http://www.cirano.qc.ca/pdf/publication/2014s-40.pdf>