



Labour Market Matters

Special points of interest:

- Individuals offered earnings supplement to exit welfare system found to acquire less additional education than counterparts not offered such incentives.
- Quebec's 'Action Emploi' program found to reduce Social Assistance dependency

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Chris Riddell
(Cornell University)

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“Work-First” approaches to welfare dependency can deter education and skills upgrading resulting in lower overall earnings in the long run

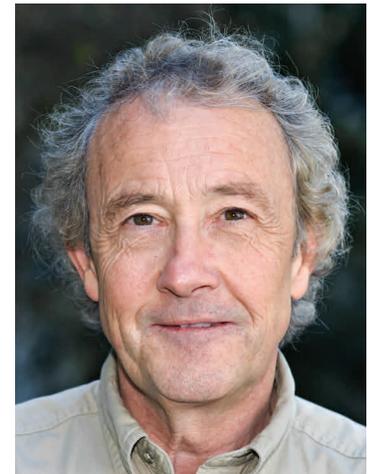
It is often a struggle to balance the conflicting objectives of providing adequate support to low-income families, encouraging work and achieving low government costs in the structuring of income assistance (welfare) policies. In recent years governments in Canada and elsewhere have attempted to achieve these objectives by providing recipients with incentives to exit the welfare system. The choice between a “work-first” and “human capital development” approach to achieving self-sufficiency is an area of contention. The work-first approach – which emphasizes moving recipients into jobs quickly, even if at low initial wages – reflects the view that welfare recipients can best acquire work habits and skills at the workplace. In contrast, the human capital approach seeks to raise the long term earnings capacity of welfare recipients by providing training and educational opportunities.

In the 1990s, the Canadian government funded an initiative called the “Self-Sufficiency Project” (SSP), to provide evidence on the effects of a financial incentive on long-term welfare recipients. A paper by CLSRN affiliates Chris Riddell (Cornell University) and Craig Riddell (University of British Columbia) entitled **“The pitfalls of work requirements in welfare-to-work policies: Experimental evidence on human capital accumulation in the Self-Sufficiency Project”** ([CLSRN Working Paper no. 97](#)) investigates whether policies that encourage recipients to exit welfare for full-time

employment influence participation in educational activity. They find that policies that encourage full-time employment have potentially adverse consequences for the long-term earnings capacity of single parents on welfare.

The SPP was a demonstration project where long-term welfare recipients randomly assigned to the treatment group were offered a generous earnings supplement if they exited welfare for full-time employment. The study found that individuals randomly assigned to the SPP group who were offered financial incentives to exit the welfare system acquired less additional education during the period examined than did their counterparts who were not offered financial incentives. The lower levels of human capital acquisition observed in the SPP group are evident at both the secondary school (high school completion) and post-secondary (enrolment in college and university) levels. By raising the return to existing skills, it is argued that “work-first” policies may reduce the incentive of individuals to invest in additional education. Furthermore, by encouraging full-time participation in the workforce such policies reduce the time available for other activities, including acquiring further education.

These findings have potentially important implications for welfare-to-work policies that emphasize a work-first approach. The study suggests that providing incentives to leave welfare and take up full-time employment may have



Craig Riddell
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adverse side effects on human capital acquisition – consequences that need to be weighed against any positive benefits of such policies. Indeed, individuals who upgraded their formal education were found to achieve gains in employment and reductions in welfare receipt. The gains experienced by “upgraders” appear to be principally a consequence of their investments in education. Thus while work-first policies may increase employment opportunities and earnings through their impact on work experience, these gains are offset by less upgrading of formal, and lower human capital accumulation. The short-run benefit of encouraging individuals to take up work at lower wages at the cost of forgoing educational upgrading may not be worth the cost in the long run of lower overall earnings due to lack of skills and educational upgrading that “work-first” policies can induce.

Does it pay to “Make Work Pay”?

The concept of “making work pay”, or getting people into the workforce with income-supplementation, has become more prevalent in recent years as governments have begun to shift away from training programs – which have been found to have limited success in helping disadvantaged groups integrate into the labour market. Governments have shifted towards programs that directly address the relative (un)attractiveness of work by directly subsidizing wages rates – to make it worthwhile for individuals to take a job they may not have otherwise taken due to the relative unattractiveness of the wages they would have received. A paper entitled **“Assessing the Impact of a Wage Subsidy for Single Parents on Social Assistance”** (CLSRN working Paper no. 26) by CLSRN affiliate Guy Lacroix (Université Laval) examines the success of income-supplementation programs on

the integration of individuals into the Labour Market.

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The Quebec government justified the implementation of the Action Emploi (AE) program back in 2001 and again in 2008 on the grounds that ten years of continuous growth had left many behind.
Image: Njaj/Freedigitalphotos.net

on the response of long-term heterogeneous groups of SA recipients in a “real-world” setting. The purpose of this paper is to document the impact of a generous wage subsidy designed for long-term welfare recipients in the Canadian context. Lacroix’s study focused exclusively on single parents to allow a comparison with SSP. The files show that over 51,118 single parents satisfied the requirements for AE at the time of its implementation (36 months of cumulative presence over the past 45 months). In all, 3,807 individuals qualified for benefits.

The Quebec government justified the implementation of the Action Emploi program back in 2001 and again in 2008 on the grounds that ten years of continuous growth had left many behind. The majority of participants were relatively poorly educated. Over 75% had earned at most a high-school degree. Furthermore, most had very little attachment to the

labour market. Indeed, nearly 44% of the participants had cumulative stays on SA of between 4 and 10 years prior to their participation, and over 48% of them had cumulative stays of over 10 years.

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The study’s results show that AE has indeed increased the duration of off-SA spells and decreased the duration of SA spells slightly. There is also some evidence that the response to the program varies considerably with unobserved individual characteristics. Given that only 6% of the eligible population actually participated in the program, it can be extrapolated that a larger participation rate would have translated into larger program effects. This conjecture will eventually lend itself to further investigation as the new permanent program becomes more widely known and as more data becomes available. Of greater concern is the fact that close to 46% of those who were SA beneficiaries in January 2000 claimed benefits without interruption until December 2005, and have thus not responded to the financial incentives of the Action Emploi program.



Guy Lacroix
(Université Laval)

In its 2001-2002 budget, the Quebec Government launched “Action Emploi.” Action Emploi (AE) was a program aimed at “making work pay” for long-term welfare recipients. Action Emploi was directly inspired by the Self-Sufficiency Program (SSP) that was ongoing in British-Columbia and New-Brunswick. The distinctive features of AE (universal accessibility, large-scale program, substantial financial incentives, etc.) offered a unique opportunity to document the impact of a SSP-like program

Endnotes

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