

Assessing the Impact of a Wage Subsidy for Single Parents on Social Assistance

Guy Lacroix*
Université Laval, CIRPÉE, IZA

May 2009

Abstract

In 2002 the Quebec government implemented the “Action Emploi” (AE) program aimed at making work pay for long-term social assistance recipients (SA). AE offered a generous wage subsidy that could last up to three years to recipients who found a full-time job within twelve months. The program was implemented on an experimental basis for a single year. Based on little empirical evidence, a slightly modified version of the program was implemented on permanent basis in May 2008.

The paper investigates the impact of the temporary program by focusing on the labour market transitions of the targeted population starting one year before the implementation of the program and up until the end of 2005. We use a multi-state multi-episode model. The endogeneity of the participation status is accounted for by treating AE as a distinct state and by allowing correlated unobserved factors to affect the transitions. The model is estimated by the method of simulated moments. Our 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.

Keywords: Wage subsidy, Multi-state multi-episode transition model, social assistance

JEL Code: I38, J31, J64

* The author is grateful to participants at the Canadian Labour Market and Skills Researcher Network workshop held in Toronto on November 18 and 19 2008 for useful comments, and in particular to Dwayne Benjamin and Benoît Delage.

Email: Guy.Lacroix@ecn.ulaval.ca