



# Canadian Labour Market and Skills Researcher Network

## Working Paper No. 26

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

*Guy Lacroix*  
Université Laval

May 2009

CLSRN is supported by Human Resources and Social Development Canada (HRSDC) and the Social Sciences and Humanities Research Council of Canada (SSHRC). All opinions are those of the authors and do not reflect the views of HRSDC or the SSHRC.

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

Guy Lacroix\*  
Département d'économique  
Université Laval, CIRPÉE, IZA.

---

## 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.  
E-mail: Guy.Lacroix@ecn.ulaval.ca

## Executive Summary

Over the past twenty years, the evaluation literature has generally found training programs to have had limited success in helping particularly disadvantaged groups integrate into the labour market and reduce their reliance on transfer programs. Many governments have responded by shying away from traditional training programs and by focusing instead on policies that directly address the relative (un)attractiveness of work. By directly subsidizing wage rates, it is believed many will be induced to accept job offers that would not normally be good alternatives to transfer programs such as social assistance (SA).

In its 2001-2002 budget, the Quebec government announced a major policy initiative whose objective was to fight poverty and social exclusion. As part of the strategy, the Action Emploi (AE) 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. Indeed, early evaluation results from the SSP prompted the government to implement a program that offered a generous wage subsidy to those recipients who left the rolls within twelve months to take a full-time job.

Like SSP, recipients were entitled to three years of benefits. But unlike SPP, the subsidy was not proportional to earnings nor was AE restricted to single parents alone. The program targeted long-term SA recipients with little work readiness and poor education. Thus to be eligible for AE, SA recipients had to have claimed benefits for at least 36 months out of the last 45 prior to signing-up. The AE program was implemented on an experimental basis for a single year. Very little research has looked into the impact of the program on the employment history of the targeted population. Yet, a slightly modified version of the program was implemented on permanent basis in April 2008.

The unique features of AE (universal accessibility, large-scale program, substantial financial incentives, etc.) offer a unique opportunity to document the impact of a SSP-like program on the response of long-term heterogeneous groups of SA recipients in a “real-world” setting. The purpose of this paper is precisely to document the impact of such a generous wage subsidy in the Canadian context. We do this by modelling the main features of the program. We focus on the transitions in the labour market starting one year before the implementation of the program and up until the end of 2005. We analyze individual histories involving transitions between social assistance, off social assistance and Action emploi.

The empirical analysis is based on the administrative records of the Ministère de l'emploi et de la Solidarité sociale du Québec (MESS). The data span the period from January 2000 until December 2005. The files include detailed information on household type, number of children, region of residence, gender, schooling, birthplace, and monthly indicators of SA/AE participation. We focus 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. In all, 3,807 individuals qualified for benefits.

The majority of participants are also relatively poorly educated. Over 75% have earned at most a high-school degree. Furthermore, most have 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. 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 program.

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. Among those left behind, according to our data, most have little work experience, are poorly educated, have spent several years on the welfare rolls, and very often are raising families. 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. Given that only 6% of the eligible population actually participated in the program, one can conjecture 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.