

The Dynamics of Income Assistance: Evidence from the Self-Sufficiency Project

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Abstract

The Self-Sufficiency Project is a large-scale social experiment being carried in two Canadian provinces that concerns the work disincentives generated by income assistance (IA) or welfare. This paper develops a dynamic programming model of the SSP experiment and estimates the model's parameters using the data generated by the experiment. The model includes stochastic evolution of labor market skill, job opportunities, and the value of non-labor market time. The evolution of these constraints and opportunities that single parents face allows the model to quantify common notions of welfare dependency and the welfare trap. In addition, alternative measures of the impact of the SSP program can be formulated and estimated that take into account the program's entry effect and its long-run effect on skill accumulation through incentives to keep and hold low-skill jobs.