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ESTIMATING LABOUR SUPPLY RESPONSES AND WELFARE PARTICIPATION: USING A NATURAL EXPERIMENT TO VALIDATE A STRUCTURAL LABOUR SUPPLY MODEL

ABSTRACT

We estimate an economic model of labour supply and welfare participation using data on single men from Quebec drawn from the 1986 Canadian Census. Detailed budget sets for each work-welfare combination accounting for income taxes, tax credits and welfare benefit rules are derived using a micro-simulation model. We show that predicted reactions to a welfare reform that took place in 1989 replicate actual changes in labour supply and welfare participation. We also illustrate the advantage of having estimated a structural model by showing how labour supply and welfare participation change when income taxes and benefit levels change.

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