

Earnings Supplementation as a Means to Reintegrate the Unemployed

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Cet article présente les résultats de deux expériences aléatoires ayant pour but de tester l'utilisation des motivations financières afin d'encourager la participation au marché du travail. Le Projet Auto-Suffisance démontre que l'augmentation du salaire dans les emplois à faible rémunération et à temps plein peut induire une croissance dans les emplois chez les parents célibataires qui ont été des bénéficiaires du bien-être social pendant une longue période de temps. Il peut augmenter leurs salaires et leurs revenus et occasionner des petites augmentations (nettes des taxes) dans les transferts gouvernementaux. Par contre, dans le Projet Augmentation des Salaires, l'offre de compensation partielle pour les bénéficiaires d'assurance-chômage qui sont retournés au travail rapidement et qui ont subi des réductions du salaire n'a pas eu d'impact sur l'attitude face à la force de travail des utilisateurs fréquents d'assurance-chômage. L'offre de compensation a également eu un petit impact, de courte durée, chez les travailleurs déplacés. Cet article inclue une discussion des enjeux qui doivent être abordés afin de stimuler l'effort au travail à l'aide de motivations financières et se termine avec quelques leçons tirées des résultats de la recherche.

This paper presents evidence from two randomized experiments testing the use of financial incentives to encourage labour market participation. The Self-Sufficiency Project shows that supplementing earnings from low-paying, full-time jobs can increase employment among single parents who are long-term welfare recipients, can raise their earnings and incomes, and may entail little net increase in government transfers net of taxes. In the Earnings Supplement Project, however, the offer to partially compensate unemployment insurance recipients who returned to work quickly and experienced earnings losses had no impact on the labour force behaviour of repeat users of UI and only a small and short-lived impact with displaced workers. The paper includes a discussion of the issues that need to be addressed in trying to stimulate work effort using financial incentives and concludes with some lessons drawn from the research findings.

INTRODUCTION

This paper considers the use of financial incentives paid in the form of supplements to earned income as a way of encouraging employment. It draws on the results to date from five experiments that are being conducted within two larger projects — the Self-Sufficiency Project for recipients of income assistance and the Earnings Supplement

Project for applicants for unemployment benefits. Both projects are funded by Human Resources Development Canada (HRDC) and managed by the Social Research and Demonstration Corporation (SRDC).

A characteristic of income-transfer programs is their potential to create disincentives to work. In the case of income-assistance programs, people

typically receive benefits when they do not work and have their benefits reduced if they begin working. Historically, this was based on the notion that welfare was a source of income of last resort for those members of the poor population who were considered unemployable or for whom work was considered inappropriate. Attempts to reform welfare, then, face a troubling dilemma — how to encourage work and independence while simultaneously alleviating poverty. Transferring income to poor people in order to reduce poverty reduces their incentive to seek and accept employment, particularly if their potential earnings are low.¹ This problem is reflected in the real-life experiences of welfare-dependent families. Because many of those receiving income-assistance benefits have low levels of education or limited work experience, they often can only find work that will pay them less than the amount they can receive in welfare benefits. Therefore, they face a stark choice. They can continue their dependence on welfare or they can accept a lower income in the work world, at least until their earnings rise with the acquisition of skills and experience.² This is the classic “welfare trap.”

In the case of an unemployment insurance program, the principal goal is to provide monetary assistance to unemployed people who are searching for work during a temporary interruption of employment and earnings.³ Unemployment benefits subsidize unemployed workers as they search for work. This may lead to more efficient matching of unemployed workers with available jobs by enabling a job-seeker to continue looking until the optimal employment opportunity is found — the opportunity that will balance the costs of further search with the benefits that would be derived from a better job found by additional searching. The availability of unemployment insurance helps workers, firms, and the economy as a whole. However, by providing payments to people when they are not working, unemployment insurance may also lead to more unemployment.⁴

At present, there is considerable policy interest in looking for ways to redesign income transfer pro-

grams so that they will encourage work and provide help to people in their efforts to become employed, and support themselves and their families through their work efforts.

In Canada, the implementation of the National Child Benefit sees the elimination of the portion of the welfare grant that is based on the presence of children. Instead, the child benefit will be paid to all low-income families with children, regardless of welfare status. This will remove some of the financial penalty that, until now, has been associated with leaving welfare for work.⁵ Furthermore, one province, Saskatchewan, introduced a new program in 1998 to directly supplement the earnings of low-income families.⁶

It is worth noting that this policy concern is an international one. In Britain, for example, the Labour government is implementing the Working Families Tax Credit — a major expansion of the previous Family Credit program. It will be payable to low-income families with earnings, and it will provide benefits to those who have as little as 15 hours of work a week, with a higher rate of supplementation for those who work more than 30 hours a week.⁷ Although called a tax credit, it is being designed for delivery directly as part of recipients’ pay cheques as a way of supplementing low earnings.

The federal government in Australia recently released a discussion paper, *The Challenge of Welfare Reform in the 21st Century*, and announced that changes in social policy would be the next priority of the Commonwealth government. A high level reference group has been appointed to oversee the development of a Green Paper on welfare reform and one of the six guiding principles for this reform will be “establishing better incentives for people receiving social security payments, so that work, education and training are rewarded.”⁸

In Canada, HRDC has been sponsoring two large-scale demonstrations over the past several years in order to test the use of alternative financial incentive

programs as a way of encouraging employment. One — the Self-Sufficiency Project — involves recipients of income-assistance payments; the other — the Earnings Supplement Project — involves applicants for unemployment benefits.

The remainder of this paper describes the key features of the program models being tested in these social experiments, discusses a number of design issues that were taken into account in developing these program models and presents the results that are available so far from these two projects. The findings from the Self-Sufficiency Project suggest that supplementing earnings from low-paying, full-time jobs can increase employment among long-term, single-parent welfare recipients, can raise the earnings and incomes of these poor families, and may entail little net increase in government transfers net of taxes. In the Earnings Supplement Project, however, the offer to partially compensate applicants for unemployment insurance benefits who returned to work quickly and experienced earnings losses in doing so had no impact on the labour force behaviour of those who made frequent use of such benefits and produced only a small and short-lived impact with displaced workers. The paper concludes with a discussion of the complexity of designing programs to stimulate work effort using financial incentives.

THE PROJECTS

The Self-Sufficiency Project

The Self-Sufficiency Project (SSP) was launched at the end of 1992 and, over a period of a little more than two years, enrolled some 9,000 single-parent, income-assistance recipients in New Brunswick and British Columbia at four project sites covering metropolitan Vancouver and the lower BC mainland, and approximately the southern third of the province of New Brunswick.

The main features of the SSP program model are:⁹

- a substantial financial incentive for work relative to non-work;
- a relatively low tax-back rate for those who experience increases in earnings while receiving a supplement (at least relatively low compared to the provisions for disregarding income in the calculation of welfare payments);¹⁰
- targeting toward longer term recipients of income assistance (at least a year on the welfare rolls);
- time limits on how long participants have to take up the financial incentive offer and on how long they can receive payments; and
- a full-time work requirement that prevents most people from reducing their work effort in response to the program.

SSP offers monthly cash payments to single parents who have been receiving income assistance for at least a year, on condition that, within one year of being selected for the program, they leave welfare for full-time work of 30 or more hours a week.¹¹ These earnings supplements are paid directly to the participants on top of their earnings from employment and can be received for up to three years, so long as participants continue to work full-time and remain off income assistance.¹²

The supplement is calculated to make up half the difference between what a participant actually earns and an earnings reference level — initially set at \$30,000 in New Brunswick and \$37,000 in British Columbia.¹³ Under this formula, a woman in New Brunswick who works 35 hours a week at \$6 an hour will receive annual earnings of \$10,920 and supplement payments of \$9,540. Therefore, her total income will be \$20,460 (or \$1,705 a month), almost double what she would receive from her earnings alone. Her supplemented earnings will also be much higher than her welfare entitlement, and the effective marginal tax-back rate of 50 percent ensures

that there is an incentive for her to seek earnings gains during the period of supplement eligibility.

The Self-Sufficiency Project actually comprises three separate experiments. First, the main, or “recipient,” sample is testing the financial incentive described above with approximately 6,000 single parents who had been income-assistance recipients for at least one year. Participants were randomly selected during the period from November 1992 to March 1995 from the welfare caseloads in those areas of New Brunswick and British Columbia that were included in the experiment.

Second, a group of 299 single parents who had been receiving income assistance for at least one year were enrolled at the New Brunswick SSP sites between November 1994 and March 1995 and were offered employment-related services in addition to the financial incentive. They are called “SSP Plus” participants.

Finally, the “applicant” sample is made up of just over 3,300 single parents who were enrolled at the British Columbia SSP sites between January 1993 and February 1995 at the time they were making a new application for income assistance. Unlike program group members in the SSP recipient and SSP Plus samples, who were immediately eligible for help from SSP, those in the applicant sample who were assigned to the program group were initially only given information concerning the financial incentive. They were told that if they remained on welfare for a year, they would become eligible for SSP’s supplement payments if they then left welfare for full-time work in the following 12 months. The applicant sample was originally used to measure the potential “entry effect” caused by the future availability of the earnings supplement.¹⁴ Ultimately, 57 percent of program group members in the applicant sample remained on welfare long enough to establish eligibility for the SSP supplement. SSP is now using the applicant sample to estimate program effects on people who are relatively new entrants to welfare and have shorter histories of income-assistance receipt.¹⁵

This paper presents summary findings using all three SSP study samples.¹⁶

The Earnings Supplement Project

The second HRDC-funded national demonstration is the Earnings Supplement Project (ESP), which involves just over 11,500 people who applied for unemployment benefits at nine sites in seven provinces. ESP drew samples from two groups of applicants who applied for unemployment benefits in the study sites between March 1995 and June 1996 — a sample of a little over 8,100 displaced workers and a sample of about 3,400 repeat users of unemployment insurance.¹⁷

ESP’s financial incentive is designed to subsidize employment rather than unemployment. It offers eligible participants a temporary supplement to their earnings if they leave unemployment insurance for full-time work within a specified period of time and if, in doing so, they experience a reduction in earnings.¹⁸

The initial development of this project was based on the findings of the unemployment insurance (UI) re-employment bonus experiments in the United States. There, lump-sum bonuses were paid retrospectively to UI recipients who returned to work within an allowable job-search period and did not reapply for UI benefits within a specified bonus-qualifying period. The generosity of the bonus payments, the job-search period and the bonus-qualifying period varied among the four experiments that were conducted. The primary goal of these experiments was to test whether such bonuses could reduce the government cost of unemployment benefits without reducing claimants’ future earnings by causing them to take new jobs prematurely. The first experiment (in Illinois) found that the reduction in total benefit payments more than offset the cost of the bonuses; the next three experiments, however, found that bonuses did not produce impacts that were large enough to pay for themselves.¹⁹

The main features of the program model tested by ESP are as follows.²⁰

- The supplement offer is time-limited in two ways. First, those offered an opportunity to receive a supplement have a limited period of time (a maximum of 26 weeks for displaced workers; 12 weeks for repeat users of unemployment benefits) to find a qualifying job, stop receiving unemployment benefits, and register for supplement payments. Those who do not do so within the time limit become ineligible for any supplement payments. Second, supplement payments can be received for up to two years from the date the supplement offer is initially made and the job-search period begins.²¹
- Supplement payments are calculated to make up 75 percent of the amount by which the earnings at a participant's new job fall below the earnings in the participant's previous job. These payments are capped in two ways, however. First, to be consistent with the provisions of the Employment Insurance (EI) program (the Unemployment Insurance program when ESP began), the earnings in the previous job that are used in the calculation of the re-employment earnings loss are capped at the level of maximum EI-insurable earnings (\$815 per week when ESP began). Second, the supplement payments themselves are capped at a maximum of \$250 per week.
- Participants have to take full-time jobs (30 or more hours a week) in order to receive supplement payments.²² Workers who go back to work with their previous employer at their previous job location are not eligible for supplement payments.
- Supplement payments are not insurable for EI purposes (although the earnings from the supplemented jobs are insurable).

With the exception of the maximum allowable job-search period, the program model is the same for both displaced workers and repeat users of unemployment insurance. This paper presents summary findings from both ESP sub-studies.

THE RESULTS

The Evaluation Method

Both SSP and ESP are being evaluated by means of randomized experiments. In the case of SSP, data are now available from administrative records and from participant follow-up surveys conducted 18 months after the point of random assignment for the main sample and the SSP Plus sample. For the SSP applicant sample, data are available from an equivalent follow-up survey conducted 30 months after random assignment (18 months after those program group members who remained on welfare for a year first became eligible for supplementation).

Remember, however, that participants who were assigned to the program group are allowed up to 12 months to find a job and leave welfare; they can then receive supplement payments for up to three years after qualifying. Therefore, this is an early point at which to assess the effects of the program. The long-term benefits and costs are still unknown. Nevertheless, because of the one-year take-up window, it is possible at this point to assess how effective the SSP offer has been in getting people to leave income assistance and begin full-time work who otherwise would not have done so. It is also possible to get an early look at SSP's "in-program" impacts on public transfer payments, incomes, and poverty.

In ESP, program impacts for displaced workers were estimated using administrative records and data from a follow-up survey conducted 15 months after random assignment. For repeat EI users, only impacts on EI receipt were estimated; this was done using data from administrative records.²³ These data are being used to conduct the final evaluation of ESP.

Design Issues

Before turning to the findings from these projects, it is worth considering the nature of earnings supplement programs more generally.

Financial incentive programs designed to supplement participants' earned incomes represent a

particular kind of labour market intervention. They operate on the supply side of the labour market, not on the demand side. That is, these programs do not create jobs; they try to influence the job-search and job-acceptance behaviours of individuals by raising the effective wage that they receive from working. Earnings supplement programs are unlikely to have any significant effect on the demand side of the labour market; these programs assume that jobs are already available.²⁴

Effective incentive programs are also difficult to design. The impacts produced by such programs will be made up of some combination of three different effects.

Work Effects. This is the effect that the program is principally designed to achieve. People who would not have worked otherwise, do so now that they can receive a financial incentive designed to “make work pay.” The result is more work, less reliance on transfer payments, and increased earnings and incomes. This type of effect can be beneficial to recipients, taxpayers, and government budgets. (Whether it is a “net” win for governments and taxpayers depends on the cost of the incentive compared to existing transfer benefit levels.)

Windfall Effects. Some people who would have gone to work anyway, now receive benefits from the financial incentive program even though there has been no change in their labour market behaviour.²⁵ These recipients have more total income, which makes them better off, but their work effort remains the same (or, in some cases, may actually decline). Taxpayers and government budgets lose with this effect, however, since obtaining a particular level of impact on labour market outcomes is made more costly (the more windfalls, the higher the deadweight cost associated with the program).

Entry Effects. In order to qualify for the new financial incentive, some people (e.g., the working poor) who previously would not have applied for assistance (e.g., from the existing welfare program) now

apply.²⁶ Furthermore, some new applicants for assistance, who otherwise would have quickly stopped receiving assistance, may continue to receive benefits longer in order to meet qualifying requirements that might be required to receive the new incentive. Recipients may gain, assuming they can find a new job, while taxpayers and government budgets lose, since they end up paying more benefits to more people than they would have otherwise.

Changing people’s behaviour through a program that supplements their earnings requires the consideration of a number of complicated design issues in order to have a positive impact on labour market outcomes without substantially raising the cost to government. The challenge to program designers is to maximize work effects, while keeping windfalls and entry effects to a minimum. Ideally, a program would offer each person a financial incentive that is just large enough to bring about the desired change in behaviour — not so small that it has no effect, not so large that most of the payments are windfalls to the participants. In the real world, however, such precision is unachievable. Incentives cannot be individually tailored, not just because it is impractical in terms of program delivery, but also because it is impossible to know *ex ante* what size of incentive each person requires.

There are three key questions to be answered in designing an earnings supplement program.

- Who should be eligible for the supplement?
- When should the supplement offer be made?
- How generous should the financial incentive be?

Who should be eligible for a supplement? If work is available at some given wage, why are some people unwilling to accept those job opportunities. In SSP, for example, participants have an alternative source of non-work income and they face high tax-back rates if they decide to go to work. Even here, however, SSP made a decision to further restrict

eligibility only to single parents because they (particularly those with young children) typically face considerable barriers to full-time employment and are, consequently, among the groups who are least likely to leave welfare for work without assistance.

In ESP, there was an assumption that many displaced workers have high reservation wages based on their previous earnings. For some of them, however, these wage expectations are unrealistic because their skills and experience are not easily transferable to other employment situations and are thus less highly valued by new employers. In the case of repeat EI users, it was hypothesized that some were deterred from taking off-season jobs or seeking jobs that would provide year-round employment because many of those jobs initially offered lower wages.

When should the supplement offer be made? Answering this question requires judgements to be made about the interplay of four factors — entry effects, deadweight cost, potential savings in the costs of other programs, and the potential for the program to have an impact.

Offering the program early (for example, at the start of an unemployment insurance spell as was done in ESP) may hasten re-employment and avoid the potential “scarring” effects of prolonged unemployment.²⁷ In addition, job-seekers who are currently employed may have greater success in finding new and better jobs than those who are searching while unemployed.²⁸ If so, then one strategy for displaced workers who are trying to regain their previous levels of earnings would be to take a new job quickly and seek advancement through a series of job changes. Early interventions may also increase the likelihood that cost savings (for example, reduced unemployment benefit payments to those who return to work more quickly) will offset some of the costs of the new financial incentive program, thereby increasing the potential for the program to be cost-effective.

However, intervening early, before people have demonstrated their ability or inability to become

employed quickly on their own, means that the program will have a high deadweight cost associated with paying people to do what they would have done anyway. Furthermore, if the financial incentive is generous and has qualifying conditions that are relatively easy to meet (for example, qualifying after spending only a short time unemployed and receiving welfare or EI), then the financial incentive could have a significant entry effect.²⁹

On the other hand, delaying the incentive offer increases the length of time that some people will remain unemployed. Transfer payment expenditures (EI, welfare) will, consequently, be higher. Furthermore, if people do experience a scarring effect, then the incentive program may ultimately be ineffective. By the time it is offered, participants may be unable to attract a job offer; or the costs of the program may be much higher because the wages that participants can command at that point are lower (and, therefore, the costs of the required incentive are higher) than if participants had been induced to take a job earlier in their unemployment spell.

How generous should the supplement be? There are at least three dimensions to this question. How large should the payments be? How long should they last? And should anything other than the financial incentive be provided? Again, there are no simple answers.

Generosity levels need to take into account the goals of the program. For example, an emphasis on poverty reduction would suggest that a more generous form of earnings supplementation be provided. This is likely to produce more windfalls, however. If the goal is to maximum work effort, decisions on supplement generosity need to be based on some assessment of how much is needed to induce the desired behavioural change. If the supplement is competing with other income transfers (EI or welfare, for example) then the offer has to be more attractive than these other forms of assistance. If potential participants are expected to experience a protracted period of difficulty in adjusting to the

labour market (such as a long-term welfare-dependent population) then it may be necessary to provide assistance for a long time, such as SSP's three-year supplement period.

If the principal objective is to encourage people to act quickly once the program has been offered, then time limits can be placed on the offer (as in both SSP and ESP). Such time limits also reduce deadweight cost by decreasing the number of people who can receive a supplement simply by going to work when they would have chosen to so anyway.

Although earnings supplements are essentially financial incentive programs, the provision of some additional services or supports may significantly increase the proportion of the targeted clientele who will take advantage of the offer. Therefore, program designers need to consider whether anything other than a pure financial incentive should be offered. The SSP Plus sub-study was designed specifically to assess the incremental effects of including employment services. In ESP, an interesting variant might have been to make the supplement offer to displaced workers conditional on them receiving job-search training or participating in a job-finding club. Since most long-tenured workers do not have recent job-search experience, providing job-search assistance hand-in-hand with the offer of financial assistance might increase the number of displaced workers who are able to find jobs. It might also help them find better jobs, which would reduce earnings losses and, therefore, reduce supplement costs. If assisted job search is really effective, it might even reduce the proportion of displaced workers who experience any earnings loss at all.³⁰

Results of the Self-Sufficiency Project

*Findings from the SSP Recipient Study.*³¹ Within the one-year take-up period, 35.2 percent of program group members qualified for the supplement by beginning full-time work, leaving income assistance and receiving at least one supplement payment. A significant minority of supplement takers did not

maintain continuous full-time employment, however; they thus became temporarily ineligible for supplement payments. Consequently, in any given month, the percentage of the program group that was actually receiving an earnings supplement was lower than the take-up rate.

About two-thirds of the program group did not take up the supplement offer at all, although the majority reported that they thought they would be better off financially if they went to work full-time with a supplement. The most commonly cited reason (either the main reason or one of the reasons) for not taking advantage of the supplement was the inability to find a job or to get enough hours of work; this was one of the reasons given by 50 percent of non-takers. The next most frequently cited reasons were personal or family responsibilities (25 percent) and health problems or disabilities (19 percent).

SSP's most striking impact at the 18-month point is that it doubled the percentage of sample members working full-time. The impact on the full-time employment rate rose steadily during the twelve months after random assignment. During the fifth quarter of the follow-up period, which is expected to be the period of maximum impact, the SSP impact was 15.2 percentage points.³² Among program group members, slightly more than 29 percent were working 30 hours per week or more, compared with 14 percent of the control group. It appears that this impact was mostly achieved by inducing people to work full-time who otherwise would not have worked at all.³³

The impacts on full-time employment were broad-based, affecting sample members with varying life situations and histories.³⁴ The impacts tended to be larger, however, for people who were more job-ready and for those who faced fewer barriers to employment. A somewhat surprising finding was that, at least within the range of generosity that can be studied within SSP, take-up rates and impacts did not appear to be related to the generosity of the supplement offer relative to the income-assistance entitlement.³⁵

SSP's impact on employment is reflected in increased earnings and reduced income-assistance receipt. During the fifth quarter after random assignment, SSP raised program group members' average earnings (excluding the supplement) by 61.5 percent and raised their average incomes (including the supplements but net of foregone income-assistance payments and the additional income tax paid) by 19.2 percent.³⁶ During the same period, the percentage who were receiving income assistance was decreased by almost 13 percentage points and the average monthly amount of income assistance paid was reduced by 14 percent. SSP increased the percentage receiving *either* income assistance or SSP supplements.

SSP's average monthly supplement payment, although generous, is slightly less than the average monthly welfare entitlement. However, SSP has a net additional cost because some of those receiving supplements (for up to three years) would have left welfare on their own within that time.³⁷ From an overall government budget perspective, the reduction in income-assistance payments partially offsets the cost of the supplement payments. The net cost of the supplement payments, after subtracting the reduction in income-assistance payments and the additional tax revenue generated, was estimated to be \$55 per month per program group member. Therefore, each dollar increase in net transfer payments led to more than two dollars in increased earnings and more than three dollars in additional income for sample members — and most of the extra income results from the increased work effort of participants themselves.

By raising both the earnings and transfer incomes of program group members, SSP is having a substantial anti-poverty effect during the period of supplement receipt. At the time of the 18-month follow-up survey, the fraction of program group members with family incomes below Statistics Canada's low-income cut-off (LICO) was reduced by 12.4 percentage points, and the fraction in "extreme poverty" (incomes less than half the LICO) was three percentage points lower.

A sizeable fraction of SSP-generated income gains was spent on basic needs, although different groups of families allocated the resources differently. Overall, 19 percent of the program group's additional gross income was spent on food, children's clothing, and housing, and the fraction who used food banks was reduced by two percentage points. Families in New Brunswick with more than one child (the most disadvantaged group in the sample) spent 23 percent of SSP-generated gross income gains on food alone.

The additional employment taken by program group members appears to be in jobs that mostly pay wages between the minimum wage and \$2 per hour above the minimum. This is not surprising since the people who are only able to find low-wage jobs are those who are least likely to leave welfare for work in the absence of an earnings supplement. This means, however, that in order for work to remain more attractive than welfare after the three-year supplement period ends, supplement-takers will have to experience some increases in wage rates, a progression in hours of work, an increased preference for work over welfare, or other changes that make it more feasible for them to continue working.

*Findings from the SSP Plus Study.*³⁸ A range of pre- and post-employment services was successfully delivered to SSP Plus program group members. More than 90 percent of them completed an employment plan and just over two-thirds used the resumé preparation service. Only 25 percent of program group members attended a formal job club, but 71 percent received job coaching and 60 percent received job-finding help in the form of job leads.

A key issue, however, is whether there was a service differential between program group members in SSP Plus and those in either the regular SSP program group or the control group. The follow-up survey asked about participation in employment-related programs and services. Members of all three groups were equally likely to have taken part in life skills training, work-related training, educational

upgrading or counselling sessions for personal problems; however, those in the SSP Plus program group were much more likely to have participated in a job-search program.³⁹

The addition of services led to a significant increase in the percentage of people who took advantage of the supplement offer. Within the one-year available to them to do so, 52 percent left welfare for full-time work and initiated supplement payments (compared to the 35 percent take-up rate in the SSP recipient program group).

Although the employment services provided by SSP Plus stimulated additional full-time employment early on, for many it was not sustained. Consequently, the additional *program impacts* produced by the services of SSP Plus are much smaller than the substantial increase in *program take-up* might at first suggest.

Nevertheless, the additional services may have produced a modest increase in full-time employment and a modest decrease in income-assistance receipt. In the fifth quarter after random assignment, SSP Plus had a 17.4 percentage point impact on the full-time employment rate. The full-time employment rate for the SSP Plus program group was 33 percent compared to 15.6 per cent for the control group. The comparable rate for the relevant portion of the program group in the SSP recipient sample was 30.6 percent.⁴⁰ At the same time, SSP Plus led to an 20.4 percentage point reduction in the incidence of income-assistance receipt (60.7 percent of those in the SSP Plus program group received income-assistance payments compared to 81.1 percent of the control group and 64.6 percent of those in the SSP recipient sample program group).

The impacts of the SSP Plus program were highly significant. However, when the differential impacts are examined — the added impact of employment services on the full-time employment rate (an additional 2.4 percentage point increase) and the additional impact on income-assistance receipt (a

further 3.9 percentage point reduction) — neither impact was statistically significant.⁴¹

The relatively small differential impacts on employment led to a more substantial increase in income, however. In the six-month period preceding the 18-month follow-up interview, the average after-tax family income of SSP Plus participants was 8.9 percent higher than that for the program group members in the recipient sample (and 13.3 percent higher than among the control group). In this case, the differential impact associated with adding employment services was statistically significant.⁴²

*Findings from the SSP Applicant Study.*⁴³ SSP has also been successful in increasing employment among recent entrants to welfare. During the ninth quarter after random assignment (the period equivalent to the fifth quarter after random assignment for the recipient and SSP Plus samples), 54.9 percent of the applicant program group worked on average, compared to 42.8 percent of the control group, an increase of about 12 percentage points. During the same period, the impact on *full-time* employment was also about 12 percentage points, but there was no impact on part-time employment. Thus, to an even greater extent than with the recipient sample, SSP appears to have worked with the applicant sample by inducing people to go to work full-time who otherwise would not have worked at all.

Unlike the situation with the recipient sample, however, a substantial amount of the additional employment taken by those in the SSP applicant program group was at relatively high wage rates. Of this additional employment, about half was in jobs that paid close to the statutory minimum wage of \$7 per hour; but about one-third of the added employment was at jobs that paid \$10 or more per hour, considerably above the minimum wage. This impact on high-wage jobs may stem from the relatively higher skills possessed by those who are new entrants to welfare compared to those who are long-term recipients.

Not surprisingly then, SSP substantially increased earnings in the applicant sample — in part because SSP increased employment and partly because it increased employment in high-wage jobs. In the ninth quarter of the follow-up period, average monthly earnings of program group members were 39.7 percent higher than those of the control group.

An important consequence of the greater incidence of higher-wage employment among the applicant program group is that SSP led to no net increase in transfer payments to this group. The higher the earnings, the lower the supplement payments; moreover, participants have to pay income and payroll taxes on their earnings and income taxes on supplement payments. Because of the large impact on earnings, tax revenues increased by more than the sum of SSP supplement payments and income-assistance payments. As a result, SSP led to no increase in net public transfer payments.

As with the recipient sample, SSP reduced the number of families in the applicant group who received welfare payments, but increased the number receiving *either* income assistance or SSP supplement payments. In the last six months of the follow-up period, 38 percent of the applicant program group was receiving income assistance on average, compared to 50 percent of the control group, a decrease of 12 percentage points. During this same period, however, 18 percent of the program group received a supplement payment on average. Thus, SSP increased the number of people receiving either income assistance or supplement payments.

Although SSP's impacts on full-time employment and income-assistance receipt are similar to those achieved with the recipient sample, there is an important difference to keep in mind. The applicant sample impacts are driven by the just under 60 percent of applicant program group members who remained on welfare for a year and became eligible for the SSP offer.

If one assumes that those who failed to establish eligibility for SSP are unlikely to be affected by it, then the impacts can be adjusted by dividing them by the proportion of program group members who were actually exposed to the supplement program by remaining on welfare long enough to establish eligibility.⁴⁴ This adjustment produces impacts per *eligible program group member*.⁴⁵

Such an adjustment significantly increases the estimated program impacts in the applicant sample. The impact on full-time employment becomes 21 percentage points, the reduction in the incidence of welfare receipt becomes 20 percentage points, there is a 67 percent increase in average monthly earnings, and there is a 19 percentage point reduction in the proportion of families with incomes below the low-income cut-off. These impacts with welfare applicants are then substantially larger than those achieved with the longer term recipient sample.

Results of the Earnings Supplement Project

*Repeat EI User Study.*⁴⁶ In general, the ESP offer was greeted by repeat users of unemployment insurance with considerable scepticism. Only 41 percent of those who were asked to take part in the study agreed to participate. Of those, only 4.7 percent returned to work within 12 weeks, experienced an earnings loss and received a supplement payment. Of that 4.7 percent, only about one-fifth received payments in every month after the job-search period ended.

The main reason for the lack of interest in ESP was that about 90 percent of those assigned to the program group expected to be able to return to their most recent employer. This limited the appeal of ESP for several reasons. First, they may have been reluctant to leave an existing long-term employment relationship for new, perhaps more risky year-round jobs — jobs for which they would receive a supplement for only a temporary period of time. Second, they may have had difficulty in finding temporary off-season jobs that would not interfere with their

planned return to their more important job (in fact, they may have had trouble finding any off-season work at all). Third, since most were expecting to be able to return to their old job, ESP may not have provided sufficient incentive to compensate them for the loss of their non-market time.

In sum, there were several early signals, as reported in Bloom *et al.* (1997), that ESP would not be effective in changing the labour market behaviour of these repeat users of unemployment insurance. Rather than invest in a participant follow-up survey, the impact analysis was limited to estimating the impact on unemployment benefit receipt, since this could be done using administrative records data.

This analysis confirmed the absence of a program impact (at least on EI benefit receipt). ESP did not reduce the overall amount of unemployment benefits received in any of the 15 months following random assignment. Furthermore, over the full 15-month period, program group members received \$7,641 in EI benefits, compared to \$7,483 for the control group (the \$158 increase was not statistically significant). ESP also did not reduce the number of weeks for which individuals received unemployment benefits during the same 15-month period. (Although, in two of the 15 months, ESP slightly reduced the percentage who were receiving benefits.) Members of the program group received EI benefits for 27.8 weeks during the 15-month period, compared to an average of 27.4 weeks for the control group. (Again the increase was not statistically significant.)

ESP increased government expenditures taking into account unemployment benefits and supplement payments combined. The average monthly amount paid to those in the program group was \$349 (or 4.7 percent) more than the amount of EI benefits paid to control group members (and this was significant at the 0.05 significance level). Furthermore, ESP increased the percentage of people receiving either unemployment benefits or supplement payments.

In conclusion, ESP was not effective in reducing the reliance on unemployment insurance by these repeat users; nor was it effective in decreasing costs to government.

*ESP Displaced Worker Study.*⁴⁷ ESP's experience in recruiting displaced workers was quite different from that encountered with repeat users of unemployment insurance. Very few displaced workers refused to take part in the study (fewer than 5 percent of the project application forms were returned marked refused). Consequently, it was possible to recruit a large and diverse sample.

Among those assigned to the program group, 20.5 percent left EI for full-time work, experienced a reduction in earnings, and received supplement payments.⁴⁸ Only 1.5 percent of all supplement group members registered for supplementation without an initial earnings loss and almost none of them subsequently received supplement payments.⁴⁹

Those who received supplement payments were paid, on average, \$8,705 for 64 weeks of full-time employment during the two-year supplement receipt period. Most supplement recipients received substantial amounts for a long period of time; about 44 percent of all recipients were still receiving payments when their supplements expired at the end of two years.

ESP had a small positive effect on hastening the re-employment of displaced workers. There was a modest increase in full-time employment, which occurred toward the end of the six-month job-search period. In the sixth and seventh months after random assignment, full-time employment among program group members was 4.1 and 3.2 percentage points higher than among control group members.⁵⁰ By the eleventh month after random assignment, however, the control group had "caught up" in terms of employment and there were no further differences in employment rates between the two groups.

Measured somewhat differently, ESP increased the percentage of displaced workers who became re-employed full-time anytime during the six-month job-search period by 4.4 percentage points (significant at the 0.01 significance level). This program impact on full-time employment reflected, in roughly equal parts, a shift from part-time to full-time employment, and an increase in overall employment.⁵¹

In producing the effect on re-employment, ESP may have caused a few displaced workers to take jobs that paid less than the ones they would have taken otherwise. The program also may have caused average earnings during the 15-month follow-up period to be lower than they would have been otherwise, presumably by inducing a few supplement group members to take lower-paying jobs. Total earnings during the follow-up period were \$682 less for program group members (\$14,209 versus \$14,891 for the control group); this difference was not statistically significant, however. Average hourly earnings were 2.5 percent less than they would have been otherwise (and this difference was statistically significant at the 0.10 level).

ESP had virtually no effect on the amount or duration of unemployment benefits received by supplement group members. The estimated program impact on average weeks of unemployment benefit payments during the first 15 months after random assignment was an increase of 0.2 weeks (or 0.9 percent). The estimated impact on total benefits received was an increase of \$90 (or 1.4 percent). Neither of these differences was statistically significant, however.

ESP produced a modest transfer of resources from the Canadian government (taxpayers) to the two out of ten displaced workers who received supplement payments. On average, supplement group members experienced a small financial gain of \$569 during the first 15 months after random assignment. This was because the supplement payments they received exceeded the earnings losses they incurred, and their

unemployment benefit payments were virtually unchanged.

Overall, the small average gain did not reduce the overall level of financial hardship experienced by the displaced workers. Nevertheless, the large supplement payments made to the small fraction of displaced workers who received them were an important source of temporary income for this subgroup.⁵²

ESP produced a net financial cost for the Canadian government of \$1,340 per supplement group member during the first 15 months after random assignment. This occurred because supplements were paid to those who qualified but without producing an offsetting reduction in the amount of unemployment benefits paid. Therefore, on balance, the program produced a transfer of resources from the government (taxpayers) to individual displaced workers. This helped to compensate those who received supplement payments for the losses they incurred in a way that did not inhibit their re-employment. For a summary of the two programs, see Table A1.

CONCLUSIONS

Do earnings supplements “work”? The answer depends in part on the policy objectives, since they define what we mean by “work.” Based on the results presented here, from two large-scale tests of earnings supplements — one with income-assistance recipients, the other with applicants for unemployment benefits — the answer is that earnings supplements appear to work in terms of encouraging more employment, at least in the short term, for at least some people.

The SSP experience suggests that financial incentive programs can play a significant role in helping some of the unemployed move into employment. About a third of the long-term, single-parent welfare recipients responded to SSP’s supplement

offer by leaving welfare for full-time work. Providing a modest package of employment-focused services raised SSP's take-up rate from one in three to one in two. That still leaves at least half of the long-term, single-parent welfare caseload unaffected by the financial incentive, even when job-finding help is provided to them. In addition, reaching deeper into the caseload by means of the SSP Plus intervention did not just increase the job-finding rate. It also increased the job-losing rate of those who went to work, which significantly moderated the differential impact achieved by adding services. Moving from welfare to work is only the first step, and for many it may be the easiest step. The more difficult policy challenge is to find ways of supporting people in their efforts to remain employed and helping them progress to better jobs with better pay.

The evidence from SSP shows that a work-conditioned financial incentive cannot only increase work effort but it can raise the incomes of poor families. The apparent efficiency of SSP as a public transfer mechanism should be particularly encouraging to those seeking effective anti-poverty tools. Not only do incomes rise, but most of the increase is due to the work effort of the individuals themselves.

SSP is still underway; how much this form of incentive might cost the government is still an open question. The final report on the project will include a comprehensive benefit-cost analysis. Ultimately, the cost-effectiveness of SSP's program model will be determined using longer term follow-up data, including information on the post-program welfare recidivism rate.

However, the findings from the SSP applicant sample suggest that a mature program of this sort might pay for itself even during the period when supplements are being paid. A new program like SSP would presumably offer assistance to all those on the welfare rolls who meet the qualifying conditions (for example, on the rolls for at least a year). Therefore, the results with the SSP recipient sample

provide the best estimate of the effects of a newly implemented program. But all new welfare entrants would come to know of the program as they entered welfare; and over time, the composition of the eligible population would come to resemble the SSP applicant sample. Therefore, this study provides a better estimate of the effects of an established program.

Of course, the question of whether a program is truly cost-effective is notoriously difficult to answer. The SSP benefit-cost study will estimate whether the intervention produces net costs or net savings to government in terms of taxes and transfers. However, to fully estimate the cost-effectiveness of the program we would need to know the extent to which the increased employment and earnings of participants "displaced" the employment and earnings of others. Little is known about the likely magnitude of this effect. The common practice in evaluation studies is to make a range of assumptions about displacement and test the sensitivity of the benefit-cost calculations to changes in this assumption. This will be done in SSP.⁵³

The results of ESP — at least with respect to displaced workers — are more difficult to interpret. The offer to temporarily protect workers from substantial earnings losses clearly made no difference to the labour market behaviour of repeat users of unemployment insurance. There was an impact with displaced workers, however.

The employment impact was relatively small and short-lived; but ESP did induce a few displaced workers to return to work a few weeks earlier than they otherwise would have (but not soon enough to have an impact on their receipt of EI benefits). Perhaps more significantly, a few displaced workers did receive substantial amounts in supplement payments; for them, ESP was an important source of temporary income.

Perhaps the most important contribution that ESP makes to policy development is to raise a note of caution concerning the potential effectiveness of this

approach. While ESP was underway, the federal government enacted the *Employment Insurance Act*. This legislation allows for a number of new “employment benefits” to be established and to be paid for from EI funds; these new benefits include temporary earnings supplements.⁵⁴ ESP suggests that the implementation of any such benefit should be approached carefully.

The findings from ESP show that a policy objective of promoting rapid re-employment does not provide a sufficient basis for implementing the sort of program model tested in that experiment. Such an intervention might still be appropriate, however, if the goal was to provide financial compensation to displaced workers who end up taking lower-paying jobs and who thus bear a disproportionate share of the cost of economic adjustment; providing such compensation can be expected to entail a net cost to the government, however. It is unlikely that a program that was sufficiently generous to be attractive to potential participants could also produce enough unemployment benefit savings and tax revenue increases to be cost-effective.

Another general lesson worth mentioning is that marketing is important — perhaps more important than minor variations in the generosity of the incentive. In SSP, participants received strong messages from staff that SSP would “make work pay” and several reminder calls were made during the 12-month job-search period. The absence of any link so far between the relative generosity of the supplement and either take-up or impact suggests that participants were more persuaded by the messages they received than by any calculations they may have made with respect to generosity. Presumably, the incentive needs to be sufficiently large to make the messaging credible (it is also possible that, over time, families for whom SSP is less generous will come to realize they are little better off). There is no clear pattern after 18 months, however.⁵⁵

In ESP, there was more of a “softer sell.” Although the need to take prompt action within the

job-search period was emphasized, the supplement was characterized (and was perceived by participants according to focus group discussions) as a last resort to fall back on if their job search did not have the results they were expecting. Having to take a lower-paying job, even with partial compensation for reduced earnings, was not something that participants looked forward to with any enthusiasm.⁵⁶

Finally, rules matter. The one-year-on-welfare requirement in SSP was important in reducing entry effects. The time limits to take up the offers both in SSP and ESP helped reduce windfall payments (although in the latter case, the majority of those who initiated supplement payments would have gone back to work just as quickly without the financial incentive). We cannot say from these experiments that the rules that were established were optimal, nevertheless they were critical in producing the results that were achieved in these two cases.

NOTES

I would like to thank Jean-Pierre Voyer, Human Resources Development Canada, and an anonymous referee for comments on a earlier version of this paper.

¹For a general discussion of the incentive effects of transfer systems, see Anderson (1978); Barth and Greenberg (1971); Kesselman (1969 and 1973); and Masters and Garfinkel (1977). For an analysis of the empirical evidence on two specific forms of income transfer, see Hum and Simpson (1991) and Robins (1985) on negative income tax experiments in Canada and the United States, respectively; and Eissa and Liebman (1996) and Scholz (1996) on the Earned Income Tax Credit in the United States.

²For a discussion of the difficulties that single parents experience as income-assistance recipients and in their efforts to make the transition from welfare to work, see Bancroft and Vernon (1995).

³Unemployment insurance can have other important purposes as well, such as providing income support to those whose employment is interrupted because they are temporarily unable to work, due to maternity or sickness,

for example. In addition, an unemployment insurance program may provide some funds for “active labour market programs” (e.g., training, job creation and wage subsidy programs) designed to increase recipients’ longer term employment prospects. Finally, the payment of unemployment benefits may play a role in reducing the effects of economic recessions and regional economic disparities.

⁴There are at least three ways in which it could do so. First, receipt of unemployment benefits can decrease the financial pressure on people to look for new jobs, which can result in longer durations of unemployment. Second, the availability of unemployment benefits may encourage people with a weak attachment to the labour force to seek work in order to collect benefits at a later date. Without unemployment insurance, these people would not participate in the labour market and would not be counted as unemployed. Third, the premiums collected to finance unemployment insurance are a tax on jobs and therefore they discourage employers from creating jobs and employees from accepting them. For a general discussion of these effects, see Human Resources Development Canada (1994, pp. 13-14). For discussions of the work disincentive effects of unemployment benefits, see Atkinson and Micklewright (1991); Devine and Kiefer (1991); and Christofides and McKenna (1996).

⁵One of the stated objectives of the National Child Benefit is: “To promote attachment to the workforce — resulting in fewer families having to rely on social assistance — by ensuring that families will always be better off as a result of working.” See Government of Canada Website <http://socialunion.gc.ca>

⁶For information on the Saskatchewan Employment Supplement, see Saskatchewan Social Services (1998a and 1998b).

⁷For a discussion of the UK government’s interest in providing enhanced support to low-income, working families and of the objectives of the Working Families Tax Credit, see United Kingdom Secretary of State for Social Security and Minister for Welfare Reform (1998).

⁸See Australia Commonwealth Department of Family and Community Services Website http://www.facs.gov.au/internet/facsinternet.nsf/whatsnew/29_9_99.htm

⁹For a detailed description of SSP’s program model and how the project was implemented, see Mijanovich and Long (1995).

¹⁰Many welfare programs allow recipients to earn some income without affecting the amount of income assistance they can receive. The income-assistance amount is then reduced on a dollar-for-dollar basis for all earnings in excess of the “disregarded” amount. In New Brunswick, the basic earnings disregard for single parents is \$200 a month. In British Columbia, until April 1996, the disregard was also \$200 a month. In addition, single parents in BC were eligible for an “enhanced disregard,” equal to 25 percent of any earnings in excess of \$200 a month, which could be claimed for up to 12 out of every 36 months. The basic \$200 disregard is no longer available in BC and a 12-month lifetime limit has been placed on the use of the 25 percent earnings disregard.

¹¹Participants can meet the full-time work requirement by working at more than one job. In addition, work hours are averaged over two-week periods; so a participant who works fewer than 30 hours in one week can compensate by working more than 30 hours in the second week and still qualify for full supplementation for both weeks.

¹²As long as participants initiate supplement payments within the 12-month period available to them to do so, they remain eligible to receive supplements anytime they are working full-time during the next 36 months. They can stop and restart employment (and supplement receipt) any number of times within this three-year period.

¹³There have been periodic increases in these reference levels since the project began in order to reflect changes that have taken place in average earnings and in income-assistance entitlements. In 1998, the levels were set at \$32,050 in New Brunswick and \$37,625 in British Columbia.

¹⁴In this case, what was actually measured was a “delayed exit effect” determined by whether people prolonged their stay on welfare in order to become eligible for SSP’s supplements. The findings showed that the percentage of the program group that remained on welfare for a year was approximately three percentage points higher than for the control group. The simple group mean difference was 2.6 percentage points and was not statistically significant. When the impact was adjusted by means of an ordinary least-squares regression model that included 42 baseline characteristics as co-variables, the estimate was 3.1 percentage points and was just statistically significant at the 0.10 level. Results of the entry effects experiment are reported in Card, Robins and Lin (1997) and Berlin *et al.* (1998).

¹⁵Members of the SSP recipient sample had been receiving welfare for *at least one year*; those in the applicant sample qualified for SSP with the minimum requirement of *just one year* in receipt of welfare. At the time of random assignment, 76 percent of the recipient sample had been receiving welfare for two or more of the previous three years and 42 percent had been receiving welfare continuously for at least three years. In the applicant sample, all those who qualified for SSP's supplement had been receiving welfare for the previous 12 months; however, at the time of random assignment a year earlier, the average member had spent only three of the preceding 24 months on welfare.

¹⁶SSP is using a balanced random assignment design. Half of the recipient and applicant samples were assigned to the group that was eligible for the program. The remainder were assigned to a control group. In the case of SSP Plus, there were 299 program group members eligible for the financial incentive plus employment services. During the period of SSP Plus enrolment in New Brunswick, three-way random assignment was used to allocate the sample equally to the SSP Plus group, to the group eligible for the financial incentive alone, or to the control group.

¹⁷Displaced workers, defined as those who had at least three years of employment and who were currently experiencing a permanent job loss, were enrolled in Granby, Oshawa, Toronto, Winnipeg, and Saskatoon. Repeat users of unemployment benefits, defined as those who were applying for benefits for at least the fourth consecutive year, were enrolled in St. John's, Halifax, Moncton, and Lévis. During the enrolment period, each site enrolled participants for 12 months, with the exception of Lévis, where enrolment took place between September 1995 and June 1996.

¹⁸Eligible ESP participants are also able to qualify for supplementation by finding a job that does not entail any immediate earnings reduction. Although no supplement payments are made for such employment, this establishes the participant's eligibility for future supplementation in the event that, during the two-year period of supplement eligibility, the participant's earnings do fall below those in the previous job. Some commentators have suggested that this form of guarantee against catastrophic earnings losses should be available to workers who may be displaced in order to compensate them financially, since they disproportionately bear the cost of adjustments that are

necessary for others to benefit from economic growth. See, for example, Bailey, Burtless and Litan (1993). In ESP, however, almost no one initiated ESP eligibility without an immediate earnings loss.

¹⁹For a summary of the results of the bonus experiments, see Meyer (1995). In the case of the Illinois results, Meyer points out that the cost-effectiveness of the program tested was due in large part to the low take-up of bonus payments by participants who appeared to have qualified for them. He argues that if bonuses were a permanent feature of the UI system, with more widespread knowledge of the program, a higher percentage of "qualifiers" would take advantage of them.

²⁰For a detailed description of ESP's program model and information on how the project was implemented, see Bloom *et al.* (1997).

²¹This means that the longer a participant takes to find a suitable job (within the maximum allowable job-search period), the shorter is the period that the participant can potentially collect supplement payments. This provides an additional incentive to participants to find work quickly.

²²As with SSP, hours are averaged over a two-week period in determining supplement eligibility.

²³Originally, it was intended to conduct a follow-up survey of repeat users of unemployment benefits as well. However, the very low take-up rate among participants in this part of the study meant that it was unlikely that ESP would produce any detectable impact and, therefore, the cost of a follow-up survey to collect information on labour market outcomes was not justified.

²⁴Of course, it is possible that a large-scale program that supplemented the earnings of low-wage workers would increase the supply of such workers, thereby exerting downward pressure on market wage rates. Any reduction in wage rates could lead to an increase in the amount of labour demanded (jobs offered) by employers, thereby increasing the total number of jobs available.

²⁵As discussed by Greenberg *et al.* (1995), any program that offers financial incentives to encourage work effort inevitably makes some payments to people who would have gone to work anyway. Of course, if the incentive is focused on poor people, then even though these windfall recipients do not directly increase their employ-

ment, they do experience an increase in total income and are less likely to be poor.

²⁶See Moffitt (1992, 1996) for a review of these effects in the US welfare system.

²⁷See Ruhm (1991) for a discussion of the scarring effects of prolonged unemployment.

²⁸Belzil (1996) finds that unemployed job search is slightly more effective than employed job search for younger workers in terms of the number of job offers received and the wages offered; but unemployed job search is significantly less effective for mature workers.

²⁹Meyer (1995) suggests that entry effects could be a serious problem for the type of bonuses tested in the Re-employment Bonus Experiments if they were made a permanent program. A short period of unemployment would be less costly, which might increase employers' willingness to lay workers off for brief periods; or workers might extend their periods of unemployment long enough to qualify for UI benefits and subsequent re-employment bonuses. A Canadian illustration of this problem was provided by the introduction, in October 1989, of the Supports to Employment Program (STEP) for income-assistance recipients in Ontario. STEP increased the earnings exemption and redefined the earnings used in calculating the exemption. It also provided some special benefits to income-assistance recipients who went to work (for example, a payment toward the first month's child-care expenses and a lump-sum start-up benefit to cover the initial costs of taking a new job). Shortly after STEP was introduced, the number of welfare cases in Ontario began to rise. The average General Welfare Assistance caseload increased by 32 percent in 1990 and by a further 62 percent in 1991. It is impossible to disentangle the impact of the more generous STEP benefits from the effects associated with the recession, which hit Ontario particularly hard between 1990 and 1992. However, the Ontario government was sufficiently concerned that, in August 1992, it introduced the "STEP-notch," which withheld eligibility for most STEP benefits until after new welfare entrants had been in receipt of income assistance for three months. This action was prompted, at least in part, by a concern that low-income workers were seeking to qualify for welfare in order to receive STEP benefits. I would like to thank John Stapleton, Ontario Ministry of Community and Social Services, for providing me with

information on this example of a policy response to a perceived entry effect.

³⁰In this case, the offer of a financial incentive serves principally as an inducement to get people to participate in the assisted job-search activity. The real treatment would actually be the job-search help, which would probably be much cheaper than an earnings supplement. See Friedlander and Gueron (1990); Gueron and Pauly (1991); and Friedlander and Burtless (1995) on the effectiveness of low-cost, job-search programs for income-assistance recipients.

³¹For complete 18-month impact results, see Lin *et al.* (1998).

³²After the first year, no further program group members can take up the supplement, and some of those who did so previously will lose or leave their employment. The employment rate of the control group can be expected to continue to rise gradually. Therefore, a portion of SSP's impact — that associated with speeding up the employment of income-assistance recipients who would have gone to work eventually — will dissipate over time.

³³In the fifth quarter after random assignment, the impact on the percentage of people who did any work at all was 13 percentage points (the overall employment rates of the program and control groups were 41 percent and 28 percent, respectively). There was only a modest reduction of 2.2 percentage points in the part-time employment (11.7 percent in the program group versus 13.9 percent in the control group).

³⁴Statistically significant impacts on full-time employment, ranging from 9.2 percentage points to 23.2 percentage points, were estimated for a number of sub-groups defined according to baseline characteristics (for example, participant's age, number and age of children, educational attainment, with or without self-reported limitations on their ability to accept employment, working full- or part-time at baseline or unemployed and not looking for work).

³⁵The relative generosity of the SSP offer differs somewhat between British Columbia and New Brunswick because of differences in provincial income-assistance programs and the different "earnings reference levels" set for each province. Furthermore, the SSP offer does not take into account family composition, whereas welfare

benefits do; so the SSP offer is relatively less generous for families with more children.

³⁶The SSP payments are taxable, as, of course, are participants' earnings. Income-assistance payments are not taxable.

³⁷In the fifth quarter after random assignment, for example, an average of 83 percent of the control group was receiving income assistance; but 90 percent of program group members were receiving either income assistance (80 percent) or SSP supplement payments (20 percent).

³⁸For complete 18-month findings, see Quets *et al.* (1999).

³⁹Around 47.9 percent of the SSP Plus group took part in a job-search program compared to 31.9 percent of the regular SSP group and 26.7 percent of the control group. The difference between the regular SSP group and the control group was not statistically significant. The differences between SSP Plus and regular SSP and between SSP Plus and the control group were significant at the 0.01 level.

⁴⁰Here we use the rates only for those assigned to the recipient sample program group and to the control group during the period of three-way random assignment in New Brunswick.

⁴¹It should be noted, however, that with a combined sample of about 1,000 in the three groups, only relatively large estimates of differential impacts are likely to be found to be statistically significant.

⁴²At the 0.01 significance level.

⁴³For complete findings, see Card, Robins and Lin (1999).

⁴⁴Card, Robins and Lin (1999) discuss why this assumption may not be strictly correct in this case. The adjusted impacts are nonetheless presented as a plausible upper bound on the impacts of an SSP program that targeted those who had been on welfare just one year.

⁴⁵This is equivalent to the "no-show" adjustment that was made in estimating "impacts per enrollee" in the evaluation of the *Job Training Partnership Act*. For a discussion of this adjustment and the conditions under which it is appropriate, see Bloom (1984).

⁴⁶For complete findings, see Tattrie (1999).

⁴⁷For complete findings, see Bloom *et al.* (1999).

⁴⁸In fact, 27 percent of supplement group members qualified to receive supplement payments by quickly finding a new full-time job that paid less than their previous one. Only 72 percent of these "supplement qualifiers" actually received supplement payments, however. Those with the highest expected payments were the most likely to apply for and receive them; many of those whose earnings made them eligible for only small supplement payments did not bother to apply for them.

⁴⁹About 12 percent of the supplement group members qualified for "earnings insurance" by quickly finding a new full-time job that paid as much or more than their previous job; but only one in eight of these qualifiers bothered to initiate (register for) their earnings insurance. Of this very small group, only seven people ever used their earnings insurance to subsequently obtain supplement payments.

⁵⁰These estimates are statistically significant at the 0.01 and 0.05 significance levels respectively.

⁵¹ESP increased the percentage of displaced workers who were employed anytime during the first six months following random assignment by 2.3 percentage points and decreased the percentage who were employed only part-time during that period by 2.1 percentage points.

⁵²The data on financial hardship were collected by means of the 15-month participant follow-up survey. It must be remembered, however, that only two of ten supplement group members actually received a supplement payment; and, consequently, only this small group could have experienced the financial benefits of the supplement. In-depth interviews were conducted with 31 supplement recipients who had experienced large re-employment earnings losses and had received large supplement payment until they reached the end of their two-year eligibility period. For these recipients, ESP was indeed an important source of income. The supplement payments helped them meet their financial obligations and, for most, the loss of the supplement was at least somewhat difficult.

⁵³As pointed out by an anonymous referee, this approach makes other simplifying, and perhaps unrealistic, assumptions; for example, ignoring any deadweight costs associated with raising the tax money to finance the program and setting the value of participants' non-market time at zero.

⁵⁴Paragraph 59 of the *Employment Insurance Act* states that “The [Canada Employment Insurance] Commission may establish employment benefits to enable insured participants to obtain employment, including benefits to ... (b) encourage them to accept employment by offering incentives such as temporary earnings supplements.” By producing information to inform the implementation of this provision, the ESP experiment was, as described by an anonymous referee, a useful and enlightening failure.

⁵⁵Depending on the policy objectives, it may not be appropriate to look for the least-generous supplement that will produce the desired work effect. To the extent that the policy is aimed at lifting people out of poverty, a somewhat more generous program of earnings supplementation may be desirable.

⁵⁶It is also interesting that 28 percent of those who met the qualifying conditions for a supplement did not bother to apply for one. These appeared to be mainly people who would qualify for small payments or whose payments would last only a short time.

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TABLE A1
Summary of Findings from the Self-Sufficiency Project and the Earnings Supplement Project

	Self-Sufficiency Project			Earnings Supplement Project		
	Main Recipient Sample	SSP Plus Sample	(differential impact)	Applicant Sample (adjusted)	Repeat EI Users	Displaced Workers
Take-up rate (%) (%age points)	35.2	51.7	(+17.0)	(45.0)	4.7	20.5
Impacts on:						
Full-time employment (%age point change)	+15.2	+17.4	(+2.4)	(+21.0)	n.a.	+4.4
Earnings (% change) (%age points)	+61.5	+54.3	(+16.7)	(+66.8)	n.a.	-4.6
Incidence of income- assistance receipt (%age point change)	-13.0	-20.4	(-3.9)	(-20.2)		
Weeks of EI benefits	—	—	—	—	+0.4 wks	+0.2 wks
Net cost (monthly cost per program group member)	+\$55	+\$79	(0)	-\$29	+\$23	+\$89

Notes:

- SSP Plus differential impacts are not based on a comparison of the main recipient and SSP Plus results shown in columns 1 and 2 of the table. Rather, they are derived by comparing SSP Plus impacts (col. 2) to the SSP impacts on only that portion of the recipient sample enrolled in New Brunswick during the period of three-way random assignment. One anomaly is that the increase in earnings produced by the SSP financial incentive alone was much lower for this sub-sample (an increase of 37.6 percentage points) than for the full SSP recipient sample. This may be an artifact of the small sample size.
- The adjusted take-up rate for the SSP applicant sample refers to the take-up rate among those who remained on welfare long enough to establish eligibility and the adjusted impacts refer to the impacts per eligible program group member, rather than the full-sample impacts.
- For SSP, impacts on employment, earnings and incidence of income-assistance receipt are calculated for the fifth quarter after random assignment for the recipient and SSP Plus samples; and the ninth quarter after random assignment for the applicant sample (the equivalent point in time for those who established eligibility); while the net cost estimates are based on data for the six-month period preceding the follow-up surveys.
- For ESP, the impact on the employment of displaced workers refers to the six-month period following random assignment; the impacts on earnings, weeks of EI receipt and net cost are based on data for the 15 months after random assignment.