

# **The Self-Sufficiency Project: Three Randomized Experiments for Welfare Recipients in Canada**

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May 22, 2008

# Financial Incentive Programs

- In recent years, in many countries, there has been a renewed interest in the use of financial incentives to encourage work effort among low-income individuals
- In the U.S., the largest financial incentive program is the Earned Income Tax Credit (EITC)
- The UK has the Working Tax Credit (WTC)
- France has the *Prime pour l'Emploi* (PPE)
- Welfare programs in the U.S. have “earnings disregards” aimed at encouraging work
- Welfare programs in France have *interéssement*

## Financial Incentive Programs (cont.)

- Financial incentive programs represent the “carrot” approach to encouraging work (making work pay)
- This is in contrast to the “stick” approach, which conditions benefit receipt on fulfilling work obligations (work requirements)

# Financial Incentive Programs (cont.)

- Financial Incentive programs first became popular in the 1960s, when a series of randomized experiments testing a “negative income tax,” or NIT, were conducted in the U.S. and Canada
- The NIT was first proposed by economists Milton Friedman, James Tobin, James Meade, and Robert Lampman
- Versions of an NIT were proposed by the Nixon and Carter administrations, but were never enacted
- The last NIT experiment (the Seattle-Denver Income Maintenance Experiment) ended in 1983

## Financial Incentive Programs (cont.)

- Part of the reason the NIT was not enacted was because of adverse effects on work effort that were found in the experiments
- Adverse effects on marital stability were also found and added to the skepticism about the program
- In ensuing years, the challenge was to design a program that encouraged rather than discouraged work

## Financial Incentive Programs (cont.)

- In 1975, the U.S. enacted the Earned Income Tax Credit (EITC), which had elements of an NIT but also encouraged work through a wage subsidy at low incomes
- The EITC was initially a modest program, but has been greatly expanded since 1975 and now provides an annual subsidy of up to \$5,000 for certain families
- Despite its growth and popularity, the EITC has never been tested experimentally on a pilot basis using random assignment methods

# The Self-Sufficiency Project (SSP)

- Perhaps the most dramatic test of financial incentives for low-income families since the NIT experiments is SSP
- SSP was an experimental program for welfare recipients conducted in two Canadian provinces (British Columbia and New Brunswick) during the 1990s
- The experiment was jointly evaluated by SRDC and MDRC

## SSP (cont.)

- There were actually three SSP experiments, each with a different objective
- SSP provided a generous income supplement for up to three years to welfare recipients who worked 30 or more hours per week



## SSP (cont.)

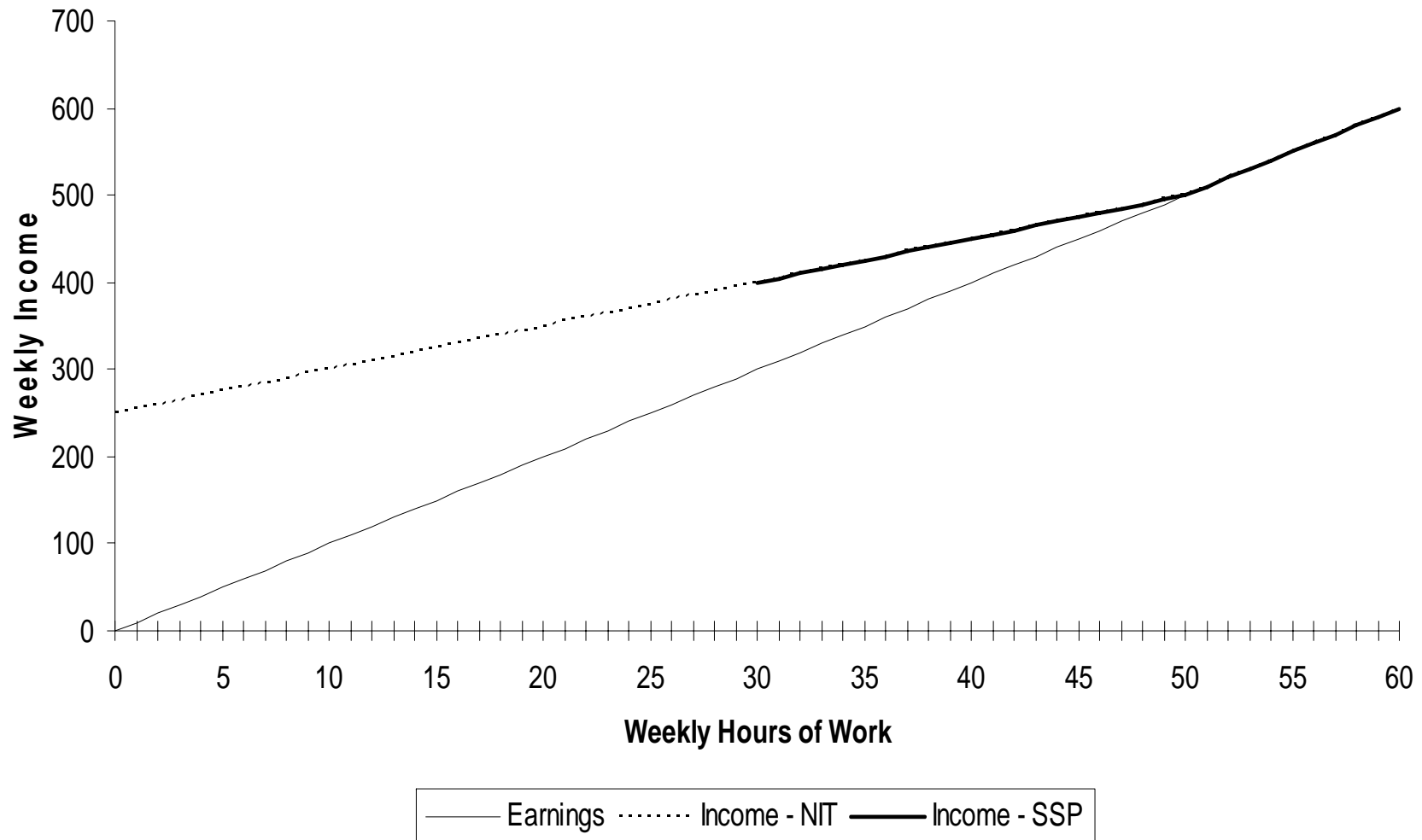
- SSP was a voluntary alternative to welfare
- Recipients had up to one year to find full-time employment
- Supplement paid half the difference between an earnings target ( $E^*$ ) and actual earnings ( $E$ )
- Supplement =  $.5 \times (E^* - E)$
- $E^*$  was initially \$37,000 in BC and \$30,000 in NB (Can \$)
- The supplement effectively doubled the hourly wage for most recipients
- One of the experiments also tested the effects of employment services in addition to the financial incentive

# Comparing SSP With An NIT

- The SSP program is very similar to an NIT in that it provides a basic benefit and phases out the benefit as income rises
- SSP differs from an NIT in that work is required in order to receive the benefit.
- The SSP program is similar to the Working Tax Credit in the UK, except the weekly work requirement is 16 hours in the UK program
- In its originally proposed form, an NIT is intended to replace all other transfer programs for low-income families
- SSP, on the other hand, was tested as an alternative to Canada's basic welfare program, so families could choose one or the other
- SSP's generosity relative to basic welfare is what makes it so attractive

# Comparing SSP to an NIT

(Wage = \$10/hour)

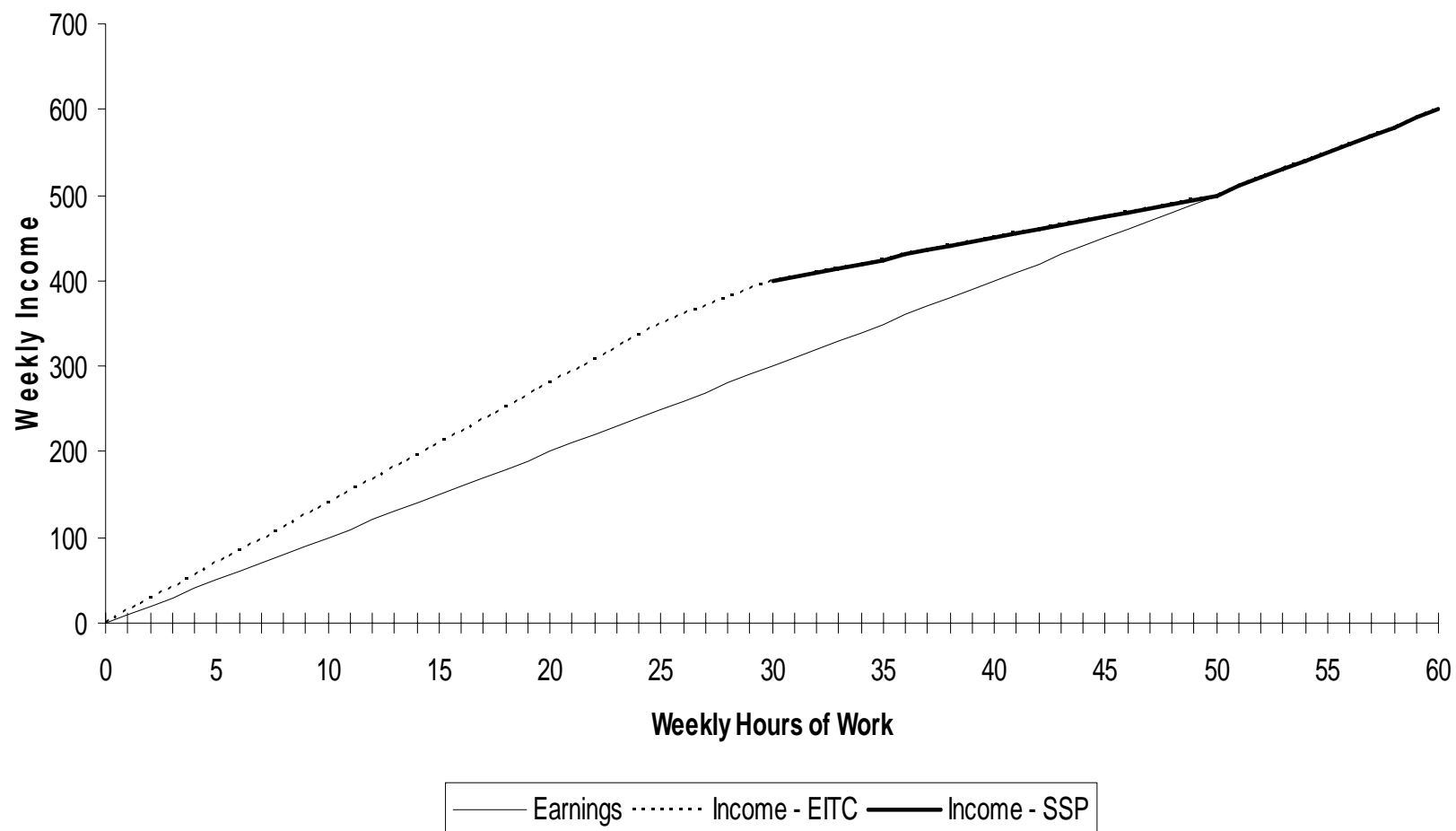


# Comparing SSP to the EITC

- SSP is similar to the EITC in that it phases out benefits for higher income families
- SSP is also similar to the EITC in that it is an alternative to welfare, although unlike SSP welfare benefits can still be received by EITC recipients
- SSP does not provide benefits for part-time work, however
- The EITC provides a wage subsidy for part-time work (currently up to 40% for families with two or more children)

# Comparing SSP to the EITC

(Wage = \$10/hour)



## Features of the Three SSP Experiments

	<b>SSP Recipient Study</b>	<b>SSP Applicant Study</b>	<b>SSP Plus Study</b>
<b>Target Group</b>	Long-term welfare recipients (>1 year)	Recent welfare applicants	Long-term welfare recipients
<b>Treatment</b>	Work-conditioned earnings subsidy	Work-conditioned earnings subsidy	Work-conditioned earnings subsidy plus employment services
<b>Site(s)</b>	British Columbia New Brunswick	British Columbia	New Brunswick
<b>Main objective</b>	Impact on full-time employment and income	Size of “entry effects”	Additional impact of employment services
<b>Time of experiment</b>	1992 - 1999	1994 - 2001	1994 - 1999
<b>Sample Size</b>	5,729	3,315	892 (3-way design)
<b>Take-up rate</b>	37%	27%	52%

# SSP Recipient Study

- The SSP Recipient Study was the main SSP experiment
- It is considered by some to have been one of the most successful social experiments ever undertaken, having doubled full-time employment during its peak years
- Data used to estimate the impacts of SSP came from 4 household surveys (baseline, and 18, 36, and 54 month follow-ups) plus administrative welfare and program records
- Sample attrition was modest and 86 percent of the baseline sample completed all surveys

# Results from SSP Recipient Study

- About 36% of recipients received a supplement
- Program was reasonably well targeted – 60% of supplement recipients were given to persons induced by the financial incentive to find full-time employment.
- The remainder (windfall recipients) received supplement payments, but would have worked full-time anyway
- For these windfall recipients, the supplement provided additional income



## Results from SSP Recipient Study (cont.)

- While the SSP Recipient Study had large effects on full-time employment, income, and poverty during its peak years, these effects gradually disappeared toward the end of the three-year program period
- The absence of long-term effects has been attributed to two factors
  - Recipients took low-wage jobs to qualify that were inherently unstable
  - The low-wage jobs exhibited no wage growth so at the end recipients had similar job prospects as control group members
- Although government transfer payments increased, SSP had a sizable positive net benefit to society

# SSP Recipient Study

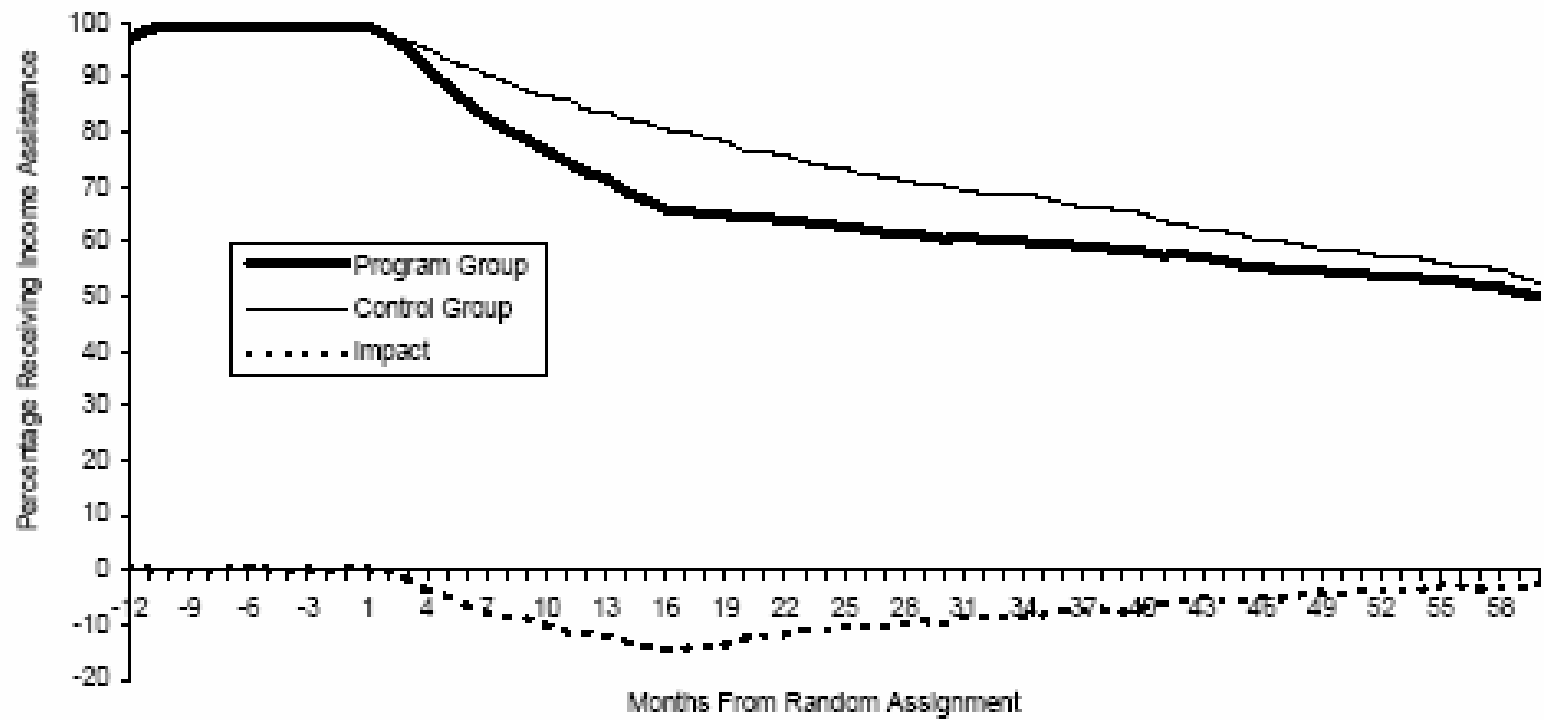
## Program and Control Group Full-Time Employment Rates and Impacts on Full-Time Employment by Month



SSP Recipient Study  
Program and Control Group Part-Time Employment Rates  
and Impacts on Part-Time Employment by Month



Receipt of Income Assistance in the SSP Recipient Study, by Months From Random Assignment



**Five-Year Estimated Net Gains and Losses per SSP Regular Program Group Member  
by Accounting Perspective (In 2000 Canadian Dollars)**

<b>Component of Analysis</b>	<b>Accounting Perspective</b>		
	<b>Program Group</b>	<b>Government Budget</b>	<b>Society</b>
<b>Financial effects (\$)</b>			
Transfer payments	3,173	-3,173	0
Transfer payment administration <sup>a</sup>	0	-232	-232
Operating cost of SSP <sup>b</sup>	0	-1,267	-1,267
Program Management Information System <sup>b</sup>	0	-37	-37
Supports for work <sup>c</sup>	108	-108	0
Earnings and fringe benefits	4,100	0	4,100
Taxes and premiums <sup>d</sup>	-1,732	1,732	0
Tax credits	-394	394	0
<b>Net gain or loss (net present value) (\$)</b>	<b>5,256</b>	<b>-2,691</b>	<b>2,565</b>

# SSP Plus

- When designing SSP, it was recognized that welfare recipients may face formidable barriers to finding and sustaining full-time employment
- While the financial supplement might help overcome many of these barriers, additional resources might be necessary
- This was confirmed early on when 43 percent of those who did not initiate the supplement cited inability to find a job as the primary reason

## SSP Plus (cont.)

- The designers of SSP decided to test a variant of SSP in which job-search and other related employment services were provided in addition to the generous financial supplement
- The variant, called *SSP Plus*, was tested on a small group of families in New Brunswick

## SSP Plus (cont.)

- The goal of SSP Plus was to determine whether combining services with a financial incentive could enhance the effects of the supplement alone
- Specifically, it was hoped that the addition of services could overcome the barriers that prevented long-run impacts of the supplement alone



# Design of SSP Plus

- From November 1994 through March 1995, 892 families were randomly assigned in approximately equal numbers to three groups
  - An SSP Regular group that was offered only the financial supplement (n=296)
  - An SSP Plus group that was offered employment services in addition to the financial supplement (n=293)
  - A control group that was offered neither (n=303)

## Design of SSP Plus (cont.)

- This design enabled estimation of the impact of the financial supplement alone as well as the *incremental* (or *additional*) impact of the services
- This design did not enable estimation of the impact of the services alone, but many other programs have tested (and are testing) various types of employment services (welfare-to-work-programs)

# SSP Plus Services

- SSP Plus services were intended to surpass those available in the community to SSP Regular and control group members
- The SSP Plus services included
  - Résumé service
  - Job club
  - Job coaching
  - Job leads
  - Self-esteem workshop
  - Other workshops covering specific employment-related issues such as job-loss or job-upgrading

## SSP Plus Services (cont.)

- It is important to note that SSP Plus members were not required to use these services
- The services were intended to be an additional benefit that could perhaps stimulate greater program take-up and more sustainable employment

# Service and Supplement Receipt

- Higher use of job-search services by SSP Plus members
- Higher supplement take-up by about the same margin (50% versus 36% for SSP Recipient group)
- No incremental impacts on other services

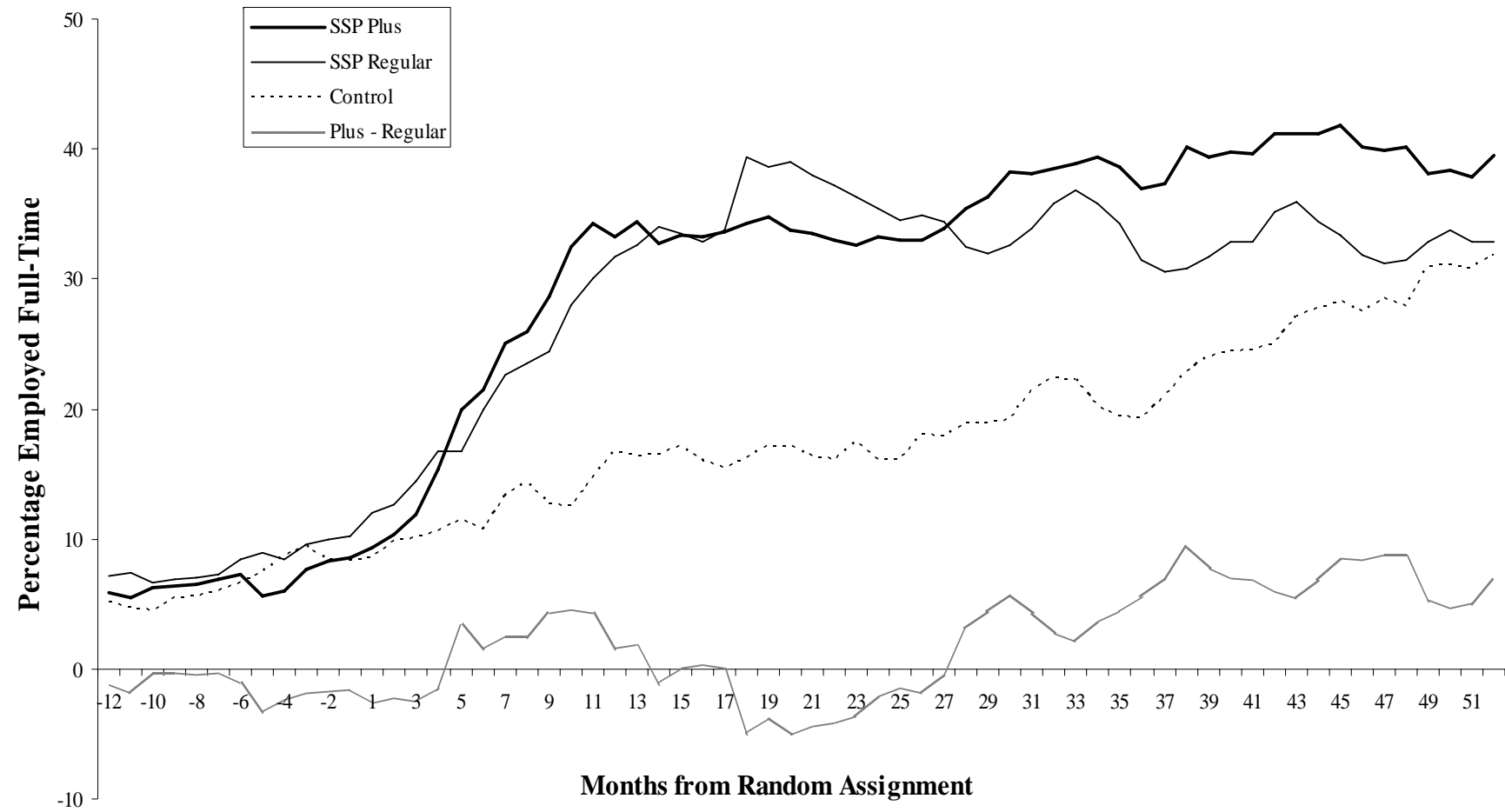
### Service and Supplement Receipt and Incremental Impact of SSP Plus

	Outcome Levels			Plus vs. Regular
	SSP Plus Program Group	SSP Regular Program Group	Control Group	Incremental Impact of SSP Plus
<b>Outcome</b>				
<b>Ever since random assignment (%)</b>				
<b>Received Services</b>				
Took part in job-search program such as job club or job-search workshop	50.9	37.8	35.0	13.1 ***
Took part in life-skills program such as money management or parenting	12.4	12.0	11.7	0.3
Received counseling for personal problems	37.0	39.4	36.5	-2.4
Participated in work-related training or education	23.5	25.6	25.0	-2.1
Participated in NB Works	9.6	10.7	9.9	-1.1
Took courses toward completion of high school diploma, college diploma, or university degree	22.7	20.9	23.4	1.8
<b>Received Supplement</b>				
Received at least one supplement payment	53.1	36.8	0.0	16.3 ***

# Impacts of SSP Plus

- Incremental impacts of SSP Plus on full-time employment are essentially zero over the first 36 months
- This is despite higher take-up during this period
- However, incremental impacts average close to 7 percentage points from months 36 to 52
- Existence of longer-term impacts on take-up may be due to the services helping less job-ready persons find jobs
- Existence of longer-term impacts on full-time employment may be due to the services helping takers find more sustainable and higher paying jobs

## Full-Time Employment Rates and Incremental Impact of SSP Plus





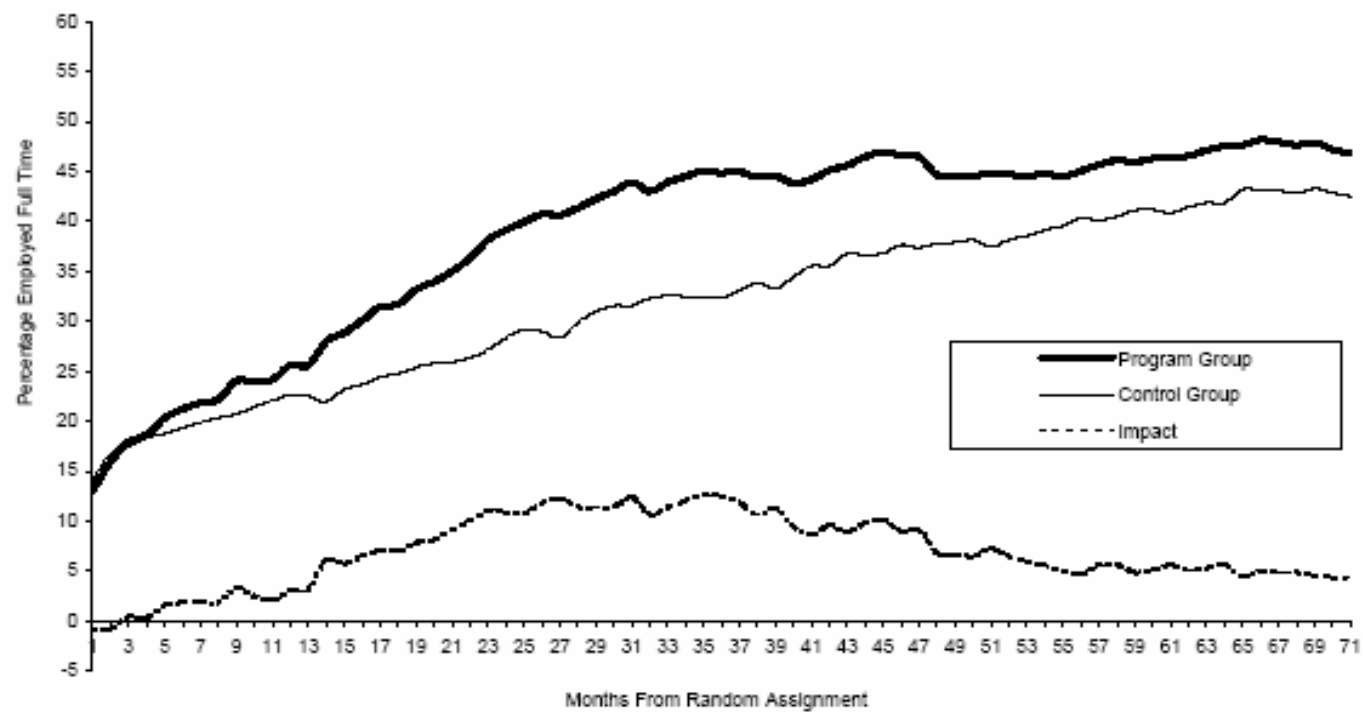
# SSP Applicant Study

- The main purpose of the SSP Applicant Study was to estimate the size of potential “entry effects”
- Two types of entry effects – people applying for welfare to get the supplement and people with normally short stays on welfare remaining on welfare longer (one year) to qualify for the supplement
- SSP Applicant Study could only measure the latter effect

## SSP Applicant Study, cont.

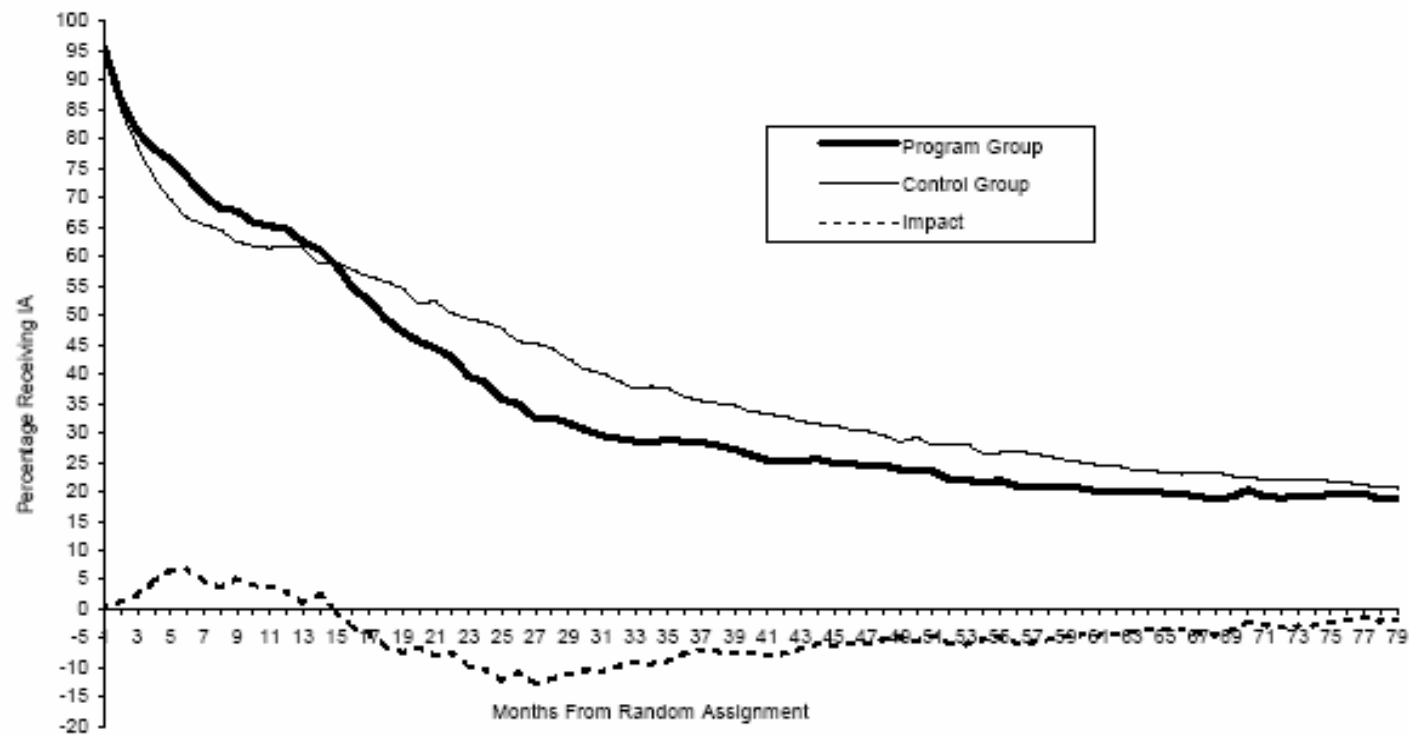
- Entry effect was statistically significant, but small, on the order of 3 percentage points
- 60% of applicants stayed on welfare for a year and became eligible for the supplement
- 50% of the eligibles took-up the supplement
- Effects on full-time employment (per eligible applicant) were larger than found in recipient study and tended to be sustained after the supplement period ended
- There were also long-term effects on income and poverty
- No long term effects on the incidence of poverty, but the poverty “gap” was reduced

Percentage Employed Full Time, by Months From Random Assignment, in the SSP Applicant Study



Sources: Baseline survey and 12-month, 30-month, 48-month, and 72-month follow-up survey data.

Percentage Receiving Income Assistance, by Months From Random Assignment, in the SSP Applicant Study



Source: Calculations from IA administrative records.

**Six-Year Estimated Net Gains and Losses per SSP Applicant Program Group Member  
by Accounting Perspective (In 2000 Canadian Dollars)**

Component of Analysis	Accounting Perspective		
	Program Group	Government Budget	Society
<b>Financial effects (\$)</b>			
Transfer payments	2,130	-2,130	0
Transfer payment administration <sup>a</sup>	0	-98	-98
Operating cost of SSP <sup>b</sup>	0	-1,060	-1,060
Program management information systems	0	-48	-48
Supports for work <sup>b</sup>	0	-484	-484
Earnings and fringe benefits	8,534	0	8,534
Taxes and premiums <sup>c</sup>	-2,775	2,775	0
Tax credits	-384	384	0
<b>Net gain or loss (net present value) (\$)</b>	<b>7,504</b>	<b>-660</b>	<b>6,844</b>

## Conclusions from SSP Applicant Study

- Almost paid for Itself (increased tax revenues from additional earnings almost as large as supplement payments and operating costs)
- Large net benefits for society
- Bigger effects than those from the Recipient Study
- Bigger effects may be due to the nature of the sample (new applicants with less of a welfare history than the long-term recipients in the Recipient Study)
- New applicants may be more job ready than long-term recipients and hence more likely to respond to the SSP financial incentive