

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

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Promoting Economic Self-sufficiency

- For several decades, policy makers in many countries have been struggling to find effective labor market strategies for reducing welfare dependency and poverty
- Two basic approaches have been tried – the “carrot approach” and the “stick approach”
- The “carrot” approach attempts to encourage work through the use of financial incentives (making work pay)
- This is in contrast to the “stick” approach, which conditions benefit receipt on fulfilling work obligations (work requirements)

The Self-Sufficiency Project (SSP)

- One recent test of the “carrot approach” is the Self-Sufficiency Project, or 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.)

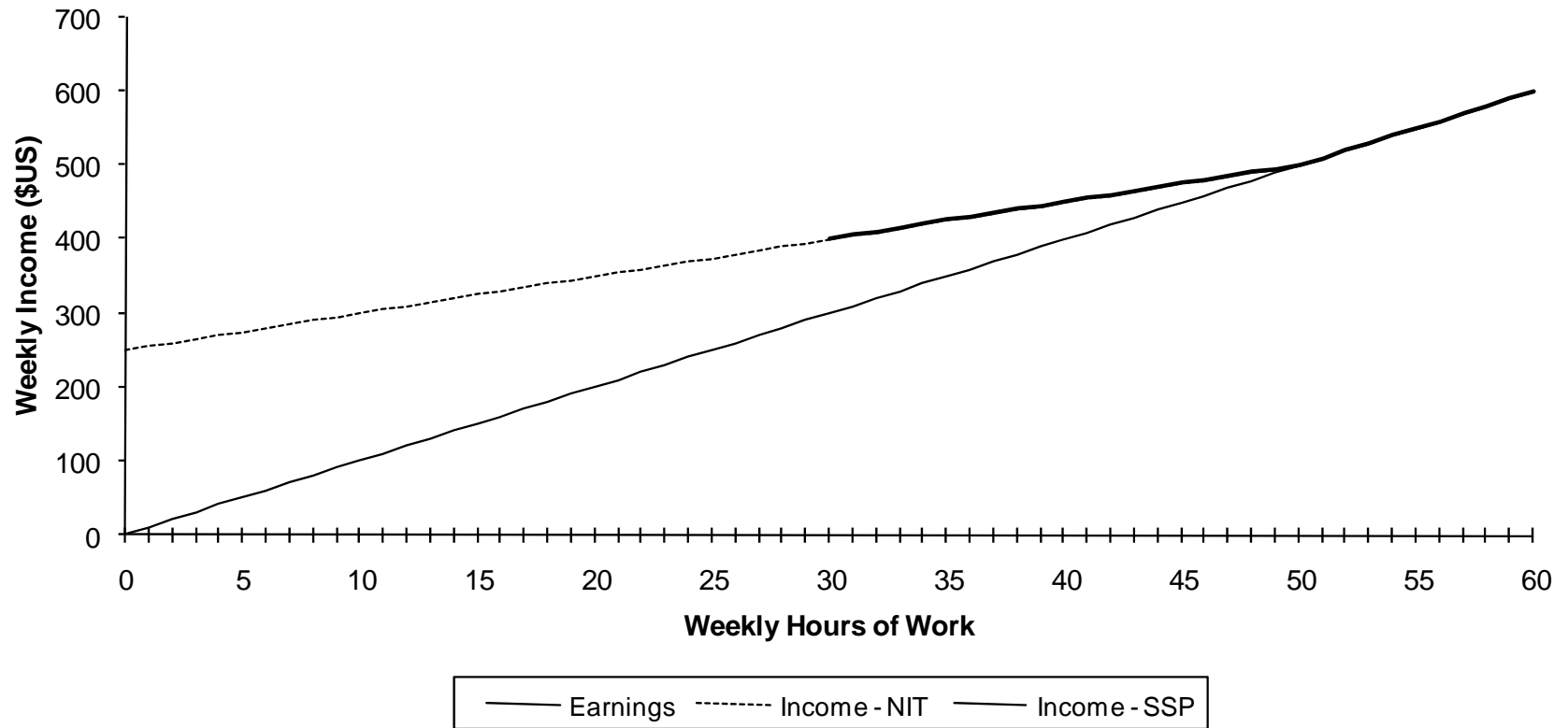
- SSP was a voluntary alternative to welfare
- Recipients had up to one year to find full-time employment
- Supplement paid half the difference between an earnings target (E^*) and actual earnings (E)
- Supplement = $.5 \times (E^* - E)$
- E^* was initially \$37,000 in BC and \$30,000 in NB (Can \$)
- 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 a Negative Income Tax (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 United Kingdom (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)

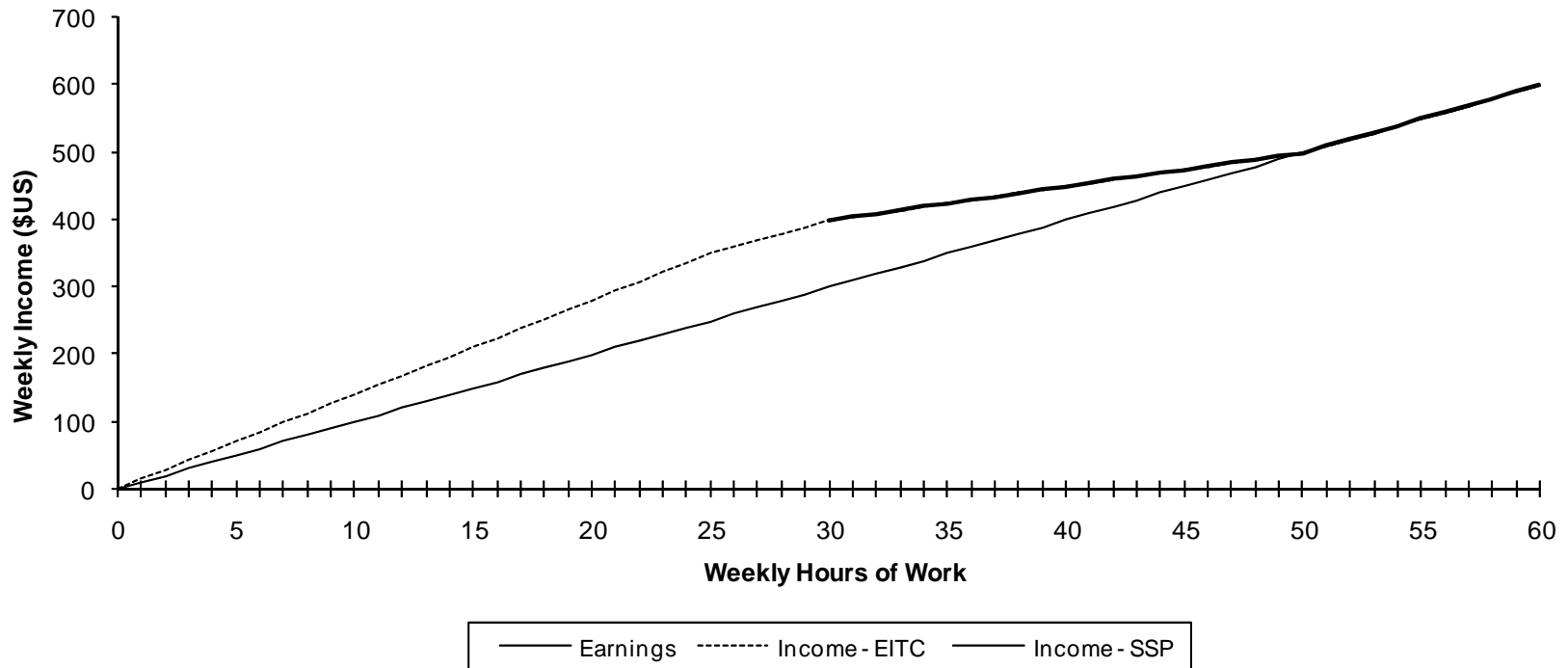


Comparing SSP to the EITC

- SSP is similar to the Earned Income Tax Credit in the United States (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

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

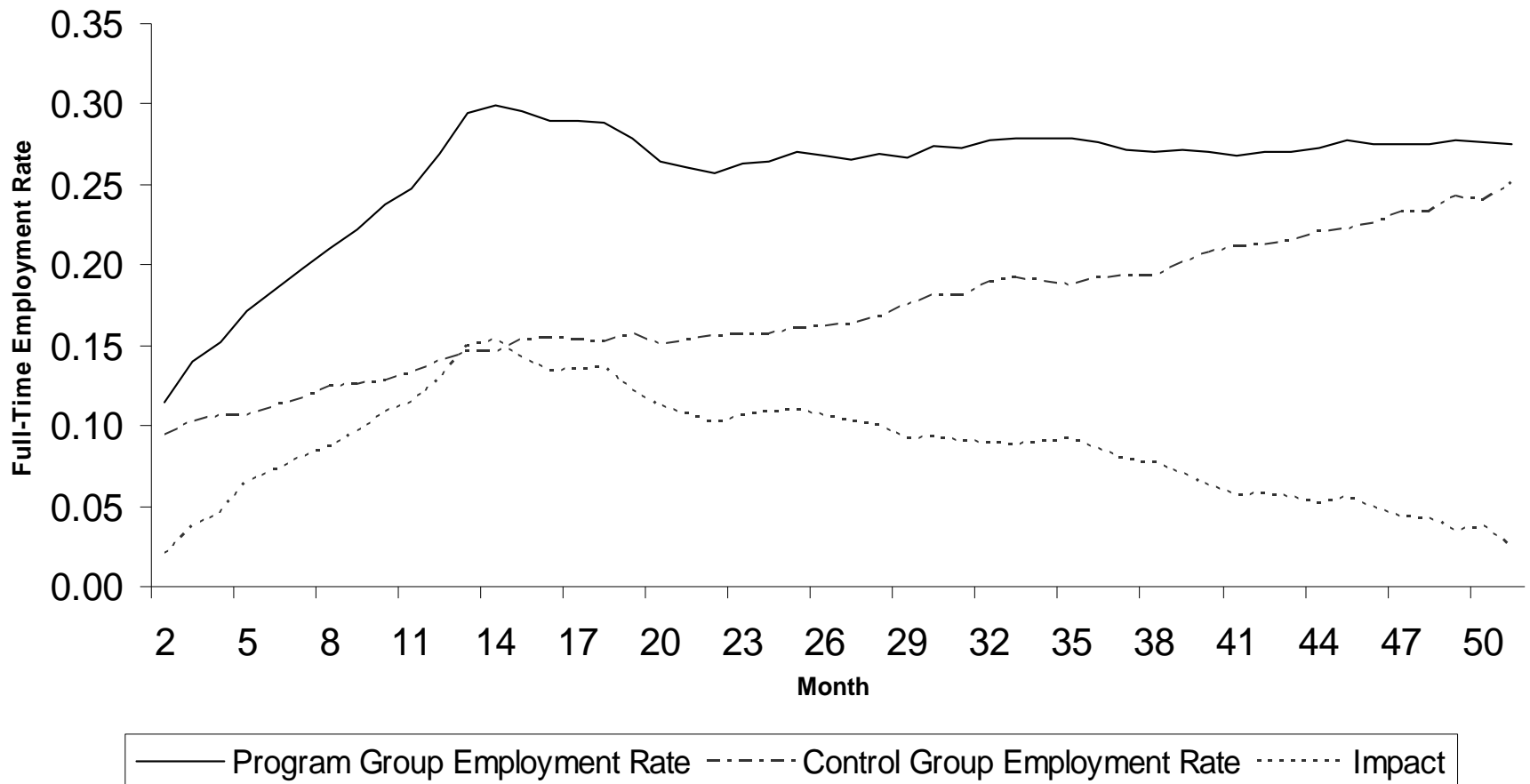
- About 36% of recipients received a supplement
- Program was reasonably well targeted – 60% of supplement recipients were given to persons induced by the financial incentive to find full-time employment.
- The remainder (windfall recipients) received supplement payments, but would have worked full-time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

Results from SSP Recipient Study (cont.)

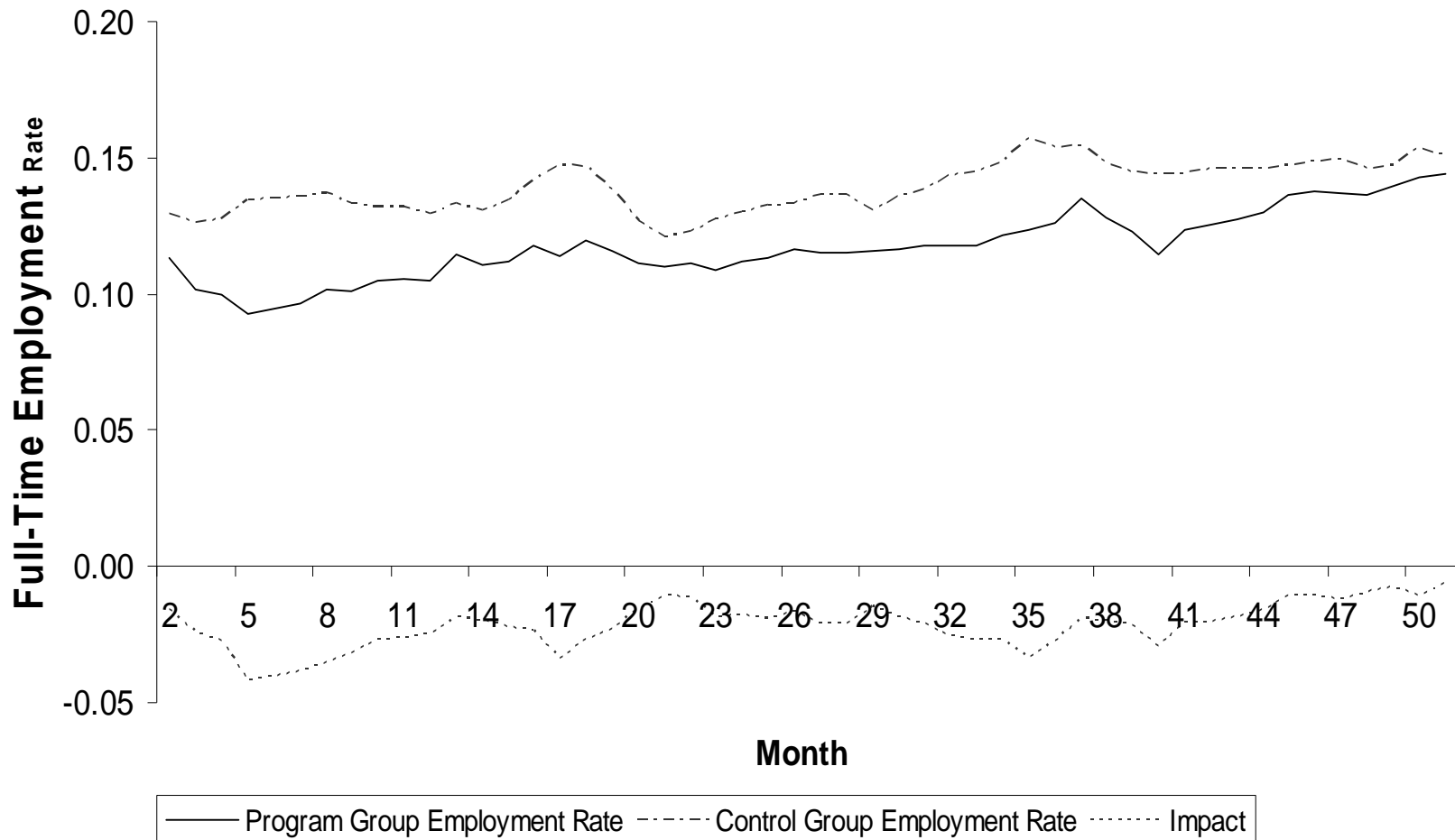
- While the SSP Recipient Study had large effects on full-time employment, income, and poverty during its peak years, these effects gradually disappeared toward the end of the three-year program period
- The absence of long-term effects has been attributed to two factors
 - Recipients took low-wage jobs 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

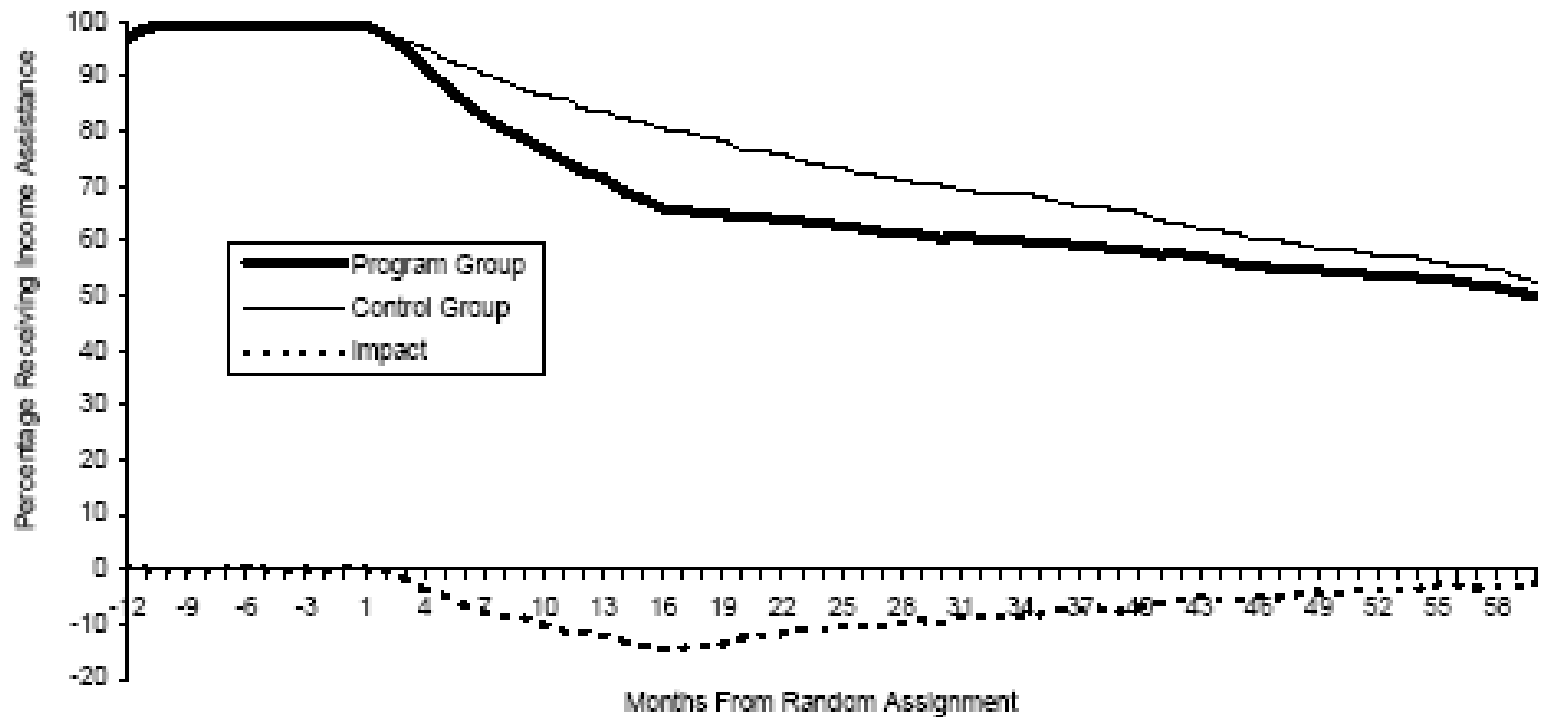
Program and Control Group Full-Time Employment Rates and Impacts on Full-Time Employment by Month



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)**

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

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

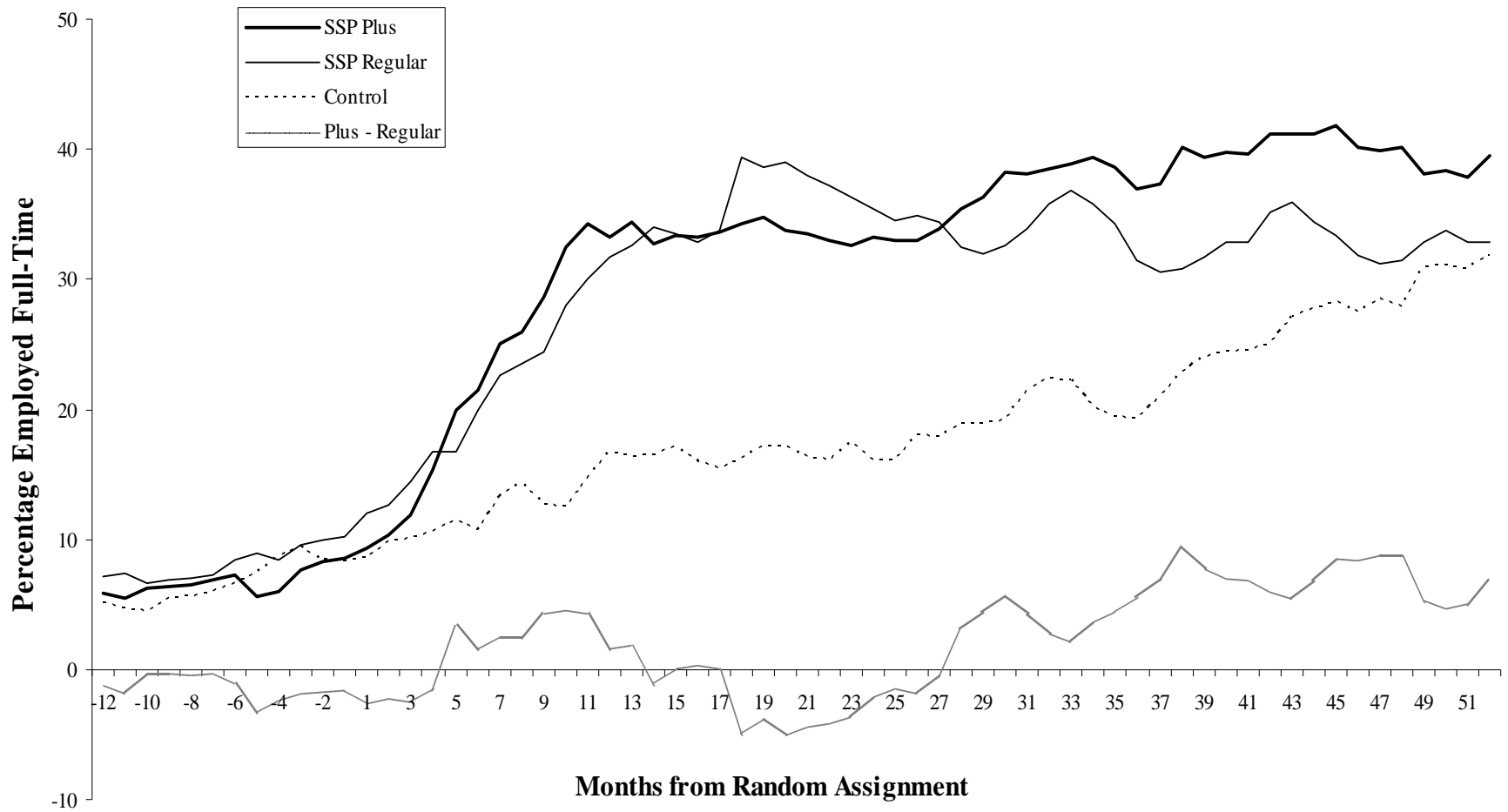
Service and Supplement Receipt

- 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

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



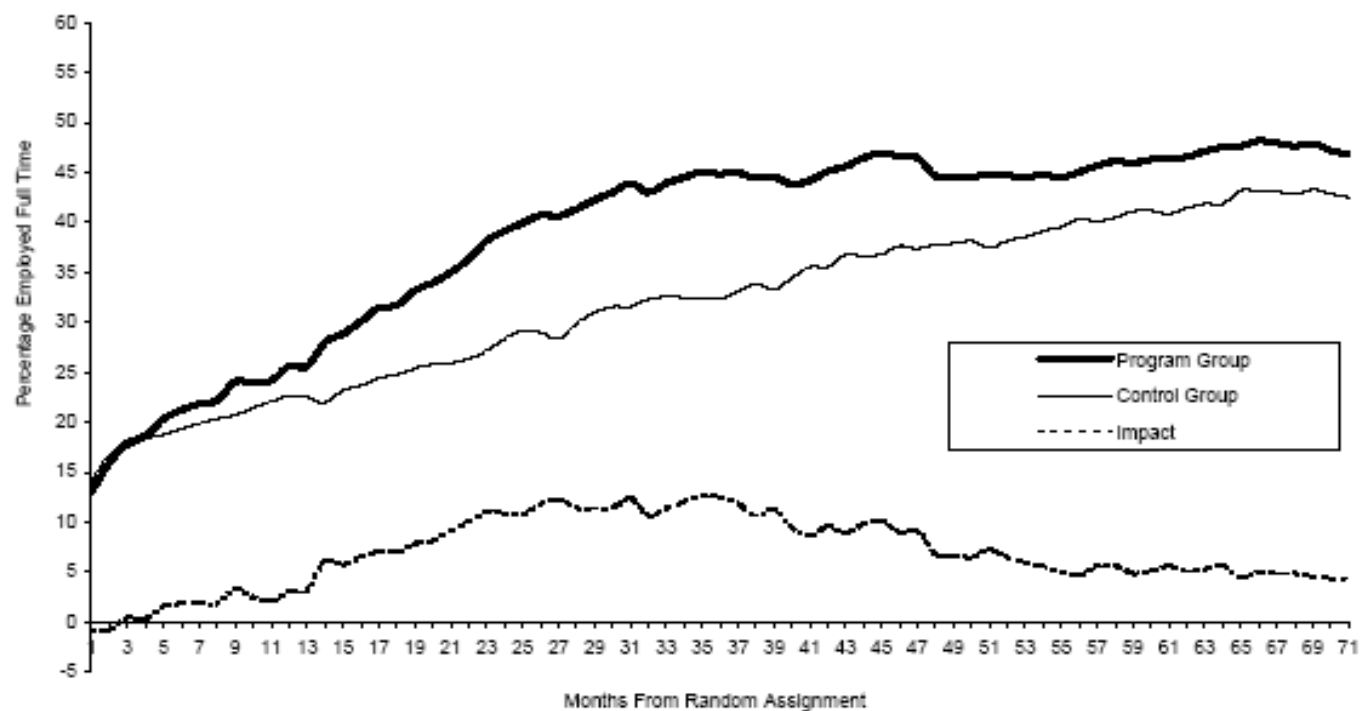
SSP Applicant Study

- 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.

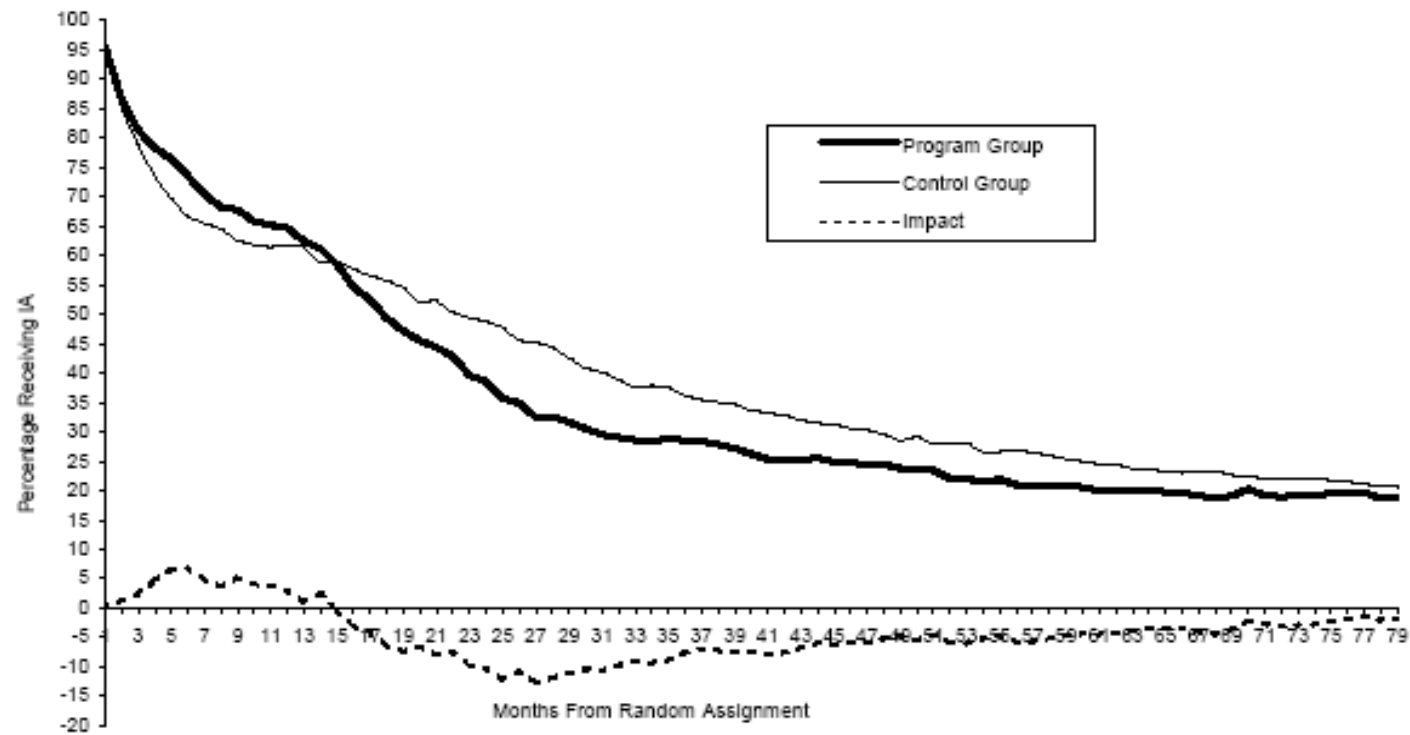
- Entry effect was statistically significant, but small, on the order of 3 percentage points
- 60% of applicants stayed on welfare for a year and became eligible for the supplement
- 50% of the eligibles took-up the supplement
- Effects on full-time employment (per eligible applicant) were larger than 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
Financial effects (\$)			
Transfer payments	2,130	-2,130	0
Transfer payment administration ^a	0	-98	-98
Operating cost of SSP ^b	0	-1,060	-1,060
Program management information systems	0	-48	-48
Supports for work ^b	0	-484	-484
Earnings and fringe benefits	8,534	0	8,534
Taxes and premiums ^c	-2,775	2,775	0
Tax credits	-384	384	0
Net gain or loss (net present value) (\$)	7,504	-660	6,844

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