

# **The Self-Sufficiency Project at 36 Months: Effects of a Financial Work Incentive on Employment and Income – Executive Summary**

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The Social Research and Demonstration Corporation (SRDC) is a non-profit organization created in 1992 with the support of Human Resources Development Canada (HRDC) to develop, field test, and rigorously evaluate social programs designed to improve the well-being of all Canadians, with a special concern for the effects on disadvantaged Canadians. Its mission is to provide policy-makers and practitioners with reliable evidence about what does and does not work from the perspectives of government budgets, program participants, and society as a whole. It accomplishes this mission by evaluating existing social programs and by testing new social program ideas at scale, and in multiple locations, before they become policy and are implemented on a broader basis.

Other SRDC reports on the Self-Sufficiency Project (SSP):

*Creating an Alternative to Welfare: First-Year Findings on the Implementation, Welfare Impacts, and Costs of the Self-Sufficiency Project.* Tod Mijanovich and David Long. December 1995.

*The Struggle for Self-Sufficiency: Participants in the Self-Sufficiency Project Talk About Work, Welfare, and Their Futures.* Wendy Bancroft and Sheila Currie Vernon. December 1995.

*Do Financial Incentives Encourage Welfare Recipients to Work? Initial 18-Month Findings from the Self-Sufficiency Project.* David Card and Philip K. Robins. February 1996.

*When Work Pays Better Than Welfare: A Summary of the Self-Sufficiency Project's Implementation, Focus Group, and Initial 18-Month Impact Reports.* March 1996.

*How Important Are "Entry Effects" in Financial Incentive Programs for Welfare Recipients? Experimental Evidence from the Self-Sufficiency Project.* David Card, Philip K. Robins, and Winston Lin. August 1997.

*Do Work Incentives Have Unintended Consequences? Measuring "Entry Effects" in the Self-Sufficiency Project.* Gordon Berlin, Wendy Bancroft, David Card, Winston Lin, and Philip K. Robins. March 1998.

*When Financial Incentives Encourage Work: Complete 18-Month Findings from the Self-Sufficiency Project.* Winston Lin, Philip K. Robins, David Card, Kristen Harknett, and Susanna Lui-Gurr. September 1998.

*Does SSP Plus Increase Employment? The Effect of Adding Services to the Self-Sufficiency Project's Financial Incentives.* Gail Quets, Philip K. Robins, Elsie C. Pan, Charles Michalopoulos, and David Card. May 1999.

*When Financial Work Incentives Pay for Themselves: Early Findings from the Self-Sufficiency Project's Applicant Study.* Charles Michalopoulos, Philip K. Robins, and David Card. May 1999.

*The Self-Sufficiency Project at 36 Months: Effects on Children of a Program that Increased Parental Employment and Income.* Pamela Morris and Charles Michalopoulos. June 2000.

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## Executive Summary

For decades, policy-makers have struggled to find policies that encourage welfare recipients to work but preserve an adequate safety net. During the 1990s, many Canadian provinces introduced policies to encourage work by reducing basic assistance levels, instituting programs that provided work experience, or imposing sanctions on able-bodied recipients who did not look for work. In 1996, the block fund Canada Health and Social Transfer program provided provinces with greater flexibility in designing their programs, and provinces responded by stepping up their efforts. While a number of strategies have been found to encourage welfare recipients to work, people who move from welfare to work often end up no better off financially, because their increased earnings are offset by reduced amounts of public assistance.

The Self-Sufficiency Project (SSP) meets this challenge head-on. Conceived and funded by Human Resources Development Canada (HRDC), SSP is a research and demonstration project to test a policy innovation that makes work pay better than welfare. Managed by the Social Research and Demonstration Corporation (SRDC), and evaluated by the Manpower Demonstration Research Corporation (MDRC) and SRDC, SSP was run in New Brunswick and the lower mainland of British Columbia from November 1992 to December 1999. SSP offered a *temporary earnings supplement* to selected single-parent, long-term Income Assistance (IA) recipients, about 95 percent of them women. The earnings supplement was a monthly cash payment available to single parents who had been on Income Assistance for at least one year and who left Income Assistance for full-time work within a year of entering the SSP program. The supplement was paid on top of earnings from employment for up to three continuous years, as long as the person continued to work full time and remained off Income Assistance. While collecting the supplement, an eligible single parent received an immediate payoff from work; in most cases, her total income before taxes was about twice her earnings. Key features of the supplement offer are provided in the accompanying text box.

To measure the effects of its financial incentive, SSP was designed as a social experiment using a rigorous, random-assignment research design. In the main SSP study, the subject of this report, a group of 5,686 single parents in New Brunswick and the lower mainland of British Columbia who had been on Income Assistance for at least a year were selected at random from the IA rolls. One-half of these people were randomly assigned to a *program group* and offered the SSP supplement, while the remainder formed a *control group*. Because the two groups were similar in all respects except whether they were allowed to participate in the program, the “impact” or effect of SSP can be measured by the difference between the program and control groups’ subsequent experiences. An earlier report (Lin et al., 1998) described the implementation of the program and the impacts of the program through 18 months, and found that SSP had doubled full-time employment and substantially increased income.

The current report updates many of the findings of the prior report by describing the impacts of the supplement offer, using information for 4,961 single parents who completed a survey (the “36-month interview”) about three years after they entered the study. The report

also examines whether the supplement offer resulted in wage growth and stable employment. A companion report (Morris and Michalopoulos, 2000) examines the effects of SSP on the children of the parents studied in this report.

### Key Features of the SSP Earnings Supplement

- **Full-time work requirement.** Supplement payments were made only to eligible single parents who worked at least 30 hours per week and who left Income Assistance.
- **Substantial financial incentive.** The supplement equalled half the difference between a participant's earnings and an "earnings benchmark." During the first year of operations, the benchmark was \$30,000 in New Brunswick and \$37,000 in British Columbia. The benchmark was adjusted over time to reflect changes in the cost of living and the generosity of Income Assistance. The supplement was reduced by 50 cents for every dollar of increased earnings. Unearned income (such as child support), earnings of other family members, and number of children did not affect the amount of the supplement. The supplement roughly doubled the earnings of many low-wage workers (before taxes and work-related expenses).
- **One year to take advantage of the offer.** A person could sign up for the supplement if she found full-time work within the year after random assignment.<sup>1</sup> If she did not sign up during that year, she could never receive the supplement.
- **Three-year time limit on supplement receipt.** A person could collect the supplement for up to three calendar years from the time she began receiving it, as long as she was working full time and not receiving Income Assistance. No one was required to participate in the supplement program, however. People could decide at any time to return to Income Assistance, as long as they met the eligibility requirements for Income Assistance.

Members of the program group were allowed to qualify for the supplement during the year after random assignment and could receive the supplement for three years after qualifying. A person who found full-time work immediately could consequently receive the supplement until the end of the third year after random assignment, around the time that she completed the 36-month interview. A person who did not find full-time work until the end of the first year, on the other hand, could receive the supplement until the end of the fourth year after random assignment, a full year after completing the 36-month interview. Since few people qualified immediately for the supplement, the 36-month period studied in this report ended too early to determine whether SSP continued to affect families after their three years of eligibility for the supplement ended. A future report will address this critical issue.

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<sup>1</sup>Feminine pronouns are used in this report because more than 95 percent of single parents who have received Income Assistance for at least a year — the target group for SSP — are women.

## THE FINDINGS IN BRIEF

Because the evaluation of SSP assigned people to the program and control groups at random, the impact or effect of the supplement offer is measured as the difference in employment, earnings, income, and other outcomes between the two groups. These comparisons indicate that SSP increased full-time employment, earnings, and income, and reduced poverty through the three years following each person's date of random assignment.

- **SSP increased full-time employment and earnings.** To receive the earnings supplement, people had to begin working full time (30 or more hours per week) during the first year after random assignment. By the beginning of the second year, 35 percent of the program group had received at least one supplement payment and the program had doubled full-time employment; its effects on full-time employment continued to be strong through the end of the third year. As a result, SSP increased the average person's earnings by about \$2,700 or 30 percent over a three-year period. Since only about one-third of the program group ever received the supplement, this suggests that the program increased earnings by about \$8,000 over three years for the average person who received the supplement.
- **SSP reduced use of Income Assistance but increased use of cash transfer payments.** The rules of SSP prohibited people from simultaneously receiving the earnings supplement and Income Assistance. As a result, the program reduced payments from Income Assistance by about \$2,500 per family in the program group. When people left Income Assistance to receive the earnings supplement, however, they replaced their IA payments with SSP supplement payments. Over the three-year period, the families in the program group received about \$5,500 on average from the earnings supplement.
- **SSP reduced poverty.** Because it increased earnings *and* increased cash transfer payments, SSP also increased income and substantially reduced poverty. Over the three-year period, the average member of the program group had about \$5,500 more in income from earnings, IA payments, and earnings supplements than the average member of the control group. Three years after people had entered the evaluation, SSP had reduced the proportion with income below Statistics Canada's low income cut-off by nearly 10 percentage points.
- **Most employment resulting from SSP was stable.** The employment behaviour of the control group implies that most people who responded to the supplement offer would not have worked otherwise. They might therefore have been expected to lose their full-time jobs relatively quickly. In general, this did not happen. For every three people who worked full time because of the supplement offer, two people stayed employed for at least a year.
- **For people who responded to SSP's offer, wages grew over time.** Most of the jobs that people took because of the supplement offer resulted in higher wages over time, and about half resulted in wage growth of more than 10 percent over two years. Although SSP encouraged a group of less-skilled people to go to work, wages grew as much for people who worked because of the supplement offer as for the generally more-skilled people who would have worked without the supplement offer. This is an encouraging finding. An increase in wages sufficient to make work pay better than

welfare even after the supplement is no longer available might deter people from reapplying for welfare and result in long-term effects from the supplement offer.

## **IMPACTS ON EMPLOYMENT, EARNINGS, INCOME ASSISTANCE, AND SSP SUPPLEMENT PAYMENTS**

- **SSP increased employment throughout the three-year period. The program's effects grew steadily in the first year after random assignment, and the program had doubled full-time employment by the beginning of the second year. The effects on full-time employment remained strong throughout, but declined somewhat from their peak until the end of the follow-up period.**

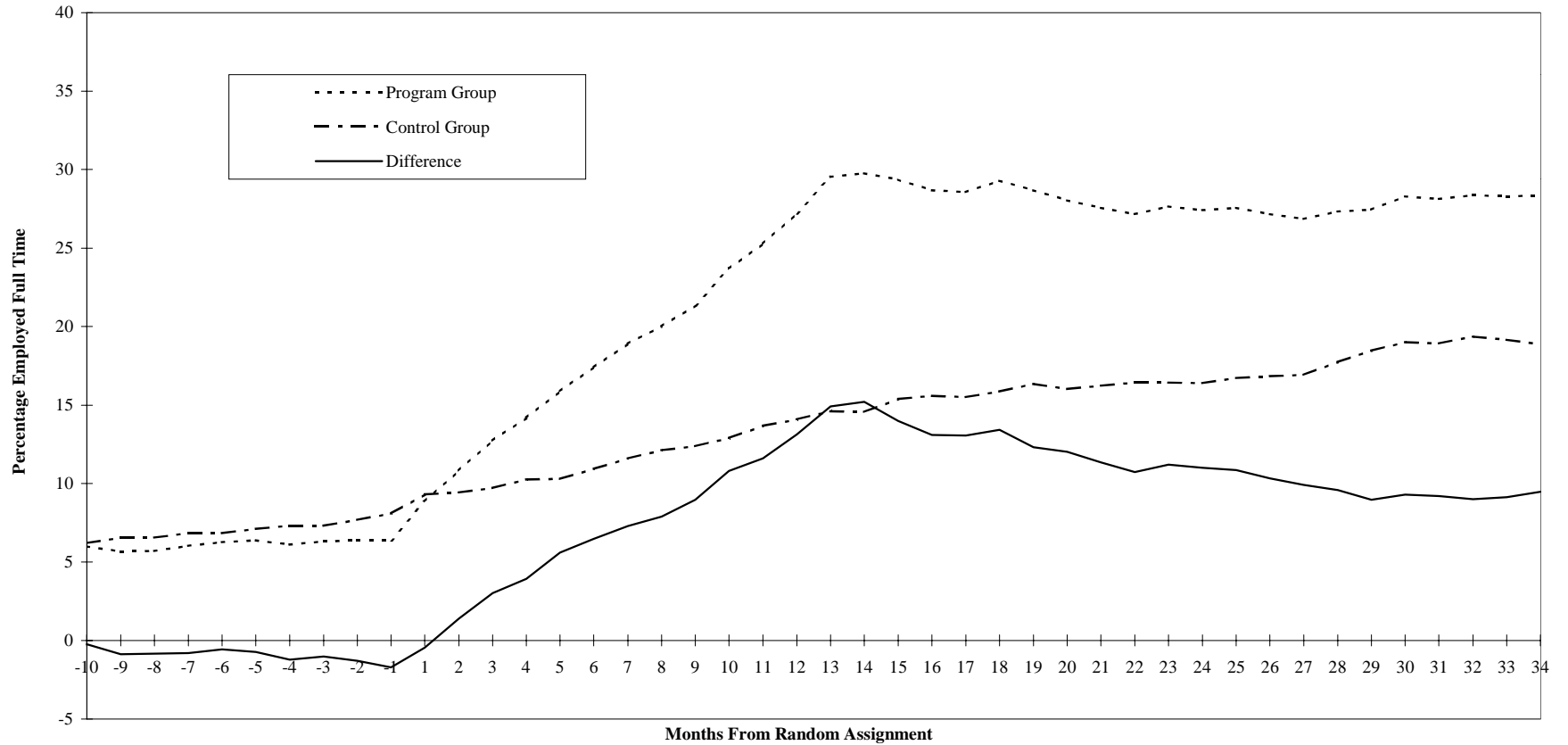
Figure ES.1 tells much of the tale of SSP. From 10 months prior to random assignment until the time of random assignment, about six to eight percent of both the control and program groups worked full time (30 hours or more per week) in any particular month. This is one indication that random assignment created similar groups.

Members of the program group could qualify for the supplement during the first year after random assignment by finding full-time work and ceasing to receive Income Assistance. During that first year, about 35 percent of the program group qualified for at least one supplement payment.

Two sets of people qualified for the supplement. Some members of the program group would have worked full time without the supplement offer and received the supplement without changing their employment behaviour. For this group, the supplement increased income and reduced poverty, but did not increase employment, earnings, or hours of work. It is impossible to know which members of the program group are in this category, but their characteristics can be inferred from members of the control group who worked full time. This is a critical benefit of using random assignment: the control group is similar to the program group in every way except that its members were not offered the supplement. Other members of the program group began working full time *because of the supplement offer*. They are responsible for the impact of SSP on full-time employment. Several sections of this report discuss outcomes that were inferred for this group by comparing members of the program group who worked full time with members of the control group who worked full time.

Figure ES.1 indicates how much SSP affected full-time employment, as well as how the impacts of SSP were determined more generally. During the year after entering the study, the proportion of the program group working full time gradually climbed, from about 8 percent at the time of random assignment to about 29 percent at the beginning of the second year. During the same period, full-time employment for the control group also increased, but more gradually, from about 8 percent at the time of random assignment to about 14 percent at the beginning of the second year. The difference between the two groups — 15 percentage points — is a measure of SSP's impact on full-time employment. According to Figure ES.1, SSP's impact on full-time employment gradually increased during the first year. By the beginning of the second year, SSP had doubled full-time employment.

**Figure ES.1: Percentage Employed Full Time, by Months From Random Assignment**



**Sources:** Calculations from baseline survey data, and 18-month and 36-month follow-up survey data.

**Note:** Information on IA and SSP payments is available for 36 months even though information on employment and earnings is available for only 34 months. The difference stems from the different sources of information. While the survey — the source of information on employment and earnings — contains only 34 months of follow-up for all sample members, administrative records have 36 months of information for all sample members.

People who did not qualify for a supplement payment in the first year lost the chance to receive it in the future. SSP therefore ceased to provide an incentive to members of the program group who did not qualify for the supplement during that first year. On the other hand, more and more members of the control group began working full time. As a result, SSP's impact on full-time employment declined slightly in the second and third years. By the end of the follow-up period, about 28 percent of the program group and 19 percent of the control group were working full time. Thus, SSP's impact on full-time employment had declined but remained a solid nine percentage points.

- **SSP increased full-time employment mainly by persuading people who would not have worked without the supplement to work full time.**

Table ES.1 summarizes the average monthly impacts of SSP on employment, earnings, and cash transfers for each of the three years in the follow-up period covered by this report.

The first panel of the table repeats the lesson learned from Figure ES.1. In the first year after random assignment, SSP began to increase full-time employment; about 18 percent of the program group worked full time in an average month, compared with 11 percent of the control group. Its impact peaked in the second year, when 28 percent of the program group worked full time in an average month, compared with 16 percent of the control group. During the third year, the impact on full-time employment remained substantial: nearly 28 percent of the program group worked full time in an average month, compared with 18 percent of the control group, for an impact of nearly 10 percentage points.

SSP can increase full-time employment in two ways: it can convince people who would have worked part time anyway to work a bit more, or it can convince people who would not have worked at all to work full time. Although both occurred, the main effect was the second one. During the second year after random assignment, as is shown in the second and third panels of the table, SSP reduced part-time employment by about 3 percentage points in an average month, but it increased employment overall by nearly 10 percentage points. Thus, three out of four people who increased their work effort to receive the supplement would not have worked at all without the supplement offer, and one out of four would have worked part time.

- **Since SSP increased employment and full-time employment, it also increased earnings.**

In the first year after random assignment, as people began moving to full-time work, the program increased earnings by \$584 per sample member. In the second year, when the program's impact on full-time employment was at its peak, its impact on earnings also peaked, at \$1,254 per sample member. The impact on earnings declined somewhat in the third year, primarily because earnings for the control group continued to increase while earnings for the program group remained steady. Despite this decline, the impact on earnings remained quite high at \$865 per person. Over the three-year period, therefore, SSP had increased earnings by about \$2,700 per person, so that earnings of the program group were about one-third higher than for the control group.



**Table ES.1: SSP Impacts on Employment, Earnings, Income Assistance, and Cash Transfers**

<b>Outcome</b>	<b>Program Group</b>	<b>Control Group</b>	<b>Difference (Impact)</b>
<b>Monthly full-time employment rate (%)<sup>a</sup></b>			
Year 1	18.0	11.4	6.6 ***
Year 2	28.5	15.8	12.7 ***
Year 3	27.7	18.1	9.6 ***
<b>Monthly part-time employment rate (%)</b>			
Year 1	11.6	13.9	-2.3 ***
Year 2	11.6	14.6	-3.0 ***
Year 3	12.0	14.4	-2.4 ***
<b>Monthly employment rate (%)</b>			
Year 1	29.7	25.3	4.4 ***
Year 2	40.1	30.4	9.8 ***
Year 3	39.7	32.5	7.2 ***
<b>Average earnings (\$)</b>			
Year 1	2,793	2,208	584 ***
Year 2	4,451	3,198	1,254 ***
Year 3	4,717	3,852	865 ***
<b>Monthly rate of IA receipt (%)</b>			
Year 1	85.4	91.7	-6.3 ***
Year 2	65.9	78.9	-12.9 ***
Year 3	61.3	70.7	-9.4 ***
<b>Average IA payments (\$)</b>			
Year 1	9,075	9,503	-428 ***
Year 2	7,033	8,271	-1,238 ***
Year 3	6,207	7,113	-906 ***
<b>Monthly rate of receipt of IA or SSP (%)</b>			
Year 1	94.0	91.7	2.4 ***
Year 2	86.5	78.9	7.6 ***
Year 3	80.5	70.7	9.8 ***
<b>Average Payments from IA and SSP (\$)</b>			
Year 1	10,209	9,503	706 ***
Year 2	9,344	8,271	1,073 ***
Year 3	8,180	7,113	1,066 ***
<b>Sample size (total = 4,961)</b>	<b>2,503</b>	<b>2,458</b>	

**Sources:** Calculations from IA administrative records, payment records from SSP's Program Management Information System, baseline survey, and 18-month and 36-month follow-up surveys.

**Notes:** The estimates for each year, with the exception of earnings estimates, are calculated by averaging the four quarterly estimates. Average monthly earnings are calculated by dividing total yearly earnings by total number of months in which information is not missing.

Sample sizes vary for individual measures because of missing values.

Two-tailed t-tests were applied to differences between the outcomes for the program and control groups.

Statistical significance levels are indicated as: \* = 10 percent; \*\* = 5 percent; \*\*\* = 1 percent.

Rounding may cause slight discrepancies in sums and differences.

<sup>a</sup>“Full-time employment” is defined as working 30 or more hours in at least one week during the month.

- **SSP reduced use of the IA program as well as IA amounts. Most people who left Income Assistance because of the supplement offer, however, did so to receive the earnings supplement. As a result, the program increased total use of cash transfer programs and increased the amount of cash transfers received.**

People could receive the earnings supplement only while they were not receiving Income Assistance. As a result, the program reduced use of the IA program when it increased full-time employment. In the second year, about 79 percent of the control group received Income Assistance in a typical month, compared with 66 percent of the program group. In the third year, the impact had diminished slightly, as more members of the control group stopped receiving Income Assistance. During that third year, the program reduced use of Income Assistance from about 71 percent of the control group to about 61 percent of the program group in an average month. Over the three-year period, the program also reduced IA payment amounts by nearly \$2,600 per family in the program group.

Many members of the program group began receiving the SSP earnings supplement when they stopped receiving Income Assistance. In the second year after random assignment, when the program's impact on full-time employment peaked, SSP also increased payments from either IA or SSP supplements by \$1,073 per family in the program group. Over the three-year period, the program increased combined payments from Income Assistance and SSP supplements by \$2,845. Since the program also increased earnings by about \$2,700 on average, this means it increased income from earnings and cash transfer payments by about \$5,500 per member of the program group.

## **IMPACTS ON INCOME AND POVERTY IN THE LAST SIX MONTHS OF THE FOLLOW-UP PERIOD**

- **People who received the supplement had to pay income tax on the earnings supplement and both income and payroll taxes on their earnings. Therefore, the federal and provincial governments collected more taxes.**

According to Table ES.2, the federal and provincial governments collected \$33 more per month on average from members of the program group than from members of the control group during the last six months of the follow-up period. Thus, the extra transfer payments coming through the SSP supplement were partially offset by higher taxes. Nevertheless, on net, the government spent \$56 more per month per member of the program group on higher transfer payments associated with SSP.

**Table ES.2: SSP Impacts on Monthly Income and Net Transfer Payments in the Six Months Prior to the 36-Month Follow-Up Interview**

<b>Outcome</b>	<b>Program Group</b>	<b>Control Group</b>	<b>Difference (Impact)</b>
Total individual income before taxes (\$)	1,395	1,259	136 ***
Projected income taxes (\$) <sup>a</sup>	94	61	33 ***
Net transfer payments (\$) <sup>b</sup>	814	757	56 ***
Total individual income net of taxes (\$)	1,301	1,198	103 ***
Total family income (\$) <sup>c</sup>	1,585	1,432	153 ***
Percentage with income below the low income cut-off <sup>d</sup>	76.8	86.2	-9.4 ***
<b>Sample size (total = 4,961)</b>	<b>2,503</b>	<b>2,458</b>	

**Sources:** Calculations from 36-month applicant follow-up survey data, IA administrative records, and payments from SSP's Program Management Information System.

**Notes:** Sample sizes vary for individual measures because of missing values. This may cause slight discrepancies in sums and differences.

Two-tailed t-tests were applied to differences in outcomes between the program and control groups. Statistical significance levels are indicated as: \* = 10 percent; \*\* = 5 percent; \*\*\* = 1 percent.

Rounding may cause slight discrepancies in sums and differences.

<sup>a</sup>Includes projected Employment Insurance premiums, Canada Pension Plan premiums deducted at payroll, and projected income taxes. Payroll deductions and income taxes were projected from federal and provincial tax schedules and data on earned and unearned income and SSP supplement payments; the actual taxes paid by sample members may differ from these projections.

<sup>b</sup>Includes public expenditures on SSP, IA payments, and other transfers, net of income tax revenue.

<sup>c</sup>Family income is measured by the sum of the sample member's income plus the labour earnings of any other members in that person's family.

<sup>d</sup>Calculated by comparing annualized family income with the low income cut-off defined by Statistics Canada or the sample member's location and family size.

- **Every \$1 increase in government cash transfer payments increased monthly income by \$2.**

When the increased earnings and the income from SSP supplement payments are added together and the reductions in Income Assistance and the taxes incurred are subtracted, members of the program group had \$103 more in income each month than members of the control group. Thus, after-tax income increased nearly twice as much as government spending.

- **By increasing income, SSP also substantially reduced poverty.**

Poverty among long-term welfare recipients is extremely high. It is not surprising, therefore, that the extra income resulting from SSP substantially reduced the number of families with income below Statistics Canada's low income cut-off. While about 86 percent of the control group had low income in the six months prior to the 36-month interview, only about 77 percent of the program group had low income, implying that the program reduced poverty by more than nine percentage points.

- **Much of the extra income was spent on food, clothing, and rent, or used to increase savings.**

Members of the program group spent \$49 more per month than members of the control group on food, clothing, rent, and child care (not shown in Table ES.2). This figure implies that members of the program group spent nearly one-half of their additional income on these items.

In addition to increasing spending on necessities, members of the program group might have been able to use their extra income to build up savings or pay down debt. Average savings for both research groups was about \$500, but the program group was slightly more likely to have savings exceeding \$500. The extra income was not used to pay down debt, however.

## **IMPACTS ON OTHER OUTCOMES**

- **Most of the people who worked full time because of the supplement offer stayed employed for at least a year.**

When programs like SSP increase employment, they typically do it by “digging deeper” into the caseload and encouraging work among a more disadvantaged group of people. This group typically has trouble staying employed when they do find work, either because they find short-term jobs or because they succumb to barriers that made it difficult for them to work in the first place. Nonetheless, most of the extra employment resulting from the supplement offer was stable employment. In particular, SSP doubled the number of people who worked full time for a year or longer, from 10.4 percent of the control group to 20.9 percent of the program group. Since the program increased the proportion of the program group who ever worked full time in the first 18 months by 15 percentage points, this suggests that, for every three additional people who worked full time, two additional people worked full time for at least a year.

- **Most of the extra employment resulting from the SSP supplement offer paid wages close to the provincial minimum wages.**

Programs like SSP may encourage people to accept low-wage jobs, either because they do not have the skills needed to command higher wages or because they are willing to accept low wages in order to receive the supplement. There may be reason to be concerned. All of the extra jobs that people took because of SSP near the end of the follow-up period paid within \$2 of the provincial minimum wages. Moreover, the program’s impact on employment that paid within a dollar of the minimum wage was more than twice as large as its impact on employment that paid between \$1 and \$2 more than the minimum wage.

- **Although most of the jobs that people took because of the supplement offer paid close to the minimum wage, wages grew for those who did work full time. Moreover, people who went to work full time because of the supplement offer increased their wages as much as people who would have worked full time without the supplement.**

One of the initial hopes underlying SSP was that people who went to work full time would gain valuable work experience that would allow them to increase their hourly wages. If wages increased enough, work might continue to pay better than welfare after the supplement was no longer available, and people would be deterred from reapplying for welfare. In fact, wages did increase for people who responded to the supplement offer. From the end of the first year of follow-up until the end of the third year, wages for members of the control group who worked grew by 12.7 percent on average. During the same period, wages for people who went to work because of the supplement offer grew by 11.7 percent on average. While this wage growth by itself might not encourage many people to continue working full time without the supplement, it might be sufficient if going to work has created more positive attitudes about work or if child care costs are less of a barrier to work because the children in these families have grown older.

This result should be interpreted with some caution. During the time that SSP operated, the minimum wage increased from \$5.50 to \$7.15 per hour in British Columbia and from \$5.00 to \$5.50 per hour in New Brunswick. Thus, SSP may have caused wage growth indirectly, by encouraging people to take minimum wage jobs when the minimum wage was increasing. In fact, wages grew quickly for the group that was most likely to take minimum wage jobs. Wages grew even more, however, for a group of higher-skilled workers who initially earned close to \$10 per hour on average.

- **SSP did not affect the rate at which sample members married after random assignment, but there were small, offsetting changes in the two provinces. In New Brunswick, members of the program group were slightly more likely to have married than were members of the control group. In British Columbia, the opposite was true.**

For a variety of reasons, SSP may encourage or discourage marriage. The way the supplement was calculated may have provided a direct incentive for members of the program group to marry; supplement payments were not reduced if a partner contributed income to the family, but IA payments were. At the same time, SSP might have helped sample members meet potential partners through work. The extra income stemming from SSP might also have encouraged members of the program group to marry by alleviating their financial difficulties, by helping them pay for a wedding, by increasing their self-esteem, or by making them more attractive to potential mates. On the other hand, SSP might have discouraged marriage if increased time spent working left little time to meet and get to know potential partners. The extra income stemming from SSP may also have made it easier for people to live on one income. Finally, SSP might have encouraged some single parents to delay marriage to gain additional work experience.

Despite or because of these forces, a similar proportion of the program and control groups were married in each month of the follow-up period. The program's effect on marriage

differed by province, however. Over the 36-month follow-up period in British Columbia, SSP decreased the proportion of people who were married at some point by three percentage points, from about 18 percent to about 15 percent. In contrast, in New Brunswick SSP increased the proportion who were married at some point by four percentage points, from about 21 percent to about 25 percent.

Why did SSP promote marriage in New Brunswick but discourage it in British Columbia? Differences in demographics, in SSP's impacts on employment and income, and in the marriage penalty from Income Assistance do not appear to explain the differences in impacts on marriage. One other possibility is differences in the provincial cultures. New Brunswick is relatively rural, and the majority of the population is Roman Catholic. In comparison, British Columbia is dominated by Vancouver and its suburbs, and less than 20 percent of the population is Roman Catholic. Moreover, marriage was much more common among members of the control group in New Brunswick than in British Columbia. Thus, differences in marital norms in the provinces may have played a role in translating the program's effects on employment and earnings into effects on marriage.

## **POLICY IMPLICATIONS**

When structured properly, programs with financial incentives can be triple winners, encouraging full-time work, increasing income, and reducing poverty. At the end of the three-year follow-up period, SSP increased full-time employment by nine percentage points, reduced poverty by nine percentage points, and increased individual after-tax income by more than \$100 per month. In comparison, programs that encourage welfare recipients to look for work or to build skills without providing financial incentives typically increase employment but do not increase income and do not reduce poverty. Programs that supplement the earnings of welfare recipients who work part time also can encourage work and increase income, but by themselves such incentives typically have smaller effects than SSP on earnings and income.

**Financial incentives are not the answer for all long-term recipients.** About one-third of the program group worked full time and received at least one supplement payment. Two-thirds did not. Most of these parents said they were interested in the supplement payments but could not find full-time work or could not overcome various barriers to work within a year of entering the program. Programs like SSP might be even more effective when combined with other policies to help welfare recipients find work or to help them overcome barriers such as child care and transportation problems. As part of the evaluation of SSP, a small study called SSP Plus is studying the effects of adding voluntary employment services to the program's generous financial incentive. According to early findings from SSP Plus, adding services to the program's incentives allowed half of the parents to find full-time work and receive at least one supplement payment, although many of the people whom the services helped to find work lost their full-time jobs quickly.

**Programs with financial incentives cost money in the short-run.** Financial incentives are effective because they give people more money than welfare when they work. As a result, such programs typically cost money in the short-run. In the six months prior to the end of the follow-up period covered in this report, government expenditures on cash transfers increased by \$56 per month per family in the program group. If SSP continues to increase employment

even after parents can no longer receive supplement payments, however, the government will begin to recoup some of this cost. Evidence from another study in SSP indicates, moreover, that financial incentives may not cost money even in the short-run. When the supplement offer was made to new welfare recipients, SSP substantially increased employment, earnings, and income, but the government recouped through taxes and reduced IA payments all it had paid out through the supplement.

By providing a constant incentive to work, programs with financial incentives can promote stable employment and increase workers' wages. Because most welfare recipients have few skills and limited work experience, they often lose their jobs quickly when they do find work. As a result, it is difficult for them to gain work experience that will give them greater skills and higher wages. SSP's generous earnings supplement, however, provides a constant financial incentive to work, even if it means replacing a lost job. By rewarding only full-time work, SSP may also encourage people to take jobs that initially are more stable because they are full time. Because of these forces, most people who went to work because of SSP worked most of the time, and their wages increased somewhat over the follow-up period studied in this report.