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## **Does Making Work Pay *Still* Pay? An Update on the Effects of Four Earnings Supplement Programs on Employment, Earnings, and Income**

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This report describes recent results from four studies of programs that supplemented the earnings of low-income adults. The four studies, which took place beginning in the early 1990s, are the Canadian Self-Sufficiency Project (SSP), the Minnesota Family Investment Program (MFIP), Milwaukee's New Hope Project, and Connecticut's Jobs First program. The programs' supplements were intended to encourage work and to boost the income of adults who worked. Each was studied using a reliable research design that randomly assigned people to a program group that was eligible for earnings supplements or to a control group that was not. This report focuses on the policies' effects on economic outcomes, such as employment, earnings, and income, and includes information on these effects after the programs ended. A separate policy brief describes recent findings on the programs' effects on children.<sup>1</sup>

### **Main Findings**

Here is a summary of the four programs' effects on economic outcomes:

- **The programs increased employment, earnings, and income.** Adults who were offered earnings supplements were more likely to work, earned more, and had more income than control group members. This stands in contrast to earlier policies that helped welfare recipients go to work without supplementing their earnings and that generally left families no better off financially.
- **Effects on welfare receipt varied with the structure of the earnings supplement offer.** The policies were designed to affect welfare receipt in differ-

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<sup>1</sup>Pamela A. Morris, Lisa A. Gennetian, and Greg J. Duncan, "Effects of Welfare and Employment Policies on Young Children: New Findings on Policy Experiments Conducted in the Early 1990s," *Social Policy Report* 19, 2 (2005).

ent ways. Families in SSP had to leave welfare to receive the program's earnings supplement, and SSP reduced welfare use. Families in MFIP had to remain on welfare to receive its earnings supplement, and MFIP increased welfare use above what it would have been. Families in Jobs First also had to stay on welfare to receive the program's earnings supplement, but eventually they lost their eligibility for both the earnings supplement and welfare. As a result, Jobs First initially increased welfare use but later reduced it.

- **Earnings supplements might encourage some people to reduce how much they work.** Earnings supplements encourage some parents to cut back their work effort while allowing them to maintain their family's income, and this effect was seen to some extent in MFIP, Jobs First, and New Hope. This is a feature especially of policies that supplement part-time work, such as Earned Income Tax Credits (EITCs) and welfare earnings disregards. Thus, work cutbacks can be reduced by making full-time work a condition of receiving a supplement, as New Hope and SSP did.
- **The effects of the programs diminished over time, in part because the programs ended and in part because the early employment effects did not lead to lasting wage gains.** Some policymakers hoped that people who were encouraged by the supplements to work would gain skills that would permanently lift them to higher-paying, more stable jobs. That does not appear to be the case. When families were last observed, four to seven years after they entered the studies, the programs' effects were close to zero. The pattern of impacts suggests, however, that offering the supplements for a longer period would have resulted in longer-term effects on income and welfare receipt but not employment. Eventually, most welfare recipients in the control groups took jobs, too. Because the employment gains of the supplement-takers did not lead to higher wages for them over time, the other welfare recipients "caught up" with the supplement-takers when they took jobs.
- **Effects of the policies on employment and earnings were larger and more persistent for a group of very disadvantaged families.** The effects of the policies were sometimes quite large for long-term welfare recipients who had not worked recently and who had not graduated from high school. The effects on employment and earnings were also longer-lived for this group, although these effects also diminished substantially over time.
- **Combining earnings supplements with employment services produced larger effects than supplements alone.** In addition to supplementing earn-

ings, some of the programs required participants to look for work or provided services to help them find and keep jobs. Adding such requirements or services produced larger and longer-lasting effects on employment and earnings, although the programs' effects on income stemmed primarily from their earnings supplements.

- **Earnings supplements typically cost the government money.** Although the programs had positive effects on work and income, those benefits came at a cost, ranging from about \$100 to about \$2,000 each year per family. These costs can be reduced, however, by paying supplements only to those who work full time and only to those who are least likely to work on their own, such as long-term welfare recipients and the long-term unemployed. Such targeting, however, also reduces the number of families who are likely to benefit from the earnings supplements.

## Policy Implications

If officials were going to increase resources to meet the needs of the working poor, what lessons can they learn from these studies to design earnings supplements that would maximize employment, income, and child well-being while minimizing unintended reductions in work effort among those who would have worked anyway? Here are several lessons for policymakers:

- **Combine earnings supplements with job search services.** Many economically disadvantaged adults may lack the skills required by most jobs. Others might have been away from work for so long that they are unaware of how to look for work or are daunted by the prospect of looking for work. Even if they want to take advantage of earnings supplements, they might be unable to do so. Combining earnings supplements with job search services can therefore boost both employment and income.
- **Help people keep their jobs and advance to better jobs.** Despite going to work earlier, people who were offered earnings supplements generally earned no more than their control group counterparts after five to seven years. They were not able to take advantage of their work experiences to climb the career ladder. Some findings suggest, however, that the short-term employment effects of earnings supplements could be prolonged by providing postemployment and job advancement assistance.
- **Maintain supplements to sustain income gains.** When earnings supplements were withdrawn, their effects on income also disappeared. Providing

supplements on an ongoing basis is therefore likely to provide continued financial assistance to low-income families, helping to ensure that working parents do not raise children in poverty.

- **Provide generous, well-marketed incentives.** For people who would not work otherwise, earnings supplements can stimulate work and increase income. However, this group is unlikely to respond to the work incentive if the connection to work is not made explicit.
- **Targeted supplements can reduce costs but might be less equitable.** The findings presented in this report suggest a tradeoff between increased efficiency for narrowly targeted programs (for example, those that are aimed at long-term welfare recipients) and increased equity for broadly targeted programs (for example, those that are aimed at the working poor). This provides policymakers with some options. If they want to reduce poverty and are not worried about whether earnings supplements encourage people to work or discourage people from working too much, they could offer their supplements broadly. If they are interested in maximizing the employment gains that their policies generate while keeping costs relatively contained, they could target supplements at those who are least likely to work, such as long-term welfare recipients or the long-term unemployed.
- **To reduce costs, tie earnings supplements to full-time work.** This strategy would limit the work-hour reductions among workers evident in some programs that provided supplements for part-time work, would contain the costs of additional incentives, and would make it more likely that families are self-sufficient. In addition, full-time work is more likely than part-time work to provide fringe benefits, such as health insurance, and to produce skills that would increase a person's chances of becoming self-sufficient.