Learning What Works

Evidence from SRDC's Social Experiments and Research

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What Happens When a Temporary Earnings Supplement Is Withdrawn?

The effect of the "cliff" on SSP participants

What happens when former welfare recipients who have been offered temporary financial incentives to move from welfare to work lose their incentive payments? Do they stay in work or return to welfare? Do they experience increased hardship? SRDC has recently been able to use long-term data from the Self-Sufficiency Project (SSP) to answer these critical policy questions.

SSP was an experimental social policy demonstration that offered generous earnings supplements for up to three years to increase employment and reduce poverty among single parent, long-term income assistance recipients. To qualify for supplements, participants had to leave welfare for full-time work within 12 months of receiving the supplement offer. Reports on SSP to date have successfully demonstrated that such financial incentives can be cost-effective in achieving these goals.

Since SSP was operated as a research demonstration project, the supplement payments necessarily had to be withdrawn at some stage. Nonetheless, the payments were generous enough to constitute an important source of income for those who received them. After 36 months families may have come to rely on them. Policy-makers thus need to know what happens over the longer term, when supplement payments come to an end after three years of eligibility — at what has become known as the "cliff."

Researchers collected data from participants in the main SSP study both before and after the cliff to help evaluate its effect on employment, income assistance, and hardship. The last follow-up surveys for this study were administered 54 months after random assignment, which for nearly all participants was after their three years of supplement eligibility had expired. A parallel qualitative "cliff study" used focus groups and in-depth interviews before and after supplement expiry to explore further the consequences of this design feature for participants. Both of these quantitative and qualita-

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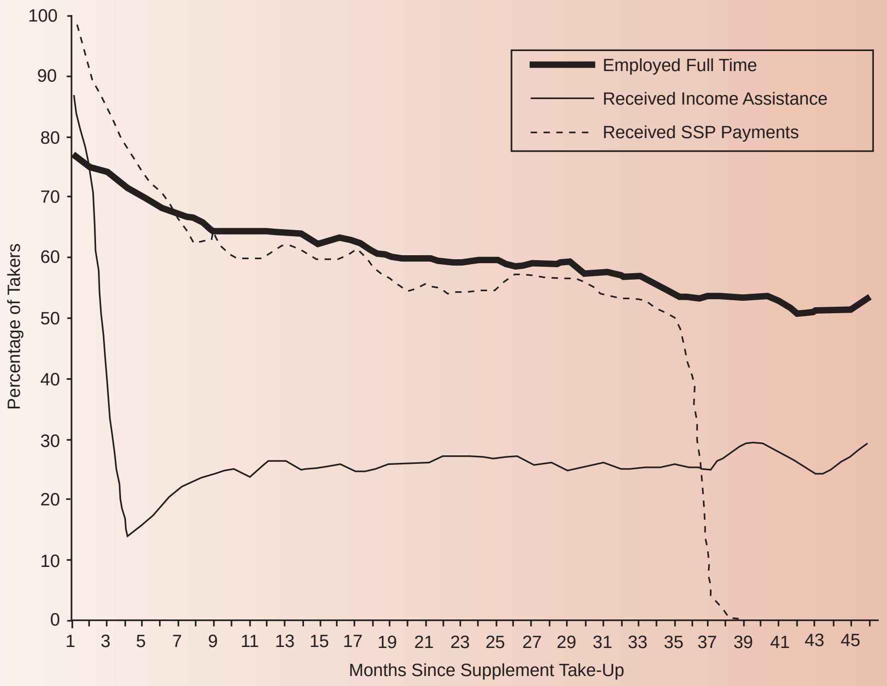
Employment, IA Use, and Supplement Receipt Among SSP Supplement Takers



tive data sources are used to analyze cliff effects in the recently published SRDC report *Making Work Pay: Final Report on the Self-Sufficiency Project for Long-Term Welfare Recipients.*

What is the "cliff" and who felt its effect?

The supplement was designed to give a temporary boost to income, conditional on employment, so there was no option in the design of SSP for supplements to be phased out gradually. The "cliff" refers to the full withdrawal of the SSP earnings supplement after 36 months of eligibility. The figure above illustrates the cliff. Around half of all those who ever took up the supplement — or "takers" — received a supplement in their 36th month following supplement initiation. The figure shows the dramatic drop in receipt to virtually zero by Month 37.

From the figure, there appears to be no discernable fall in full-time employment among takers through the cliff. Although supplement receipt fell from 55 per cent to zero between months 36 and 38, full-time employment appears to have been stable through this period with little increase in welfare receipt. This suggests that the expiry of the supplement did not result in significant job loss for most takers, considered as a group. However, the cliff did not affect all takers to the same degree, as some relied more heavily on the supplement than others. Some had experienced consistent employment and were intensive supplement users leading up to the cliff. Others, who lost their jobs earlier in the eligibility period and who could not receive supplements while they were not working, likely had employment patterns unrelated to supplement expiry.

To consider the effect of the cliff on those most vulnerable to supplement loss, and on outcomes like family economic well-being and hardship, the cliff analyses specifically identified intensive users who relied on the supplement in the period leading up to its expiry. One such group of intensive users, referred to as the "cliff sample," are those takers who received at least five supplement payments in the final six months of their eligibility period. This group makes up approximately 40 per cent of all supplement takers (about 15 per cent of all those offered supplements).

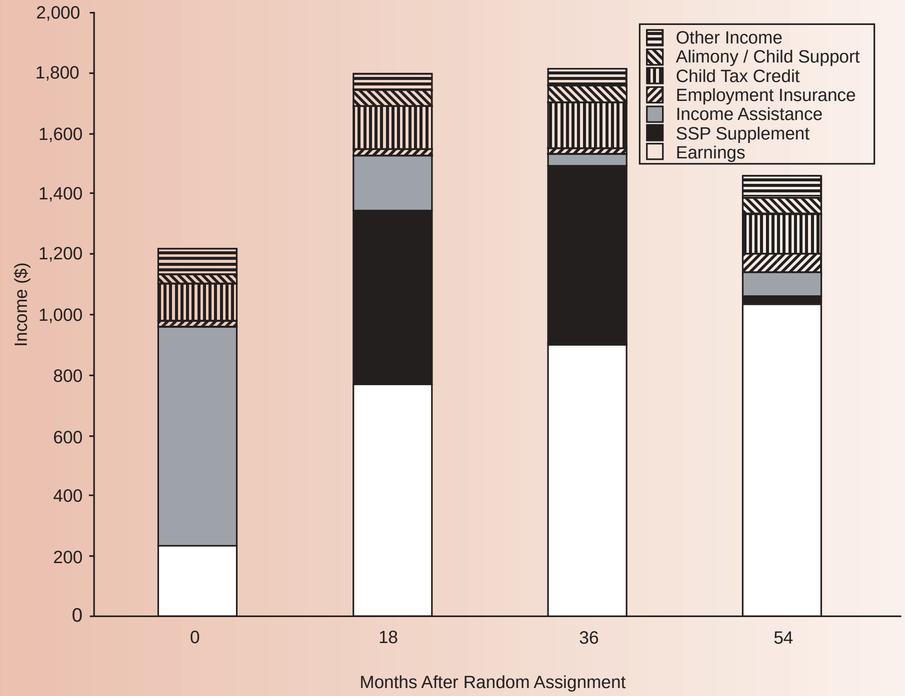
Although SSP was run as an experiment, with a program group offered earnings supplements compared with a randomly assigned control group not offered supplements, it is difficult to identify the comparable subgroup of likely intensive supplement users among the control group. Thus the cliff analysis using this subset of SSP program group members is, by necessity, non-experimental.

How important was the supplement, and its expiry, to SSP participants?

The extent to which the loss of supplement income may have affected supplement takers depends not only on the frequency and duration of supplement receipt, but also on the amount of supplement received relative to other income sources. How important was the supplement to takers in the context of their other income sources? How much did takers' incomes rise when supplements started, and how much did it fall after the supplements ended?

The figure at the right provides a breakdown of monthly after-tax income sources for intensive supplement users in the cliff sample. Results are presented for all four waves of SSP surveys, allowing the effect of supplementation to be viewed over time. At the time participants joined the study, the average after-tax income for all sample members was about the same, at approximately $1,200 per month, with the primary source being income assistance. The change seen 18 months later captures the onset of the supplement (since participants were allowed to take up to a year to find a job and leave income assistance, supplement receipt could actually begin any time between Month 1 and Month 12). The change from 36 to 54 months covers, for nearly all sample members, the period when supplement entitlement expired.

Average Monthly After-Tax Income in the Six Months Prior to Interview — Cliff Sample



The figure shows the importance of the supplement as an income source at the time that supplement entitlement began. It made up over 30 per cent of income (32 per cent at the 18-month interview and 33 per cent at the 36-month interview). Average monthly after-tax income increased by over a third — from $1,204 to $1,780 — from the baseline interview to the 18-month interview as earnings rose coincident with the commencement of the supplement. This level persisted at the 36-month interview ($1,821). However, as supplement eligibility expired for most members, average after-tax income fell by $361 at the 54-month survey to $1,460 per month. Compared with all program group members or to the less intensive "non-cliff" supplement takers, this group who "experienced the cliff" had the largest relative drop in after-tax income — a substantial 20 per cent decrease following the end of the supplement. The final bar suggests that, to a degree, those who experienced the cliff compensated for supplement loss, a third of their pre-cliff income, with increases in other income sources. However, the effects of the resulting 20 per cent fall in after-tax income may not have been trivial.

Did participants expect and prepare for a decrease in income due to the "cliff"?

When the cliff sample members were asked, about a year before supplement expiry, whether they expected to be working and self-sufficient in a year's time, they almost unanimously said yes. Over 98 per cent felt they would be working and fewer than 3 per cent believed they would have to return to welfare. Pre-cliff focus group discussions also revealed that many participants who were facing the loss of the supplement were reasonably confident of their self-sufficiency. Many attributed this confidence to financial and job security stemming from opportunities for wage growth or career advancement. Others mentioned personal security in the form of friends or family who could be called on in times of need. At the other extreme, there was a small but significant number of focus group participants who were worried about the end of the supplement. This group tended to lack feelings of financial security, stating their jobs were not secure or that they paid poorly with little hope of advancement. Others seemed to have little social capital to draw upon.

Focus groups and program interviews were also able to explore in some detail the strategies that participants had for dealing with impending supplement loss. Supplement takers' preparation for the future decline in income would likely influence their ability to maintain self-sufficiency once the supplement had ended. The most prominent strategies mentioned by participants included budgeting, described as a reduction in spending or sharing of expenses with family members; relying on savings; working additional hours, through overtime or additional employment; expecting a promotion or wage growth; and changing their living conditions — finding cheaper housing or sharing accommodations with others.

What were the consequences of the "cliff" for employment, self-sufficiency, and hardship?

The first figure showed the effect of the cliff on all supplement takers. Separating the employment and welfare receipt patterns of cliff and non-cliff supplement takers reveals that non-cliff takers' employment and use of welfare were, as expected, unaffected by supplement expiry. In contrast, a small group of cliff sample takers, those most reliant on the supplement leading up to its expiry, did experience job loss and return to welfare after the end of the supplement. However, this group is in the minority. Over 70 per cent of the cliff sample were still in full-time employment eight months after the supplement had ended and only 1 in 10 had returned to welfare. Administrative data on welfare receipt, available over a longer time span, confirmed this trend through 24 months after the cliff, where only about 13 per cent of this group ever returned to income assistance.

The consequences of the cliff for participants in terms of its effect on expenditures, debt levels, and hardship were also explored. Post-cliff surveys with cliff sample participants revealed that there were large reductions in some categories of expenditure after the supplement expired, including less spending on clothing and on eating out. In-depth interviews conducted post-cliff considered an expanded set of expenses and also revealed significant expenditure reductions. In addition to decreased expenditure on food, a decline in expenses was observed in several additional categories, including transportation, child-care, and health-related costs. For many, a reduction in these expenses related not only to the loss of supplement income, but also to job loss. Without full-time employment, a fall in transportation and child-care costs can be expected. This was also the case for declines in health-related costs, including life, medical, and dental insurance premiums for plans that, for many, were acquired and paid for through their employers.

Significant decreases in savings were observed. Almost a third of the cliff sample reported no savings compared with just under 20 per cent before supplement expiry. Large increases in credit card debt also occurred: the average balance increased by more than 40 per cent. However, there were no significant increases in hardship as measured by increased use of food banks, difficulty paying essential bills, or difficulty getting groceries. In-depth interviews, again considering a wider range of hardship measures, also found little evidence of increased hardship for most participants. A small number of vulnerable participants reported experiencing significant hardship from supplement loss. Those without partners or with minimum wage jobs tended to fare least well after supplement expiry.

What does this mean for policy?

Withdrawal of the full earnings supplement after three years of eligibility involved the elimination of the source of almost a third of the average monthly after-tax income of cliff sample supplement takers. To some extent, this group was able to compensate for supplement loss with increases in other income sources. A large majority was able to maintain their self-sufficiency and independence from welfare after the supplement had expired. Over 70 per cent were employed full time eight months after the "cliff" and only 1 in 10 returned to welfare. A decrease in expenditures was observed in a number of categories after the cliff, and although savings decreased and debt levels rose, there were no significant increases in reported hardship for most participants.

This analysis suggests that, as a design feature of SSP, the cliff was not a major influence on the employment or welfare receipt of SSP participants offered an earnings supplement. Most of the job loss that occurred among supplement takers happened before the cliff. Thus, rather than modifying the cliff, efforts to sustain or improve the employment and welfare impacts of SSP might be better directed on finding ways to increase supplement take-up and job retention throughout the period that supplements are available. ◆

Program Participants Say Thank You SSP!

More than four years after receiving their final supplement payment at the end of the three-year eligibility period, four women who took part in the "cliff study" (see "What Happens When a Temporary Earnings Supplement is Withdrawn?" on page 1) were asked to reflect on their experiences with the Self-Sufficiency Project (SSP) and how the project affected them. The personal experiences that they shared with SRDC provide an inside glance at some of these women's struggles and successes during and after the project.

Cathy, Mary, Marie, and Sara (participants names have been changed to preserve anonymity) were selected for the program between late-1992 and mid-1993. At that time, they were all single parents and had been receiving income assistance for more than one year. They began by describing their circumstances at the outset of the study. Although their individual personal circumstances varied, their situations were characterized by financial and material hardship. The women viewed their situations with acute distress.

> **Cathy:** *I had lost my job earlier that year and became ill and unable to work. I had exhausted my Employment Insurance and RRSPs and was left with no other recourse than to apply for income assistance. I had my son, who was approximately 7 years old at the time to think about. . . . My experience of being a recipient of income assistance is one of frustration, humiliation, and shame.*

> **Mary:** *My two children and I were living in a two-bedroom, basement suite in [city]. I was on social assistance. We were very poor.*

> **Sara:** *Before SSP came along, I had been divorced and raising my son alone. I held a few jobs but only made enough to get by, with the help of my family and income assistance. I did not have Grade 12, so I could only get minimum wage jobs. A year or so before the program began, I had become ill and was unable to work. My son and I moved into low income housing as I was now on disability welfare. Times got real tough and I could not afford to give my son the extras that children deserve.*

> **Marie:** *I was first introduced to this study following a period of depression and ill health that developed as a result of very acrimonious divorce proceedings. At the point at which I was contacted I had been unemployed for approximately two [to] three years. . . . I was physically, mentally, and emotionally exhausted and living on social assistance. . . . My small two-bedroom apartment was in serious need of repair . . . .*

When the women first heard about SSP, they responded in a typical fashion to new programs — they showed both interest and distrust in SSP. However, like most program group members, the women attended the orientation session to learn more about the program.

> **Cathy:** *When I first heard about the supplement, my reaction was one of disbelief. I didn't think I qualified but was willing to participate even if I was not chosen to receive any monies but rather just be monitored for three years for the study.*

> **Mary:** *I was very interested in finding out more about the supplement and how it could help our financial situation.*

> **Sara:** *When I first was contacted I thought it was too good to be true — "What's the catch?" I told them I did not feel I qualified, as I was unable to work at that time.*

> **Marie:** *I had read about the proposed supplement program in the newspaper, and thought at the time that it was too good to be true. When an interviewer contacted me asking to come to my home to explain this to me, I was immediately interested and yet suspicious. I had been so consumed with my own health and family problems that I worried that this "manna from heaven" was not genuine. I was worried that by agreeing to partake in this program I would be sacrificing my confidentiality and opening my family and myself to further intense scrutiny, as had been our experience with the divorce court system.*

The women overcame their initial doubts about the program and went on to find jobs within the one-year limit to qualify for supplement payments. Overall, 36 per cent of the program group found full-time employment in time to become supplement takers. In addition, all four women were able to remain consistently employed over the three-year eligibility period to be "intensive users" of the supplement. Consequently, they received a significant amount of money from SSP. (Supplement takers received on average $18,256 each in supplement payments over three years.) The women all agree that SSP *helped a lot*. They believe that the money was paramount in helping them enter the workforce from welfare, purchase things they needed and wanted for their families, and increase their personal well-being.

> **Cathy:** *I feel that the supplement made an incredible difference for my son and myself. Having an adequate amount of money to live on while working made me feel less anxious about life in general. This effect helped my relationship with my son as well as how I presented myself at work. Let me clarify. When one is under stress, wondering how you are going to eat, pay bills, etc., on the limited income, you become distracted and somewhat irritable. A child does not know that you "can't afford" this or that, and after awhile you get tired of saying it and they get tired of hearing it. When you have to juggle funds so that you can buy a new pair of pantyhose, which is required for work, and contribute financially to a field trip so your child is not left out, the stress can be transferred to how you react to your child and how you cope on the job. . . . Knowing that I was settled for a while in this area, I believe that my demeanor was transferred to my job and child, and the outcome was a much more pleasurable scenario. When you are a new employee, you have to make a good first impression. Being comfortable in your living situation can only contribute positively to this outcome.*

> **Mary:** *I think that receiving the supplement made a difference in my ability to feed and clothe my family properly. It also provided money for transportation and recreation.*

> **Sara:** *This made a drastic change for me and my son. I went back to school, graduated, and could now afford to take a programming course. SSP helped boost my self-esteem. I could now afford to buy my son a new bike and have money to do things we never could before. The stress of where the money for bills would come from was gone now. I learned to smile and live again.*

The four women believe that the supplement was paramount in helping them enter the workforce from welfare, purchase things they needed and wanted for their families, and increase their personal well-being.

> **Marie:** *Receiving this supplement allowed me as a single parent to provide some of the things necessary to raise my children. . . . As sole support for my children I had been dependent upon Social Services in the event of any emergency. Social Services provided basic dental care, but when my daughter broke her tooth we were faced with having it replaced in stainless steel. I was able to provide the funds for a porcelain enamel cap, sparing her the embarrassment of having a stainless-steel front tooth. . . . We were finally not continually in a position of being financially embarrassed or being dependent upon some other source to help us make ends meet. . . . Perhaps the biggest improvement of all came when I was able to move from subsidized housing. Our neighbours included a young mother who subsidized her income through prostitution and drug sales out of her home. . . . Having the extra income helped us to find a home where we were finally happy and feeling like a normal family. . . . I had previously been so chronically poor that I had lost my belief that there could be any other type of lifestyle. More importantly, I did not have to hold false hope that I would receive assistance from my former husband when we were faced with emergencies . . . . He currently owes in excess of [six-figure sum] in support and has never made a single payment. . . . This supplement gave me the opportunity to raise my children in a healthier situation, without feeling dependent on a partner. . . . I began to experience the contentment and peace of mind that comes from having a job, developing social contacts and an identity. . . . My successes, however small, have been a continuing source of personal satisfaction and pride.*

Almost 10 years after they were selected for the study, these four women, who had been long-term welfare recipients at the start of SSP, are still working, earning more money, and remaining off income assistance. Despite a substantive loss in income when the supplement expired, the women seem to be doing well both financially and personally. In the following paragraphs, the women share their thoughts of what life is like now, after the supplement has ended.

Since the end of the supplement, Cathy has worked for the same employer. Her wage has increased significantly.

> **Cathy:** *Now that the subsidy has ended, I still have managed to maintain that sense of calm. I was able to continue working at the same job with regular yearly increases and now am making almost triple the wages from when I first started almost eight years ago. This goes beyond what I was receiving with the supplement.*

At the end of the supplement, Mary was earning $8 per hour in a secretarial position. A few months later she found part-time work that paid $12.50 per hour. She also enrolled in a program of professional certification. She is now making $27,500 annually.

> **Mary:** *I have moved on to different temp jobs and started taking [the] courses. I seem to be doing OK financially, although I have a few more debts to pay off than when I was on the supplement.*

Sara was earning $6.25 per hour when the supplement expired. A few months after the end of the supplement, she was laid off, but quickly found a new job that paid $3.35 more per hour. She is currently earning $13 per hour.

> **Sara:** *It [SSP] has been gone now for a few years. I was able to put some of each [cheque] away in a savings account to prepare for when it was over. This savings, it turns out, was enough for a down payment for my own house. I have since remarried; I have an awesome job with [employer name]. I feel good about myself and can hold my head up high. I HAVE SUCCEEDED!*

Marie left the program shortly before the end of the three-year period because she had an opportunity to work in a temporary job that was in a field that interested her. It was an Employment Insurance subsidized position and therefore not eligible for the SSP supplement. Marie has worked on and off since the supplement ended. Although she has received EI benefits on a few occasions, she has never returned to income assistance.

Almost 10 years after they were selected for the study, these four women, who had been long-term welfare recipients at the start of SSP, are still working, earning more money, and remaining off income assistance.

> **Marie:** *When that temporary job ended, I found work in that field as an employee and also started my own business as an independent contractor in a related field. I regularly receive commendations for my work, and it has also led me to other areas of employment.*

These four women can be viewed as success stories in SSP in the sense that they found full-time employment, left income assistance, and remained consistently employed both during and after the program. Therefore, it is not surprising that they hold overwhelmingly positive views of SSP. Moreover, they view the future with hope.

Sara and Mary appreciated the support they received from the SSP staff. As Sara puts it:

> *I honestly feel that if I had not had the encouragement and support of the SSP staff, I would still be back where I was before I became a participant. This program changed my life so much I cannot even begin to thank those involved.*

Marie hopes the program can help others:

> *The supplement did more for me at a time when I needed it the most than I can express. It has helped to restore my dignity, confidence . . . . I rediscovered the self-satisfaction that comes with employment and doing a good job. While unemployment has been common in our changing society, I know [this] does not have to become a way of life for me. My children have witnessed my success and it has helped them to develop dreams and aspirations of their own. Instead of growing up dependent upon social assistance, in subsidized housing, constantly living in want, they now know that we can change our lives. . . . I want to . . . thank the program for this opportunity. I hope that more people would have the chance to better their lives through this program.*

Cathy recommends implementing SSP nationwide:

> *I am extremely grateful to have been chosen to participate in the Self-Sufficiency Project. . . . It is impossible to have a negative outcome.* ◆

Preparing for Tomorrow's Social Policy Agenda

SRDC has recently released a working paper authored by Peter Hicks, entitled *Preparing for Tomorrow's Social Policy Agenda: New Priorities for Policy Research and Development That Emerge From an Examination of the Economic Well-Being of the Working-Age Population*, that identifies new policy research and development work that could begin now in order to prepare for items that seem likely to be on the Canadian social policy agenda in about five years. The paper, which was prepared for the Applied Research Branch of Human Resources Development Canada (HRDC), takes a broad strategic perspective that goes well beyond the experimentation and empirical research that is the main business of SRDC. However, it provided a welcome opportunity to step back and put SRDC's own research and development activities in a broader strategic perspective. This article attempts to provide a brief overview of this 168-page paper.

Canada's record has been good

Based on a detailed assessment of a past trends and future projections, the paper concludes that Canada has had good success in achieving high levels of economic well-being. Canada scores well on personal consumption — although material living standards have lagged behind those in the United States. Canada also scores well in terms of the sustainability of its stocks of wealth, including our human capital — the skills of Canadians. In terms of equality, there have been huge improvements for older people and women, and these have not resulted in large losses elsewhere. Overall, equity trends have been flat. There is a mixed record on economic security. People do not stay poor or unemployed for long, but there has been a high level of unemployment.

The paper concludes that Canada has had good success in achieving high levels of economic well-being.

Lying behind those averages, there has been a growing share of persistent disadvantage in five at-risk groups: people with work-limiting disabilities, recent immigrants, unattached people aged 45 to 59, lone parents, and Aboriginal people. Most child poverty is located in these groups. In per cent terms, there is very little persistent poverty outside these groups.

Canada's position, like that of any other country, looks better or worse depending on the measures used. For example, things look worse when we examine wealth inequality and consumption poverty as opposed to the standard measures of income inequality and income poverty. There has been a worrying polarization of market income (mainly in hours worked) for the young, especially during the 1990s. On the other hand, things look less problematic on other measures. Many concerns in the United States about neighbourhood effects, intergenerational transmission of poverty, and earnings polarization are less of a concern in Canada.

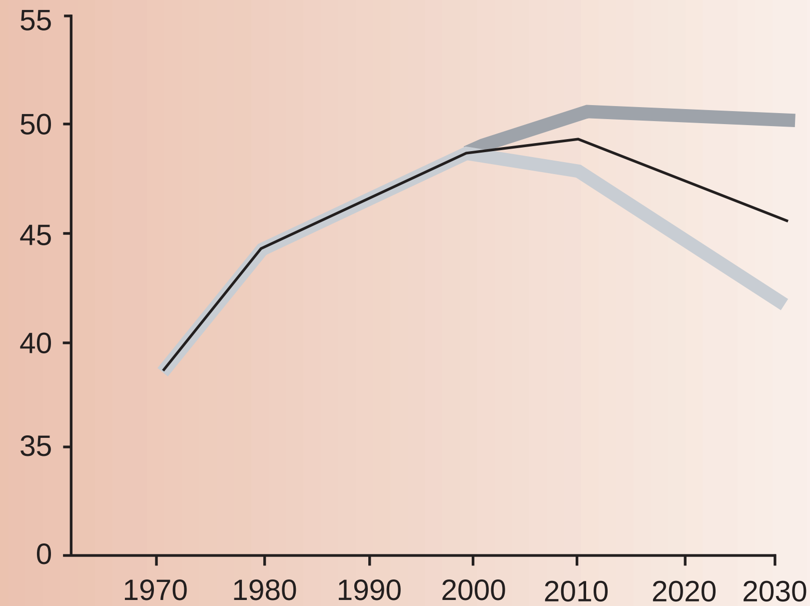
But different policy interpretations are possible. The trend data can support an optimistic reading of future policy implications. In this view, the fact that trends have been positive compared with other countries and compared with Canada's own past is emphasized. There are always problems, as in any country; however, the big issues have been addressed, and in the right order. The fundamentals are strong in terms of our human capital, and our economic and fiscal positions. People and markets have been adjusting reasonably well, particularly in the last several years.

A pessimistic reading is also possible. While the past success cannot be denied, some would argue that this success mainly reflects past social investment — and that we are not renewing that investment. For example, the 1960s and 1970s saw a quadrupling of our post-secondary education capacity and the introduction of a relatively generous income security system. There have been no comparable recent investments and, indeed, in the fiscal climate of recent decades, there have been cutbacks in the social infrastructure. Further, in this reading, the only real point of comparison over the longer run is with material living standards in the United States, and there are few signs that the productivity gap with the United States is closing.

The future is uncertain. The paper outlines a policy research and development agenda that is broad enough to support both optimistic and pessimistic readings. The proposed agenda is also designed to be broad enough to support quite different views of the future, including support for the following policy scenarios that are set out in the paper:

- "Life is Learning," a baseline scenario, puts the main emphasis on a continuation of today's focus on investing in skills and lifelong learning for all.
- "Life is a Job" concentrates more on the importance of paid work as the ultimate source of economic well-being. It is consistent with an emphasis on market mechanisms, on fiscal restraint, and on make-work-pay policies.
- "Life is Citizenship" puts more emphasis on building social infrastructure, and on the interrelation among the various domains of life, including caregiving and unpaid work as well as paid work and learning.

Percentage of the Total Population in Employment, 1970–2000, Three Plausible Results for 2030, Canada



Source: *Reforms for an Ageing Society*, by the OECD, 2000, Paris: Author.

The forces that will drive tomorrow's policy agenda

The relentless pursuit of lifelong learning. The current policy focus on human capital, skills, and childhood development will continue to make sense in the medium term, where it can be best captured in terms of filling gaps in the learning system. The broad agenda as described in Canada's Innovations Strategy should continue to provide a nice balance between economic and social goals. The paper discusses why learning is a safe response against an uncertain future. Learning is a key response to existing problems (too early retirement, disadvantages faced by younger cohorts of male workers) and even to unlikely future problems (lack of jobs, polarization).

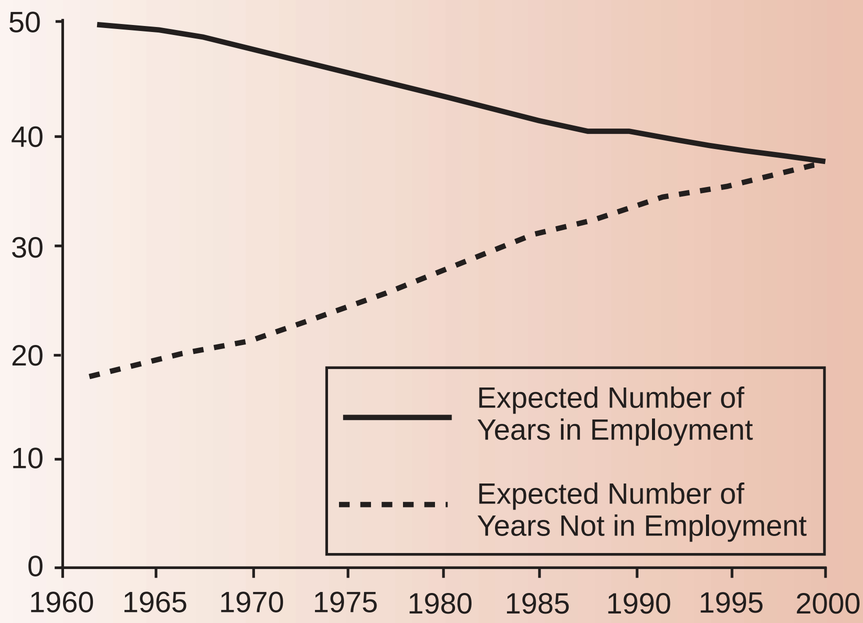
Two new drivers of policy change will join lifelong learning on the medium-term social policy agenda: a concern about the producer-consumer ratio and a shift towards incentives to life-course flexibility and later retirement.

Increasing the producer-consumer ratio. The first new driver of policy is a trend that could greatly affect the size of the economic pie. Everyone participates in the consumption of goods and services, but only a portion of the population contributes to their production. The graph above shows that there has been strong growth in the producer-consumer ratio (the percentage of the total population that has been employed) in recent decades. It also shows the flattening out, or decline, in that trend starting around 2010 when the baby boom generation will start retiring in large numbers. The graph shows three reasonable scenarios that were developed by the OECD to show the wide range of outcomes that are possible between now and 2030.

The retirement of the baby boom generation — and consequent possibility of labour shortages and a falling share of the population producing goods and services — are likely to dominate the medium-term agenda. The economic and social climate will begin to shift in fundamental ways.

Retirement incentives and the reallocation of leisure. The second of the big

Number of Years That Men Can Expect to Spend in and out of Employment Over the Course of Their Lives



Source: *Ageing and Income: Financial Resources and Retirement in 9 OECD Countries*, by the OECD, 2001, Paris: Author.

policy drivers is closely related. It consists of changes in the incentives that influence the timing of retirement and the abruptness of the transition from work to retirement.

People have been spending a lot more of their lives in school and, especially, in retirement. The drop in the percentage of time that men spend in the labour force has been quite extraordinary over this period — as can be seen from the dramatic graph above. It deserves careful attention. The figures for women will soon become similar.

Changes in retirement patterns create both opportunities and pressures with respect to the re-allocation of the enormous pool of leisure (defined here simply to mean time not in work) that grows as people age. The paper argues that, for most, the large growth of leisure in retirement is unwanted, passive, and unhealthy — it is also the major contributor to the coming fall in the producer-consumer ratio. There would be many win-win gains from reallocating some of that time.

Main new strands in the policy response

It follows that today's human development and skills agenda as described in Canada's Innovations Strategy will likely continue as a dominant theme in the policy response for many years. These topics are already part of the government's agenda and they are, in consequence, not discussed at length in the paper. Instead, the paper concentrates on four newer strands of the policy response to these drivers of change.

Towards life-course flexibility — with more work and learning. Today policies squeeze work into a shorter period in the middle of life — as the result of their encouragement of longer schooling and earlier retirement. And efforts to increase mid-career learning, or time off for caregiving, mainly come from time that was formerly allocated to work. That is, a continuation of existing policies would compound, not solve, the emerging problem of the falling producer-consumer ratio.

Tomorrow we should take account of the win-win potential of the largest pool of time that is available for reallocation — leisure in retirement — and use it to devise policies that simultaneously address the following:

- The longer-term goal of life-course flexibility. This means providing individuals with greater choice in the duration, intensity, and scheduling of work; learning; caregiving; leisure; and cultural and non-market activities over the entire course of life (not just work-life flexibility).
- The medium-term goal of increasing the total time devoted to work and learning, and facilitating caregiving during the periods when people are primarily working and learning. That is, the freed-up leisure in retirement cannot be simply reallocated to leisure at other stages of life.

What needs to be done? We should work now to prepare for a major consultative exercise on ways of accomplishing these goals. This would involve an assessment of the likely effects of changes in the many policies that affect the retirement decision and life-course flexibility. A good deal of the policy analysis has already been started, as with policies for older workers. As well, we should act now to fill a gap in our longitudinal data as it relates to the work-retirement transition.

Towards life-course and asset perspectives. Today income-at-a-point-in-time concepts still dominate income security policies. Active, preparing-for-life policies are mainly in separate, and fragmented systems — such as education and labour market integration policies.

Tomorrow there should be a more integrated, preventive approach within a new policy envelope consisting of income security, learning, and labour market integration policies — with an overall goal of social inclusion over the course of life (both fighting social exclusion and providing the resources that allow people to live up to their potential in both the economy and society).

Thinking that takes into account both income and a range of assets over the course of a lifetime will become dominant in social policy designs. Assets include human capital (which will become an even more dominant element as trampoline features are increasingly introduced into safety-net programming). In addition, increasing emphasis will be placed on other assets — housing assets, financial wealth, information resources, and (perhaps) social capital.

- Within skills acquisition and labour market integration policies, there should be a shift to integration across life — filling lifelong learning gaps.
- Within safety-net policies, there should be a new focus on tackling persistent problems — including those that endure over life and into subsequent generations, with more reliance on individuals and families to deal with low income or economic insecurity that is of short duration and non-recurrent.

What needs to be done? Canada may have fallen a little behind other countries, such as the United States and the United Kingdom, in developing life-course, asset-based approaches. However, the gap is small and the paper shows how Canada might leapfrog ahead. What is needed is series of strategic planning studies that explore a range of new ways in which policy could address social inclusion.

One study could explore new ways of reaching the most vulnerable groups. Some quite radical new directions are suggested. A second study could explore the consequences of including a wider range of assets along with income and human capital in public policies. A third could explore the intriguing parallel policy universe of lifetime accounts. While lifetime accounts pose some difficult design issues, they are, in principle, better adapted to life-course and asset-based approaches.

Towards a new capacity for making social investments effective. Today policy has the underlying goal of social investment (getting payoffs in the future). However, policy designs are actually based on expenditures (getting payoffs in the present).

Tomorrow we should bring policy designs into line with their underlying social investment goals. These policies are driven by specific calculations of expected returns later in life, for example

- calculations of how the skills acquired by individual clients would be expected to be used, and rewarded, subsequently in the labour market and later in life; and
- calculations of the extent to which policies can be expected to help their beneficiaries avoid persistent poverty or disadvantage, including over the later course of their lives.

What needs to be done? The technology to allow the calculation of expected returns has been developed in prototype for active labour market programming, but requires further work. As well, major new statistics need to be collected on how skills are acquired, used, and rewarded. Finally, more experimentation is needed with new kinds of social intervention. The paper outlines some of the specific steps that could be taken in each of these areas.

Towards accountability: A data-based marriage of decentralization and horizontal integration. Today Canada has a good record by world standards on both vertical integration (balancing decentralization with ministerial accountability) and horizontal integration (harmonized action across program streams). At the federal level, for example, HRDC has been a world leader in integrating Employment Insurance, active labour market policies, and the labour exchange, and in supporting school-work, work-parenting, and work-retirement transitions. However, the tools were not developed to provide for consultation and accountability when more than one actor or order of government is involved.

Tomorrow complexity will increase greatly because of the shift to life-course perspectives and because of pressures for greater horizontal integration (including policies in different ministries and orders of government, and crossing many traditionally separate health and social disciplines).

What needs to be done? What is needed is a consultative process that involves all partners — including groups representing the clients of the policies — that regularly reviews the activities and accomplishments of the system as a whole and the plans of the various participants. Much richer common data, including data on outcomes, is the correct glue to hold such a system together. The paper outlines a series of steps that could launch such an evidence-based system of consultation and accountability.

A virtuous circle on the horizon?

The paper concludes by suggesting that, assuming the necessary development work is undertaken, we could face the happy prospect of a virtuous circle in about five or so years. It seems quite plausible that a combination of demographic, economic, and labour market factors, supported by policy change, will allow major gains in attaining both economic competitiveness and social inclusion goals. And that can be done in a way that is consistent with changing public values, with gains among citizens in all main demographic groups, with fiscal and jurisdictional realities, and with large gains in policy effectiveness.

Everyone seems to win. How can that be possible? The answer lies in the likelihood of several factors coming together in a particularly fortuitous manner in this time frame: the favourable demographics; a starting point where Canada's social and economic house is in good order; strong comparative advantages in key areas of policy development; and, particularly important, the unique win-win opportunity to exploit the huge untapped resource of time at older ages. ◆

$50 Cash or a $1,000 Grant for Education or Training?

This decision, along with 99 others, is the crux of a laboratory experiment designed to investigate what types of government assistance best serve the policy objective of increasing human capital investment among adults.

In laboratory experiments, subjects make decisions revealing preferences that researchers are interested in. For example, instead of asking an individual whether he or she would take a $1,000 grant for education and training, an experimentalist may give subjects $50 and the opportunity to trade that money for a $1,000 education grant. The subjects' willingness to give up this current income to realize an educational opportunity in the future is one possible measure of preference for education and training. The decisions made by subjects are real, not hypothetical. A subject makes an actual choice among alternatives, and that choice can be used to infer relative preferences.

The policy motivation

The 2001 Speech from the Throne stated that the federal government wants to see at least **one million additional adults** pursuing learning opportunities during the next five years. Human Resources Development Canada is interested in finding effective means to increase human capital investment activities among adults from different socio-economic backgrounds. How best to foster lifelong learning with government financial assistance?

Some individuals may respond favourably to incentives that would support them in the process of accumulating the savings necessary to take on further education. Others may react more favourably to encouragement like loans or grants that will enable them to immediately enrol in learning activities. What factors, other than direct costs, influence the decision for adults to invest in education? Understanding the nature and role of factors that can act as barriers to lifelong learning is essential for designing appropriate policies. Is it true that some individuals, in particular low-income individuals, suffer from "loan aversion" as some economists have inferred? This would greatly limit the efficacy of loans in encouraging additional education among population groups who demonstrate such aversion. Or do perceptions of the benefits of education influence the decision to participate?

Experimental economics provides an inexpensive method of enriching the design of new government policy and programs. For instance, in December 2000, SRDC and the Centre for Interuniversity Research and Analysis on Organizations (CIRANO), conducted a laboratory experiment with 256 subjects to shed light on the behaviour and preferences of the working poor with respect to saving for learning activities. Analysis of the experimental results showed that the relative generosity levels of grants, individuals' preferences for smoothing consumption over time (time preferences), and individuals' attitudes towards risk all play significant roles in decisions concerning whether to invest in one's own education. (See *Will the Working Poor Invest in Human Capital? A Laboratory Experiment*, SRDC Working Paper 02-01.)

The current experiment

To inform future federal government initiatives to foster adult education, SRDC, again in collaboration with CIRANO, is currently conducting a large, trans-Canada laboratory experiment. The experimental investigators, Claude Montmarquette (University of Montreal and CIRANO), Catherine Eckel (Virginia Polytechnic Institute and State University), and Kate Johnson (SRDC) will use the experiment to investigate what types of government assistance best serve the policy objective of increasing human capital investment among adults. In addition, the experiment will generate information on the barriers that may prevent adults from engaging in learning activities — such as low literacy, limited access to credit, time constraints, lack of information, fear of failure, and loan aversion.

Participants are being presented with a series of decisions to make, involving trade-offs between cash and various forms of educational financial assistance: grants, loans, and saving incentives. The findings will be used to infer what forms of financial assistance are most likely to incite individuals to invest in learning activities and determine how generous the financial assistance would need to be. In addition, the educational trade-offs will enable researchers to estimate each participant's intensity of preference for grants, loans, and matching grants. Estimating a relative preference for each participant is key to understanding the relationship between behaviour and barriers.

Using three core instruments — compensated decisions, survey questions, and an assessment of ability — the investigators can construct many variables and use regression analysis to explore the impact of each of those barriers on educational investment.

In addition to investigating barriers and generosity levels, the initial experimental sessions also provide a baseline observation for each participant in the study. Four months following the first experimental sessions a subset of participants, those that volunteer for further study, will be randomly assigned to treatment and control groups. Those in the treatment group will attend a labour market information session and those in the control group will not attend any such session. Approximately one month following the labour market information intervention, both groups will participate in a follow-up experimental session. If the labour market information intervention coincides with markedly different investment in education and training, this experiment will give evidence that in addition to financial incentives, labour market information can make a difference in individual educational investment decisions.

This experimental exploration provides an opportunity to document how certain barriers — low literacy, limited access to credit, time constraints, lack of information, fear of failure, and loan aversion — combine with individual characteristics, attitudes, and preferences in influencing the decision to engage in further learning and education. Laboratory experimental methods, in combination with other forms of research, can play an important role in helping to better understand how to design and implement public policies. These methods can reveal the impacts and interrelationships among various policy options. With the insights gained from laboratory experiments, policy-makers will be in a better position to implement more effective and fiscally prudent programs to improve the well-being of Canadians. ◆

Bulletin Board

Publications

Available now:

The Impact of the Allowable Earnings Provision on EI Dependency, by David Gray and Shawn de Raaf

This working paper provides an in-depth analysis of the way in which Employment Insurance (EI) claimants combine the receipt of EI benefits with work. The Survey on the Repeat Use of Employment Insurance (SRUEI), as well as information from respondents' administrative records documenting their EI claim activity from 1992 to 1998, is used to examine the characteristics of claimants who make use of the allowable earnings provision and to estimate the impact of using this provision on claimants' short- and long-term EI dependency.

A Model of Social Capital Formation, by Cathleen Johnson

This working paper discusses the concept of social capital, its sources, and its consequences. It presents a model of social capital formation, and outlines the potential sources, consequences, and development of the social capital in Cape Breton, Nova Scotia during the Community Employment Innovation Project (CEIP).

Preparing for Tomorrow's Social Policy Agenda: New Priorities for Policy Research and Development That Emerge From an Examination of the Economic Well-Being of the Working-Age Population, by Peter Hicks

This working paper describes how Canada's working population will change in the next five years and offers a variety of directions policy-makers might take to manage those changes. The paper is intended to identify the topics that are likely to be on the policy agenda in this time frame and to propose policy development work that could begin now in order to prepare for such an agenda. While the paper is primarily about policies that support the economic well-being of working-age people in the medium-term time frame, a broad definition of social policy and longer view are discussed.

Forthcoming:

Equilibrium Policy Experiments and the Evaluation of Social Programs, by Jeremy Lise, Shannon Seitz, and Jeffrey Smith

This working paper presents a model for evaluating equilibrium policy experiments, and illustrates the usefulness of this model as a tool for assessing the impact of social programs by using it to evaluate the Self-Sufficiency Project (SSP). SSP's reports to date have been subject only to partial equilibrium experimental evaluations. The new model reveals the potential effects of a program such as SSP on wage levels and on the employment of other groups in the labour market.

Assessing the Extent of Randomization Bias in the Canadian Self-Sufficiency Experiment, by Thierry Kamionka and Guy Lacroix

This working paper investigates whether there is a bias in the measurement of the SSP treatment effect because up to 20 per cent of the intended sample did not agree to take part. It does this by comparing the estimated impact of the program that was obtained using only experimental data with the impacts obtained using administrative data on the individuals who did not take part in the experiment.

Events

SRDC gives presentations at the national CED conference

The Canadian Community Economic Development (CED) Network held a national conference in Winnipeg from September 23 to 27, 2002. The conference theme was "Strengthening Community-Led Innovation," and SRDC was invited to organize a workshop on the Community Employment Innovation Project (CEIP) (see *Learning What Works, Volume 2, Number 1*). Allan Moscovitch, CEIP Project Director; Debbie Martell, SRDC Operations Associate; and Eldon Macdonald, President of the Community Board Planning Group, the umbrella organization of the CEIP community boards, made presentations at the event.

SRDC participates in the 2002 National Policy Research Conference

This year's conference organized by the Policy Research Initiative was held in Ottawa from October 23 to 25 with the theme "Future Trends: Risk." SRDC Executive Director John Greenwood took part in one of the conference's learning workshops, giving a presentation on research synthesis for policy development. At a session on "Risk and Social Policy," SRDC Research Associate Cathleen Johnson presented an overview of an economic experiment being conducted by SRDC to explore the use of alternative financial incentives to foster adult education (see the article on page 12 of this issue); and Peter Hicks presented a summary of his paper *Preparing for Tomorrow's Social Policy Agenda* (see the article on page 8 of this issue).

Research staff announcements

Research Associate Kelly Foley left SRDC in September to pursue graduate studies at the University of British Columbia.

Peter Hicks, who had been working as an adjunct researcher at SRDC (see the summary of his paper on page 8 of this issue), left in October to take up a position at the Policy Research Initiative.

SRDC welcomes three new members to its Board of Directors

On June 10, 2002, Sharon Manson Singer and Paul Bernard joined the SRDC Board, and on November 26, 2002, John Helliwell was appointed to the Board.

Dr. Manson Singer is a Senior Fellow at the Centre for Public Sector Studies, University of Victoria. Prior to that she was a deputy minister in the Government of British Columbia, serving in three ministries over a period of four and half years. Before entering the provincial government, she was a professor in the School of Social Work at the University of British Columbia.

Dr. Bernard is a professor of sociology at the Université de Montréal. He is also a member of the National Statistics Council of Canada, and Chair of the Joint Working Group of Statistics Canada and the Social Sciences and Humanities Research Council of Canada on the advancement of research using social statistics.

Dr. Helliwell has been a professor of economics at the University of British Columbia for over 30 years. Prior to that he taught at Oxford University. From 1991 to 1994 he was Mackenzie King Visiting Professor of Canadian Studies at Harvard University, and from 1995 to 1996 was back at Harvard as a Fulbright Fellow. He is a research associate at the National Bureau of Economic Research, a Fellow of the Royal Society of Canada, and an Officer of the Order of Canada. ◆