Learning What Works

Evidence from SRDC's Social Experiments and Research

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Asset-Building Strategies for the Poor: Is Policy Ahead of Research?

In evaluations of the adequacy of the Canadian social safety net, most analyses focus on the level of personal income but few look at broader indicators of financial vulnerability. The after-tax income of families or individuals is certainly an important indicator of their ability to sustain a given standard of living. However, financial assets play a crucial role in determining how people are able to cope with adversity. The availability of resources that can be promptly converted into cash help absorb the shock of economic stresses that arise following a job loss or other interruptions in employment, such as parental leave, sickness, the emergence of activity-limiting disabilities, or a change in household composition due to separation, divorce, or widowhood.

Having no positive financial assets does not necessarily mean that a person is in a vulnerable situation. Some individuals may earn substantial income, but because they are still young, they may have had little time to accumulate savings. Others may have chosen to use their savings to acquire assets, such as buying a house. The most recent data available from Statistics Canada indicate that of all persons living in Canadian families with no positive financial wealth, 44 per cent owned their house and 70 per cent were *not* in low income.

A significant proportion of Canadian families are in low income and have insufficient financial assets to leave low income if they were to convert those assets into cash (see the table on the next page): in 1999, 10 per cent of all Canadians were in this situation. Financial vulnerability is particularly severe for certain groups: lone-parent families and families in which the main income recipient is less than 25 years of age were four times more likely than other types of families to be in this situation. Families with a high incidence of unemployment were four times more likely to be in this situation if they were without earnings during more than six months of the year.

Not surprisingly, the incidence of asset poverty among low-income families is very high. The vast majority of

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SRDC's two-part mission is to help policy-makers and practitioners identify and implement social policies and programs that improve the well-being of all Canadians, with a special concern for the effects on the disadvantaged, and to raise the standards of evidence that are used in assessing social policies and programs.

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Indicators of Financial Vulnerability Among Canadian Families

Percentage of families with low income *and* insufficient assets to cover their low-income gap (1999)	**10%**
Female lone-parents	42%
Families in which the major income recipient was unemployed for more than 6 months	41%
Families in which the major income recipient is less than 25 years old	39%
All lone-parent families	38%
Recent immigrants	26%
Percentage of low-income families with insufficient assets to cover their low-income gap (1999)	**70%**
Lone-parents	85%
Families in which the major income recipient is less than 25 years old	80%
Recent immigrants	70%
Amount of financial assets of low-income families (median, 1999)	**$300**
Including net equity in housing and business	$800
Amount of financial assets of *non*-low-income families (median, 1999)	**$21,500**
Including net equity in housing and business	$87,000
Percentage of families being at least 2 months behind in a bill, loan, rent, or mortgage payment (1998)	**16%**
Female lone-parents under 25 years of age	53%
All female lone-parents	32%
All families where the major income recipient is less than 25 years old	25%
Percentage of families' after-tax income allocated to housing (2000)	**21%**
Female lone-parents	31%

Note: "Assets" represent the sum of all chequing and savings accounts; guaranteed investment certificates; RRSPs; and the value of cars, trucks, vans, and recreational vehicles from which total debts are subtracted. Net housing and business equity are not included. Also excluded are the value of work-related pension plans and future entitlement to social security programs such as the Canada Pension Plan / Quebec Pension Plan and Old Age Security.

Sources: "Families on the financial edge," by R. Morissette, 2002, *Perspectives on labour and income*, Catalogue no. 75-001-XPE, pp. 9–20; "Falling behind," by W. Pyper, 2002, *Perspectives on labour and income*, Catalogue no. 75-001-XPE, pp. 21–27; and "Housing: An income issue," by S. Lefebvre, 2002, *Perspectives on labour and income*, Catalogue no. 75-001-XPE, pp. 28–35.

low-income families (70 per cent) would have remained in low income even after liquidating all their financial assets and adding the proceeds to their after-tax income. Again, the percentages are much higher among lone-parent families (85 per cent) and families in which the main income recipient is less than 25 years of age (80 per cent). The typical low-income family had about $300 in assets to buffer income interruptions or to face unexpected expenses in 1999 without having to sell their house or business. When including equity in housing and businesses, this amount goes up to only $800. In comparison, among non-low-income families, the median value of financial wealth was over $20,000 in 1999 and reached $87,000 when housing and business equity is included.

The inability to meet immediate commitments is also indicative of financial hardship. In 1998 about one in six Canadian families was at least two months behind in a bill, loan, rent, or mortgage payment. Being a lone parent and being young are again two factors that increase the risk of "falling behind." Moreover, lone parents have to deal with housing expenditures that represent a high proportion of their budget: on average, their housing cost ratio was 31 per cent in 2000, while for all Canadian families the ratio stood at 21 per cent.

Being young and being a single parent are thus two conditions associated with a high risk of financial vulnerability, but the polices to address "asset poverty" within these two groups should be quite different: While the financial vulnerability of some young families may be of a temporary nature, this may not be true for lone parents, especially lone mothers who are the most likely to experience prolonged periods of low income, which significantly limits their ability to build up savings. Therefore, it may be well advised to target efforts to lone-parents, the group who is most in need, and be less interventionist for younger people.

Inequalities in wealth distribution in Canada are, to some extent, related to various provincial and federal income support programs that may not provide adequate support to recipients — especially those with dependent children — to put aside even small amounts of savings. This is true of provincial social assistance programs. In addition to the fulfillment of a number of administrative rules, eligibility for social assistance is based on a "needs test," which compares the budgetary needs of applicants and any of their dependants with the household's total income and assets. Applicants are usually required to convert non-exempt assets into liquid assets and to live off the proceeds before qualifying for assistance. In most provinces and territories the amount of exemption varies according to household size and applicants' employability status. Assets such as a principal residence, business property, amounts saved in registered savings plans, equipment required for employment, and, in some cases, the value of a car are generally considered exempt.

Many analysts argue that welfare asset limit rules are too stringent and that, at a minimum, they work against the goal of promoting savings among economically disadvantaged groups. However, as is the case for all government policies, various criteria come into play when assessing the adequacy of these rules.

Based on arguments of fairness, asset limit rules are justified on the basis that liquid assets (i.e. assets that can easily be converted into cash) should not be given preferential treatment over ordinary income. An equivalent treatment of both sources of revenue ensures an equal treatment of people with the same financial capacity to meet their own needs. On the other hand, critics of asset limit rules argue that fairness requires that welfare regulations provide preferential treatment to savings in the same way that savings — and capital income — receive extensive preferential treatment through the income tax system. These so-called "tax expenditures" cost the federal government over $10 billion annually, and although they are available to all individuals, they benefit only those who have a positive tax liability, thereby excluding most of those at the lower end of the income scale.

Many analysts argue that welfare asset limit rules are too stringent and that, at a minimum, they work against the goal of promoting savings among economically disadvantaged groups.

Attempts to address the real or perceived unfairness and overcomplexity of asset limit rules have to account for any induced distortions in people's behaviour. Asset limit rules influence — or "distort" — individuals' decisions to save for retirement, buy a house, take additional employment, or even to divorce. The magnitude of the efficiency cost associated with the impact of existing welfare rules that limit assets depends on individuals' sensitivity to these rules. Higher limits may encourage those with low levels of assets to save more. On the other hand, they may encourage some low-income individuals with assets slightly above the new levels but substantially above the old ones to reduce their savings in order to be eligible for receiving welfare should they need it. Empirical work examining this issue has reached little consensus: studies have shown that an increase — or the elimination of — asset limits may encourage the acquisition of assets among lower-income individuals, especially in the form of vehicles but not so much in the form of liquid assets, and that the impact, while modest, is stronger for those low-income individuals who are at higher risk of receiving welfare (see for instance Powers, 1998; Hurst & Ziliak, 2004; Orszag, 2001; and Sullivan, 2004).

More analysis is required not only to determine whether the welfare asset limits across Canada are adequate, but also whether more flexibility can be introduced in the treatment of certain assets by allowing a grace period to a wider range of assets. Current welfare rules recognize that it is not reasonable to ask applicants to sell some of their assets if they are likely to need assistance for a short period. For instance, all applicants are informed that consideration of their vehicle or their farm property as an asset will occur only six months after they apply for welfare. By expanding the list of assets that are given this type of preferential treatment, a better balance could be achieved between the conflicting goals of horizontal equity and incentive to save.

In this debate over welfare asset limits, a growing number of analysts rely on principles other than equity and efficiency and look at the outcomes that government policies achieve. One outcome of great interest is poverty reduction, which has been a primary goal of recent income security reforms, especially those surrounding child benefits. A second outcome is the reduction in income inequalities and, perhaps more importantly, inequalities of opportunities.

Promoting saving and asset accumulation among low-income families has been increasingly viewed as an effective way to fight poverty and social exclusion. Assets — especially those accumulated for skills development and learning, small business capitalization, and even home acquisition — arguably give people more control over their lives by providing a source of empowerment and creating a more forward-looking attitude. Since assets ease liquidity constraints and facilitate access to credit, they increase individuals' ability to take risks and to make important decisions that can broaden their range of opportunities, both for themselves and their children. In his influential book *Assets and the Poor*, Michael Sherraden claims "income may feed people's stomachs, but assets change their heads" (1991, p. 6).

Another important argument in favour of asset-based policies is that they help correct failures of the financial market due to asymmetric information: the poor are effectively denied access to credit or even savings opportunities because in the absence of accurate information to assess them individually, financial institutions generally treat them as "bad customers." The asymmetry of information lies in the fact that the poor know more than financial institutions about their own characteristics, essentially because human capital is more difficult for financial institutions to assess than financial capital or income. This market failure results in a miscommunication between the two parties, neither of which perceives in the other an interest in accommodating them even though such interest might exist.

These assumptions form the basis of a number of asset-based initiatives referred to as Individual Development Accounts (IDAs). Typically, IDAs are financial schemes that offer a generous matching contribution for every dollar participants save on their own, thereby increasing significantly the rate of return on their savings. Participation is usually restricted to households with limited income and assets, and the use of any funds accumulated through the program is targeted for special purposes, such as purchasing a home, starting-up or expanding a small business, or undertaking post-secondary education.

Promoting saving and asset accumulation among low-income families has been increasingly viewed as an effective way to fight poverty and social exclusion.

A number of asset-building initiatives exist in the US and UK as well as in Canada. Experience to date with these initiatives provides a wealth of information about program design, management, and feasibility as well as about participants' saving behaviour even though they represent a modest penetration of IDAs among the target population of the working poor. They have demonstrated that low-income people are able to save when provided with generous incentives and that participants generally understand the rules and respond to the incentives, especially by saving in order to buy a first home and also to pursue higher levels of education or start a new business. Participants have very different experiences with the program: saving remains difficult for many of them, even in the context of the supportive and generous financial structure of IDAs. Other participants save more successfully than they have in the past, although there is evidence that individuals shift savings from other vehicles to contribute to the newly available IDA scheme. Results also show that IDAs seem to attract certain types of individuals, especially younger people and those with some kind of formal higher education, and a disproportionate fraction of them are women.

Findings from the first experimental assessment of IDAs were published in 2004 by Abt Associates, the organization responsible for evaluating the Community Action Project of Tulsa, Oklahoma, initiated under the American Dream Demonstration (Abt Associates, 2004). Participants in this project were part of a randomized trial, thus half of them were randomly assigned to a treatment group — which was allowed to open an IDA — and the other half to a control group — which was not given that opportunity. Results from this evaluation suggest that the program had a significant influence on the savings and asset accumulation of those served by the program, especially among African-American participants. The purchase of a home and home repair or improvement represented two thirds of the matched withdrawals made by participants. However, the evaluation does not address important questions regarding the effectiveness of the program in terms of benefits generated by each dollar of public funds or its impact on longer-term outcomes including employment and earnings trends. It does not shed any light on the impact on poverty alleviation or social inclusion, outcomes of greatest interest to policy-makers.

SRDC is evaluating *learn*$ave, the largest experiment of its kind. *learn*$ave, which is funded by Human Resources and Skills Development Canada and managed by Social and Enterprise Development Innovations (SEDI), enrolled almost 5,000 participants in 10 cities across Canada. In three of those locations — Halifax, Toronto, and Vancouver — the intervention is being evaluated using an experimental design based on the random assignment of enrollees. The project is designed to answer questions such as the following: Will the offer of financial incentives to save for education, training, or starting a new microenterprise be sufficiently attractive to a significant number of low-income Canadians? Which groups will find it most attractive? Will they be able to save enough to achieve these goals? Will they continue their education and training or start new businesses with their savings? Will these activities yield improved earnings and employment prospects in future? Can such a program be cost-effective from the perspectives of individual participants, governments, and Canada as a whole? (For preliminary observations from the *learn*$ave project, see Kingwell, Dowie, & Holler, 2004.)

Schemes such as IDAs have the potential to improve both fairness and economic efficiency. It is, however, uncertain whether they will work in the ways that their proponents hope. First, asset accumulation may be a consequence of pre-existing attitudes that cannot be easily changed. Second, the goal of accumulating liquid assets in order to buy non-liquid assets such as higher education or a small business may conflict with the need to accumulate liquid assets as insurance against adverse economic events. Although funds accumulated in IDAs can serve more immediate purposes, this type of usage is discouraged since savings will then not be eligible for matched contributions. The objective of IDAs is to move savers beyond precautionary goals so they can make an investment in the future. Third, the very poor may not have sufficient income to make IDA contributions and thus IDAs may be more of a niche program than a broad-based strategy to alleviate poverty. And finally, it is not clear that such schemes actually create "new savings." In the past 20 years, a vast body of research has studied subsidized saving schemes, and the empirical examination has led to significant controversy over their net impact on savings, that is, the extent to which contributions to these accounts crowd out other forms of savings. There could be a deadweight loss associated with such programs when subsidized savings substitute at least some non-subsidized savings that would have taken place in the absence of the subsidy. These deadweight costs, which are likely to be small given that the level of financial wealth among the target group is relatively low, should not be neglected.

IDAs, like other government-assisted savings plans, may not "change people's heads" but may simply represent windfall gains for those who already have a mind for savings. Until rigorous evaluations of initiatives such as the *learn*$ave project are able to provide empirical support for the underlying hypotheses of asset-based strategies, the promotion of policies to fight "asset poverty" is running ahead of research.

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Whither Welfare?*

Over the past 15 years a wave of work-based welfare reform has swept across North America. In the United States it began with the *Family Support Act* of 1988, which established programs to "help needy families avoid long-term welfare use," and culminated in the 1996 *Personal Responsibility and Work Opportunity Reconciliation Act* (PRWORA), which was designed, in President Clinton's words, to "end welfare as we know it" and ended the "entitlement" of needy families to receive income support. The 1996 reform gave individual state governments greater latitude over how they could use federal funds but attached a number of important conditions, including a requirement that at least 50 per cent of lone parents who were receiving welfare (and 90 per cent of the heads of two-parent households) participate full time in work or work-related activities. It also placed a strict limitation on the type and amount of education and job-search activities that could count toward meeting the work participation requirement. Perhaps most controversially, a five-year lifetime limit was placed on the amount of time a family could receive federally funded welfare benefits.

In Canada the initial impetus for adopting a welfare-to-work orientation was the growing fiscal crisis facing many provincial governments. Under the Canada Assistance Plan (CAP), the federal government had, since 1966, paid half the cost of provincial welfare expenditures. In 1990 the federal government imposed a "cap on CAP," limiting the growth in its CAP transfers to the "have" provinces of Ontario, Alberta, and British Columbia. This cap significantly reduced the federal share of welfare payments in Ontario, which was bearing the brunt of the 1990 recession (and which accounted for over a third of all welfare recipients in the country), and to a lesser extent in British Columbia. Then, in 1996, CAP was eliminated altogether and replaced by the Canada Health and Social Transfer, which provided a single "block grant" to each province as the federal contribution toward the costs of welfare, post-secondary education, and health. As health costs soared, welfare and education felt the squeeze.

In this fiscal climate, many provinces adopted a "get tough on welfare" approach to contain rising caseloads and costs. For example, in 1996 British Columbia eliminated welfare for people under the age of 25 and replaced it with a means-tested living allowance that was paid to young people who took part in employment programs. Conditional benefits were also implemented for those aged 25 and older, with the conditions becoming increasingly stringent the longer the duration of benefit receipt. In 2002, BC began introducing time limits on benefit receipt in order "to motivate employable income assistance clients to find jobs as quickly as possible" (Government of British Columbia, 2004).

In 1996 Ontario began reducing the amounts of financial assistance provided to welfare recipients and introduced Ontario Works, requiring mandatory participation in employment — typically unpaid community service activities — as a condition of benefit receipt for all "employable" welfare recipients. The guiding principle of the Ontario reforms was "the shortest route to paid employment."

In Alberta the reform process began even earlier. In 1993 benefit levels were substantially reduced, especially for unattached individuals, and the province set out to make welfare truly a "last resort" program by routinely turning away any applicants who had not exhausted all other avenues of support. A core element of this diversion strategy (apart from the often-rumoured one-way bus ticket to Vancouver) was the redirection of welfare applicants to other programs, especially to education and training programs (which were often cost-shared by the federal government) where participants could qualify for grants and loans and to low-wage community-based work projects (Boessenkool, 1997).

In all these cases, the underlying message that governments delivered both to welfare applicants and to the public at large was perhaps as important as any specific program features. Welfare was increasingly characterized as part of the problem — something to be avoided — rather than part of the solution for needy families. The social safety net was portrayed as an entangling net that entrapped people and created long-term "dependency" ; it needed to be replaced with trampolines or springboards to self-reliance.

The reform of welfare has amounted to a rewriting of society's contract with poor. What has emerged is what some have called a "work-contingent social contract" that holds that every

*This is an expanded version of an article that was published as an editorial in the January/February 2005 issue of the *Canadian Journal of Public Health, Volume 96, No. 1,* pp. 9–10.

individual and family has an obligation to seek to support themselves through employment before (or in some cases in conjunction with) turning to the state for support.

For many the centrality of work to the reform of welfare is based on their assessment of the intrinsic value of participating in paid employment and of the intangible benefits that work provides; for example, a heightened sense of confidence and self-efficacy and the inculcation of habits of discipline and co-operation. Others support a focus on labour market participation because they believe that incomes generated through employment hold the promise of eventually lifting the poor out of poverty in the way that reliance on public income support never can.

What has been the result of this reform? Does work work? The short answer appears to be yes. Post-reform welfare caseload reductions have been dramatic. In the US, caseloads declined by more than 50 per cent during the first five years after PRWORA was implemented (Blank, 2002). In Canada the number of people on welfare has decreased every year since 1994 and in 2003 was 41 per cent lower than a decade earlier (National Council of Welfare, 2004).

Of course, these changes to welfare were introduced in the midst of one of the strongest and longest periods of economic expansion and employment growth in modern times. The effectiveness of work-based welfare programs is yet to be tested under weak economic conditions and rising unemployment. So, to some extent, the jury is still out. Moreover, if one looks beyond simple statistics on welfare caseloads, one comes to a more nuanced conclusion: Work works, but work is not enough.

Evaluating changes in the welfare system should be about more than caseload counts and welfare spending; consideration should also be given to the income-increasing and poverty-reducing impacts of welfare reform. Fortin and Fleury (2004) estimate that of the roughly 1.4 million Canadians who could be defined as poor in 2001, a third — or 460,000 adults — could be classified as "working poor" based on having a significant attachment to the labour force in that year; and half of those working poor adults were heads of economic households. Close to a million Canadians, almost a third of whom were children, were living in a family headed by a member of the working poor. Moreover, for most of the working poor, financial vulnerability is more than a transient situation. Data that tracked individuals who were classified as working poor in 1996 show that over a six-year period they spent an average of three years in poverty, and 40 per cent of them were poor for four or more of the six years.

Evaluating changes in the welfare system should be about more than caseload counts and welfare spending.

These are people who are doing the right thing according to work-based welfare reformers; yet the labour market is not providing them with the means to support themselves and their families. In fact, the working poor rely on government transfers for almost a third of their income; without that financial support, these low-income families would have been poorer still. Welfare reform can hardly be declared a success if its principal accomplishment is to move people from the status of non-working welfare poor and into the ranks of the working poor.

As it goes forward, welfare reform needs to concentrate less on getting people off welfare and more on lifting people out of poverty. Work can be part of the solution, but more creative measures that allow people to mix earned income and transfer income are also needed to ensure that work effort is rewarded. One approach would be more generous tax credits for low-income families that have at least some income from employment (such as the Earned Income Tax Credit in the US). Another approach would be to directly top up the earnings of low-wage workers.

During the 1990s the Social Research and Demonstration Corporation operated a large-scale targeted earnings supplementation experiment for lone parents on welfare in New Brunswick and British Columbia. The Self-Sufficiency Project (SSP) showed that this kind of program substantially increased work effort (in only 18 months participants were able to reach a sustained level of employment that would have taken them almost five years to achieve on their own through the normal pattern of exits from welfare). During the period of supplementation, the program also raised family incomes and produced positive effects on early school-aged children in those families. And, surprisingly, the welfare savings and increased income and payroll taxes were enough to offset the cost of the supplement payments, so the program entailed little or no net cost to government (Michalopoulos et al., 2002; Ford, Gyarmati, Foley, & Tattrie, 2003).

SSP led to similar experiments in the US, and Rebecca Blank, a former member of the US President's Council of Economic Advisors, has described SSP and its American successor projects as "among the most promising new policy developments to come out of the 1990s welfare reform efforts. They show that there are ways to improve the well-being of families at the same time that we emphasize the need for labour market involvement and earnings" (2000).

However, earnings supplementation needs to be complemented by programs to help low-wage workers find more secure and higher-paying jobs. This is essential if workers are to become more economically independent over time. And these cannot be short-term efforts. Leaving welfare for work is a process, not an event. Programs that focus on only the initial job placement miss this point and do not address the challenge of "cycling" off and on welfare. Only by providing a range of employment retention and career advancement services — job-search assistance, workplace mediation, job coaching, rapid re-employment intervention after job loss, opportunities to combine training and work experience — and sustaining this assistance over a considerable period of time, can we hope to help many of those who leave welfare avoid the trap of low-pay, dead-end jobs.

Finally, efforts to reform welfare need to take into account the effects of poverty on children. The children in the SSP sample of welfare families were found to be very disadvantaged. The average score on a test of receptive language skills administered to three- to seven-year-olds was at the 27th percentile, and more than a third had scores that would typically call for a remedial intervention. About a third of these children had long-term health problems that limited their ability to participate in some activities. Most commonly, these were allergies, asthma, bronchitis, emotional problems, and learning difficulties, and many of these problems can have their roots in the home environment (Morris & Michalopoulos, 2000).

There is a growing body of literature exploring the link between family income and children's health and cognitive development. SSP found small but statistically significant positive effects on math test scores and school achievement among elementary-school-aged children. There was also a small improvement in overall health and a reduction in long-term health problems among this group of children (Morris & Michalopoulos, 2000). Projects in the US have found similar effects on academic achievement; some projects also improved children's health, although less consistently than they raised academic achievement (Morris, Knox, & Gennetian, 2002). They also found that these positive effects were produced only by programs that increased both income and employment and not by programs that led to more work without raising family income.

We need to identify the characteristics of families that are placed at high risk by welfare reforms.

The introduction of the National Child Benefit (NCB) in 1997 is one of the great social policy successes in Canada. The NCB lowers the financial barrier associated with moving from welfare to work and it gets more money into the hands of poor families with children.

However, child benefits need to rise further if we want to come close to offsetting the cost of raising a child in a low-income family. In addition, work-based welfare reform, especially with increases in maternal employment, has to be supported by quality child-care services accessible to poor families. Although programs that raise the incomes of poor families have been shown to provide benefits to children, the absolute level of children's functioning remains low. Therefore, there is a crucial need for early childhood education interventions targeted to low-income children.

The increased availability of child care may also go some distance to dealing with the negative impacts on adolescents — poorer school performance, increased incidence of delinquency — that have been found in a number of welfare-to-work initiatives that increased maternal employment. In part, these negative effects may result from adolescents taking on adult roles in the family, especially caring for younger siblings, and more accessible child-care services would help alleviate this pressure. However, there is also a need for programs for the adolescents themselves, programs that offer structured out-of-school activities and that provide supervision, adult role models, and pro-social peer networks.

Ultimately, however, there are no easy answers. We need to better understand why some families are able to adjust well to welfare reform measures and identify the characteristics of families that are placed at high risk by such reforms. The diverse needs of families with different capacities and in different circumstances and the diverse needs of children of different ages inevitably demands a range of programs and services targeted to their needs if reform is to be successful.

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One-on-One Help for Addressing the Employment Needs of Long-Term Unemployed IA Clients

In September 2004, SRDC was selected by the Vancouver Agreement through a competitive bid process to evaluate a three-year demonstration project in Vancouver's Downtown Eastside. This initiative represents a change in the way employment services for long-term unemployed income assistance (IA) clients with multiple barriers are planned and delivered in the area. The goal of the evaluation is to determine whether and how the initiative, which provides intensive one-on-one support services and other activities and guides participants through the employment continuum, "works."

The evaluation provides an opportunity to learn about the challenges and results of focusing an employment initiative in a delimited geographic area with a high concentration of long-term unemployed individuals with multiple-barriers. SRDC is working closely with the Vancouver Agreement and a number of community service agencies to evaluate this initiative.

The Vancouver Agreement is an urban development partnership of the governments of Canada, British Columbia, and the City of Vancouver. For more information, visit www.vancouveragreement.ca. ◆

Why Experience-Rate the EI Program?

One of the most debated features of the Employment Insurance (EI) program is that it does not adjust EI premiums according to past reliance on benefits. Unlike its American counterpart, which is exclusively funded by employers, the EI program is financed through premiums paid by both employers and employees. While these premiums may be reduced for firms that otherwise provide disability insurance to their employees, they do not fluctuate according to an employee's risk of being laid off by their employer, as is the case in the US. Many have argued that the lack of a link between premiums paid and past benefit receipt, most frequently referred to as "experience rating," denigrates the *insurance* aspect of EI by not adjusting premiums according to risk of unemployment. The absence of experience rating is often viewed as a major factor in explaining why specific firms and industries in Canada perennially receive subsidies through EI, artificially supporting seasonal employment patterns and long-term reliance on EI benefits.

In their recently published working paper, *A Literature Review of Experience-Rating Employment Insurance in Canada*, SRDC researchers Shawn de Raaf, Anne Motte, and Carole Vincent survey the literature on experience rating and identify a number of lessons learned for Canada from theory and practice. They find no clear evidence that an experience-rating mechanism would reduce firms' subsidies through EI or lessen the extent to which claimants frequently rely on EI benefits. In their view, experience rating is one policy among many that could address long-term dependency on EI by both firms and their employees and must be balanced with the other objectives that EI is designed to achieve as a delivery mechanism for supporting individuals, their families, and the regions in which they live.

There is a considerable body of theoretical literature suggesting that experience rating reduces unemployment and improves labour market efficiency. Absent experience rating, the EI program is in effect subsidizing firms' layoff patterns since firms do not have to compensate workers who are laid off, giving them the flexibility to reduce their workforces without penalty whenever they experience business slowdowns. Experience rating would impose a cost to firms for these layoffs, giving them greater incentive to avoid laying off workers or to rehire workers sooner in order to avoid longer unemployment spells and hence higher premium rates. In theory, then, experience rating helps mitigate the distortions in the labour market induced by EI while eliminating the cross-subsidization that researchers observe between firms and industries through the EI program.

One of the most compelling arguments for experience rating is its successful implementation in the American unemployment insurance (UI) system and other types of programs such as workers' compensation. de Raaf, Motte, and Vincent highlight research that has found that states having UI programs with the smallest degree of experience rating exhibit the most seasonal and unstable employment patterns. However, they caution that when comparing US and Canadian programs it is important to remember that UI in the United States is administered at the state level, and in addition to being almost exclusively funded through employer premiums, it is typically less generous in terms of the amount of benefits unemployed workers are entitled to receive. The authors note that these differences, along with differing social and economic policy environments, complicate direct comparisons between American and Canadian experiences. Despite these differences, they underline a few noteworthy lessons that can be drawn from the American experience.

One lesson is that in practice no UI program is perfectly experience-rated, where a firm's premiums are perfectly correlated with its employees' past benefit receipt. All states require firms to pay into the program, regardless of whether their employees have ever claimed UI, while at the same time they set a maximum amount of premiums a firm is required to pay. Firms at either end of the spectrum are therefore either net contributors to or net beneficiaries of the program, since their premiums do not correspond directly to the amount of benefits paid out to their employees. This leads to situations where a large fraction of UI benefits cannot be charged back to the firms responsible for the layoffs, mitigating the disincentive effects of such a system.

Another lesson is that experience-rating firms' premiums based on *past* benefit receipt can cause some labour markets to have higher layoffs than if there was no experience rating at all.

Since premiums are a payroll tax, any increase in the premium rate will affect the ability of firms to maintain their workforces, leading to a greater number of layoffs. For these firms, research is showing that the penalties imposed by experience rating are therefore not only borne by their current employees through higher payroll taxes and therefore lower wages, but also by an increased likelihood in being laid off by their employer.

A final lesson is that there are substantial differences between the Canadian and US labour markets. For instance, cross-border comparisons that account for the industrial composition of each country show how any positive effects of experience rating could be offset in Canada by the fact that two major economic drivers, manufacturing and construction, would be hardest hit by its introduction, as firms in these industries are typically net beneficiaries of EI. Any such comparisons also have to recognize that the Canadian EI program takes regional labour market differences into account by adjusting eligibility and entitlement rules according to the unemployment rate in each region. Since American UI programs are run at the state level, regional differences are less of a consideration when evaluating the impacts of policies such as experience rating. Any evaluation of experience rating would therefore have to account for the unique characteristics of the labour market in Canada, including both its regional variation and its industrial mix.

The authors point out that although the EI program has never experience-rated premiums, it would not be fair to say that it has never attempted to limit frequent recourse to benefits. In the 1996 reforms, the new EI program implemented a limited set of penalties for claimants who repeatedly made claims over a five-year period. Under the "intensity rule" claimants received a marginally smaller rate of benefits, while under the "clawback rule" claimants faced a lower income threshold at which point their benefits were clawed back, both depending on the number of years they claimed benefits over a five-year period. These provisions were short-lived however, and were repealed in 2001. Since their repeal, critics have argued that these measures were cut short before they were fully implemented and that they were most likely key contributors to the growth of the EI surplus in the post-1996 era.

Research suggests there are certain characteristics or practices that firms in every industry and region in Canada have adopted that influence the extent to which their employees rely on EI benefits.

While these particular measures in the 1996 reforms have been rolled back, frequent reliance on EI remains an ongoing concern to which a significant body of literature has been devoted in recent years. For instance, the authors highlight recent research that provides evidence there are workers and firms continuing to receive subsidies through the EI program. This research undermines a common misperception that the major factors driving this imbalance are seasonal employment and EI's regionally differentiated qualification and benefit entitlement criteria. It shows that these factors are less important than firm-specific characteristics, suggesting there are certain characteristics or practices that firms in every industry and region in Canada have adopted that influence the extent to which their employees rely on EI benefits. The authors argue that further research should focus on identifying and understanding these best practices, shedding further light on how firms behave in relation to the EI program. They argue that encouraging these practices should form the basis of a pilot project that could evaluate the impact of a rate-setting regime modelled on the existing EI Premium Reduction Program: reducing premiums for firms that adopt human resource practices that lead to greater stability of their workforce and, consequently, less reliance on EI benefits by their employees.

The authors caution policy-makers against experience-rating EI premiums without a thorough evaluation of its impact on the Canadian labour market. While firms may have a strong incentive to avoid paying higher premiums, it is important to remember that EI premiums represent only a portion of all payroll taxes, and other more important factors may play a larger role in firms' human resource decisions. Some industries, regions, and types of firms, especially small businesses that have less flexibility in their human resource practices, may bear the greatest burden of an experience-rated system and may have to resort to more layoffs in order to stabilize employment. With this in mind, it is important to remember that, more and more, the EI program has other objectives besides providing income support to unemployed individuals; it is also designed to provide support to families, industries, and regions across the country. All of these factors need to be accounted for when examining the efficacy of experience rating relative to other policy options designed to increase employment and consequently decrease frequent reliance on EI benefits. ◆

School Readiness: Evidence From the Manitoba 2004 EDI Parent Survey

Child development researchers say that all children begin learning at birth. This means that early childhood experiences are critical to a child's development and may have long-lasting effects. "Learning readiness" is one of the key indicators experts have used to monitor the development of children. According to the 1997 Speech from the Throne, "Readiness to learn is a measure of many aspects of a child's development at age 5." Most children start kindergarten at around five years of age. As many parents know, starting kindergarten is a key developmental transition for students and their parents. However, not all children are ready for school. Children start school with different degrees of the knowledge and skills considered important for learning readiness (e.g. age-appropriate physical development, emotional maturity, language skills, cognitive skills, and general knowledge). It is, however, generally accepted that children who start school not ready to learn are at a disadvantage and may have difficulties reaching their potential. Unless they can catch up, they face greater challenges throughout their school years.

How many children are not ready to learn when they start school? Who are these children? What are their family characteristics? Are there factors that make a difference to children's learning readiness? To answer these questions for Manitoba children, the Healthy Child Manitoba Office (HCMO) commissioned SRDC to conduct a telephone survey of parents of kindergarten students from selected Manitoba school divisions who were administered the Early Development Instrument (EDI). HCMO is also responsible for the province-wide implementation of the EDI in Manitoba. The EDI, developed by Dr. Dan Offord and Dr. Magdalena Janus at McMaster University, is administered to kindergarten teachers who complete a questionnaire on each of their students assessing their readiness to learn. Almost all (98 per cent) of the parents who were surveyed gave permission to link their survey information to the EDI data on their children. Therefore, SRDC researchers were able to examine the relationship between various family and environmental characteristics, provided by the parents, and children's readiness to learn at school entry, as assessed by their teachers on the EDI form. These findings will help inform policy for young children and families.

With the permission of Social Development Canada, SRDC adapted the National Longitudinal Survey of Children and Youth Community Study (NLSCY-CS) for use as the parent survey. POLLARA Inc. was contracted to conduct the survey through one-hour telephone interviews with parents.

A random sample of students was selected from 19 Manitoba school divisions that agreed to participate in the survey. Of the families who agreed to take part in the survey, POLLARA Inc. successfully interviewed 1,000 parents. The interviewers collected detailed information on the experiences of the kindergarten students and their families. Besides socio-economic and demographic characteristics, the survey also included measures on parenting styles, community, social support, children's activities, and children's behaviour patterns.

Using cross-tabulations, SRDC examined the state of school readiness of students in the study and factors that influence their school readiness. The simplicity of bivariate analysis limits its ability to identify cause-and-effect relationships, because any one of the given factors examined may be a proxy for other factors that might be the true cause of the observed variation in the outcomes. In spite of this limitation, cross-tabulations provide a first look at relationships between children's readiness to learn and their families' backgrounds and experiences. Further exploration of the data using multivariate analyses is planned by HCMO.

The survey sample may not be representative of Manitoba kindergarten students or even of all students who participated in the 2004 EDI, but it represents a diverse group of families from many areas in Manitoba. Most survey respondents were mothers who were, on average, 35 years of age. Notably, the families in the sample tended to be two-parent, well-educated, employed, middle-to-high income, and living in good neighbourhoods. Most were Canadian-born, and 11 per cent identified themselves as Aboriginal people. Moreover, 80 per cent reported being in very good or excellent health.

As expected, the kindergarten children exhibited some demographic characteristics that were similar to their parents. For example, almost all the children were born in Canada, 13.6 per cent were Aboriginal people, and 91 per cent were in very good or excellent health. There were slightly more boys than girls in the sample.

Using EDI data, which measure a child's readiness to learn in five domains — physical health and well-being, social competence, emotional maturity, language and cognitive development, and communication skills and general knowledge — a not-ready-to-learn threshold was established for each domain. Scores in the bottom 10 per cent on EDI measures were defined as not ready to learn. Using this method, about 21 per cent of the kindergarten children in the sample were identified as not being ready to learn at the time they were entering school in one or more domains. In comparison, 29 per cent of all children in Manitoba who completed the EDI in 2004 were not ready to learn when they entered school.

Education. Existing research tells us that more positive child outcomes, including health, literacy, and vocabulary skills, are associated with children who have more highly educated parents. A parent's level of education has a strong effect on a child's readiness to learn. The parent survey data supports this: the proportion of children who were not ready to learn when they started school was lower in the sample of respondents with more education than in the sample with less education.

Family structure. Single-parent families tend to have more limited financial resources than their two-parent counterparts, and therefore may have more difficulties providing for their children. As a result, children from single-parent families are often at a disadvantage in measures of health and well-being. The parent survey data indicate that family structure has may influence whether children have the necessary skills to be ready for school. The proportion of children who were not ready to learn when they started school was higher in the sample of single-parent families than in the sample of two-parent families in all domains.

Employment. The proportion of working mothers has risen steadily over the past decades, and many of the mothers in the sample were employed. Numerous researchers have studied the impact of working parents on child outcomes. Some argue that this trend has adversely affected the care and education of preschool children, while others find no fundamental effect on children's development. The debate is ongoing. In the parent survey (in which most of the respondents were mothers), the proportion of children who were not ready to learn when they started school was slightly lower in the sample of employed respondents than in the sample of non-employed respondents in four of the five domains.

Children who are not ready to learn when they start school are found in all types of families, but perhaps in some more than others.

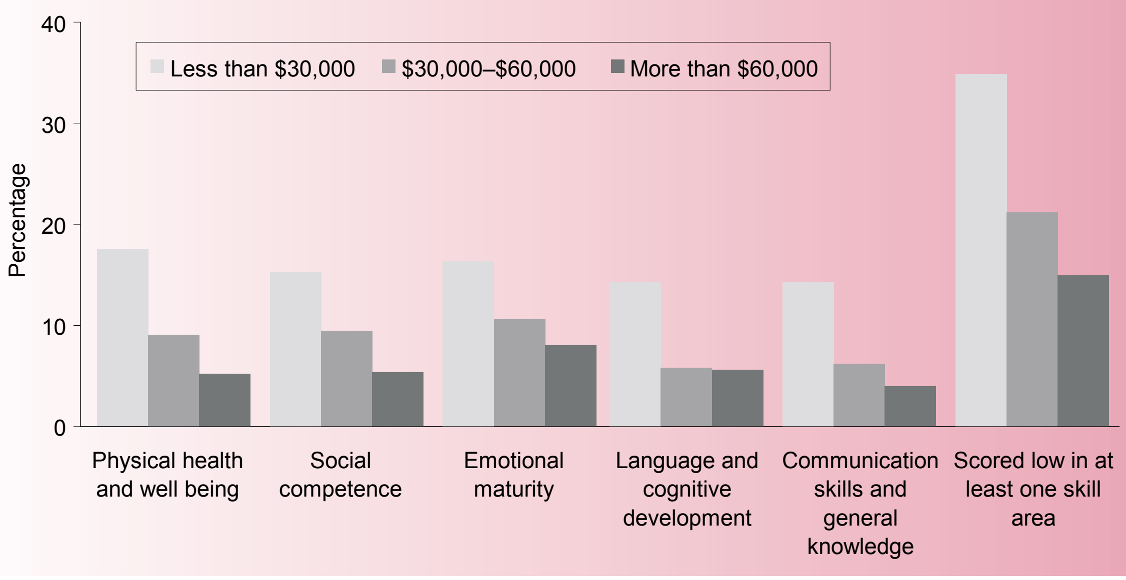
Income. Children in higher-income families are more likely to have access to resources that will support their development and learning. In the parent survey (see the chart on the next page), the proportion of children who were not ready to learn when they started school decreases as family income increases. However, it is important to recognize that although the prevalence is higher among families with low income, children who are not ready to learn when starting school are found across all income levels. Indeed these results, which are from a relatively middle-class sample, fully support the existing knowledge about the relationship between income levels and children's readiness to learn when starting school.

Physical and community environment. Existing research suggests that the extent to which the neighbourhoods and communities in which children live, grow, play, and learn provide safety and security can influence children's development either directly or indirectly through effects on the family. The data from the parent survey is consistent with this: the proportion of children who were not ready to learn when they started school was lower in the sample of families living in safe neighbourhoods and having helpful and dependable neighbours.

Early education programs. Research in early childhood development suggests that early education programs such as preschool programs are important for healthy child development and for preparing children to learn at school. In all domains, the proportion of children who were not ready to learn when they started school was slightly lower among children who participated in organized preschool programs or educational programs before starting school compared with the sample of children who did not participate in such programs.

Social support. Research shows that high levels of social support (also referred to as a "social network") strengthen families. The 2003 Building Strong Families poll indicates that parents who can call on family, friends, or community resources for support are more

Percentage of Kindergarten Students in the Survey Sample Who Were Not Ready to Learn When Starting School, by Family Income



able to handle stressful situations and feel more effective as parents. It further concludes that a high level of social support is associated with positive outcomes for both parents and children. The parent survey data agree with the idea that supported families or parents tend to have fewer children who are not ready to learn when starting school.

Family well-being. The results from the parent survey suggest that family well-being and parental well-being may be important factors in determining readiness to learn at school. Responses to questions regarding the functioning of the family unit indicate that the proportion of children who were not ready to learn when they started school was lower in the sample of well-functioning families than in the sample of families that were not well-functioning.

In addition, the proportion of children who were not ready to learn when starting school was higher in the sample of respondents who reported having a physical or mental problem that limited what they could do at home, at school, at work, or in taking care of children. Similarly, the proportion of children who were not ready to learn when starting school was higher in the sample of respondents who were at risk of depression compared with the sample of respondents who were not at risk of depression.

Parenting styles. The parent survey included questions about the interaction between respondents and their children in order to determine whether the parenting style was consistent or inconsistent and hostile or not hostile. The results show a higher proportion of children who were not ready to learn when they started school in the sample of respondents who had a hostile parenting approach towards their child versus those who did not. Likewise, a higher proportion of children were not ready to learn when starting school in the sample of respondents who had an inconsistent parenting style compared with those who were consistent.

SRDC's analysis of the data gathered from the Manitoba 2004 EDI parent survey found school-readiness factors that are consistent with findings in the existing literature on healthy child development. Selected socio-economic characteristics of the families, the environment, and family dynamics may influence children's readiness to learn when starting school. The survey results show that children start school with varying levels of school readiness. Children who are not ready to learn when they start school are found in all types of families, but perhaps in some more than others.

The fact remains that children who are behind their peers in knowledge and skills may have more difficulties succeeding in school. Data collection initiatives like the Manitoba 2004 EDI parent survey can be used to monitor the school readiness of our children in order to inform policy and identify investment opportunities to help our children reach their potential. ◆

Bulletin Board

Publications

Can Work Alter Welfare Recipients' Beliefs?
by Peter Gottschalk

Using the Self-Sufficiency Project (SSP) as the primary data source, this working paper investigates whether employment will lead welfare recipients to revise their beliefs about how they will be treated in the labour market. This study controls for the fact that participants with more favourable attitudes are more likely to secure employment, and finds that the earnings supplement from the experimental Self-Sufficiency Project produces changes in attitudes.

Estimating the Effects of a Time-Limited Earnings Subsidy for Welfare-Leavers by David Card and Dean R. Hyslop

SSP program group members would receive an earnings subsidy that could last as long as three years if they began working full time within 12 months of their random assignment to the program group. Consequently, SSP generated two distinct incentives: an initial entitlement incentive to find a job and leave welfare within a year of random assignment and a post-entitlement incentive to continue to choose work over welfare. The estimates provided in this working paper suggest that approximately half of the peak impact of SSP was attributable to the entitlement incentive. Despite the additional employment engendered by the program's incentives, SSP had no long-term impact on wages and little or no long-term effect on welfare participation.

A Literature Review of Experience-Rating Employment Insurance in Canada by Shawn de Raaf, Anne Motte, and Carole Vincent

This working paper reviews both the theoretical and empirical literature on experience-rating unemployment insurance programs. In reviewing the existing research, the paper identifies a number of lessons learned to determine whether an experience-rated Employment Insurance (EI) program might, by modifying the behaviour of Canadian firms and workers, address the magnitude of subsidies some firms receive from the program year after year or lessen the extent to which claimants frequently rely on EI benefits.

Events

SRDC presents lessons learned from *learn*$ave at a BC Asset-Building Conference

From October 21 to October 23, 2004, the asset-building conference "Investing in Self-Sufficiency: Moving the Asset-Building Agenda Forward in BC" took place in Vancouver. Leading experts from Canada and the United States were on hand to discuss the distribution of assets and wealth and how to build a more inclusive economy through the concept of asset building. Paul Kingwell of SRDC outlined *learn*$ave's research design and discussed the take-up rate among the eligible population and Michael Dowie of SRDC presented some of the lessons learned from the implementation of *learn*$ave. The conference was attended by representatives from federal, provincial, and municipal governments; non-profit organizations; foundations; and academic institutions.

OECD report acknowledges SRDC's research on EI

In its assessment of the Canadian Employment Insurance (EI) program, the Organisation for Economic Co-operation and Development (OECD) acknowledged SRDC's research on EI. In the 2004 *Economic Survey of Canada*, the OECD suggests that one of Canada's key challenges is to revise the EI program to achieve a better balance between providing stronger incentives for job search and ensuring fair access to benefits among regions. To support its recommendations, the OECD refers to lessons learned from SRDC's examination of patterns of work and reliance on EI benefits summarized in the report *Understanding Employment Insurance Claim Patterns: Final Report of the Earnings Supplement Project*. ◆