



Improving the Fight Against Poverty Through Monetary Aids

Les notes du conseil d'analyse économique, no 41, April 2017

The French redistributive system largely dampened the effects of the 2008 crisis on the poorest: the poverty rate after deductions and transfers was relatively contained during this period. If compared to other European countries, means-tested aids (which allow responding to a large number of diverse situations) have a high cost but do not appear disproportionate in relation to their ability to reduce poverty.

However, the non-take-up by the most modest is substantial and considerably reduces their redistributive potential and undermines the sound monitoring of public finances. In addition, youth and single-parent families face a much higher risk of poverty than the rest of the population. Lastly, even if the gains in the recovery of employment are certainly in the European average, they could be more readable to increase work incentives.

In this context, this *Note du CAE* proposes incremental reforms to transform the existing system into an improved guarantee of access to a basic income. As a first step, the recent digital portal mesdroitssociaux.gouv.fr should evolve beyond the provision of information on potential rights, to allow using a single online declaration for all social and family benefits requests using a pre-filled form. This could be complemented through real-time communication between the various actors (companies, *Pôle Emploi*, pension funds and administrations via the DSN and the digital portal) to automatise as much as possible

the granting of means-tested aids, as this would prove the most effective way of ending non-take-up.

The Active Solidarity Income would be merged with the Activity Premium into a single, resource-based basic income adjusted according to household needs and associated with participation in an integration program for those without employment.

The specific Solidarity Allowance would gradually be replaced by this basic income, with a cessation of entitlement for new jobseekers reaching the end of the entitlement period and a limitation to two years for those already in the scheme. Other income-tested social aids would then be linked to this basic income. Housing benefits would be replaced by a “housing” markup to which the same equivalence scale would be applied as for the basic income. A “disability” markup and an “old-age” markup to the basic income would replace the Allowance for Adults with Disabilities and the Solidarity Allowance for the Elderly.

Finally, to reduce the high risk of poverty among young people aged 18 to 24, and because there is no ethical justification for depriving them of the right to a social minimum, this *Note* suggests extending the basic income to these young adults, in the case they do not live with their parents, are not included in their tax-base and are not studying.

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Introduction

One year after the implementation of the activity premium (*Prime d'activité*, PA) and less than a decade after the Active Solidarity Revenue (*Revenu de solidarité active*, RSA), the French system of social minima is subject to multiple reform projects. Some proposals aim at the simplification and unification of devices¹ while others seek the replacing of all, or part of, the existing arrangements with a single, unconditional and individual benefit.² Most of these projects stress the need for simplifying the system. Simplification is however not an end in itself: the multiplicity of aids also reflects the provision for specific needs; a universal income should therefore not be a mere balance of all redistributive accounts.

The French system is complex because it involves a wide variety of devices administered by several categories of actors with little or no co-ordination: it brings together mechanisms for guaranteeing general resources (RSA, minimum pension) with measures targeted to certain groups with specific needs (the Allowance for Adults with Disabilities); it also combines aids available to all low-income households and aids only allocated to cover certain needs (housing aid, for tenants); finally it adds to the legal aids optional services offered by a wide variety of actors, at different territorial levels.

Another source of complexity arises from the variety of attribution conditions. The means-test is based on explicit scales, which sometimes depend on the size of the household and various sources of income. The status-test relates, in particular, to age, presence of children in the household, employment status, length of residence for citizens from outside of the European Union, etc. Finally, certain benefits are conditional on active integration, in a logic of rights and duties. These conditions differ for each aid, which, given their variety, impairs their overall readability. It is difficult to manage the system in a coherent manner, and is poorly understood by its potential beneficiaries, leading to high rates of non-take-up.

However, the overall performance of this redistributive system –whose central objective is to fight poverty foremost through monetary aid– should not be undermined. This *Note* draws upon a finding of resilience of the French social protection system but also does insist on its weaknesses for certain categories of households. After describing the range of social minima, we identify ways of streamlining the system by har-

monizing the eligibility and calculation rules and by merging several devices into a modular basic income, paid in a simplified way and open to the greatest number as a non-stigmatizing right, including young adults.

A resilient system in the wake of the crisis, but in need of consolidation

Social minima limit the spread of poverty when the labor market deteriorates

Between 2008 and 2014, following the global financial crisis, the unemployment rate rose from 7.4% to 10.3% in France. At the same time, the poverty rate after deductions and transfers has also increased, but at a much slower pace. Defined as the share of households with incomes after tax and transfers below 60% of median income,³ it rose from 13.1% in 2008 to 14.1% in 2014.⁴

This relative resilience shows the capacity of the redistributive system to contain poverty. To illustrate this point, Figure 1 shows the before –and after– deductions and transfers poverty rates (including pensions). These transfers divide the number of poor by a coefficient of about 2.8 which is fairly stable. France is also one of the countries least affected by poverty: the risk of poverty after deductions and transfers is lower than the EU average and in particular Germany or even some Scandinavian countries, praised for the generosity of their social systems.⁵ This result is largely due to resource-based transfers, as we discuss below.

However, these findings need to be qualified in two ways. On the one hand, the relative stability of the poverty rate hides an increase in the number of poor people due to the population growth that is faster than the European average. Between 2008 and 2014, the number of poor households increased by 254,000. On the other hand, poverty has so far been defined in relative terms to the median standard of living threshold. It is interesting to compare with a trend obtained from indicators of absolute poverty. Figure 2 shows that, regardless of the chosen indicator, absolute poverty did not explode in France despite the economic crisis and the gloomy employment environment. Only the indicator of inadequate resources exceeds the levels observed in the mid-2000s.

The authors thank Clément Carbonnier Scientific Adviser at the CAE who accompanied the writing of this *Note*.

¹ Sirugue C. (2016): *Repenser les minima sociaux Vers une couverture socle commune*, Report to the French Prime Minister or Lignon V. (2017) : “Vers une allocation unique ? Principes, évaluation *ex ante* et limites”, *Dossier d'Études de la CNAF*, no 191.

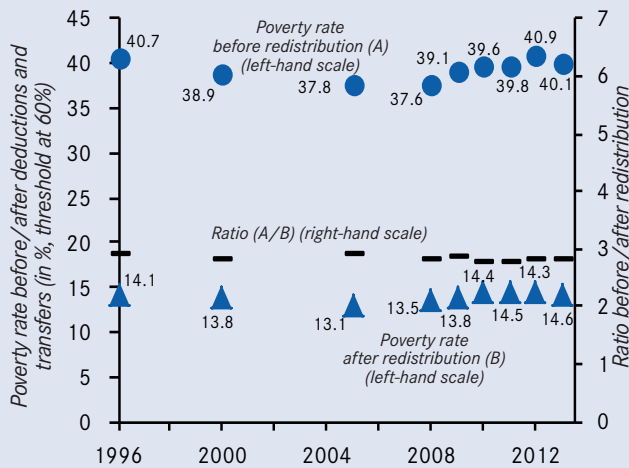
² For instance, de Basquiat M. (2011): *Rationalisation d'un système redistributif complexe: une modélisation de l'allocation universelle en France*, PhD Thesis, Aix-Marseille School of Economics.

³ See INSEE. With a median monthly living standard of 1,680 euros in 2014, the poverty line at 60% is around 1,000 euros for a single person, a threshold slightly below 90% of a full-time SMIC.

⁴ For the measure of poverty, see Carcillo S., E. Huillery and Y. L'Horty (2017): “Preventing Poverty Through Employment, Education and Mobility”, *Note du CAE*, no 40, April, Box.

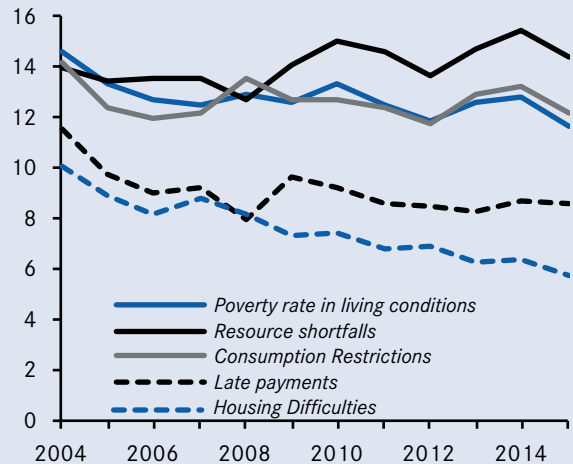
⁵ DREES (2016): *La protection sociale en France et en Europe*.

1. Monetary poverty before and after deductions and transfers



Note: The same threshold is used for poverty rates before and after deductions and transfers to allow for comparability
 Source: OECD, *Inequality and income distribution data*.

2. Poverty rates in terms of living conditions and difficulties, in %



Reading: A household is considered to be poor in terms of living conditions if it experiences at least 8 out of 27 difficulties in the questionnaire on material deprivation, divided into inadequate resources (at least 3 out of 6 difficulties), late payments (at least 1/3), consumption restrictions (at least 4 out of 9 difficulties) and housing difficulties (at least 3 out of 9 difficulties).

Source: INSEE, *Statistiques sur les ressources et les conditions de vie des ménages* (SRCV), provisional data for 2015.

Income poverty remains high among young people and single-parent families

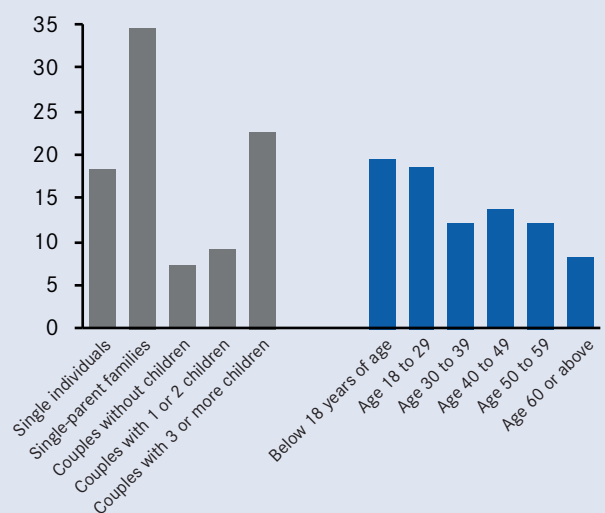
While poverty appears to have been contained globally in France during the crisis, this is not the case for some subpopulations, especially young people and single-parent families. In general, poverty is most prevalent today when the absence of employment is associated with the presence of dependent children.

There is a strong contrast between the different age groups (Figure 3): those below the age of 30 display the highest level of poverty. This is not a new phenomenon, but it increased between 2005 and 2012 by 3.7 percentage points. This happens in a context where young adults are already the most fragile population on the labor market, the least covered by unemployment insurance –the latter being reserved for unemployed who have contributed for a large number of years– and also the only age group partially excluded from the attribution of social minima. Indeed, young people aged 18-24 with no children are virtually ineligible for the Active Solidarity Income (RSA). Active young people, can benefit from the activity premium (PA) since the beginning of 2016.⁶

At the opposite end of the age pyramid, the poverty among seniors is particularly low in France today. This is due in particular to the existence of a specific social minimum, the Solidarity Allocation for the Elderly (*Allocation de solidarité aux personnes âgées*, ASPA), which is more generous than the RSA, and the demographic changes that result in the retirement of new generations who have contributed more and at higher wage levels.

The composition of households also plays a major role: poverty is concentrated among single-parent families, single people and families with three or more children. This phenomenon is linked to employment: these three household categories earn less than the others. In particular, mono-activity is more frequent in families with at least three children, while part-time employment as well as lower employment

3. Poverty rates by family situation and age in %, threshold at 60% median standard of living



Sources: INSEE, *Enquête sur les revenus fiscaux et sociaux*, 2013, DGFIP, CNAF, CNAV and CCMSA.

⁶ A very restricted opening was made to them for the RSA “activity”, with an “RSA young active” set up in 2011 but granted to only 8,000 of them, as it was linked to the condition of to having worked at least 2 years during the last 3 years.

1. Main social minima and activity premium (*Prime d'activité*, PA)

	Targeted audience	Managing body	Maximal amount (in €) ^a	Number of beneficiaries (in thousands) ^b	Annual cost (in bn €) ^b
Active Solidarity Income (<i>Revenu de solidarité active</i> , RSA)	General	CAF	535.1	1,899	10.2
Activity premium (<i>Prime d'activité</i> , PA)	General	CAF	246 ^c	2,500	4.6
Allowance for adults with disabilities (<i>Allocation aux adultes handicapés</i> , AAH)	Individuals with disabilities	MDPH and CAF	808.4	1,041	8.2
Specific Solidarity Allowance (<i>Allocation de solidarité spécifique</i> , ASS)	Unemployed at the end of their rights	Pôle emploi	488.1	472	2.7
Solidarity Allowance for the Elderly (<i>Allocation de solidarité aux personnes âgées</i> , ASPA)	Elderly people, over 65	CNAV	801	554 ^d	2.4

Notes: ^a Single individual without children and without resources (2017 figures); ^b 2014 figures, except for the PA (2016); ^c The maximum amount of AP is reached when the RSA vanishes, with an activity income around 0.5 SMIC. The guaranteed minimum income used to calculate the AP is 524.68 euros and thus diverges in 2017 from that of the RSA (535.17 euros); ^dWith the ASV.

Sources: Sirugue Report, service-public.fr and *opt cit.*; DREES (2016): *La protection sociale en France et en Europe*; CNAF, RSA conjoncture, September 2016; CNAV, Amounts as at 1st January 2016.

rates tend to predominate among single individuals (especially young people) and single parents. The strongest exposure to the risk of poverty among the latter has worsened: twice as likely to be unemployed as mothers in a couple, single mothers are more likely to experience long-term unemployment.⁷ To a lesser extent, differences in family status also reflect the fact that some elements of the redistributive system do not – or not sufficiently – take account of the presence of dependent children. This is particularly the case for the Specific Solidarity Allowances (*Allocation de solidarité spécifique*, ASS) and Housing Allowances (*Allocations logement*, AL), as we shall see.

Other statistics indicate that poverty is limited among employed and retired people, corroborating the analysis by age group.⁸ Poverty is concentrated on the unemployed and the inactive, the latter showing a steady and strong progress over the past 15 years. The SMIC (*Salaires minimum de croissance*) then plays an ambiguous role on poverty, supporting families' incomes but increasing the risk of unemployment when the active individuals of the household are low-skilled.

A range of social minima in need of improvement

Various conditions of attribution

The French low-income support policy is based on ten social minima that benefit to 4 million individuals (see Box and

Table 1). The most important feature is the RSA. The PA and AL are *stricto sensu* not social minima but play an important role in supporting low-income households.

Taking account of the family situation

Social minima sometimes take into account the family situation of the beneficiary, however varying with regard to the concerned facility.⁹ Table 2 summarizes the main “equivalence scales” used to adjust the basic amounts to the family configuration. ASPA does not depend on the number of children, which makes sense given the target audience (people over 65). The amount of the ASS is independent from the family composition, but the allocation is granted under a conjugalised resource-test (reported in the Table). Similarly, the resource-test for the granting of the AAH depends upon the family composition while its amount does not. The other aids are both conjugalised and familialised: the maximum amount differs for a single individual and a couple, and according to the number of children but with different scales, without clear justification.

We highlighted the high poverty rate in single-parent families. Yet, single parents with dependent children receive an RSA markup. The equivalence scale applied to the RSA basic amount is relatively generous compared to couples, bringing an isolated parent to an amount of RSA near (for 1 child) or even higher (for 2 or more) than those obtained by a couple with the same number of children. However, the increase is

⁷ In particular, they suffer from a significantly lower level of education relative to mothers living in a couple, a trend that has even deteriorated over the last decade. See Acs M., B. Lhommeau and E. Raynaud (2015): “Les familles monoparentales depuis 1990”, *Dossiers Solidarité et Santé de la DREES*, no 67, July.

⁸ See Bargain O., S. Carcillo, É. Lehmann and Y. L'Horty (2017): “Pauvreté et emploi”, *Focus du CAE*, no 016-2017, April.

⁹ We do not discuss here family benefits which naturally play an important role for the resources of small families and could be the subject of further study. These include family allowances, means-tested benefits (the Family Supplement, the basic PAJE allowance or the School Allowance) – or local legal or voluntary aid.

Overview of Social Benefits in France: Social Minima, Activity Premium and Housing Allowances

The central instrument is the Active Solidarity Income (*Revenu de solidarité active*, RSA), which in 2009 replaced the Minimum Income for Integration (*Revenu minimum d'insertion*, RMI) and the Single Parent Allowance (*Allocation de parent isolé*, API). The RMI and the API were “differential” allocations, i.e. each new euro earned from activity income was deducted from the benefit. To limit disincentives to return to work, these two benefits were accompanied by an incentive mechanism allowing –over a 12-month period– to cumulate the aid with all or part of earned income. From 2009 to the end of 2015, the RSA was calculated as a maximum amount based on family composition, which was subtracted from 38% of household income and 100% from other resources (replacement income, family benefits, capital income, and housing flat-rate). It had two components: the RSA “base” (corresponding to the RMI) and the RSA “activity”. Since 2016, the activity premium (PA) has replaced the RSA “activity” (see below). The maximum amount of RSA (535 euros at the beginning of 2017 for a single person) has followed roughly the evolution of the average wage over the last 15 years. In September 2016, it benefited 1.84 million households according to the National Child Benefit Fund (*Caisse nationale d'allocations familiales*, CNAF), at an annual cost of just over 10 billion euros. It should be noted that the RSA carries with it rights of social and professional accompaniment to which the beneficiary must submit, under penalty of suspension or cancellation of this service. Unemployed beneficiaries who do not encounter any social or health problems that may justify withdrawal from the labor market must therefore enroll at *Pôle emploi* or take part in integration actions.

The Activity Premium (*Prime d'activité*, PA) is an employment aid rather than a social minimum. Since 1st January 2016, it replaces the Employment Allowance (*Prime pour l'emploi*, PPE) and the RSA “activity”. The PA was created with a scale close to the RSA “activity” at the time of its launch but includes some differences. It introduces a bonus of individualised activity and extends the benefit to employees aged 18-24 years, salaried students, apprentices, young trainees receiving more than 78% of the SMIC and self-employed. As a result, it is reaching more households (approximately 2.5 million in September 2016, while the RSA “activity” had

900,000 beneficiaries at the end of 2015) and its annual cost can be estimated at around 4.6 billion Euros.^a

The Specific Solidarity Allocation (*Allocation de solidarité spécifique*, ASS) was created in 1984 to offer a social minimum to the unemployed who have exhausted their unemployment insurance rights. Managed by *Pôle emploi*, it provides only for individuals with at least five years of activity during the ten years preceding the end of the employment contract, and is granted on a means-tested basis.

The other social minima are targeted at specific populations. This is the case of the Solidarity Allocation for the Elderly (*Allocation de solidarité aux personnes âgées*, ASPA), which in 2006 replaced the various allowances composing the old age minimum. Managed by the National Pension Fund, it is paid to persons aged 65 and above in the form of a more generous differential income than the RSA.

The Allowance for Adults with Disabilities (*Allocation aux adultes handicapés*, AAH), created in 1975, is aimed at people aged 20 and above on the basis of the disability rate determined by the Committee on the Rights and Autonomy of Persons with Disabilities. The AAH is paid to persons with a disability rate of more than 80% (AAH1) or persons with a disability rate between 50% and 79% and who have a substantial and lasting restriction of access to Employment (AAH2).

The other six social minima are much more circumscribed, with much lower budgets (between EUR 20 and 200 million). They concern specific audiences with targeted needs that are poorly taken into account by the four main social minima.^b

Housing allowances (*Allocations logement*, AL) are paid out in exchange for the existence of housing costs and are subject to criteria relating to the characteristics of housing (rent, size, decency) according to a complex formula. Their budget is 18.5 billion euros, more than the RSA and the PA combined, and cover more than 6 million households. Their anti-poverty impact is potentially high –they represent about one-third of the resources for individuals without primary income– but must be qualified. Indeed, the supply on the rental housing market being relatively inelastic, housing allowances have a proven inflationary effect on rents.^c

^a Our simulation is based on the last quarter of 2016, which is up by an equivalent increase from the first three quarters of 2016, based on CNAF data “Prime d'activité conjoncture, Septembre 2016”.

^b These are seniors who are overseas residents for Overseas Solidarity Revenue (*Revenu de solidarité Outre-mer*, RSO), ex-prisoners or expatriates for the Temporary Waiting Allowance (*Allocation temporaire d'attente*, ATA), widowers or widows who are too young to receive a survivor's pension for Widowhood Allowance (*Allocation veuvage*, AV), asylum seekers for the ADA (*Allocation pour demandeur d'asile*), persons who are disabled for the Supplementary Invalidation Allowance (*Allocation supplémentaire d'invalidité*, ASI), and unemployed persons whose entitlements terminated but who are not yet retired for the Transitional Allowance of solidarity (*Prime transitoire de solidarité*, PTS).

^c For French data, see Grislain-Letremy C. and C. Trevien (2014): “L'impact des aides au logement sur le secteur locatif privé”, *INSEE Analyses*, no 19.

temporary –it takes place from the time of the declaration of pregnancy until the youngest child reaches the age of 3 (or only during the first year after breakup). In addition, the equivalence scale used for housing allowances is less favorable to families with children than the scale for RSA/PA.

A satisfactory cost-effectivity

Since 1988, the French low-income support system has remained moderately expensive thanks to the differential mechanism of the RMI, targeted at the poorest. In 2016, the

2. Equivalency scale of major social benefits

	QF ^a	RSA/ PA ^b	RSA/ PA ^c	AAH [*]	ASS [*]	ASPA	ALD
Single							
– no children	1	1	1.28	1	1	1	1
– 1 child	2	1.5	1.71	1,5	1	1	1.36
– 2 children	2.5	1.8	2.14	2	1	1	1.56
Couple							
– no children	2	1.5		2	1.57	1.55	1.28
– 1 child	2.5	1.8		2.5	1.57	1.55	1.36
– 2 children	3	2.1		3	1.57	1.55	1.56

Reading: 1 dependent child raises by 71% the amount of the RSA for a single person, while the family quotient is multiplied by 2; if there is also a spouse, the RSA paid to the home is increased by 80% compared to a single person without children, while the family quotient is multiplied by 2.5.

Notes: ^a Except widowhood; ^b Except isolation markup; ^c Isolated single individuals; ^d Authors' calculation for the APL, taking the average of the three geographical areas of the housing allowances.

The coefficients are the multiplying factors in relation to the base amount, except for ASS* and AAH* where the equivalence scale is used for the calculation of the resource ceiling beyond which the person is no longer eligible for this aid. QF: family income quotient, RSA: active solidarity income, PA: activity premium, AAH: disabled adult allowance, ASS: special solidarity allowance, ASPA: solidarity allowance for the elderly, APL: individual housing allowance.

cost of the various social minima and the PA amounted to 29 billion euros, i.e. 1.4% of GDP. However, the total expenditure is higher if housing allowances (€ 18.5 billion, 0.9% of GDP) and income-tested family benefits (€ 7.8 billion, 0.37% of GDP), which also target low or modest incomes, are included.

In total, France therefore spends a lot on means-tested transfers, but it is also one of the most successful countries when it comes to reducing the poverty rate. Figure 4 shows that there is a strong positive correlation at the European level between the total budgetary cost of means-tested transfers and the country's redistributive performance: countries that spend more are able to reduce poverty more significantly.¹⁰ In France, these benefits allow dividing the poverty rate by 1.6. The cost-performance ratio is very similar to that of Finland, Denmark or the Netherlands. The United Kingdom and Ireland spend more and correct more, but with a much higher final poverty rate.

The issue of non-take-up

A major shortcoming of the system is that households that are eligible for certain social benefits do not receive them. The causes of this non-take-up are known: some fear the stigmatization related to “assistance”; some in very precarious

situations encounter a problem of domiciliation, and others do not have access to information; finally, there is a “transaction” cost related to administrative barriers (complexity of procedures) and time spent in the process (time that can alternatively be used for job hunting).

The take-up rate of the RSA “base” was established at about 65%, close to what was estimated for the RMI in cruise mode.¹¹ This rate, which may seem high, is actually consistent with the European average.¹² Much more worrying, the RSA “activity” was collected by only one third of the eligible households prior to the reform of 2016. This massive non-take-up substantially weakens the redistributive impact and incentive of this aid for the working poor. Early estimates indicate a somewhat better use of the PA.

Non-take-up undermines the poverty reduction capacity of the aid, but also the budgetary steering of the system. Uncertainties about the actual cost of the PA in 2016 illustrate the problem: since it is not possible to anticipate the use of the PA, an overrun amounting to 15% to 25% of the initial budget of € 4 billion has been announced. The reliance of the employment aid budget on a major behavioral unknown variable, such as the rate of non-take-up, complicates the governance of public finances and must be avoided. The take-up of the PA, but also social minima, could be greatly facilitated by simplifying or even automatising as much as possible the granting of aids such as the RSA and the PA to eligible households.

Work-incentives consistent with the European average but which can be improved

The monetary gain derived from a return to work does not simply equal the new income from activity: in order to determine the net gain, the simultaneous loss of some or all of the means-tested aids, the payment of social security contributions and the CSG/CRDS, and possible entry in the income tax scale need to be subtracted from this income. For a single person, the net gain to a return to an employment paid at 1.3 SMIC (67% of average income) represents about 40% of this income, giving an effective tax rate of 60%.

It is useful to compare monetary incentives to work in France and Europe (Figure 4). In France, the effective tax rate was very high for return to employment for low-wages and part-time jobs before 2009. It decreased substantially following the RSA reform: For a job paid at 33, 50 or 67% of the average salary (about 0.7, 1 and 1.3 SMIC), the implicit taxation remains stable around 60-70% for a single person without children. France is in an intermediate position compared to European neighbours. We illustrate this for a single person

¹⁰ The focus here is on the role of means-tested aids, although the rest of the transport tax system can also help reduce poverty.

¹¹ Comité national d'évaluation du RSA (2001): *Rapport Final*, under the chairmanship of François Bourguignon.

¹² Recourse rates of only 50-60% are found in social assistance in some Scandinavian countries and in Germany, see Kayser H. and J.R. Frick (2001): “Take it or Leave it: (Non-)Take-Up Behavior of Social Assistance in Germany”, *Schmoller's Jahrbuch: Journal of Applied Social Science Studies*, vol. 121, no 1, pp. 27-58.

without a child, but it is also true for other family configurations, in particular single mothers, or mono-active couples with or without children. For these types of households, French rates are similar to the EU average and lower than in countries where means-tested aids play an important role (Ireland, the Netherlands, and Denmark in particular).

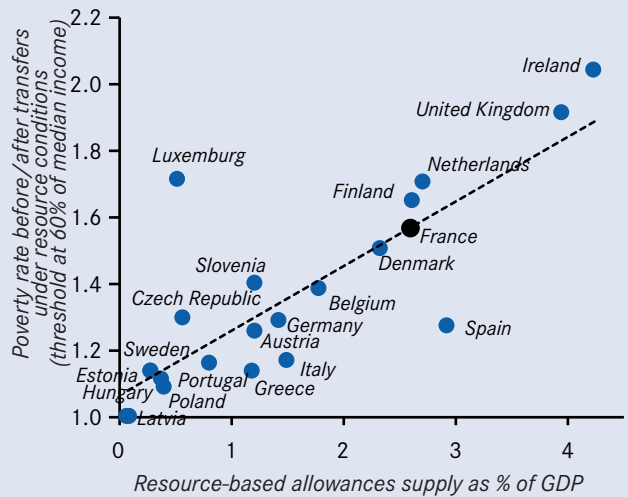
The risk of disincentive to work (inactivity trap) is often raised for young people –and used as an argument against the extension of the RSA to individuals aged 18-24. However, a distinction must first be made between youth in employment and others. For the former, recent studies show that there is no visible fall in the employment rate around 25 years (only a small drop exists for young people without any diploma).¹³ Young people already in employment before the age of 25 are therefore not victims of a massive disincentive to work. The issue of incentives must focus on the latter, the 18-24 year olds that are not part of the formal labour market, in absolute terms for some, or oscillating between inactivity and precarious work for others. Specific incentive policies are an absolute necessity for these populations. The Guarantee for Young People, First Job Search Assistance (ARPE) and intensive support schemes seem essential to us in this regard.¹⁴

The issue of incentives also arises for single parents, whose net gain in returning to employment is not the same as for other demographic groups due to childcare costs. The cost of childcare remains moderate in France, around 4% of the monthly wage for an income around 1.3 SMIC, compared with an average of 15% in the OECD countries. It should also be noted that the day care centers (*crèche*) tariff takes into account the situation of isolation (even if it is recent) and that the ceiling for resources for the custody supplement of the PAJE is increased by 40% for single parents. However, there may also be a problem of availability. In the absence of a nursery, the childminder care is still affordable, especially thanks to the contribution of the PAJE, but the supply may be rare in certain districts; as for nanny at home care, even when shared, it is much more expensive.

The way to go: automatisisation, streamlining and universalisation

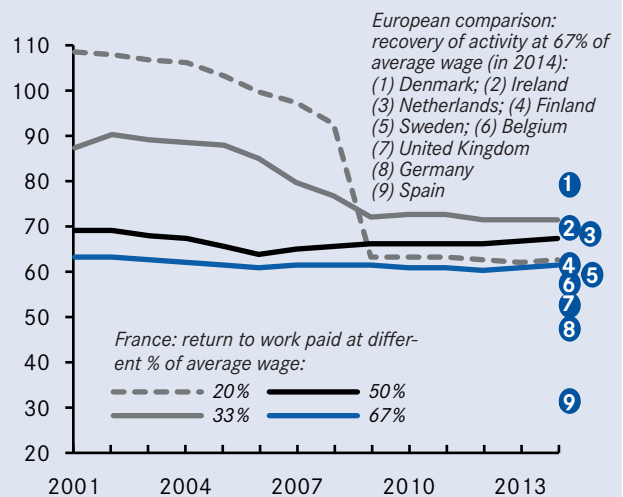
The French system to combat monetary poverty is therefore relatively efficient on average, but with marked shortcomings for certain populations: young people out of work and single-parent families, in addition to the issue of non-take-up. We propose incremental reforms to transform the existing system into a guaranteed access to a basic income, with automatic payment when resources fall below the eligibility thresholds, taking into account specific needs (disability, old age, etc.) and an increased reach (especially for young people aged 18-24).

4. Cost of means-tested cash transfers and related reduction of the poverty rate



Source: Calculations from the European microsimulation model EUROMOD, see EM 3/16: Baseline results from the EU28 EUROMOD 2011-2015.

5. Effective income tax rate on return to employment, single persons without children eligible for housing allowances



Note: In France, 67% of the average salary (about 1.3 SMIC), an effective rate of 60% comes from the total loss of aids (RSA, PA, AL) induced by the return to employment and payroll expenses, CSG/CRDS and income taxes.

Source: OECD, Socio-fiscal microsimulation model, available on http://www.oecd.org/els/soc/Methodology_2013.pdf

Automatisation and simplification

The landscape of social minima is characterized by the multiplicity of aids, managed by different bodies without much

¹³ Bargain O. and A. Vicard (2012): “Le RMI et son successeur le RSA découragent-ils certains jeunes de travailler ? Une analyse sur les jeunes autour de 25 ans”, *Document de Travail INSEE*, no G 2012-09.

¹⁴ Conseil d'analyse économique (2017, *op. cit.*) provides the details of these facilities.

coordination. If undeniable improvements have already occurred, for example the fact that *Pôle emploi* sends automatically requests for ASS forms directly to the unemployed reaching the end of their entitlement period, or that the Family Allowance Fund (*Caisse d'allocations familiales*, CAF) automatically studies the entitlements to the PA for RSA beneficiaries¹⁵ –it is important to continue this simplification effort for requests, consistency and readability of social assistance.

Single platform and automatisisation

Advanced dematerialisation and more recently the provision of a single online portal, on the model of *mesdroits sociaux.gouv.fr*,¹⁶ are notable progress towards simplifying access to social rights in general, and social minima in particular. It is important to go one step further by allowing people, through this portal, to fill in a single declaration in the form of a request for aid(s) in relation to all potential actors (*Pôle emploi*, *Caisse d'allocations familiales*, *Caisse nationale d'assurance vieillesse*, *Direction générale des finances publiques*, etc.). This goes hand in hand with the continued dematerialisation of the forms, so that the counselling services of social agencies can focus on those who are particularly vulnerable to the digital divide and have greater difficulties accessing the Internet. As for the tax declaration currently, the declaration of application for social aid could be pre-filled using the information available to the tax and social administrations (see below).

The ultimate objective is to reach a “zero procedure” state by automating up to the maximum the granting of aids by the CAF or the *caisses de la Mutualité sociale agricole*. Automation would greatly limit the rates of non-take-up, currently stalling at high levels, both for the PA and the RSA. These aids would therefore achieve more effectively their poverty reduction objective (or at least, in terms of poverty intensity). The increase in take-up rates would bear a cost for public finances,¹⁷ but the budgetary management of the redistributive system would be greatly improved.

This automation can be undertaken thanks to the accelerated transmission of income information through the Nominative Social Declarations (DSN). Its generalization is expected to be fully operational by early 2018 –at least for all private sector companies– with enhanced interoperability of administrative information systems. The means-test for aids such as the RSA and the PA relies on labour income and family, unemployment or retirement benefits. Related information would thus be directly transmitted by the companies, the

CAF, *Pôle Emploi* or the pension funds. Capital income can also be declared in real time by financial institutions (they are third-party payers in the compulsory flat-rate levy system). The crossing of information at household level could be based on information about the family situation, available from social benefits already paid by social agencies and/or information available to the tax administration (in particular family composition). By default, the initial information available to the administrations, confirmed or corrected by the potential beneficiary *via* the single platform (and therefore a declaration) would release the payment of the aid.¹⁸

Simplification

Progressing towards the automatisisation of the payment of social benefits such as the RSA also involves reviewing the conditions other than those already listed for entitlement. Today, it is essentially the maintenance obligation (recourse to one's family –in particular by the separated spouse or the ascendants– before soliciting national solidarity) and the obligation of active job-hunting. The application of the maintenance obligation varies according to the benefits, whether or not they are social assistance, and according to the departments (the president of the departmental council may grant discretionary exemptions). Because of its limited scope, the variability of its application across the country and its cumbersome management, we propose that it be lifted on the occasion of the automation of the payment. The crossing of data for the receipt of social benefits and training entitlements (the personal activity account) *via* the digital platform should, in this regard, contribute to an improved follow-up.

On the other hand, the complementarity between the granting of an aid such as the RSA and the participation in an insertion program for the unemployed must be maintained, on adjusted terms. For the unemployed or inactive (but in age and ability to work), the granting of the aid should be accompanied by a contact, within a reasonable time, with the CAF or MSA for an orientation towards the “employment” or the “solidarity” route, as in the present system (with the usual obligations of active job-hunting or participation in an integration facility, and if not, a suspension of the payment of the aid). It is therefore not about abandoning social integration policies which, on the contrary, deserve upgrading at the local level. The offer of support must be redefined in a clear and efficient way for the beneficiaries, avoiding the duplication of interlocutors, in order to reduce the rate of non-take-up of insertion programs.¹⁹

¹⁵ ASS beneficiaries should also have automatic access to AP under the application of Article 49-III of the Finance Act 2017.

¹⁶ The portal *mesdroits sociaux.gouv.fr*, launched on March 23, 2017, is open to all persons registered with social security. It is a tool that can be used in a connected mode that provides personalised information, allows to perform multi-service simulations with pre-filled fields and to handle procedures online.

¹⁷ By way of illustration, an increase in the utilisation rates of the PA and the RSA to 90% would cost about 4.6 billion euros per year.

¹⁸ The right to any markups requiring more information (in particular the disability, see below) would be studied in a second step, on the basis of the complete knowledge of the situation of the beneficiary.

¹⁹ Dmitrijeva J., F. Fremigacci and Y. L'Horty (2015): “Le paradoxe des nouvelles politiques d'insertion”, *Revue d'Économie Politique*, no 4, July-August, pp. 477-498.

Recommendation 1. Extend the functionality of the online portal *mesdroitssociaux.gouv.fr* to a single declaration online on the basis of a pre-filled form as a request for all social organizations. Initiate the automation of the payment of aid using the accelerated transmission of the necessary information by companies, administrations and households.

Towards an incentive basic income for workers

The RSA and the PA become an incentive basic income

The RSA initially had two components: the RSA “base” (similar to the RMI, but without an incentive mechanism, except a three-month full cumulation period) and the RSA “activity” which became the PA. This division made sense insofar as the PA was phrased as an employment aid, carrying less stigma than the RSA and easier to access, thus leading to a higher rate of use. The division however makes less sense in the largely automated payment system that we are proposing. In addition, there is a risk that the two aids may differ according to the revisions, in particular in terms of resource definition or equivalence scale (differences already appear, see Table 1, note c). This would decrease even further the overall readability of and undermine work incentives. For this reason, we recommend combining the RSA and the PA in a single aid based on the resource base and the equivalence scale of the current RSA, calculated as the maximum amount of RSA from which 38% of the activity income would be subtracted (and 100% of other income). The condition of residence in France for more than 5 years for non-European EEA nationals would be maintained, as in the current system.

This reform is therefore part of the automation approach to social assistance, recommendation 1 being a prerequisite to avoid falling back into the original RSA pitfall of 2009 (the high rate of non-take-up of the RSA “activity”).

Recommendation 2. Merge the Active Solidarity Income (*Revenu de solidarité active*, RSA) and the Activity Premium (*Prime d'activité*, PA) into a single means-tested basic income.

Integrate gradually the ASS to the basic income

Initially, the RSA was intended at replacing the three social minima: the Minimum Income for Integration (*Revenu minimum d'insertion*, RMI), the Single Parent Allowance (*Allocation de parent isolé*, API) and the Specific Solidarity Allocation (*Allocation de solidarité spécifique*, ASS). However, it finally integrated only the first two. The purpose of the ASS is similar to that of the RSA: to guarantee a minimum income for the beneficiaries of working age at the end of entitlement rights. Hence the coexistence of the two social minima does not seem to make much sense.²⁰ By combining the RSA and the ASS, the basic income would become the only means-tested allowance for working-age and unemployed people, greatly simplifying the readability of the system' as well as the application process. This reform would also generate substantial savings.²¹

Combining both allocations is not a new idea. It has already been postponed twice in 2003 and 2008 (at the time of the creation of the RSA), mainly due to the losers this merger generates, as both benefits treat income from work and other social benefits differently,²² that the ASS is conjugalised but not familiarised as the RSA is, and that, unlike the RSA, the ASS is taken account of as quarterly pension contributions. Thus, a large share of ASS-entitled could lose if they were switched to the RSA, in particular dual-earner couples.

To overcome this difficulty, we propose the implementation of a “bevel” reform: a gradual replacement of the ASS by the basic income, which would be operationalised through an interruption of the entitlement to the ASS at a given date for new jobseekers at the end of their entitlement. In order to avoid “freezing” the beneficiaries of the ASS, their entitlements would be limited to two years (such as the maximum duration of unemployment insurance) before automatically falling into the basic income. This limit, combined with large outflows²³ would ensure a rapid shutdown of the facility. The current rules for validation of pension contribution quarters (uncompensated period of unemployment immediately following a period of compensated unemployment) could also be transposed to the beneficiaries of the basic income.

Recommendation 3. Gradually replace the Specific Solidarity Allowance (*Allocation spécifique de solidarité*, ASS) by the basic income.

²⁰ As part of the multi-year anti-poverty plan launched in 2013, a program of exceptional revaluations of the RSA was decided, from 2% in September each year to 10% in September 2017, ASS.

²¹ See the Sirugue Report (2016) *op. cit.*

²² The ASS provides for the payment of a flat-rate premium of 150euro per month in the case of ‘an employed activity of at least 78 hours per month or of self-employment’ for a remuneration corresponding to a maximum of 750 hours. Family allowances and the housing flat-rate are taken into account in the calculation of resources for the RSA but not for the ASS.

²³ Nearly 50% of beneficiaries leave each year, half of them returning to work, see DARES (2013): “Les demandeurs d'emploi non indemnisables par le régime d'assurance chômage”, *DARES Analyses*, no 013, February.

Specific mark-ups

The basic income presented above would then be modulated according to the specific needs of poor households (housing, disability, old age). Each of these characteristics would give rise to a specific mark-up, cumulated with the basic income, and fully replacing all current aids (AL, AAH, ASPA), without additional burden on public finances.²⁴

Housing mark-up

Housing Allowances (AL) were designed as a support for modest tenants, but largely failed their objective as a part of this aid is taken by the owners through rental growth. Moreover, the rule for the calculation of AL seems unnecessarily complex.

These findings call for reforming AL into a direct monetary aid disconnected from housing expenditure and integrated into the basic income as a “housing mark-up”. In addition to greater consistency and clarity in the system, this reform would alleviate the inflationary effect of AL on rents and therefore increase the redistributive capacity of the basic income. Redistribute the current AL budget to this mark-up would increase the average basic income relative to the RSA to around 700 euros per month for a single person living on a rental basis.²⁵ Since the equivalence scale applied to the supplement would be that of the RSA/PA, the reform would imply a revaluation of social assistance for families without reducing their incentives to work.

The amount of the housing mark-up may also depend on the housing area in order to take into account changes in the cost of housing and encourage mobility to more dynamic areas in terms of employment. The simplest option would be to maintain the three housing areas currently used for AL, although other options may be explored. The housing flat-rate currently included in the RSA and PA resource base would be removed.

Initially, only tenants would be eligible for this increase. An extension to the owners would increase the cost of the reform or, at constant budget, limit the amount of assistance for tenants and increase the number of losers.²⁶

Recommendation 4. Replace housing allowances by a “housing” mark-up to the basic income, with the same scale of equivalence as applied to the base amount.

Disability mark-up

The specificity of the Allowance for Adults with Disabilities (AAH) is justified by the special situation with regard to employment of its beneficiaries, who in principle have a severe incapacity for work. This requires an eligibility procedure which includes medical examinations and audit by a specific commission. This also justifies support adapted to the state of health of the beneficiaries for those who can work part-time in suitable environments.

Nevertheless, there is no justification for using different resource-tests than those of the RSA/PA²⁷ package. Nor is there any justification for the AAH to be cumulative with the ASS, as currently observed.²⁸ Finally, certain specific related rights are not justified, such as, for example, an exemption from the housing tax for AAH beneficiaries while being discretionary for beneficiaries of other social minima.

To increase the readability and consistencies of the system, the AAH could be replaced by a “disability” mark-up to basic income, with the mark-up adjusted income reproducing the current AAH scale so that there is no loser. The “disability” mark-up would be adjusted in order to integrate the two current supplements intended at supporting independent living: the additional resources (179 euros per month) for people with severe disabilities who do not work and the supplement for independent living (105 euros per month) for people not working and benefitting from the AL. Finally, the current incentive system of the AAH would be covered by the basic income received in employment (equivalent to the current PA).²⁹

Old age mark-up

In a similar way, we propose to replace the Solidarity Allowance for the elderly with an “old-age” mark-up to the basic income. Table 2 shows that the ASPA is conjugalised at a rate similar to the RSA (a multiplier of 1.55 and 1.5, respectively, for a couple). The RSA equivalence scale is familiarised while the ASPA is not –but *a priori*, the target population, the retired, no longer lives with dependent children.

Currently, the beneficiaries of AAH1 (persons with severe disabilities) may continue to receive part of the AAH at the same time as the ASPA. The “disability” mark-up to the basic income could be applied in a differential way with the “old

²⁴ As in the second scenario of the Sirugue Report (2016) *op. cit.*, the Temporary Waiting Allowance (*Allocation temporaire d'attente*) would be replaced by the RSA, the Overseas Solidarity Income would gradually be switched over to the RSA and the widowhood allowance would be phased out. On the other hand, contrary to this report, we do not propose to maintain the coexistence of ASS and RSA, as explained above.

²⁵ The average amount of housing allowances per beneficiary household is 226 euros in 2014 according to the DREES. The issue of students receiving housing allowances requires a specific study that takes into account other aspects, as discussed below.

²⁶ However, it is possible to extend the reform to all, as suggested in A. Bozio, G. Fack and J. Grenet (2015): *Les allocations logement, comment les réformer ?*, Opuscule 38, Ed. ENS Rue d'Ulm.

²⁷ The amount of RSA/PA increases with the number of children and its resource base includes family benefits, flat-rate housing and some capital income whereas this is not the case for the AAH: its resource base is simply increased by about 400 euros per child.

²⁸ It should be noted, however, that these cumulating situations are now prohibited for new beneficiaries by the application of Article 49-V of the Finance Law 2017.

²⁹ Currently, a single person can continue to receive the AAH if his/her activity income is less than 1.4 times the amount of the SMIC.

age” mark-up in order to better protect these vulnerable populations. Specific modalities would require further expertise in order to prevent the reform from backsliding on certain populations.³⁰

Recommendation 5. Incorporate a “disability” and an “old-age” mark-up to the basic income in replacement of the Allowance for Adults with Disabilities (*Allocation aux adultes handicapés, AAH*) and Solidarity Allowance for the elderly (*Allocation de solidarité aux personnes âgées, ASPA*).

Grant young adults the right to a basic income

We already detailed the high poverty rate of young people under 25 years of age in France. A share of this population might be poor in terms of income, but less poor when measured in terms of consumption, if parental transfers or free accommodation support their standard of living.³¹ Nevertheless, part of this population is truly precarious, especially those who left the parental home early on and who have not been able to enter the labour market or find themselves in difficult transitional situations.

In order to buffer these situations, and because there is no ethical justification for depriving them of the right to a social minimum, we suggest to extend the RSA to 18-24 year olds given that they do not live with their parents, are not included in their tax-base and are not studying. In doing so, France would come closer to the majority of EU States which grant social minima to non-students. As for the students, it seems to us that a specific answer must be given to them which cannot be summarized here.³²

We are well aware of some people’s fears about the potential risk of aggravating youth underemployment. Proposals for the extension of the RSA to young people are in no way a substitute for a genuine youth employment policy in the areas of access to training, information on job opportunities and geographical mobility aid. It should be noted that the PA has been extended to the 18-24 age group in 2016 and

allows recreating work incentives that would be maintained in our merged system. Moreover, as for those above the age of 24, in order to benefit from the aid, young people aged 18-24 shall be part of a rights and duties logic as the one proposed by the Generalized Young Warranty in 2017,³³ and touching upon training, professional integration, and active job search.

Recommendation 6. Extend basic income to young adults aged 18-24.

The cost of this extension to the 18-24 age group should not be a brake to the reform. The 18-24 year olds represent only one sixth of the population aged 25-65. Even though there are twice as many beneficiaries as the former, due to lower employment integration and high levels of poverty, it would amount to one third of the current RSA budget (i.e. slightly above 3 billion euros). This simple calculation is consistent with existing simulations.³⁴

Conclusion

The replacement of the various social minima by a modular, largely automatized basic income for all adults would allow greater efficiency in the fight against poverty while maintaining employment incentives. Going further in the direction of a genuine universal income for every individual, even if means-tested, raises important issues. This would require the renunciation to certain conditionalities (in particular the obligations linked to the employment or integration paths) and, since the income would be individual, it would be less targeted at poor households and thus much more expensive (or it would lead to a much lower individual basic income with a constant budget envelope). A change of this magnitude would require broad consent following an informed democratic debate. In this *Note*, we rather recommend reforming incrementally the existing system. This would already involve a substantial additional cost of around € 8 billion, but provide an answer to the issue of non-take-up and allow the safety net to be extended to individuals aged 18-24. ●

³⁰ We do not propose to merge the Personalized Independence Allowance (APA), which is an earmarked benefit covering expenditures related to the loss of autonomy as defined by an assistance plan established by a socio-medical team, and whose fee varies depending upon the resources of the beneficiaries.

³¹ Comparisons between income and consumption from the Family Budget Survey could shed light on this issue, as well as the quantification of intra-family transfers –see *Étude portant sur la répartition des prélèvements et des transferts entre les générations en France, Chaire ‘Transitions économiques, transitions démographiques’ de la Fondation du risque, pour le compte du Commissariat général à la stratégie et à la prospective, 2013.*

³² This refers to the calibration of student grants, the ceilings of resources applied to families, the funding granted to young people in situations of family breakdown, the volume of housing offered by the CROUS. These subjects should be studied in a specific *Note*.

³³ As proposed by Carcillo S., É. Huillery and Y. L’Horty (2017) « Preventing poverty through employment, education and mobility », *Note du CAE*, no 40, April, the Guarantee should be closely linked to two types of programs to be encouraged: apprenticeship training and intensive support facilities such as second chance schools.

³⁴ We propose here that the Youth Guarantee –in addition to any housing allowance– is replaced by a full basic income if the activation contract is respected. In its current scale, the Youth Guarantee (the maximum amount of which corresponds to the RSA for a single person, once the housing benefit is deducted) allows total cumulating with earnings up to 300 euros of income, then becomes decreasing and is canceled around 80% of the SMIC.

³⁴ The extension of the RSA “base” to the people aged 18-25 years non-students and not included in the tax base of their parents was quantified by DREES to 3.8 billion euros on the basis of 100% use (model INES, 2012). Our simulations based on the EUROMOD model also give a maximum cost (full use) of just over EUR 3 billion.

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French Council of Economic Analysis

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Preventing Poverty Through Employment, Education and Mobility

Les notes du conseil d'analyse économique, no 40, April 2017

In comparison with other European countries, France displays a relatively moderate and stable poverty rate. Though this can be seen as the result of a fairly good resilience of our redistributive system, including during the crisis, poverty in France remains characterised by an impressive inertia. In a sense, children do "inherit" the poverty of their parents: they reside in disadvantaged areas, have greater educational difficulties and therefore greater difficulties in accessing to employment. To break this vicious circle of poverty reproduction, it is essential to go beyond monetary aid granted to the most modest and address the determinants of poverty: failure at school, difficulties in professional integration for people with low or no education, and the concentration of poverty in certain neighbourhoods, contributing to its persistence.

The track record of policies aimed at preventing school failure and drop out is disappointing. Priority education policies turn out having the perverse effect of accentuating school segregation, while not sufficiently mobilising pedagogical methods aimed at developing the motivation and self-esteem of the least performing students. In order to better fight school failure this Note proposes to increase social diversity in schools through greater residential diversity, applying the law on urban solidarity and renewal (commonly known as the SRU law) at the level of the areas defined by the school mapping. It also advocates the massive development of teacher training in

"positive" pedagogy, the establishment of drop-out monitoring units in middle and high schools, and the possibility for schools listed in the priority education program to opt for self-management accompanied by a 50% increase in their resources.

For young people who dropped out of school without a diploma, two sets of measures should have priority. On the one hand, it is a matter of promoting alternative qualification pathways to traditional education, creating a national apprenticeship guarantee for unemployed and untrained young people and triple the number of so-called "second-chance schools". For lower-skilled people who cannot easily participate in an intensive training program, the cost of labor could be further lowered by merging the different social charges alleviation arrangements and targeting them below 1.9 minimum wage ("SMIC").

Finally, given the persistence of the concentration of poverty on the same territories over the past two decades, urban policy must also be rethought. The means should be better targeted at neighbourhoods with highest rates of non-employment, especially among young people, but also towards mobility assistance, in order to improve the ability of people to seize professional opportunities. Geographical mobility can also be facilitated by improving the fluidity of rental properties, both in the private and social sectors.

This Note is published under the sole responsibility of its authors

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