

The Active Solidarity Benefit and the Fight against Poverty

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The economist Jean-Luc Outin reviews the history of welfare benefits in France, describes the issues surrounding the recent reform that combines the various benefits, and examines the potentially deregulatory effects of this reform on the labour market.

In its most recent report, the National Council on Poverty and Social Exclusion (ONPES) emphasizes that the levelling off of the poverty rate up to 2005 – the last year for which the relevant data is available – combines with two especially worrying phenomena. First, the intensity of poverty¹ is increasing; second, both the number and the proportion of the working poor are growing.² Moreover, for several years now, the public debate surrounding welfare benefits has consisted of a few simple ideas: the French system, with its nine different benefits and its statutory approach, is complex and unfair; and for people of working age, the financial incentive to return to work is insufficient. In this context, one can easily understand why there seemed to be a consensus concerning the establishment of the active solidarity benefit (RSA), the general application of which was announced for 2009, even before the trial run launched at the beginning of that year had really ended.

Presented as a major social innovation, the likely impact of this measure, which depends on its practical characteristics and its scale, is not very clear. Designed to increase the resources of welfare beneficiaries and the working poor, the RSA is expected to contribute decisively to the fight against poverty, which is focused on the goal of reducing the rate of

¹ The indicator used to measure the intensity of poverty is based on the relative distance between the median income of poor households and the poverty line. In 2005, this amounted to 817€. After having fallen to 16.3% up to 2002, in 2005 the intensity of poverty went back up to 18.2%.

² The “working poor” is a tricky concept. It designates people who have been active for at least six months of the year, including at least one month in employment, and who live in a household with resources lower than the poverty line, but that can also flow from their family situation. In 2005, there were 1.7 million working poor in France, i.e. 7% of the active population.

income poverty by one third between now and 2012. So it would seem desirable to mobilize significant means to this end. At the same time, since the RSA is based principally, not to say exclusively, on the financial incentive to return to work, whatever the quality of the work, we should not overlook the more general effects that the RSA could have on the labour market, and moreover on the economy's growth path, if the RSA becomes a measure that consumes a lot of resources. As just one of several instruments of social policy, it must be considered in the context of the search for greater flexibility in the labour market. It is likely that the relatively modest level of funding that is currently planned will limit its economic impact.

First we shall consider some of the basic principles of the current minimum social benefits. Then we shall discuss the issues connected with their fusion, in the context of the fight against poverty. Finally, we shall look at the RSA's effects in the regulation of the labour market, and at economic growth based on the development of low-quality jobs.

From Categorical Benefits to the Earned Income Bonus (PPE)

Since the 1980s, the issue of poverty has become particularly important in French social and political discussions, because of the intervening transformations in general economic and social conditions. Although this issue was already present during the preceding period, various political and ideological groups had then expressed their opposition to a general provision. On the right, it was seen as detracting from the free functioning of the labour market, which was considered to be the most effective weapon in the fight against poverty. On the left, the transformation of society was the only way to resolve the issue, by eliminating the causes of poverty. Under these conditions, categorical benefits were set up, each targeting a particular population group, and having its own particular characteristics. After the minimum old-age retirement benefit, designed to start coverage in the 1950s of people reaching retirement age before the system was fully scaled up to a pay-as-you-go basis, benefits guaranteeing a minimum level of resources were introduced in the 1970s for the handicapped and for single people raising a child. The broad aim here was to bring these people into the society of paid employees by giving them a distinct status other than that "the assisted poor" (welfare recipients) or "dependents" (on family solidarity or on charity). This is reflected in the level of resources that are guaranteed, not very different from the monthly minimum wage (SMIC) (about 60%) plus access to housing and healthcare (housing allowances, sickness cover) and to social services, through developing the medical social-work profession. The issue of employment is handled in specific ways. For the Single Parent

Benefit (API), originally seen as a specific family benefit, there is no obligation to seek employment. The limited duration of the API (1 year or 3 years, depending on the age of the children) is intended to cover the transition period and also to send an adequate signal to recipients to induce them to enter the labour market. In the early 2000's, the public financing of this benefit was doubled by the introduction of an incentive scheme and by the targeting of its recipients by employment policies. For the Handicapped Adult Benefit (AAH), the establishment of special employment structures (work help centres, sheltered workshops, requirements that ordinary enterprises employ handicapped adults) built bridges or alternatives to ordinary employment practices, to promote the employment of handicapped people.

During the 1980s, the deterioration of labour market conditions turned the focus of attention onto the overlap between unemployment, long-term unemployment and poverty. The Solidarity Allowance (ASS) emerged in response to the unemployment insurance crisis of 1982-1984. While this crisis had a financial aspect in the growth of spending on account of the massive number of early retirements, its political and social aspect was more profound. In fact, employers wanted there to be a separation between the coverage of jobseekers who have made social insurance contributions and are still close to employment, and protected help (renamed solidarity) for first-time jobseekers and for the long-term unemployed. As a stopgap provision for the period following the receipt of unemployment benefits, the ASS has a hybrid nature, since it is based both on economic activity (during five of the ten years previous to employment ending) and on the amount of household resources received above the maximum level of the benefit. However, the situation of the people concerned leads to two variations on previous entitlements. First, the level of the benefit is limited to about half of the SMIC, and secondly, eligibility depends on being registered as a jobseeker, and that makes support from labour market institutions potentially relevant. Finally, it must be emphasized that the gap between the resource ceiling for this entitlement and the actual level of the benefit allows for accumulation with a spouse's earned income or with income from any part-time employment by the unemployed person.

The introduction of the RMI in 1988 was more explicitly designed for the fight against poverty and the desire to complete the provisions of the welfare state. In particular, it was intended to avoid geographic inequalities arising from local authorities' initiatives in addressing new poverty situations that had arisen from the combination of unstable family

situations and changing conditions of employment and unemployment compensation. Agreement on the principle of a general minimum income (apart from for young people) was based on two aspects: the low level of the benefit (49% of the SMIC) and the process of institutional coaching towards social and/or professional inclusion. Hence the institutional innovation of the ambivalently-named “integration contract,” which can be interpreted either as a kind of obligation or as renovated social monitoring. However, this consensus eroded during the 1990s. Several factors combining factual data and analytical narratives contributed to this erosion, by seeming to contradict the traditional view of the system. For example, the increasing number of beneficiaries and the incomplete implementation of the integration contract during this period combined with a strong resurgence of discourse about disincentives to work. The image of rational agents maximizing their utility by carefully balancing work against leisure, or salary against welfare benefit, has been carelessly based on depictions of cases showing the overlap between the remuneration of part-time employment and the RMI, or calculation of marginal tax rates indicating the absence or weakness of monetary gains related to going back to work. Failing to qualify such portraits, and neglecting works based on observations of real behaviour (which emphasize for a start the variety of recipients, of their career trajectories, and of how they make use of the benefit scheme), the standard economic approach has teamed up with sociological discourse about exclusion, to reinforce the idea that it is quite impossible to exit the RMI. Politicians, concerned about simplified images of social reality, have in this way been found at their disposal strong arguments to oppose the increase of the benefit beyond simply maintaining its purchasing power, and to consider changing it. Though limited at the outset, through adjustment of the incentive scheme and the smoothing of the threshold effects in the housing benefit part, the reforms have become larger in scope, with the decentralization of the benefit and the establishment of an integration / minimum income contract. Though this decentralization is considered to be quite successful (in spite of the financial dispute between the central and departmental governments) because of the impetus given to the policy of socio-economic integration, the contract, the contours of which are very ambiguous, is clearly a failure.

In fact, because its beneficiaries are very heterogeneous, the RMI works at several different speeds. First it acts as an unemployment benefit, providing a third element of compensation for job seekers excluded by the insurance principle. Next it fills the role of a sort of subsistence income for people temporarily or permanently out of work because of their age, health or family situation, especially in a labour market context marked by still

substantial imbalances and by the selective worker management strategies of businesses. Finally, in connection with some of its regulatory features along with the spread of time-limited jobs, the RMI can be described as a wage supplement for those whose return to work does not sufficiently increase their income to cross the threshold income for eligibility of the benefit.

Finally, the Earned Income Bonus (PPE), a fiscal measure working through income tax, was created in an almost accidental way in 2001. It established a “right to fiscal recuperation,” which followed from the Constitutional Council’s annulment of the health care finance law’s provision for decreasing refunds of social taxes, for people receiving earned income less than 1.4 times the minimum wage. This allowance aims primarily to preserve the balance of the “plan for lowering withholding taxes” presented in August 2000 as a way of sharing the fruits of renewed economic growth. However, it resulted in an income tax cut only for households that pay that tax. So the PPE established compensation for non-taxable households in which at least one member has full-time or part-time employment. More fundamentally, it seeks to increase the work income of people who have low income and to encourage the retention of or return to employment. Also aiming at avoiding very part-time jobs, it is paid only beyond and below a certain amount of earned income, which depends on the composition and the number of economically active people in the household.

The Variety of Beneficiaries and of their Careers

For 2006, the data on these benefits is as follows. The API covered 217,500 households, a total in which large families are overrepresented. The beneficiaries were almost exclusively female heads of single-parent families, and the vast majority of them were under forty. The observations drawn from surveys by DREES (the Directorate of Research, Studies, Evaluation and Statistics) on the future of API beneficiaries show that exits from coverage occur with the end of the legal duration of the entitlements, with changes in family situations, and with access to other allowances, in particular the RMI. Although not negligible, access to employment is limited (to about 10%). The main difficulties indicated for access to employment, related to child care and to transportation problems, raise the issue of reconciling work and family life. Moreover, the highest level of qualification and the longest previous work experience are highly characteristic of the beneficiaries who return to employment. Over and above the monetary incentives expected to influence their behaviour,

that behaviour is strongly determined by opportunities for training and by access to public facilities and services that meet their needs.

The AAH covered 804,000 households, against 536,000 in 1994. Composed mainly of single people without children, in recent years this population is characterized by aging. The degree of disability for more than two-thirds of beneficiaries is higher than 80%, although a recent increase in the proportion with lower degrees is apparent. Exits occur mainly by reaching the age limit or by exceeding the income ceiling. Departmental variations in the proportion of beneficiaries arise not only from the uneven geographical distribution of receiving institutions, but also from differences in the practices of the bodies responsible for recognizing the disability. In particular, concrete interpretations of the level of disability that prevents one from finding a job (or showing why one couldn't be found after looking for a year) are based on combinations of considerations at the level of individuals situated in their economic and social context.

The ASS covered 394,000 beneficiaries, with a very distinct profile, the majority being men, relatively old (half of them over fifty) and with few qualifications. Being long-term unemployed, their assistance is provided through the state employment offices. The numbers vary with the compensation rules (including for insurance), changes in the labour market situation, and the employment support policies that are being pursued by the government. The youngest recipients are exposed to the largest job loss fluctuations, and those most closely related to changes in economic conditions.

The RMI covered 1,280,000 recipient households. Although the majority are single persons with no dependent children, the main characteristic of the recipients is their heterogeneity. In addition, the recipients are distinctive by the flow of their entrances and exits from coverage, which reaches an annual renewal rate of about a third. Lengthy presence on RMI relates especially to being older, having a worse state of health, having less training, and having family responsibilities. And finally, the number of beneficiaries moving from RMI into jobs is significant; from the latest DREES survey, admittedly looking at beneficiaries starting at different times rather than a cohort with the same seniority, it can be estimated that the employment rate doubled between December 2004 and June 2006, rising from 14% to 28%. If we also take into account those who returned to work and then had another period of unemployment, a total of 33% of beneficiaries moved into employment during this period.

The precariousness of employment and the restrictive rules that apply to unemployment insurance in this situation produced greater numbers returning to RMI, a phenomenon that was badly understood. After all, though becoming employed does not always mean exiting from RMI (on account of the characteristics of the job), taking up a full time job does allow a considerable increase in monthly income, from 450€ to a little more than 1000€ for a single person. Besides, beneficiaries who take up part-time employment are much less satisfied with their financial situation, and a large majority of them emphasize their desire for a full-time job. Among those who are satisfied with part-time employment, there is a larger proportion of people citing family responsibilities.

The Fight against Poverty under a Unified System

The preceding observations show that the system is truly complex, because each bit is based on different principles, in particular because of the different fields of public policy in which they were set up. Hence the particular rules that underlie them, for example individual or family law. However, we must emphasize the great variety of the people, and social situations where the coverage is very partial. Joining these benefits into a single system will not remove either this heterogeneity or the different relations that the beneficiaries have with the labour market. Moreover, focussing the discussion on this new benefit seems to put on the back burner the issue of a multidimensional approach to poverty. No doubt the conclusions of the recent Social Inclusion Enquiry will provide data useful for thinking about public measures with this perspective in mind. In particular it is essential to link income guarantee benefits with various measures of health, education, social support, and so on, in order to connect the different social and professional aspects of social integration.

In the currently-projected version, the RSA includes a greater or lesser proportion of the recipients of the PPE (depending on the size of the redeployment in question), and the recipients of RMI and API. The AAH and the ASS will not be included, whether because of the characteristics of their recipients, the institutional peculiarities of these benefits, or the existence or the vitality of the associational networks involved. However much its original ambitions have been reduced, it does bring together, on the one hand, stable, full-time employees whose income poverty stems from a combination of their family situation, their wage level and their social benefits, and, on the other, people with temporary jobs, unemployed or economically inactive. We cannot ignore the fact that social benefits have both a material aspect and an identity aspect. Faced with this great heterogeneity, the RSA

brings in new, symbolic categories, by focusing on the financial incentive to take or to hold onto to a job, even if the pay is low. Under the guise of supporting the working poor, we can see the return to a simple and traditional distinction between poor people who can and those who cannot find and retain employment. From the point of view of the fight against poverty, it appears that the focus on the working poor raises the issue of those who will not return to work or who will be exposed to very uneven careers.

The integration of the RMI and the API to form the basis of the RSA means that “the situation of these recipients will remain unchanged” if they do not go back to work. In other words, it means that the income of people who are less likely to see their situation change – especially because of their age, their state of health, or their family obligations – will remain at a level well below the poverty line. From this arises the risk that the intensity of poverty could worsen, even should the rate of poverty decline. The dualization of the poor, which is already quite marked (since the 7.1 million people concerned are divided equally between those close to the poverty line and those who are farther from it), will be strengthened. Moreover, it will be revealing to see which RSA revaluation mechanism will be used. We already know that though the purchasing power of current benefit levels has been broadly maintained, their value in terms of the SMIC has noticeably declined.³

For people who have or take up a very part-time position, the RSA provides a long-term combination of income from economic activity and income from social benefits. However, there is no longer any guarantee of rising above the poverty line, as envisaged in the report of the 2005 commission on “Families, Vulnerability, and Poverty” in cases of discontinuous income from work, or of getting a job through an integration contract. Adoption of the slogan “work more to earn more” leads not only to abandoning any suggestion of a minimum standard of work duration as with the PPE, but also to making this reduced activity legitimize a way of increasing the minimum take-home pay. By this subtle device, the political disinclination towards a general improvement in welfare minimums with no balancing offset was circumvented. Somehow, the increase in individuals’ income was attributed to them. Moreover, we know that in the end, funding of the RSA will be limited. Funding coming from the RMI, from the API, from incentive schemes, from a part of the PPE, and from a budgetary outlay of at most 1.5 billion euros, will be used partly for the basic

³ In 1990, the RMI was 48.7% of the SMIC, the API was 64.9%, and the ASS was 48.6%. In 2007, these figures were 44.3%, 56.4%, and 44.3%

RSA, which although much celebrated is in fact unchanged from the current RMI and API for unemployed beneficiaries. Similarly, it is not clear that the financial situation is really different from the present incentive scheme (combination of benefit and salary during the first three months, and then a bonus of 1000€) during the first year after returning to work). This implies a characterization of the conditions of returning to work, rather than a simple distinction between those who return to work and the others.

The RSA and the Labour Market

By combining incentives and compensation, the RSA scheme is designed to improve the careers of its beneficiaries, starting with a mechanism that is more transparent than the current incentive system. Thus, it is mainly concerned with movements from unemployment (or economic inactivity) to work, through its unequivocal approach to these transitions. This is based on a very simplified image of the labour market, in which there is a supply of available unemployed people to match any given stock of unfilled job vacancies. Hence the incentive approach. In addition, it takes on board the degradation of some jobs, by insisting that employment no longer protects you from poverty.⁴ Hence the offer of compensation.

This diagnosis and analysis need to be refined by taking on a point of view that is more dynamic, going beyond taking into account the moment of returning to work, and also more global, examining the impact of the institutionalization of a segment of employment for the working poor.

As emphasized in a 2001 National Employment Agency (ANPE) paper⁵ on the problem of recruitment difficulties, resolving this problem is far more complex than simply recurring to basic arithmetic. Although these difficulties appear in different sectors, both traditional and modern, which makes for a great variety of job offers, for lesser-skilled workers, these jobs have difficult working conditions or unattractive pay. The RSA can compensate these workers to an extent that will depend on the schedule that is used. But its short-term impact on working conditions is zero, and in the medium term it could even increase the difficulty, by encouraging businesses not to improve those conditions. In this

⁴ In its last report, ONPES recalls that although there are overlaps between work and poverty, unemployment and economic inactivity generate poverty to a much greater extent. In 2005 the poverty rate was 6.8% for the employed, and 34.0% for the unemployed.

⁵ Catherine Desvé and Marie-Françoise Laurençon, *Les difficultés de recrutement*. Observatoire de l'ANPE, 2001.

perspective, the link between the introduction of the RSA and the redefinition of the criteria of valid job offers, although not direct, is nevertheless not weak; this is apparent in discussions about the rights and obligations of the parties involved.

The ANPE study also pointed to the fairly great eligibility of housing, transport and infrastructure as areas not only for improving living conditions but also for reconciling work and family life. It is striking to observe that these comments broadly echo the difficulties in job seeking noted by welfare beneficiaries. Finally, the study mentioned the fact that the selection criteria sometimes used by businesses are unsuitable because they are too narrow, or even discriminatory. Talk about the failure of integration and of the RMI has undoubtedly – especially among employers – strengthened the negative image of people assimilated a bit quickly, depicting them as almost unemployable. This time lag underlines the great importance of having a well-designed intermediation service.

As for careers, the idea that returning to employment, no matter what it is, gives an unemployed person a foot on the ladder is only partly true. Surveys by the Centre for Study and Research on Qualifications (CEREQ) – admittedly focused on the integration of young people – clearly show that gradual stabilization in a job takes place in a very uneven way, correlating very closely to the different levels of training of individuals in the same age group, and is achieved only with great difficulty by the least qualified. More generally stated, taking into account the variety of job types and the fluctuations of the labour market makes it clear that there are several connections between employment and unemployment. While some people get onto positive paths leading to promising careers, others end up in lengthy precarious situations, illustrating the economic and social dualization and fragmentation. Statistical studies show strong linkage between temporary jobs and recurring unemployment; in some cases, long-term unemployment results from the lengthening of successive periods in the labour market that arise from competition in the relevant kind of labour. On another level, access to training is much rarer for casual workers, so they have trouble improving and updating their qualifications. Finally, the spread of part-time employment particularly affects women, and to a great extent applies to low-skilled jobs in the service sector. The influence of public policies on this development is known. This means that we cannot ignore the effect that a measure like the RSA could have on certain segments of the labour market. Beyond the possible improvement in the financial situation of its recipients, it could signal another step in the spread of these low-quality jobs. The fall in unemployment would only be apparent,

accompanied by the expansion of the phenomenon of employment-unemployment, visible in the number of job seekers whose economic activity has been reduced and in the extent of involuntary part-time work. Beyond approaches designed to characterize individual career trajectories, which require time to be complete and to show up recurring phenomena, it is therefore important to consider other economic and social dimensions. In particular, the RSA's endurance raises the question of how businesses will integrate it into their workforce strategies, as much from the point of view of the kinds of jobs they offer as in their pay structures. One might well wonder if negotiations in supermarkets to call a halt to the recourse to part-time jobs would proceed under similar conditions.

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