A simplified social benefits system

France’s social benefit, *Revenu de solidarité active* (RSA), or active solidarity income, was introduced in June 2009 to provide income support to the working poor while enhancing incentives to return to work. The scheme also aims to strengthen coherence in the overall benefit system and make it simpler and more transparent. The RSA guarantees a minimum income in case of inactivity through the “basic RSA”, which amounts to €470 per month for a single childless person and €980 for a couple with two children. It also provides additional revenue for low-income working families through the “activity RSA”. Prior to its implementation nationwide in 2009, the RSA was tested during two years in 33 regional areas (départements), with potential beneficiaries finding jobs at a rate 9 per cent higher than in the “control” areas. A committee has been appointed to assess the reform and a final report is scheduled to be presented to a national conference by the end of 2011.

Reducing “inactivity traps”

Prior to the reform, there were nine different means-tested welfare benefits. Three of them, the minimum subsistence income (RMI), the lone-parent allowance (API) and the specific solidarity allowance (ASS), were directed at those who could potentially work. The RMI was created in 1988 and coverage expanded rapidly to reach 1.1 million people in 2008, well beyond early expectations. The API was a means-tested top-up benefit for single-parent households with one or more dependent children and could be claimed until the youngest child was 3 years old. In practice, neither the RMI nor the API required the recipient to look for work and did not appear to encourage a return to work. The ASS is still in place and can be received by people who are no longer entitled to unemployment benefits. However, it is subject to restrictive conditions. Recipients would lose these benefits if they found employment, or have them reduced by the amount of any earned income, leading to so-called “inactivity traps”.

Successive governments had tried to reduce these traps. For example, the earned income tax credit (prime pour l’emploi, PPE) was introduced in 2001 for employees in low-paid jobs, and from March 2006 it was possible to combine both income from work and a social benefit. Recipients of certain welfare benefits (ASS, RMI, API) who found employment for at least 78 hours per month received a payment of €1,000 in the fourth month (prime de retour à l’emploi) and another €150 per month for nine months (prime forfaitaire mensuelle de reprise d’activité). As a result, marginal tax rates for people with low incomes decreased. However, these schemes had only a limited impact on promoting a return to work, in part due to their complexity or because they were little known. For instance, the PPE is paid with a delay of one year. Also, once the prime de retour à l’emploi was paid, the monetary gains for returning to work were limited, especially for single-parent families and single-earner households with children. The whole nexus of welfare benefits, including in particular housing subsidies, tended (and still does, albeit to a lesser extent) to diminish the gains from working, as an increase in employment income led to a significant decrease in social benefits.

The objective of the RSA is to simplify the social benefits system and remove inactivity traps. It is open both to those aged at least 25 and to younger people with dependent children. In 2010, it was extended under stringent conditions to people who are below 25 and have worked before.

The RSA replaced the minimum subsistence income (RMI) and the lone-parent allowance (API): this is the “basic RSA” component. The prime de retour à l’emploi was also eliminated and its incentive component integrated into the RSA.

The RSA equally replaced the PPE – more precisely it represents an advance on the PPE – for beneficiaries who return to work at an earned income that falls within a certain range. This is the “activity RSA” component. When the “activity RSA” is lower than the PPE, a supplement in the form of a PPE is paid in the following year (figure 1). While the prime de retour à l’emploi was temporary, the RSA makes the incentive permanent. Compared with the PPE, the RSA is paid immediately and monthly and depends on household
composition. In total, the RSA is constructed in such a way that it supplements income from activity beyond what the “basic RSA” provides. It ensures that disposable income increases linearly with income from work. More precisely, €1 earned from work guarantees €0.62 of additional income. As a result, the RSA should reduce the proportion of working poor.

The amount allocated to the RSA is about 0.6 per cent of GDP, but the additional cost of this provision beyond the benefits it replaces is about €1.5 billion or only 0.1 per cent of GDP. This additional cost is financed by a surcharge of 1.1 percentage points on the social contributions levied on capital income. The incentive mechanism (“activity RSA”) represents in total about €3 billion or one-quarter of the whole RSA budget.

Sharp rise in recipients due to the crisis

In September 2010, 1.8 million households representing 3.8 million people (or about 6 per cent of the total population) were covered by the RSA. Among them, 1.1 million households benefited from the “basic RSA” only, which is consistent with the coverage of the RMI (figure 2). Beyond the phasing in of the scheme, the economic crisis led to a sharp increase in RSA recipients; between June 2009 and September 2010, their number rose by 20 per cent. As for the RMI, the group aged 25–34 is over-represented, as it accounts for 35 per cent of the recipients against a share of 23 per cent in the 25–65 population. Conversely, the group aged 50–65 represents 20 per cent of the recipients against 38 per cent of the 25–65 population. About three-quarters of the recipients (RSA or, previously, RMI or API) have benefited from the scheme for more than one year and about a third for more than three years.

In principle, most of the “basic RSA” recipients are subject to new “rights and duties”. The law stipulates that they should be oriented towards professional assistance, except under specific and difficult social situations (housing, health, etc.). Yet, unemployment data reveal that only about a third of the non-working “basic RSA” recipients are registered at the public employment agency, Pôle emploi, and have to actively search for jobs (table 1). The macroeconomic context in which the implementation of the RSA took place has been especially unfavourable to developing activation measures based on a stricter enforcement of job-search rules, and the overall assessment is therefore blurred. However, a key aspect of the reform, consisting of better linking the benefits to effective job-search efforts, might not have been enforced.

Regarding its impact on poverty, the “activity RSA” increased the median income per consumption unit by 18 per cent from €699 to €825 per month as of December 2009. However, this number overestimates the real gain, in part because the “activity RSA” could lead to a decrease in the PPE. The poverty rate (defined by the proportion of households with less than 60 per cent of the median income) would be 0.3 percentage point higher without the “activity RSA”. This corresponds to 135,000 people moving above the poverty line, as against initial expectations that 700,000 people would do so.

Combining a back-to-work strategy with social protection

France has a well-developed social protection system, but also relatively high levels of unemployment and low employment rates at both ends of the age spectrum.

![Figure 1. Simplified scheme of the RSA](source: DGTPE)

![Figure 2. RSA recipient households ('000s)](source: Cnaf – CCMSA)
The tax wedge on labour as well as labour costs at the minimum wage are also high relative to the median compared with most advanced G20 countries, despite targeted cuts in social security contributions for low wages. In this context, it is important to combine social protection with a back-to-work support strategy that reinforces the linkages between benefits, job search and participation in active measures based on effective employment and training services for all job seekers, including RSA beneficiaries. The overall approach underlying the RSA fits in well with the priority given to the employment dimension of social inclusion. Yet, assisting RSA recipients still lies in part with the Social Security administration, rather than with the unified public employment service (Pôle emploi), established in 2008.

In addition to reforming the RSA, France has taken a number of measures to raise employment rates, especially at both ends of the age spectrum. Regarding youth employment, France promoted apprenticeship programmes and managed to raise the percentage of students combining work and studies, with positive effect on youth employment, even though the school-to-work transition remains difficult for certain groups of the population. Another measure to simplify administrative procedures for households and develop employment in the service sector (Chèque emploi) also helped to boost employment opportunities for low-skilled workers and for domestic workers. More recently, the creation of the auto-entrepreneur status in January 2009, involving simplification of administrative procedures and tax reduction the first year, resulted in an increase of self-employment.

### Fewer than expected “activity RSA” beneficiaries

The expected impacts of the RSA reform were simulated by the Ministry of Economy, Finance and Industry. The RSA is expected to increase disposable income for 2.3 million households (about 8 per cent). The recipients would be distributed as follows: 30 per cent with the “basic RSA” only; 15 per cent cumulating the “basic RSA” and the “activity RSA”; and 55 per cent the “activity RSA” only. As indicated earlier, these objectives have not been achieved yet. While the simulations suggested that there would be 1.4–1.5 million beneficiaries of the “activity RSA”, there were only about a third of this number in September 2010.

The RSA is also meant to affect behaviour by changing incentives. The increase in work incentives should induce a shift in labour supply and an increase in employment, the extent of which depends on the elasticities of labour demand and supply. Assuming that the RSA boosts income as a result of working by 18 per cent (see above) and the elasticities of supply and demand are in the ranges of 0.2 to 0.3 and 0.5 to 1.0, respectively, one gets an increase in employment of 3 to 4 per cent of the targeted population, slightly less than the supply effect. Of course, this is the result of a highly stylized calculation and is meant to indicate only the possible order of magnitude of the impact of the RSA on employment.

### Efficiency gains but further assessment needed

The RSA is expected to increase the efficiency of the welfare system. Unfortunately, its implementation took place during the economic crisis, and thus more time is needed for its full assessment. In particular, the impact of the reform on different groups of the target population and the best ways to ensure that these activation measures improve job matching should be further assessed. Further efforts are also needed to encompass a wider range of benefits including the ASS, housing and transport subsidies as well as child care and unemployment benefits, while the question of better targeting those on very low incomes and

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**Table 1. Jobseekers registered at Pôle emploi eligible for the RSA (‘000s)**

<table>
<thead>
<tr>
<th>Category</th>
<th>September 2010</th>
<th>March 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Category A</td>
<td>453.7</td>
<td>500.2</td>
</tr>
<tr>
<td>Basic RSA only</td>
<td>350.2</td>
<td>391.0</td>
</tr>
<tr>
<td>Basic and activity RSA</td>
<td>44.6</td>
<td>48.6</td>
</tr>
<tr>
<td>Activity RSA only</td>
<td>58.9</td>
<td>60.6</td>
</tr>
<tr>
<td>Categories A, B and C</td>
<td>578.2</td>
<td>626.0</td>
</tr>
<tr>
<td>Basic RSA only</td>
<td>385.9</td>
<td>422.5</td>
</tr>
<tr>
<td>Basic and activity RSA</td>
<td>79.4</td>
<td>86.3</td>
</tr>
<tr>
<td>Activity RSA only</td>
<td>112.9</td>
<td>117.2</td>
</tr>
<tr>
<td>Categories A, B, C, D and E</td>
<td>638.3</td>
<td>688.7</td>
</tr>
</tbody>
</table>

Note: Jobseekers in Category A have no job but some job-search obligations; those in Categories B and C have reduced activity and job-search obligations; those in Categories D and E have no obligations.

Source: Dares. Non-seasonally adjusted data.
integrating the PPE within the RSA in a budget-neutral way remains open. Improving the efficiency of the mechanism will probably require stronger job-search support. Nonetheless, the RSA is helpful in streamlining the benefit system, improving incentives to work and reducing the number of working poor.

1 OECD (2007).
2 Comité d’évaluation du RSA (2010).

3 The number of units of consumption are defined as follows: the first adult counts for 1 unit, each individual aged at least 14 counts for 0.5 and children under 14 for 0.3 each.
4 Comité d’évaluation du RSA (2010). The estimated poverty rate at the 60 per cent threshold was 13.0 per cent in 2008.
5 Bourgeois and Tavan (2009).
6 Eydoux and Tuchszirer (2010).
7 OECD (2010).
8 See Bourgeois and Tavan (2009).
9 Moreover, this estimate takes into account only the effect on the extensive margin. The effects on the intensive margin may be quite different, depending on the pre-RSA earnings of the beneficiaries.