

French transformation of the welfare system

The creation of the Revenu de Solidarité Active (2009)

- Context, method, implementation, results and lessons -

By Martin Hirsch,

Former high commissioner against poverty in the French government, member of the high level advisory commission on the social protection floor

The Context :

- A minimal income as a safety net: 450 euros per month
- A minimal wage (SMIC) as a guarantee for workers around 1000 euros per month
- The Poverty threshold : 800 euros for a single person.
- An increasing number of recipients of the minimal income : 1,3 millions households in 2005; + 30% between 2001 and 2005
- An increasing number of working poors among the poor population, which is globally stable (12% of the population).

The framework : a national strategy against poverty

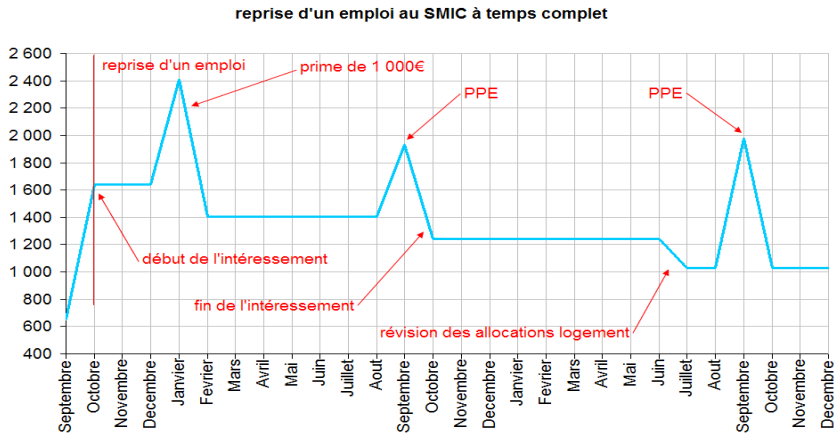
- A strategy prepared in 2007 within a Committee involving all relevant stakeholders : local authorities, trade unions, business community, charities and other NGOs.
- A report identifying 15 orientations for the strategy : setting national targets against poverty, redefining priorities, putting forward reforms *eg* in fiscal, housing, healthcare, feeding policies, involving relevant stakeholders, building new methods for reforms.
- Among the 15 orientations : the creation of the revenu de solidarité active (RSA).

The basic principles of the RSA

Transform an allowance (the minimal income) into a negative income tax scheme in order to solve two issues :

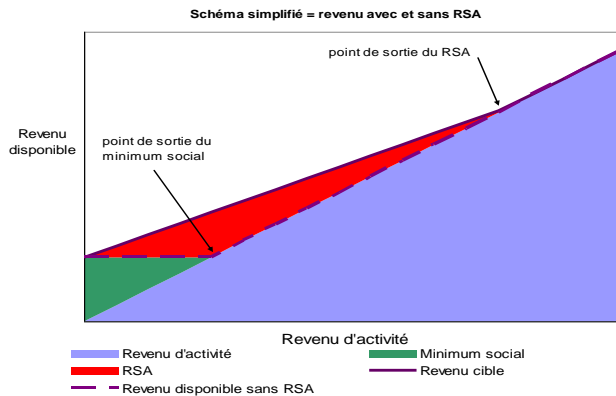
- 1) Stopping the steady increase of working poors without increasing the labour costs
 - 2) Giving work incentives to jobless people (ie making work pay) : People who wen't back to work don't earn more money *eg*
- A single person without job earned 450 euros per month; a worker with a part time job paid the minimum wage earned 500 euros per month and supported a lot of ancillary expenditures (transportation, childcare...)
 - A Mother with two children and no job earned around 1100 euros with family allowances ; the same mother with a full time job earned around 1250 euros

The problems created by transitionnal incentives



The scheme

An income tax credit, depending on the level of earned income



The key question : finetuning the parameters

The RSA is :

- A supplementary income for low wages worker
- A guarantee of earning more for people going back to work

It can activate a virtuous circle : if it improves the rate of people going back to work, it's neutral for public expenditures. If not, it's costly having in mind that if nothing is done, passive social expenditures would increase anyway.

2 questions :

- what is the starting point of the circle ? (in term of intensity of the new scheme ie what should be the "slope" (gradient) of the RSA ?)
- how far could we count on savings coming from positive effects to finance the new scheme, before looking for additional money ?

Finetuning the parameters is the key question. How to test it?

A national experimentation' phase

- In 2007, the parliament has adopted a law giving permission to conduct national experimentation of the RSA
- In 2008, 30 areas in France have been selected, representing 10% of the population, compared to 30 controlled areas.
- During 15 months, several versions of the scheme have been tested versus traditional minimal income scheme.
- The proportion of people going back to work is measured by a scientific committee.
- Result : significant, even slight, increase of the proportion of people going back to work.
- New legislation adopted with the abstention of the opposition just before the economic crisis (dec 2008).

The first steps of the new scheme

- 600 000 Working poors applying for the new allowance in the first year of implementation, ie only 50% of the target
- ⇒ The need for a specific analysis of ways to improve the take up of the benefit
- A strong effect on poverty : in 2010, 140 000 household went above the poverty line due to the new scheme (assessment from the independent committee)
- Stabilization of the number of household without any professional activity (compared to an increase before)

Standing issues

- Still a great complexity of the whole social system : a need to merge different allowances and to reorganize the social counselling and managing of inactive people's job search
- The need to take better account of the regular variations of the earned income to ensure that the RSA play fully is double function as safety net and incentive to work
- But above all : many jobless people are not coached enough and the labor market is difficult for non qualified worker.

Perspectives in France

- Evidence based policy, or social experimentation is the best way to measure the cost efficiency of a policy before implementation
- Social experimentation allows to take into account the behavior (of jobseekers, of employers, or social workers)
- ⇒ Creation in 2009 of a dedicated funding line, ring fenced for a period of 3 years and opened to private partnerships, to finance social experimentation in the field of youth and educational policies.

Perspectives abroad

- There is everywhere a large scope to intensify the fight against poverty in looking for better public spending efficiency through making work pay scheme
- If you want to combine allowances for the most disinherited and incitation to work, you have to design a kind of negative income tax credit.

