

Protection against poverty and monetary gains at work over the last 20 years

Executive Summary

With the creation of the *Revenu minimum d'insertion* (or *RMI*, a guaranteed minimal income) in 1988, France established a universal solidarity scheme aimed at protecting its beneficiaries from extreme forms of poverty. Initially, the benefit was purely “differential”: the *RMI* made up the difference between monthly family income and the sum guaranteed by the government. If, for instance, the monthly income is 300 euros and the minimal amount ensured by the government is 500, the family is allotted 200 euros to complete the difference. For many persons of low income, single or in family, this system of a guaranteed minimal income provided little incentive to find employment. Under this differential scheme, work became profitable only when it generated an income exceeding the minimal guaranteed by the government. In practice, the *RMI* could be combined, in full or in part, with income from work, but only for a limited amount of time of between three to twelve months.

From 2001 onwards, several incentive schemes have been set up to enable poor households to combine social benefits, and income from work, for an unlimited amount of time. The first one was the *Prime pour l'emploi*, launched in 2001, a tax credit similar to the US Earned Income Tax Credit or the UK Working Family Tax Credit. In 2009, the *RMI* was replaced by the *Revenu de solidarité active* or *RSA*, with a “base” part, which assumed the role previously played by the *RMI*, and an “activity” part, which afforded a long-term profit-sharing scheme. Today, the two remaining mechanisms are the *RSA*, a purely “differential” benefit, and the *Prime d'activité*, an incentive scheme that guarantees to an unemployed person who finds a job that he will have tangible financial gain. Expenditure on purely differential benefits (first *RMI* then *RSA*) and incentive schemes (first *Prime pour l'emploi*, then *RSA activité* and finally *Prime d'activité*) increased significantly between 2000 and 2018. They rose from 0.37% of GDP in 2000 to 0.74% of GDP in 2018, including 0.24% for the incentive schemes alone. In 2019, the expenditures on the *Prime d'activité* rose dramatically, from 5.5 billion euros to 9.5 billion euros.

What are the outcomes of this financial effort? An analysis of case studies¹ since 2000 provides some answers.

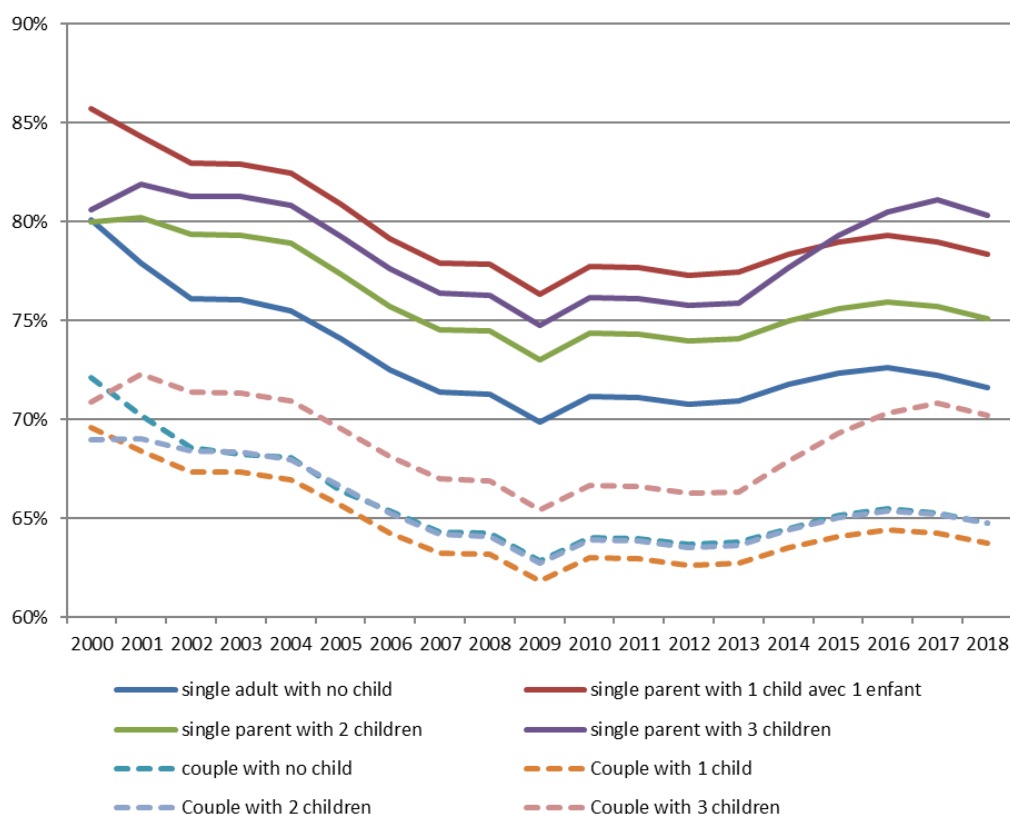
¹ These case studies do not involve any kind of sampling. They are the results of simulations and aim to answer the question, “What would be, or would have been, the disposable income of households with certain characteristics, taking into account the social and fiscal legislation in force at the time?” In these case studies, households are also supposed to claim the benefits for which they are eligible.



The purchasing power of jobless recipient households has risen between +3% and +14% between 2000 and 2018, depending on family configuration. But income poverty and the poverty line are defined relative to the median standard of living. A household is considered poor if its standard of living is less than 60% of the median standard of living. In 2018, the poverty line was set at 1080 €/month for a single person, 1620 €/month for a couple with no child, 2270 €/month for a couple with two children under 14.

Yet the median standard of living has risen by 15% between 2000 and 2018. And so has the poverty line. Therefore, protection of jobless households against income poverty has deteriorated (figure 1). Independently of family configuration, unemployed recipient households not only remain under the poverty line, but the distance to the poverty line is now 3 to 8 percentage points larger than it was in 2000, except for households with three children.

Figure 1: Standard of living of unemployed households in % of the poverty line



Note: The poverty line is set at 60 % of the median standard of living. A household with a standard of living below 100% of the poverty line is considered poor. All households are supposed to be tenants and not eligible for unemployment benefits.

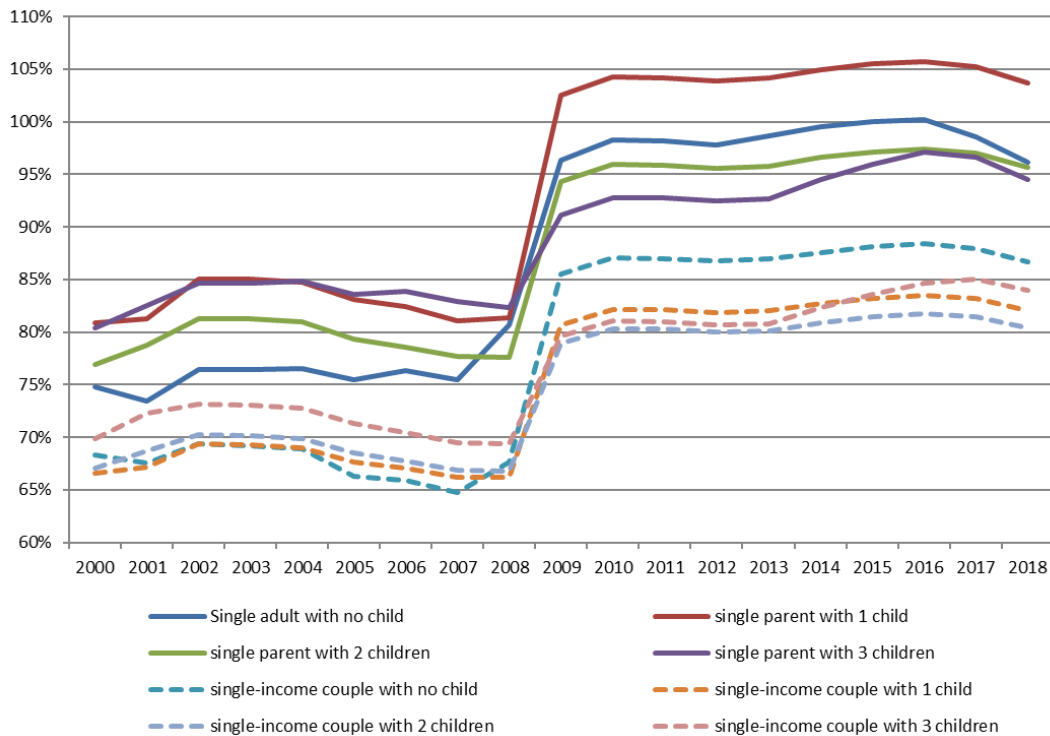
Benefits included in the simulations: RMI/RSA (guaranteed minimal income scheme), prime d'activité (incentive scheme), allocations logement (means-tested housing benefits), allocations familiales (child benefits), complément familial (means-tested family benefits for families of 3 children or more), prime de Noël (Christmas bonus for poor households)

Source : calculations by France Stratégie.

There is good news nonetheless. In contrast to the previous RMI scheme, it is now beneficial for persons to find a job. When a family member undertakes an economic activity or secures a job, the household he is attached to will enjoy a rise in its disposable income, and therefore, in its standard of living. The Prime pour l'emploi, revalued several times, made it attractive at first to return to work for a level of remuneration equivalent to minimum wage on a full-

time job. Later, the RSA activity, then the Prime d'activité, made it desirable to work for even a very low level of earnings. Thus, for a single person, a half-time minimum wage job affords a gain in standard of living of nearly 40% in 2018 compared with a situation offering no income from work; this gain was nonexistent in the early 2000s (figure 2). The improvement is significant for almost all case studies.

Figure 2: Standard of living of households with only one working adult, employed half-time and paid at the minimum wage, in % of the poverty line



Note: The poverty line is set at 60 % of the median standard of living. A household with a standard of living below 100% of the poverty line is considered poor.

All households are supposed to be tenants and not eligible for unemployment benefits.

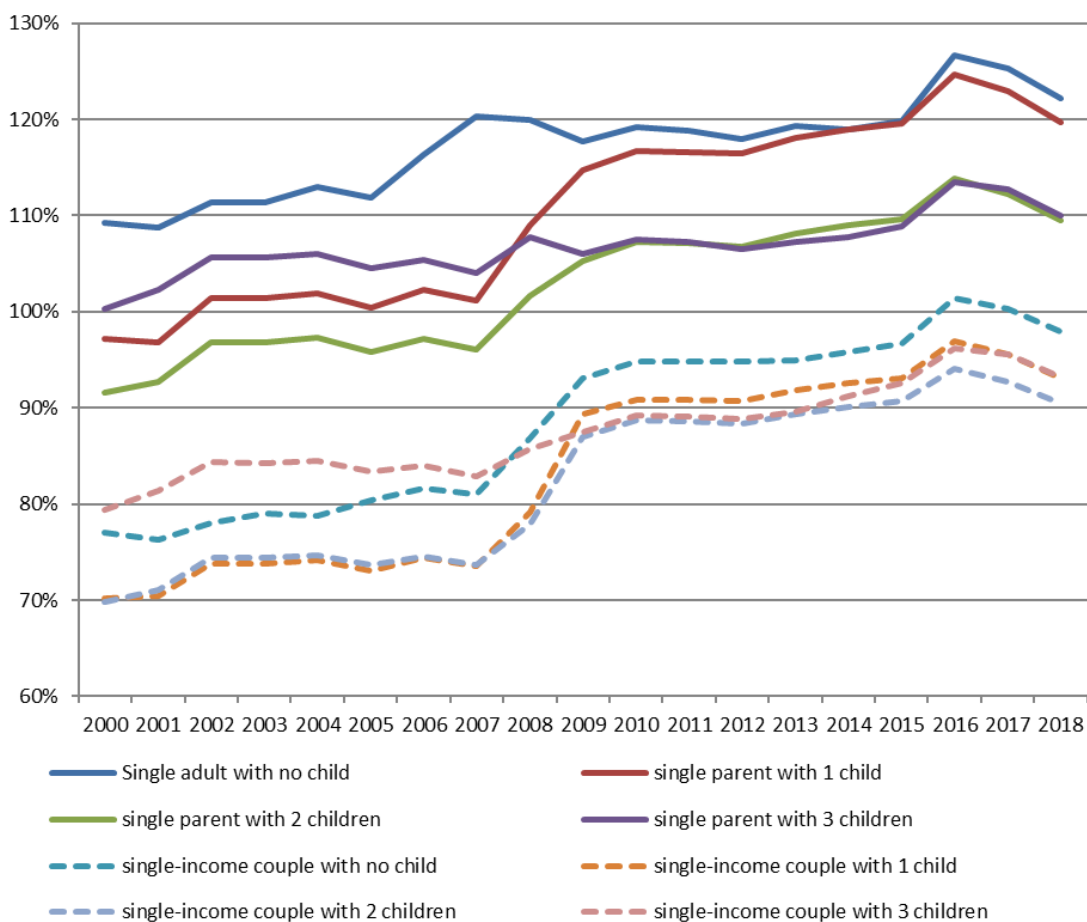
Benefits included in the simulations: *RMI/RSA* (guaranteed minimal income scheme), *prime d'activité* (incentive scheme), *allocations logement* (means-tested housing benefits), *allocations familiales* (child benefits), *complément familial* (means-tested family benefits for families of 3 children or more), *prime de Noël* (Christmas bonus for poor households)

Source : calculations by France Stratégie.

While work now pays in all cases, it does not guarantee a way out of income poverty, as defined above. With only one half-time minimum wage job, only single

households with one child manage to do so. Even with full-time employment at minimum wage, single-income couples remain under the poverty line (figure 3).

Figure 3: Standard of living of households with only one working adult, employed full-time and paid at the minimum wage, in % of the poverty line



Note: The poverty line is set at 60 % of the median standard of living. A household with a standard of living below 100% of the poverty line is considered poor.

All households are supposed to be tenants and not eligible for unemployment benefits. Benefits included in the simulations: *RMI/RSA* (guaranteed minimal income scheme), *prime d'activité* (incentive scheme), *allocations logement* (means-tested housing benefits), *allocations familiales* (child benefits), *complément familial* (means-tested family benefits for families of 3 children or more), *prime de Noël* (Christmas bonus for poor households)

Source : calculations by France Stratégie.