What should policy do about low earnings?

Chair: Ben Chu, The Independent

Sir Richard Blundell, IFS/UCL
Tito Boeri, Bocconi and FRDB
Hilary Hoynes, UC Berkeley
Philippe Martin, Sciences Po and Chair, Council of Economic Advisors to the French Prime Minister
Lindsey Whyte, HM Treasury

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Public policies and in-work poverty in France

Philippe Martin (CAE)

IFS, London, September 20th
In-Work Poverty Rate

In-work at-risk-of-poverty rate in %

Source: Eurostat
Characteristics of French overall response to in-work poverty

• High minimum wage with ambiguous effects on poverty
• Compensated by expensive decreases in social charges concentrated at low wage levels (more to come around minimum wage)
• High correlation between poverty and low employment (young and isolated parents)
• Reduction (2009 reform) of effective tax rate on employment income for low wages but still high (>50%) in some situations taking into account housing subsidies
• Some remaining very high marginal tax rates (disabled workers)
• High non take-up rate for minimum income (RSA) : around 35%
• Increase in poverty of the young (18-24) age group, excluded from most social benefits, and single-parent families
Minimum wage

Minimum relative to median wages for full-time workers

Source: OECD

France
Poverty rate and work status

Sources: INSEE-DGI, enquêtes Revenus fiscaux et sociaux rétropolées 1996 à 2004 ; INSEE-DGFiP-CNAF-CNAV-CCMSA, enquêtes Revenus fiscaux et sociaux 2005 à 2013
Reductions in employer’s social security contributions: with tax credits around 2% of GDP

In billion euros

Overall reductions (without overtime)
Specific exemptions
In % of contributions

Source: Acoss
Tax rates after a return to employment

Effective tax rates after a return to employment for different wages (expressed as a share of the mean wage)

Source: OECD
Situations with strong disincentive to work

Single disabled tenant

Disposal income (€/month)

revenu d'activité de l'allocaataire (part de SMIC)

Improving the Fight Against Poverty Through Monetary Aids (CAE policy note n. 41, April 2017)

• Three main components:
  – Minimum income RSA: 3.8 million people (11 billion €)
  – Employment bonus (Prime d’activité): 7.2 million people (4.8 billion €)
  – Housing subsidies: 15.3 million people (2/5 are poor) (18 billion €)

• Relatively efficient:
  – Low increase in poverty during the crisis
  – Work-incentives consistent with the European average

• But:
  – very heterogeneous work incentives across situations
  – non take up is high: 65% of people eligible to minimum income benefit from it
  – too complex: 10 different schemes (RSA, Prime d’activité, Allocation aux Adultes Handicapes, ...) managed by different administrative bodies
  – produces distrust
  – increase in poverty in the young (18-24) age group, excluded from most social benefits, and single-parent families
France’s new Poverty Plan 1/3
September 2018

• Education:
  – More and cheaper (1€) meals in schools
  – More day-care covered by family subsidy
  – Increase mandatory training period from 16 to 18 years old

• Target young age groups:
  – Increase child welfare services age limit from 18 to 21 y.o
  – Extend a youth (16-25 y.o) program (“garanties jeunes”) helping young people who are the most distant from employment

• Merging multiple benefits in a “universal activity income” (RUA)
  – Merging RSA an other minimum income schemes, APL (housing subsidy ) and PA (employment bonus)
France’s Poverty Plan 2/3
September 2018

Increase in social transfers:

– Disabled adult allowance (AAH)
  • From 810€ to 860€ in November, 900€ in 2019
  • +1% disabled pension

– Solidarity allowance for the elderly (ASPA)
  • +30€ in 2018, +35€ in 2019, +35€ in 2020

– Very small increase for Individual housing allowance (APL)
  • +0,3% in 2019 and 2020

– Active solidarity income (RSA)
  • +10% over the next 5 years

– Employment bonus (PA)
  • +20€/month increase in October, +80€ by the end of 2021
• Objectives for “universal activity income” (RUA)
  – Simplicity to increase take-up
  – More equity across heterogeneous situations
  – Make work pay and equally for different situations

• Challenges
  – ¼ of French population concerned by RUA and 37 billion €
  – Administrative difficulties as some are funded at a national level other at a local level → Need to do everything a national level → at least 4 years to implement but last merge (2016) was successful
  – Including young (below 25) would have large cost
  – Poverty rate may not move but poverty intensity would fall
  – Many winners and losers if fiscally neutral
  – Difficult to envisage such reform without increase in budget