



PEER REVIEW
IN SOCIAL PROTECTION
AND SOCIAL INCLUSION
2011

BUILDING THE TOOLS TO FIGHT IN-WORK POVERTY

PARIS, 31 MARCH - 1 APRIL 2011

SYNTHESIS REPORT



On behalf of the
European Commission
Employment, Social Affairs
and Inclusion



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BUILDING THE TOOLS TO FIGHT IN-WORK POVERTY

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Table of content

Summary	5
A. The policy context on European level	8
B. The French policy to combat in-work poverty	10
C. Policies and experiences in the peer countries	13
D. Discussions at the Peer Review meeting	18
E. Conclusions and key learning elements	23
F. References	27





Summary

In 2008, 8.6% of ‘working households’ across the EU lived in poverty. Moreover, the problem appears to be rising, also in the European Union (Immervoll, 2009). It is therefore important for Member States to learn from each other’s experiences in fighting in-work poverty. Europe 2020 provides new opportunities to promote comprehensive approaches identified for the active inclusion framework. The Peer Review investigated to what extent the spirit of active inclusion, with its three pillars (adequate income support, inclusive labour markets and access to quality services) is reflected in the (ongoing) Revenu de Solidarité Active (rSa) reform.

The rSa can be seen as a cornerstone of the present French anti-poverty policy, in combination with the minimum wage and employment subsidies. The declared objectives are to integrate and simplify existing benefit schemes, to combat poverty more efficiently and to foster the transition into work. The rSa encourages the take-up of work by exempting 62% of any earnings in calculating the benefit. Experiments have been conducted in 34 ‘départements’; the scheme has been mainstreamed since June 2009.

The following main lessons emerged from the Peer Review:

- **Strengths of the French reform:**
 - The national government’s courage in carrying out such a major reform of social assistance in the midst of an economic crisis. The reform has been financed by an additional tax on financial revenues. So this is also meaningful in terms of redistribution.
 - The renewed legitimacy of social welfare benefits, which are now simpler and more transparent.
 - The wide coverage of the rSa: 1.8 million households.
 - The broad notion of inclusion: not a narrow “work first” approach, but activation into work and society.

- The activation of national institutions, which have been encouraged to form partnerships in order to provide inclusion opportunities.

- **Challenges:**

- The lack of provisions for young people. Those aged under 25 are not entitled to the rSa (unless they have worked for a long time).
 - The inadequate level of the minimum benefit for jobless households. The minimum benefit is far below the poverty threshold, and is now less than 50% of the minimum wage.
 - The tension between the three objectives of the rSa: a decent minimum income, work incentives, and cost efficiency. These three objectives cannot be fully reconciled.
 - Although the French government has shown its willingness to invest in inclusion services, they may not yet be fully operational on the ground.
 - The short-term employment effects have not lived up to the initial expectations. This may be partly due to the financial crisis but much will depend on the services provided and on investment in training and guidance for the beneficiaries.
 - There are some doubts about the long-term anti-poverty effects. The implementation of the reform must not serve as an alibi for further extending the precarious work segment of the labour market. Such an extension could also, in the long term, have adverse consequences for the beneficiaries' social security rights.
 - The economic and budgetary impacts of the rSa, concerning for instance the stepping stone effect, are considered important; the assessment of the rSa, scheduled for end of 2011, will probably provide evidence in this respect.
- The **involvement of all stakeholders** is crucial to social security reform.



- A considerable proportion of impoverished employees — often women — work part-time and/or in pauperising occupations. The **quality of jobs**, ensured by legislation or through agreements among the social partners, appears essential to reduce in-work poverty.
- **Early prevention** measures for people vulnerable to in-work poverty might be expensive at the outset, however they are likely to economise public expenses in the long run.
- The objectives of the French reform fit in well with the **EU's active inclusion aims**, provided the service pillar of the rSa is fully implemented.
- To tackle **in-work poverty**, three levels of intervention are required: social partner level, national government level and the EU level. Possible actions range from collective bargaining to tax benefit reforms and minimum European standards to prevent social dumping.
- Good **indicators of in-work poverty** should be developed at the European level. The dynamics of this phenomenon need to be measured, rather than just the situation at a given point in time.
- Financial incentives should be part of a broader approach to **develop labour market conditions**: good education and training as well the accessibility to good-quality services are crucial for jobseekers.
- **Employment insertion paths** and the related services would be a useful topic for a future Peer Review: are entry-level jobs a genuine springboard to better jobs, or a trap? What are the conditions for springboard effects?



A. The policy context on European level

In-work poverty appears to be on the rise, also in the European Union (Immervoll, 2009). In 2008, 8.6% of 'working households' across the EU lived in poverty. The highest rates are found in Romania (17%) and Greece (14%), and the lowest in the Czech Republic and Belgium (4%). As working households make up the vast majority of all households, even this relatively modest poverty risk means that half of the poor in Europe (41 million out of 81 million) live in working households (Frazer and Marlier, 2010). The highest risks are found among households headed by single parents, low-educated people, people with poor health or disabilities, non-standard workers, farmers, self-employed workers and immigrant families. Women are also a particularly vulnerable group.

Against this backdrop, the EC's 2008 recommendation on active inclusion urged the Member States to "*promote quality jobs, including pay and benefits, working conditions, health and safety, access to lifelong learning and career prospects, in particular with a view to preventing in-work poverty*". The French social inclusion policy now uses similar terminology, with the 'active solidarity income' a cornerstone of its strategy. The Peer Review investigated to what extent the spirit of active inclusion, with its three pillars (adequate income support, inclusive labour markets and access to quality services) is reflected in the (ongoing) rSa reform.

Europe 2020 provides new opportunities to promote the comprehensive approaches identified for the active inclusion framework. These set out to coordinate all the policy tools which together can help to combat in-work poverty. The Platform Against Poverty is one of the seven initiatives put forward in the context of Europe 2020. It provides for a number of initiatives that will contribute to the active inclusion agenda. In 2011, the Commission will produce an in-depth assessment of the implementation of the active inclusion strategy at the national level. The results of the present Peer Review will be used in this assessment.

The causes of in-work poverty appear to be very complex. The link with low-paid or atypical work is not always evident, as some working households are just poor due to their family size. Yet in most countries the key factors are



low pay and low-quality, insecure work. Well-designed active labour market policies and, even more importantly, measures to improve the quality of work for marginal workers are therefore needed. In terms of active inclusion, this means that activation should go hand in hand with high-quality support services.

In the past, activation policies have not always been in line with these principles. Some active labour market policies indeed appeared to aggravate the poverty that they were supposed to combat. Andress and Lohman (2008) point out the paradoxical situation whereby Member States which created most employment in the 1990s have also seen the number of working poor increase disproportionately.

Several factors can help explain this paradox:

- Activation jobs are themselves often of rather poor quality (part-time, temporary, low-paid).
- They may even displace better-quality jobs. According to the modern theory of active labour market policies, developed by Layard et al. (1991), that is indeed the intention, although it is formulated differently ('more competition at the supply side of the labour market, less inflationary wage pressure'). It is therefore unsurprising to see wages and working conditions deteriorate in the lower segments of the labour market.
- Whenever beneficiaries are unable or unwilling to fulfil the behavioural conditions, sanctions may force them into (more severe) poverty;
- Last but not least, in order to keep low-quality jobs attractive, unemployment benefits have been kept low and/or of short duration in many countries.

B. The French policy to combat in-work poverty

After broad consultation with stakeholders and experiments in 34 'départements', the law of 1 December 2008 introduced the Active Solidarity Income (rSa) nationwide. It became effective in June 2009. The law also reformed inclusion policies. The *revenu de Solidarité active* (rSa) can be seen as a cornerstone of the present French anti-poverty policy, in combination with the minimum wage and employment subsidies.¹ The reforms set out to:

- Combat poverty, including in-work poverty — the rSa serves both as a minimum social income for those who have no earnings at all and as a top-up for those whose jobs do not provide adequate income.
- Encourage access to, or a return to, an occupational activity.
- Assist the social inclusion and employment of rSa beneficiaries by rethinking the insertion mechanisms.
- Simplify France's minimum social income schemes — the rSa combines two previous social minima: the Minimum Integration Income (RMI) and the single parent benefit.

10

The rSa itself integrates several previous schemes:

- *Revenu Minimum d'Insertion* (RMI — the mainstream guaranteed minimum income);
- *Allocation de Parent Isolé* (API — single parent benefit);

and, to some extent:

- *Prime Pour l'Emploi* (PPE — a large-scale tax credit scheme designed to encourage part-time or low-paid employment affecting 9 million households).

The following parameters sketch an overall picture of the scheme:

- The rSa scheme is equivalent to a negative income tax. A basic benefit of 467 (for a single adult) or 700 Euros (for a couple with no children) applies to claimants who do not work; for those who work, earnings

¹ Employment subsidies actually take the form of reduced social security contributions.



are topped up by an in-work rSa supplement in such a way that 62% of their net earnings are exempted. Whereas under the previous RMI system, EUR 100 of earned income led to the deduction of EUR 100 from the benefit paid, only EUR 38 is deducted under the rSa. So those re-entering employment see an immediate financial benefit. The implicit tax rate is set so as to make the benefit expire as the claimant's earnings approach the minimum wage (SMIC) for a single person, or 1.4 times the SMIC for a couple.² In comparison with the previous schemes, the rSa focuses more on the lowest income group and, above all, strengthens the work incentive component.

- On October 30, 2010 (latest figures available), there were 1,798,547 rSa beneficiaries in total made up of the following groups: basic rSa only: 1,151,535 households; in-work rSa only: 450,813 households; basic and in-work rSa: 196,199 households. The budget was EUR 7.9 billion, of which EUR 6.5 billion was funded by the *départements* (second-tier local authorities similar to counties), and EUR 1.33 billion for the in-work rSa funded by the State. As the basic rSa just replaces existing schemes, the additional cost of the rSa is attributable entirely to the (extra) in-work benefit payments.

One of the explicit aims of the law is also to strengthen the activation pillar of social assistance. Evaluations of the RMI system had revealed that only a minority of beneficiaries held a reintegration contract. The rSa reform assigns the responsibility for the inclusion process to the employment services: all beneficiaries are encouraged to register with the employment agency and to benefit fully from personalised job search support. The reform also reinforces the recipients' rights and duties: they have an obligation to seek employment and to accept any reasonable offers. The rights and duties approach applies in particular to rSa recipients who earn less than EUR 500 through their vocational activities.³

² In 2011, in France, the poverty threshold (60% of median income) is EUR 914 and the SMIC is EUR 1,050 net.

³ Those earning more than EUR 500 are considered to be already more integrated into the world of work. The sanctions are graded, ranging from the temporary suspension of rSa benefits to complete exclusion from the scheme. The power to apply them rests with the local authorities, who are required to inform the recipient of any such decision.



To support the reforms, local authorities have been provided with a number of instruments that they are required to use:

- The *general orientation agreement* governs the way in which beneficiaries are referred to various organisations and actors at the local level. This implies a good initial local identification of beneficiaries' problems, which may vary according to the type of area (rural, urban, industrial, deindustrialised etc.).
- The *territorial insertion pact* is a commitment by the various partners to coordinate and pool their activities in line with shared objectives for the area concerned.
- A principle applying across all the employment and social support bodies is the designation of a *personal advisor* for each beneficiary, for the full duration of the social insertion process.
- The State provides financial support to facilitate rSa recipients' access to employment. Initially, help may be needed to cover the cost of transport, clothing, childcare etc.

12

As soon as a person applies for the rSa, his or her personal situation is also examined, taking into account distance from the labour market, housing, health and possible social problems. Depending on that analysis, the person is directed towards an appropriate body that can accompany his or her insertion. Today, two types of insertion path are clearly distinguished in the law: the "employment path" and the "social path". Most of the *départements* are now looking at a stronger linkage between social support and employment insertion.

At the end of 2011, a national conference will evaluate the rSa. An evaluation committee, run by the state research service DARES, has monitored the impact of the scheme from the outset. For instance, it has been examining trade union concerns that the rSa might lead to downward pressure on wages. Overall, the interim evaluations suggest that although beneficiaries are satisfied, they have seen little impact of the activation pillar of the reform.



C. Policies and experiences in the peer countries

In-work poverty has not been a top political issue in **Belgium**, where 83% of those in poverty are not in work. The in-work poverty rate is currently 4.6% and has been around that level for quite some time. This is low by international standards. Belgium has a good institutional framework for tackling in-work poverty. Social partners play an important role. Collective agreements have the force of law. There is a national minimum wage, set at one of the higher levels within the EU and wages are index-linked. There are strong labour market arrangements, notably on working time. For example, it is illegal to offer jobs at less than 1/3 of a full-time rate. In the sector of domestic services, small jobs are pooled through a system of intermediate service employers. For example, service vouchers enable people to work for a number of different clients, particularly in domestic services, while being paid by one single employer. A generous system of child allowances covers a considerable part of the cost of raising children. Childcare arrangements are also relatively well developed, although there are some shortages. Nonetheless, 17% of the poor are in work — a quarter of those who are poor and are of working age. In absolute terms, there is a problem.

The flip side of this — broadly positive — picture is a low general employment rate, maybe because marginal jobs are prohibited. Activation is a big political issue. There is a concern that bringing more people into the labour market might lead to more in-work poverty, and that employment will not improve the living conditions of the poor.

In **Cyprus**, in-work poverty is moderate thanks to a generous tax-free income floor (more or less equivalent to GDP per capita), decent minimum wages, child benefits and housing allowances. For specific groups with a high risk of in-work poverty (such as single parents), earnings are disregarded in the calculation of social assistance benefits.

In **Estonia**, the in-work poverty rate is close to the EU average, even though the Estonian policy on this issue has been “no policy”. The issue of in-work poverty in Estonia is mainly an issue for single mothers with many children.

The other group at risk is self-employed people who are dependent on temporary contracts from different clients. For waged workers, the in-work poverty rate is around 5%. Estonian labour policy has largely relied on market forces. During the years of growth, in-work poverty did decline. But during the recession, (relative) in-work poverty declined even further, more or less artificially. This is because average incomes went down but the minimum wage stayed the same. Estonia has a fairly modest minimum wage, in relation to the average wage. Some have been arguing the case for introducing in-work benefits, as a way of lifting low-paid workers above the poverty threshold. There is relatively little part-time or temporary work in Estonia, and there is really no need for such jobs in order to get women into work. As in other post-Soviet countries, the labour market participation of women is already high. They tend to work full-time and to have reasonable earnings. In-work poverty is therefore more often caused by the composition of households than by the nature of work.

14

Greece's in-work poverty risk is twice the EU average. While poor education (coupled with low wages rather than unemployment) appears to be the key determinant, self-employed workers also face very high risks. Given that Greece currently does not have any (universal) social assistance schemes, the Greek representative rightly pointed out that the introduction of financial incentives to take up work is rather theoretical for his country. A negative income tax (NIT) scheme could be more politically acceptable because it is not exposed to the poverty trap argument.

Ireland has effectively three policy approaches to in-work poverty. For somebody who is unemployed and who then finds some part-time work, an “earnings disregard” permits the retention of part of the earnings while remaining on benefits. The most advantageous disregard is for lone parents, who can earn up to EUR 150 per week while retaining their full social entitlements. If they earn up to a further EUR 400, they retain half of their benefits. The second system is for people who are employed for at least 19 hours per week. A family income supplement, based on a certain threshold, can be paid to top up their wages. But while the French threshold is based on the minimum wage, the Irish one is based on what the person would be entitled to if they were still on social welfare. So the more children you have,



the higher the supplement. And if you earn less, the State will give you more. Take-up problems do exist with this second system, and various reforms have been implemented — but Ireland has not so far gone down the UK route of turning welfare benefits into tax credits in order to avoid stigma. The third form of Irish intervention is more transitional. For example, if somebody on benefits takes up employment, they can continue to receive benefits for up to four years but they are incrementally lower each time. Following the huge influx of labour into the construction industry during the boom years, the employers and trade unions came together to create a set of indicators to distinguish between real and bogus self-employment in that sector.

Lithuania has a high poverty rate even among full-time workers. However, in the present context of strict austerity policies, it is doubtful whether the country would be able to afford rSa-like measures. The most effective and feasible measure would probably be an increase of the legal minimum wage.

The Netherlands has generous in-work benefit schemes to compensate for the effects of part-time working. Take the case of a person who has previously worked full-time and is unemployed. A part-time job is offered for 3 days a week. Under the Dutch system, the person will receive 3 days' wages per week at the collective agreement rate (about 130% of the minimum wage) and 2 days' unemployment benefit. If the household income still falls short of the social minimum (EUR 1,418), an additional income supplement will be provided by the social insurance system to bring it up to that level. This does not mean that there are no working poor on the social minimum. If, due to the composition of the household, the person is still poor, individual welfare support can be provided by municipalities to top the income up to 130% of the social minimum (or slightly less — local authorities can define their own levels of income support). In one respect, the problem is the same as in France and other countries: piecing together an income of this kind is complicated. A second case concerns a couple one or both of whom take parental leave. In effect, this is equivalent to changing to a part-time job. In the Netherlands, the resulting income loss is compensated by a tax credit. Under some collective agreements, the employer also pays compensation for parental leave. If the income is still low, individual welfare support from the municipality is again possible. By comparison, in France, households



taking up a job that pays less than the last level of unemployment benefit received are entitled to a top-up benefit. On the other hand, after a certain period on unemployment benefits, people are required to accept a part-time job offer even if they were previously working full-time, but no specific benefits are paid to compensate for this. The Portuguese system allows a person to accept a part-time job while continuing to receive 35% of the unemployment benefit. Before this measure was introduced some years ago, few people accepted part-time jobs, as it was usually not in their financial interests to do so. Work is in progress at the European level to define indicators for labour market transitions (welfare-to-work, stepping stones to better jobs etc.). A strongly segmented labour market explains the above-average in-work poverty risk in **Portugal**, where the working poor consist of 'low-qualified workers', 'traditional outsiders' working in agriculture and the informal economy, and young workers who, despite better qualifications, do not succeed in finding decent jobs. Apart from a forthcoming (as yet unknown) programme to address in-work poverty, it is worth mentioning two other schemes from Portugal: *Novas Oportunidades* (a large-scale training and qualification programme for adults) and reduced social security contributions for better-quality jobs.

16

The modest in-work poverty risk in **Slovenia** may look surprising in view of the rather tough activation requirements imposed on social assistance recipients and the absence of specific incentive measures. There is concern that present policies may result in increased in-work poverty in the future.

At the EU level, the **European Anti-Poverty Network** welcomes the increased attention devoted to in-work poverty, but emphasises it requires attention as it is on the increase. EAPN questions the ambivalence of national and EU anti-crisis policies, which emphasise increased labour flexibility, harsh austerity measures, decoupling of wages from inflation, etc. and thus tend to exacerbate the problem. The absence of legal minimum wages in 20 out of the 27 Member States is cited as one of the key factors explaining in-work poverty; the downward pressure on all wages is currently stronger in countries where (legal or conventional) minimum wages are non-existent. In relation to the rSa, EAPN argues that "the notion of a lack of incentive, or lack of willingness on the part of the worker, is not the real problem."



(Kelly, Ferro & Jones, 2011, see: www.peer-review-social-inclusion.eu/peer-reviews/2011/building-the-tools-to-fight-in-work-poverty). Building on the experience with the Working Families Tax Credit scheme in the UK, it is argued: “whilst policies such as RSA can have a positive impact on child and family poverty, without commensurate action to address the prevalence of low paid employment (or low levels of pay in particular sectors and job types), and lower quality employment in general, the anti-poverty effects of such measures will be undermined.” EAPN therefore advocates more decent (minimum) wages, adequate social assistance benefits, measures to combat labour market segmentation, consistent measures in National Reform Programmes to achieve employment and security targets, universal access to quality services, and the participation of people experiencing poverty and corresponding NGOs in the design, implementation and evaluation of anti-poverty policies. At the EU level, EAPN suggests action is taken to “support the upcoming revisiting of the quality of jobs concept (2011), while making sure, in particular, that living wages, job security and employment are placed at the heart of the issue.” (Kelly, Ferro & Jones, 2011, see: www.peer-review-social-inclusion.eu/peer-reviews/2011/building-the-tools-to-fight-in-work-poverty). They also propose “a White Paper, detailing a roadmap, with concrete measures on how to tackle in-work poverty in the Member States, to ensure a meaningful delivery on both the employment and the poverty targets.”



D. Discussions at the Peer Review meeting

In-work poverty has many faces. Its causes are not always linked to labour market conditions. Almost 25% of the working poor in France are poor not because of their job but because of their family situation. As regards labour market determinants, the main reason the issue of in-work poverty is becoming more important is globalisation. To some extent, globalisation is being accelerated by the extension of the EU to new Member States, where wage levels are generally much lower, especially for low-skilled work. This is leading to increasing amounts of low pay and temporary and/or part-time work. In France, the situation is slightly better than the EU average, partly because of a relatively generous minimum wage system. Approximately 7% of those of active age in France are in-work poor.

The active welfare state has been the predominant paradigm across Europe since the late 1980s. Part of this is the concept of flexicurity. Globalisation erodes part of the labour market, especially at the bottom end, and jobs need to become more and more flexible. This can be accommodated by adapting national social security systems so that earnings from work are combined with earnings from social transfers for those who are in work. This must facilitate transitions and make marginal jobs more attractive.

Despite the existence of in-work poverty, the dominant discourse across Europe still holds that work is the best way out of poverty. The active welfare state has roots in France where the key idea was to establish a right to work, and the State was to be the guarantor of that right. Over time, the active welfare state ideology has undergone some shifts. As the State appeared unable to guarantee full employment, its role was confined to creating the structure for people to take up their own responsibilities. Part of those conditions is a social security environment that makes precarious work more attractive ('making work pay'). So the active welfare state, through activation policies, to some extent contributes to the reinforcement of in-work poverty. Those EU Member States that created most employment in the 1990s also saw the number of working poor increase disproportionately (see Fig. 1 in the discussion paper, www.peer-review-social-inclusion.eu/peer-reviews/2011/building-the-tools-to-fight-in-work-poverty).



At the EU level, the policy discourse is quite different: the central notion is not the active welfare state but *active inclusion*. Active inclusion is made up of three pillars:

- a *decent minimum income for all*, including those who are not able to work or who for some reason cannot obtain a job;
- *inclusive labour markets*, meaning that there is activation into jobs but those jobs must have certain quality characteristics;
- access to *quality services*, including housing, education, healthcare, childcare etc.

The French rSa policy contains some elements of that active inclusion notion. It places strong emphasis on activation and making work pay. The idea of “making work pay” can be part of social inclusion, but it also belongs to the more common neoliberal policy discourse across Europe. Traditionally, European countries have tended to introduce systems based on a means-tested guaranteed minimum income (GMI). In GMI schemes, earnings will at a certain point be taxed away at an implicit rate of 100%, leading to a poverty trap. On the other hand, in schemes involving a negative income tax (NIT), such as the rSa, higher work intensity produces a higher net income at all points, thus creating a stronger work incentive (see Figs. 2a and 2b in www.peer-review-social-inclusion.eu/peer-reviews/2011/building-the-tools-to-fight-in-work-poverty).

But any system of negative income tax (NIT) entails a tension (“trilemma”) among three objectives:

- One aim, which is shared with traditional GMI systems, is to *guarantee a decent income to every household*, including those where nobody is in work.
- The second is to *encourage the take-up of work*.
- The third is to *keep the budgetary implications reasonable* by minimising the cost of the system and making it efficient.

The main problem with NIT schemes is that any two of these objectives can be reconciled, but never the three together (see Section 3.1 and Figs. 3a, 3b and



3c in the paper, www.peer-review-social-inclusion.eu/peer-reviews/2011/building-the-tools-to-fight-in-work-poverty). This tension also exists within the current rSa system. Moreover, the work encouragement effect of the rSa applies for those who previously fell below the guaranteed minimum income level, but not for those who — through work were previously above it. So there is some ambiguity in the work incentive effects of a negative income tax system. For people who already work half-time, it is not, on paper, an encouragement to work more. To some extent, this is borne out in practice by the figures in France. The initial evaluations made of the rSa as well as other systems of in-work benefits, also before the crisis, tended to show that the employment effects were insignificant or weak.

Many countries have some form of in-work benefit, but the French system is much simpler and more universal than most others. Belgium, for example, does have some provision for topping up and tax-exempting work incomes of minimum income recipients, but these systems are very complex and their coverage is marginal. As a result, only about 2–3% of the minimum income recipients in Belgium draw the in-work benefit. The French system is more generous and transparent. While there may be some take-up problems in France, they are much greater in other countries.

So far, the employment effects of the rSa have been marginal. Moreover, the trade unions in France are very concerned about the potential reinforcement effects of a negative income tax reform on the low-wage sector of the economy. In the short term, the rSa has undoubtedly meant an improvement in the income situation of some marginal workers. In the longer term, there are two opposite hypotheses about its effects. One may be called the “stepping stone hypothesis”: someone who accepts a marginal job is then supposedly in a better position to find a better job in the future. That hypothesis has not so far been verified for minimum income recipients. For other groups, such as young people, some stepping stone effects have been noted, but they are by no means large. On the other hand, as it is slightly less attractive to take up a full-time job under a negative income tax system than in a traditional GMI scheme, more people may remain in less than full-time and less than full-year jobs. This may reduce their future social security and pension rights.



Care must be taken that the rSa reform is not too one-sided in encouraging the take-up of work. It entails an income increase for workers. In that respect, the rSa reform is probably a major step forward for those who are able to work. But one should keep the figures in mind: the vast majority of those currently in the rSa system are living on the basic rSa. For two-thirds of the households concerned, the work encouragement mechanism has not really helped so far. Many countries are using the “making work pay” strategy to keep benefits low. The result has been an increase in the gap between working people and benefits recipients right across Europe (see section 3.2 of the discussion paper, www.peer-review-social-inclusion.eu/peer-reviews/2011/building-the-tools-to-fight-in-work-poverty).

Active service delivery is important for minimum income recipients. Empirical research has demonstrated that financial incentives have a very limited effect. What matters more is to invest in people who are experiencing poverty, by offering them services such as education and training. The French evaluation shows that poor people also work for reasons other than financial concerns — for example, because they are proud of contributing to society. Work also improves their self-esteem, and provides social contacts. A “capability approach” concentrates not just on transferring as many people as possible into work through financial incentives, but on investing in people so as to strengthen their participation in society in all areas of life. This means investing in their education, their social networks, their wage-earning potential and their physical and psychological health. Investing in high-quality childcare produces benefits for the children themselves but also makes it easier for their parents to seek work. All of this is part of the active inclusion strategy at the European level: the third pillar of that strategy is access to high-quality services. The service component of the French strategy does not appear to be visible to beneficiaries and it probably needs to be developed further. The idea of social minimum standards is also important, both in France and for European policies. Governments can set minimum standards, but in an extremely competitive, liberalised European environment, there is definitely an issue of social dumping; erosion of labour markets, wages and labour conditions. This needs to be tackled at the European rather than the national level. Minimum quality standards, social tariffs for services and universal access are needed. That would require a



different European strategy for tackling in-work poverty, one that does not just accept the marginalisation of the bottom end of the labour market, as is the case with the current flexicurity approach. Europe has made some improvement in social minimum standards recently, thanks to the action taken to implement the new European Treaty and the Charter of Fundamental Rights. There is hope that the social minimum standards approach will be fruitful in the future, but it should be accelerated.



E. Conclusions and key learning elements

The first subsection in this part focuses on the lessons learnt from the rSa experience, while the second subsection summarises other aspects of the fight against in-work poverty.

Policy messages from the rSa

In some ways, the rSa is an extension of the RMI philosophy, which links the right to a minimum income with the right to inclusion. But the rSa reactivates the inclusion component. From a political perspective, the reform that produced the rSa was a way of safeguarding the legitimacy of the social assistance system by modernising it and making it more acceptable in the present climate. The integration and simplification of previously existing schemes into a single structure is also an important improvement.

A major innovation is the emphasis on the encouragement to take up work. “Work encouragement” has a double meaning in this context: on the one hand, it means the effective transfer of more people from welfare to work. On the other hand, there is an element of equity: the effort made by people who are living in poverty and who want to take up work must be rewarded. This second function, at least, has been successfully and convincingly incorporated into the rSa.

The **strengths** of the rSa can be summarised as follows:

- The national government’s courage in carrying out such a major reform of social assistance in the midst of an economic crisis. The reform has been financed by an additional tax on financial revenues. So this is also meaningful in terms of redistribution.
- The renewed legitimacy of social welfare benefits, which have been made simpler and more transparent.
- The wide coverage: 1.8 million households.
- The broad notion of inclusion. It is not a narrow-minded “work first” approach, but rather an activation into work and social activities.

- The activation of national institutions, which have been called upon to form partnerships in order to provide inclusion opportunities.

Other elements of the rSa **remain weak**:

- More needs to be done for young people aged under 25.
- The level of the minimum benefit for jobless households is inadequate. It is far below the poverty threshold. The 'basic rSa' is now less than 50% of the minimum wage. This is worrying, as two-thirds of all the households dependent on the rSa are jobless households.
- There is a tension between the three objectives of the rSa: a decent minimum income, work incentives, and cost efficiency. These three objectives cannot be fully reconciled.
- The effectiveness of the inclusion services is questionable. Although the French government has shown its willingness to invest in them, they may not yet be fully operational on the ground.
- The short-term employment effects have not lived up to initial expectations. This may be partly due to the financial crisis. But much will depend on the services provided and on investment in training and guidance for the beneficiaries. These measures are likely to be more decisive than the financial incentives as such.
- There are also some doubts about the long-term anti-poverty effects. The implementation of the reform must not serve as an alibi for the further extension of the precarious work segment of the labour market. Such an extension could also, in the long term, have adverse consequences for the beneficiaries' social security rights.

In-work poverty: a structural problem calling for structural prevention

To tackle in-work poverty, **three levels of intervention** are required:

- **Collective bargaining**, by the social partners, for decent jobs: minimum wages; minimum working time arrangements; development of "wage careers"; linkages between social security



and tax reforms on the one hand and commitments by firms to create more decent work in the longer term; higher-quality and more secure temp work; fighting effectively against moonlighting and integrating the grey economy into the regular economy. Good social security provisions are also an incentive for workers to declare their work.

- **National government action:** tax-benefit reforms for greater equity, together with implementation of the flexicurity agenda. The rSa, which may be seen as a type of negative income tax, is a good example of such reform. Governments may also, as in the Netherlands, provide flexible combinations of part-time work with part-time benefits. They can organise reduced social security contributions on low wages, thus ensuring better net wages at the bottom of the labour market. Subsidising employers to convert marginal jobs into decent jobs is a useful idea drawn from the Portuguese experience. The self-employed should be protected against personal bankruptcy and should have the right to return to unemployment insurance if a business start-up fails. Governments can also implement more decent active labour market policies. In the past poverty has often been part of these policies, so better-quality activation schemes are important in themselves. The key is to invest in the capabilities of workers — for example, through training, healthcare, family support and childcare.
- **EU-level action:** the European authorities can do much to avoid erosion of the weaker segments of the labour market, through measures to guarantee a minimum quality and a common agenda on decent levels of pay. One way of doing this would be to incorporate the International Labour Organisation's concept of Decent Work into European legislation. This could, for example, entail a new directive on international posted work, and EU measures against the employment of bogus self-employed workers across national frontiers in order to undercut national standards. In the longer term, arrangements could also be made at the European level for common



standards in international trade in services, active labour market policies, integration services, childcare etc.

In sum, schemes such as the rSa should be part of wider strategies to improve labour market conditions and the quality of jobs created and to reduce labour market segmentation, including for the self-employed. Incentives are also important, although it must be admitted that financial incentives are not the most effective. Good education and training systems are also crucial here, as are good quality services for jobseekers. More generally, early prevention measures for people vulnerable to in-work poverty might be expensive at the outset, but they are likely to economise public expenses in the long run.

All stakeholders have a major role to play. Tax-benefit reforms cannot just be standalones. They must be part of broader strategies. The exchanges in the Peer Review have covered many different elements in the policy mix. It is now for the participants to combine those that might be most useful in their own countries. The solutions must take into account the fact that the faces of in-work poverty are very diverse across population groups, genders, households, countries and sectors.

26

There is also a monitoring challenge. Good indicators of in-work poverty should be developed at the European level, reflecting different household situations as well as the individual's situation in the labour market. The indicators should also be dynamic, as the aim of measures such as the rSa is to put people on a positive transition path that leads them durably out of poverty.



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Building the tools to fight in-work poverty

Host country: **France**

Peer countries: **Belgium, Cyprus, Estonia, Greece, Ireland, Lithuania, Portugal, Slovenia, The Netherlands**

European Stakeholders: **EAPN**

While it is commonly agreed that having a job represents the best safeguard against poverty and exclusion, it is no guarantee. In 2007, 8% of Europe's working population were living under the poverty threshold.

In June 2009, France launched a new tool aimed at fighting in-work poverty — the active solidarity income or RSA (Revenu de Solidarité Active). The RSA acts as an income supplement for people in employment whose income falls below the acceptable threshold regarding their family situation. It has three goals: encouraging people to (re-)enter the labour market, reducing poverty by providing recipients with a decent income, and improving social support and occupational reintegration.

The aim of the Peer Review will be both to evaluate the French RSA and to enable participants to learn more about other Member States' experience as regards in-work poverty: what the main explanatory factors are considered to be, what mechanisms are used to monitor the phenomenon, what policies are in place to deal with it, how different actors are involved in finding and implementing solutions, and how policy results are evaluated. A particular emphasis will be placed on the issues of low-intensity work, social transfers and labour incentives.