

# Recent Developments in Poverty in France and Europe Monitoring the target to reduce poverty in France by a third in five years Host Country Report

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This memorandum proposes to make a few comments about the method employed in France to gather required information and comment on findings on reducing poverty. Indeed, on 17 October 2007, the French President set a target to reduce poverty by a third by 2012 so as to "*turn the social policy issue that poverty is into a political policy issue.*" While making poverty more visible in public debates, this involves firstly developing a better knowledge of the processes which create poverty in order to take appropriate action to combat them, and, secondly, accounting for action taken, among other things, by measuring results achieved. This kind of follow-up work is the subject of an annual report to Parliament. The first instalment was issued in October 2009 and comprises two sections. The first section deals with recent developments in poverty in France and Europe. It is based on an original methodology which is the subject of the observations set out below to the extent that it aims to collect the required information and edit it using indicators and comments intended to provide an overview of findings observed. The second section identifies key measures taken in the area of social policy since 2007, including combating poverty, either through structural reforms or by means of exceptional measures taken in 2008 in light of the new economic and social situation.

After reminding people of a number of factors affecting the context, we first examine the various methods employed to establish the information system used. Next, we raise a few questions relative to the nature of the indicators adopted to measure developments in poverty in light of the complexity of the corresponding phenomena associated with its multi-dimensional and relative dynamic character and to the diversity of the populations affected.

## Context

We are setting a target to reduce financial poverty by a third at a time when an international, financial crisis is already under way, but has not yet spread to the real economy, in continental Europe at least, even though it is introducing uncertainty regarding growth prospects. As highlighted by INSEE (National Institute for Statistics Economic Studies) in its outlook summary for the period, French economic growth held steady in the last two quarters of 2007 and unemployment continued to decline thanks to the creation of a number of jobs (INSEE, 2007).

Furthermore, this target was set a few weeks after the Work, Employment and Purchasing Power or TEPA Law of 21 August 2007 was passed which provided a framework for the main guidelines of the majority party's economic policy following the spring elections. One of the articles in the TEPA Law thus authorises French Departments, local and regional authorities having jurisdiction in social matters, to try out a new social welfare benefit scheme, the 'Revenu de Solidarité Active' or RSA. This seeks to achieve a number of targets all centred around combating poverty. More particularly or even primarily, this has to be conditional on people being incited to return to

employment and being reassured that the positions they hold, even if they are of mediocre quality, will result in a permanent improvement in their earnings thanks to an additional social welfare benefit on a decreasing basis to the level of the monthly growth-linked guaranteed minimum wage or SMIC for full-time employment or thereabouts.

A radical change in the economic context in the second half of 2008 rendered the task all the more necessary and difficult, to the extent that, as noted in the report to Parliament, the effects of the crisis on poverty could equally materialise through it spreading and affecting new populations, through it intensifying in light of a deterioration in the social conditions of the poor, or through the question of whether individual situations can be reversed. These three key aspects are intertwined and affect populations to varying degrees, playing a part in making groups of poor people even more heterogeneous. This is not without calling into question public action.

## Method

The method used to establish the information is marked by its composite nature, even though the various data collected will certainly not have the same impact on the table of results or debates on achieving the primary target. Clearly, the first constituent, based on the setting up of a trend scoreboard grouping together a series of statistical indicators, takes on a critical role. The other tools are complementary and draw on processes based on estimates using micro-simulation modelling or more qualitative tools based on inquiries or the interpretation of a variety of data.

**A Monitoring scoreboard** is aimed at monitoring whether targets are reached, year after year. It comprises a series of seventeen key indicators categorised into eleven specific areas reflecting a multi-dimensional approach to poverty. *Combating financial poverty and inequalities; combating an accumulation of difficulties; combating poverty among children, young people and the elderly in employment; promoting access to jobs, access to and retention of housing, access to education and training; promoting equality of access to health care and combating banking exclusion.* Each of these areas is associated with one or more quantified target (eighteen in total) aimed at by the end of the five year period. Among these, the poverty indicator anchored at a moment in time is considered a key indicator. Furthermore, it is undoubtedly primarily in relation to this that the target to reduce poverty by a third will be measured, even though this target also concerns three others. You will note that for the remaining fourteen key indicators, the target is more limited because it is either aimed at stability or a reduction of between 5% and 20%. The scoreboard also contains nineteen indicators which are monitored but for which no reduction is sought; they are intended for additional information purposes. All these indicators are illustrated by the levels they achieved in the last known year and by their developments over two periods of both long (2003-2008) and short (2006-2008) duration.

Throwing more light on the phenomena of poverty highlights their complexity and necessarily results in a more subtle evaluation of them. Under these conditions you might ask yourself whether it is pertinent to make one indicator a priority to measure performance against a set target, not only because it may be the subject of debates, but also because these are different aspects of poverty which have to be reduced at the same time if the action taken is to be truly effective. By selecting a primary indicator we run the risk of limiting a large proportion of the debate to its quantitative changes. Furthermore, the general trend can conceal substantial dispersions according to population categories and territories. By breaking down financial poverty indicators according to these two aspects, the monitoring scoreboard clearly illustrates these phenomena which should therefore also be central to assessing the action taken.

This monitoring scoreboard is the result of a plan drawn up within the framework of an inter-ministerial group headed by the Direction Générale de l'Action Sociale (Department for the Promotion of Social Welfare) which representatives from the National Observatory on Poverty and Social Exclusion and the National Council combating exclusion worked in partnership with. Additionally, in 2005-2006, the ONPES (National Observatory) developed a series of eleven indicators described as key to monitoring the development of poverty. On this occasion, this body stressed the need for a multi-dimensional approach to poverty and the connection to be made with the broader issue of inequalities. From among the financial indicators, this led to the poverty level being defined at 60% of the median income and the level of poverty anchored at a moment in time being neglected. This monitoring scoreboard was also the subject of discussions with key associations engaged in the fight against poverty. This consultation phase gave rise to a series of versions of the monitoring scoreboard prior to its final adoption and publication in October 2008. Bringing it up-to-date and interpreting it now constitutes one of the essential aspects of the report to Parliament forwarded by the High Commissioner to solidarity organisations actively combating poverty to monitor how the target to reduce poverty by a third in five years is progressing.

**Two further observational constituents** were assigned to take into account limitations encountered when monitoring the development of poverty using the selected statistical indicators. Given the time required for their development (collection and processing of data), it will take approximately two years before they will be available. Thus, in the monitoring scoreboard that appears in the report dated October 2009, in only five cases is the last known value for 2008; eleven of the eighteen key indicators are in respect of 2007, including the financial poverty indicators anchored at a moment in time. The reference year pre-dates this in two cases. These time lags are the source of major misunderstandings on the part of various social actors and more generally public opinion, particularly when the economic and social context has undergone substantial changes, as is the case since the middle of 2008. They tend to strip the work of the experts of all credibility due to their slowness and give way to more subjective or partial perceptions of social reality. With regard to the intention to make poverty a political policy issue based, among other things, on "making people aware" of the monitoring scoreboard, these time scales are not without their disadvantages either.

At this prospect, two approaches were developed.

*Firstly, an exploratory exercise* was conducted to predict developments in financial poverty between 2007 and 2009 using micro-simulation modelling aimed at assessing the impact of socio-fiscal and economic changes on the standard of living of a representative sample of the population. This exercise therefore shows, for the period 2007-2009, a reduction in financial poverty of between 0.7 and 1.6 points (or of between -5.5% and -14%) according to the three indicators selected. We probably cannot overlook the impact that various measures taken to allay the social consequences of the crisis may have had. However, the reduction in poverty and its magnitude such as they were assessed seem to be not only counterintuitive but also out of step with certain qualitative observations. Also, these evaluations only concern the financial aspect of poverty and therefore only throw particular or limited light on the phenomena being debated.

As those who devised micro-simulation stress, the findings are unreliable because of the assumptions made. For example, increasing wages across the board between 2007 and 2008 in order to bring people's income up to standard is far removed from what might happen in reality. Furthermore, the report mentions these drawbacks reminding people that *"the wages of individuals from poor households do not necessarily increase at the same rate as those of the*

*population as a whole.*" During the course of 2009, businesses did not only use employment to make adjustments, but also wages, either through measures to partially reduce activity (overtime, short-time working) or by juggling with the various components making up people's wages (fixed part, variable part, bonuses, etc.) that have become increasingly varied in the last fifteen years or so. Additionally, variations in wage developments according to the sector of activity, qualifications, etc., have undoubtedly increased since we entered the crisis. This explains the analytical and descriptive limitations of increasing wages in line with the rate of inflation used in the model. The same applies to the inclusion of job losses in 2009. This is based on the assumption that a person had more of a risk of losing his job than he did in a favourable economic situation. This overlooks to some extent the sectoral dimension of the crisis which to date has only affected certain segments of the service sector where there is a high level of unskilled labour. By virtue of its magnitude and structural character, the current crisis cannot be modelled without taking into account the heterogeneity of the forms it has taken and the processes developed by stakeholders to adjust to it.

Lastly, it has been noted by those who devised the micro-simulation model that the poverty indicators assessed are not directly comparable with those in the monitoring scoreboard in light of simplifications made with respect to the ageing of the sample and in taking into account benefits which overlooks the possibility of a take-up rate of less than 100%. They assume that "*these sources of variances affect the level of but not changes in poverty indicators.*" Whatever the case, this shows a very fine connection between the micro-simulation exercise and the more traditional exercise of interpreting data observed.

This in no way detracts from the interest of conducting the exercise, but it does limit its practical scope to actually update the monitoring scoreboard and provide fuel for public debates through a kind of almost instantaneous evaluation of public action. There is a significant risk as with hindsight evaluations and observations differ.

*The second additional approach involved developing a monitoring system* to comprehend emerging phenomena and the situation of specific populations (students, the homeless, illegal foreign nationals) not taken into account in poverty statistics. This monitoring system is fuelled by five different channels:

*Indicators linked to the management of national systems* such as the number and characteristics of the people receiving RSA benefits and people who have been seeking employment for more than a year. In light of the selection processes which structure the way the labour market operates and the rules governing insurance and unemployment schemes which offer income substitution benefit of approximately 60% for jobseekers (50% for unemployed people who are not exempted from seeking employment), it is also important to monitor the population of jobseekers who do not receive any compensation. The latter is fuelled when there are new entries to the labour market (young people with no employment reference) or as a result of a person remaining unemployed beyond the period where he/she is entitled to receive benefit. Furthermore, from 2010 we may witness the emergence of an important "end of entitlement" phenomenon at the origin of the spreading of financial poverty.

*Signs resulting from the actions of charitable organisations* or observation tools developed by them. Nevertheless, these indicators are subject to the vagaries of the organisations' activities and registration methods which are sometimes not sufficiently standardised. They should therefore be used with caution.

*Quarterly monitoring of households' budgetary and material constraints* conducted by the INSEE. The purpose of this exercise was to obtain an assessment of the consequences of the crisis

which works out the perceptions and behaviour patterns of households even though their income may have changed without necessarily having deteriorated to the point of falling below the financial poverty line.

However, as shown by the work of the ONPES (National Observatory) based solely on interviewing people living in poverty, phenomena not directly linked to the ongoing economic crisis may interfere in the increased difficulties they expressed. For example, the increase in the cost of housing and related charges should be linked to the surge in prices in the housing market since the beginning of the decade. Likewise, people have expressed considerable concern regarding changes in health care costs they remain liable for due to the increased number of franchises and other mechanisms designed to reduce health care expenditure and re-establish a balance in the corresponding social security accounts. Undoubtedly, the crisis can make these situations worse in light of the fact that it is increasingly difficult to get a job, even a short term job.

*Interviewing a panel of stakeholders in the field* on developments in the phenomena of poverty. Conducted in 2009 using exploratory and qualitative methods under the auspices of the ONPES (National Observatory), this type of investigation should be carried out again at a later date. In a way it introduces a means of feeding back information to the social domain which has existed for some time in the economic domain. The notion of emerging phenomena brought about by the present crisis does not seem as pertinent as anticipated. Undoubtedly, a more substantial proportion of young people or people are claiming social assistance. In the case of the former this may indeed be linked to difficulties in integrating the workplace or to the limitations of family unemployment benefits from the moment unemployment affects several members of a family; in the case of the latter, we are witnessing the initial affects of pension reforms undertaken fifteen or so years ago. From another point of view, professionals are pointing to an increased level of despair in people receiving assistance, resulting in aggressive behaviour and/or phenomena whereby people do not seek assistance confirming a lack of confidence in the institutions responsible for setting up certain mechanisms for collective solidarity. Here again, we may be seeing not so much the direct impact of the crisis as the expression of a long process of fragmentation of French society. These people often claim they have been living in a crisis situation for a long time and that their current situation is not so different to what it was prior to 2008. Whatever the case, these opinions and attitudes are not without calling into question the principles of the so-called active inclusion policies (enhanced conditionality) and the level of benefits offered which in France remains a far cry from the financial poverty lines and is tending to deteriorate in comparison to the minimum wage level.

*Specific inquiries to throw light on specific phenomena* such as the mental health of the homeless or the practice of eating rough. While this is an established practice among people who practise it, it questions the level of income available to them, whether this is derived from a professional activity or social benefits, especially when these situations go on for some time. As for questions relating to the mental health of people living on the streets, they reflect to a large extent changes in the granting of benefits.

In total, two general observations can be made regarding the follow-up method implemented. Firstly, while various aspects of it allow its descriptive wealth to be underlined, undoubtedly a consistent, interpretive framework still remains to be established allowing a better understanding of the interactions between individual factors and collective processes of the phenomena of poverty and their development. Thus, measuring and describing it is not enough to base public action on.

Secondly, the target to reduce poverty by a third is an indication of the high degree of political will. For this strategy to have any real impact it has to be broadly shared and the findings obtained have to be the subject of an in-depth debate involving the many social actors and society as a whole. At this prospect, the forwarding of an annual report to Parliament has a crucial implication because it is tantamount to going from the cognitive dimension of making an evaluation to a normative phase at the end of which a decision has to be delivered after deliberation. This will be all the more pertinent as it will not be based uniquely on a key indicator from the monitoring scoreboard the target of which is indeed to reduce financial poverty by a third in five years. The evaluation should make use of the multiplicity of information collected, even if it makes the decision more subtle and of a more limited political scope.

### *Comments on Monitoring scoreboard Indicators*

In the first instance, you will note that in view of the new context as a result of the economic crisis, questions pertaining to [poverty] spreading, intensifying and reversibility mentioned in the report will be unevenly researched. The first two aspects are illustrated either through the various financial poverty indicators interpreted at various thresholds or in terms of intensity, or based on the poverty in living conditions indicator (which it would be useful to break down according to several levels of income), or by means of indicators relating to housing, health care or banking exclusion. The question as to whether poverty situations can be reversed and more broadly poverty entries and exits is less well researched (with, among other things, an additional indicator relating to the persistence of financial poverty) and is not the subject of a specific, quantitative target. Comprehensive knowledge of people's individual experiences in life is a useful addition to global developments affecting poverty. A combination of frequency and duration of episodes of poverty over the reference period allows the features of several types of poverty to be identified. We need to measure the relative importance of these and find out what the characteristics of the people affected are. The same level of financial poverty may include various combinations of experiences in life which will confer a different meaning on things. A debate seems all the more important since the population living in poverty form a continuum and a significant proportion is close to the official poverty line (e.g. the level of poverty ranges from 7.2% to 13.4% according to whether we retain 50% or 60% of the median income; that is an income variance of 163 Euros in 2007. Additionally, greater instability in professional or family situations can lead to cycles where individual situations deteriorate or improve which we need to better understand.

In the second instance, debates surrounding a poverty indicator anchored in time to monitor developments in poverty show that this index is not devoid of ambiguity from the moment that it is used as a results indicator to evaluate public action. When drawing up this monitoring scoreboard, various actors brought to our attention the fact that over the course of two periods, 1997-2002 and 2000-2005, it went down far quicker than the relative level of poverty. Indications from the monitoring scoreboard show differing developments in these two indicators between 2006 and 2007: A substantial reduction in the level anchored at a moment in time (-5%) and a reduced increase (+2%, at the limit of statistical significance) in the case of the relative indicator, even though the difference in the corresponding levels of income was low (20 Euros per month for a single person). Here we have a new illustration of the halo effect of poverty, since one might think that there is not much difference in people's situations in real terms with such a low income variance. However, the evaluation of developments in financial poverty can change.

The anchor level is used to determine in which way the number of people whose income remains below a given level set at the beginning of the period is changing. If this amount corresponds to

the relative poverty line of the reference year, it breaks free from it later as it no longer evolves in line with inflation. Thus, it is based on an almost absolute measurement of poverty; this is in contrast to the approach traditionally adopted in terms of relative poverty. It cancels out the incidence of income changes and distribution when measuring the phenomenon. Its development combines the general effect of economic growth and the specific effect of policies to combat poverty, without us being able to clearly make the distinction between them. While we are justified in hoping that general policies will support growth and help to reduce poverty, we know that the most targeted policies, armed with substantial resources, are indispensable. The issue is indeed to measure their impact. Furthermore, increasing the reference threshold according to the general price index overlooks the fact that the basket of goods consumed by people on low income may be subject to higher inflation. From this point of view, the data mentioned in the report to Parliament on built-in expenditure between 2001 and 2006 are very significant. In the first standard of living quintile, this expenditure went from 52% to 74% of people's current income because, among other things, expenditure on housing went up substantially; in percentage terms it went from approximately 30% to just over 42% of the current income of households at the lower end of the income scale. For households in the other quintiles, the proportion of built-in expenditure is distinctly lower and almost stable. Indicators relating to over-indebtedness and affordability ratio in terms of housing corroborate our previous comments.

In the third instance, the multi-dimensional nature of poverty leads us to adopt a large number of indicators. This allows the significance of the overlap between these various indicators to be characterised. In this way, financial poverty at 60% affected 13.4% of the population in 2007 and poverty in living conditions affected 12.2% in the same year. Taking these two aspects into account at the same time leads us to estimate the population affected by one or other of these forms of poverty at approximately 20%, if we take into account the 5% that are suffering from the combined effects of financial poverty and poverty in living conditions. In the current crisis context, it is important to monitor overlapping developments in these two indicators, particularly as they are part of the dynamics of individual poverty which are not the same, as the ONPES (National Observatory) reminded us in its last report.

In the fourth instance, the question of lack of access cannot be reduced to a financial dimension, even though this is important. The example of retirement phenomena (on the part of people who are liable to receive retirement benefits) or refusing to accept benefits (refusing health care) shows that public policy can create undesirable behaviour. At this prospect, undoubtedly it is not enough to stop social benefits from the point of view of their value alone. According to the institutional forms taken, they create specific identities, which are more or less stigmatizing. The purpose of qualitative investigations is to show this, even though measuring the magnitude of such phenomena is currently tricky as we do not have the appropriate tools.

In the fifth instance, the question of relations between developments in the labour market and developments in poverty is an essential one. Indeed, as the report to Parliament reminds us, these relations are multiple and complex. They cannot be summed up in a univocal connection between unemployment and poverty, firstly on account of the numerous forms unemployment can take depending on the combination of duration-frequency, and, secondly, due to the various forms employment can take which do not always prevent poverty situations. Furthermore, in the period preceding the crisis, poverty among the employed developed considerably which partly justifies the introduction of a benefit such as the RSA.

Put into general practice by the Law of 1<sup>st</sup> December 2008, after carrying out tests limited to just a few months instead of three years as initially planned, the RSA is presented as one of the key measures to help achieve the target of reducing poverty by one third. It was introduced with effect

from 1<sup>st</sup> June 2009. The challenge here is to establish to what extent a measure designed to incite and help people return to employment can fulfil its main function in a considerably uneven labour market. Additionally, while tests carried out, based on comparisons of target populations and control populations, led us to estimate that access to RSA improved access to employment by 9%, they did indicate that the number of people entering employment quickly declined once the crisis began. Also, a considerable proportion of jobs taken up in this context were very much part-time jobs. While this did help to improve resources in the households in question, this was not enough to get them out of financial poverty. This simply corresponded to households going from a poverty situation in which they are unemployed into a poverty situation in which they are employed.

Yet, the adoption of this new measure comes in a context of major economic and social crisis which is resulting in a rapid increase in unemployment from the second half of 2008. In such a context, we may not see a substantial development in the RSA-guarantee of resources (particularly among certain unemployed who are not receiving benefits or have exceeded their entitlement to benefits). Yet, its level remains well below the poverty line. Likewise, changes in the number of people in receipt of RSA benefits have to be monitored very carefully to determine the proportion and characteristics of those people who manage to permanently escape poverty.