

COUNCIL FOR EMPLOYMENT, INCOME AND SOCIAL COHESION

**ACCESS
TO EMPLOYMENT
AND
SOCIAL
PROTECTION**

REPORT N° 1

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To complete this report, the Cerc referred to a considerable amount of statistics and economic studies carried out by the Insee, the Forecasts Directorate at the Ministry of Economy, Finance and Industry, the Dares and Drees at the Ministry of Employment and Solidarity, by the services of the ANPE (National Employment Agency) and the Unedic and French embassy services for the information on foreign situations. Several research teams also contributed to this report.

Several research teams have contributed to this report, in particular papers presented at the conference on the "Working Poor" held in France organised under the auspices of Cerc, the Commissariat général du Plan, Insee and the University of Evry in May and October 2000.

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In writing this report the appendices concerning the Netherlands, United Kingdom and the United States were written by the economists. They are available on request (in French).

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ACCESS TO EMPLOYMENT AND SOCIAL PROTECTION

INTRODUCTION

Motivation, aims and purposes of the report

By devoting its first report to access to employment and social protection, the French Council for Employment, Income, and social Cohesion has sought to provide a contribution to the struggle against current forms of poverty.

- Access to employment is the primary means of combating poverty and contributing to social insertion, as exemplified by the 1997 European Council held in Luxembourg. However, access to employment does not always bring about the disappearance of poverty-stricken situations.
- It is in the interests of the population, as a whole, to have the highest possible number of people in gainful employment, and in quality jobs. A high employment rate generates an increase in national, and personal, income. It contributes to the elimination of current, and future, macro-economic imbalances produced by demographic changes.

The adjustment of compulsory contributions and social transfers to provide flanking measures to bolster access to employment, improve procedures, and subsidy schemes to aid return to gainful employment, improve social protection for the most disadvantaged persons are the objectives which CERC has striven to analyse in terms of their applicability, in order to combine the three objectives in the most appropriate manner.

This study was carried out during a period of business activity which provides a certain degree of topicality to certain arguments set out in the report.

- The return to economic expansion over the past few years has generated a marked improvement in employment. If economic expansion can be sustained, and this is the assumption underlying this report, it will not, on its own, reduce under-employment, i.e. absorb unemployment, or inactivity due to discouragement, and allow the creation of more stable and longer lasting employment for those actively seeking work.
- It was for this reason that the European Social Agenda, approved by the December 2000 European Council in Nice, stressed the need to modernise and improve the European social model, and in particular, increase access to the labour market by those groups currently under-represented or disadvantaged.
- In France, numerous reforms are underway on access to employment and support for low earners; viz., : reduction of the legal working week, in two stages, January 2000 and 2002; the amendment to the Unedic Agreement, and the emphasis on aid to help people find jobs; the three-year tax reduction plan which includes the new Employment Allowance scheme adopted by the government.

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Given the current context, the report strives to provide answers to three questions:

- How can an improvement be brought about in terms of growth-promoting jobs and, in particular, satisfy the demand of work requiring a low level of skills?
- How can return to gainful employment permit access to stable, more highly –paid jobs?
- How can social protection be improved across-the-board, in particular for the weakest sections of the population and, at the same time, contribute to a dynamic employment situation? How to reconcile the fairness of a re-distribution policy and encouragement to seek work ?

The answers are not to be found solely by devising economic and social policies, and in the necessary, but difficult, consistency of the schemes to be implemented. The answers will be provided by the attitudes of the players; viz., ; the institutions and the individuals.

Methodology

For the drafting of this report the Council has been able to benefit from the support of the main government statistics and economic studies bodies, in particular Insee, the Economic Forecasts Directorate of the Ministry of the Economy, Finance and Industry, Dares and the Drees in the Ministry of Employment and Solidarity. The Council would also like to extend its thanks to the departments of ANPE and Unedic. The co-operation provided permitted the use of unpublished statistical material and numerous evaluations of labour market insertion schemes and subsidies paid out to low-earners over the past year. University studies presented at the conference on the Working Poor¹ an additional source of new material.²

The Council was also able to benefit from the assistance of French embassies for their studies of foreign experience. Although each country must find the approach appropriate to their specific situation, the study of foreign experience and the assessment of their policies can prove to be useful, and indeed indispensable.

The Council's report was also able to refer to two previously published reports: the Planning Commission's July 2000 report, under the Chairmanship of Jean-Michel Belorgey, "Minima sociaux, revenus d'activité, précarité" (Minimum social wage, wages, job insecurity) and the report by Jean-Pisani-Ferry, in December 2000, on "Plein emploi" (Full employment) drawn up by the Conseil d'analyse économique (Council for Economic Studies).

The Council wishes to provide its contribution to the analysis of the current situation, and to add elements to the public debate by explaining and detailing the consequences of the possible choices, and to explain its position on the developments which it would like to see.

(1) Conference on the "Working Poor" organised under the auspices of Cerc, the Commissariat général du Plan and the University of Evry (May and October 2000).

(2) N.B. the studies on minimum social allowances carried out under the programme of the Commissariat général du Plan.

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DIAGNOSIS

Contrasted situation

Whereas the 1990's witnessed a period of far-reaching reforms in terms of access to employment and social protection, the economic evolution was highly contrasted. An extremely lively economic upturn followed on a period of depression which had never seen its like since the end of the Second World War. This development, however, did not, for all that, eliminate the most sensitive problems of poverty, nor the handicaps encountered by job-seekers.

Continuing high level of poverty

Despite the importance of social protection, the level of poverty in France remains a little higher than in the countries of northern Europe, but lower than in the United Kingdom and Italy.

Many elements are involved in poverty situations. A low level of income is only one of many. Moreover, we are faced with a continuum of situations. The conventional approach is to define a poverty threshold. Such definition is necessary in order to assess the magnitude of problems by means of statistical surveys. Poverty, in terms of lack of money, is defined in relative terms (cf. table: chapter II). A household is deemed to be poor if the level of living is lower than a "poverty threshold". This threshold is determined in the studies carried out by INSEE³ as being half of the mean level of living standard (i.e. that which is above the level at which half of households live.)

In 1996, a study carried out by "Revenus fiscaux", the poverty threshold for a single person was estimated⁴ at F3,500 monthly disposable income. For a couple, F5,250, and for a couple with two children under the age of 15, F7,350. In 2000, these thresholds would be F3,800, 5,700 and 8,000.

Contemporary poverty concerns, to a lesser extent, older households than households of working age. This was not the case twenty years ago, when the number of elderly persons benefited from insufficient pension rights. Poor households of working age are mostly those households in which several members of the family have a job, even if only for one month in the year. Those households are described as poor workers (table: chapter II.)

(3) Another conventional threshold proposed by Eurostat, the European Statistics Office, uses 60% of median income.

(4) There are no more recent results on the measurement of poverty from the surveys done by Insee: Revenus fiscaux, and the General Directorate for Direct Taxation.

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Table 1 – **Poor adults, aged 17 or above in 1996**

	expressed in millions
"Working poor"	1.3
Having been in employment for at least one month of the year	
"Poor unemployed"	0.5
Non-working persons under 65, not continuing their studies	0.7
<i>Non-working persons above the age of 65</i>	0.4
<i>Undergoing introductory studies</i>	0.4
Total poor adults	3.3

Source: Insee-DGI, survey "Revenus fiscaux", 1996.

Other sources provide partial indications on the improvement of other poverty indicators (Loisy and Crenner, 2000). It would appear, however, that the improvement of the business cycle reveals the extent of a hard core of poverty and the phenomena of exclusion which will require more specific approaches.

A contrasted employment profile

From March 1991 to March 1994, the French economy lost 0.3 million jobs. Then, in six years, from March 1994 to March 2000⁵, the number of jobs increased by 1.6 million. The contrast is more marked in the commercial sector.

This pick-up on the employment scene brought about a major fall in unemployment figures as from 1997, however it did not compensate for the worsening of the situation in the first part of the Nineties.

Table 2 – **Employment and unemployment developments**

	expressed in thousands		
	From 1991 to 1994	From 1994 to 1997	From 1997 to 2000
Total employment (ex quota)	- 336	430	1,215
Commercial sector			
Government, local authorities employees, trainees and subsidised contracts	- 601 265	393 37	1,063 152
Unemployment	886	37	- 525

Source: Insee, surveys Emploi.

Low skilled labour⁶ suffers from particularly high unemployment and is reabsorbed less quickly than overall under-employment. This is all the greater as France has a less qualified population (on average) than many of its neighbours in the North of Europe.

(5) During the course of the year 2000, total employment increased by approximately 560,000.

(6) It is difficult to determine the concept of basic training. Two approaches are generally used. One is based on initial training and considers low qualified persons as those without any certificate or diploma or lower secondary leaving certificate or lower vocational certificate. It neglects experience and vocational training which are, however, an essential element in distinguishing between actual qualifications. The second part concerns jobs occupied. The content of non qualified jobs is shown in the insert in chapter I. The classification of jobs is, in part, dependent on negotiations between the social partners on the definition of wage scales.

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It is amongst those persons who are the least qualified that we find the lowest level of activity and the highest level of unemployment. For adults between 25 and 60 years of age, qualified or highly qualified, the level of activity was, in March 2000, around 90%, the level of unemployment from 4 to 6%. For low qualified persons, the level of activity is only 64%, and the level of unemployment approximately 20%. It is amongst the least qualified that the insertion rate – between initial training and work – is the least uncertain; on-going training activities are the least developed, and careers are greatly limited.

The development of tertiary activities may lead to a strengthening of demand for highly skilled labour, but also in many activities the demand for low skilled labour, in particular in the services industry (hotel - catering, trade, people care.) The emergence of this demand for low skilled workers depends, in part, on the relative cost of low skilled jobs as would appear from international comparisons of employment structures.

When working brings in little

In many cases, certain jobs do not provide an adequate standard. In some cases, even less than not working. There are several reasons for this.

- Minimum social security benefits, in particular, the RMI (Minimum Insertion Income) are differential allowances. The allowance paid to the beneficiary is reduced in line with the household resources. For example, a household in which one of the members has a part-time job, or an occasional job and if the wages paid are lower than the RMI, the wage is deducted from the allowance and the total income is the same as if the person was not working. There is no immediate monetary gain. To a certain extent one could say that working is "taxed at 100%". An unmarried person earning the minimum guaranteed wage for a part-time job earned, at the beginning of 2001, F 2,800 net. If he/she were paid the RMI they would have been paid F 2,300 excluding the housing benefit or f 2,600 with housing benefit. An hour's work would have brought in less than F 6. Thus, a job involving less than part-time brings in nothing at all.
- For an unemployed person being paid the RMI and who finds a job, this "taxation" is not immediately felt because of the return to employment mechanisms which allow him to cumulate partially the job earnings and the RMI allowance over a certain period (one year, in most cases.)
- This situation, in which working is not worth the bother, varies according to the size of the family as the RMI is, logically, increased to take account of dependent persons in the family, whereas earned income is not. For a couple with one child (the most unfavourable situation as family allowances are not paid for one child) a job which pays the minimum guaranteed wage for a full-time job (F 5,610 net) has to be compared with the RMI of F 3,950 excluding housing benefit. In this case, a 7/10 full-time job does not bring in anything extra.

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- One of the factors worsening the situation resides in the fact that income from jobs was not treated in like manner under the RMI scheme as for social transfer payments which are of great importance for low-earners. To be paid a wage comparable with the RMI resulted in a lower total income. The two examples mostly given concerned the exoneration from the housing tax for RMI beneficiaries and the method of calculation for the housing benefit which decreased in accordance with earned income but was constant as long as a household benefited from the RMI. The first anomaly was corrected in 2000, however, the undertaking in June 2000 to correct the second has still to be implemented. There are still other anomalies, in particular social benefits paid by local authorities, such as transport aids or school dinner subsidies. When they are paid, they penalise unduly earned income.

Two different approaches are put forward when judging these situations:

- The fact that certain jobs do not pay, or do not pay enough, discourages people from seeking employment.
- It may be deemed contrary to social justice that such a high, even total, levy be placed on low-earning persons who find or find another job.

For the present, this discussion focuses essentially on the first approach, i.e. encouraging people to seek a job. The Council has striven to reconcile both approaches.

The influence of monetary benefits is not the sole influence on job-seeking (job offers) as many people work without there being an immediate gain. However, recognising the existence of other determining factors which go to explain these situations does not imply that gain-related factors are not without some degree of influence.

Others consider it preferable not to encourage "abnormal" jobs which do not pay as there are short term and working conditions are relatively difficult.

This throws up the crucial question of the future of jobs. Access to employment, especially for the low-skilled, involves short-term contracts and part-time working. When jobs are stepping stones to better jobs and permit, in a short time span, to access ultimately a better paid job, it is better to encourage people to take such jobs. It is the philosophy underlying temporary encouragement measures for a return to work within the framework of minimum social benefits or the possibility for persons receiving social security benefits to work at least part of the time. In such cases, should people be encouraged to take up such jobs, or encourage companies to develop them? By taking advantage of a long growth cycle, how can one increase the number of stable, well-paid jobs?

To reconcile both approaches, i.e. improve the number and quality of jobs, while at the same time responding to the concern for social justice, is a difficult task since it calls for the introduction of greater coherence in social protection as a whole and in taxation as well as in the setting of wages and the organisation of work in businesses.

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Success also depends, in practice, on all of the players, and in particular in the negotiation of collective agreements.

Employment policy of businesses

The analysis of the methods of definition and management of "precarious" jobs and the future of persons occupying such jobs has not been fully developed and it is difficult, precisely, to define any elements which could lead to a reduction of jobs "with no future". The suppression of financial incentives to employers to develop part-time employment (the doing away with the 30% relief for employers' social security contributions, the re-introduction of the pro ratio levy on low wages) is, in the view of the Council, going in the right direction. It would not appear, however, that the financial penalising of certain types of jobs should be increased. It would appear to be more important that in companies or in sectors of industry, accompanying measures for people to access better jobs should be defined. Negotiations on the introduction of reduced working time ought to contribute to reduce the number of part-time jobs or seasonal work as long as negotiations are carried out with a view to reconciling work-time reduction, internal flexibility to increase productivity, and improve job quality.

More generally speaking, contractual negotiations have, in some European countries, led to job quality improvements. In the Netherlands, for example, there is an agreement on return to full-time working for people working part-time.

Increased training efforts should be made especially where work is precarious.

Policies pursued since the beginning of Nineties

Major changes took place at the beginning of the Nineties concerning access to work and social protection. Here is a brief overview.

Control of the cost of wages for low-skilled jobs

The share of low-skilled jobs in the total number of jobs is tending to drop in the long term. This development is due, in particular, to the influence of current technical progress, to the impact of international competition, but also to the nature of demand. The need for low-skilled workers also depends on the relative cost of low-skilled jobs in relation to the cost of other factors. One cannot ignore the risks of substitution of low-skilled workers by more highly qualified work or the more intensive use of capital, or, even worse, giving up on the creation or the development of activities because projects are unprofitable.

In many countries, the choice has been made to reduce the level of the minimum wage in relation to the average wage. This approach has led to a widening of the spread of wage costs (see *infra*). However, foreign experience demonstrates that an excessive movement in that direction leads to the development of highly marked inequalities in income and situations in which working is "not worth the bother".

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France did not choose this route. Since 1983, the Smic (minimum growth wage) has evolved more or less in line with median wage levels. It is, therefore, not the relative income of wage-earners that has been the basis for the limitation of wage costs to stimulate the creation of low-skilled jobs. The most important measure was the reduction of social security contributions which will be addressed later.

Moreover, specific formulae have been used to promote insertion and subsequently the employment of persons in difficulty. These include, amongst other incentives, considerable cost reductions. For commercial jobs the cost reductions in conjunction with return to work contracts (CRE) and the employment initiative contracts ((CIE) ought to compensate for the temporary, lower productivity level of persons who have been out of work for some time, or who suffer from specific handicaps. In certain cases, such as the employment-solidarity contracts (CES), the consolidated employment contracts (CEC) or city job contracts, the State, instead of the employer, pays all or the major part of wage costs.

The number of persons concerned is high:

Table 3 – **Number of persons concerned as of December 31**

expressed in thousands

	1993	1995	1997	1999
Trade and industry jobs (CRE and CIE)		263		283
Non-commercial jobs CES, CEC, CEV	372	445	488	353
Young people programme			22	171

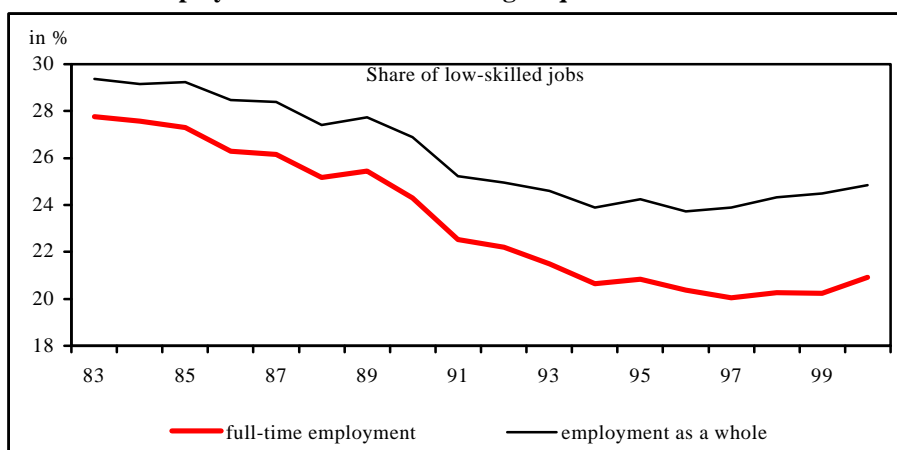
Source: Dares.

In 1997, the cost to the national budget for the CES and the CEC was approximately 20 billion francs and for CRE/CIE approximately 10 billion francs.

Let us return to the most massive measurement (F 47 billion in 1997) the effects of which are the most permanent. The *policy of reduction of social charges on low wages applied since 1993*, and which is a policy adopted in other European countries, the Netherlands and Belgium. This policy resulted in a fall of 13% in the cost of labour at the level of the SMIC, before the effect of aid measures to reduce working time. The initial observations available would seem to indicate that this measure helped overall employment but also contributed to the stabilisation and subsequently to increase the share of low skilled employment in the commercial sector.

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Evolution of employment structure according to qualification



Source: surveys "Emploi", Dares estimates, "Premières synthèses", n° 51.1.2000.

This policy of reduction of contributions for low wages must also be reintroduced in any far-reaching change in the financing of social protection.

Reforming the financing of social protection

Designed initially with a dual view of insurance and distribution for persons with or having had a job, social protection was financed out of earned income. Because of the application of ceilings, contributions were degressive in line with income level.

The gradual extension of benefits to all households calls into question the very logic of financing from earned income only. The substitution in 1991 of a proportion of the contributions from wages by the general social contribution (CSG) was a significant change. By extending the contribution to (almost) all incomes, including income from capital, the principle of a universal tax was introduced into the French social protection system. This aspect should never be forgotten if, while taking measures in favour of low earners, we wish to uphold the spirit and coherence of a system and ensure its financial balance.

This broadened financing base must, moreover, be analysed as a whole within the framework of tax and social levies. In comparison with other European countries the tax and social levy system was anything but progressive. This has been partially corrected by removing the ceiling on social contributions and by reducing employers' contributions on low wages.

The extension of the CSG to income from capital has also had an effect on progressive contributions since such income is concentrated mainly in high-earning households. These reforms have contributed to bringing the profile of French socio-fiscal levels closer to those of Northern European countries.

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Unemployment benefits

The French unemployment benefit system has two sides to it. On the one hand, there is insurance, managed by the social partners; on the other, there is aid provided by the State. Since the Nineties, the system has undergone many changes as a result of the financial constraints on the system. During the years of high unemployment and the increased number of persons receiving the RMI led to a situation which had not been foreseen when the benefit was created.

The reform of unemployment insurance in July 1992 with the introduction of the single degressive benefit (AUD) made the conditions for payment of the benefit much more harsher. Increased degressivity of unemployment benefits and more stringent conditions concerning the number of periods of past employment. The reform aimed at introducing sustainable balance into the unemployment insurance system in a context in which unemployment persisted at a high level over longer periods.

Its aim and purpose was also to encourage accelerated return to employment or at least to bolster efforts to seek employment. From this point of view, the results obtained provide a nuanced response (cf. chapter V).

In a context marked by the 1993 recession, the overall increased unemployment and the development of short-term jobs, there was a reduction of benefits paid out to the unemployed who did not find another job quickly. The number of persons being paid unemployment benefit dropped and those who lost their benefits altogether increased. Between 1991 and 1996, whereas the number of job-seekers listed by the ANPE increased by 22%, the number of beneficiaries of the unemployment benefit system rose by only 7%.

This brake on insurance benefits led to a shift towards the solidarity scheme subject to conditions of income from other sources (specific solidarity allowances (ASS) : +47%), i.e. non-payment (+43%) due to the development of short term contracts. During the same period, public authorities considerably reduced the scope of insertion allowances by excluding first-time job seekers and the number of beneficiaries dropped from more than 100,000 to under 20,000.

The January 1997 Unedic Convention relaxed the conditions by reducing the degressive aspect of the scheme. Up until then, the allowance was paid at full rate for a period depending on age and the work references of the beneficiary and at reduced rate every four months during the remainder of the period of indemnity. This period was increased to six months.

The RMI has become de facto the last phase of unemployment benefit. This is not without consequences for the image of the RMI which is experienced as an allowance for excluded persons, or persons in extreme social difficulty and also because of the nature of the services covered by the RMI which are more social action oriented than towards insertion in work.

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Unemployment benefits is a three stage system:

- *The single degressive allowance system* financed out of the unemployment insurance system is based on past earnings. It is paid without conditions of income and has a floor of F 3,320 per month (for a wage earner working full-time, otherwise it is on a pro ratio basis), i.e. its value is slightly above the RMI for a single person.

- *The specific solidarity allowance*, financed by the State, is solely for the long-term unemployed who are no longer covered by the insurance system and who were in employment over a long period prior to becoming unemployed (five years out of the previous ten). It is paid subject to resources (approximately F 5,900 for a single person, F 9,250 for a couple). It amounts to F 2,580.

These two allowances are administered by Assedic and are paid out only to those persons registered with ANPE. They are, therefore, only paid to persons actively seeking a job, however it is a well-known fact that this is often only a purely formal provision.

- *The Minimum Insertion Income*, financed by the State is subject to variable conditions of resources depending on the number of dependants. Contrary to previously referred to allowances/benefits, registration with the employment services is not required (it is however frequent); the allowance is administered by the Family Allowances service and calls for the establishment of an insertion contract. In chapter III we will see that this condition is not often fulfilled.

Activation of employment policies

The expression activation of employment policies concerns all of the provisions adopted to go beyond the payment of unemployment indemnities and to provide support for returning to work.

Under the unemployment insurance system there existed a general requirement to seek employment. Benefits could be stopped if job offers by the employment office (Article R.351-27 of the Labour Code) were refused repeatedly and without justifiable reason. However, up until now those provisions were rarely applied.

Unedic introduced a beginning of an active employment policy with **the retraining convention** established in 1987. The aim was to provide aid for retraining to workers having worked at least two years in a company and who were being laid off for economic reasons. For a period of six months the worker would receive partial payment of his wage and the advisory services in charge of retraining/reclassification in ANPE would help him to find a job and re-train. For a period of six months the worker would continue to benefit from all of his previous social benefits and would not be deemed to be a job-seeker.

The conversion conventions had their greatest impact in 1993 at the time of highest unemployment (170,000 beneficiaries) and tailed off considerably with the

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improvement of the economic situation and the drop in the number of people who lost their job for economic reasons. Although the number of persons concerned is rather low, the advantage of the measure is demonstrated by the fact it led to a high number of persons finding a new job under more stable contract conditions.

An other which one may consider from the point of view of employment activation policies undertaken by Unedic concerns **the possibility of partially aggregating unemployment benefits and short time working**.

This provision introduced in 1986 currently allows for a period of 18 months working less than 136 hours in a month and procuring a wage 70% lower than the reference wage. Approximately two unemployed persons drawing unemployment benefit out of ten take advantage of this provision. The advantage gained is two-fold: Employment retards the dates at which degressivity or non-payment of the allowance starts, the unemployment allowance is not reduced from the total wage earned. The balance of these measures on the return to work is difficult to discern as short time working varies depending on the reasons for unemployment and the time spent as unemployed. All in all, however, it would appear to strengthen, in the long term, the chances of finding another job.

Active employment policies were, however, broadly disconnected from unemployment benefits and, in the majority, borne by the public employment services: subsidies to private sector employers, type CIE, public authorities employers (excluding the State) and associations with solidarity employment contracts (CES) or consolidated employment contracts (CEC), training periods, aid to unemployed persons starting up companies, etc. (cf. chapter V)

Difficult implementation of insertion policy

Two provisions extensively used did not fulfil the expected objectives when they were introduced with a view to help insertion. Subsidised jobs in the non-commercial sector (solidarity employment contract (CES) and RMI).

The **CES** concern jobs in the non-commercial sector, the cost of which is totally or broadly supported by the State.

These are at the very most part-time jobs. This choice resulted (quite apart from budgetary constraints) from the aim to permit beneficiaries of such contracts to undergo training to allow them to access unsubsidised jobs and, at the same time, to actively seek another job. There were, however, very few jobs within the CES structure that provided training or efficient flanking support for a return to work. Beneficiaries of CES very rarely find another job at the end of their contracts. There is also a trace of insufficient osmosis between the public employment aid system and the commercial sector.

The procedure for allocating the **RMI** provides that within the three months following the beginning of the payment of the allowance, beneficiaries shall, in consultation with the local insertion commission, establish an insertion contract which describes the situation of that person, states the type of insertion project, defines the support

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which might be provided to the project and the time-table for the various arrangements and activities required for implementing the project. It is the very type of apparently active policy which links a service paid out in cash for a support mechanism for flanking measures for insertion and is based on a common commitment on the part of the beneficiary and society.

Reality is, however, far removed from the theory. The number of insertion contracts entered into within the three month deadline is especially low and, even for persons benefiting from the allowance over a long period, it has to be noted that the signing of contracts only takes place at the end of seven semesters in eight out of ten cases. Moreover, certain contracts rarely describe projects adapted to the persons concerned.

Once again, we see the insufficiency, in practice, of the flanking measures in our employment policies and the absence of more efficient measures to encourage return to work.

Lessons to be learned from abroad

As is called for by the European social agenda which subjects employment policies to peer review, it is useful to analyse the experience of other countries in matters relating to access to employment and social protection in order to appreciate success factors as well as its limits. Two themes ought to attract our attention.

The importance of flanking measures in access to employment

In many European countries, in particular in the North of Europe, the resources devoted to active employment policies are much greater than those in France and the coupling between unemployment benefits (or access to social minimum payments) and the arrangements for access to employment are more accentuated.

Procedures for access to employment for the unemployed or beneficiaries of minimum social benefits comprise two aspects in general. Flanking support proper (personal support for the person, stock-taking of skills, aid in seeking a job, training programme, etc.) is rarely separate from a more or less coercive aspect. Beneficiaries of allowances are required to participate in active programmes under pain of reduction, even termination of their benefits. Unemployed persons are required to accept suitable jobs or lose their benefits. Suitable jobs are deemed to be jobs in line with past employment skills which is a vague definition open to a multitude of interpretations. In some countries the reference level for such jobs declines in line with the period of unemployment.

People paid minimum social allowances often pursue similar programmes to those followed by unemployed persons. Major programmes are aimed at young persons having left school and who find it difficult to find a job. Such programmes allow access to unemployment benefits and minimum social payments and require attendance in a training programme, acquisition of vocational training qualifications or public or subsidised employment. Personal support for such persons is efficiently

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given by the public service which encourages constant effort on the part of those concerned and provides efficient psychological as well as material support.

Making work pay

The second theme concerns all of the policies undertaken to ensure that access or return to work leads to higher earnings than those received by unemployed persons on minimum social benefits. There are four factors involved which vary from country to country.

- For a long time discussion revolved around the relative level of unemployment benefit of social minimum payments in comparison with past wages or minimum wages. With regard to minimum social benefits the range of attitudes is broad, with, at one end of the spectrum the German legislation which specifies that aid should provide a lower level of income than that of low-earning families (the position adopted in France) and, at the other end, the Netherlands where the minimum level of income is, by legislation, equal to the minimum full-time wage for a couple⁷ (in France, the RMI for a couple represents 55% of the Smic full-time rate). Concerning unemployment benefits, the diversity of systems is such that any comparison of substitution rates between countries is difficult.

On the other hand, it would appear that during recent years many countries have stiffened their conditions for paying out unemployment benefits.

- Another element to be taken into consideration is the level of the minimum wage. Working cannot be profitable if the level of the minimum wage is too low. This argument has often been used by the American Democratic Administration to justify increases in the federal minimum wage levels in 1995 and 1997 and also by the Labour government in the UK to support the introduction of a national minimum wage level in April 1999. However, recourse to an increase in minimum wage levels is limited by the negative effects on employment which might cause a too high level of wage costs in terms of minimum wages in relation to median wage levels.

In 1997, the relative cost was estimated at 52% in France (one of the highest with the exception of Luxembourg and Greece) as against 45% in the Netherlands, 43% in Belgium⁸ approximately 40% in the UK or the USA, and 35% in Spain.

Too accurate targeting of instruments on those "who really are in need" (an aim regularly advanced by the previous UK government) leads to persons being taken out of the system which highly penalises them. Any benefit from gainful employment is cancelled out by the reduction of benefits, or by increased taxation.

(7) However the minimum wage only represents approximately 2.6% of wage earners in the Netherlands as compared with 12% in France.

(8) France, the Netherlands and Belgium implement social contribution relief policies for low wages.

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A part of the reforms introduced over recent years, mainly in the UK, but also in the USA have aimed at reducing and making less dissuasive taxation rates on returning to work.

Finally, subsidies (allowances or tax relief) may be introduced under dual conditions: resources of the household and employment characteristics. In the USA, the Earned Income Tax Credit (EITC) is a tax credit proportional to the income earned up to a certain ceiling, the level of credit and the ceiling being dependent on the size of the family. In the UK, the Working Family Tax Credit (WFTC) is an allowance paid out starting from a minimum duration 16 hours of work in a week. These provisions comprise gradual removal from the system phases and extending their impact far down the scale of income levels. For example, in the USA system, the cut-off point is \$ 30,600 per year for a two child family and above (as compared with the \$10,000 minimum federal income limit for full-time employment, and \$ 35,000 for full-time male employment median wage).

The need for a coherent programme

Experience abroad demonstrates, both from their positive as well as their negative impacts, the importance of an overall consistency in policies between the macro-economic policies to ensure that employment be worthwhile and those measures flanking return to gainful employment. From this point of view the British measures are worthy of further consideration, because in the face of a deteriorating poverty-stricken situation, it combines several aspects: the establishment of a minimum wage so that working becomes worthwhile, and to encourage companies to increase productivity; reform of the profile of social and tax levies; increase in income supplementary benefits provisions; strengthening of flanking measures for employment and training while ensuring individual support to job-seekers. It is still too early to make an overall assessment.

QUESTIONS TO BE RESOLVED IN THE GROWTH PHASE

Over the past five years the French economy has been in a period of growth which has promoted a marked drop in overall unemployment figures. However, as is pointed out in a recent report by Jean Pisani-Ferry, growth, in its present form, is insufficient to pull the economy back into full employment.

The improved economic situation, if it can be maintained over a number of years, as is possible, must prompt queries as to the need to adapt our employment policy and the various existing provisions to the new context. According to the report, it is necessary to create jobs, improve their quality and stability, encourage workers' promotion whilst, at the same time, ensuring sufficient income to the least favoured by combating poverty.

Moreover, such adjustments must be started quickly because the full effects will take time and will require long term efforts.

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This report cannot deal exhaustively with all of these questions as they stretch far beyond its proposals regarding support for poor workers, the reconciliation of the Smic policy with possibilities freed up by policies pertaining to negotiated wage levels in specific sectors, the required progress to be achieved by a proactive employment policy, or the re-deployment of on-going training actions.

The Council is of the opinion that an exhaustive study of the different approaches in place should be undertaken during the phase of mass unemployment: CES, CIE, retraining agreements, employment of young persons.

Current policies

After having analysed recently introduced policies, the Council will lay stress on the various problems still to be resolved.

Employment policies providing more importance to flanking measures

Public authorities, as well as the social partners, have undertaken to become more actively involved in the arrangements for employment flanking measures. Specific youth programmes (TRACE) and programmes for the long-term unemployed have been designed (Nouveau Départ: Starting Anew).

The TRACE programme, established in 1998 under the law on combating exclusion, is aimed at young persons from 16 to 25, who left school without any qualifications or with a low level skills, who are in difficulty, or are liable to be faced with vocational exclusion. Its purpose is to provide an 18 month maximum tailored-made insertion programme, comprising a stock-taking period, training sessions, and hands-on training. It is generally administered by the local unit, bringing together both public and private players. No significant assessment has yet been possible as to the effectiveness of this programme. Initial observations would appear to be encouraging, however, they also highlight the difficulties of implementing local concerted activities due to a lack of sufficient osmosis between the programme administrators and the business sector.

The Youth employment programme, established towards the end of 1997, is open to unemployed young people under the age of 26, and to persons between the ages of 26 to 30 who are unemployed and who are not eligible for Unedic benefits, or are officially recognised as handicapped. State aid is equal to 80% of the Smic. Jobs are full-time, private law contracts under the CDI or CDD system are for 60 months, except in the case of the National Police where contracts are governed by public law, however they are limited to 5 years.

The targeted population was not restricted to those persons in the greatest of difficulties in terms of vocational insertion. At the end of 2000, 240,000 had been recruited. Jobs filled by young persons amounted to 190,000.

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These actions contributed to the employment dynamics, the improvement of recruitment possibilities, and the improvement of the situation of many young people who had lost confidence in themselves.

In the growth phase, however, the question arises as to the future of such provisions. Youth employment, outside the major administrations such as the Police, national education, quite apart from providing jobs for young persons, aimed at creating activities which would gradually pay for themselves.

Whereas, given the current economic climate, persons with the baccalaureate or short university education levels (baccalaureate plus 2 years university training) easily find a job in the commercial sector, attention should be paid to preventing the provisions, contrary to their initial objectives, from putting a brake on the sustainable insertion of young persons in work. The prolongation of this experience resides, no doubt, **in the creation of a third sector of activity**, the legal and tax characteristics of which the Council intends studying, in particular along the lines of the non-profits organisations in the USA and Germany.

The new Unedic Agreement, signed between the employers' organisation and the trade unions, and which has been approved by the government, provides for greater emphasis to be given to finding jobs for unemployed persons receiving unemployment benefit. The substitution income paid under this scheme is now known by the name of "return to work allowance". This agreement gives greater emphasis to the commitment of Unedic towards the active return to work policies and to a mutual contractual undertaking between the unemployment benefits payment organisations and job-seekers. ***It is the task of both to provide personalised, increased flanking support to job-seekers than is currently the case, and on which will depend the effectiveness of the new scheme.*** Its success will also depend on the attitude of companies in terms of recruitment and their use of the National Employment Office (ANPE).

Reduction of working time

The reduction of legal working time does not institute an arithmetical sharing of work. To the extent that the cost of work will be slightly increased, despite the subsidies provided to reduce social contributions, the net effect of the reduction in working time on the number of hours worked in the economy as a whole could prove to be negative, increasing, in actual fact, the positive effect on the number of jobs generated by work sharing. The three-fold aspect of the success of work sharing consists in the improvement of productivity, increased performance in work organisation, and the moderation of wage claims.

The initial balance of the effect of agreements on work time reduction under the Robin or Aubry I laws indicate that (for the "so-called offensive" agreements) net job creation has amounted to 6 to 7% of the number of employees in the companies concerned. The dynamics of employment registered, in 2000, takes account of the

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initial effects of the legal working time reduction for companies employing more than 20 persons.

The impact of the law on labour costs and employment cannot, however, be completely assessed. In this respect, two points should be considered. Contrary to earlier agreements – which imposed unchanged arrangements concerning the reckoning of hours worked – in future, the reduction in actual hours worked might, in many companies, be lower than the reduction of the legal work time. Given this hypothesis, the tension on wage costs would be easily absorbed by the subsidy. On the other hand, it is necessary to emphasise, as is stated in the Jean Pisani-Ferry report on full employment, a difficulty which concerning the definition of the guaranteed monthly salary for persons earning the Smic and its evolution. The principle for maintaining a monthly salary is not open to question from the point of view of providing a living monthly wage. The arrangements concerning the implementation of a guaranteed wage, however, pose a problem.

The rule is to maintain a guaranteed monthly salary for each person earning the Smic when the 35 hours working time comes into force. The law also provides that, by July 2005, the Smic will be increased so as to cancel out the monthly guarantee. The gradual change over to the 35 hour week will induce a mechanical upward revision of the Smic, while even remaining within the minimum revision limits (indexing in accordance with purchasing power for half of the evolution of hourly paid workers.)

This dynamic is liable to increase wage costs which would have been brought about by the change-over, on the same date, of all companies to the 35 hour week. The Council will address this issue when dealing with negotiations on minimum conventional agreements.

All in all, there may be a weakening of the encouragement to employ low-skilled workers, whereas the reduction of charges on low-earners' wages had, up until now, been to the advantage of this type of employment.

A more balanced attitude towards earned income and transfer payments

As has been noted, two major provisions resulted in the reduction of income as a result of taking up a job. The reform of the housing tax in the first amending financial provisions in July 2000 resulted in no longer penalising low income families as compared to RMI beneficiaries by generalising the tax relief system. In like manner, the Conference on Families, in June 2000, provided for the introduction, within two years, of a single scale for the housing allowance and individualised housing support treating resources equally across the board whatever their source.

Moreover, the introduction of across the board universal sickness benefits (the CMU) was based on the same rule of not taking account of earned income by broadly defining resources taken into account, including earned income as well as income from social security payments. There remains the difficulty of access to high cost

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care for persons whose income is just above the eligibility ceiling, and who have to pay out of their own pocket supplementary cover.

Problems pending

Five major questions, in the view of the Council, should prompt new approaches to improve access to employment and strengthen social protection.

Balance of the direct taxation relief plan

In order to complete the direct taxation relief plan, which by definition concerns households actually paying tax, the government has adopted a provision for the reimbursement of the CSG and the CRDS which, after three years would entail the total reimbursement of a monthly payment equal to the Smic and would have been degressive up to 1.4 of the monthly Smic. The provision adopted was deemed to be unconstitutional in that the amendment to the direct tax (i.e. the CSG) did not take account of the payment capabilities of the persons. An Employment Premium, based on the same model, has replaced this provision in order to satisfy the criticism expressed.

This tax reform should be studied closely because of the action principles called into question. (cf. chapter IV).

The aim is to increase the wage levels of low earners up to 1.4 of the Smic. The premium is increased to take account of family size. A condition of eligibility condition based on the size of the family determines the income ceiling. The premium is all the higher if the beneficiaries work for a period close to full-time and are paid a wage approximating the Smic.

In terms of redistribution, this measure does not really target low income groups. It scarcely improves the situation of poor workers (the main characteristic of which is not that they are paid a minimum wage but that they are incapable of finding a full-time job for the whole year at this rate, or are the only working person in the family comprising several dependants.) This type of measure (as is the case for any increase in the minimum wage) has a diluted effect. The major share of the expenditure goes to families living high above the poverty threshold.

This provision increases the progressive increase of social, tax and transfer payments. This movement prolongs the favourable evolution referred to previously.

In terms of encouraging employment, this provision is useful as it creates full-time jobs. For all jobs (for a period paying one third of the Smic) the additional gain per hour worked is constant. On the other hand, this increase in income out of payments by the State may reduce the propensity to negotiate wages at company or sector level.

The study of the problems posed by the Employment Premium highlights the question of the target aimed at by the low income support policies. Does one wish to support the purchasing power of low earners, as is the case with the Employment premium, or

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does one wish to support the standard of living of poor workers' households? Both projects are not incompatible.

Income support for working poor

If that is the political choice, then measures must be taken to take account of the complexity of the poor worker phenomenon, at the cross-roads of their position on the labour market (low hourly wage and not working a full year), and the situation of the household.

The income compensation allowance measure (ACR), was suggested (Godino, 1999) the principle of which was to ensure an unbroken change-over from receiving the RMI at full rate (i.e. for a household without any earned income) to a situation in which a minimum wage was earned (e.g. full-time Smic for a household with one person of working age.)

This measure consisted of an allowance from which would be totally deducted such other income (such as the RMI) those sums other than from earned income, whereas earned income would be partially deducted. This allowance rendered more or less permanently the participation mechanism included in the RMI in the event that the person found a job.

The end result was that working brought in more than being unemployed.

The proposal gave rise to much discussion and a priori calculations, both with regard to cost as well as the encouraging effects on seeking work, and its redistribution impact. It was also looked at from the point of view of its potential effect on the labour market and the functioning of the RMI.

A comparison with the premium for employment is possible in terms of comparable budgetary cost. Its re-distributive effects are concentrated more on low income households. Without repeating the detailed analysis given in chapter IV, it should be noted that the ACR, for unmarried persons or for couples without employment, is a greater incentive to return to work than the employment premium. On the other hand, it may have the contrary effect for couples when both are in jobs by encouraging one of two to reduce working.

- As the compensating allowance prolongs the participation allowance for return to work, would it not be sufficient to make use of it, even if it meant prolonging its application.

- This would be a weighty argument if incomplete working time was only a passing phenomenon, frequently and in only a few years, leading from unemployment to full-time working. This is the proposal put forward in the report of the Planning Commission chaired by J.M. Belorgey. In many respects this proposal is unacceptable. Participation is dissymmetrical. It only comes into play for persons who are unemployed and receive benefits, and who subsequently find a job. This may result in two persons in the same employment conditions, with the same family

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situation, having different levels of income (one benefiting from the RMI, the other not). Acceptable in the short term, this difference in treatment is less acceptable over a longer period.

- What is in question is the nature of certain jobs which contribute over the longer term to poverty as they do not provide the stepping stone to higher level jobs.

Should one, therefore, encourage job-seeking or opine that any job improves income, and maintain an allowance triggered as from the first hour worked; encourage only those jobs of a significant duration uphold an income support scheme which comes into play solely beyond a weekly hour of work exceeding 16 hours, or one third of the time as applicable under the employment premium scheme?

- Can an allowance be paid quickly which takes account of the overall income of a household? This objection, which also concerns the employment premium, has often been put forward and it is necessary to see whether it is relevant.

For some of the persons receiving benefits, the allowance element is high in relation to earned income, as is the case for RMI beneficiaries. Maintaining the monthly payment on the basis of the monthly notification of resources should be kept in place⁹.

For those persons who only receive a reduced allowance because of their earned income (new beneficiaries of the provision) an annual payment would cause fewer problems.¹⁰ Its implementation by the tax authorities is similar to the methods used for the tax credit system.

- One final objection concerns the fact that the introduction of an income compensatory allowance would be liable to attenuate or cancel out the dimension of the RMI insertion contract scheme. The strengthening of the individualised flanking measure system for certain beneficiaries of the RMI with a view to their social and economic integration is a requirement which, on the other hand, can only be meaningful for people in work. Society can only fulfil its "obligation to integrate" as set out in the law on the RMI by providing a monetary allowance.

Aware that the two measures analysed above do not have the same aims and purposes, which limits comparison, the Council continues to think that to respond to the core problem set out in this report it would be useful to study some mechanism focusing on poor workers whether they have a job, or whether they wish to find one.

(9) The permanent aspect of participation would reduce the uncertainty experienced by beneficiaries of the allowance under the existing system.

(10) In the case of the EITC in the USA, households have the choice between a monthly payment (which appears on the pay slip) and an annual payment by the inland revenue administration after filing their tax return. More than 90% choose the latter.

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Reviewing minimum wage policies

Over and above the questions concerning the administration of the guaranteed monthly wage and the increases in the Smic leading to its removal in 2005, a medium term policy for the minimum wage is necessary. The minimum wage is and must remain one of the basic instruments for the protection of workers. The introduction of such an instrument in the UK in 1999, and in Ireland in 2000 and current developments in the Federal Republic bear witness to its topicality. However, one of the difficulties arising from the setting of a Smic level in France is that wage negotiations are voided of their meaning. The increase in the minimum wage is more often than not a question of political decision and timetable than the result of inter-professional negotiation. This has led to a decline in the reality of wage negotiations in industrial sectors as they are often end up as minima for the sector, are often lower than the level of the Smic, and do not apply.

This is a damaging situation in more ways than one. The wage scales arrived at for the sectors are artificially forced downwards at the lower end of the scale so that companies (often the largest) do not take account of the orientations in the sector in their wages policy (in particular in their grades classification.) On the other hand, companies which do apply them (often the smallest companies) force downwards their wage scales and restrict career prospects for the low earners, low skilled workers, advancement in the wage scale schedule being without any effect as long as they have not exceeded the corresponding level of the Smic.

In the final analysis, the current situation is an obstacle to the annual wage negotiations which must take account of the economic situation, company performance, the quality and efforts on the part of the workers.

France is a country which stands out because of the number of workers paid the minimum wage, and by the political importance of fixing its level. Although approximately 14.5% of Luxembourg workers are paid the minimum guaranteed wage, France is one of the countries in which the level is also one of the highest (12.8%) whereas the minimum wage only concerns 3.4% of Spanish workers and 2.6% of Dutch workers.

Is it possible to evolve towards agreed minima in the collective agreement sector more rapidly than for the Smic¹¹ so as to give greater responsibility to social partners for wages? *Consideration of the failure of the re-launching of negotiation on low wages started in 1990 leads one to surmise that any new effort would need to be based on a tri-partite undertaking on the part of the social partners to move forward on the revision of wage scales and to define minima. The public authorities must not bring about any more rapid change in the level of the Smic than that provided for by law, subject to significant progress being made on a regular basis in increases through*

(11) Again, such experiences are not impossible. It would be necessary to examine in detail the evolution of minimum levels per sector, the minimum wage and the evolution of inequalities in the Netherlands within the framework of the tri-partite policy introduced under the 1982 Wassenaar Agreement.

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sectoral negotiations. This would allow any worker, even with low skills, to hope for career advancement in which he would be involved in wage negotiations and which would open up possibilities for personal fulfilment.

Connecting RMI beneficiaries and employment services

RMI beneficiaries constitute a mixed population, partly because of the role of the third level of unemployment allowances attached to it since its inception in 1992.

This provision provides social assistance to excluded or poor persons. It introduces a degree of stigmatisation which would appear to explain, in part, the fact that people do not apply for it or only do so after a certain period of time. It is administered by a group of players more involved in social work than in access to work. This type of management is, no doubt, well adapted to persons going through a difficult period. On the other hand, it is, without doubt, less well adapted to persons seeking a job.

Given these difficulties, it would appear that reform is called for. The aim would be to improve the articulation between insurance and unemployment provisions which have been amended separately without consideration of the whole picture, and to better adapt our allowance system to the changes on the labour market (short-term jobs, specific difficulties in finding a job encountered by young persons.)

Although a large number of unemployed persons received unemployed benefits and was administered under a provision similar to the PHARE arrangements, it would be possible to take better account of other methods of social integration for those RMI beneficiaries unable to find a job quickly.

A RMI provision similar to that which currently exists, but which concerns fewer persons, could, perhaps give more meaning and be more efficient in terms of the overall approach to reintegration: in other terms, reintegration into society and the working and social environment.

Strengthening active employment policies

The Council has already underscored its interest in flanking measures for access to employment, whether they concern persons receiving unemployment benefits or not, or those receiving minimum social security benefits. There exist, therefore, an undeniable need for a strengthening of resources and an enhanced professional approach on the part of those responsible persons, both with the National Employment Office (ANPE) as well as in Unedic. Increased co-operation between both bodies is necessary. Companies must use the ANPE more frequently for recruitment of staff. This will require a change in attitude by implementing the Plan for return to work (PARE.)

One final approach concerns the strengthening of on-going training. The considerable means which have been mobilised for on-going training have contributed to increased levels of skills and the economic performance of companies. It is, however, necessary to re-balance the system to help the most weakest workers, the least

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qualified workers, young persons on short term contracts, and workers over the age of fifty. Use could be made of a one year education cheque for persons who have left the education system without any higher diploma or secondary level certificate or who have attended school for less than 11 years. This extension of the individual right to training would prove to be a stimulus for the re-deployment of ongoing training activities which would call for a more resolute and better oriented undertaking on the part of companies and trade unions. Social negotiations would need to benefit from an increased stimulus during discussions on company trading plans. The measures proposed do not have the ambition to cover the whole scope of the requisite reform in order to attain life-long learning as recommended in the 1996 Unesco report.

This major reform must aim at achieving equal opportunities for all French citizens. In the second phase, following the proposals advanced in this report, it will require simplification and transparency of procedures, veritable negotiations at company, group and sectoral level, and greater commitment on the part of the National Education Authority towards ongoing training as well as day release schemes. It must however be repeated that while awaiting more profound reform of ongoing training the education cheque (in time and money) would correct one of the most flagrant inequalities in our current system and would encourage possible beneficiaries to take their vocational future into their own hands.

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SYNTHESIS

In this report devoted to seeking a reconciliation between job creation for all and the requirements of social justice, the Council did not aim at carrying out an exhaustive revision of all of the employment policy instruments. With the gradual redaction of an employment figures, such revision will become necessary. Some actions undertaken at the height of under-employment are still useful today. Others, on the other hand, should be repealed or revised. It is the intention of the Council to carry out a specific study of this question.

This report is centred on the difficulties of access to work for some parts of the population, "poor workers", incentives liable to encourage job seeking and consequently the financial parameters of the problem without, for all that, neglecting training and employability aspects, the psychological situation of the persons concerned, or the level of family allowances for poor families.

It should be recalled that the problem merits consideration as it concerns several million of the most disadvantaged persons in France.

Although the scope of the study is limited, it would be inadequate, as has been demonstrated by foreign experience, to focus on one single measure, as a sort of panacea, financial incentives on their own to encourage people to take a job has only limited, disappointing results if implemented in isolation.

Under these conditions, even although this matter gave rise to a lively discussion in the Council, chapter IV provides a detailed comparison of the employment premium just adopted by the government and the supplementary income allowance. However, to demonstrate the limits of a comparative study it is necessary to restate the two types of instruments which each have a different purpose and are not transposable.

Without writing a new report on the means to return to full employment, the Council stresses the need for a global programme which, on its own could solve the problems concerning return to work whilst taking account of social justice.

For this reason we suggest a study, within a coherent framework, of various measures liable not only to solve the problem of poor workers, but also to facilitate job seeking or finding a better job.

The aim of this approach, it should be recalled, is to increase the number of persons of working age in actual employment which is the condition for sustainable growth.

Five areas are addressed :

1. Low skilled job offers
2. The development of stable jobs at chosen working hours
3. Improvement and increase of actions in favour of job seekers
4. The role and place of contractual policies

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5. Social justice measures to make work more attractive and to ensure a decent minimum income.

1. Low skilled job offers: The facts are clear on one point; the reduction in the cost of low skilled labour has had a determining influence on the creation of this type of job.

France has made use of the marked reduction of social security costs without generating a fall in direct wages. The Council considers that this approach ought to be pursued, while also underlining that attention should be paid to the evolution of the Smic, in particular with regard to the consequences of the introduction of the 35 hour week.

Other issues must be paid special attention in sectors such as the hotel and catering industry and tourism which could employ great numbers of low skilled workers.

Another rich potential field for jobs exists in people care. The legal and tax situation does not appear to be well adapted to the to the creation and development of small work units in this sector.

The Council would like to carry out a special study so as to establish a framework to extend the innovations introduced by the many experiences gained from the young persons employment programme.

However, these are only a few suggestions which, naturally, do not exclude the need for an indispensable policy embracing total job supply.

2. The development of stable jobs at chosen working hours: Available studies demonstrate that almost all workers with a fixed duration contract would like to have an unlimited duration contract. However, with regard to the duration of work, it must be noted that some workers prefer part-time working, and in households with children, a temporary break from working by one of the parents, or even part-time working has many supporters.

The question is all the more relevant for our study in that the majority of poor workers are persons who only work a few months in the year, or a few hours per week.

Another precaution to be taken is not to penalise part-time or limited duration contracts. It would be preferable to use the period of economic growth to encourage companies, on a contractual basis, to offer those workers an improved status and increase employability through training.

Consequently, the ad hoc measure which we are proposing to raise the level of their income must be designed in such manner as avoid it becoming a low wage trap, or a dis-encouragement to seeking a better job.

3. Employment policy has improved over the past three years, not only because of the growth of the economy, but also because of the progress achieved by the National

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Employment Office (ANPE) which has been provided with the necessary staff, but which is still insufficient in terms of truly qualified staff, especially if one compares the situation with that in Sweden, the Federal Republic or the UK.

The ANPE centralises an ever increasing number of job offers and has increased its rate of market penetration. It has already chalked up significant results for the long-term unemployed and young persons.

On the basis of experience, it would appear that the hierarchy of existing instruments is now well established. Firstly, flanking measures for job seekers is now more personalised. The ad hoc measure dealt with later has improved the financial incentive for taking up a job.. Lastly, despite the support provided, there is the fear of losing one's benefits if job offers are consistently rejected.

One vital point is stressed by the Council. The quality of co-operation between ANPE and Unedic to bring about a successful implementation of the return to work plan (PARE), adopted by way of an agreement signed by Unedic and some trade unions, and endorsed by the Government. The Council may pass judgement on the intentions, but not on the chances of success as long as the precise arrangements for its implementation are not known. It is, however, to be hoped that all of the parties to the agreement will commit themselves fully, without any ulterior motives, and that contrary to a very French habit, will not consider that once the texts have been adopted, the essential has been achieved.

If the system works well, and is used in conjunction with the governmental programmes for young persons and the long-term unemployed, France could make a giant step forward in terms of the quality of personalised treatment of the unemployed, and complement judiciously available means.

For this to be achieved, however, it will be necessary to re-deploy on-going training resources to the benefit of those persons who are currently partly deprived of them, viz.,; young persons between 18 and 25, the over 50's, and more broadly the so-called low-skilled workers. The social partners and companies bear a special responsibility because, according to the existing texts, it is their responsibility to influence the general thrust of on-going training activities.

To this end, and to prompt the necessary adjustments, the Council proposes the granting of an education credit to all young persons who leave, or who have already left school without any certificate, or who have a CAP or BEPC. This voucher would guarantee –together with a replacement income- the equivalent of one year's training and for each beneficiary could supplement, at any time during his working life, other possibilities provided under the 1971 law which has undergone many amendments. This provision should be accompanied by integration and vocational advancement arrangements.

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4. A truly contractual policy is vital if such an overall policy is to succeed. Reference has already been made to it with regard to the re-orientation of on-going training. Two other areas would be appropriate.

The first concerns negotiation of minimum wage levels to be included in sectoral and company agreements. Past governments encouraged the social partners to negotiate minimum levels but without success.

Companies, however, will not be able to complain of the excessive role, in their view, of the Smic and, at the same time refuse to revise minimum wage agreements which, normally, together with the Smic at a reasonable level, ought to ensure adequate and more flexible protection for low earners.

A tri-partite conference (Public Authorities, Employers and Trades Unions) could be organised in 2002 prior to the government presenting to parliament the report (provided for under Article 32 of the 19 January 2000 law on the 35 hour week) outlining the measures to repeal the guaranteed monthly income by 1 July 2005.

The second point concerns what is called the internal labour market policies: career prospects, re-training or adaptation of jobs, and the targeted training actions to achieve those aims.

The Council insists on the fact that even those workers who are at the lower end of the grades scale should be offered career possibilities or, more fundamentally, the means to move on to a more stable and interesting job.

The passive attitude against contracts is an obstacle to any such progress. Many companies also refuse to afford the importance to those problems that they merit.

5) By suggesting the study of an ad hoc measure, the Council aims at **focusing efforts on the poorest individuals and households, and who remain so even when they have a job, or already have one**. This is reflected in the title of our report: "Access to employment and social protection."

It also recommends that the government and competent administrations should study the establishment of a permanent allowance to improve the difficult coherence between the four objectives set out below:

- Encourage people to take up a job
- Make working more worthwhile in terms of income
- Not to create a low income trap
- Strengthen the progressive nature of the re-distribution system, viz., earmark this measure for the poorest persons.

Our concern is also to promote wage negotiations between both sides of industry on the basis of the three conventional parameters of the wages policy, i.e. overall economic growth, company performance and the professional merits of each worker.

ACCESS TO EMPLOYMENT AND SOCIAL PROTECTION

Unable, in the current situation, to take account of family allowances, it is the total income of a single person or a household which would establish the criterion for establishing the reference income.

We are aware of the critical comments that the existence of children has not been taken into account in the criteria for granting the allowance under this measure. In other words, it is partner-based and not family-based. However, even the employment premium does not result in any significant supplement for large families.

The reason is straightforward in terms of coherence. The measure proposed ought to go hand in hand with a reform of family policy provisions so that the requirement to focus on the poorest be fully taken into account.

By way of illustration, social justice would be best achieved by increasing allowances for the first born even if that means subjecting family allowances to income tax.

A further objection to this type of measure is that it would lead to one of the members of the household not to take up a job. That is a risk, of course, but the Council feels that the freedom of choice of families is a principle which must take precedence over purely economic considerations. It is not that the Council neglects this aspect as it has focused its report in terms of diverse options, one of which is to increase the French activity rate.

* *
*

It is the intention of the Council to devote part of its resources to monitoring the evolution of employment policies. The next report it will be publishing will address the development of the economy, the evolution of employment and incomes from 1986 which witnessed the beginning of an uninterrupted period of growth five years later up until 2000. This will provide very useful lessons, in particular with regard to the type and dispersion of jobs, their ties with the type of growth, employment policies and training.

The Council has other subjects for study on its agenda. Revision of provisions pertaining to employment and applied during the period of high unemployment, the evolution of jobs for young persons together with local job creation initiatives, and the development of local community actions.

INTRODUCTION

The employment of low skilled workers addressed in this chapter merits special attention. The least qualified persons represent the highest number of under-employed. They are the people who occupy the greatest number of precarious jobs which do not provide work throughout the year and which, because of the low wage level lead to low, uncertain incomes. They are the people for whom public authorities' intervention is required, both for minimum wage levels as well as for social benefits.

These issues are especially poignant in France as under-investment in basic training up until the Sixties produced a higher number of low skilled persons than was the case in most of the countries in the northern part of Europe. This situation is being absorbed with the improvement in basic training for younger generations, but will continue to persist for a number of years especially as on-going training did not give priority to those categories.

It is, therefore, necessary to pay special attention to the support for low skilled work demands, even if in the longer term, employment dynamics mainly concern qualified work.

This will be the background to the analysis of recent employment developments. The up-turn of employment from the low point in 1993 has generated a fall in unprecedented unemployment figures. Another important finding is that during the Nineties there was a break in the long term trend towards the reduction of the share of low skilled work in total employment figures. There were several contributing factors. The more rapid development of part-time working for low skilled jobs and the evolution of labour costs because of social contribution relief for low wages.

Is this bright period sustainable? One sensitive point concerns the potential effects of the reduction in the official working hours on the labour costs of low skilled work.

CURRENT SITUATION**A bright period for employment**

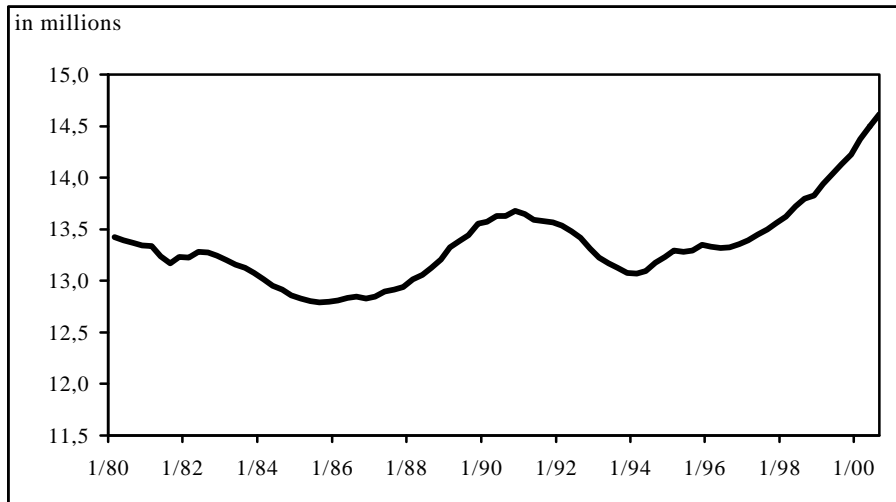
The economic recession at the beginning of the Nineties brought about a marked drop in total employment, especially in the trades sector (graph 1). The hesitant up-turn of the economy during 1994 to 1996 did not allow, at the beginning of 1997, a return to the previous levels of work in the commercial sector, nor to put a brake on the growth of unemployment.

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EMPLOYMENT AND REMUNERATION OF LOW SKILLED WORKERS

From March¹² 1997 to March 2000, 1.2 million net job creations (ex quota) were registered. Of that number, one million were in the private sector, excluding government, local authority jobs, and excluding trainees and subsidised contracts. Employment estimates indicate a total of 560,000 job creations during the year 2000.

Graph 1 – Evolution of jobs in the trades sector



Source: Insee, quarterly publication series.

The outcome resulted in a marked decrease of the unemployed (in excess of 500,000 between March 1997 and March 2000, approximately 350,000 during 2000). The total unemployment rate fell by 3 points (table 1). The maximum rate of unemployment observed in 1997 was 12.6%. It fell to approximately 9.2% in December 2000.

(12) The use of the Enquêtes Emploi (Surveys "Emploi") for the detailed analysis of employment involves checking "the March to March" changes which do not necessarily correspond to the evolution of the business cycle.

I**EMPLOYMENT AND REMUNERATION
OF LOW SKILLED WORKERS**Table 1 – **Recent evolution of employment**

variation expressed in thousands

	From mars 1991 to mars 1994	From mars 1994 to mars 1997	From mars 1997 to mars 2000
Total employment (including military contingent)	- 354	+ 408	+ 1 098
Military contingent	- 18	- 22	- 117
Total non military working population <i>Including working women</i>	- 336 + 96	+ 430 + 252	+ 1 215 + 627
Total private sector jobs	- 601	+ 393	+ 1 063
Employees of state, local authorities, trainees and subsidised contracts	+ 265	+ 37	+ 152
Low skilled workers in the trade sector (a)	- 248	+ 96	+ 388
Total unemployment <i>Including women</i>	+ 921 + 357	+ 37 + 16	- 525 - 208
Low qualified unemployed	+ 285	- 63	- 231

(a) Low skilled jobs in the trade sector is understood to exclude agriculture, domestic services, apprenticeships, training courses and subsidised contracts.

Source: INSEE, Surveys "Emploi". Dares estimates of low skilled employment, "Premières synthèses", n° 51.1 2000).

Low skilled jobs

Low skilled jobs (see insert) benefited from the general pick-up of the economy and for all sectors increased by approximately 500,000 between March 1997 and March 2000. Such jobs still suffer from serious handicaps since the number of low skilled workers unemployment remains very low because of the level of unemployment and inactivity.

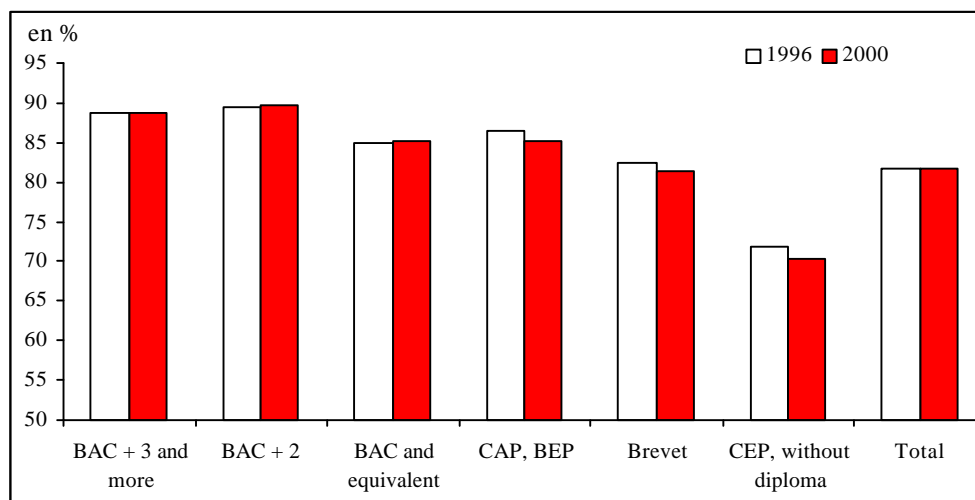
A low level of employment

The level of employment for persons with a low basic training (without diploma, primary school certificate or school leaving certificate) is much lower than for other categories of training level (graph 2). Moreover there was no improvement between 1996 and 2000 whereas it increased for the other categories. The low level of employment affects in particular low skilled women workers.

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Graph 2 – Level of employment according to basic training
March 1996 and March 2000



Comment: The range has been reduced to the 25-60 age group in order to avoid any bias in the 17-25 group in the rates of employment because of continued studies.

BAC is the secondary school leaving certificate, CAP is the vocational training certificate, and BEP the vocational training diploma, Brevet is the lower secondary certificate, CEP is the primary school certificate.

Source: Insee, surveys "Emploi", 25 to 60 years old adults.

This low rate of employment of low skill persons is due to a high level of unemployment and a low level of activity (table 2). The indicators for women with the lowest level of basic training (primary school certificate or no diploma) are the worst.

Table 2 – Employment, unemployment and activity rates for 25 to 60 years old
(March 2000, expressed as a %)

	Proportion of the population	Employment rate			Unemployment rate			Rate of activity
		Total	H	F	Total	H	F	
BAC + 3 and more	15	85	89	82	4	4	4	89
BAC + 2	8	85	90	80	5	4	6	90
BAC and equivalent	13	79	86	73	7	5	8	85
CAP, BEP	29	79	87	69	7	5	10	85
Lower secondary certificate	7	74	83	66	10	8	11	82
CEP, without diploma	28	60	73	50	14	12	17	70
Total	100	75	83	67	8	7	10	82

Source: Insee, surveys "Emploi", adults between 25 and 60.

A population of working age with a too low level of skills

The problem posed by the employment of persons with a low level of training is increased because of their numbers in the adult population which is especially high in the countries of northern Europe (L'Horty, Saint Martin, 1996).

For 1994, this factor provided the explanation for the 1 point difference in unemployment rates compared with Germany (Western Länder), the Netherlands or Denmark). This contributed to the increased imbalance between supply and demand for low skilled jobs.

The proportion of low skilled persons is gradually falling given the replacement of older persons by younger, better trained persons (for example a 4 points drop in primary studies certificates and persons without any diploma between 1996 and 2000). However, this structural handicap has not been compensated for by a sufficient effort for ongoing training which focused more on higher qualified workers.

Low qualifications jobs

Although the concept of qualifications is important for the analysis of employment and the labour market, it is difficult to define in straightforward terms. Several dimensions have to be taken into account with regard to the skills of the persons and the specific nature of the jobs. To define any classification of skills must also entail wage grades. Equating jobs, training and individuals must take account of collective bargaining negotiations (defining of wage scales) which are then codified and factored into statistical nomenclatures.

Two approaches of the expression "low skilled" are used in this report.

The first is based on basic training. An individual is deemed to be low skilled if that person has no diploma, or at the most possesses a primary school certificate, a lower secondary school leaving certificate (BEPC) or a lower secondary leaving certificate. This leaves out of the equation any skills acquired through vocational experience or ongoing training which has not been validated by the deliverance of a diploma.

The second takes job experience as its basis. For workers, the distinction between a skilled worker and an unskilled worker goes back many years. For white-collared staff the classification we have adopted is the one chosen in recent years (Gubian and Ponthieux, 2000) and which is based on the major families of professional grades.

Those persons considered to be:

- *low skilled workers*, are persons working in agriculture, fishermen, unskilled labourers in the building industry (main structure and finishing trades), electricity and electronic trades, metal removing and metal forming trades, machine trades, process industrial workers, textile and leather, wood industry, materials handling, workers in craft industries, apprentices, workers in the food industry, and maintenance.

- *white-collared workers* comprise light weight vehicle drivers, self-service check-out and other assistants, sales personnel hotel and catering industry staff, hairdressers and beauty salon staff, domestic staff, child care personnel, caretakers, and staff providing miscellaneous services.

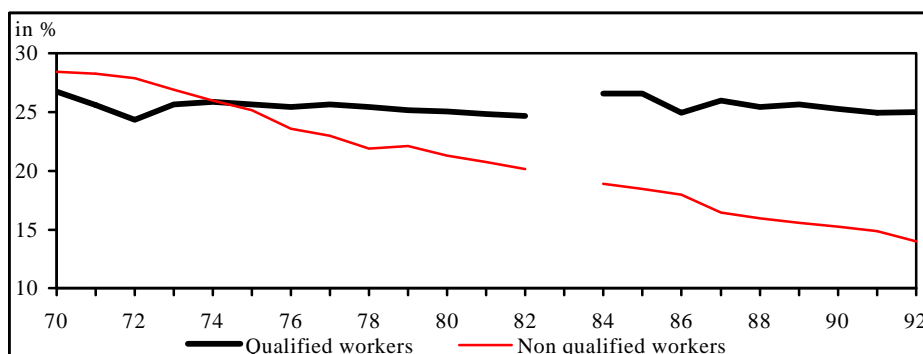
Downward trend in the employment of low skilled workers

Given this over-abundance of low skilled job supply, companies markedly reduced their demand. This can be illustrated over a long period by comparing the proportion of workers in employment, qualified or not (see graph 3). If one looks at the broader picture, white or blue collar workers, the trend since the middle of the Eighties is very similar (graph 4).

This downward trend in the share of low skilled work may be partially due to the current forms of technical progress, but also to the nature of demand.

The employment of low skilled workers also depends on the relative cost of low skilled workers in relation to other factors. When the cost is high, there is a risk of substitution of low skilled workers by more qualified work, more intensive use of capital, or holding back on the creation or extension of activities because projects are unprofitable.

Graph 3 – Number of workers in employment according to their skills level



Scope: private and semi-public sectors.

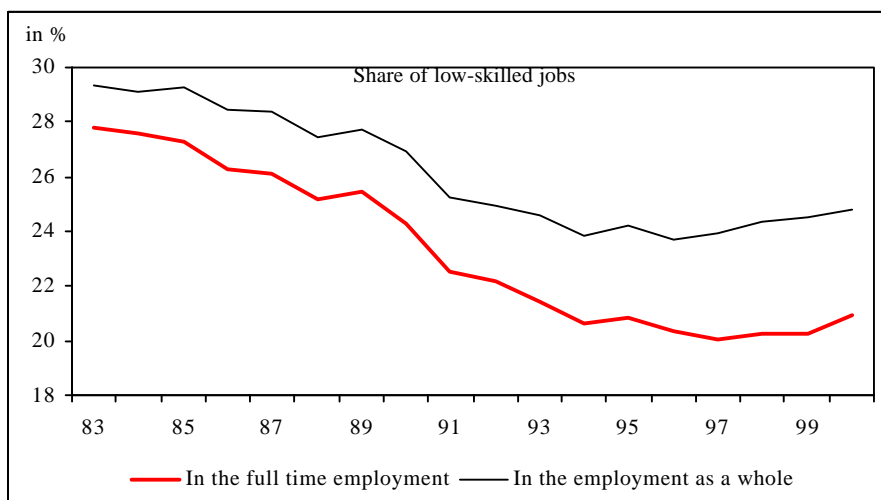
Source: DADS, graph produced by CSERC, 1996.

Comment: Workers only are covered as the distinction between staff, qualified and unqualified staff has been made in recent studies carried out by the surveys "Emploi".

Changes in the demand for low skilled work

This longer period trend was interrupted in the Nineties. It is especially important to assess the reasons for this change.

Graph 4 – Evolution of the structure of employment according to qualifications



Source: surveys "Emploi", Dares estimates, "Premières synthèses", n° 51.1.2000.

- The first effect is due to the development of part-time working which primarily concerns low skilled jobs. Part-time working increased considerably as from 1992, due, partially to financial incentives (in particular the 30% relief for employers' social contributions, or over certain periods to the non pro ratio relief for low wage social contributions which was repealed in 1998). This no doubt explains why the share of skilled work in total employment whereas the situation worsened for the reduced scale of full-time working.

- However, the development of part-time working cannot be the only reason to explain the change as full-time working in low skilled jobs took place at gradually and became much more marked during the second half of the Nineties.

- Neither the evolution of technical progress, nor the competition from low wage countries can explain recent changes. Nor can one accuse the special sensitivity of low skilled jobs to the rate of economic growth as the up-turn in the Eighties did not have any noticeable impact on this trend. Other reasons for this trend must be sought and which may be due to the structure of the demand for goods and services, or in a combination of production factors. In one or other of these areas, the influence of labour costs must be taken into account.

- The locomotive for growth lies in the services. Some of them require highly qualified personnel, others make use of low skilled workers, (notably, but not only, the commercial sector, services to individuals, to name but a few). The structure of end- user demand depends, amongst other factors, on relative price, and hence, production costs.

- Applied studies which have attempted to measure the sensitivity of employment to labour costs reached the conclusion that major substitution possibilities existed

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between less skilled work and skilled work (or the combination of skilled work and capital). This fact is broadly acknowledged in foreign studies, and has been highlighted in French studies (cf. CSERC, 1996, or Malinvaud, 1998 for a more detailed study).

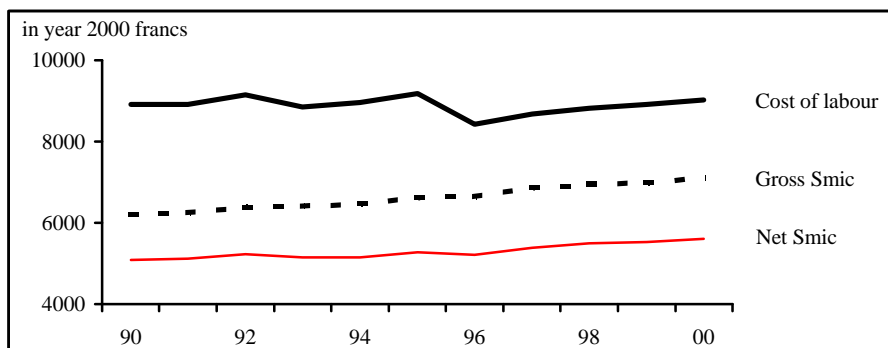
The effect of social contribution relief

It was this analysis which led France, but also other European countries, such as Belgium and the Netherlands, to introduce a social contributions relief policy for low wages. This policy was also recommended in the White Paper on "Growth, Competition and Employment" submitted by the European Commission (European Commission, 1993).

Up until 1993, France had implemented social contribution relief under its policies for targeted employment assistance programmes for persons experiencing special difficulties of integration (young persons, the long-term unemployed, etc.) Contribution reductions were time restricted for each job. They certainly had an effect in terms of cost reduction but they were aimed at compensating initial, real or assumed handicaps of beneficiaries in terms of their productivity.

- The relief afforded to employers for social contributions on low wages as from July 1993 is generous and permanent. For the Smic this relief represents 12.6% of labour costs. Between 1993 and 1999, it has had a stabilising effect on Smic hourly wage costs despite an increase in the gross Smic.

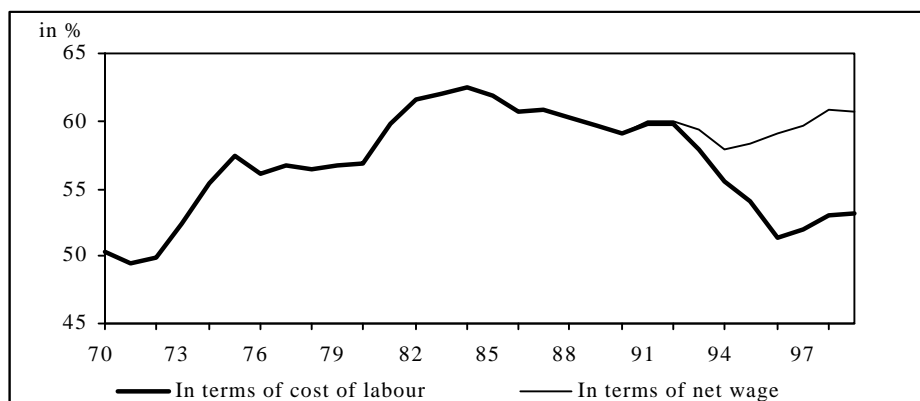
Graph 5 – Net Smic, gross Smic and the cost of labour paid at Smic rates
For 169 hours per month, in Francs 2000



Source: Forecasts Directorate (Direction de la Prévision).

In terms of relative cost, this policy reduced the cost to the employer for a worker earning the Smic in relation to the median wage without having any effect on the purchasing power of Smic earners in relation to median purchasing power.

Graph 6 – Evolution of the ratio of the Smic to the median wage



Source: Insee, long series on wages up until 1998; monthly wage statistics for 1999.

If special attention should be paid to the support to low skilled labour demand, given the current level of underemployment (and the long term consequences on income) it would be, at the least, unwise not to be attentive to the evolution of the relative cost of work paying close to the Smic, and which affects many low skilled jobs (see insert).

Low skilled jobs and low income

Until the introduction of aid for working time reduction which have been merged with the previous provisions, the reduction of social contributions for low wages was degressive within a range of 1 to 1.3 of the Smic. Did this correspond to low skilled jobs as previously evaluated?

Its correspondence, as estimated from the Surveys «Emploi» is not totally complete, however there is a marked correlation. A measure to reduce contributions up to 1.3 of the Smic will concern low skilled workers more than any measure extended up to 1.8 of the Smic. This concerns almost as many with average skill levels. The existence of qualified workers earning close to the Smic essentially concerns young persons.

Structure of employment according to qualifications and wage level

	From Smic to 1.3 of the Smic inclusive	From 1.3 Smic to 1.8 of the Smic inclusive	More than 1.8 Smic	Total
Very skilled	9	21	70	100
Unskilled	56	32	12	100

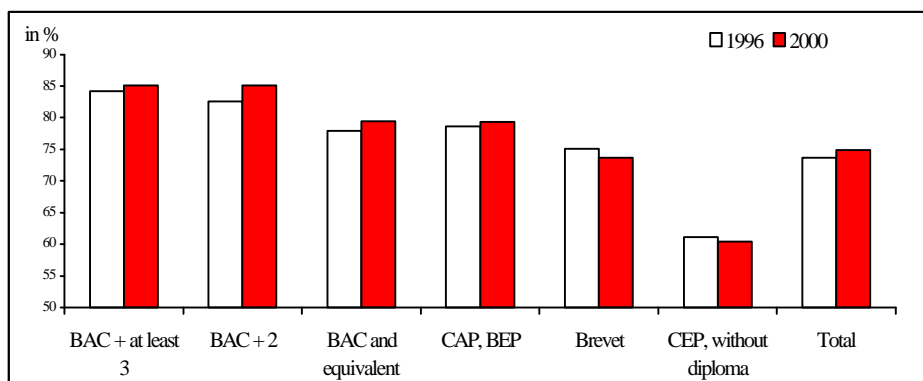
Scope: full-time workers in the non-agriculture trades sector, excluding subsidised jobs, personal and domestic services

Source: Cerc, evaluations based on the March 2000 survey "Emploi".

Low level of activity

Although the improvement in employment brought about a drop in the number of unemployed for all skills categories, the same evolution is not observed for the level of activity rates. Workers with the lowest level of basic training also have the lowest level of activity. Moreover, whereas recently the level of activity of the most qualified workers (in terms of level of diploma) has tended to rise, that of the least qualified has, on the contrary fallen slightly.

Graph 7 – Activity rates according to level of basic training



Scope: 25 to 60 year old persons.

Source: Insee, surveys "Emploi".

The consistency, even worsening of a low level of activity for the least qualified (persons with Elementary Vocational Certificate (BEPC), lower secondary school leaving certificate (Brevet des collèges), primary school leaving certificate (Certificat d'études primaires) or without any certificate) during the phase of employment upturn may have varying origins.

- This may result from the, on average, aging of this group of workers whereas the level of activity of persons over 50 is low because of the tendency on the part of companies not to recruit elderly persons, and because of the early retirement schemes. The greatest difficulty for women is to return to work after having children.

- It may also be the sign of a lack of incentive to seek work because of labour market difficulties for the low skilled.

- It may also be due to the lack of incentive for low skilled workers to return to work because of the low difference between wages and minimum social security benefits. (Cf. chapter III).

Encouraging job seeking

It is, therefore, important to intensify efforts so that the low skilled are not discouraged from seeking work. This calls for an improvement in the type of work on offer, and calls for the development of career prospects for those persons returning to

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work. It also requires changes to the social protection system (chapters III and IV), as well as a strengthening of individual aid to return to work (chapter V)

Access to employment for the low skilled is often beset with precarious conditions caused by uncertainty and the prospect of low earnings.

Jobs of insufficient and uncertain duration

Atypical forms of employment (fixed length contracts, working as temps, subsidised jobs) as well as part-time working accounted for approximately a quarter of total employment in March 2000 as compared with 16% in previous years. This type of employment concerned approximately 43% of the least skilled in March 2000 as compared with executive and intermediate professional grades. For the low skilled, returning to work means taking non-full time jobs for periods under a year and which are low paid. This entails a low improvement in their material situation (in some cases, no improvement whatsoever, cf. chapters II and III) as compared with unemployment or inactivity. On the basis of ANPE statistics, it is easy to understand the gap which exists between the expectations of job seekers and the job offers they are given.

The majority of job seekers are looking for full-time work of indeterminate duration (category 1 job seekers), whereas job offers communicated to the Agency by companies are mainly for short term contracts.

Table 3 – **Ratio of job offers for more than six months/registered applications**

annual average expressed as a percentage

	1996	1997	1998	1999
<i>Unskilled labourers</i>	25	25	22	25
<i>Semi-skilled workers</i>	23	23	22	23
<i>Unskilled workers</i>	29	30	28	32
Skilled workers	25	27	28	32
Qualified staff	35	36	37	41
Foremen, technicians	27	27	30	34
Executive staff	17	22	23	24
Total	29	29	28	30

Source: ANPE.

On average, ANPE registered five job offers for ten new job seekers during the course of 1996, and seven in 1999. However, for those offers of jobs lasting more than six months the proportion dropped to three for ten and have remained stable since 1996, in particular for the least skilled (the ration improves for workers and qualified staff, as well as for executive and technician grades).

Atypical jobs

Labour legislation and wage negotiations have used type of work for a wage as the dominant reference, although other types of work have always co-existed. Worker relations with employers, governed by a collective agreement, are characterised by a full-time labour contract of indeterminate duration.

Atypical work differs from this reference framework in one or more aspects:

- Fixed length contracts, seasonal work, hands-on training, subsidised contracts are of fixed length defined in the labour contract.
- Part-time work is shorter than the legal or collectively agreed working hours.
- Temporary work is based on a threefold relationship between the worker, the principal and the temporary staff supplier who actually employs the worker.

There exists, in part, an overlap in the terms governing the labour contracts and the precarious nature of individual situations. "Typical" contracts may be threatened as to their future, but "atypical" contracts correspond to the wish to adapt the occupational environment, especially with regard to part-time work. However, a majority of the unemployed, or people in atypical jobs who earn average or low wages state that they would like to have a non fixed length contract or a full time job.

Make-up of atypical jobs as of March 2000

expressed in thousands

Fixed length contracts	975
Temporary work	550
Apprenticeships	285
Subsidised contracts	462
Total temporary jobs	2 272
Part-time jobs	3 963
Total number of atypical jobs (temporary <i>and/or</i> part-time)	5 298

Source: Insee, survey "Emploi", March 2000.

In March 2000, 5.3 million persons occupied an atypical job, i.e. a quarter of total employment as compared with 16% in 1990. Use of temporary staff varies considerably from sector to sector. The building and public works sector, the intermediate goods and equipment sector make great use of temporary labour, whereas the private service, health and education sectors make intensive use of fixed length contracts. A half of temporary labour are unskilled, whereas people on fixed length contracts constitute a varied population, comprising administrative staff, direct individual service personnel as well as unskilled workers.

Does returning to work via a fixed duration job (fixed length contract, temporary contract, seasonal work, etc.) or a part-time job enable those who wish to get on the ladder to more stable work at increased pay? The response must be nuanced.

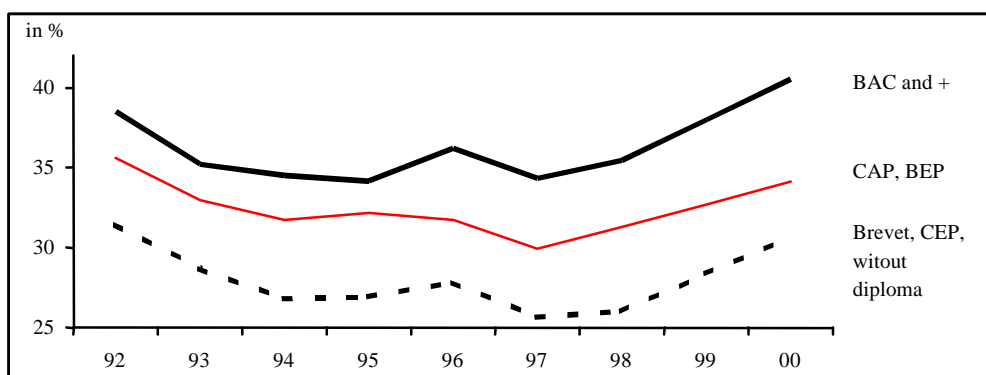
Short duration work may be a means to finding a non fixed length job and/or a full time job (Henguelle, 1994). This diagnosis requires to be refined.

Of those part-time workers who indicate that they would like to work more (in 1995), 18% of all levels of qualification take up a full-time job after a year, and almost a quarter of them after two years (Audric and Forgeot, 1999).

The type of job (duration and type of work) certainly has an influence on the possibilities of finding work of longer length or at full-time. Persons employed on a part-time basis who wish to work more rarely find full-time work, contrary to those working on a part-time basis close to full-time (Galtier, 1999).

Approximately 25% of short contracts (fixed length contracts and temporary contracts or supply staff provided by temporary staff providers) lead to a more lasting job after a year (graph 8).

Graph 8 – Possibilities of changing from a short term contract to a non fixed length contract



Scope: non-subsidised employment, all sectors.

Source: Insee, surveys "Emploi" 1992-2000, Cerc calculations; corrections were made for 1999 given that the survey "Emploi" was carried out in January whereas it is usually made in March.

For full-time fixed length contracts, the probability of obtaining a non fixed length, full-time job in the following year is approximately 33% and would appear to be improving in the up-turn phase. This greatly reduced probability reflects companies' recruitment policies which prefer, whenever possible, to recruit on a short contract basis rather than use trial periods under the non fixed length contract system, and to convert non fixed length contracts into fixed length contracts when they terminate for workers they wish to keep.

Upward career movements are less frequent for those persons with the least number of diplomas¹³ as compared with those who have more certificates/diplomas.

(13) The age structure should, perhaps, be considered separately, however it is highly probable that the results will be the same even after the corrections for age.

The difficulties encountered by those with few diplomas are very great for beneficiaries of the Minimum Integration Income (RMI). According to the "RMI exit figures", those benefiting from this allowance who find a job, even if it is intermittent, often possess more diplomas than those who remain unemployed or inactive. The permanently unemployed between 1996 and 1998 are mainly males with few diplomas, often without any vocational experience (Lhommeau and Rioux, 2000). Moreover, work found on exiting the RMI system lasts for under six months in one out of four cases, and are subsidised jobs in the public or community sector CEC (Consolidated Employment Contract) or Consolidated Employment Contract (CEC) in one out of three cases (Afsa and Guillemot, 1999). These are frequently part-time jobs, paid at a rate close to the Smic.

Sluggish growth of purchasing power

The purchasing power of the net Smic has increased, on average, by approximately 1% per year since 1990. The drift in relation to the Smic increase is the result of the evolution of tax and social contributions on wages. The introduction of the across-the-board social contribution (CSG) which extended the social levy to income other than income from other sources reduced the impact of the increasing social protection costs on the purchasing power of wage earners, however this reduction was insufficient as, over the same period, the total wages-based social contributions, the CSG (general social contribution), the CRDS (Contribution for the reduction of the social security debt) increased from 18% of gross wages to 21% in 2000. This is a factor which is not specific to low earnings, since the increase was the same for the Smic as for the median wage.

All in all, the share of low level monthly wages increased, especially for the low skilled because of the low increase in the purchasing power of the net wage, and because of the increase in the number of full-time jobs over the year. Access to jobs by low skilled persons often leads only to a mediocre improvement of their material situation.

Lessons to be drawn

A certain number of lessons may be drawn from this examination of the situation of low skilled workers.

The imbalance between supply and demand for low skilled work is great in France and can be observed from the low rate of employment. It is liable to continue because of the marked economic trends (weakening of the demand for low skilled work) and the high number of persons who have not benefited from sufficient basic training.

It is certainly urgent to **strengthen the means and the efficiency of training for persons who have job, or are without work and target those persons which market forces tend to exclude from employment**. This point will be later evaluated by Cerc.

It will be necessary for many years to come to provide support to the demand for low skilled work on the part of companies and, as a consequence, be attentive to the evolution of the relative cost of low skilled work which is determined, mainly, in the current situation, by government decisions (evolution of the Smic, the profile of social contributions). This point will be expanded later when we consider the potential consequences of the introduction of the 35 hour week.

It is necessary to show concern for the low level of activity of low skilled persons (which is particularly low and which reflects latent unemployment) by ensuring that the return to work will be facilitated and fulfilling for them, producing not only in an immediate improved income situation, but also open up prospects of subsequent improvement and better employment conditions.

THE INTRODUCTION OF THE 35 HOUR WEEK, AND THE EMPLOYMENT OF THE LOW SKILLED

The reduction of the working week to 35 hours is one of the major changes effecting the labour market since the decision was announced, the effects of which will be felt for several years. In this second part of the chapter it is not our aim to analyze all of the consequences, not the conditions for its success. We will, however, look at it from the point of view of low skilled work.

It should be simply stated that it is not merely a question of sharing work and that its impact in terms of growth, national wealth and employment will greatly depend on the result of decentralised decisions within companies on the reorganisation of work, its effectiveness and adaptability, as well as the moderation of costs but also on means of subsidies to reduce social security contributions and modest evolution of wages.

What will be the effect of the 35 hour week on low skill jobs?

The initial response is that this measure ought to contribute to overall employment. The analysis must, however, be pushed further as certain elements are liable to come into play and impact on the share of low skilled jobs in total employment due, in particular, to cost developments. It has been stressed that the reduction of social security contributions on low wages since July 1993 had contributed to reversing the trend to disadvantage low skill work. In the long term, these effects have probably not been exhausted. On the other hand, the conditions for the introduction of the 35 hour week may have an adverse effect by increasing the relative cost of low skilled jobs. There are two possible influencing factors. The profile of aid towards the reduction of working hours, and the arrangements for applying the guaranteed monthly wage for Smic earners.

The effects of the introduction of the 35 hour week on the spread of wages and the relative cost of low skilled jobs will result in productivity increases brought about by the change, the evolution of wages at different levels of the wages scale under the effect of wage moderation associated with wage agreements, but also the principle of

maintaining monthly wages at a level close to the Smic, and finally financial subsidies paid to reduce working hours.

"Statement of the problem"

We have a very precise knowledge of the arrangements under the new provisions for reducing social contributions on low wages. We also know the scope of wage compensatory payments which have been negotiated under the agreements to reduce working time as set out in the Robien and Aubry I laws, as well as the effects on employment in the companies parties to the agreement.

On the other hand, it is not possible to predict with any degree of certainty how wage negotiations are liable to evolve, or productivity increases induced by the reduction of working time and the extent of reorganisation within companies which will have reduced their working hours¹⁴, nor changes to the level of the Smic.

From the legal working week to actual hours worked

- The extension of the reduced official working week to all companies, on January 1 2000 for those employing more than 20 workers and on January 1 2002 for the remainder, is not being carried out in exactly the manner set out in the Robien and Aubry I laws. The agreements on working time reduction required that, in order to benefit from state aid, the arrangements for calculating the actual number of hours worked had to be maintained in the companies. The reduction of actual working time had to be at least 10%.

Three factors could lead to a lesser reduction of working time while complying with the new official working week provisions.

- The first is that certain companies already apply a working week of less than the official 39 hours.
- The second factor is that in certain companies the change-over to the new official working week has already partially been made by including in the hours to be calculated time which could be calculated as working time whereas the previous collective working week did not include that time.¹⁵
- Companies may apply a longer working time than the official working week by paying overtime. The cost of these additional hours is subject to a transitional period.

- Companies may apply the 35 hour week if an agreement on the reduced working week is reached with a majority of the social partners and which leads to the creation

(14) Reorganisation of the production process but there may be an possible impact on productivity if an annualisation of working time is introduced allowing an improved adjustment of production rates to that of demand.

(15) Gubian (2000) mentions the case of large companies having signed a non-subsidised agreement on the introduction of the 35 hour week prior to January 1 2000. The reduction of actual average working time was only 5.4%.

or maintenance of jobs (there is no threshold which is another deviation from the agreements under the two previous laws).

By entering into such an agreement companies are able to benefit from state aid for the reduction of working time; lump sum relief for all jobs and additional degressive relief for wages in a bracket ranging from 1 to 1.8 of the Smic (which absorbs the previous relief on employers' social contributions on low wages which ranged from 1 to 1.3 of the Smic).

- The second Aubry law introduced a mechanism for a monthly guaranteed remuneration for workers earning the Smic.

Guaranteed monthly remuneration

Article 32 stipulates that "*On the entry into force of the June 13 1998 law (Aubry Law I) workers whose weekly working time has been reduced to 35 hours or more may not be paid after January 1 2000 a monthly wage lower than the product of the minimum growth wage in force at the date on which the reduction of work time by the number of hours corresponding to the collective duration applicable to them within the limit of one hundred and sixty nine hours. This guarantee shall be ensured by the payment of a wage differential*".

This leads to as many levels of guarantee as there have been increases in the Smic since June 1998 (but also as many collective hours in the companies). One established, these monthly guarantees are indexed in accordance with the price index and half of the purchasing power of the gross monthly worker wage (SMBO).

The mechanism governing the guaranteed monthly remuneration is applicable to all workers in companies having signed an agreement on the reduction of working time whether they were employed in the company at the time the agreement was signed or not. Workers whose previous remuneration was slightly above the Smic and are caught up by the level of the monthly guaranteed remuneration will also benefit. On the other hand, the monthly guarantee will not apply to:

- workers recruited for a period less than one month, and who are paid on an hourly basis;
- workers in companies which went over to the 35 hour week before the June 13 1998 law came into force;
- new recruits if their job is not equivalent, in duration or type, to that of another worker who benefits from the guarantee (Bloch-London, 2000).

Furthermore, the law stipulates that the arrangements shall be defined (subsequent to a report being submitted to Parliament before the 31 December 2002) so that, before July 1 2005, the guarantee of resources will become inapplicable in order to avoid any permanent distortions in remuneration between workers paid the minimum wage.

Various aspects of uncertainty are thus introduced as to the arrangement concerning the evolution of the Smic and the monthly guaranteed remuneration. These aspects have been addressed in great detail in the Pisani-Ferry report.¹⁶

Under these conditions, any analysis of the macro-economic impact of the introduction of the 35 hour week and its effects on wages and labour costs is still tainted with a degree of uncertainty. The analysis highlights some of the tensions which might appear. In comparison with the Pisani-Ferry report, our report focuses on the potential effects on the low skilled.

Extension of the exoneration of social contributions on low wages

The reduction of the working week to 35 hours was accompanied by a re-tailoring of the provisions governing social contribution relief for low wages. In order to benefit from such relief a majority agreement on the reduction of working time setting out job creations or job maintenance must have been signed by the social partners (no threshold is indicated). If this has not been done (for example if working time has been decided unilaterally by the employer), the former exoneration mechanism applies.

The new provision comprises¹⁷ a lump sum subsidy independent of wage level, initially¹⁸ equal to F 4,000 per year for each worker, and a degressive discount on social contributions up to 1.73 times the Smic.

The amount of exoneration is calculated on the basis of the wage taken into account for the calculation of the contributions, with a ceiling of F1,818 per month as from July 2000. It is calculated on a pro ratio basis for work time lower than the official work time (or, where appropriate, the collective number of hours), but may be increased for companies in which working hours are lower than the collective hours or equal to 32 hours in order to encourage greater working time reductions (four day week).

Although the supplementary exoneration of employers' social contributions allows a limitation in the increase of the monthly cost for a worker receiving a low hourly pay at the time of the changeover to 35 hours, the mechanism applying to the monthly remuneration guarantee generates an increase in hourly costs, in particular for those paid the Smic.

(16) Gilbert Cette's appendix to the Pisani-Ferry report.

(17) Various specific exonérations may supplement across-the-board relief for social contributions on low wages, however not all may be cumulated. In all cases, the amount of the exoneration is calculated on the basis of the wage on which contributions are calculated.

(18) Relief is indexed in the same way as the monthly guarantee.

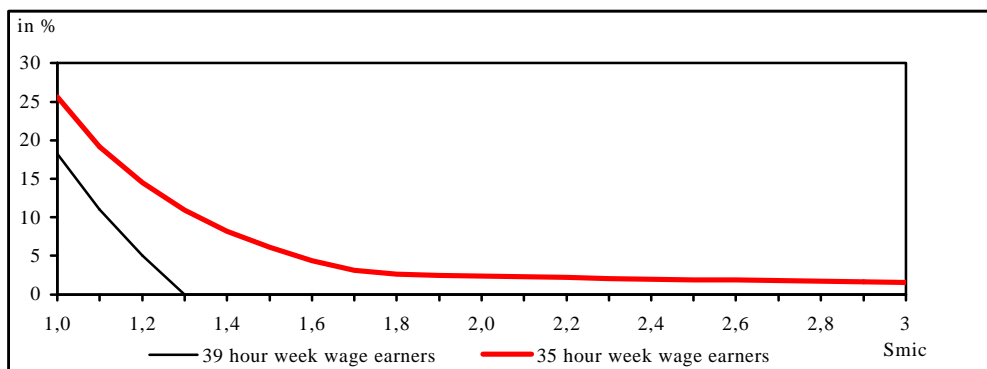
Table 4 – Wage and labour costs for the Smic as of July 2000

	39 hours	35 hours with monthly guarantee*	Differential
	(a)	(b)	in %
Monthly duration	169 h	151,7 h	- 10,3
Net wage	5 609,4 F	5 609,4 F	0
Worker social contributions, CSG, CRDS	1 492,0 F	1 492,0 F	0
Gross wage	7 101,4 F	7 101,4 F	0
Employers' social contribution	3 226,9 F	3 226,9 F	0
Exoneration of social contributions (incl. lump sum premium)	1 293,2 F	1 817,7 F	+ 40,6
Overall monthly wage cost	9 035,1 F	8 510,6 F	- 5,8
Overall hourly wage cost	53,5 F	56,1 F	+ 5,0

* For a company reducing working time as of this date.

The new provision concerning exoneration differs from the previous provision in three aspects. Relief is greater for persons paid the Smic, i.e. it amounts to F 21,812 per year equal to 17.6% of labour cost, as compared with 13% previously. The exoneration window is broadened from 1.3 to 1.7 times the Smic. The degressive rate is lower depending on the wage level.

Graph 9 - Share of the gross wage in relation to the exoneration



Source: Cerc.

Firstly, we will assume a change from 39 to 35 hours for the actual time worked.

This allows a calculation of the maximum impact on the cost per hour of work¹⁹ when the changeover to 35 hours is made. One takes as a given that total wage compensation for the reduction of working time will be paid for all wage levels, and into which must be integrated the new provision on social contribution relief.

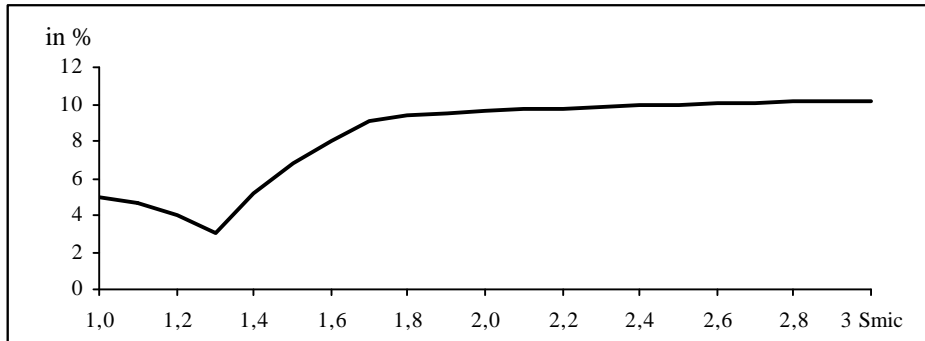
(19) A distinction must be made between the impact on hourly costs, which is automatic, and the impact on unit production costs which also depends on the evolution of hourly productivity.

I

EMPLOYMENT AND REMUNERATION OF LOW SKILLED WORKERS

The impact of the change to a 35 hour week also depends on the level of wages. It is approximately 5% for people paid the Smic and drops 3% for 1.3 times the Smic, then increases for higher wages to a little more than 10%.

Graph 10 - **Profile of the increase in hourly labour costs according to wage levels in 2000**



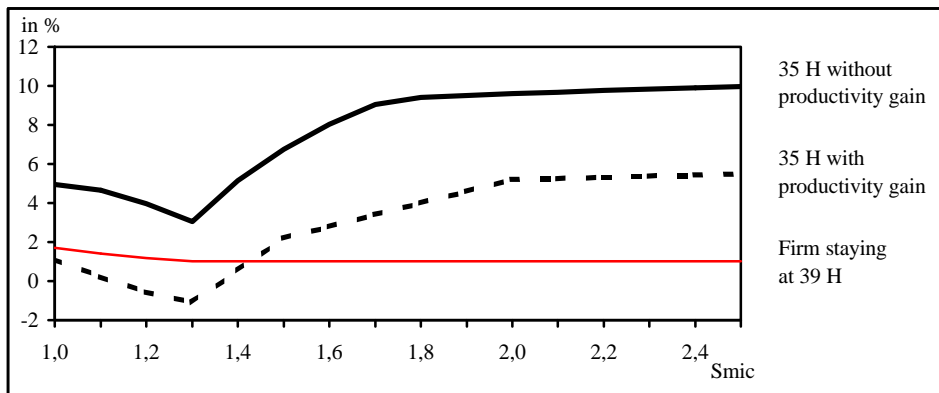
Source: Cerc.

The introduction of the 35 hour week will not, in general, lead to any extreme change to this simplified schematic. Wage compensation is not necessarily paid in full. The reduction in actual hours worked may be lower than 11.4%.

Productivity increases will be achieved because of the reduction of working time, so that a company is often in a position where it falls short of this increase in terms of evolution of hourly production costs.

A study carried out by Dares (Gubian, 2000) offered a simulation of the average impact of the changeover to the 35 hour week on the hourly cost of labour, given a series of different parameters. Overall productivity gains are assumed, for each wage (or qualification) level to off-set the taking on of additional workers to ensure the same level of production. The wage compensation is assumed to be paid in its entirety. The change to the 35 hour week is compared with the situation of a company still applying 39 hours and which would be required to pay increases for overtime (at a reduced rate and on a temporary basis at 10% for those hours corresponding to the reduction of the official working week).

Graph 11 – Increase in unit cost of work for wages in 2000



Source: Gubian, 2000 and Cerc calculations.

This simulation stresses that an increase in productivity as a result of reorganisation of the production process or a reduction in the actual hours worked lower than the apparent reduction due to calculating hours worked as close as possible to the official definition may, if there is a majority agreement, generate a fall in unit costs of production for low wage earners, whereas for a company with more skilled labour and a higher hourly rate of pay will be more inclined to make maximum use of overtime even if that entails the absence of an agreement and not receiving any subsidy.

Although the introduction of reduced working time can attenuate the actual impact on wage costs, the extension of aid to low wage earners from 1.3 times to 1.8 times the Smic tends to bring about marked changes in the relative cost of low skilled and higher skilled work.

Wages paid at 1.3 times the Smic benefit from the highest increase in relief in comparison with the previous provisions so that the automatic increase in hourly labour costs is, at this level of wage, the lowest.

A change in labour costs at around 1.3 times the Smic tends to reduce the effects of substitution between skilled and unskilled workers induced by the previous social contribution relief provisions (see insert). As has already been seen, the least skilled workers are frequently paid below 1.3 times the Smic, average qualifications being more represented above 1.3 times the Smic.

Part of the tension on low skilled work costs concerns companies employing 20 workers or less and for whom the law on the reduction of the working week will apply as from January 1 2002. Low skilled workers earning the lowest wages are to be found in the highest proportion in such companies (table 5).

Table 5 – **Structure of employment according to size of the company and wage levels**

	From 1 to 1.3 Smic included	From 1.3 to 1.8 Smic included	More than 1.8 Smic
Size not available	11,0	9,8	16,6
At least 20 workers	39,9	24,1	15,0
More than 20 workers	49,1	66,1	68,4
Total	100	100	100

Scope: Full-time workers in the trades sector, excluding agriculture, subsidised jobs personal services and domestic staff.

Source: Cerc, calculations made out of the survey "Emploi", March 2000.

The advantages of focusing on social contribution relief

For a given amount of budget, a reduction in the rate of reduction of employers' social contributions the effects are all the more favorable to employment in that it is concentrated on the lower end of wages distribution. There are two main reasons:

The effect of the contribution base: for a given budgeted level, the cost of reducing labour costs is proportionally higher when it targets low wages. All things being equal, a general reduction of employers' contributions produces less effects on employment than a reduction at the lower end of the wages scale.

Employment is more sensitive to labour costs for low wages than for it is for all workers. A reduction in the cost of labour generates effects which are more favourable to employment than work replaceable by capital; demand for goods is sensitive to the lowering of prices as a result of production costs reduction. With a targeted reduction, the possibilities for substitution between different categories of workers must also be taken into consideration. Applied studies which have made an attempt at measuring the sensitivity of employment to labour costs reached the conclusion that major substitution possibilities exist between skilled work less skilled work (a).

These two reasons are independent the one from the other and support the concentration relief for employers' contributions at the lower end of the wages scale.

On the other hand, by concentrating relief on a narrow range of wages brakes are applied to workers' careers as the cost of labour increases more rapidly than gross wages. This especially so if the range of degressivity is narrow. This explains why it has been suggested (Malinvaud, 1998) that a degressive reduction in employers' contributions be applied to a spread of 1 to 1.8 times the Smic. A choice must be made between efficiency in terms of employment and individual wage dynamics.

(a) For a synthesis of studies on this subject see, for example, Hamermesh, 1993.

Guaranteed monthly remuneration and the dynamics of the Smic

The guaranteed monthly remuneration for workers earning the Smic is defined for each individual company according to the date on which collective working time was reduced. Once established, the monthly guarantees are price-indexed plus half of the monthly purchasing power of the gross worker's wage (SMBO).

I

EMPLOYMENT AND REMUNERATION OF LOW SKILLED WORKERS

In a company changing over from the 39 to the 35 hour collective working time in July 2000, if workers previously paid at the Smic rate continue to be so, the company must pay a wage supplement amounting to F 728.21 in order to attain the guaranteed monthly remuneration level of F 7, 101.38.

Table 6 – The monthly guaranteed level of remuneration

Date of working time reduction	Guaranteed monthly remuneration as of July 1, 2000 (F)	reference: 169 hours
		Differential in July 2000 in relation to the calculated minimum monthly wage on the basis of a 35 hour week (%)
Since June 29, 2000	7 101.38	+ 11.4
Between July 1, 1999 and June 28, 2000	6 981.46	+ 9.5
Between June 24, 1998 and June 30, 1999	6 895.74	+ 8.2

Source: Liaisons sociales, n° 8095.

The Smic and the monthly guaranteed remuneration will evolve at different speeds but must be such that the guarantee becomes null and void as from July 1 2005.

The indexation rule for the monthly guaranteed remuneration is fixed (evolution of purchasing power and half of the worker's basic monthly wage), however there is a greater degree of uncertainty as to how the Smic is liable to evolve.

According to the law instituting the Smic, it is increased according to three types of arrangements:

- Firstly, it is indexed in relation to consumer prices, excluding tobacco since 1992. Whenever the index increases by more than 2% in relation to the last increase of the Smic, the Smic is increased in like proportion as from the date of publication of the price index.

- Secondly, the Smic is increased each year by decree adopted by the Government Cabinet, effective as from July 1. The legislation provides that "on no account shall the annual increase in the purchasing power of the Smic be less than half that of average hourly wages" as noted by the Ministry for Labour.

- "Successive annual increases are deemed to eliminate any lasting distortion between the increase of the minimum growth wage and the evolution of the general economic conditions and earnings".

The latter rule does not establish any definitive timetable; it stresses that increases should take account of the general economic conditions.

In the past, the Smic has undergone more rapid increases than the median wage between its introduction and the beginning of the Eighties. Its evolution then

paralleled the median wage, not on a year on year basis but because of discretionary increases to serve the political timetable.

In forthcoming years it is assumed that the minimum wage will evolve as a function of the first two stipulations (minimal evolution), its increase being more rapid than that of the guaranteed monthly remuneration. The level of the hourly wage rate automatically reflects the effects of the reduction of the working week. The changeover to 35 hours will often be accompanied by a freeze or a moderation of monthly remunerations. The evolution of gross monthly earnings will be slower than that of the hourly paid Smic.

In the first half of 2000, the increase in purchasing power of the hourly wage was 2.7% as compared with 0.3% for workers' basic monthly wage.

Before examining how the Smic and the monthly guarantee will come together, it is necessary to explain what happens for a company employing workers paid at the minimum wage rate and which has already reduced working time to 35 hours. The hourly cost does not increase at the same rate as the Smic but that of the monthly guaranteed remuneration as long as the evolutions of the Smic in the company have not cancelled out the remuneration supplement to be paid.

This differentiated indexing could have, on its own, progressively cancelled out the monthly guarantee if the guaranteed remuneration had been established for all companies at the same date. However, as has been seen, the monthly guaranteed levels are established company by company on the basis of the minimum wage at the date of reduction of the collective working time.

The amount of the wage supplement for a company changing over late from 39 to 35 hours (let us assume that at the end of 2004 if up until then it has maintained the previous working week by using its quota of overtime) will always be equal to 17.3 times the hourly Smic in force at that date.

A strict interpretation of the law would mean that increases to the minimum salary between that date and July 2005 would cancel out the monthly guarantee for the company and therefore be at least 11.4%.

The company would therefore not experience any specific wage impact at that date if having signed a hours reduction agreement, it would then benefit from the working hours reduction subsidies (however it have to bear the minimum wage increases generated by the dynamics of the change over to 35 hours by over companies). On the other hand, the earlier a company reduces its collective weekly hours, the greater will be the increases to the Smic between signing the agreement and July 2005 which will already have reduced the wage supplement ensuring the monthly guaranteed remuneration. It will thus suffer from a greater wage impact for the lowest paid workers.

The manner in which the catching-up has been defined, and the staggering of the introduction of the 35 hour week over several years increases the impact on the Smic and low wages in relation to the calculation for an immediate change-over.

Various proposals have been advanced to cope with this difficulty (Pisani-Ferry, 2000 and Cette, 2000) which do not need to be gone into here. Two consequences can be stressed.

- It is important rapidly to define the rules to be applied as the uncertainty concerning wage increases as a result of the reduction of working time are not favourable recruitment decisions especially for low skilled workers.

- The preceding analysis has demonstrated the existence of a strong dynamic, especially for the Smic as long as the transition phase has not been terminated. Costs related tensions would be greater if minimum wage increases were more rapid because of decisions to hike wages beyond the automatic rises .

Narrowing of wage costs and the demand for low skilled work

What will be the specific effects of the reduction of working time on relative costs of low skilled labour and hence on the demand for low skilled work?

- A re-profiling of the degressive nature of aid will reduce the relative advantage produced by earlier provisions .

- With regard to the effect of working time reduction on the spread of gross wages, the situation is difficult to interpret. The change over to the 35 hours week if it is accompanied by an immediate maintenance of the monthly remuneration for all would lead (during the first years) to an opening up of the wage spread, as the guaranteed remuneration will only increase by half that of the monthly worker wage. However the process for absorbing the monthly guaranteed remuneration is liable to generate a very marked wage impact and which will compress the lower end of the wage scale²⁰ thus having an unfavorable effect on low skilled work .

(20) Smic increases usually observed do not extend beyond the median wage level (for a survey of the various studies, see the CSERC studies, 1999). It is, however, possible that the diffusion effects might be greater for impacts greater than those traditionally observed.

INTRODUCTION

In order to consider the means of facilitating access to employment and support for social protection requires taking into account the characteristics of the population groups concerned, i.e. low earners so that the solutions proposed be as adequate as possible. Low income support instruments may be of two distinct types: one set aimed at improving income from work by increasing the level of remuneration; another set based on redistribution out of taxes or by means of social transfers.

The aim of this chapter is to demonstrate that both approaches differ also according to the types of persons which might most benefit from them. Supporting low earners does not necessarily result in supporting low standard of living households. Of course the choice between the two approaches only arises for those persons holding down a job, thus earning a wage, but whose standard of living is low. This is why it is useful to establish the linkage between income from working and standard of living of poor persons.

Two results should be noted. **Action on low incomes has diffuse effects on the standard of living of households.** Wage earners paid near to the Smic live in households with varying standards of living, depending on the number and age of children, the presence or not of other working members of the family. **Low standards of living of persons occupying a job is especially the result of the low volume of work over the year and the fact that other members of the family do not bring in any money.** Poverty, whilst having a job, may be reduced by greater possibilities of access to long term employment, and access to jobs by all adult members of a household wanting to work. Another factor of poverty is that family-related benefits in low income families are insufficient to off-set the increased expenditure due to the presence children.

POVERTY AND EMPLOYMENT

When France went through a period of almost full employment, support for low income families was based on the linkage between the fixing of a sufficient²¹ system of family allowances covering part of children-generated costs. The problems of poverty arose, in particular, amongst the elderly or those unable to work because of invalidity or a handicap. It was for those categories that the social minimum payments – minimum old age and invalidity allowances- were initially designed. Improvements in pension benefits on retirement and the increase in minimum old age allowances contributed to the reduction of the level of impoverishment of aged persons.

During the same time, the increase in mass, long-term unemployment in the Eighties and Nineties greatly modified conditions. The introduction of the specific solidarity allowance (ASS) for the long-term unemployed no longer able to collect benefits, the

(21) Up until 1968, the Smig was indexed to the price index which led to a considerable gap between the minimum wage and the mean wage. The minimum wage began to have a decreasing influence on the fight against poverty.

increase in the numbers of those taking early retirement, and the minimum insertion allowance (RMI), the single parent allowance (API) reflected the spirit in which the social protection system attempted, during the Eighties, to provide a solution to the problem.

Moreover, the number of permanent, stable jobs (unfixed length, full-time jobs) shrank, whereas the number of "short time", often unstable jobs (alternating between fixed length employment contracts and unemployment, temporary jobs, seasonal employment and part-time working) began to develop. This trend was mainly felt by the low paid. It probably led to an increase in the number of impoverished households amongst those of working age. During the Eighties and Nineties²² the number of early retired households in the total number of poor families dropped considerably despite the growing demographic extent of the numbers of retired persons as a whole.

Standard of living and poverty in cash terms

Standard of living is defined as being the disposable income per unit of consumption (UC). Units of consumption measure the size of the family taking into account economies of scale in certain consumption levels (for example, housing expenditure which is not proportional to the number of persons in a household, heating expenditure, etc). Traditionally in France, a unit of consumption is counted for the first adult, 0.5 for other adults over 14 years of age, and 0.3 children under 14.

This standard of living is measured over the year (and not for a shorter period) for reasons related to the sources of observation, but also because a certain number of charges and income are defined on a yearly basis.

The Poverty threshold is defined, European countries, in a manner relative to a fraction on of the median level of living standard in the country concerned. INSEE applies 50% of median income. The European Statistics Office, Eurostat, proposed a higher threshold at 60%. Both cases are based on convention.

This conventional measurement is intrinsic to the source on the basis of which the household income is measured. For 1996, the Revenus fiscaux (cf; sources insert), the median standard of living (disposable monthly income per UC) is evaluated at F 7000. The poverty threshold, as defined by INSEE, is therefore F 3,500, the Eurostat threshold being F 4,200.

There is no single poverty threshold not open to challenge which reflects social reality, and which is not made up of disjointed categories. Moreover, poverty comprises many dimensions and cannot be reduced to a single level of monetary resources.

It is difficult and rather conventional to assess the duration of impoverished situations. Crossing the poverty threshold (entering or exiting), is certainly one means of measurement, however it is not necessarily a good reflection of the reality of individual situations. Whereas some persons remain consistently in an impoverished situation, others will only go through such a period temporarily, others will alternate between the two.

It is necessary to bear in mind that statistical uncertainties considerably influence the lower end, rather than the middle, of the spread.

(22) Data from various sources for the most recent years are available but which do not allow extension of the series shown between 1984 and 1994. The indications provided tend, however, to confirm this trend.

II

DIVERSITY OF LOW INCOME GROUPS

Over recent years, poor households have more generally been represented by the unemployed or non-working persons; workers and, to a lesser extent, the self-employed (graph 1).

Graph 1 – Distribution of poor persons according to status



Reading: Workers represented 12.6 of poor persons in 1984, 20% in 1995.

Scope: Persons aged 17 and above, excluding those in a household in which the reference person is a student.

Source: INSEE, Family Budget Surveys.

From employment to standard of living

The standard of living of a person of working age depends on many factors:

- The level of his/her earned income, which for a worker, is derived from his/her situation on the labour market. His/her annual earnings depends on the amount of time spent working, and wage level.
- The existence or non-existence of other working persons in the household (husband/spouse, grown-up children,) and their earned income.
- The existence or not of children determines the number of social payments.
- Other income (income from savings, for example), tax payments, family support payments, and social security benefits.

Wages and standard of living: some representative cases

Two persons having the same individual earned income level may have quite different standards of living.

The net disposable income of a household with a level of income equal to the full-time Smic over the whole year and benefiting from a full-rate housing allowance in the Greater Paris Region (Ile-de-France) is, in 2000, approximately F 5,800 for a single person, F 6,400 for a childless couple, F 8,100 for a couple with two children, and F 10,400 for a couple with three children. Full-time, whole year Smic earnings situates a single person well above the poverty level, estimated for 2000 at F 3,800. On the other hand, for a couple with dependent children the same level of income situates the household close to the poverty level, i.e. F 8,000 for a couple with two children (representative case in the Paris model as given by the Forecasts Directorate).

For a whole year earned income level equal to half the Smic, all household configurations point to living standards below or equal to the poverty threshold.

It is, therefore, necessary to take simultaneous account of the situation of persons on the labour market and the make-up of their family in order to evaluate the instruments of government policies to combat poverty.

The low level of earned income may involve both workers and the self-employed. Recent INSEE publications have demonstrated that the numbers of impoverished self-employed is highly frequent, (even although their income may be subject to considerable annual variations, and deficit periods without having the same impact in terms of poverty). Here, we will focus solely on wage earners.

Individual earnings from working

The low level of earned income may result from the low level of remuneration or short working hours. Most often, these factors cumulate as low skilled persons are often employed only part of the year. This aspect has already been analysed in Chapter 1. For 1996, the availability of simultaneous data for persons and their employment on the basis of the Employment Survey and their annual earnings from the Revenus fiscaux (Taxable Income Survey) allowed fine-tuning of the diagnosis. Galtier and Lhommeau (1999) stress that the low hourly rates of remuneration are often frequently to be related to reduced annual work periods.

Approximately 7% of workers in the trades, non agricultural sector were paid close to the Smic²³ and those low wage levels corresponded, more often than not, to part-time work. Four workers in ten, paid at rates close to the Smic, worked part-time, as compared with one out of ten for other wage earners. Part-time workers were generally paid close to the Smic if they worked little. Where the working week was

(23) Estimation, published in the Fiscal Income survey (enquête Revenus fiscaux), of the proportion of workers whose monthly wage, expressed in hourly rates, is lower than 1.02 times the Smic. This evaluation is lower than the number of Smic earners generally measured in the Dares surveys. Certain elements included in the wage are not taken account of in calculating the Smic. A person earning the Smic may have a higher monthly wage because of overtime payments, years of service, etc.

II

DIVERSITY OF LOW INCOME GROUPS

lower than 24 hours, 13% of jobs were paid close to the Smic as against 10% of jobs occupied by part-time workers working more than 24 hours per week.

With regard to incomplete work time over the year, 28% of workers paid close to the Smic had worked less than 12 months, whereas only 7% of workers paid above the Smic rate were in that situation. One wage earner out of ten paid close to the Smic cumulated part-time working and less than twelve months of work, whilst this was only the case for one out of a hundred for other workers. In total, less than half the number of workers paid close to the Smic rate occupied a full-time job for twelve months, as compared with 4/5 of workers paid more than the Smic.

Aggregation of earned income within households

For low earning singles, it is the level of employment over the year which will determine their standard of living²⁴, and whether they are possibly below the poverty threshold. On the other hand, as soon as a household comprises more than one adult, the employment situation of each of them will play a determinant role in the standard of living of the household.

It would prove useful to analyse separately those cases where young adults are living with their parents (often because they do not yet have sufficient financial security to ensure their independence).

Such cases often concern young, low skilled persons during their initial working life. In such cases, it may be considered that they only have their earned income, and that they do not benefit entirely of the standard of living of their family. Although this point is worthy of elaboration it has not been gone into in this report.

Where two people in a couple are working, dual earnings may change considerably the amount of money available to the household.

Thus, despite low hourly rates of earning and reduced annual hours of work, the majority of wage earners close to the level of the Smic cannot be said to live in impoverished conditions. Their earned income level has, quite often, to be added to that of other one or more working persons in the household.

Five workers out of ten, earning close to the Smic, cumulate their earnings with other working adults (whose earnings may exceed the Smic); two out of ten are young persons living with their parents, and "only" one out of ten belongs to a household in which there is no other person of working age in employment. (table 1).

(24) Another important factor is whether housing benefit is received or not.

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Table 1 – Diversity of family situations for wage earners and the unemployed

in %

	Workers in the trade sector		Unemployed persons
	Earning close to the Smic	Above the Smic	
Adults who are:			
In a couple where both are employed	48	57	
In a couple where only one is employed	12	20	36
In a couple where both are unemployed			8
In a couple where one is unemployed and the other inactive			10
Single persons	13	12	13
Single parents	5	4	7
Young persons living with their parents	22	7	26
Total	100	100	100

Table extracted from Galtier and L'hommeau, 1999.

Source: Insee, employment surveys 1996, 1997 and Taxable incomes surveys.

In total, 15% of workers paid close to the Smic belong to a household in which the earned income per unit of consumption was lower, in 1996, than F3500. More precisely, if they are single parents the frequency is 5 out of 10, 4 out of 10 if they live with an unemployed person and less than 1 out of 10 if they live as a couple with one other person in employment²⁵.

The impact of decisions of two members of a couple to join the labour market is therefore an element to be taken under consideration in the analysis of all of the instruments affecting the income of households, especially low income families.

An increasing polarisation of employment in couples has been found. The numbers of cases where only one person has gainful employment falls to the benefit of polar cases in which both are in employment, or both are unemployed or inactive (Piketty, 1997). This shift may have various reasons which have not been sufficiently studied. On the one hand the socio-professional characteristics or the basic training of the husband and wife are not all that different (social endogamy), the probability that the two members of a couple are affected in like manner by the labour market situation is strengthened. Moreover, social minimum mechanisms may imply that the occupation of a low paid job might be uninteresting if one of the couple is not in gainful employment.

(25) It should, however, be noted that these results do not concern certain categories of Smic earners (service workers, those with a subsidised work contract, casual actors in the entertainment sector, etc. cf. Galtier and L'hommeau, 1999) and which probably underestimates the poverty level of households earning the Smic.

The case of working poor

Recent statistical studies carried out by Insee provide a better indication as to the linkage between employment, earned income and standard of living. These studies concern "impoverished workers". Even if the poverty threshold is not an explicit indicator of public policies²⁶ contrary to the United States, cf. National Research Council, 1995) the population of "impoverished workers" is sufficiently representative of the problems of linkage between employment and the fight against poverty.

In order to try to pinpoint and measure cases where occupying a job does not allow escape from poverty, Insee has advanced in recent studies (Lagarenne et Legendre, 2000a) the following definition of an impoverished worker as being a person who:

- has been or has registered as working at least 6 months during the course of the year (employed or unemployed),
- has occupied a job for at least a month during the year,
- is a member of a household the standard of living of which is lower than the poverty threshold (cf. insert).

According to the Table Incomes survey of 1996, out of 44 million adults above 17 years of age and over, 3.3 million had a standard of living below the poverty threshold as defined by Insee (F 3.500 of disposable income per unit of consumption).

Of this number, less than 0.4 million persons aged above 65 years of age, as well as slightly more than 0.4 million young persons continuing their studies were living with their parents. Both groups of persons were either no longer or not yet concerned by employment.

Among the 2.5 million poor, adult persons of working age:

- 1.3 million had occupied a job for less than a month, and corresponded to the definition of a "working poor";
- 0.5 million had not worked, and were therefor "poor unemployed".²⁷
- 0.7 million were non-working persons.

(26) Although it is not by mere chance that the level of income defining the scope of universal sickness cover was set at F 3,500 for unmarried person even if the income level does not correspond exactly to the definition of disposable income.

(27) According to the definition, unemployed is to be construed as meaning long-term unemployed.

Definition of impoverished workers and the problems of pinpointing them

The definition chosen by Insee is slightly different from chosen by the United States. The Bureau of Labor Statistics proposed, as early as 1989, a definition of the Working Poor (Bureau of Labor Statistics, 1997). Shall be considered as belonging to the Working Poor "any individual living in a poor family who has been on the labor market for at least six months of the year (by having occupied a job, or by seeking a job)".

A strict transposition of this definition would imply the inclusion in the scope of poor workers all those persons living in a poor household falling within the definition of the active working population within the meaning of the ILO for a period of six months or more. However, this extensive concept gives rise to problems given the considerable differences between the labour market situation in the United States and in France (Hourriez, 2000). In the United States, the proportion of long-term (in excess of one year) unemployed is low (a). This is not the case in France, where four registered unemployed persons out of ten have been unemployed for more than twelve months.

The Insee definition of poor workers leads to a distinction between two other categories: poor unemployed persons, (a poor person, having been active for at least six months of the year, but not having worked for at least a month) and poor inactive persons. Poor workers and the poor unemployed comprising the category of working poor according to the American definition.

Statistical sources

Pinpointing poor workers poses a problem to statisticians. It is necessary to assess the situation of individuals from the point of view of their employment situation and their standard of living. Surveys rarely provide both types of information. Only two sources can be used.

- The first is the new series of "Taxable Incomes" surveys (Revenus fiscaux) since they are based, each year, on the Employment survey. The only series currently available is based on 1996 income.

- The second is the French contribution to the "European Panel", the usable data of which concern the years 1993 to 1997. Although the two sources provide information about the amount of time spent working by household members, they only allow an approximate measurement of the time spent working over the whole year, and hence the actual rate of remuneration.

Both surveys only address the case of average households. Persons living in community institutions are not covered (elderly persons living in institutions, persons in prison, or in workers' hostels). If they were taken into account they would increase the assessments for certain categories of poor persons more than for the non-poor.

The recent availability of those sources on information demonstrates the emergence of recent studies, in particular those by Lagarenne and Legendre (2000a and 2000b) as well as those by Breuil, Ponthieux and Zoyem (2000). Prior studies by Concialdi and Ponthieux (2000) should also be noted.

(a) Because of the employment situation, but also because of the rules applicable to the payment of allowances which entails that a smaller number of persons in long-term unemployment register as unemployed according to the ILO definition, i.e. unemployed, but seeking a job.)

Over and beyond a straight-forward reckoning of the number of impoverished workers, the result of which is near to the outcome from the surveys and the poverty threshold used, it would appear that there is a high concentration of persons in the region of the F 3,500 unit of consumption range. With a F 700 increase applied to the threshold (i.e. applying a 60% median income rule as suggested by Eurostat), the

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number of "poor" adults would drop from approximately 6 million, and the number of poor workers to 2.4 million.²⁸

Table 2 – Variation in the number of persons according to the threshold level chosen

	expressed in millions	
	F 3.500 threshold level 50% of median income	F 4.200 threshold level 60% of median income
Working poor	1.3	2.4
Poor unemployed	0.5	0.8
Inactive persons 17 to 65 years of age	0.7	1.0
Inactive persons over 65	0.4	0.9
Inactive persons from 17 to 30 years of age still in basic studies	0.4	0.7
Total	3.3	6.0

Employment situations

A high number of dependent persons is found amongst the poor workers (350,000). However, the method of calculation for the self-employed (cf. the possibility of a deficit year) may lead to an increase in this figure. It must be construed as an indication that poverty while in work is not restricted to wage-earners, however it is the latter that we will mainly be focusing on in this analysis, and with a poverty threshold of F 3,500.

Of poor workers, 35% worked full-time over the year, either with a non-fixed length labour contract, or over an apparently uninterrupted period, with temporary employment, fixed length contracts, temporary work supplier agencies, or training periods (table 3). However, more than half of the poor workers with full time non-fixed length contracts live with a non-earning spouse.

(28) This draws attention to the risk of measures based on thresholds in the high density region of income distribution. The threshold for universal sickness cover close to the level indicated here raises problems, not so much for entitlement to sickness insurance but for cover under the complementary sickness benefit scheme.

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Table 3 – Influence of the length of work

	in %	
	Poor wage earners	Wage earners not deemed to be poor
Whole year workers with:	54	85
full-time non-fixed length contracts	28	68
part-time non-fixed length contracts	12	11
others, full-time (Fixed length contracts, temporary employment, training periods)	7	4
others, part-time (Fixed length contracts, temporary employment, training periods)	7	2
Workers having experienced a period of unemployment	37	11
Having mainly occupied a job	18	7
Having mainly been unemployed	19	4
Workers having experienced a period of inactivity	9	4
Total	100	100

Scope: workers aged 17 years and above in March 1997, active for at least six months between April 1996 and March 1997, during which they actually worked.

Source: INSEE, DGI, Taxable Income Surveys, extract from Lagarenne, Legendre reports (2000).

The presence in a household of other members without earned income and dependent children (because allowances for children do not fully offset the burden of children on the standard of living), and which is the cause of the poverty of full time workers.

For all other poor workers, poverty is mainly caused by an insufficient annual amount of work. This is due to alternate periods of temporary employment and periods of unemployment or inactivity. This is the case for 46% of poor workers, (cf. Table 3) and/or part-time working (29% of poor workers, cf. table 4). The consequence of this employment situation is a low individual income: 80% of workers with part-time, non fixed length contracts over the whole year, and those workers alternating between periods of employment and unemployment were paid less than 0.7 of the annual Smic. Even if this income is added to that of their spouse, who in one out of two cases works, it is insufficient to lift them above the poverty threshold.

Table 4 – Influence of part-time working

	Expressed as a % of the total number of poor wage earners	Expressed as a % of wage earners not deemed to be poor
Total number of part-time wage earners including:	29	15
- having worked a full year, including:	18	13
. with a non fixed length contract	11	11
. with a fixed length of temporary contract	7	2
- having experienced a period of unemployment	11	2

Scope: persons aged 17 and above having occupied a part-time job in March 1997.

Source: Insee-DGI, 1996 Taxable income survey, Lagarenne, Legendre report (2000).

Influence of individual and familial factors

Numerous intermeshing factors contribute to the impoverishment of workers. An attempt can be made to better clarify the influence of individual factors, family or job related influences, all things being equal, by a logical analysis. The scope is limited to wage earners because of the uncertainty of the income of self employed persons.

The make up of the family plays an important role and has two main effects:

- The presence in the household of persons with no earned income greatly increases the probability of a worker being poor. Unmarried persons or single parents who only have one earned income are more exposed to the risk of becoming working poor. On the other hand the presence in a household of someone working full time reduces this possibility for the person concerned or for a retired person.

- A couple is more exposed to impoverished conditions if they have one or two children rather than three. This is due to the fact that family allowances are insufficient for small families of one or two children.

Individual characteristics have an influence on the probability of being a poor worker. If one is young, a foreigner or without any diploma increases the risk of being a poor worker.

As is to be expected, part-time jobs, especially if the person wishes to work more²⁹, and the low number of months worked throughout the year increase the likelihood of poverty.

(29) Quite often a person wants to work more simply because of insufficient income.

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Table 5 - Personal, family and employment of poor workers

Individual influencing factors	in %	Family factors	in %
<i>Nationality</i>		Referencial %	2,4
Other nationalities	3,6	<i>Type of household</i>	
Nationals of an African country	4,5	Single alone (no child)	7,0
French	Ref.	Single parent	2,4
<i>Grouped diploma</i>		Couple	Ref.
Bac (Higher leaving certificate) and assimilated diplomas	- 1,6	<i>Number of children under the age of 18</i>	
Bac (Higher leaving certificate) + 2 years university	- 1,5	At least 3 children	1,3
Bac + 3 years and more university training	- 1,4	2 children	3,6
Brevet (lower secondary school certificate)	- 1,0	1 child	2,6
Vocational Aptitude Certificate (CAP), BEP (Certificate of Vocational Training)	- 1,0	No child	Ref.
Primary school certificate, without any diploma	Ref.	<i>Urban Size</i>	
<i>Age</i>		Large Paris	- 1,6
Under 30	1,0	More than 200 000 residents	- 0,6
30 to 39	- 0,5	Less than 200 000 residents	Ref.
Over 50	0,0	<i>Presence in the household of</i>	
40 to 49	Ref.	One additive full time working person	- 0,9
<i>Employment characteristics</i>		One unemployed person	2,7
<i>Number of months worked over the year</i>		One unemployed person over the age of 18	3,2
3 months and less	3,0	One retired person	- 1,5
4 to 6 months	0,8	One working person seeking for another job	1,5
7 to 11 months	0,7		
12 months	Ref.		
<i>Part-time work</i>			
Part-time work but wanting to work more	2,8		
Other part-time work	0,9		
Full-time work	Ref.		
<i>Status</i>			
Fixed length contract	1,1		
Employed by the State and other local authorities	- 0,8		
Apprentices, trainees	2,2		
Non fixed length contracts in the private sector	Ref.		

Reading: The reference situation concerns an individual possessing a school certificate, of French nationality, aged between 40 and 49, who is working full time over 12 months, etc. For a person satisfying those characteristics the probability of being a poor worker is 2.4%. The risk increases to 5.4% (2.4% + 3%) when the person is employed less than three months in the year, the other parameters remain identical. It is to be noted that the degree of probabilities are not cumulative according to the characteristics.

Scope: all workers having worked at least one month, excluding conscripts.

Source: Cerc.

Employment status, quite independent of duration, also has an impact. Vocational trainees and apprentices are paid at a low level and are, therefore, exposed to the risk of poverty. The same is true of those persons with a fixed length contract which may be explained by the fact that they occupy less qualified jobs in low paid sectors of the economy.

The future for working poor

This dimension is not greatly explained in statistical studies. Quite apart from methodological difficulties there is the problem of imprecision in the sources. When, as we do here, define poverty by a single indicator (standard of living lower than a poverty threshold), the mere crossing of the threshold in the course of one year would lead to supposing that the person is entering or exiting a poverty stricken condition.

The frequency of such movements will depend greatly on the relative number of households whose income is situated on this conventionally fixed "boundary". It has been noted that the distribution of standards of living is dense around the poverty threshold level set by Insee since if the threshold is increased by F 700, the number of "poor workers" increases from 1.3 to 2.4 million.

In order to measure the permanent nature of poverty, it would be preferable to distinguish between three initial situations:

- a standard of living markedly lower than the poverty threshold,
- a standard of living close to the threshold (below or above),
- a standard of living markedly higher than the threshold.

This division would avoid part of the "background noise" caused by the low variations in actual income of households, but also because of the imprecision in income returns from one year to the next. This type of statistical processing, traditionally applied to study mobility in terms of income on the basis of sample groups of individuals observed over a number of years, is not yet available in case studies on poverty in France.

Despite those comments which tend to be highly cautious in their consideration of the results of available studies, two preliminary studies on the subject matter are worthy of mention, and were presented at the previously mentioned "Working Poor" conference held in France.

Breuil, Ponthieux, Zoyem (2000) addressed the monitoring of households deemed to be poor during the three serial studies (1994, 1995, 1996) carried out by the European panel on households' study (French part). The spread of poor workers has widened since the poverty threshold selected is 60% of the median living standard of households measured in the survey (in particular, with regard to the questions concerning the size of the sample). Two types of analysis were made: one on the working trajectories, the other on the permanency of poverty. The main result is the stability of the working poor situation, both with regard to employment and poverty.

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On the one hand more than one poor working person out of two in 1994, whether he had worked the whole year or alternated between unemployment and work periods, was still in a job two years later. Moreover, two thirds of working poor in 1994 were still poor in 1996. In total half of the working poor in 1994 were still so two years later.

Hourriez (2000) looked into the evolution of the characteristics of jobs liable to lead to working poverty. This study, however, is still in the exploratory phase. It highlights the increase in three employment configurations which increase the risk of poverty: single persons working part-time, the frequency of which increased twofold between 1982 and 1999 (from 2 percent of all working households to 4 percent); couples with one single part-time job and, more rarely, couples, both working part-time.

INTRODUCTION

This chapter is devoted to a very specific aspect, viz., the consideration of situations in which work only generates a low level of monetary advantage, even none at all when compared with not working. It then considers the ways and means of correcting the situation with references to French and foreign experiences (the slogan "to make work pay" became the catch-word for one of the main thrusts in the English-speaking world's employment policies during the Eighties.)

The temporary or perennial existence of incomes replacing earned income (unemployment benefits, social minimum allowances) reduces, de facto, the monetary advantage to be gained from gainful employment. This is especially the case when the replacement income is a differential allowance, i.e. any income earned is, in principle, deducted from the allowance: this is the case for those paid the RMI. This mechanism leads to a total levy being applied to earned income and is such as to prevent those persons from exiting the situation of allowance beneficiary. The problem may be made even all the greater when working becomes less advantageous if access to, or the amount of benefits paid, leads to the differential treatment of earned income and replacement income.

To facilitate access or return to employment, existing provisions allow temporary aggregation of earned income and a proportion of allowances. This helps to cross the threshold level of marginal levies on high income levels when exiting the allowance system, thus removing the obstacle. However, this presupposes that returning to work leads rapidly to a sufficient level of income permitting an escape from the insufficiently paid work range.

By allowing access to employment to generate an improvement in the material situation of persons must satisfy two aims. On the one hand, although the decision to take up a job, or find a new job, does not only satisfy the monetary advantage procured does not mean that this is not, nor is ever an important factor. On the other hand, the reduction of existing deductions rates applied to low, earned income levels is a question of tax or social justice.

DIFFICULTIES TO BE OVERCOME

Support for low incomes has, for a long time entailed the setting of a minimum wage level which is an efficient instrument in a situation where there is more or less full employment. Moreover, social protection, based on social insurance schemes (health, retirement, family and unemployment benefits), ensures a replacement income in the event of temporary or definitive ceasing of work, and took into account the size of families.

The deterioration of the employment environment in France interrupted this state of affairs:

- On the one hand, the increase in mass unemployment deprived a large proportion of the population of the possibility of satisfying their needs through work.
- On the other, a growing proportion of workers do not have the possibility, even if they wish to, to find a year long, full time job. Income from work has proven to be insufficient to exit an impoverished situation because of short duration labour contracts occupied at under the going hourly rate.

By introducing the generalised minimum income (RMI), paid to any person whose available means of support are lower than the minimum deemed necessary, legislators sought, in 1988, to give "first aid"³⁰ by providing assistance to those excluded from the employment scene. Should instruments be introduced to meet the insufficiency of income from earnings for those persons who are unable to find a job of sufficient length? This is the subject of lively discussions as demonstrated by several researchers or reports. R. Godino (1999), F. Bourguignon (1999), J.M. Belorgey (2000), J. Pisani-Ferry (2000) have all broached this subject which cropped up again on the introduction of the Employment Premium.

Two different aspects are frequently advanced and discussed.

The first is of a static nature. Whatever the family situation, when it is situated at the lower end of the income distribution scale, the partial, or total loss of benefits subject to resource levels greatly reduces, and even cancels out, the advantage from disposable income to be derived from any increase in earned income. In other words, the marginal levies on earned income are very high (Bourguignon F. and Chiappori P.A., 1997), (Piketty T., 1997), (Eyssartier D. and Paillaud S., 1998), Laroque G. and Salanié B., 1999).

The second concerns transitions and has several facets. How to see to it that the level of incomes of the most disadvantaged persons is not too uncertain on a month to month basis (Belorgey J.M., 2000)? Should provisions to ensure that access to employment actually pays be provisional or perennial? Should they apply to all types of employment?

Differential nature of allowances

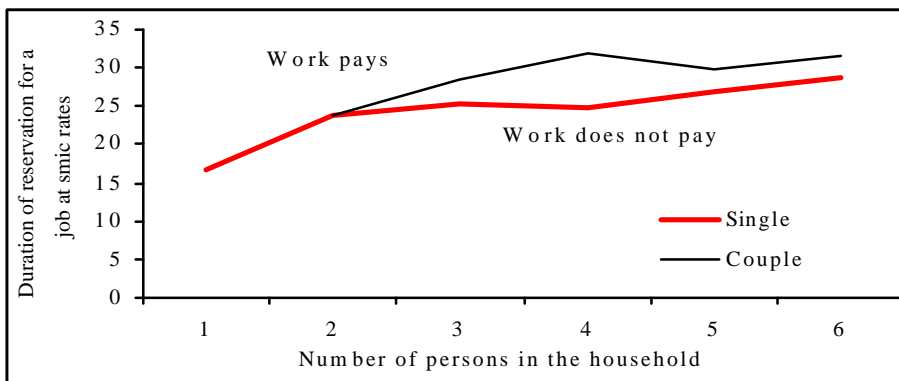
A minimum income for a single, unemployed person, reduces, by definition, the supplementary advantage of gainful employment. Moreover, the differential nature of minimal social payments implies that "work does not pay or does not bring in much" if the job is low paid and is of insufficient duration. The amount of the differential

(30) Other minimum social allowance payments have the same purpose; for example, the specific solidarity allowance paid to the unemployed having been many years in employment but are no longer entitled to unemployment benefits.

allowance paid to a beneficiary is equal to the difference between his income and a given ceiling. Any increase in income, in particular earned income, reduces the level of allowance paid out. The marginal rate of deductions on the first hours of work is therefore 100%, which is triggered as long as the income of the household is lower than the ceiling. The extent of this margin rate area at 100% varies according to the size of the family. The duration of work paid at the hourly Smic rate as of which the net income advantage for the family is positive delineates the 100% levy area (for a more detailed, complete analysis cf. Fleurbaey and others, 1999).

A single person receiving the RMI ought, according to the schedule as from January 1 2001, to work 18.5 hours per week at the Smic hourly rates (18 hours inclusive of the lump payment for housing allowance) in order to increase his net income. With one dependent child, he would need to work 27.5 hours (23 hours inclusive of the lump sum housing allowance).

Graph 1 – Effect of family configuration on the duration of reservation



Reading: The duration of reservation is the ratio between the income of a RMI beneficiary and that of a job paid at Smic level, multiplied by the duration of the working week (39 hours). These incomes were calculated on the basis of the scales applicable as of January 1 2001. The income of a person paid the RMI allowance comprises the RMI, housing allowance, the exceptional allowance paid in January 2001 and the back-to-school allowance (other allowances, such as child-minders allowance, or the special education allowance have not been taken into account). To calculate earnings at Smic rates, account has been taken for the wage paid after deductions for all contributions; CSG and CRDS, family allowances and family supplementary benefits for more than three children above the age of three.

Source: Cerc calculations.

This "duration of reservation" increased by approximately one hour per child (supplementary family benefit locally giving rise to a reduction to under 23 hours for the third child, 17 hours with the housing allowance). A childless couple would need to work more than 27.5 hours (23 hours with the housing allowance) in order to improve their income, more than 33 hours after the first child, and approximately 34

hours after the second child³¹, and 28.5 hours (22.5 hours with the housing allowance) after the third child (family supplementary benefit).

Resources taken into account for calculation of benefits

Many income-related benefits treat earned income and replacement income or minimum social payments differently. The best known is **the housing allowance**. The housing allowance decreases as a function of taxable household income. Earned wages is the chosen base, but excludes social minimum payments and the RMI. Moreover, the earned income of a RMI beneficiary are not factored into the calculation of resources used to calculate the level of housing allowance paid out. A level of income just above the level of the RMI leads to a markedly lower housing allowance. "On exiting the RMI situation" this mechanism gives rise to a reduction of disposable income.

Other mechanisms of the same type penalise in like manner any increase resulting from earned income. This is especially the case in which situation-related benefits are paid, such as social minimum benefits, or benefits paid to registered unemployed persons, but not to the level of total resource levels.

The loss of status on exiting a provision (on taking up a job, exiting the RMI, etc.) leads to the exclusion from an allowance, and hence to a drop in income. A typical case **involves exemption from the housing tax for beneficiaries of the RMI**.

Corrective measures already introduced

Aware of this difficulty, the public authorities recently attempted to correct the most flagrant cases of distortion. The 2000 rectification budget modified the application of the housing tax by introducing relief measures for all low earning tax payers.³²

The "Family Conference" in June 2000 provided for the introduction of a single scale for Housing Benefit (AL) and Personalised Housing Aid (APL) which, as from January 1 2002, aims at treating equally all sources of income (minimum social income, or earned income). Assistance will be maintained up to an income level equal to the RMI (or equivalent wage), and will then be reduced linearly in line with the increase in income.

Reform of the housing tax and housing allowance put forward in 2000 aims at reducing the "duration of reservation", the date on which a job begins to pay. But any benefit treating earned income or transfer payments asymmetrically increases this duration.

(31) Households with one or two children represent approximately 28% beneficiaries of the RMI.

(32) Discounting of the housing tax is applied to any taxpayer whose reference taxable income is below F 103,200 for the first level of family quotient based tax calculation, increased by F 24,230 for the first additional child, and by F 19,070 for the other children.

Table 1 – Impact of vocational change (a) on disposable income

	In F per month					
	From RMI to 1/2 Smic		From 1/2 of Smic to 1 Smic		From 1 RMI to 1 Smic	
	Prior to reform	After reform	Prior to reform	After reform	Prior to reform	After reform
Single without children	- 36	109	1 658	1 779	1 622	1 888
Single + with one child	- 361	- 200	1 985	2 085	1 624	1 885
Single with 2 children	230	393	2 113	2 150	2 343	2 543
Married couple without children	0	0	926	1 181	926	1 181
Married couple + 1 child	0	0	607	805	607	805
Married couple + 2 children	0	0	612	1 005	612	1 005

Reading: the impact of vocational change on monthly disposable income before and after the reform of the housing tax, income tax, before the reform of the housing allowances announced at the "Family Conference" in June 2000.

(a) Excluding RMI participation.

Source: Forecasts Directorate, Paris model.

Access to universal sickness insurance, which replaces free medical care paid for by the General Council, and which was linked to the RMI, takes account of all income. The definition of resources taken into account to assess eligibility treats indifferently earned income and minimum social payments. This measure considerably corrects the distortion in treatment of income whatever its source.

Universal Health Cover

Universal health cover (CMU), adopted in July 1999, and implemented as from January 1 2000, aims at providing immediate affiliation to the health care system for those persons who previously did not benefit from the health scheme, and to provide free supplementary cover to the six million persons with low incomes.

The provision, therefore, guarantees cover to those persons who do not have any support, or who do not have the wherewithal to pay for health insurance, and whose level of income does not exceed a given level (F 3,600 for an unmarried person).

Any individual having an income lower than a given ceiling, which varies according to the size of the family and the number of dependants, is entitled to **supplementary cover**. This entitlement applies for a year, and is renewable as long as the conditions of illegibility are fulfilled. Whenever the beneficiary ceases to fulfil the conditions, he is offered a one year contract, proposing the same benefits at a cost which does not exceed the one year ceiling established by an Order in Council (a decree).

It is important to note that in 28 "French départements" the income threshold chosen for the granting of the CMU is lower than that adopted for free medical assistance (Boiguesrin B., 2000), without any change to income situation.

In December 2000, 4.8 million persons benefited from supplementary cover. Since the implementation of the law, 1.5 million additional persons have been covered by the CMU as compared with the previous medical assistance rule. The introduction of the CMU has greatly helped those exiting the assistance scheme.

Problems pending

Recent or existing reforms constitute a major stage in the establishment of the transfer and contributions system to make work pay. A certain degree of progress has still to be made in order to homogenise the methods of calculating benefits. A substantive problem still persists, viz., the differential nature of minimum social benefits.

Amalgamation of resources taken into account

Distortions between earned income and replacement income continue to exist for many benefits which are, as a rule, defined and administered at local level. Quite often, they exist because they are linked to specific categories (status) of beneficiaries of minimum social benefits or unemployed persons. The benefits agencies find it easier to determine entitlement rights than if they were to rely solely on income returns.

Under the law on combating exclusions, the right to entitlement to a state benefit guarantees access to domestic-related services (water, electricity, telephone). In 1999, telephone subscriptions were reduced to F 33 for those persons being paid the RMI, the ASS, the adult handicap or war invalid allowance. Whereas in the case of the CMU, the legislator was careful not to introduce any distortion with regard to the origin of resources, a criterion of status, and not a condition of overall income, has been reintroduced, but for incomparable amounts.

These examples may appear to be of minor importance. However, apart from national measures which are easy to list, a great number of measures are defined by local authorities and applied at local level according to criteria which may or may not reduce the advantages to be gained from working. Quite frequently there exist reductions for access to public services as illustrated in the insert on the "mobility cheque" in the Ile-de-France region (Paris and the surrounding environments)

Up until now, very little information has been available on local practices or on the specific population groups targeted by these benefits. What is known, is that the total allocated budget is far from being negligible when compared with the RMI, and that local disparities are considerable (Pucci and Ralle, 2001).

The mobility cheque in the Ile-de-France region

The mobility cheque is a transport benefit paid to persons in difficulty. It consists of a cheque book to purchase transport tickets.

At present, the Mobility Cheques are provided automatically by registered letter to all registered job seekers in the Ile-de-France region and who are paid either the Specific Solidarity Allowance or the Single Degressive Allowance (AUD).

The Parisian Transport Authority finances the Mobility Cheques for beneficiaries of the ASS and sends out the cheque books twice a year, in March and October. The cheques are made out to those persons whose names and addresses are held by the ASS between January 31 and August 31 preceding the mailing. The total value of the cheques is F 700, i.e. 14 x F 50 cheques.

ASSEDIC finances a Mobility cheque book of the same amount to those persons benefiting from the AUD and fulfilling the following conditions: benefited from 181 days of AUD allowance and paid less than F 4,126.

For beneficiaries of the RMI (Minimum Insertion Income) the transport allowance is, as a rule, paid for by the départements of the Ile-de-France. It is necessary to seek the relevant information from the local Social Security Benefits Office of the General Council of the département of residence to ascertain whether assistance might be granted or not.

Young persons under 26 years of age engaged in the integration process are encouraged to seek information from the Local Missions or the Information and Guidance Agencies (PAIO) in their area. These agencies may grant them assistance financed by the Ile-de-France Regional Council.

The Paris-specific Mobility Cheque (in force since January 1999): Assistance to persons benefiting from the RMI

The Paris département automatically sends out a Mobility Cheque book for F 700 (14x50) to Paris residents paid the RMI allowance on the occasion of their first insertion contract in the year. RMI beneficiaries undergoing vocational training are paid an allowance reimbursing the cost of their two zone "orange metro/express rail travel card".

Assistance for persons paid the AUD allowance

ASSEDIC finances a Mobility Cheque book with a value of F 700 (14 x F 50) to persons being paid the AUD allowance and who fulfil the following two conditions: exceed the 181st day (i.e. go from 6 months to 7 months) for the payment of the AUD allowance and are paid less than F 4,126.

The Community Social Action Centre (CCAS) of the City of Paris finances an additional F 700 transport cheque book over and above the ASSEDIC subsidy paid to those persons living in Paris and who benefit from the AUD allowance. A supplementary cheque book of F 1,400 is allocated to Paris residents paid the AUD allowance who move from the 6th to the 7th month of AUD registration (i.e. those accumulate between 181 and 213 days of benefits) and those who, at that time, receive between F 4,126 and F 5,436.

The mobility cheque is distributed by various agencies depending on the situation of the person. The amount differs according to their situation. It may depend on the length of time the person has been in his/her situation (length of time the person has been receiving the AUD), and may depend on specific income conditions (amount of the AUD).

Differential character of minimum social allowances

This is an aspect inherent to all minimum social payment in almost every country. Assistance granted by society by means of allowances is deemed, the very nature of the aid, as being last resort aid, all other income being deducted from the allowance paid out. The 100% marginal rate of deduction on the first hours worked is applicable except in the case of the application of a temporary flanking provision on taking up a

job. It is open to discussion as to whether all allowances of a differential character³³ ought not to be changed into a degressive allowance based on earned income.

Temporary aggregation of earned income and benefits

By authorising the temporary aggregation of earned income and benefits (RMI, AUD, ASS, etc.), the various participation schemes help people who find a job, or who wish to increase the range of jobs for which they can apply in order to overcome the short term monetary obstacles. Participation allows a differential allowance to be paid temporarily in the form of an income-related degressive benefit. This aggregation scheme, however, differs, in two aspects, from a degressive allowance system. On the one hand it is temporary, whereas a degressive allowance scheme is permanent. On the other hand, a participation scheme is dissymmetrical. It is only triggered on the taking up of a job by someone previously unemployed. A degressive allowance is paid to anyone satisfying income-related conditions.

Under those conditions, the aggregation of earned income and minimum social payments contributes, temporarily, to the attenuation of marginal rate contributions on low incomes. In other words, the mechanism tends, temporarily, to cancel out the range in which the marginal rate of contribution is 100%.

Three general types of participation

- Certain countries (Australia, Japan but also the United Kingdom where the Job Seekers' allowances is paid) offer premiums to unemployed persons returning to work. Lump sums are paid on a one of basis and are independent of earned income in order to facilitate the changeover from unemployment to employment by helping the individuals to meet the expenses of returning to work.

- In the United States the introduction of the participation system was the results of a change in the American return to work policy which changed from Welfare to the more or less obligation to find a job, i.e. Workfare through the temporary aid to needy families programme (TANF). All those benefiting from the programme must register including non subsidised workers. Under this programme the aggregation of an allowance and earned income is authorised (income disregard) which differs from state to state and represents a fraction of income above the disregard level.

- In France the aggregation of social benefits and earned income is generally proportional to received income. For example, for someone paid the RMI, is unemployed but who finds a job and does not benefit from an Employment Solidarity Contract, each franc paid out on a supplementary wage increases the disposable income by 50 centimes.

(33) The problem does not only arise for the minimum social payments. Other family allowances generate threshold or marginal effects equal to 100%. The threshold effect with the "back to school" allowance, 100% marginal rate effect with the family supplemental allowance for the third child, etc.

Types of participation in France

In this part of the report we will consider four provisions concerning the aggregation of benefits and earned income: integration of RMI, its extension to the single parent allowance (API), the principal of reduced level of activity under the single degressive allowance and the specific solidarity allowance. Other provisions have also integrated the principle of this type of aggregation. For example, the Government decided that the Family Education Allowance (APE) would be maintained for a period of two months if a job was taken up between the ages of 18 and 30 months for a child.

- Participation is an essential element of the RMI provision

A beneficiary of the RMI is allowed to partially and temporarily aggregate his allowance with earned income. The 1998 law on combating exclusion strengthened this principle by allowing the total aggregation of earned income and the RMI allowance for the first 3 months of work. Half of the income is then retained for the calculation of resources for the subsequent nine months.³⁴ Since the adoption of this reform which prolonged the participation period, the number of beneficiaries of the RMI in the participation process increased by 16%. In 1999, more than 140,000 beneficiaries (14% of those receiving the allowance), and almost one household of two persons out of five³⁵ benefited from the RMI participation provision (Ministry for Employment and Solidarity, 2000).

Table 2 – **Breakdown of RMI beneficiaries under the participation provision in 1999**

Type of family	Number of dependants	Number of families receiving the RMI and falling under the participation provision	% of families of like size receiving the RMI	Average level of the RMI in Francs
Couples	0	7 254	16	1 568
	1	9 728	20	1 712
	2	421	20	1 785
	3	5 786	19	1 639
	4 and +	5 007	17	1 855
Single women	0	28 118	14	1 219
	1	20 185	18	1 372
	2	7 859	14	1 444
	3 and +	2 697	8	1 397
Single men	0	42 606	11	1 275
	1	1 122	14	1 551
	2 and +	388	12	1 681
Aggregated total		140 171	14	1 408

Source: Ministry for Employment and Solidarity, Report: *Construire ensemble une place pour tous, deux ans d'action de lutte contre l'exclusion*, 2000.

(34) If the person begins to work during the quarter, the amount of allowance for the following quarter is such that he will receive the total amount equivalent to three months at 100% followed by an aggregated amount at 50%. It is possible to aggregate the RMI with earned income over a year no matter how many hours are worked and longer than one year if the number of hours worked is below 750 hours.

(35) Couples, especially those with a child or children, single parent families for whom the allowance is higher.

However, aggregation is only possible as long as half of the net wage is lower than the allowance. The RMI allowance for a single person not exceeding F 2,402, excluding the housing benefit, earned income may not exceed F 4,804 which is lower than the Smic full-time wage.

RMI participation especially concerns low paid, part time work.

Employment instability for beneficiaries of minimum social benefits raises the question of the duration (and possibly the level) of RMI participation. Restrictions as to the length of the participation period does not equate well with the instability, precariousness and the level of remuneration paid for jobs generally available to RMI beneficiaries. A recent report of the Planning Commission (Belorgey, 2000) suggested extending the period of participation to five years. If this proposal were to be implemented it would have increased the dissymmetry between the situation of employed persons. It would create a marked, permanent disparity of income between two persons occupying low paid jobs over a long period, one of whom had experienced a period of unemployment and received the RMI a long time in the past, the other not.

- The extension of participation to the Single Parent Allowance (API)

The API is a differential benefit situated between the maximum ceiling paid to a beneficiary and his monthly income, and which are assessed each quarter. A provision for the aggregation of the API and earned income or vocational training allowances was introduced at the beginning of 1999. The scheme transposes the essential provisions applicable to the RMI to provide support for taking up a job.

Since the introduction of this measure approximately 10,000 API recipients (6% of the total) have been able to take up a job and receive a proportion of the allowance. Nevertheless, starting to work again represents a considerable expense for them (child-minding costs, etc.).

It was for that reason that the Government decided, within the framework of the Family Conference, to promote all forms of childminding by establishing a premium of F 2,000 to F 3,000 to be paid for by the National Employment Agency when the person restarted to work.

- Reduced activity within the system of the Specific Solidarity Allowance (ASS)

Over the past ten years and in order to facilitate restarting of work by unemployed persons, the public authorities have, gradually, broadened the possibilities of aggregating the ASS and income from "reduced working time" (reduced activity), the duration of work, or within the definition of "reduced activity".

Conditions pertaining to reduced activity working while being paid the ASS

The July 29 1998 Orientation Law on Combating Exclusion provided for new conditions applying to the aggregation of the insertion allowance and the ASS and income derived from a wage-paying job or other sources:

- The partial aggregation of the ASS and income from a job is possible over a period of twelve continuous or non-continuous months calculated from the beginning of the activity. The months during which the person did not occupy a paid activity are not counted. The aggregation may therefore extend over a period longer than a year.

- The aggregation of solidarity allowances and earned income is degressive. During the first three months, aggregation is complete, as long as the gross remuneration received during the month does not exceed one half of the full-time Smic wage. Inversely, the amount of the allowance is reduced by an amount equivalent to 40% of the proportion of the gross remuneration exceeding half of the Smic wage. From the 4th to the 12th month of work, the amount of the ASS is reduced by a sum equivalent to 40% of the total gross remuneration.

Having increased on a regular basis since 1994, partial and/or occasional working rose in 1997. By the end of 1998, 90,800 ASS beneficiaries occupied a reduced activity job as against 62,000 at the end of 1996. Up until the introduction of the new provisions on aggregation, it is not so much the number of beneficiaries making use of the aggregation rules which increased (up from 66,500 in September 1998 compared to 60,200 in January 1997), but rather those excluded from the benefit because they restarted work (33,600 in July 1998 as compared with 15,000 in January 1997).

The introduction of the provision resulted, initially, in a rise in the number of ASS beneficiaries having had the advantage of the aggregation rule (either totally or partially), and a heavy drop in the number of those excluded from the benefit provision.

Table 3 – Breakdown of ASS beneficiaries according to social categories employed on a "reduced activity" basis in 1999

Skills	Numbers	% of CS beneficiaries	Daily reference wage	Average daily wage rate	Average earnings from reduced activity	Average number of hours worked per month
Executive staff	757	8	368	86	3 534	64
Middle management	3 599	13	263	83	3 245	67
Unskilled staff	12 182	18	158	82	2 881	65
Skilled staff	12 800	17	206	82	3 174	70
Unskilled workers	20 161	17	158	82	3 087	67
Skilled workers	16 724	14	183	83	3 179	69
Undefined	4 467	12	44	82	3 037	67
Total	70 690	15	173	82	3 098	68

Source: Data estimated on the basis of a sample of 1/100th of the national Assedic register.

III

REMUNERATION FROM WORK AND SOCIAL JUSTICE

In December 1999, there were 71,000 beneficiaries occupying a reduced activity job. However, having taken up a job under the new provision the number of those excluded dropped to a level close to that prior to the introduction of the aggregation scheme (approximately 20,000).

- Reduced activity under the single degressive allowance scheme (AUD)

The authorisation to aggregate income from a reduced activity job and unemployment benefit has a twofold objective: (i) not to discourage an unemployed person from accepting a job, be it reduced activity or temporary, and (ii) not to encourage the unemployed to become accustomed to this intermediate situation. The rules applicable to reduced activity employment while benefiting from unemployment allowance were made more flexible in 1994 and 1998. Partial, or total aggregation of income and the AUD allowance is possible if work does not exceed 136 hours per month at a wage 70% lower than the gross monthly reference wage prior to unemployment.

Table 4 – **Breakdown according to social categories of AUD beneficiaries in reduced employment as of 31 December 1999**

Skills	Numbers	% of CS beneficiaries	Average daily reference wage	Average daily wage rate	Average earnings from reduced activity	Average number of hours worked per month
Executive staff	7 089	10	728	374	7 799	71
Middle management staff	40 387	25	565	241	6 282	74
Unskilled staff	55 144	18	226	132	2 954	60
Skilled staff	81 849	20	331	179	3 994	68
Unskilled workers	87 009	21	229	137	3 620	70
Skilled workers	62 915	20	275	156	4 159	75
Undefined	14 162	16	323	162	3 722	67
Total	348 555	20	314	167	4 097	69

Source: data estimated on the basis of a sample of 1/100th of the national Assedic register.

The number of beneficiaries in reduced activity work increased by 54% during 1992, partly because of the increase of the remuneration threshold (from 47% to 80% of the reference wage) as from which benefits were suspended. A period of stabilisation at around 20% of the number of AUD beneficiaries in reduced activity employment apparently took place from mid 1996 to mid 1998. By the end of 1999, 349,000 beneficiaries received the AR under the unemployment benefit scheme.

Taking into account the employment dynamic

An analysis of high contribution levels is often reduced to making a comparison of the immediate advantages gleaned from working or not working. It is static, whereas individual decisions are staggered over time. Restarting to work opens up prospects for subsequent improvement (higher level of experience, possibility of finding a better paid job, increased pension entitlements, etc.) and which may more than offset the immediate low earnings from restarting to work. It is, therefore, necessary to include new factors in analysis of contribution rates:

- Given existing choices, the probability of obtaining a "better" job later;
- Preferring the existing situation, or improving one's situation in the future;
- Identification of the effects of losing one's skills because of unemployment, or symmetrically, the accumulation of human capital through job changes.

In the wider framework, a situation in which work does not pay in the immediate time-frame may lead to a situation in which work begins to pay in the longer term if it improves future earning prospects, and if the currently accepted rate is low (Laurent T. and L'Horty Y., 2000).

A person may accept a job which costs him money in the short term if it increases his chances of finding better paid job in the future. On the other hand, a job providing an immediate increase in earnings may not "pay" in the long term if it provides only limited prospects of finding better paid jobs in the future.

According to the 1998 RMI study, whereas RMI beneficiaries usually say they are seeking a full-time job paid at the Smic rate, a majority of them accepted part-time work. Of 26% RMI beneficiaries in December 1996 who occupied a job in January 1998 almost 66% of them had part-time employment (90% of whom stated they would like to work more). 28% of those exiting RMI status, and who have job (often part-time) say that it is "a first step towards finding a real job". 33% say that it is "better than nothing", and 39% say that it is "a real job". (Afsa C., 1999).

It is, therefore not sufficient to take account of any immediate increase in revenue as a result of occupying a job. It is also important to take account of the chances of such persons moving from low-paid employment to a better paid job, and to try to identify the types of jobs which are real stepping stones to improving their situation on the labour market. This point was addressed in Chapter 1 which should be more intensively studied.

Should work pay?

Is finding a job so important in terms of gaining material advantage? In considering this point, the different priority weights to be afforded this objective must be put into the balance. The objective is situated at the meeting points of two approaches.

Encouraging the supply of work

To the extent that the number of persons seeking work would satisfy the demand of businesses, any encouragement of job supply would increase the level of employment and, possibly, reduce the level of unemployment. It would also contribute to bolstering economic activity. Inversely, better expansion prospects ought to have a positive effect on employment and the level of unemployment. However, there is no guarantee that increased economic activity, even if it is sustainable, nor demographic trends will suffice to absorb unemployment entirely.

In this context, any improvement in their prospects of finding a job is not going to be achieved by providing assistance and encouragement to persons excluded from the labour scene to return to the labour market, or to increase their amount of time worked.

Theoretical and factual elements to encourage work

The concept of the unemployment trap recalls the discouragement to taking up a job; the poverty trap recalls the discouragement to increase one's income if a person is already in a job (increase in the duration of work or effort in order to increase earnings).

The conventional micro-economic analysis which establishes a link between work supply and the monetary advantages gleaned from the increase in volume of work, attempts to provide an explanation for such traps.

In its simplified version, the level of offers for work results from the differentiation between consumption and leisure activities. An increase in income induces both a consumption substitution effect for the time not worked, and an income-related effect. Any increase in income allows people to work less in order to better combine leisure time and consumption, and thus to improve their well-being. The decision depends on the marginal drawbacks of working and the total amount of income derived from the transition between two labour market conditions, i.e. inactivity and employment, or part-time and full-time time employment).

By combining this type of simplified model and the data derived from the 1997 Employment Survey, Laroque G. and Salanié B. (2000b) arrived at the conclusion that "deliberate unemployment" in France exists because "work does not pay". However, they also demonstrate that people accept employment even when "it does not pay", and stress that motivations other than monetary advantage come into play. Moreover, according to the results of the "Exiting the RMI" 1998 survey, almost one third of RMI beneficiaries who take up a job say that it is not to their pecuniary advantage (12.1% say that they lose out) (Afsa C., 1999). The simplified micro-economic framework used above is challenged by other analysts who advance many arguments. Some of them can fit into this framework whilst rendering it more complex. For example, more elements could be included in the usefulness function to

expand supposed attitudes, and to better apprehend certain empirical results. Other arguments throw up more profound challenges.

Rather than enter into a debate on those points, there is a certain number of conclusions resulting from the macro-economic approach on which a certain degree of consensus would appear to exist between the various analytical approaches.

- If the offer of employment by a person is determined by the net pecuniary gain to be obtained attention must be paid to the level and modalities for tax deductions and the definition of benefits and social transfers subject to income conditions. Attention must also be paid to the costs related to taking up a job or restarting work: childminding, transports, midday meals, clothes, housing, etc.

Childminding costs are a major obstacle to taking up work for a single parent and for couples when both wish to work³⁶ and which has led certain countries to subsidise childminding costs for households with modest incomes (OECD, 1996; Flipo A and Olier L., 1996)

The taking into account of work-related expenses is worthy of consideration. In France, deduction of work-related expenses is included in the tax return. It is proportional to wages (under a given ceiling), except in the case of returns mentioning actual expense levels. This mechanism excludes work-related expenses for the majority of persons taking up a job on exiting the minimum social payment scheme. This part of fiscal policy applies only to those categories of households who incur high levels of work-related expenses (young parents, etc.)

In European countries where social benefits are financed mainly out of direct taxation than indirect taxation or social contributions, aid is provided on a lump sum basis, and is therefore more tangible at the lower end of the wage scale.

- In the simplified model, it is assumed that people will decide between income and leisure time, and the situation in which they are observed reflects their choice.

Many low earners say that they would like to work (if they do not have a job, or that they would like to more. Many surveys show this result to be frequent (cf. also Chapter I). By way of example, out of 26% of RMI beneficiaries in December 1996 who occupied a job in January 1998, almost 60% of them were working part-time, but wanted to work more. Although the economic situation may allow an improvement in the total job offers and reduce the number of short-time working, many changes would need to be implemented in companies and in work organisation in order to facilitate adjustment of job offers to workers' aspirations.

(36) In the light of consumer studies it is the only significant expense made by women all things being equal. (Robin J.M and Pascal A., 1995).

- The decision between working and inactivity requires to be taken with the longer term in view.

An aim to be taken carefully into account when introducing certain employment policies should be to see to it that jobs which "bring in very little" should result in better jobs. The majority of Employment Solidarity Contracts do not generate non-subsidised jobs (cf. Chapter V). They are mainly half-time jobs, and if one considers their initial purpose which was to help looking for a job and undergo training, the employer is able to benefit from partial payment of their cost. In practice, however, this is far from achieving the declared objectives.

- The decision as to whether to work or remain inactive requires sufficient information to be available to help in decision-taking.

The complexity of existing provisions and the proliferation of offices means that persons concerned (beneficiaries of minimum social payments but also people they have to deal with) are often incapable of knowing what will be the long-term consequences and chronic impact on their level of income, if they take up a job. A number of proposals were put forward in the recent report by the Commissariat du Plan (Belorgey J.M., 2000) suggesting improvements in the definition of provisions and the conditions under which they are applied so as to reduce the uncertainty as to their effect.

- Over and above the question of immediate pecuniary gain, or considered over a longer term, work is fulfilling in terms of its impact on the status of the individual and contributes to his social integration.

Status cannot be reduced to a mere comparison of work or non-working situation. Various sociological studies put forward the notion that the status of a part-time worker is not the same as that of a full-time worker, and that a Employment Solidarity Contract (CES) is not always deemed to be a "real job", or that the status of someone receiving unemployment benefit is not the same as that of a person receiving, for example, the RMI minimum benefit. This is a situation which ought to draw attention to the ways and means according to which policies are implemented.

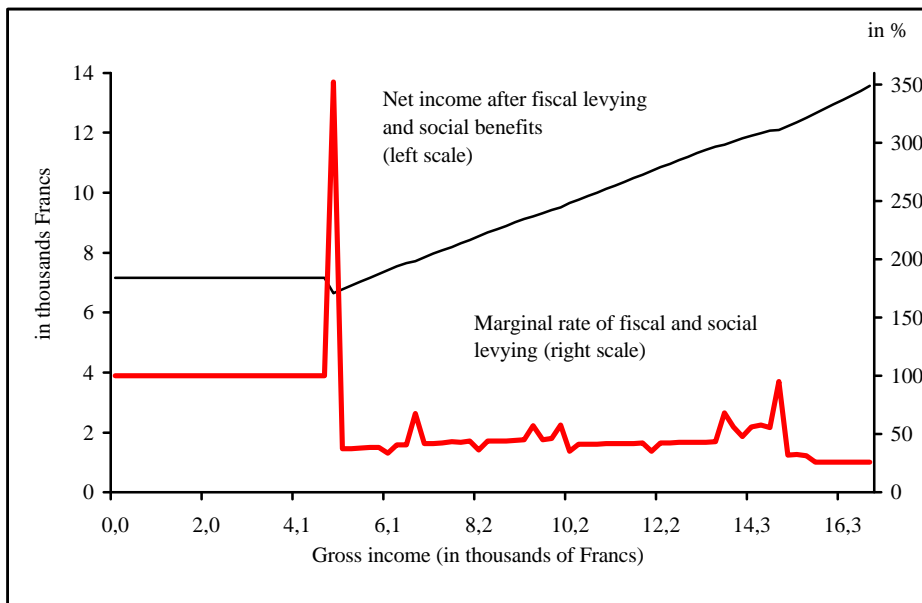
There is no difference between an official dealing with someone receiving an unemployment benefit allowance and a "social worker". The functioning of the RMI scheme, the third level of unemployment benefits (especially for first time job seekers), can be called into question. Other countries afford considerable importance to the unemployment benefit for the purpose of "integration" which is separate from the minimum income benefit (Germany, for example).

What is the actual contribution?

Quite independently of the actual rate of contribution, the exact contours of which are badly known, the analysis of the disincentive to take up a job is often founded on the existence of high marginal contribution rates. There is a disincentive to offer one's

willingness to work because of the existence of high marginal contribution rates. There would also appear to be a disincentive to offer one's employment as soon as a unit of supplementary income were to be more or less entirely absorbed by tax contributions and/or the loss of benefit entitlements and transfer allowances. The result, which is in keeping with the standard macro-economic model, for whom the person concerned equals the marginal utility and marginal cost, is worthy of consideration.

Graph 2 – Contributions based on gross income in terms of level and marginal rates (married couple with two children)



Source: Guimbert S., Lamotte H., Lefebvre E. (2000).

A marginal contribution peak may very well only have negative effects on local job employment offers. The various forms of labour contracts do not always apply to the "continuous" work time logic. The marginal rate peak does not pose a problem per se, except for those proposed in this income bracket. Under those conditions, it may be more realistic to consider the variation of the average rate of contribution to be paid by a worker if he increases his income between two given situations, or the disparity in terms of the level which might be obtained by the change.

Approach based on redistribution fairness

The high level of contributions (in the broad meaning of the term) on low household earnings, must not be considered solely from the point of view of incentives to encourage people to offer themselves for employment. It poses the problem of redistributive fairness.

Should one consider as equitable, from the point of view of fiscal fairness, that low incomes from work should be subject to much higher levels of contributions than much higher income levels? From this stand-point, various elements mentioned above may be viewed in a different light.

The first element concerns the dynamics of returning to work. If jobs are subject to immediate excessive contribution levels constitute stages in the access to better jobs (better from the point of view of a lower marginal contribution level), then the problem of fairness would appear to be less urgent³⁷. Moreover, the temporary correction of marginal contribution rates by means of a provision providing for the aggregation of social benefits and earned income, such as the RMI participation scheme, would appear to be an adequate response in terms of fiscal fairness.

However, it is acknowledged that a number of situations in which work does not pay, are long-lasting situations. Is it necessary, therefore, that the transfer payment system be organised in such a way that earned income should never be subject to excessive contribution levels, which would lead, one way or the other, to change from a differential allowance to a degressive allocation for minimum social payments? The response is not all that evident, as the different types of social protection impact the functioning of the labour market and individual approaches. By filling the gap between insufficient earned income is there not a danger that various forms of employment might not be developed, and which might cause the development of jobs generating a sufficient level of income? Is there not a risk that one might encourage a lesser willingness to seek more satisfying jobs?

The difficulty in achieving coherence

One of the difficulties of policies aimed at making work pay more for the low earners is that they, necessarily, lead to an increase in higher marginal contribution rates in income distribution. This aporia comprises two facets. The first results straightforwardly from the need to finance the cost of each corrective measure. The second is due to the fact that the situation of persons or households whose incomes are just above the level at which the correction is made, will deteriorate in ratio to their previous situation. By increasing the marginal advantage gained from working by reducing the marginal contribution level to a given income level, reduces, in relative terms, the marginal advantage above this threshold.

It is, therefore, necessary, to find a solution to reduce the undesirable reactions on the part of workers or households who find themselves in a range of income level at which this relative reduction of income is triggered. The type of provisions which can

(37) A dynamic approach calls for a comparison of updated income flows rather than immediate income only .

be introduced takes on its full importance in practical terms (Chapter IV). The aim being to re-establish consistency in income distribution, which ought to be the final objective, is difficult to achieve.

INTRODUCTION

The aim of low income support measures is, as a rule, to improve the standard of living of the most disadvantaged individuals and households, and to combat poverty. The most marked conditions of poverty arise from being without a job.

Access to employment is, therefore, the main means of combating poverty and social exclusion, however, the mere fact of occupying a job does not entail disposing of sufficient income to escape poverty. Which low income complementary support measures ought, therefore, to be developed, whilst not preventing access to employment? It is that question which will be addressed in this chapter.

The low standard of living of households of working age results from the low level of earned income, or because of the insufficient level of child allowances (Chapter II). This chapter will not address family policies which would require other analytical studies and other proposals.

The chapter focuses on low earned income support policies which have been the object of many reform proposals since the end of the Nineties.

We will analyse the recent **Employment Premium**, consider its implementation modalities, and study its expected impact in terms of access to employment and redistribution effects.

Limiting the chapter to wage earners only

Numerous discussions have taken place recently on the diversity of applicable instruments. The introduction of the employment premium will probably not be the last stage in the range of low income support instruments. It would, therefore, appear to be necessary to broaden the analysis and to respond carefully to the various arguments advanced.

This study will consider wage earners only. Even although the employment premium applies to low income, non-wage earners, the problem mainly concerns wage earners, and calls into play other public authority³⁸ intervention measures, in particular, the fixing of the Smic, i.e. the minimum wage level.

The low level of wages results from low rates of pay, or insufficient working hours. Both dimensions are frequently combined; low skilled workers, or workers paid at low wage levels frequently occupy "short-time working" jobs.

Low income support measures may be targeted to offset one or the other insufficiency, which determines the two major categories of instruments; i.e. those

(38) Support for low earning self employed workers also applies other mechanisms of "regulated prices". For example poor self employed persons include a high proportion of farmers.

which have an effect on the net hourly wage, and those which compensate for the insufficiency of working time. Before reviewing these aspects, it is necessary to recap some of the aspects of the current context.

The context

The considerable numbers of low skilled unemployed entails that any increase in the cost of low skilled labour in relation to the average cost of labour must be avoided (Chapter I). Any increase in the level of net wages without raising labour costs calls for the introduction of higher levels of degressivity of social and tax contributions, viz., all social contributions and income taxes.

For married persons, the polarisation of employment situations is tending to increase. The number of married couples where neither the husband nor wife is working is on the increase, as is the case where both work, whereas the proportion of couples in which only one of them work is decreasing³⁹. Deciding which member of the couple should work depends, in part, on the earned income level of the other, and the other sources of income of the household. Taken as a whole, contributions and transfers in low income households encourages this polarisation. In a nut-shell, "working pays when the spouse is already in employment; working pays less, or not at all, if the spouse does not work". Any replacement income support scheme must, therefore, be examined as to its effects on attitudes to work and, in particular, on whether both spouses should work.

On taking up a job, the number of persons receiving unemployment benefits decreases more rapidly than the number of persons receiving the RMI allowance. This is a trend which will continue. Any low earned income support scheme must take account of the interaction with other types of replacement income, and in particular with RMI allowances.

After having described the characteristics of the employment premium, this chapter will try to position it in the range of low income support schemes which have been largely debated and studied since the end of the Nineties.

It will be observed that the employment premium has rather diffuse redistribution effects and provides insufficient assistance to those households on the employment fringes, and to poor workers. Moreover, for married couples, it scarcely reduces the polarisation of employment.

In order to progress down the path of this approach, we deemed it useful to study, in parallel, even although the aims and purposes differ, those proposals for the allocation of a compensatory income allowance.

(39) ven although this polarisation would appear to be lower in France than in countries such the UK.

EMPLOYMENT PREMIUM

The introduction of a degressive reimbursement of the CSG and the CRDS having been judged as contrary to the Constitution, the Government amended the provision to take account of the objections raised by the Constitutional Council and comments advanced in public discussions.

The instrument finally adopted introduces a work-related premium.

The premium will be administered by the inland revenue administration and may be either in the form of income tax relief, or paid by cheque by the Public Treasury. It is intended that the Employment Premium will be increased over three years, in three equal increments. The situation will be presented on the basis of the complete draft.

Low income support instruments

During the course of recent discussions, two other possibilities for increasing low income levels without having any impact on labour costs and, therefore, without any risk of reducing companies' demand for low skilled labour:

- The increase of the gross Smic compensated for by a corresponding reduction in employers' contributions, for example up to 1.4 times the Smic.
- Maintenance of the level of the Smic, and a degressive reduction of social security contributions to 1.4 times the level of the Smic, including a reimbursement of the CSG and CRDS.

These measures are not, however, completely equivalent in the context of the reduction of working hours.

Any increase in the level of the Smic has an impact on wage levels situated immediately above the Smic, but gradually falls off. It has been estimated that the impact falls off as it attains 1.4 times the Smic (CSERC, 1999). Given this assumption, the degressive phase of reductions in employers' social security contributions offsets the effect of increasing the Smic, and the distribution of labour costs remains unchanged. Whether action is taken on employers' or workers' contribution, the effect is the same. However, any reduction of employers' contributions is subject to different perceptions by public opinion.

During the period in which the reduction of working time is to be introduced and given the monthly (wage guarantee for Smic earners, the increase in the level of the Smic would produce the specific effects referred to in Chapter I (quicker cancellation of the wage supplement and an even greater impact on wages in the final phase).

An increase in the level of Smic, even if it were to be compensated for by a reduction of social security contributions, would also make it more difficult to operate any necessary reintroduction of the policy to increase sectoral collective agreements on the increase of minimum wage levels.

It is also more difficult to reduce the levels of contributions impacting on replacement incomes (pensions), even if the reduction is compensated for a budget line transfer, whereas the long-term equilibrium of the pension schemes is not guaranteed. This would entail sending out a signal which would not be readily understood. In like manner, any impact on unemployment contributions could generate further discussions following on the debates concerning the new Unedic Agreement.

The burdening of the general social contribution with the reduction raised other issues concerning the nature of this contribution which is, in fact, a direct tax on income, and would also entail a step backwards in terms of progress towards the introduction of a cross-the-board tax to finance, in part, social security protection.

The employment premium is only one of a series of measures seeking to avoid such pitfalls.

An employment-related premium

The premium is paid to any working person. It is determined on the basis of income level:

Four conditions of eligibility

- The premium is paid only to those tax-paying households in which *at least one person is working, i.e. receives a wage.*
- *The period over which the job has been occupied must have been of sufficient level: i.e. annual income must be greater than 0.3 of the Smic (F 20,575 in 2000).*
- *The income of the beneficiary derived from the job must not exceed a given level, i.e. F 96,016 for the year 2000 which corresponds to 1.4 times the annual full-time Smic. This condition defines an "hourly rate" since it is stipulated that if the job is part-time, or recruitment took place during the course of the year, the income is converted into full-time equivalent terms⁴⁰*
- *The taxable income of the household to which the person belongs must not exceed a ceiling which varies according to the size of the family.*

Table 1 – Eligibility ceilings

	Taxable income	Annual wage in the absence of other taxable income	Monthly earnings	Wage expressed as a proportion of the Smic
Single childless person	75 996	105 550	(a)	1,5
Single parent with one child	118 001	163 890	(a)	2,4
Married couple without children	151 999	211 110	17 592	3,1
Married couple with one child	172 994	240 270	20 022	3,5
Married couple with two children	193 997	269 440	22 453	3,9

(a) For single persons, the ceiling may not be reached if only earned income is taken into account.

These taxable income ceilings are often situated in the bottom end of the income tax bracket. Some taxable households will be able to partially benefit from income tax relief initiated under the three year fiscal and the employment premium scheme.

(40) person who has worked for six months in a company at 1.2 times the Smic and in a other company at 1.6 times the Smic will have his allowance calculated on the basis of the first six months worked. It is highly probable that any wage increase in the same company will lead to crossing the hourly threshold of 1.4 times the Smic and will not be taken into account if the annual income on the basis of full time work remains lower than the annual 1.4 times the Smic. Such limit cases are probably not very frequent

Taking account of family size

The ceilings include income other than those to determine the employment premium. They may differ as to their source and vary in level. Let us consider, for example, a full-time worker earning the Smic, and who receives the maximum employment premium.

If the person is unmarried and without children, he/she may receive an income (which may not be from earned income) amounting to F 7,400 (i.e. F 600 per month) which corresponds to the difference between the F 75,996 ceiling and the annual Smic. With one child, the supplementary income benefit may amount to F 49,500 (F 4,100 per month).

For a couple, supplementary income may be earned income. For a couple without children, and for whom the first full-time Smic earnings will benefit from the maximum level of the employment premium, the second wage may only correspond to 2.1 times the Smic, i.e. F 142,500 (F 11,900 per month). With one child, the second wage may attain F 171,700 annually (F 14,300 per month), i.e. 2.5 times the Smic, and with two children F 22 800 (F 16,700 per month) i.e. 2.9 times the Smic.

Although the purpose of the employment premium is to increase the modest level of *individual* earned income, it is payable to taxable households whose income from sources other than earnings, or income derived from a second wage may be quite high.

The standard of living corresponding to various ceilings (fiscal income plus family allowances, less direct tax in relation to the size of the household) is, for single persons, situated within a range of six to seven deciles of the standard of living of all households, and for couples from seven to eight deciles.

Two parameters factor in the size of the fiscal household: the first, described above, concerns the threshold of eligibility. The second corresponds to fixed increases of premiums on the basis of the schedule below:

- F 500 per year if, for a married couple, only one person works
- F 200 per year and per dependent (F 400 for the first dependent child in the case of single persons).

It is, therefore, not so much the increase in premiums which takes account of the size of the family, but rather the eligibility bracket.

Table 2 – Schedule of equivalence

	Family quotient	Eligibility for the employment premium	Insee schedule
Single, childless person	1	1,00	1
Single person with one child	2	1,55	1,5
Married childless couple	2	2,00	1,5
Married couple with one child	2,5	2,28	1,8*
Married couple with two children	3	2,55	2,1*

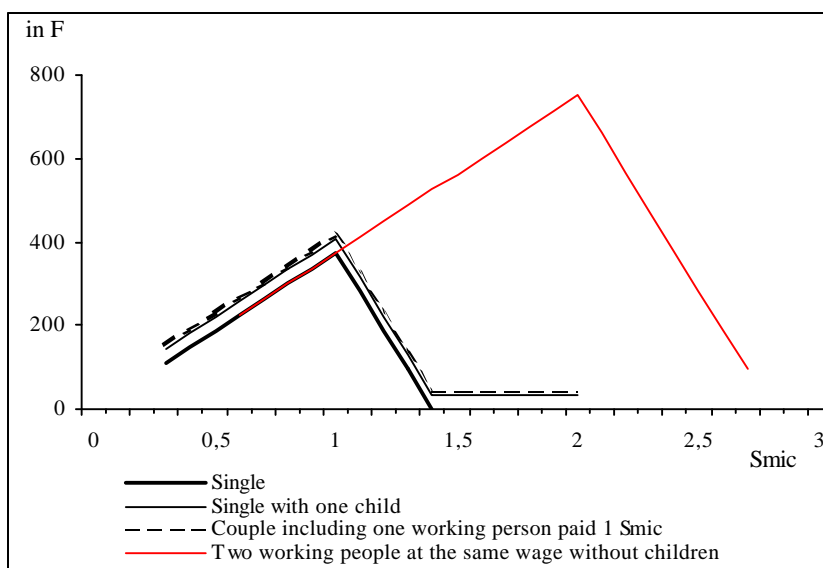
* children under fifteen.

This increase corresponds to a specific equivalence schedule which is neither the family quotient, nor the Insee scale of consumption units defining standard of living on the basis of disposable income.

Relation between the amount of the premium and the level of earned income

The employment premium (excluding the lump sum increases to take account of the size of the fiscal household) represents, for wages between 0.3 and 1 times the Smic, a 6.56% reduction on the levels of social and tax contributions (by 2003, and by 2.19% in 2001). This reduction is degressive, and ranges from between 1 and 1.4 times the Smic (Graph 1).

Graph 1 – Monthly supplement payment generated by the employment premium



Source: Cerc calculations.

The premium is positioned in the category of those instruments, the purpose of which is to increase the net wage rate without increasing labour costs. Its level increases for full-time employment paid at a rate close to the Smic. The employment premium

does not differ fundamentally from the reimbursement on the CSG or the CRDS. On the other hand, it does not attempt to offset income insufficiency due to the low number of hours worked over the year. The government's explanation of this aspect emphasises the fact that the division line at 0.3 times the Smic, included in the premium, (and which did not exist for the CSG), aims at encouraging the exit from reduced activity situations, and not to encourage very part-time work.

The employment premium will thus increase low incomes from short-time working by between 0.3 and 1.4 times the Smic. However, other provisions have an impact on low incomes, in particular the RMI for very low earnings, as well as direct taxation on higher earnings. Both depend on the size of the household⁴¹.

Integration into the social protection scheme

The RMI being a differential based allowance (excluding the temporary participation mechanism for taking up a job during the first year of job occupation), earned income does not increase the total income of a household up to the "RMI exiting threshold", i.e. until such times as they exceed the income ceiling determined for each family and housing situation.

The employment premium hardly modifies the situation for "low" periods of work (Table 3), although, for a couple with two children, it might involve working 8/10 of full-time employment! From a starting-point of one third of time worked up to the exit level, the advantage in pecuniary terms for one hour of work increases from zero to two or three francs.

Table 3 – **Effect of the employment premium on income on exiting the RMI scheme**

	Exit threshold from the RMI in terms of Smic	Number of hours worked per month	Earned income or RMI*	Monthly employment premium	Pecuniary advantage per hour of work in francs
Single, childless person	0,41	69	2 246	154	2
Single person with one child	0,58	98	3 216	251	3
Married, childless couple	0,58	98	3 216	259	3
Married couple with 1 child	0,69	117	3 836	317	3
Married couple with 2 children	0,76	128	3 916	360	3

* excluding lump sum housing allowance.

N.B.: It is assumed that, in the most favourable case, that one person in the household earns the hourly Smic rate. The employment premium will increase the income of a household receiving the RMI as from 0.3 of the Smic (51 hours per month).

The RMI being a differential allowance, i.e. all resources are deducted in order to determine the amount of allowance paid; too low income levels from work do not

(41) For reasons of simplification it will be assumed that the taxable household and the household within the meaning of the RMI definition.

contribute any additional advantage to RMI beneficiaries. This explains why various proposals have been put forward to allow income from work to increase benefit recipients' income. Participation is one method, however it is only temporary. Discussion centres on whether it would be wise or ill-advised to introduce a permanent provision. By doing so, the second type of instrument is introduced which, whilst encouraging the taking up of a job, takes account of, and partially offsets the low level of income of those persons who are unable to find a job offering sufficient working time.

OFFSETTING THE INSUFFICIENCY OF TIME WORKED

One of the proposals concerning this aspect was put forward by R. Godino (1999). The initial proposal was just an outline, and was worthy of refining in order to respond to various objections. Prior to examining an initial scheme to compare it with the employment premium, and subsequently to consider various improvements, it is necessary to explain and clarify the aims and purposes of this type of measure.

Aims and purposes

As regards low income, two cost levels are administered by the public authorities: on the one hand, the level of the minimum wage (hourly rates, but which correspond to an implicit standard of minimum wage level for a full-time job as demonstrated by the application of a guaranteed monthly wage on the change-over to the 35 hour week), and on the other hand, the minimum income, i.e. the RMI guaranteed to those persons without a job. To establish those administrated costs, the public authorities must define the conditions under which the change from one situation to the other takes place, on the basis of earned income. In the current situation, excluding participation, all income from a low paid job is deducted from the allowance paid, as for any other source of revenue. Beyond the exit level from the RMI, any net income (from work, or any other source) is kept up to the level at which income tax has to be paid.

Implicitly, this profile implies that, for the public authorities, a job generating low income levels must not be held on a permanent basis as the first wage in a household, however the various family size related exit situations have grotesque results: a job paying the half-time Smic would not be acceptable for a couple, but would be accepted for a single person⁴².

(42) By defining a single threshold in terms of earned income, whatever the makeup of the family, the employment premium offers a better explanation. Jobs of too short duration are undesirable if they exist on a permanent basis. On the other hand the very low level of earnings allowed by the employment premium, between 0.3 times the Smic and the RMI exit point, demonstrate that the purpose of ACR is different from the employment premium since it enhances the self-esteem of low income earners.

A scheme for the compensatory income allowance

The proposal put forward by R. Godino (1999) aims specifically at ensuring a regular transition between the two administrated costs.

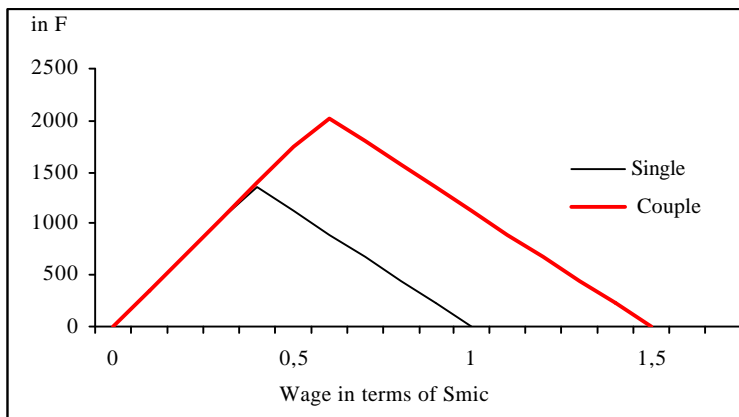
The allowance replaces the RMI for a household without any earned income, nor without any other source of income. It is reduced, as for the RMI, franc for franc, for any replacement income, or income from assets. It is reduced by only a proportion of earned income (as is the case under the current participation scheme on taking up a job at RMI rates). In other terms, the supplementary allowance, in relation to existing provisions, is zero for a household receiving the RMI allowance and no earned income; it is at maximum level for a household receiving the equivalent of the RMI from earned income if no other income is received. It then drops to zero when it reaches a level of wage deemed to be sufficient. For a single person the level proposed is that of the annual full-time Smic. By applying the same rate of deduction from earned income, the allowance would be cancelled out for a couple receiving 1.5 times the Smic rate. The marginal contribution rate is constant between the RMI and the level of the Smic.

The main difference in relation to the Smic is that the ACR comprises a work-related permanent participation element for all low earnings.

Explanation of the simulated allowance scheme

There follows an explanation of the supplementary income derived from the combined ACR. The allowance paid out to complement earned income, and which is supplementary to the RMI allowance, is shown in the graph below. It is not dependent on the number children. As for the RMI, the ACR is reduced, franc for franc, for any income, in particular from assets. The level of contributions on earned income is 60%, as compared with 50% for participation under the RMI scheme.

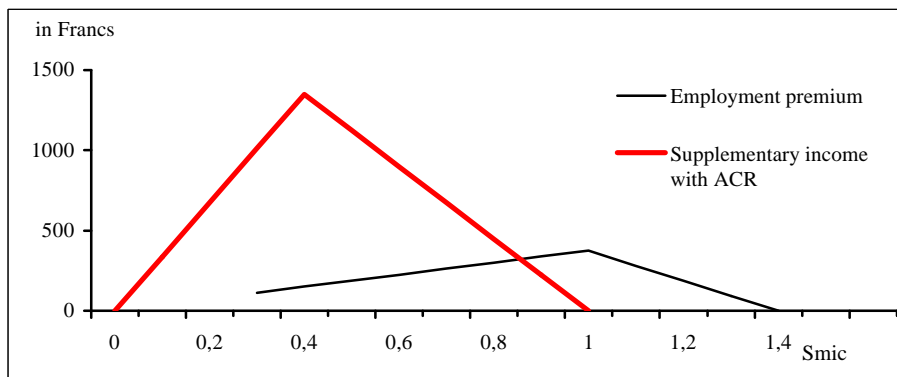
Type of income supplement provided by the ACR according to family size



Its make-up is similar to that of the employment premium, and approximately in line with the increases for a non-working spouse or for dependent persons); there exist, however, three important differences. The first is that its scope is shifted towards low incomes. The second is that it takes accounts of the total earned income of a household, and not of the individual income of each person in the couple; the total earned income is limited to 1.5 times the Smic close to the individual 1.4 threshold of the employment premium. Any income, other than earned income, or to be more precise any amount taken into account for the calculation of the basic income for the RMI, is deducted from the allowance.

In this variant, it is assumed that income taken into account is based on the annual income tax return, as is the case for the employment premium.

Graph 2 – Income supplements from an ACR and employment premium paid to a single person



Source: Cerc calculations.

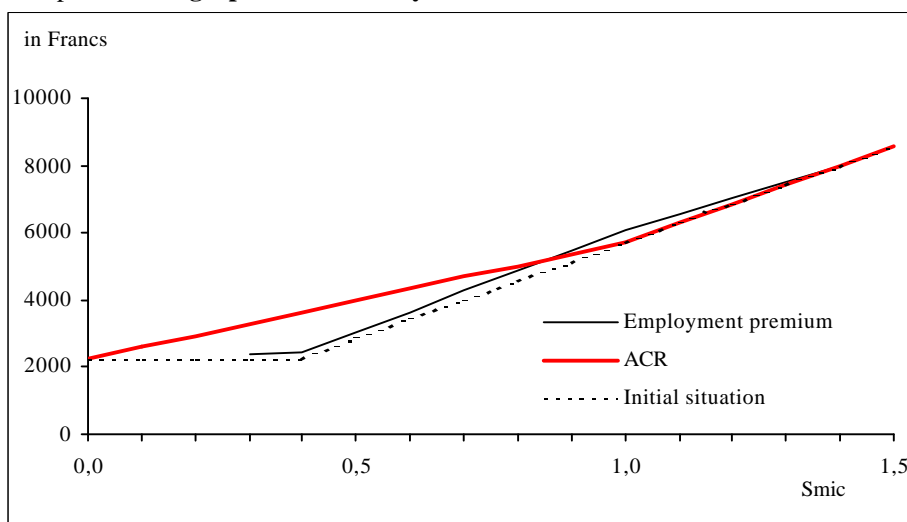
This type of measure aims at tackling the problem of insufficient hours which a single person or a couple may work. As of a given level, defined by the minimum income, excluding employment, the allowance is reduced, on a proportional basis, by the time of employment which the person or the couple have been able to find. This explains the queries as to the wisdom of expanding this type of instrument, and the discussions about induced attitudes on the part of people offering their services, or on job offers, the consequences of which are deemed negative by some persons.

The income compensatory allowance aims at reintroducing consistency between the various instruments applying to low income levels. The purpose of this consistency is to make work pay (graph 3).

An instrument such as the income compensatory allowance may be interpreted in two ways :

- Its aim is to see to it that work, whatever the duration will provide an increase in income; it comes into play in that range of earned income lower than the RMI.
- It may partially offset the fact that a household has not been able to find work providing sufficient hours to earn a sufficient level of income. It increases the income of working beneficiaries of the RMI by the amount earned, however it also supports incomes above that level thus supporting the opinion, shared by those in favour of the employment premium, that it is necessary to increase the purchasing power of low earned income.

Graph 3 – A single person's monthly earned income and total income



Source: Cerc. calculations.

A number of differing solutions have been advanced⁴³ to respond to certain objections raised. Moreover, examples from abroad, such as the WFTC in the UK may be compared with this type of instrument.

COMPARISON OF THE TWO TYPES OF MEASURE

The comparison between the employment premium and a measure such as the ACR allows a better comparison of their characteristics and the objectives which they aim to achieve.

Cost to the budget

If two measures are to be compared, it is necessary that they have similar budgetary implications.

The Government has explained that the employment premium is a provision within the same financial envelope as the previously adopted measure. The estimated amount over a three year period amounts to 24 billion francs.

The cost of a provision such as the ACR may vary according to the manner in which the parameters are set, as has been shown by the study carried out by Roth and Murat (2000) and presented at the "Working Poor" Conference held in France. In this chapter we will use an additional variant developed by the same authors at the request of Cerc, and which is summarised in the insert. The estimated cost of the measure is of an order of magnitude of 17 billion francs.

This lower cost would appear to contradict the fact that, at its maximum level, the allowance for a single person or a couple is much higher than the maximum employment premium. This results from the fact that an ACR has a smaller target group than that of the employment premium.

In the final analysis, one may consider both measures to be comparable in budgetary terms, especially as in both cases there is a high degree of uncertainty as to the results because the information necessary to calculate the figures is imprecise, or has had to be reconstituted.

Very different beneficiaries

Two more fundamental differences exist between those instruments which, as for the employment premium, increase income as a proportion of the earned income, and those, the purpose of which is to compensate for the insufficient income derived mainly from insufficient working hours, as is described in the ACR scheme. These

(43) Other variable rate schedules have been studied by varying the threshold at which the allowance starts, the level at which it stops and the type of aid between the two thresholds (Laroque and Salanié, 2000a; Gravel and others, 2000; Murat and Roth, 2000).

provisions concern the type of target groups concerned, whether it be in terms of hours worked or size of the family.

Full time or incomplete working hours

Income compensatory allowances are targeted on those workers occupying precarious and part-time jobs

Firstly, it must be said that the two types of provisions differ in the manner in which they take account of working time. They provide very different supplementary income benefit to reduced-time working, whether part-time workers or workers on full time but who only work part of the year (fixed duration labour contracts, alternation between employment and unemployment, temporary work, etc).

In both cases, a person who occupies two part-time jobs (paid at the Smic rate) would benefit from the same supplementary income benefit as a person who has a full-time job, which would appear to be the best solution. However, a person who has a part-time job would receive a higher income supplement allowance than someone who has a full-time job plus a compensatory income allowance, whereas the supplement would be lower with the employment premium. The same is true for someone who works full-time, but intermittently over the year. The employment premium goes much further than merely changing the social security contribution rate based on wage levels since its aim is to exclude reduced-time, or very part-time working.

- Provisions such as the employment premium are calculated on the basis of a full-time equivalent wage and the amount paid is proportional to the time worked. In the case of the employment premium, the amount paid out is two times lower for a part-time work than for full-time. If the total hourly wage is equivalent to the Smic a single person working half-time benefits from a F 190 exemption; for a full-time (39 hours) job the exemption equals F 380. The maximum amount of exemption is provided to persons in a full-time job paying the equivalent of the monthly Smic (for 39 hours).

- On the other hand, under the ACR scheme, the income supplement allowance is higher for a part-time job than for a full-time one. Under the ACR scheme, as explained here, a single person working 40% of full-time, and whose hourly wage is equivalent to the Smic benefits from the maximum level of income supplement after the reform. The same person working full-time does not receive any income supplement allowance.

Part-time worker paid close to the Smic rate would, therefore, receive a higher income supplement under the ACR type scheme than under the provisions based on net wage rates. However, this is only true for those persons occupying a job over a lengthy period of time and not for those taking up a job after a period of unemployment and/or after having received the RMI during the period in which the participation provisions applied (Chapter III).

Poor workers and low wages

The other major difference between the two types of provisions concerns the reference unit, i.e. the individual or the household.

- A purely wage-based provision (for example, the repealed measure governing the discounted CSG and CRDS) is "*personalised*". It now only depends on the hourly wage level, and not on the size of the family of the beneficiary and other revenues received by the household. A childless person earning the Smic whose spouse earns the equivalent of three times the Smic will receive the same income supplement as another wage-earner also paid the Smic, but whose spouse does not work and has dependent children.

- An ACR type provision may be "*family-based*". The amount of income supplement depends of earned income, including that of the spouse, other household income, and the number of children. Such a system requires the establishment of a schedule to modulate assistance paid out on a family-related basis.

A family-based provision can be advantageously targeted at the poorest as, for the same level of income, the standard of living depends on the number of persons in the household, especially if there are dependent children.

On the other hand, low earned income support measures which are entirely "family-based", i.e. by adjusting the level of income support to take account of the number of children, is liable to upset attitudes to working and wage formation modalities.⁴⁴

It may appear necessary to treat directly insufficient levels of income due to the presence of children in the household by making adjustments to family allowances and to correct the inconsistency which exists between the inclusion of children in a household benefiting from minimum social benefit allowances and other households.

For this reason it would appear appropriate to define those income support provisions which are purely and simply aggregated, i.e. which take account of the incomes of both persons in a couple and not the separate incomes, but which do not take account of the number of children.

The precise application of the parameters factored into provisions produces conditions situated between those different dimensions.

The employment premium would appear to be a highly personalised provision, but which takes mainly into account the family dimension more on the basis of eligibility thresholds than on lump sum increases.

(44) This was one of the reasons for replacement in the Thirties of the family based allowance by the family allowance scheme (Join-Lambert M.T and others 1997).

The ACR scheme discussed here is not family-based as the allowance depends on the total earned income of the household, but not on the number of children (so as not to have a negative effect on family policy per se); it is merely "conjugated".

All in all, provisions such as the employment premium target low paid hourly rates of work. A broad definition of the latter is used as it no applies on attaining 1.4 of the Smic. A person paid close to the Smic benefits however, even although he may belong to a relatively well-off household. However, workers in a family with a lower standard of living, but who earn higher hourly rates, do not benefit. This is the case, for example of a worker paid at 1.5 times the Smic hourly rate, whose spouse does not work, and who has several dependent children.

According to available estimates a little less than 30% of all households⁴⁵ receive the employment premium. Of those beneficiaries, one out of ten households are indicated as being situated in the first standard of living decile (the ten percent with the lowest standard of living) and six out of ten are distributed more or less equally between the second and the fifth standard of living decile.

ACR type provisions focus more on workers with a low standard of living. The number of benefiting households is said to be of an order of magnitude of one third of those receiving the employment premium, and more than 60% of them fall into the 20% of households with the lowest standard of living.

Both types of instruments have different objectives and cannot be substituted the one for the other. The employment premium and other wage-related provisions are principally instruments aimed at reducing the inequalities between net wage levels for full-time workers, as can be an increase in the Smic. The income compensatory allowance and similar provisions are instruments aimed at combating workers' poverty. These are provisions which limit dispersion at the lower end of the spread of standard of living of households.

Incentive effects on the supply of work

Before discussing the incentive effects of the employment premium or other provisions, a few points concerning methodology must first be explained.

Methodological points

- The analysis of any specific measure may be tackled from two angles: either by examining the actual effects (in which case we consider the induced income-supplement profile-related effects), or we consider, in fine, the profile of all income

(45) Simulations have been made by measuring the impact of this measure on households within the meaning of INSEE (sharing the same home). A household may comprise several fiscal households and the employment premium may be paid to each member of the fiscal household if eligible. Calculated results differ from those shown for the measure which are expressed in terms of fiscal households.

once the measure applies. This is the prevailing aspect if we are to respond to the question; has the end result generated a better situation than it was at the outset?

- It is also necessary to take account of the labour market situation in which the measures apply.

- The incentive effects to seek a job are the result of two elements: the income support provided makes it less necessary to offer one's services in order to increase one's standard of living. This is attributed to the income effect and is normally a disincentive. The reduction of the marginal contribution rate on earned income increases the pecuniary advantage from a supplementary job and is an incentive. Moreover, in any measure which increases earned income up to a certain threshold there is, necessarily, a phase in which the marginal contribution rate increases, and another in which the marginal rate decreases which implies that every measure has a positive effect on the distribution over a certain amount of time worked or incomes, and has negative incentive effects beyond that level.

- Decisions to participate in the labour market are, moreover, probably not taken independently by members of couple⁴⁶; the personalised or partially conjugated nature of the various measures will come into play. This has an effect on the polarisation of employment situations within families. If neither person is working all of the provisions have a strong influence on the incentive to go back to work. However, if one person in the family is in a job the provisions may reduce the incentive of the other to seek a job and/or to provide an incentive to the working member of the family to reduce the amount of time worked. This disincentive depends on the amount of income supplement received and the marginal contribution rate to be paid by the household before and after the reform⁴⁷.

- Most of the discussion on the incentive effects (as well as the attempts to quantify the effects) assume that, prior to the measure, persons take up a job by personal choice, especially if they do not wish to work more (at the same hourly rate), nor, possibly, to reduce the amount of time worked. This is, however, far removed from reality.

Moreover, a notable proportion of persons working part-time say that they would like to work more. This is closely linked to the standard of living of the household, and is

(46) More complex measures which will not be addressed here, apply to decisions concerning adult children living with their parents.

(47) According to the Laroque and Salanié (2000a) study which examines the effects on women's work of a reduction in social contributions and the income compensation allowance, this negative effect would be more marked for a measure of the ACR type by which full time workers would be encouraged to work part time than is the case for exemption from social contributions similar to that for CSG and CRDS. The effect on offers for work by women remains positive and of limited scope. The effect on the total offers for work (men and women) and the classification of measures cannot solely be determined on the basis of working women. This was also the conclusion by Gravel and others (2000) which examines numerous different scales of income compensation allowances.

generally the case of low skilled workers. For persons in involuntary under-employment situations the income effect of a measure does not have any great impact on their job as long as the income supplement paid does not result in the person having to take a decision on the amount of time worked, and depends solely on his choice. Inversely, surveys have highlighted cases in which people would like to reduce the amount of time worked, paid at the same hourly rate, but feel that they are unable to do so, if only because the amount of time worked is not continuous (split working day) in a company or in a given trade.

Incentive effects of the employment premium

From the point of view of incentives to offer work, the employment premium has four characteristics:

- The entry threshold at 0.3 Smic aims at discouraging people from taking up very short part-time jobs, or short-time working on a long term basis.
- By personalising the employment premium, the aim is to limit the effects of joint decision-taking by a couple on whether or not to work, to within the range of eligibility. The F 500 increase per year for a non-working couple seems to be very low to have any major disincentive impact on taking up a second job.
- The marginal increase in income being constant for a working time between one third an full time paid at the Smic rate the measure encourages full time working rather than part time.
- The area of lesser incentive corresponds to the wage rate between 1 and 1.4 Smichourly rate. It therefore becomes less advantageous for this wage range than prior to the introduction of the measure, as the measure generates a 13 % increase in the rate of contribution as the premium reduces this rate, and is cancelled out at 1.4 Smic.

This measure focuses on full time employment and probably has a very low incentive level as can be seen from the limited changes to the total income profile as a function of earned income.

Incentive effects of the ACR

From the point of view of incentives to work, effects differ considerably and their analysis may lead to proposing different schemes from those used in this comparative study.

- The ACR scheme increases considerably, under the permanent system, i.e. excluding temporary return to employment, employment incentives for all those persons receiving RMI benefits. It therefore increases an incentive to take up a job

lasting a shorter period than causes exiting from the RMI system. It also increases the incentives to occupy a job of longer duration up to full time.

- On the other hand, for those persons already occupying a job paying a wage higher than the RMI exit level the income and the marginal rate effect are disincentives. For the length of work the income after the measure is higher and every additional hour only pays 40% and not 100%. This result however must be weighted by taking into account that there are very few households whose total earned income is lower than the Smic and who do not have any other income other than family allowances and who are quite happy with their situation and who do not wish to work more. It is however obvious that part-time incentive effects play a role.

- For a couple there is a disincentive effect for the first full-time job paying between the Smic and 1.5 times the Smic similar to what existed between 1 and 1.4 times the Smic of the employment premium but influenced by a higher marginal rate.⁴⁸

- A family-based or conjugated allowance under the simulated scheme probably has a disincentive effect on the second wage in a couple. To the extent that earned income produces a compensating income up to 1.5 times the Smic the disincentive effects for a couple have an effect on taking up a part-time, or full-time job paid at Smic rates for the second adult. It is probable that in this wage range the disincentive effects might have a greater than for families earning less than the Smic.

Incentive effects and employment dynamic

The income compensatory allowance is, therefore, a highly incentive instrument for only one member of the family to work instead of both, but there is a risk that for both members of the family occupying a job they will reduce their work time in the second job. The employment premium has a lesser effect on the family's decision to work. The advantage of one or other instrument depends on the importance attributed to both husband and wife occupying a job.

It may be thought that an ACR-type measure would have more marked influences on offers of work, in particular that it would lead to the acceptance of weekly jobs offering low hours of work, or sporadic jobs. This raises the question of the favourable or unfavourable effects of these measures on peoples careers or the labour market.

Although these forms of atypical jobs provide a "stepping-stone" facilitating access to stable, full-time jobs, it may be profitable to encourage unemployed persons to take them. To achieve this objective the most effective incentive is to apply a temporary aid provision similar to the participation scheme (Laurent and L'Horty,2000) which supports the idea of wage provision.

(48) There is a change in the interval 1 to 1.5 Smic of a 2000 Francs allowance to 0 Franc: for the employment premium there is a shift between 1 and 1.4 Smic of a 400 Francs allowance to 0 Franc.

However, the available statistics would appear to demonstrate that the chances of finding a full-time job are small for part-time workers.

The most efficient incentive is a permanent assistance provision which pleads in favour of an income support allowance. It may, however, be considered that the public authorities do not find it to their advantage to encourage jobs far removed from full-time.

Incentive effects and bringing into operation modalities

The employment premium and other ACR-type provisions requires necessitate knowing the total household income. Unless a new, cumbersome management system were to be introduced it is the tax return which provides this information. This means that the premium or the allowance can only be belatedly calculated in relation pay received. This can lead to a lessening of the expected incentive effects.

This is an important point, however experience abroad provides examples of how to overcome this difficulty, or at the very least to limit its impact.

Deadlines for paying an allowance

One of the problems is that persons who currently receive an RMI allowance, supplemented where appropriate by participation, need the money immediately which ought to be paid out without delay. The allowance must be paid out monthly. For persons in a job and who do not receive minimum social benefits, deferred payment of a new allowance does not cause the same degree of inconvenience (including from the point of view of incentives).

Family aid schemes in the USA are worthy of study. On the one hand, there is the Temporary Aid to Needy Family (TANF) allowance, paid monthly and to which a participation scheme applies on going back to work. There is, moreover, an obligation to take up a job, or some other type of activity as soon as possible. On the other hand, there exists an income supplement - the Earned Income Tax Credit- which takes account of the household income and is re-calculated on the base of the annual tax return. The tax at source system allows the EITC to be paid out monthly. Beneficiaries may choose between the monthly payment or annual deferred payment. It is worth noting that 95% of EITC beneficiaries opt for annual payment.

Low income support measures and the functioning of the labour market

Two topics were opened for discussion: Are low income support measures liable:

- exercise downward pressure on wages?
- increase the use of part-time or temporary workers?

Downward effect on wages

The downward pressure on wages would exercise a dynamic effect on wages if wage-earners claimed less in terms of wage increases as a result of higher income transfers.

If workers paid exactly at the Smic rate escape this direct risk since their wage rates are not determined by labour market wage negotiations, the risk may exist over the whole range of progressive social contribution levels (up to 1.4 times the Smic because of the employment premium, and may even attain up to and beyond 1.8 for aid afforded under the weekly work-time reduction scheme as there is scarcely any difference between the reduction of the workers' contribution and that of the employers' social contribution if the wage and labour costs are the result of collective bargaining negotiations). Another possible effect might be the downward pressure on the level of the Smic which is determined by political decision. In France, the risk is small, as the law defines both minimum increases, and establishes an average target. The risk is greater in those countries in which the minimum wage level is established on a discretionary basis, e.g. the USA, where any minimum federal wage increase has to be voted by Congress.⁴⁹

Are low income support mechanisms liable to encourage the expansion of atypical jobs? This was the criticism expressed by J. Gautié and A. Gubian (2000) against the compensatory income allowance. Several trade unions expressed the same criticism.

When those persons concerned are attracted by the pecuniary incentives this allowance does, in fact, encourage the unemployed to accept those types of jobs just as they can encourage workers occupying them not to change their situation. The argument may be extended to any income support on returning to work. This argument may, certainly, be taken into consideration, however the allowance administration formalities may reduce the risk if the employer is unable to know, during wage negotiations, whether the worker will benefit or no from the allowance. Over and above the broad acceptance of this type of work by workers, and made more attractive, in financial terms, by the payment of supplementary assistance, it would appear that other mechanisms play a role in the determination of such types of employment; character and variability of demand, more or less adaptable organisation of production organisation by means of permanent staff management methods, etc.

The effects of redistribution

The re-distributive effects of provisions to increase low wages (such as the employment premium) differ considerably from those measures to compensate insufficient earned income levels such as the ACR. It can be easily described in terms of the targets of both types of measures. Low level income support rates will have a more diffuse effect than support for low incomes (chapter II).

Initial evaluations have been made on the re-distributive effect of the employment premium and the income compensatory allowance. These evaluations were carried out using the same micro simulation tool by Murat and Roth at Insee (cf. Murat and

(49) A discussion took place in the USA between the supporters of the EITC and those who supported an increase in the federal minimum wage. On the other hand, in the UK the strategy of the Labour government was based both on the establishment of a minimum wage by increasing aids to low earners by replacing the Family credit by the Working Family Tax credit.

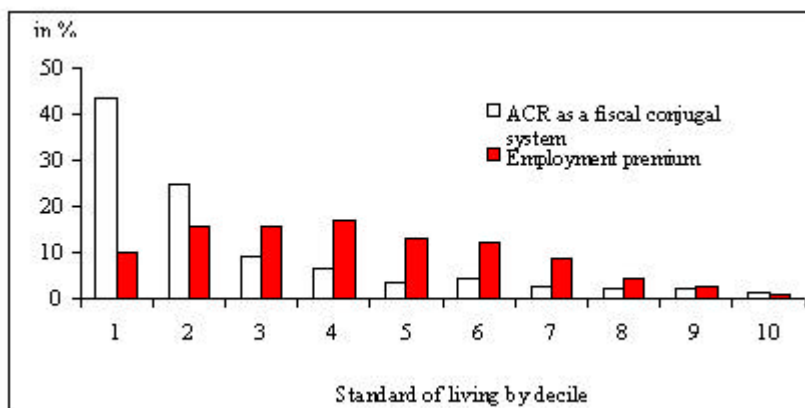
Roth, 2000 for a more detailed explanation, but applying different parametric measurements). We will use them simply to illustrate the differences between the logic applied.

In referring to the ACR effect we comment on the supplementary effect in relation to the previous RMI provision. The ACR scheme proves to be more re-distributive than the employment premium for households with a low standard of living.

It concentrates aid to households with an income situated within the first two deciles whereas the budget allocated to the employment premium has more slack.

In actual fact it is the middle classes and not the households with more modest income levels which benefit most from the employment premium. This has been corroborated by other studies (CSERC, 1999) which demonstrate that low wages and low standards of living are not correlated (cf. chapter II).

Graph 4 – **Distribution of budget for measures according to household standard of living**



Source: Insee, simulation on INES model.

Note: The fact that measures may concern household in the upper deciles of distribution despite eligibility ceilings is due to the fact that households according to the Insee definition are not identical to taxable households or families within the meaning of the Family Allowances Agency. They may comprise several taxable households, one of which may be eligible for the premium, e.g. children living with their parents.

Less than 30% of the employment premium budget goes to 20% of households with the lowest standard of living. The income support provided by the ACR of the type we have simulated would concentrate approximately 70% of the budget on the 20% of the most impoverished.

The employment premium would seem to be an instrument allowing those persons who are in a job to benefit from fiscal reductions, but who benefit little or not at all from the lowering of income tax.

On the other hand, it only marginally concerns poor workers, and has meagre, sustainable incentives for unemployed households to return to work if the work to be found is not a full time, durable job.

Inversely, the ACR as represented schematically in this report concentrates means on poor workers. It has a greater incentive effect for return to work by single persons and work-less couples.

The risk is that it reduces the advantage for single persons or for the "first job" in a couple to change from part time to full time working, and to encourage the existence of very short time working.

PROPOSAL

By way of illustration we have attempted to formulate a straightforward working hypothesis which would focus aid on poor workers.

It would appear possible to correct these difficulties by changing the profile of the income compensatory allowance.

- In order to avoid eternalising very part time jobs one could choose a provision similar to that for the employment premium by only paying the allowance to those whose earned income exceeds 0.3 Smic.⁵⁰

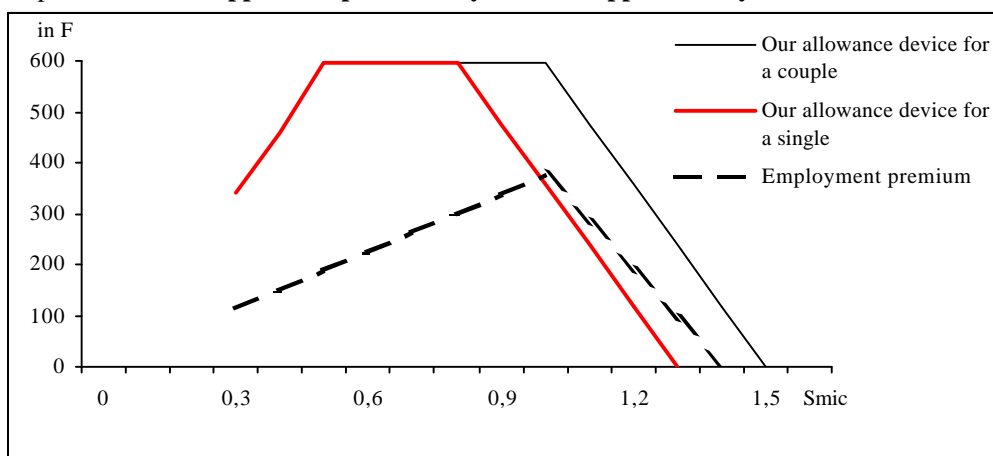
- To avoid the risk of discouraging full time work and encouraging short time working the level of allowance between part time and 0.8 full time Smic jobs could be kept constant. This would extend the range of degressive allowance to 1.3 Smic for a single person, and 1.5 Smic for a couple.

If the leftwards break reduces the budget cost of this measure, the result of having constant allowance for a range of income considerably increases cost of the budget.

- In order to remain within the same budget envelop and at the same time reduce the incentive for a single person to work part time the permanent rate of participation can be reduced (it was 40 % in the first scheme discussed). For example it could be set at 20 % of earned income.

The graph below illustrate the population group concerned and the impact of the formula close to the working hypothesis.

Graph 5 – **Income supplement produced by various supplementary allowances**



The profile is studied by Laroque and Salanié (2000a).

(50) Access short duration part-time work does not benefit as is currently the case from the temporary participation mechanism.

Technical comments

The difference between this proposal and the employment premium is due to the following elements.

The allowance targets low income households. Its eligibility for a single adult is 1.3 Smic and for a couple 1.5 Smic. It is much lower than the level set for the employment premium. This means that the premium is highly concentrate on the 30 % of the poorest households.

It has a higher level of incentive for going back to work, for taking up a first job, and for a couple earning low incomes the disincentive effect is greatly neutralised in relation to initial ACR scheme.

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Of course, if the government were to adopt this working assumption, it would need to be carefully examined by the relevant departments prior to discussion at political level.

INTRODUCTION

Public authorities are not short on measures to deal with the problems experienced by low skilled workers to find a job. There exists a broad range of incentives, sanctions or job creation measures to help those who are unable, on their own, to find their niche on the labour market. Detailed studies of experiments both in France and abroad are available. In this part of our report we will address the most interesting or the most significant experiments.

It would appear that the most efficient policies, i.e. those which encourage the taking up of a job by the target groups integrate all of the diverse types of aids or personalised support measures for persons in difficulty, whereas, inversely, policies based solely on incentives or financial penalties seem to be the least efficient. However, even if this assessment is based on highly differentiated national measures any conclusion must be subject to a detailed inventory as sufficient evaluations are still not yet available.

In France, administrative provisions to encourage access to employment were drawn up at a time when the labour market was not exactly dynamic. It would be necessary to adapt them to the new situation characterised by an upturn in the non-subsidised trade sector, by focusing more on the least qualified workers who continue to encounter the greatest of difficulties in finding a job.

PERSONALISED POSITIVE INCENTIVES

The positive encouragement approach to find employment may be broached in two ways; the one not excluding the other. On the one hand, a support, or flanking, measure may help the job seeker to return to work quickly. On the other hand, premiums may be paid out when a job is found.

Support schemes

These schemes imply a detailed discussion with an employment official during which they are offered (in some cases, for example in the UK, such interviews are mandatory for all young persons who have been unemployed for more than six months) a certain number of services: inventory of skills, help in writing a C.V., drafting of a vocational profile, how to seek a job, setting up a group of job seekers and so on), to seek out and disseminate information on job offers corresponding to the vocational profile and, where appropriate, propose re-training or upgrading of skills, training schemes adapted to the objectives expressed by job seekers, support provided by a mentor over a limited period of until a job is found.

The TRACE Programme

In France, the TRACE programme (Trajectoires d'accès à l'emploi: How to find a job) is similar to the "Restart Programme" (cf. insert) and which is aimed at the long-

term unemployed and young persons to which the TRACE programme does not apply.

The TRACE programme

Drawn up within the framework of the guidance law on combating exclusion the TRACE programme is aimed at the 16 to 25 year old age group who are experiencing difficulties or who run the risk of being excluded from the labour market because they left school without any qualifications or with a low level of qualifications (generally level VI or Va; i.e. they left school before going on to secondary and without having begun or completed a Vocational Aptitude Certificate (CAP) or a Vocational Training Diploma (BEP) and who live in areas declared as priority areas by the Regional Prefects.

It comprises a personalised integration scheme of a maximum duration of 18 months. It includes a stock-taking exercise, training periods and hands-on vocational experience. The aim is that at least half of the young persons who go through the programme will find a stable job (non-fixed length contract or fixed length contract of at least six months). The main characteristic of this programme is that it is administered, as a rule, by a Local Regional Office and normally entails participation by all public authorities: the Regional Labour, Employment and Vocational Training Directorate (DDTEFP), ANPE (The National Employment Office) the Regional Health and Social Agency (DDASS), the Local Regional Office, the Information and Counselling Agency; the Youth Judicial Protection Agency, the Continuous Training Educational Committee (DAFCO), Prevention Agencies, Family Allowances Agencies, Social Action Agencies, the Adult Education Association (AFPA), private sector agencies, Young Workers Hostel Associations, Housing and Social Re-adaptation Centres (CHRS), training agencies) and, more rarely, the Chambers of Commerce and Industry, along the lines of the New Deal in the UK or Temporary Assistance for Needy Families in the USA which tie allowances to the obligation to find work.

In April 2000, 53,000 young persons entered the programme, i.e. 14% of young, category 1 job seekers possessing at least level V skill levels. In the main, they are young persons with low qualifications, more than half of whom do not have any diploma or certificate; 38% of them are of level VI, 21% level Va (first year of Certificate of Vocational Aptitude (CAP) or Vocational Training Certificate (BEP)). Approximately three quarters of them were registered with the National Employment Office. A quarter of this number had been registered for a spell exceeding twelve months during the previous eighteen months. From 30 to 40,000 young persons ought to benefit from the programme in 2000 out of an annual leavers outcome at level VI and Va of about 50,000. It is a very important programme from the point of view of the population group concerned.

Up until now, the TRACE programme would appear to be producing encouraging results. If one considers the total number of persons entering the programme, by the end of 1999, 29% of them were in work, 22% were undergoing training; 47% were being helped in seeking a job; 2% were on sickness or maternity benefit. In the year following the start-up of the programme half of the young persons were in a job, as compared with 10% at the out-set. However, the nature of the job demonstrates a very real difficulty of finding employment in a competitive market. Among job situations we find a regular increase in subsidised employment (in particular, 30% of CES jobs), (Fauquet,2000). Labbé and Lion (2000) also stress the fact that, in the majority of cases, players in the trade sector are not greatly involved (employers' organisations, trades unions, continuous vocational training agencies responsible for collection contributions, chamber of trade and commerce). This low participation on the part of the trade sector is without doubt the weak link in the TRACE Programme as jobs in

the trade sector is a major objective of the programme. However, from the point of view of the young persons concerned the very fact of obtaining a CES rather than a non-subsidised job seems to be very well accepted, perhaps because of their past unfortunate experiences on the competitive labour market.

The Social Affairs General Inspection Department (IGAS, 2000) stresses that insufficient consultation between all of the players had not taken place although they are required to co-operate in the field. This might be an explanation for the high number of CES jobs taken up as a solution to employment and for the failures. Despite those quantitative and qualitative reservations it would seem that the TRACE Programme satisfies expectations.

Similar measures existing abroad have been studied and they would appear to have had positive, even highly positive results.

In Kentucky, USA, one experiment involved those job seekers who showed a high probability of difficulty in finding a job; depressed number of available jobs, low level of vocational skills, etc. For two-thirds of them (treatment group) strong flanking measures were introduced; the residual third made up the control group. Those benefiting from the enhanced support scheme found work more quickly (average two week reduction). The jobs found were, on average, better paid. The beneficial effect of the programme being focused on the first few months it would appear that those persons were in a better position to target their job searches.

Commenting on this experiment, D. Fougère (2000) underlines the fact that the improvement in the rate of exits from an unemployment state found for persons in the treatment group is durable. It is also found even after more than twelve months of unemployment. **In the UK, the Restart Programme** for young unemployed persons who have been unable to find a job after six months scores a good rating. The young employed person is called in for a interview which they must attend or lose their unemployment claimant rights). They are offered a job, a training course or job search support. In Denis Fougère's view, "the interview results in a significant reduction in the average duration of unemployment". Inversely, D. Grubb (2000) notes that doing-away with the Restart interview procedure, normally after six months in unemployment state, reduced the probabilities of exiting unemployment by 20 to 30% during the following five to six months.

Retraining agreements

The re-training programme agreements, now invalid because of the unemployment allowance reform essentially comprises a personalised treatment programme backed up, in approximately one of two cases, by a vocational training course chosen by those signing up to the agreement (see insert). The scheme being voluntary it is possible to compare the state of those who signed up and that of other discharged workers who did not sign up to the agreement. However, it is necessary to bear in mind the inevitable, limiting bias in any comparison which limit its comparison. For

example, it is possible that those who sign up to the agreement are mainly workers with lesser skills, reducing their capacity quickly to find a job without help or, inversely, sufficiently qualified workers in a position to benefit from a training course.

Retraining agreements

Introduced in 1987 by the inter-trades agreement, the retraining agreement offers workers discharged for "economic reasons" retraining aid if they are under 57 years of age and have worked in the company for at least two years. Over a period of six months the worker receives 83% of his previous wage for the first two months, and 70% during the following period. At the same time, the Technical Reclassification Units (UTR) in the National Employment Agency (ANPE) help them to find another job (skills inventory, job search sessions, start-up encouragement, etc.) and to undergo a training course (300 hours maximum are possible. In 1996, 52% of beneficiaries availed themselves of this opportunity). During the six months the beneficiary continues to receive the previous social allowances and is not deemed to be a job seeker.

This provision was used by approximately 30% of those laid-off for "economic reasons" (100,000 out of 330,000). In 2000, the number of beneficiaries of the measure was reduced to approximately 80,000 which was mainly due to the reduction in the number of persons laid-off for "economic reasons". By the end of March 2000, 39,000 made use of the measure as compared with 44,000 by end of March 1999. Contrary to the TRACE programme and the employment initiative contracts (CIE) this provision does not target those persons having the most difficulties in finding a job but those who should consider retraining so as to find a job more easily. It is, therefore, an aid to vocational mobility to prevent the persons concerned from falling into a long-term unemployment state. To a certain extent, it may be analysed as a preliminary to the "Back to Work Aid Scheme" (PARE) provided for under the new Unedic Agreement.

In 1999, out of 100,000, 60,000 registered with the National Employment Agency on exiting a scheme. In order to be able to compare beneficiaries with laid-off for "economic reasons" and who did not make use of the provision and registered directly with the National Employment Agency it is necessary to eliminate measurable bias components –age, diploma/certificate, work experience, etc.- which might exist between persons choosing one or other of the two streams.

This is why in the panel on "the Trajectory of Job Seekers and the Local Labour Market" (TDE-MLT) established on the basis of job seekers registered with the National Employment Agency during the second half of 1995 and interviewed at the beginning of 1996, 1997 and 1998, the trajectories, comprising a set of 1,024 beneficiaries of the retraining agreements and a set of 626 non-beneficiaries in a similar situation (i.e. recently laid-off for economic reasons with at least two years in their last job, and under the age of 57) were compared, after factoring in structural gaps due to the characteristics of the two populations in order to take account of the situation "all things being otherwise equal" (Cloarec and Weibel, 2000).

The limited number of observations on the one hand -given the possible existence of probable, non-observed biases (as both sets were established on a voluntary basis)- and on the other hand, weaken any interpretation of the results, especially so as the gap between the beneficiaries and non-beneficiaries is small. 21 months after being

laid-off the probability that a beneficiary will have found a job is only five points greater than that of a non-beneficiary having registered directly with the National Employment Agency.

It is only as of the tenth month that the measure provides the beneficiary with a relative advantage in terms of finding a job as he/she really only tends to search for work after a certain spell, especially if they are undergoing training under the agreement scheme. In such cases, it is in the interest of the company to wait until the training course has been completed before recruiting the person. The relative advantage of beneficiaries is only observed for male workers (for men the probability of finding a job in under 21 months is eight points higher when they have had recourse to the retraining scheme, whereas it is three points lower for women) and especially so for those persons who have undergone a training course (positive gap of six points, whereas the gap is only three points if the absence of training).

However, the quality of jobs found would appear to be higher: non-fixed duration employment (CDI) for the first job for 38% of beneficiaries and 31% for non-beneficiaries. The probability of rapid (re)integration into a stable, lasting employment state is considerably enhanced by making use of the retraining agreement scheme as indicated by the table below (Cloarec and Weibel (2000)).

Table 1 – What becomes of the beneficiaries of retraining agreements?

	Probability of being in the classification (%)	Variation of probability as a result of the retraining agreement (expressed in points)
No reintegration	46,5	- 0,2
Recurrent unemployment	5,4	- 0,6
Slow reintegration	22,8	- 1,9
Rather rapid integration	12,2	0,2
Rapid integration	13,2	4,3

Source: MES-Dares, survey of trajectories of job seekers.

However, the "retraining agreement" as well as the "level of training" influence the speed and quality of reintegration. From this standpoint, the relatively low proportion of beneficiaries of the retraining agreement who choose to undergo training (52%) is probably due to the fact that training for job seekers hardly improves, if at all, their probability of finding a job when their initial training level is low. Either the persons concerned do not benefit much or employers are more interested in the initial training level than the supplementary training they have received or that they consider the additional training as a sign of past vocational failure. In his analysis of experiments in the USA with groups of unemployed persons in difficulty, John P. Martin concludes that the results differ and are most often "disappointing". Almost no training programme was successful for young persons having left school early. His conclusion is that programme participants should be very carefully targeted and, as Bertrand Schwartz (1994) postulated in his analysis of the "New Qualifications" Task Force which he headed between 1988 and 1992, it is necessary establish sound links

with locally based employers so that day-release schemes could be run to allow young persons to be made aware of their need for training to respond to vocational requirements.

Support for the unemployed, coupled or not with a training course, appears to be an important element in the effectiveness of employment policies targeted at persons who find it difficult to get a job. Even if it is only a "Hawthorne effect", i.e. a change in the attitude of unemployed persons which is not attributable to the support they receive but rather to the fact that they feel good because of the attention they get, the positive effect of support measures (treatment) is undeniable. John P. Martin reaches the conclusion that that "increasing motivation of the unemployed and to do what is necessary to encourage and support them in their job searches are elements which contribute to enabling the unemployed to exit their unemployed state".

Premiums paid out on returning to work

This policy operates within the framework of personalised programmes, either by cash incentives for unemployed who find a job within a given period of time, or by compensating part or whole of possible loss of earnings by accepting work paid at a lower rate than they had previously been earning.

- **In the USA**, four experiments were run in the Eighties in four different States (Illinois, New Jersey, Washington and Pennsylvania). They consisted in paying job seekers who were able to find a job within a maximum of four months a premium of about \$ 500, however in New Jersey the premium amounted to \$ 1,600. In all four cases it was found that there was a significant reduction of about one week, in the average duration of searches as compared with the control group unemployed possessing similar characteristics but which had not been promised payment of the premium. Even where the premium was the highest –in New Jersey- the measure did prove to be very effective in terms of reduction of unemployment state. It would appear that the "reserve wage level", i.e. the amount of wage on offer being lower than the level at which the unemployed person prefers to continue his search, was not greatly influenced by the proposed premium. Moreover, the measure leads to compensating unemployed persons who find a job within the given period of time (windfall effect). There is also the risk that some workers will come to an arrangement with their employer to disguise voluntary leaving for another job as a discharge so as to unjustly benefit from the premium.

- In 1992, **in Canada**, under the "Human Resources Development Programme, two provinces, New Brunswick and British Columbia, ran a "*Self-sufficiency Program*" (SSP) targeted at single parent families to whom social security benefits had been paid for less than a year. If heads of families signed up for this programme they had to undertake to find full-time employment within a maximum of one year. As a counterpart, as soon as work was found a wage supplement would be paid for a period of three years on the proviso that, over the whole period, they would continue to work full-time, in which case they would no longer receive any social security benefits.

The supplementary payment is equal to half of the difference between a reference level established by the province and the actual wage received, which resulted in doubling the minimum wage received for a full-time job. The aim of the project was to quantify the effects of financial incentives to return to employed state for those persons having received social security benefits over a long spell.

The "normal" SSP was proposed to randomly chosen 6,000 heads of families eligible for the programme . Another 300 randomly chosen heads of families were offered a range of SSP plus services to provide support in their job searches: help in writing their CV, sessions with a counsellor and Job Clubs. Three thousand three hundred randomly chosen social security beneficiaries eligible for the programme were promised a higher income supplement than that provided under the SSP. Whereas 35.2% of potential "normal" SSP returned to working full-time and were paid the supplementary allowance, the others not having found work, or insufficient hours, or who had not sought work for family or health reasons, this was the case for 51.7% of potential beneficiaries of the SSP plus and 57% of potential beneficiaries of the SSP with a higher income supplementary allowance. Under the SSP plus scheme, wages paid for the jobs found proved to be on average 16% higher than those found by beneficiaries of the SSP limited to the supplementary allowance and also with a higher rate of loss of employment.

John Greenwood and Jean-Pierre Voyer (2000) commenting on the outcome of this experiment arrive at the conclusion that the "Self-sufficiency Programme is an efficient means of transfer" even though, from the point of view of public finances the amounts paid out were slightly higher than the savings on social security allowances because of the higher windfall effects. The long-term effects of such incentives may, however, be queried. A considerable number of persons returning to work accepted badly paid jobs as the income supplement paid by society offsets the lower pay. It is expected that at the end of the three years when the income supplement ceases to be paid the accumulated human capital generated by having worked will translate to a sufficient increase in income. If beneficiaries see that their income drops significantly there is a risk that their returning to work will be of short duration because, over the longer term, "working does not pay enough". Rather than considering the uncertain effects of the premiums over the long term the main result to be retained from this experiment is the decisive helping hand which the SSP Plus provides. The financial carrot is only effective if backed up by flanking policies.

- Another experiment called "income supplement", within the framework of the *"Human Resources Development Canada"* consisted in paying an income supplement to unemployed persons after at least three years of continuous work and who found work paying a lower rate of pay than in their previous employment but which no longer entitled them to "unemployment benefit". This measure proved to be disappointing. Although 20% of potential beneficiaries actually received the income supplement (because they had accepted a job paying less) the level of persons returning to work was not significantly different from other unemployed persons in a similar situation but who did not receive the promise of an income supplement.

It would appear that the financial incentive and treatment of unemployed persons produces disappointing results when policies are implemented separately but, when combined, prove to be effective.

This conclusion reinforces the idea that, in a majority of cases, non-exiting of the unemployment state is not solely the result of a cost/benefit calculation on the part of the unemployed in their decision to return to work but results from the difficulties which the unemployed have in choosing an efficient job search methodology. These difficulties arise from the perception by unemployed persons of their skills, their vocational level or their capability to occupy a certain type of employment. For some of them, the trial of being without a job results in their questioning their vocational future, a sort of "failure syndrome" whereas others are unable to accept the non-achievement of vocational success because they have set the bar too high in comparison with their actual skills level. In both cases, personal counselling allows them to better adjust their aspirations and reality, vocational projects and labour market conditions.

ACCRES

Up until now "returning to employment premiums" have been little used in France. A measure somewhat on the same line has been introduced: ACCRES (Aid to start-ups by the unemployed or employee buy-outs).

Introduced in 1979, the measure has undergone many amendments without changing its basic principle. It consists in providing financial assistance to the unemployed who set up a company or buy-out a business subject to the project being deemed viable by the competent services examining the request. The 1993 Five Year Plan did away with the adaptation of aid according to the duration of unemployment which existed previously which explained why the amount of aid granted could vary from F 10,000 to F 40,000. From 1994 to 1996 financial assistance was granted solely to job seekers registered with the National Employment Agency for a spell of at least six months during the previous eighteen months. The amount of grant was fixed at a uniform level of F 32,000 including exemption from social security contributions for twelve months. In 1996, the grant, which was received by approximately 80,000 persons per year, was annulled. It was reintroduced in 1998 in the form of exemption from social security contributions (excluding CRDS, CSG and supplementary retirement contributions) and coupled with the possibility of the grant of a loan on trust. The arrangements for granting the loan on trust have not yet been drawn up so that no loans have actually been paid. Approximately 10,000 persons were able to take advantage of the social contribution exemption by the beginning of 2000.

The evaluations carried out by Chapail and Simon, 1999, demonstrate however, that at the end of three years the rate of survival of business started up with a grant from ACCRES (51.3%) although 10 points lower than that observed for business or buy-outs by persons in employment (61.7%) is much higher than that for start-ups or buy-outs by unemployed persons who did not benefit from an ACCRES grant (42.6%). The

effect of the measure is therefore positive. Even if it is not possible to exclude a selection-based bias (start-ups by unemployed are more inclined to apply for an ACCRE grant when they have a good project) the gap in terms of success seems to be the result of the amount of initial capital raised by start-ups. ACCRE plays a positive role by increasing this seed capital, and also because of the free "counselling cheques" provided, i.e. the drawing rights on specialised agencies of the start-ups or buy-outs. Once more, it would appear that the financial premium and support provided, when they are combined, prove to be highly effective.

APPLICATION OF SANCTIONS

Sanctions or penalties, such as loss or suspension of job seekers' entitlement rights may be applied if the job seeker fails to fulfil his obligations or if the programme or scheme to which he has signed up provides for the gradual, degressive reduction over time until his rights lapse.

Refusal to accept jobs proposed

Under this policy approach, the national employment agency makes job offers or training schemes to the unemployed who are required to accept them when certain conditions are met. Such conditions naturally concern the type of employment or training proposed and which must be a "suitable job". A "suitable job" is defined by the unemployment insurance rules. If refused, entitlement allowances may be curtailed, temporarily or definitively suspended. The latter are then no longer governed by the unemployment insurance rules in the strict sense of the term but become a central element in the returning to work policy. They only become payable if the national employment agency does not make an offer of work falling within the meaning of "suitable employment". The definition of "suitable employment" becomes a crucial factor.

- **In France** there are legal provisions providing for such sanctions in the event of repeated refusals, without any justifiable reason, of an offer of work to an unemployed person by the national employment agency (Article R.351-27 of the Code du Travail (Employment Act). However, up until now these provisions have rarely been applied (less than 5% have been scratched from the job seekers list). This is mainly due to the conceptual fuzziness of the definition of "refusal without any legitimate reason". **The principle for such sanctions has been reaffirmed in the new Unedic Agreement;** Article 20 of the Appended Regulation stipulates that any refusal may lead to the "temporary or definitive suspension of entitlement to a replacement income". Its novelty resides less in the reaffirmation of such principle but rather in the fact that the **"personalised action project"** (which, on the basis of the specific information relating to the job seeker, reflects the general principles of the PARE, the "returning to work programme") **defines "the types of employment which actually correspond to the proven skills of the unemployed person, his vocational capabilities, and paid at the level normally prevailing in his trade or profession and in the region in which he is making his priority job searches"** as well as the "types of jobs for which

he would possibly like to retrain" and "the qualifying courses or guidance services leading to a diploma or adaptation or career reorientation which will be necessary to allow him to find a job in line with his career project" (Article 15 of the Appended Regulation). By defining the scope within which the job seeker accepts to receive guidance the "personalised guidance project" defines what may be deemed to be legitimate reason for refusal, i.e. any offer which does not fall explicitly within the bounds of the project.

The same regulation stipulates in Articles 16 and 17 the leeway available to a job seeker. During the course of the first six months the job seeker may advance a legitimate refusal of offers made and which fall within the scope of the personalised action project drawn up by the national employment agency subsequent to the detailed interview on entering the Pare scheme. However, if after six months the job seeker has still not found anything or has not received any other offer, "the national employment agency may carry out an updating of the personalised action project" (Article 17) on the basis of a skills stocktaking.

During the following six months the job seeker is obliged to accept job offers corresponding to the updated project profile, subject to proviso that the offers are "compatible with geographical mobility and subject to the personal and family situation" and that the persons are paid the going wage rate in the trade or profession, and in the region". After this second time spell, and subject to the job seeker continuing to be entitled to an allowance (cf. insert), the national employment agency shall "take the requisite steps to allow him to acquire the vocational experience necessary to find a job in keeping with his level of professional experience, prior training or his retraining project". Such recruitment may be encouraged, if it be deemed necessary, by the granting of a degressive allowance paid to the future employer over a maximum period of three years. The question of level of pay no longer arises. Only the nature of employment, or training is a reason for legitimate refusal.

This measure would appear to be sufficiently precise for the application of any sanctions provided for under the Labour Act (Code du Travail). There still remains a major unknown factor. The text of the regulation was drawn up on a collective agreement basis but it is only the national employment agency which is enabled to decide on sanction where appropriate. There is nothing to prove that the national employment agency will apply the same interpretation of legitimate refusal as in the regulation cited above, and drawn up solely by the social partners. Nor is there any certainty that the review of the personalised action project will produce a downgrading of the project. The entire measure is, therefore, subject to a degree of uncertainty as to the manner in which it will be construed by the administrations required to implement it. If there are to be any sanctions applied they will only be applicable on the basis of the job or training offers made by the national employment agency to which, according to the terms of the agreement, "employers undertake to communicate job offers" which excludes any sanctions due to insufficient searches, whereas such sanctions were included in the former agreement. This measure

distances the French system from a true insurance scheme as, with the personalised action project scheme, a concept similar to the obligation of results is introduced and which, without being stringent in its application, nevertheless results in a greater degree of commitment on the part of the national employment agency than on the job seeker receiving an allowance.

Levels and durations of payment of unemployment allowances under the new Unedic Agreement (2001-2003)

The new Unedic Agreement applies two methods of allowance payment to job seekers. On the one hand, the minimum conditions of entitlement have been made more flexible; contributions must have been made for at least four months during the course of the previous last eight months (instead of over the last eight months under the old agreement). Which allows payment of benefits to 50,000 to 70,000 additional job seekers per year. On the other hand, the degressive nature of payments has been eliminated (see below the analysis of foreseeable effects). However, neither the level of initial benefit nor the maximum duration of payment have been changed, except marginally.

The level of daily allowance is set at 40.4% of the daily rate of the reference wage (average daily rate of wage including premiums and allowances with the exception of allowances for paid holidays) increased by F 62.73. When the calculated amount is lower than F 152.94, or 57.4% of the daily reference wage, the allowance is increased by as much. For part-time workers or seasonal workers the level of allowance is paid on a pro ratio basis. In all cases, a contribution of 1.2% for complementary retirement is taken into account; all of the other contributions being paid by the unemployment insurance fund. Duration of benefits are as follows:

Duration of benefits paid by Unedic	
Duration of actual contributions	Duration of benefit payments
4 months during the previous 8 months	4 months
6 months during the previous 12 months	7 months
8 months during the previous 12 months	15 months for workers under 50 years of age 21 months for aged 50 and above
14 months during the previous 24 months	30 months for workers under the age of 50 45 months for workers aged 50 and above
27 months during the previous 36 months	45 months for workers between 50 and 55 years of age 60 months for workers aged 55 and above

- In the UK, the unemployment insurance reform introduced in 1996 which created the Jobseeker's Allowance subject to the job seeker's household income⁵¹ to replace the previous insurance and benefit schemes provides that in order to receive the benefit allowance unemployed persons must sign up to an "employment search contract" which includes a clause obliging the unemployed to accept "suitable employment" offered by the Job Centre. During the first quarter in which he receives the benefit, suitable employment must correspond to the previous employment of the job seeker and must not be paid at a lower rate. During the second quarter offers may be extended to other trade sectors. After this period, the level of pay offered may not be deemed to be a reason for legitimate refusal. In all three cases, however, the unemployed person may refuse if the daily travel time between his home and work-

(51) However, this condition of resources is not required during the first six months for persons who has previously been entitled to Unemployment Benefit .

place exceeds two hours. Rayner et al. 2000 carried out an assessment of the reform of the unemployment insurance system by comparing two cohorts of beneficiaries, in total approximately 10,000 persons, before and after the reform. Of the elements highlighted there is to be noted a high number of exit levels of beneficiaries during the first year and a small but significant increase in the number of exits for those areas in which unemployment and long-term unemployed levels were high.

Before as well after the reform approximately 2/3 of persons exiting benefits entitlement did so because they had found work. Numbers were slightly higher after the reform. The possibility to continue training was used mainly by relatively higher qualified persons. Although, as a rule, the level of diploma helps exiting from unemployed state the aggregation possibility tends to significantly reduce rapid return to work as the persons concerned generally wish to finish their training before taking up a job.

- **In Denmark**, after the first year during which the unemployed person has been in a treatment programme to establish the type of work sought and the means to achieve their goal, including a training programme, a second phase begins during which the unemployed person is obliged to accept any offers made –work or training- or lose his entitlement to benefits. "Suitable employment" is defined as being "any work which the person may do or for which he can be trained in a short period of time". This reform, introduced in 1998 produced spectacular results. The rate of return to work by persons who had been unemployed for more than a year increased, on average, by more than 50% year on year (+35% for unemployed having sought a job for between 52 and 65 weeks, +70% for those between 130 and 143 weeks). However, unemployed persons over the age of 50 were relatively less concerned. The probability of their returning to work after a year of unemployment hardly changed, whereas for the unemployed between 30 and 49 and especially for the 25 to 29 years of age it tends to increase in line with the duration of unemployment. In this improvement in the number of persons returning to work after a spell of one year or more, the available data do not, unfortunately, make any distinction between what is due to an upturn of the business cycle and what is the result of the stimulating effects of the new employment policy. Moreover, it should be noted that the positive stimulating effects –treatment, offers of suitable work, and training- and sanctions – suspension of benefits entitlement on refusal- go hand in hand and which makes any distinct assessment of the impact of either one or the other. A point worth mentioning is that, according to the Danish officers, the incomes of persons who have gone through the employability enhancement programme (the official name given to the treatment/sanctions scheme) and who have found work, are, on average, 15% higher than those who did not go through the programme (Arbejds Ministeriet, 12 April 2000). It would appear that the national employment agency has made a major effort on the skills training front and in matching offers to jobs sought and which lends greater justification for sanctions if job seekers refuse job offers. The apparently radical sanctions system involving straightforward suspension of benefits allowances has not generated any major criticism. The fact that the country is close to full employment with an unemployment rate of 4.7% in May 2000, and that benefits are reinstated after ten weeks of work is no doubt an explanation.

Negotiations, decentralisation and training in Denmark

The Danish level of unemployment dropped from 12% in 1993 to 5% in 2000. The fall was even more remarkable for the under 25 years old. The policy for combating unemployment is founded on a contractual basis –no entitlements without obligations- decentralisation extends down to the district level, and specific measures were introduced in December 1995 in order to ensure sustainable reintegration in work of the unemployed.

Negotiation rather than legislation: as long as the social partners are able to solve their differences between themselves, the State does not interfere in decisions on working conditions. Collective bargaining takes place every two years at branch level. The social partners sit on many bodies which provide input to the defining of employment policy. The most important body is the *National Employment Committee* on which sit the social partners, regional and district representatives, the latter being responsible for dealing with the non-insured unemployed as the Danish unemployment insurance scheme which is administered by the trades unions, operates on an individual voluntary basis. The *Regional Labour Committees* define the objectives and the broad outlines of regional employment measures subject to their being in line with the minimal level of national measures applicable to such and such special category. The law on "district initiatives" allows districts to provide incentive measures to those beneficiaries of social security payments who sign up to the pro- active policy of employment and regulations. The district authorities bear the costs however, the State can grant certain reimbursements or subsidies.

Training and skills enhancement: since 1994, workers and self-employed persons who have worked for at least three of the previous five years as well as unemployed persons receiving unemployment benefits which are paid out to insured persons having worked at least 52 weeks during the previous three years, may take training leave every five years and for which they are paid an allowance for one year, subject to the agreement of their employer. Should the employer decide to recruit a replacement he receives a financial incentive from the national employment agency if he takes on an unemployed person. A similar measure exists for parental leave. Access to training opportunities is also available to the unemployed however, their training leave allowance may not exceed the level of unemployment benefit, i.e. 90% of the last net wage and capped at F 2,300 per week; the period spent on training is taken into account for the period of entitlement to benefits, at the most four years in 1998. At the end of the training leave the unemployed person is obliged to accept a job offer.

A company may take on take on vocational trainees. If the persons are unemployed a subsidy amounting to F 40/hour of training is paid. The employer, however, must pay approximately F 751/hour for work carried out during the training. Young persons with no or very low skills may be given training as long as they accept a 50% cut in the benefits to which they are entitled. If they have been unemployed for longer than six months and have not completed an officially approved scholastic or vocational training programme they must undergo a training course of at least eighteen months. This measure has proven to be highly effective: between March 1996 and March 1997 the target group, i.e. young persons with no vocational training and who had been unemployed for six out of the previous nine months, fell by 70% as compared with 25% for other young persons.

Support in finding a job: the return to employment policy is largely founded on the treatment of the unemployed receiving benefits and a higher level of obligations to be satisfied. An individual action plan devised by the national employment agency (SPE) and the unemployed person aims at accelerating his reintegration into labour market by offering him a suitable job and which matches his aspirations and labour market requirements. The plan may be updated if the unemployed person's situation changes. After three months at the most, the SPE assess, together with the unemployed person, the advantages of an early exit from unemployed state –training or subsidised work- which, in principle, is only on offer to those persons who have been unemployed for 12 out of the previous 24 months. After two groundless refusals unemployment benefits are suspended for twelve months and no job offer is made under the programme.

"Pool jobs" are jobs in the public sector of a duration of three years or more and are allocated to persons who have been unemployed for two out of the previous three years. This measure aims at creating sustainable additional jobs in priority social areas. Recruitment at an hourly wage rate applicable in the public vocational training sector should induce a net increase in staff without being a source of unfair competition.

- In Norway, a programme similar to the Danish one has existed since 1992. However, the Norwegian system has a broader definition of suitable employment (shift or night work, indifferent geographical location) appears to be much more stringent. The unemployed person is obliged to "accept any job he is capable of doing and independent of his profession or his trade or profession or his previous level of wage, and may not refuse on religious or ethical grounds", Grubb (2000). It must be admitted that the low level of unemployment (3.2%) makes this constraint low-level because it is rare for unemployed persons to be reduced to accepting offers from the national employment agency. As the agency has a high stock of proposals it is seldom that it has to make job offers which penalise job seekers. Nevertheless, should the employment situation worsen this strict policy could prove to be extremely costly in social terms.

- Since 1996 in the Netherlands, after six months unemployment the unemployed have been obliged to accept any job offers subject to the job not being of a "lower" level the level of the unemployed person's training. If, for example, he has a higher school leaving certificate and 2 years university, i.e. level III in the customary education qualifications system, he may have to accept a job corresponding to "level IV", i.e. higher school leaving certificate. After twelve months he must accept job offers two levels lower. Since 1999, the unemployment benefits system having been privatised and having to compete with other schemes, the contribution rates having remained unchanged, there has been greater pressure on the unemployed to accept job offers. Dutch studies show that this type of policy is highly efficient as the rate of returning to work has been shown to have increased by 58% for men and 67% for women. However, Denis Fougère (2000) who quoted those figures added that the statistical processing method used renders the figures less conclusive.

The table below recaps the sanctions applied if job offers or places on an approved labour market programme are rejected.

Those policies were introduced in the countries concerned at a time when unemployment levels were tending to fall significantly. They were, at the time, more easily acceptable in social terms as finding another job is easier when the labour market is lively and the number of available jobs high. However, the functioning of the labour market was pushing in the same direction. Because of the inadequacy of the labour contract and the uncertainty as to future technological and organisational developments companies tended to recruit over-qualified persons to fill jobs. When there is a shortage of jobs there exists a very serious problem that the unemployed will be offered work at a lower qualifications level than they possess, and which may lead to the system being rejected. On the other hand, in a dynamic labour market situation in which job creation moves forward at greater speed than the increase in the numbers of the unemployed the risk of recruitment of over-qualified workers (and hence the number of under-skilled jobs) is limited by competition between employers. The unemployed will, therefore, be offered work corresponding to their professional experience or acquired training.

Table 2 – Sanctions if jobs are refused

(General situation, excluding exceptions or specific conditions governing certain programmes)

	1 st refusal	2 nd refusal	3 rd refusal
Australia	Reduction of benefits (- 18%) for 26 weeks	Reduction of benefits (- 24%) for 26 weeks	Suspension of benefits for 8 weeks
Belgium	Suspension of benefits for 26 to 52 weeks	Exclusion from scheme	
Czech Republic	Suspension of benefits for 13 weeks or exclusion	Exclusion	
Denmark	Suspension of benefits for 1 week	Exclusion	
Finland	Suspension of benefits for two months	Suspension of benefits for 2 months or exclusion	Suspension of benefits for 26 weeks
Germany	Suspension of benefits for 12 weeks	Exclusion, if benefits had been suspended for 24 weeks	
Norway	Suspension of benefits for 8 weeks	Suspension of benefits for 12 weeks	Suspension of benefits for 26 weeks
Spain	Exclusion		
Switzerland	Suspension of benefits for 6 to 12 weeks	Idem or exclusion	Idem or exclusion
United Kingdom	Suspension of benefits for 1 to 26 weeks	idem	idem

Source: Grubb (2000).

Degressive nature of unemployment benefits

To a certain extent the degressive character of unemployment benefits over time (as is the case for the single degressive allowance introduced under the 1992 Unedic agreement is also a kind of sanction. The sanction is, however, not subject to one or several refusals of job offers by the unemployed person, and depends solely on the past spell of paid out allowances.

The justification for this policy is based on the Job Search theory: the job seeker has an initial, precise idea of the minimum wage level (reserved wage level) and the working conditions he deems to be acceptable. He will, therefore, refuse any offers of employment which do not meet his minimum requirements. This will especially be the case if the level of allowance enables him to continue to look for work in the hope of finding more satisfactory job offers matching his conditions. But being reduced over time the allowance paid out leads the job seeker to lower his sights (his "reserved wage") thus ensuring better concordance between job supply and demand. Under these conditions one may ask whether the elimination of the degressive nature of benefits is liable to produce an improvement in the adaptation of supply and demand on the labour market? That cannot be taken for granted.

The effects of the degressive character of unemployment benefits

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Anna Prieto (2000) compared two sample groups of unemployed between the ages of 25 and 50 who had paid their contributions for at least twelve months during the course of the previous twenty-four months. One group was covered by the Unedic rules prior to 1992 (one single reduction stage at the end of fourteen months with a possible four month extension; the second group was covered by the Unedic rules applicable between 1992 and 1996 (three to six reduction stages for the AUD, the first becoming applicable after nine months, subsequent reduction stages after the following four months; the maximum duration of the AUD being thirty months with each stage generating a reduction of 17% of the allowance. Data pertaining to the former and new schemes are very similar. The rate of exiting unemployed state is higher for men than for women, for persons with diplomas as compared with those without, for the lower age groups than for the older group, for those having earned a higher wage than those having earned less. However, under the new legislation this linkage cannot be established for the purposes of the CDD (fixed length labour contracts) as for discharges on economic grounds, for those persons having worked for only a short period for their last employer and for those who had been in the job for a longer period. The analysis, however, does point to a highly significant difference; under the old regulations the level of returning to work is high when the unemployed approach the end of their basic benefit entitlement period (multiplied by 2 between the 9th and the 14th month) and on approaching the extinction of their entitlement. As underscored by A. Prieto, this calls into question the Job Search forecasting models. The rate of return to work ought to increase linearly up until the time when the benefit allowance starts to decrease because of the reduction of the reserved wage over time. The increase in the rate of returning to work is only observed during the period when the benefit allowance begins to decrease. Under the new regulations, one observes a lower net increase in the rate of return to work in step with the increase in the number of stages so that the rate tends to decrease over time. This topping-off is highlighted in another study (Dormont, Fougère, Prieto (2000) and applies specifically to those unemployed receiving a high level of benefit and who, previously, frequently waited until the end of their entitlement period at full rate before taking up another job, knowing full well that they would not have any difficulties in finding work. The study reaches the conclusion that, subject to additional research, only a part of the discrepancy concerning returning to work between the old and the new regulations can be explained by the deterioration of the macro-economic situation between 1992 and 1994. The residual differential could have been brought about by the change in the allocation of benefits. In the authors' opinion, it is probable that the gradual decrease in the level of benefits paid out as introduced in 1992 slowed down the return to work, in particular for those workers who received the highest level of benefits. What can be expected of the suppression of the AUD? In a period of up-swing of the economy it ought not to result in an increase in the average duration of unemployment spells and therefore, **in the rate of unemployment except if the period over which full-rate benefits, and in particular for those unemployed paid at the highest rate and who also the most employable, were to remain very long; i.e. higher than they were before 1992.** The expected positive effects of improved support measures and a more active role on the part of the national employment agency in terms of job offers ought to facilitate the task of returning to work by the unemployed.

Obligation to seek employment

Most countries require job seekers to actively seek work. Sanctions are applied if they fail to do so. Of the member countries of the OECD only the Czech Republic does not make active seeking of a job an obligation. (Grubb,2000). The level of constraints varies considerably. In the United States, job seekers receiving benefits must submit at least two applications per week; in Australia, the employment agency does not take account of applications for jobs for which the job seeker has no chance to obtain, whereas at the other end of the spectrum in Spain the assessment of intensity of job seeking is especially flexible.

There is a highly marked difference in the level of obligations to seek work. But even more so, is the level of sanctions imposed which differ the most.

- **In Belgium**, the suspension of unemployment entitlements for a given period would appear to be highly effective as "15 months after suspension, one third of long term unemployed whose benefits had been suspended had found work as compared with one fifth in the control group whose benefits had not been suspended" (Fougère, 2000). It should however be noted that there is a considerable cost to be paid in terms of returning to non-activity state, since 55% of those whose entitlement had been suspended leave the labour market and barely 6% are re-registered as unemployed at the end of the suspension period. It is true, of course, that in Belgium payment of unemployment benefits is not time-limited. Sanctions for not having actively sought work or for not having made sufficient effort aim at preventing unemployment allowances becoming a sort of social security benefit for non-working persons and replacing the Minimex – the Belgian minimum social benefit payment to persons of working age without any earned income.

- **In Switzerland**, the regional Jobcenters (ORP offices régionaux de placement) have the possibility of freely modulating sanctions and make full use of this opportunity as " the average frequency of sanctions applied to job seekers in the ten ORPs most often applying sanctions is 43 times greater than the ten ORPs who have a more reticent approach" (Grubb, 2000). However, no significant correlation has been observed between applied sanctions and the success rate of reintegration of long-term unemployed. The opposite is in fact the case in several ORPs who are most stringent in applying sanctions and whose results, in terms of placement of unemployed, are low.

It would, therefore, appear that when this policy is applied stringently and comprises heavy sanctions (reduction or suspension of benefits) is incapable of instilling a sense of responsibility in job seekers.

On the other hand, in the United States where a certain number of States have been authorised to apply sanctions on those receiving an allowance for single-parent families with dependent children (AFDC) and who refuse to participate in the JOBS programme, evaluations show that 20 to 30% of those concerned had found a job.

Martini and Wiseman (Grubb, 2000) expressed the following comment: "It is generally speaking, those agencies which have something to offer to beneficiaries who feel that it is their right to chase up and systematically apply sanctions to offenders". In other terms, the authors have reversed the causality: It is not the sanctions which incite persons to return to work but rather the jobs to be filled which motivate the application of sanctions.

As is the case for sanctions if job offers are rejected, sanctions for insufficient effort in seeking work are just as effective in terms of inciting persons to return to employment state if the labour market is flourishing and dynamic and lots of jobs are available. If the opposite is the case there is a risk that persons in the most difficult situation in terms of finding a job are liable to be increasingly marginalised, and are likely to be excluded over a long spell by the employment agency.

ENCOURAGING RECRUITMENT

Subsidies paid for low-skilled jobs –dealt with in Chapter I- aim at increasing the number of low-skilled jobs. Experience has, however, shown, that such subsidies are insufficient to encourage employers to recruit persons whom they deem, rightly or wrongly, that their productivity level will be low or, in any case, insufficiently high to offset wage costs even if social security contributions have to be paid at a reduced level. This is why, over the past period, a number of measures have been implemented, the justification for which has been "positive discrimination" as they have targeted primarily those persons experiencing difficulties on the labour market (long-term unemployed, young, non-achievers leaving school without any certificate, unskilled persons returning to the job scene after a spell of inactivity, etc.) The aim and purpose of all those measures is to provide high subsidies for the creation of jobs specifically targeted at such groups so as to offset the low productivity handicap they are assumed to represent.: integration companies, intermediary associations, job centres, etc. We will only consider the two most important quantitative policies which are also the most costly: Employment Initiative Contracts (CIE) in the trades and industry sector; Solidarity Employment Contracts (CES) and Consolidated Employment (CEC) for those bodies not included in the trades and industry sector.

Employment initiative contracts

As of the 30th September 2000, the number of CIE contracts was 260,000 as compared with 335,000 in the previous year (see insert for the details of this measure). This reduction is the result of a lower number of entrants flow in 1999 (158,000 new contracts as compared with 196,000 in 1998 and 212,000 in 1997). This situation continued through 2000 (106,000 new contracts during the first nine months of the year as compared with 117,000 during the corresponding period in 1999).

However, this numerical shrinking has been accompanied by a re-centring of the "priority groups concerned", i.e. those persons experiencing the most difficulties on

the labour market: 84% of new contracts in 1999 concerned persons becoming entitled to a monthly premium of F 1000 or F 2000, whereas this was the case for only 68% of new contracts in 1997. In 1999, almost two thirds of CIE beneficiaries (64%) were entitled to a F 2,000 monthly premium, whereas there were only 51% in 1997, and 54% in 1998. The breakdown of the figures for those "maximum premium" wage earners (often described as "high priority group" is as follows: 18.5 received RMI allowances, 7% ASS, 11% were long-term unemployed (3 years or longer), 14% long-term unemployed over 50, 15% handicapped workers, and 7% young persons without any certificate or diploma, the total being in excess of 64% as some workers fall into several different categories. Although the number of young persons is falling, and this can be explained, as we will see later, by the increased importance of the "new services – youth employment", all other categories of "high priority groups" have increased in percentage terms.

Employment Initiative Contracts

Introduced in 1995 and considerably amended 1996 so as to adjust the advantages of the CIE to the situation of those persons recruited under CIE conditions, the employment initiative contract is available to those job seekers who have been registered with the national employment agency (ANPE) during the course of the 18 months prior to their recruitment, to single mothers, persons having spent a spell in jail, French nationals having lost their job abroad, beneficiaries of the RMI and the ASS, handicapped workers, young, unemployed persons below the age of 26 who have no diploma (excluding CES), long-term unemployed (24 months and over), long-term unemployed persons (over 12 months) of at least 50 years of age. The last five categories (RMI or ASS beneficiaries, etc.) are deemed to be "priority groups" and are entitled, for those employers who recruit under a CIE, to a monthly premium of F 2,000 (F 1,000 for job seekers registered with the national employment agency for at least three years. In all cases, the CIE is for a period of 12 to 24 months, on a full-time, or part-time basis, and for at least 16 hours weekly paid at the Smic rate or the minimum rate agreed in the collective agreement. For the entire period of the contract employers' social security contributions on that part of the wage below the Smic are exempted. This measure may be extended up to retirement age for workers over 50 if they had been unemployed for more than a year or had been receiving the RMI benefit at the time they were recruited under a CIE. Those persons recruited under this type of contract are entitled to a training allowance – maximum of 400 hours at F 50 per hour- and a lump sum allowance of F 3,500 for trainers.

For new contracts entered into in 1999, 80% of recruitment were for CDI contracts (only two thirds in 1998), and 30% for part-time work. This increase in the number of persons recruited under the CDI contract system can be explained by the "ageing of workers recruited under this system". For long-term unemployed persons over 50 employers' social security contributions are exempted up until retirement age and it is in the company's interest to take advantage of the CDI system whereas recruitment under the CDD is limited to a maximum duration of 2 years. As regards that average entry wage level, it is on average 1.1 times the Smic, i.e. wage conditions similar to those observed for the long-term unemployed. There would not appear to be any specific stigmatisation effect. This statistical finding must, however, be complemented by an assessment of the evolution over time of the situation of persons accepting this type of contract, as recruitment was during a period of economic up-swing and was mainly (42% in 1999) by businesses employing at least three persons. It is a known fact that businesses of this size employment fluctuations and a weak financial

situation are more marked than in larger businesses. It must not be excluded that the evolution noted might have been brought about, in part, by cyclical developments, and may be reversed in the event of business cycle changes.

A three year monitoring period of persons recruited under the CIE system in 1995 provides a better insight into the dynamics in play (Charpail and Zilberman, 1999), 43% of workers recruited are still in their job after three years. Of those no longer with the company, approximately half (28% as compared with 57%) have a job with another company. The outcome is that three years after having been recruited under the CIE system, 71% of beneficiaries are still in work.

Good results have been achieved, favoured, no doubt, by the economic up-turn. However, recruitment under the CDI system are less for RMI beneficiaries and older workers, i.e. persons who experience, a priori, the most difficulties. For 70% of those taken on in a job and who previously were in work, the job is of the same level as the one they previously occupied (17% in a lower grade, 13% in a higher grade), however, 57% consider they are earning less. For young persons and for whom the CIE represents their first job, the measure encourages sustainable integration since the probability they will remain in the company is increased by 12.9 points, whereas the probability that they will break their CDI contract is lowered by 17.1 points. Under this type of contract it would appear that a choice is made: employability is lastingly improved, subject to their acceptance of a lower level of wage than they had before.

All in all, it would seem that the CIE measure has achieved its goal since it encourages returning to "normal" employment of a non-negligible number of persons on the verge of exclusion. The considerable number of very small businesses queuing up to make use of this measure is probably caused by the improvement in the economic situation and because it allows them to reduce wage costs. By targeting those groups having the greatest of difficulties in finding a job, public subsidies make their contribution to changing the pecking order in the unemployed waiting list to the advantage of those with the least skills to offer. This type of "allocation" of public monies improves the employability of persons in difficulty.

Non trade and industry employment

Solidarity employment contracts (CES) and consolidated employment contracts (CEC) aim at encouraging vocational integration of persons with the greatest difficulty in finding a job. With regard to the "new services –youth employment" programme although it is targeted at all young unemployed youths, and not solely the least skilled, it does concern the latter more than the others as they experience the highest degree of difficulties in terms of sustainable integration into the work scene. It is from that angle that we will address them here. Legislation provides that in certain cases, public industrial or commercial businesses may enter into CES, CEC or "youth employment" contracts, however, in fact, the great majority of them are non-trade and industry based establishments, i.e. regional authorities, public education sector, administrations, non profit-making establishments, and so on.

Solidarity employment contracts and consolidated employment contracts

- In 1999, 447,000 CES (- 7% compared with 1998) and 129,000 CEC (+ 23%) were initiated, be they new entries or renewals of existing contracts. These changes continued in 2000: reduction in the number of new entries for the CES (- 7% between January and April 2000 compared with the same period in 1999) and increase in the number of new CEC entrants (+ 9%). In stock terms, two thirds of persons covered by both instruments are CES (220,000) and one third CEC (116,000) as compared with a 4/5 – 1/5 split in 1996. 73% of new CES entries in 1999 involved "priority groups" (see insert), as compared with 60% in 1996. This proportion tends to fall slightly for the CECs (going from 70% in 1996 to 64% in 1999) because of the drop in the numbers of long-term job unemployed (more than 3 years).

- Although the number of young persons is tending to drop (22.7% for CES contracts accepted in 1999 as compared with 27.6% in 1996) due no doubt to the "new services – youth employment" programme, beneficiaries of the social minimum are increasing, in particular those receiving the RMI (33.8% of CEC contracts in 1999 compared with 29.5% in 1997). However, given the reduction in the total number of CES contracts, the number of beneficiaries with a CES contract has remained more or less stable. As for the CECs, the law on exclusion offers the possibility of direct access without previously having occupied a CES contract. One out of four new beneficiaries is in this situation.

CES and CEC contracts: two measures targeted on persons with difficulties in finding a job

CES contracts are jobs for twenty hours per week and are provided by local or regional authorities, public bodies and non profit-making private law organisations. Contracts are for twelve months but may be renewed for certain persons beneficiaries. Those eligible are: job seekers registered with the national employment agency for at least 12 months during the previous 18 months, job seekers aged 50 and over, handicapped persons, those receiving the RMI, ASS or API, young, low skilled persons between 18 and 25, young persons enrolled in the TRACE programme, and persons with special difficulties in finding a job. Priority persons are those people entitled to minimum social allowances who have been unemployed for more than a year, elderly long-term unemployed, very long-term unemployed persons, handicapped persons, young persons enrolled in the TRACE programme, persons with special difficulties in finding work. For priority persons, the State pays 90% of the wage calculated on the basis of Smic hourly wage rate multiplied the number of hours worked. It covers 85% when the contract is with long-term unemployed or those receiving minimum social allowances, and 65% for others. In all cases, the employer is exempted from paying employers' social security contributions, apprenticeship levies or wage levies. Employers must, however, pay unemployment contributions.

The CEC programme consists of a minimum thirty hour week under a CDI or CDD contract for a period of 12 months, renewable four time, with an upper limit of a total of 5 years in both cases. The targeted groups are the same as for the CES contracts but also include persons unable to find work at the end of their CES contract, or a job in an integration company. The CEC must provide for vocational guidance and validation of acquired skills: this possibility existed also under the CES system but was rarely used.

State aid is subject to the conclusion of an annual agreement between the employer and the DDTEFP. There are two types of CEC contracts: degressive, i.e. the State's contribution to the wages paid falls from 60% in the first year to 50, then 30, and finally to 20%, or at constant rates (80% of the wage within the limit of 120% the Smic on the basis of 30 hours per week for priority persons, (persons over 50 who have been unemployed for more than a year, beneficiaries of minimum social allowances unemployed for more than a year, handicapped persons, and persons experiencing great difficulties. The Prefect of the region must give his assessment. Exemption from social security contributions and levies or taxes provided for under the agreements are the same as for the CES contracts.

- CES contracts are often deemed to be better than nothing by those accepting this type of contract because of the low level of wage paid; generally the part-time Smic, and also because of the precarious employment situation (one year, with the possibility of renewing the contract for an additional year) Defauquet, 2000, Afsa and Guillemot, 1999). However, persons who have not been in a job for a long spell, and in particular those receiving the RMI and for whom a CES contract is the most frequent, typical door-opening to returning to work, the very fact of being in gainful employment and occupying a job enhances their self-esteem, even if, up until 1999 (changed in the interim) the participation system under the CES was not a great encouragement and which explains why control group participant stated that they lost out in financial terms.

- The initial justification for CES contracts having to be on a part-time basis, i.e. allow time for people to look for a job to exit their state or undergo training, does not hold, as a majority of persons signing up for this type of contract were unable, subsequently, to find non-subsidised employment. The aim was probably to

maximise the impact on employment levels for a given level of budgeted appropriations. The context having changed because of the improvement in employment levels, this might prove to be an appropriate time to merge the CES and CEC programmes by offering CES contract holders the opportunity to extend the number of hours worked per week so as to reduce the working poor phenomenon to which they make a non-negligible contribution. This would bring about a reduction in the precariousness of this type of contract by providing longer contract spells than is currently the case.

- Acceptance of a CES contract rarely leads to a return to non-subsidised employment in the trade and industry sector. Is this a sign of the employability or not of the persons concerned? It would seem that the problem is that employers in the non-trade and industry sector rarely have the possibility of providing those persons benefiting from this type of contract any career opportunities by acceding to the trade and industry sector. Over and above this aspect, in the majority of cases, employer organisations have not implemented a suitable flanking support scheme: training efforts are low-key and aid in searching for work non-existent. Employers have focused on using a source of cheap labour to replace or to complement their low skilled work force. The result has been that these persons have been "corralled" in their status. Given the lack of better gateways, by improving public subsidises to employers in the trade and industry sector who recruit CES beneficiaries on the basis of a CIE contract, perhaps consideration should be given to providing better adapted training on a more systematic basic in order to allow CES contract holders to prepare for civil service internal competitive exams (including, if appropriate, an increase in examination grading marks based on the time spent on a CES contract, and by making full use of the recruitment requirements of the Civil Service due to retirements, or to increase their skills to meet labour market demands.

Youth employment contracts

- By the end 1999, 220,000 jobs had been created under this programme (see insert) and 205,000 persons recruited (of which 66,500 by the National Education Authority, 15,200 by the police and 123,000 by local authorities, associations or public bodies). Cruising speed having been attained, the programme is now entering into flight descent as between January and end of June 2000 only 35,000 new posts have been created. In 1999, 36% of persons recruited were for bodies employing less than 10 persons (5 points lower than in the previous year). The levels of training of persons recruited is tending to increase: 19% do not possess the French higher school leaving certificate (baccalaureate) (2/3 of which are male), 38% have been educated to baccalaureate level (down by 7 points compared with 1998), 24% have the baccalaureate plus 2 years university, 19% have an education level in excess of BAC plus 2 (of which number 2/3 are women). The last two categories have increased by six points year on year. 65% of those recruited were young job seekers, 16% of young persons who were already in employment (CES, CEC, day release contracts and, as they were already employed, were taken on by their employer).

Those with the most diplomas are mainly employed in management, those with few diplomas in security or the environment. Excluding the police and national education, 52% of young persons are paid the Smic for 39 hours work, 38% more than that level, the others less. These are persons employed for less than 39 hours per week (Bellamy, 2000).

The "new services – youth employment"

Introduced by the Law dated 16 October 1997, the "new services – youth employment" programme is solely for unemployed young persons below the age of 26 to 30 who cannot receive unemployment benefit or are recognised handicapped persons, a certain number of whom –in particular those with the fewest diplomas- experience the greatest difficulties in finding a permanent job. State aid is equal to 80% of the Smic, however the actual wages paid may be higher than the Smic in which case the employer pays the total additional cost. Jobs are full-time, private law CDI or CDD contracts are for a duration of 60 months, except in the case of the National Police where contracts are governed by public law. They are, however, restricted to 5 years. The potential employers are: local authorities, public education establishment or administrative bodies, private non-profit-making bodies, National police, in actual fact the same as CES contracts, with the addition of the National police.

- The rather high level of training of the majority of newly recruited persons under this program is easily explained. Associations which act increasingly as major providers of work for young persons were, when the program began, the National education and Interior Ministries. Associations are looking for precise, high levels of skills even if it means exceeding the Smic wage level. In this way they are able to obtain workers with a good level of skills and find it easy to entrust young workers with new activities or new jobs since that is in keeping with the spirit of the programme which aims at developing socially useful activities, the profitability level of which is not at all sufficient to ensure self-financing in the longer term. The overall upturn in recruitment levels will, no doubt, generate a reduction in the flow of Baccalaureate +2 years university training or above (levels III and above), whereas young persons with low levels of skills and who will continue to suffer from a higher level of unemployment will probably continue to represent an increasing proportion of candidates for this type of employment. It is, therefore, not at all certain that the supply and demand matching levels will be as easy as it currently is. There is a major risk that youth employment, instead of being a vector for the creation of new activities become a means of filling cheaply conventional job for which a high level of training is not required. This is an additional reason for re-assessing the value of CES contracts so that they can be taken up by young persons with a low scholastic achievement level by providing them with skills in terms of training and flanking measures to help them in their job searches, thus becoming the initial stage of an integration trajectory which may lead, in certain cases, to greater possibilities.

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ABBREVIATIONS

ACCRE	Aid to unemployed persons creating a business or taking over a company
ACR	Income compensation allowance
AFDC	Aid to families with dependent children
AFPA	National Association for Adult Vocational Training
AL	Housing Allowance
ANPE	National Employment Agency
API	Single Parent Allowance
APL	Individual Housing Allowance
AR	Limited Activity
ASS	Specific Solidarity Allowance
ASSEDIC	Association for employment in industry and trade
AUD	Single Degressive Allowance
BIT	ILO
CCAS	Community Social Action Centre
CDD	Fixed Length Contract
CDI	Contract of Undetermined Length
CEC	Consolidated Employment Contract
CES	Solidarity Employment Contract
CEV	City Employment Contract
CHRS	Housing and Social Re-integration Centre
CIE	Employment Initiative Contracts
CMU	Universal Sickness Cover
CRE	Return to Work Contract
CRDS	Contribution for the reimbursement of the social security debt
CSERC	Higher Council for Employment, Income and Costs
CSG	General Social Contribution
DAFCO	Academic Delegation for On-going Training
DARES	Directorate for Research, Studies and Statistics
DDASS	Departmental Directorate for Health and Social Action
DDTEFP	Departmental Directorate for Labour, Employment and Vocational Training
EITC	Earned Income Tax Credit
INSEE	National Statistics and Economic Studies Institute
JOBS	Job Opportunity and Basic Skills Training
MES	Ministry for Employment and Solidarity
ORP	Regional Placement Agency
PAIO	Information and Career Counselling Agency
PARE	Plan for Aid to Return to Work
PAS	Self-sufficiency Project
RMI	Minimum Reintegration Income
SMBO	Gross Monthly Worker's Wage
SMIC	Minimum Growth Wage
SMIG	Minimum Inter-Professional Guaranteed Wage
SSP	Self sufficiency Program

ABBREVIATIONS

TANF	Temporary Aid to needy families
TDE-MLT	Career Strategy for Job seekers and the the Local Labour Market
TRACE	Access to Work Strategy
UC	Consumption Unit
UNEDIC	National Union for Employment in Industry and Trade
UTR	Technical Reclassification Units
WFTC	Working Family Tax Credit