



# Preventing Poverty Through Employment, Education and Mobility

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In comparison with other European countries, France displays a relatively moderate and stable poverty rate. Though this can be seen as the result of a fairly good resilience of our redistributive system, including during the crisis, poverty in France remains characterised by an impressive inertia. In a sense, children do “inherit” the poverty of their parents: they reside in disadvantaged areas, have greater educational difficulties and therefore greater difficulties in accessing to employment. To break this vicious circle of poverty reproduction, it is essential to go beyond monetary aid granted to the most modest and address the determinants of poverty: failure at school, difficulties in professional integration for people with low or no education, and the concentration of poverty in certain neighbourhoods, contributing to its persistence.

The track record of policies aimed at preventing school failure and drop out is disappointing. Priority education policies turn out having the perverse effect of accentuating school segregation, while not sufficiently mobilising pedagogical methods aimed at developing the motivation and self-esteem of the least performing students. In order to better fight school failure this *Note* proposes to increase social diversity in schools through greater residential diversity, applying the law on urban solidarity and renewal (commonly known as the SRU law) at the level of the areas defined by the school mapping. It also advocates the massive development of teacher training in

“positive” pedagogy, the establishment of drop-out monitoring units in middle and high schools, and the possibility for schools listed in the priority education program to opt for self-management accompanied by a 50% increase in their resources.

For young people who dropped out of school without a diploma, two sets of measures should have priority. On the one hand, it is a matter of promoting alternative qualification pathways to traditional education, creating a national apprenticeship guarantee for unemployed and untrained young people and triple the number of so-called “second-chance schools”. For lower-skilled people who cannot easily participate in an intensive training program, the cost of labor could be further lowered by merging the different social charges alleviation arrangements and targeting them below 1.9 minimum wage (“SMIC”).

Finally, given the persistence of the concentration of poverty on the same territories over the past two decades, urban policy must also be rethought. The means should be better targeted at neighbourhoods with highest rates of non-employment, especially among young people, but also towards mobility assistance, in order to improve the ability of people to seize professional opportunities. Geographical mobility can also be facilitated by improving the fluidity of rental properties, both in the private and social sectors.

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## Introduction

Poverty reduction policies are justified in the name of equity: poverty is unfair because it results, at least in part, from circumstances that are independent of people's efforts and goodwill. However, combating poverty is also a concern for economic efficiency. Poverty and social exclusion compel individuals to make sub-optimal choices in education and health for financial reasons. It can also create problems of crime and insecurity.

This *Note* presents the determinants of poverty, and then reviews the policies that can prevent them. In light of the failures and successes of these policies, we propose new and more effective actions. The general philosophy of our recommendations is to support the most vulnerable while avoiding reinforcing the feeling of incapacity and exclusion. To combat the mechanisms of poverty, public action must better inform, encourage and empower.

## The determinants of poverty in France

### A more moderate poverty rate than elsewhere

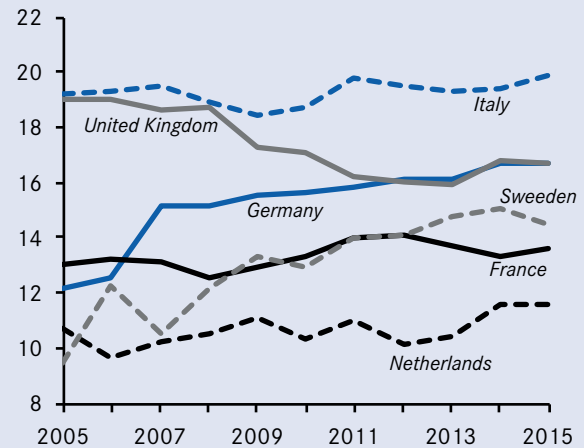
Usually defined in relative terms to a median income (see box), the poverty rate is more moderate and more stable in France than in some other European countries. While the labor market situation has sharply deteriorated since 2008, with a rise of more than 40% in the unemployment rate, the poverty rate has only increased by 9%.

By setting the poverty line at 60% of the median standard of living and according to Eurostat data (EU-SILC survey), the poverty rate rose from 13.1% in 2005 to 13.6% in 2015, with a "peak" at 14.1% in 2012. This relative stability contrasts with most European countries (Chart 1). Germany and Sweden, which are also performing very well on the employment front, experienced dramatic increases in their poverty rates between 2005 and 2015: from 12.2% to 16.7% in Germany, and from 9.5% to 14.5% in Sweden. The United Kingdom maintains a high poverty rate of 16.7% despite a significant decline between 2005 and 2013. Finally, Italy maintains a very high poverty rate of nearly 20% over the entire period.

France and the Netherlands are the only two countries in this sample to have maintained a stable and relatively low rate of poverty. This observation highlights the capacity of the French redistributive system to separate labor market difficulties from living conditions even in the context of the sharp

rise in unemployment since 2008. The intensity of poverty is also lower than in most countries and has not worsened over the past decade. In 2013, people living below the poverty line had incomes on average 24% below this threshold, compared to 29% in the United Kingdom and in the rest of the OECD, and 36% in Italy.

### 1. Poverty rate in selected European countries in %

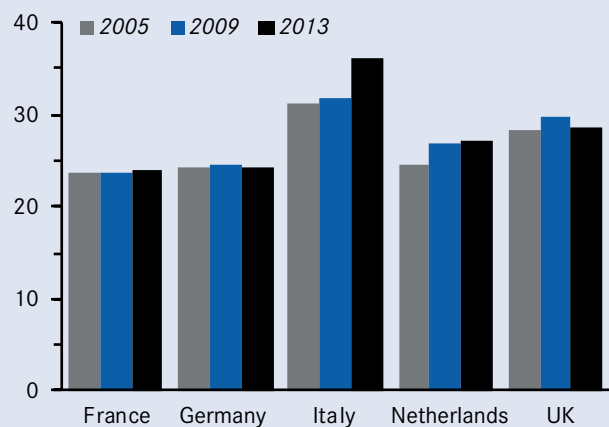


*Field:* Individuals living in a household of the sample.

*Reading:* In 2015, 13.6% of people living in France have a standard of living below the poverty line of 60% of the median standard of living.

*Sources:* EU-SILC Survey, 2005 to 2015.

### 2. Intensity of poverty in selected European countries, in % relative to the reference income



*Reading:* In France, in 2013, people living below the poverty line measured at the 60% median income threshold had an average income of 23.9% below this threshold.

*Source:* OECD.

The authors thank Manon Domingues Dos Santos, Scientific Advisor at the CAE, who has monitored this work.

## Measuring poverty

Poverty is defined at the household level: a person is considered poor if he/she belongs to a poor household. The standard of living of the household is calculated on the basis of the disposable income (after transfers taxes and social contributions) of each of its members, as well as the number of consumption units corresponding to the size of the household. For example, the needs of a couple with two children are 2.1 times that of a single person (0.5 unit of consumption per additional adult and 0.3 per child). Household income is divided by the number of consumption units, which makes it possible to compare the standard of living of households of different sizes.

In high-income countries, monetary poverty is defined by the position of the household's standard of living in relation to the median standard of living. Poverty thus characterizes a standard of living deemed insufficient to "have living conditions considered acceptable in the member country where they live," as defined by the European Council in 1984. The definition of poverty adopted in rich countries is demanding as it considers that it is not only necessary to meet basic needs to escape poverty, but also to be able to participate in the life of society, with its consumption standards. The poverty rate is therefore above all an indicator of inequality describing in a synthetic way how low incomes are distributed.

If the monetary and one-dimensional approach is the most widely used in practice because it is easier to implement, the modern definition of poverty considers its multidimensional character, in line with the work of Amartya Sen<sup>a</sup>. Poverty does not only lie in the monetary situation of the household, but above all in its inability to lead a decent life in the absence of real life opportunities. Access to education, health and decent housing are all dimensions to be considered in defining poverty. However, the monetary aspect determines the bulk of statistical information and is the main criterion of public action.

In France, two thresholds are commonly used to characterize poverty: 50% and 60% of the median standard of living. In 2014, the poverty threshold for a person living alone was, according to INSEE, at 805 euros monthly available at the threshold of 50% and 1,008 euros at the threshold of 60%. Following these definitions, there are 5 million poor people at the 50% threshold and 8.6 million at the 60% threshold, i.e. 8% and 14.1% of the French population (INSEE, Tax and Social Income Survey 2014). It should be pointed out that poverty affects more often households whose reference person is young: 23% of people living in households with a referent under 30 years of age are poor, compared with 15% of people living in households with a referent between the ages of 30 and 60, and 9% of those living in a household with a referent older than 60.

<sup>a</sup> Nobel Prize in Economics in 1988 for his work on the economy of well-being and the determinants of poverty.

## The specificities of poverty in France

The main characteristic of poverty in France is its inertia. Two out of every three poor people in 2009 were still poor in 2010. The persistence of poverty is much higher than in the past, when the annual probability of getting out of poverty was close to 50%.<sup>1</sup>

Why does poverty persist? A fundamental reason is that in France, much more than elsewhere in Europe, children "inherit" their parents' poverty: they live in poverty-stricken areas, have greater learning difficulties and, therefore, greater difficulties to access employment which persist during their adult life.

### Poverty and area of residence

In France, poverty is not randomly distributed in space. It is concentrated in the Northern and central regions, as well

as the Mediterranean basin, while other areas such as the Western region and the Rhone valley are barely subject to it.

Even though poor households are present in all types of territories, including the richest, they are overrepresented in some neighborhoods mainly located within large urban areas. Two-thirds of the poor live in the major urban centers, which together account for less than 60% of the population, while 10% of the poor live in the suburban belts of major urban poles, which account for 20% of the population.<sup>2</sup> The concentration of poverty in these neighborhoods contributes to its persistence by reinforcing the learning difficulties of the youngest and the difficulties for adults to access employment.

Poverty, moreover, displays an impressive spatial inertia. In fact, the geography of poverty has not been fundamentally altered over a long period of time despite decades of public action. The territories most exposed to the risk of poverty

<sup>1</sup> INSEE (2014): *Revenu et patrimoine des ménages*, p. 39.

<sup>2</sup> Aerts A-T., S. Chirazi and L. Cros (2015): "Poverty is Very Present in the Central Cities of the Major Urban Centers", *INSEE Première*, no 1552. Within large urban areas, the poverty rate is almost always higher in city centers (20% on average): it sometimes exceeds 2 to 3 times that of the suburbs and more than 4 times that of the periurban crowns. Municipalities that are isolated outside the influence of cities also have a significantly higher poverty rate (17% on average), but they represent only 5% of the poor population.

are targeted by the priority geography of urban policy. After the creation of sensitive urban areas (“zones urbaines sensibles” ZUS) and urban free zones (ZFU) in 1996, the list of territories targeted has expanded, with the creation of urban contracts for social cohesion (CUCS) in 2006, until the 2014 reform which created the new urban policy priority neighborhoods (13,000 in metropolitan France). Despite successive reforms and changes in definition criteria, the list of priority areas has largely remained stable: 94% of the inhabitants of the new districts reside in communes previously classified under urban policy and 62% of them already resided within a former priority area.

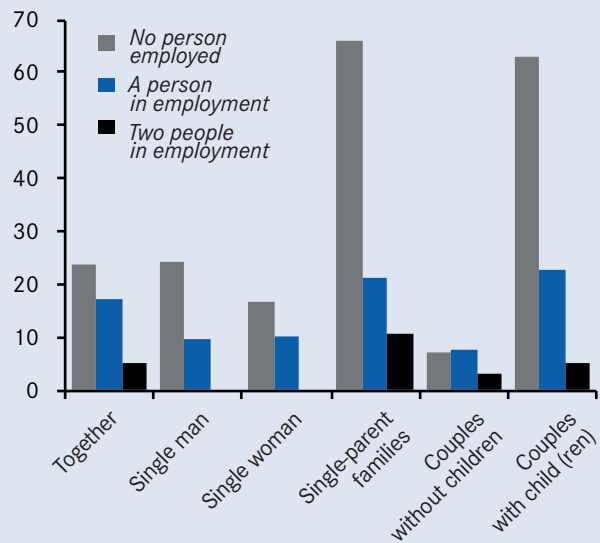
### Poverty and employment

In France, access to employment remains the most effective protection against the risk of poverty. Indeed, the risk of poverty is mainly related to the absence of employment of the reference person in the household (Graph 3). Although the welfare system, in particular unemployment insurance or the RSA, drastically mitigates the effects of joblessness on poverty, it cannot completely offset them, especially for households with dependent children. The only exception is inactive couples without children, most of whom are pensioners with a poverty rate lower (9%) than in the general population due to the pension system.

In 2013, at the 60% of median income threshold, 6 households with children out of 10 are poor when both adults are unemployed, compared to 2 out of 10 when one parent works and barely 5% when both adults work. Poverty rates also vary widely in single-parent families depending on whether the parent is working or not. If the family situation is strongly correlated with the risk of poverty, it is therefore through the employment situation.<sup>3</sup>

The problem is of particular concern among young adults whose poverty rate has increased significantly over the past decade. The deterioration of their situation on the labor market since 2007 explains this development. France now has 16.4% of young people aged 15 to 29 who have left the school system and who are not in employment nor training (the “NEET”),<sup>4</sup> which amounts to the highest proportion among the Southern EU states (Greece, Spain, Italy and Portugal). One third is poor, compared with 14% of young people in training or employment.<sup>5</sup>

3. Poverty and employment situation in France in 2013, in % of each category



Note: Within single-parent families, more than one person can work when one of the children in the household is working.

Reading: Among couples with children where no adult is working, 63% are poor at the 60% median level.

Source: INSEE-DGFIP-CNAF-CNAV-CCMSA, ERFS & Enquête.

A prolonged period of non-employment at the start of working life can have lasting consequences on poverty, through a so-called “scar” effect.<sup>6</sup> The average duration of unemployment is of 8 months in OECD countries, but more than 15 months in France.<sup>7</sup> The persistence of poverty in France is therefore related to the persistence of non-employment.

### Poverty and education

The chances of being employed are strongly inherent to qualifications. This phenomenon is particularly visible for young people: the main cause of their non-employment is a lack of qualifications and professional experience. The “NEET” rate (see above) is more than three times higher among young people with a qualification inferior or equal to the first level of secondary education than among those with a university degree. These young people, who have a high risk of remaining out of work and training twelve consecutive months or

<sup>3</sup> According to the 2013 Tax and Social Revenue Survey, households at highest risk of poverty are single-parent households with a risk of poverty of 33%, followed by couples with more than 3 dependent children, with a risk of poverty at 23%, compared with 13% for the general population.

<sup>4</sup> NEET: Neither in Education, Employment nor Training. In France, 85% of unemployed young people leaving the educational system have not gone beyond the Bac, and almost 40% of them have no diploma –nearly 700 000 young people in 2015.

<sup>5</sup> Carcillo S., R. Fernandez, S. Königs and A. Minea (2015): “Neet Youth in the Aftermath of the Crisis: Challenges and Policies”, *OECD Social, Employment and Migration Working Papers*, no WP1(2015)1, OECD Publishing.

<sup>6</sup> For example, youth experiencing a period of unemployment are more likely to be affected later in their careers by unemployment, or to receive lower incomes. See the synthesis of Carcillo *et al.* (2015), *op. cit.*

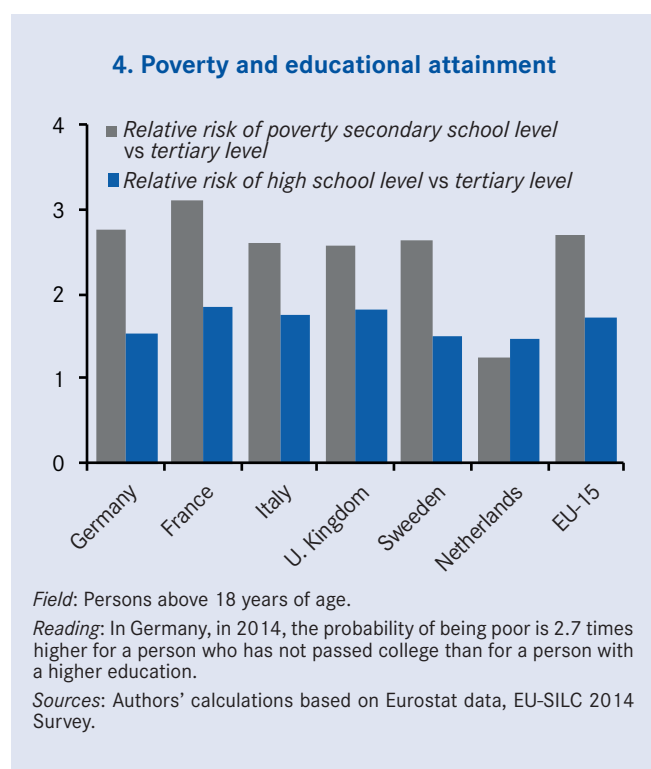
<sup>7</sup> [http://www.oecd-ilibrary.org/employment/perspectives-de-l-emploi-de-l-ocde\\_19991274](http://www.oecd-ilibrary.org/employment/perspectives-de-l-emploi-de-l-ocde_19991274)

<sup>8</sup> OECD (2016): *Society at a Glance*, Chapter 1.

more,<sup>8</sup> form the “hard core” of youth unemployment, being the “hard core” of unemployment in France.

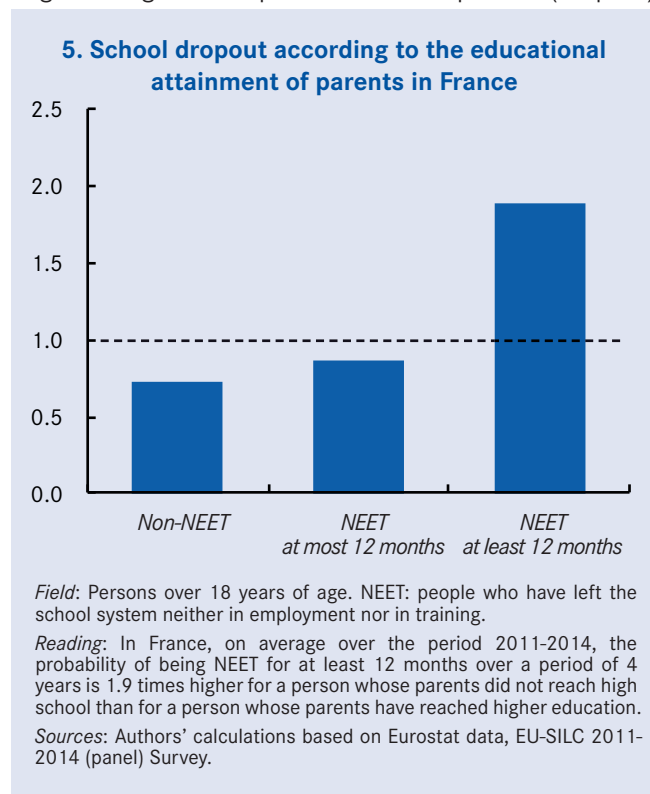
Beyond the case of youth, unemployment rates remain linked to the level of education, although the differences are less clear. This translates into higher poverty rates for low-skilled people.

In most European countries, the risk of poverty is significantly higher for those who have not reached high school than those with tertiary education (Graph 4). This phenomenon is even more marked in France (risk multiplied by 3, compared with about 2.5 on average in the EU). The determination of poverty by the level of education thus appears to be even stronger in France. This might be due to a more stringent link between education and employment in France than elsewhere: people whose level of qualification is below the high school diploma (“baccalauréat”) level contribute 60% to total unemployment, whereas they represent only one quarter of the population. Non-graduates are therefore heavily over-represented in unemployment, more so in France than in other European countries.<sup>9</sup>



Another French specificity is the over-determination of academic performance by the socio-economic status of the family, which in 2015 accounts for 20% of the differences in test performances compared to an average of 12.9% in OECD countries.<sup>10</sup> In this respect, France holds the record for OECD countries

and the world record for PISA countries after Argentina and Peru. This phenomenon is found among dropouts: they come mainly from families with a low level of education, suggesting a strong social reproduction of inequalities (Graph 5).



Thus, the “poverty trap” seems to have strong determinants: parental income determines more than elsewhere academic achievement and diploma, and the latter determines more than elsewhere the probability of being employed and of being poor. If the best antidote against poverty is employment, the best antidote against inactivity and unemployment is education. Overall, the determinants of poverty are therefore mainly non-employment, low initial education and place of residence. These findings are therefore main challenges for public policies in preventing poverty.

## Prevent poverty through education and basic training

The situation in France is paradoxical. Despite devoting a greater share of its resources to child policies,<sup>11</sup> the country is not performing better than other advanced countries. International test scores are average because of a high proportion of students in difficulty: the score gap between the top 10% and the lowest performing 10% is one of the highest among the participating countries to PISA.<sup>12</sup> Moreover, many

<sup>9</sup> See INSEE data on the unemployment rate by diploma level and OECD (2016), *op. cit.*, Table A1.3.

<sup>10</sup> See the OECD PISA Survey (2012, 2016).

<sup>11</sup> By summing public spending on education, family benefits and the public service of early childhood, France spends 10.5% of its GDP on children, compared with an average of 9% in OECD countries.

<sup>12</sup> 256 points in France, compared to 239 points, on average, in OECD countries.



of these students in difficulty leave school early: between 2002 and 2011, an average of 17% of young people leaves each year initial education without diploma. The proportion dropped to 15% of an age group in 2015, which still represents about 110 000 young people every year. Thus, efforts for children still seem to be ineffective.

### Disappointing results of policies against school failure

The largest prevention effort against school failure and drop out is now channeled through the priority education facility. However, existing evaluations show a lack of systematic impact on students' academic performance.<sup>13</sup> While the provision of additional human and financial resources has resulted in a reduction in the class size in targeted institutions, as well as individual care for the most disadvantaged students beyond the classroom by first cycle teachers, the system also has perverse effects on the social and academic diversity of schools: students who perform better or those from favored backgrounds increasingly avoid the public establishment of their neighborhood when it belongs to the priority education system, and enter private institutions.<sup>14</sup>

In addition to priority education, many of the support facilities for exceptional students have proved ineffective. This is the case with the intensive "Coup de pouce clé" and "Programme de réussite éducative" (educational success programme), the impact of which has been rigorously evaluated.<sup>15</sup> The first is a support for learning to read, in small groups of five students during the preparatory year (CP), at an annual cost of 1,000 euros per child. The second facility provides multidimensional support from kindergarten to college, including psychosocial, medical and school support, at an annual cost of € 1,200 per child. In both cases, the observation is clear: the educational performance of the beneficiary students is not significantly different from that which would have been obtained in the absence of these programs.

### Root causes of school failure

In addition to the impact of the priority education facility on school and residential segregation, several factors contribute to explaining the poor performance of the French system in the fight against school failure.

According to PISA, France is one of the countries where students have the least confidence in their own skills, after Japan, Korea and Macao. French students are also much more anxious than elsewhere: 50% of students are subject to anxiety while doing their homework compared to 33% on average in OECD countries. With only 47% of students reporting "feeling at home in school", France has the lowest proportion of well-being in school. Finally, after Japan and the Slovak Republic, France is the country where students show the least perseverance. Among the countries participating in PISA, the students who are most persistent are those who perform best in mathematics.

It is also observed that students are impacted by strong social stereotypes that bias their perceptions: at the same level of education, students of disadvantaged origin have a lower academic esteem and exaggerate strongly the influence of their social origin on their chances of future success. As a result, they form smaller educational ambitions, further accentuating the longer-term performance gaps.<sup>16</sup>

While significant efforts have been made to reduce class sizes and provide support to exceptional students, the disappointing results seem to be linked to unanticipated perverse effects: an increase in school segregation on the one hand, anxiety, loss of self-esteem and social fatalism that plague poor performers on the other.

### Rethinking the prevention of school failure and drop-out

If the School Rebuilding Act of 2013 provides additional resources for exceptional pupils, it does not address school segregation nor the lack of self-esteem and demotivation which impact poor students. To make progress in the fight against school failure and drop out, it is necessary to tackle four barriers simultaneously: social segregation in schools, pedagogical practices, care for dropouts, and school autonomy.

### School segregation

The literature on the effects of school peers shows that residential and school segregation adds to individual and family difficulties because a student with school difficulties is more often surrounded by students themselves in difficulty.<sup>17</sup> If we

<sup>13</sup> Bénabou R., F. Kramarz and C. Prost (2005): "Zones d'éducation prioritaire: quels moyens pour quels résultats ?", *Économie et Statistique*, no 380, as well as Caille J-P., L. Davezies and M. Garrouste (2016): "Les résultats scolaires des collégiens bénéficient-ils des réseaux ambition réussite ? Une analyse par régression sur discontinuité", *Revue Économique*, vol. 67, no 3, pp. 639-666.

<sup>14</sup> Davezies L. et M. Garrouste (2014): « More Harm Than Good? Sorting Effects in a Compensatory Education Program », *Document de Travail du CREST*, n° 2014-42.

<sup>15</sup> See Goux D., M. Gurgand and E. Maurin (2013): *Évaluation d'impact du dispositif « Coup de pouce clé »*, Rapport final pour le Fonds d'expérimentation pour la jeunesse and Bressou P., M. Gurgand, N. Guyon, M. Monnet and J. Pernaudet (2016): "Évaluation des programmes de réussite éducative (PRE)", *Rapport IPP*, no 13, March.

<sup>16</sup> Guyon N. and E. Huillery (2016): "Biased Aspirations and Social Inequality at School: Evidence from French Teenagers", *LIEPP Working Paper*, no 44, December.

<sup>17</sup> For a review of the literature and the demonstration in the French case, see, Goux D. and E. Maurin (2017): "Close Neighbors Matter: Neighborhood Effects on Early Performance at School", *Economic Journal*, vol. 117, no 523.

still lack rigorous impact assessments to demonstrate the positive effect of social diversity on academic performance and / or social cohesion, an experimental initiative led by the Ministry of Education is under way.<sup>18</sup>

In areas where families with different characteristics live together, the increase in social diversity in schools can be achieved by revising the school mapping. Where residential segregation is strong, reorganizing the school mapping does not change anything. Social diversity at school therefore requires, above all, residential diversity.

Residential diversity policies in France are mainly based on the 2000 Solidarity and Urban Renewal (SRU) law, which imposes financial penalties on municipalities that do not reach 20% of social housing. A recent study<sup>19</sup> finds a positive effect on the construction of social housing. However, the level of application of the SRU Law does not prevent segregation at the level of neighbourhoods and thus of schools. We therefore recommend refining the SRU law at a lower territorial level: the proportion of 20% of social housing should no longer apply at the commune level but at the level of the district and areas defined by the school mapping.<sup>20</sup>

**Recommendation 1. Improve social diversity in schools through the application of the SRU law at the level of areas defined by the school-mapping.**

### Educational methods

Given the specificities of the French students we described, it is urgent to put the students' motivation, their psychological well-being and the construction of their self-esteem at the core of the educational system. These skills promote academic success, but also integration and professional success in the labor market.<sup>21</sup> The need for confident, open, change-oriented, cooperative and motivated workers increases in the context of the post-industrial era where creativity replaces repetitiveness.<sup>22</sup> To achieve this, it is necessary to deeply reform the pedagogical approach by adopting a "posi-

tive" pedagogy, for instance as Finland has done, combining excellent performances with PISA tests, the record of self-confidence and the lowest level of anxiety and social inequality at school.<sup>23</sup> The principles of the Finnish education system that create this virtuous environment and which are lacking in France are:

- the lowering of evaluation: a low score (encrypted or not) can have deleterious effects on the feeling of capacity, self-esteem and anxiety, leading to demotivating the poorly evaluated student.<sup>24</sup> A new assessment system must be adopted to develop students' sense of capacity and motivation. This system should limit evaluation as much as possible, as does Finland, where students are not evaluated until the age of 11 (except for one evaluation –not quantified– at the age of 9). Everyone can progress at his own pace without internalizing a feeling of failure or even of "nullity", a degraded self-image generating subsequent failures of anguish and suffering. This, of course, does not rule out informing families regularly about the progress of their children;
- individual involvement and cooperation between students: the relationship between teacher and students is still very vertical with little room for personal involvement, exchange and cooperation between students.<sup>25</sup> Many educational innovations can be developed in this sense: reversed classes, free choice of activity, group work, for example;
- the academic ambition of students of disadvantaged origin: the level of knowledge about the possible orientations in higher education and the perception of one's own academic potential are very much dependent on the socio-economic level of the families.<sup>26</sup> The role of guidance counselors should be rethought in order to provide students from disadvantaged families with comprehensive information on higher education occupations and branches, as well as a tailored perception of their true academic and professional capabilities, from high school on.

The so-called "positive" pedagogy is not entirely absent from French practices, but it remains confined at a very small scale. It is important to expand it.

<sup>18</sup> Experiment launched in December 2015 by the Ministry of National Education. A qualitative and quantitative impact assessment is being carried out by a scientific committee composed of sociologists and economists, including two members of the CAE: Yann Algan and Élise Huillery.

<sup>19</sup> Gobillon L. and B. Vignolles (2016): "Évaluation de l'effet d'une politique spatialisée d'accès au logement: la loi SRU", *Revue Économique*, vol. 67, no 3, mai, pp. 615-637.

<sup>20</sup> The application of the SRU may, however, be suspended above a certain vacancy rate in the rental stock.

<sup>21</sup> On the role of non-cognitive skills in academic and vocational success, see, among others, Heckman J., J. Stixrud and S. Urzua (2016): "The Effects of Cognitive and Non-Cognitive Abilities on Labor Market Outcomes and Social Behavior", *NBER Working Paper*, no 12006, January.

<sup>22</sup> Cohen D. (2015): *Le monde est clos et le désir infini*, Albin Michel.

<sup>23</sup> Robert P. (2008): *La Finlande. Un modèle éducatif pour la France ? Les secrets de la réussite*, ESF, Coll. Pédagogies.

<sup>24</sup> See, for example, Duclos G. (2010): *L'estime de soi: un passeport pour la vie*, CHU Sainte-Justine.

<sup>25</sup> Algan Y., P. Cahuc and A. Shleifer (2013): "Teaching Practices and Social Capital", *American Economic Journal, Applied Economics*, vol. 5, no 3, p. 189-210.

<sup>26</sup> Guyon N. et E. Huillery (2016): "Biased Aspirations and Social Inequality at School: Evidence from French Teenagers", *LIEPP Working Paper*, no 44, December.

**Recommendation 2.** Develop massively the practice of “positive” pedagogy through the initial and continuous training of teachers.

### Caring for school dropouts

Drop-out platforms, developed and improved since 2011, are a first step not to lose sight of the young people who are no longer coming to classes. They coordinate the follow-up actors (local missions) from education and training. But their steering is complicated, they are heterogeneously spread on the territory and still poorly known by young people. In Norway and Sweden, local social services have a *legal obligation* to offer alternative training to young dropouts, at the moment of leaving school; in parallel, schools have the obligation to share their information about absenteeism with these “monitoring cells”. Intervening months or even years after the dropout of school is not effective because the majority of young people are by then discouraged or administrative services have lost track of them. In priority education areas, monitoring units connected with social services, local missions, learning centers and second chance schools should be permanently established within schools.

**Recommendation 3.** Establish monitoring units for young people at risk of dropping out of secondary and high school.

### Self-management of school institutions

The analysis of 70 education systems in the 2015 PISA report shows that students enrolled in autonomous institutions are more successful than those enrolled in institutions where resource allocation, content and pedagogical organization are the responsibility of the central government or regional authorities.

We propose that the establishments participating in the priority education networks (REP) benefit from management autonomy within the framework of a charter signed with the Ministry of Education, on a voluntary basis.<sup>27</sup> This charter, covering a renewable period of 5 years, would open up substantial additional resources (for example + 50% in relation to the additional resources already allocated to them) while granting the head of the establishment entire freedom regarding their allocation and the recruitment of teachers. Additional resources would be freely allocated by drawing

on a catalog of measures, whose impact has been rigorously evaluated, so as to enable the educational teams to choose the innovations best suited to their school.<sup>28</sup> If the teams want to invest their resources for measures outside of the list of evaluated measures, they will have to establish an impact assessment approach. The aim here is to renew the approach to priority education, where only positive discrimination on means has not proved its worth. The autonomy of the institutions, combined with additional means used in a logic of performance and mobilization, seems to us to be a more promising path. The charter linking the institutions and the Ministry of Education should contain concerted objectives. The cost of this measure would be € 125 million on a full year basis, assuming that 25% of establishments sign a charter.<sup>29</sup>

**Recommendation 4.** Allow for self-management of REP and REP+ (priority education) schools, accompanied by a 50% increase of the additional means allocated to these schools.

### Foster employment and professional integration

Given the predominant role of education on the chances of employment, it is necessary to ensure that those who have missed the traditional school way find a job allowing them to earn a living above the poverty line. The main barriers to the professional integration of school dropouts without a diploma are the lack of professional competence recognized by companies and the cost of labor at the low-wage level.

### Promote the acquisition of skills and professional experience

The main cause of youth non-employment, main factor in their overexposure to the risk of poverty, is, as we have seen, a lack of qualifications and professional experience.

Since this situation is the result of a high drop-out rate, promoting alternative qualification pathways to traditional schooling is essential, as well as offering a second chance to all those who have left school without a diploma. The Youth Guarantee (Garantie Jeunes), which has been in use since 2013 and generalized since January 2017, combines upgrading, enhanced support, and income support. It is relevant to attract young people to an active program, however, its

<sup>27</sup> Which, at maximum, applies to 1,059 secondary and high schools and 6,739 schools under the REP and REP+ facilities.

<sup>28</sup> This catalog would be drawn up and regularly updated by the Ministry of Education, which would publicize the relevant evaluation work online for each facility.

<sup>29</sup> In 2014-2015, 18% of schoolchildren, 20% of secondary school students and 2% of secondary school students were enrolled in a priority education institution (cf. DGESCO, 2015), at an additional cost of € 1 billion year. Assuming that 25% of establishments agree to sign a Charter of Autonomy after three years, and given that the charter would increase the additional resources allocated by 50%, the additional cost would be € 125 million.



effects on the chances of returning to employment remain to be analysed carefully. To optimize these opportunities, the guarantee should be closely linked to the development of two types of complementary programs: apprenticeship training and second chance training.

In France, only 5% of young people between the ages of 15 and 29 are apprentices, compared to 10% in Switzerland and Austria, and 15% in Germany. Apprenticeships have developed in France mainly for young people already holding a first degree. Compared to vocational education, however, apprenticeships have a more favorable effect on integration into the labor market, as a result of the work experience acquired in parallel. Yet, despite incentive campaigns, apprenticeships remain disadvantaged and suffer from image problems. In addition the practice of combining school and work, which is a vector of rapid occupational integration and grants a high rate of employment among young people, is still insufficiently developed in France: only 7% of young people combine studies and part-time employment, compared to 20% of young Germans and Austrians, and more than 30% of Danes and Dutch.

In addition to the necessary reform of the complex financing system, a complete revision of apprenticeship governance is needed in order to benefit to those among the youth who need it most: the analysis and recommendations formulated in the *Note of the CAE* on Learning at the end of 2014 remain topical.<sup>30</sup> The definition of programs such as career information of young people should not be the sole responsibility of the Ministry of Education, but also of the employers and the Ministry of Labour cooperating within a national body. Prior to their apprenticeship, it is also necessary to better prepare the most disadvantaged young people who are not always in a position to define their professional project.<sup>31</sup>

A national plan would guarantee young people with little or no qualifications to be admitted to apprenticeships at level IV or V courses, as was the case in Austria two years ago. Managed by local missions, the apprenticeship guarantee would rely on three pillars:

- an upstream identification of young people who do not have a diploma and who wish to enter apprenticeship, and a follow-up by a single referent;<sup>32</sup>
- a preliminary upgrading of young people (pre-apprenticeship classes in high school or in CFA or, for older participants, second chance schools, E2C);

- an increased and targeted support for employers hiring young people taking part in the guarantee. The objective is to cancel the cost of hiring for the employer, especially for older apprentices.

Young people registered under the guarantee could start their apprenticeship and enroll in CFA without having signed an apprenticeship contract (they would have one year to do so). The cost of this measure, for 40 000 young people in the scheme, would be 1 billion euros per year.<sup>33</sup> Like the youth-guarantee, the learning guarantee would be managed by a single operator: the local missions.

For those who have missed the path of school or learning, it is necessary to provide a program that offers a real second chance of qualification. The E2C, an intensive training network of 6 to 12 months offering a complete upgrade, fulfill precisely this mission. They help young people develop a professional project, re-motivate them and train them on the social and technical skills necessary for their success in partnership with local businesses. This program draws on successful models in Europe (*Folk Schools* in Sweden and Norway) and the United States (Job Corps, YouthBuild, Year Up). These are long and intensive courses, with high levels of coaching (1 professional for 5 to 10 young people) focusing both on know-how-to-bes and know-hows. These courses fulfill either a pre-recruitment role (on behalf of partner companies) or a pre-apprenticeship role for young people who are not ready for employment. However, this program is undersized in relation to annual needs: 15 000 places are available, while 700 000 young people are unemployed or inactive and without any qualification, and 110 000 young people leave school each year without any diploma (15% of each age group). The network of Institutes for Employment Insertion (EPIDE) complements this system, but only 3,000 places are available in these centers provided by the army. In addition to their development, these schools should also be able to provide residential accommodation for young people who need to move away from their familial environment. While this is a substantial expense for schools, it is one of the keys to the success of such programs.<sup>34</sup>

Another example of intensive training targeted at young people experiencing difficulties is the Voluntary Military Service. It is the mainland version of the adapted military service, developed since 1961 in the overseas departments. Experienced since 2015 in three centers (for a total of 10,000 young people today), in Metz, La Rochelle and Brétigny-sur-

<sup>30</sup> Cahuc P. and M. Ferracci (2014): "Apprenticeships for Employment", *Note du CAE*, no 19, December.

<sup>31</sup> See a summary of the facilities and evaluations available Carcillo *et al.* (2015), *op. cit.*

<sup>32</sup> Identification would be linked to school dropout prevention platforms, secondary schools, high schools and local missions. Nominative lists of young people would be updated every three months. Each student would be followed by a single referral counselor, or tutor, in order to avoid a new dropout.

<sup>33</sup> Based on 20,000 young dropouts under the age of 18 and 20,000 young people over the age of 18, and assuming 50 per cent of them would require pre-apprenticeship or one year in E2C, the cost of the previous training would be 200 million euros in full year (at a rate of 10 000 euros per young person per year). The placement of these young people would be eligible for cumulative aid with all existing aid, ie an average of 4,400 euros per year (such as apprenticeship for small businesses). This aid, which would be paid over a three-year period, would represent an annual expenditure of 500 million euros. Assuming that a tutor follows 20 young people on a permanent basis and that training courses last three years on average, the cost of tutors would amount to 250 million euros per year (at a gross cost per tutor of 44,000 euros per year). The total of these expenses amounts about 1 billion euros.

<sup>34</sup> Carcillo S. (2016): *Des compétences pour les jeunes défavorisés*, Presses de Sciences Po.

Orge, it combines initial military training with vocational training targeted at jobs facing shortages, in partnership with companies and the actors of integration and training.

It is important for local missions and other prescribers to consider these trainings in their career guidance advices. The widespread use of the youth guarantees could be a powerful vehicle for attracting more young people, provided that it does not position itself as a competitor, but instead attracts those experiencing most difficulties.

**Recommendation 5. Establish a national apprenticeship or pre-apprenticeship guarantee for young people not in education, employment or training. Triple the total number of places available in intensive support “second-chance schools”.**

The cost of this measure would be around 600 million euros per year.<sup>35</sup> The increase in resources should be conditional on a regular evaluation of the performance of the facilities. Indeed, as approaches may vary from one school to another, evaluation and performance monitoring is the only way to ensure that the generalisation will not arise at the expense of quality. This investment could be financed by refocusing some of the “jobs of the future” on employers offering skills training (whether in the commercial or non-market sector).<sup>36</sup>

### Lower further the cost of labor for low wages

The previous measures aim at developing the skills of those who are able to participate in an intensive program. But for all low skilled workers, the cost of labor is another barrier to employment. It remains high in France at the low wage level, despite the reductions introduced since the 1990s. The hourly cost of work at the minimum wage level is just below that of the Netherlands and Australia, where the proportion of employees paid at the legal minimum is three times lower. The cost of work at the SMIC level remains a brake on the development of many job opportunities for low-skilled people, in particular in the services industry for individuals and companies.

Multiple studies have demonstrated the sensitivity of firms’ labor demand to the cost of labor, particularly in the vicinity of the minimum wage.<sup>37</sup> Another way of understanding the constraint of labor costs for many firms is that 80% of the 3 million unemployed have not exceeded the Bac.<sup>38</sup>

If the general employer cost reliefs on low wages are cumulated (28 points out of the 42 employer contribution points) with the Competitiveness and Employment Tax Credit (CICE) (which adds the equivalent of 6 Points) and the reduction of family contributions under the Responsibility Pact (1.8 points), there remain about 6 points to be lightened so that the gross SMIC simply represents the cost of labor for the employer.

Different cost reliefs are unequally targeted at low wages where as it is at this level that the link between the cost of labor and employment is most pronounced. At the time of a changeover of CICE into a general employer cost relief in order to improve its visibility, the different facilities could be merged and better targeted at the lowest end of the salary scale.

The CICE and the Responsibility Pact represent an annual cost of 28 billion euros. The transformation of these two devices into a general employer cost relief, with an exit point of 1.9 SMIC reductions (against 1.6 today) to maintain the same slope of degressivity and avoid low-wage traps, would represent a net gain of approximately € 2 billion per year<sup>39</sup> to finance the other recommendations presented in this *Note*.

**Recommendation 6. Target the CICE and the Pact of responsibility on wages below 1.9 SMIC (minimum wages) and merge them with the general reductions in charges.**

### Target the areas of poverty

The spatial concentration of poverty in some territories may contribute to its persistence over time due to peer effects that hinder the accumulation of human capital in schools, and to the signaling effect sent by the inhabitants of the most disadvantaged territories vis-à-vis potential employers.<sup>40</sup>

### Disappointing results with regard to urban policies

In France, spatially differentiated policies to combat poverty are called “politiques de la ville” (urban policies). Since the reform of 2014, the urban policy districts have replaced previous zonings: sensitive urban areas (ZUS), created in 1996, and urban social cohesion contracts (CUCS), created in 2006. These priority neighbourhoods are now defined on the basis of a single statistical criterion: a neighbourhood is eligible if its median standard of living is less than 60% of a reference

<sup>35</sup> The cost per student in E2C is around 10,000 euros per year – a cost that would double if each student was accommodated on site or nearby. Assuming an additional 30,000 seats are opened, the additional budget would amount to € 600 million.

<sup>36</sup> DARES (2016): “Les jeunes en emploi d’avenir: quel accès à la formation, pour quels bénéficiaires?”, *DARES Analyses*, no 056. The 2016 budget for future jobs is 1.2 billion euros for the year 2016 (in payment appropriations, see le Projet de loi de Finances pour 2016: Travail et emploi).

<sup>37</sup> Cf. Cahuc P. and S. Carcillo (2012): “Conséquences des allègements généraux de cotisations patronales sur les bas salaires”, *Revue Française d’Économie*, vol. XXVII, no 2. In this paper, the authors conclude that a 1% decrease in labor costs translates on average into a 1% increase in employment. This finding seems consistent with earlier estimates, cf. Cahuc P., S. Carcillo and T. Le Barbanchon (2014): “Do Hiring Credits Work in Recessions? Evidence from France”, *IZA Discussion Paper*, no 8330.

<sup>38</sup> INSEE data: unemployment rate by degree level.

<sup>39</sup> 26-28 billion, all other things being equal.

<sup>40</sup> Bunel M., Y. L’Horty and P. Petit (2016): “Discrimination Based on Place of Residence and Access to Employment”, *Urban Studies*, vol. 53, no 2, pp. 267-286.

level, which is an average between the national standard of living and that of the urban unit in which the neighbourhood is located. In the 1,300 priority neighborhoods of the urban policy (QPV) defined in metropolitan France, gathering 4.8 million inhabitants, the average poverty rate is at 42%.

The urban policy covers a broad spectrum of interventions, varying in nature and intensity from one territory to another:<sup>41</sup> education, economic development and employment, integration of young people, living and housing, access to public services, etc., amounting to a total budget<sup>42</sup> of 438 million euros in 2016. The cost of urban renewal actions under the National Urban Renewal Program, an investment exceeding 12 billion euros, needs to be added to the calculation. However, this policy targets 200 priority districts defined separately from the urban policy neighbourhoods.

The labeling of territories through the urban policy produces two sets of consequences. On the one hand, it grants access to a certain number of public subsidies, which is positive if the aid is adapted to the actual needs of the territory. But on the other hand, the label also produces stigmatisation by making public, and even official, the difficulties inherent to the territory. This advertising reduces the attractiveness of the territory for companies and households. In total, the label may ultimately be costly for the territory, if it does not provide really significant means. However, the annual urban policy budget, scattered over 1,300 sites, amounts to an average of € 337,000 per neighborhood (or € 91 per inhabitant of these districts), and thus does not allow to finance the wide range of policy actions at a satisfactory level. The risk, already pointed out by the Court of Auditors in a 2012 report devoted to the urban policy, is that of dilution and lacking coordination.

Beyond the means deployed, and after more than three decades of priority urban policies, evaluations reveal disappointing results.<sup>43</sup> Impact assessments of urban free zones (ZFU) conclude that there is little or no effect.<sup>44</sup> The creation of the ZFUs would have had only small and temporary effects

on the local duration of unemployment.<sup>45</sup> Quasi-experimental assessments of the second-generation ZFUs created in 2004 do not indicate an impact on the activity of existing establishments and indicate the predominance of mere displacement effects,<sup>46</sup> only in the densest urban contexts.<sup>47</sup> The same applies to the evaluation of priority education policies already mentioned.<sup>48</sup> Finally, the impact assessment of the National Urban Renewal Plan, in which the State committed 45 billion euros for the restructuring of 571 neighborhoods in 2013, shows a very modest effect on the poverty of the beneficiary districts,<sup>49</sup> which shows that even renovated neighbourhoods fail to attract wealthier households to improve social diversity.

### Promote new territorial action strategies

Given these highly mixed results, it would be appropriate both to concentrate resources so as to make a real difference in a few particularly disadvantaged neighbourhoods, and to modify the modalities of public action in favor of disadvantaged neighbourhoods.

The strategies of bringing resources to poor people in disadvantaged neighbourhoods having largely failed, the alternative is to get people to the resources, by promoting their geographical mobility. The paradox is that the poorest populations are at the same time the least mobile and those for which the capacity to be mobile can produce the most powerful effects on the standard of living.<sup>50</sup> A first arm is through road mobility, granting access to individual or collective means of transport. Poor households move less frequently and over shorter distances, and have less access to cars.<sup>51</sup> However, an improvement in their mobility actually results in a better integration into the labor market and an additional income from work. Since 2011, Pôle emploi has been providing targeted support for driving licenses, but it represents 2,000 beneficiaries per month (only welfare recipients registered as jobseekers for at least 6 months). Additional aid is paid by local and regional authorities, but most of them are of a low amount, resulting in a remainder still too high for the beneficiary.

<sup>41</sup> These actions are coordinated at the interministerial level, under the aegis of the Prime Minister or the minister in charge of urban issues. Moreover, within the framework of the «quartiers de la politique de la ville», the initiatives of a large number of actors, including associations of inhabitants of the neighborhoods, are coordinated around a common local project –the city contract– signed for six years.

<sup>42</sup> Corresponding to Program 147 of the Organic Law on Finance Laws.

<sup>43</sup> For a summary, see L'Horty Y. and P. Morin (2016): "Économie des quartiers prioritaires: une introduction", *Revue Économique*, vol. 67, no 3, May.

<sup>44</sup> Givord P., S. Quantin and C. Trevien C. (2012): "A Long-Term Evaluation of the First Generation of the French Urban Enterprise Zones", *Série des Documents de Travail de la Direction des Études et Synthèses Économiques de l'INSEE*, no G2012/01.

<sup>45</sup> Gobillon L., T. Magnac and H. Selod (2012): "Do Unemployed Workers Benefit From Enterprise Zones? The French Experience", *Journal of Public Economics*, vol. 96, no 9-10, pp. 881-892.

<sup>46</sup> See Rathelot R. and P. Sillard (2008): "Zones franches urbaines: quels effets sur l'emploi salarié et les créations d'établissement?", *Économie et Statistique*, no 415-416, pp. 81-96, and Givord P., R. and P. Sillard (2013): "Place-Based Tax Exemptions and Displacement Effects: An Evaluation of the Zones Franches Urbaines Program", *Regional Science and Urban Economics*, vol. 43, no 1, pp. 151-163.

<sup>47</sup> Briant A., M. Lafourcade and B. Schmutz (2015): "Can Tax Breaks Beat Geography? Lessons from the French Enterprise Zone Experience", *American Economic Journal: Economic Policy*, vol. 7, no 2, pp. 88-124.

<sup>48</sup> Benabou R., F. Kramarz P. and C. Prost (2009): "The French Zones d'Éducation Prioritaire: Much Ado About Nothing?", *Economics of Education Review*, vol. 28, no 3, pp. 345-356. Beffy M. and L. Davezies (2013): "Has the 'Ambition Success' Educational Program Achieved its Ambition?", *Annales d'Économie et de Statistique*, no 111-112, pp. 271-294.

<sup>49</sup> The share of households in the first income quartile decreased by only 1 percentage point on average, see Guyon N. (2017): "Quels effets de la rénovation urbaine sur les quartiers ciblés?", *LIEPP Policy Brief*, no 29, February.

<sup>50</sup> Avrillier P., L. Hivert and F. Kramarz (2010): "Driven Out of Employment? The Impact of the Abolition of National Service on Driving Schools and Aspiring Drivers", *British Journal of Industrial Relations*, vol. 48, no 4, pp 784-807, December. Le Gallo J., Y. L'Horty and P. Petit (2017): "Does Enhanced Mobility of Young People Improve Employment and Housing Outcomes? Evidence from a Large and Controlled Experiment in France", *Journal of Urban Economics*, no 97.

<sup>51</sup> Le Jeannic T. and T. Razafindranovona (2009): "Près d'une heure quotidienne de transport: les disparités se réduisent mais demeurent" in *France, portrait social. Vue d'ensemble. Consommation et conditions de vie*, INSEE, pp. 117-123.

**Recommendation 7. Better target urban policy on neighbourhoods with highest rates of non-employment, especially among young people, and reallocate some of the budgets towards mobility assistance.**

This necessary geographical mobility also encompasses the ability to change residence. Dynamic urban areas where many jobs are created are often heavily stressed on housing: rising rents and house prices since the late 1990s, and long waiting lists in access to social housing. At the same time, the population does not decrease in areas where employment rates are low. Geographical mobility, which is an insurance against the persistence of imbalances in the labor market and against poverty, does not play its role of shock absorber,<sup>52</sup> especially for those under 25 who yet supposedly experience the lowest barriers to mobility. This brings us back to the insufficient fluidity of the rental stock in France, both in the private and the social sectors.<sup>53</sup> Many actions could be taken to improve this fluidity: more flexible leases (especially for young people without stable employment), greater residential mix (to reduce stigmatisation effects), more systematic application of extra rents, right to transferable housing, etc. Similarly, measures promoting social diversity of neighbourhoods and the fight against discrimination can be recommended. As in our first recommendation, an application at the neighbourhood level rather than the municipal level would not only promote social diversity in schools and colleges, but also reduce neighbourhood effects in discrimination when accessing employment.

**Recommendation 8. Create a right to transferable social housing from one municipality to another so as not to penalise beneficiaries who plan to move to take a job.**

The French redistribution system has helped to contain the increase in poverty after the crisis of 2009. The reverse of this good performance is a poverty that is largely hereditary in France, over time (inherited from the parents) and in space (related to the area of residence). The three keys to overcoming it are education, vocational integration and urban policies –three areas where significant efficiency gains are possible. ●

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**Improving the Fight Against Poverty Through Monetary Aids**

Les notes du conseil d'analyse économique, no 10, 10 octobre 2015

**T**he French redistributive system largely dampened the effects of the 2008 crisis on the poorest. The poverty rate after deductions and transfers was relatively contained during this period. If compared to other European countries, means-tested aids (which allow according to a large number of diverse situations) have a high cost but do not appear disproportionate in relation to their ability to reduce poverty.

However, the non-use of monetary aids by the most modest is substantial and considerably reduces their redistributive potential and undermines the sound sharing of public finances. In addition, youth and single-parent families face a much higher risk of poverty than the rest of the population. Lastly, the gains in the recovery of employment are certainly in the European average but could be more notable to increase work incentives.

In this context, this Note of the CAE proposes incremental reforms to transform the existing system into an improved guarantee of access to a basic income. As a first step, the recent digital portal *maadmission.com*, youth should evolve beyond the provision of information on potential rights, to allow using a single online declaration for all social and family benefits requests using a pre-filled form. This could be complemented through machine communications between the various actors (companies, Pôle Emploi, pension funds and administrations via the DSN and the digital portal) to automate as much as possible the granting of means-tested aids, as this would prove the most effective way of ending non-use.

The Active Solidarity Income would be merged with the Activity Premium into a single, resource-based basic income adjusted according to household needs and associated with participation in an integration program for those without employment.

The specific Solidarity Allowance would gradually be replaced by this basic income, with an cessation of entitlement for new jobseekers reaching the end of the entitlement period and a limitation to five years for those already in the scheme. Other income-related social aids would then be linked to this basic income. Housing subsidies would be replaced by a "housing" markup to which the same equivalence scale would be applied as the basic income. A "disability" markup and an "old-age" markup to the basic income would replace the Allowance for Adults with Disabilities and the Solidarity Allowance for the Elderly.

Finally, to reduce the high risk of poverty among young people aged 18 to 24, and because there is no ethical justification for depriving them of the right to a social minimum, this Note suggests extending the basic income to these young adults. In the case they do not live with their parents, are not included in their tax-base and are not studying.

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<sup>52</sup> Eyméoud J.-B. and E. Wasmer (2015): *Vers une société de mobilité: les jeunes, l'emploi et le logement*, Presses de Sciences Po.

<sup>53</sup> See Trannoy A. and E. Wasmer (2013): "Rental Housing Policy", *Note du CAE*, no 10, October and Eyméoud and Wasmer (2015), *op. cit.*

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