

Replacing the “Prime pour l’emploi” benefit by a reduction in employee social security contributions on low wages

By [Guillaume Allègre](#)

Nicolas Sarkozy has announced plans to replace the “prime pour l’emploi” benefit (“PPE”) by lowering the social security contributions of workers earning between 1 and 1.3 times the minimum wage (“SMIC”). The reduction on contributions would amount to 4 billion euros and would benefit 7 million low-wage workers. The gain announced (just under 1,000 euros per year) would necessarily be regressive. The elimination of the PPE (2.8 billion euros according to the [2012 Budget Bill](#), p. 76) would be supplemented by higher taxes on financial income.

This proposal is very similar to the original proposal of the Jospin government in 2000 that provided for a reduction on the CSG social contribution for workers earning less than 1.4 times the SMIC. That reform, which was passed by Parliament, was blocked by the Conseil constitutionnel because the decline in the CSG provided to low-income earners depended on wages alone, and not on individual family circumstances. As the CSG is considered a tax, the high court held that progressivity required taking into account taxpayers’ ability to pay, and therefore their family responsibilities. To deal with this ruling, the Jospin government created a new instrument, the PPE benefit, which closely resembled the CSG reduction, but which was calculated, to a very small extent, on the family situation (high income ceiling at the household level, with a small increase for children). But unlike the CSG reduction,

the impact of the PPE does not show up on the pay-slip: the benefit is calculated from income tax returns and reduces the tax payable by the household, with households who do not pay tax receiving a cheque from the Treasury. This means that there is a one-year lag in the receipt of the benefit. The PPE was approved by the Jospin government and then increased under the Villepin and Raffarin governments, and by 2008 amounted to 4.5 billion euros ([2010 Budget Bill](#), p. 53). At that point a full-time employee on the minimum wage received 1,040 euros per year. The PPE was then frozen by the Fillon government. This freeze, together with the fact that the RSA benefit was deductible from the PPE benefit, led to a 1.7 billion euro reduction in the value of the PPE between 2008 and 2012, from 4.4 billion euros to 2.8 billion. By 2012, a full-time employee on the minimum wage now received only 825 euros a year. Moreover, the lack of a boost in the minimum wage has greatly reduced the number of households eligible for the full rate (as well as the number of employees eligible for the full-rate reduction on employer contributions). This effect comes on top of the impact of rising unemployment, which is reducing the number of eligible employees. A 4-billion euro scheme, for which the maximum gain would be just under 1,000 euros, would amount to a little less than the PPE did in 2008. If we add in the cost of the RSA income supplement (1.6 billion in 2012), and if we take into account the previous RMI and API-related incentive schemes (600 million), we conclude that these various support mechanisms for low-income employees would total 5.6 billion euros in 2012, against 5.1 billion in 2008, an increase that barely exceeds inflation: the new policies that have been proposed since 2008 have been funded mainly by shuffling instruments targeted at the same population.

The replacement of the PPE by a reduction in social contributions would represent progress in administrative terms, since the government would cease to levy contributions and then repay a smaller tax credit to the same people 6 to 12

months later. The benefit of lowering contributions would be immediate and strongly linked to employment. This would also clarify the fact that low-paid employees are contributors to and not beneficiaries of social assistance. The proposed merger of the CSG tax and income tax (with the PPE as one element) has precisely the same goal. This reform nevertheless raises several questions. What would happen if the Constitutional Council were approached? And, employees working part-time currently benefit from an increase in the PPE; will this be renewed?