

# The living standards of French households between 1970 and 1999

*Olivier Guillemin, Valérie Roux\**

*In 20 years, from 1970 to 1990, the average standard of living of French households rose sharply, increasing, in constant euros, from 760 euros per month and per consumption unit (cu) to 1,150 euros – an increase of 50%. Between 1990 and 1997, that growth entered a slump and did not resume until the period between 1997 and 1999. Since 1970, retirees have been the principal beneficiaries of growth, in particular those who had very low living standards in the 1970s. Wage earners and unemployed persons also participated in this improvement, above all at the start and end of the period. In 1999, monthly living standards were situated between 610 euros/cu (a level below which 10% of households lived) and 2,030 euros/cu (a level beyond which 10% of households were situated). A standard of living of 610 euros/cu corresponds to a disposable income of 610 euros in the case of a person living alone, and 1,281 euros for a household consisting of two adults and two children. The household's living standard is first of all a function of access to employment and the skill level of the job. A wage equivalent to the Smic<sup>1</sup> can correspond to several living standards depending on the composition of the family.*

**T**he standard of living of a household is determined by its disposable income and its demographic composi-

tion. The disposable income of the household is an aggregation of the cumulative income of all its members after redistribution

(*box 1*). It differs from the declared income, which is income before redistribution – that is, before reception of social entitle-

\* Olivier Guillemin and Valérie Roux work for Insee's Households' Income and Assets division.

1. *Salaires Minimum Interprofessionnel de Croissance* – Full-time minimum wage

## Box 1

### Definitions

#### Declared income

The declared income is income before taxes and entitlements which, if income from assets is excluded, is defined as follows:

#### *Declared income*

= *earned income (wages, dividends) after payment of social withholdings and the deductible CSG (starting in 1997)*  
 + *replacement income (unemployment compensation, retirement pensions) after payment of social withholdings and of deductible CSG (starting in 1997)*  
 + *remainder of transfers received and paid to other households (alimony, child support, etc.)*

#### Disposable income

The disposable income is obtained from the declared income with the addition of non-contributive social entitlements and excluding direct taxes, or:

#### *Disposable income*

= *Declared income*  
 + *non-contributive social entitlements (family allowances, housing aids, social minima)*  
 - *direct taxes (income tax, dwelling tax, non-deductible CSG + CRDS)*

Other elements, more difficult to pinpoint, may be included in this disposable income, such as fictitious rents imputed to homeowners or certain in-kind income (medical care, food self-consumption, etc.) They are not taken into account here.

#### Living standard

Based on the disposable income, we can then calculate the standard of living of the household, which takes into account the structure of that household and corresponds to an income by equivalent-adult. The needs of a household of  $n$  persons are less than  $n$  times the needs of a single person, thanks to economies of scale arising from the pooling of certain goods.

The scale of equivalence used by Insee and Eurostat assigns 1 consumption unit to the first adult, 0.5 consumption units (cu) to other adults 14 years of age and over, and 0.3 cu to children.

#### *Living standard*

= *disposable income per consumption unit*  
 = *disposable income of the household / number of consumption units corresponding to the structure of the household.*

Such a scale of equivalence is based on a few conventions. The values used in the scale are supported by econometric estimations, but any estimation of scale is based on normative hypotheses. In addition, the scale used is too simple to take the complexity of reality into account. In particular, the needs of single-parent families could be underestimated, while those of the elderly could be overestimated.

To compare living standards over a long period, it is necessary to calculate in constant currency, since due to inflation, one franc in 1970 does not have the same purchasing power as one franc in 1999. That is why all income will be presented in constant 1999 currency (in 1999 euros).

#### Deciles

Households are classified according to their living standard. They are divided into ten groups, called *deciles*. Thus each decile includes 10% of the households. Beginning with the poorest households, the first group is the *first decile* (D1). It includes the 10% of all households that are poorest. The upper standard-of-living limit in the first decile is such that 10% of the households have a standard of living below this threshold. The upper limit of the second decile is such that 20% of the households are located below it in terms of standard of living; the first two deciles (D1+D2) include the poorest 20%, etc. Thus the first five deciles include half of the poorest house-

holds. At the opposite extreme, the tenth decile (D10) includes the wealthiest 10% of all households.

#### The Lorenz curve

For a given standard-of-living threshold, we take the point on the horizontal axis of a graph corresponding to the percentage in the population of households whose standard of living is below the threshold, and the point on the vertical axis corresponding to the percentage of the total income of these households, compared to the total income of all households.

The Lorenz curve joins the points defined in this way corresponding to different standard-of-living thresholds. The shape of the Lorenz curve makes it possible to visualize living-standard distributions that are more or less unequal.

#### The Gini index

This is a figure that summarizes the Lorenz curve. The closer the figure is to 1, the greater the inequality of distribution of standards of living.

#### The Theil index

This index measures the spread between an equal (uniform) distribution and the distribution noted. If it is zero, the distribution is perfectly equal. Conversely, the more incomes are dispersed, the higher the index.

#### Tax pressure

The income tax, the main dwelling tax and the social withholdings (deductible CSG, non-deductible CSG, CRDS) make up direct taxation of households. The tax pressure is calculated here extensively by including all these taxes.

For the income tax *stricto sensu*, a household is referred to as "taxed" each time the remainder of the taxes paid by the fiscal households that make it up is strictly positive.

ments and before payment of direct taxes. Any difference between the evolution of declared income and disposable income will therefore be the result of the evolution of policies of redistribution. Households in the first deciles (*box 1*) benefit more from social entitlements and thus have a disposable income that is higher than their declared income. On the other hand, beyond the median, taxes become preponderant and the system of redistribution plays its role as a reducer of inequalities (*box 2*).

With their disposable income, households may either consume or save. Since major consumption decisions are made at the level of the household, we have chosen a by-household rather than a by-individual approach. The household's standard of living, which corresponds to the standard of living of all its members, can be compared to income per equivalent-adult. For reasons of comparability over time, we have chosen to exclude income from assets, which shows only partially in the tax return, and since its share has diminished over time. The inequalities and their evolution are therefore slightly attenuated by the absence of these revenues from assets (*box 3*).

### An increasing standard of living, diminishing inequalities, but a trend towards stagnation between 1990 and 1997

For 10 years, from 1970 to 1979, the median standard of living of French households, that is, the standard of living beyond which half of all households are situated, underwent very strong growth – at a pace near 5.3% yearly in constant euros (*figures 4 and 5*). Between 1979 and 1997, it continued

#### Box 2

### The structure of income is deformed along the scale of living standards

As a function of the structure of the income of households and of the tax pressure they bear (*figure 1*), a classification of households according to standard-of-living deciles emerges.

**Modest households** (deciles 1 to 3, or 30% of all households): they have a monthly standard of living of less than approximately 900 euros/cu. Their income is characterized by the significant presence of social entitlements based on income (from 35% in the 1<sup>st</sup> decile to 15% in the 3<sup>rd</sup> decile), even if their income is made up principally of earned income or replacement income. They pay little direct tax and are most often exempt from the income tax. The weight of direct taxation did not exceed 7% in 1999, and the *Contribution Sociale Generalisée* (CSG) on earned and replacement income was the most significant form of taxation, ahead of the dwelling tax.

The **lower middle class** (deciles 4 to 5, or 20% of households): they have a monthly standard of living of between 900 euros/cu and 1,100 euros/cu. In this intermediate category, wages and pensions predominate, even if social entitlements are still a significant factor. Approximately half pay income tax. The weight of direct taxation is between 8% and 9%, and the CSG accounts for most of it (approximately 6%).

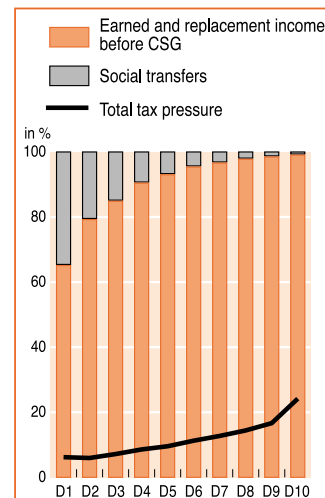
**Average households** (deciles 6 to 9, or 40% of households): they have a monthly standard of living of between 1,100 euros/cu and 2,000 euros/cu. In these deciles, wages and pensions continue to predominate (more than 95% of income). More than 90% paid income tax. In 1999, direct taxation absorbed between 11% and 16% of their income. The weight of income tax increases with the standard of living, while remaining below that of the CSG. This is because, since 1998, the increase in the rate of the CSG from 3.4% to 7.5% on earned and replacement income gave this “social tax” a weight that is at least equal to that of the income tax.

**Well-off households** (the last decile not counting the wealthiest 1%, or

9% of households): they have a monthly standard of living of between approximately 2,000 euros/cu and 3,800 euros/cu. Wages and pensions still dominate, but as we go up the scale of standard of living, the income of independents takes on increasing importance. The tax pressure is near 20%, and the income tax represents the largest share for this group (12%).

**High income** (The last centile, or the wealthiest 1% of all households). The income of independents is much in evidence, although wages still represent more than half of income. Income from assets is not taken into account in this analysis; if we were to include it, it would also represent a large share of the high income. The weight of direct taxation exceeds 30%, including more than 20% for income tax alone.

Figure 1 – Income structure and tax pressure by decile



Note : The income tax, the main dwelling tax and the social withholdings (deductible CSG, non-deductible CSG, CRDS) make up direct taxation of households. The tax pressure is calculated here extensively by including all the deductible portion of the CSG on earned and replacement income (5.1% or 3.8% for income taxed in 1999). Field : ordinary households, excluding those in which the person of reference is a student, whose declared income is positive or zero and whose disposable income is positive (declared and disposable income excluding income from assets).

See also : deciles : Box 1.

Sources : Insee-DGI, "Revenus Fiscaux" surveys (Box 5)

## 6 Incomes, wealth, living conditions

to progress, but at a significantly slower rate (0.8% yearly between 1979 and 1990 and 0.4% yearly between 1990 and 1997). The economic recovery, which began in

1997, was visible in a return to more rapid rhythms of growth of median income (+ 2.2% yearly between 1997 and 1999). In the final analysis, if half of all households

had a standard of living of less than 640 euros per cu and per month in 1970 (in constant 1999 euros), only 12% were below that threshold 29 years later.

### Box 3

#### Influence of counting income from assets on the living-standards distribution

In this study, we have chosen to analyse the standard of living of households excluding income from assets. This is because, depending on the year, income from assets shows up to a greater or lesser degree in the tax return, due in particular to changes in the legislation on income that is either not taxed or subject to withholding tax. To what extent does taking this income into consideration modify the distribution of standards of living? In the following table, the standard-of-living deciles are represented for three concepts: a living standard excluding income from assets, a living standard with income from assets as declared on the tax return, and a standard of living with income from assets readjusted to the national accounts (income from assets not present in the returns has been estimated econometrically based on the "Patrimoine" survey (For further information, see the study by C. Lagarenne and J.-P. Lorgnet). The year considered is 1996, a year on which the econometric imputation had been done (figure 2).

With a concept of standard of living that includes declared income

from assets, the distribution of living standards changes little, with the only modifications taking place at the extremities of the distribution: the first decile increases by 4%, and the limit above which 5% of the households are located increases by 3%. On the other hand, taking income from assets in the broader sense into consideration leads to decile limits that are 10 to 15% higher. This time, the decile limits of the wealthiest households increase the most. The limit of the ninth decile increases by 19% and that of the 5% who are wealthiest increases by 23%.

The indicators of inequalities demonstrate this phenomenon (figure 3).

Taking income from assets as declared in the "Revenus Fiscaux" survey into account increases the inequalities only slightly, since little income from assets is present. In addition, the wealthiest households generally prefer to opt for the withholding tax. The 2042 tax return thus provides better coverage of income from assets for the least wealthy households. On the other hand, when we attempt to take all income from assets into account, we obtain much higher indices of inequality. In practice, income from assets is more concentrated towards the upper range of the distribution of standards of living and so amplifies the inequalities noted *ex-ante*.

Figure 3 - Influence of counting income from assets on indicators of inequality in 1996

	Excluding income from assets	With declared income from assets	With imputed income from assets
Gini	0.271	0.273	0.287
Theil	0.126	0.130	0.142

Field: ordinary households, excluding those in which the person of reference is a student, whose declared income is positive or zero and whose disposable income is positive.

Sources: Insee-DGI, "Revenus Fiscaux" surveys of 1996 and 1998 Assets survey for imputations.

Figure 2 - Standard-of-living deciles<sup>1</sup> in 1996 by degree of coverage of income from assets

	D1	D2	D3	D4	D5	D6	D7	D8	D9	C95
No income from assets (1)	563	713	836	945	1,062	1,187	1,346	1,558	1,936	2,324
With declared income from assets (2)	587	727	841	950	1,065	1,192	1,35	1,569	1,965	2,391
With imputed income from assets (3)	642	795	923	1,056	1,189	1,348	1,535	1,798	2,295	2,851
Ratio (2)/(1)	1.04	1.02	1.01	1.01	1.00	1.00	1.00	1.01	1.01	1.03
Ratio (3)/(1)	1.14	1.12	1.10	1.12	1.12	1.14	1.14	1.15	1.19	1.23

1. In constant 1999 euros, without rounding.

Field: ordinary households, excluding those in which the person of reference is a student, whose declared income is positive or zero and whose disposable income is positive.

Sources: Insee-DGI, "Revenus Fiscaux" surveys of 1996 and 1998 Assets survey for imputations.

In terms of inequalities, the evolutions were concomitant. They diminished over the entire period, but more greatly before 1980. The income of the poorest households increased more rapidly than the average. Thus the upper limit of the first standard-of-living decile – that is, the living standard below which 10% of all households are located – grew by an average 3.9% yearly compared to 2.6% for the

median of living standards, and 1.6% for the lower limit of the last decile – that is, the standard of living beyond which the wealthiest 10% of households are located. The inter-decile ratio, which measures the relation between the living standards of the wealthiest 10% and the poorest 10%, therefore diminished, as did the Gini index (box 1), which is also an indicator of the concentration of income (figure 6).

## Wage-earners and unemployed persons affected by the crisis of the early 1990s

This reduction in inequalities also took place in a differentiated manner for households of retirees and households of wage-earners or unemployed persons.

Among retirees, inequalities in standard of living decreased strongly through 1979, and more slowly thereafter. This reduction in inequalities between older households was encouraged by the significant revaluations of the *minimum vieillesse*

**Figure 4 - Distribution of standard of living-Limits of standard-of-living deciles**

in constant 1999 euros

Totality of households	1970	1975	1979	1984	1990	1997	1999
Mean	760	940	1,070	1,090	1,150	1,200	1,260 <sup>P</sup>
Upper limit of D1 (a)	290	380	470	520	550	570	610 <sup>P</sup>
Median	640	810	940	960	1,030	1,060	1,110 <sup>P</sup>
Lower limit of D10 (b)	1,380	1,630	1,770	1,810	1,870	1,940	2,030 <sup>P</sup>
Inter-decile ratio (b)/(a)	4.8	4.3	3.8	3.5	3.4	3.4	3.3 <sup>P</sup>
Gini index	0.34	0.32	0.3	0.29	0.28	0.27	0.27 <sup>P</sup>

Note: income from assets is excluded. For the year 1999, the figures are still provisional. For definition of deciles and Gini index see box 1.  
Field: ordinary households, excluding those in which the person of reference is a student, whose declared income is positive or zero and whose disposable income is positive.  
Sources : Insee-DGI, "Revenus Fiscaux" surveys (see box 5).

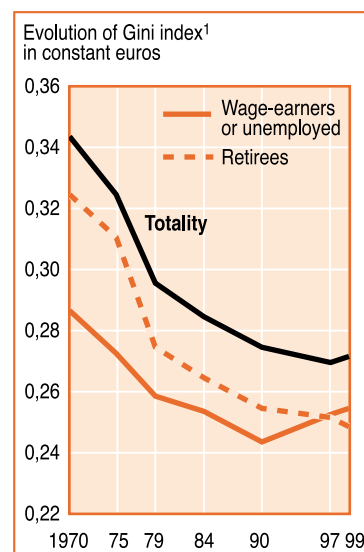
**Figure 5 - Mean yearly rate of evolution of limits of standard-of-living deciles**

in %

		1970-1979	1979-1984	1984-1990	1990-1997	1997-1999	Entire period
Totality	Median	5.3	0.5	1.1	0.5	2.2	<b>2.6</b>
	Upper limit of D1 (a)	7.2	2.0	1.0	0.6	3.2	<b>3.9</b>
	Lower limit of D10	3.2	0.4	0.6	0.5	2.3	<b>1.6</b>
Wage earners or unemployed	Median	4.2	0.6	0.5	0.1	2.0	<b>1.8</b>
	Upper limit of D1 (a)	4.9	0.5	0.6	- 0.2	2.7	<b>2.0</b>
	Lower limit of D10	2.5	0.6	0.2	0.5	2.1	<b>1.3</b>
Retirees	Median	7.9	1.8	1.9	1.4	2.3	<b>4.8</b>
	Upper limit of D1 (a)	8.9	1.2	1.2	1.9	3.6	<b>5.1</b>
	Lower limit of D10	5.1	0.8	1.1	1.3	2.5	<b>3.0</b>

Note: income from assets is excluded. The evolutions for 1997-1999 are still provisional. For retirees, the evolution of the limit of the 1<sup>st</sup> decile was calculated for period 1979-1990 in its entirety. Deciles: see box 1.  
Field: ordinary households, excluding those in which the person of reference is a student, whose declared income is positive or zero and whose disposable income is positive.  
Sources : Insee-DGI, "Revenus fiscaux" surveys (see box 5).

**Figure 6 - Evolution of inequalities in living standards**



1. Gini index: see Box 1.  
Not e: Income from assets is excluded. The year 1999 is still provisional. For retirees, the year 1984 is the result of smoothing. The totality of the population also includes wage-earners and unemployed persons, retirees, independents, and inactive persons who are not retired.  
Field : ordinary households, excluding those in which the person of reference is a student, whose declared income is positive or zero and whose disposable income is positive. The status is that of the person of reference in the household.  
Sources : Insee-DGI, "Revenus Fiscaux" surveys (Box 5)



## 6 Incomes, wealth, living conditions

(minimum income for the elderly) that took place between 1975 and 1984. Thus, in constant currency, the first standard-of-living decile doubled between 1970 and 1984

(figure 7). In addition, with the progressive arrival at retirement age of persons who had paid into the distribution-based system their entire working lives and had begun their retirement

under more advantageous conditions than in the past, then with the more and more frequent arrival at retirement age of women having had complete working careers, the income of retiree households grew strongly all during the period (+ 4.8% yearly for the median between 1970 and 1999). The amounts of the pensions received by the new generations of retirees are also less and less dispersed. Thus the renewal of generations, over the past 30 years, has resulted in a regular structural decrease in inequalities of income among households of retirees.

For wage-earners or unemployed persons who have been wage-earners, the evolution of income is still less than for retirees. Declared income per cu and living standard progressed over the period 1970-1984, but after a relative stabilization during the period 1984-1990, declared income for the lowest deciles diminished in constant euros per cu between 1990 and 1997, while declared income increased quite significantly for the highest deciles (+ 7% for the last decile). In terms of standard of living (disposable income per cu), these evolutions have been slightly attenuated, in particular in the lower end of the distribution, thanks to the arrival of the *Revenu Minimum d'Integration* (RMI) and the housing allowances. The economic recovery has corrected the situation: since 1997, the standard of living has increased for all the deciles and in particular for the most modest (+2.7% for the limit of the 1<sup>st</sup> decile). Nevertheless, inequalities increased in the 1990s in the households of both wage-earners and unemployed persons.

Figure 7 – Evolution of the first income<sup>2</sup> decile<sup>1</sup>

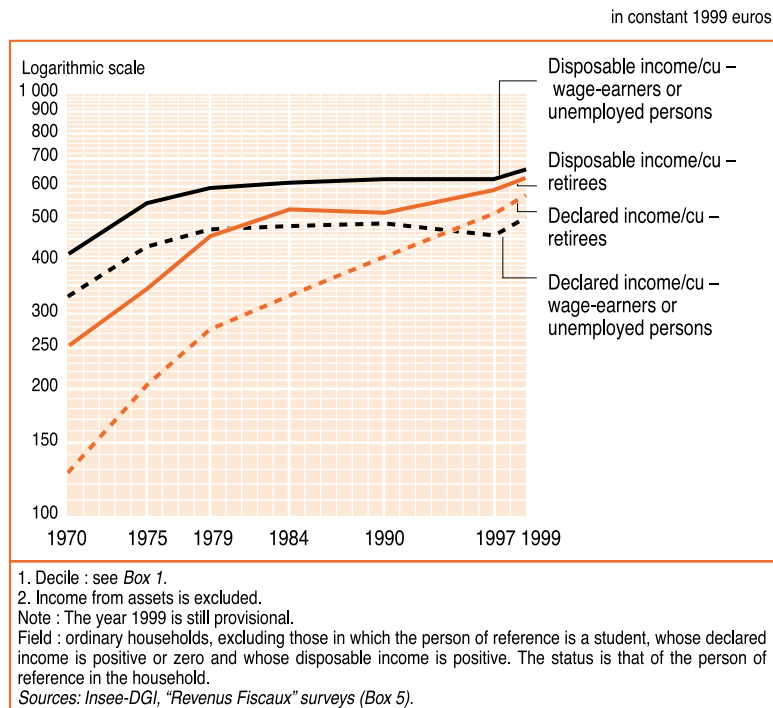


Figure 8 - Standard-of-living deciles in 1999 and equivalences by structure of household

in euros

	Standard of living	Equivalence for disposable income					
		Single person	Couple			Single-parent family	
			Single	0 children	1 child	2 children	1 child
Upper limit D1	610	610	915	1,098	1,281	793	976
Median	1,110	1,110	1,665	1,998	2,331	1,443	1,776
Lower limit D10	2,030	2,030	3,045	3,654	4,263	2,639	3,248

Note: all children are under age14 here.  
Interpretation: The disposable income corresponding to the decile limits is different depending on the composition of the family; 10% of households have a standard of living of less than 610 euros in 1999: this standard of living corresponds to a disposable income of 610 euros for a person living alone, of 1,098 euros for a couple with one child (610 x 1.8 cu = 1,098) and 976 euros for a single-parent family with 2 children (1.6 cu).  
Source: Insee-DGI, "Revenus fiscaux" surveys (see box 5).

### Three major determining factors influence households' standard of living

The median living standard, which in 1999 was 1,110 euros/cu, corresponds to a disposable income of 1,665 euros per month for a couple with no children and 2,331 euros per month for a couple with two children under age 14 (figure 8). Thus the same standard of living can be associated with very different incomes depending on the composition of the family.

Two persons earning the same wage can also have a standard of

living that varies greatly depending on the number of persons in the household who work. For an identical family structure, a couple with two children between 6 and 14, in theory, will have a standard of living of 570 euros/cu if its income from salary is equivalent to "1 Smic<sup>2</sup>," 860 euros/cu if it earns the equivalent of "2 Smics," and 1,170 euros/cu for "3 Smics." Thus, with two persons earning the Smic, the couple has a standard of living near the 3<sup>rd</sup> decile (figure 9). The standard of living of a wage-earner earning the Smic depends heavily, therefore, on the number of persons who work in the household.

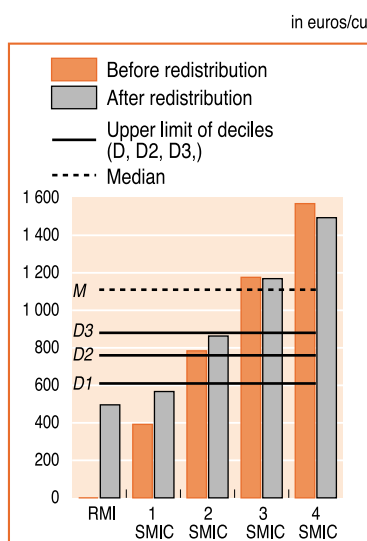
The standard of living of the household, then, is the result of the combination of three determining factors: the family structure of the household (single person, couple, or single-parent family and number of children), the number of persons earning income in the household (persons who are employed or receiving replacement income) and the professional position of its members (job, career history, skill level).

partners holds a job, regardless of its skill level, the median standard of living improves. It is located at the limit of the 2<sup>nd</sup> and 3<sup>rd</sup> decile for households made up of one unskilled worker and one inactive person. And, correlatively, an increase in the number of persons holding a job in the household, linked to the woman's choice of activity and the absence of unemployment, results in a strong progression in standard of living. For example, a couple consisting of one employed as an employee and one unemployed person has a median standard of living of 960 euros/cu (4<sup>th</sup> decile) as compared to 1,250 euros/cu (on the border between the 6<sup>th</sup> and 7<sup>th</sup> deciles) when both partners are employed as employees. For white-collar and elementary workers, access to a second job often allows the household to exceed the median standard of living and move into the wealthiest half of the population. However, this monetary approach has its limits, since it does not take into account the value of the domestic production and child care provided by inactive women. The spread between mono-active couples and bi-active couples would be much less wide if such domestic work was taken into account.

The skill level of the job is an additional factor in raising the standard of living. Most couples consisting of two employed managers are in the wealthiest 10%.

Next comes the composition of the household. For identical equivalent social categories, single-parent families are disadvantaged. Single-parent families whose active member is in an associate profession have a median income at the border

Figure 9 - Theoretical living standard of a couple with two children between ages 6 and 14



Interpretation: deciles: see Box 1.  
 Note : the living standard of a couple with two children and receiving the RMI consists of an income equivalent to the RMI (498 euros per month), to which is added a housing allowance and from which is deducted a housing payment. In addition, a one-off bonus (equivalent to 26.7 euros per month in this case) was granted to RMI recipients in 1999.  
 Source : INSEE, typical cases calculated by the authors based on the legislation in force in July 1999.

### The job held is the first factor determining the standard of living of non-retired households

Regardless of family structure, the existence of at least one job in the household results in a higher standard of living (figure 10). Accordingly, couples in which both members are receiving unemployment benefits have a median standard of living that situates them in the 2<sup>nd</sup> decile of the standard-of-living distribution. As soon as one of the two

2. Salaire Minimum Interprofessionnel de Croissance - Full-time minimum wage

## 6 Incomes, wealth, living conditions

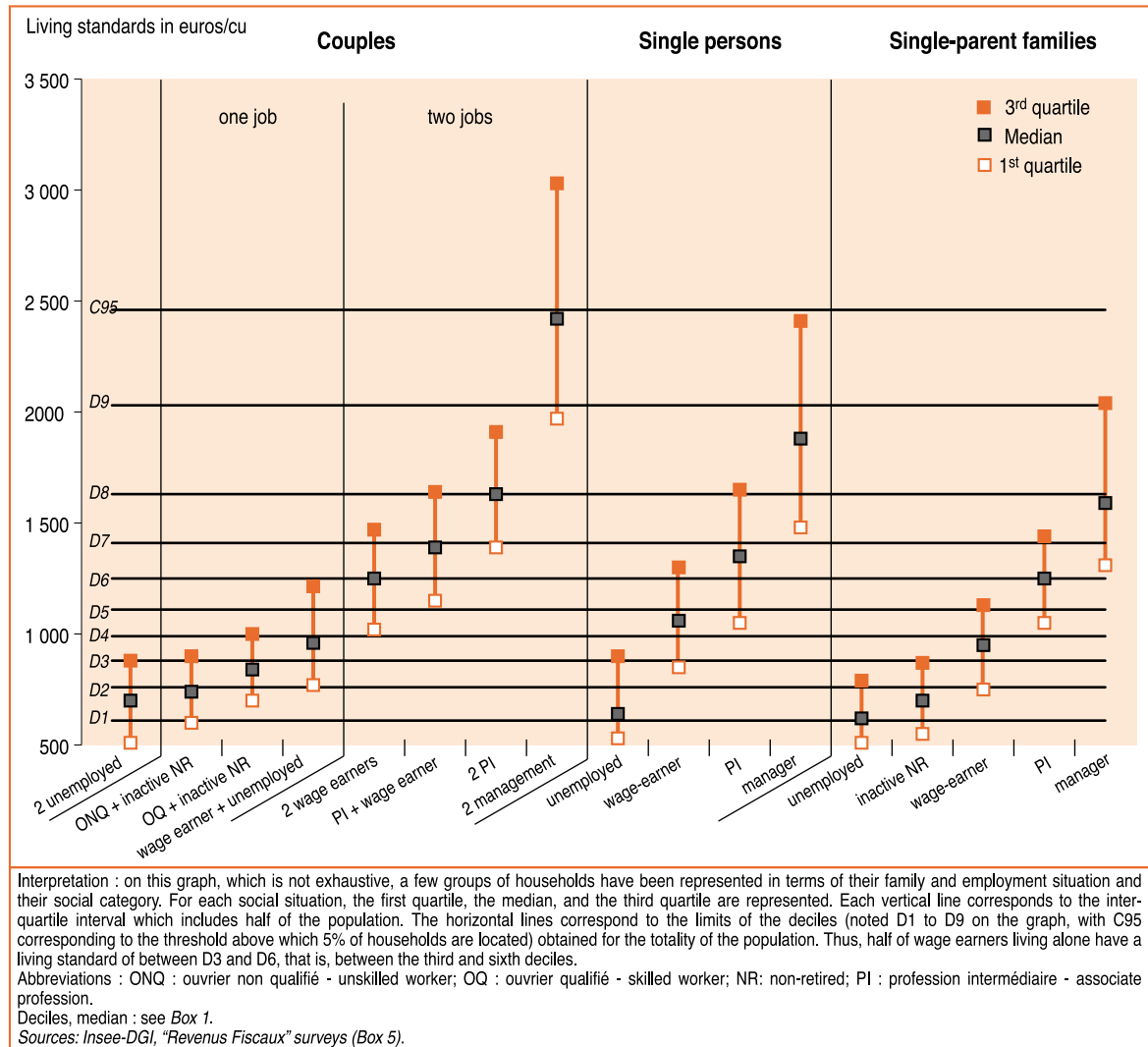
between the 6<sup>th</sup> and 7<sup>th</sup> deciles, whereas the median for persons in associate professions living alone is in the high end of the 7<sup>th</sup> decile, and couples both of whose members are in associate professions reach the 8<sup>th</sup> decile.

Nevertheless, even after taking into account the effects of family composition, job, and socio-professional category, there is still great heterogeneity in the living

standards of households. To give an example, half of the single-parent families in which the adult is employed as an employee have a standard of living between the 2<sup>nd</sup> and 5<sup>th</sup> deciles. But a fourth of them have a living standard below the 2<sup>nd</sup> decile, and a similar proportion have a standard of living that is above the median. Several phenomena can explain this heterogeneity of living standards for a given family structure,

number of jobs, and skill level: different job histories during the year (year-long employment or alternation of periods of work and periods on unemployment), the existence of a part-time activity, different hourly wages, and income other than from wages – excluding income from assets – that varies (in particular in the case of single-parent families, where the level of child-care allowances and alimony can vary).

**Figure 10 – Living standard by family and job situation in 1999**





## Box 4

### Calculation of typical standard-of-living cases for a Smic recipient

The results presented are based on typical cases. It is assumed, notably, that the household receives no income other than income from wages, to which social entitlements are then added.

The principal family allowances used in the simulations presented refer to the schedule in force as of 1<sup>st</sup> January 1999. All the allowances that follow are subject to a withholding of 0.5% for the CRDS<sup>1</sup> tax. The amounts considered here are net CRDS amounts.

**Family allowances (*Allocations Familiales* – AF):** these are paid on a monthly basis to all families with at least two children. However, children qualifying families for these allowances must fulfil certain conditions: they must be in school and be under age 16, or be under age 20 and not working, or must earn less than 55% of a full-time Smic. They continue to be taken into account by the schedule until the age of 22, if they continue their education, are in apprenticeships, in training, or are invalids. The amount of the family allowances increases with the number of children, and it is not subject to conditions as to income. For families with three or more children, an “age supplement” is granted for each child over the age of 11. The amount nearly doubles from the 16<sup>th</sup> birthday of the child who qualifies the family for the supplement. To give an idea of the amounts of these allowances, families with three children receive 238 euros monthly, and if one of the three children is over age 11, but under 16, the amount of the allowance is supplemented by 29 euros.

**The *complément familial* (CF):** it is remitted each month to households or persons who have at least three dependent children over

age 3, and who meet the income conditions applicable to the APJE (*see below*). It is possible to cumulate the CF with the APJE, but only during the period of pregnancy; the APE (*see below*) and CF, however, cannot be cumulated. It is a differential allowance of 136 euros.

**The *Allocation Parentale d'Education* (APE):** it is paid from the birth of the second child to the parent who has no remunerated activity, on the condition that he or she has exercised a professional activity of at least two consecutive years less than five years before the arrival of the child (the period is increased to ten years on the birth of the third child). This allowance is paid until the child reaches the age of three (six when there are multiple births). It amounts to 464 euros per month when the entitled person is not working. Part-time work does not exclude recipients from the APE system, but the amount varies. It decreases as the rate of activity increases. It is not subject to income conditions.

**The *Allocation de Soutien Familial* (ASF):** this allowance meets parents' obligation to support their children when they are deficient in it. This situation can be the result of non-payment of alimony imposed on one of the parents by a court or of a situation of precariousness making it impossible to fulfil the obligation. It is also paid out for each child who has lost his or her father and/or mother, and also to children whose parentage is not known as regards one and/or the other parent.

The amount of the allowance differs depending on whether one of the parents or both are deficient in fulfilling the obligation. It amounts to 72 euros per child in the first case (single-parent families).

**The *Allocation pour Jeune Enfant* (APJE):** there are two types of APJE; the one taken into account in the calculation of the typical cases studied is the so-called “long” APJE. It is paid out for each child beginning with the first day of the civil month following the child's third month and through age three. It is a differential allowance of 150 euros per month when paid at the full rate. It is subject to income conditions. There is also a short APJE paid between the fifth month of pregnancy and until the child is three months of age. An APE and an APJE may not be cumulated.

**The *Allocation de Rentrée Scolaire* (ARS):** paid annually when a child in school reaches the age of 6 before 1<sup>st</sup> February of the year following the year in which he or she returns to school. It continues to be paid out for each new school year as long as the child has not reached the age of 18 by 15<sup>th</sup> September of the year under consideration. This allowance is attributed subject to income conditions. Its amount is 20 euros per month.

**The *Allocation de Logement à caractère Familial* and *Allocation de Logement à caractère Social* (ALF and ALS):** the ALF and ALS finance part of the rent or of the loans contracted for acquisition of the recipients' principal residence. It is intended to aid families and young couples who have been married for a short time. The ALS steps in when the recipient no longer fulfils the conditions for the ALF. The amount of these two allowances varies with the recipient's family situation, the amount of his or her income and/or that of the persons living in the same household and the amount of the rent or loan payments made.

1. *Contribution pour le Remboursement de la Dette Sociale* – Tax for reimbursement of social debt

## What is the standard of living of a worker receiving the minimum wage?

The standard of living corresponding to a wage on the order of the Smic is very different depending on the family situation. Above all, it must be recalled that the Smic is an individual wage, whereas the standard of living is a characteristic of the household. We have conducted an analysis based on typical situations (box 4). In the following typical cases, a household receiving “a total of one yearly wage equivalent to the Smic” and having no other form of taxable income (or income from assets, bonuses, replacement income, etc.) will be considered.

In these simulations, the households are assumed to be renters or acquiring their first home and receiving the *Allocation de Logement Familiale* (ALF) or *Allocation de Logement Sociale* (ALS) at the full rate in the Paris region. If the household owned its home, its monetary income would of course be lower, but it would not have to bear the financial burden of rent.

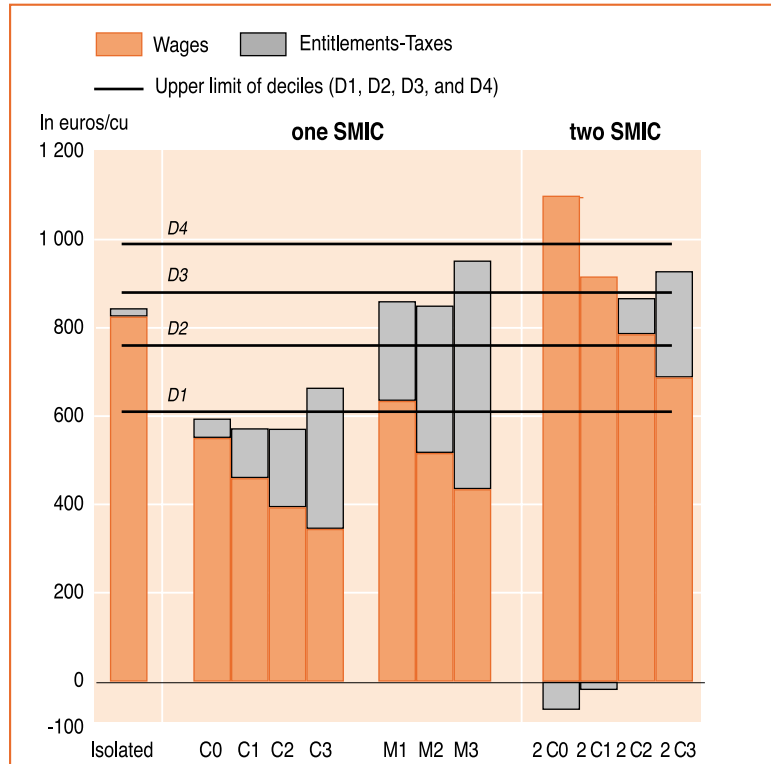
The standard of living is strongly influenced by the family structure. The effect of the family structure transits via two channels. First of all, the size of the household results in a number of consumption units which mechanically influences the standard of living. And the system of social services (family allowances, housing allowances) complements income differently depending on the composition of the family (box 4). Accordingly, a household whose only income is a wage equivalent to one Smic will have a standard of living that can vary by a factor of 100%.

If the household consists of a person living alone, the Smic will be complemented by a small housing allowance, and after payment of the income tax and the dwelling tax (*Taxe d'Habitation*), there will remain, in theory, approximately 840 euros per month with which to pay for housing and cover other expenses. The household will then be in the 3<sup>rd</sup> decile of the distribution (figure 11) – if we assume that the distribution of living standards shown in the “*Revenus Fiscaux*”

survey in 1999 indeed reflects reality, and in particular if income is not systematically under-declared.

If a household earning the Smic has children, income from salary will be complemented by family allowances that are more or less generous according to the number of children and their age. Initially, it is assumed that the children are between ages 6 and 14. With a single minimum-wage earner in the

Figure 11 – Theoretical living standard of a household with 1 or 2 Smic in 1999



Note : the household earns one monthly Smic net of all withholdings of 823 euros per month in 1999. It is assumed to be renting its dwelling in the Paris region and receiving an ALS equivalent to the maximum amount. The other allowances are the basic family allowance (104 euros for 2 children, 238 euros for 3 children); an age supplement; the family supplement for 3 children and above (136 euros per month); the Allocation de Rentrée Scolaire (ARS - 20 euros per child ages 6 to 18) and the Allocation de Soutien Familial (ASF - 72 euros per child as a substitute for alimony for isolated parents). The income tax and dwelling tax have been deducted. The dwelling tax corresponds to the mean observed for each situation in the “*Revenus Fiscaux*” survey.

Children are assumed to be between ages 6 and 14; when there are 3, it is assumed that the eldest is between age 11 and 14 (and qualifies the household for a supplemental allowance).

Interpretation: C0: Childless couple; C1: couple with 1 child, etc.; M1: single-parent household with 1 child, etc.; 2C1: 2 Smic 1 child, etc.

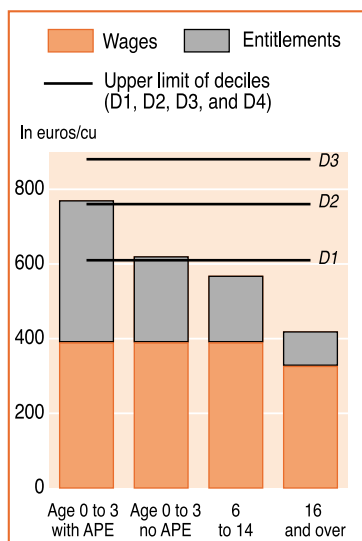
Deciles : see Box 1.

Source : INSEE, typical cases calculated by the authors based on the legislation in force in July 1999.

household, the lowest living standards are found in households consisting of couples. Those with fewer than two children receive relatively little in the way of allowances and have a standard of living that places them in the 1<sup>st</sup> decile. With a third child, additional allowances such as the *Complément Familial* are received and raise the standard of living above the 1<sup>st</sup> decile. However, households consisting of couples can also cumulate two jobs and thus two minimum wages, and often exceed the 3<sup>rd</sup> decile.

Single-parent families living on one minimum wage are

**Figure 12 - Living standard of a couple with 1 Smic, by age of the two children, in 1999**



Note : when both children are between age 4 months and 3 years, an *Allocation pour Jeune Enfant (A/JE)* of 150 euros monthly is added to the preceding allowances, unless the family receives an *Allocation Parentale d'Éducation (APE)*, which at the full rate is 464 euros monthly. On the other hand, in these simulations, when both children are over age 18, it is assumed that one of them is over age 20 and is not a student. But if these children are students, they may receive scholarships which are not taken into account here.

Interpretation: deciles : See Box 1.

Source : INSEE, typical cases calculated by the authors based on the legislation in force in July 1999.

e relatively better off than couples with one Smic for two reasons. First of all, they bear a lesser burden in terms of consumption units because they have only one adult. In addition, they theoretically have either alimony or child support or the *Allocation de Soutien Familiale*, which increases their income compared to that of a couple with one Smic. The theoretical standard of living of these single-parent families is then in excess of 840 euros/cu. For a given number of children, the standard of living of single-parent families resembles that of bi-active couples with two minimum wages. The pertinence of calculating consumption units for single-parent families could be questioned, however, since they seem to bear an additional cost related to their nature as single-parent families (For further information: J.-M. Hourriez and L. Olier).

### The standard of living of a household with one Smic tends to diminish when the children grow up

For a household with one Smic, the reduction in family allowances results, for the typical cases, in a significant reduction in the standard of living tied to the age of the children. When the children are under age 3, the *Allocation pour Jeune Enfant* or the *Allocation Parentale d'Éducation* are added to the other allowances and increase the standard of living significantly. Thus, a couple earning one Smic and having two children will be above the upper limit of the 1<sup>st</sup> decile if the children are

under age 3; it will be just below it if the children are between 6 and 14, and will be very low in the 1<sup>st</sup> decile if the children are of age and have no income from work or scholarships. This is because as soon as one of the children is over the age of 20 and is inactive, the family loses its entitlement to family allowances (figure 12). However, if the children earn income from wages or a scholarship, the standard of living will be higher.

### Beyond the typical cases, a wide variety of situations for workers earning the Smic

In practice, family and work situations are more complex. In one out of two cases, persons earning the Smic live in a couple situation with a partner who has a job, and in one out of five cases, they are young people living with their parents. In these two cases, their standard of living will be significantly above the theoretical standard of living of a household with a single Smic. (For further information: Chambaz C. et al)

Further, wage-earners who earn exactly the Smic are rare. Many employees working full-time year 'round, remunerated according to law at the hourly Smic, in practice earn a higher annual wage due to bonuses and overtime. On the other hand, only half of the persons earning near the hourly Smic are actually employed full-time all year. The annual wage of a person earning the hourly Smic will thus be the combination of an hourly wage and variable working time and additional earnings.

## 6 *Incomes, wealth, living conditions*

Therefore it is impossible to associate the Smic with a single standard of living, since a person earning the Smic can in practice end up in any of the standard-of-living deciles; beyond his or her hourly wage, which determines the standard of living, will be: working time over the course of the year, any additional earnings, the structure of the household, and the wages earned by the other members of the household. ■

### **Box 5**

#### **Source and field**

The results of this study are drawn from the "Revenus Fiscaux" surveys of 1970, 1975, 1979, 1984, 1990, 1997 and 1999. The results for the year 1999 are still provisional. In 1999, the survey is based on the tax returns of a sampling of 69,000 households. The results are therefore based on declared income, which does not include untaxed income from assets and income subject to withholding tax. However the share of income from assets that is untaxed or subject to withholding tax has increased over

time. That is why, for reasons of homogeneity, we have preferred to totally excluded income from assets from the study. The median is therefore lower than that used in calculating the poverty threshold.

The field of the study is ordinary households in which the person of reference is neither a student nor a conscripted member of the military, and whose taxable income is positive or zero and whose disposable income is positive.

#### **For further information**

**Atkinson T., Glaude M., Olier L.**, "Les inégalités économiques [Economic inequalities]", Conseil d'Analyse Economique, *La documentation Française*, 2001.

**Breuil - Genier P.**, "Inégalités de revenus et redistribution : évolution 1970 - 1996 au sein des ménages salariés [Inequalities of income and redistribution: 1970 - 1996 evolution within households of wage-earners]", *France, portrait social*, 2000-2001.

**Galtier B., Lhommeau B., Chambaz C., Legendre N., Lorgnet J.P.**, "Les revenus des salariés payés au voisinage du SMIC [Income of wage-earners paid at or

near the minimum wage]" and "Évolution des inégalités de 1970 à 1996 [The evolution of inequalities from 1970 to 1976]", Insee, *Synthèses revenus et patrimoine des ménages*, No. 28, 1999.

**Guillemin O., Roux V.**, "Comment se détermine le niveau de vie d'une personne ? [How is a person's living standard determined?]", *Insee première*, No. 798, July 2001.

**Hourriez J.M., Olier L.**, "Niveau de vie et taille du ménage : estimations d'une échelle d'équivalence [Living standard and the size of the household: Estimations for a scale of equivalence]", *Économie et Statistique*, No. 308-309-310, 1997.

**Hourriez J.M., Roux V.**, "Vue d'ensemble des inégalités économiques [An overview of economic inequalities]", *Document de travail*, No. F0103, Insee.

**Lagarenne C., Lorgnet J.P.**, "Imputation des revenus du patrimoine financier dans l'enquête Revenus Fiscaux [Application of income from financial assets in the "Revenus Fiscaux" survey]", *Document de travail*, No F 2004, Insee.

**Legendre N.**, "La pauvreté monétaire de 70 à 96 [Monetary poverty from 1970 to 1996]", *Synthèses revenus et patrimoine des ménages*, No. 47, 2001.