
National minimum income and local social supports are strategic substitutes

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Résumé

This paper analyzes the impact of both national and local welfare benefits on low-income households. Considering a federation with two levels of government, we develop a theoretical model wherein low-income households have the potential to access two distinct forms of social assistance: national and local. Our analysis reveals a negative relationship between the two levels of assistance, suggesting that the two public subsidies function as strategic substitutes. A federal reform designed to enhance work incentives by reducing marginal tax rates on the lowest incomes may encourage changes in the opposite direction in the conditions under which local aid is granted, leading to limiting the effects of the national reform. We empirically confirm this mechanism by examining the implementation of the Active Solidarity Allowance (RSA, Revenu de Solidarité Active) reform in France in 2009. Leveraging extensively detailed data on local welfare rates, we show that this reform coincided with divergent alterations in local welfare rates between 2010 and 2020. Our findings highlight the importance of understanding the interplay between national and local welfare programs for crafting effective social policy.

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