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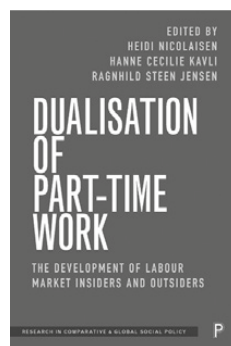
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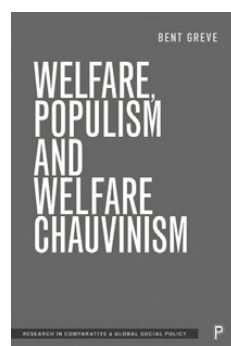
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# **MINIMUM INCOME STANDARDS AND REFERENCE BUDGETS**

## **International and Comparative Policy Perspectives**

Edited by  
Christopher Deeming

Foreword by  
John Veit-Wilson



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# Contributors

**Kristiina Aalto**, Lic.Sc. Consumer Economics, worked as a project planner at the Centre for Consumer Society Research, University of Helsinki. Her research topics include household production and unpaid household work, time use, textiles, house cleaning and sustainable consumption.

**Aya K. Abe** is Professor of Social Policy in the School of Humanities and Social Sciences, Tokyo Metropolitan University. She is one of the leading researchers of poverty in Japan and has published numerous books and articles on poverty and inequality. She is especially well known for her work on child poverty and its consequences. In 2015, she established the Research Centre for Child and Adolescent Poverty for which she serves as the director.

**Maria Inês Amaro** is Assistant Professor at the Department of Political Science and Public Policies at the University Institute of Lisbon (ISCTE-IUL), and has a PhD in Social Work. She was a member of the research project Adequate Income in Portugal (2012–17) and of the Portuguese research team in the European Reference Budgets Network pilot project (2014–15).

**Marthe Hårvik Austgulen** is a political scientist and researcher at Consumption Research Norway (SIFO) at OsloMet – Oslo Metropolitan University. Her work focuses specifically on household economy, sustainable consumption, consumer policy and regulation. Austgulen took over the academic responsibility for the Norwegian reference budget in 2020.

**Jens Bonke**, PhD, is an economist and senior researcher at Rockwool Foundation Research Unit, Denmark, doing research about welfare, time-use, family economics and poverty. He is a visiting professor at the European University Institute, Florence. He has published articles in a number of journals, including *The Economic Journal*.

**Elling Borgeraas** is Senior Researcher at Consumption Research Norway (SIFO) at OsloMet – Oslo Metropolitan University. He has had professional responsibility for the Norwegian reference budget from when the first version appeared in 1987 up to today. His research concerns household economy, consumer knowledge, debt and

indebtedness, poverty, consumption and levels of living, consumer behaviour in the financial market and consumption standards. His academic works have appeared in *Acta Sociologica*, *International Journal of Social Welfare*, *Child Indicator Research*, *Italian Sociological Review* and *Supportive Care in Cancer*.

**Jonathan Bradshaw** is Professor of Social Policy (Emeritus) at the University of York. There he founded the Social Policy Research Unit and was Head of the Department of Social Policy and Social Work for two terms. His own work has focused on social security policy, poverty living standards and more recently child well-being. He was made a CBE in 2005 and elected a Fellow of the British Academy in 2009. He is currently a member of the Policy Committee of the Child Poverty Action Group.

**Francisco Branco**, PhD, is Associate Professor at the Catholic University of Portugal, and researcher at the Catolica Research Centre for Individual, Family and Social Wellbeing. He has held a PhD in social work (with a specialization in social policy and social movements) since 2001. He was a member of the research project Adequate Income in Portugal (2012–17) and of the Portuguese research team in the European Reference Budgets Network pilot project (2014–15). His research interests include the development of social work as a profession, and social assistance and social minimum policies.

**Elena Carrillo Álvarez**, PhD, is Associate Professor at the Blanquerna School of Health Sciences, Ramon Llull University. Her research focuses on the social determinants of health and eating, and the promotion of food security in vulnerable groups. She is the principal investigator of the Global Research on Wellbeing (GRoW).

**Anders Eiler Wiese Christensen** was an economist at the Rockwool Foundation Research Unit, Denmark, with research interests in the analyses of time-use and poverty issues.

**Pierre Concialdi** is an economist at France's Institute for Social and Economic Research (IRES). Earlier he worked as a deputy director at the Center for Research on Incomes and Costs (CERC). His studies have focused on income inequalities and poverty, social protection and the financing of social security, tax progressivity and low-wage employment. He has been involved in a research project aimed at

building reference budgets in France and has coordinated a pilot project on this topic in Tunisia.

**Dália Costa** is Assistant Professor at the School of Social and Political Sciences (ISCSP) of Universidade de Lisboa, and researcher at the Centre for Public Administration and Public Policies (CAPP). She holds a PhD in Sociology. She was a member of the research project Adequate Income in Portugal (2012–17) and of the Portuguese research team in the European Reference Budgets Network pilot project (2014–15). Her main research interests are inequality, including gender inequality and intersectionality.

**Irene Cussó-Parcerisas**, sociologist, PhD in Education, is Adjunct Professor at the Faculty of Social Education and Social Work Pere Tarrés at Ramon Llull University in Barcelona. Her main research topics are child poverty and reference budgets in collaboration with the Herman Deleeck Centre for Social Policy (CSB), University of Antwerp, Belgium.

**Abigail Davis** is a research fellow at the Centre for Research in Social Policy (CRSP), where she has focused on budget standards research since 2006. She leads the Minimum Income Standards (MIS) programme and develops and delivers training in the MIS methodology, working with teams in Japan, Portugal, France, Mexico, South Africa, Thailand and Singapore.

**Christopher Deeming**, PhD, is Senior Lecturer in Social Policy at the University of Strathclyde, working in the field of comparative and global social policy. With a longstanding interest in this field, Chris worked with Jerry Morris at LSHTM and completed his PhD at Bristol with Peter Townsend and Jonathan Bradshaw, his external examiner. He was involved in drafting the MIS Memorandum to the UK Prime Minister (2004), providing evidence to the WHO Commission on the Social Determinants of Health (2005), and acted as an advisor on the original JRF MIS study (2006/7).

**Ingrid Eriksson** is Principal Administrative Officer in the Unit for Sustainability at the Swedish Consumer Agency. Ingrid is the agency's expert on reference budgets and has been a key driver in developing budget standards for basic needs over the last ten years. Ingrid has a degree in Food Service Management as well as a masters in teaching home economics in schools.

**Gordon M. Fisher** worked for the US Department of Health and Human Services (HHS) as a civil servant for 39 years, retiring in 2012. His papers on the history of American poverty lines are posted on the HHS and Census Bureau websites. He published articles in the *Social Security Bulletin* and other publications. He co-edited the poverty subchapter in *Historical Statistics of the United States*, Millennial Edition.

**Benedikt Goderis** is Programme Leader in Income and Social Security at the Netherlands Institute for Social Research|SCP. He studies the social problems of poverty and household overindebtedness in the Netherlands. Benedikt holds a PhD in economics from Tilburg University and previously held positions at the University of Oxford, the University of Cambridge and the Dutch Ministry of Finance.

**Tim Goedemé**, PhD, is Senior Research Officer at the Institute for New Economic Thinking at the Oxford Martin School and the Department of Social Policy and Intervention at the University of Oxford, and Senior Fellow of the Herman Deleeck Centre for Social Policy (CSB) at the University of Antwerp. He is also affiliated to Nuffield College. His research focuses on poverty, social policy and inequality, as well as the interlinkages and trade-offs between social and environmental policy objectives.

**Donald Hirsch** is Professor of Social Policy and Director of the Centre for Research in Social Policy (CRSP) at Loughborough University, where he oversees the Minimum Income Standards (MIS) programme. Before joining CRSP in 2008, he spent ten years as poverty advisor to the Joseph Rowntree Foundation (JRF), playing an influential role as a commentator on Labour's welfare reform. In previous roles, he was a journalist at *The Economist*, an official at the OECD and an international policy consultant.

**Stella Hoff** studied Social Psychology at the University of Amsterdam and obtained her PhD in 1995. Since 1997, she has been affiliated to the Netherlands Institute for Social Research|SCP. Her main research interests are poverty, social security and social exclusion. Recent publications include *When a Job is Not Enough* (2018), *From Sheltered Employment to Participation Act* (2018) and the annual *Poverty Survey of the Netherlands*.

**Anna-Riitta Lehtinen**, MSc in Consumer Economics, is a project planner at the Centre for Consumer Society Research at the University

of Helsinki. Besides reference budgets her research focuses on consumers' financial management, indebtedness and financial capability.

**Bernadette Mac Mahon** has been Director of the Vincentian Partnership for Social Justice (VPSJ) since its establishment in 1995. VPSJ was founded to work for social and economic change – tackling poverty and exclusion. As a means of achieving its goals she pioneered the introduction of Minimum Essential Standard of Living (MESL) budget work in Ireland and leads the MESL Research Programme. Since 2004 she has led numerous research projects which now provide data on the cost of a MESL that covers 90 per cent of households in the Republic of Ireland. She is also a founder member of the Living Wage Technical Group and is a PhD graduate of the University of Manchester.

**Ad Maulod** is a cultural anthropologist and research fellow at the Centre for Ageing Research and Education (CARE), Duke-NUS Medical School in Singapore. Ad trains and leads a team of qualitative researchers using culture-centred approaches to understand how social and structural determinants of health intersect and manifest in the everyday lives of older persons and enhance the community empowerment for older persons in Singapore.

**Kok-Hoe Ng** is Senior Research Fellow at the Lee Kuan Yew School of Public Policy, National University of Singapore. He received his training in social policy at the London School of Economics where he won the Titmuss Prize. His research investigates ageing, income security, social housing and homelessness. He consults regularly for the public and social sectors and is editor of the book *They Told Us to Move: Dakota – Cassia* (Ethos Books, 2019).

**Yu-Wei Neo** is a research fellow at the Social Service Research Centre at the National University of Singapore. She obtained her postgraduate degrees in the disciplines of sociology and public policy. Her research interests are focused on issues related to poverty, social exclusion of marginalised groups and the development of social services in Singapore.

**Matt Padley** is a research fellow at the Centre for Research in Social Policy (CRSP) where he has pioneered work on retirement living standards in the UK, as well as leading research on living standards in London. He works across the established Minimum Income Standards

(MIS) programme, leading on data analysis and the application and development of MIS in the UK and globally. His research focuses on public conceptions and understanding of living standards and how these can be used in public policy.

**Elvira Pereira**, PhD, is Assistant Professor at the School of Social and Political Sciences (ISCSP) of Universidade de Lisboa, and researcher at the Centre for Public Administration and Public Policies (CAPP). Her main research interests lie in the areas of well-being, poverty, income adequacy and minimum income policies. She co-coordinated the research project Adequate Income in Portugal (2012–17) and was a member of the Portuguese research team in the European Reference Budgets Network pilot project (2014–15).

**José A. Pereirinha** holds a PhD in Development Studies (University of Rotterdam) and is Full Professor (retired) at the School of Economics and Management (ISEG) of Universidade de Lisboa and researcher at the Research Centre on Economic History (GHES-CSG), where he coordinates and conducts research on the history of the Portuguese welfare state, human needs, reference budgets and minimum income standard for Portugal, and inequality and poverty analysis. He coordinated the research project Adequate Income in Portugal (2012–17) and the Portuguese research team in the European Reference Budgets Network pilot project (2014–15).

**Jordi Riera Romaní**, PhD, is Professor of Education at Blanquerna Faculty of Psychology, Education and Sports Sciences at Ramon Llull University. He is currently Vice-rector of Academic Policy and Deputy Rector and is the principal investigator of the Research Group on Pedagogy, Society and Innovation with the support of ICT (PSITIC).

**Peter Saunders** is Emeritus Professor in Social Policy and former Director of the Social Policy Research Centre (SPRC) at the University of New South Wales (UNSW). He was elected a Fellow of the Academy of the Social Sciences in Australia in 1995, and was an Australian Professorial Fellow working on the concepts and measurement of poverty, deprivation and social exclusion in Australia between 2004 and 2009. He was the first president of the Australian Social Policy Association between 2009 and 2013 and has been president of the Foundation for International Studies on Social Security since 2009.

In 2015–16, he was a member of the Advisory Board of the World Bank Commission on Global Poverty.

**Malin Lindquist Skogar** is Head of the Unit for Sustainability at Swedish Consumer Agency. The unit supports various actors/organisations in how they can contribute and stimulate environmentally, socially and economically sustainable consumption in society. Malin has more than thirteen years' experience working here, previously supporting teachers, local consumer advisors, budget and debt advisors. Malin has a background in public relations, social science and teaching.

**Bérénice Storms** obtained her PhD at the University of Antwerp in 2012 with a dissertation on 'Reference Budgets for Social Participation'. She coordinates the research at the Centre for Budgetary Advice and Research (CEBUD, Thomas More). In addition, Bérénice works at the Centre for Social Policy (CSB), University of Antwerp. Here she is jointly responsible for the scientific valorisation of reference budgets and the development of a common methodology for the development of cross-nationally comparable reference budgets in the EU. The EU Platform on Reference Budgets ([www.referencebudgets.eu](http://www.referencebudgets.eu)) was established to serve as a knowledge portal and gateway for the research on reference budgets in Europe. Bérénice, together with Tim Goedemé, is co-president of the platform.

**Nada Stropnik** is Senior Researcher at the Institute of Economic Research, Ljubljana, and holds a PhD in Economics. Her main research areas are social policy, poverty, social inclusion, family policy and work–life balance. She is (co-)author of the studies on the minimum costs of living (1998, 2009 and 2017), on which the regulation of minimum income in Slovenia is based. In 2014–15 she participated in the Developing a Common Methodology for Reference Budgets project. She is a member of the European Social Policy Network and serves in the editorial councils of several international scientific journals in the area of social policy and social inclusion.

**Youyenn Teo** is Associate Professor and Provost's Chair in Sociology at Nanyang Technological University, Singapore. Her research focuses on poverty and inequality, governance and state–society dynamics, gender and class. She is the author of *Neoliberal Morality in Singapore: How Family Policies Make State and Society* (Routledge, 2011) and *This Is What Inequality Looks Like* (Ethos Books, 2018).



**Robert Thornton** is the Senior Research and Policy Officer with the Vincentian Partnership for Social Justice's (VPSJ) Minimum Essential Budget Standards Research Centre. Joining the VPSJ in 2010, his work has focused on the expansion of budget standards research in Ireland, and its application to policy analysis and development. Robert is a founding member of the Irish Living Wage Technical Group.

**Yi-Ting Ting** is a registered social worker who has worked with patients with neurological conditions and contributed chapters to a resource book on Parkinson's disease. She most recently worked as a Research Executive in the Social Service Research Centre, NUS, where she was involved in research related to social policies, as well as programme evaluation of social services and assistance for marginalised and vulnerable groups.

**Malcolm Torry**, PhD, has been Director of the Citizen's Basic Income Trust for most of the past 35 years. He is a Visiting Senior Fellow at the London School of Economics, General Manager of the Basic Income Earth Network (BIEN) and author of books on Basic Income and on religious and faith-based organisations. He is a priest in the Church of England, and for 34 years served in south London parishes.

**Bart van Hulst**, PhD, works as a researcher at the Income and Social Security Programme of the Netherlands Institute for Social Research|SCP. His current research focuses on poverty in the Netherlands. Previously Bart worked as a researcher at NZi (Prismant) and the Netherlands Economic Institute (Ecorys).

**John Veit-Wilson**, FAcSS, is Emeritus Professor of Social Policy of Northumbria University, and Guest Member of Sociology at Newcastle University. He started studying family poverty in 1959 in Sweden and was a member of the Peter Townsend and Brian Abel-Smith first UK National Survey of Poverty research team 1964–67. He has published extensively on various aspects of poverty theory, methods and policy, including *Setting Adequacy Standards: How Governments Define Minimum Incomes* (Policy Press, 1998). He was consultant to the European Anti-Poverty Network's campaigns on Minimum and Adequate Income Directives. John helped to found the Child Poverty Action Group in 1965 and continued as a trustee and policy committee member since 2001.

**J. Cok Vrooman** is Professor of Social Security and Participation at Utrecht University and Chief Scientific Strategist at the Netherlands Institute for Social Research|SCP. He obtained a PhD in Sociology from Tilburg University (*cum laude*), and was Editor of the *Dutch Yearbook on Poverty and Social Exclusion* and the Poverty Monitor/Poverty Survey series. Publications include *Rules of Relief* (2009), *Regimes and Cultures of Social Security* (2012), *When a Job Isn't Enough* (2018) and *The Reproduction of Benefit Receipt* (2019).

**Gemma Wright** is Research Director at the Southern African Social Policy Research Institute NPC (a not-for-profit registered in South Africa) and Southern African Social Policy Research Insights (a not-for-profit registered in the UK) (see [www.saspri.org](http://www.saspri.org)), and a Professor Extraordinarius at the Archie Mafeje Research Institute at the University of South Africa. Her main interests are in socially-derived definitions of poverty (see [www.dslnow.net](http://www.dslnow.net)), social security policy and tax-benefit microsimulation.

**Wanga Zembe-Mkabile** is a director at the Southern African Social Policy Research Institute NPC and a Specialist Scientist in Health Systems Research at the South African Medical Research Council. She has research experience in deprivation, child poverty and child health. Her main interests are research and teaching in social policy, specifically as this relates to poverty and inequality.

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# Preface from the series editors

*Heejung Chung (University of Kent, UK)*  
*Alexandra Kaasch (University of Bielefeld, Germany)*  
*Stefan Kühner (Lingnan University, Hong Kong)*

In a world that is rapidly changing, increasingly connected and uncertain, there is a need to develop a shared applied policy analysis of welfare regimes around the globe. Research in Comparative and Global Social Policy is a series of books that addresses broad questions around how nation states and transnational policy actors manage globally shared challenges. In so doing, the book series includes a wide array of contributions, which discuss comparative social policy history, development and reform within a broad international context. Initially conceived during a meeting of the UK Social Policy Association Executive Committee in 2016, the book series invites innovative research by leading experts on all world-regions and global social policy actors and aims to fulfil the following objectives: it encourages cross-disciplinary approaches that develop theoretical frameworks reaching across individual world-regions and global actors; it seeks to provide evidence-based good practice examples that cross the bridge between academic research and practice; not least, it aims to provide a platform in which a wide range of innovative methodological approaches, may it be national case studies, larger-N comparative studies, or global social policy studies can be introduced to aid the evaluation, design, and implementation of future social policies.

In this expansive volume, Deeming brings together international experts from around the globe to share their latest research on reference budgets and minimum income standards. It combines historical case analyses, cross-national comparisons, and studies with a focus on policy and practice issues in no fewer than 23 original chapters. Collectively these contributions summarise the various achievements within the international research on reference budgets and minimum income standards to date. At the same time, they underline the importance of reference budgets and minimum income standard approaches for current debates over, for example, the measurement of needs across the life course, the future of social safety nets, and what family income levels are deemed socially acceptable. Deeming manages to present all of the above with a nod towards pertinent ideational changes in the emerging global social protection and sustainability paradigms. He also lays out how, going forward, governments may address the

## Preface

contemporary challenges of urban, rural, housing, in-work, energy, and food poverty in different socio-economic and cultural contexts. We are delighted to have the opportunity to include this volume in our book series. We hope that readers will regard it as a vital effort to take stock and use it as a vantage point for the further advancement of the conceptual and methodological toolkit of international research on reference budgets and minimum income standards.

# Foreword

*John Veit-Wilson*

Budget studies have a long history. Over the centuries, some employers, policy makers and social reformers have had interests in seeing that wage rates and social security systems were sufficient to prevent political disorder and physical and social deprivation among working people. In the UK, first the fluctuating cost of grain for bread and later of a few other basic essentials were identified as key criteria for contemporary class judgements of ‘how much was enough’ for the wages of low-paid workers and their families – those most at risk of suffering the consequences of deprivation or rebelling against them. The non-poor classes identified the social evils of poverty which ought to be philanthropically ameliorated if not actually politically abolished, and that required some criteria of minimum necessities. So when people started to ask ‘how much is enough’, the earliest budget studies were developed as systematic means of listing the components of minimum sufficiency. What this book very helpfully does is to show the current state of budget studies research around the world and its relevance to the general question: if the objective is to combat or prevent poverty, how much is enough personal disposable income?

Posing the issue in historical perspective shows how important this book is today in showing the disparate and often conflicting objectives for which budget studies are nowadays carried out. As a member of Peter Townsend and Brian Abel-Smith’s team carrying out the first national survey of poverty in the UK in the 1960s, I’m delighted to be asked to introduce this volume. At that time we had not thought through what has since emerged as the implication of all studies of poverty – that since poverty is a dyadic relationship, we should have paid more attention to mapping what not-poverty is: the adequacy of personal resources for minimally decent inclusion in society. Because we had not sufficiently distinguished adequacy standards from poverty, the indicators we drew from pilot studies of what a normal inclusive life might or ought to include (such as being able to choose a cooked breakfast) were wrongly treated by some readers as our prescribed minimum necessities for poor people. We were counting people who seriously lacked resources for social inclusion, unlike those composing budgets in the earlier post-Seebohm Rowntree period who earnestly

sought the lowest family incomes on which minimum dietary necessities could be obtained. By contrast, others such as Sir John Boyd Orr and Dr Barnet Woolf argued that research should focus on the level of resources at which households actually achieved optimum dietary intakes: the inclusive adequacy standard.<sup>1</sup>

This dichotomy in approaches in the first half of the 20th century continues and is illustrated in these reports on budget studies. Some focus on empirical studies of what national populations as a whole report on ‘having what you need in order to have the opportunities and choices necessary to participate in society’<sup>2</sup>; that is the Minimum Income Standard approach to an acceptable decent minimum adequacy level for all, not poverty. Others report on normative studies of the minimum personal incomes needed for some other objective such as delineating poverty. This variety of objectives includes guidance for national social security systems, pressured and fluctuating as they often are by a country’s political considerations, but it also addresses researchers’ lasting cross-national interests, including reference budgets to allow some kinds of comparative poverty statistics to be calculated on agreed normative standards. These are household or family budgets taking the nation’s surrounding world as a given, so they often have to disregard wider questions of context such as local housing costs and other collectively provided resources which may vary across nations and regions.

The overarching question of all budget studies remains: how much is enough? The variety of answers in these reports helps us to understand the range of prior assumptions on which budget studies may be based. The assumptions and values which research teams hold about who is describing how much is enough for whom, and what methods are appropriate in those contexts, are often implicit, and unvoiced because the epistemology of each study nationally undertaken may have been taken for granted in its own context and treated as unproblematic, not needing to be explained or justified. While it is arguably not the role of each research report to write its own theoretical essay on its choices of objectives and methods by which to achieve them, the book’s value also lies in its juxtaposition of reports without obscuring differences in the broader frames within which to examine the findings. Here each team explains its own rationale without classificatory regimentation implied by editorial decisions. Readers passing from one report to another are thus repeatedly encouraged to think about the applicability of the variety of disparate approaches used in budget studies nowadays, and so cannot assume they all share the same epistemology and objectives because they may use similar basic budget methods.

The early ‘top-down’ budget researchers never faced the question of who is defining necessities for whom, and who has the privilege and expertise to identify, act and respond with budget plans and policies. Today other contrasting perspectives and methods also make contributions to our better understanding of social inclusion, adequacy and deprivation, such as qualitative accounts of life in poverty and the quantitative statistical data on income lacks and resource inequalities, and they also allow for comparison within and between countries. In the pursuit of better-informed policies to combat and prevent poverty, the range of budget studies in this book make a notable theoretical and practical contribution both to the evaluative criteria and substantive data which are essential.

## Notes

- <sup>1</sup> Minimum dietary intake: any further reduction leads to deficiency symptoms; optimum intake: no further increase improves health.
- <sup>2</sup> Bradshaw, J., Middleton, S., Davis, A., Oldfield, N., Smith, N., Cosworth, L. and Williams, J. (2008) *A Minimum Income Standard for Britain: What People Think*, York: JRF.



# PART I

## Introduction

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# An introduction to minimum income standards and reference budgets: international and comparative policy perspectives

*Christopher Deeming*

## Introduction

Welcome! This volume is a celebration of today's research effort developing 'minimum income standards' and 'reference budgets', also known as 'family budget standards', 'indicative budgets' and 'standard budgets', i.e. the baskets of goods and services that are considered necessary to reach a minimum standard of living for an individual or household within a given country context, region or city. In other words, how much money is needed or, how much is enough?

The volume is a much needed and long overdue international collaboration and fresh critical reflection on the state of the art written by experts in this field. It brings together up-to-date and accessible information and analysis in an effort to raise the profile and understanding of reference budget research, and put minimum income standards firmly at the heart of global social policy debates that focus on strengthening social protection systems.

The timing is important from a policy and practice point of view. This essential review of learnings to date and future prospects for research is all the more relevant in light of the coronavirus (COVID-19) pandemic, with the current crisis testing health and social protection systems and social security safety nets around the world. In an effort to promote inclusion, international organisations such as the European Commission (EC), the World Health Organisation (WHO) and International Labour Organization (ILO) have been calling on international and domestic policy makers to guarantee the minimum right to adequate social protection in order to prevent poverty and not just alleviate it. Everyone around the world should enjoy at least basic income security according

to the ILO and WHO (ILO/WHO, 2011). The WHO recommends (Recommendation 7.2) national governments should now develop and implement economic and social policies that provide secure work and a living wage that takes into account the real and current cost of living for health, and (Recommendation 8.1) governments, where necessary with help from donors and civil society organisations, and where appropriate in collaboration with employers, build universal social protection systems and increase their generosity towards a level that is sufficient for healthy living (CSDH, 2008). While the European Parliament (EP) and EC has called upon European Union (EU) governments (October 2008) to establish active inclusion policies including adequate minimum income support (EP, 2009). More recently, as part of the Social Investment Package (February 2013), the EC proposes that the level of the minimum income protection should be high enough for a decent life in order to promote sustainable and inclusive growth goals (EC, 2014, 2019). It has funded the European Reference Budgets Network which aims to develop a common methodology to construct high-quality comparable reference budgets in all EU member states, and has established a network of experts, the European Minimum Income Network (EMIN), to share best practices on Minimum Income Schemes (Van Lancker and Farrell, 2018) along with the European Social Policy Network (ESPN) to help monitor progress towards the EU social protection and social inclusion objectives (ESPN, 2016).<sup>1</sup> The EC proposes the use of reference budgets as an instrument to help EU member states design efficient and adequate income support, in order to facilitate the EC's task of monitoring income adequacy in Europe (Deeming, 2017).

The idea for the volume itself started life as a more modest endeavour, as a special issue for a journal, but then rapidly grew and outstripped the journal parameters; as more researchers in the field joined, so the project evolved into an edited volume. The basic idea from the start has been to bring together many of the leading authorities, research teams and collaborating partners, here together for the first time, in order to take stock and critically reflect on developments in this field, as collectively we attempt to push forward this research agenda for shared learning, policy and practice. The research brief invited contributions to reflect on the aims and objectives of their research programmes, the historical contexts and the national or cross-national policy contexts, the use of theoretical and conceptual frameworks, the methodological approaches employed in the research, and emerging findings discussed in relation policy contexts.

The focus of this volume is everything related to reference budgets and minimum income standards research, covering different methodologies

and approaches as well as issues some of the complex issues to do with implementation, policy and practice (Veit-Wilson, 1998; ESPN, 2016). As the contributors to this volume testify, minimum income and reference budget standards tell us everything that most poverty or inequality measures do not – importantly they give us some clear indication of how much money is enough, what family income levels are *socially* acceptable to live on. Here there appears to be an important discourse shift in progress, moving away from the focus on ‘poverty’ towards thinking more about standards for ‘inclusion’. Consequently, the budgets and standards produced reveal something about the acceptability or otherwise of social protection systems and minimum wage laws we find in policy and practice in many parts of the globe today. This research effort, which has been developing over centuries, has been gathering much momentum in the 21st century, but much more needs to be done to support and harness it, by policy makers and research funding councils, who should be concerned to end poverty and tackle social inequality, rather than settle for policies that relieve or alleviate it which we find so prevalent today. The 2030 Agenda and the global goals (the Sustainable Development Goals (SDGs)) demand this be achieved by the year 2030 (UN, 2015).

## The long view

The knowhow for conducting research into reference budget standards was already well established when Seebohm Rowntree set about his seminal study in York in 1899, and in the second (1935–37) and final (1950) surveys (these surveys have long been a major source of misunderstanding, confusion and debate within social policy itself, Veit-Wilson, 1986; Harris, 2000; Glennerster et al, 2004). The early pioneers in this field, however, had already laid the foundations for Rowntree’s study, if they had not already set the standards and established measurement practices that continue more or less intact today. Research into family budgets, in order to help assess living standards, therefore has a long and important tradition in social policy research which is as old as social science itself (Deeming, 2010). It is clear that the British tradition of empirical social enquiry emerged out of the original budgetary endeavours of the 17th century, and that budget standards also formed part of the essential toolkit for public health advocacy from the 19th century, with the new science of dietics leading the way.

Broadly speaking, budget research into material living standards, at least in Britain, can be defined by five distinct but interrelated phases of development. In an attempt to assess the standard of living, researchers

in the late 1600s, such as William Petty and Gregory King, constructed budgets for the typical worker. These were only ever rough estimates; labouring work was not always permanent and wages often varied by season and geographical region. Nevertheless, the estimates provided some insight into the numbers living on low and inadequate incomes. The abstract eventually gave way to the more precise: at the end of the 18th century, researchers like David Davies and Frederick Morton Eden began to collect actual data on family income and outlay in a systematic fashion. They conducted household budget surveys in an effort to assess the living standards of working families more directly. Items available in the marketplace were translated into monetary values in order to draw comparisons with earnings. Davies even suggested a minimum wage law tied to the price of bread.

Advances in scientific knowledge and its application in social research during the first half of the 19th century provided investigators such as Edward Smith with new insights into living standards. His survey was pioneering – Smith had developed a minimum subsistence standard many years before Charles Booth and Rowntree, and one that was based not merely on crude earnings but on the nutritional value of food. These inquiries were prompted by the social conditions of the time; the focus on dietary sufficiency reflected the widespread belief that famine conditions were prevalent in areas of industrial England. Other studies followed: Henrietta Barnett in East London in 1886, and the more well-known studies of Booth in the East End of London, with *Life and Labour* from 1889. A collection of 30 family budgets had helped to illustrate the poverty described before Rowntree's enquiry in York, the first beginning in 1889, originally published in 1901 as *Poverty, A Study of Town Life*.

By the close of the century, social investigators in Britain had determined lines of poverty across sections of society. Although it is doubtful whether the use of two decimal places in the cash budget standards or the numbers living in poverty could be justified considering the reliability of the data. Local budget surveys flourished in Britain until the mid-20th century. Random sampling techniques were advanced by Arthur Bowley, a statistician at the London School of Economics, so providing an accurate representation of the population under consideration. The metrics of household income and expenditure were measured with increasing levels of precision. The local budget surveys eventually gave way to the increasing use of data from national budget surveys in the second half of the 20th century. The surveys were conducted by government officials and, for a time, secondary analysis of official budget data provided the means for assessing income

adequacy and measuring poverty, the early work of Peter Townsend and his arguments for minimum income standards for healthy living is notable here (Townsend, 1962: 220; see Deeming 2011a). It was widely recognised however, that family spending is constrained by income, at least to an extent, as Brian Abel-Smith and Peter Townsend (1965) found in their landmark inquiry, *The Poor and the Poorest*. In an attempt to escape some of the circularity, social researchers in the UK like David Piachaud and Jonathan Bradshaw (Chapter 2) helped revive this fading tradition. Increasingly, researchers in this field would now turn to the emerging theoretical frameworks of ‘basic needs’ and ‘capabilities’, and draw on the growing knowledge about health determinants and international human rights instruments in order to help guide the development of minimum income standards in a more systematic fashion (Deeming, 2005a). These theoretical foundations now widened people’s capacity to make choices that any citizen ought to be able to make, and in the process widened their notion of what was considered ‘basic’ to what was considered necessary in society or socially acceptable.

## The modern era

At the turn of the 21st century the research effort to develop budgets standards in the UK was quite considerable, and there were three different university-based research teams, each following different procedures and frameworks for doing so. We summarised the different approaches in a report for the Zacchaeus 2000 Trust (2004), and critically reviewed and compared them in an article for the *Journal of Social Policy* (Deeming, 2005a).<sup>2</sup> While the different research programmes shared a common goal there were clear differences in approach and the slogans that they offered:

- ‘Social exclusion’ was high on the political agenda, and the Low Cost but Acceptable (LCA) and Modest but Adequate (MBA) methods tracked changing patterns of consumption within society, influenced by Peter Townsend’s (1979) relative deprivation aspect of living standards – no one should be left behind (Bradshaw, 1993a, 1993b; Parker, 1998, 2000; Ambrose, 2003).
- Minimum Incomes for Healthy Living (MIHL) was largely driven by public health evidence and expertise – public health is a global priority, everyone should have the resources to be able to live a healthy life (Morris<sup>3</sup> et al, 2000, 2005, 2007).<sup>4</sup>

- Consensual Budget Standards (CBS) research based at the University of Loughborough was driven by public deliberations using focus groups – consensus after all is required to establish an acceptable minimum income standard in democratic societies (Dobson and Middleton, 1998; Middleton, 2000; Smith, et al, 2004).

Clearly, there was considerable research innovation in this field happening at this time in Britain, and a coalition of non-governmental organisations (NGOs) now called on the government to adopt ‘minimum incomes standards’ policies, with a delegation meeting Prime Minister Tony Blair in September 2003 to make the case (Zacchaeus 2000 Trust, 2004). However, the research effort came under attack from politicians and policy makers who pointed to the lack of agreement in the field, criticising researchers for not being able to agree on a single unified approach (DWP, 2003; Kennedy and Townsend, 2004; POST, 2015). Partly for this reason reference budget standards were rejected as an approach for setting adequacy standards in the UK, during New Labour’s review (2002–3) of child poverty measures, but they were also rejected by policy makers in Australia reviewing the social welfare system (Deeming, 2005a, 2011b). My own publications discussing the different methodologies were now being used to attack and discredit reference budget standards research, in ways that I had not intended or could not have predicted. As the governmental review of the pensions system in Australia concluded:

Budget standards have similarly been rejected in the United Kingdom as a means to define a minimum income standard (Deeming 2005[a]). The Department for Work and Pensions (2003) concluded that: ‘Despite a wide range of research into budget standards, there is no simple answer to the question of what level of income is adequate. Different research methods tend to make different assumptions that are essentially subjective. Even methods that purport to define the cost of a “scientifically determined diet” in effect have to make a number of subjective assumptions about needs. This can produce inconsistent answers to the same questions’. (Harmer Review, 2009: 48)

Budget research was under fire and arguably things needed to change. In truth, the LCA, MIHL and CBS never claimed to be offering the exact same living standard; they were conceived rather differently, but in any case it proved difficult to make reliable comparisons between



them (although attempts were made, Deeming 2009: table 7; Deeming 2011b: table 1), since they often represented different household groups and/or were set in different geographical contexts or time periods.

However, it was becoming increasingly clear that what was needed, at least politically, was some sort of consensus – some sort of blending or integration of the approaches as I argued for in 2004, in an article for the *Journal of Social Policy*, the title of the article aptly named ‘Minimum income standards: How might budget standards be set for the UK?’ (Deeming, 2005a: 630–1). I wrote to the then chief executive of the Joseph Rowntree Foundation (JRF), Julia Unwin, with the article, setting out some of the practical problems we had been experiencing with policy makers, and the challenge and need for greater collaboration and unity. In 2006, the JRF assembled a Minimum Income Standards (MIS) research team led by Sue Middleton and Jonathan Bradshaw. I was a member of the expert advisory group along with Robert Walker and John Veit-Wilson, both of whom had campaigned for consensual approaches to poverty measurement (Walker, 1987; Veit-Wilson, 1987). The new MIS method under development would now be based on deliberations involving both members of the public and experts, which was necessary for helping to determine adequacy and the level of sufficient resources for healthy participatory living in society<sup>5</sup> – advocated by the WHO (CSDH, 2008) and by many of the contributions to this volume, as the WHO recommends:

Providing a living wage that takes into account the real and current cost of living for health requires supportive economic and social policy that is regularly updated and is based on the costs of health needs including adequate nutritious food, shelter, water and sanitation, and social participation (Morris and Deeming, 2004). (CSDH, 2008: 78)<sup>6</sup>

The original MIS inquiry (Bradshaw et al, 2008) had indeed blended or integrated the different perspectives; the consensual budget approach exemplified by CBS was now recast to include the input of experts, including national and international guidelines found in the LCA and MIHL concepts (Marmot Review, 2010).<sup>7</sup> The collaborative research output from the MIS research team based at Loughborough University is now extensive and spans many different countries, as we shall discover, a decade on from the first inquiry. Then there are other traditions in different national contexts and new pan-European, cross-national and comparative approaches under development.

## The scope of the volume

The empirical studies and research reviews reported in this volume cover a wide range of geographical regions, countries and contexts, and many countries have longstanding and well-established traditions in family budget research. Most of the budget studies are set in the rich high-income countries, work in lower- and middle-income contexts here is more limited, where much more needs to be done to help strengthen social protection systems. Most of the studies reported here relate more broadly to the national level, but there is work at the sub-national level, and, as we shall see, the cross-national research effort continues to flourish.

Part II of this volume is given over to case study research. A number of different research case studies are reviewed here. The cases are selected because they help to illustrate different approaches in the field, at least to a degree. The reporting tends to follow a common structure, however, covering historical and policy context, aims, methodological approaches and theoretical and conceptual frameworks, along with findings and implications for social policy development. We begin by looking at some of the ‘public-led’ studies, involving deliberative forums and citizens involved in discussion groups, which may also combine expert knowledge and behaviour data, before moving on to the ‘expert-led’ studies, which may also combine focus group research with the public. Hard categorical distinctions can be misleading in this field: even the ‘public-led’ approaches are ‘researcher’ or ‘expert-led’, at least to a degree, in terms of defining the topic, remit and parameters of the study, and we must keep this in mind as we read the case study accounts.

In [Chapter 2](#), Jonathan Bradshaw reflects on his longstanding research career in this field, pioneering budget standards research in the UK, with the Family Budget Unit (FBU) developing the LCA and MBA standards, and then his recent work developing the MIS approach. The work of the FBU was extremely influential, inspiring budget research programmes elsewhere, as many contributions to this volume report, but the work was also influential politically in the UK, particularly under Labour as Jonathan explains. Infamously, it also attracted criticism from Conservative politicians like Peter Lilley who had other ideas about poverty and living standards in Britain. Here Jonathan describes the development of the MIS approach, and subsequent applications in the UK. At present the MIS remains a long way above benefit levels (except for pensioners) and a good way above the 60 per cent of median poverty threshold (except for pensioners) and it is even above

the net incomes of couple families with children on the minimum wage. This is because the MIS team deliberately designed MIS to be a minimum adequacy standard for social participation and not a practical poverty or deprivation standard. Recent work, however, has focused on developing a poverty indicator based on the number of people living in households below 75 per cent of MIS.

Ireland has a rich tradition of family budget research, much of it associated with the Vincentian Partnership for Social Justice. In [Chapter 3](#), Bernadette Mac Mahon and Robert Thornton trace the history and development of budget standards research in Ireland, from the LCA approach that was used to assess adequacy to the more recent adoptions of the MIS methodology, informing the Minimum Essential Standards of Living (MESL). The MESL standard, like the 'UK MIS', is 'rooted in social consensus about the goods and services that everyone in Ireland should be able to afford', and the United Nations (UN) definition of a 'minimum acceptable standard of living'.<sup>8</sup> The most recent MESL results are then discussed in the context of social welfare adequacy. Social welfare payments do not provide the basis of an income which will adequately meet the cost of a MESL. However, the MESL research has had an impact in policy debates around adequacy in Ireland, particularly around the living wage calculations for Ireland, as Bernadette Mac Mahon and Robert Thornton maintain.

Pierre Concialdi, in [Chapter 4](#), focuses on the French experience of reference budgets to establish an operational definition of 'minimum decent income', which since 2015 has been inspired by the MIS methodology developed in the UK. The MIS approach has now been applied extensively in the French context covering six family types. Analysing the most recent 'MIS France' results, Pierre finds that overall, the basic amount of guaranteed minimum incomes in France is far below the reference budgets for all family types, and yet for the time being at least reference budget research has failed to stir political action and public debate in France.

In [Chapter 5](#), Aya K. Abe provides an overview of the current state of reference budget research in Japan – again the approach in recent years has been to follow 'MIS UK' methodology. The first 'MIS Japan' – detailing 'all things necessary to live in a manner that is minimally acceptable' – was conducted between 2010 and 2013, and repeated again in 2017. While Abe notes that the research initiative and results have influenced the context of the political debate around social security in Japan, the research findings have not resulted in political action to strengthen social protection systems. In part, this may be down to changing political circumstances in Japan as Abe notes,

the MIS research originally formed part of the wider review of social security in Japan, under the centrist Democratic Party. However, the Democratic Party lost the 2012 election to the current conservative Liberal Democratic Party, and so the momentum for social security reform was lost.

Kok-Hoe Ng and colleagues in [Chapter 6](#) report the first MIS study completed in Singapore focusing on the needs of older people in order to establish a ‘basic standard of living in Singapore’. The word ‘basic’ was chosen instead of ‘minimum’, they suggest, to avoid biasing the definition towards notions of austerity rather than adequacy, as ‘basic’ translates approximately to ‘fundamental’ in Chinese (which is widely used in Singapore), whereas ‘minimum’ translates to ‘lowest’. The ‘MIS Singapore’ study, which was completed in 2018, took place in the context of rapid demographic ageing and a social security system lacking transparent benchmarks for adequacy. The methodology itself largely follows the UK MIS, but with some adaptations, for Singapore’s ethnic diversity and for the different housing system norms compared to the UK. Against the ‘MIS Singapore’, the existing public pension provisions and transfer schemes are inadequate according to Kok-Hoe and colleagues. Many older people in Singapore are now living on incomes at around half of the socially acceptable standard.

In [Chapter 7](#), Gemma Wright, Matt Padley and Wanga Zembe-Mkabile report on their pilot work with the MIS methodology in South Africa. There are few such studies set in developing country contexts (i.e. low- and middle-income settings), and South Africa presents particular challenges, at least compared to the UK context, as Gemma and colleagues note. Some of the challenges relate to cultural factors: the word ‘minimum’ and ‘decent standard of living’ has different connotations in this context, they note. There were other issues to do with ethnic diversity. South Africa is known as the ‘Rainbow Nation’ after all, and so bringing together people with different backgrounds, ethnicities and languages possesses many new challenges for reference budget research. South Africa has 11 official languages, as the authors note. Gemma Wright and colleagues also point to some of the ethical challenges involved in this study, like bringing together very wealthy people and very poor people to discuss minimum standards, in a highly unequal country context like South Africa. There are many lessons in this pioneering study for taking forward budget research in diverse settings where there are often major challenges to overcome.

In [Chapter 8](#), Anna-Riitta Lehtinen and Kristiina Aalto report on their work with ‘consensual’ reference budget methods in Finland to ‘establish the decent minimum reference budgets’. While some

attempts were made to establish a programme of reference budget research in the 1990s, this did not last. Reference budget research was then revived relatively recently, with Lehtinen and Aalto's work on consensual budgets, first in 2010 with an update in 2018. The Finnish reference budgets combine focus group discussions with members of the public, plus homework diary assignments to help improve the reliability and validity of the resulting standards, along with a process of expert review. According to Lehtinen and Aalto, the reference budgets have captured considerable interest in Finland from the media and policy makers. However, they also reveal the inadequacy of the Finnish social protection system: only pensioner incomes reached the reference budget standard, other cash transfers and benefits were about 70 per cent of the reference budgets.

In [Chapter 9](#), Bérénice Storms discusses the development of reference budgets in Belgium. In this context reference budgets offer a monetary benchmark, as Storms argues, illustrating the minimum costs of goods and services that individuals and families should have at their disposal in order to 'adequately participate in society'. The standard then is 'adequate social participation', and the reference budgets are designed for pre-defined 'model families'. The approach is grounded in theories of human need, and the deliberations of experts and researchers who are guided by official guidelines and scientific literature. Focus groups are then used to help establish the acceptability of the reference budgets, comprising people from different socio-economic backgrounds. Established in 2008, the programme of reference budget research continues to attract considerable interest with demonstrable societal impact. As Bérénice Storms observes, the reference budget standards are now used by policy makers and various stakeholders, particularly at the local level, offering a benchmark to help guide and assist local authorities and social workers in their efforts to target local social services and financial assistance to those most in need.

Australia has a very rich tradition of family budget research, much of it associated with the Social Policy Research Centre. However, the idea of a basic living standard enshrined in wage laws became a reality in Australia at the start of the 20th century, as Peter Saunders explains in [Chapter 10](#). Here Saunders charts the history of budget standards research, focusing on the four major studies that he coordinated during the 1990s, 2000s and 2010s. The latest work relates to the budget for healthy living (MIHL), combining public health knowledge and focus group deliberations. Interestingly, Peter also finds that the new MIHL budgets are remarkably similar overall to the original (uprated) 'low-cost' standards developed in the 1990s. Even so, he wisely concludes

that budget standards provide only a rough-and-ready adequacy benchmark, that should be ‘used with care’ and in conjunction with other measurement approaches to living standards whenever possible. He then goes on to highlight some of the issues that emerged while conducting the research. Many of the underlying tensions, he claims, were as acute in the most recent study (completed in 2017) as they were in the initial study (completed 20 years earlier).

In [Chapter 11](#), Irene Cussó-Parcerisas, Elena Carrillo Álvarez and Jordi Riera Romaní discuss their work estimating the costs of being a child, at ages 10 and 14 years, in Catalonia, taking Barcelona as the reference city. This work is set in the overall context of the ImPRovE project (Improving Poverty Reduction in Europe), which had the aim of developing reference budgets using a common theoretical and methodological framework for six European cities (see [Chapter 18](#)). The reference budgets are drawn up by the researchers, based on expert guidelines, scientific literature and knowledge, with national adaptation for the institutional, cultural and social contexts. Prices are assigned to all of the products and services to form a budget. Focus groups are then used to help establish the acceptability of the reference budgets, and in this context the discussion groups included both children and adults. Children’s viewpoints have been little explored in reference budget research, as Cussó-Parcerisas and colleagues note. We find the voices of the children are insightful and fascinating – “without a computer children could feel excluded at school”, says one – and add to the reliability and validity of the reference budget standards. The costs of being a child increases with age, across most areas of expenditure, with the exception of the budget for clothing.

In [Chapter 12](#), J. Cok Vrooman, Benedikt Goderis, Stella Hoff and Bart van Hulst discuss their work on generalised reference budgets for measuring poverty in the Netherlands. Two reference budgets are compiled, as the authors note. The first, a ‘basic needs’ budget, is based on the expenses that can be regarded as the minimum necessary standard in the Netherlands. These include costs that are difficult to avoid for things such as food, clothing, housing and various other expenses. The second is an MBA reference budget, which is more generous and takes into account the minimum cost of recreation and social participation. Both budgets are first determined for a single household and then derived for other household types by applying equivalence scales. The reference budgets, as Vrooman and colleagues note, are based on the deliberations of experts, informed by administrative data and national expenditure surveys. Reference

budget norms relate to the required quantity and quality of food, and the corresponding prices, goods and services, and actual consumption patterns observed towards the bottom end of the income distribution. The research focus then is clearly oriented towards establishing ‘poverty’ thresholds, in contrast to some of the other approaches reported in this volume. According to the MBA criterion, Vrooman and colleagues find that just under 100,000 people – including children – were living in poverty in the Netherlands in 2016, or 6 per cent of the Dutch population. The stricter ‘basic needs’ threshold obviously yields lower levels, around 660,000 people or 4 per cent of Dutch population had disposable incomes below the basic needs budget.

In [Chapter 13](#), Marthe Hårvik Austgulen and Elling Borgeraas discuss their work on Norwegian reference budgets. In this context, the methodological approach is also expert-led. This means experts deliberate across various consumption areas in order to identify the items to be included in the ‘acceptable’ budget for Norway. Experts thus define the quantity, quality, assumed durability and the price of household goods and services. The methodological approach deployed here is somewhat different to most of the other studies reported in this volume, in that a reference budget is constructed in a more generic form, resembling more of an individual household budget that can then be adjusted for different household types and economies of scale. Austgulen and Borgeraas report that their work has been used fairly extensively by policy makers and public and private authorities and agencies, where it has proven influential as a tool for policy development. Interestingly, they also note some of the conceptual confusion generated after the findings and the reports have entered the public domain, with some organisations referring to the reference budgets as ‘minimum’ budgets rather than budgets reflecting an ‘acceptable’ living standard. Such issues and misunderstandings, which go beyond the conceptual of course, have longed plagued the field of reference budgets research.

In [Chapter 14](#), Jens Bonke and Anders Eiler Wiese Christensen report on minimum reference budgets for Danish families. The first versions of the Danish minimum reference budgets were produced in the 1990s, and followed the LCA approach. The reference budgets were then updated in 2015, at the request of the Danish Consumption Agency. The Danish reference budgets represent consumption expenditures associated with a ‘modest but still healthy and basic social life’ for different families and households. The approach relies on the deliberations of expert groups to define the necessary requirements for



living a modest but still healthy life, and reference budgets cover ten different family or household groups. Bonke and Christensen compare the Danish reference budgets against the Norwegian reference budgets, which are comparable since both follow similar expert-led procedures. The minimum budgets are considerably larger or more generous in Norway compared to Denmark. The cost of food appears to be higher in Norway, and this is reflected in the food budget, while the leisure budget is more generous in Denmark, which appears to reflect different views and judgements reached between the national experts.

In [Chapter 15](#), Malin Lindquist Skogar and Ingrid Eriksson review the work of the Swedish Consumer Agency, producing ‘reasonable living expenses’. Again, this is an example of an expert-led reference budget standard, grounded in social statistics and behavioural data, but also supported by work with social surveys and focus groups. As Skogar and Eriksson note, the purpose of the Swedish Consumer Agency’s work here is to calculate the costs of the goods and services that households usually need in order to achieve a ‘reasonable standard of living’. The calculations cover both individual and common household costs, and the focus remains on the basic needs required to live decently in Sweden. According to the agency, this is neither subsistence level nor excessive consumption, but rather a ‘reasonable standard’ of consumption. The reference budget standards and values are ascertained from official statistics and the information produced by research institutes, agencies and expert organisations. The statistical data relate to household consumption patterns, purchases, recreational habits and the like. The reference budget calculations produced by the Swedish Consumer Agency provides the underlying data that are used to inform governmental decisions on national standards for income support within the social security system. They also help to support municipal budget and debt-counselling services, under the Swedish Social Services Act. The calculations are also used by households for their own financial planning, as well as by banks among others.

Part III of the volume looks at some of the latest cross-national and comparative reference budget research, including studies adopting different approaches and methodologies in order to draw comparisons between the different reference budget standards. In [Chapter 16](#), Nada Stropnik examines the Slovenian experience with three methods for defining minimum income standards. All three approaches were expert-led, normative and were intended to cover ‘basic needs’, as Stropnik suggests. The first approach developing basic needs reference budgets, from the late 1970s and early 1980s, was based on expert deliberations and the analysis of family expenditure surveys, indicating consumptions



patterns. The food basket was determined by nutrition experts, and a normative approach was also adopted for heating and lighting, clothing and footwear, home appliances and furniture, and leisure. However, in 1994 government officials commissioned new research to establish the minimum costs of living. The new reference budget standards were to have practical relevance for the determination of the social benefits levels, as Stropnik suggests. The new approach, adopted in 1994 and applied in 2002, would be based on the Orshansky methodology for establishing poverty thresholds. The ‘food-share’ method, as it is often known, is based on the cost calculations for a minimal diet, the ‘food basket’, with a proportion added for other non-food necessities (usually the food poverty line is multiplied by three to establish the overall poverty line). Stropnik reports that the Orshansky calculations in Slovenia (for 1997, 2009 and 2017) resulted in minimum income standards close to the 60 per cent ‘at-risk-of-poverty’ threshold used by the statistical office of the EU (i.e. 60 per cent of the national equivalised disposable household median income), and concludes that the minimum costs of living based on this method provide a reliable benchmark for assessing the adequacy of social benefits and the minimum wage in the Slovenian context. Slovenia was part of the EU pilot project developing a common methodology for reference budgets in Europe (see [Chapter 18](#)), and Stropnik discusses her experiences working on that project in the Slovenian context, drawing out some of the advantages and challenges associated with the different methods.

In [Chapter 17](#), Matt Padley and Abigail Davis examine some of the challenges associated with their pioneering research work applying the MIS approach in different national contexts around the globe. As Padley and Davis note, conceiving minimum living standards across different country contexts requires a concerted effort to establish how much is enough in each context. At the heart of the MIS approach, as they suggest, is not only the principle that definitions of minimum living standards should reflect the values and norms of a given country, but also that these definitions should function as the basis for establishing consensus about the sorts of goods and services needed to achieve the minimum living standard. Once costed, this allows the calculation of the MIS. This may all sound relatively straightforward in principle, but in practice it is not as the authors explain. Often, the MIS work across diverse contexts requires a certain level of ‘translation’. The chapter is fascinating, and we discover once again that ‘the minimum’ is a culturally relative concept. Looking across the MIS programme of research conducted in Mexico, Singapore and South Africa we learn that the ‘minimum’ can have different

meanings, connotations and interpretations, contestations even. As Padley and Davis observe, those involved in the deliberations over ‘the minimum’ in the MIS research are often actively involved in translating the concept itself into more culturally appropriate forms. In the case of Mexico, for example, the idea of a ‘dignified’ standard of living – or *la vida Digna* – was preferable.

In Chapter 18, Tim Goedemé discusses his cross-national research work with colleagues to establish reference budgets for EU member states, in order to facilitate the EC’s task of monitoring income adequacy in Europe. The initial pilot work for the project focused on the cost of a healthy diet across 26 EU capitals, while the main project itself, known as ImPRovE, worked more closely with six country teams based in Antwerp, Athens, Barcelona, Budapest, Helsinki and Milan, in order to develop more comprehensive reference budgets spanning all expenditures needs, both food and non-food. The work is highly original, and is another example of the pioneering cross-national research effort in this field. Here, Goedemé reflects on some of the key lessons and contributions from these two projects and discusses some of the issues, in trying to establish a common language and ‘standardised’ approach, that merit more attention in future research. There are clearly many benefits to this endeavour, as he suggests, for policy and practice, strengthening EU social protection systems and social indicators, but also in terms of building research capacity and pursuing shared social goals, plus there are new sociological insights into European societies and public attitudes, as Goedemé argues.

In Chapter 19, José A. Pereirinha, Elvira Pereira, Francisco Branco, Dália Costa and Inês Amaro examine adequate income in Portugal, and they do so by making comparisons between the two now widely used estimation methods: MIS and ImPRovE. As Pereirinha and colleagues note, the MIS approach places great emphasis on the results of the focus group discussions for establishing a consensual income standard for society, while the ImPRovE method puts experts in the driving seat and focus groups are largely confirmatory. Here, Pereirinha and colleagues focus particular attention on a comparison of their food budget results where they have reliable data, derived using the two methods, MIS and ImPRovE. The cost of the food basket for both a man and a woman, and a couple, is found to be higher using the ImPRovE methodology compared to MIS approach (both MIS and ImPRovE food baskets were priced locally in Portugal). The findings discussed here highlight some of the main differences in terms of food

basket composition, in terms of the quantities of different groups of food. For the ImPRovE food basket the nutritionist closely followed national guidelines, while for the MIS food basket the nutritionist developed a food basket based on what participants in the focus group decided in terms of food menus and meals for the week. Only the food budget was produced using the ImPRovE approach and so it is open to speculation how the other budgetary components may differ for, say, clothing or leisure, applying the different approaches, but assuming a similar food to total expenditure ratio then the ImPRovE reference budget would certainly be larger, as Pereirinha and colleagues conclude. In their chapter they also compare ‘MIS Portugal’ (i.e. total budget) with governmental minimum incomes and minimum wages. Social protection floors are clearly found wanting in the Portuguese context. A worker earning the minimum wage in Portugal is living 26 per cent below the MIS, those on unemployment benefit and social security fare much worse.

Part IV of the volume focuses on how budget research can be used for the development of social policy; the focus is on policy and practice implications. In [Chapter 20](#), Gordon M. Fisher takes up the history and development of standard ‘basic needs’ budgets in the US. Here Fisher explains in detail why the focus remains only on basic survival needs in the US context, and in the absence of national action by the federal government it is largely left to state governments and their agencies to develop family budget standards for their state. This means that the picture of basic social insecurity in the US as a whole continues to be very patchy, but as Fisher concludes, all of the available evidence now points to the overwhelming lack of economic security and social protection in the US, with many households struggling to cope with incomes below the most basic of living standard.

In [Chapter 21](#), Donald Hirsch reflects on his ongoing work to promote the UK MIS as a ‘benchmark’ in social policy and in practice. The MIS research continues to have a strong influence over social policy debates in Britain. Importantly, the MIS studies helped to expose the inadequacy of the national minimum wage, as Hirsch notes, which in turn helped to fuel the campaign for a ‘living wage’. The MIS also features as a key element in the new Scottish measure of fuel poverty according to Hirsch. And, while the MIS results continue to act as a benchmark, guiding many areas of policy and practice, nevertheless the MIS has not been taken up by governments as a standard for setting or targeting minimum incomes in terms of

social protection. If the British government were to adopt the MIS, it would surely require a major political commitment to redistribution, as Hirsch observes.

This leads us nicely to [Chapter 22](#) by Malcolm Torry, which explores the concept or idea of ‘basic income’ in relation to the growing work on reference budget standards, particularly in relation to the MIS findings in the UK context. Here Torry draws a number of important distinctions between those who argue or imply that unconditional incomes should be paid at particular levels, and those that do not, and then whether basic incomes should be paid to every individual at MIS levels, or indeed whether a Universal Basic Income (UBI) scheme as a whole should raise family incomes to the levels of the MIS. Founding principles aside, much could depend on what is both feasible and affordable to bring families and households closer to the MIS. Torry’s chapter is extremely thought provoking and marks new territory in the UBI debate, taking some of the first steps to join up important debates and explore issues surrounding UBI, MIS and reference budgets, both in theory and in practice.

Part V includes the final chapter (Chapter 23). Here Christopher Deeming draws together the international and comparative findings and learning across the volume as a whole. Tables help to summarise the different methodological approaches and frameworks, thus helping readers to make sense of theoretical distinctions in this field. The chapter concludes with final thoughts on future developments, opportunities and challenges for reference budgets and minimum income standards research.

## Notes

- <sup>1</sup> EU Platform on Reference budgets: <http://referencebudgets.eu>; EMIN: <https://emin-eu.net/>; ESPN: <https://ec.europa.eu/social/main.jsp?catId=1135&langId=en>.
- <sup>2</sup> Established by the Reverend Paul Nicolson in the 1990s, the Zacchaeus 2000 Trust (Z2K) is an anti-poverty charity that undertakes casework to prevent poverty and homelessness and campaigns for adequate incomes to live a stable, dignified life, <https://www.z2k.org/>. In 2012, Paul Nicolson established Taxpayers Against Poverty, <http://taxpayersagainstopoverty.org.uk/>.
- <sup>3</sup> For Jerry Morris, the original doyen of health inequalities in both research and policy, the MIHL studies continued a long line of inquiry, evident in the ‘Black Report’ on health inequalities written with Peter Townsend and his work on social inequality with Richard Titmuss before that (Oakley, 2009).
- <sup>4</sup> I was the social scientist involved with the second study, analysing the spending patterns of older people in the national social surveys of family expenditure. I also compared the findings from the first MIHL study, adjusted for inflation, against NMW levels (Deeming, 2005b).

- <sup>5</sup> The deliberations of the JRF expert working group were themselves fascinating, and probably should have been recorded for posterity and research purposes. There were insightful debates and disagreements. For example, not everyone agreed that experts had a role to play in setting the standards. Robert Walker maintained that it was perfectly defensible to reflect and report the public preferences in all areas of household budgeting as CBS had done. Food budgets, for instance, did not necessarily have to conform to national or international dietary guidelines if members of the public had not specified them in this way.
- <sup>6</sup> Sir Michael Marmot refers to the argument Jerry Morris and I put forward to combine expert and public deliberations to establish minimum income standards (Morris and Deeming, 2004), the idea originating in the *Journal of Social Policy* paper written at the same time (Deeming, 2005: 628, 629–32).
- <sup>7</sup> Expert input had been lacking in the original CBS budgets, but featured heavily of course in the LCA and MIHL budget methodologies.
- <sup>8</sup> United Nations Universal Declaration of Human Rights (UDHR) <https://www.un.org/en/universal-declaration-human-rights/>.

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## PART II

# Case studies

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# Estimating the cost of raising a child in Catalonia through the reference budgets approach

*Irene Cussó-Parcerisas, Elena Carrillo Álvarez and  
Jordi Riera Romaní*

## Introduction

In this chapter we exploit the references budgets (RBs) approach to calculate the cost of raising a child in Catalonia in densely populated areas, taking Barcelona as the reference city. RBs illustrate priced baskets of goods and services that represent the minimum resources needed for an adequate social participation. Adequate participation is defined as the ability of people to fulfil the various social roles they play as members of society (Storms et al, 2013).

The chapter is structured as follows. First, we describe the theoretical framework and methods used to estimate the minimum resources needed for adequate social participation. Second, we present the total budget for various family types and children costs, as well as the validation of its content through focus groups. Third, the figures obtained are discussed in relation to the Catalan institutional context in order to explore how RBs could be used to monitor social policy. Finally, some limitations and future lines of research are proposed.

## Theoretical framework and method

RBs have been developed in different countries using various methods through the 20th century. However, there is little research in this field in Spain. To the best of our knowledge, only one study was conducted by ADICAE<sup>1</sup> in 2009 based mainly on household expenditure surveys, using expert advice and focus group discussions (Warnaar and Luten, 2009).

In 2012, the ImPRovE project set the challenge of developing RBs using a common theoretical and methodological framework for six

large European cities: Antwerp, Athens, Barcelona, Budapest, Helsinki and Milan. This study is the first step towards exploring the possibility of creating a new indicator to contextualise poverty and guide social policies in Europe (see [Chapter 18](#)). Additionally, this has been an opportunity to promote this approach in our country.

## How have we built the baskets of goods and services?

First, the standard of living used to calculate the RBs responds to the minimum resources necessary to develop the social roles.

Second, to establish an acceptable standard of living we adapted Doyal and Gough's (1991) theory of human needs to the European context. These authors identify two universal 'basic needs' common to all cultures: physical health and autonomy. The concept of 'intermediate needs' is developed to satisfy these universal principals. The ImPRovE project has defined the following intermediate needs, which have been transferred to the following baskets of goods and services: (1) healthy food, (2) suitable clothing, (3) rest and leisure, (4) personal and health care, (5) maintenance of significant social relations, (6) safety in childhood, (7) mobility and (8) adequate housing (Storms et al, 2013).

Third, the type of population referred to by the RBs has been standardised: in this case, adults and children that are in a good state of health, well informed and with sufficient competence and autonomy to be able to develop their daily lives. Thus, the RBs are constructed initially for the four well-described family types: (1) single man/woman of an active age, (2) couple composed of a man and woman of active age without children, (3) woman of active age with a child aged 10 and (4) a couple composed of a man and a woman of active age with two children (a boy aged 10 and a girl aged 14).

Finally, the geographical field of reference for which the RBs are created is standardised: highly urbanised areas with a wide network of public transport corresponding to the six large European cities mentioned in this chapter.

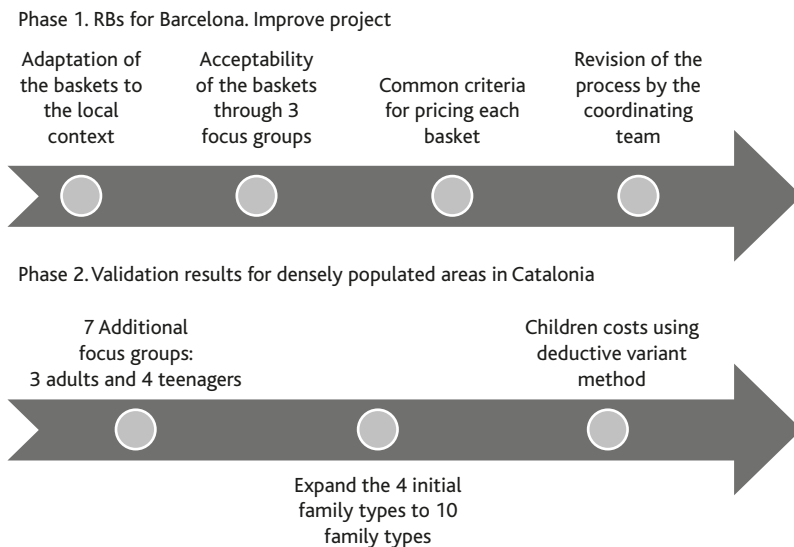
The intermediate needs described earlier are associated with functions that are specified in a list of goods and services, which are assigned an adequate lifespan and a price. The first phase (see [Figure 11.1](#)) to build the baskets for goods and services within the ImPRovE project began from a 'common base' supported by international guidelines and prior research in Belgium. In order to guarantee the comparability of the RBs in the different cities, standardised procedures have been followed. Each country adapted each basket to their institutional, cultural or social context, and specific climate or geographical conditions, in order

to build their own RBs (see [Chapter 18](#)). The baskets of goods and services were adapted for our context based on guidelines, literature or expert knowledge. Subsequently, the acceptability of these baskets was verified in three discussion groups with adults. At the same time, the focus groups serve to obtain information about the patterns of consumption. Finally, a price was assigned to each of the products and services included for Barcelona as a reference city. Thereby a reference budget was obtained for each basket.<sup>2</sup> This process included a review by the coordinating team that supervised the study (see details in Cussó et al, 2018).

In the second phase (see [Figure 11.1](#)), aiming to validate the indicator for densely populated areas of Catalonia, new discussion groups were set up with children and adults (Bradshaw et al, 2008). Children's viewpoints have been little explored in RB research. Taking into account both phases, 73 participants (44 adults and 29 adolescents)<sup>3</sup> with different socio-economic profiles distributed among the ten discussion groups took part in the study. A main social consensus was reached about the minimum resources necessary to achieve an acceptable standard of living in these areas (see Cussó-Parcerisas, 2017).

Finally, children costs have been estimated using a deductive variant method described by Oldfield and Bradshaw (2011: 134): 'deducting the budget for a single person from the budget for a lone parent with

**Figure 11.1:** Research phases in the ImPRovE project



Source: Phase 1, Storms et al, 2013; Phase 2, Cussó, 2017.

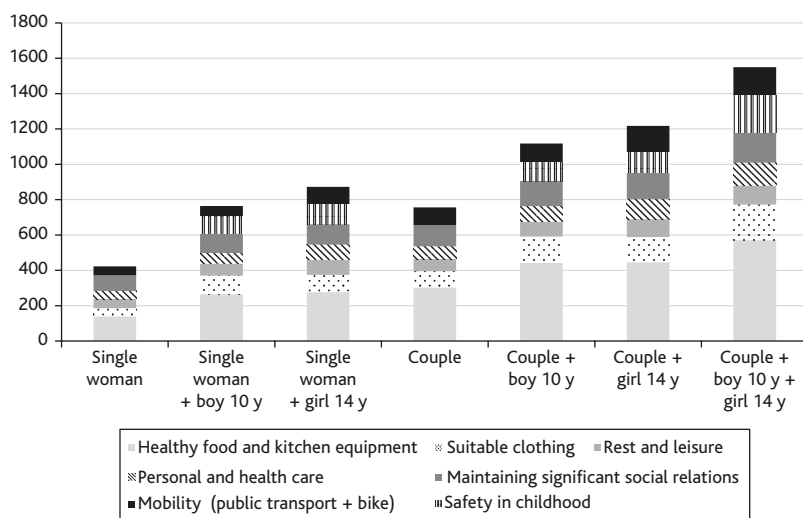
one child and the budget for a childless couple from the budget for a couple with two children'. In this study we took the average cost (man/woman) for the single-person household.

## Results: overview of children costs per baskets and family types

Figure 11.2 illustrates the composition of the RBs developed for various family types. The monthly budget ranges from €422 for a single woman<sup>4</sup> to €1,549 for a couple with two children, excluding housing and private transport. The estimated additional costs of a child in a single-parent household ranges from €346 per month for a child aged 10 years old to €449 per month for a girl aged 14 years old (Figure 11.3).

Figure 11.2 shows that the healthy food budget represents the most important share of the total budget in all family types. A couple with two children will need four times more budget to ensure a healthy diet than a single woman, which illustrates inexistent economies of scale. Figure 11.3 shows that the budget for a child aged 14 is slightly higher than for a 10-year-old child. This difference is due to children aged 14 being fed higher daily amounts of meat and fish. Overall, the

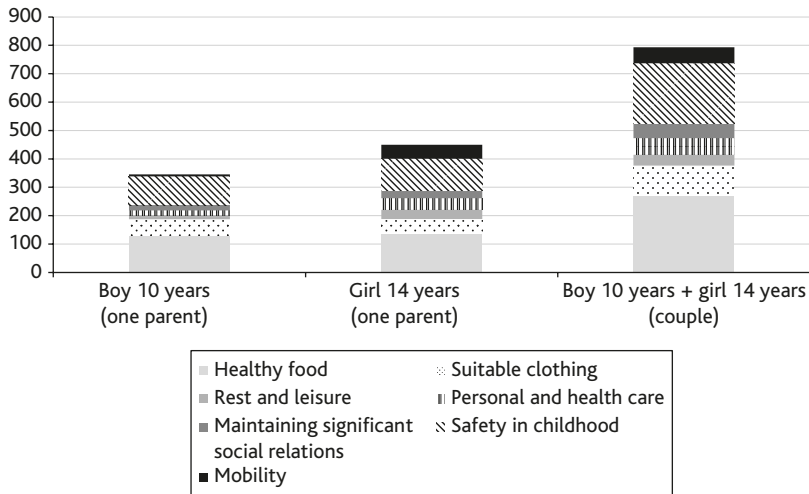
**Figure 11.2:** Total monthly budget without housing costs per various family types, Barcelona reference city, euros, 2014



Note: Healthy food does not include bottled water.

Source: Author elaboration.

**Figure 11.3:** Total monthly budget for children, Barcelona reference city, euros, 2014



Note: Healthy food does not include bottled water.

Source: Author elaboration.

healthy food basket is the basket with highest weight: between 30 per cent and 37 per cent of the total budget for children.

Participants in focus groups agreed on the daily menu presented for a healthy diet. In addition, they also suggested that other type of less healthy food or soft drinks could be introduced for special occasions, for example when meeting friends or at parties as shown in the following quotations:

‘When you share with the family an orange soda (Fanta), with the little girl, it is a moment where we are all together, an award, a moment of joy.’ (FGA3, P5, woman, low SES, Bcn)<sup>5</sup>

‘P4: I think that in the end, everyone has some unhealthy food/drinks everyday. P6: At birthday parties. P2: Well, when you meet with friends.’ (FGJ2, P4 and P6, girls high SES; P2, boy, middle-high SES, AMB)

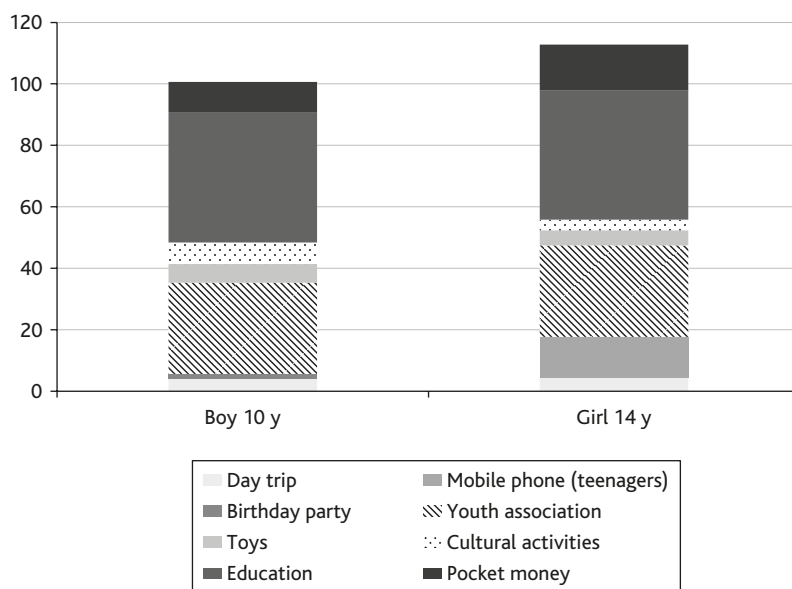
These items linked to the psychological, social and emotional functions of food will be taken into account in the safety in childhood and maintaining significant social relations baskets.

The second most important basket relative to the total budget for children is safety in childhood. This basket represents 25–29 per cent

of the budget for children (Figure 11.3). It is also the second most important share of the total budget without housing and car costs when the family is composed of more than one child (couple with two children, see Figure 11.2).

In Figure 11.4 we summarise the composition of the safety in childhood basket. The total budget is slightly higher for secondary school children, mainly because of mobile phones and a higher amount of pocket money. In the other categories we observe few differences between primary and secondary school child, although the budget is also higher for the latter due to the inclusion of a birthday party, the higher costs for toys and the budget for cultural activities as the cost for an adult chaperone is also taken into account. Education and participation in youth associations are the categories that represent the largest share of the total safety in childhood budget. As shown in the next quotation, not all school material is covered by the government (e.g. books) and reusing practices are not common practice in our context: “P3: Textbooks are changed every two or three years. P1: Some schools are more sensitive with this subject and therefore they encourage book sharing” (FGA2, P1 and P3, women, middle-high SES, Bcn).

**Figure 11.4:** Total monthly budget for the safety in childhood basket per category for various family types, Barcelona reference city, euros, 2014



Source: Author elaboration.



Adults and teenagers agreed on the importance of out-of-school activities. Participation in youth associations helps to extend their friends network:

‘At least three times a week. It is important to relax, to make relationships a part from school and to acquire other ways to look at things, other people, not only people from school.’ (FGA6, P2, woman, low SES, AMB)

‘I think these activities are useful for kids to make new friends, because when you are little your only friends are the ones you make at school and you need to make different ones that think in different ways.’ (FGJ3, P3, girl, middle-high SES, Bcn)

Overall, we observe that the main variable that influences the composition of the basket is the age of the children. The working status of parents appears to be a determinant of the social participation of children in youth associations, while living in urban areas guarantees wide access to free-of-charge or low-cost activities for children.

Suitable clothing is the third most important basket for children (Figure 11.3). We also appreciate in Figure 11.2 that the budget is higher for families with primary school children due to the increased number of coats, trousers, tops, sweaters and shoes for this profile, as well as the short lifespan of clothes. Participants in the discussion groups argued that children need to change clothes more often in summer, when participating in outdoor activities. Although people said that exchanging clothes is quite frequent the difficulties in estimating the cost of second-hand clothes makes taking this into account nearly impossible.

Mobility is the fourth most important basket for children aged 14 years old. In contrast, mobility for children under the age of 14 has the lowest impact on the total budget. This difference is due to a special price for children between 4 and 13 years old. Figure 11.2 shows how the cost increases for households with two adults and children over 14 years old. The discounts applied for childrens’ fares in 2017 covering the whole secondary education period are important advances (ATM, 2016), although students’ fares are still expensive: “A family that has children between 15 and 25 years old and both of them or three of them study, means you have to spend around 300 monthly. Well, they have a discount, but it is small and the expense is still enormous” (FGA5, P4, man, middle SES, Bcn). Public transport was considered reasonable by focus group participants. However, using the

car was justified by participants for people living in urban areas with worse communication or when travelling outside Barcelona and its metropolitan area.

The maintaining significant social relations, rest and leisure and personal and health care baskets are the ones with lower weight for children, as illustrated in [Figure 11.3](#).

The basket on maintaining social relations comprises the minimum resources needed to get involved in social relationships. We observed that the number of members in the family, the age of children and the working status influences the type of resources included. The communication category is the one that requires a higher budget, which includes a computer and internet, a mobile phones for adults and a printer and its accessories. For families with two adults the cost is higher due to the inclusion of one mobile phone per adult. The cost for a printer and other accessories also increases for families with children aged over 14 years. These items are necessary, according to discussants, especially when related to school tasks and also to adults' working status. The following quotes highlight the relevance of having a computer at home for children, not only for school assignments but also to maintain social relations:

'It is necessary because nowadays children get out of primary school and at high school they are already asking for essays that need the internet and the teachers even ask to have the tasks submitted through the internet.' (FGA6, P2, woman, low SES, AMB)

'Without a computer children could feel excluded at school. They wouldn't have access to some games, videos, social networks.' (FGJ3, P2, boy, middle-high SES, Bcn)

Participants in focus groups recognise the rest and leisure needs, as shown in the following quotations:

'I would add time for rest because I have the feeling that children's schedule is very intensive. So, sometimes we forget that the time for playing or for leisure is as important as time for resting.' (FGA6, P4, man, high SES, AMB)

'In my opinion, social relationships, resting and leisure are linked, because one way to rest is to interact with other people.' (FGJ4, P3, boy, middle-high, SES, AMB)

In Catalonia a lot of activities could be carried out outdoors because of the mild Mediterranean climate. Moreover, many museums apply discounts for children under the age of 16. In addition, for the holiday budget we included a shared hotel room for siblings. These conditions favour the fact that the budget for rest and leisure has the lowest impact on the total budget for bigger families (couples and couples with children).

The personal care budget depends on the members of the household, as well as on their age and sex. These are the variables that explain most of the variability between the family types. The presence of women and girls in the household makes the budget higher because of cosmetics, intimate hygiene and haircare categories. Nowadays supermarkets guarantee accessibility to a wide variety of products and white-label affordable brands.

Regarding health care, extra health insurance was not added, though some participants mentioned it could be used for dental services. The final cost of the basket depends on the 'out-of-pocket' expenses families spend on dental care, contraception and the family medicine chest, which vary according to the composition of the household and the age and sex of its members. The presence of children in the household increases the budget for dental care and the medicine chest. In any case, it is important to note that the budget was constructed for people in good health. Thus, the resources will be clearly insufficient for people who are disabled or suffer from chronic diseases.

## Discussion and conclusions

We have observed that the budget for all baskets increase with age, except for the clothing budget, as highlighted in previous research (Oldfield and Bradshaw, 2011; Saunders, 2000; Storms and Van den Bosch, 2009). In our RBs the additional costs of a secondary school girl (14 years old) in a single-parent household (€449) represents increasing the budget by 30 per cent with respect to a 10-year-old boy living in the same type of household (€346).

The RBs we have developed take into account which goods and services are provided free of charge or at low cost by the government. In this way, they reflect the 'real' out-of-pocket expenses that are necessary for families to reach a given standard of living. In this section, we discuss the results and draw some conclusions from the figures regarding the role of subsidised goods and services, investment in child policies and child benefits.

In 2007, Catalonia was one of the regions of Spain with the highest investment in child policies. However, after the economic crisis in 2013

the investment in this territory dropped 15 per cent as highlighted in a study by UNICEF (González Gago, 2015: 23–5). The health care services in Catalonia are free of charge and have universal coverage. However, in 2012, within the context of austerity policies, there was a national reform of the health care system that introduced co-payments. This reform affected the most vulnerable collectives, such as non-registered foreigners and elderly people (Carvalho-Fortes et al, 2015; Rodríguez-Cabrero et al, 2015).

In the case of education, despite the Catalan law recognising that compulsory education is provided free of charge for children from 6 to 16 years of age, there are some expenses that are not fully covered by the government. Investment in education was reduced in nearly all regions of Spain between 2007 and 2013, and in Catalonia it was reduced 11.1 per cent in this period (Assiego and Ubrich, 2015: 41). This means that support to students for enrolment and school material (e.g. text books) has substantially decreased.

According to the Spanish household budget data the average expenditure on education by Catalan households was €553.68 per year, i.e. €46.14 per month in 2014 (INE, 2017). As the developed RBs have shown, education represents the largest share of the basket on safety in childhood, which has been estimated at around €42 per month per child. Particularly for couples with two children, this basket represents the second most important share of the total budget without housing and car costs. In the context of austerity policies, equal opportunities and social inclusion for all children are at risk of not being guaranteed.

In the case of local public transport in Barcelona the fares have remained constant over recent years. What is more, for child tickets, the age range has been widened from 13 years old in 2014 to 16 years old in 2017 (ATM, 2016). This new age criterion for child tickets is more coherent given that education is compulsory until the age of 16. Therefore, this type of policy promotes the use of public transport and reduces the mobility costs for families with children at school age.

RBs could also provide regular information on the cost of children of different ages in the household, which could be used to monitor social policies, such as promoting adequate child benefits. A study by Save the Children shows that 45 per cent of children in Catalonia are beneficiaries of some type of cash benefit, but the major part of these benefits (31 per cent) are assigned to other members of the family (e.g. unemployed adults or retired people) and only 14 per cent are exclusively for children. Therefore, the report estimates that this has little impact on reducing inequality (Masgoret, 2017: 9–10).

Our estimations for children costs are aligned with a recent study by Federació d'entitats d'atenció a la infància i l'adolescència (FEDAIA), a non-profit organisation in Catalonia specialised in taking care of young children. This study calculated that the cost of raising a child in a residential care centre is €428.12 per month (Montserrat et al, 2015). This institution claims for a universal child benefit around 50 per cent of the above amount. In Spain a universal cash benefit for each child, which has shown positive effects in several European countries (Cantó, 2014), was implemented 2007 but was eliminated in 2010.

In 2014, the minimum income allowance – *Renda Mínima d'Inserció* – in Catalonia was €423.70 per month for singles and up to €645.30 per month per household (Malgesini-Rey, 2014; Rodríguez-Cabrero et al, 2015). An additional amount of €41.47 per month per child in the household was foreseen. This additional amount per child only represents 9 per cent to nearly 12 per cent of the estimated total reference budget for a 14-year-old girl or a 10-year-old boy, respectively. In a context where 32 per cent of children less than 18 years old are at risk of poverty or social exclusion in Catalonia (Idescat, 2016) these first estimations of the cost of raising a child in densely populated areas in Catalonia using the RBs approach could open new ways to contextualise poverty (Penne et al, 2016) and analyse children's needs from a holistic view. Furthermore, RBs could help identify the adequacy of minimum income schemes in order to guarantee social rights and reduce child poverty and social exclusion in our territory.

However, developed RBs are illustrative and cannot be extrapolated to the whole population because they were elaborated for a limited number of thoroughly described hypothetical family types. These families were composed of primary and secondary school children and adults in good health and living in urban environments, following the criteria established in the ImPRovE project (Storms et al, 2013). If RBs are to be used for policy making a further effort to take into account a greater variation of reference situations will be necessary. Expanded RBs should account for other age profiles such as toddlers and the elderly and different health conditions, as well as non-densely populated areas. Taking these factors into account, RBs may become a powerful tool to guide policy and social actions in Catalonia.<sup>6</sup>

## Notes

<sup>1</sup> Asociación de Usuarios de Bancos, Cajas y Seguros.

<sup>2</sup> Concerning the housing basket, real costs of adequate housing (owned or rented) in densely populated areas were estimated in a comparative way by the coordinating

team using the European Union Statistics on Income and Living Conditions (EU-SILC 2012) (see method used in Goedemé et al, 2015).

- <sup>3</sup> In order to hold these groups, all of the participants were informed and their consent obtained. In the case of minors, their parents or legal guardians also gave their consent. In all cases, the confidentiality of the information obtained and the anonymity of the participants of the discussion groups has been guaranteed. These elements have been fundamental both to guarantee the ethical principles of all of the research and to ensure its scientific rigour.
- <sup>4</sup> Average amount for a single person household: €438 per month (single woman: €422; single man: €453, excluding bottled water, housing costs and private transport).
- <sup>5</sup> A, plus number: code adults; J, plus number: code teenagers; P, plus number: participant code; socioeconomic status (SES): high, middle-high, middle, middle-low, low. Bcn: Barcelona; AMB: Metropolitan Area of Barcelona; other densely populated areas (ZDP).
- <sup>6</sup> We are grateful to Dr T. Goedemé, Dr B. Storms, Dr K. Van den Bosch and T. Penne from CSB-UA that led the WP13-ImPRovE project (FP7/2012-2016, ref. 290613). We also express our gratitude to the experts and the institutions that collaborated in the adaptation of the reference budgets and the organisation of discussion groups, as well as the participants of these groups.

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# Measuring poverty in the Netherlands: the generalised reference budget approach

*J. Cok Vrooman, Benedikt Goderis, Stella Hoff and  
Bart van Hulst*

## Introduction

After providing a short overview of the evolution of income arrangements in the Netherlands, this chapter discusses some principles regarding poverty measurement, and how these can be translated into a generalised reference budget approach to poverty. This is illustrated by a presentation of the main findings of its application for the Dutch case. These currently span over three decades of poverty measurement based on administrative data.

## History and policy context

In his analysis of the emergence of modern welfare states in Western Europe and the US, De Swaan (1988: 210) aptly described the genesis of the Dutch collective system of income protection as ‘a long sizzle and a late bang’. Before World War II social security evolved slowly, had limited coverage and provided comparatively meagre benefits of short duration. After the war a patchwork of far more generous social insurance and assistance schemes emerged (Van Zanden, 1997; Van Gerwen and Van Leeuwen, 2000). These aimed to make poverty obsolete and to maintain living standards if people faced certain risks. Compulsory unemployment insurance was introduced in 1952, and in the same decade all residents over the age of 65 became entitled to a non-means-tested flat rate ‘people’s insurance pension’, which in later years typically was topped up by wage-related mandatory occupational pensions. Similar schemes were established for widows and child benefit. Health risks were mitigated by sick pay, a sickness fund for medical expenses and extensive disability insurances. The last of these covered not only work-related incapacity among employees,

but also the *risque social* (e.g. injuries due to leisure activities) and the wider population (self-employed, early disabled people, housewives). Municipal sheltered employment became available for handicapped people deemed too unproductive for a regular job.

The 1965 Social Assistance Act provided the final safety net. All needy Dutch residents ineligible for social insurance could apply for means-tested income support, at a level sufficient for both the necessities of life and minimal social participation. When the Act was debated in parliament, a Christian-Democrat MP stated that social assistance levels should allow for ‘a cigar and a small bouquet on the living room table, some recreation, and a one-guilder present for the little niece on her birthday’, which has remained a catchphrase for its ambitions ever since (TK, 1962/1963: 3930). Minimum benefit amounts rose rapidly during the economic heyday of the 1960s and early 1970s, and ultimately were linked to the statutory minimum wage. By 1980 the Netherlands had one of the world’s most extensive welfare states, with correspondingly high levels of benefit reciprocity and social expenditure (Vrooman, 2009: 249–343; Obinger and Wagschal, 2010). Over the next three decades the latter prompted a plethora of social security revisions. These were also driven by a perceived need to modernise the system, due to the loss of industrial employment, the ageing population, the comparatively low labour participation of women and the elderly in the 1980s, the erosion of the classic breadwinner household and international legal stipulations, such as the EC directive on equal gender treatment (Van Gerven, 2008; Vrooman, 2010; Nationaal Archief, 2016).

Since 1980 the statutory social minimum was repeatedly not adjusted to the rising cost of living. Unemployment insurance came to depend on people’s employment history, and both the amount and duration of these benefits were gradually reduced. Surviving dependent’s benefit was heavily curtailed, and entitlement to disability insurance became more restricted, with the self-employed and early handicapped being ousted from the scheme altogether. Sick leave was replaced by an obligation imposed on employers to continue wage payments during the first two years of illness. In social assistance stricter conditions were introduced with regard to job search behaviour, dress, language skills, and reciprocity (‘doing something in return for one’s benefit’, e.g. cleaning streets). Social assistance for people below 27 years of age was restricted, and lower benefit norms were introduced for co-dwelling persons, including households consisting of parents and their adult children (Blommesteijn et al, 2016). Since 2015 entry into the municipal sheltered employment programme is no longer possible.

Vrooman (2016) estimated that the collective income security of the Dutch potential labour force has deteriorated by 34 per cent since 1980, and this occurred especially in the 1990–2015 period. The trend is strengthened by the declining labour market security of working people, which is mostly due to the growing share of the self-employed (especially sole traders) and of people on temporary contracts. The income protection of the elderly, however, has improved over the years. This is due to the greater accrual of supplementary occupational pension rights among recent cohorts, and an increase in the statutory minimum old age pensions in real terms, partly as a result of the introduction of special tax deductions for the elderly. After 2008 these surpassed the level attained in 1980, whereas social assistance was still below that threshold in 2015. Finally, rising life expectancy implies that people receive their state and supplementary pensions for a longer period than before. So far, the favourable development of old age income protection has been mitigated only slightly by recent measures, such as the rising of the statutory retirement age and the transition from final salary to average salary schemes in occupational pensions.

The policy views regarding poverty largely mirror the postwar evolution of the Dutch welfare state. After a period of expansion, the new schemes were supposed to have eradicated poverty once and for all. When the first austerity measures were taken in the 1980s, policy makers therefore were largely in denial: rather than addressing poverty in straightforward terms, they used euphemisms like ‘the minima’ or ‘those with insecure means of subsistence’ (Engbersen and Jansen, 1991). The turning point came with the 1995 Speech from the Throne, when the government acknowledged the issue and called for a joint effort to ‘tackle the social exclusion and silent poverty in our society’. Inspired by an influential report drafted by the Scientific Council for Government Policy (WRR, 1990), the then Prime Minister, Wim Kok, regarded general employment policy as ‘the most important weapon in our armoury for fighting poverty’ (TK, 1995/1996: 16). Policy makers have tended to view paid employment as ‘the best means of combating poverty’ (SZW, 1998: 75) since then, although the goals of the national anti-poverty policy officially included participation (through paid employment or otherwise), income support, the curtailment of fixed outlays (e.g. housing rent) and the reduction of non-take-up of social security. When municipalities were awarded a fixed budget for social assistance and a part of the responsibility for poverty measures in 2004, Work First initiatives became the dominant approach. This is often combined with initiatives to support participation in society at large, to moderate the consequences of poverty, to prevent problem escalation

(e.g. through early detection of indebtedness) and to stimulate awareness and self-efficacy (Hoff and Putman, 2018). Recent years also saw a shift in policy attention towards the presumed ‘scarring effects’ of child poverty and the growing number of working poor in the Netherlands (SER, 2017; Vrooman et al, 2018).

## Theoretical approaches to poverty

Poverty is usually defined as pronounced deprivation in well-being. The question as to how well-being should be interpreted is the subject of the ‘equality of what?’ debate in political philosophy (White, 2004). *Welfarism* fits within the utilitarian tradition of Bentham (1948 [1789]) and equates well-being to happiness or the satisfying of desires, preferences and needs. *Resourcism* (Rawls, 1999 [1971]; Dworkin, 2000) in its most basic version defines well-being in terms of certain universally important resources, such as income, financial assets and the attainment of a certain educational level. The *capabilities* approach (Sen, 1999; Nussbaum, 2000) focuses instead on the ability or freedom of people to achieve certain functionings, such as the ability to satisfy elementary needs, to gain self-respect or to participate in social life.

In order to conceptualise poverty, one also needs to determine a threshold or poverty line: what minimum level of welfare, resources or capabilities is sufficient so as not to be considered poor? Vrooman (2009) presents a typology of poverty lines and points at three distinct characteristics. The first relates to whether poverty is assessed in absolute or relative terms. People are poor in an absolute sense if they lack a certain minimum of welfare, resources or capabilities, irrespective of what others in society have access to. Relative poverty instead relates to deficits in comparison to a reference group and hence depends not only on a person’s own well-being but also on the well-being of others. The second characteristic refers to whether poverty is determined objectively or subjectively. A poverty line is said to be ‘objective’ if it is established by ‘outsiders’ such as scientists, budget experts or policy makers. ‘Subjective’ poverty lines are set by people themselves. The third characteristic relates to whether the threshold is based on actual consumption and possession of items or on the economic resources to obtain them.

Vrooman (2009) formulates four principles on the meaning of poverty:

1. Poverty relates to the aspects of life that are minimally necessary within a community. This cannot be seen in isolation from the

society in which one wishes to investigate poverty. It may relate to basic welfare, but can also refer to higher capabilities.

2. Poverty implies that it is impossible to attain the minimum communal necessities with the available resources.
3. Poverty entails deficits in relation to an absolute standard and is not about relative disadvantage. This does not mean that the standard is fixed. It can vary, depending on what is regarded as socially necessary in a particular society at a particular time.
4. A threshold value for the absolute standard can be identified if the minimum communal necessities can be valorised in terms of the available resources.

Based on these basic principles, The Netherlands Institute for Social Research (SCP) defines poverty as follows: an individual actor is poor if he consistently lacks the means to obtain the minimum necessities of his community.

## Methodology: the generalised reference budget approach

The various types of operational poverty lines can be assessed in terms of validity, reliability, ease of application and social and policy relevance. The ‘generalised reference budget approach’ – developed by the SCP and used since 2007 to measure poverty in the Netherlands – satisfies all four criteria.<sup>1</sup> This method can be summarised on the basis of the steps involved in measuring poverty: determining the poverty line, defining an indicator for welfare or well-being and deciding on how to express the magnitude of poverty in society (World Bank Institute, 2005).<sup>2</sup> Starting with the first, the main innovation is the use of reference budgets to determine the poverty line. Two budgets are compiled. The first variant, the *basic needs* budget, is based on the expenses that can be regarded as the minimum necessary in the Netherlands. These include costs that are difficult to avoid for things such as food, clothing, housing and various other expenses. The second variant, the *modest-but-adequate* reference budget, is slightly less tight and also takes into account the minimum cost of recreation and social participation. Both budgets are first determined for a single household and then derived for other household types by applying the equivalence scale of Statistics Netherlands.<sup>3</sup> This results in two levels of the poverty line for each type of household. The reference budgets are based on expert data from the National Institute for Family Finance Information (Nibud), an independent foundation based in the Netherlands. Nibud annually draws up detailed budgets for various household types, with

minimum norm amounts for each expenditure item. These norm amounts are determined on the basis of expert opinions (e.g. on the required quantity and quality of food, and the corresponding prices), the availability of goods (e.g. mobile phones) and actual consumption patterns at the bottom end of the income distribution. Nibud has a long history of formulating budgets and detailed knowledge of the expenses that households incur in practice. Its budgets are widely used by municipal social services, banks, debt relief agencies and other organisations (see Warnaar and Luten, 2009).<sup>4</sup> The reference budgets derived from these expert data have been validated through the use of consensual focus groups. A variety of citizens first discussed extensively what poverty in the Netherlands currently implies. Based on their poverty definition, the focus groups subsequently assessed which goods and services (including their lifespan) are necessary in order to avoid being poor, and the budget this requires for different types of household (Hoff et al, 2010).

One could compile new budgets every year but this is labour-intensive and could lead to considerable changes from one year to the next if the judgement of experts changes. Instead, the SCP uses an indexation method to update the thresholds over time, based on Citro and Michael (1995). It adjusts the poverty line annually in such a way that it proportionally moves along with average basic spending on food, clothes and housing. It was anticipated that the poverty line would rise faster than inflation but slower than a completely relative line and hence could be viewed as ‘quasi-relative’. This is because, when a country becomes more prosperous, people will spend a declining proportion of their income on basic items. The indexation method allows the content of reference budgets to be reassessed not on an annual basis but, for example, every five to ten years.

Moving to the second step involved in measuring poverty, the approach follows Citro and Michael (1995) and uses the concept of ‘disposable money and near-money income that is available for consumption of goods and services in the poverty budget’. This reflects the means that households actually have at their disposal to acquire the items in the budget and represents two improvements over using gross income. First, all non-discretionary expenditures on items other than the ones in the reference budget – such as taxes, out-of-pocket health expenditures, spending on childcare and other items that are necessary to generate income from work – are deducted. Second, near-money, in-kind benefits that are available to buy goods and services in the reference budget are added to income. Examples include food stamps, rental subsidies and financial support in paying energy bills.

Aggregating individual information in a macro number that indicates the level of poverty in society constitutes the third step in measuring poverty. These aggregate measures typically focus on the incidence, intensity and/or inequality – ‘the three I’s’ of poverty (Jenkins and Lambert, 1997). The simplest one – and the core measure used by the SCP – is the percentage of poor people: the headcount index. It is easy to construct and easy to comprehend. Its disadvantage is that it focuses solely on the share of people living in poverty and does not provide information on the size of deficits or the extent to which they are unequally distributed. To address this shortcoming, the SCP reports not only the headcount index but also the median deficit among the poor. Periodically, these measures are supplemented by the Gini coefficient of the deficits, which captures inequality, and the Sen–Shorrocks–Thon index, which reflects incidence, intensity and inequality.

The SCP periodically reassesses the content of the budgets and reviews the methodology. In 2009/10, the poverty thresholds were updated and also adjusted based on the outcomes of consensual focus groups (Soede et al, 2011; Hoff et al, 2010). In 2017/18, a number of changes were made, such as the construction of a supplementary indicator which documents poverty rates that take people’s assets and debts into account in addition to their income (Goderis et al, 2018). The poverty thresholds were also updated (Table 12.1). According to the basic needs criterion, the threshold for a single person in 2017 stood at €1,039 per month. According to the modest-but-adequate criterion, this amounted to €1,135 per month.

## Poverty measured by the budget approach: main findings

The budget norms have been used to assess poverty in two income databases that Statistics Netherlands derived from the Dutch tax and social security administrations: the Income Panel Survey (1985–2014) and the Integral Survey of Income and Wealth (since 2014).<sup>5</sup> According to the modest-but-adequate criterion, in 2016 just over 980,000 persons (including children) in the Netherlands were living in poverty, or 6.0 per cent of the population. They belonged to a household with an equivalised monthly net disposable income below €1,135. On an annual basis, the median income deficit amounted to €2,300. In 2013 the number of poor and the head count ratio were much higher (1.2 million people, 7.6 per cent), which reflects the high rate of unemployment in that year. The stricter basic needs threshold obviously yields lower levels. In 2016, around 660,000 people (4 per cent of Dutch population) had a net disposable income below the

**Table 12.1:** The 'basic needs' and 'modest-but-adequate' budgets for a single household

Minimally necessary expenses (monthly amounts in euros, 2017)		Additional expenses for social participation and recreation (monthly amounts in euros, 2017)	
Rent <sup>1</sup>	443	Additional contributions and subscriptions	18.5
Gas	60	Receive visitors	19.5
Electricity	20	To visit family and friends	5.5
Water	9	Holiday/going out	39
Telephone, television and internet	54	Additional transportation	13.5
Insurance <sup>2</sup>	45		
Contributions and subscriptions	2		
Transportation	14		
Clothing and shoes	56		
Inventory	74		
Maintenance home and garden	24		
Food	201		
Laundry and cleaning supplies	6		
Personal care	21		
Miscellaneous	10		
Total minimally necessary expenses	1,039	Total social participation and recreation	96

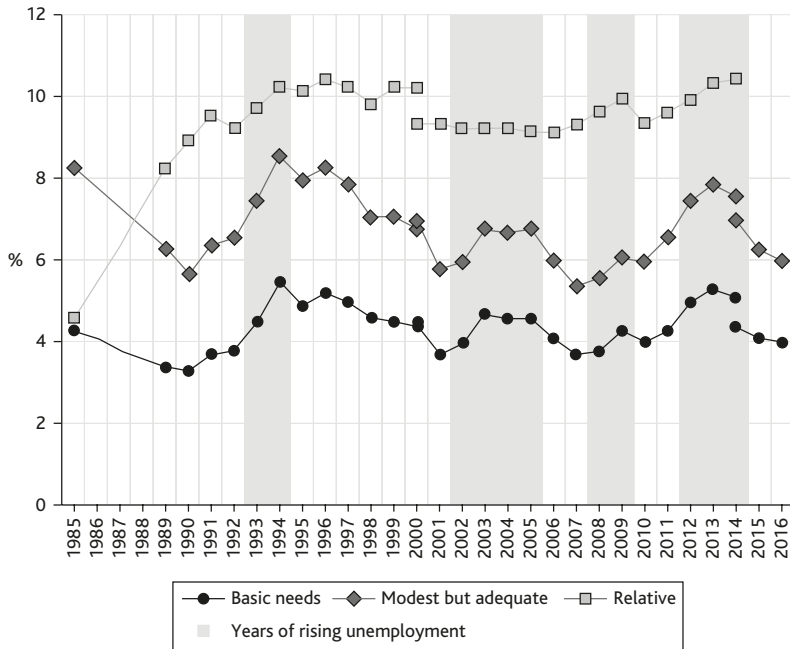
Notes: <sup>1</sup> This amount is obtained by estimating the average rent of a reference home; <sup>2</sup> mandatory health insurance is excluded because its costs are deducted from income.

Source: Nibud (2017) and Goderis et al (2018).

reference budget of €1,039. Both thresholds show that the poverty rates follow the business cycle closely: they rise in years of growing unemployment and decrease in times of economic recovery. On balance, the incidence of poverty did not structurally change between 1985 and 2016 (Figure 12.1). The common relative threshold, which is used to monitor poverty risks in the EU's *Europe 2020* strategy and the more recent *European Pillar of Social Rights* (EC 2010, 2017), yields a different picture. That criterion is set at 60 per cent of the national median equivalised disposable income, and in the Dutch case results in much higher poverty incidences and fewer fluctuations that are in line with the business cycle: though higher than in 1985, it has remained fairly stable since 1994. The latter reflects the fact that relative thresholds tend to measure income inequality, which conceptually differs from



**Figure 12.1:** Poverty incidence in the Netherlands according to the budget approach and the relative EU criterion, 1985–2014/2016



Note: Trend breaks in 2000 and 2014.

Source: Statistics Netherlands, SCP calculations.<sup>5</sup>

poverty and – after taxes and income transfers – stayed fairly constant in the Netherlands from 1990 onwards (Van Praag and Ferrer-i-Carbonell, 2004: 295; Notten and de Neubourg, 2011; Vrooman and Wildeboer Schut, 2015; Otten and van den Brakel, 2017).

### *Taking assets and debts into account*

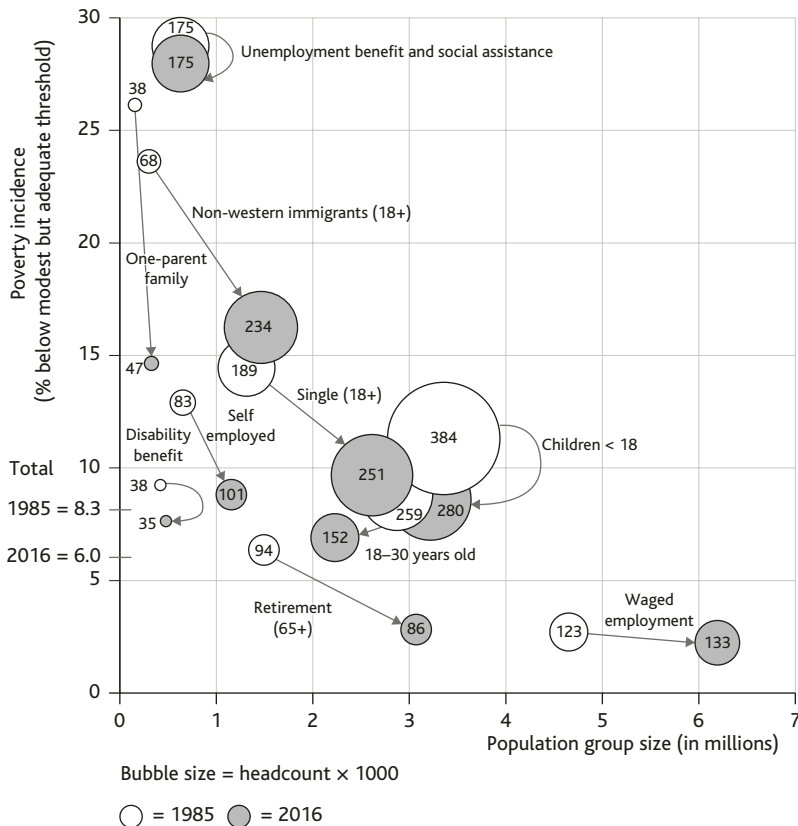
Assets and debts are not income flows and thus not part of the income definition (with the exception of interest on savings, etc.). These are therefore disregarded in the measurement of poverty. However, one could argue that people with an income below the modest-but-adequate criterion but possessing considerable freely disposable assets should not be regarded as poor; and in a similar vein, that non-poor people may be in a precarious income situation if they have substantial debts. A annuity simulation of the potential impact of the consumption of assets over a series of years suggests a 0.6 percentage point decrease in the 2016 poverty incidence. By contrast, taking debts into account

pushes the headcount ratio up. The combined net impact of assets and liabilities on the incidence of poverty is negligible. This applies for both the basic needs (+0.1 percentage points) and the modest but adequate (+0.0) criterion (Goderis et al, 2018; Hoff et al, 2018).

### Groups at risk

Figure 12.2 shows how changes in the size (horizontal axis) and poverty risks (vertical axis) of various population categories affect the number of poor people within those groups (bubbles). As the graph is limited to the earliest and latest year that are currently available in our data, we disregard any fluctuations in the 1989–2015 period (including trend breaks). Among children and people below 30 years

**Figure 12.2:** Poverty risks and number of (poor) persons in various population groups, 1985 and 2016



Source: Statistics Netherlands, SCP calculations.<sup>7</sup>

of age, the poverty risk decreased between 1985 and 2016, in line with the decline of 2.3 percentage points in the general population. This is exacerbated by the smaller size of these population groups, and results in fewer young poor. Various other categories combine lower risks with a strong growth in size, and in combination this implies that the number of poor people belonging to these groups has risen. This holds especially for non-Western migrants, the self-employed, single persons and one-parent families, and to a lesser extent to people in waged employment. The number of poor people on disability benefit, or on unemployment insurance/social assistance, remained almost the same. While the group of pensioners almost doubled in size, in 2016 the number of poor among them was even less than in 1985.

A formal decomposition analysis over a somewhat briefer period (Vrooman and Wildeboer Schut, 2015) suggests that the decreasing head count ratio since 1985 was mainly driven by the lower poverty risks of the elderly and native Dutch children, and by the larger share of double-income households. Poverty was enhanced by the higher risks of the declining group of one-earner households and by the growing share of non-western migrants. While it partly depends on the business cycle, a recent trend study also indicates structurally increasing poverty among working people, especially since 2001 (Vrooman et al, 2018). For employees, few working hours at household level is the main direct cause of poverty; for the self-employed it is the low hourly income. The growth in the number of sole traders explains only a small part of the rise of in-work poverty in the Netherlands.

## Conclusions

This contribution illustrates that reference budgets have considerable potential for poverty measurement. Their use in this field has a solid theoretical foundation. For the Netherlands the method has been implemented through detailed budget information and validated by focus groups. The approach is easy to apply, especially when using large income databases such as ours, where it simply is not feasible to develop and annually update separate budgets for each type of household. It generates more plausible outcomes for the Netherlands than the common relative poverty threshold used by the EU and in comparative poverty research.

The application of the method for the Netherlands shows results that are in line with the historical developments of the Dutch welfare state. Since 1985, according to the basic needs and the modest-but-adequate criteria we do not find a structural increase of poverty, which

may seem at odds with the many social security revisions that have occurred since then. This outcome is probably mostly due to the improved income protection of the growing group of Dutch pensioners, which counterbalanced the impact of the less generous institutional arrangements among the population of working age. With regard to the non-retired part of the population, many system changes were not aimed at minimum income protection, but at earnings-related unemployment, sickness and disability schemes. These revisions most likely did not affect the poverty incidence by too much. Yet those who currently rely on social assistance generally experience less income protection than before. This may have been alleviated somewhat by anti-poverty measures, although these mostly consisted of targeted provisions and income supplements aiming to soften the consequences of poverty. For some members of the potential labour force, lower benefits and activation policies may have served as a stepping stone towards employment. In combination with the growth in precarious jobs and self-employment, however, this seems to have resulted in a rise of in-work poverty in the Netherlands, especially during the new millennium.

## Notes

- <sup>1</sup> Soede and Vrooman, 2008; Hoff et al, 2010; Goderis et al, 2018.
- <sup>2</sup> The development of the generalised reference budget approach has been inspired by a report of the US National Academy of Sciences (Citro and Michael, 1995).
- <sup>3</sup> The equivalence scale of Statistics Netherlands (Siermann et al, 2004) is based on detailed budget research in which household spending is decomposed into different items, each of which is attributed to a distinct member of the household. As a result, the additional cost of each member can be determined directly and does not have to be estimated through a comparison of different households. This makes the equivalence scale more precise and less ad hoc than most other scales, such as the OECD modified scale (which does not take into account economies of scale except vis-à-vis single households) or the OECD square root scale (which does not differentiate between the cost of adults and the cost of children). The scale is broadly in line with the household reference budgets of Nibud. However, it is easier to apply and less sensitive to year-on-year fluctuations than developing and annually updating separate budgets for each type of household would be (the Dutch Integral Survey of Income and Wealth contains almost 200 different household types).
- <sup>4</sup> Reference budgets and calculation tools are available on Nibud's website: <https://www.nibud.nl/>.
- <sup>5</sup> The Income Panel Survey was an annual administrative sample containing approximately 270,000 persons in 94,000 households. The Integral Survey of Income and Wealth is a database that covers more than 99 per cent of all Dutch households. The outcomes of these sources typically diverge somewhat from the Dutch results obtained in comparative poverty research based on the European Union Statistics on Income and Living Conditions or the Luxembourg Income Study.

- <sup>6</sup> <https://www.cbs.nl/en-gb/our-services/methods/surveys/korte-onderzoeksbeschrijvingen/integral-income-and-wealth-statistics>; <https://www.cbs.nl/nl-nl/onze-diensten/methoden/onderzoeksomschrijvingen/korte-onderzoeksbeschrijvingen/inkomenspanelonderzoek--ipo-->.
- <sup>7</sup> <https://www.cbs.nl/en-gb/our-services/methods/surveys/korte-onderzoeksbeschrijvingen/integral-income-and-wealth-statistics>; <https://www.cbs.nl/nl-nl/onze-diensten/methoden/onderzoeksomschrijvingen/korte-onderzoeksbeschrijvingen/inkomenspanelonderzoek--ipo-->.

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# The Norwegian reference budget

*Marthe Hårvik Austgulen and Elling Borgeraas*

## Introduction

The Norwegian reference budget was first published in 1987 (Borgeraas, 1987), and developed as a method to estimate reasonable monthly living costs for Norwegian households of various sizes and compositions. Since then, the Norwegian reference budget has been used actively by several private and public stakeholders and has proven influential as a tool for policy development in the area of social policy. It is also actively used by other stakeholders such as public and commercial banks and financial advisers, and as a tool in financial education.

As this volume clearly shows, the reference budget methodology is well established worldwide. This can further be illustrated by the findings of a 2014 mapping of European reference budgets which identified 65 unique reference budgets, of which 38 are in use and 12 are under construction (Storms et al, 2014). This broad use of reference budgets indicates that they represent a solid method for estimating living costs, amongst other things. However, as also shown by Storms et al (2014), the various reference budgets vary greatly when it comes to key aspects such as purpose, targeted living standards, conceptual frameworks, methods and use. In order to enable the various budgets to learn from one another, and to potentially develop a well-functioning common reference budget methodology, it is of key importance to understand the specifics of the various budgets and how they have influenced policies in their contexts.

Against this background, the goal of this chapter is twofold. First, we present and situate the Norwegian reference budget methodology within this broader framework, highlighting aspects where the Norwegian approach deviates from other established approaches. Second, we present and discuss the impacts and influences the Norwegian reference budget has had, and still has, on policy and practice. These are important endeavours for the continuous work

on the development and future-proofing of the reference budget methodology, both in Norway and elsewhere.

This chapter first presents the Norwegian reference budget along three aspects where it clearly deviates from many other reference budgets. These are the targeted living standard, the target population and the expert-led methodological approach. Thereafter, the policy impacts of the budget are briefly presented, before the key choices and the impacts they have had on the policy impacts and the legitimacy of the Norwegian reference budget are discussed.

## Key characteristics of the Norwegian reference budget

### *Targeted living standard*

The Norwegian reference budget was initiated in 1985, at the request of the Ministry of Health and Social Affairs and was developed by the National Institute for Consumer Research (SIFO). A central concern for the ministry was to develop a budget that could serve as a guideline in determining the size of social benefits (Borgeraas, 1987). SIFO insisted, on the other hand, on developing a more general tool suitable for all types of political and administrative income assessments. Instead of defining a minimum level, SIFO developed a budget for ‘reasonable’ consumer spending, developing the idea of ‘standard packages’.<sup>1</sup>

The ‘reasonable’ living standard, later renamed ‘acceptable’, assumes a consumption level that is generally accepted in Norwegian society. The level should reflect the population’s perception of what a typical person or family should be able to consume given that all adults in the household are in the workforce. It should neither reflect a luxury level nor be restricted to cover only basic needs. The rationale for assuming an ‘acceptable’ consumption level was that in a more affluent budget one could be more in control of the effects on establishing income levels that deviated from the budget. Another claimed benefit with assuming a reasonable living standard was that the budget could also be used in budget counselling (Borgeraas, 1987). Although it is difficult to compare the targeted living standards in European reference budgets due to the uncertainty regarding how the terms and concepts are understood in the different contexts, this level may be considered close to what Storms et al (2014) label ‘minimum for full social participation’. According to Storms et al (2014), this is the level chosen for 43 per cent of European reference budgets, while 46 per cent of European reference budgets are developed for lower levels and the rest are developed for average, higher or other living standards.

### *Target population*

A second characteristic distinguishing the Norwegian reference budget from most other European reference budgets is that it is constructed in a generic form. Rather than developing budgets for different model families, which has been the case for most European reference budgets, it consists of a budget for individuals, grouped by age and gender,<sup>2</sup> for some consumption areas and for households of different sizes for other consumption areas.<sup>3</sup> The budget assumes economies of scale as most individual-specific expenses are reduced by 20 per cent for households with more than two adults and one child. In households with just one adult, economies of scale are calculated for households with more than three children. The calculations for household-specific consumption also takes into account economies of scale for households of different sizes. The main reason for selecting this approach has been that it allows for estimations of costs for a large range of household types, which has made the tool very flexible for a variety of users.

### *The expert-led approach*

The third and perhaps most important key characteristic distinguishing the Norwegian reference budget from other reference budgets is that it relies on an expert-led approach.

The choice of information base for translating a targeted living standard into a basket of goods and services lays the foundation for which type of information and data should be used to develop the budgets. The methodological approaches distinguishing existing reference budgets can be understood in relation to the relative weight they allocate to expert knowledge, consumer expenditure survey data and other empirical data sources and focus group data (Deeming, 2011).

In the Norwegian expert-led approach, experts on various consumption areas choose the items to be included in the budget, define the quantity, quality, assumed durability and how and where the price is registered. The choices made by the experts are based on public and private guidelines, normative assumptions and knowledge about empirical consumption (Borgeraas, 2010). In the Norwegian reference budget, the experts have traditionally had two essential functions. First, as participants in discussions where they assume a common understanding of what a reasonable, or acceptable, consumption level consist of, both regarding the general level and the consistency between consumption areas. The second important

function is connected to assessments of the quality level of the goods and services included in the budget. Quality here refers to the lifespan of products and which labels can be considered within a certain consumption level (Borgeraas, 1987: 63–4). SIFO has traditionally been an interdisciplinary institute, with strong representation from both the natural and social sciences. Input and data from different natural science disciplines and SIFO's own laboratory activity on food, textiles, laundering and durable consumer goods, as well as knowledge derived from extensive participation in international work on standardisation within some consumption areas, was extensively used in the first version and in the subsequent development of the budget. This knowledge was vital for making decisions regarding the quality and durability of the items included in the baskets. In addition to the input from the natural sciences, social science research on consumption at SIFO was, and still is, an important source of knowledge and data on the development of consumption patterns and practices within a wide variety of consumption areas.

In general, the expert-led approach has been criticised for being normatively tainted because it relies to a great extent on the researchers' and the various experts' opinions, which may lead to the influence of arbitrary perceptions and opinions. According to Vrooman (2009), this can happen because the researcher or expert is highly educated and have a high income which may influence their perception of needs, because of the researcher's possible ideological bias or because of the researcher's own interests. This potential bias is amplified if the budget and the underlying decisions are not fully transparent, and thus cannot readily be critically assessed and verified. Furthermore, weaknesses can also be identified for other information sources important to this approach. Official guidelines and regulations may be lacking or dated, and they may be influenced by other concerns, while scientific literature is not always conclusive, does not cover all areas of life and may be somewhat detached from real living conditions (Storms et al, 2014).

In order to overcome these challenges, the Norwegian reference budget has also been founded on data on consumer expenditure, and the consumer expenditure surveys undertaken by Statistics Norway was an important information source until it was discontinued in 2009. After this, Statistics Norway's idea has been to undertake larger periodic surveys with uneven time intervals. The last version of this survey was undertaken in 2012 (Statistics Norway, 2013). The survey asked a sample of the population to register all expenses over a 14-day period. In addition, purchases of larger economic value (e.g. of a washing machine) during the past year were registered (Statistics Norway,

2013). This survey gives a detailed picture of household spending and particularly on what it is common to consume (Borgeraas, 1987: 65–6).

Every year, before publishing a new version of the budget, the estimated expenditures were compared with figures in the consumer expenditure survey. If the budget estimate deviated too much from the survey or other anomalies occurred – for example an unexpected increase in the expenditure level for any of the baskets – the data and the various steps in calculating the budget were reviewed again. The budget has also relied on data collected through the SIFO survey covering a range of consumer-related topics. This survey has been conducted on an annual or bi-annual basis since 1989. Furthermore, in updates and revisions since 2015, focus groups have been included as an important source for information about perceptions of needs and social participation, consumption patterns, quality expectations and other issues relevant for the specific basket. In addition to providing valuable information on these topics, the focus groups also serve an important function as a validity assessment of the budget components.

## **Impacts and influences on policy and practice**

The Norwegian reference budget has been, and still is, widely used by various stakeholders. In an evaluation of SIFO from 2006 it was stated that the reference budget ‘is one of the most influential contributions to the grounds of decision making for public and private politics from Norwegian social science research’ (Norges forskningsråd, 2006, authors’ translation). The reference budget has served four key purposes for the stakeholders: it is used for credit scoring and consumer solvency assessments, as an aid to determine public sustenance levels, for financial education and for money advice. However, the budget has also been used as a tool for assessing additional costs related to certain chronic illnesses. The following sub-sections will briefly present the impacts and influences on these areas of use.

### ***A tool to support credit and solvency assessments***

The budget has been used to assess the consumers’ solvency and has been used both by public institutions, such as the Norwegian State Housing Bank and by municipalities offering start-up loans for people struggling on the housing market, and by private institutions such as private banks. Recently, the Financial Supervisory Authority of Norway criticised several banks for assuming costs of living that were lower than the reference budget (Finanstilsynet, 2019). The supervisory

authority's use of the reference budget as the baseline indicates that the reference budget has become a national standard in the consumer loan market.

### *An aid to establish public sustenance levels*

The budget has been used as a starting point in the assessment of public levels for sustenance amounts. It has been used to determine the levels for child support payment, to determine the sustenance levels in debt settlement cases and in debt counselling, to determine sustenance levels in attachment of earnings and to determine recommended rates for social assistance.

### *Financial education and money advice*

The budget has been used to inform and educate people about personal economy. It has been included in the curriculum for general studies at high school, in the curriculum for studies in economics and social work at university level, on webpages about personal economy targeting youth and on webpages on personal finance and loan calculators targeting the general population. In 2003 SIFO published a calculator on its website where consumers can estimate a budget based on their household composition.<sup>4</sup> The budget is also actively used by both private and public financial advisers (e.g. Bergo, 1992; Reitan, 2017).

Furthermore, in the period from 1989 to 1997, SIFO developed several commercial computer programs where the reference budget constituted a vital part. One version was developed for the individual consumer market and incorporated tax and interest calculations into a reference budget calculator, which enabled the users to develop detailed monthly liquidity budgets over a one-year period. A second version was developed for the social security offices as a tool to be used in money advice given to individuals applying for social security. Finally, a third version was developed in cooperation with the Ministry of Justice and Public Security and was intended for the administration of debt settlement. Although these computer programs were successful, SIFO sold the programs to a commercial actor in 1997. It was seen as problematic for a public agency to compete with private agencies.

### *A tool for assessing additional costs related to chronic illnesses*

The budget has also been used as a starting point for estimating additional costs related to certain chronic illnesses. This has been done

by evaluating the specific needs related to the illnesses and amending the budget baskets accordingly. New prices have been collected, and the differences in the total sums of the baskets constitute the additional costs. The reference budget has been used to calculate additional food costs for persons suffering from familial hypercholesterolemia (Øyby, 2007) and for persons suffering from celiac disease (Roos et al, 2018), and to calculate additional costs related to clothes and bedding for persons suffering from three types of diseases or disorders that lead to extraordinary wear on such products. These diseases or disorders are psoriasis or atopic eczema, ADHD and stoma (Roos et al, 2018). These calculations have been used to either argue for, to adjust or to justify the level of public support schemes.

## Challenges and recommendations for the future

The Norwegian reference budget is different from other European reference budgets on several accounts, of which we have focused on three key aspects in this chapter. These are the choice of targeted living standard, the choice of target population and the choice of methods and information base. In this section we reflect on the advantages and disadvantages related to these key choices as well as the impacts they have had on the policy impacts and the legitimacy of the Norwegian reference budget.

### *The targeted living standard*

The Norwegian budget was developed to measure a ‘reasonable’ or ‘acceptable’ living standard in order to serve the initial purpose of assessing an adequate standard of living that could be used for all types of political and administrative income assessments. It has allowed for a varied use of the tool by banks and credit institutions, public authorities, NGOs and consumers. However, this extensive use has not always been unproblematic, as public authorities in particular, who have been using it for establishing public sustenance levels, have introduced their own adaptations and changes to the budget level. One example is that the budget was used as a starting point for determining subsistence rates for debt settlement cases and social assistance. However, the final thresholds ended up at quite different levels, whereas debt settlement rates became more generous than the reference budget and social assistance levels ended up at a much more restrictive level. Although this was intended and justified, a consequence for the reference budget was that it gradually led to uncertainty about the budget’s targeted living

standard. This use of the budget led major Norwegian NGOs, labour unions and social activist organisations to refer to the reference budget as a minimum budget rather than a budget reflecting an acceptable living standard. However, this redefinition process was not based on changes made to the reference budget: it was more likely a result of a political strategy to establish higher baselines for social support schemes. This example demonstrates that the validity and legitimacy of the reference budget to a certain extent relies on it being well understood and responsibly used by its stakeholders. It represents a challenge for the budget whenever it is extensively used by stakeholders with various political interests who do not sufficiently understand the methodology and its related strengths and weaknesses.

A further challenge related to the extensive use of the budget is that it can add intended or unintended restrictions to the updating process, since changes in the yearly budget sums can have major consequences for direct and indirect users of the budget. One example is that increases in the budget sums will likely directly result in fewer and/or smaller loans being granted to vulnerable consumers by the Norwegian State Housing Bank. In the long run, hesitations to undertake substantial changes may result in unintended changes in the budget's targeted living standard. However, although it is important to be aware of this potential effect, it does not necessarily represent a problem in practice for the Norwegian reference budget since the effects of the needs of the various stakeholders may neutralise each other. People applying for a start-up loan in the housing bank may be interested in a reference budget level reflecting a rather low living standard, while people who need other forms of social assistance may be interested in a reference budget level reflecting a higher living standard.

Together, these examples demonstrate that the extensive use of the budget can have unintended effects on the budget's scientific legitimacy. In addition to following a sound and clear protocol for updates and revisions of the budget, one potential solution to some of these challenges is to develop reference budgets for several living standards, most importantly to develop a designated minimum budget. It could create greater certainty about the targeted living standards of the various versions, and an answer to the seemingly clear need for a minimum budget among the stakeholders. However, it may also simply transfer the issue of scientific legitimacy versus political and practical usefulness to the minimum version of the budget. A minimum version of the reference budget was developed in 2016 (Borgeraas, 2016), but this is still a work in progress as key issues, such as finding a way to calculate housing costs and to better assess potential economies of scale



in households with many children, remains unsolved. This leads us to the issue of the choice of target population.

### *The target population*

The Norwegian reference budget has been constructed for model persons grouped by age and gender and for various household sizes. It allows for a combination of different person types to households of different sizes and compositions, which has been a great advantage for many of the reference budget users, since they can estimate costs for a wide range of household types. However, one of the main challenges with this approach is that it is difficult to derive adequate equivalence scales or estimates of the economies of scale for various households. The Norwegian reference budget has, for example, been criticised for being too imprecise for households with many children. This challenge has been solved in many other reference budget variants by developing budgets for model families where the economies of scales are naturally integrated. Since the flexibility of the Norwegian reference budget has proven to be advantageous for its users, it is our opinion that the approach with model persons should be continued. However, it is of key importance that the empirical basis for the estimated scale advantages is reassessed and that a particular focus is placed on the economies of scale for large households. The economies of scale are also likely to vary across various living standards, so separate estimations should be conducted for the minimum budget and the reference budget.

### *The expert-led model*

When first developed in 1987, the Norwegian reference budget followed an expert-led approach. The knowledge and opinions of experts have never been the only information source, as both expenditure data, and later focus group data, have been actively used. However, the experts have had, and still have, the final say regarding the key choices made in the development of the budget. A challenge related to this approach, using a variety of data and methods, is that the availability of information sources varies greatly for the various consumption areas and baskets. This can represent a challenge for the budget at an overall level since data for the various baskets does not have an equal foundation. One example is that official guidelines and recommendations as well as other forms of expert knowledge are generally more available for certain baskets, such as 'food and beverages', than for others, such as 'furniture'. To ensure the internal validity of

the various baskets, it is therefore important that the methodological approach allows for variation in the information base between the baskets. Nevertheless, to increase the reliability of the reference budget, and to guide the decision-making process in cases where several information sources are available and contribute conflicting information, a hierarchy of information bases has been established. Expert knowledge, including national and international guidelines as well as expert opinions, is ranked highest, and is followed by scientific literature, expenditure data and focus groups. Furthermore, for future updates selection criteria will be developed in order to decide what information is actually retained from the information base. For expenditure data and attitudinal surveys, it could be to set thresholds about the number of people consuming or considering something as essential for the targeted living standard. For focus group data, it may involve rules for what is understood as consensus, i.e. how many need to agree on something for it to be included in the budget?

## Conclusion

The Norwegian reference budget has long traditions and has, since it was first published in 1987, been actively used by a variety of stakeholders. When compared to other reference budgets in Europe, the Norwegian budget deviates from other budgets on several accounts, but most importantly when it comes to the choice of the targeted living standard, the target population and the methodological approach. This chapter explains the reasoning behind these choices and discusses some of the challenges related to the approach in light of the stakeholders' wide-ranging use of the reference budget.

The high policy impact of the budget is a clear indication of its usefulness and relevance, but some important restrictions and challenges follow from the success of the budget. The revisions and updates of the budget may be restricted by the various considerations taken to the needs of the different stakeholders, and it may be difficult to make major changes to the method based on new insights from research and experiences from other countries. It is therefore of key importance for maintaining the high scientific legitimacy of the budget that researchers and experts always consider the connection between the methodology and the use of the budget in the process of reviewing and updating it.<sup>5</sup>

## Notes

<sup>1</sup> In classical sociology, the idea of 'standard packages' was developed in the 1950s (Riesman and Roseborough, 1955; Parsons and Smelser, 1984). In its most

concrete form, the term refers briefly to a list of goods and services that together give households a socially acceptable standard of living. In this way, the standard packages contain both life necessities and so-called signal products that are particularly suited to highlighting social status. In a market economy, this makes consumption a key activity in the creation and maintenance of social prestige and identity. What distinguishes the packages from food baskets and similar minimum and poverty standards is that they refer to normal consumption in families in socio-cultural contexts. This means, first and foremost, that the contents of the packages must comply with current value systems. Thus, the list of goods and services must allow symbolic differentiation with regard to gender, age and social roles. As such, they are regarded as normative guidelines that are learned in childhood and through socialization processes in other parts of the life cycle. Parsons and Smelser (1984: 222) point out that the standard packages are relatively stable over time as long as the income changes are moderate and the consumption opportunities are correspondingly limited.

- <sup>2</sup> The individual-specific baskets are 'food and beverages', 'clothing and footwear', 'personal care', 'leisure and media use', 'travel expenses' and 'baby equipment'.
- <sup>3</sup> The household-specific baskets are 'household articles', 'furniture', 'leisure and media use', 'car costs', 'kindergarten' and 'after-school-program'.
- <sup>4</sup> See budget calculator: [www.oslomet.no/om/sifo/referansebudsjettet](http://www.oslomet.no/om/sifo/referansebudsjettet).
- <sup>5</sup> This chapter is partly based on a research report published in 2018 reviewing the Norwegian reference budget in light of similar initiatives across Europe (Austgulen and Borgeraas, 2018).

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# Minimum budgets for Danish families

*Jens Bonke and Anders Eiler Wiese Christensen*

## Introduction

Minimum budgets are developed to calculate the consumption expenditures associated with the living of a modest but still healthy and basic social life for different families, while reference budgets refer to lives with more ordinary living expenditures closer to most people's living conditions. The first version of minimum and reference budgets were British (Bradshaw, 1993), and in 1993 the Danish Consumption Agency asked the Centre for Alternative Society Analysis (CASA) to do the same for Denmark, which are now updated with the present budgets for 2015.

The present minimum and reference budgets follow the procedures for the previous budgets, once again used to find the money needed to be given to help vulnerable families and the amount of money left for consumption when investing in a household. The minimum budget relies on what ten expert groups find is needed for the living of a modest but still healthy life, differentiating between ten family or household groups. The expenditures within each group vary according to the number of people in the household, their age and their gender.

Minimum budgets are also used to estimate the number of families living in poverty (Bonke and Wiese, 2017) and thereby to measure society's economic conditions. The cost of buying all the different goods and services following the minimum budget is compared to disposable income, and if income is below the calculated minimum budget for the specific household type their living conditions are considered unsatisfied following the standards the experts found as a minimum in Denmark in 2015.

## **Minimum budget: a modest and necessary consumption level**

The minimum budget covers all living expenses and aims to enable a life satisfying basic human needs in modern Denmark, which means being able to afford necessary and modest housing, food, water, clothing, personal hygiene, limited social participation as well as being able to afford basic entertainment for children. The budget includes ten different categories of consumer goods and services, where, for example, personal hygiene and health consist of 61 different products and services. A group of experts associated with each of the ten categories have assessed which goods and services are to be included, taking into consideration the composition of families and individuals of different ages, gender and civil status.

Expenditures on cigarettes and alcohol are not included in the minimum budget. Extraordinary costs of diseases, handicaps, special diets and the like are not included in the minimum budget.

All goods and services are bought at the lowest possible prices without giving up some health and environmental standards. The prices for the goods and services included are multiplied with the quantities of goods and services and yielding the total minimum budget.

### ***Long-term budget***

The minimum budget is calculated on the assumption that the family already owns durable goods and that the costs associated with these durables are spread over the lifetime of the goods. The budget therefore depicts the average investment necessary in order to keep the stock of durables at the level necessary proposed by the panels of experts. Hence, if these costs are met as well as the other costs in the minimum budget it is possible to live a modest and healthy life in the long run, achieving the proposed standards of necessity.

### ***Economies of scale***

We distinguish between ten different goods and services, some consumed individually and other consumed in common. For the latter goods economies of scale appear, as they depend on the number of family members. For example, a lone adult needs a fridge, and a couple with two children also need just one fridge. For food, which is consumed individually, we assume that expenditures are 10 per cent lower per person if there are two and not one person and 20 per

cent lower if three or more persons are in the household. There is no evidence for these economies of scale, but they follow the difference in food expenditures between single families with and without children and couples with and without children found in the consumer survey (Statistic Denmark, 2016a, 2016b).

### *Housing costs*

Housing costs deserve special mention, because the variation in individual housing costs as well as dwellings and houses in the big cities relative to dwellings and houses in smaller cities or in the countryside varies considerably. For this reason, the minimum budget expenditures are shown with and without housing costs (Bonke and Weise, 2016). Housing costs in the minimum budget all refer to rented residences and the only variation in the budget is the number of square metres required, which depends on household size and child/adult composition. Housing costs are arrived at by multiplying the number of required square metres with average square metre prices found in Landsbyggefondens registers for social houses (CASA, 2015). Social houses in Denmark are relatively cheap compared to other housing options.

### *The budget is an example*

The selection of goods and services included in the budget represents what the experts have assessed to be what normally constitutes consumption in Denmark, and the budget is thereby an example. There may be specific goods or services in the budget which some individuals don't use, and the assumption is that in that case the individual buys something corresponding instead. If, for example, an individual does not own a bike it is deemed likely that it becomes necessary to spend more on public transportation.

## **Minimum budgets for different family groups**

The minimum budgets are calculated for a number of different family groups consisting of a varying number of adults and children of different ages. The budgets are split into different categories of expenditure spent either on the individual (i.e. individual goods, Table 14.1) or on the household (i.e. common goods, Table 14.2).

We find that expenditures on common goods increases more slowly with the number of persons in the family than do expenditures on

**Table 14.1:** Individual costs in the minimum budget for different family types, kr. 2015

	Age (years)								
	<1	1–2	3–6	7–10	11–14	15–17	18–29	30–49	50–64
	Food and drink								
Girls/women	0 <sup>1</sup>	666	937	1,204	1,497	1,655	1,642	1,548	1,423
Boys/men				1,298	1,632	2,028	2,064	1,939	1,704
	Clothing and shoes								
Girls/women	0	380	358	474	455	376	425	434	440
Boys/men				424	447	414	326	393	374
	Hygiene and health								
Girls/women	215	148	59	67	144	380	477	470	321
Boys/men				67	110	163	235	238	208
	Transportation								
Girls/women	0	267	271	318	332	332	617	617	617
Boys/men				318	332	332	617	617	617
	Culture and leisure (toys, running shoes, mobile phone, and so on)								
Girls/women	42	42	42	104	396	375	435	435	435
Boys/men				104	396	375	393	393	393
Infants aged <1 (clothing, equipment, and so on)									
1 child	2,171								
2 children	2,306								
3 children	2,513								
Note: <sup>1</sup> We assume children aged 0–1 to be breastfed.									
Note: Economies of scale for food and drink: two persons in the household relative to one person – 10 per cent, 3+ persons relative to one person – 20 per cent.									
Source: Adapted from Rockwool Research Foundation, <a href="http://budgetberegner.rff.dk">http:// budgetberegner.rff.dk</a> .									



individual costs, which is where economies of scale naturally occurs in the budget. Moreover, expenditures on food, etc. are bigger than any other individual expenditures, and these expenditures are bigger for men than for women, while expenditures on clothing and hygiene and health are bigger for women than for men.

The biggest expenditures are on housing, accounting for two thirds when also water, electricity and other supplies are added to the housing costs (Table 14.2). Then follows insurance costs, culture and leisure, and finally the yearly cost on durables. Transportation costs only include spending on cycling and public transportation in the minimum budget, as we assume no ownership and use of private cars.

The minimum budget also includes individual costs, for which reason the figures for the appropriate family group in Table 14.2 have to be added to those for the same family group in Table 14.1. As an example, for a couple with parents aged 30–49 years and one child aged 5 and another child aged 12 years, the average, monthly spending on clothing and shoes is 1,640 kr. – 358 + 455 + 434 + 393 (Table 14.1), while the spending on culture and leisure time activities is 1,266 + 874 kr. (Table 14.1 and 14.2). Housing costs for the same type of family are 5,670 kr. (Table 14.2).

## The cost of children

The cost of bringing up one child from 0 to 18 years is shown in Figure 14.1, and we see that the spending on a small child is very high, i.e. 2,171 kr. per month then decreasing with about 33 per cent the following years and increasing again until the teenage years, where expenditures reach nearly 4,000 kr. per month. For parents with very low incomes, some of the payments to their children's institutions is refunded, which implies that without this, the expenditures would have been considerably higher when their children were younger, illustrated in Figure 14.1. Furthermore, parents get an income-dependent child allowance cheque, which makes the cost of having children in Denmark smaller than the minimum budget indicates.

By aggregating the cost of upbringing a first, second and third child in families assuming an age-span of three years between the children, the costs per child are found to be lower with two children in the family than if there is only one child, which is because of economies of scale (Table 14.3). Hence, the costs are 700,984 kr. for the first child, 637,591 for the second and 632,909 for the third child when excluding payments to childcare institutions. If the child

**Table 14.2:** Household costs in the minimum budgets for different family groups, kr. 2015

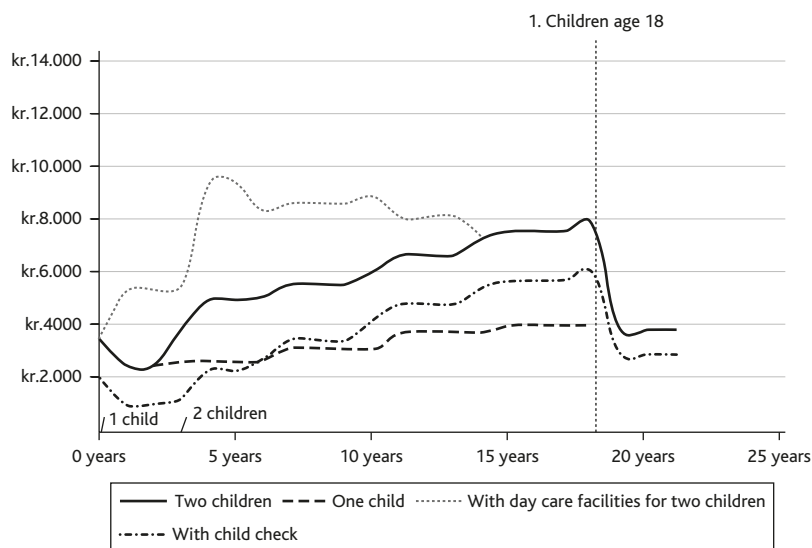
No of children	0	1	2	3	4	5
Everyday tools (cleaning materials, and so on)						
Single	157	214	259	304	348	393
Couple	240	301	361	410	458	507
Durables (furniture, tools, and so on)						
Single	267	320	398	475	553	631
Couple	328	413	483	538	593	648
Insurance						
Single	612	612	612	612	612	612
Couple	1,079	1,079	1,079	1,079	1,079	1,079
Culture and leisure (TV, music, computer, gifts)						
Single	678	741	812	874	937	999
Couple	741	812	874	937	999	1,062
Housing						
Single	3,780	4,410	5,040	5,670	6,300	6,930
Couple	4,410	5,040	5,670	6,300	6,930	7,560
Housing costs (water, heating, electricity)						
Single	863	976	1,089	1,202	1,315	1,428
Couple	1,230	1,442	1500	1,550	1,600	1,650
All						
Single	6,379	7,304	8,232	9,168	10,096	11,024
Couple	8,058	9,110	9,998	10,844	11,690	12,536

Source: Adapted from Rockwool Research Foundation <http://budgetberegner.rff.dk>.

allowance cheque is also taken into consideration we end up with costs equalling 468,256 kr., 404,863 kr. and 400,181 kr. for the first, second and third child.

The aggregated costs of bringing up a child amounts to about two thirds of a million per child. Some of these costs are compensated by receiving child allowance, which implies that the parents' own costs are 470,000 kr. for one child, 870,000 kr. for two children and 1,270,000 kr. for three children. For families who receive subsidies to their payment for child care institutions the costs for upbringing their children would have been about 200,000 kr. higher for every child.

**Figure 14.1:** The minimum costs for families with two children versus one child with an age-span of three years, 2015



Note: Data used for figure are available here: <http://budgetberegnerprocessor.rff.dk/export/5de166cc85ede8.93323356/Minimums-%20og%20referencebudget.xlsx>.

Source: Rockwool Foundation Research Unit.

**Table 14.3:** The minimum costs of first, second and third child aged 18 years or under, kr. 2015

1 child	2 children	3 children
Excluding payments to childcare institutions		
700,984	637,591	632,909
Excluding child allowance benefit		
468,256	404,863	400,181
Including payments to childcare institutions		
914,438	851,045	846,363

Source: Adapted from Rockwool Research Foundation <http://budgetberegner.rff.dk>.

## Minimum budgets in the Nordic countries

Reference budgets are developed in all the Nordic countries as well as in some other countries (Deeming, 2017; Goedemé et al, 2015; Warnaar and Luten, 2009). In some countries the budgets are called ‘standard budgets’, in other countries ‘reference budgets’, although basically they all follow the same guidelines. Moreover, Norway and

**Table 14.4:** Monthly minimum budget on different goods for single couples with one child and couples with two children in Denmark and Norway

	Singles with one child <sup>1</sup>		Couples with two children <sup>2</sup>	
	Denmark	Norway <sup>3</sup>	Denmark	Norway <sup>3</sup>
	kr. 2015 <sup>4</sup>	kr. 2015 <sup>4</sup>	kr. 2015 <sup>4</sup>	kr. 2015 <sup>4</sup>
Food and drinking	2,236	3,200	4,732	5,719
Clothing and shoes	792	880	1,640	1,396
Hygiene and health	530	519	912	874
Culture and leisure	1,217	952	2,140	1,632
	4,775	5,551	9,424	9,621

Notes: <sup>1</sup> Single 30–49 of age and one child 5 years of age; <sup>2</sup> couples between 30 and 49 of age and children between 5 and 12 years of age; <sup>3</sup> SIFO (2016); <sup>4</sup> exchange rates refer to July 2015 PPP for private consumption.

Source: Adapted from Rockwool Research Foundation <http://budgetberegner.rff.dk>.

Denmark have also developed minimum budgets (Bonke and Wiese, 2016; SIFO, 2016).

Comparing budgets between different countries is difficult even when the goods and service categories are the same and social life equally costly between countries. An even bigger problem is that prices on different goods and services does not necessarily depict the real differences in people's living conditions, i.e. VAT on food is lower in Norway than in Denmark.

Table 14.4 shows that expenditures on food and drinking are higher for singles with children in Norway than in Denmark – 3,200 vs 2,236 – as well as for couples with children – 5,719 vs 4,732. For clothing and shoes, singles with children expenditures are also higher in Norway than in Denmark, while the opposite is the case for couples with two children. The budget for hygiene and health is of nearly the same size in Norway and Denmark for the two groups of families. The most pronounced differences in the minimum cost between Denmark and Norway are on culture and leisure, where they are much higher in Denmark than in Norway.

Taken together the expenditures spent on food and drinking, clothing and shoes, hygiene and health and culture and leisure amounts to 4,775 kr. for single families with one child in Denmark and 5,551 kr. in Norway. For couple families with two children the similar spending amount to 9,424 kr. in Denmark and 9,621 kr. in Norway. The major

difference in minimum budgets is then between single families and not between couple families when comparing Denmark and Norway.

Finally, we found that the minimum budget was considerably larger in Norway than in Denmark for single-parent families with one child, while there was nearly no difference between the expenditures on most goods for couples with two children between the two countries.

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# The Swedish Consumer Agency's calculations of reference values for some of the most common household expense categories

*Malin Lindquist Skogar and Ingrid Eriksson*

## Background

The Swedish Consumer Agency began calculating household expenses in the mid-1970s in response to demand from the public, consumer counselling services, authorities and other organisations. The first calculations were published in 1978 in the Swedish Consumer Agency brochure 'Household Expenses: An Aid to Your Finances' (Hushållets kostnader, en hjälprea för din ekonomi).<sup>1</sup> Since then, the calculations have been adjusted to address consumption trends and general standard trends in society. Descriptions and methods for this are documented in the report 'Reasonable Living Expenses', covering calculations by the Swedish Consumer Agency (Skäliga levnadskostnader, beräkningar av Konsumentverket). These calculations are updated on a regular basis.<sup>2</sup>

Each year, the Swedish Consumer Agency calculates costs for reasonable consumption of some of the most common household expense categories. What constitutes reasonable consumption and common expense categories changes over time. The cost calculations must therefore be adjusted to account for factors such as the population's changing needs and activities, and the standard consumption trends in society.

The expense categories for which calculations are performed account for approximately one third of total household consumption. The calculations cover both individual and common household costs and focus on a basic need for goods and services required to live a decent day-to-day life in today's society, regardless of household income. This is neither subsistence level nor excessive consumption, but rather a reasonable standard of consumption. The costs cover both day-to-day expenses and some savings to be able to replace durable goods. The

Swedish Consumer Agency's calculations do not include differences in consumption due to cultural differences, illness or disability.

One major expense for households is housing costs, but these are not included in the Swedish Consumer Agency's cost calculations. It is hard to define what constitutes reasonable housing costs. They can vary greatly due to factors such as location and type of dwelling and are largely individual. Moreover, there are no cost calculations for medical and dental care, transport, childcare, home help services, holidays, hotel/café/restaurant visits, education, presents and so on.

Cost calculations are performed for different reasons, such as to satisfy the Swedish Consumer Agency's commission to provide underlying data for the government's decision on the national standard within income support. Another reason is that the Swedish Consumer Agency has been tasked with supporting municipal budget and debt counselling under the Social Services Act. The calculations are also used by households for their own financial planning, as well as by municipalities, the state, banks, private individuals and others.

## **Purpose and use**

The purpose is to calculate costs for the goods and services that households usually need in order to achieve a reasonable standard of living. It must be possible to use the cost calculations as reference values when planning household budgets – by households, municipal consumer counsellors, budget and debt counsellors, social service offices, banks, schools, etc. The calculations' reference values are also submitted to the government as underlying data for their decision on the national standard within income support.

The calculations' reference values are published each year in the Swedish Consumer Agency brochure 'Know your money' (Koll på pengarna) on the agency website. The calculations are also incorporated into the Swedish Consumer Agency's computer programs, namely Boss, which is a tool for budget and debt counsellors, and the calculation tool Budgetkalkylen, which is also available on the agency website.

## **Method**

### ***Premises and assumptions***

The cost calculations shall correspond to reasonable household consumption and cover costs for the goods and services generally



needed for daily life in today's society. It is assumed that the basic need for such goods and services does not differ greatly from one household to another, nor is it dependent on factors such as household income. The Swedish Consumer Agency's calculations are thus based on need rather than income. The calculations are only examples of what a reasonable consumption level could be. The goods and services included in the calculations are examples and can be replaced with other choices of products and services within the same level. Neither minimum level nor luxury applies.

### *Household types*

It must be possible to use the calculations for households of different sizes and with different configurations in terms of age and gender. The fact that the need for products may differ due to gender, age and number of people in the household has been taken into consideration.

Within the individual budget items, such as food products, clothing and footwear, personal hygiene, and leisure and recreation, there are calculations for different age categories ranging from 0 to adult. In the first three categories, need and thereby costs were assumed to be dependent on gender from age 10 onwards. We judged that the needs data for children under age 10 is the same regardless of gender. The budget item leisure and recreation is calculated the same for the respective age group regardless of gender.

Within items related to common household expenses, the costs depend mostly on household size. Calculations are performed for a range of one to seven people. If calculations are needed for more than seven people, one can increase the amounts for a seven-person household by the margin cost for each additional person, i.e. add the difference in cost between a six-person and a seven-person household. For the expense categories home appliances, home insurance and consumables, the size of the dwelling also has an impact on the calculations. In multi-person households, we assumed that there are two adults with 0–5 children. We calculated based on the following dwelling sizes:

- One to two people, one-bedroom home, 60 m<sup>2</sup>
- Three people, two-bedroom home, 70 m<sup>2</sup>
- Four people, three-bedroom home, 90 m<sup>2</sup>
- Five people, three-bedroom home, 90 m<sup>2</sup>
- Six people, four-bedroom home, 110 m<sup>2</sup>
- Seven people, four-bedroom home, 110 m<sup>2</sup>

### *Focus groups*

Since what is considered reasonable consumption changes over time, the content of the Swedish Consumer Agency's calculation data was reviewed in 2016. We conducted a qualitative survey with the help of focus groups. The aim was to get an idea of what adults and parents of children consider to be a basic need for the various person-related expense items that the Swedish Consumer Agency includes in its cost calculations. The results of the survey highlighted the view of the feasibility of owning selected products, and what should be added to and removed from the existing content.

### *Other assumptions and premises*

In the calculations, we assume that the households have basic equipment and appliances in the home and we do not calculate costs for expenses arising from a first-time purchase of a product type, like when setting up house. The cost amounts should enable households to function in both the short and the long term. In addition to costs for day-to-day expenses, the calculations include a provision for savings that can be used to replace expensive items that are worn out or have been outgrown. The cost calculations are also based on other assumptions and premises, some of which are general and apply to all budget items and some of which are special for specific products areas.

For all items, it is assumed that the households:

- Live in a flat in a block of flats with shared laundry facilities.
- Do not have their own washing machine or dishwasher.
- Are of different sizes and family configurations.
- Shall be able to maintain a reasonable standard of living in both the short and the long term.
- Have family members who are healthy and without disabilities that generate extra costs.
- Use commonly available goods and services, which are purchased new.
- Take the environment into consideration as much as reasonably possible in relation to choice of goods and services, quantities purchased and useful life.
- Take safety aspects into consideration when choosing products and services.
- Purchase goods and services that are predominantly found in stores and retail chains that are common in Sweden.

- Have limited time for household work; the household buys bread and a small proportion of ready-to-eat and ready-to-make foods/finished and semi-finished products.

### *Consideration for the environment*

Considering the environmental impact of private consumption, we try to take environmental aspects into consideration as much as reasonably possible when choosing which products to include in the calculations. This can be done within the budget items where eco-labelled goods are common, such as the categories personal hygiene, consumables and, to some extent, clothing and footwear. For budget items like home appliances (furniture, household utensils, TVs, etc.), it is more difficult to find environmentally friendly goods that meet our assumptions about ease of access and reasonable price. Green products within these consumption areas are either rare or expensive.

### *Selection*

The Swedish Consumer Agency's calculations are based on some of the most common household expense categories. This applies to both individual costs and common household costs.

#### *Individual costs*

- Food products and non-alcoholic beverages.
- Personal hygiene.
- Clothing and footwear.
- Leisure and recreation.
- Mobile phone.
- Child and adolescent insurance.

#### *Common household costs*

- Consumables.
- Home appliances (includes the subitems: radio, TV, computer, etc., furniture and electrical fittings, cooking, table setting, home textiles, cleaning, maintenance and other).
- Media.
- Home insurance.

## Calculation methods

For each expense category, the Swedish Consumer Agency determines which goods and services should represent reasonable consumption for each category of persons and household, and then performs cost calculation on these.

The choice of products is based on the following:

- General and specific assumptions and premises for different goods and services.
- Different needs which must be met within the respective category of persons and household size.
- Activities/behaviours which are common within the different categories to meet the different needs.
- Information/statistics on the proportion of different ages and sexes who use or own the goods or services.
- Different households' perception of how reasonable it is to own or use the product or service, useful life and quantity. This is done, *inter alia*, with the help of focus groups.
- That all products are purchased new, i.e. not used.
- That products with the least environmental impact are chosen to the greatest extent possible.

## Limitations

The calculations do not include costs for other household consumption expenses, such as:

- Housing, electricity, gas and heating.
- Transportation.
- Dental and medical care.
- Personal service and community service.
- Education.
- Holidays.
- Hotel/café/restaurant visits.
- Alcoholic drinks and tobacco.
- Presents, etc.

Other costs that are not included:

- Used goods.
- Gifts or inheritance.

- Extra costs for food products, such as Christmas and New Year.
- Special hobbies.
- Cable TV.
- Costs for setting up house.
- Consumption of household electricity. The Swedish Consumer Agency does not calculate consumption and costs of household electricity. We do not have enough data to perform general calculations of reasonable consumption of household electricity for various household sizes and family configurations.

## Sources

When the costs were first calculated in the mid-1970s, the Swedish Consumer Agency based its reasonable household consumption assessments and calculations on what was known about actual consumption. The agency also drew on knowledge and information from experts, both internal and external, within different product areas.

During later review work, it was difficult to obtain data on the actual consumption of different households. Our calculations are based on collected information and statistics from sources such as research institutes, authorities, various organisations and external experts. The data regard household consumption, purchases, product ownership, recreational habits, etc.

### *Individual costs*

This category includes costs that are linked to the individual and calculated based on different age categories and genders. The individual costs are reported with an average cost for girls and boys, and women and men.

### *Food products*

The calculations for food products show how much a nutritious and varied diet can cost for different ages and genders. The costs are calculated based on the food products included in the Swedish Consumer Agency's 30-day representative menu.

The representative menus are calculated based on Nordic nutrient recommendations NNR 2012 and cover the daily energy and nutrition needs for different age groups and genders. The diet for adults is planned based on the reference values for energy intake for an active lifestyle<sup>3</sup> that is desirable in order to maintain good health. For children,

calculations are based on the reference values for energy intake in the respective age group.<sup>4</sup>

The representative menus consists of breakfast, lunch, dinner and three snacks per day. The content is based on standard nutritious and reasonably priced meals. It is predominantly made up of home-cooked food and a small amount of ready-made meals, as we assume that households have limited time for cooking and baking.

As many people eat out for lunch, two alternatives for food costs have therefore been calculated:

Alternative 1. Costs based on all meals being cooked at home.

Alternative 2. Costs based on all food except for weekday lunches (Monday to Friday) being cooked at home.<sup>5</sup>

### *Personal hygiene*

The expense item ‘personal hygiene’ comprises goods and services needed for different ages and genders to keep clean and fresh and to care for the body. In addition to costs for soap, toothbrushes, skin cream, etc., it includes costs for haircuts (but nothing beyond this), shavers and a small amount of cosmetics. It also includes a few products to care for small wounds, etc. Within personal hygiene, the need for products and quantities varies by age and, for older children and adults, by gender.

### *Consideration for the environment*

In the cost calculations, we selected eco-labelled products in cases where they are the most common product variants and any added cost is reasonable. The calculations do not include wet wipes because they have been shown in some cases to contain chemicals that can cause allergies, eczema or hypersensitivity in children. We instead increased the number of eco-labelled paper wipes.

### *Clothing and footwear*

The costs shall cover the annual need of clothing and footwear used in different seasons, both for everyday use and more festive occasions. In addition, the calculations shall cover costs for clothing intended for regular sports and recreational activities. Certain accessories have also been included, such as reflectors, wallets, umbrellas, watches and bags. Backpacks for children and school students are also included.

Since the need for clothing and footwear differs between different ages and genders, calculations are made for different children's groups up to age 17 and for adult men and women from age 18 and onwards. For children up to age 10, price is measured for the same clothing for both genders. We assume that clothing does not differ greatly between girls and boys, and the prices for the garments that are different are in about the same price class.

### *Need (quantity) of the respective product*

When assessing the number of garments and footwear of different types needed for each category of persons, we made assumptions about factors such as how often people change clothes and clothing being washed once a week.

### *Quality*

The clothing included in the calculations shall be easy to care for, machine washable and not require work after washing.

### *Useful life*

When calculating the useful life of products, we take into account the quantities and quality of the clothing and footwear included. We assume normal wear and tear. When it comes to children's clothing and footwear, we also take into account how quickly children grow.

### *No self-production of clothing*

We assume that households have neither enough time nor enough knowledge to sew or knit clothing themselves and instead only perform minor repairs and alterations.

### *Consideration for the environment*

The Swedish Consumer Agency has assumed that clothing will last for a relatively long time in terms of both quality and fashion. Given the negative effects that the clothing industry has on the environment and growing demand from consumers, stores are now beginning to incorporate more and more organic clothing into their range. The prices are usually higher than for regular clothing, but in some cases within a reasonable level. Our calculations only include a small number of eco-labelled products.

### *Leisure and recreation*

Common recreational activities are used as the basis for assessing which products should be included in this expense item. This applies to both indoor and outdoor activities, some exercise and culture, and activities performed alone or together with family and friends. For outdoor activities, it includes products for both summer and winter use. The activities and thereby the product selection in the calculations differ between different age groups. Activities were chosen based on knowledge of children's needs plus surveys and statistics<sup>6</sup> regarding what people of various ages do in their free time. We also sought the help of focus groups regarding choice of products and activities deemed necessary and commonplace for a decent day-to-day life.

### *Same costs for both genders*

The calculations for leisure and recreation costs are not broken down by gender. We do not consider it reasonable to calculate different costs for recreation based on any factor other than age. Among children, both genders require exercise, relaxation and stimulation. The same applies to adults. The costs for the activities/products where there are gender-related differences tend to more or less cancel each other out, so that the total amounts for both genders are about the same.

### *Recreational products in other budget items*

Since consumption in the leisure and recreation item is tied to the individual, there could be an unnecessarily large quantity of certain products in multi-person households. One example of this is if all or several family members were to have their own TV, computer or tablet. In such cases, the goods are included in the household-related expense items, i.e. where the quantity of the product is primarily determined by family size. Various types of subscriptions, for example for computer games, streaming services and Spotify, are included in the item 'media'. Accessories such as computer games, CDs and the like can usually be considered as more personal consumption and are therefore included in the item 'leisure and recreation'.

### *Mobile phone*

Mobile phone costs, i.e. call costs and cost of the phone, are calculated as expenses linked to the individual. We assumed that everyone from



age 10 upwards has their own smartphone. To estimate call costs for different age groups, we used information from the Swedish Post and Telecom Authority. We know that subscription is the most traditional payment form, but the Swedish Consumer Agency nonetheless chose to perform calculations based on the use of a cash card (because it is easier for the consumer to keep track of costs). Cash cards were included at two different values, i.e. one lower-value card for children aged 10 to 14, and one higher-value card for age groups 15 upwards.

### *Child and adolescent insurance*

In collaboration with the Swedish Consumers' Insurance Bureau (Konsumenternas Försäkringsbyrå), we determine cost amounts for health and accident insurance for children and adolescents. All children attending preschool/school are covered by accident insurance that applies during school hours and during travel to and from the school. The scope of the insurance differs from one municipality to another, and usually does not apply during non-school hours. The Swedish Consumer Agency has therefore included insurance that covers accidents during non-school hours as well as illness. The cost calculation applies to a premium that can apply either for group insurance or for individual insurance.

### *Common household costs*

The expense categories calculated based on the number of people in the household are:

- Consumables.
- Home appliances (radio, TV, computer; furniture and electrical fittings; cooking; table setting; textiles; cleaning; maintenance; other).
- Media (including broadband, streaming services, music services, and various types of subscription).
- Home insurance.

### *Consumables*

The item 'consumables' covers costs for a variety of daily goods mainly used for care of the home and of clothing and footwear. We based our choice of products on various household activities that require the use of consumables, such as certain handling of food products (including plastic wrap and freezer bags), cleaning of the home (e.g.

vacuum cleaner bags and soap), washing of clothing and other textiles and shoe polishing. Washing-up liquid is included for dish washing as use of a dishwasher is not included in our calculations. Durable goods used in these contexts, such as a vacuum cleaner and an iron, are not included here, but are instead found under the item 'home appliances'. The category 'consumables' also includes costs for the consumption of a number of other products, such as toilet paper, paper towels, batteries, light bulbs, napkins and candles. The majority of the costs in this expense item are attributable to toilet paper, paper towels and laundry detergent.

### *Consideration for the environment*

As far as possible, we chose products that are either eco-labelled or do not cause an excessive impact on the environment. For example, fabric softener is not included and soap is used as the cleaning agent. When calculating product consumption, we also took environmental impact into account by assuming moderate use. Toilet paper and paper towels are unbleached, eco-labelled, recycled paper. Standard light bulbs have been replaced with LED/low-energy bulbs.

### *Home appliances*

The budget item 'home appliances' relates to costs for different types of products needed for a wide variety of purposes, such as cooking, eating, socialising, sleeping and storing items and for cleaning and caring for clothing, fixtures, the home, etc. The Swedish Consumer Agency has broken down this extensive expense item into a number of subitems: furniture and electrical fittings; home textiles; radio/TV, computer, etc.; cooking; table setting; cleaning; maintenance; and other. In most cases, the products in this budget item are durable goods with a useful life of over one year. The useful lives and the quantities may vary depending on household size. For some products, the need is also dependent on the number of rooms in the home, with examples being ceiling lamps, curtains and rugs. In this expense item, we assumed that households sometimes have guests and therefore increased the quantity of plates, flatware and chairs. One guest bed is also included in the costs. Since the households are assumed to live in a flat that is part of a block of flats with shared laundry facilities, the cost amounts do not include a washing machine, dryer, etc. Moreover, garden tools, outdoor furniture and large tools are not included in the calculations.

## **Media**

This item covers expenses for certain types of communication, such as using a landline telephone and writing and sending emails as well as cards and letters (including postage costs). Newspaper refers to costs for a full-year subscription. The cost calculations for a landline telephone include call fees and monthly fees. The call fees are for phonecalls within Sweden.

## **Home insurance**

The calculations regard households living in a rental flat. The costs are based on the four largest insurance agencies' premiums for insurance amounts defined in collaboration with the Swedish Consumers' Insurance Bureau. The premiums relate to standard home insurance, i.e. including legal protection, travel insurance, liability insurance and all-risk insurance. The insurance premiums vary in size depending on where in Sweden the person lives. The premiums are largest in metropolitan areas, where there is greater risk of, *inter alia*, burglary and vandalism. The premiums are lower in rural areas.

## **Consumption lists**

Detailed consumption lists have been created with information about the goods and services included in the calculations. These include not only the useful life and consumption quantity for each product and service, but also a more detailed product description, including information on model and materials. Moreover, they include the respective product's place of purchase, pack size and purchase price per pack.

The product or service's price, quantity and useful life are used to calculate a cost per year and per month. For daily goods such as 'food products', 'personal hygiene' and 'consumables', the calculated monthly cost generally corresponds to how much the household spends on them in one month. For durable goods, i.e. products with a long useful life that are purchased at intervals of one year or more, the Swedish Consumer Agency's monthly costs do not mean that a payment is made each month. They instead reflect a household setting aside money each month to later be able to replace the product when the old one has broken down, is worn out or has been outgrown. This applies in particular to the items

‘home appliances’ and ‘clothing and footwear’, where there are a large number of such items.

### *Review*

In order to update the goods and services included in the budget items discussed, regular reviews are performed using statistics from various authorities, organisations and research institutes. Each review includes reassessment of the selection of the cost-calculated products along with their quantities, useful lives and places of purchase. Adaptations are made based on new findings regarding the general standard trend in society, the households’ usage times and way of living, nutritional needs and various consumption aspects. Focus groups are used in order to obtain data on quality and current needs. In 2016, a qualitative survey of the content of the calculation data was performed in order to update the calculations for 2017.

## **Price collection and forecast**

### *Price collection in stores*

The prices of the products are generally measured, i.e. collected, in Örebro. However, to ensure the cost calculations are valid in as much of the country as possible, we primarily measure prices in national retail chains that generally have the same range and prices in all of their stores. The places of purchase should reflect households’ actual store choice and have a reasonable price level. For this reason, prices are primarily collected from larger common chains, and stores that market themselves as luxury stores or low-price stores are excluded. Store selection is based on information such as the turnover of the chains, as well as the quantity and location of the stores within the country.<sup>7</sup>

### *Other price collection*

In cases where prices cannot be collected in chains, for example for items such as haircuts, pool visits and theatre visits, the Swedish Consumer Agency collects prices in roughly five urban areas that are representative of different population sizes and geographic locations in Sweden. The price collection of premiums for child and adolescent insurance and for home insurance is done with the help of the Swedish Consumers’ Insurance Bureau.

### *Collection of prices*

Price collection focuses on regular prices. This is because we assume that many consumers, particularly low-income earners, are not able to take advantage of sale prices when they occur. Exceptions apply to certain product areas, where sale prices are particularly common, such as the budget items 'food products' and 'radio, TV, computer, etc.'. For these, the current prices are noted. Most prices are collected in collaboration with price interviewers from Statistics Sweden in Örebro.

### *Product changes*

The range of products offered in stores changes due to factors such as product development and changes in consumer demand. For this reason, each price survey includes a certain product exchange as some products are discontinued from the product ranges or have become uncommon and difficult to find. These must then be replaced with products that are more common and have an equivalent function and quality. This applies in particular to the categories clothing and footwear plus home electronics, where products and models change quickly.

### *When is price measurement performed?*

The frequency of price measurement depends on consumer price trends. Between price measurements, the actual price trend for the various consumption areas is monitored by calculating the amounts with a subindex within the Consumer Price Index (CPI). These are adapted in part to the content of the Swedish Consumer Agency's budget items. For example, recreational boats, lottery/sports betting/scratch-offs, etc. are excluded from the Statistics Sweden subindex in relation to leisure and recreation since this is not included in the Swedish Consumer Agency's calculations.

### *Forecast*

The cost amount calculated after price measurement for each budget item and category of persons/household is then converted into forecast factors for the average price trend for goods and services during the subsequent year. These factors are defined in collaboration with the National Institute of Economic Research. The forecast calculation excludes factors such as housing, which weighs heavily in the CPI but is not included in the Swedish Consumer Agency's cost calculations.

The cost amounts for the various budget items and categories of persons and household are then rounded to the nearest SEK 10 increment.

## **Review and price measurement for coming years**

### *Quality assurance of prices*

The Swedish Consumer Agency has a detailed dataset of goods and services that are included within each product area (budget item). The data are submitted to Statistics Sweden for separate calculations of the sub-CPI for the specified time periods. Based on these data, a price trend forecast for the coming year is ordered from the National Institute of Economic Research for each of the categories. This makes it possible to update the Swedish Consumer Agency's prices so they reflect reality as much as possible.

### *Quality assurance of the selection of products and services*

Quality assurance of the selection is carried out by means of the detailed consumption lists with information about the goods and services included in the calculations. These include not only useful life and need of each product and service, but also a more detailed product description, including information on models and materials. Moreover, they include the respective product's place of purchase, pack size and purchase price per pack. Performing regular reviews and using these to make adjustments to the content of the consumption lists also ensure the quality of the goods and services that are included.

### *'Reasonable living expenses'*

The Swedish Consumer Agency has decided against using the term 'reasonable living expenses' as this term can be interpreted in different ways. We have instead chosen to call our cost calculations 'The Swedish Consumer Agency's reference values for living expenses'. This change of name was also done to be more in line with the titles used by other European countries, i.e. 'Reference budgets'.<sup>8</sup>

## **Notes**

<sup>1</sup> The calculations and reference values are published each year in the Swedish Consumer Agency brochure 'Know your money' (Koll på pengarna) on the agency website: <https://publikationer.konsumentverket.se/privatekonomi/koll-pa-pengarna?twsversion=1631>

- <sup>2</sup> Report 2000:19, Report 2004:10, Report 2007:11, Report 2009: 8.
- <sup>3</sup> Reference values for energy intake in groups of adults with sedentary and active lifestyles (Nordic Council of Ministers, 2014).
- <sup>4</sup> Nordic Council of Ministers (2014).
- <sup>5</sup> For further information on the Swedish Consumer Agency's representative menus and cost calculations, please refer to report 2018:4 Swedish Consumer Agency's representative menu (Konsumentverkets matsedel), <https://publikationer.konsumentverket.se/privatekonomi/rapport-2018-4-konsumentverkets-matsedel#>.
- <sup>6</sup> Obtained from, *inter alia*, Swedish National Board for Youth Affairs, Statistics Sweden, Swedish Arts Council, Swedish Sports Confederation, Youth Barometer (Ungdomsbarometern), Media Barometer (Mediebarometern), Internet Barometer (Internetbarometern) (Nordicom, University of Gothenburg).
- <sup>7</sup> Information from the publication 'Vem är Vem' ('Who is Who'), with facts about the Swedish retail trade, <https://www.market.se/nyhet/vem-ar-vem-har-utvecklats-och-bytt-namn-mycket-mer-an-bara-kontaktuppgifter>.
- <sup>8</sup> European Consumer Debt Network (ECDN): <http://ecdn.eu/>.

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# From normative budget standards to consensual minimum income standards in the UK

*Jonathan Bradshaw*

## Rediscovering budget standards methods

In the early 1980s I became interested in expenditure data (Godfrey and Bradshaw, 1983). At the time I was directing the Social Policy Research Unit (SPRU) at the University of York and some of us in the unit were doing research on the impact of rapidly rising energy costs following the Yom Kippur War (Bradshaw and Harris, 1983). We were also doing work on social security (Deacon and Bradshaw, 1983) and were aware that the Thatcher government was introducing policies which would eventually lead to a more than doubling of child poverty during the decade. I was active in the Child Poverty Action Group (CPAG), chaired at the time by Peter Townsend. The Thatcher government had just replaced the Low-Income Statistics (LIS) series on poverty, based on the social assistance scales, with what would become the Households below Average Income series – still with us today – based on (now but not then) a 60 per cent median income threshold. This data was not having any impact on policy. A measure based on the proportion of households with incomes below 60 per cent of median equivalent income did not seem to resonate or move the public, although poverty was increasing rapidly.

We were in York, the City of Seebom Rowntree, who had completed three very influential studies of poverty in the city based on budget standards published in 1901, 1941 and 1951 (Rowntree, 1901; Rowntree, 1941; Rowntree and Lavers, 1951). Rowntree advised Beveridge (1942) and the second survey results were available to him including the budget standard but, as Veit-Wilson (1992) has pointed out, the national insurance rates recommended by Beveridge were based on less eligibility with minimum subsistence assumptions. A budget standard was a specified basket of goods and services

which, when priced, can represent a standard of living. Rowntree's budgets were designed to establish an income to meet basic minimum necessities. Beveridge's benefits aimed at minimum subsistence. But budgets could be devised to represent any living standard.

Budget standards methods had disappeared from living standards research in the UK in the postwar period (though David Piachaud (1979) published his *Cost of a Child* based on budget standards). They had fallen into disrepute because of their association with minimum subsistence and absolute measures of poverty. Thanks mainly to Peter Townsend (1979) poverty had re-emerged with a new relative conceptualisation and new methods of study. I was a disciple of Townsend. But I wondered whether we might bring the level of living that we were arguing people should not live below more alive in the 1980s, by exposing it as a transparent weekly budget – rather than a point on an income distribution.

This aspiration was naïve. When I came to York in 1967 we started a branch of CPAG and gave talks to Town Women's Guilds about poverty. Mainly elderly working-class women, they were insistently critical of the notion of child poverty. "I managed, so should they." Indeed, for my MPhil I did a survey of people aged over 80 in York. They refused to admit they were poor even when receiving national assistance. "We are better off than we have ever been." They were – and in real and cash terms, given they were born in the 1880s, had had their children before the 1930s and were the first beneficiaries of the postwar welfare state.

Although the UK had neglected budget standards research, they were still being used in developing countries. The US Bureau of Labor Statistics had published regularly updated budget standards since 1946. Though they had recently been suspended by the Reagan administration, many US states continued to publish them as did voluntary bodies in Canada. In Europe, they were being produced in several countries and in Holland they were becoming popular as a basis for budgeting advice.

In the SPRU, we started by analysing the expenditure patterns of households on supplementary benefits (Bradshaw and Morgan, 1987a, 1987b; Bradshaw et al, 1987). This work benefited particularly from a visit by Deborah Mitchell who subsequently became Professor of Social Policy at the Australian National University. Our article in the *Journal of Social Policy* in 1987 was the first mention of budget standards.

Meanwhile Hermione Parker (an economist) was working as a research assistant for Sir Brandon Rhys-Williams, a Tory MP who was obsessed by the idea of negative income tax. In order to establish

a threshold for negative income tax, they needed a measure of what people needed. In 1985, Hermione Parker and I agreed to establish the Family Budget Unit (FBU) with a group of social scientists and professionals interested in the domestic economy. We obtained funding from the Joseph Rowntree Foundation (JRF) to produce a set of budget standards for model households. We started producing working papers which were edited into a book (Bradshaw, 1993).

The research team was multi-centred. The food budget was drawn up by nutritionists including Dr Michael Nelson, Anne-Marie Mayer and Penny Manley at the Department of Food and Nutritional Sciences, Kings College, London. The leisure, household goods and services and clothing budgets were drawn up by home economists based in the Department of Leisure and Food Management at Sheffield Polytechnic including Mary McCabe, Audrey Rose, Alan Waddington and Professor David Kirk. The York team (research fellows and doctoral students) covered the other commodities and the overall analysis. Sandra Hutton did the fuel budget with help from an independent expert on thermal efficiency, Dr Bill Wilkinson. Dr John Ernst and then Dr Leslie Hicks coordinated the project and produced the housing and transport budgets. Nina Oldfield did her PhD extracting the cost of a child and publishing a book on the cost of foster care (Oldfield, 1987). Autumn Yu did her PhD extracting a low-cost budget and did the personal care budget (Oldfield and Yu, 1993). Finally, Peter Whiteford – a research fellow and PhD student (now a professor at the Australian National University) – extracted the costs of a lone parent.

During the project we learned that budget standards research rested on an endless set of decisions. We had to decide what items to include, what quantity of items, what quality of items, how long items should be expected to last and what lifetime should be attributed to them. In the FBU budgets these decisions were entirely normative and made by experts. Those members of the team that had no direct expertise consulted experts. We drew on what behavioural information was available from survey data and market research reports. We drew on recognised standards of, for example, the fitness of housing, or nutritional adequacy or domestic energy models. Where there was no guidance we borrowed ideas from other countries' budget standards (Fisher, 2007). When the budgets were drawn up we compared them with actual expenditure patterns based on the Family Expenditure Survey (renamed the Expenditure and Food Survey [EFS] and now the Living Costs and Food Survey [LCF]). However, we avoided allowing expenditure patterns to determine the budgets. Finally, we returned to our advisers with the completed budgets for a final check.

One key factor was the level of living the budget was aimed to represent. Hermione Parker, with her interests in negative income tax, was very keen it should not be a minimal budget. So in the end we aimed at a Modest but Adequate (MBA) budget. In this we were influenced by the US Bureau of Labor Statistics (BLS) City Worker's Family Budget, which was described as sufficient 'to satisfy prevailing standards of what is necessary for health, efficiency, the nurture of children and for participation in community affairs' (Kellogg et al, 1948: 133). The Watts Committee (Watts, 1980) had also adopted it 'as one that affords full opportunity to participate in contemporary society and the basic options it offers. It is moderate in the sense of lying both above the requirements of survival and decency, and well below levels of luxury as generally understood' (Watts, 1980: 133). However, it is significant that we thought it necessary to produce a so-called Low Cost but Acceptable (LCA) budget alongside the MBA budget, and in the subsequent work of the FBU most of the budgets produced were at the LCA level.<sup>1</sup>

In the initial work it was decided to draw up budgets for six standard family types chosen to represent major types in the population, including priority groups and with a spread across the generations. There remained the need to make many difficult choices. These included the economic activity status of the family types, housing tenure, car ownership, whether to include a budget for tobacco (no) and alcohol (yes within public health guidelines), and where to price the budget (York but using outlets with national pricing). In deciding on whether commodities should be included or not, where the evidence was available, we were guided by behavioural data. Items were included in the MBA budgets if 50 per cent of households had them and in the LCA budget if 75 per cent of them had them.

We learned during the project that drawing up and maintaining a budget standard is a ghastly chore and a major data management challenge. But after the end of the research project Hermione Parker, as FBU director, bravely went on raising funds (especially from Age Concern and UNISON) for the FBU, and with the help of Nina Oldfield and Sian Burr carried on updating the budgets and producing new budgets, including for Muslim families with young children in Tower Hamlets, and households with children in Wales and in the East End of London (Parker, 1998; 2000). The link with UNISON through the FBU trustee Deborah Littman, proved very important because it led to the FBU budget being used to fix the living wage in the London Living Wage campaign and subsequently the Living Wage Foundation.

When the budget standards research was launched in 1992, Donald Dewar, Labour spokesman on social security, drew attention in the House of Commons to the gap between income support and the low-cost budget standard. The secretary of state, Peter Lilley, replied that he could not accept a budget that allowed a video recorder, camera and TV!

Later, when Donald Dewar as secretary of state announced the level of pension credit in 2003, it was practically identical to the FBU's LCA budget for a pensioner. Malcolm Wicks was by then Minister of State for Social Security and he had published our first work on budget standards in 1987, as Director of the Family Policy Studies Centre. Hermione Parker died in July 2007 and the trustees decided to dissolve the FBU in 2011, with the establishment of the MIS programme of research (Bradshaw et al, 2008).

## Consensual minimum income standards

For some time, Professor Sue Middleton at the Centre for Research in Social Policy (CRSP) at Loughborough University had been studying living standards based on consensual research methods. The Consensual Budget Standards (CBS) method she developed took a similar approach to the FBU but instead of panels of professional experts, ordinary people representing different family or household types were brought together to form budget standards committees considering minimum needs. The rationale for this is that people living in a household type are best placed to construct a budget for such a household. The CBS approach assumes that, for society to agree a minimum standard of living, there needs to be informed negotiation and agreement about what constitutes a minimum, via a derivative of focus group methodology. While the CBS approach had not been applied to the general population in Britain, it had been used to assess the costs of bringing up children (Middleton et al, 1994); children with severe disabilities (Dobson and Middleton, 1998); in Jersey to produce budget standards for all household types (Middleton, 2001; Middleton and Roberts, 2004; Middleton et al, 1998) and most recently in Britain to develop budget standards for disabled adults (Smith et al, 2004). The CRSP work was also supported by the JRF and it was the foundation, particularly Chris Goulden and Donald Hirsch (working there at the time), who encouraged and enabled us to seek to blend methods. We say blend methods, but at its heart the MIS methods were and are far less dependent on expert opinion and rooted in what the public think and feel.

The MIS project was led by Sue Middleton and the Loughborough team, who had the experience of running focus groups. The York/FBU staff helped with this. However, late in the project Sue Middleton became very ill and eventually had to retire. As a result, I had to play a larger part in the analysis and write-up of the project.

The focus groups were given the following template to work with: ‘A minimum standard of living in Britain today includes, but is more than just, food, clothes and shelter. It is about having what you need to have the opportunities and choices necessary to participate in society.’ There were eight stages to the research process as outlined in [Figure 2.1](#); the numbers in brackets are the number of groups held in that stage.

Combining the result of the deliberations of the focus groups with the views of experts was the most difficult part. To give an example of the food budget: ‘The groups constructed detailed menus for different household types, negotiating among themselves to create diets which were reasonably healthy, practical in terms of lifestyle, and realistic in terms of preferences and treats.’ A nutritionist examined the weekly menus to ensure that they met the current government guidelines for healthy eating, and were nutritionally adequate, using a software programme. Some menus needed no changes, while the content of others required minor alterations. This most commonly involved increasing the number of portions of fruit and vegetables. The menus were then elaborated to specify portion sizes and quantities, calculated on the assumption that case study individuals had average activity rates/energy use.

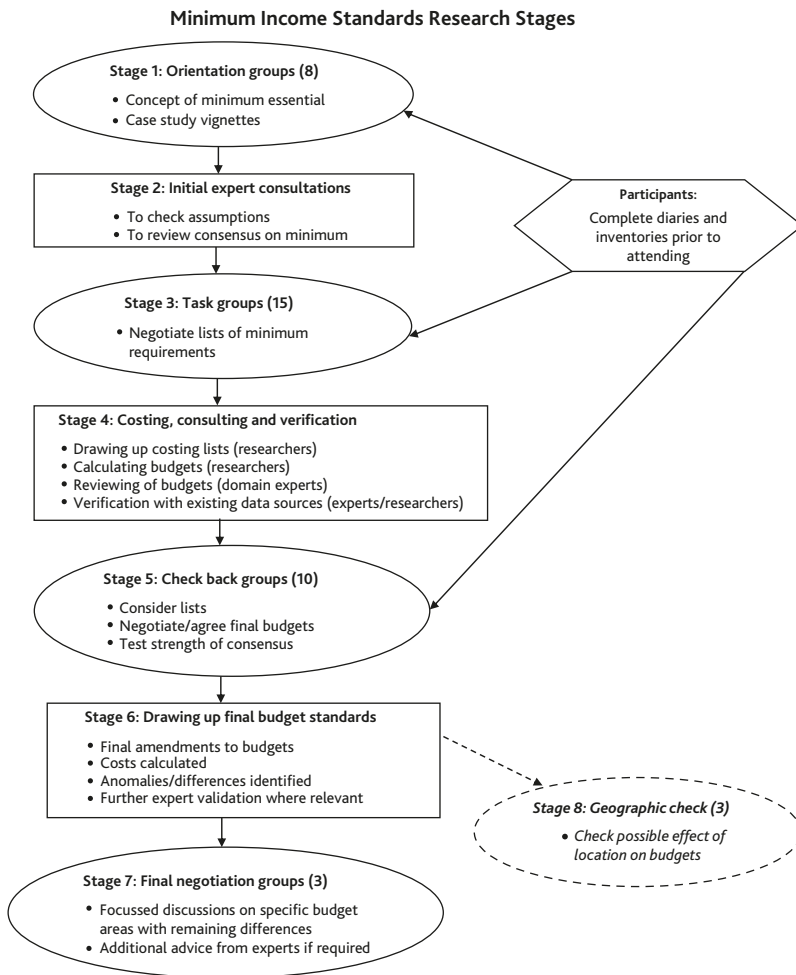
The nutritionist converted the menus into ‘food baskets’ – shopping lists of all the ingredients needed for the menus – taking into account possible food waste. These lists were then costed in-store at Tesco’s supermarket. Groups specified the quality and brand of items required, involving a mixture of Tesco Basic range items, Tesco own brands and named brands. Where the budgets allowed provision for eating out, the food involved was included in the test for nutritional adequacy in place of food bought at the supermarket.

‘Developing individual, nutritionally adequate, case study menus made it possible to devise family menus at a later stage, by combining the food baskets for the relevant group of individuals.’ For most commodities the choice of type, quantity, lifespan and quality were determined by the groups rather than experts.

Budgets were developed for four standard families:

- Working age single adult (16.0 per cent) of all households.
- Pensioner couple (12.2 per cent).

Figure 2.1: Minimum income standards research stages



Source: Bradshaw et al (2008: 7) (reproduced with permission of the copyright owner).

- Couple with two (one preschool and one primary school aged) children (11.2 per cent).
- Lone parent with a toddler child (lone parents + one child = 3.7 per cent).

Between them, these four represent 43.1 per cent of all single-unit households.

The original MIS project, report and working papers, available on the MIS website, had a number of innovations.<sup>2</sup> Methods were

developed for updating and rebasing the standards (and have been used subsequently). We also used the standards to critique the existing equivalence scales, used in poverty measurement and implied in the level of social security benefits. We found that these overestimated the needs of pensioners and underestimated the needs of children. There was also a heavy emphasis in the report on comparing the MIS with social security benefits, the net income of the MIS households working full time for the minimum wage and to the relative poverty thresholds. This continues today.

There was also a substantial effort to compare MIS with actual expenditure using data from the EFS for the same family types. We found that for single people the total MIS of £157.84 per week excluding housing costs was about £105 less than actual mean expenditure, £36 higher than actual expenditure of single working age people relying on income support and about £10 higher than single people of working age in social housing. Comparing spending patterns, the MIS budget contained less than actual mean expenditure on all commodity groups except food and household services. A possible explanation for the latter was the inclusion of mobile phones and landlines as necessities within the MIS budget for this group. Mobile ownership rates had been increasing rapidly. Comparing budget shares, the MIS allowed less than the actual average budget shares of income support and social housing cases on alcohol and tobacco, water rates, council tax, fuel, other housing costs, household goods and transport.

For the pensioner couple we found the overall MIS (of £201.49 excluding housing costs) was about £161 lower than mean national expenditure, £30 lower than couple pensioners receiving minimum income guarantee (MIG)/pension credit (PC) and £11 lower than couple pensioners in social housing. The main reason that the MIS was lower than MIG/PC and social housing was the introduction of free bus transport from April 2008 which was not reflected in the historical expenditure data. In terms of pounds spent per week, the MIS budget contained less than the actual average expenditure of pensioners on all commodities except personal goods and services. Personal goods and services, which includes health costs, may have been higher in the MIS because the MIS budgets did not take account of exemptions from charges for spectacles or dental treatment which are only available to some pensioners. The allowance in the MIS for hairdressing services for women may also have contributed. The budget shares in the MIS were similar to the MIG/PC and social housing groups for most commodities except they were lower for fuel, household goods and travel.



For the couple with two children we found that the analysis was complicated by the inclusion in the MIS of childcare costs. While there were and are strong policy reasons for including them, the national EFS revealed that there was very little actual expenditure on childcare. So, we compared the EFS and the MIS budgets excluding childcare. The total MIS for the couple with two children excluding childcare and rent/mortgage was £370.05 per week. This is £240 less than actual average expenditure, £83 higher than similar families on income support and £22 higher than similar families in social housing. In terms of budget shares, the MIS contains less on alcohol, tobacco, water rates, other housing costs, household goods and transport in comparison with the families on income support or in social housing. The lower costs for alcohol was the result of focus group consensus that consumption outside the home was not a necessity for couples with young families. Therefore, all prices for alcohol were collected in supermarket stores.

For the lone parent with one child (a toddler), we found the total MIS budget excluding childcare was £210.31, which was £5 less than the average actual expenditure, £49 more than lone parents on income support and £27 more than lone parents with one child in social housing spend. In comparison with average actual expenditure, the MIS budget was higher than average for water rates, council tax, fuel and personal goods and services. In comparison with budget shares the MIS budget was similar to the income support and social housing groups except for tobacco, personal goods and services and social and cultural participation.

On reflection, and since the global economic crash and austerity, MIS may now be on the generous side. Since 2010, our minimum income scheme has been undermined by the benefit caps, the two-child limit, the bedroom tax, local rent limits, real terms cuts to benefit levels, the failure to uprate child tax credits and child benefits, the localisation of council tax benefit and sanctions. Since 2010, about £39 billion has been taken out of the social security budget for working age people. The biggest losses have come from the freeze since 2016 in working age benefits. They have lost value, but the biggest individual losses have come as a result of the bedroom tax and local rent limits and the lower reductions in council tax benefit which means that tenants are having to pay some of the rent and council tax they are being charged out of the scale rates of benefit designed to be spent on food, clothing, heating and electricity etc. Those hit by the two-child limit and the benefit cap are suffering huge losses compared to what they would have received before. The safety net is no longer secure or a standard that we can be certain people are receiving.

MIS remains a long way above benefit levels (except for pensioners) and a good way above the 60 per cent of median poverty threshold (except for pensioners) and it is even above the net incomes of couple families with children on the minimum wage. This is because the MIS team deliberately designed MIS to be a minimum adequacy standard for social participation and not a practical poverty and deprivation standard. To respond to the criticisms (see Hudson–Sharp et al, 2016) that as an adequacy standard MIS therefore naturally cannot be used to indicate a serious lack of resources, the MIS team showed that ‘below 75% of MIS, people have three times the odds of lacking necessities as those above 75% of MIS’ (Hirsch et al, 2016: 44). This 75 per cent of the standard MIS, which they suggest constitutes a practical poverty and deprivation standard, can be shown to need an income level still above minimum benefit levels but in between the 60 per cent of median thresholds before and after housing costs (except for pensioners).

Following the end of the initial MIS report in 2008, Donald Hirsch (writing in Chapter 21 of this volume) brilliantly took over the lead of the MIS research at Loughborough, became Professor of Social Policy and with the consistent and continued support of the JRF has continued to report MIS for Britain on an annual basis.<sup>2</sup> In 2018, they published a report tracing the MIS since 2008 (Davis et al, 2018). Other chapters in this volume take the story forward in other national and comparative contexts.

## Notes

<sup>1</sup> The FBU reports are still accessible on: <https://www.york.ac.uk/res/fbu/publications.htm>.

<sup>2</sup> The MIS reports are available at: <http://www.lboro.ac.uk/research/crsp/mis/>.

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# Minimum Essential Standards of Living research in Ireland

*Bernadette Mac Mahon and Robert Thornton*

## Introduction: origins and aims

The Vincentian Partnership for Social Justice (VPSJ) is a small community and voluntary organisation which was established in 1995 to work for social and economic change, tackling poverty and exclusion. To achieve its goal, the partnership uses two approaches: (1) the facilitation of an Active Citizenship Voter Education Programme and (2) the development of data on the cost of a Minimum Essential Standard of Living (MESL). The first focuses on communities in disadvantaged areas in which there is a low voter turnout. During the first five years of working in these communities, the VPSJ became increasingly conscious of the long-term effects of living with an inadequate income and the implications for standards of living, participation in society and access to education, health and social services. It was in the course of this work on active citizenship that a group of women became very interested in how the national income was distributed. It was in response to seeing the amount allocated to social welfare in the national budget and the wide range of people dependent on social welfare transfers that two of the women asked, “Will no one show the government what it is like to live on social welfare transfers and the national minimum wage?” “Will no one show them what people need to have to live on in order to have a decent standard of living, a life with dignity?” They went on to say, “The payments don’t meet the cost of living even a very basic standard. They must be pulled from the air.” In response, the VPSJ began its work to develop data on the cost of a Minimum but Acceptable Standard of Living. As a result of developments in this area over many years, the VPSJ established the Minimum Essential Budget Standards Research Centre.<sup>1</sup>

The VPSJ began the work on income adequacy by focusing on the first part of the women’s plea. The question of adequacy was a crucial

one for the VPSJ in its first attempt to explore the realities faced by households struggling to make ends meet. *One Long Struggle: A Study of Low Income Households* (Mac Mahon et al, 2001) was the VPSJ's first attempt to provide data on living standards and budget choices. A total of 118 people, each representing a different household from 18 areas in Dublin City and County and who were dependent on social welfare transfers and/or the national minimum wage as their source of income, participated in this study and completed a questionnaire. Forty-five people later participated in an hour-long interview.

In summary, the data provided information on the different levels of expenditure related to the income of households as well as on the degree of deprivation and levels of social participation. None of the households with social welfare transfers, as the sole source of income, had an acceptable standard of living. The payment rate was grossly inadequate. The data highlighted the need to benchmark social welfare transfers to the cost of living and the need to develop reference budgets to ensure adequacy. It threw into sharp relief the multidimensional consequences of living with an inadequate income. The findings of this study also showed clearly that the shortfall experienced by participants was not due to bad management but to what was a totally inadequate income.

## **Aims of the research and stages of development**

The outcome of its first study encouraged the VPSJ to undertake research to establish what is needed for a standard of living that meets physical, psychological and social needs of individuals and households at a minimum but essential level. The aims of the research were as follows:

- Produce robust transparent data on what is required to live and partake in Irish society at a standard below which members of the public agree nobody should be expected to live.
- To provide an evidenced-based benchmark grounded on the lived experience of people and which can evaluate the adequacy of social welfare rates and those for the national minimum wage.

### ***Low Cost but Acceptable (LCA) budget living standards***

In 2003, the VPSJ began this work using the LCA budget standard methodology as developed by the Family Budget Unit (FBU) at York University (Bradshaw, 1993) to establish this standard for three household types. The study pointed to the need to continue research on budget standards for a wider range of households in order to

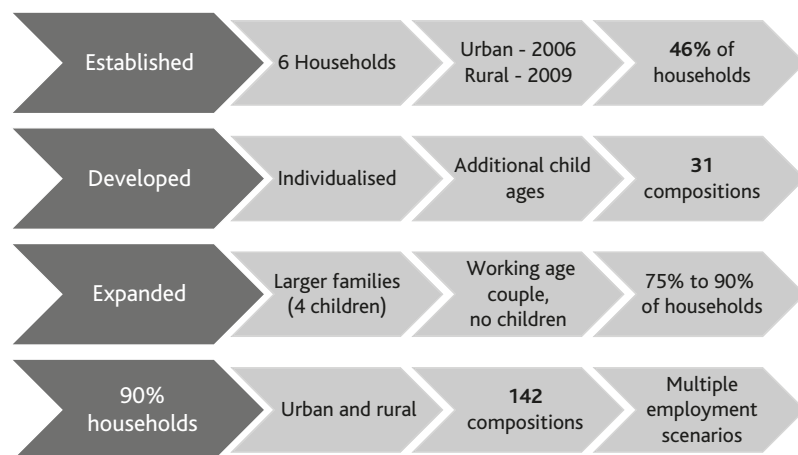
produce evidence-based data on the minimum income required for an acceptable standard of living and to develop budgets based on the needs and consumer patterns of Irish households.

### *Consensual Budget Standards (CBS)*

A joint research project between the FBU and the Centre for Research in Social Policy (University of Loughborough) resulted in the development of the CBS methodology which is described by Bradshaw (2008) as: ‘a standard which will be rooted in social consensus about goods and services that everyone in Britain should be able to afford, while at the same time drawing on the expert knowledge about basic living requirements and expenditure patterns’ (Bradshaw et al, 2008: 3) The VPSJ undertook its first CBS research in 2006 – *Minimum Essential Budgets for Six Household Types* – and since then has applied this methodology in all subsequent studies. The dataset now covers 90 per cent of Irish households and is being used by an increasing number of organisations in their own work. Figure 3.1 shows the development of the MESL work.

The data are updated every year to take into consideration changes in social welfare entitlements, taxation and employment law. The content of the budget is regularly reviewed/rebased to allow for changes in consumer spending patterns. In order to make its data accessible to the general public, the VPSJ developed the Minimum Income Standard Calculator.<sup>2</sup>

**Figure 3.1: Development of MESL**



## Initial theoretical and conceptual framework

Almost 20 per cent (19.8 per cent) of the population in 1998 had an income below 60 per cent of median income (Whelan et al, 2003: 20). Familiarity with the multidimensional impact of living with an inadequate income and the consequences for many households was the main motivating factor behind the commencement of the VPSJ work on income adequacy in 1997.

As far back as 1986, the Commission on Social Welfare stated that ‘to be adequate, payments must prevent poverty and it is in our view must be judged in the light of actual standards of living in contemporary Irish society’ (1986: 123). In 1997, the National Anti-Poverty Strategy (NAPS) emphasised the need for income adequacy in its definition of poverty:

People are living in poverty if their income and resources are so inadequate to prevent them from having a standard of living which is regarded as acceptable by Irish society generally. As a result of inadequate income and resources people may be excluded and marginalised from participating in activities which are considered the norm for other people in society (Government of Ireland, 1997: 3)

The Combat Poverty Agency (CPA) pointed to the continued lack of measures of adequacy in its submission to the Adequacy Benchmarking and Index Working Group and stated that ‘welfare inadequacy is a key deterrent of the living standards of low-income households ... We still have high rates of poverty despite the positive effects of economic growth’ (CPA, 2001: 18). In the same submission the CPA recommended that ‘the government should agree a Minimum Income Standard ... defined in relation to prevailing income standards’ (CPA, 2001: 18).

The high rates of income poverty, the growing acceptance of the need for income adequacy in terms of living standards and the lack of progress in developing such standards strengthened the VPSJ’s decision to provide evidence-based data on the cost of a MESL.

The VPSJ decided to use a methodology which would:

- Reflect the UN definition of a minimum acceptable standard of living, one which realises a person’s physical, psychological, social and spiritual well-being.
- Draw on the actual lived experience of members of the population.
- Be based on a standard for everybody in the population, not just for people in poverty.



- Provide reliable, detailed and transparent data.
- Be adapted for use with different household types.
- Allow the data to be updated annually.
- Draw when necessary on the experience of experts, for example housing, nutrition and household energy.

The VPSJ saw the CBS methodology as described by Bradshaw et al (2008) and Middleton et al (1999) as best reflecting the elements identified as necessary by the partnership:

The advantage of the method is that it moves away from the options of politicians, civil servants, academics or professionals about what is essential, to take account of the actual expenditure choices and judgements that are made in real life by people as they manage their budgets. This means that the resulting poverty lines are much more likely to be accepted by the population as a whole and, therefore, policy initiatives arising from them might have a greater chance of public approval. (Middleton et al, 1999: 7)

## Methodology

The VPSJ has used the CBS methodology in all its studies since 2006. It is a 'standard rooted in social consensus about the goods and services that everyone ... should be able to afford, while at the same time drawing on expert knowledge about basic living requirements and actual expenditure patterns' (Bradshaw et al, 2008: 3). This methodology includes pricing specific goods and services, which when priced can represent a particular standard of living for different household types.

## Focus groups

In order to develop the CBS, people living in the household for which it is designed are brought together in focus groups to act as their own Budget Standard Committee. Each focus group includes people from different economic and social backgrounds who, through a negotiated consensus, establish the goods and services required for a minimum essential standard of living. Ultimately, the people themselves are the experts. However, professional experts are consulted as required, for example nutritionists and household energy experts. The household budget consists of 16 component budgets. These are as follows: food, clothing, personal care, health-related costs, household goods,

household services, communication, social inclusion and participation, education costs, transport, household fuel, personal costs, childcare, insurance, savings and contingencies, housing. Three focus groups are established for every household type. There are four phases in the focus group stage of the CBS process.

### *1. Orientation phase*

The initial phase explores the language, concepts and priorities that people use in thinking about spending and consumption. During that phase the group develops a working definition of a MESL and identifies the difference between needs and wants.

### *2. Task phase*

In this phase two different focus groups consider each budget component in turn (for example food, clothing, household services and social participation). The first of the two groups develops the list of items for each category, having reached a consensus on the inclusion of each item. The second group reviews the lists developed by the first group and reaches a consensus about the contents and about any necessary changes. Experts are then consulted as appropriate, for example nutrition and heating experts.

### *3. The costing phase*

The items agreed by the focus group are costed by the researchers. In general 2,000 items are costed.

### *4. Check back phase*

The final phase is particularly important as it involves the rechecking of items and costs to reach a consensus. This is the task of the third focus group. The members are also asked how much they would be prepared to reduce the budget at the request of the Minister of Finance (Middleton, 2000: 63–4).

## **Policy context**

In Ireland the first governmental NAPS was published in 1997. The strategy presented a formal definition of poverty which recognised that poverty is relative and multi-faceted, acknowledging issues of

both income inadequacy and social exclusion from acceptable living standards. The definition has been retained in each subsequent poverty and social inclusion strategy:

People are living in poverty, if their income and resources (material, cultural and social) are so inadequate as to preclude them from having a standard of living which is regarded as acceptable by Irish society generally. As a result of inadequate income and resources people may be excluded and marginalised from participating in activities which are considered the norm for other people in society. (Government of Ireland, 1997: 30)

This definition reflected the widely accepted conceptualisation of poverty that had informed approaches to operationalising and measuring poverty in Ireland over the preceding decade. The strategy set out multiple aims and goals, and crucially set a headline target for reducing poverty. This was a first not just for Ireland, but for any EU country. The poverty reduction target was articulated in terms of the ‘consistent poverty’ measure.

ESRI research and analysis carried out through the 1980s examined multiple approaches to measuring relative poverty and social exclusion, identifying those at risk and the effectiveness of state supports in addressing needs (Callan et al, 1989, 1991). The approach refined and developed in multiple research tranches and provided the basis for the ‘consistent poverty’ measure, combining a relative income poverty line with deprivation indicators to point towards those groups which are ‘excluded from ordinary living standards’.

In tandem with the development of methods to measure poverty and social exclusion, there was consideration given to what would constitute an ‘adequate income’. A primary recommendation from the Irish government-appointed Commission of Social Welfare (1986) was that social welfare should provide a minimally adequate income. A subsequent review and analysis of this recommendation examined multiple approaches to establishing an adequacy benchmark (Callan et al, 1996).

This review considered the potential of budget standards research, acknowledging the transparency of the approach and the how the method ‘can tap into common understanding of what adequacy means’ (Callan et al, 1996: 58). While expressing reservations about the potential for subjective judgements to be incorporated into the consumption basket, the authors found that budget standards (while time and resource intensive) could play a role in contributing to assessing adequacy of social welfare rates.

The main potential of budget standards is not to define what constitutes an adequate standard of living, but rather to outline the financial consequences of a specified and defined living standard and thus provide a point of reference in assessing the adequacy of current income support rates. (Callan et al, 1996: 141)

It is argued that defining ‘income adequacy’ will reflect judgements, values and attitudes, and that while research and evidence cannot substituted for these judgements, it can inform them (Callan et al, 1996). The NAPS (Government of Ireland, 1997) reiterated this point, recognising that consideration must be given to the appropriate indicators and reference points to properly inform policy debate and political decisions on adequacy.

Subsequently, a Social Welfare Benchmarking and Indexation Group discussed adequacy in terms of enough ‘to provide every person with sufficient income to live life with dignity’ (Kennedy, 2001: 6). Their deliberations reached the conclusion that there was a potential for CBS research establishing the cost of actual living standards, and ascertaining ‘what people see as the minimally decent levels of living’ (Kennedy, 2001: 17).

It is in this context that VPSJ’s CBS work was undertaken, and continues to contribute a unique indicator to the ongoing debate on what is needed for a MESL. The research provides a new vein of evidence to shine a light on what is needed to avoid poverty, to enable participation and inclusion and to inform debate on where the appropriate level of a minimally adequate income may lie.

## Research findings

The cornerstone of the MESL dataset was established in the VPSJ’s first CBS research project, conducted from 2004 to 2006, *Minimum Essential Budgets for Six Household Types* (Mac Mahon et al, 2006). This study identified the minimum needs of six household types, in urban areas. Subsequent research identified the additional and different needs of these six household types when in rural Ireland (Mac Mahon et al, 2010). Further research, published in 2012, expanded the dataset through individualising the base household data, established the minimum needs of additional child age groups (Collins et al, 2012), identified the needs of larger household compositions with up to four children (Mac Mahon et al, 2012) and added working age couples without children (VPSJ, 2014).

These developments of the MESL from 2006 onwards added flexibility to the dataset, enabling the examination of a broader range of household compositions, including multiple permutations of households with varying numbers and ages of children. The dataset has grown from a set of six household types which represented 31 per cent of Irish household compositions, to now covering 90 per cent of household compositions across urban and rural Ireland.

The MESL data are focused on single family-unit households, households comprising either a single adult or a couple, and any dependent children. The remaining 10 per cent of households not covered by the current MESL dataset are households with additional adults, for example a family household with children, parents and grandparent, and households with more than four children.

The MESL dataset provides the minimum expenditure need for the following:

#### Household types

- Two parents, with one to four children.
- One parent, with one to four children.
- Single adult, working age.
- Cohabiting couple, working age.
- Pensioner, living alone.
- Pensioner couple.

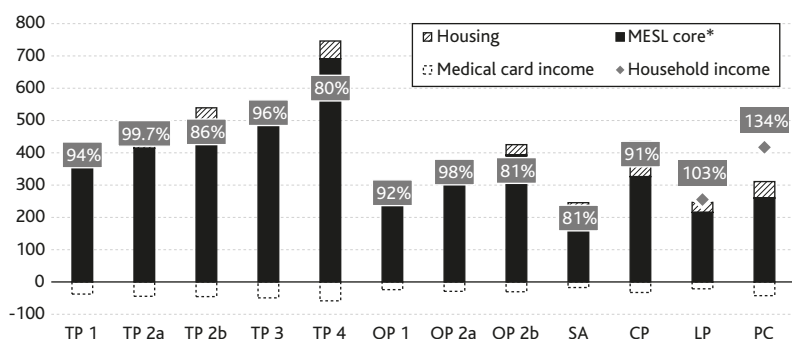
#### Child age groups

- Infant.
- Preschool.
- Primary school.
- Secondary level.

In Ireland, the minimum standards dataset is adjusted annually, and an accompanying analysis of the changing minimum expenditure and income needs is produced for a set of 12 representative household types. The minimum income needs are analysed, benchmarking the income adequacy of social welfare supports and minimum wage employment for multiple scenarios. A summary of the 2018 (Mac Mahon et al, 2018) data is illustrated in Figure 3.2.

Overview of 2018 findings in context of social welfare adequacy

The 2018 working age social welfare payments (Jobseeker's Payments, One-Parent Family Payment, etc.), including associated dependent adult and child rates, do not provide the basis of an income which

**Figure 3.2:** Social welfare benchmarked against urban MESL expenditure need

Source: Mac Mahon et al (2018).<sup>3</sup>

will adequately meet the cost of an MESL for the majority of the compositions examined in the research.

The annual MESL analysis broadly tracks the changing trend of social welfare income adequacy for a set of 214 test case household compositions and income situations.<sup>4</sup> The 2018 analysis found that social welfare falls short of the MESL standard in 157 of the 214 urban-based cases examined. This is an improvement from 2017, when 169 cases demonstrated income inadequacy. Additionally, in 2018 the adequacy gap reduced in all cases, with the proportion of minimum need being met by social welfare increasing. Of the 157 household cases with income inadequacy, over half (90 cases) demonstrate deep income inadequacy, where income meets less than 90 per cent of minimum need. This is a marked improvement from the position in 2017, when over two thirds (110) of the inadequate cases were in deep income inadequacy.

This is progress towards income adequacy for a greater range of household compositions as both the numbers with adequacy has increased, and the number of cases with an income within 10 per cent of minimum need has increased.

## Impact and influences on policy and practice

The MESL budget standards research translates the conceptualisation of poverty and social exclusion into a practical evidence-based measure, derived from social consensus and grounded in lived experience.

The MESL provides robust and transparent data which compliments other poverty measures. The research has contributed to informing debate on a range of policy issues. These have included the adequacy

of social welfare supports, the additional needs of older children, affordability of childcare, energy and food poverty, additional costs of disability, assessment of minimum wage adequacy and contributions to the development of a new personal insolvency service, and it underpins the living wage calculations for Ireland.

### *MESL analysis and policy recommendations*

An analysis of the updated MESL data is published annually. This examines factors contributing to changes in the minimum requirements, and benchmarks the adequacy of social welfare supports, minimum wage employment and public services, for a set of representative household types.

The annual publication provides timely information for the many organisations which use the data in their work, and aligns with the annual government budget cycle enabling the MESL data to inform the contributions of those engaging in the process.

The MESL researchers contribute to the government's policy-formation process, through written submissions, meetings with government representatives and presentations to Oireachtas (parliamentary) committees. The MESL research team formally participates in the government's annual 'Pre-Budget Forum' and 'National Economic Dialogue', bringing the MESL evidence to inform debate on the adequacy of social transfers, supports and services.

Most recently, the MESL data provided the evidence base demonstrating the need for increased social welfare supports for older children (VPSJ, 2018). In the government's social welfare rate decisions for 2019 this need was recognised and a higher rate of support was instigated for older children in social welfare-dependent households.

### **Additional applications of the MESL research**

In addition to maintaining and developing the MESL expenditure and income needs data, the MESL data are applied to an in-depth examination of current policy-relevant issues. These have included the following.

#### *Irish insolvency service*

In 2013 the newly formed Insolvency Service of Ireland (ISI) worked with the MESL researchers to develop an adapted version of the minimum needs data. This provided the evidence base for the

Reasonable Living Expenses (RLE) guidelines for individuals and households entering personal insolvency arrangements with creditors. The RLEs are updated annually in line with adjustments to the MESL data (ISI, 2018).

### *Living wage*

The Living Wage Technical Group (LWTG) was convened in 2014, and agreed a method for calculating the living wage rate based on the MESL research. The annual living wage rate is calculated by the MESL researchers, in consultation with the Living Wage Technical Group (LWTG, 2018).

Following the development of the living wage, the MESL research team was consulted by government representatives and the Low Pay Commission on the issue of low pay, minimum wage adequacy and the living wage. Recently, the research contributed to a European Agency report on living wage initiatives and adequacy standards in the EU (Hurley et al, 2018).

### *Food costs*

SafeFood, an all-island body operating in both Ireland and Northern Ireland, engaged the MESL researchers to examine the food element of the MESL for multiple household types in both Ireland and Northern Ireland (Mac Mahon and Moloney, 2016a, 2016b). The established minimum food baskets now provide the basis of a food poverty indicator, for both the Ireland and Northern Ireland, and are updated on a bi-annual basis.

### *Disability and visual impairment*

This research established the additional MESL expenditure needs of individuals with a visual impairment, and demonstrated the potential for the MESL data and CBS to be applied in the identification of additional and different needs associated with disability (Mac Mahon and Moloney, 2017; VPSJ, 2017).

### *Energy poverty*

The MESL data were utilised to examine the effect of dwelling energy efficiency and energy costs in the context of overall MESL expenditure need (Thornton, 2014). This analysis has led to ongoing consultation



with government officials, and has highlighted the vital role of energy-related income supports in conjunction with efficiency improvements, for the development of policy to address energy poverty.

### *Childcare*

The cost of private childcare can comprise a significant proportion of a household's MESL expenditure need. Following the publication of an MESL Working Paper examining this issue in detail, the MESL research team was consulted by the government in the development of a model of affordable childcare for Ireland.

## Conclusion

This chapter has outlined the origins and development of the research in Ireland and its policy context. It has summarised the most recent findings and demonstrated the ongoing impact and policy relevance of the research. This demonstrates the continuing need for this research to provide the evidence base for determining income adequacy.

## Notes

- <sup>1</sup> Reports and papers can be found on the Centre website: <https://www.budgeting.ie/>.
- <sup>2</sup> The VPSJ has developed a Minimum Income Standard Calculator, see: <http://www.misc.ie/home>.
- <sup>3</sup> See Mac Mahon et al (2018: Appendix, tables 4A and 6A) for detail of MESL expenditure need and social welfare income. The full set of MESL 2018 data, for all household types and compositions, and a suite of income scenarios are available at <https://www.budgeting.ie/>.
- <sup>4</sup> The Source of the 214 Test Cases: the MESL data can distinguish between the minimum expenditure needs of 69 compositions of one to four children across four age groups. Further permutations may be introduced through examining different income scenarios, housing tenures, etc.

This flexibility enables the benchmarking of social welfare adequacy for 214 test cases. The cases are composed of the following households and income scenarios:

Two parents	1 to 4 children, 4 age-groups	Social housing	1 jobseeker & 1 stay-at-home	69
Two parents	1 to 4 children, 4 age-groups	Social housing	2 Jobseeker	69
One parent	1 to 4 children, 4 age-groups	Social housing	OFJ/JST/ jobseeker	69
Working age	Single adult and couple	Private rented	Jobseeker, rent supplement	2
Pensioner	Living alone and couple	Social housing	State pension	5

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# The French experience of reference budgets

*Pierre Concialdi*

## Introduction

This chapter deals with the French experience of reference budgets (RBs). Under the same general heading of RBs, one can find quite different approaches to setting some minimum budget that could inform policy objectives. The ones that have been developed in France since 2015 follow the Minimum Income Standards (MIS) methodology initiated in the UK. Apart from the UK, France is the country where such RBs have been carried out in the most extensive way. Results have been published for middle towns in 2015 (ONPES, 2015) and research has been undertaken to expand these budgets to rural areas and the Great Paris.

The first section of the chapter presents the motivations and objectives of this research and provides some historical background concerning the establishment of standard budgets more generally. The next section presents the theoretical background and the conceptual framework that have been used to construct these budgets. [Section three](#) describes the key methodological choices that have been made and the motivations for these choices. The last section highlights the main results of the study, the related research findings that were motivated by this indicator and the place of these reference budgets in the French policy debate.

## Objectives of the research and historical background

Recent research on reference budgets was funded in France by the Observatoire National de la Pauvreté et de l'Exclusion Sociale (ONPES, National Observatory on Poverty and Social Exclusion), an agency of the French government that was established in 1998 to report on the state of poverty in France. Since it was set up, the ONPES has aimed at setting up a series of indicators gathered together in a

dashboard, the purpose of which is to highlight the multiple factors of poverty and social exclusion.

For a number of years the ONPES has wondered about the ‘halo of poverty’ to better understand what life is really like for populations who are not necessarily poor in the conventional statistical sense of the term (those who find themselves below the monetary poverty line at 60 per cent of the median standard of living), but who do not have all the means needed for full participation in social life. Another concern was that the usual poverty indicators were conventional and found it difficult to gather any consensus.

The main motivations of the ONPES for devising RBs was thus to better understand the needs faced by households, in particular those most in difficulty, and also develop an indicator – a decent minimum income – that could be as consensual as possible and also as understandable to as many people as possible.

This research is clearly related to the European Union’s decision to promote a common framework for establishing a minimum level of income using the RB method. It is a contribution to the European efforts towards the definition of an adequate minimum income. However, the ONPES made its own choices concerning the methodology of RBs.

Before the ONPES decided to set about drafting its own RBs, there was already a similar indicator in France, namely the budgets per family type developed by the French National Union of Family Associations (UNAF) since 1952. The existence of these standards budgets is related to the introduction of a minimum wage in the aftermath of World War II.

In 1950, the government decided to put an end to the wage freeze and to allow social partners to freely negotiate collective agreements. This liberalisation of wages was to go hand in hand with the introduction of a wage floor. In order to set up the level of this minimum wage, a 1950 law proposed that the Higher Committee on Collective Agreements [be] responsible for the composition of a standard budget for the determination of the guaranteed national minimum wage.

This commission produced various budgets. However, trade unions and employers who took part in this commission could not reach any agreement on the level of these budgets and the government finally decided to unilaterally set the level of the minimum wage. The UNAF, which also took part in the commission, has decided since then to produce its own standard budgets. The budgets initially covered two family types and the work was gradually expanded to eight family types.

The objective of these budgets is similar to the one set by the ONPES since it offers a ‘decent life minimum’ benchmark for different family

types. However, the methodology developed by the UNAF only relies on the stock of existing norms and standards, such as scientific recommendations, legislation or regulations. This is in clear contrast with the RBs produced by the ONPES where the expertise of citizens is a key input.

## **The theoretical background and the conceptual framework**

As a first step, the research carried out in France consisted of a literature review that was intended to firmly set the project in appropriate theoretical and conceptual frameworks. The literature review focused on academic research on poverty, mainly drawing on the major works by Amartya Sen (1999) and Martha Nussbaum (2000), as well as on the work by Len Doyal and Ian Gough (1991). The main findings of this literature review were discussed within the steering committee that was set up to follow-up the research. This discussion highlighted some key points.

First, all the contributions of these authors help in clarifying the objectives that can be assigned to such RBs. In a nutshell, this can be summarised in the fact that, whatever wording is used by these authors, the fundamental objective is much more than simply to ‘survive’. For Sen (1999), everyone should have the capability to choose between different kinds of life, Nussbaum (2000) advocates that people should have the possibility to live a flourishing life and Doyal and Gough defined the key objective as fully participating in society. All these ideas were in line with the core idea of the project that was to define an inclusive benchmark.

Second, the review also highlighted two ideas that are useful when interpreting or developing RBs, in particular the freedom of choice (Sen, 1999) and the distinction between needs and wants (Doyal and Gough, 1991). The emphasis Sen (1999) places on individuals’ freedom to choose their way of life ultimately brings to the fore the fact that RBs should not be used to provide any normative guidelines as to the use that individuals or households must or should make of their budget. The distinction introduced by Doyal and Gough (1991) between needs and wants is a very useful one when it comes to the concrete discussion of the basket of goods and services. It enables people to stick to the core idea of need without confusing it with their own preferences or ‘wants’.

Finally, the third outcome of the review relates to the dimensions – or the lists of basic capabilities or needs – that should be considered

when devising a reference budget. It is well known that Sen never produced such a list of basic capabilities. Nussbaum's list was considered too abstract by the steering committee. By contrast, the hierarchical model of needs developed by Doyal and Gough was considered a very useful tool to empirically go from very general and abstract needs – such as physical health, autonomy and social participation – to much more concrete need satisfiers that the research on RBs is intended to identify.

Another conceptual input that has been taken from the work by Doyal and Gough is the identification of a 'dual strategy' to empirically devise RBs. This dual strategy takes advantage of both the experiential knowledge of citizens concerning their needs and the codified knowledge of experts. This dual strategy was implemented to develop French RBs.

Although this was never clearly mentioned in the official report published by the ONPES that was mainly focused on the empirical results of the research, one can say that the theoretical background of the study is clearly grounded in Doyal and Gough's (1991) *A Theory of Human Need*. This was reflected in the fact that Ian Gough was personally invited as a keynote speaker to the international conference organised in October 2015 to publicly launch the first results of the research.

## Key methodological issues

Together with the literature review, the first six months of the project were devoted to the precise definition of the methodology. This task was achieved through a detailed questionnaire that was sent out to six foreign teams who had conducted similar studies (Australia, Belgium, Finland, Ireland, the Netherlands and the UK). In-depth direct interviews were subsequently held with the British, Irish, Dutch and Belgian research teams.

This comparative analysis allowed the identification of some very general common features that are shared by most (if not all) experiences.<sup>1</sup> However, besides these broad common features, an in-depth comparison showed the diversity of some key methodological options. Table 4.1 summarises these differences and identifies five key methodological issues (left column). The next column presents the choice made by the ONPES – which are very much inspired by those of the British researchers in the MIS project. The last column presents another option that gives, in our view, the greatest contrast with the study carried out by the ONPES.



**Table 4.1:** Key methodological choices

	ONPES-MIS	Other possible choices
(1) Objective of the study	Minimum budget for participating in society	Minimum budget for poor/ precarious people Validation of existing poverty lines
(2) Organisation of the discussion	Priority given to the expertise of citizens informed by experts' knowledge ( <i>bottom-up approach</i> )	Priority given to experts' prescriptions with possible argued changes by citizens within the focus groups ( <i>top-down approach</i> )
(3) Characteristics of type cases	General characteristics (age, sex, family situation) with no specific social dimension Employed or having the opportunity to take a job at any time	General and specific characteristics with some social dimension: low-wage employment; or unemployed; and/or poor
(4) Socio-economic characteristics of the participants in focus groups	Variety of social situations and living standards	Persons in the lowest living standards
(5) Proximity between the individuals considered in type cases (3) and the participants in focus groups (4)	Homogeneity The characteristics of focus group participants are close to the ones of typical cases	Heterogeneity Participants in focus groups do not necessarily share the same experience as individuals considered in typical cases

This table identifies what the steering committee considered to be some key methodological issues for developing RBs. However, this list is not an exhaustive one and there are obviously other methodological choices that are not minor. For instance, the way participants in focus groups are recruited, and the number and duration of focus groups discussions, are also important conditions for developing sound RBs.

Commenting upon each of these key methodological choices would go far beyond the scope of this limited chapter.<sup>2</sup> Here we would just like to highlight the motivations of the research team/steering committee for endorsing some of these key points.

First, there is obviously a great diversity of methods adopted to develop RBs on the basis of discussions organised in focus groups. However, this methodological diversity does not reflect the arbitrary or contingent nature of the choices, even if, in some cases, it does reflect the constraints researchers faced in terms of means. These methodological differences can be, first and foremost, explained to a large extent by the search, in each case, for the most appropriate and relevant method in view of the specific objective of each study. The

Dutch experience, for instance, was clearly aimed at validating the official poverty line, and it therefore made decisive choices concerning the characteristics of type cases and the socio-economic characteristics of participants in focus groups.

Second, one of the major differences across these various studies concerns the weight of the citizens' expertise, on the one hand, and of the experts' prescriptions, on the other hand. When it comes to the concrete definition of a detailed list of goods and services, it was argued in the French project that the former point of view (the citizens' expertise) should finally prevail over the recommendations of 'experts'. This is in clear contrast with the opposite choice made within the European pilot project ImPRovE, where experts' views had a precedence over citizens' points of view (Goedemé et al, 2015).

The argument put forward to justify the choice made by the ONPES refers to the theoretical framework described earlier. In *A Theory of Human Need*, needs can be discussed at various levels. Using the concepts developed by Doyal and Gough (1991), we may consider for instance very general needs ('basic needs') or 'intermediate needs' or, at a much more concrete level, 'need satisfiers'. The relevance of both expertise – the codified knowledge of experts and the experiential knowledge of citizens – is not the same at each stage. The more general the definition of needs, the more relevant will generally be the knowledge of experts. Developing RBs requires, however, listing very concrete need satisfiers. At this level, the citizens' expertise is much more relevant than any expert views, notwithstanding the fact that one could hardly find any kind of scientific expertise on this concrete question.

Finally, another important difference lies in the fact that the life experience of focus group participants may be more or less similar to the typical cases for whom they have to discuss the needs. In the study carried out by the ONPES, participants were as close as possible to the typical cases. This proximity favours a kind of identification which leads participants to think about minimal living conditions which could concern them. In other experiences, the heterogeneity is much stronger. Moreover, focus group participants have to discuss the needs of people who suffer from some kind of deprivation (lack of employment, low wages). The distance thus created may favour statements that are more based on the idea of what people deserve than what they need.

Based on these methodological choices, the research was carried out for six family types and followed the four major steps identified in the MIS methodology (Bradshaw et al, 2008). Orientation groups first set

out the definition of a ‘minimum decent income’. Discussion groups then drafted the detailed list of goods and services for each individual of the family types, men and women being questioned separately. Validation groups took over this first list at a more aggregate level within mixed groups in order to validate the choices made and discuss the points that had not reached a consensus in the previous phase. At this stage, the participants were also informed about some experts’ recommendations and some general features of consumers’ behaviours in the French society. At the end of the process, final negotiation groups discussed the RBs at the household level and were faced with the monetary consequences of the choices made. The robustness of the minimum amount reached was tested using the so-called ‘Finance Minister’s dilemma’.

The RBs were thus devised using a hierarchical questioning structure, ranging from the discussion of the basic needs of each person belonging to the different households’ types adopted in the study (discussion groups), to the discussion of the overall budgets of the different household types (final negotiation groups). Throughout the process, participants were constantly asked to argue for their choices and to refer to needs, and not to preferences or wants. Participants were renewed at each step of the process in order to avoid self-validation. Overall, 30 focus groups were held gathering approximately 200 participants.

## **Main research findings and related policy issues**

The main output of RBs is a very detailed list of goods and services that are considered necessary within a specific context. This list includes between 200 and 300 items depending on the type of family considered. This is what the participants in focus groups discuss and advocate. As such, it can hardly be the subject of any policy debate. Therefore, in the public debate, this list translates as a monetary indicator that summarises in a single figure the disposable income necessary to have access to this minimal basket. When presenting this aggregate figure for all family types considered in the study, the research team was concerned about avoiding any misinterpretation. Therefore, two main caveats were made in the research report (Concialdi et al, 2014).

The research report first highlighted the fact that the monetary value of the budgets only reflects part of the resources that are necessary for meeting the needs of households to achieve a minimum decent standard of living. The RB value is the disposable income that is considered necessary, in a commodified society, to individually have access to some goods and services. Notwithstanding the fact that some needs – such

as decent employment – that were expressed by the focus groups can hardly be the subject of any monetary exchange, other resources also make a significant contribution to this minimum standard of living, whether collective (provision of public services) or private (housework). The link between these different resources does change over time, but with relative inertia, so that national estimates make sense in the short/medium term. That said, much more significant differences can be observed between countries, which means that any international comparisons that might be made with these indicators must be done with the utmost care.

Another key caveat was made concerning the way the RBs could be compared with the usual indicators, in particular monetary poverty lines that are computed by using households' income surveys. It is a well-known fact that these household surveys underestimate incomes, and hence the actual standard of living of people, as it can be measured much more accurately with national accounts. International comparisons clearly illustrate this fact. Compared with national accounts' figures, the average equivalent disposable income taken from household surveys ranges from around 40 per cent in Romania to 90 per cent in Sweden.<sup>3</sup> Any comparison must therefore consider this fact.

Bearing these limitations in mind, the main findings first highlight the fact that a substantial part of the French population lives below the RBs (Table 4.2). Overall, nearly 40 per cent of households covered by the study cannot reach a minimum decent standard of living, of which around 11 per cent may be qualified as poor using the usual

**Table 4.2:** Reference budgets and distribution of households concerned

	RB* (€/month)	Proportion of households (%)	
		Below the poverty line	Between poverty line and RB
Single with no children	1,424	15	25
Couple with no children	1,985	5	7
Lone parent with two children	2,599	55	40
Couple with two children	3,284	12	24
Single pensioner	1,569	14	45
Couple of pensioners	2,187	4	28
All households in family types		11	28

Source: Adapted from ONPES (2015).

\* Figures for households in social housing. Depending on the family types, the reference budget is €150 to €250 higher for households living in private sector housing.

monetary statistical definition (60 per cent of median equivalent income). The grey area between poverty and social inclusion is thus very large. This result inspired other studies carried out by the ONPES to better understand the situations of these people who are not, in the official statistical sense, considered as poor but nevertheless face deprivations – or are at the risk of facing such deprivations in their daily lives.

RBs can also be compared with other key social benchmarks such as minimum guaranteed incomes or the minimum wage. Overall, the basic amount of guaranteed minimum incomes is far below the RBs for all family types. For households of working age, the guaranteed minimum income amounts to approximately half the RBs for these families. This percentage is somewhat higher – around 60 per cent – for pensioners. For people of working age, RBs allow estimates to be made of the minimum work-related income necessary to reach the RB for all family types. In the simplest case, for a single adult of working age, this work income amounts to 1.38 times the actual French minimum wage (SMIC). A rough estimate of the weighted average of this minimum wage – which would be comparable to the living wage estimated in the UK (Hirsch and Moore, 2011) – shows that this minimum decent wage would be around 1.3 times the SMIC.

At the time the ONPES issued its first report on RBs, some trade unions explicitly pointed out this result to highlight the gap between the current level of wages and the level that would be necessary to reach a decent standard of living. The issue came back to the forefront of the political agenda with the movement of the *Gilets jaunes* (yellow vests) that started in France in November 2018. Indeed, one of the key messages of this grassroots citizens' movement is that, even if they work full time, workers cannot make ends meet. The results of surveys asking directly people what the minimum income is to live are, indeed, very close to RBs (Table 4.3).

Finally, RBs allow one to measure the additional cost of an adult – or a child – for households living 'at the minimum'. The implicit equivalence scales associated with these costs can be compared with the most usual one, the so-called OECD<sup>4</sup>-modified equivalence scale. This comparison highlights two main results. First, the additional cost of an adult appears to be much lower in RBs than in the usual scales. Moving from one adult to two adults in a household made up of working age people or pensioners translates to an increase of 35 per cent to 40 per cent of the budget, depending on the type of housing (social or private housing). That additional cost is considerably below the standard coefficient, which is 50 per cent.

**Table 4.3:** Minimum monthly income for a single person according to various French surveys

Question	Answer (€/month)
(1) Minimum income to make ends meet	1,574
(2) Minimum income to live	1,490
(3) Income below which an individual can be said to be poor	1,104
<i>* Reference budget for a single working age adult (no children)</i>	1,424–1,575

Sources: (1) and (2) adapted from Grobon, 2014; (3) adapted from Baromètre Ipsos-Secours populaire.

\* The two figures refer to people living in social housing or in the private sector.

Conversely, usual conventions to measure the cost of children are below what appears to be necessary for people living at the minimum. For a lone parent family housed in the public or private sectors, the additional cost of a child is around 45 per cent to 48 per cent as against +30 per cent for the OECD-modified equivalence scale. This result also holds for couples with children, although the gap is a little bit smaller.

It would be misleading to disregard the OECD equivalence scale on the basis of these results since this scale does not pursue the same objective as the one implicitly associated with RBs. The OECD standard equivalence scale is intended to provide estimates of the additional costs of adults and children for the population as a whole. This is an average scale, whereas the RBs provide estimates of these costs for people that have a given – and rather low – standard of living. There is no a priori reason why these scales should be the same. However, this result might help social actors and policy makers involved in social policies to better assess the relevance of the schemes targeted towards low-income families. This is, indeed, what motivated some exploratory work of the High Council of Family, Childhood and Age (HCFEA), an advisory body which is in charge of providing reports and recommendations concerning family policy (HCFEA, 2017).

In the future, the update of the ONPES RBs could also inform the issue of the cost of living. Results published for the UK show that the cost of minimum baskets increased much more than the Consumer Price Index (CPI) between 2008 and 2018 (Davis et al, 2018). Such updates do not yet exist for the ONPES budgets. However, budgets published by the UNAF over the past decades show that there has been a similar and quite important gap since 2008 between variations in the cost of these minimum budgets and the French CPI (Concialdi, 2019).

For the time being, RBs have not yet spurred much public debate in France. This is notably the case concerning the definition and the

levels of guaranteed minimum incomes on which RBs did not have any impact. This should not come as a surprise since these indicators are quite new, as is the MIS methodology. Up to now, RBs have mainly motivated some related research within academic circles (Concialdi, 2016, 2018). However, as noted earlier, the political situation in France took an innovative turn in November 2018 with the so-called *Gilets jaunes* movement. At the time of writing, it would be very hard to assess the signification of this very diverse movement. However, there is no doubt that it deals with the issue of meeting the basic needs of people, an issue that is the core motivation for devising RBs. It may be guessed that this issue will gain more and more importance in the future, especially if one considers the growing threat of climate change and the constraints that this threat will very probably impose on the satisfaction of these needs.

## Notes

- <sup>1</sup> More detailed information can be found in the full research report (Concialdi et al, 2014).
- <sup>2</sup> For a detailed discussion see Concialdi (2015).
- <sup>3</sup> Cf. Concialdi (2015, 2018). This point was made very clear during the French project. In order to provide focus group participants with some points of reference regarding French people's average expenditure, data from the Family Budget survey had to be realigned on the national accounts, since the crude figures taken from this survey showed high inconsistency with the first estimates of RBs.
- <sup>4</sup> Organisation for Economic Co-operation and Development.

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# Minimum income research in Japan: its development and political implications

*Aya K. Abe*

## The inception and motivation for Minimum Living Standard research in Japan

The question of how much income is adequate to meet the minimally accepted standard of living has been an issue of fierce debate for decades in Japan. It is not only an interesting academic question, but also a political question which has direct impact on policies and budget outlay of the governments. This is so because the Public Assistance programme in Japan uses the concept of Minimum Living Standard (MLS) as the income threshold for the eligibility to receive the benefit, and also in determining the amount of the benefit. The MLS is a concept similar to the Minimum Income Standard (MIS), but to distinguish it as a standard, especially as used administratively in the Public Assistance programme in Japan, we will call it the MLS. The benefit amount is equal to the difference between the MLS and the sum of earnings, social security payments, pensions and other income. Thus, since the inception of the (New) Public Assistance Law in 1951, the question of MLS has always been on the administrative and political agenda.

The interest in the UK MIS methodology ([Chapter 2](#)) was kindled amid such debate. In 2009, the Democratic Party won a landslide election victory over the longstanding conservative party (the Liberal Democratic Party), and became the first liberal government to be in power after World War II. The new government was keen to review the methodology for setting the MLS of the Public Assistance programmes. In late 2009, the Minister for Health, Labour and Welfare summoned a Research Committee on a National Minimum from academia and Prof Masami Iwata (then of the Japan Women's University) mentioned the MIS research in the UK (MHLW, [2009](#)). In 2010, the Ministry

of Health, Labour and Welfare commissioned the National Institute of Population and Social Security Research, a research arm of the ministry, to conduct MIS for Japan. The project team was headed by the author and the team conducted a series of MIS research over the next few years (Abe et al, 2012).

In this chapter, I will describe the current state of the MLS research in Japan, and in particular the MIS research conducted from 2010 to 2017. The chapter starts by introducing the background of the Public Assistance programmes in Japan and recent motivation which led to the MIS research. It then describes the theoretical and methodological approach taken by the project. Finally, it will discuss research findings and their impacts and influences on policy and practice of the Public Assistance programme in Japan.

## **The Public Assistance programme and the MLS**

### *History of the MLS*

Japan's Public Assistance system has its legal basis in Article 25 of the Japanese Constitution which states: 'All people shall have the right to maintain the minimum standards of wholesome and cultured living.' Based on this, the Public Assistance Law is thus devised so that 'the state assures all destitute citizens minimally accepted (standard of) living' (The Public Assistance Law Article 1). The Public Assistance system sets an MLS (Saitei Seikatsu Hi) for every household according to the number and ages of household members, household structure and locality of the residence. Any household whose total income (the sum of earnings, interest, social security payments including pensions, child benefit and other social transfers) is below this MLS pass the income criteria to receive Public Assistance, and if all other eligibility criteria (for example asset test) are met, they can receive the benefit equal to the difference between their actual income and the MLS.<sup>1</sup> Thus, the MLS is both the income threshold for the eligibility and the benefit amount.

However, what is or how to determine the 'minimal standard of wholesome and cultured living' is not stated in the constitution or the law, and is up to the Minister of Health, Labor and Welfare to decide. Operationally, from 1948 to 1960, the MLS was determined using a market basket approach where the government officials selected and summed up prices of items deemed to be 'necessary'. The selection of items was arbitrary and static, and as the living standards of the general public increased tremendously during rapid economic recovery

after World War II, the MLS soon became very low compared to the general public's average income. In 1957, administrative litigation was filed against the Minister of Health and Welfare by a recipient of the Public Assistance programme claiming that the MLS was not adequate in maintaining the 'minimal standard of wholesome and cultured living' guaranteed by the constitution. The case eventually went to the Supreme Court and the claimant lost, but it led to an overhaul of the methodology to set the MLS. In 1961, a new methodology termed 'the Engel approach' was introduced. It calculates the minimum food expenditure necessary for the household by the market basket approach and multiplies it by the Engel coefficient of the same type of household in the general public. This approach partially takes into account the living standards of the general public; however, it was short lived because it still calculated the as MLS much lower than the general public's rising living standard. Thus, in 1965, it was decided to positively reduce the difference between the MLS and the general public's living standard. The new methodology increased the MLS at a higher rate than the increase of the average expenditure of the public. Every year, the MLS was revised using the estimated growth rate of the expenditure of average household plus certain 'disparity reduction' rate. Thus, this approach, named the Disparity Reduction Approach, truly set the MLS in a relative perspective compared to the living standard of the general public. This approach was used until 1984, when the MLS became around 60 per cent of the median expenditure of household, and since then and until 2010 the MLS was revised at the same rate as the growth rate of the expenditure of the average household.

### *Current method of MLS*

In the early 2000s, another reform of the methodology for setting the MLS was conducted. The main drive for this reform was the criticisms that the Public Assistance MLS was too high in comparison to the living standards of the general public, especially of those who are in the lower end of the economic strata and are struggling without government aid. Here, for the first time, the concept of balance between those who are on the bottom strata (and not receiving the benefit) and those receiving the Public Assistance benefit was introduced. In 2005, it was decided to set the Public Assistance MLS at around the same amount as the bottom decile of the general population.

In sum, the following procedure is followed to set the Public Assistance MLS. Using the National Survey of Family Income and

Expenditure, the expenditure data of all households which are three-person households with two parents and one child are extracted. Then, average expenditure of the bottom decile of these households is compared to the Public Assistance MLS of three-parent households with two parents and one child. If it is concluded that they are close enough, then this MLS is deconstructed and, using equivalent scales depending on age of each household member and household size, the MLS for all types of households are calculated.

The MLS is reviewed every five years by the Committee for Minimum Living Standard within the Social Security Council, an Advisory Board to the Ministry of Health, Labour and Welfare. The committee is responsible for reviewing the level of MLS.

### *Motivation for MIS research*

However, in the late 2000s, this methodology created another concern regarding the MLS. Due to long-term recession, the average expenditure of the general public began to decrease. When the general public's expenditure is decreasing and the expenditure level of the bottom decile is falling faster than the median, there is no guarantee that the households in the bottom decile are in fact able to meet 'wholesome and cultured living' as stipulated in the constitution. The fact that the relative poverty rate (as in the Organisation for Economic Co-operation and Development definition of the percentage of population with equivalised household income below 50 per cent of the median) was announced to be 16.1 per cent also added to the debate.<sup>2</sup> It meant that the entire bottom decile was indeed deemed 'poor' by the income relative poverty methodology.

Such concerns led to some researchers to conduct estimations of the MLS using various methods such as market basket approach and minimum income question approach (in which public are asked 'how much income is needed to lead minimally acceptable living?' in a public survey) (Iwata and Iwanaga 2012), or comparing it with the minimum wage (Yamada 2010).

In 2009, in the report of the aforementioned Research Committee on a National Minimum, it was recommended that the government consider an alternate methodology to evaluate MLS so that the level of MLS is 'anchored' even if the economic standing of the bottom decile falls. In it, the MIS methodology developed by Loughborough University and the University of York was mentioned as one of alternative methods. Next year, the Minister of Health, Labour and Welfare commissioned 'MIS Japan'.

MIS Japan

The MIS research in Japan (‘MIS Japan’) was conducted from 2010 to 2013, and then again in 2017 (Table 5.1). The Japanese team first received a three-day seminar on the methodology by the MIS team from Loughborough University. In the first wave, the MIS for a young single-person household (male and female) was calculated. Then, the MIS for an elderly single-person household (male and female), and finally the MIS for households with children. In 2017, a follow-up study was conducted for single-mother households and two-parent households.

The MIS Japan closely follows the methodology described in Bradshaw et al (2008). The methodology involves a series of group discussions among participants recruited from the general public (Davis et al, 2013). Each group is asked to come up with a list of all things ‘necessary’ to live in a manner that is minimally acceptable in their own view. To make the discussion more concrete, a profile of a person, such as age, sex and locality of residence, is given and the groups are asked to discuss what is necessary for that person. These profiles serve as case studies and building blocks for different types of households. One of the important characteristics of the MIS methodology is that two or more group sessions are conducted sequentially. By doing so, any extreme opinions (such as, e.g., ‘a person can live off eating garbage on the street’) are revised and the list becomes closer to socially accepted minimum (Bradshaw et al, 2008). The list is then priced using current prices actually available at the locality, and summed up to calculate the MIS for each person. The individual MIS is then combined and duplicated items deleted to form the household MIS.

Table 5.1: Progress of MIS research in Japan

August 2010	Invited Abby Davis from Loughborough University to conduct three-day seminar on MIS
October 2010–12	MIS conducted
March 2011	MIS Japan Report #1 (single young male/female)
September 2011	Report to the Social Security Council Public Assistance Standard
March 2012	MIS Japan Report #2 (single old age male/female)
March 2013	MIS Japan Report #3 (household with children)
Feb 2017	Follow-up MIS on single and two household + high-school students to be conducted

**Table 5.2:** Case study profiles that MIS Japan considered

	Profiles	Age	Sex	Year conducted
1	Single young	32	M	2010
2	Single young	32	F	2010
3	Single elderly man	71	M	2011
4	Single elderly woman	71	F	2011
5	Children	5, 10, 14	M, F*	2011–12
6	Married middle-aged	40	M	2011–12
7	Married middle-aged	38	F	2011–12, 2017
8	Divorced middle-aged	38	F	2011–12, 2017
9	Child	17	F	2017

\* For 5-year-old child, gender was not specified.

The MIS Japan was conducted for nine individual case studies (Table 5.2) and the MIS for six types of household were calculated: four single-person households (young and elderly, man and woman) and two multiple-member households (a couple with a child and a single parent with a child). The locality of the case studies was determined to be mostly in Mitaka, a suburb of Tokyo, and for households with a 17-year-old girl, in Kawasaki, a neighbouring city to Tokyo. All group discussions were conducted in Mitaka or Kawasaki.

## What do the public think about minimum standard of living?

### *The concept of 'basic standard of living'*

The MIS Japan project started with a discussion group to determine the working definition of 'the basic standard of living'.<sup>3</sup> The word 'minimum' was not used in the discussion, because it is often interpreted in the common speech as 'how low can it go'. The following definition was defined by the group:

In contemporary Japan, the basic standard of living required for everyone as a minimum means having a sanitary and healthy way of living backed by a sense of security and stability. It includes not only clothing, food and accommodation, but also an environment where necessary information, relationships, entertainment, appropriate ways

of working, education and solid future prospects are available.  
(Shigekawa and Yamada, 2012, Davis et al, 2013)

As in the case of the MIS in the UK, the idea of 'basic standard of living' includes not only physical survival, but includes concepts such as sanitation, health, information and social relations (Uzuki, 2012). Social participation and the means to achieve it, such as information and education, are considered to be necessary. Moreover, Japanese participants stressed the need for 'future prospects', especially for young people. Having a minimally acceptable living condition is not enough, and one needs to be able to plan and move forward in future (Abe et al, 2012). This is a point that came up later while making up the list of items as an argument for items such as lifelong learning and training and savings.

### *MIS estimates*

Table 5.3 summarises the results of MIS estimates<sup>4</sup> for six types of households: a single-person household for a 32-year-old man, 32-year-old woman, 71-year-old man and 71-year-old woman; a two-parent household with a 10-year-old girl (father 40 years old, mother 38 years old); and a single-mother (32 year old) household with a 10-year-old girl.<sup>5</sup> The total amount to cover the cost of all the items on the list was estimated to be around 200,000 yen per month for a young single man and woman. The estimated amount is slightly lower for elderly single persons. It is about 2.5 times higher for a three-person household with a couple and a child, and around 1.5 times higher for two-person household with a mother and a child. There are also some differences between men and women. For example, the 'other expenditure' and 'social expenses' for young single-person households differs significantly from a man to a woman. This is because women MIS groups insisted that they needed some amount of savings for future prospects, while men MIS groups considered outings and drinking with friends as necessities.

Table 5.3 also shows the percentage of the Public Assistance MLS<sup>6</sup> against the MIS estimate.<sup>7</sup> This is done in two ways. The (d)/(a) shows the percentage of PA MLS against MIS for the entire living expenses,<sup>8</sup> while (c)/(b) shows the percentage of Public Assistance MLS against MIS where the housing cost is subtracted from both figures. For example, the Public Assistance for single 32-year-old man in Mitaka is 64.3 per cent of the estimated MIS with housing costs, and is 58.6 per cent without housing costs. In summary, the Public Assistance

**Table 5.3:** MIS estimates: amount, as percentage of Public Assistance MLS and average pension

	Young single male	Young single female	Old single male	Old single female	Two parents, one child	One parent, one child
Age	32	32	71	71	40,38,10	38.10
Household size	1	1	1	1	3	2
Location	Mitaka	Mitaka	Mitaka	Mitaka	Mitaka	Mitaka
(a) Total estimates	207,356	207,984	178,766	189,901	488,248	323,920
Food	49,014	40,467	35,882	35,558,	118,099	73,080
Housing	71,417	71,417	62,749	79,470	126,021	72,612
Utilities	9,046	9,047	13,120	13,120	11,694	11,674
Furniture and household items	3,888	3,553	4,847	6,093	14,022	13,216
Clothing and shoes	7,815	14,627	5,143	6,493	39,558	23,530
Health services	48	1,230	8,750	8,750	5,739	4,530
Transport	2,629	3,576	1,292	850	12,172	7,777
Telecommunications	6,970	6,031	7,859	5,499	14,489	11,022
Education	0	0	0	0	7,051	7,051
Recreation and culture	31,473	19,614	14,126	15,119	45,076	40,174
Other expenditure	5,726	29,920	8,065	9,923	72,357	45,932
Social expenses	18,890	8,503	16,934	9,017	21,970	13,302
(b) Total estimates – (health services)	206,868	206,754	170,016	181,151	482,509	319,390
(c) Total estimates – (housing + health services)	135,451	135,337	107,267	101,681	356,488	246,778
(d) Public Assistance MLS (w housing)	132,930	132,930	128,330	128,330	235,310	211,420
(e) Public Assistance MLS (w/o housing)	79,230	79,230	74,630	74,630	165,510	147,420
(d)/(b)	64.3%	64.3%	75.5%	70.8%	48.8%	66.2%
(e)/(c)	58.5%	58.5%	69.6%	73.4%	46.4%	59.7%



Table 5.3: (Continued)

	Young single male	Young single female	Old single male	Old single female	Two parents, one child	One parent, one child
(f) Average amount of national pension (*1)			58,754	53,013		
(g) Average amount of employee pension (*2)			174,535	108,776		
(f)/(a)			32.9%	27.9%		
(g)/(a)			97.6%	57.3%		

covers about 60 per cent of the MIS estimate for young single persons, and for elderly single persons the figure is about 70–80 per cent. This means that the Public Assistance programme is not adequate in meeting the MLS as perceived by the general public. For two-parent and one-parent households with a child, the ratio is even lower, and the Public Assistance MLS covers less than 50 per cent of the MIS estimate for a two-parent household with a child, and around 60 to 70 per cent for a one-parent household with a child.

For an elderly single-person household, the MIS estimate is also compared against the average amount of public old age pension. For the employee pension, which is earnings-related social insurance, the average amount of old age pension is almost equal to the MIS estimate for men (97.6 per cent). However, the ratio is much lower for women, at 57.3 per cent. This is because women have much lower pension rights from the employee pension, since typically women work less years, and work at lower wage rates through their career than men do. The national pension, which is a municipality-based pension for the self-employed and housewives, covers about 30 per cent of the MIS estimate for both men and women. Overall, it can be said that the public pension is not adequate in meeting the needs identified by the MIS estimate, especially for women.

### *The MIS estimate against actual consumption*

Next, Table 5.4 shows the MIS estimate against the actual consumption data of the Japanese general public from the Statistics Bureau's *National Consumption Survey* in 2014, the latest year available.<sup>9</sup> To make the

comparison as valid as possible, the age, sex and household type of data in the Consumption Survey was made as close as possible to the MIS case studies.<sup>10</sup>

It should be noted that the housing cost that was estimated by the MIS methodology is much higher than the national average. For example, for a young single man the estimated housing cost is 2.03 times the housing costs for the national average. This is because the Consumption Survey data include those who own their own housing

**Table 5.4:** MIS estimates against the Consumption Survey

All in 2017 prices	Young single male	Young single female	Old single male	Old single female	Two parents, one child	Two parents, one child	One parent, one child
	Average	Average	Average	Average	Average	Renter	Average
Age	30–9	30–9	Above 70	Above 70	Not specified	Not specified	Not specified
Average household size	1	1	1	1	3	3	2
average, number of persons age < 18	0	0	0	0	0.83	0.95	1
sample size	119	85	430	1722	1132	437	64
Total estimates	1.24	1.15	1.21	1.22	1.67	1.82	1.93
Food	1.08	1.05	0.93	1.03	1.71	2.08	1.61
Housing	2.03	1.80	4.09	5.20	4.96	1.93	2.35
Utilities	1.10	1.12	1.18	1.21	0.70	0.77	1.01
Furniture and household items	1.87	0.29	0.89	0.99	1.51	1.90	2.95
Clothing and shoes	1.31	0.98	1.54	0.91	2.87	3.69	3.39
Health services	0.30	0.9	1.18	1.02	0.49	0.61	1.05
Transport	0.13	0.27	0.10	0.12	0.35	0.47	0.63
Telecommunications	0.85	0.71	1.49	1.10	0.92	0.96	1.09
Education					0.40	0.76	1.46
Recreation and culture	1.72	1.16	0.67	0.79	1.64	2.42	2.41
Other expenditure	0.55	3.73	0.54	0.45	5.85	8.00	7.67
Social expenses	1.58	1.63	1.27	0.48	0.58	0.86	0.93
Total estimates – housing	1.03	0.97	0.87	0.79	1.36	1.78	1.84

(i.e. their housing cost is zero) and also that in Mitaka, the location of MIS, the housing cost is much higher than the national average. For two-parent households, the 'renter only' data were available, and you can see that the ratio is much lower if the data are limited to the 'renters'.

Thus, comparing the MIS total estimate without the housing costs to the national average also without housing costs, the results show that for a young single man or woman, the MIS estimate is about the same as the national average. For elderly single persons, the MIS estimate is about 80 per cent of the national average. For households with a child, the MIS estimate is higher than the national average. For two-parent households, the estimate is 1.78 times as high, and for one-parent households it is 1.83 times as high.

However, if one looks at individual consumption categories, the MIS estimate is higher for some, and for others it is lower than the national average. For households with a child, the 'clothing and shoes' category shows that the MIS estimate is three to four times higher than the national average. This may be because the MIS methodology is thorough in covering purchasing costs for all clothing items, while in actuality many households have higher stocks of clothes and hand-overs so that they do not need to purchase as much. Another category where the MIS estimate was much higher was 'other expenditure'. The most expensive items in this category were by far insurance (life insurance and private health insurance) and savings (for children's future education). The MIS groups regarded these items as necessary in order to have peace of mind and prospects for the future, especially for the child's education. However, in reality these items are expensive and many households forego spending any money on them (MHLW, 2017).<sup>11</sup> 'Recreation and culture' is also higher for the MIS estimate than the national average for all households except elderly singles. For two-parent and one-parent households, the MIS estimate is more than twice as much as the national average. This is also because the items in this category are things that many people in the public feels 'as necessary', but in reality have to go without.

On the other hand, some categories are consistently underestimated compared to the national average. 'Transport' is one such category. Especially for single-person households (both young and elderly), the transport cost is estimated to be less than 30 per cent and even at 5 per cent of the national average. This is mainly because the MIS groups tended to consider trips and activities requiring transportation cost as 'luxury' and not 'necessity'.

## Discussion: the difference between MIS and Public Assistance MLS

The results of the MIS project show that the Public Assistance MLS is not adequate in meeting a lifestyle that the members of the public feel as ‘the basic standard of living required for everyone’, which enables them to have ‘a sanitary and healthy way of living backed by a sense of security and stability’ (MIS group discussion).

For households with children, this discrepancy is quite large where the Public Assistance MLS covers less than a half of the MIS estimate for two-parent households, and less than 60 per cent for one-parent households. Having said this, the MIS estimates for households with a child are much higher than the national average actual consumption levels from the same type of household. This indicates that many households, in actuality, are unable to meet the living standards that the Japanese general public consider to be a ‘basic standard of living for everyone’. It is important to remember that the economic standing of households with children are not high in Japan, and especially the economic standing of one-parent households are dismally low. The relative poverty rate, measured as those living in households with less than 50 per cent of median equivalised household income, is 13.9 per cent for children younger than 18 (MHLW, 2017), and for one-parent families it is 46.5 per cent (Abe, 2018). Thus, it is not surprising that the MIS estimate is much higher than the actual consumption. In sum, neither the actual consumption of households with children nor the Public Assistance MLS is adequate in meeting the living standard considered to be necessary by the MIS.

The story is quite different for single-person households. For young single persons, the Public Assistance MLS also covers around 60 per cent of the MIS estimate, which is around the same as the national average consumption. This is almost exactly the ratio which the Disparity Reduction Approach of Public Assistance MLS aimed for. In another words, on average young single persons achieve the level of living standards as estimated by the MIS, and the Public Assistance MLS covers about 60 per cent of the average.

For older single persons, the Public Assistance MLS covers 70 to 80 per cent of the MIS estimate, which is about 80 per cent of the national average. The public pension covers only about one third of the MIS for the national pension. Thus, on average elderly single persons achieve a living standard higher than the MIS estimate, and the Public Assistance MLS is short of meeting the MIS.

## Impacts and influences of MIS research in Japan

From the beginning, MIS was conducted because of the political/administrative motivation (by the Democratic Party) to assess whether the current Public Assistance programme was adequate in meeting the basic needs of those who are on the assistance payroll. However, to date there has not been a direct application of the results of MIS Japan to the Public Assistance MLS. This is not to say that there has been no influence. In September 2011, the results of MIS Report #1 were presented to the Social Security Council Public Assistance Standard Committee, which is responsible for reviewing the Public Assistance Minimum Living Standard (MHLW, 2011). Unfortunately, the Democratic Party lost power in the 2012 election and the motivation for the reform of Public Assistance MLS has lost momentum under the current conservative government (the Liberal Democratic Party). Yet, it is fair to say that MIS Japan has left a lingering effect on the discussion of the Public Assistance MLS. For one, in 2019 a new Research Committee will begin to review the methodology of setting the Public Assistance MLS, and the MIS methodology is sure to be brought up again under discussion.

One of the problems of applying the results of the MIS estimate directly to the PA MLS is the MIS estimates a much higher amount of expenditure, even compared to the national average, especially for households with children which is currently the base family type in setting the Public Assistance MLS. It seems that the lifestyle that the public regards as ‘necessary’ for households with children is closer to the ‘ideal’ than the ‘actuality’, where many households with children are unable to meet the level of living standard as depicted by the MIS methodology. Under such a scenario, it is much harder, politically, to raise the levels of Public Assistance to the MIS level. To raise the living standard of household with children, a more universalistic approach, such as the expansion of the child benefit, might be politically feasible, and the results of MIS Japan are concrete evidence that households with children need more financial assistance.

### Notes

- <sup>1</sup> The income threshold is one of the criteria for being able to claim and receive Public Assistance, but the program requires many other criteria to be met. Thus, less than 2 per cent of the population receives the benefit.
- <sup>2</sup> Prior to 2009, the Conservative government did not calculate and announce the poverty rate using the OECD definition. One of the first acts of the Liberal government which took power in 2009 was to announce this rate (MHLW, 2009).

- <sup>3</sup> The team used this wording so that the participants did not confuse it with the Public Assistance MLS.
- <sup>4</sup> The amount is inflated to 2017 prices using the Consumer Price Index for each category of goods and services.
- <sup>5</sup> The amounts were inflated using the Consumer Price Index from the year that the MIS was conducted to 2017, the latest year (Statistics Bureau, 2018) for each category of goods and services.
- <sup>6</sup> The Public Assistance MLS was calculated for the household with the same household member composition, assuming they live in Mitaka, Tokyo.
- <sup>7</sup> Similar comparison was conducted in Iwata and Iwanaga (2012) for single-person households using the same MIS estimates. Here, the estimates were inflated to be in 2017 prices and also the Public Assistance MLS for 2017 were used, resulting in slightly different outcome.
- <sup>8</sup> The Public Assistance programme covers costs for health services apart from the MLS (the amount is paid directly to hospitals, pharmacies, etc.), so the health service cost is deducted from the total estimate for MIS.
- <sup>9</sup> The amount is inflated to 2017 prices using the Consumer Price Index for each category of goods and services. A similar comparison was made for single-person households using the same MIS results in Shigekawa and Yamada (2012), but this comparison was made using more recent data and on stricter households assumptions.
- <sup>10</sup> For example, to compare against the young single households, the data for a single-person aged 30 to 39 were used. For elderly single persons, only the age category of 'above 70' was available, so we used this category. For two-parent and one-parent households with a child, the data were not available where the age of the child is limited to 10 (as in the case of our MIS case studies). For two-parent households, the child's age was not specified, thus it is possible that some of these households are two-parent households with a grown-up child. However, the average number of persons less than age 18 were 0.83 (overall) and 0.95 (renters only), thus it is concluded that most of these households have a child less than 18 years old. For one-parent households, the age of the child can be anything between 0 and 18. Furthermore, for two parents with one child households, the sample could be divided between those who have their own housing and those who are renting, so the 'renter only' estimate is also shown, as the MIS case study assumes a household which rents the housing.
- <sup>11</sup> According to the Ministry of Health, Labour and Welfare, 14.6 per cent of households with child(ren) aged less than 18 has no savings (MHLW, 2017).

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# Measuring needs and setting standards in Singapore

*Kok-Hoe Ng, Yu-Wei Neo, Youyenn Teo,  
Ad Maulod and Yi-Ting Ting*

## Introduction

Singapore's first study on Minimum Income Standards (MIS) focusing on older people was completed in 2018. The study took place in the context of rapid demographic ageing and an income security regime built around a defined contribution pension scheme and intergenerational family support. Moreover, social policies in Singapore tend to lack transparent numerical benchmarks and policy making is not systematically informed by clear notions of needs and standards. With some adaptations, the MIS approach developed in the UK was used to generate a definition of a basic standard of living in Singapore and separate budgets for four household types: elderly man living alone (aged 65 and above), elderly woman living alone, elderly couple, and older man or woman living alone (aged 55 to 64). This chapter sets out the background of the study, presents its method and findings, and explains the significance of introducing MIS to a policy setting such as Singapore.

## Income security and policy making

Singapore has one of Asia's fastest-ageing populations (UN, 2018). Increasing life expectancy implies more years in retirement and has made old age income security one of the most pressing policy concerns. The worry is also especially acute as co-residence with adult children and their cash contributions have traditionally been the pillar of income security for elderly persons in the absence of comprehensive formal social security (Ng, 2011a). As family sizes shrink, access to income support from children is projected to decline (Ng, 2015). Co-residence rates have also been steadily declining. At the same time, there are still gaps in income security policy. The primary source of public pensions

is the Central Provident Fund (CPF), a defined contribution scheme which attracts mandatory monthly contributions from both employer and employee, and pays an annuity from the age of 65 (CPF Board, 2018). The amount of payment depends on how much savings the individual has accumulated and there are no separate non-contributory pensions. A means-tested public assistance scheme covering less than 1 per cent of the elderly population has been the primary recourse for persons with insufficient incomes (MSF, 2018a, 2018b).

In recent years, several new schemes have been introduced to supplement the CPF and public assistance, such as the Goods and Services Tax (GST) Voucher – Cash (MOF, 2018) and Silver Support Scheme (MOM, 2018a). These cover more people than public assistance but pay lower amounts and are similarly means tested. There has also been a doubling down on activation measures, including promoting work and delaying retirement, and expanding social assistance programmes that carry work conditions (Ng, 2011b). A wage supplement scheme for low-paid older workers was introduced in 2007, followed by re-employment legislation in 2012 to encourage employees to work beyond 62. But due to Singapore's compressed socio-economic development, the current elderly generation are at a significant educational and skill disadvantage compared to younger people in the workforce. They are concentrated in short-term, part-time and low-paying work (MOM, 2018b), which means even continued employment does not always help them to achieve income security.

The application of income benchmarks and standards to the design of social policies remains fairly rudimentary and uneven in Singapore. Until recently, there was no minimum wage legislation, due to policy makers' concerns that it will discourage hiring and cause unemployment (Yusof, 2018). In 2014, a limited form of wage protection was introduced to three occupational sectors: cleaning, security and landscaping. Known as the Progressive Wage Model, the regulations stipulate a schedule of increasing wages tied to training and career pathways, and are framed as a way to reward productivity gains (MOM, 2018c). It is not known how these wage levels were precisely determined or if they will be uprated over time. Although policy makers express concern about poverty, there is no official poverty line or other benchmarks of low income by which to target, monitor and evaluate income interventions. Public calls to introduce a poverty line have so far been unsuccessful. In the most recent debate in 2013, the official response was that a single threshold is too simplistic to measure poverty and will create a 'cliff effect' where people who

have just crossed the threshold will find their social assistance abruptly withdrawn (Chan, 2013).

The bases for deciding the income eligibility thresholds and generosity of various programmes targeting low-income persons tend not to be disclosed. This contributes to inconsistent practices across different policies, with some policy rules periodically revised and others lagging behind income growth and price increases in the economy. For instance, in the public assistance scheme, the monthly assistance rate rose from S\$290 to S\$500 during 2007–17, an increase of 72 per cent that surpasses price inflation of 25 per cent and median household work income growth of 68 per cent over the same period (MSF, 2011, 2018a; DOS, 2018a, 2018b).<sup>1</sup> Elsewhere in housing policy, the monthly income limit of S\$1,500 to qualify for social housing has not been revised since 2003 (HDB, 2018a). That year, S\$1,500 was equivalent to about 33 per cent of median work income (DOS, 2018b). In 2017, this ratio had fallen to 17 per cent. Furthermore, the same absolute limit applies to total household income regardless of household size, an irrationality that is all the more difficult to address when the reasoning and decision-making process behind it are not known.

Income standards reflecting basic needs have not been explicitly addressed in formal policy discourse. Instead policy attention is usually focused on living costs. This is unsurprising as Singapore is an expensive city to live in and income inequality is high (Economist Intelligence Unit, 2018). Concerns about costs of living have been extensively debated in the past and continue to feature prominently in policy statements (see Cost Review Committee, 1996; Lee, 2018). When framed as living costs, the issue comes across as something dependent on factors like economic conditions and lifestyle changes, which is partly manageable by adjusting personal expectations and lifestyle choices to match one's means. This perspective also reflects a historical policy narrative that basic needs have been largely met for society as a whole in the course of Singapore's economic development after independence and are no longer a significant concern (see Osman, 2018). It is different from an approach that begins with what people consider to be basic needs in contemporary society and invites more open deliberation about how these needs may be met.

In this policy context, the MIS approach helps to advance the understanding of basic needs and the application of income standards to policy making in important ways. It produces a concrete, numerical benchmark of basic needs that has so far been missing in policy discussions. It enables a thick, substantive understanding of basic needs that is captured in the final list of things as well as discussions about

individual items' function and significance. This aligns the numerical benchmark to people's lived realities and everyday practices, and makes it more relatable for the public. The consensual process allows ordinary members of society to share their views and experiences, and to participate in the deliberation of an issue that concerns many. This, too, is a profound shift where policy making is traditionally centralised, dominated by bureaucrats and experts, and not fully open to public engagement and scrutiny.

## MIS process and adaptations

This study is concerned with four types of household: elderly man living alone (aged 65 and above), elderly woman living alone, elderly couple, and older man or woman living alone (aged 55 to 64). Although intergenerational co-residence is fairly common in Singapore, budgets for households with elderly persons only provide an important baseline focused on needs in old age. Declining co-residence also suggests that the types of household analysed in this study will become the norm in the future.

The method adopted in the study was closely modelled after the UK MIS process (Bradshaw et al, 2008), and the researchers received training and advice from the Centre for Research in Social Policy at Loughborough University. The research process consisted of four waves of focus group discussions and each focus group had 10 to 12 unique participants (so that each participant was only involved in one discussion). In total, 103 persons took part in the study:

- The first wave included three *Orientation Groups*, where participants were asked how they thought about basic needs and what it meant to have enough in Singapore. Their discussions led to the definition of a basic standard of living which guided the subsequent focus groups.
- In the second wave, four *Task Groups* were asked to construct detailed lists of things for the four types of household. The participants were organised so that they only discussed the household type similar to their own.
- After the Task Groups, the researchers consulted dieticians who developed a one-week meal plan for each household type that satisfied public nutritional guidelines and reflected the eating patterns that the participants agreed on. A doctor provided advice on healthcare guidelines and practices. All items were priced by checking online or in physical shops.

- In the third wave, three *Checkback Groups* verified the lists of items drawn up in the previous wave, deliberated on items where there had been insufficient information or no consensus and were asked to identify items they did not agree with. The participants also helped to reconcile the lists by considering whether differences in items between men and women, and between single and couple households, were due to differences in needs.
- The two *Final Groups* were shown the budgets in detail and asked to resolve any remaining issues.

Compared to the UK MIS, several methodological adaptations were made in this study. First, steps were taken to ensure that the budgets reflected Singapore's ethnic, linguistic and religious diversity, and captured possible differences in the way these various communities thought about basic needs. Ethnicity (that is, Chinese, Malay or Indian) was added to household type, age, sex, housing type and educational level as a recruitment criterion. Although religion was not part of this set of criteria, the final sample included participants who were Buddhist, Taoist, Muslim, Hindu, Christian and 'free thinkers'. This turned out to be critical during discussions of social participation and cultural activities, for example weddings and funerals. The three Orientation Groups were also conducted in different languages – Mandarin (Chinese), Malay and English – to ensure that the definition captured the diversity in the notion of basic living standards across linguistic groups.

Second, the budgets were constructed for households living in purchased one-bedroom flats within the public housing system, as opposed to social housing in the UK MIS. This assumption more accurately reflects the high level of home ownership in Singapore, as well as the limited availability and stringent eligibility criteria of social housing (HDB, 2018a, 2018b). This has important implications for the final budget as housing is expensive to buy. On the other hand, this small flat type limits the costs of housing maintenance, utilities and household durables. The lack of space for bulky furniture and electrical appliances, for example, was frequently mentioned during the discussions.

Thirdly, unlike the NHS in the UK, healthcare in Singapore is financed through a combination of subsidies, insurance and individual out-of-pocket payments (MOH, 2018). So while the study was concerned with persons in good health, the costs of preventive healthcare, treatment for occasional ailments and one-off procedures like cataract surgery were nevertheless extensively discussed and take

up a significant share of the final budget. Indeed, many participants pointed out that chronic conditions such as hypertension and diabetes are common among older people in Singapore. The additional costs of these conditions is an important area for future research.

## Definition and principles of MIS

The definition of a basic standard of living in Singapore is:

A basic standard of living in Singapore is about, but more than just, housing, food, and clothing. It is about having opportunities to education, employment, and work–life balance, as well as access to healthcare. It enables a sense of belonging, respect, security, and independence. It also includes choices to participate in social activities, and the freedom to engage in one's cultural and religious practices.

The word 'basic' was chosen instead of 'minimum' to avoid biasing the definition towards notions of austerity rather than adequacy, as 'basic' translates approximately to 'fundamental' in Chinese (which is widely used in Singapore), whereas 'minimum' translates to 'lowest'. From the discussions, it was clear that the participants had no trouble with the term 'basic standard of living'. They were able to use this definition to focus and agree on constructing budgets that met needs, not wants, but also allowed for more than physical survival.

The definition reveals four principles that underlie participants' rationale for deciding on items to include in or leave out of the budget. First, basic needs must ensure and go beyond subsistence. Second, needs vary across the life course. For instance, healthcare needs are more salient for older adults, but at any age, there must be access to learning, work and leisure. Third, emotional needs such as respect, security, autonomy and belonging are important. Fourth, the freedom to take part in social, cultural and religious activities is a basic need. Social participation should also encompass the choice to participate in ways that one finds meaningful.

### *Basic needs beyond survival*

Basic needs include food, shelter and clothing. But these items were not conceptualised merely in terms of ensuring survival. Participants spoke about the importance of enjoying a quality of life that accords dignity and self-worth.

Given the prevalence of home ownership in Singapore, purchased public housing was considered a basic need. One participant said: “We cannot stay in somebody’s house. We need to have our own ... [because that is a] normal Singaporean basic thing.” Having adequate space and privacy was also highlighted as important. Inside, a place of residence should “look more like a home” so that the owner may feel a sense of pride and can invite friends over. This requires a budget for decoration and for old furnishings to be updated from time to time even before they are completely worn out.

Similarly, the participants stressed that the food budget must provide for healthy dietary options, personal choice, and eating as a social activity. While they generally preferred home-cooked meals prepared from fresh ingredients, they recognised that eating out is more convenient and offers opportunities to meet friends. Someone pointed out that “lonely old men will eat outside ... we do meet and talk”. They proposed a pattern of meals which fit with other social activities, such as breakfast outside before going to the market, eating lunch with friends after a morning activity or occasional meals at restaurants with loved ones.

### *Life course needs and health concerns*

The participants discussed at length their concerns about old age, especially health and healthcare. This was often framed as anxiety about healthcare costs, something that was not registered in the UK MIS research. Health included mental well-being, coping with stress and work–life balance. Several participants described the challenges of achieving this balance when job security and prospects were at stake. So there was a budget for short trips to nearby countries with friends as a way to relieve stress and escape the confines of a dense urban city. There was also a suggestion that a basic standard of living should encompass a minimum level of healthcare provision, including treatment for chronic and terminal conditions. This particular suggestion is not reflected in the final budget as the study is based on an assumption of good health.

In many other areas of the budget, these concerns about health are expressed in various ways. The participants anticipated frailty and loss of functional capacity in old age, such as reduced strength, balance, vision and hearing. So when furnishing the house, they included items to help with personal safety, such as a stool to be placed near the door so older people can sit and more easily put on their shoes. They specified that “stools should be chair height ... [if they are] too low [we] cannot get up”. They needed motion-activated lights to

prevent falls in the dark when older people walk to the bathroom in the middle of the night. Only a few types of off-the-shelf medicine were included as the groups agreed that it is safer for older people to see the doctor than to self-medicate when unwell. To delay cognitive decline, the budget caters for learning activities such as courses, hobby workshops and public seminars.

### *Emotional needs, autonomy and belonging*

The groups discussed various emotional needs. Independence, respect and control over one's life had to be held in balance with belonging, connectivity and a sense of security. The need for independence was most strongly expressed as freedom from financial dependence. Contrary to theoretical notions of Asian familialism and state rhetoric about 'filial piety', as well as prevailing practices of intergenerational support through cash and care (Ng, 2011a), the participants emphasised the importance of not becoming a burden on the family: "It's good to not depend on children. One should be financially independent. You feel the pride in yourself, you see. When you are independent in all ways, domestically, financially, that gives you happiness and fulfilling lives, rather than depend on someone."

Other items in the budget were also seen as important to preserving a sense of self-respect and respect from others. For instance, the participants said that the budget for clothing must allow older people to look presentable and clean, and to dress appropriately for different social occasions, so that others would not judge them poorly.

Staying connected was seen as an emotional need. The participants said it is important to be able to communicate and spend time with loved ones. This means having a mobile phone and being able to host visitors at home. Having a television, a laptop computer with connection to the internet and access to newspapers at the public library are necessary for older people to find information and keep up with the news. Such forms of connection to the outside world also help to reduce social isolation and loneliness. But social activities must be the individual's choice and not an obligation. For example, participants stressed that guests, even family, must not overstay.

### *Social participation*

There was strong consensus about the need for social participation. Individuals should feel that they belong to a larger community and society. Specific participatory needs may vary and should entail respect



for choice and diversity, such as those stemming from ethnic and religious customs. But the participants agreed that exclusion from the kind of social participation that one finds meaningful will be detrimental to well-being.

There were long and detailed discussions about attending social events such as birthday celebrations, weddings, funerals and hospital visitations. The participants agreed that showing up in these situations without a gift or contribution is not socially acceptable. One person said: “You attend a party, you don’t bring a present, you are not welcome you know.” Although gifts, especially for children, need not be expensive, they must be “presentable”. This indicates “giving face” to the host (which means showing respect), which garners respect in return and helps older people to maintain their standing as elders in the family.

Social participation also includes giving donations to places of worship, which both reinforces membership in a faith community and funds events and services that will benefit others. The participants cited the importance of “giving back” through volunteerism and reflected that it is partly necessitated by a high level of inequality in society, such that “you end up having to take care of the needy”.

This concern for people who are less well off was frequently raised. In contrast to policy narratives which consider basic needs as survival and assume that these have mostly been met in society, the participants described their observations of financial hardship when they were volunteering in the community. Some of them worried whether the next generation will be able to afford housing and achieve financial independence – things which they considered basic. One participant remarked that “for [the younger generation] to obtain what they feel is the minimum standard is already challenging”.

## MIS for older people in Singapore

The final weekly budgets are S\$317 for single elderly persons (or S\$1,379 per month); S\$541 for elderly couples (S\$2,351 per month); and S\$396 for single persons aged 55–64 (S\$1,722 per month). [Table 6.1](#) presents these budgets reorganised according to the structure of Singapore’s Consumer Price Index and Household Expenditure Survey to facilitate comparison and uprating in the future. Across the household types, the most costly budget area is food, including meals prepared at home and consumed at hawker centres and restaurants. The second is housing, including the costs of purchase, maintenance and utilities. This is followed by recreation and culture, equivalent

**Table 6.1:** Minimum income standards for older people in Singapore

	<b>Elderly person, S\$</b>	<b>Elderly couple, S\$</b>	<b>Single person 55–64, S\$</b>
Food and non-alcoholic beverages	45.61	110.56	43.69
Restaurant food	11.51	23.01	11.51
Hawker food	34.95	56.20	51.40
Clothing	11.52	22.92	10.98
Footwear	1.92	3.84	3.34
Public transport	25.32	46.03	46.03
Housing purchase	35.08	41.93	35.08
Housing maintenance	1.89	2.08	3.29
Utilities	18.57	18.57	18.57
Household durables	17.01	17.82	23.19
Household services and supplies	4.57	5.54	7.25
Medical products	0.93	0.93	5.47
Healthcare	17.37	34.74	15.85
Communication	6.52	12.96	6.48
Recreation and entertainment	54.01	84.56	67.01
Newspapers, books and stationery	0.07	0.07	0.07
Holiday expenses	9.86	19.72	9.86
Personal care	18.58	35.29	18.62
Personal effects	2.07	4.23	3.14
Insurance	0.01	0.01	15.35
<b>Total weekly budget</b>	<b>317.37</b>	<b>541.00</b>	<b>396.18</b>
<b>Monthly budget</b>	<b>1,379.04</b>	<b>2,350.76</b>	<b>1,721.50</b>
Without housing purchase	1,226.61	2,168.57	1,569.07
Without one-off health treatments	1,328.47	2,304.32	1,679.62
Without housing purchase and one-off healthcare treatments	1,176.03	2,122.12	1,527.19

to social participation in MIS parlance, covering things like leisure, festivals, religious activities, holidays and socialising.

The budgets can be compared to reveal the scale economies of living in a two-person household, and the differences between elderly and younger person households. The elderly couple's budget is 1.7 times that of the single person's budget. Budget items that can be shared – such as housing-related costs – vary very little due to household size,

whereas the cost of things like food, clothing and healthcare double when there are two persons. The budgets for the two age categories diverge in a number of ways, possibly reflecting both age- and cohort-related differences in needs and lifestyle. At an older age, the budget is about 20 per cent lower. Older persons are less likely to eat out and so have a smaller budget for hawker food. They enjoy public transport concessions and seem to have simpler needs for household durables and supplies. The groups also indicated that older people should not keep too much medication at home and do not need additional private health insurance.

In 2017, median monthly work income was S\$2,000 for all full-time workers aged 60 and above, around 1.5 times the budget for single elderly persons (MOM, 2018b).<sup>2</sup> Female workers in this age group earned less – S\$1,733 compared to men's S\$2,058 – but even for them, work income was well above the budget of S\$1,379. However, the median work incomes for particular occupations came close to or fell just under the budget: S\$1,200 for the occupational category 'cleaners, labourers and related workers', S\$1,500 for 'service and sales workers' and S\$1,650 for 'plant and machine operators and assemblers'. These are the three lowest-paying occupations that also hire 63 per cent of all workers aged 65 and above. Elderly persons therefore cannot rely on employment alone to achieve the minimum income standards.

Against the household reference budgets, the existing public pension provisions and transfer schemes seem inadequate. The basic annuity payment under the Central Provident Fund is S\$730 to S\$790 per month (CPF Board, 2018), slightly more than half of the budget of S\$1,379. A higher annuity for persons who are able to set aside sufficient savings during their working lives is worth S\$1,350 to S\$1,450 per month, almost exactly equivalent to the budget. But in practice, only 55 per cent of people were able to accumulate the savings to fully fund even the basic payment in 2013 (CPF Advisory Panel, 2015). Three separate means-tested cash transfer schemes that cover between 1 per cent and half of all elderly households pay a total amount of up to S\$725 each month to eligible applicants (MOE, 2018; MOM, 2018a; MSE, 2018a), around half of the budget.

## A new policy direction

This study on MIS for older people has produced, for the first time in Singapore, income benchmarks reflecting people's basic needs. The details of these budgets provide many insights into how people think about a basic standard of living and what such a standard requires in

practical terms. They allow analysis of how income standards vary by household composition, age and cohort. From a policy perspective, the findings also provide targets for designing and assessing interventions, and invite a broader discussion on formal and informal income arrangements to deliver income security in old age. Comparisons between the budgets, income levels and current policy provisions suggest that there are gaps that need attention. As the MIS research in the UK demonstrates, this study can be extended in numerous ways. Income standards for younger households is an obvious next step, while multigenerational and older households with care needs due to chronic health conditions are also of interest. A more comprehensive MIS project has the potential to support the design of a wide range of family social services and health and disability programmes.

The particular significance of this study in Singapore's context is also in charting a different way to engage with social policy making. The study introduces a consensual approach where members of the public can contribute to deliberations about income issues, and shows that they are able to agree on what a basic standard of living in Singapore means today. This is a valuable alternative to deciding policy rules using methods that the public are not aware of and cannot influence, and has the potential to seed policy practices that are more principled and accountable. By keeping the study independent and nonpartisan, and making its method and data accessible to the public, the study can demonstrate a more rigorous and transparent way to conduct research on issues of public interest. Finally, the MIS approach recognises basic needs beyond survival. In so doing, it offers a language that will hopefully enable progress in the debate about basic standards across many areas of social policy.

## Notes

- <sup>1</sup> One Singapore dollar was equivalent to 0.6 British pounds in 2018.
- <sup>2</sup> Household and individual income data in Singapore were last collected in 2012 and are therefore not up to date. In any case, the dataset is not publicly accessible and only limited summary tables are published. Work income data are gathered more regularly, with the same constraints on disclosure and access. So while labour force participation is only 27 per cent among elderly persons (MOM, 2018b), work income levels provide the best available indication of empirical income patterns for comparison here.

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# A South African pilot of the Minimum Income Standards approach

*Gemma Wright, Matt Padley and Wanga Zembe-Mkabile*

## Introduction: what was the purpose of the South African Minimum Income Standards pilot study?

The Minimum Income Standards (MIS) approach was pioneered in the UK (see Davis et al, 2018), and although it has been shown to work well in this and other high-income countries (e.g. France [Gilles et al, 2014; Gelot, 2016] and Portugal [Ferreira Correia et al, 2016]), its applicability in a developing country context has until relatively recently been unexplored. South Africa is one of the most unequal countries in the world (Sulla and Zikhali, 2018), with entrenched racial and spatial divisions that are proving difficult to break down, resulting in concurrent yet very different standards of living. The starting point for the South African pilot of the MIS approach, as in all countries where the MIS approach has been applied, was a simple but fundamentally important question: what exactly do people need in order to have an acceptable standard of living? Understanding what standard of living the public regard as acceptable or decent is clearly important for government, businesses, civil society, trade unions and other organisations. Indeed, the South African government's National Development Plan provides 'a framework for the adoption of a minimum standard of living by society' and acknowledges the need for a clear definition of what this entails (National Planning Commission, 2014).

The aim of the pilot, presented here, was to ascertain whether South Africans can reach agreement both about how a decent standard of living is defined and what constitutes this decent standard of living – or how the agreed living standard is described. Consequently, it was important to explore whether the MIS approach was viable in this context using a small pilot study in the first instance. This chapter

discusses some of the methodological challenges that arose during the design and implementation of the pilot which required modifications to the MIS approach as implemented in the UK, to better fit the South African context. The findings of the pilot study are then presented alongside recommendations for an expanded nationwide study.

The MIS pilot in South Africa was not the first attempt to explore the idea of consensus around socially determined living standards. The research built on a number of local initiatives, and in particular on previous collaborations between Studies in Poverty and Inequality Institute, Southern African Social Policy Research Institute NPC (SASPRI) and the Labour Research Service where issues around a decent standard of living have been explored. These include a mixed-methods study undertaken for the Department of Social Development exploring which items are regarded by people as essential for an acceptable standard of living in South Africa. The findings from this study demonstrated that there was a surprising level of agreement around a set of indicators or 'socially perceived necessities' (SPNs), across different sections of society (Noble et al, 2007; Wright, 2008; Wright and Noble, 2013). A further qualitative study explored the concept of a decent living level with low-income communities in Gauteng (Frye et al, 2014), while analysis has also been undertaken to explore the association between possession of the SPNs and income (Frye et al, 2018; Noble et al, 2015). While these studies revealed a high degree of consensus across different sections of society and a clear (though non-linear) relationship with income, they did not enable the construction of a detailed, costed budget for a range of different household types, which is the distinguishing feature of the MIS approach.

As this project built on extensive work that had been undertaken in this regard in the South African context (noted earlier), this meant that subsequent stages in the MIS methodology could be prioritised for exploration in the pilot; that is, a focus on key methodological steps that had not been undertaken previously in South Africa. More specifically, the aim of the pilot was to ascertain whether agreement could be reached in diverse settings about the fine detail of necessities for a decent standard of living: this is achieved through the iterative compilation of lists of goods and services that are linked back to an overarching definition of a decent standard of living. While this process is repeated for different age groups and household types in a full MIS study, the pragmatic focus here was on the needs of a working age adult.

The pilot project represents the first attempt to apply the methodology of the MIS approach in South Africa. As noted, MIS moves beyond identifying the general features of a decent standard of living, instead



producing whole budgets for households, based on lists of items they need, putting a figure on minimum income requirements. The goods and services included as being required for a decent standard of living are specified within a particular context – and the research explores whether agreement can be reached over those items within and across groups comprising people from different social, economic and geographic locations.

## **What challenges were encountered in applying MIS in South Africa?**

While MIS has been successfully adapted and applied in other national contexts (Padley and Davis, 2020), this is not without its challenges, and these are explored further in [Chapter 17](#). A key element of the pilot project involved identifying aspects of the MIS approach that, in the South African context, might prove to be challenging or even inappropriate, as well as identifying potential solutions. This chapter sets out five methodological challenges and how these were resolved.

### ***Challenge 1: the importance of terminology***

The MIS approach starts with the word ‘minimum’, which remains a relatively unproblematic term in the UK. However, in the South African context the word ‘minimum’ has different connotations and is more readily linked to notions of survival or subsistence (such as food and shelter) rather than pointing to a standard of living that goes beyond meeting these ‘bare necessities’ (Magasela, 2005). In light of these concerns and the previous studies identified earlier, the pilot project was framed as focusing on a ‘decent living level’, more explicitly tied to the idea of a decent standard of living; ‘decent’ here is intended to capture and describe a living standard that is both adequate and supported by the public.

The MIS approach starts with discussions of how a minimum standard of living should be defined in any given context. Prompted by existing definitions of living standards, these discussions identify key themes and ideas that are subsequently distilled into a brief ‘definition’ that encapsulates what groups identified as being needed in order to have a minimum socially acceptable standard of living (see, for example, Davis et al, 2018: 5; Valadez-Martínez et al, 2017: 696). These definitions are then used as the basis for all subsequent discussions within the MIS approach. The definition formulated by groups in South Africa is discussed further, later in this chapter.

Having established a definition, there was extensive discussion about how best to translate ‘decent standard of living’ or ‘decent living level’ into isiXhosa, as this would be the language used in many of the groups. After several expressions had been considered and rejected by the five members of the team who were fluent isiXhosa speakers, an expression was identified which, though rarely used, captured the essence of the concept best: *Ubomi obunga hlelelekanga*. Literally translated, this expression means ‘a life without struggle’.

### *Challenge 2: the composition of focus groups*

In the UK and other high-income countries, the MIS approach is rooted in the discussions and deliberations of groups of people from across the income distribution, and this is seen as one of the approach’s strengths: the research does not bring together individuals from one income group to discuss minimum needs, but seeks to reach agreement about minimum needs across income groups. The majority of focus groups are also undertaken with both male and female participants, are held in English, and are recruited through a process that does not take account of people’s ethnicity. In the South African context some of these features raise both practical and ethical challenges. Practically there are challenges with the selection of venues and the language for the focus groups: finding a venue where people would feel comfortable and not ill at ease, and could travel to easily, whatever their economic background was identified as a challenge, and undertaking all groups in English would be inappropriate as South Africa has 11 official languages. There were also ethical concerns: bringing together very wealthy and very poor people – in a highly unequal context such as South Africa – to discuss what’s needed for a decent standard of living could be very uncomfortable for those who lacked the necessities. A further factor was a concern with both age differences within groups (older people’s voices are more respected in some communities, and less in others), and of having men and women both present, with women’s voices being more respected in mixed-gender settings in some communities and less in others.

Ultimately the pilot did not divide groups by age or by gender, but sought to ensure that the facilitators were well trained to deal with any issues of ageism and sexism that might arise in these group contexts. The pilot groups were undertaken in two of the 11 official languages: English and isiXhosa.

### ***Challenge 3: the MIS case study name and location***

The MIS approach generally starts with ‘orientation’ groups, undertaken at the start of the research project, which draw up a series of ‘case study’ individuals – these ‘case studies’ comprise a named person/people and the name of the place where they live – who subsequently become the focus of discussions about minimum needs. In this way, participants in groups are not being asked to talk about what they as individuals need, or to express their own preferences, but rather to consider the needs of an imaginary individual.

There was concern in South Africa that specifying an individual’s name (or even how it is pronounced) brings with it too many connotations about their class, population group and even income bracket. This could result in groups projecting certain standards onto case study individuals, potentially influencing group discussions and decisions about what that person would need for a decent standard of living. Similarly, identifying where the case study individuals live could steer groups towards making particular value judgements about which items are essential in the context of, for example, a rural village in the Eastern Cape, or a township in Cape Town.

In light of these challenges, the case study used in the pilot referred to Ms B/Mr B: ‘Ms’ implies a degree of modernity (being neither Miss nor Mrs); ‘B’ was selected as it does not imply that a person is from any particular population group as, for example, ‘B’ could stand for Banks, Bengu, Bezuidenhout, Booysen or Buthelezi. Similarly, rather than specifying where Ms B/Mr B lived, a decision was made instead to stress simply that they live in South Africa.

### ***Challenge 4: assumptions about which aspects of a decent standard of living are already in place***

Closely related to the previous challenge, there were questions about which goods and services could be assumed to be in place for Ms B/Mr B. In the UK, MIS is based on the assumption that individuals have access to basic services such as electricity, water and sanitation, that people live in Western-style housing and that most urban areas are similar.

In South Africa, however, these assumptions in relation to key services are potentially problematic: can it (and should it) be assumed that the place where Ms B/Mr B lives is connected to electricity and has piped water? And can it (and should it) be assumed that they have adequate

housing? Some of the participants in the groups may not have these things in place and so it would be necessary to be sufficiently explicit about what is in place already for Ms B/Mr B without being prescriptive about the consequences of those things being in place. For example, while it might be made explicit that the house has piped water and electricity, it would remain an open question as to whether a washing machine was an essential item. Ultimately, while a fully implemented MIS might take into account the running costs of a washing machine, it would not take into account the cost of installing running water to a dwelling to enable the washing machine to function. Within the pilot, a distinction was made between the focus of MIS – things needed in the home and to participate – and matters relating to the structure of the home and features of the area in which people lived.

### ***Challenge 5: the unit of analysis, and assumptions about household composition***

In the UK and other higher-income countries, MIS focuses on the needs of *individuals* who are then combined together into households. So, for example, the needs of a working age couple without children are discussed separately from those of a working age adult living alone. The needs of children of different ages are discussed separately from parents and are then combined into households in order to explore both the additional costs and the economies of scale that can and do arise from children living within households. However, within the South African context very few people live in single-person households. Consequently, within the pilot project it was agreed that it would be inappropriate to assume that Ms B/Mr B lived alone, even though they were described as single. Thus, while the focus was kept on the needs of Ms B/Mr B, the case study did not prescribe how many other people lived with Ms B/Mr B.

### **How was the pilot designed?**

The pilot study comprised seven focus groups which were undertaken in July and August 2016. Two orientation groups were conducted (FG1 and FG2) to develop and agree upon a definition of a decent standard of living with the participants, and to prepare a description of the case study character that subsequent focus groups would refer to (i.e. Ms B/Mr B described earlier). This was followed by two ‘task groups’ to determine the necessities (FG3 and FG4) in three aspects of life: communication, the living area and the sleeping area. Two ‘check

back' groups then considered the lists of necessities in different settings (FG5 and FG6), and lastly one final negotiation group was convened to resolve any outstanding issues that were brought forward by the previous groups (FG7).

The groups were convened in a community centre in a township on the outskirts of Cape Town (Gugulethu), an office block in an affluent suburb in Cape Town (Claremont), a middle-class suburb in Cape Town (Observatory) and a school hall in a deprived rural area of the Eastern Cape (Peddie). In total, 67 people of working age took part in the focus groups, of whom 61 per cent were female and 39 per cent were male. Collectively the groups straddled a range of diverse contexts and people. Diversity was achieved in terms of gender, age (within the band of 18–59), area type (urban formal, township, rural former homeland), education level and employment status. Diversity was achieved to a lesser extent in other important respects: language (only two of the 11 official languages were used); province (only two of the nine provinces were included); and population group (all participants were black African except in one group).

## What does a decent standard of living comprise in South Africa?

Table 7.1 shows the definition of a decent living level which was drawn up by the two orientation groups, as well as the case study definition that they drew up. For an account of how these definitions were derived during the orientation groups see Byaruhanga et al (2017).

These definitions were used as anchoring concepts in the subsequent groups which were asked to consider the necessities for Ms B/Mr B,

**Table 7.1:** The orientation groups' definition of a decent living level and case study individual

Definition of a decent living level
In South Africa, people who have a decent living level should be able to participate fully in society, however they choose to do so. A decent living level includes personal possessions, social and family networks, a belief system, housing, services provided to the house and in the local area and the ability to take part in social activities. A decent living level is not a luxury living level, but rather the level at which everyone should be able to live in South Africa.
Definition of case study individual
Ms B/Mr B is a single working age person. She or he lives in South Africa in a home that has solid walls which are weatherproof, and there is safe and legal supply of electricity and water inside the home.

in relation to the three aspects of communication, a living area and the sleeping area. For each of these aspects, participants were asked to explain what items were needed, why these were necessary and the implications for Ms B/ Mr B if they lacked that item. Once the group had reached agreement on an item, and explained why it was important, if there was time then participants were additionally asked to specify where the item could be purchased and the duration that the item should last. In a larger-scale MIS project, beyond a pilot, these items would subsequently be costed at the specified stores, with this cost spread across the lifetime of the item in order to produce weekly budgets, but this was not undertaken in the pilot.

Items were discussed in detail, first in the two task groups, then in the two check back groups, and lastly in the final group for resolution. [Table 7.2](#) sets out the goods and services that were defined as essential for Ms B/ Mr B, and for some of the items the lifespan of the item or their value. These items were agreed or finalised in the last group, with the exception of the TV and TV stand in the sleeping area, which was left unresolved.

Participants were asked to describe the purpose and quantity or size of items, and these details often revealed the relational function of items that had been defined as essential. Three examples are given here. First, participants argued that it was important for Ms B/Mr B to have a six-seater sofa for when s/he had visitors. Although there was a discussion about the material of the sofa and how it affected quality, it was agreed that the material did not matter as long as it was bought from a mid-range store. Second, participants included transport in their list for communication, on the basis that they often needed transport to meet family and friends as well as to attend community meetings and they put this under the banner of full participation in society as per the definition of a decent living level. Third, participants argued that a cell phone was important in order to be able to access the internet, which was important for informal social participation but also for more formal purposes, such as accessing employment.

### **Is it possible to adapt and implement MIS in the South African context?**

The pilot began with a simple but very important question: what exactly do people in South Africa need to have a decent standard of living? The aim of this initial pilot project was to explore whether, using the MIS approach, it was possible to reach agreement in the

**Table 7.2:** Essential items for Ms B/Mr B in relation to communication, the living area and the sleeping area

<b>Communication</b>
Entry-level smartphones (1 year)
Access to post office
Stamps (R150 per year)
Envelopes (R150 per year)
Library
TV
Transport
Postal address
WiFi (5GB)
Laptop (5 years)
Radio (via HiFi)
Newspaper (access every day and R15 for the weekly paper)
<b>The sleeping area</b>
Bed base (15 years)
Mattress (7 years)
Headboard (15 years)
Dressing table with mirror and chair (15 years)
Bedside pedestals (15 years)
Wardrobe (15 years)
Blankets × 2 (2 years)
Pillows (2 or 4) (3 years)
Pillow cases (4 or 8) (3 years)
Comforters (2 or 3 sets) (3 years)
Sheets (3 sets) (fitted and top sheet) (1.5 years)
Bedside lamp (2) (10 years, 5 years bulbs)
Heater (different from the one in the living area, and not an electric blanket) (5 years)
TV and TV Stand – unresolved
Carpet
Curtains
<b>The living area</b>
DSTV compact
Coffee table (15 years)
Access to books

**Table 7.2:** (Continued)

Pot plants
Air vents for ventilation
Covered flooring
Heater
TV (10 years)
TV stand
HiFi system with radio, CD and DVD players (10 years)
6-seater lounge suite (15 years)
Bookshelf (does not need to be replaced)
Dining table and chairs (10 years)
DVDs (R2000 per year)
Burglar bars
CDs (R250 every month)
Curtains

South African context about what is a decent standard of living, before considering a full-scale project.

All of the focus groups that were conducted involved rigorous and engaging discussions. Once participants in the various groups became familiar with the aim of the groups in relation to the study, participants were able to have critical and thorough discussions on what constituted a decent life in relation to the case study of the hypothetical Ms B/ Mr B.

The groups were able to reach agreement about the items needed for Ms B/ Mr B for a decent standard of living in relation to communication, the living area and the sleeping area. This was achieved at a fine-grained level of detail, and it was possible to explore issues about the items' quality and durability. As such, any initial concerns about whether agreement can be achieved about the fine detail of necessities in a country as diverse and divided as South Africa quickly receded. At the very least, the pilot does demonstrate that men and women in two provinces of South Africa from a range of area types (township, urban formal, rural former homeland), with a range of education levels (pre-primary through to tertiary) and in two languages, are able to reach agreement about the necessities for a working age person in South Africa in relation to communication, the living area and the sleeping area of their home.



In this respect key aspects of the MIS approach worked successfully. However, in other respects, adjustments had to be made upfront and would need to be addressed in a full MIS study. So, for example, MIS groups in the UK intentionally comprise a diverse group of people, but the team determined that this would not be feasible logistically in South Africa and also might cause discomfort for some people given the extent of inequality and the history of the country.

A full MIS study in South Africa would need to take into account several key issues: terminology; language, composition and duration of the groups; the need to make any assumptions explicit about which services are in place; and ensuring that the household compositions that occur in South Africa are adequately captured. In addition to these issues and the challenge of the cost and time required to conduct a full study it would need to address the full range of the purchasable necessities for a decent standard of living. The pilot has demonstrated that the principle of achieving agreement about items in a group context, and across groups in different contexts, is feasible, but there is much that remains to be explored in a full study.

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# Reference budgets as tools for everyday life, evaluation and policy making in Finland

*Anna-Riitta Lehtinen and Kristiina Aalto*

## Introduction

During the 2000s, reference budgets have been actively drawn up in various parts of Europe (Goedemé et al, 2015; Deeming, 2017). In recent years a consensual approach has been applied in order to determine necessary consumption. The consensual approach implies that the content definition of consumption is attended to by people representing different backgrounds and the result is achieved by means of consensus rather than exclusively by experts from various fields (Bradshaw et al, 2008; Deeming, 2017). Therefore, consumers are now included as a part of the compilation process together with experts. In Finland, the method was used in a modified form for the first time in 2010 (Lehtinen et al, 2010).

On the one hand, various kinds of institutions operate in society, and, on the other hand, people's valuations, preferences and expectations shape conceptions of what constitutes the essential commodities for leading a decent life and the financial resources that should be reserved for their acquisition. Therefore, views of what should be considered indispensable commodities for a decent standard of living require constant updating. The development of conceptual definitions has been more common than the development of definitions which apply to concrete goods and services. This may due to the fact that tangible living conditions and situations vary from country to country and in different regions at different times. For this reason, generic definitions are difficult, if not impossible. The definition of reasonable consumption appears most concretely in reference budgets.

## The aims and objectives of the research

The purpose of this article is to describe a consumer-oriented method for defining decent minimum reference budgets and their utilisation in Finland. The purpose of our studies has been to discern the level of consumption that constitutes a decent minimum standard of living on which a person can get by and maintain health while still feeling part of society in today's Finland (cf. Borgeraas, 1987; Lehtinen et al, 2011). In order to establish the decent minimum reference budgets, we have defined which commodities are necessities for that level and why. A starting point for our budget calculations are the needs of a household member combined with household activities. Our task is to specify in concrete terms what goods and services, of what quality, quantity and at what price, one needs to lead a decent life. Alongside the compilation of the reference budgets we have for the first time used the consensual method in 2010 in Finland. In 2018 we have updated the reference budgets for the first time since 2010.

There are many ways to approach necessary consumption on the subjective and objective level. Household consumption expenditures, surveys or consumer consensus are used to assess it. It is necessary to consider carefully what is being studied and how the method is used in the study: whether the adequacy of income is examined for a given standard of living or by what kind of goods it is possible to achieve a certain standard of living. Defining the content of moderate or minimum consumption requires criteria, but their preparation has proved difficult because reasonableness is relative. Who is competent to define what is necessary in consumption? To be able to specify what is necessary, one must contemplate why certain goods and services are necessary.

## Drawing up a reference budget in Finland

The first Finnish standard budgets for a reasonable level of consumption were created by Aatola and Viinisalo in 1998 at the National Consumer Research Centre (now the Centre for Consumer Society Research), which they called 'need budgets'. Unfortunately, they could not continue and develop their work further, for example, to enlarge their budgets to cover all expenditure groups. Aatola and Viinisalo (1998) had a group of experts with them and they called their agreement over commodities a narrow consensus. These standard budgets were later a part of research which evaluated the adequacy of living allowance in Finland (Forma et al, 1999).

The first reference budgets were compiled in 2010 using the consensual method. The approach of the current budgets was an outcome of a number of factors. First, we had to start from scratch after Aatola and Viinisalo, and it was obvious we had to do something novel and different because the acceptance of standard budgets was not encouraging in the 1990s. Second, our previous organisation had a consumer panel which we wanted to use. The consumer panel was a specific tool for the collection of research data including close to 1,000 persons from six areas of the country with various backgrounds.

Thirdly, as with Aatola and Viinisalo, our project was linked to Finnish social policy, this time via basic security and consumption (Kangas et al, 2012). Our task both then and now is to determine what a decent minimum consumption basket consists of. The target level of consumption was to guarantee a dignified life that would enable satisfaction of physiological, psychological and social needs and participation in society (Borgeraas, 1987). Lastly, we were encouraged to employ the consensual method and utilise our consumer panel, participating in the project Reference Budgets for Social Inclusion in 2008–10 funded by the European Union (see Warnaar and Luten, 2009). A reason why the budgets have been developed in our organisation lies in history, on the research of the development of the consumer society from the perspectives of societal structures and using often participatory methods, and researchers' specialisation in consumer economics, nutrition, home technology and household work.

## The theoretical and conceptual framework

Determining and pricing the content of a reasonable minimum set of commodities is a challenging and laborious task in modern society. Social structures, economic and technological development, and the market supply continuously create new consumption opportunities, and increase the options for satisfying personal needs. Their abundance may blur the idea of what is necessary and indispensable. The acquisition of various kinds of commodities is closely linked with the achievement of well-being. For people living their daily lives and constructing their identities today, consumption is central. Bauman (2003) has even suggested that it is through consumption that people today attach themselves to a society. Contemporary consumption is more than just satisfying basic needs by buying and using commodities. It includes practices by means of which people build and express their identities, join social groups and participate in social activities (Warde, 1996). When dealing with consumption, we are balancing between

needs and wants. For any research dealing with the adequacy of basic security, consumption is therefore a self-evident starting point even if the level is meagre.

It is possible to determine the physiological minimum of consumption that gives the very basic starting point for consumption. As the consumption level rises from the minimum level to the upper ones, the number of alternatives expands almost exponentially. Therefore, some criteria must be developed in order to choose which consumption is included and what is not (Aatola and Viinisalo, 1995). It is ideologically easier to determine a decent living standard by disposable income, because income is the resource that everyone can freely use as they choose. It is not necessary to intervene in choosing what the content of reasonable consumption is.

Indispensable commodities vary from one individual to another because of the individual's demographic and personal characteristics and family stage. Further, each household has its own way of operating and maintaining its resources. What is acceptable consumption also varies at different ages, and it is influenced by the political system, government, education, organisations, markets, media and science (Lehtinen et al, 2010). Which commodities are defined as indispensable is culture-, time-, environment- and situation-specific. Reference budgets must be connected to the real world, its conditions and the economic situations faced by consumers (Saunders and Bedford, 2017).

A theoretical framework of reference budgets today is usually based on Doyal and Gough's (1991) theory of human need and Sen's (1995) capability approach. The theory of human need provides a concrete and operational framework for conceiving and measuring the requirements of people in different cultures (Storms and Van Den Bosch, 2010). Doyal and Gough's (1991) intermediate needs have been materialised by products and services available in society and the markets. Sen (1995) and Doyal and Gough (1991) have also argued that basic human needs cannot be understood purely in physical terms. The essence of humanity is the capacity to make choices and any measure of poverty must take account of capabilities, including the capacity to participate.

## The methodological approach

In Finland we applied a modified consensual method. The Finnish reference budgets were compiled using focus group discussions and homework assignments with consumers. The consumers' role is fundamental in selecting the needed commodities but it is even more crucial to understand the reason why they are important for a given

living standard. We used content analysis in tracing commodities and their reasoning. The research team planned the process and prepared the tasks that consumers worked on. In the beginning, in 2010, the process covered a total of 12 separate phases, of which consumers participated in four (Lehtinen et al, 2011). In 2018 we have had altogether nine separate phases and during the process the consumers were able to influence matters on four occasions: they participated in two focus group discussions, did homework and sent comments via email about the commodity basket drafts (Lehtinen and Aalto, 2018). The third focus group meeting was left out because its significance was minor in 2010.

A group of eight to ten experts from various fields evaluated the budget drafts in 2010 and 2018. The planning and management of the process requires that the researchers have at least on the conceptual level an understanding of consumption, its meaning in daily life and functions, and of cost accounting principles. We have not used other experts outside the research team, because our own background has covered the areas.

We recruited consumers from the research centre's consumer panel in 2010 and in 2018 via a company specialised in research recruitment representing the required reference households. It is important that the consumers differ in age, gender, household types, professions and living areas. A variety of participants provides fruitful discussions (Bradshaw et al, 2008; Deeming, 2011). Discussions on concrete, everyday goods and practices raise consumer expertise and experience in different life situations. This avoids merely dealing with opinions. Transparency of the process at all stages carries the process and motivates consumers (Lehtinen et al, 2010).

We started our compilation process with consumption expenditure categories based on COICOP-HBS (classification of individual consumption by purpose) which is standard in Household Budget Surveys (HBS). However, we quite soon found out that they were not as such suitable for our purposes. Instead, we modified expenditure groups based on their functionality, for example both the purchase and monthly fees of a mobile phone are in the same category, and the food category includes both homemade food and eating out. These modifications were useful because they emphasised households' normal modes of operations.

In focus groups the consumers first discussed the household's capabilities to function in diverse situations and living phases, and second the needed commodities. The first round of discussions was not meant to seek consensus, but was instead a preliminary demonstration

of the goods and services that are essential and the justification for the necessity. However, the discussion produced a consensus concerning food. Based on the first discussions, the product and service lists were compiled by the researchers and were sent to the participants for evaluation.

In a homework assignment, consumers had to fill in, remove and evaluate the necessity of the commodities, the needed numbers and the lifespan of durable goods. There were plenty of things to consider, which meant that the subjects had to go through a large number of commodities to consider their necessity and how often they should be purchased in a household like their own. The homework turned out to be very important for the consumers' participation process. The subsequent discussions revealed that reflection had deepened the perception of the complexity of necessary commodities and the possible alternative of various commodities. Most of the reflection led to a distinction being made between necessary and unnecessary commodities, and it prepared them for the second group meeting and browsing the lists with the other consumers.

In the second meeting, the consumers had to apply their knowledge and perceptions to the consumption of different reference households. The work was done in pairs and the participants had to justify their decisions to their partner and then to the other participants. Based on their experiences, the consumers were able to justify their choices and quite easily reached unanimous solutions. The consumers were enthusiastic about the discussions, working with pairs, and even about their demanding homework.

A different method was used to determine food expenditure. The information on the consumers' real diet was gathered by food diaries the consumers kept for four days in 2018 (a week in 2010). The food diaries created a base for food menus and for eating rhythms alongside the discussions. The consumers were asked to describe briefly their meals and their number in a day, where they ate, whether they used home-cooked or ready meals and whether the meals were typical ones on the days they completed their diaries.

The researchers drew up commodity baskets based on the homework assignments and the subsequent pair work. The commodity baskets were evaluated both by the consumers and an expert group which evaluated mainly the goods' number and operation time, not the contents. For goods and services, needed numbers and prices were calculated by the researchers for the monthly cost of each product. On durable goods, depreciation is calculated based on the purchase price



and the operating time. The researchers priced the commodities and made the final calculations.

## **The content of the Finnish reference budgets**

We have compiled the reference budgets for 13 types of households: six households with children, three childless couples and single men and women under the age of 45 and over the age of 65. We have succeeded in getting consumers with different backgrounds to participate, which is important if we want to produce generally usable content and expenses for necessary consumption, as people's perceptions go hand in hand with their own experiences (see e.g. Bradshaw et al, 2008). We have used the same frame twice in discussions. The Finnish reference budgets were compiled at a decent minimum level of consumption. Consumption has been a good tool to approach everyday activities in households. It is familiar and everyone has experiences of it. The following results are based on the update of the 2018 reference budgets (Lehtinen and Aalto, 2018).

Consensus can be sought at different levels of necessary consumption. For example, general principles of eating were discussed and were quite unanimous, namely versatile, healthy food and regular eating out at least once a month. In housing, there was a consensus that a private room is indispensable for teenagers, though smaller children could sleep in the same room as their parents. The possibility of going outside the home was necessary, as well as electronic connections to run errands, for social interaction and to access information. Much debate was aroused by leisure time and consumables. Finally, a consensus was reached at the functional level: everyone should have the opportunity to engage in at least one hobby. The consumers pinpointed a sum which could be used for a hobby but did not specify the hobbies. For many products the consensus was strong, these products being home accessories, home appliances, telecommunications and clothing. The most difficult consensus concerned goods whose necessity varied depending on the place of residence. Means of transport was a good example and there was a consensus on the necessity of a car only for families with children. There was total agreement on the redundancy of tobacco. Later, when the participants had to really think about the necessities of households like their own, things were not as easy to decide. The consumers were not as certain as before about how things should be for others. They discussed more, and were more likely to accept the arguments of others and seek compromises.

Consumption changes over time, for example the expenditures on information and communication technologies and children's leisure and hobbies have increased considerably in the newest reference budgets compared to the situation in 2010. The consumers pointed out that such items were needed to prevent social exclusion or to take part in society. Food is one of the most important expenditures and is the second largest after housing in Finland. A food basket is easy to draw up as long as nutritionally balanced food is considered. However, food is affected by strong cultural and social factors and also depends on the resources available to the consumer, including time, knowledge and skills (Mäkelä, 2002). Compiling a healthy and generally acceptable menu is challenging because many people with low incomes compromise on food costs (see Nelson et al, 2002). Lindblom (2017) found that people with low incomes typically favour energy-dense and low-cost foods. Such food choices emphasise processed, high-sugar and fat-containing foods. The challenge is to produce menus that the consumers find realistic. The realism of the food menus was discussed, as they contained more vegetables than the consumers generally used or could afford. The participants emphasised the importance of healthy food, but according to diaries, unhealthy food was also eaten. The researchers' task was to seek a so-called happy medium, which is make the familiar foods healthier and to show that healthy food can be economical and meet with national nutritional guidelines (see Evira, 2014).

The quality and price levels of the products were discussed in the groups. In 2018 the consumers accepted the price level we used in 2010. The consumers did not price the goods. The discussion of prices led to a debate on taxes and what taxes should be used for. Related to price levels was a debate about whether the calculations should include products purchased from second-hand shops. It was comparatively easy to agree on the fact that the budget does not include second-hand products. Their prices, quality and availability vary, and good second-hand outlets are available on the internet. The reason for the rejection of second-hand goods was therefore more practical than principled. Many of the consumers pondered whether a low-income person should be obliged to buy second-hand clothes. Purchasing second-hand items should be voluntary and a matter of one's preference.

We have problems to solve in future updating. Housing costs have a strong impact on livelihood in Finland. The costs are now based on rented flats, but about 70 per cent of Finns live in owner-occupied houses or flats, though most Finns with low income live in rented flats (Kauppinen et al, 2015). All participants felt that a necessary

prescription drugs should be included, but it is unclear what kind of drugs or sickness were being considered. Part of the costs of medicine are reimbursed in Finland, but it is difficult to make exact budget calculations. In 2018 we increased the health costs by median medicine costs. The health costs have increased because of additional prescription drugs and leisure costs are higher since consumers considered the previous sum to be too low. There was only a minor increase in the 2018 reference budgets compared to the budgets in 2010.

Decent minimum reference budgets are modest compared to average consumption in Finland according to the 2016 HBS (OSF 2018). In most family types, budgets cover 60–70 per cent of average consumption of the comparable family type. These comparisons cover reference budgets in the metropolitan area. In Helsinki the coverage is even lower and in other areas of Finland it is respectively higher. Differences are greatest in leisure, where budgets cover less than 45 per cent of average costs in all family types, followed by household consumables (coverage 26–60 per cent), and health care (coverage 38–60 per cent) (Lehtinen and Aalto, 2018).

## Impacts and influences on policy and practice in Finland

The budgets have raised quite a lot of interest from the media and from consumers. The term *reference budget* describes the purpose of the budgets better than the term *standard budget* does in Finland. Furthermore, as the newer term lacks any requirements for normative content, it may be easier to utilise it as a reference (Lehtinen et al, 2011). The main reason for acceptance is the consumers' input. A comprehensive and transparent budget for all consumption expenditure groups based on the views of consumers ensures that households can operate in their own way. Even if budgets are meagre, households must have at least some choice (Storms and Van den Bosch, 2010; Lehtinen et al, 2010).

Reference budgets are used by other institutions and parties, and so far our role in the Centre for Consumer Society Research has been to compile budgets. This kind of arrangement has been beneficial to the acceptance and utilisation of budgets. Budgets show the actual needs of a certain household rather than what consumers have bought, hence deepening the information rather than relying on the HBS collected by Statistics Finland.

Budgets have been used as a benchmark in private households, in research and in the work of the authorities in Finland. Reference budgets give concrete information to decision makers, practitioners and households about what the costs of everyday life are. Budgets

make it easy to verify the costs of spending, reveal the products and services included in it and show the kinds of activities and the related consumption needs that different households have.

Reference budgets have been used to assess the adequacy of social security in Finland (THL, 2011, 2015, 2019; KELA, 2015),<sup>1</sup> which is done every four years (the electoral term). The content of budgets most closely resembles social assistance (basic, supplementary and preventive assistance). The Finnish income transfer system consists of three different parts: income-related social insurance, flat rate basic security benefits and a last resort form of financial assistance (social assistance or minimum income schemes). Social assistance is a temporary income transfer for individuals and families to cover some of the basic necessities of life and their daily expenses (see Kangas and Kallioma-Puha, 2015). Social assistance is by nature a different form of support than basic security benefits and is not considered as such (THL, 2015, 2019). In 2014, only the guarantee pensioners reached the reference budget line and other benefits were about 70 per cent of the reference budget line (KELA 2015). Again, in 2018 the guarantee pension covers a minimum consumption determined by the reference budgets. For childless households living in rented households, basic social security benefits plus basic social assistance after housing costs cover 71–77 per cent of the reference budgets (THL, 2019).

The Institute of Health and Wellbeing has developed a minimum budget poverty indicator based on the reference budgets, and it is used to predict poverty annually (Moisio et al, 2016). Budgets have been used as a tool for financial and debt counselling and in the preparation of legislation (e.g. Guarantee Foundation, 2018). Calculations of the consumption of natural resources have utilised budgets (Lettenmeier et al, 2012; Hirvilammi, 2015). Reference budgets based on necessary consumption can, therefore, also serve as a support for sustainable consumption and an ecologically sound environment (Lehtinen et al, 2011; Gough, 2017).

Reference budgets do not look at the impact of incomes on consumption, but focus on tangible assets and the opportunities they generate. A reference budget is a tool for making day-to-day choices and functions visible. Their compilation starts with subjective experiences and ends up being objective in defining a certain level of consumption.

## Note

<sup>1</sup> Kansaneläkelaitos (KELA) is the Social Insurance Institution of Finland, <https://www.kela.fi/web/en>.

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# Belgian reference budgets for social participation and their use for policy purposes

*Bérénice Storms*

## Introduction

Since the adoption of Economic and Social Rights in the Belgian Constitution in 1994, Belgian politicians – on all policy levels – have clear obligations to create the necessary conditions to guarantee every citizen the right to a decent living standard. After 25 years of constitutional provision, the actual exercise of this right still lacks a normative framework on what a decent living standard concretely entails. This has two important consequences. First, the enforcement of the constitutional provision by the Belgian Labour Courts depends merely on the (subjective) interpretation of the judge. Second, governmental authorities lack good instruments and indicators for implementing and evaluating enabling actions for citizens exercising their rights.

The Belgian reference budgets help to fill this gap. Based on a sound theoretical and methodological framework, they illustrate the minimum out-of-pocket costs of goods and services that people need to adequately participate in society. In this chapter we illustrate how Belgian reference budgets support politicians implementing the right to a decent living standard at different policy levels and in various policy domains. In particular, we discuss how reference budgets support local politicians to improve their strategies to guarantee citizens the subjective right to social assistance.

In the first section of this chapter, we briefly situate the origins of the reference budgets in the policy context and the design of the Belgian minimum income protection. In sections three and four, we discuss the theoretical and methodological foundations of the Belgian reference budgets. Next, we illustrate in section five the societal impact of Belgian reference budgets and their use by various stakeholders. We

focus more in-depth on the policy impact of reference budgets, and more concretely on their added value for monitoring local anti-poverty strategies. In section six we conclude.

## Policy context

The Belgian Social Security system can be characterised as a multi-layered system of social insurance and social assistance benefits. It serves two main purposes: (1) maintaining to a certain extent the acquired living standard, and (2) guaranteeing a decent income for all members of society. Regarding the latter, the provision of a guaranteed minimum income is regulated by the law on the Right to Social Integration, introduced on 26 May 2002. This law ensures social integration either through employment or through a cash transfer for all persons who fall below a certain income and assets threshold and who meet five other eligibility requirements regarding residence, age, nationality, exhausted rights for other benefits and willingness to work. To make work pay, guaranteed minimum income allowances are kept lower than social security benefits that in turn are kept lower than minimum wages. The law on the Right to Social Integration provides the municipal Public Centres for Social Welfare (PCSWs), responsible for implementation of this right, with a uniform legislative framework. This means that the same rules apply to all individuals in every Belgian municipality.

Closely related to the Right to Social Integration, there is the Right to Social Assistance regulated by the Organic Law of 26 July 1976 concerning the PCSWs. This law aims to strengthen the capabilities of vulnerable people ‘to lead a life that meets the standards of human dignity’ (article 1 Organic Law). In this regard, PCSWs should take supplementary actions of a preventive or curative nature, which encompass a wide variety of financial, material, social, medical or psychological aid. Whereas PCSWs have little discretionary competence in the implementation of the law on the Right to Social Integration, the opposite is true for the Right to Social Assistance. Here, they make autonomous decisions at the level of individual municipalities, reflecting their own ideological and political viewpoints and based on local needs and the local context. The discretionary power at the level of local municipalities is based on the idea that, as a last safety net, social assistance should be as close as possible to the individual needs of the client. In addition, local autonomy also gives room for experimentation and innovation. The downside of placing a large degree of discretionary power at the level of local PCSWs are the considerable differences – not well explainable by variations in local

contexts or by variations in individual living conditions – between and within PCSWs regarding the nature, the level and the conditionality of the provided (financial) aid to vulnerable citizens and the degree of standardisation used when assessing eligibility conditions (Beyns et al, 2008; Hermans, 2005; Luyten, 2001; Mertens and Storms, 2014; Van Mechelen and Bogaerts, 2008). It is against this background that the development of Belgian reference budgets started in 2006, as a request from PCSWs looking for a common benchmark against which a decent living standard could be assessed (Storms, 2012; Storms and Van den Bosch, 2009).

## Theoretical and conceptual framework

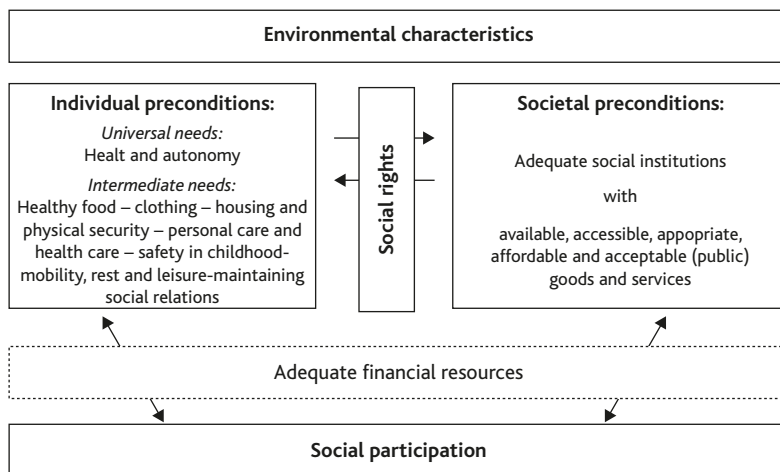
The Belgian reference budgets illustrate the minimum out-of-pocket cost of goods and services that people should have at their disposal to adequately participate in society. Adequate social participation is hereby defined as the ability of people to adequately play the social roles one should be able to play as a member of society (Storms, 2012).<sup>1</sup> A society is a multi-layered network, connecting individuals who take various social positions in an institutionalised territory. Social institutions are socially constructed norms and values around essential social needs that shape the patterns of individual interactions (Vrooman, 2009). Examples of social institutions are the family that takes care of procreation and the education of children, the economy that handles the production and redistribution of scarce goods and services or social security that protects people against economic insecurity. Examples of social positions are a citizen, a family member, a neighbour, an employee or a self-employed entrepreneur, a student, a member of an organisation or a voter. Sociologists define ‘social roles’ as the socially constructed and continuously reconstructed expectations (duties and rights) associated with social positions. Role expectations include both actions and positive features, e.g. a parent may be expected to educate children in a dedicated and responsible way. People who cannot adequately play their social roles risk being socially excluded, inhibiting their ability to actively participate in the recursive process of institution building (Barca, 2008; Giddens, 1984).

Belgian reference budgets focus on social positions that everyone should be able to take, regardless of their socio-economic status. This means that people should have the opportunity to comply with dominant social expectations, and they should be able to choose to deviate from the expected roles without being forced to do so by a lack of adequate financial resources.

When defining a concrete monetary benchmark against which the adequacy of differing living standards can be assessed in the light of ‘adequate social participation’, one should be aware of what Sen (1990, 2005) has called the parametric variability in the relation between means and actual opportunities. Although people may possess the same personal resources, the degree to which these resources translate into capabilities to realise an adequate level of participation in society will differ because of varying individual physical or mental needs. These individual needs depend on differences in health, cultural capital (e.g. skills and competences) or social capital (e.g. whether or not one can rely on informal care). In addition to these variations in individual conditions, there are also environmental (e.g. climatic or geographic) and institutional differences (e.g. regarding the availability, accessibility, appropriateness, acceptability and affordability of public goods and services) that can lead to unequal capabilities of people with the same financial resources. Acknowledging these interpersonal and intersocietal variations, Belgian reference budgets are developed for well-defined model families (Storms and Van den Bosch, 2009; Storms, 2012), whose characteristics are expanded over the years (Van Thielen et al, 2010). For example, the following assumptions are made: family members live together in the same house, all adults and children are healthy and have no special needs in terms of personal (health) care,<sup>2</sup> family members have an ‘average’ degree of social and cultural capital, they live in a particular institutional context (located in one of the three Belgian regions: Flanders, Wallonia or Brussels) and they have good access to the actually provided (public) goods and services (e.g. public transport, education, health care, shops). These assumptions are based on several interrelated arguments. First, they are very helpful to reduce the elusiveness of the concept of adequate social participation and help to improve the robustness of the reference budgets. Second, the assumptions ensure a focus on the minimum cost of adequate social participation, whereas people will arguably need more resources in cases where these assumptions are not met. This gives the budgets more (political) bite and helps to facilitate consensus regarding the need to act when living conditions fall short of the budgets. Finally, these assumptions are also explicitly discussed in the process of reference budget development. In doing so, important knowledge is generated which allows us to evaluate the feasibility of the budgets and to determine the extra needs that should be fulfilled when individual living conditions differ. This knowledge is indispensable when one aims to use the reference budgets in the assessment of individual living conditions.

To determine the minimum cost of goods and services that are essential to guarantee people an acceptable standard of living in Belgian society, we rely on a slightly adapted version of the Theory of Human Need (THN), developed by Len Doyal and Ian Gough (1991). Needs refer to a category of goals which are believed to be universal. ‘Needs’ are contrasted with wants, which are goals derived from an individual’s preferences and cultural environment. The universality of need rests upon the belief that serious harm will occur if needs are not satisfied. Doyal and Gough define serious harm as an impediment to successful social participation. The THN puts forward two ‘universal needs’ that should be fulfilled for effective social participation, namely ‘physical health’ and ‘critical autonomy’. The latter requires cognitive and emotional capacity to initiate an action, and cultural understanding and opportunities to participate in socially significant activities (Gough, 2014). Additionally, THN formulates a non-exhaustive list of ‘intermediate needs’ or ‘universal satisfier characteristics’. These are characteristics or properties of goods, services, activities and relationships which enhance physical health and human autonomy. For the construction of the Belgian reference budgets, we slightly adapted this list to the following intermediate needs: healthy food, suitable clothing, adequate housing and physical security, adequate personal care and health care, safety in childhood, adequate mobility, rest and leisure and maintaining social relations.<sup>3</sup> In Figure 9.1 we present the

**Figure 9.1:** Theoretical framework of the Belgian reference budgets



Source: Storms (2012).

key concepts used in the theoretical framework and the way they are interrelated.

## Methodological approaches

Against these theoretical foundations, Belgian reference budgets have been developed since 2006, relying on a mixed method approach. A wide range of information sources are used, including official guidelines and regulations, scientific research, expert consultation, survey information and focus group data.

In line with the theoretical framework highlighted earlier, three criteria are instrumental in determining both the functions that people should be able to fulfil, and in developing the baskets, i.e. choosing illustrative goods and services that people need for functioning and pricing them. First, the proposed budgets should be conducive to a healthy lifestyle. Second, they should allow people to make autonomous choices in the performance of their various societal roles. Third, the functions and the baskets should be socially acceptable to various stakeholders, and particularly to low-income households.

For the fulfilment of the first two conditions, the researchers rely on official guidelines or regulations and on the scientific literature. Furthermore, they appeal to a multidisciplinary team of researchers. A nutritionist is asked to compile a food basket that is based on national dietary guidelines. Health care experts provide input on health-related goods and services, particularly in relation to the personal care and health care basket, and researchers from *Domus Medica* (the Flemish organisation of general practitioners) provide external validation of these baskets. The composition and pricing of the energy basket is done by an engineer. For composing the basket of 'safety in childhood' seven child and youth experts participated in a three-round Delphi survey, and the Children's Rights Commissioner commented on the basket during the last two five yearly updates. An expert in housing studies calculates the median housing costs associated with renting qualitative dwellings. A mobility expert is consulted for the construction of the mobility basket, and a psychologist and three sociologists are involved in the composition of the baskets relating to clothing, leisure, social relation and safety. Finally, in order to price the more than 1,000 goods and services that are included in the baskets, we relied on input from an economist who chose shops and products according to the purchasing patterns that are predominant and socially acceptable.

In order to monitor the acceptability of the reference budgets, both in society in general and particularly by those who have to make ends meet

with low incomes, focus group discussions were organised, including participants from various socio-economic backgrounds.<sup>4</sup> They were asked (1) to comment upon the theoretical framework; (2) to discuss the assumptions regarding the characteristics of the hypothetical families and the availability, accessibility and appropriateness of (public) goods and services; (3) to discuss prevailing spending patterns; (4) to examine the acceptability of the nature, the quantities and the prices of the included goods and services; and (5) to discuss the adequacy of the level of the reference budgets.

For the composition of the various baskets, researchers and experts agreed upon four rules of thumb. First, the starting point should, whenever possible, consist of legal standards, official guidelines and recommendations that are considered directional in deciding whether certain (quantities of) goods and services should be included. A second rule of thumb is for maximum transparency. Third parties should be able to verify whether the choices made are relevant and acceptable. By composing the baskets in a well-motivated way and by striving for maximum transparency, the Belgian reference budgets became the subject of meaningful societal debate, which has clearly contributed to their societal acceptance. A third important prerequisite in the development of the Belgian reference budgets is flexibility. As the budgets should be useful in individual counselling practices, they are designed to be easily adaptable for those families whose characteristics or living contexts differ from those of the model families. Fourthly, the Belgian reference budgets represent long-term budgets, also including savings to cover less frequently incurred costs or to replace defective or obsolete durables. Finally, to make sure that the reference budgets continue to represent the minimum cost of a decent life over time, all goods and services are repriced on a yearly basis and every five years the composition of baskets is adjusted, taking into account changes in cultural habits or societal structures.

## Policy impacts and societal use

Nowadays, Belgian reference budgets have a high societal impact and are often used in scientific research as a benchmark to study the adequacy of minimum income protection or the redistributive character of taxes and benefits, and for contextualising current indicators for measuring poverty or monitoring the adequacy of anti-poverty policies. In this section we focus on the societal impact, especially on their use for policy purposes.

Numerous societal stakeholders – such as NGOs,<sup>5</sup> universities and university colleges,<sup>6</sup> budget and debt counsellors,<sup>7</sup> labour judges<sup>8</sup> or

bankers<sup>9</sup> – are using them as benchmarks representing the minimum cost of a decent living standard (in their campaigns, studies, policy preparations and evaluations, counselling practices, pleadings, judgements and calculations of the creditworthiness of costumers). Politicians, governmental officers and advisers on the different policy levels are using them for advising and monitoring anti-poverty policies in various policy departments. For example, the Federal Ombudsman recommended to the Ministry of Finance to use reference budgets to objectify the real actual payment capacity of taxpayers with debts who (partly) have rejected their repayment proposals, which are until now based on a flat rate payment (de federale Ombudsman, 2018: 31). At the regional level, the Flemish government includes the reference budgets in its housing policy plan (2018–50) as an official indicator for monitoring housing affordability in the long term (Homans, 2018).<sup>10</sup> In a study on the affordability of the integral water bill, ordered by the Flemish Environment Agency, a comparable indicator is developed to estimate water unaffordability, quantified as ‘the number of households with a disposable income that is too low to spend a maximum percentage of the income on a needs-based water budget’ (Vanhille et al, 2018: 615). Studies in both policy domains convincingly show that (needs-based) indicators based on reference budgets complement prevailing (income-based) affordability indicators in the scientific research on the size and the characteristics of risk groups (Heylen, 2014; Vanhille et al, 2018).

However, the largest policy impact of Belgian reference budgets is situated at the local level. This is not surprising, given the original request for an instrument to streamline the financial aid by PCSWs. According to article 60 of the PCSWs Law of 1976, every ‘intervention of the PCSW has, if necessary, been preceded by a social investigation which concludes with an accurate diagnosis regarding the existence and extent of the need for social assistance’. A good diagnosis requires good instruments that social workers can use in their social investigation to assess the ability of families to lead a life in dignity. Reference budgets provide an answer to the question of which income families need at the minimum to realise a decent standard of living. To support social workers using reference budgets in their social investigation, a web-based application (REMI) was developed and offered to the Flemish PCSWs from 2014.<sup>11</sup> REMI allows social workers to calculate detailed reference budgets for all kind of family types and to easily adapt them when personal and contextual situations differ from those of the model families, for example by taking account of differing child custody arrangements,



by adding real costs when family members are not in a good health or in need of extra care, or by replacing median costs for housing, child care or education by real household expenditures. In addition, social workers can also use REMI to systematically map the available income of families. By comparing households' income situations with the minimum cost of essential expenditures, REMI supports social workers to make a proper diagnosis of the extent to which the level of family income is sufficiently high to live a life of dignity. If social workers fill in the tool together with their clients, it turns out to also be a useful educational tool. It helps some clients to gain more insight into necessary household expenses and household revenues, which should be in balance to manage the family budget properly.

Local councillors welcome REMI as a supportive tool for various reasons. First, it gives them a good basis to make well-founded decisions about which strategies can give structural support to vulnerable families: coaching them to increase their disposable household income (by helping them exhaust their rights to additional financial support or subsidies, or by supporting them in their search for a suitable job); by helping families where possible to first identify, and then reduce high expenses (e.g. for rent, electricity, childcare or telecommunications); and supporting families with additional financial support where necessary. REMI clearly shows the impact of each of these strategies on the realisation of a decent living standard. A second advantage is that REMI helps streamline the social investigation of social workers between and within PCSWs, not only with respect to the eligibility criteria and the level of additional financial support, but also with regard to the differences in income sources that are taken into account to get a full picture of the disposable family income. Third, the comprehensive overviews of income and necessary expenditures provided by REMI give counsellors a clear look at the adequacy (e.g. availability, accessibility or affordability) of quality private and public (local) goods and services for financially vulnerable families. Rental costs, heating bills, school bills, childcare costs and holiday camps are often too expensive for financially vulnerable families. This can force families into debt, which is costly and harmful for both families and society. To avoid debts, families often rely on survival strategies (Van Thielen and Storms, 2013). For instance, insufficient heating or renting low-quality dwellings are often used as strategies to reduce necessary costs. These strategies seem effective in the short term, but often lead to higher health care or other costs in the long term. For example, in the above-mentioned study on the affordability of the integral water bill for Flemish families, researchers founded an increase in the water

bill by 34 per cent to 44 per cent when households have no access to water-efficient appliances (a water-saving shower head, an economical washing machine and a toilet with a savings button) (Vanhille et al, 2018). REMI can help to make these coping strategies visible and to detect families living in precarious situations.

In sum, local authorities appear to appraise REMI as an adequate diagnostic tool to investigate the needs of aid-seeking families. However, the other side of the coin is that many of them indicate the municipal treasury is too small to ensure the necessary financial or material support to all needy families residing in their territory. This is due to the fact that in addition to social assistance benefits, minimum social security benefits and minimum wages are often too low to guarantee families a decent living standard, especially when families face high housing costs and/or need a car to be sufficiently mobile (Penne et al, 2019). First evaluations based on the data gathered via the REMI tool show that more than half of the clients who ask the PCSWs for financial assistance receive a social security benefit or a minimum wage or part-time employment income. It is not surprising, therefore, that local politicians are regularly asking for more federal and regional strategies (especially raising the minimum income floor and providing more affordable housing) to work together for a more socially inclusive society that enables social participation of all citizens. Only then will local PCSWs be able to fully realise their own mission of guaranteeing a last safety net.

## Conclusions

Belgian governmental authorities have clear obligations to create the conditions necessary to guarantee every citizen the constitutionally warranted right to a decent living standard. However, the lack of a normative framework to define what a decent living standard means in practice, makes it difficult for Belgian politicians to monitor effective multi-level anti-poverty policies. Exemplary are the large and arbitrary differences by which PCSWs implement citizen's entitlement to social assistance.

In this context reference budgets can be very helpful in illuminating the elusive concept of 'a decent living standard'. Based on a sound methodological and theoretical framework, they illustrate the minimum out-of-pocket cost of goods and services that hypothetical Belgian families should have at their disposal to adequately participate in Belgian society. Developed for the first time in 2008, they now have a high societal impact. Numerous societal stakeholders are using them as a

benchmark representing the minimum cost for living a life in dignity. In this chapter we have focused on the use of Belgian reference budgets on the local policy level as a benchmark to accurately diagnose the need for social assistance. As the last safety net of the minimum income protection, the Belgian legislator entrusted the implementation of the right to social assistance (1976) to the municipal PCSWs to ensure that social assistance should match as closely as possible the individual needs of vulnerable people.

In order to support PCSWs to make well-founded decisions about the best strategies to give support to vulnerable families, REMI was developed. This online tool computes reference budgets tailored to families' extra needs and living situations (against those of the hypothetical family's needs), for example by adding medical costs for sick family members or replacing median rent and energy costs with families' real costs. For each family, REMI compares the minimum cost for adequate social participation with the household's net income. If the balance is negative, REMI helps social workers and local politicians to look for suitable individual and structural strategies to improve the precarious conditions in which needy families live. This may include increasing revenue, reducing expenditure and/or providing additional financial or material support. Additionally, the comprehensive overview of income and necessary expenditures of vulnerable families provided by REMI give counsellors and local authorities a clear view of the availability, accessibility and affordability of private and public (local) goods and services. If local authorities (together with regional and national politicians) could succeed in significantly improving these conditions for adequate access to essential goods and services, they would better fulfil their constitutional duty to create the conditions necessary to guarantee to every citizen the – constitutionally justified – right to a decent standard of living.

However, when drawing conclusions, one should bear in mind that there are also caveats associated with the use of reference budgets as a diagnosis instrument to assess the extent of families' needs. First, reference budgets never represent an exact income threshold. The priced goods and services included in the baskets are always illustrative. Sometimes, other choices are possible that may lead to a small change in costs. Therefore, maximum transparency in the development of reference budgets is important, so that others can check whether the choices that have been made are relevant and acceptable. Second, reference budgets can be interpreted as exemplary consumption patterns, because of their detailed elaboration. This runs counter the objective of establishing a reference framework for determining a

minimum income that enables people to live a life of dignity, where the choice of how to spend the family budget is an essential part of an autonomous human life. A third danger is that the REMI tool, developed to support social assistance practices, will be used as a mere calculation tool, ignoring the extra costs of people living in vulnerable situations and their needs for empowering relief efforts to increase – on top of their financial capital – their cultural (competences) and social (network) capital. This risk can be prevented by regularly checking whether social workers fill in the additional expenditure costs of needy families and by making financial assistance an integral part of a holistic and appealing assistance to people in poverty.

## Notes

- <sup>1</sup> This link between social participation and social roles is embedded in the literature on disabilities, namely in the paradigm of citizenship (e.g. Cardol et al, 2002, 2005; Van Gennep, 1997; Van Weeghel et al, 2005; Ware et al, 2007). The WHO, in its International Classification of Functioning and Disability (ICIDH-2), also speaks about ‘social participation in basic areas and roles of social life’ (WHO, 2002: 7).
- <sup>2</sup> With the exception of older people, for whom reference budgets have been calculated in case they still live at home but have extra needs (Storms and Van Thielen, 2016; Van Thielen et al, 2010).
- <sup>3</sup> Although we label them a little bit differently, they largely correspond to the eleven intermediate needs identified by Doyal and Gough (1991: 191–221).
- <sup>4</sup> Only during the first period of Belgian reference budgets research (2009) did the focus groups consisted exclusively of participants with a household income around the European poverty line. Later, mixed groups of participants were involved. The decision to involve participants from various social backgrounds (since the first update in 2013) is based on my own research concluding that a heterogeneous group composition is more conducive to discovering new information and to yielding well-founded and nuanced discussions on the composition of the various baskets (Devuyst et al, 2014). Separate focus groups were organized for people at an active age, for pensioners, for students and for families living in a rural or urban context.
- <sup>5</sup> Examples include ‘Samenlevingsopbouw’, together with nine national and 220 other local welfare and civil society organizations (which use the reference budgets in their campaign ‘Ieders Stem Telt’ to encourage politicians to pursue a policy that would ensure a decent income for all inhabitants); the Federal Advisory Council for the Elderly (Advice 2018/4 and Advice 2015/5) and the Children’s Rights Commissioner (2009–10/4, 2014–15/11) (advocate a broad application of the reference budgets in the implementation of an effective anti-poverty policy), and leisure organizations in Flanders and Brussels (which accept the ‘UiTPAS’, a loyalty card program to stimulate participation in leisure activities, especially by moving financial barriers for needy people; reference budgets are one of the suggested benchmarks for assessing entitlement to social tariffs).
- <sup>6</sup> The financial and social support services of seven university colleges and three universities are using STUFI, an online application to assess the needs for financial support of needy students. This application examines to what extent the family

income is appropriate to allow the student and his/her family to participate adequately in society.

- <sup>7</sup> Budget and debt counsellors use reference budgets for strengthening the debtor's financial skills to manage their budget (e.g. by identifying over and underspending), for drawing up a legal request for debt rescheduling or for negotiating amortization plans (Peeters et al, 2018). Recently MELISA, an online tool, was launched (1) to support counsellors in calculating the income that debtors and their families should have at their disposal to live a decent life when paying debts, and to (2) to enable a smooth transition from full budget management by the debt mediator to full budget management by the debtor, by providing the possibility of determining for each expenditure item and who will be in charge of the payment.
- <sup>8</sup> See, for instance, rulings by the Labour Court of Ghent, division of Bruges: 26 March 2012. 11/267/B; 10 June 2013. 11/746/B; 13 October 2013. 13/21//B; 28 October 2013. 10/77/B; 13 January 2014. 08/2173/B; 5 March 2014. 13/2341/A; 2 April 2014. 14/84/A; 26 May 2014. 10/91/B; 8 September 2014. 08/2801/B; 8 February 2016. 14/678/B; 10 October 2016. 14/441/B; 8 May 2017. 13/364/B; 11 December 2017. 16/84/B; 8 January 2018, AR 15/484/B; 12 March 2018. 13/557/B and 16/299/A.
- <sup>9</sup> Some banks use reference budgets to determine customers' creditworthiness.
- <sup>10</sup> Housing affordability is hereby defined as 'securing some given standard of housing (or different standards) at a price or a rent which does not impose, in the eyes of some third party an unreasonable burden on household incomes' (Winters et al, 2018: 18).
- <sup>11</sup> An adapted tool (REDI) was developed for Brussels and Wallonia (Van Thielen et al, 2010). However, as the reference budgets for families living in these parts of the country have not been updated yet, they have not yet been made available to the PCSWs there.

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# The development, value and application of budget standards: reflecting on the Australian experience

*Peter Saunders*

## Introduction

‘Budget standards’ – or ‘reference budgets’ as they are now referred to in the EU context – have a long but chequered history. After more than a century since Rowntree first developed a household budget by identifying and costing the items needed to sustain a specified standard of living, researchers are still debating how this can best be done, doubts remain about the robustness of the estimates produced and policy makers remain unconvinced about the merits of the approach. These controversies have not affected the enduring appeal of the budget standards approach, which mirrors how households develop their own budgets. It also provides a systematic framework that can be varied to reflect methodological developments, alternative assumptions, new data, variations in broader social judgements and social norms that reflect behaviour and experience. This all sounds fine in theory, but in practice budget standards research has become bogged down in the minutiae of how to identify and cost specific items as well as an arena for well-rehearsed debates over the meaning and measurement of adequacy.

This chapter reflects on some of the reasons underlying these controversies, drawing on the author’s experience with over 20 years of working in the field in the Australian context, and his engagement with broader international applications. The aim is to draw out some lessons for how to take forward the very important work begun by those involved in developing a common methodology for developing EU reference budgets (Storms et al, 2014; Goedemé et al, 2015a; see Chapter 18). That research involved a state-of-the-art review of the methodology of budget construction and has attracted great attention because the EU

is committed to using the estimates in its ongoing monitoring of the adequacy of income safety nets in EU member countries. However, despite significant progress, there is still a substantial gap between where the research has taken us and where decision makers would like us to be. The following discussion, although by no means comprehensive, considers some of the obstacles that will need to be overcome before this gap can be narrowed. The analysis draws on the Australian experience but hopefully raises issues that are of broader interest and relevance.

The chapter is in three parts. The following section provides a brief overview of four Australian budget standards studies that I have been involved with, while the third section highlights some of the issues that emerged while conducting them. Many of the underlying tensions were as acute in the most recent study (completed in 2017) as they were in the initial study (completed 20 years earlier), which suggests that they reflect profound disagreements. The fourth section draws on selected examples to highlight some of the lessons learned from this experience, while the final section provides a brief summary.

## **Four Australian studies**

The history of budget standards research in Australia began in 1907, when Justice Higgins of the Arbitration Court – the body responsible for setting the living (now minimum) wage – based the Harvester Judgement on estimates of the budget required to achieve ‘the normal needs of the average employee regarded as a human being living in a civilized community’. This established the principle that need rather than profit should determine the minimum wage, and remains a core element of the Australian wage-fixing system (now conducted by the Fair Work Commission) and a cornerstone of Australia’s social safety net. Since the Harvester Judgement, regular reviews of the minimum wage have taken account of submissions made by the unions, employer bodies, community organisations and the government, but the legally binding outcome has been determined independently by the commission (and its predecessors).

When the Commission on Poverty established its poverty line in the 1970s, it was tied to the prevailing minimum wage (plus child endowment or family allowance benefits), thus embedding Higgins’ budget standard estimates into the Australian (heavily means-tested) social security and poverty measurement architecture. That poverty line fell into disrepute in the 1980s and has since been replaced by the international poverty line set at 50 per cent of median income, often after deducting housing costs (see Saunders et al, 2016; Davidson et al,

2018). However, this line is acknowledged to be incapable of providing guidance about how much is enough to meet basic needs and is rarely used by policy makers. It is thus ironic that the one Organisation for Economic Co-operation and Development country with income support and wage-setting systems that cry out for guidance from budget standards research to inform adequacy decisions has rejected its use after being one of the first to embrace it.

In the 1990s, the government commissioned the Social Policy Research Centre (SPRC) to conduct a large budget standards study as part of a broader review of the adequacy of social security payment levels (Department of Social Security, 1995). The study, released in 1998, adopted the framework developed by Bradshaw and colleagues in the UK (Bradshaw, 1993; see [Chapter 2](#)) derived both 'low cost' (LC) and 'modest but adequate' (MBA) budgets drawing on the work of Watts (1980) for a range of family types that varied by age, numbers of adults and children, and housing tenure, some of them with further variations by labour force status (Saunders et al, 1998). There was a change of government just before the study was completed and the report has since been gathering dust – at least in government circles. Despite this, the results are still being used by a broad range of advocacy groups to argue for adequacy improvements, including at the annual minimum wage hearings which have provided a high-profile venue for their application. This is even though neither the LC nor MBA budgets are strictly relevant to the circumstances of minimum wage workers, the former being too low to support a living wage and the latter too high. Uprating by the Consumer Price Index (CPI) has been used to help maintain the relevance of the estimates, although this is now seen as increasingly tenuous as living standards have increased.

In the mid-2000s the SPRC was commissioned to revise and update those original budget standards for two specific groups. The Australian Council of Trade Unions (ACTU) commissioned the SPRC to update the LC and MBA budgets to 2003 and make them more relevant to the needs of low-paid working families. The new estimates were used by the ACTU in its submission to the 2004 Minimum Wage Case that recommended an increase in the minimum wage of AUS\$19 a week (4.23 per cent) – the largest dollar increase awarded to that date (see Saunders, 2006). It is not possible to ascribe that decision to the budget standards estimates, although the commission has acknowledged recently that 'contemporary budget standards measures can provide an effective means of measuring the needs of the low paid, which can be considered together with other relevant data' (Fair Work Commission,

2014: para. 390), so it seems highly likely that SPRC budget standards played some role in the decision.

At around the same time, a second study was commissioned by the Association of Superannuation Funds of Australia (ASFA) that involved the development of a new comfortably affluent but sustainable (CAS) budget for the increasing numbers of older Australians that were means tested out of the age pension (altogether, or in part) and reliant on occupational pensions made compulsory for all employees under the Superannuation Guarantee introduced in 1992. The CAS standard was designed to reflect:

a standard of living among older, healthy and fully-active self-funded retired Australian that allows them to engage actively with a broad range of leisure and recreational activities without having to require a rapid or substantial disbursement of any financial or other assets ... [and] ... represents a lifestyle that is common amongst those in the top (income) quintile of the aged population. (Saunders et al, 2004: i)

New CAS budgets were developed for a single female and older couple (all aged 70) living in their own (fully owned) home that represented a standard of living that the most affluent 20 per cent or so of older Australians aspire to (see Saunders et al, 2005). They were intended to provide a benchmark for establishing how much Australians would need to accumulate in their occupational superannuation funds in order to maintain an appropriate post-retirement standard of living, and hence to determine the required level of pre-retirement superannuation contributions. Since then, the estimates have been regularly updated by ASFA, made widely available through its website and been influential in shaping the development of occupational superannuation arrangements.<sup>1</sup> The standard is price-updated quarterly, is widely cited in debates about the adequacy of retiree living standards and is used actively to promote the activities of the many financial service advice agencies that have promulgated since the introduction of compulsory superannuation. They have attracted virtually none of the criticism or cautions attached to other budget standards estimates but are widely regarded as authoritative and reliable, and hence valuable.

Finally, in 2012 the author was awarded a grant by the Australian Research Council (ARC) to 'update and modernise' the original SPRC budget standards to make them relevant to a smaller range of Australian families who were in either low-paid employment or unemployed. It was acknowledged that the process of price-uprating

of the old budgets could no longer provide a reliable minimum standard and that a wider review of the relevance of the estimates was required. In part, the project was a response to the view of the Fair Work Commission that ‘the budget standards measures derived from the 1997 SPRC study *do not provide useful contemporary information about the needs of the low paid*’ (Fair Work Commission, 2014: para. 390, emphasis added).<sup>2</sup>

The aim was to develop budget standards based on the original MBA budgets that were modified to embody the requirements for healthy living in all domains of life, covering the home, school and workplace – including when looking for work (see Saunders and Bedford, 2017, 2018).<sup>3</sup> New budgets were derived first for low-paid working families and were then further modified to suit the circumstances of unemployed families. What began as a rather modest set of aims turned into a complex and lengthy exercise because the task of seeking only minor changes to the original estimates proved illusory. It was simply not possible to reprice a largely unchanged set of items for many reasons, including that items no longer existed in retail stores in the same format, new items had emerged in many areas and there were many instances where the old items were simply no longer relevant (the original budgets did not include a mobile phone, for example). These factors reopened old debates about what to include in the budgets and resulted in a lengthy gap between when repricing of the new budgets commenced (in late 2013) and when the estimates were finalised (in late 2015).

Table 10.1 compares the new Minimum Income for Healthy Living (MIHL) budgets with the original (1997) LC budgets, updated in line with movements in the relevant components of the CPI between February 1997 and June 2016.<sup>4</sup> Housing budgets are not included because it was decided to derive only non-housing budgets in 2016, so that users could add their own (or experiment with alternative) housing budgets.<sup>5</sup> The comparisons only cover those family types included in both studies, and in addition to the changes described earlier, there were other changes in the treatment of some budget categories (e.g. energy, which was a separate area in 1997 but incorporated into the household goods and services budget in 2016, and education, which was a separate area in 2016 but not in 1997). Against this, the budgets were developed by the same research group (with some common members) so there was some consistency in approach, expertise and experience.

The bottom line of Table 10.1 indicates that the two sets of budgets are remarkably similar overall. However, this reflects offsetting

## Minimum Income Standards and Reference Budgets

**Table 10.1:** Comparing the updated original low-cost and new MIHL budget standards for unemployed families

Budget area	Single female			Couple			Couple with two children		
	February 1997, updated (1)	June 2016 (2)	Ratio (2)/(1)	February 1997, updated (1)	June 2016 (2)	Ratio (2)/(1)	February 1997, updated (1)	June 2016 (2)	Ratio (2)/(1)
Food	66.76	54.03	0.81	146.71	117.42	0.80	261.02	190.87	0.73
Clothing and footwear	18.10	4.98	0.28	31.83	10.25	0.32	54.78	21.67	0.40
Household goods and services	37.77	68.37	1.81	47.71	88.28	1.85	85.58	124.33	1.45
Transport	68.63	44.88	0.65	72.33	84.94	1.17	83.61	97.89	1.17
Health	6.75	6.41	0.95	15.73	11.94	0.76	24.45	21.86	0.89
Personal care	11.18	14.23	1.27	19.71	25.22	1.28	25.41	34.18	1.35
Recreation	25.20	15.00	0.59	33.22	25.50	0.77	45.95	56.64	1.23
Education	0.00	0.00	–	0.00	0.00	–	–	52.93	–
Total	234.41	207.89	0.87	367.24	363.55	0.99	580.80	600.37	1.03

Source: Adapted from Saunders and Bedford (2017: tables B.3, B.4 and B.6).

differences in some budget areas, particularly in the household goods and services costs and clothing and footwear budgets. Each of the individual factors and decisions underlying the differences shown in [Table 10.1](#) can be rationalised, but the net impact is to change the overall shape of the budgets even though the original goal was to replicate them: a series of small incremental changes when applied across many items can end up having a large cumulative effect. Against this, the much-maligned practice of updating the budgets in line with consumer price movements appears to be not so bad after all – particularly at the budget area and aggregate levels. Whatever lessons one takes from the comparisons, it is hard not to conclude other than that budget standards provide only a rough-and-ready adequacy benchmark that should be ‘used with care’ and in conjunction with other approaches whenever possible.

### **Key issues of scope, design and impact**

It is not productive here to review in detail all the refinements that were involved in each of the studies described earlier, nor to detail the many challenges that this raised. Instead, the discussion focuses on some of the key lessons learned and draws some general conclusions.

First a few general observations. It is apparent that the scope and impact of the four studies was very different and there are important lessons to be drawn from this. The initial study was far too ambitious in its coverage of family types and in the presumption that minor differences in their circumstances could be accurately captured in the estimated budgets. This meant that a huge amount of time was spent debating the minutiae of budget construction, and the underlying disagreements between the funding agency and the researchers helped create a ‘siege mentality’ among the latter, who resisted changes that in other circumstances might have been accepted as reasonable.

My sense at the time was that the budgets probably did err on the generous side although there were some good reasons for this. An important one was that the specifications of the LC and MBA living standards were overdetermined. The articulation of the LC standard was that while it would require the frugal use of resources, it would still ‘enable the individual to fulfil community expectations in the workplace, at home and in the community [and] can be thought of as corresponding to a standard of living which is achievable at about one-half of the median standard for the community as a whole’ (Saunders et al, 1998: 63). However, even with an extreme level of budgeting frugality, it was not possible to support an acceptable level

of participation from a budget that was around half of the median, and the LC budgets ended up well above this level. This problem of overdetermination does not apply to the CAS and MIHL standards described earlier, but only because of their less detailed specifications.

Several features of the budget standards study that derived the CAS standards are worth highlighting: the research had a specific target audience, filled an important policy need and was funded by an agency that had a direct interest in promoting its findings. All three features also apply to the latest study, whose findings are directly relevant to ongoing debates over the adequacy of the minimum wage and, more particularly, Newstart Allowance (NSA) – the main form of income support for unemployed people – which has not been increased in real terms since it was indexed to prices almost 25 years ago.<sup>6</sup>

The barrage of criticism that is levelled at any budget standards study is almost inevitable because those whose positions are challenged by the findings will always seek to protect their interests by casting doubt on the estimates. Improving adequacy is not a zero-sum game but will involve some increase in spending – often a considerable increase. Whether used to justify higher government social benefits, an increase in the minimum wage paid by employers or relaxing the guidelines used to determine eligibility for legal aid or community service entitlements, budget standards generally imply increased costs for someone. It is hardly surprising, therefore, that the robustness of the estimates is in the firing line, or that the weaponry and ammunition will be drawn from many sources. One striking feature of the arguments that have been used (in Australia at least) to undermine the legitimacy of budget standards is that many of the same criticisms apply to the other adequacy benchmarks (e.g. relative income measures) that those same critics are happy to cite in other contexts when they support their positions.

Budget standards researchers are forced to engage with these issues because they threaten the legitimacy of their findings. There's nothing wrong with that, but it must be recognised that the debate is fundamentally about the complexities involved in deriving an adequacy measure, not about the merits of the budget standards approach. This issue needs to be acknowledged and tackled head on to prevent it becoming an ongoing distraction.

### Three key lessons

Reflecting on the issues summarised earlier and on the debates surrounding them, this section identifies three key lessons that may help to guide future research in the field.



*Avoid grand claims: bigger is not always better*

The pioneers of budget standards research understood well the fragile nature of the budgets and the dangers of claiming too much of them. Rowntree tried in his original study to minimise the need for judgements by setting his budgets at an absolute minimum, whereby: ‘Nothing must be bought but that which is absolutely necessary for the maintenance of physical health, and what is bought must be of the plainest and most economical description’ (quoted in Bradshaw, 2000: xxxii–xxxiii). In Australia, Justice Higgins referred to his budget as being relevant for a family of husband, wife and *about three* children.

Both cautions illustrate an underlying desire to avoid arbitrary elements whenever possible while recognising the inherent difficulty that this imposes. Budget standards provide important information about how budgets are put together and are interconnected, but they still need to be accompanied by other forms of evidence before any definitive conclusions can be drawn. In this context, it is not overly helpful to present budget standards (as I have in Table 10.1) to the nearest cent or penny, because the reality is that the methods cannot justify such apparent accuracy – despite the painstaking work and enormous amount of detail used to develop them. Many judgements have to be made along the way, so there will always be considerable uncertainty about precise dollar figures, and it is best to recognise this through some rounding process. My advice would be to avoid large complex studies wherever possible (choose your funders wisely), stay focused and have a clear sense at the outset (through detailed pre-project discussion with funding agencies) of what the estimates are going to be used for.

*The standards are more critical than the budgets*

Most of the time and effort involved in deriving a budget standard goes into specifying and costing many hundreds of items. Each item must be identified, costed and (where relevant) assigned a lifetime. However, the overall budget must also support a specified standard of living, otherwise it is meaningless, and as Goedemé et al (2015b) indicate, setting the targeted standard to which the budgets apply is a key choice because it shapes the entire exercise. Sen (1987: 1) has argued that the idea of a standard of living ‘is full of contrasts, conflicts and contradictions ... [in which] ... divergent and rival views of the goodness of life co-exist in an unsorted bundle’. It is no surprise then that trying to work backwards from a general specification of a standard

of living to the items needed to attain it presents many challenges and raises many interconnected complexities. The standard to which the EU reference budgets apply, for example, is one that provides the: ‘minimum financial resources required to participate adequately in society. Adequate social participation is further defined as the ability of people to adequately take the various social roles one should be able to take as a member of a particular society’ (Goedemé et al 2015a: 16). This involves specifying what constitutes an ‘adequate’ degree of social participation – the modern equivalent of Rowntree’s ‘merely physical efficiency’ – and this in turn takes us back to the debates described earlier. At the same time, this broadening out provides a useful link to the ‘healthy living’ concept, since good health is both a prerequisite and a consequence of an adequate level of social (and economic) participation.

The problem is how to operationalise these concepts in ways that avoid the subjective and arbitrary elements that Rowntree was so keen to avoid. This is an area where budget standards/reference budgets research still faces many challenges. Whether the goal is to equalise the living standards of different family types (a couple with one child versus a lone parent with one child) or of a given family type in different labour market states (employed versus unemployed single people), the same problems arise. How can one trade off material items with the well-being associated with a specific standard of living across each of the budget areas that form the overall budget? The unemployed may have lower needs for some items than those in employment (transportation and clothing, for example) but how much less is reasonable and does it matter that their lack of work (and hence greater time availability) is enforced, or that many face conditionality requirements to look for work and thus effectively incur similar costs to those who have a job? Discussing these issues with unemployed people through focus groups reveals many (often disturbing) insights into their budget-balancing coping strategies, but these too are enforced and should not therefore influence the setting of a normative standard. Or should they?

If it cannot be guaranteed that the budgets support the same overall living standard, it becomes difficult to interpret what they mean and dangerous to manipulate them to derive inferred estimates – for example, of the cost of children, of sole parenthood, or of working. Yet these are precisely the kinds of estimates that those working at the coalface of policy expect budget standards estimates to provide. So what appears on the face of things to be an advantage of the approach – that the budgets can be unpacked to provide itemised cost

components – turns out to be a weakness if the targeted standard has not been achieved equally across different groups.

Perhaps there is more of a role here for getting focus groups to think about and debate the nature and costs of these differences (e.g. between being unemployed and employed, or between bringing up children alone or with a partner) rather than on the accuracy/validity of the budgets themselves. The MIS-UK approach is derived by asking ‘members of the public what goods and services they think different types of households need to live to an adequate level’ (Hirsch, 2015: 1). There is merit in the approach but also dangers, and separating the focus groups into distinct groupings with similar characteristics or experiences may hinder progress in this area (see Deeming, 2011).

### *Timing is a critical issue*

There are two important but related aspects of timing in relation to budget standards: the *treatment of time* and the *passage of time*. Time as a commodity makes an important direct and indirect contribution to one’s standard of living, and it has been acknowledged that: ‘The quality of people’s lives cannot be completely represented by the goods they consume’ (Bradshaw et al, 1987: 180). It follows that having more ‘free time’ usually increases one’s standard of living, but free time often has to be paid for by buying material goods that are time substitutes. This complicates the relationship between a budget standard and the living standard that it can support, and can affect the comparability of different budgets. This effect will be compounded when actual expenditure (behavioural) data are used to validate the budgets because such data do not include any allowance for differences in time use and time constraints.

Consider, for example, the expenditure patterns of couples with and without young children. The latter group are likely to spend far more money on socialising with friends and other leisure activities, while the former will spend far more time at home providing childcare to their new infant(s). The monetary costs of providing for children will enter into the budgets of the former group but not of those of the latter group, while spending on social activities will be higher in the latter group, so that if the difference between the two budgets were used to estimate the costs of children, the figure is likely to be very low, possibly negative. This is mainly because the difference only captures the monetary costs of young children (which may be low in their early years), but does not include the time costs (which are high), and show

up in expenditure surveys as a reduction in parental spending on social and leisure activities.

Item lifetimes is a second area where time enters into a budget standard and can have a big impact. Our original study showed that doubling the assumed lifetimes of every item that had been assigned a lifetime (of at least one year) resulted in a reduction in the LC budget for a couple family with one child of 8.4 per cent (Saunders et al, 1998: table 12.16). Extending all lifetimes infinitely – equivalent to making the weekly cost of all durable items zero (i.e. removing them from the budgets) – caused the budget to decline by 16.8 per cent. These large shifts are driven by assumptions about item lifetimes that are often rather arbitrary (and rarely backed by evidence, difficult though that is to obtain). These problems are compounded when rules of thumb are used to vary lifetimes (e.g. of household white goods and furniture) across family types, for example according to the presence and numbers of children, and yet they can impact significantly on estimates of the cost of children.

The passage of time is another problem for those developing budget standards, albeit of a very different kind. The process of constructing a budget standard takes time and yet it is not until the budgets have been fully specified and costed that one can begin to appraise them overall and validate them against external data on the spending patterns and outcomes experienced by different groups. If this process suggests a need for some changes (as it often does) the passage of time makes it hard to go back and reprice items in the original pricing window. The internet has greatly improved access to existing price lists, but made it almost impossible to access past prices, since the listings are updated continuously but no historical records are kept. Adding to this, over longer periods the packaging of many consumer items change (we now buy toilet paper in much bigger packets than 20 years ago, yet the underlying need has not changed), making it difficult to replicate budgets developed in earlier times. One important lesson to be drawn is that there is no such thing as a simple revision of an existing budget standard. Against this, and consistent with the findings in Table 10.1, the accepted practice of adjusting budget areas in line with movements in official consumer prices now seems to me to be far less problematic than I once thought – at least when compared with the alternatives – as long as they are accompanied by regular reviews of the budget items and construction methods. Further improvement would be possible if the frameworks used to construct the budgets were the same as those used to estimate the CPI.

## Conclusions

Budget standards research has progressed considerably over the last 120 years, but many challenges remain and there is scope for further improvement. Despite the many criticisms, budget standards research is in increasing demand from potential users because it addresses an important question – how much is enough? – in a common sense way that has wide conceptual and intuitive appeal. This seemingly straightforward task has proved to be deceptively complex because the underlying concepts that are utilised and data sources that are drawn on provide pointers on how best to proceed, but are incapable of generating definitive solutions.

The only option is to experiment with alternative methods and develop an evidence base that, over time, will represent accumulated knowledge about best practice that will guide future efforts, nationally and internationally. From an Australian perspective, it is striking that despite the criticisms that have been levelled at past studies, there is still an insatiable appetite for more from those government and non-government agencies that constantly confront adequacy issues (or their consequences). Those who are disappointed with past efforts have often had unrealistic expectations about what budget standards research can deliver, just as many users have at times claimed too much of what the findings show or imply.

Part of this dilemma reflects a lack of appreciation of what a budget standard can and cannot do: it cannot resolve centuries-old disputes about the meaning and measurement of concepts like the standard of living, or the role of choice and constraint in purchasing decisions, or even the meaning of adequacy itself. Other concerns reflect disagreement over the relevance of specific assumptions, over the roles assigned to different forms of data, over the extent to which behaviour and experience should dominate over normative criteria, and over the interpretation of the results produced. These debates are a healthy sign that the research is hitting a nerve that matters to people and that the findings are being taken seriously by users.

As long as they adjust to new ideas and approaches, budget standards will continue to play a major role in helping us to understand the meaning of adequacy and devising policies that can better deliver it. This will not be done in isolation, since the estimated budgets must draw on methodological and data improvements, as well as on better applications, and importantly, should be combined with the findings produced by other approaches. If these realities are recognised and addressed, budget standards will continue to play a leading role in

helping us compile the evidence needed to improve adequacy and achieve better outcomes for all.

## Notes

- <sup>1</sup> Further details can be found at: <https://www.superannuation.asn.au/resources/retirement-standard>. The website description of the standard has removed any reference to the word ‘affluent’ that formed part of its original construction, indicating instead that the standard provides: ‘A comfortable retirement lifestyle [that] is considered better than the Age Pension, but still only able to afford basic activities’.
- <sup>2</sup> In addition to the funding received from the Australian Research Council, the project received cash and in-kind support from three leading Australian NGOs: Catholic Social Services, Australia (a leading provider of services to people in need), United Voice (the trade union representing low-paid workers in a wide range of occupations including hospitality, childcare, aged care and community services) and the Australian Council of Social Service (the leading NGO advocate for the poor and other vulnerable groups).
- <sup>3</sup> The study benefited from the important developments associated with the UK minimum income standards (Bradshaw et al, 2008), the healthy living concept (Morris et al, 2000, 2007) and the EU Reference Budgets study (Goedemé et al, 2015b).
- <sup>4</sup> National accounts data indicate that between the March quarter 1997 and the June quarter 2016, real household disposable income per head increased by 42.2 per cent (Melbourne Institute, 2017).
- <sup>5</sup> This attempt to bypass the insoluble controversies over the treatment of housing costs proved futile in practice, because it was later decided to ‘gross-up’ the non-housing budgets by including estimated housing costs for renters so that they could be compared with other income benchmarks that include an allowance for housing costs.
- <sup>6</sup> A national broad-based campaign to increase the level of NSA has gained momentum nationally, following a campaign led by the Australian Council of Social Service (ACOSS – a partner in the most recent study discussed earlier). The campaign has drawn heavily on the new budget standards estimates for the unemployed, and the adequacy of NSA is currently (January 2020) the subject of an Inquiry being conducted by the Australian Parliament’s Senate Community Affairs References Committee.

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## PART III

# Cross-national and comparative perspectives

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# The Slovenian experience with three methods for defining the minimum income

*Nada Stropnik*

## Introduction

This chapter presents the Slovenian experiences with three very different methods used in the last 40 years for the evaluation of minimum income. All methods are based on the evaluation of the minimum costs of living. Between 1977 and the mid-1990s, the method for the assessment of average and minimum costs of living by household types was developed and applied. The method was a combination of a normative and a positive approach. Minimum costs of living were meant to cover the ‘basic needs’. The approach adopted in 1994 and applied in practice in 2002 was based on the Orshansky (1965, 1969) methodology. Its two main elements were: (1) the nutritionally adequate food basket at the minimum cost, and (2) the share of expenditure on food in the total consumption expenditure of non-agricultural households. In 2014–15, in the framework of the EU Pilot Project for the Development of a Common Methodology on Reference Budgets in Europe, the contents and value of the minimum consensual basket of goods related to nutrition were determined for several consumer/household types. The chapter aims to present the advantages and disadvantages of the three methods and the consequences of the practical application of two of them in Slovenia.

## The different methods and approaches

### *The basic needs approach*

In 1977, the first study on the assessment of living costs by household types was completed in Slovenia (Šumi, 1977). In 1978, potential

researchers on the project and potential users agreed upon a research project, Living Costs in Slovenia, that should have provided a method for estimating living costs on a continuous basis. Potential users included the government of the Republic of Slovenia, the Chamber of Commerce of Slovenia, the Association of Trade Unions of Slovenia, the Social Security Ministries/Funds of Slovenia (Health Insurance, Pension and Disability Insurance, Social Care, Child Protection, Employment Service), and the Education Fund/Ministry. In 1982, the Housing Fund/Ministry joined them.

In 1982–84 a fairly complex method was elaborated as a combination of a normative and a positive approach (Šumi, 1984). The positive approach was pursued through the use of the 1978 Household Expenditure Survey as a guideline for consumption patterns, whereas the normative approach was pursued through the determination of normative consumption for various expenditure categories (food, clothing, personal hygiene, healthcare, housing and heating, leisure, mobility, education, communications, social security contributions and taxes) (Stanovnik and Stropnik, 1997). This task was performed by experts and also through ad hoc procedures. For example, the food basket was determined by nutrition experts from the Institute for Public Health, and a normative approach was also adopted for heating and lighting, housing appliances, furniture, kitchen utensils and apparel, and so on. Certain expenditure categories – such as clothing, footwear, education, culture and recreation – were also calculated using the normative approach. Since normative expenditures obtained through computations were much larger than actual expenditure levels (based on the 1978 survey), they were not taken into consideration (Stanovnik and Stropnik, 1997). Instead, they were adapted in the way that average costs of living (consumption) could be covered by average income (also calculated from the Household Expenditure Survey).

The living costs were computed on the basis of the list of consumption items (770 items, of which 320 were intended for individual consumption and 450 for joint consumption; Stanovnik and Stropnik, 1997), their annual quantities and retail prices. To compute minimum costs of living for various periods, items were clustered according to the period in which they have to be purchased (monthly, annually or in several-year intervals). The average and minimum costs of living were calculated for individuals (individual consumption) and households (joint consumption). Average costs of living were based on average consumption (quantities) according to the Household Expenditure Survey, while the minimum ones were based on the

consumption of the bottom 10 per cent of households according to the income distribution. Initially there were 12 types of individuals (from a baby to a pensioner, further differentiated by sex and three main sources of income: agricultural, mixed and non-agricultural) and eight types of households by size. Children differed by age and adults by employment status (white-collar employee, two types of blue-collar employees, farmer, housewife and retired).

In 1986 the method was revised (Šumi, 1986). There were 13 types of individuals (further differentiated by sex and three types of housing) and seven types of households (differing by size). The number of consumption items was decreased to 376 (290 for calculation of minimum costs of living). In 1990, the method was further simplified without any considerable changes in its contents. Seven individual consumption types remained (child up to 1 year of age, child aged 1–6, child aged 7–14, upper secondary school student, student in tertiary education, active adult and pensioner). Joint consumption was computed for a three- and four-member household, renting their housing at either a reduced or market rent. The number of items was reduced to 282. The average and minimum costs of living used to be estimated twice a year by the National Statistical Office.

### *Modified Orshansky method*

In 1994, the Ministry of Labour, Family and Social Affairs commissioned a research project with the aim to establish new guidelines for the determination of minimum costs of living. It was felt that the minimum costs of living methodology must be simple and transparent and that the values must be ‘defensible’ and acceptable. The computed minimum costs of living were to have practical relevance for the determination of the social benefits levels (Stanovnik and Stropnik, 1997).

The approach adopted by Stanovnik et al (1994) was based on the Orshansky (1965) method developed for the US administration. It took up the fundamental idea of this methodology that is very simple and straightforward. There were two basic elements: (1) the monetary value of a food basket that meets nutrient requirements for a healthy diet, and (2) the share of expenditure on food and beverages in the total household consumption expenditure.

For Slovenia, the nutritionally adequate (but at minimum cost) food basket consisting of 40 items was set by the nutritionists at the Institute for Public Health. The food plan took into account both the nutrient requirements and (to a certain degree) actual consumption patterns. The daily intake (calories, proteins, fats and so on) was translated into

food items. Initially, in 1994, the food basket was determined for four different consumer types (children aged one to six, children aged 11–14, women aged 18–59 and men aged 18–59).

To obtain the second element, the Household Expenditure Survey data for non-agricultural households (that is, households which did not derive any income from agriculture) were used. The category ‘expenditure’ referred to the consumption expenditure and did not include loan repayment, new saving or loans disbursed. Since the aim was to determine the minimum costs of living, the view was taken that these should reflect the consumption of the lowest two quintiles (40 per cent of the population) and not of the total population. The consumption of higher quintiles includes goods and services that do not – according to their choice or quality – make part of the minimum consumption. In 1993, the median non-agricultural household spent around 30 per cent of its total expenditure on food.

The minimum costs of living were obtained by multiplying the monetary value of the food basket for an adult man by a reciprocal of the share of food expenditures in the total consumption expenditure of non-agricultural households (the so-called Orshansky index).

In 1997, the Ministry of Labour, Family and Social Affairs decided to introduce the minimum income in Slovenia. In the studies by Stanovnik and Stropnik (1997, 1998), the modified Orshansky method was used for the evaluation of the minimum income for an adult male, to be later adopted as the basic amount of minimum income.

A review of the basic amount of minimum income was performed in 2009 by Stropnik et al in order to check its suitability eight years after its introduction. The key steps in the evaluation of the minimum costs of living were the following:

1. Definition of a food basket for two consumer types: a child aged 10–14 years and a man aged 19–65 years. These baskets took account of a healthy and balanced diet but were adapted for persons of a lower socio-economic status (that is, low income).
2. Calculation of the costs of food baskets at April 2009 prices (€119.95 for an adult male).
3. Calculation of the share of expenditure on food and non-alcoholic beverages in the total household consumption expenditure of the bottom 20 per cent of non-agricultural households according to the income distribution. That share (21.27 per cent) – in fact the resulting Orshansky index of  $1/0.2127 = 4.7$  – was used in calculating the basic amount of minimum income that is received permanently.

4. The share of expenditure on food and non-alcoholic beverages in the expenditure on necessities (that is, needs that have to be covered in the short term: three months or so) was calculated for the same group of households, too. For that purpose, expenditure on furniture, household equipment, recreation, culture, dining out, stays in hotel, personal hygiene, housing as well as vehicle insurance and financial services were excluded from household expenditure, while only expenditure on food, non-alcoholic beverages, clothing, footwear, housing, electricity, water, gas and other fuel, health care, transport, communications and education were taken into account. The resulting share (31.03 per cent) – actually the Orshansky index of 3.2 – was used for calculating the basic amount of minimum income received temporarily.
5. The basic amount of minimum income was calculated as a product of the cost of a food basket for a male adult and the Orshansky index. It amounted to €562.07 for a permanent cash social assistance and to €385.08 for a temporary cash social assistance, both per month.

The 2017 study (Stropnik et al, 2017) applied the same method for the calculation of temporary cash assistance only (in the meantime, the permanent one was redefined and now consists of two cash social assistance benefits). The food basket for an adult man at 2016 prices cost €119.34 (almost the same as in 2009, which was probably the result of a higher competition among supermarket chains). For the bottom 20 per cent of non-agricultural households according to the income distribution, the share of expenditure on food and non-alcoholic beverages in the expenditure on necessities was 27.02 per cent.<sup>1</sup> The corresponding Orshansky index was 3.70, which resulted in the basic amount of minimum income of €441.67 per month (14.7 per cent more than in 2009).

### *Reference budgets*

Until the beginning of the 21st century, the minimum income was expected to cover basic needs while not acting as a disincentive for work. Recently, the requirement to provide social inclusion importantly extended the scope of minimum income. In 2014–15, in the framework of the EU Pilot Project for the Development of a common methodology on Reference Budgets in Europe, the contents and the monetary value of the minimum consensual basket of goods related to nutrition for several consumer/household types were determined. The project was aimed at developing an internationally

comparable method for evaluation of consensual minimum costs of living that enable social inclusion.

Based on the Slovenian general national food guidelines (including a healthy food pyramid) and guidelines for a healthy diet of various population groups, as well as the eating habits of the Slovenian people, the nutritionist developed a weekly menu and food baskets for four consumer types: (1) a man at around age 40, (2) a woman at around age 40, (3) a boy of 10 years, and (4) a girl of 14 years. The presumption was that they live in the capital city of Ljubljana either in one-person households (single man, single woman) or together in the following household types: a couple (man and woman), a single woman with two children (boy and girl), and a couple with two children (boy and girl). Also, all household members were presumed to be in good health.

Three focus groups were organised to discuss the healthy food baskets and to additionally capture the eating habits of the people in Slovenia. The focus groups also discussed the social participation and social needs, kitchen equipment and purchasing patterns. There was almost full agreement on the acceptability and feasibility of the healthy food basket content. The focus group results were selectively taken into account by the nutritionist in the formulation of the final Slovenian food basket. The final food basket is the sum of:

- The total healthy food.
- Kitchen equipment.
- Physical activity.
- The total budget for other functions of food (like celebrations and socialising).

In the process of pricing of the food basket, about two thirds of the prices were taken from the shop's catalogues and websites while the rest were registered in shops. Full prices (without discounts or special offers) were taken into account.

## Discussion

### *The basic needs approach*

The method for the assessment of average and minimum costs of living by household types was a combination of a normative and a positive approach. The costs of living were computed on the basis of an exhaustive basket of goods and services, their annual quantities and



retail prices. A huge amount of work and expertise was put into this project and the expectations were correspondingly high.

However, it soon became evident that the families were not able to finance the generous consumption defined by this method – not only the average consumption, but frequently also the minimum one. On the one hand, the computed minimum costs of living using this methodology were fairly high compared to the average wage. In 1983 already, an average wage did not suffice for meeting the minimum costs of living for a two-person household, covering only 85 per cent of these costs. For a three-person household the ratio was even lower: an average wage covered only 58 per cent of the minimum costs of living. To put these figures in proper perspective, it must be stated that the real wage level in 1983 was high (Stanovnik and Stropnik, 1997). On the other hand, there was an extremely high inflation rate in the former Socialist Federative Republic of Yugoslavia (Slovenia used to be one of its federative units) in the 1980s, up to 1,000 per cent by the end of 1989. The rise in prices exceeded the rise in income, so the level of living fell considerably. According to Stropnik (1997), if such ‘minimum costs of living’ based on an overestimated minimum basket of goods were used as a poverty threshold, around 90 per cent of the Slovenian population would have lived in poverty in the first half of the 1990s,<sup>2</sup> which surely was not the case. In public opinion polls in the late 1980s, for example, 4–6 per cent of those surveyed declared that they had to limit their food expenditures severely (Stanovnik, 1990).

In 2000, an expert group suggested abandoning this method since it resulted in non-realistic estimations of the costs of living (which was true for all estimations except those for 1981). In fact, the method has never been officially adopted although the Statistical Office of the Republic of Slovenia used to calculate the ‘average’ and ‘minimum’ costs of living twice a year and forward the results to the users. The minimum costs of living computed according to this method have never had any practical relevance for the determination of any social benefit. The minimum costs of living for children (though most probably not in their full amount) were used for court rulings on alimony, and trade unions used the minimum costs of living for various purposes.

### *Modified Orshansky method*

The method and calculations by Stanovnik and Stropnik (1998) resulted in the basic amount of minimum income and the equivalence scale that were included into the 2001 amendments to the Social Assistance Act that came into force in January 2002. Housing benefit

was not integrated as part of the cash social assistance (minimum income) payment.

In the study by Stropnik et al (2009), the minimum costs of living in Slovenia were estimated again for the purpose of the intended revision of the minimum income. The results showed that in 2009 the net minimum wage (about €460) covered only about 82 per cent of the minimum costs of living estimated for an adult man (€562). As, in 2009, the minimum wage was also below the 2007 at-risk-of-poverty threshold, the social partners agreed to increase it to the level of the minimum costs of living for a single adult in March 2010 (€562 net of social security contributions and taxes) (2010 Minimum Wage Act). In order to maintain a work–incentive ratio between the minimum income and the minimum wage – but also for budgetary reasons at the time of the financial and economic crisis – the adopted new basic amount of minimum income was set equal to about half the minimum costs of living for an adult man (€288.81; 2010 Social Assistance Benefits Act).

According to the 2010 Social Assistance Benefits Act (Article 8), the minimum costs of living have to be determined every five years using a comparable methodology. If the newly determined level of minimum costs of living exceeds the one on which the actual basic amount of minimum income is based by 20 per cent, a new basic amount of minimum income has to be set. Also according to the Social Agreement for the Period 2015–16 (2015), the minimum costs of living had to be performed in 2016. The study was completed in spring 2017 (Stropnik et al, 2017). Since, in 2010, the minimum income was not set at the level of the minimum costs of living, the 20 per cent difference was exceeded. Consequently, the Act Amending the Social Assistance Benefits Act (2018) increased the basic amount of minimum income to €385.05 and introduced a new equivalence scale.

An inadequate amount of minimum income in Slovenia is mainly a consequence of relatively low productivity that keeps the absolute amounts of the minimum and average salary relatively low compared to the costs of living, and the need to retain a work incentive (Stropnik, 2015). At €392.75 at the end of 2018,<sup>3</sup> it remains well below the at-risk-of-poverty threshold (€636 per month for a single person in 2017, based on the 2016 income): at less than 62 per cent of its value. However, if the person (first adult in the household) works more than 128 hours/month (the weight 1.51 applies), the minimum income exceeds 93 per cent of the at-risk-of-poverty threshold.

To conclude, the modified Orshansky method proved to be acceptable for determining the basic amount of minimum income. It

is relatively simple and inexpensive. In all calculations in Slovenia (in 1997, 2009 and 2017) it resulted in the basic amount of minimum income (for a single inactive person) that is surprisingly close to the 60 per cent at-risk-of-poverty threshold as defined by Eurostat, the statistical office of the European Union (60 per cent of the national equivalised disposable household median income). The minimum costs of living based on this method provide a benchmark for assessing the adequacy of social benefits and the minimum wage.

A considerable decrease in the share of expenditure on food and non-alcoholic beverages in the expenditure on necessities may be partly the consequence of changing eating habits, and not only of changing consumption patterns. An increasing proportion of food and beverages has been consumed outside the home. It thus appears necessary to add the expenditure on meals and beverages consumed in restaurants (at least a significant part of it) to the purchase of food and non-alcoholic beverages. Meals and beverages consumed outside the home were left out in the 1990s because of having been considered a luxury rather than a minimum consumption. Meals widely consumed in enterprises' and institutions' canteens used to be free or highly subsidised, and the main daily meal was eaten at home. Nowadays, with later working hours as well as a wide offer of fast food by eateries and daily menus offered by restaurants at competitive prices, eating (even the main meal) outside the home is far from a luxury and is something that low-income people regularly do.

### *Reference budgets*

Although the focus group participants in the study were repeatedly reminded of the definition, they confirmed that it was hard for them to stick to the minimum needed for full social participation when discussing the food basket. Quite often they had a standard family in mind. Stropnik and Koch (2015) report on interesting details of the focus groups discussions. For instance, there was a vivid discussion on the child's need for a personal computer and internet connection, mobile telephone and TV, as well as on the need to give presents. Some participants (with different socio-economic backgrounds) argued that a child without a personal computer and internet connection, mobile phone (even a smart one) and TV would be (or at least feel) socially excluded (by schoolmates in particular). Some argued that a mobile phone is needed for parents to be able to contact their children and for contacts with friends. A personal computer, internet connection and TV are needed in order to do homework and work on various

school projects. An agreement was also reached on the need to attend friends' and relatives' birthday parties and to give them presents in order not to be excluded.

There was also a very vivid debate on the need to include drinks containing alcohol into the healthy food basket. Only a few participants argued that there is no place for alcohol in a healthy food basket, particularly if it is a budget one. Some would have first preferred not to include any alcoholic drinks in the healthy food basket, but then agreed that only strong alcoholic drinks should remain outside while beer and wine are acceptable.<sup>4</sup> The final decision on the inclusion of alcoholic drinks in the healthy food basket was taken by the nutritionist. Beer was included when eating out (pizza), and both beer and wine when inviting people to visit the home.

A dishwasher was considered to be a standard part of kitchen equipment in Slovenia, although it is not a must (keeping in mind the minimum budget without the risk of social exclusion). All focus groups added it to the list. Somebody noted that the family is entitled to an extraordinary cash social assistance to replace a broken dishwasher and that people would feel ashamed if they did not have one. Consequently, the dishwasher was included in the kitchen equipment basket of families with children.

All these and other compromises led to generous and costly reference food baskets. We will illustrate it by referring to the 2009 calculation of the national food basket (Stropnik et al, 2009), where a healthy food basket for a man aged 19–65 years cost €119.59 (€119.34 in 2016; Stropnik et al, 2017), while the one for the child aged 10–14 years cost €105.09. These food baskets contain only food and beverages. For comparison with the total healthy food in Table 16.1, we presumed the same food baskets for men and women and uprated the prices to the March 2015 level. For a family of four, the national food basket would cost around €515 in March 2015, compared to €715.11 (€430.95 for food consumed at home and €284.16 for lunches consumed outside the home) obtained in this study as the reference healthy food budget. The difference is to a certain degree due to the contents of food baskets (though the food and beverages consumed at home do not differ considerably) and the (non-)considering of food consumed outside the home, but the method of collecting prices used for their financial evaluation may have a higher impact. The cost of the national food basket was evaluated using the prices provided by the National Statistical Office,<sup>5</sup> while the prices for the reference budget were taken from the shop's catalogues and websites or collected in shops.

**Table 16.1:** Healthy food basket/budget, euros, spring 2015 prices

	Woman	Man	Couple	Single woman + 2 children*	Single man + 2 children*	Couple + 2 children*
Healthy food consumed at home	103.50	121.34	224.83	309.60	327.45	430.95
Lunches consumed outside home	97.75	97.75	195.50	186.41	186.41	284.16
<b>Total healthy food</b>	<b>201.25</b>	<b>219.09</b>	<b>420.33</b>	<b>496.01</b>	<b>513.86</b>	<b>715.11</b>
Kitchen equipment	13.86	13.86	15.19	22.91	22.91	26.32
Physical activity	32.90	41.40	74.30	132.90	141.40	174.30
<b>Total healthy food basket</b>	<b>248.01</b>	<b>274.35</b>	<b>509.82</b>	<b>651.82</b>	<b>678.17</b>	<b>915.73</b>

Note: \* A boy aged 10 years and a girl aged 14 years.

Source: Adapted from Stropnik and Koch (2015).

The reference food budgets also proved to be high compared to the amounts of the minimum income for the same household types<sup>6</sup> and the average monthly salary in Slovenia (around €1,000 net of social contributions and taxes). For instance, the cost of the total healthy food basket for a two-parent family with two children (€915.73) was close to the average net wage in Slovenia, which means that the total consensual cost of living would greatly exceed the incomes/budgets of most of the families. Namely, one should think of all other costs of living – apart from the cost of food – that have to be covered by the family income.

Stropnik and Koch (2015) evaluated the food budget calculated using the methodology for cross-nationally comparable reference budget (Table 16.1) as:

- Generous as regards the healthy food budget consumed at home.
- Realistic as regards the cost of lunches consumed at home (but taking lunch to work would lower the healthy food budget, so that it may be considered as an option for adults in particular).

- Not problematic as regards the cost of kitchen equipment, but some savings were recommended (exclusion of dishwasher and paper napkins for everyday use).
- Very generous as regards physical activity, so definitely a much less expensive option should be found.
- Reasonable as regards the budget for other functions of food.

Apparently, (1) a healthy diet is not cheap, and (2) the focus groups frequently had an average family in mind when listing the items that the households should dispose of in order not to feel excluded from the society in which they live. Due to that, in the authors' view, the included items and amounts to some degree exceed the minimum required for adequate social participation.

## Conclusion

The amount of minimum costs of living greatly depends on the method used for their evaluation. Since it is not realistic to expect that the experts will ever reach a consensus regarding an appropriate method, the methods applied in practice will always mirror the subjective decisions by experts and policy makers. Each of the alternative methods has its pros and cons, and it is just various circumstances and their importance at a particular place and time that determine which arguments will prevail. This, however, should be understood as an incentive rather than constraint for further development of methods.<sup>7</sup>

## Notes

<sup>1</sup> The share of expenditure on food and non-alcoholic beverages in the total household consumption expenditure was 19.44 per cent, resulting in the Orshansky index of 5.14 and the minimum costs of living amounting to €613.41 per month (Stropnik et al, 2017).

<sup>2</sup> See Stropnik (1997) for detailed results for the period from 1986 to 1995.

<sup>3</sup> The basic amount of minimum income is indexed biannually by the consumer price index.

<sup>4</sup> "Wine?" "No." "You may be right." "But they say that it is healthy to consume one decilitre of wine per day." "Yes to alcohol drinks because they are related to socialising. They are healthy in non-harming quantities, which has been proven for wine." "Nobody proposes a toast with fruit juice."

<sup>5</sup> See: [http://pxweb.stat.si/pxweb/Database/Economy/04\\_prices/04110\\_average\\_retail\\_prices/04110\\_average\\_retail\\_prices.asp](http://pxweb.stat.si/pxweb/Database/Economy/04_prices/04110_average_retail_prices/04110_average_retail_prices.asp).

<sup>6</sup> For instance, at the time of the study (the first half of 2015), the minimum income for a single person was €269.20 per month if the person was not working and €419.95 per month if the person was working more than 128 hours per month. For a non-working couple, it was €430.72 per month, while it was €619.16 per

month for a couple where both persons were working more than 128 hours per month. For a couple with two children, the minimum income was €834.52 and €1,033.96 per month, respectively.

- <sup>7</sup> The chapter includes parts of unpublished outputs that resulted from the EU Pilot Project for the Development of a Common Methodology on Reference Budgets in Europe (Tender No VT/2013/041). It is also based on two Minimum Costs of Living projects (2009 and 2016–17), financed by the Government of the Republic of Slovenia, Ministry of Labour, Family, Social Affairs and Equal Opportunities.

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# Applying the Minimum Income Standard in diverse national contexts

*Matt Padley and Abigail Davis*

## Introduction

The Minimum Income Standard (MIS) approach was developed in the UK (Davis et al, 2018a), as a way of researching and establishing what is required for a minimum socially acceptable standard of living, both in terms of the goods and services which comprise a minimum ‘basket’ and the income needed to provide this. For a decade (Davis et al, 2018b), annual MIS updates have captured and reported public consensus about minimum living standards, establishing a publicly defined threshold – or standard – below which it is agreed that individuals and households would not be able to meet all of their minimum needs (Stone et al, 2019). This consensual budget standard approach is built on the premise that minimum living standards are socially and culturally specific (Walker, 1987; cf. Townsend, 1979), and that the definition and description of what constitutes a minimum living standard should privilege public consensus rather than the assessments or opinions of experts, policy makers or government (Davis et al, 2018a).

Alongside its development in the UK, the MIS approach has to date been applied in eight other countries. In France (Gilles et al, 2014; Gelot, 2016), Ireland (Mac Mahon et al, 2018), Japan (Davis et al, 2012) and Portugal (Ferreira Correia, 2016) the MIS approach has been adopted and applied in order to establish a minimum standard of living for a wide range of individuals and households types. It has been applied to establish the needs of specific demographic groups in Thailand (families with young children) and Singapore (older people). Two other countries – Mexico (Valadez-Martínez et al, 2017) and South Africa (Byaruhanga et al, 2017) – have run pilot MIS studies to establish whether it is possible to reach public consensus about minimum living standards in unequal and divided countries, and in Mexico a full study

is now underway. The experience of disseminating the MIS approach across these countries has been that, following Townsend (1979) and Walker (1987), each conceives of and describes a minimum in a way that reflects the values, norms, characteristics and priorities of its own society.

This chapter looks at three countries where MIS research has recently been conducted – Mexico, Singapore and South Africa – and considers how the definitions, construction and purposes of MIS research are influenced and shaped by each national context. The chapter begins by briefly outlining the MIS approach within the UK and in Europe, before exploring the application of MIS in countries and contexts that are very different to the UK and Europe. It then looks at how minimum living standards have been defined in diverse national contexts, at how minimum needs have been researched practically, and then at how MIS has been, or is intended to be, used within these different social and cultural contexts. The chapter concludes by emphasising that while the MIS approach provides a common basis for creating consensual country-specific budget standards, it does not produce or enable direct comparisons of living standards across countries, but rather allows minimum incomes in each country to be set, taking into account national norms and priorities.

## A brief history of MIS

MIS research was first conducted in the UK in 2006 and 2007, with findings published in 2008. The following year additional groups held in Northern Ireland demonstrated that the standard could be applied to urban households throughout the UK (Smith et al, 2009). In 2010 the methodology was used to explore the different and additional needs of people living in rural England (Smith et al, 2010), followed by studies in Guernsey (Smith et al, 2011) and remote rural Scotland (Hirsch et al, 2013). What became clear from early on was that the same methodology could be used in different settings and still produce meaningful results. Its flexibility and transferability were further demonstrated in an international collaboration with researchers in Japan (Chapter 5). In this case the MIS methodology was used to develop reference budgets for working and pension age adults (Davis et al, 2012). Since then another seven countries have adopted the MIS methodology. While several of these could be said to have similar cultures and contexts to those of the UK (in particular, France [Chapter 4], Ireland [Chapter 3] and Portugal [Chapter 19]), others are markedly different, as discussed in the examples that follow. The

MIS research conducted in each country has resulted in something distinctive and sensitive to its setting, while at the same time providing a shared method for understanding the minimum socially acceptable standard of living in different places.

## Defining minimum living standards in diverse national contexts

One approach to understanding and conceiving of minimum living standards across different countries, contexts and time periods, is to attempt to establish a universal definition of what constitutes a minimum standard of living or to seek to pinpoint fundamental human needs (Doyal and Gough, 1991; Max-Neef, 1992; Nussbaum, 2000). While such a method can be seen to serve broad (global) social and political objectives, translating universal needs into, for example, the income needed to meet these within a given country is far from straightforward. In contrast to such methods, at the heart of the MIS approach is not only the principle that definitions of minimum living standards should reflect the values and norms of a given country, but also that these definitions should function as the basis for establishing consensus about the goods and services needed for this living standard, which when costed allow calculation of the income needed to provide such a standard (see Davis et al, 2018b). Within Mexico, Singapore and South Africa, the definitions of minimum socially acceptable living standards have, as in the UK, been established through discussion and deliberation with citizens in each country; consequently, each definition reflects the social, economic, cultural and political environment in which it was constructed by the public.

This first step in public deliberation involves not only producing a definition of the minimum but also a decision about whether the term ‘minimum’ or another term is appropriate to use. For example, the Mexico pilot project (Valadez-Martínez et al, 2017) established that the idea of a ‘minimum’ is associated closely with ‘subsistence’ or survival in Mexico. Consequently, in describing the level below which no one should have to live – that is, a level beyond mere survival – groups of members of the public agreed that the idea of a ‘dignified’ standard of living – or *la vida digna* – is a more appropriate term. The definition constructed through discussions with groups of members of the public emphasised the importance of having food to eat, clothes to wear and a house to live in, all of which have been included in, but are not the only aspect of, definitions of minimum living levels in other countries where the MIS approach has been applied. Alongside these material

essentials, the definition in Mexico also reflects and highlights the particular concerns and values of Mexican society:

A dignified life in Mexico today is about meeting basic needs, such as food, housing and clothing, as well as having the opportunity to work, access to healthcare, education and free time. It is also about living in a stable and secure environment that allows people to be connected and be part of society. (Valadez-Martínez et al, 2017, p696)

The inclusion of the opportunity to work in the Mexico definition reflected not only the intrinsic value given to work, but also the reality that without work, and the income this provides, accessing good quality healthcare and education, and being able to participate in society, poses a significant challenge. As one participant in the research in Mexico noted, ‘dignity does have a price’ (Valadez-Martínez et al, 2017); the lack of a safety net, alongside the scale of the informal economy in Mexico, means that dignity and work are very closely associated (Gasparini and Lustig, 2011). The sensitivity of the MIS approach to these social and cultural differences between countries means that the description of minimum living standards, provided through detailed lists of goods and services, is structured and shaped by the national context in which the approach is applied, reflecting priorities and values.

As in Mexico, the definition of a minimum living standard in Singapore was clearly shaped by the social, cultural, economic and political context of this particular country. Similarly to Mexico, the term ‘minimum’ is problematic within Singapore and is associated with survival rather than a living standard beyond this level. Consequently within this context, the publicly defined living standard is described as ‘basic’:

A basic standard of living in Singapore is about, but more than just, housing, food and clothing. It is about having opportunities for education, employment, and work–life balance, as well as access to healthcare. It enables a sense of belonging, respect, security, and independence. It also includes choices to participate in social activities, and the freedom to engage in one’s cultural and religious practices. (Ng et al, 2019, p19)

What is clear from this definition, once again, is that it reflects the context in which it was constructed by the public. Food, clothes

and shelter are prominent, but a basic standard of living in Singapore goes beyond these ‘core’ needs. As in Mexico, access to employment, education and healthcare are included in the definition of a minimum living standard, reflecting a policy context that functions through targeted means-tested policies, with limited safety nets, and emphasises individual and familial responsibility rather than reliance on the state for support. The definition constructed through public deliberation in the country also highlighted the importance of being able to freely engage in and pursue religious practices; this indicates the importance given to religious freedom by Singaporean citizens, and reflects the Constitution of the Republic of Singapore (Government of Singapore, 1999: 20), which states that freedom of religion is a key fundamental liberty and that ‘every person has the right to profess and practise his religion and to propagate it’.

In South Africa, too, the association of the term ‘minimum’ with survival and subsistence made this term problematic, and there was an additional problem linked to the term’s history: in the 1970s, an income poverty line referred to as the Minimum Living Level had been tied to setting very low wages for workers (see Magasela, 2005). In the particular social, cultural and political context of South Africa, the idea of a ‘decent’ living level was agreed by the public to reflect the living standard that all in the country should be able to reach: beyond survival, but far from luxury:

In South Africa, people who have a decent living level are able to participate fully in society, however they choose to do so. A decent living level includes personal possessions, social and family networks, a belief system, housing, services provided to the house and in the local area, and the ability to take part in social activities. A decent living level is not a luxury living level, but rather the level at which everyone should be able to live in South Africa. (Byaruhanga et al, 2017, p22)

The structure and nature of South African society again influences this definition of a decent living level. For example, it includes services provided to the house, such as electricity and sanitation, which are taken for granted in many other countries where MIS has been applied. The definition, in its explicit reference to belief systems, is shaped by the cultural importance of these beliefs within South Africa (see South African Government, 1996). Employing a universal definition of minimum living standards would have resulted in a living standard

that obscures or neglects the reality of everyday life for many citizens of South Africa. Applying the MIS approach in these three different national contexts, it is clear that while there are shared elements, particularly around ‘survival’ and participation needs, each definition of minimum living standards rightly reflects the national context in which it was constructed.

## Researching minimum needs in diverse national contexts

Moving from definitions of minimum living standards to descriptions of the goods and services required to achieve them again requires an approach that takes into account differences and challenges within each country and is able to adapt the method accordingly. Crucially, some key aspects of the MIS method are shared across countries. The MIS approach begins with the needs of individuals, which can then be combined in order to determine household needs. At the heart of this approach are the groups of members of the public who discuss and agree the needs of people with the same demographic characteristics as themselves – for example, single working age adults discuss the needs of single working age adults. MIS uses ‘case study’ individuals as the focus of discussions, so that groups are projecting the needs of these individuals rather than discussing their personal needs or preferences. MIS adopts an iterative approach, where minimum baskets of goods and services are constructed, reviewed and amended across a series of groups of members of the public (Davis et al, 2018a; 2017). A final common characteristic is that in order to calculate the cost of a minimum budget on a weekly, monthly or annual basis, the MIS approach asks the public to reach consensus on the lifetimes and quality of goods and services. While these ‘constants’ remain at its core, the MIS approach has been adapted within these diverse national contexts in order to reflect the reality of doing research within each. The challenges to, and consequent variations in, the MIS approach range from the conceptual to the practical.

Applying MIS in South Africa has perhaps brought with it the most significant challenges (Chapter 7), necessitating variations to the way in which MIS research is undertaken in other countries. South Africa is a country that is divided along many different lines, some of which pose clear methodological issues. As noted earlier, the MIS approach uses ‘case study’ individuals, in particular geographical locations, as the basis for detailed discussions about what is needed for a minimum living standard. Within the UK, these individuals are assigned names, but within the South African context, names, and their pronunciation,

bring with them connotations about social class, population group and income which could have an impact on the ways in which needs and minimum standards are discussed and projected (Byaruhanga et al, 2017). Further, because of the associations between place and assumptions about housing, access to services or even perceived needs, fixing locations for case study individuals is also problematic. Consequently, the case study used within MIS in South Africa referred to 'Ms B/Mr B' rather than a named individual, and stated that they lived in South Africa rather than, for example, the Eastern Cape. This meant that discussions in groups of members of the public were focused on the needs of a citizen of South Africa, rather than someone from a particular population group, in a specific geographical context. Language also posed a challenge in South Africa, with 11 official languages within the country. Groups were conducted in English and isiXhosa, making the translation of the definition of a 'decent living level' critical in ensuring that all participants were working to a shared understanding of the minimum living standard.

In Singapore the intention was to look at both those approaching and those already in retirement and the project derived income standards for people in three different household types: (1) a single elderly person (defined as aged 65+), (2) an elderly couple, (aged 65+) and (3) a single older adult aged 55–64. Although the focus was on older people, the orientation groups discussing the essential factors for the definition included a mix of age groups to ensure that it was the product of consensus across generations. As in South Africa, language was an important consideration of the project design and recruitment process. Most elderly people in Singapore are more comfortable speaking in languages other than English (e.g. Mandarin, other Chinese dialects, Malay, Tamil). This overlaps with age, education, income and class, with better-off and younger people more likely to speak English (Bokhorst-Heng and Caeon, 2009). The team considered three possible ways to manage this: first, recruiting only those who speak English; second, having translators join the focus groups; or third, facilitating the discussions in multiple languages, for example by having two facilitators who speak different languages in addition to English. The first two options were considered problematic and might have compromised the feasibility of the study. A key part of the MIS approach is that consensus should be built from across socio-economic groups, and the first option of recruiting only those speaking English made this unlikely so was clearly unsuitable. The second option was discounted because each group lasts several hours, and translating participants' contributions and facilitators' input would substantially increase the

time needed. For these reasons the third option was adopted, and the team was able to provide the necessary language skills between them, holding groups in English, Mandarin and Malay.

In such ways, the MIS approach has demonstrated that practically and conceptually it can be adapted to fit the context in which research is being undertaken. There are, however, instances where anticipated challenges have not materialised and as a consequence the structure of the research process has been very similar to the original UK method. Prior to undertaking MIS research in Mexico, a country where economic divisions and inequality are particularly evident (Campos et al, 2012; del Castillo Negrete Rovira, 2017), it was not clear whether or not it would be possible to bring together members of the public from different socio-economic groups to discuss what was needed for *la vida digna* (Valadez-Martínez et al, 2017); the specialist recruitment agency used to recruit participants for groups cautioned against attempting to get people from differing income brackets in the same room, as is done in MIS in the UK, because of a perceived difficulty in reaching consensus across income groups. The reality was that because the facilitators emphasised that participants should not think about what they themselves need – which prompts different conceptions among people from a range of incomes and occupations – but rather the goods and services that every citizen should be able to have in order to live with dignity in Mexico, they were able to discuss, deliberate and reach agreement.

## Using MIS research in diverse national contexts

An advantage of having an established, publicly respected programme of MIS research in the UK that is being applied in a multitude of different ways, is that other countries are able to identify these uses and applications as of potential value in their own contexts. In the UK, the first MIS research was not undertaken for a specific purpose or with a single intended use in mind, and its many and varied uses have only emerged incrementally over the last decade (see Chapter 21). But this is not the case in some other national contexts where the application of the MIS approach has, from the start, been clearly linked to public policy concerns and challenges.

This is perhaps most evident in Mexico, where the pilot MIS project undertaken in 2016 is being developed into a ‘full-scale’ MIS research programme to establish *la vida digna* for households with children living in urban Mexico. This development is being driven by a concern over the (in)adequacy of wages and a lack of



social mobility in Mexico (Velez-Grajales et al, 2018) and the need for policies to address these issues. Since 2005, the minimum wage in Mexico has not been sufficient to cover a ‘minimum food basket’ (Escobar Toledo, 2014), despite the view that any minimum wage in the country should meet the ‘normal needs of a family head in material, social and cultural aspects’ (CONASAMI, 2016). The current MIS research in Mexico is intended to provide both evidence enabling a comparison of current minimum wages within the country to a minimum standard and, crucially, a robust basis for developing a ‘living wage’ rooted in public consensus about minimum needs (see Hirsch and Valadez-Martínez, 2017). In doing so, MIS provides more than just the basis for calculating what a living wage would need to be: it also seeks to establish the concept of a living wage as one that enables individuals to meet their minimum need, or to live with dignity. This has been true for the UK Living Wage (see Chapter 21), and in this way it provides a model that can be employed or adapted in other countries. This allows the organisation undertaking MIS research in Mexico, CEEY (Centro de Estudios Espinosa Yglesias), to direct resources and activity towards translating the results of MIS research into an easily understood basis for a living wage from the start, rather than waiting for another organisation to take up and make use of the research.

In Singapore, a rapidly ageing population – the effect of a reduced fertility rate and improved life expectancy – presents a range of social and economic challenges (Yap, 2009). The default retirement age has increased from 62 to 65, but many people work until they are 67, and are expected to do so on a reduced salary to reflect perceived diminished productivity. Funding for MIS research was obtained from the Tsao Foundation, a charity engaged in advocacy and policy-relevant research around ageing. As the first study of its kind in Singapore, it was seen as a useful way of informing public and political conversations in a country where there is no official measure of poverty – and a reluctance to acknowledge its existence – and where the state emphasises the importance of self-reliance rather than dependence on social or public support (Ng, 2013, 2015; Mehta, 2006). There are fewer adult children to look after ageing parents/parents-in-law, who in turn are living longer, and cultural norms and expectations around living patterns are also changing, affected by housing policy, social support and emigration among other factors (Mehta et al, 1995). This context presents additional challenges in terms of presenting the findings in a way that contributes constructively to a broader discussion about policy responses in a changing Singaporean society.

## Conclusion

This chapter has explored the application of MIS in three countries where the social, economic and cultural context is very different to the UK, looking specifically at how the definitions, construction, purposes and uses of MIS research have been influenced and shaped by and within each national context. What is clear from this discussion is that the way in which ‘minimum’ living standards are defined and described is context and country specific and that this is one of the strengths of the MIS approach. It does not attempt to apply a universal definition of essential needs across very different countries, but recognises that living standards are contextual and relate to the norms and expectations within a given country, placing the public at the centre of how these minimum living standards should be defined and described. Based on these country-specific definitions of minimum living standards, the MIS approach provides a common, structured methodology through which each country can develop ‘minimum’ budgets and ultimately minimum incomes set according to national (as well as sub-national) social, cultural and familial norms and priorities. One important consequence of the varying definitions of the minimum that result from this approach is that it would not be legitimate to make direct comparisons between the income required for a minimum across different country contexts, since it is not being applied to identically defined living standards in each. Rather, MIS produces rich descriptions of these publicly determined, consensual standards that can be used as the basis for developing policy and affecting practice within each country.

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# The steep and winding road to comparable reference budgets in Europe

*Tim Goedemé*

## Introduction

Over the past 30 years, the European Council, the European Commission (EC) and the European Parliament (EP) have emphasised the importance of active inclusion policies and adequate minimum income support. Most recently, the EU's initiative on the European Pillar of Social Rights stresses again a series of economic and social rights, including the right of workers to 'fair wages that provide for a decent standard of living', the right of children to 'affordable early childhood education and care of good quality' and 'protection from poverty', the right of the unemployed to 'adequate unemployment benefits' and the right of everyone to 'adequate minimum income benefits ensuring a life in dignity at all stages of life, and effective access to enabling goods and services'. Finally, '[e]veryone has the right to access essential services of good quality' (EC, 2017). However, what is a 'decent standard of living', what are 'essential services', when can we consider something 'affordable' and what are the minimum resources that ensure 'a life in dignity'?

'Reference budgets'<sup>1</sup> offer probably the most straightforward tool for answering these questions. To some degree, this has also been recognised by the EC. For instance, as part of the Social Investment Package adopted in February 2013, the EC (2013) proposed the use of reference budgets as an instrument to help member states design efficient and adequate income support and to facilitate the Commission's task of monitoring the adequacy of income support in Europe. With some exceptions, however, existing reference budgets were largely created independently of one another, using different methods, with the effect that results are not comparable between countries (for a review, see Storms et al, 2014). Reference budgets

can only be used to assess whether income support measures are more adequate in one country than in another, and why this is the case, if they are comparable across countries. Only then it is possible to set up a process of policy learning regarding how different countries succeed in guaranteeing adequate incomes and which policy reforms could lead to a structural improvement of income adequacy. This was also recognised by the EC, when it launched a pilot project to develop a common methodology for comparable reference budgets in Europe, as well as by other important social actors, such as the European Economic and Social Committee (2018) and NGOs advocating for adequate minimum income schemes throughout Europe (Van Lancker and Farrell, 2018).

In that pilot project (Goedemé et al, 2015a), as well as another research project financed by the EU (Goedemé et al, 2015b), we set out to develop for the first time comparable reference budgets in Europe, building on some of the lessons learned in the first European Standard Budgets project that was concluded several years earlier (Warnaar and Luten, 2009). The pilot project involved country teams from all EU member states, while the other project – entitled ImPRovE – included country teams from six countries.<sup>2</sup> Both projects focused on reference budgets that illustrate the minimum required resources for adequate social participation, but while the ImPRovE project covered all spheres of life, in the pilot project data collection was limited to the cost of a healthy diet across 26 EU capitals, complemented by the cost of adequate housing, health care and personal care for a subset of capital cities. In both projects, time and financial constraints proved to be too limited to achieve fully satisfactory results, but also instilled a sense of realism and pragmatism into the projects. Nonetheless, we are convinced that important steps were taken towards comparable reference budgets in Europe. More importantly, in both projects we were confronted with very basic methodological questions that proved to be extremely challenging: What is comparability in this context? How can it be maximised? What is the bias one can expect by following one method rather than another? What is the best way to work with country teams across the EU, in very different institutional and cultural contexts, to implement the chosen method in a robust way?

In this chapter, I reflect on some of the key lessons and contributions from these two projects and outline briefly some of the issues that merit more attention in future research. In the next section, I ask whether it is useful to produce comparable reference budgets, given the efforts required, and summarise some of the substantive findings. Subsequently, I report on the requirements for successfully constructing comparable



reference budgets and some of the main contributions of the two projects. In the last section, I briefly elaborate on gaps in knowledge and an agenda for future research.

### **Are comparable reference budgets useful and worth the effort?**

The main merit of having comparable reference budgets is to facilitate comparative research and monitoring. In addition, there are some other important benefits: (1) having a European project implies providing support to many, or all, EU countries for developing high-quality reference budgets, including countries that would otherwise not be able to do so; (2) given the massive data collection effort required for producing valid reference budgets, the process of constructing reference budgets, especially in a comparative perspective, is accompanied by revealing interesting sociological findings on variations in habits, social expectations and institutional differences across the EU, and helps to foster a common understanding of what a life in dignity means; (3) useful lessons can be learned for reference budget research itself, not only when the goal of comparable reference budgets is achieved, but also on the way towards that goal; and (4) the first uses of the reference budgets in comparative research reveal a strong potential for policy analysis, policy monitoring, cross-national learning and the development of new social indicators.

The data collection effort that is required leads to very interesting (sociological) data on how societies function and the accessibility of essential (publicly provided or subsidised) goods and services. It provides a rich account of how societies cater to the poor by lowering out-of-pocket costs, opening up space for countries to learn from each other. For instance, it brings to the fore the practical implications for households of having different health care and education systems (and their related out-of-pocket costs) (e.g. Penne et al, 2020); the continued importance of informal payments to get access to quality health care in some countries; varieties in the quality and reach of public transport (as well as differences in out-of-pocket costs); and differences in social expectations and the acceptability of, for instance, second-hand clothing (e.g. Goedemé et al, 2015b: 21–3). The data collection effort also highlights differences in the quality of official guidelines and recommendations, for example with regard to housing (cf. Van den Bosch et al, 2016) and what constitutes a healthy diet (Carrillo-Álvarez et al, 2019a). Further, discussions in focus groups often led to illustrations of hurdles to access essential goods and services, beyond

the financial cost faced by households. Finally, one of the interesting outcomes of the EU pilot project was an increased insight into how adequate social participation is understood across Europe, and the degree to which there can be a common understanding (Goedemé et al, 2019a). These findings are not exclusively (and not always) relevant for social policy researchers, but also for other fields of study. Apart from bringing together information and collecting new data, the process of constructing comparable reference budgets itself leads to new insights and methodological innovation. When developing comparable reference budgets, research teams do not draw up reference budgets in isolation from each other, but have to use a common framework, and a common language, to exchange and discuss experiences and results. Working together towards comparability is a strong incentive to reflect further on reference budget research methods in general, and its underlying assumptions.

In addition, the first attempts at comparable reference budgets also led to relevant new insights for policy makers and social policy researchers. For instance, Carrillo-Álvarez et al (2019b) explain how the food baskets developed in the EU pilot project (1) can help with budgeting for a healthy diet and making the financial hurdles for realising a healthy diet visible to policy makers; (2) can be used for educational illustrations of how to cook in accordance with national dietary recommendations; (3) show that other functions of food matter, apart from having access to a healthy diet; and (4) provide routes for further comparative research into food insecurity. In another paper, by making use of the ImPRovE reference budgets, we showed what the implications are of living on an income at the level of the widely used at-risk-of-poverty threshold, and how that varies across countries. In addition, we also showed that the at-risk-of-poverty indicator most likely underestimates poverty among children and among tenants (Goedemé et al, 2019b). The reference budgets can also be used to develop an alternative set of comparative poverty indicators (e.g. Decerf et al, 2017; Penne et al, 2016), and for assessing in a comparative manner the adequacy of minimum income benefits and food insecurity (Penne and Goedemé, 2019). In addition, they can also be used for comparative social policy research with the additional benefit of bringing not only tax benefit policies into the picture, but also the in-kind benefits that welfare states provide. For instance, Penne et al (2020) make use of the ImPRovE budgets to create a ‘child cost compensation indicator’. This indicator shows to what extent the tax deductions and social benefits that families with children receive, compensate for the cost of children. Given the much wider range of

applications of reference budgets in social policy research for single countries (e.g. with regard to the affordability of essential goods and services),<sup>3</sup> there is still considerable potential for expanding the area of research that makes fruitful use of comparable reference budgets. From this perspective, comparable reference budgets live up to their expectations and seem to be worth the effort.

## Requirements for constructing comparable reference budgets

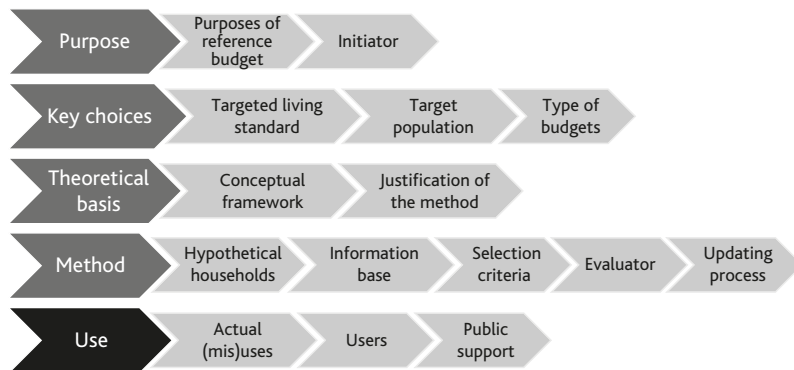
This does not mean that creating high-quality comparable reference budgets is easy. Indeed, strong challenges remain, and the quality of those produced in the two projects discussed in this chapter can certainly be improved. In this section, I review briefly four factors that are essential for achieving comparable reference budgets, and the contribution we tried to make in this regard.

### *A common language for the basics of reference budgets*

Reference budgets currently developed or in use in member states of the European Union differ in many important respects (Storms et al, 2014).<sup>4</sup> The defining characteristics of reference budgets can be categorised in several ways. Dubnoff (1985: 285) summarised the critical factors of an instrument determining ‘how much income is enough’ in three questions: (1) Enough to do what? (2) Enough for whom? (3) Enough according to whom? (cf. Deeming, 2011: 18). Veit-Wilson (1998: 21) considers a fourth question in relation to governmental concerns: (4) Enough for how long?

Having a common language to describe all the different aspects of developing reference budgets is a basic requirement. Therefore, we found it useful to further formalise and order the various choices that are made explicitly or implicitly when developing reference budgets, as presented in Figure 18.1. We make a distinction between the purposes for which reference budgets are constructed, key choices to be made, their theoretical basis, the method that is used for developing the reference budgets and their use in practice. We think that this offers a useful starting point for having a common language to talk about reference budgets, while at the same time making explicit what the various (and many) dimensions are in which reference budgets can be different. It also offers a useful framework for reporting on reference budgets.

For an elaborate discussion of all dimensions and exact definitions, I refer to the original text (Goedemé et al, 2015c). Here, I want to

**Figure 18.1:** Constituting dimensions of reference budgets

Note: I replaced the usual term 'model families' with the more neutral expression 'hypothetical households' to denote the household types for which reference budgets are developed.

Source: Adapted from Goedemé et al (2015c: 15).

highlight only two elements. First, in comparison with the original text, I added the 'type of budgets' that one wants to develop to the key choices to be made. One important dimension relates to the choice between 'normative' vs 'descriptive' budgets (see also, for instance, Preuße, 2012). With descriptive budgets, researchers try to identify 'typical' or 'common' expenditure patterns of certain types of households (e.g. by household size, income level and geographical location). For instance in the Netherlands (Nibud, 2019) and in Germany (Preuße, 2012) researchers have developed these types of budgets. In contrast, normative budgets do not necessarily try to capture existing or typical expenditure patterns, but are aimed at defining a monetary threshold that is required for a certain level of satisfaction of needs. Examples include the low-cost food budgets developed by the US Department of Agriculture (e.g. Carlson et al, 2007) and the Australian budget standards (Saunders and Bedford, 2018). In addition, a distinction can be made between fully specified and categorical reference budgets. With fully specified budgets, detailed lists of goods and services are compiled and priced, and the total reference budget consists of the sum of the cost of the individual items. In contrast, with categorical reference budgets the cost of some or all of the baskets is not computed in detail, but estimated based on several assumptions or by making use of household budget survey data (e.g. Citro and Michael, 1995; Orshansky, 1969).

Second, when describing the information base used for developing the budgets, we think it is important to make a clear distinction

between what we would call ‘expert knowledge’ and ‘expert opinion’. ‘Expert knowledge’ is knowledge generated by systematic observation or experiments, which is replicable, verifiable and not particularly dependent on personal judgement (e.g. the number of calories that can be obtained from a kilo of potatoes). This is distinct from ‘expert opinion’ which we define as judgements that are generated through specific long-term experience with a certain area, but which is to an important extent personal and cannot easily be double-checked or replicated by a third party.

## Defining comparability, and studying its methodological implications

Apart from a common language, creating comparable reference budgets implies the need to have a clear understanding of what comparability means. This is harder than one might think at first sight, especially when working in a context of considerable cross-national variations in institutional and cultural settings. Therefore, we introduced a distinction between procedural and substantive comparability. This helped us to have a more systematic discussion about the methodological implications for developing comparable reference budgets.

*Procedural comparability* means that the same procedures are implemented for measuring a phenomenon or characteristic on different occasions – different times or different places<sup>5</sup> (Goedemé et al, 2015b; Goedemé et al, 2015c). Procedural comparability does not necessarily imply comparability in a *substantive* sense, which means that the same phenomenon is captured similarly in different social contexts. In the context of normative reference budgets, *substantive cross-country comparability* can be defined as a situation in which, at the level of the reference budgets, needs for social participation are satisfied at a similar level.<sup>6</sup> This definition implies that the procedures for constructing the budgets are not only the same across countries, but are also designed in such a way that they are sensitive to the local context. In other words, they should reflect cross-country (and within-country) variations in the goods and services that are needed at a minimum to fulfil the needs related to adequate social participation, and their associated cost for households. At the same time, this definition of cross-country comparability requires that reference budgets should not be different for other reasons than those related to relevant differences in the local context. In other words, they should not vary as a result of differences in definition and interpretation of the targeted living standard, the methodology and procedures used to develop the reference budgets or

as a result of the simple fact of working independently. The last point is important, given (1) the inevitably elusive character of the targeted living standard and (2) the non-negligible limitations to the robustness of a range of information sources and procedures often used to construct reference budgets. Moreover, substantive comparability is often only partially achieved, and depends on the purpose for which an indicator is used. For instance, in pension studies theoretical replacement rates which adhere to the requirement of procedural comparability are a useful tool for evaluating the generosity of individual pension schemes, but can lead to biased conclusions about the generosity or adequacy of pension systems as a whole (that is, they are not substantively comparable for all purposes) (cf. Peeters et al, 2014). However, if a criterion for assessing substantive comparability is lacking, procedural comparability can be the only guiding principle to construct an indicator to be used for comparing countries (or family types, or regions, or budgets over several years).

As we explained elsewhere (in particular in Goedemé et al, 2015b; 2015c), in our view, an ideal situation of full cross-national comparability can be further described as a situation in which differences between reference budgets fully reflect, and are strictly limited to, those emanating from (cross-national) variations in: institutional context, climatological and geographical conditions, culture and the availability, quality and price of goods and services. In other words, one of the very important lessons we learned from these projects is that trying to do the same thing (applying broadly the same method) in two countries is no guarantee at all for reaching comparability in a substantive sense. First of all, often the details of the methods are not entirely clear, and even when they are clear, they can vary (e.g. the consensual approach in the UK, vs Ireland and France). Ample coordination (in terms of regular meetings, written procedures, templates for collecting the data, a common methodological and theoretical framework) is required to get the details right, to make sure that everyone implements the method in the same way and to understand why the budgets of one country are different from those of others – an important added value of comparable reference budgets. However, this does not necessarily imply that it suffices to simply implement exactly the same method for each country: the method should be such that it is able to pick up the implications of relevant institutional, cultural and other differences across countries – beyond the mere difference in price levels. This not an easy balance to strike, given that an external benchmark is lacking which can tell you to what extent the end result is comparable.

Whether or not comparability can be achieved depends strongly on the method used and how it is implemented. However, comparability is not the only quality criterion, and is affected by the performance of the budgets in each country with regard to other quality criteria as well. As we described in Goedemé et al (2015c), and as was confirmed by many of the partners in both projects, reference budgets can benefit a lot from explicitly discussing (and reflecting upon) their quality from a holistic point of view (see also Atkinson et al, 2002). This includes their (internal and external) validity, transparency and acceptability; their robustness (the reliability of the sources used and of the overall outcome) and replicability; their responsiveness to policies;<sup>7</sup> the degree to which they avoid manipulation; and – importantly – their feasibility and timeliness. Given that there may be trade-offs between these dimensions, budgets that favour comparability are not necessarily those that always fit best national purposes.

### **A thick description of the targeted living standard, embedded in a broader theoretical framework**

The *targeted living standard* is a response to Dubnoff's (1985) question regarding 'enough to do what?' In principle, reference budgets could be developed for any targeted living standard. The description of the living standard should be more than a suggestive but vague label, as many labels are not uniformly interpreted (cf. minimum acceptable way of life, modest but adequate, etc.). A clear description of what these labels mean is relevant for any reference budget, but this is all the more so when trying to develop comparable reference budgets. In order to foster a common understanding across countries, it is essential to have more than a brief description of the targeted living standard and embed it in a broader discussion of the key concepts used and their mutual relation (i.e. working towards a 'thick' description of the targeted living standard).

Many developers of reference budgets do not formulate an explicit theory, and appear to find this unnecessary. Yet, one of the more subtle and often implicit, though quite fundamental, characteristics of reference budgets concerns the conceptual framework within which the developers work. Ideally, this conceptual framework makes explicit how the linkages between needs, preferences, the living environment, reference group effects, resources, the social context, capabilities and living standards are conceived (see also McKay, 2004; Ringen, 1995). Embedding the targeted living standard in a broader conceptual framework has helped us a lot to give it a clearer interpretation. An

elaborate theoretical framework also proved to be a very useful guide for the development of the baskets of goods and services, helped to provide a better justification for what we were doing and supported our efforts to make the underlying assumptions as explicit as possible. In both international projects, we worked with ‘adequate social participation’ as the targeted living standard. The ‘thick’ description of what we mean with this and the theoretical framework in which it is embedded are discussed in some detail in Storms et al (2013) and Goedemé et al (2019a).

## Motivated and versatile research teams

Undoubtedly, working together with motivated research teams is crucial for high-quality output. In particular, there should be a strong commitment to building reference budgets that maximise comparability. As emphasised earlier, this requires a specific approach, but also a level of willingness for compromise in case agreement cannot be reached on all parts of the approach. Further, it also requires a degree of pragmatism, unless more resources than currently available are devoted to developing comparable reference budgets, and a good communication strategy when the comparable budgets deviate from the national reference budgets one may already have.

Apart from that, as is the case for teams constructing national reference budgets, researchers should be very versatile, and be able to involve people with different sets of expertise: reference budgets cover all spheres of life, and no researcher covers all relevant knowledge that is required to construct high-quality reference budgets. A combination of quantitative and qualitative social science researchers is ideal, and having strong links with people working in completely different fields is a major strength (e.g. nutritionists, policy analysts, specialists in housing and energy consumption). In the EU pilot project, we set up a coordinating team that also combined experts in different fields, including nutritionists and health specialists. Having such a multidisciplinary team of coordinators proved to be an important asset. The launch of an EU Platform on Reference Budgets is very promising in this regard.<sup>8</sup> The platform enables producers of reference budgets to exchange knowledge and to work jointly towards improved standards for developing reference budgets, while continuing the dialogue on how to improve comparability, close data and knowledge gaps and extend linkages with other knowledge networks that contain relevant expertise for building high-quality reference budgets.



## Some lessons for future projects on comparable reference budgets

With extensive coordination and a strong dedication to comparability, it is possible to refine methodological procedures in such a way that they are not only applied largely uniformly across countries, but also contribute to adequately capturing local institutional, cultural, social and economic circumstances. With the approach applied in the two projects, we were able to reach some level of substantive comparability, and – at least as importantly – were able to track to a large degree why reference budgets in one country differed from those in other countries. This is not only important for understanding their level of comparability, but also contributed strongly to understanding better important differences between countries (e.g. in the availability and accessibility of essential goods and services), and how those impacted on the minimum required resources for adequate social participation. At the same time, I want to emphasise that although our approach was largely ‘standardised’ – and in the ImPRovE project we initially started from common needs and functions and a single, adaptable list of goods and services – the resulting budgets vary significantly across countries. Comparability across Europe does not mean having access to exactly the same goods and services: local circumstances matter a lot. Yet, we also found strong indications that the functions that should be fulfilled for adequate social participation, and how adequate social participation is understood, does not vary across Europe in such a way that comparability is a concept void of meaning and too elusive to be worthwhile pursuing.

At the same time, it is clear that important gaps in data availability and methodological knowledge remain, and our theoretical framework is open for improvement (for an extensive discussion, see chapter 10 in Goedemé et al, 2015a). Here I single out just four major areas for further research. (1) Pricing the baskets in a robust *and comparable* way remains an important challenge. Using price information collected by national statistical institutes, or cooperating with such institutes for this purpose, might improve the validity and the transparency of pricing data. The pilot project has shown that this is not always straightforward, given that official price surveys do not always contain sufficient observations for all goods and services covered by the reference budgets. (2) Lifespan assumptions are tricky. More research in this area is emerging as part of life cycle analysis of durables. At the same time, it is especially difficult to measure lifespans of durable goods across countries in a way that is valid from the perspective of the targeted living standard. It would be

great if the set of lifespan assumptions with which we worked could get a better empirical underpinning. In the meantime, we would like to encourage reference budget researchers to work with the 'lifespan sensitivity bounds' that we proposed in the final report of the pilot project. (3) Many researchers in the field of reference budgets (including us) agree that (elaborately) consulting citizens is key for arriving at valid and acceptable results. However, it is a major cost factor weighing on the feasibility of developing reference budgets throughout the EU, and methodological research on how this is best done is lacking. There is ample room for studying further how the consultation of citizens could be improved, for example to make the samples of participants more representative and the outcomes more reliable (and being able to prove their reliability to those who are sceptical about reference budgets). (4) Regularly, opinion is used (e.g. of discussion group participants or experts) where factual information could be collected in a representative survey. A more systematic collection of factual information in representative surveys on, for instance, the accessibility of some publicly provided or subsidised services (e.g. local public transport, costs related to the education of children), the prevalence and acceptability of some purchasing patterns (e.g. second-hand clothing, use of particular stores to buy furniture or food) and social or cultural expectations and habits (e.g. inviting friends home, expectations by employers, social functions of food, pocket money for children) would not only improve the quality of focus group discussions, but could also make a major contribution to improving the comparability of reference budgets. Finally, bringing together and disseminating more extensively all the tools and applications of reference budgets that are currently in use across the EU may create a strong incentive for policy makers to stimulate further research in this area.

The two projects on comparable reference budgets in the EU have contributed to a common language for describing and discussing reference budgets, an inventory of reference budgets in Europe, new methodological insights – especially regarding achieving comparability – a theoretical framework for reference budgets on adequate social participation, a functioning network of researchers, pilot comparable budgets and new sets of policy-relevant data and indicators. We hope that this also provides inspiration for researchers within and beyond Europe to improve the quality of their budgets, and embark on developing new sets of comparable reference budgets. At the same time, both projects also made clear that there are still important gaps in theory, methods and data. The enthusiasm with which the EU Platform on Reference Budgets was launched creates

high hopes regarding the determination of researchers throughout Europe to tackle these challenges. In the meantime, the EC has shown some renewed interest in reference budgets by funding a project that is carried out by the Joint Research Centre in Ispra. This project will build on the reference budgets developed in the ImPROvE and EU pilot project and will extend some of the comparable budgets to rural areas while also exploring a better measurement of prices and addressing some other data gaps. Clearly, interest in comparable budgets extends beyond academia, while exciting research questions still abound.<sup>9</sup>

## Notes

- <sup>1</sup> Or 'budget standards'.
- <sup>2</sup> In fact, the project started out with teams from four countries (Belgium, Finland, Greece and Hungary), while teams from Italy and Spain joined voluntarily. In addition, the statistical office of Luxembourg (STATEC) collaborated closely with us to develop its own reference budgets in a largely comparable way (Franziskus, 2016).
- <sup>3</sup> For instance, Heylen and Haffner (2013) use reference budgets to study the affordability of housing, while Vanhille et al (2018) use them to construct a 'water affordability' indicator.
- <sup>4</sup> <http://referencebudgets.eu>.
- <sup>5</sup> The argument I develop here, applies both to within- and between-country differences, and even to differences between the household types for which budgets are constructed.
- <sup>6</sup> Here I refer to 'social participation', but it could be any other concept that is in line with the definition of the targeted living standard.
- <sup>7</sup> For example, an increase or decrease in the out-of-pocket cost of publicly provided goods and services should be reflected in the updating process of the RBs; if requirements for being available for work in the public unemployment insurance system change, so that one has to accept a job a greater distance from home than before, this should be reflected in the allocated budget for transportation.
- <sup>8</sup> <http://referencebudgets.eu>.
- <sup>9</sup> I am immensely grateful to Bérénice Storms, Karel Van den Bosch and Tess Penne for comments and suggestions on this text, and the many stimulating discussions on developing comparable RBs we have had so far. In addition, I would like to thank all partners who contributed to the ImPROvE project and the EU Pilot Project on Comparable Reference Budgets. Without their input and dedication, comparable budgets would have remained a purely theoretical exercise.

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# Adequate income in Portugal: a comparison of two estimation methods

*José A. Pereirinha, Elvira Pereira, Francisco Branco,  
Dália Costa and Maria Inês Amaro*

## Introduction

Income adequacy, considered as the sufficiency of disposable income to assure human dignity in a given society, is an old political issue. As stated in the Universal Declaration of Human Rights (1948), ‘everyone has the right to a standard of living *adequate* for the health and well-being of himself and of his family’ (emphasis added). In a market economy, where the satisfaction of material needs is very much dependent on consumption of goods and services obtained through the market, adequacy of living standard implies adequacy of disposable income to buy them. *Adequate* income as income required for *human dignity* is also in the European Pillar of Social Rights (2017) and is a matter of policy concern at the EU level (Deeming, 2017).

A normative income threshold, as an amount that provides people with an adequate level of resources to lead a decent and dignifying standard of living, is then necessary as a monetary reference for guaranteeing citizenship rights, to identify social needs for designing social policies and to evaluate the adequacy of social policies. The lack of normative content of the EU poverty threshold and the lack of an updated version of a normative income threshold in Portugal led to new research designed to construct reference budgets and to estimate adequate incomes (Pereirinha et al, 2020). The aim was to estimate an empirically based and socially accepted standard of adequate income for different family types, well adapted to the Portuguese reality, based upon a consensual budget development approach with sound scientific support that could inform debates on poverty in Portugal, as well as public policy decisions relating to social benefits, social minimums, minimum wage, fiscal measures and other spheres of governance. This research, which follows the Minimum Income Standard (MIS)

approach (Bradshaw et al, 2008), will be referred to as MIS/raP here (*rendimento adequado em Portugal*).

The lack, at the EU level, of a common methodology that may support a normative income threshold, is also a matter of concern, which led the European Commission (EC) to propose the construction of reference budgets for all EU countries in order to ‘facilitate the Commission’s task of monitoring the adequacy of income support in Europe’ (Goedemé et al, 2015: 7). The ImPRovE method (Goedemé et al, 2015) was used in an ongoing project intending ‘to support the development of cross-nationally comparable reference budgets in all EU Member States’ (Goedemé et al, 2015: 13) and, in its first stage, to develop comparable food baskets for all Member States. Portugal, with the same team as that of the raP project, participated in this early stage. The adequate income (so far focused only on the estimated food budget), originating from the work on EU reference budgets, will be referred to as ImPRovE/RB.

Both methods (MIS and ImPRovE) used to estimate adequate income are based on a budget standards approach, and both recognise that such normative income thresholds should be supported by ‘what people think’ about what is needed in a given society, and informed by the ‘knowledge of experts’ in those relevant domains where scientific expertise can be used to assess adequacy for human well-being. Nevertheless, these methods make a different combination, giving different relative relevance to the two normative sources for the threshold calculation.

This chapter explores the use of both approaches to estimate adequate income in Portugal. It compares and analyses the different assumptions behind them, and it concludes with some reflections on their goodness to the purpose of measuring poverty and the assessment of benefit adequacy.

## Historical and national context

The construction of reference budgets, defined as ‘patterns of expenditure for different types of households to live at a designated level of well-being’ (Warnaar and Luten, 2009: 2), has a long history in Europe, and Portugal is one of the countries with the oldest experience in this field, dating back to the early 1950s as the first reference budgets, although with limited scope of use in social policy, were established at firm level and addressed to the wage fixing in two big Portuguese companies (CRGE in 1951 and 1960 and CUF in 1960) (Pereirinha and Branco, 2013). Later, in 1965 (and updated in



1969), the Portuguese government was responsible for the early official reference budget and an income level that was used as a reference for the creation of the national minimum wage in 1974. Since then, a long period lasted without any empirical research intended to construct new reference budgets until 2014/15, when a team of researchers (the authors of this chapter) produced estimates using two different research methods, inspired either in MIS (UK) (see [Chapter 2](#)) or in ImPROvE (see [Chapter 18](#)), two methodologies for developing reference budgets in Europe.

When the early reference budgets were constructed in Portugal, the reference concept in use was that of ‘living wage’, advocated as a requirement for the adequacy of living conditions of workers by the International Labour Organization (ILO), as a guiding principle for fixing minimum wages. This principle has its early origins in the 1919 Paris Peace Conference: the 1919 Treaty of Versailles established ‘the payment to the employed of a wage *adequate* to maintain a reasonable standard of life as this is understood in their time and country’ (art. 427, third, that became the article 41 of the ILO Constitution, emphasis added) (Reynaud, 2017: 3). This principle of a living wage for fixing minimum wages was further discussed and amended in the successive ILO conferences, adopted in the Declaration of Philadelphia (1944) and later extended to other income sources beyond wages (mainly social security transfers) in the 1960s, in the ‘Resolution Concerning Minimum Living Standards and their Adjustment to the Level of Economic Growth’ adopted by the International Labour Conference in 1964. This resolution called for ‘the establishment of dynamic levels of social security measures; and we suggest that both levels [wages and social security] should be periodically adjusted to the economic growth of the country and to increases of the cost of living’ (report of the Conference Plenary that approved such resolution, p. 519, quoted in Reynaud, 2017: 21).

Moreover, a report of experts from the ILO in 1967, regarding the criteria for minimum wage fixing, did not make use of the concept of living wage but, instead, used ‘workers’ needs’, and listed several topics which are relevant for its policy implementation, namely: ‘the difficulty [...] in specifying these needs precisely’, ‘how much income a wage earner requires depends also on the size of his family’, ‘a distinction is implied between a “subsistence” standard which covers the barest needs of workers [...] and, on the other hand, a somewhat higher standard which should take greater account of social needs, and which could be seen as a future target for the whole population’, and that ‘human needs

have to be interpreted relatively, i.e., in relation with the economic level of the country concerned' (quoted in Reynaud, 2017: 23).

It is in this context that the first national reference budget was constructed in 1965, and its updating was made in 1969 for Portugal (MCPS, 1969; Ribeiro, 1971), aiming at the creation of a national minimum wage in 1974 (Pereirinha and Branco, 2013). The quoted issues well summarise the political complexity and the technical difficulties of developing a reference budget that may correspond to a well-accepted concept of workers' needs. There was, by that time, the very influential experience of the creation of the minimum wage in France, and the influence of some French sociologists, like Laloire (1967), who advocated the concept of 'vital minimum' as corresponding to the 'minimum human needs' which, according to this author,

includes, firstly, the physical needs, that is all that is required to keep us alive and to assure capacity for working. The notion of minimum human needs is not restricted to physical needs; it also includes social needs associated to common uses in the community. These social needs are linked to the notion of human dignity: it is commonly agreed that no one should be compelled to live, for scarcity of resources, in conditions that become rather distinct to others of the same social group and, for this reason, cannot participate in the normal customs and traditions in his/her community. (Laloire, 1967: 379, our translation)

It is still this reference budget, although currently updated, that is the source of the present value of either the national minimum wage or some social minima (Pereirinha and Branco, 2013). But its annual updating lacks any scientific support, keeping real minimum wages below the 1974 level (Pereira et al, 2017). The need to have an updated normative income threshold to be used as a reference led us to estimate the amount of adequate income for different family arrangements, supported in the development of reference budgets using a method that combines the consensual approach (Veit-Wilson, 1987; Walker, 1987) with the knowledge of experts, based on the MIS (UK) method for gathering data and analysis (Bradshaw et al, 2008). Under this approach, adequate income is the amount that enables an individual to reach a minimum acceptable standard of living in a given society (in the Portuguese research project defined as what is needed to live with human dignity), according to the opinion of ordinary people

(what people think) and the knowledge of experts. The concept of human dignity, its translation into goods and services and the cost of the respective consumption basket is a construction very much supported in focus groups with ordinary people, aiming at a negotiated consensus on what is needed.

Recently, the EC has proposed the construction of ‘reference budgets’, defined as baskets of goods and services that are considered necessary to reach an acceptable standard of living for an individual household within a given country, region or city. This decision follows the adoption of the Social Investment Package, in February 2013, intended for use in assessing the adequacy of income support, in particular minimum income schemes, in the EU. Moreover, it corresponds to the implementation of the European Pillar of Social Rights (launched in 2015), namely in Principle 14, minimum income (‘Everyone lacking sufficient resources has the right to *adequate* minimum income benefits ensuring a *life in dignity* at all stages of life, and effective access to enabling goods and services. For those who can work, minimum income benefits should be combined with incentives to (re)integrate into the labour market’) and Principle 15, Old Age Income and Pensions (‘Workers and the self-employed in retirement have the right to a pension commensurate to their contributions and ensuring an *adequate income*. Women and men shall have equal opportunities to acquire pension rights. Everyone in old age has the right to resources that ensure *living in dignity*’ (emphasis added). The creation of a Reference Budgets’ Network and the need to create a consensus on a common theoretical framework and a common methodology for cross-nationally comparable reference budgets in all EU member states prompted the estimation of another reference budget for Portugal (at the present stage only for the food budget), which will be further referred as RB income, which is based on the ImPROvE method of construction of reference budgets (Storms et al, 2013). According to this approach, adequate income is the amount that is required to adequately participate in society, that is, the amount that enables people to adequately take the various social roles a person should be able to take as a member of a particular society, which is very much supported by scientific literature and experts’ knowledge.

## A comparison of theory and methods

When comparing MIS/raP and ImPROvE/RB approaches to reference budgets, a major difference is found in their theoretical frameworks. The other issue is the role played by the focus group method of research

and what is expected from them, namely the role of consensus in the participation in focus groups.

There is a long history of research on the construction of reference budgets, which has been prominent in Britain, which reflects the tradition of research on poverty and its empirical emphasis in this country (Deeming, 2010). One may then say that the MIS approach follows a history of methods used in Britain to estimate minimum/adequate income which, being initiated by Rowntree in 1901 and in 1941 (and latter in 1951) (mainly based on experts' knowledge), and followed by budgets by Bradshaw, which were either 'low cost but acceptable' or the 'modest but adequate' (Bradshaw, 1993) (mainly based on social survey results) and Consensual Budget Standard (CBS) budgets by a research team at the Centre for Research on Social Policy (CRSP) (University of Loughborough) (mainly based on *focus group* interview results: a potential want becomes a social need if there is consensus among discussants in focus groups) (Deeming, 2005; 2017). Instead of supporting the development of the budgets on consumption patterns or expert opinion, it does it through the participation of citizens in focus groups aiming at getting consensus about what is the acceptable minimum in society: the CBS. This originated in the MIS.

Both MIS/raP and ImPRovE/RB methods intend to construct reference budgets that reflect minimum acceptable, or adequate, living standards in the society. But while the MIS/raP approach is rather pragmatic, not being supported by any explicit theory of human needs, the ImPRovE/RB approach is framed by some well-known theories of human needs. Such difference is linked to the issue of legitimacy for decisions on what is an acceptable, or adequate, living standard in society. MIS/raP approach is a 'bottom-up' approach that supports this adequacy on the concept of human dignity as consensually defined by ordinary people in the context of focus groups ('what people think') (Bradshaw et al, 2008). Contrary to MIS, the ImPRovE/RB method is a sort of 'top-down' approach to the construction of reference budgets, supported in scientific literature, either in literature on human needs or in the experts' knowledge ('what science says') (Goedemé et al, 2015). Its rather normative character is supported in the theory of human needs of Doyal and Gough (1991). This method, aiming to support EU-comparable reference budgets, is under the fundamental assumption that 'as human needs are generalisable, it is perfectly possible to construct minimum standards for needs-satisfaction across Europe' (Deeming, 2017: 37).

The MIS/raP project, which fieldwork ran in Portugal in the period from July 2012 to February 2014, is based on the MIS approach (with

some adaptations) comprising several stages, each one informing the development of the subsequent stage (Bradshaw et al, 2008). The method comprises the three ingredients cited earlier (focus groups, experts' knowledge and survey data), but under a sort of 'bottom-up' approach, using focus group analysis as its methodological core. The participation of the Portuguese team in the EU pilot project ImPRovE/RB involved only the construction of the food budget. This was made for the capital city (Lisbon), for the period of March 2015, and a healthy food basket was constructed for five family types (see Table 19.1). The design of the healthy food basket for these family types took into account, on the one hand, the recommendations of the Portuguese Food Guide (Portuguese Food Wheel) and, on another hand, the information available on Portuguese dietary habits (a survey study made for the city of Oporto). Regarding updated recommendations for energy requirements and nutrient intakes, it was decided to the recommendations proposed by the World Health Organization, the Food and Agriculture Organization and the Food and Nutrition Board, Institute of Medicine.

There are some similarities but also great differences between both methods (MIS/raP and ImPRovE/RB), so a comparison must go beyond any strict comparison of results. The crucial issues to be compared are the methodological ones. Let us discuss the most relevant. In both methods focus groups are used to discuss needs with ordinary people and those goods required to meet them, focusing the discussion on family types (the same as those members of the corresponding focus groups), using the *vignette* technique on hypothetical cases for each family type. Both methods make similar assumptions regarding the

**Table 19.1:** Healthy food basket/budget, home-cooked meals, euros per month

	Woman	Man	Couple	Single woman + 2 children (boy, 10; girl, 14)	Single man + 2 children (boy, 10; girl 14)	Couple + 2 children (boy 10; girl 14)
ImPRovE/RB	152.8	156.5	309.4	419.3	423.0	575.7
MIS/raP	137.6	145.0	282.6	n.c.	n.c.	n.c.
ImPRovE/RB using raP pricing	128.4	–	–	–	–	–
MIS/raP using ImPRovE/RB pricing	157.9	–	–	–	–	–

good health of the members of such family types. But, contrary to the MIS/raP method, in the ImPRovE/RB method only food budgets were calculated and for four family types (Table 19.1).

A great difference between the two methods is the role played by the focus groups. In the ImPRovE/RB method, the focus groups worked mainly as advisory groups. But a distinction has to be made between two components of the food budget: the healthy food budget and the other functions of food. Regarding the first one, the groups just spoke about what had been decided by the nutritionist. But on the second one (other functions of food), the groups gave their opinion on what should be included, and afterwards the research team had to decide on the specific list of goods and services to include. In the Portuguese case, this was done considering the results of the three focus groups, the available data for Portugal of EU-SILC ad hoc module of 2009 on material deprivation and the MIS/raP research project's results. Actually, the main guide to developing this part was the MIS/raP research project's results because, in the three focus groups organised in the ImPRovE/RB project, participants only gave examples of what should be included as a minimum and gave their opinions on quantities and frequencies. In fact, on the one hand, participants did not have to reach a consensus and, on the other hand, there was no time in the focus group for discussing and developing a concrete list of goods and services (with a global vision of the food budget and considering that the same commodities can fulfil different functions). In all cases, contradictions were not found between the opinions and arguments presented in these focus groups and the results of MIS/raP focus groups.

Regarding the healthy food budget, the MIS/raP project devoted a greater role to focus groups. In the MIS/raP project, the nutritionist developed the shopping list (goods and amounts) on the basis of the menus proposed by focus groups, having made some suggestions for amendments aiming for compliance with the guidelines for a healthy diet/nutritional recommendations, which were then presented to the groups that, in general, approved the amendments made.

As said earlier on comparing methods, a relevant issue is that of the role of the negotiated consensus as a core ingredient in the MIS/raP approach, and not in the ImPRovE/RB method in the focus groups with ordinary people. Although not being representative of the population (in the statistical sense), this method has been widely recognised as having 'great potential for establishing a consensual standard of social adequacy for society' (Deeming, 2017: 40) if the recruitment of participants is well designed, with a diversified

socio-economic composition and facilitated by a good moderator with a well-designed guide for discussion. In ImPRovE/RB this method is used mainly for confirmation of expert opinions and collection of ordinary people's opinions, giving little room for individual reasoning, group discussion and construction of a negotiated consensus, also because of the time constraints imposed by the method (lack of time). Therefore in this approach the focus groups consist of letting participants accept (or not) what is proposed by the facilitator as supported by literature and the expert's judgements and not to make a solid construction of a budget from the bottom up as in MIS/raP approach.

The role of the focus group and the role of the negotiated consensus in the process of construction of the reference budget is a more critical issue when dealing with other items of expenditure beyond the food basket, since the role of experts is of higher relevance in this item of consumption. Moreover, the existence of international and national recommendations in this area leaves less room for the criticism regarding this difference between both methods. But similar recommendations do not exist regarding the other items, which account for approximately 70–75 per cent of total expenditure. This was not yet the scope of this cross-country comparison project of construction of national reference budgets in the EU.

An important difference between the two methods is in the process of pricing the goods included in the food baskets. In the MIS/raP project, the prices are those found in the places indicated by purchasing groups, using specific prices included in the menu (lowest price meeting quality criteria). In the ImPRovE/RB project, the final food budget is based on observed prices in one supermarket and considering only white-label goods. In addition, for fruit, vegetables, meat, fish, charcuterie, cheese and vegetables the price is the weighted average of all product varieties for these food categories available in the shop, following the stepwise procedure of the proposed pricing procedure. Such differences may explain some variations found in the computed food budgets in both methods.

## Research findings

We now turn to a comparison of results between ImPRovE/RB and MIS/raP approaches for the healthy food basket component of the budgets. In order to make these values comparable we have deducted the cost of water and alcoholic beverages from the ImPRovE/RB healthy food basket and considered only the meals cooked at home

basket of the MIS/raP budget. Furthermore the only family types that we can compare are the ones without children.<sup>1</sup>

As shown in Table 19.1, both in the case of a single adult woman and an adult man, the cost of the food basket is close but higher using the ImPRovE/RB approach. Besides this difference in cost, it is important to understand what the main differences between these food baskets and budgets are, considering both its composition (quantities of different groups of food) and the implicit prices. We have conducted this analysis for the case of the woman.

In terms of the composition of the food basket based on the main food categories considered, the main differences in gross quantities in MIS/raP relative to ImPRovE/RB are: in vegetables (63 per cent), in dairy (83 per cent), in meat, fish and eggs (188 per cent) and in fat (220 per cent). In the case of bread, grains, legumes and potatoes and fruit, the quantities are (almost) the same (99 per cent and 100 per cent). Our understanding is part of the differences can be explained by the different approaches in the development of the food baskets. In the case of ImPRovE/RB, the nutritionist departed from the guidelines of the Portuguese Food Wheel to develop the weekly complete menu and decide the composition of the basket.<sup>2</sup> In the case of MIS/raP the nutritionist developed the complete weekly menu based on what the focus group decided in terms of meals and their composition in an illustrative menu and then proposed some adjustments to guarantee compliance with the minimum and/or maximum thresholds of a healthy food consumption basket. It is important to notice that according to the data from Food Surveys carried out in Portugal, the net quantities for vegetables included in Improve/RB are in fact above Portuguese consumption habits and the net quantities for meat included in ImPRovE/RB are below Portuguese consumption habits. In both cases MIS/raP seems to be more in line with Portuguese food habits, and is thus more acceptable. The MIS/raP food basket also includes a greater variety of spices and condiments, and a greater variety of goods to be used in breakfasts and snacks (e.g. jam, marmalade, chocolate powder). It is also interesting to note that the high quantities of vegetables and the lack of variation in breakfast composition were two of the issues raised in the ImPRovE/RB focus groups.

The other important difference in the cost of budgets is related to the pricing procedure (as presented before). Although the idea in ImPRovE/RB of using a weighted average of prices for food categories which contain a large variety of products, namely fresh food and non-pre-packaged products, and is intended to allow for sufficient variation



and room for autonomy (Pereirinha et al, 2015), it also may introduce important biases when implemented in a standardised way. In the Portuguese case, for instance, the price per kilo of fruit in Improve/RB is more than double the implicit average price per kilo of fruit in MIS/raP (2.4 times higher), which may be seen as an excessive price for allowing variation. This is also the case, but in a much lesser degree, for legumes (1.57 times higher) and vegetables (1.65 times higher). On the other hand, the weighted average prices for fresh and frozen fish and meat (fatter) in ImPRovE/RB are lower than the respective implicit prices per kilo in MIS/raP.

To estimate the impact of the different pricing procedures we have calculated the cost of the MIS/raP food basket using ImPRovE RB prices per kilo and the cost of the ImPRovE RB food basket using MIS/raP implicit prices per kilo. The results are shown in Table 19.1.<sup>3</sup>

Besides the different approaches to developing the basket and the different pricing procedures used, some differences may be explained by the fact that a different location was used as a reference (Vila Franca de Xira vs Lisbon), there was a different timing in pricing (2014 vs 2015) and the shop chosen to observe the prices for part of the food was also different (in the case of MIS/raP some goods were priced at the local market rather than in a hypermarket). Nevertheless, according to our analysis, the main differences are explained by the methodological approaches to food basket development and the pricing procedure.

## Impacts and influences on policy and practice

The results of the MIS/raP research project can be used as a monetary reference to assess the adequacy of minimum incomes in Portugal, to support a poverty threshold for poverty analysis and to assess the reliability of consumption scales (by comparing the MIS/raP equivalence scales to those of Organisation for Economic Co-operation and Development (OECD) or policy scales used in some social transfers or taxation policy). These are a summary of the results that are presented in Tables 19.2, 19.3 and 19.4, and complement some of the analysis on minimum social standards presented before (Pereira et al, 2017), now focused on a comparison with an estimated monetary value of adequate income.

Such comparison will be made with MIS/raP income since this is the approach that originated a full budget for Portugal. Although the ImPRovE/RB approach only originated a food budget, the results presented in Table 19.1 led us to admit that, assuming a similar ratio of

**Table 19.2:** Adequate income and minimum incomes in Portugal, euros per month in 2017, working age people

	raP	Minimum wage	% raP	Unemployment allowance	% raP (*)	Guaranteed minimum income	% raP (*)
Working age adults (18–64) living alone	781	578	74	433	63	200	29
Working age adults (18–64), couple with no children	1,304	1,157	89	848	77	331	30
Working age adults (18–64), couple with one child (12 years old)	1,796	1,206	67	1,001	60	543	33
Working age adults (18–64), couple with two children (2 years old + 12 years old)	2,271	1,372	60	1,176	55	835	39
Working age adults (18–64), couple with one adult child (daughter with 26 year old)	1,816	1735	96	1,273	78	524	32
Working age adults (18–64), single parent with one child (12 year old)	1,374	653	48	573	43	389	29

(\*) Items associated to employment status were excluded from raP income value.

Source: Pereirinha et al (2020).

food expenditures/total expenses as that in MIS/raP, the ImPRovE/RB budget would be of a larger amount.

Table 19.2 compares the amount of the adequate income (updated to 2017, using CPI data) with the minimum incomes and minimum wages in 2017. In the cases of minimum wages and minimum unemployment allowance it is assumed that all adult members receive the respective amount. In all the calculations it is assumed that each household receives all the benefit allowances to which they are entitled according to the Portuguese law.

The value of adequate income was adjusted to consider those expenditures agreed by the focus groups that fit the statute of working,

**Table 19.3:** Adequate income and minimum incomes in Portugal, euros per month in 2017, pensioners

	raP	Old age pensions (minimum, 30 years recorded contributions)	% raP	Solidarity supplement for elderly	% raP
Old age (pensioner) alone	634	481	76	469	74
Couple old age (pensioners)	1,007	941	93	823	82

Source: Pereirinha et al (2020).

and excluding them in case of not working (being then lower in case of unemployment). A worker living alone and earning the minimum wage in Portugal is 26 per cent below the income that assures human dignity. In case of unemployment and receiving the minimum value of unemployment allowance, his/her situation declines to 37 per cent. And in case of receiving the social insertion income (ex guaranteed minimum income), his/her situation declines further to 71 per cent. The economic conditions only approach the minimum required for dignity in the case of a couple with an adult child if all them three earn the minimum wage: in this case the household is only 4 per cent below their adequate income.

Table 19.3 compares adequate income for pensioners, aged 65 and above, with minimum incomes guaranteed by two different policy measures for these family types (contributory old age pension and non-contributory solidarity supplement for the elderly). Again benefit allowances were included and it was assumed that in the case of a couple both receive the same income source with the same amount. Their incomes are below the adequate income to live with human dignity, being closer (only 7 per cent below) in the case of a couple where both receive the minimum value of old pension (in case of full record of contribution to Social Security).

The calculated adequate income is above the EU poverty threshold (60 per cent median adult equivalent income), which was, for Portugal in 2017, €467. And the value of the adequate income estimated for that year for a single working age person was €781, that is, 1.7 times the EU poverty threshold.

Another important result is the estimated equivalent scales (Table 19.4). The usual procedure to estimate poverty incidence in the EU consists of using the modified OECD equivalence scale, which weights the first adult as 1, the other adults as 0.5, and the children

**Table 19.4:** Calculated consensual equivalence scales, MIS/raP approach

		1st adult	2nd adult	3rd adult (child)	1st child (< 18 years old)	2nd child (< 18 years old)
Elderly people (65 and over)	Living alone	0.81				
	Couple	0.81	0.48			
Working age adults (18–64), with no children	Living alone	1				
	Couple	1	0.67			
Working age adults (18–64), with children	Single parent with 1 child (12 years old)	1			0.76	
	Couple with 1 child 12 years old	1	0.67		0.63	
	Couple with 1 child 2 years old	1	0.67		0.70	
	Couple with 2 children (12 and 2 years old)	1	0.67		0.63	0.61
	Couple with 1 adult (26 years old)	1	0.67	0.65		
OECD equivalence scale		1	0.70	0.70	0.50	0.50
OECD equivalence scale (mod.)		1	0.50	0.50	0.30	0.30

Source: Pereirinha et al (2020).

as 0.3. In Portugal, however, the original OECD equivalence scale is used to calculate the amount of the means-tested benefits, where these weights are, respectively, 0.7 and 0.5.

The adequate income for a person aged 65 and over is 81 per cent of the equivalent adequate income of a working age person. For the households headed by working age persons, and assuming that the head (i.e. the first adult) has a weight equal to 1, the second adult weights 0.67 (close to the original OECD equivalence scale, and much higher

than the modified OECD equivalence scale), and the third adult with a similar weight to the second one. Great differences comes when we take families with children. The estimated cost of the first child (12 years old) is 63 per cent of the cost of the first adult, and similar (about 95 per cent) to the cost of the second adult, much higher than the OECD equivalence scales: in the original OECD equivalence scale the cost of a child was 71 per cent the cost of the second adult, and this percentage reduces to 60 per cent in the modified OECD equivalence scale.

The major conclusion that emerges from such results is the underestimation of poverty incidence if we accept the MIS/raP income as an indicator of the poverty threshold (the EU poverty threshold is about 60 per cent of the MIS/raP income). And the profile of poverty in Portugal is rather biased, since the use of the modified OECD equivalence scale underestimates the cost of children, so it underestimates child poverty.

## Conclusions

Our simultaneous participation in both research projects looked fruitful in terms of further progressing reference budget research, since it allowed us to compare and experiment with different approaches in a challenging process that has to be widely accepted at national and European level. In the case of the MIS/raP project (following the MIS UK approach), a complete budget was developed, and in the case of ImPRovE approach, only a food-related budget was developed in Portugal.

The construction of widely accepted cross-country comparable reference budgets is crucial to overcome some of the limitations of the official poverty threshold to measure poverty among member states, providing normative content. Such normative content should be transparent from the use of the method that underlies their calculation. But an emphasis on cross-country comparability may create some simplification, or a theoretical orientation that may cause some loss of its national-normative content. This happens with the use of the ImPRovE method aiming at such an EU-comparable orientation. Deeper 'national' research on human needs, as provided by the MIS/raP project for Portugal, will provide more support for a critical assessment of such EU thresholds when applied to Portugal. This chapter is a contribution to illustrate the advantage of this double-sided approach to the calculation of reference budgets. It is questionable that 'what science says' provide grounded legitimacy for wide generalisation in

the EU about what is an adequate living standard without further discussion in focus groups. Moreover, it may lack some local (national) specificity that should account for cross-country comparison. A further cross-country analysis of the early focus group discussion on social participation and needs and on the ‘social functions of food’ may be a good starting point with this aim.<sup>4</sup>

## Notes

- <sup>1</sup> This is because nutritional and food requirements vary with age and sex and in MIS/*raP* family types with two children, the children are a 2-year-old girl and a 12-year-old boy, while in Improve/RB the children are a 10-year-old boy and a 14-year-old girl.
- <sup>2</sup> There is also an important difference in terms of how the gross versus net quantities needed for a healthy diet are calculated. In the case of MIS/*raP* the gross quantities take into consideration the edible part of each specific ingredient used, including how it is used/prepared/cooked in the specific meals of the menu (yield after cooking). For instance, in the case of olive oil, sunflower oil or spreadable fat there may be a big difference between what is used in cooking and what is ingested/consumed. In the case of Improve/RB, for the grouped goods (see pricing procedure) the mean value of the different edible food portions is used, considering a range of different specific goods that are included in the group. This procedure of edible part calculation along with the weighted pricing procedure may introduce a bias in the cost of the budget (by underestimating or overestimating it).
- <sup>3</sup> For some goods this was not possible because they were only included in one of the food baskets. In these cases we have maintained the original price.
- <sup>4</sup> The results presented in this chapter are associated to two independently funded research projects. The *raP* income research project was funded by Fundação para a Ciência e a Tecnologia (PTDC/CS-SOC/123093/2010). The RB income research project was funded by the EC (contract no. VC/2013/0554).

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## PART IV

# Policy and practice

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# Basic needs budgets in policy and practice

*Gordon M. Fisher*

## Introduction: US poverty measurement – the broader context

This chapter discusses the application of ‘basic needs budgets’ (also known as ‘standard budgets’, see Innes, 1990) in efforts to influence policy in the US context.<sup>1</sup> Measures which are not standard budgets have been dominant in US poverty measurement since about 1946 (Fisher, 1997a). Mollie Orshansky developed unofficial poverty thresholds in 1963–64 by multiplying the cost of the economy food plan (a cheap, arguably adequate diet) by a factor of three – the inverse of the ratio of average food expenditure to average after-tax money income for families of three or more in 1955. After several years of quasi-official use, the thresholds were designated as the federal government’s official poverty measure in 1969. They are updated annually for consumer price changes. Orshansky and others advocated that the poverty line be raised in real terms to reflect increases in the general standard of living, but this was never done (Fisher, 1997b).

Since the poverty line was adjusted for price changes only, it fell lower and lower as a proportion of median family income as real incomes rose during the rest of the 20th century. Several federal interagency committees reviewed the poverty line, and numerous people outside government criticised various aspects of it, but essentially no changes were made in it (Glennerster, 2002; see also Fisher, 1997b).

In 1992, in response to a congressional request, the Committee on National Statistics of the National Academy of Sciences convened a panel of academic experts to study the statistical issues involved in measuring and understanding poverty. The Panel on Poverty and Family Assistance published a report on its study in 1995 (Citro and Michael, 1995). The report proposed a new approach for developing an official poverty measure for the US. The panel’s proposal would derive a new poverty line comprising an allowance for food, clothing

and shelter, plus a small additional amount for other needs. The new poverty line would be updated annually based on changes in consumption of these necessities by a reference group of families in the general population – in other words, the poverty line would rise in real terms as the general population's real standard of living increased. The new poverty line would be applied to a definition of income consistent with the income concept underlying the new poverty line.

In 1999, the US Census Bureau began releasing reports presenting a set of experimental poverty measures based on the Poverty Panel's 1995 proposal. In 2011, the Census Bureau released a report (Short, 2011) presenting a Supplemental Poverty Measure (SPM); the SPM was a modification of the Poverty Panel's proposal, based on recommendations of a 2010 Interagency Technical Working Group. The SPM provides additional information on poverty, but does not replace the current official poverty measure.

## Standard budgets

In the United States, standard budgets<sup>2</sup> have been used as a tool by advocates for lower-income working families at least since 1891, when the Commissioner of the Iowa Bureau of Labor Statistics published a 33-item standard budget in the bureau's fourth report (Fisher, 1997a). Dozens of standard budgets at various standards of living were developed between 1902 and 1920. These budgets were generally for individual cities; they were generally developed by social workers or other private investigators who were working to improve the living conditions of urban industrial workers and their families. Standard budgets continued to be developed during the 1920s and 1930s, but on a more routinised basis. Between 1902 and World War II, perhaps a hundred standard budgets were developed in the US (see Fisher, 1997a, 2007; Barrington and Fisher, 2006).

After World War II, the US Bureau of Labor Statistics developed and updated a set of standard budgets (all at standards of living higher than poverty/subsistence); it discontinued even routine updating of those budgets in 1982. In general, the standard budget methodology fell into disfavour in the United States during the 1960s, 1970s and 1980s. The current official US poverty measure does not meet the definition of 'standard budget' (even though it was developed from a food plan that was a partial standard budget for food only). The new SPM also does not meet the definition of 'standard budget' (see Fisher, 2007).

Since about 1990, the standard budget methodology has experienced a major resurgence in popularity in the US. Advocates and analysts have

developed dozens of standard budgets for working families in various states and localities. A number of these budgets have been developed in the context of either the living wage movement or welfare-to-work activities. The majority of these budgets have been for working age families with children at a 'no frills' standard of living. For a paper reviewing such budgets in the US (as well as in Britain, Australia and other countries) from about 1990 through 2006, see Fisher (2007).

Standard budgets in the US since about 1990 have generally been developed by analysts advocating for lower-income working families and the elderly, as suggested earlier. However, a number of US academic poverty researchers seem to have an aversion for standard budgets, and ignore them in discussions about poverty measurement. The reasons for this phenomenon are not entirely clear.

Given that the US federal government has completely avoided the standard budget methodology for three decades, it is of considerable interest that in 2012, seven state government agencies were involved in developing standard budgets for their states (see sections below under 'The Self-Sufficiency Standard' and 'The Elder Economic Security Standard'), and that two state legislatures had directed state government agencies to update standard budgets originally developed by non-governmental advocacy organisations (see section below under 'Family budgets developed by other organisations for individual states').

Most of the budgets reviewed here are at a 'no frills' standard of living, allowing families to meet only basic survival needs on a day-to-day basis; they do not include any allowance for restaurant or take-out meals, movies or savings for emergencies, college or retirement. As indicated below, these budgets are generally between 150 and 350 per cent of the official poverty threshold for a family of the same composition. A few studies have been done comparing the proportion of relevant population subgroups with incomes below the official poverty threshold and below a particular budget. These studies have found that the proportion of the relevant subgroup with incomes below the budget is between 1.8 and 3.3 times the proportion below the poverty threshold.

## The self-sufficiency standard

Since the mid-1990s, Dr Diana Pearce has partnered with organisations in various states to develop and update Self-Sufficiency Standards for individual states; in 2012, Self-Sufficiency Standards were available for 37 states and two major metropolitan areas.<sup>3</sup>

'The Self-Sufficiency Standard measures how much income a family of a certain composition in a given place needs to adequately meet

their basic needs – *without public or private assistance*’ (Pearce, 2012: 1). The standard is calculated for working one-adult and two-adult families with zero to three children, with the children divided into four age categories. Figures are calculated for each county or county-equivalent. ‘The Self-Sufficiency Standard ... is a basic family survival budget, with no frills – no take-out pizza, no movies ... no budget for emergencies, car repair or long-term savings’ (WOW, 2003: 3). Costs for major budget components (housing, child care, food, health care, etc.) ‘are set at a minimally adequate level, which is determined whenever possible by using what government sources have determined are minimally adequate for those receiving assistance, e.g., child care subsidy benefit levels’ (Pearce, 2012: 2). For a recent Self-Sufficiency Standard report, see Pearce (2012) for Maryland.

Dr Pearce has partnered with 40-plus organisations to develop the Self-Sufficiency Standard for various states.<sup>4</sup> Many of these organisations are community or advocacy groups, but six of them (in 2012) were state government agencies: the Connecticut Permanent Commission on the Status of Women, the Hawaii State Commission on the Status of Women, Iowa Workforce Development, the State of Montana Department of Public Health, the West Virginia Development Office and the Office of the Governor of Wyoming.

Depending on the place and the type of family involved, the Self-Sufficiency Standard ranges from 150 per cent to over 300 per cent of the federal poverty line (Pearce, 2009b). By 2012, Dr Pearce and her colleagues had prepared demographic reports for seven states – California (Pearce, 2009c), Colorado (Pearce, 2007a), Connecticut (Pearce, 2007b), Mississippi (Pearce, 2009d), New Jersey (Pearce with Legal Services of New Jersey Poverty Research Institute, 2008), Pennsylvania (Pearce, 2009a) and Washington State (Pearce, 2007c) – on the number and proportion of non-aged, non-disabled households with incomes below the Self-Sufficiency Standard, as compared to the number and proportion of this subset of households below the official poverty thresholds. As shown in these reports, the official poverty rate for this subset of households was between 7 and 9.5 per cent for most of these states and 17.6 per cent for Mississippi. The proportion of this subset of households below the Self-Sufficiency Standard was considerably higher – between 19 and 21 per cent for most of these states, 31.0 per cent for California and 31.8 per cent for Mississippi. For Mississippi, the proportion of this subset of households below the Self-Sufficiency Standard was 1.8 times the official poverty rate; corresponding ratios were 2.3 for Pennsylvania, 2.5 for Washington State and between 2.7 and 3.3 for the other states.

## Nationwide family budgets developed by the Economic Policy Institute

A 2001 book (Boushey et al, 2001) and a 2005 briefing paper (Allegretto, 2005) published by the Economic Policy Institute (EPI) had presented basic family budgets for six different family types (one- and two-parent families with one to three children) for every metropolitan area and for the non-metropolitan ('rural') balance of each state – a total of over 400 areas. 'The budgets do not include the cost of restaurant meals, vacations, movies, or savings for education or retirement' (Boushey et al, 2001: 9). In the 2001 study, the national median budget for a two-parent, two-child family for the 400 areas was equal to 198 per cent of the official poverty threshold, with budgets for this family type for individual areas ranging between 160 and 308 per cent of the threshold. In the 2005 study, corresponding figures for this family type were a national median of 209 per cent of the threshold, and a range for individual areas between 162 and 338 per cent of the threshold.

In 2008, the EPI released a briefing paper (Lin and Bernstein, 2008) presenting a set of family budgets for 2007 for the same family types as in the 2001 and 2005 studies, but for 614 areas rather than for 400-plus.<sup>5</sup> For a two-parent, two-child family, the 'average' family budget in the 2008 study was equal to 232 per cent of the official poverty threshold.<sup>6</sup> Budgets for this family type for individual areas ranged between 170 and 349 per cent of the threshold.

Using Current Population Survey data for calendar year 2007 for families of the above six family types with positive earnings, the 2008 study found that 29.8 per cent of them were below their family budget levels, while only 9.7 per cent of them were below the official poverty thresholds. The proportion of these families below their family budget levels was thus 3.1 times the official poverty rate for these families.

## The National Center for Children in Poverty's Basic Needs Budgets for various jurisdictions

By 2007, the National Center for Children in Poverty (NCCP) began developing Basic Needs Budgets for various cities and counties (Cauthen and Fass, 2007). In 2008, the NCCP developed and posted online a Basic Needs Budget Calculator (Cauthen, 2008). The NCCP generally makes its Basic Needs Budgets available through its Basic Needs Budget Calculator rather than through published reports.<sup>7</sup>

The NCCP's Basic Needs Budgets are 'bare bones' budgets, including only a family's 'most basic living expenses – enough to get by but not enough to get ahead' (Fass, 2009: 3); they are based on 'modest' assumptions about costs. The budgets assume that family members are covered by employer-sponsored health insurance, even though in actuality the majority of low-wage workers (as noted in Dinan, 2009) do not have such coverage. (However, the budgets can be recalculated to reflect the much higher cost of private non-group health insurance.) The budgets do not include durable goods (e.g. furniture or household appliances) or entertainment. They do not include funds to purchase life or disability insurance. They do not include savings for emergencies, home purchase, a child's education or a parent's retirement. They do not include funds to pay off debt (Fass, 2009; Dinan, 2009).

NCCP budgets are available for one- and two-parent families with one to three children, with the children divided into three age categories; the budgets assume that all families include at least one full-time worker (Dinan, 2009). In April 2012, a tabulation of entries on the Basic Needs Budget Calculator found budgets available for 123 cities and counties in 19 states. These budgets were priced for years between 2006 and 2011. Depending on the locality and the family composition, NCCP budgets ranged between about 150 and 350 per cent of the official poverty guideline (Dinan, 2009).

### **Family budgets developed by other organisations for individual states**

During the 2006–12 period, some non-governmental advocacy organisations continued to develop and update family budgets for individual states. They included the following:

- The California Budget Project continued to update basic family budgets for California. 'This report estimates the amount families and single adults need to earn in order to achieve a modest standard of living without assistance from public programs ... The standard of living envisioned is more than a "bare bones" existence, yet covers only basic expenses, allowing little to no room for "extras" such as college savings, vacations, or emergencies' (California Budget Project, 2010: 3).
- The Michigan League for Human Services continued to update its self-sufficiency level (not to be confused with the Self-Sufficiency Standard) for Michigan. The League's report 'identifies the hourly wage [as well as the monthly and annual equivalent income] that a



family needs to earn ... to meet its basic needs and be economically self-sufficient ... Estimated ... expenses ... do not allow for savings or emergencies, nor do they account for common family expenditures such as the purchase of a house or a child's education.' 'This report ... was created ... to assess the adequacy of wages earned by families in the low-wage labor market' (Michigan League for Human Services, 2011: ii, 4).

- The Alliance for a Just Society (formerly the Northwest Federation of Community Organizations) continued to update basic household budgets for Colorado, Idaho, Montana, Oregon, and Washington State. 'This report provides calculations of: a living wage for all counties in [the five states]; the percent of job openings that pay a living wage in each of these states; and the ratio of the number of living wage job openings to the number of people looking for work.' Separate figures are calculated for different family types. 'A living wage is a wage that allows families to meet their basic needs, without public assistance, and that provides them some ability to deal with emergencies and plan ahead. It is not a poverty wage' (Chinitz et al, 2010: 2, 4). The alliance's budgets have included amounts for savings for retirement and savings for emergencies ever since the first Northwest Job Gap Study in 1999 (Northwest Policy Center and Northwest Federation of Community Organizations, 1999).
- The North Carolina Justice Center continued to update its Living Income Standard for North Carolina. 'The [inadequacies] of the Federal Poverty Level ... and the prolonged erosion in the value of the minimum wage have left a need for statistics that enable policymakers to better understand the lives of low-wage working families. To that end', the centre 'created the Living Income Standard (LIS), [an] ... approach to estimating how much income a working family with children must earn ... to pay for basic expenses.' 'Budgets only include essential items and contain no allowances for such luxuries as entertainment, meals eaten outside ... the home, cable television, cellular phone service, extracurricular activities and gifts' (Sirota with McLenaghan, 2011: 3, 7–8). The LIS also contains no allowances for savings and debt payments. However, besides figures for the basic LIS, the centre's 2011 report also presented figures for all North Carolina counties for the LIS with allowances added for savings and debt payments; the centre's previous report (Quinterno with Gray and Schofield, 2009) had presented similar figures for three counties.
- The Iowa Policy Project updated basic needs budgets for Iowa. The project's report compared 'how much different families throughout

the state must earn ... to meet their basic needs ... The family budgets ... in this study represent a very frugal and modest living standard without government assistance. [They] include allotments for housing costs, food, child care, health care, transportation, federal and state income taxes, and clothing and other necessities ... No money is included for debt payments or skill training; for entertainment, vacations, or restaurant meals, or ... for savings for retirement or a child's college education' (Cannon and Fleming, 2010: 3).

In two states, the legislature has directed a state government agency to update a basic needs budget originally developed by a non-governmental advocacy organisation:

- In Vermont, the Joint Fiscal Office – an agency of the state government's Legislative Branch – continues to update a set of basic needs budgets ([Vermont Legislative] Joint Fiscal Office, 2011) which are a modification of budgets originally developed by the Peace and Justice Center, a non-governmental advocacy organisation; the Joint Fiscal Office, like the Peace and Justice Center, uses these budgets to calculate liveable wages for Vermont working families. In 1999, the Vermont State Legislature had appointed a Livable Income Study Committee. The committee commissioned and approved a report (Kavet et al, 1999) which included a set of basic needs budgets that used the Peace and Justice Center's methodology, but added three additional budget items and a more generous food allowance. In 2000, the Vermont Legislature enacted legislation including a provision directing the Joint Fiscal Office to do an annual update of the Livable Income Study Committee's budgets (Kahler, 2001–2002).
- In Maine, the state's Department of Labor has updated a set of basic needs budgets originally developed by the Maine Center for Economic Policy, a non-governmental research/advocacy organisation. (For the most recent update, see Pease, 2011.) In 2005, the Maine State Legislature had appointed a Study Commission Regarding Liveable Wages (2006) that included a recommendation that the Maine Center for Economic Policy's budget methodology be used to calculate liveable wages for Maine working families. In 2007, the Maine Legislature enacted legislation including a provision directing the Maine Department of Labor to calculate liveable wage figures annually based on budgets using the Maine Center for Economic Policy's methodology from its 2004 report (Pease, 2009).<sup>8</sup>

## The elder economic security standard

From about 1990 to 2005, the great majority of standard budgets developed in the US were for working age families with children. Very few were for elderly individuals or couples. This situation changed in 2006, when the University of Massachusetts Boston's Gerontology Institute and Wider Opportunities for Women (WOW) developed the Elder Economic Security Standard – also known as the Elder Standard. For the methodology used to develop the Elder Standard, see Russell et al (2006). The Elder Standard draws on the work of Dr Diana Pearce, who created the Self-Sufficiency Standard (discussed earlier) during the 1990s. The Elder Standard adapts the model of the Self-Sufficiency Standard to the characteristics and the spending patterns of elderly households.

The Elder Standard is a measure of the income required for elderly persons to meet their basic living costs while living in the community (not in institutions), in their own households (rather than in intergenerational households). It assumes that elderly persons will be retired, and not engaging in full-time or part-time paid work. It assumes that elderly persons will be able to meet basic living costs out of their income without private assistance and without help from means-tested public benefits (e.g. SNAP [food stamps], Medicaid or subsidised housing). It assumes that elderly persons' incomes can include Social Security benefits, and that they will be covered by Medicare. (Social Security and Medicare are non-means-tested public benefits.) The Elder Standard is a no frills, bare bones budget. Items like eating out, cable television, renting a movie or buying gifts for family members are not reflected in it.

The costs of the Elder Standard vary by household size (singles or couples); by housing tenure (homeowners with a mortgage, homeowners without a mortgage and renters); by level of health (poor/fair, good and excellent); and (for areas with significant public transportation systems) by public or private transportation. For each state covered, figures are calculated separately for each county. By 2012, WOW and the Gerontology Institute had developed Elder Standards for at least 15 states.<sup>9</sup>

Of the state partner organisations with which WOW and the Gerontology Institute work to develop the Elder Standard, two (in 2012) were state government agencies: the Connecticut Permanent Commission on the Status of Women, and the New Mexico Aging and Long-Term Services Department.

A recent health policy research brief (Wallace et al, 2010) compared the California Elder Standard with the poverty line. The California

state average Elder Standard for a single elderly renter was 201 per cent of the one-person poverty guideline. The corresponding figure for an elderly couple that rents was 210 per cent of the two-person poverty guideline. (The figures would differ for different states, for individual counties, for homeowners and so on.)

## The Basic Economic Security Tables index

In 2009, WOW and the Center for Social Development (CSD) at Washington University in St Louis began collaborating to develop an economic security measure that would include not only costs for basic needs but also savings components.<sup>10</sup> The project was described as building on a national public opinion poll which found that Americans view economic security as more than just scraping by – it means being able to make ends meet and also save for emergencies and retirement (see Fisher, 2012).

In April 2011, WOW released Basic Economic Security Tables and the Basic Economic Security Tables Index (WOW and CSD, 2011a) for the United States as a whole (national averages, not figures for individual states). The methodology used to develop the tables and the index is presented in WOW and CSD (2011b).

The Basic Economic Security Tables Index (hereafter referred to as ‘the index’) is a set of budgets for working age families. These budgets have a different aim than most of the other budgets discussed earlier; they aim to enable families to achieve basic economic security over the longer term, rather than just meeting basic needs on a day-to-day basis. To make that possible, these budgets include amounts for savings to meet emergencies and retirement savings, as well as amounts to meet basic day-to-day needs. (As noted earlier, the Northwest Federation of Community Organizations began issuing budgets including savings for retirement and for emergencies in 1999, while the North Carolina Justice Center began presenting a version of its Living Income Standard with allowances added for savings and debt payments in 2009.) Because they include amounts for emergency and retirement savings as well as basic needs, the index budgets represent a higher standard of living than poverty or ‘no frills’ budgets.

The core index includes basic needs, emergency savings and retirement savings (WOW and CSD, 2011a). The basic needs portion of the index builds on the Self-Sufficiency Standard developed by Dr Diana Pearce and colleagues. The basic needs portion of the index does not include meals out, hobbies, gifts, non-essential shopping, electronics, appliances, non-essential travel or vacations (WOW, 2011b). Emergency

savings and retirement savings are seen as necessary for all workers over the course of a work life, and are therefore included in the core index. While saving for education (a child's bachelor's degree) and saving for a home purchase can improve a family's economic security, they are not seen as being essential to economic security; accordingly, they are presented as addenda to the core index (WOW and CSD, 2011a).

The index calculates separate income requirements for workers with and without access to employer-sponsored health insurance and employment-based retirement plans. The index also calculates separate income requirements for workers who are and who are not covered by unemployment insurance. Having access to employment-based benefits and being covered by unemployment insurance can noticeably reduce the dollar amount of a family's economic security income requirement (WOW and CSD, 2011a).

The index calculates separate figures for over 400 family types – all possible one-adult and two-adult families with up to six children, with the children divided into four age categories (WOW and CSD, 2011a). Reports for individual states show separate figures for counties and selected cities (WOW, 2011a). By 2012, WOW had developed indexes for five states and Washington, DC.

Since the index represents a higher standard of living than poverty, the dollar amount of the index is expected to be higher than the dollar amount of any poverty standard. In practice, the dollar amount of the index is generally three or four times as high as the dollar amount of the current official poverty standard (WOW and CSD, 2011a); the precise ratio varies by family composition and residence.

In 2011, WOW issued a report (WOW, 2011b) comparing the incomes of working age households with the index budgets. The report examined working age one- and two-adult households with zero to six children; households with persons aged 65 or over were excluded, as were households with older teens not technically dependent on the adult(s) in the household. Within this subpopulation, 39 per cent of the adults and 55 per cent of the children were found to be living in households that lack economic security – i.e. households with incomes below the relevant index budgets in 2009.

## Notes

<sup>1</sup> Any opinions and conclusions expressed in this chapter are the author's; they do not represent the opinions or policy of any US government agency. For further information supporting this chapter, see <https://www.census.gov/content/dam/Census/library/working-papers/2012/demo/udusbd3.pdf>.

<sup>2</sup> Here the term 'standard budget' is used to mean a list of goods and services that a family of a specified size and composition would need to live at a designated

level of well-being, together with the estimated monthly or annual costs of those goods and services. Other terms used for this concept in the US include ‘basic needs budget’, ‘family budget’ and ‘expert budget’.

- <sup>3</sup> For information about the Self-Sufficiency Standard, see the website of the Center for Women’s Welfare <http://www.selfsufficiencystandard.org/>. For the most recent Self-Sufficiency Standards for individual states (as well as some earlier editions), see <http://www.selfsufficiencystandard.org/node/28>. For lists of ways in which the standard has been used in various states and localities, see Pearce (2012: 44–9). For links to Self-Sufficiency Calculators for some states, see <http://www.selfsufficiencystandard.org/node/30>.
- <sup>4</sup> See <http://www.selfsufficiencystandard.org/our-partners>.
- <sup>5</sup> For the EPI’s Family Budget Calculator, see <http://www.epi.org/resources/budget/>.
- <sup>6</sup> It is not clear whether this ‘average’ figure – ‘[f]or the nation overall’ – was a weighted mean, an unweighted mean or a median.
- <sup>7</sup> See <http://nccp.org/tools/frs/budget.php> for the calculator. For technical information on the methodology used to calculate the budgets, see [http://nccp.org/budget\\_methodology.html](http://nccp.org/budget_methodology.html).
- <sup>8</sup> See also <http://www.mainelegislature.org/ros/LOM/lom123rd/PUBLIC363.asp>.
- <sup>9</sup> For reports on the Elder Standard for individual states listed by year, see <https://www.umb.edu/gerontologyinstitute/publications/retirement>. For a list of ways in which the Elder Standard has been used at the national and state levels, see <https://www.yumpu.com/en/document/view/51059384/tracking-our-successes-2011-wider-opportunities-for-women>.
- <sup>10</sup> See <https://csd.wustl.edu/Publications/Pages/DisplayResultProjectItem.aspx?ID1=257>.

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# Establishing a national standard: the role of the UK's Minimum Income Standard in policy and practice

*Donald Hirsch*

## Introduction

Since 2008, research on the Minimum Income Standard (MIS) has been used to calculate and publish annual minimum budgets for different household types in the United Kingdom. This work has been funded by the Joseph Rowntree Foundation (JRF) with the purpose of having an evidence-based benchmark of what income people in the UK require in order to meet their material needs and participate in society. Such a benchmark has both analytical and practical purposes. Analytically, it produces a tool for monitoring the extent of low income, based on an empirically grounded benchmark, regularly updated to keep up with changes in costs and changes in society. At a practical level, it is being used in a wide range of contexts, most notably as a reference point in setting pay, in prioritising charitable assistance, in defending the right to access justice and, most recently, in setting a government target (the reduction of fuel poverty in Scotland).

This chapter describes how MIS has evolved as a standard for policy and practice in the UK. It starts by considering the origins and characteristics of MIS, from the perspective of what is meant by setting a 'standard' and how MIS seeks to fulfil this role. It then presents four ways in which MIS is being used. The chapter concludes by reflecting on how MIS has evolved as a standard in the UK, which may help inform efforts in other countries to develop such standards.

## Origins and characteristics of MIS as a standard

The notion of having 'standards' in relation to income has parallels with the way we conceive of standards in education, health and other areas in which we desire a certain minimum. For example,

in publishing educational attainment data, the government reports how many children are attaining an ‘expected standard’ in core subjects at certain ages (e.g. Department for Education, 2018). The benefits of attaining such standards are partly seen as being good for society (having a literate population), and partly linked to the idea of individual social ‘rights’. Adequate living standards figure prominently in the UN’s Universal Declaration of Human Rights, whose Article 25 states that: ‘Everyone has the right to a standard of living adequate for the health and well-being of himself and of his family.’ In interpreting what is meant by adequate, authors such as Townsend have emphasised that a minimum living standard cannot be interpreted merely in terms of survival or some constant ‘essential’ basket of material goods, but also needs to include what is ‘customary, or at least widely encouraged or approved in the societies to which they belong’ (Townsend, 1979: 31).

Governments seek to help people reach adequate incomes in multiple ways, including by setting minimum wages and by establishing various forms of income protection including social insurance and safety net social assistance. Veit-Wilson (1998: 8) identified multiple ways in which government draw on standards in setting such policies. By minimum income standards, he meant:

political criteria of the adequacy of income levels for some given minimum real level of living (for a given period of time or indefinitely, of some section or all of the population) embodied in or symbolised by a formal administrative instrument or other construct.

Veit-Wilson distinguished such standards on the one hand from levels set purely on the basis of political considerations without any clear-cut criteria and on the other from poverty measures not directly linked to political decision making. The standards he identified in different European countries included: Sweden’s setting of social assistance levels based on minimum budgets set by an agency with reference to expenditure patterns; France’s minimum wage rate, originally based on a subsistence budget and subsequently raised by a formula that took wage growth into account; and Australia’s setting of child allowances with reference to a combination of average weekly earnings and study of children’s additional costs. Importantly, each of these standards was applied for a particular policy purpose, rather than having a single minimum income benchmark for all purposes, so for example minimum wage benchmarks are generally envisaged to support a

higher living standard than safety net benefits, in order to maintain work incentives.

Veit-Wilson's analysis highlighted the fact that the United Kingdom did not have any such standards, arguing that benefit levels 'simply reflected political decisions on the total governments have been prepared to spend, not the total of claimants' needs' (1998: 27). His book ended by calling for a minimum income standard for the UK (1998: 103–12). Significantly, his analysis came at a time when a particular indicator was about to have a major influence on public policy. The UK Labour government of 1997 to 2010 used the benchmark of the relative poverty line, set at 60 per cent median income, to produce and pursue targets for large reductions in child poverty. In Veit-Wilson's framework, a relative poverty line is not in itself a standard, yet under Labour, the statutory linking of increases in the Child Tax Credit at least to increases in earnings, was directly motivated by the targets for reducing child poverty against a relative income benchmark, thus blurring the distinction between indicators and standards. Similarly, the linking of pensions at least to earnings rather than just prices (proposed by the Turner Commission in 2006 and implemented from 2012) owed much to the importance attached to incomes of particular groups growing at least in line with the average.

Despite such developments, calls to develop a 'minimum income standard' for the UK continued (e.g. Zacchaeus Trust, 2004). One reason was that while 60 per cent median income is useful in monitoring *change* in the numbers on low income, the *level* of this benchmark is not empirically grounded. Another is that selective targets to reduce poverty among certain groups using this benchmark did not create a consistent updating system based on a rational set of criteria related to income adequacy.

Against this background, budget standards offered an opportunity to consider more tangibly than with relative income measures what incomes households require to reach a minimum. In the 1990s, different methods of calculating minimum budgets had developed in the UK: the Family Budget Unit at the University of York had developed budgets based mainly on expert knowledge and consumption data, while the Centre for Research in Social Policy (CRSP) at Loughborough University had developed a 'consensual' method based on deliberative focus groups comprising members of the public. These teams and approaches were brought together in a programme funded by the JRF to produce the MIS method, calculating budgets from 2008 onwards – providing regularly updated income requirements, for a range of household types, for the first time. The combined method,

initially a partnership between the two centres and subsequently run by CRSP, gives responsibility for deciding what is needed as a minimum to groups of members of the public, with experts having certain roles in informing these groups (e.g. about whether the diets they propose are nutritionally adequate) and making certain calculations that require technical knowledge (e.g. how much electricity is required to heat a home to a level that would maintain the comfort of the inhabitants and the fabric of the building).

The minimum household requirements identified in this research are very clearly related both to material necessities and to social participation by the definition applied throughout the process: ‘A minimum standard of living in the UK today includes, but is more than just, food, clothes and shelter. It is about having what you need in order to have the opportunities and choices necessary to participate in society’ (Hirsch, 2019). Before describing the ways in which MIS has been used, it is worth noting that despite having been inspired partly by Veit-Wilson’s (1998) call for a minimum income standard in the UK, its character does not conform neatly to his characterisation of such standards. The other countries’ standards that he described took the form of criteria applied to specific political decisions, whereas the MIS benchmark has been devised explicitly as a ‘minimum standard’ with a range of applications. Its power and identity as a standard must therefore rest on its usefulness as a benchmark with a clearly defined meaning – that is, to represent a socially acceptable minimum living standard that allows people to meet their material needs and participate in society. On the one hand, there is no prior commitment for anyone to pay this standard any attention. On the other, its grounding in an explicitly defined, evidence-based measure of what society regards as a minimum creates the potential for widespread uses. Realising this potential depends on a recognition among society and key actors that it carries authority as a national standard.

## Uses of MIS: four spheres of policy and practice

When MIS was first researched, there was no clear plan for its applications, but rather a broad concept that it would be useful in a range of domains. The report on its first results summed up these ambitions:

The project has established a minimum income standard for a range of types of family. These can now be used as benchmarks for benefits, tax credits, foster care allowances;

and to assess the affordability of housing, minimum/‘living’ wages, income-based charges and penalties, and for many other purposes (Bradshaw et al, 2008: 4).

A decade later, some such ambitions have been realised (most notably, use as a wage benchmark), others not (in particular, use as a benchmark for benefit rates) while other uses not envisaged at that time have emerged (such as the use by charities as a criterion for helping people in financial need).

The following are four significant areas of policy and practice where MIS has made a significant mark. While these applications can each be seen as self-standing, there is also, as argued later, an extent to which each successive use helps lend authority to MIS as a standard when applied in other contexts.

### *MIS as a criterion for setting wage floors*

An important finding in the first MIS report (Bradshaw et al, 2008), and in all subsequent results (Hirsch, 2019), is that the compulsory National Minimum Wage in the UK is insufficient to produce a minimum acceptable standard of living for most household types – including even a single person working full time. This finding played an important part in the development of an existing campaign for a London living wage into a national system for accrediting living wage employers throughout the UK. Initially, a living wage outside London was calculated by the CRSP research team in conjunction with the Living Wage Foundation, based on a weighted average of the wage needed by different household types to reach MIS (Hirsch and Moore, 2011). By 2020, over 6,000 employers had signed up, including major businesses, charities and public bodies such as the Scottish government. From 2016, the UK government also adopted the ‘living wage’ label, introducing the national living wage, an increased compulsory minimum for over-25s, giving millions of workers a pay rise, but still falling short of the accredited minimum based on MIS, and calculated in a way not linked to living costs. This development stimulated the establishment of a more formal system for calculating the accredited living wage with the authority of a Living Wage Commission set up for this purpose – comprising leading employer, trade union and expert representation. This method uses MIS as the foundation for living wage rates both inside and outside London (for more detail, see Hirsch, 2017a; Living Wage Commission, 2016).

Three observations are worth making about this use of MIS as a wages standard:

- The academic evidence from MIS neither created nor was a creation of the living wage campaign – rather, *evidence and practice have complemented each other*. The original London campaign developed before the MIS research, but its extension nationally and the credibility of the argument that minimum wages are too low across the UK drew greatly from MIS findings and their use in calculating a national rate.
- MIS provides not just a *criterion* (as referred to by Veit-Wilson, 1998) for calculating a wages standard, but also a *concept* that helps the meaning of this standard to be interpreted. Without always knowing the technicalities of how the wage is calculated, users have a good understanding of the idea that it allows working people to do more than just survive: to lead a dignified life and participate in society.
- The influence of this standard includes both *direct* and *indirect* effects. Direct beneficiaries are employees of Living Wage employers who would otherwise earn a lower amount. Much larger indirect effects include the influence of the living wage campaign and the supporting evidence of pay inadequacy on the government's conclusion that 'Britain Needs a Pay Rise' (H.M. Treasury, 2015) when introducing the compulsory national living wage, affecting millions of workers' pay. The opposition Labour Party's (2017: 47) pledge to make the Living Wage Foundation's 'real living wage' compulsory would imply adopting a public standard based directly on MIS or some equivalent criterion.

### *MIS as a criterion for charitable practice*

An unanticipated application of MIS has been its use by many of the hundreds of UK charities administering endowed 'benevolent' funds that help people in financial need. Many charities are seeking to modernise, by replacing what are seen as arbitrary or vague criteria for distributing these funds with more systematic criteria. In doing this, many have found MIS a useful way of assessing need, whether in terms of a threshold of eligibility or a determinant of the size of grant; some better endowed charities aim to top up incomes to the MIS level. About 40 per cent (22 out of 51) of responding organisations reported using MIS as a criterion in a 2017 survey (Hirsch, 2017b). Follow-up interviews with charitable officers revealed that they found MIS an attractive standard for two main reasons. First, it creates a basis for comparing



needs across household types using a common metric, allowing them for example to prioritise spending among diverse groups, ranging from lone parents to pensioners. Second, as with the living wage, the concept and definition of MIS as a standard allowing people to reach a 'decent' living standard aligned with their objective of helping recipients thrive, rather than helping only those who lack the bare essentials of survival.

As well as providing a useful benchmark for charities giving direct financial aid to households, MIS can be useful in other contexts where third-sector organisations seek to take the limited incomes of their beneficiaries into account. One clear-cut case is the provision of 'affordable' housing, in particular by housing associations – whose definition of affordability has been limited by the lack of a benchmark for how much someone on a low income needs to spend on non-housing items, and hence how much remains to be spent on rent. In this context, MIS has the potential to be used as the basis for a tool for ensuring that rents are set at a level seen as affordable for particular groups (Padley and Marshall, 2019). More directly, it has also been used in some cases to ensure that rents are affordable for individuals, based on their own income (for example by Dolphin Living in Hackney, London, which has introduced a system of 'personalised rents' based on MIS [Dolphin Living, n.d.]).

### *MIS and the legal enforcement of access to justice*

Another use of MIS that had not been anticipated at its inception relates to the legal system. As is the case with access to housing, access to justice may depend on someone's financial resources unless provision is made to ensure it is affordable to those with limited means. In a judicial review case brought by the trade union UNISON, in 2017 the UK Supreme Court ruled the introduction of fees for employment tribunals to be unlawful because there was insufficient provision made to ensure that these fees were affordable to workers on low incomes. As a result, such fees were withdrawn. In ruling that such workers were unreasonably having to choose between access to justice and maintaining a minimum acceptable living standard, the court used MIS as a metric. Following on from this decision, the Law Society commissioned reports on the means tests for accessing civil and criminal legal aid, respectively. These reports used MIS to demonstrate that in excluding people on modest incomes from assistance, the means tests could require them to choose between access to justice and a minimum acceptable living standard (Hirsch, 2018a, 2018b). The Law Society submitted these reports to a government review of the legal aid system,

demonstrating the case for a more generous means test. By arguing that the present system may be unlawful, this evidence opens the possibility of legal challenge, based on the Supreme Court's employment tribunal ruling. In this sense it goes beyond evidence-based campaigning. In a precedent-based legal system, a court ruling validating MIS as a measure of a minimum income that society considers acceptable has given it the status of a standard that can potentially be applied in future legal decisions concerning access to justice.

### *A statutory target based on MIS*

While governments have been cautious about using external metrics of adequate income to set standards or targets, the first such application of MIS has now been introduced. In 2018, after wide consultation of experts and stakeholders, the Scottish government introduced legislation using MIS as a key element in a new measure of fuel poverty. This measure combined the criterion of having to spend a relatively high proportion (at least 10 per cent) of one's income on domestic fuel with a second criterion that says you are in fuel poverty only if in addition, your income after fuel and housing costs is below 90 per cent of the MIS benchmark. The legislation, enacted in 2019, simultaneously set targets for reducing fuel poverty, in various years up to 2040 (Scottish Government, 2018).

The decision to use MIS for this purpose, rather than the more conventional poverty threshold of 60 per cent of median income, was influenced by analysis presented by the Scottish Fuel Poverty Definition Review Panel (2017). This showed that an MIS-based income threshold had a stronger relationship with the risk of deprivation than other income-based indicators. However, the choice to adopt the standard for this purpose cannot be explained from an analytical perspective alone. An important factor, referred to by the paper announcing the measure (Scottish Government, 2018: 39), is that the Scottish government was already effectively using MIS as a pay criterion, in its capacity as a registered living wage employer. While a wage standard and a fuel poverty measure are very different sorts of things, the common factor is the recognition by the Scottish government of MIS as a valid basis for a standard.

## **Discussion**

Several key points emerge from the accounts of how MIS is being applied, which are of interest to those seeking to develop reference budgets as standards in other contexts.

First of all, these uses have evolved rather than being planned in conjunction with the original design of the research. In each of the cases described, one or more organisations have adopted MIS as a useful benchmark suitable for use as a standard in a particular context. This contrasts to cases where a benchmark has been designed for a specific policy purpose, as for example in Sweden, where a public agency was given responsibility for drawing up budgets to support the setting of benefits (Veit-Wilson, 1998: 57–8). There is a risk that where the research does not originate as part of an administrative process, it will not end up being directly applied. However, in practice, the experience of MIS has shown that there are so many areas of policy and practice where the question ‘how much do people need to live on?’ is relevant that a recognised answer to this question can become widely used.

A second observation, however, relates to the way in which such a standard becomes validated, rather than just seen as one particular output of academic research. A combination of factors have contributed to growing recognition of MIS as a valid and useful benchmark. Most important has been that the users referred to in this chapter have recognised and valued what it represents – a standard for meeting material needs and participation in society, formulated through public consensus. A regularly updated calculation of what it takes to meet such a living standard has proved an attractive benchmark to these users. The fact that MIS is produced for and prominently disseminated by the JRF, the UK's largest independent funder of social research, has also contributed to users' confidence in the measure. Over time, the authority of MIS has also appeared to grow with widening usage: each time it is used in a particular context, users see its use by others as a validation of its status as a widely used standard. For example, a number of charity officers surveyed reported being influenced by the fact that so many other charities were using MIS (Hirsch, 2017b). There is a sense in which this conscious adoption of a standard that one sees others adopting contributes to its status as a ‘customary or at least widely encouraged’ social minimum (Townsend, 1979: 31).

Yet such recognition does not mean that MIS is the appropriate standard for all purposes. As an expression of what you need for a decent standard of living, it is not explicitly a threshold of subsistence, or a level below which one can say that people will face material hardship. While this makes it suitable for charities or employers who want people to have a ‘decent life’, it would be difficult for any government to adopt it directly to set all safety net incomes – unless it were willing to devote far more than at present to guaranteeing everyone the choices

and forms of social participation that allow them to meet more than narrow material needs.

In conclusion, MIS has enjoyed unusual success in becoming a standard in multiple areas of policy and practice, while at the same time it has not been taken up by governments as a standard for setting or targeting minimum incomes.

A final point to note is that the uses of MIS described here have mostly depended on a budget standard that can calculate benchmarks for most households within the population, defined by who lives in them. It does so by doing more than just producing a few illustrative budgets for sample household types. Rather, it uses a ‘modular’ approach to calculating the income requirements of individuals and combinations of individuals within households, employing a budget calculator in which users specify the number and age of household members to derive a bespoke result.<sup>1</sup> This, for example, enables charities to individualise means assessments, and allows the calculation of fuel poverty in Scotland using a household survey to match specific MIS requirements to each household. Maintaining and updating MIS requires substantial resources, but results in a robust and versatile standard that is illustrated by the breadth of the potential and actual applications, including those reviewed in this chapter.

## Note

<sup>1</sup> Budget calculator available at: <https://www.minimumincome.org.uk/>.

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# Minimum Income Standards in the Basic Income debate

*Malcolm Torry*

## Introduction

The now lively debate about Basic Income – an unconditional income for every individual – is seeing the term ‘Basic Income’ used in a variety of ways. The diversity that this chapter will explore relates to the diversity between those usages that state or imply unconditional incomes paid at particular levels, and those that do not. The feasibilities of different levels will be discussed, and in particular the feasibility of paying Basic Incomes at levels defined by published Minimum Income Standard (MIS) reports.

## Basic Income

A Basic Income (sometimes called a Citizen’s Income, a Universal Basic Income or a Citizen’s Basic Income) is an unconditional income paid to every individual. Sometimes explanatory additions will be found. For instance, ‘non-withdrawable’ might be added to the definition (Citizen’s Basic Income Trust), in the sense that as earned income rises, the Basic Income is not withdrawn. ‘Unconditional’ already implies this: except that unfortunately ‘unconditional’ has been used by some participants in the debate to mean simply ‘not work-tested’ rather than ‘without any conditions’ (Young, 2018: 16, 22), which is why it is now wise to add ‘non-withdrawable’ to the definition. Further additions are sometimes made in order to clarify aspects of Basic Income that might or might not be assumed by readers: for instance, that the income is ‘in cash’ and ‘periodic ... paid at regular intervals (for example, every month)’, according to the Basic Income Earth Network (BIEN) (BIEN, 2020), the former addition ensuring that the Basic Income is understood as money and not services, and as cash and not vouchers with restricted spending options, and the latter distinguishing Basic Income from the

annual and varying Alaskan Permanent Fund Dividend (Widerquist and Howard, 2012).

While it is of course true that any individual or organisation has every right to employ a phrase to mean exactly what they wish it to mean, for a debate to be rational there has to be some kind of agreement over definitions. The Citizen's Basic Income Trust (CBIT) was established in the UK in 1984 with the sole purpose of promoting research and debate on Basic Income (when it was founded it was called the Basic Income Research Group);<sup>1</sup> and in 1986 BIEN was established with the same purpose (BIEN was originally the Basic Income European Network, but then, as the debate became slowly more global, the organisation was renamed the Basic Income Earth Network in 2006).<sup>2</sup> CBIT and BIEN are the longest-standing still-functioning organisations with the sole purpose of promoting research and debate on Basic Income, so if any definitions have the right to be regarded as definitive then there would be a strong case for CBIT's and BIEN's very similar definitions to be regarded as such. BIEN's definition reads as follows: 'A basic income is a periodic cash payment unconditionally delivered to all on an individual basis, without means-test or work requirement' (BIEN, 2020). And CBIT's says this: 'A Citizen's Basic Income is an unconditional, automatic and nonwithdrawable income for each individual as a right of citizenship' (CBIT, 2020). Definitions matter. A recently aborted experiment in Ontario was described as a 'Basic Income' experiment,<sup>3</sup> but the incomes paid were means-tested and household-based, which is not how 'Basic Income' would normally be understood. Such eccentric use of terminology does the Basic Income debate no favours.

Having explained that a Basic Income is always unconditional, what also needs to be said is that one particular conditionality is both permitted and expected: that the level of the Basic Income will vary with the recipient's age. The reason for this particular condition being acceptable is that there are two kinds of conditionality: those that we can affect to some extent, and those that we cannot. Examples of the former kind of conditionality would be household structure, earned income and employment status. An example of the latter would be someone's age. The practical administrative difference between the two kinds of conditionality is that once the computer knows someone's date of birth, the amount of someone's Basic Income can be seamlessly adjusted as they grow older, without any additional enquiry having to be made. Conversely, enquiry always has to be made to discover someone's household structure, employment status or earned income – the kinds of enquiry that blight means-tested benefits. The different kinds of



conditionality have different social and economic effects as well. For an income to be household tested will interfere with people's most intimate relationships; for it to be income tested will cause payments to be reduced as earned income rises, thus keeping the individual and their household in a poverty trap; and for it to be employment status tested will result in the kind of benefits sanctions that are now all too familiar. For an income to be simply age tested would have none of these effects, but would without any enquiry provide incomes appropriate to someone's age – generally less for a child, more for a working age adult, and more than that for older people.

For the avoidance of doubt, in this chapter 'Basic Income' will mean an unconditional and non-withdrawable income paid regularly in cash to every legally resident individual. The income can vary with someone's age, but not in relation to any other contingency.

## The amount of the payment

Organisations that facilitate debate on Basic Income within their own countries or regions can ask to affiliate to BIEN. BIEN is constituted as a Charitable Incorporated Organisation in the UK with individual members, and has no management or financial links with any of its affiliated organisations, so the relationship between BIEN and its affiliated organisations is simply one of mutual recognition. BIEN's affiliated organisations are expected to confirm to BIEN's educational objectives, and there is also an expectation that they will conform to BIEN's definition of Basic Income: 'A basic income is a periodic cash payment unconditionally delivered to all on an individual basis, without means-test or work requirement' (BIEN, 2020). However, within that definition diversity is permitted. Research conducted by this author for BIEN, and discussed at the 2017 BIEN Congress in Lisbon, showed that there is just one issue over which the definitions published by different national affiliated organisations disagree: whether or not the definition of Basic Income should include the amount of the payment. Some affiliated organisations do not mention the issue, suggesting that the amount to be paid is not integral to the definition; some say that a democratic process would be used to decide the amount; one mentions a particular amount; and a number of others offer descriptions of the kinds of life that the Basic Income would be expected to fund, or the level at which the Basic Income would be paid – 'subsistence', 'dignity', 'participation', 'poverty line' – but without specifying the relevant level of Basic Income (Torry, 2017b).

## Minimum Income Standards

How should we decide what constitutes a ‘poverty line’, ‘subsistence’, ‘participation’ or a life characterised by ‘dignity’?

The meanings of these different terms are different from each other, but there are connections. ‘Poverty line’ and ‘subsistence’ suggest a level of income and other services below which a household will find itself in poverty, or unable to subsist. This could either mean insufficient to survive physically, or it could mean what a society might mean when it thinks about poverty. ‘Participation’ and a life characterised by ‘dignity’ suggest something more complex, and look as if they might require resources in addition to those required for subsistence, but once we begin to discuss how these levels of income and services are to be discovered, we find that the different terms can end up meaning much the same thing.

In the UK, the ‘Breadline Britain’ approach, which today includes the process employed to set the MIS researched by Loughborough University and published by the Joseph Rowntree Foundation (JRF), is to ask a representative sample of a population what resources they think are required to enable someone to live a minimally decent life (Lansley and Mack, 1983, 2015; Davis et al, 2018). A second approach is that of John Rawls, who proposes a level of income that ‘together with the whole family of social policies, maximises the life prospects of the least advantaged over time’ (Rawls, 2001: 129–30; cf. Barrientos, 2016: 154–6). A third approach is to start from the concept of ‘human need’, with ‘need’ defined in a rather normative fashion (Townsend, 1979: 32–4; Maslow, 1943: 376–82). A fourth option is Amartya Sen’s ‘capabilities’ approach, which asks about the resources required to enable someone to exercise capabilities (Alkire, 2007: 91; Reader, 2006). The last three approaches suggest that human need is in some way normative, whereas once resources have reached the level of those required for bare survival, need is to a large extent socially constructed (Dean, 2010: 46–7). This means that all of these approaches approximate the level of resources required for subsistence and for the avoidance of poverty to those required for participation in society and a life of dignity. This in turn means that we can treat the ‘Breadline Britain’ method – that is, the construction of ‘Minimum Income Standards’ via surveys of representative samples of a population – as a proxy for the other approaches.

## Basic Income, and Basic Income schemes

A Basic Income is always an unconditional and non-withdrawable income for every individual. A ‘Basic Income scheme’ states the levels

of Basic Income for each age group, and also specifies the funding method and any changes to existing tax and benefits arrangements. There is an infinite number of possible schemes, and different schemes would have different effects. For instance, if in the UK a small Basic Income were to be funded by increasing Income Tax rates at the lower end of the earnings range, and at the same time existing means-tested benefits were to be abolished, then low-income households could suffer losses at the point of implementation, and poverty and inequality could both increase: whereas if means-tested benefits were retained and recalculated when the Basic Income was implemented, and the scheme was funded by increasing Income Tax rates higher up the earnings range, then low-income households could avoid losses at the point of implementation, and poverty and inequality could both be reduced (Torry, 2015). Because the tax and benefits systems of different countries are different, similar schemes in different countries could have different effects: but it will always be generally true that different schemes in the same country would have different effects, and sometimes very different effects.

### **An adequate Basic Income, or an adequate Basic Income scheme?**

The question then arises: do we need an adequate Basic Income, or an adequate Basic Income *scheme*? In relation to MIS – for instance, those for the UK published by the JRF – are we asking for the Basic Income to be paid to every individual at MIS levels, or are we asking that the Basic Income scheme as a whole should raise households to the levels of the MIS?

Before answering that question, we have to discuss the problem that Basic Incomes are by definition paid to individuals, whereas, because people living together in a household can live more cheaply than individuals living alone, MIS is always calculated on the basis of the household (Davis et al, 2018: 39). If we were to expect the Basic Income itself to enable every household to reach the relevant MIS levels, then a Basic Income would have to be paid to every adult at the level of the MIS for an individual adult living alone. This would of course provide a level of income above the MIS for households containing more than one adult, but to pay less than this would leave adults living alone with less than their relevant MIS. This means that if the Basic Income alone were to provide a level of income that would match MIS, then the working age adult Basic Income level for the UK would need to be £304.71 per week. A lone parent with one young

child would require £395.68 (excluding child care costs), suggesting that the additional costs of the child would be £90.97 per week. This is higher than the cost of each child in a family with two children, which means that the standard Child Basic Income would need to be in the region of £90 per week if the lone parent with a child were to reach the relevant MIS (Davis et al, 2018: 39, 55–6). Because such figures have always looked entirely out of reach, it has been routinely assumed by those researching the levels at which Basic Incomes might be paid that MIS figures that exclude housing costs would need to be employed, rather than those that include them. This would mean a continuing need for a means-tested housing benefit of some kind, but this was always regarded as a small price to pay for Basic Income levels that might be feasible (Torry, 2013: 268–70; 2018b: 197–8). On this basis the Basic Income for a working age adult would need to be £213.59 per week (Davis et al, 2018: 39, 55–6). Research in 2015 again showed these figures to be unfeasible, so the adult working age Basic Income was cut to half of the MIS for a couple. This made the working age adult Basic Income £160 per week in 2015 (the figure in 2018 would be £176 per week) and the Child Basic Income was set at £80 per week rather than £90. The basis of the funding method for the scheme was the reduction to zero of the Income Tax Personal Allowance and the National Insurance Contribution Primary Earnings Threshold, and the charging of National Insurance Contributions at 12 per cent on all earned income (rather than at 12 per cent below an Upper Earnings Limit and at 2 per cent above it, as now). The assumption was made that the Basic Incomes would have to be funded entirely from within the current tax and benefits system. The results of the research on these twice-cut levels of Basic Income (along with Citizen's Pensions at the level of half the MIS for pensioner couples for each individual) were not encouraging. The Basic Rate of Income Tax would have needed to rise from 20 per cent to 48 per cent. An additional problem was that the Basic Income scheme assumed that, in the context of such high Basic Incomes and a continuing Housing Benefit, other means-tested benefits could be abolished in order to keep the Basic Rate of Income Tax as low as 48 per cent. Unfortunately this was found to cause a serious problem. The research showed that 29 per cent of households in the lowest disposable income decile would have experienced reductions in disposable income of over 10 per cent as a result of losing Working Tax Credits and Child Tax Credits at the same time as increased taxation of earnings was reducing the net income from employment. Neither the large increase in the Basic Rate of Income Tax, nor the sizeable

household disposable income losses, could possibly be regarded as acceptable (Torry, 2015).

At the same time, research was carried out on the possibility of paying Basic Incomes with levels aligned with the levels of existing means-tested benefits. This enabled the Basic Rate of Income Tax to rise by only five percentage points to 25 per cent, but unfortunately this scheme produced losses in disposable income of over 10 per cent for 28 per cent of households in the lowest disposable income decile (Torry, 2015).

These research results were generated by microsimulation research, which employs a computer programme into which are coded the regulations of the tax and benefits systems, and through which is passed data from the Family Resources Survey: a regular survey of the financial details of a 0.1 per cent sample of the UK's population. All of those conducting such research (Martinelli, 2017a; 2017b; 2017c; Reed and Lansley, 2016; Torry, 2015; 2016a; 2016b; 2017a; 2018a) now know that in order to abolish existing means-tested benefits, and at the same time avoid disposable income losses for low-income households, additional funding from outside the tax and benefits system would be required. At the present time this does not seem very likely. There are still illustrative schemes published that assume that a low net cost Basic Income scheme can still be constructed that would enable means-tested benefits to be abolished without imposing losses on low-income households (Painter and Thoun, 2015; Miller, 2017), but as those schemes have not been submitted to microsimulation testing it is not clear that such disposable income losses can in fact be avoided.

The failure of the attempt to find a revenue-neutral Basic Income scheme that would provide Basic Incomes at either MIS levels or at the levels of current means-tested benefits, and that would enable means-tested benefits to be abolished without imposing losses on low-income households, has resulted in attention being turned to Basic Income schemes that retain means-tested benefits and recalculate them by taking into account household members' Basic Incomes and the changes in earned income resulting from changes to the tax system. Two approaches are employed. Martinelli (2017a; 2017b; 2017c) and Reed and Lansley (2016) select a variety of such schemes and then test them for their effects on poverty, inequality, household losses, number of households coming off means-tested benefits, and so on. The current author sets a number of criteria and then tests a large number of schemes by a trial and error method to see if a scheme exists that fits the criteria. By this method he has shown that a Basic Income scheme exists that reduces both poverty and inequality; that

requires no additional funding from outside the tax and benefits system (a net annual cost within £2 billion of zero can be regarded as revenue neutral); that takes a significant number of households off means-tested benefits, and brings a lot more households within striking distance of coming off them; that imposes almost no significant losses on low-income households, and only manageable losses on other households; and that raises Income Tax rates by only 3 per cent (Torry, 2018a). While the disposable incomes of low-income households reach nowhere near MIS levels, simply because in the illustrative scheme that fits the criteria the affordable working age adult Basic Income is only £63 per week, existing Child Benefit is increased by only £20 per week per child, and the retained means-tested benefits get households nowhere near to MIS levels, the scheme does raise the mean disposable income of households in the lowest disposable income decile by a full 22 per cent, and so on average gets the lowest household incomes a lot nearer to MIS levels than they are now (Torry, 2018a).

## Conclusion

This chapter has shown that in the UK, in the current financial climate, Basic Incomes at MIS levels are nowhere near feasible, but that a Basic Income scheme that would bring household incomes closer to MIS levels would be entirely feasible if means-tested benefits were retained and recalculated. Different countries would be implementing Basic Incomes in different tax and benefits contexts, so for each country the kind of microsimulation research reported here would need to be undertaken to discover whether there might exist feasible Basic Income schemes for that country that would bring the lowest household incomes closer to its MIS levels.

The question then arises as to whether a small Basic Income, funded by the feasible method outlined here, would be of sufficient value to be worth pursuing. The answer to that is unreservedly yes. Take a family of two adults and two children. If they were on low earned incomes and in-work means-tested benefits, then their net disposable incomes might rise only slightly, but an additional £166 per week, or £720 per month, on top of continuing unconditional Child Benefit, would be totally secure, when currently Child Benefit is the only income on which the family can absolutely rely. Such a new secure financial platform could transform the choices available to that family, particularly if it enabled them to escape from means-tested benefits. The particular illustrative Basic Income scheme described here would take 7 per cent of households currently on means-tested benefits off them, and would increase by 20

per cent the number of households within £200 per month of coming off them. Any households which did come off them would no longer be subject to the high withdrawal rates anyone on means-tested benefits currently suffers (currently in the region of 75 per cent, meaning that an additional £1 of earned income results in about 25p of additional disposable income) but would instead be subject only to the combination of Income Tax and National Insurance Contributions, making a total of 35 per cent, so £1 of additional earned income would result in an additional 65p of additional disposable income – and no longer would that family's lives be afflicted by intrusive, stigmatising and time-consuming benefits administration. And as for social impact: the fact that every individual in the country would be receiving Basic Incomes would substantially enhance social cohesion. Such effects would cause pressure for Basic Income levels to rise, and if additional funding could then be secured then levels closer to MIS might be possible. Whether Basic Income levels could ever reach the MIS published by the JRF I rather doubt. That is not important. What is required is that household net incomes should get as close as possible to MIS levels, and the ability that even quite low Basic Incomes might give to households to reap additional net income from additional earned income would enable far more households to get a lot closer to MIS levels, and possibly to exceed them. That is what matters.

## Notes

- <sup>1</sup> Citizens Basic Income Trust, <http://citizensincome.org/>.
- <sup>2</sup> BIEN (Basic Income Earth Network), <http://www.basicincome.org/>.
- <sup>3</sup> Ontario Basic Income Pilot: <https://www.ontario.ca/page/ontario-basic-income-pilot>.

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# PART V

## Conclusions

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# Minimum income standards and reference budgets: past, present, future?

*Christopher Deeming*

## Introduction

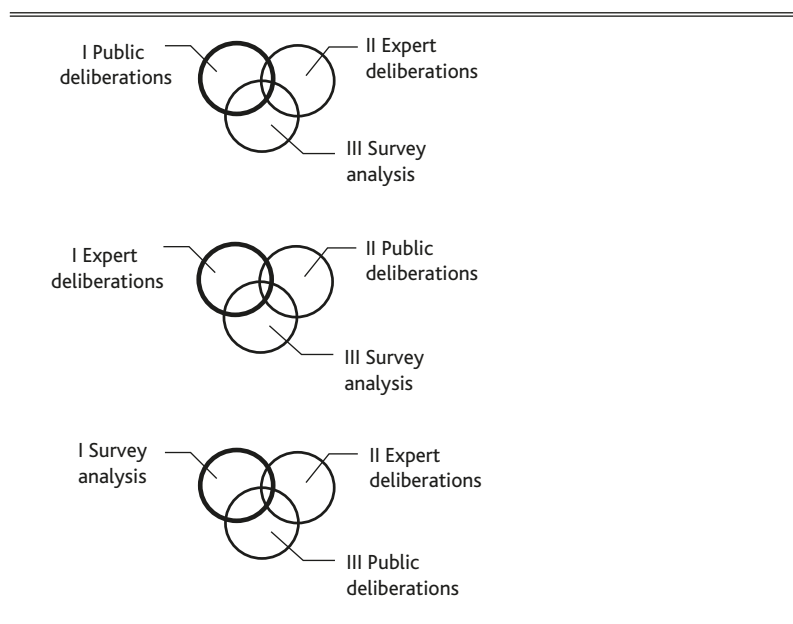
The contributions to this volume help to illustrate the enduring relevance and value of reference budget research. Few can doubt or challenge this ‘common sense’ approach for establishing adequacy benchmarks, and minimum income standards that can help guide the development of national, regional and global social policy. Not having enough money for living in society is our overriding concern. The overall minimum budget, when priced, should attempt to support a specified standard of living. Commodities are translated through prices into budgets. **The fewer goods and services that are provided publicly, the more important individual or family income becomes in the reference budget equation.** As we have seen throughout the volume, key questions still need to be addressed and answered in order to establish how much is enough, for example: what are the ‘needs’ and ‘necessities’, which commodities or items are required to satisfy them? Where can or should these items be purchased and how much are they likely to cost? How long will they last? And what does all this add up to in terms of a weekly budget to purchase the basket of goods and services? As the contributions to this volume make clear, there are many different ways to answer these questions. The answers do depend in part on who is defining the standards, for whom and how they are doing this methodologically speaking.

## Methodological approaches and frameworks

While there is much diversity in the field, and this volume is testimony to that, nevertheless it is also clear that there are longstanding

methodological approaches, capturing and reflecting three different forms of input – experiential, normative and behavioural – that are often combined in various ways in order to define or benchmark income adequacy (Deeming, 2005, 2010a, 2011a, 2017). Broadly speaking they are either: (1) *public-led*, involving deliberative forums or citizens involved in focus group discussions; (2) *expert-led*, based on research evidence and knowledge relating to the promotion of human needs, good health and well-being, with experts doing much of the deliberating; or (3) *survey-led*, with social scientists analysing consumption and expenditure patterns observed empirically within social surveys. Of course many research studies cut across these approaches, often employing iterative processes, as we have seen. Nevertheless, there are often different points of departure, and more weight or emphasis is given to particular elements or inputs in the final results, in terms of public views, expert views or survey data, as illustrated in Figure 23.1.

**Figure 23.1:** Minimum income standards and reference budget methodologies



Note: Sequential steps, with the weight of the circle indicating the importance of the key element or component in the final reference budget standard determining how much is enough.

Source: Adapted from Deeming (2005: 628, 2011a: 23, 2017: 36).

Given the different points of departure and weightings implied, the studies discussed in this volume may be considered or perhaps classified under one of our three headings as follows:

- (1) *Public-led approaches and experiential social standards*, these involve deliberative forums and citizens involved in focused group discussions. The ‘consensual’ approach includes all of the Minimum Income Standards (MIS)-inspired research studies reviewed here, now being conducted in many countries and regions across the globe, notably in the UK (Chapter 2) and Minimum Essential Standard of Living (MESL) in Ireland (Chapter 3), MIS in France (Chapter 4), Japan (Chapter 5), Singapore (Chapter 6) and South Africa (Chapter 7), and the consensual approach to reference budgets based on focus group research in Finland, discussed in Chapter 8.
- (2) *Expert-led approaches and normative standards*, these tend to incorporate international guidelines and recommendations by expert bodies, encompassing research and scientific knowledge about health determinants, often involving expert deliberations. Notable here are the research studies discussed in the UK (Chapter 2) and Belgian context (Chapter 9), Australia (Chapter 10), the region of Catalonia in Spain (Chapter 11), Slovenia (Chapter 16) and the ImPRovE cross-national reference budgets discussed in Chapter 18. The US also has a long tradition of normative ‘basic needs’ budgets, as we saw in Chapter 20.
- (3) *Survey-led approaches and behavioural-based standards*, which usually involve social scientists analysing national social surveys, poverty surveys, family consumption and expenditure surveys, along with the consumer agency budget calculations. These research programmes were found to be particularly strong in the Netherlands (Chapter 12), Norway (Chapter 13), Denmark (Chapter 14) and Sweden (Chapter 15).

Most attempts to establish reference budgets in this volume are, in one form or another, based on deliberative processes, involving both experts and the public. Few if any studies are now solely based on expert judgement, public consensus or survey results alone. Survey data on actual family spending patterns introduces circularity in budget research, and cannot be relied upon to set adequacy standards. Researchers avoid consumer expenditure survey data as much as possible, because choice is shown to be constrained by income, taste or habit, and by the social structures and class positions existing in

society (as Pierre Bourdieu observed in *La Distinction*: Deeming, 2014; Atkinson and Deeming, 2015). Most studies now try to combine or blend elements of all three perspectives, as the different budget research strategies outlined in Figure 23.1 illustrate. Of course, they usually have their different starting points and their different perspectives, challenges, advantages and disadvantages. Table 23.1 summarises the

**Table 23.1:** Methods, principles and policy perspectives summarised and compared

	<b>Public-led</b>	<b>Expert-led</b>	<b>Survey-led</b>
Who is 'expert'	Citizens/public	Scientist/social scientist	Social scientist
Key values/emphasis	Social inclusion	Human needs	Social inclusion
Standards	Experiential standards, public consensus, social standards	Normative, scientific knowledge and consensus, basic or health needs standards	Behavioural standards, statistical consensus
Validity	Participatory or deliberative democratic, situated in public understandings and the reported experience of citizens	Scientific, situated in knowledge and understanding of human needs	Scientific, situated in knowledge and understanding of social necessity
Reliability	Low, measure is not designed to be consistent out of the local context in which it was generated	High, measure is likely to be consistent across populations but may change across time (with new knowledge)	High, measure is likely to be consistent and comparable across populations and time
Generalisability	Aims to produce relative standards grounded in local and national contexts, methods are generalisable but standards from one context should not be imposed on another	Aims to produce highly generalisable standards across country contexts, strength in cross-national comparability	Aims to produce relative but highly generalisable cross-national comparative standards
Strengths	Monitoring and shaping national and regional minimum income protection floors	Measuring, monitoring and ensuring a consistent minimum income protection floor across nations and regions	Measuring and monitoring living standards and inequality levels across time and place

Source: Adapted from Deeming (2017: 43).



key characteristics of each approach according to method, principles and the policy perspectives being adopted and promoted here.

In recent years, there has been a discernible trend in the field, there is now more emphasis on public deliberations to make or inform value judgements in the research process. In other words, we now rely more heavily on the input of citizens, and give less weight to the views of experts and survey data in the calculations. This reflects a shift more generally, away from ‘top-down’ solutions to try and solve social problems – in budget research, as we have seen, and in social policy more generally (Beresford, 2016), with growing innovations in deliberation research (Burchardt, 2014) and democratic forums (Taylor-Gooby et al, 2019). From this perspective, members of the public – ‘ordinary people’ – are the best judges of their own needs and can arrive at collective positions on key questions in social science.<sup>1</sup>

Many of the research studies discussed here also draw on established theoretical and international human rights frameworks. The frameworks are used to guide the research development process and justify social standards, for example:

- The human needs frameworks, dating back to the 1970s, embodied in the work of Len Doyal and Ian Gough, and Manfred Max-Neef.
- The capability approach to fundamental entitlements, associated with Amartya Sen and Martha Nussbaum.
- The relative theories of need and necessity embodied in the works of Peter Townsend, Robert Walker and John Veit-Wilson.
- The international agreements and human rights frameworks associated with the UN, the right to social security (Article 22) and, the right to a standard of living adequate for the health and well-being (Article 25).<sup>2</sup>

At the risk of oversimplification, the public consensus approach to setting social standards associated with the MIS and other consensual budget studies, tends to appeal to the ‘relative’ living standards theory frameworks, while the expert-normative approach tends to appeal to the ‘absoluteness’ of human health needs and capability frameworks. The discussions by Bérénice Storms in Chapter 9 and Matt Padley and Abigail Davis in Chapter 17 are particularly relevant and capture those debates, while the extensive work of José Pereirinha and colleagues in Chapter 19 explores working with the different approaches in practice, and critically compares findings from different perspectives.

## Common challenges and future directions

The contributions to this volume reveal many familiar issues, to do with cultural relativity, language and contested key concepts; terms like ‘poverty’, ‘adequacy’, ‘minimum’, ‘healthy’, ‘well-being’, ‘social’, ‘reasonable’, ‘acceptability’ and ‘participation’ (Lister, 2004). There are also the longstanding and much discussed technical challenges in this field such as pricing a basket of items and estimating their lifetimes. All of these issues are discussed extensively throughout the volume, however Gemma Wright and colleagues in Chapter 7, Peter Saunders in Chapter 10, Matt Padley and Abigail Davis in Chapter 17 and Tim Goedemé in Chapter 18 examine them in detail. It is not necessary to rehearse all of the arguments again, as these chapters elaborate them very well. Clearly researchers always need to take care with concepts and should be explicit about their approach, whether ‘poverty’ measurement, as illustrated in the work J. Cok Vrooman and colleagues in Chapter 12 for example, or ‘social acceptability’, employed in the MIS studies (see Chapters 2–7).

Going forward, it seems that methodological pluralism should probably prevail at this stage: there can be no ‘one size fits all’, and this is particularly true across diverse contexts, as we discover in a number of chapters (see Chapters 7, 17 and 18). There is strength in the combined methods and approaches reviewed here, illustrated in [Figure 23.1](#), as they are often being employed for different policy purposes. Moreover, the field continues to develop at some pace with shared learning and new international collaborations. There will always be new opportunities on the horizon with improved access to information, methodological and data improvements and better applications, as Peter Saunders reminds us in Chapter 10. Researchers should therefore think carefully about the context and purpose of their inquiry when planning any study. For example, it is hard to object to a ‘needs’-based formulation for thinking about minimum and social living standards generally, across low-, middle- and high-income settings, particularly where we are interested in developing consistent and comparable cross-national standards to promote health and social welfare for all. Needs-based standards alone, however, may be too restrictive in some contexts where citizens enjoy a high social standard of living, and where research emphasising consensual methods and social standards may be more preferable.

Arguably the field of reference budget research has suffered from a general lack of collaboration until relatively recently. Today, the international and cross-national research efforts, MIS and ImPROvE,

offer a positive step forward for shared learning, strengthening research capacity and more coordinated policy campaigning work, as the work of Matt Padley and Abigail Davis (Chapter 17) and Tim Goedemé (Chapter 18) clearly shows. Sometimes we gain new insights from the different collaborations too. José Pereirinha and colleagues' (Chapter 19) involvement with both the MIS and ImPRovE projects in Portugal helps to shed new light on the different methodological procedures and outcomes employed across the different projects. They also pose new issues and questions to be answered with further experimentation, across a range of budgets, not just for food and nutrition.

Greater experimentation and triangulation against other sources of data, information and comparable indicators can help demonstrate the validity and reliability of budget standards, rather than protracted arguments about the precision of any one set of empirical findings. For example, it is possible to operationalise adequacy of income in a 'lived sense' by looking at the household income or expenditure levels in social surveys, at which healthy living standards are in fact *achieved*, i.e. 'managing in practice' or 'semi-normative' budget standards (see UN Expert Group on Poverty Statistics, Rio Group, 2006). Some of my own research with Peter Townsend focused on such issues, as Townsend had proposed this approach for establishing minimum income standards back in the 1950s and 1960s but the surveys of the time were thoroughly inadequate for the job (Deeming, 2009, 2010b, 2011b, 2011c).<sup>3</sup> Since it is now perfectly possible to demonstrate empirically the individual or household income levels at which social, material and health deprivations and inequalities are best avoided, this sort of triangulation with the findings from the reference budget and MIS studies can be considered good practice, as John Veit-Wilson (2011) observes. This is already happening, but should be encouraged. Recent research in the UK, for example, finds households below 75 per cent of MIS have four times the odds of lacking necessities compared to those with incomes above MIS (Hirsch et al, 2016), while the odds of frailty in older age for people with incomes below the Minimum Income for Healthy Living (MIHL) were 2–3 times higher compared to those with incomes above MIHL (Watts et al, 2019).

Drawing together some of the lessons from the across the research reported in this volume, we can begin to suggest tentative 'good practice' principles to help guide future research in this field, which may be summarised as follows:

- Ensure the study has a clear definition of the relevant standards, concepts, frameworks and the units of measurement.

- Ensure the study is based on good quality research, and that data and information are clearly reported to ensure high levels of validity, reliability and replicability.
- Ensure the approach has been applied more than once, ideally in different contexts. International research collaborations can help to promote the global research effort. Triangulating findings from multiple methods or data sources remains an important consideration. Findings accompanied by other forms of evidence and data do help to support conclusions.
- Ensure the research produces information that can contribute to or be used as an input in social policy development and practice; research collaborations and partnerships with stakeholders can help promote knowledge exchange activities and impact generation.

Finally, there is a considerable wealth of research data being generated in this field, much of it is not routinely being made available for reanalysis, particularly the data gathered from the focused interviews and deliberative research. Ideally it should be, as data archiving is now considered good practice. Secondary analysis will help further the cross-national and collaborative research effort. Social research demands high ethical standards: citizens and members of the public are involved in our research studies and public funds often support the work. More generally, data should be made available for further rigorous scrutiny, particularly if researchers are demanding that policy makers act upon their findings, as they often do.

## Tools for advancing social policy?

Reference budget standards are an important tool for the development of social policy that can help guide political thinking and structure public debate. The findings from reference budget research can and do continue to provide reliable benchmarks – evidence to guide the development of social policy on the question of how much is enough – many studies here provide examples, particularly in relation to national living wage campaigns, as Donald Hirsch observes (Chapter 21), as well as applications in local welfare provision, taken up by Bérénice Storms in Chapter 9. Then there is the cross-national reference budget research effort in Europe led by Tim Goedemé and colleagues (Chapter 18), which has been designed to influence debates at EU and national levels. Findings from the MIS and reference budget studies, as we saw, are also being drawn into other areas of the social policy debate around basic income, for example (Chapter 22). Further work

within and across national contexts is a growing priority for people with disabilities (VPSJ, 2017; Hill et al, 2018), as are the needs of women and children (Bennett and Daly, 2014; VPSJ, 2018) as well as the needs of those living in more remote rural areas (Mac Mahon et al, 2010; Hirsch et al, 2013). Then there is the growing research imperative to construct new lines or standards indicating excessive affluence: at present the focus has been on the minimum, but we also need to know the maximum that society is willing to tolerate among its members (Concialdi, 2018). How much is too much?

In an era of growing social inequality, extreme poverty, climate and environmental change, a world facing up to resource constraints and planetary boundaries, global social justice and sustainability concerns come to the fore, embodied in the Sustainable Development Goals agreed by the UN in 2015, for example (Jackson and Webster, 2018; Stern, 2019). The urgent need for minimum income protection on a global scale is now well recognised in the work of international organisations involved in global social governance, such as the International Labour Organization (ILO) and the World Health Organisation (WHO), see ILO/WHO (2011) and Deacon (2013) for a review. The WHO calls on social policy researchers and public health specialists around the globe to pursue reference budgets and minimum income standards research in order to help set and review minimum social protection standards; the WHO also calls upon national and regional governments to act in order to strengthen minimum wages and social protection systems, including the benefits, pensions and tax credit systems that can provide pathways for promoting health and social inclusion if they are carefully designed (CSDH, 2008; Glennerster et al, 2009; Marmot Review, 2020; Lundberg et al, 2012). Clearly much more budgetary research needs to be done in this respect, and especially in low- and middle-income settings where the ‘dollar-a-day’ measure has long overshadowed policy debates (Deeming and Gubhaju, 2015; Klasen et al, 2016; Atkinson, 2019).<sup>4</sup> Despite some of the significant challenges ahead, the future of reference budget and minimum income standards research now seems to be on a firm footing internationally, and if this new volume in some ways helps to raise the profile, promote understanding and impact – then our collective efforts will have paid off.

## Notes

- <sup>1</sup> If ordinary people can be trusted to think about what a just minimum level might be, perhaps they can also have an input into the trade-offs that may be implied? If a minimum social security standard of  $x$  increased taxes by  $y$ , or reduced the NHS budget by  $z$ , would you still support it? This would imply more public

deliberations in areas of governmental decision making, considering that policy priorities for welfare and well-being often involve such trade-offs. Hypothecation, weighting approaches and conjoint analysis are techniques that can also be used to help elicit public preferences for policy development purposes (O'Donnell and Oswald, 2015; Stadelmann-Steffen and Dermont, n.d.).

- <sup>2</sup> UN Universal Declaration of Human Rights (UDHR): <https://www.un.org/en/universal-declaration-human-rights/>, and the core instruments: <https://www.ohchr.org/EN/ProfessionalInterest/Pages/CoreInstruments.aspx>.
- <sup>3</sup> Peter Townsend had originally suggested that a semi-normative approach 'would give the fairest index of poverty' in the 1950s and 1960s, following earlier recommendations by Dr Barnet Woolf and Sir John Boyd Orr, and more recently Reddy and Pogge (2005) have argued in favour of setting income poverty thresholds where good health can demonstrably be achieved in the global assessment of poverty.
- <sup>4</sup> Now raised to \$1.90 a day (adjusted for purchasing power), the World Bank Group remains committed to ending extreme poverty by 2030. Living on less than \$3.20 per day reflects poverty lines in lower-middle-income countries.

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