



POLICY SUBMISSION

**How much is enough? Setting an inclusive
minimum income standard**

**Submission to the Adequacy Benchmarking and
Indexation Working Group**

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Summary

The government has established a social partnership working group under the *Programme for Prosperity and Fairness* to examine the development of a new adequacy benchmark for adult and child social welfare payments and the on-going indexation of such payments. Welfare adequacy is a key determinant of the living standards of low-income households, including those who are unemployed. We still have high rates of poverty, despite the positive effects of economic growth. Welfare payments also have a role in the redistribution of income, though their equalising effect has diminished in recent years. The adequacy benchmark set by Commission on Social Welfare was finally exceeded in 1999. A new adequacy figure is needed to take account of significant changes in the economic and policy context, which should be central to the revision of the National Anti-Poverty Strategy.

For conceptual purposes, an adequacy benchmark or minimum income standard (MIS) can be differentiated from a relative poverty line, a welfare safety net and a basic income. A MIS is a multi-faceted policy tool, applicable to a wide range of policy contexts relating to income. It is also crucial for implementing the internationally-agreed right to an adequate standard of living, as is set out in detail in the 1992 EU minimum income recommendation. Key questions in determining a MIS are: adequacy for what? adequacy for whom? adequacy for how long and where? who decides what is adequate? There is extensive experience and application of MIS in other countries which can inform Irish considerations of a MIS.

A review of adequacy in an Irish context highlights the absence of a systematic framework within which the adequacy of welfare rates is officially assessed and updated. Two recent minimum income benchmarks suggest that the majority of welfare rates are inadequate. In addition, the welfare structure contains many anomalies with regard to adequacy (eg different rates, arbitrary eligibility criteria, discretionary payments, ad hoc approach to children). Meanwhile, high rates of relative income poverty and a smaller level of consistent poverty raise major questions about the adequacy of welfare rates. Finally, independent research and comparable administrative measures suggest adequacy shortfalls, especially for children.

Three criteria for developing a MIS emerge from international experience: public acceptability, methodological defensibility and operational feasibility. Taken together with the EU minimum income recommendation, these outline a way forward for an Irish MIS. The independent gathering of the required data is an essential pre-requisite, as is the establishment of a broadly-based forum for adjudicating on a MIS on a regular basis. Indexation of welfare payments should be informed by the regular rebasing and updating of a MIS. In the absence of this, a short-term measure would be to link welfare increase to growth in wages, as was done in Budget 2001. Together with tax indexation by a similar percentage, this provides a neutral benchmark for considering the distributive impact of government budgetary policy.

Recommendations

- The government should agree a MIS based on international best practice and international commitments to a right to an adequate standard of living which should be considered independent of issues about its affordability and incentive effects;

- A MIS should be defined in relation to prevailing living standards, with a minimum goal being to prevent relative poverty as defined by the National Anti-Poverty Strategy (and measured both by in terms of income and deprivation);
- A MIS should be inclusive of all sections of society and should incorporate separate adult and child components;
- The setting and monitoring of a MIS should be put on a formal footing, with involvement of the social partners, welfare recipients and advocates and the Oireachtas, and based on an informed and explicit public debate about welfare adequacy;
- Various research-based methodologies should be applied to develop a MIS, including social surveys, budget standards and statistical data on poverty and relative living standards;
- A MIS should have as a floor 50 per cent of average household income (current equivalent of £126 per adult per week) and, for children, the minimum costs of child (£36);
- Equivalence scales for dependant adults and in particular children should be reviewed in the light of research on the higher costs involved and more equitable approaches to income sharing in households;
- A MIS should allow for variable costs for those at work or with a disability
- A MIS should become the norm across all aspects of policy which relate to income (eg non-cash benefits, taxation, in-work subsidies, minimum wages and money advice);
- As a short-term measure, welfare payments should be uprated in line with wages, in order to ensure that those on welfare share in the benefits of economic growth (where inflation is greater, this should provide the floor for annual increases);
- Welfare payments should be increased in line with an MIS over a defined timespan, which should be agreed as a social partnership agreement.

1. Introduction

The government has established a social partnership working group under the *Programme for Prosperity and Fairness* with the following terms of reference:

- i) *examine the issues involved in developing a benchmark for adequacy of adult and child social welfare payments, including the implications of adopting a specific approach to the ongoing up-rating or indexation of payments, having regard to their long-term economic, budgetary, PRSI contribution, distributive and incentive implications, in light of trends in economic, demographic and labour market patterns; and*
- ii) *examine the issue of relative income poverty.*

This review is now underway, with an interim report due in April and a final report in July. The Agency, as the government advisory body on all aspects of social and economic planning in relation to poverty, has been asked to make a submission to the group. The Agency welcomes the examination of a welfare adequacy benchmark, especially in the context of the revision of the National Anti-Poverty Strategy (NAPS) and the parallel preparation of an Irish national action plan against poverty and social inclusion as part of a new EU initiative.

The Agency has considerable research and policy knowledge in regard to welfare adequacy. Earlier research studies include *Moneylending and low income families* (Daly and Walsh, 1988), *Pictures of poverty* (Combat Poverty Agency, 1989), *Patterns of food and nutrient intake in a suburb of Dublin with chronically high unemployment* (Lee and Gibney, 1989), *Telling it like it is* (O'Neill, 1992), *The adequacy of income and family expenditure* (Murphy-Lawless, 1991) and *The costs of a child* (Carney et al, 1994). On the policy front, the Agency assisted with and subsequently published a review of Irish social welfare provision in the light of the EU recommendation on a minimum income (Nolan, 1995). We contributed to the ESRI review of the Commission on Social Welfare's minimum adequate income and were participants in of two recent major reviews of the welfare system (tax/welfare integration and tax/welfare treatment of families). We also made a detailed submission to the National Children's Strategy in relation to child income support. Adequacy of welfare payments is also a key theme in the Agency's annual submission on the Budget. Of current interest, the Agency is undertaking a qualitative research project on the living standards of low-income families, in conjunction with researchers from Queen's University Belfast.

The Agency's submission sets out some of the key issues that the group should consider in drawing up what we refer to as a 'minimum income standard' (MIS). This should be inclusive of welfare payments, other mechanisms of income support (minimum wages, in-work subsidies, pensions, tax allowances, non-cash benefits) and debt enforcement/repayment cases. The submission begins with a review of the importance of adequacy in welfare policy, especially in terms of tackling poverty and reducing income inequalities. It then clarifies the conceptual understanding of a MIS and how it differs from other income-related concepts. The importance of a MIS in terms of the right to an adequate standard of living is then outlined, with particular reference to the EU recommendation on a minimum income.

The submission reviews the key questions to be addressed in setting a MIS: adequate for what, for whom, for how long and in whose opinion? and considers the experience of a MIS in other countries. The submission then assesses the extent to which adequacy is reflected in Irish welfare policy using

a range of criteria. Finally, the procedures for developing and monitoring a MIS are outlined, drawing on international best practice.

2. The importance of adequacy in welfare policy

A key issue in welfare policy is the adequacy of payments. In effect, welfare payments set the floor for household income and is therefore central to determining the living standards of most, though not all, poor people. The importance of the adequacy principle was clearly recognised by the Commission on Social Welfare (1986) as a central criterion for the evaluation of the welfare system. An adequate payment enabled the welfare state to prevent poverty and was 'the guarantee of minimal participation in society' (p124). Similarly, the European Commission (1997) identified the provision of a minimum level of resources to live in a manner compatible with human dignity as an 'essential tool in an active policy to combat social exclusion'. The National Anti-Poverty Strategy (1997) states that income support policies 'should aim to provide a sufficient income for all those concerned to move out of poverty and to live in a manner compatible with human dignity'.

Recent government policy has downplayed the contribution of welfare payments in tackling poverty. Social welfare is characterised as a 'mechanistic' method of income distribution, as compared to opportunities for social advancement through employment or education. Hence, the current emphasis on ensuring better wages for those in low-paid work and higher pensions for those retired from the labour force over improvements in basic welfare payments. This residual approach to welfare provision ignores the large numbers unable to work who rely on income support to ensure minimum living standards, even on a short-term basis. Furthermore, it overlooks the negative effect that dependency on a low-income can have on societal participation, including the take-up of work. This is especially noticeable in the situation of children of welfare dependants, where a poor childhood can result in a lifetime legacy of underachievement and deprivation. An adequacy policy that encompasses wages, pensions and welfare payments is perhaps the optimum strategy for avoiding a selective approach which discriminates between income sources.

Welfare adequacy also plays a role in ensuring redistribution of income, thereby equalising the effect of wages and other market income, as argued by the Commission on Social Welfare and in the National Anti-Poverty Strategy. The National Economic and Social Council argues that welfare payments linked to average incomes are crucial 'if enhancing equality is to be carried through the policy process and present levels of income inequality are not to increase' (1999; 388). Income redistribution occurs in a number of contexts: from rich to poor, across the different stages of the lifecycle and for households with additional costs arising from dependency, disability, etc. Welfare provision along with taxation can be seen as the main fiscal tools for income redistribution. Official policy statements have highlighted the importance of ensuring that the benefits of economic growth are distributed fairly and that the market tendencies towards incomes dispersion is ameliorated. However, this commitment has not been reflected in the use of welfare and taxation as instruments of budgetary policy. Recent budgets have prioritised tax reductions as a way of redistributing government resources, while welfare payments have not kept pace with incomes. The regressive effects of this tax-first strategy are outlined in budgetary analyses by the Callan et al (1999) and the Agency (2001) using the tax/welfare simulation model SWITCH. Of particular importance is how the additional costs associated with children are

acknowledged. Recent policy has reflected clear tensions between selective strategies and a universal (child benefit) approach (Plumb and Walsh, 2000).

Welfare adequacy is also important in other aspects of social policy. It can help avoid inconsistencies within the welfare system and also between welfare and tax policy which can give rise to poverty and unemployment traps. For money advisors, welfare adequacy can help to define what resources are required to meet basic households needs and what is left over to cover debt repayments.

The welfare adequacy benchmark for the last two decades was the 'minimally adequate' figure recommended by the Commission on Social Welfare in 1986. Thirteen year after the Commission reported, this figure was surpassed for all welfare payments in the 1999 Budget. Despite not being revised and taking so long to implement, the Commission's target figure made an important contribution to welfare policy. There is a number of compelling reasons why a new adequacy benchmark is now needed:

- the increased exchequer resources available for income redistribution due to economic growth;
- the growth in average incomes arising from higher earnings and more employment;
- the higher gains received by better-off households in recent budgets;
- the persistence of high rates of relative income poverty, especially for children;
- the establishment of new income benchmarks for wages and pensions.

This then provides the challenging social and economic backdrop to the proposal to establish a new adequacy standard for welfare payments, initially mooted by the National Economic and Social Council (1999) in its 2000 strategy statement and subsequently agreed to by government and the social partners under the *Programme for Prosperity and Fairness*.

3. What do we mean by an adequacy benchmark?

At the outset, it is important to clarify what is meant by an adequacy benchmark and how it differs from a relative income poverty line, a minimum income guarantee or a basic income. An adequacy benchmark or standard is a set of criteria for evaluating the adequacy of income levels for achieving a specific minimal level of living and which is embodied in a formal administrative instrument (Veit-Wilson, 1998). Key questions that must be answered are adequate for what, for whom and for how long. In addition, there is the issue as to who decides what is adequate, in other words, where does the authority lie in making these judgements. The international term for an adequate income benchmark is a 'minimum income standard' (MIS). This can be defined as

A political criterion of the adequacy of income levels for some given minimum real level of living, for a given period of time, of some section or all of the population, embodied in or symbolised by a formal administrative instrument or other construct. (ibid, 23)

A MIS is thus a policy tool to assess the adequacy of welfare payments, but also tax thresholds, pensions, minimum wages and enforcement orders for debts, fines, etc.

By contrast, a relative income poverty line is a statistical measurement of the numbers falling below various thresholds of income inequality. As such, it says little about the living standards experienced at these thresholds in contrast to a combination of income and lifestyle indicators. A guaranteed minimum income, meanwhile, represents the basic rate of payment available through the welfare system. In Ireland, this safety net is provided through Supplementary Welfare Allowance (SWA). The main attribute of SWA is that it guarantees a minimum welfare payment, not that it provides a necessarily adequate payment. Finally, basic income refers to a universal system of income support for all, which is not dependent on a means test or other eligibility criterion and is funded through general taxation.

A MIS can thus be conceived of separately from a relative income poverty line or a basic welfare payment. In practice, though, it is likely that there will be linkages between these different concepts. It still remains valid however to distinguish the establishment of a MIS from either prevailing poverty levels or actual welfare payment rates.

4. A social rights' perspective on a minimum income standard

Underlying the concept of a MIS is a fundamental notion about the right or entitlement of citizens to a minimum adequate standard of living. While Irish social policy has been reluctant to incorporate a rights-based approach, the right to an adequate standard of living is explicitly stated in a number of international agreements to which Ireland is a signatory. An example is the UN Convention on Economic, Social and Cultural Rights (1996) which states:

The right of everyone to an adequate standard of living.....including adequate food, clothing and housing, and to the continuous improvement in living conditions.

The right to an adequate living standard is also incorporated at European level in the European Social Charter and the EU Charter of Fundamental Social Rights. Critically, the vindication of this right through the social welfare system is elaborated upon in the 1992 EU recommendation on common criteria concerning sufficient resources and social assistance in social protection systems (commonly known as the minimum income recommendation). The recommendation recognises

the basic right of a person to sufficient resources and social assistance to live in a manner compatible with human dignity as part of a comprehensive and consistent drive to combat social exclusion.

The recommendation sets out a set of principles and guidelines for implementing this right, including:

- fixing the amount of resources considered necessary to cover essential needs with respect for human dignity, taking account of living standards and price levels, for different types and sizes of households;
- adjusting or supplementing amounts to meet specific needs;
- in order to fix the amounts, referring to appropriate indicators, such as, for example, statistical data on average disposable income, statistical data on household consumption, the legal minimum wage or the level of prices;

- safeguarding the incentive to seek work
- establishing arrangements for periodic review of these amounts, based on indicators, in order that needs continue to be covered.

The guidelines require very specific action from national governments in regard to determining the adequacy of social welfare rates and their uprating from year to year. The performance of the Irish government in these regards is considered later in this submission.

A similar right to an adequate standard of living, but in this case targeted specifically at children, is contained in the UN Convention on the Rights of the Child. This states:

the right of every child to a standard of living adequate for the child's physical, mental, spiritual, moral and social development.

The Irish government is a signatory to this convention and recently prepared a national children's strategy to give effect to the convention in official policy. One of the objectives of the strategy is to provide children with the financial supports necessary to eliminate child poverty. The specification of the right to an adequate living standard for children has important implications given the norm of only allocating children a proportion of an adult welfare rate. A MIS for children would represent the practical application of this right.

In recent times, arising from the Good Friday Agreement, there is a commitment to develop a stronger social rights policy framework in Northern Ireland and Ireland. The right to an adequate living standard has already been proposed as part of this new policy framework. The Northern Ireland Human Rights Commission (2001) is actively considering the introduction of such a right as part of a Northern Ireland Bill of Rights. This would encompass subsistence items (eg food, clothing), general provision for living standards (ie social welfare) and social and civic care. Meanwhile, the Irish Commission for Justice and Peace (1998) has advocated the inclusion of a right to an adequate standard of living as part of a package of social rights (health, housing and nutrition) in revised Irish Constitution.

A social rights' perspective on an adequate standard of living gives added importance to the preparation of an official MIS. A MIS is thus not a discretionary policy, but one that is required of government in fulfilment of various international conventions and agreements. Furthermore, there are agreed guidelines whereby a MIS should be drawn-up, which rule out arbitrary and ad hoc procedures and which also require public transparency and general acceptance.

5. Key issues in setting a minimum income standard

We now turn to consideration of the key issues in setting a minimum income standard. The first question to be addressed is ***adequate for what?*** Four discrete ways of answering this question can be identified, though in practice there can be overlaps between each:

- adequacy can be constructed through budget standards estimates of basic living costs;
- adequacy may be measured by reference to administrative criteria (tax thresholds, minimum wage, fostercare rates);

- adequacy can be assessed by comparison with socially-defined living standards;
- adequacy can be defined in relation to labour market earnings.

Basic living costs, as calculated by a budget standard approach, is often seen as the most straightforward method to measure adequacy. Parker (1998; xvii) offers the following definition:

Budget standards are specified baskets of goods and services which, when priced, can represent the income required by households of different composition to reach predefined living standards.

Budget standards methodology estimates the needs and basic living costs such as food, clothing, housing and transport, for a few typical family types. Frequently, two different lines may be identified, a 'low-cost but acceptable' level representing a basic living costs and a 'modest-but-adequate' level including a greater variety of activities. An Irish example is the Combat Poverty Agency's study on the costs of a child, which drew up a 'basic minimum' and a 'modest-but-adequate' standard based on the costs of food, clothes, education and shelter, along with some recreational activities and social events (Carney et al, 1994). In the UK, the Family Budget Unit has produced budget standards for various families with children (Parker, 1997; 1998). Budget standards are not meant to be prescriptive – how families should spend their money – but rather are illustrative of the lifestyles possible at a minimal living standard and the restricted choices open to families in trying to make ends meet.

A second approach is to rely on official administrative criteria as proxies for an adequate income, eg tax allowances, minimum wage, income thresholds for medical cards or differential rents. Also, welfare rates in other jurisdictions can be used to measure adequacy. In fact, these criteria are in their own way rather arbitrary measurements determined by political and administrative decision-making. For example, the Irish minimum wage is not based on any independent measurement of adequacy. In addition, proposed increases in the wage were agreed through social partnership negotiations, representing political trade-offs between employers and trade unions. However, these official criteria do have some value in providing comparisons which may highlight anomalies and inconsistencies between different elements of public policy.

A third approach to adequacy links a minimum income standard with prevailing living standards in society. Such a position was expounded by the Commission on Social Welfare: '(welfare) payments must be adequate in relation to prevailing living standards' (1986; 123). The Commission's approach to adequacy rested on three key understandings:

- there is a normal standard of living in society;
- this standard of living can be measured in terms of income/earnings;
- there is a minimum level of income required to ensure societal participation.

In setting out this relative criterion of adequacy, the Commission explicitly rejected an adequacy measure that was based on subsistence living standards. Applying this relative approach is somewhat more complex, as the Commission's own calculations subsequently indicated. These can include

attitudinal surveys supplemented by focus groups to discover what people across society view as the required income to enjoy a conventional standard of living. Another methodology is to use various relative income thresholds, similar to relative poverty lines. A third option is to identify common lifestyle indicators and then to estimate what income levels are required to meet these. All these require considerable amounts of societal information which frequently are not readily available, as the Commission found out in its attempts to calculate an adequacy figure relative to prevailing living standards.

A final adequacy measurement is in relation to earnings. Again, this is a relative standard, but focused on rewards from work rather than general living standards. The Commission on Social Welfare and more recently, the National Pensions Policy Initiative, used earnings from work as a method for determining adequacy. The main issue here is whose earnings and what proportion of these earnings should be chosen in determining an adequacy standard.

Adequate for what leads on to a second question: **adequate for whom?** There are two aspects to this question. The first is whether a MIS is expected to be adequate for everyone in society or a specific sub-set, such as the working class, welfare recipients or simply the poor. Such distinctions are evident from the various approaches to adequacy already considered above. For example, budget standards typically have two levels of adequacy: a minimum, basic or low-cost level and a modest-but-adequate level. Similar divisions are apparent in concepts of adequacy that are based on relative criteria: for example, the National Pensions Policy Initiative (and subsequently the National Economic and Social Council) differentiates between an adequate figure for pensioners and one for other welfare recipients. The Commission on Social Welfare also envisaged a payment differential between social insurance and social assistance recipients. This stratification of adequacy standards, whereby different measurements are applied to different sections of the population, reflects a fundamental division in perspective as between 'we the people' and 'they the poor'. 'We the people' is associated with positive notions such as social insurance, earning-related benefits and rights, where 'they the poor' are linked to notions of means-tests, charity and subsistence (Veit-Wilson, 1998). The choice of language reflects these contrasting perceptions of adequacy: as between a minimum **adequate** standard (where adequacy applies to all) and an adequate **minimum** standard (where adequacy refers to a sub-section of the population).

Another dimension of adequacy is the demographic unit to which a MIS applies: an adult, a couple, parent(s) with children or a child. Where a MIS is focused on a single adult, rates for adult and child dependants are derived through equivalence scales which reflect assumptions about the income required to meet the needs of different family types. Equivalence scales are based on traditional assumptions about dependency, income sharing and economies of scale which are increasingly questioned by research findings and modern social mores. As well as different types of families, adequacy can also be affected by the ages of family members, especially those of children. Other demographic variables that can impact on adequacy include special needs arising from disability, illness or lone parenthood, while additional costs can also arise from participation in the labour force (eg travel, childcare).

Adequacy can also be influenced by **duration and location**. Duration is especially relevant in terms of household goods and assets, eg washing

machine, housing maintenance and repairs. The Commission on Social Welfare accepted that duration was a key factor in determining adequacy, but did not favour differential rates of payment to reflect this. Rather, it argued that long-term welfare recipients should get an additional quarterly payment or benefits-in-kind. This issue of welfare duration has particular importance in an Irish context given the significant differentials between short and long-term payments and the growing use of non-cash benefits to supplement the incomes of those on pensions. Location can also affect living costs, especially as between urban and rural areas. There is a longstanding if rather haphazard recognition of this in the welfare system, eg school meals, smokeless fuel allowance, SWA rent allowances. Housing costs are especially relevant here, as they are both highly variable by area and make up a significant proportion of household expenditure. The varied methods of housing subvention in Ireland (eg local authority differential rents, rent allowances) makes calculation of housing costs problematic, however. Access to large food and clothing stores can also be important in determining living costs, but this tends to be determined at a very localised level which is hard to factor into a MIS.

Finally, there is the question as to **who decides what is adequate**: is it a scientific judgement, a political one or a decision arrived at through some form of social consensus? The Commission on Social Welfare and other research-based methodologies imply a certain degree of objectivity and independence. However, as Callan et al (1996), observe, 'statements about adequacy reflect judgements, values and attitudes'. In this context, the principal achievement of the Commission was to make adequacy an issue of public policy. Crucially, what got the Commission's proposed figures onto the political agenda were the various social partnership agreements. Significantly, the current benchmarking review has emanated from a similar process of negotiation between the social partners. Equally, governments may wish to set out their own views on adequacy, as has the current government in relation to a target welfare payment for pensioners. However, there clearly remains an important role for research, negotiation and consultation in helping to draw-up adequacy judgements.

6. Minimum income standards in other countries

It is useful to consider the approach to MIS in various EU and OECD countries (Veit-Wilson, 1998). MIS is widely used for policy purposes by various governments, though their application is not uniform across countries. Standards have many uses: as guidelines for setting welfare rates, tax thresholds and court maintenance payments, as criteria for assessing the adequacy of payments and as measures for quantifying the level of poverty. In some countries, the standards are taken as de facto measures of minimum adequate incomes. To facilitate analysis, three conceptual tiers can be identified based on the relationship between the MIS and various income thresholds (below). This categorisation does not infer any judgement about the adequacy of the actual MIS.

Upper tier: related to levels of pay/minimum wages

Belgium, France, Netherlands, Sweden

In France, the MIS is the statutory minimum hourly pay rate (SMIC). It was originally based on subsistence budgets and represents a 'family wage'. The

SMIC is updated by changes in prices and wages and can be differentiated from the RMI, France's minimum welfare payment. The SMIC is the cornerstone of government policy for wages, tax thresholds and, to a lesser extent, welfare rates.

Middle tier: related to social security benefit

Australia, Finland, New Zealand, Norway

In Finland, the minimum pension for an individual serves as the MIS. It asserts a basic decency threshold for pensioners, independent of social assistance payments. The minimum pension informs welfare rates, tax thresholds and maintenance orders. Welfare payments were increased from 44 per cent to 80 per cent of the minimum pension reflecting a shift from a subsistence focus to an emphasis on reasonable living standards.

Bottom tier: related to basic welfare rates

Germany, New Zealand, USA

The United States has probably the best-known minimum income standard, the Orshansky Poverty Line. It is based on a budget standard approach, multiplying basic food expenditure by a factor of three. Despite its age (1950s), the standard has never been rebased, just updated by inflation. The standard is widely used in poverty research and for administrative purposes.

In practice, MIS has three applications by national governments, other statutory organisations and voluntary groups:

- guidelines for setting welfare payments;
- criteria for assessing the adequacy of and the eligibility for welfare payments;
- as a proxy measure for quantifying the extent of poverty.

Finally, countries show extensive variation in terms of how and for whom adequacy is defined (see Veit-Wilson, 1998, for a detailed account of the approach in individual countries). At this stage, the main point to be made from this comparative analysis is that it is a common experience among many national governments to have a MIS as an active tool of public policy.

7. How adequate are welfare payments?

We now consider the adequacy of existing welfare payments. This can be done in a number of ways: assessing the procedures for setting and uprating welfare payments in the light of EU guidelines; considering the extent of relative income and consistent poverty; and using budget standards and administrative criteria to calculate alternative adequacy measures.

7.1 procedures for setting/uprating rates

The Commission on Social welfare undertook the first significant review of the adequacy of welfare payments. The Commission's analysis

found no evidence that benefit levels in Ireland were ever explicitly linked to a standard of adequacy. Payment rates appeared to have been determined initially in an ad hoc fashion,

and to have been subject to piecemeal change over the years depending on the level of resources available, and the priority given to individual schemes or interest groups, but with a consistent trend of real improvement in payment levels generally. (1986; 128)

Subsequently, Nolan (1995) reviewed the Irish procedures for implementing the EU recommendation for a minimum income. He noted that while SWA provides an amount considered necessary to meet minimum needs, it did so without explicit reference to any external indicators such as average disposable income or consumption levels. Furthermore, the procedures for uprating welfare payments each year were ad hoc and fell short of what required for transparency. He concluded:

The absence of a systematic framework within which the adequacy of social assistance rates can be officially assessed and changes in rates set is one of the most serious failings in the Irish system as it currently operates, evaluated in the light of the EU recommendation. (1995; 73)

More recently, the National Anti-Poverty Strategy stated the centrality of welfare adequacy to the prevention of poverty. However, no procedures were put in place under the strategy to actively consider the adequacy of welfare payments or other methods of income support.

Welfare policy has not operated in a total vacuum in regard to the adequacy of welfare payments. For many years, the minimally adequate rates recommended by the Commission on Social Welfare were adopted as policy targets, until their achievement - at the bottom of the range - in 1999. However, the Commission's minimally adequate target was never reformulated from its original calculation, but simply updated by inflation. The Commission clearly intended that its target figure would be adjusted to take account of prevailing living standards and income distribution. The Commission's figures were subsequently reviewed by the ESRI in 1996. The ESRI largely endorsed the Commission's recommendations, though with a somewhat higher upper figure: £68 to £96, as compared to £69 to £83 based on a simple indexation of the Commission's figures. More importantly, it highlighted the need for a more informed and explicit public debate about welfare adequacy and the various issues involved. However, with the eventual achievement of the Commission's rates, no official policy in regard to adequacy has been formulated. Instead, some ad hoc targets for welfare payments have been developed. The policy programme for the current government contains a minimum target figure of £100 for pensioners by 2002. This figure has since been proposed for all welfare payments under the *Programme for Prosperity and Fairness*. The new social partnership programme also breaks new ground by identifying a target figure of £100 per month for the higher rate of child benefit, though not explicitly linked to adequacy.

At the same time, two new official minimum income benchmarks have been introduced for those at work and pensioners. A minimum wage was introduced in 2000 at £4.40 per hour as part of the new social partnership agreement (equivalent to two-thirds of median earnings in 1998) and is set to rise to £5 in October 2002. This is the equivalent of £171.60 for a 39 hour week. The National Pensions Board's National Pensions Policy Initiative (1998) proposed a target welfare pension payment of 34 per cent of average industrial earnings,

which it deemed to be a 'reasonable' percentage in terms of what a minimum income should be. This figure was initially derived from the upper end of the ESRI's revision of the Commission on Social Welfare minimum adequate income (ie £96). The two criteria informing this choice were a) the prevention of poverty and b) the efficient provision of a retirement income for those on low incomes. Again, this amount is far in excess of the lowest welfare rates, suggesting that welfare recipients are unlikely to avoid poverty.

Other aspects of the welfare payments system which highlight adequacy-related anomalies are:

- wide variation in the rates of payment by welfare category, ranging from £84 for the lowest (SWA) to £111 for the highest (OAP >79 yrs), a £27 differential;
- existence of three rates of child dependent allowance which are related to welfare category rather than any objective criteria such as age;
- variable and on average higher child payment under family income supplement as compared to child dependant allowance;
- arbitrary (age-related) criteria for eligibility for certain non-cash benefits;
- discretionary nature of SWA exceptional needs payments, which are designed to help those whose needs are inadequately met under mainline schemes;
- arbitrary level of provision under education-related schemes such as school meals;
- freezing of the value of certain provisions, eg fuel scheme, child dependent allowances.

5.2 **poverty rates**

The adequacy of welfare rates can also be assessed in relation to the percentage of the population experiencing relative income and consistent poverty (see table 1). The most recent data on relative income poverty relates to 1998 (Layte et al, 2000). It shows that significant percentages of the population have incomes below 40 per cent, 50 per cent and 60 per cent of average incomes, the weekly equivalent of between £88 and £95 (10, 20 and 30 per cent respectively). This leaves Ireland with a high rate of relative income poverty compared with other EU countries. While there are some reductions in the numbers falling below the 60

Table 1: Percentage of the population including children experiencing relative income and consistent poverty, 1994-2001¹

	1994 persons children	1997 persons children	1998 persons	2001 households
40%	6.8% 8.0%	8.1% 13.2%	9.6%	9.1%
50%	20.7% 29.5%	21.0% 26.0%	20.5%	20.4%
60%	33.7% 40.2%	32.6% 37.2%	30.0%	27.2%
60% +	17.0%	11.0%		NA

¹ Nolan (2000), Layte et al (2000). 2001 figures are derived from the ESRI SWITCH model, as described in T Callan et al (1998), *Simulating tax and welfare changes*, Dublin: ESRI. All calculations and accompanying commentary are the exclusive responsibility of the Agency and no responsibility for the results is attributed to the ESRI or the authors of the model software.

depriv	23.5%	16.9%	8.2%(H)	
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H = households

per cent relative income line, there are increases at the 40 per cent line. There is also a higher risk of poverty for children than is the norm. Others at high risk of poverty are the elderly and those not in work or engaged in home duties. Though relative income poverty is not included as a policy target in the National Anti-Poverty Strategy, it remains a serious structural problem that needs to be tackled, not least in order to prevent it escalating into a process of exclusion where relative income poverty persists over prolonged periods (Layte et al, forthcoming). It is possible to estimate the likely level of relative income poverty among households post-Budget 2001 using the ESRI SWITCH model. This shows that despite rising incomes and recent Budget giveaways, poverty still affects relatively high percentages of households (9 to 27 per cent). (The forecast equivalent weekly amounts are £100.58 at the 40 per cent line, £125.73 at the 50 per cent line and £150.88 at the 60 per cent threshold.)

Using the measure of consistent poverty (ie income poverty and deprivation), the 1998 data indicate that 8 per cent of households are affected. This represents a significant fall on earlier years, though the gap between those experiencing consistent poverty and the rest of society is widening. If welfare payments continue to fall behind the growth in average incomes, this polarisation is like to be exacerbated (Layte et al, forthcoming).

It is also useful to calculate the additional amount need to bridge the gap between current payments and the 50 per cent income poverty line (table 2). The gap can be analysed at two levels: for households and for children within these households. For an elderly person living on their own, the payment rate is £95.50. This compares with a half average income adult equivalent figure of £125.73, leaving a gap of £30.23 or 24 per cent. For a lone parent with one child in receipt of the one-parent family payment, their combined income is £115.48 per week. The equivalent 50 per cent poverty threshold is £167.22 per week, leaving a deficit of

Table 2: The income poverty gap 2001

	Welfare payment	50% poverty threshold²	Gap (%)
Elderly person	£95.50	£125.73	£30.23 (24%)
Lone parent with one child	£115.48	£167.22	£51.74 (31%)
Child component	£29.98	£41.49	£11.51 (28%)
Couple with three children	£232.19	£334.44	£102.25 (31%)
	£94.19	£124.47	

² This is calculated using an equivalence scale of 0.66 for an additional adult and 0.33 for each child.

Children component			£30.28 (24%)
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£51.74 or 31 per cent before that family can escape poverty. For an unemployed couple with three children, their combined income is £232.19, as compared to an equivalent 50 per cent poverty threshold of £334.44. This gives a shortfall of £102.25 or 31 per cent of the poverty threshold. Focusing on children, the gap for a child of a lone parent is £11.51 per week or 28 per cent of the poverty threshold. For three children in an unemployed family, the shortfall is £30.28 or 24 per cent of the poverty threshold. Ending child poverty for families on welfare depends on higher rates of child income support. Increasing payments in line with or slightly above inflation will not reduce these deficits at a time when average incomes are increasing much faster. A more generous strategy of income support for children is required (Plumb and Walsh, 2000).

5.3 Budget standards and other research and administrative measures

Budget standards are a widely used methodology for estimating the costs of providing a specified basket of goods and services seen as necessary for a MIS. Research has been undertaken in order to estimate a minimum payment for children by the Combat Poverty Agency using a budget standards methodology (Carney et al, 1994). Uprated by inflation, this suggests an average minimum cost of a child of £36.38, with a range of between the low £20s and high £40s, depending on age. The basic rate of child income support (child dependant allowance, child benefit and clothing and footwear allowance) is £29.98. This leaves a weekly shortfall of £6.40 as compared to the average basic costs of a child. For children in receipt of the higher child benefit rate (combined value of £34.26), the gap is £2 per week.

More recent UK research has costed a 'low cost but acceptable' living standard for various households with children using a budget standards approach (Parker, 1998). These were calculated for two types of families: a couple and a lone parent, each with two children, a boy aged 10 years and a girl aged 4 years. Their budget calculations included standard expenditures (food, clothing etc) and variable costs (housing, fuel, insurance). This research is extremely valuable in illustrating the restricted lifestyle open to people on low incomes. It also informs comparison between different household types. Similar lessons can be drawn from Australian research budget standards research on the cost of a child (Henman, 2001). To facilitate a rough comparison with the Irish situation, the original 1998 costings in sterling have been indexed in line with UK inflation and converted into Irish pounds (table 3), with equivalent Irish welfare rates also included. While Irish welfare rates are higher than basic costs, they are significantly lower when variable costs are included. However, housing subsidies would need to be added in to give a more accurate picture.

Table 3: UK Low cost but acceptable budget standards and Irish welfare rates

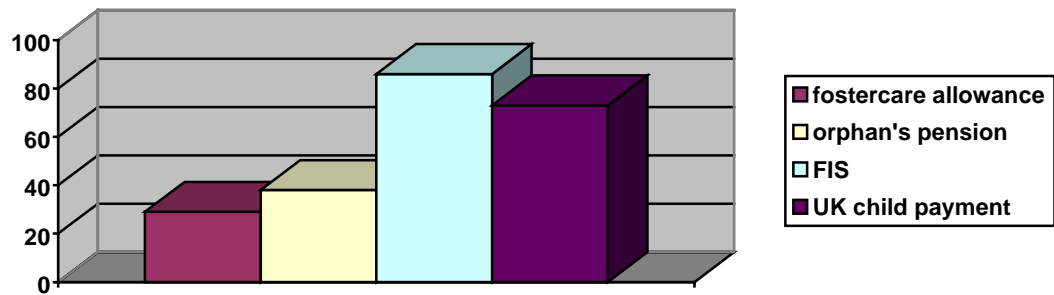
	Budget standard costs	BS + variable costs	Irish welfare rates
Couple + 2 children	£166.52	£282.58	£197.96
Lone parent + 2 children	£128.11	£233.02	£145.46

An important element of an adequacy standard is the equivalence scales used to take account of different family sizes. The recent welfare norm for adult dependants is to pay 60 per cent of the adult rate. While in keeping with the recommendation of the Commission on Social Welfare, more recent research suggests that this proportion should be 70 per cent to allow equivalent living standards for couples as for single adults (Conniffe et al, 1999). Budget 2001 recognised this issue by increasing payments for adult dependants to 65 per cent of the adult rate. It increased the adult dependant ratio even higher for pensioners, based on a policy of administrative individualisation. For children, equivalence scales in the region of 30 per cent are the norm. Post-Commission policy reform for children focused on reducing the number of rates, raising the absolute amount and shifting from welfare to universal payments. The end result is to leave equivalence scales largely unchanged, despite the concerns expressed by the Commission as to the research basis for the implicit child equivalence scales. Based on the costs of a child study and UK child equivalent scales, Irish scales would appear to be significantly less than what is required. Furthermore, child equivalent scales are not differentiated by age or, in general, by family size (the child benefit supplement for the 3rd plus child is the exception). Yet most research suggests that older children cost more than younger ones, while additional (mainly younger) children cost less than the first child (Conniffe and Keogh, 1998; Carney et al, 1994; Conniffe et al, 1999; Henman, 2001).

Equivalence scales under the welfare system can also be compared with those in the tax system. Here, the greatest difference is that married couples receive twice the adult personal allowance, while under the social welfare system, married or co-habiting couples get in general c 1.6 times the adult rate. Other differences exist in regard to children.

Finally, the minimum rate of child income support (£29.98) can be compared with alternative payments: fostercare allowance, orphan's pension, family income supplement and UK welfare rate for children. One official measure of child costs is the allowance paid in respect of children placed in fostercare. The basic fostercare allowance is £89.01, with higher payments for older children (£114.39 for 11-15 years and £145.25 for 16-18 years). Child benefit is also payable. The minimum child welfare payment is 29 per cent of the combined fostercare allowance/child benefit (a £75 difference). It is 38 per cent of the orphan's allowance (£63.60) + child benefit, a shortfall of £49.19. It is 86 per cent of the average FIS/child benefit rate of support (£34.75, a £5 difference). The basic Irish child income payment is 73 per cent of the UK rate of IR£41.20 (£11 less)

Diagram1: Child income support as a proportion of various administrative measures



8. Developing and monitoring a minimum income standard

Three main criteria can be identified in drawing up a MIS (Veit-Wilson, 1998):

- public acceptability – a MIS should be understandable and broadly acceptable to society and relate to social values of inclusion, fairness and equality;
- methodological defensibility – the methods for calculating a MIS should be consistent, robust and reliable, and able to withstand critical analysis from researchers and policy-makers;
- operational feasibility – a MIS should prove an efficient and workable administrative tool of welfare policy, which is not determined by its affordability or work incentive effects.

Taken together with the EU recommendations for a minimum income standard, these criteria demonstrate the way forward for developing an Irish MIS as a core element of welfare policy. A barrier to progress in the Irish context is the lack of data on earnings, household incomes and general living standards (Callan et al, 1996). Substantial investment in data collection is required to generate this information. It is also important that the collection of data for this task should be undertaken independent of government by experienced researchers, whether based in the Central Statistics Office, an independent research centre or a combination of both. Equally, resources should be made available for budget standards research and public attitude surveys. All the relevant information should then be presented to a representative body, similar to the social partnership-based benchmarking group, but with the addition of independent experts. To ensure continuity of approach, the benchmarking group should be established on a permanent footing, perhaps as a standing committee of the National Economic and Social Council or Forum. An input from those relying on welfare payments and those advocating on their behalf should also be provided. The benchmarking group would then report to government as to its recommended MIS. There could be a monitoring role for the Oireachtas on this matter, perhaps through the committee dealing with welfare provision, which could hold public hearings on the setting and implementation of a MIS.

Assuming that adequacy is based on the prevailing standards in society, a MIS must be actively monitored to retain its relevance. This involves three separate activities, beginning with a regular 'rebasin' of the standard to take into account of changes in reference living standards over time (Veit-Wilson, 1998). A MIS should not be seen as set in stone, as was the case with the Commission on Social Welfare's target figure which was effectively unchanged for 13 years. It is not realistic to leave a standard unchanged for such a long

period of time, especially given the rapidly changing social and economic circumstances in which we live. An official rebasing every 5 years is required, with the option of a more frequent review where change is more dramatic. This rebasing exercise would be similar to the regular review and reweighting of the consumer price index.

A second monitoring exercise is to 'update' the MIS on a regular basis by reference to the rate of inflation or average industrial wages. This would be quite different to the rebasing task as it would be a straightforward annual calculation based on a previously agreed reference point. (As carried out by Callan et al, 1996 on the Commission for Social Welfare's minimum adequate rate.) A more frequent updating might be appropriate if inflation or wages change dramatically, such as the wage review triggered under the *Programme for Prosperity and Fairness* within the first year of the agreement due to the unexpected rise in inflation.

A separate issue for consideration is the procedures for on-going uprating or indexation of welfare payments. A review of policy in relation to uprating over the last quarter of a century reveals a number of consistent themes (Callan et al, 1996):

- bringing rates up to the adequate amount recommended by the Commission for Social Welfare;
- protecting welfare payments against inflation;
- maintaining work incentives, especially where households with children are concerned;
- sharing the fruits of economic success;
- ensuring prudent management of the public finances.

To this list can be added a more recent theme of improving the position of pensioners, in line with a government commitment to provide a £100 weekly pension payment. It is clear from the above that adequacy has never been a central concern of indexation policy. Even with regard to the Commission's recommended minimum rate, the target amount was only advanced in line with annual inflation, with the policy objective being to incrementally surpass this figure.

Ideally, 'uprating' of welfare payments should be done in line with a rebased and updated MIS. Detaching this exercise from the other two is to miss the whole purpose of a MIS. Even if this is done, an adequacy dimension can still be maintained by ensuring that welfare payments are kept in line with changes in average wages. This approach, together with a similar indexation of taxation, would provide an objective reference point for budgetary changes. Indeed, this was the approach adopted for welfare changes in Budget 2001. This represents a significant departure from previous policy where a concern with sharing the benefits of economic progress was never implemented in such a systematic manner.

When welfare payments are indexed is also an important issue. In 2001, for the first time, welfare and tax changes were introduced from the same date. However, there remains a two month delay in the implementation of changes in child benefit, which is a policy anomaly.

10. Conclusions and recommendations

The government has established a social partnership working group under the *Programme for Prosperity and Fairness* to examine the development of a new adequacy benchmark for adult and child social welfare payments and the on-going indexation of such payments. Welfare adequacy is a key determinant of the living standards of low-income households, including those who are unemployed. We still have high rates of poverty, despite the positive effects of economic growth. Welfare payments also have a role in the redistribution of income, though their equalising effect has diminished in recent years. The adequacy benchmark set by Commission on Social Welfare was finally exceeded in 1999. A new adequacy figure is needed to take account of significant changes in the economic and policy context, which should be central to the revision of the National Anti-Poverty Strategy.

For conceptual purposes, an adequacy benchmark or minimum income standard (MIS) can be differentiated from a relative poverty line, a welfare safety net and a basic income. A MIS is a multi-faceted policy tool, applicable to a wide range of policy contexts relating to income. It is also crucial for implementing the internationally-agreed right to an adequate standard of living, as is set out in detail in the 1992 EU minimum income recommendation. Key questions in determining a MIS are: adequacy for what? adequacy for whom? adequacy for how long and where? who decides what is adequate? There is extensive experience and application of MIS in other countries which can inform Irish considerations of a MIS.

A review of adequacy in an Irish context highlights the absence of a systematic framework within which the adequacy of welfare rates is officially assessed and updated. Two recent minimum income benchmarks suggest that the majority of welfare rates are inadequate. In addition, the welfare structure contains many anomalies with regard to adequacy (eg different rates, arbitrary eligibility criteria, discretionary payments, ad hoc approach to children). Meanwhile, high rates of relative income poverty and a smaller level of consistent poverty raise major questions about the adequacy of welfare rates. Finally, independent research and comparable administrative measures suggest adequacy shortfalls, especially for children.

Three criteria for developing a MIS emerge from international experience: public acceptability, methodological defensibility and operational feasibility. Taken together with the EU minimum income recommendation, these outline a way forward for an Irish MIS. The independent gathering of the required data is an essential pre-requisite, as is the establishment of a broadly-based forum for adjudicating on a MIS on a regular basis. Indexation of welfare payments should be informed by the regular rebasing and updating of a MIS. In the absence of this, a short-term measure would be to link welfare increase to growth in wages, as was done in Budget 2001. Together with tax indexation by a similar percentage, this provides a neutral benchmark for considering the distributive impact of government budgetary policy.

Recommendations

- The government should agree a MIS based on international best practice and international commitments to a right to an adequate standard of living, which should be considered independent of issues about its affordability and incentive effects;
- A MIS should be defined in relation to prevailing living standards, with a minimum goal being to prevent relative poverty as defined by the National

Anti-Poverty Strategy (and measured both by in terms of income and deprivation);

- A MIS should be inclusive of all sections of society and should incorporate separate adult and child components;
- The setting and monitoring of a MIS should be put on a formal footing, with involvement of the social partners, welfare recipients and advocates and the Oireachtas, and based on an informed and explicit public debate about welfare adequacy;
- Various research-based methodologies should be applied to develop a MIS, including social surveys, budget standards and statistical data on poverty and relative living standards;
- A MIS should have as a floor 50 per cent of average household income (current equivalent of £126 per adult per week) and, for children, the minimum costs of child (£36);
- Equivalence scales for dependant adults and in particular children should be reviewed in the light of research on the higher costs involved and more equitable approaches to income sharing in households;
- A MIS should allow for variable costs for those at work or with a disability
- A MIS should become the norm across all aspects of policy which relate to income (eg non-cash benefits, taxation, in-work subsidies, minimum wages and money advice);
- As a short-term measure, welfare payments should be uprated in line with wages, in order to ensure that those on welfare share in the benefits of economic growth (where inflation is greater, this should provide the floor for annual increases);
- Welfare payments should be increased in line with an MIS over a defined timespan, which should be agreed as a social partnership agreement.

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