

DEZBATERI

Comments on **Adina Mihăilescu**, *The Minimum Cost of Living, an Instrument in Social Policy*, Romanian Academy Publishing House, Bucharest, 2014, 107 p.

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Abstract: *The aim of the article is to discuss poverty estimates based on the minimum income that different household types would need to acquire the minimum consumption basket. The article reviews Adina Mihăilescu's book presenting her main results: the minimum wage and the minimum pension are not set high enough to lift people out of poverty, the unemployment benefit and the minimum income guaranteed do not cover the basic costs of living, having more children increases the risk of poverty, since children's allowance does not offset the cost.*

Keywords: absolute poverty; minimum consumption basket; cost of living; unemployment benefit.

Cuvinte-cheie: sărăcie absolută; coșul minim de consum; costul vieții; ajutor de șomaj.

Poor people are those “individuals, households and groups whose resources (material, cultural and social) are so reduced that they are excluded from a level of living considered minimum acceptable in the countries where they live” (European Union). By this definition 41.8% of the population in Romania was at risk of poverty or social exclusion in 2014, and Romania ranked second in the European Union (*Eurostat* main indicators). Therefore, the definition of poverty is influenced by the level of development in society and what is considered minimum acceptable in that society. Another definition of poverty is: “poor people are those households whose income cannot ensure them the minimum accepted standards of basic needs of living, e.g. the minimum consumption basket” (USA Government). At the heart of this definition is being aware that it is possible to work full-time and still be poor and have difficulty making ends meet¹. Several indicators have been proposed and used by policy makers to identify and measure the extent of poverty. There are

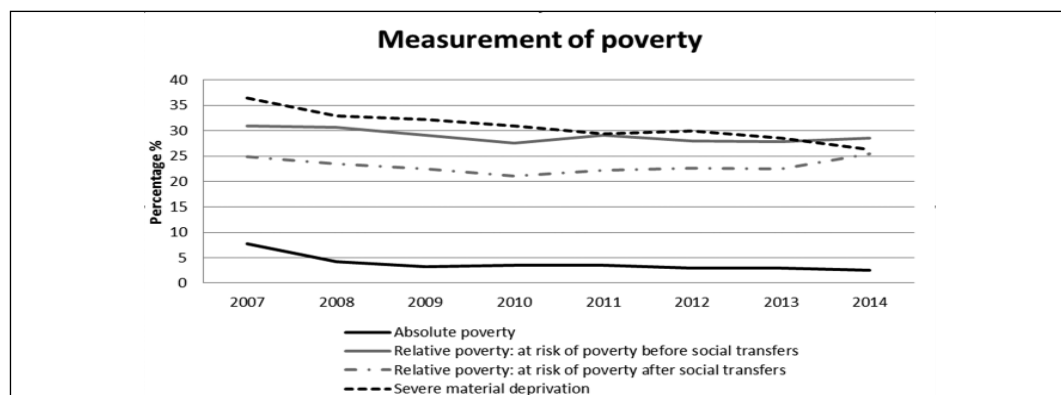
several ways to measure the extent of poverty: a) relative measures based on income vs. absolute poverty based on expenditure measurement, b) one dimension or multidimensional measurement of poverty, which includes access to heating, road infrastructure, health care and education services, and c) one snapshot cross-sectional measurement vs. long term panel data measurement that captures the dynamics of poverty, identifying the chronically poor groups at risk of poverty on long term.

These methods usually give us the percentage of poor people in society and measure, therefore, poverty incidence². The Ministry of Labour, Social Protection and the Elderly (2014), using the estimates from the National Institute of Statistics shows, that while Romania had around 25.4% poor people in relative terms, in absolute terms, about 2.6% of the population was poor. This low figure of poverty in absolute terms is contradictory to the high rate of material deprivation (See Graph 1), which includes items such as the inability to pay for at least four items among the following

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items: to pay rent, mortgage or utility bills, to keep their home adequately warm, to face unexpected expenses, to eat meat or proteins regularly, to go on holiday, to have a television set, to have a washing machine, to have a car, to have a telephone. Romania introduced by U.G.D. 217/2000 the minimum monthly consumption basket which used to be calculated by the National Institute of Statistics based on monthly household expenditure on food items, non-food items and services. This indicator was important as it constituted a basis for

the calculation of the minimum wage and a basis for wage and social policies. However, the U.G.D. 11/2004 cancelled the calculation of the monthly minimum consumption basket, and therefore, the minimum wage, wage policies and social policies became disconnected from the cost of living. The figure below shows that, since 2011, the redistribution system in Romania has diminished its capacity to lift people out of poverty, since the gap between the poverty rate before and after social transfers is narrowing.



Source: own illustration based on data from MMFPSV (2014) for absolute poverty, relative poverty and severe material deprivation, based on EUROSTAT main tables data.

Figure 1: *Relative versus absolute poverty*

Tackling poverty is one of the fundamental goals at the heart of welfare state construction. Redistributive policies are aimed at reducing poverty in society through a better allocation of income and resources. In this context, Adina Mihăilescu's book published in 2014 aims at highlighting the extent of poverty in Romania and its trend over the last 25 years. Her book identifies who is poor in Romania and to what extent social policies manage to achieve their goals, e.g. lifting households out of poverty. The book uses an absolute measure of poverty which takes into account as threshold the income that one would have to spend to ensure the basic cost of living. This method is based on expenditure and consumption and shows that, in absolute terms, poverty has increased in Romania over the last years, and that even after social transfers

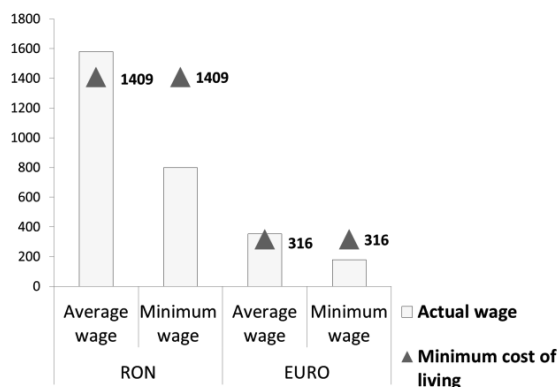
it's more difficult for households to make ends meet. Based on household circumstances, household composition and social transfers, the author identifies the following poor households: a) households of two adults and two children, where only one adult works and receives an average wage and two children allowances b) elderly households where only one receives an average pension, c) households where one of the adults becomes unemployed, d) elderly households receiving the minimum pension.

The minimum cost of living stands for the fulfilment of the basic needs to live that an individual and his family have. When these needs can no longer be fulfilled, the persons need to be assisted in kind, financially or via social assistance services. In absolute poverty, the individual and his family does not have

access to basic goods and services, decent housing, and therefore, requires assistance. The consumption basket is influenced by the needs that the household has which in their turn are affected by: household composition and size, area of living (rural vs. urban), type of work performed, level of education, social status, technological change and innovation. The first chapter of Adina Mihăilescu's book illustrates how the household budget structure and consumption has changed over a period of 30 years, with a decline of 16% in income spent on food purchasing and an increase of 7% in costs related to transportation in France from 1959 to 1986. If in 1770 in France a household spent half of its income only on bread and 13% on housing, in 1986 cereal consumption amounted to less than 3% of the household income and housing to 27.4%. Technological change made therefore possible a decrease in certain costs, but created also new needs and modified the structure of consumption. Consumption baskets therefore evolve throughout time and need to be adjusted. Furthermore, different groups of populations have different consumption baskets. For example, a big part of consumption for rural households is covered from own agricultural

resources. However, data for Romania revealed that very little is left after covering basic needs to sell on the market.

The method used to determine the minimum consumption basket is the normative method which lists first the basket of goods and services estimated to be needed to ensure the minimum demands of the cost of living. The normative method of counting and calculating the consumption basket was applied first by Gheorghe Barbu (1992), developed further by Cătălin Zamfir (1995), and from 2001 used and improved by Adina Mihăilescu. The minimum consumption basket includes the following items: food, clothes and footwear, housing, transportation, cultural services, personal hygiene, repair and maintenance of clothes and footwear, house maintenance, medicine, rent, a small saving fund in case of emergency. The subsistence consumption basket eliminates from the consumption basket the following items: a small saving fund in case of emergency. Wages in Romania went through a rapid process of polarization, if the average wage increased moderately to 124% compared to 1989, the minimum wage in 2013 was situated at 62%, compared to its value in 1989.



Source: own illustration based on Adina Mihăilescu, 2014, *The minimum cost of living, an Instrument in Social Policy*.

Figure 2: *Minimum cost of living in Romania, compared to the minimum and average wage*

Adina Mihăilescu compares the level of the actual wages with the level of minimum cost of living and shows that, if the average wage is enough to support a single, the minimum wage falls to 56% below the minimum cost of living standard.

The author takes into consideration various family types depending on economic activity, composition and level of income: Single parent families: one earner receiving the average wage + children (1/2/3) receiving child allowance

a) Single parent families: one earner receiving the minimum wage + children (1/2/3) receiving child allowance

b) single parent families jobless: one parent receiving unemployment benefit+ children (1/2/3) receiving child allowance;

c) Single parent families receiving the guaranteed minimum income: one earner + children (1/2/3) receiving child allowance;

d) Couple families: two earners receiving the average wage + children (1/2/3) receiving child allowance;

e) Couple families: two earners receiving the minimum wage + children (1/2/3) receiving child allowance;

f) Couple families one person jobless: one parent receiving unemployment benefit+ 1 average wage earner+ children (1/2/3) receiving child allowance;

g) Couple families receiving the guaranteed minimum income: two earners + children (1/2/3) receiving child allowance;

h) Single elderly receiving average pension;

i) Single elderly receiving the minimum pension;

j) Couple elderly: one receiving minimum pension;

k) Couple elderly: two persons receiving the average pension;

l) Couple elderly: one person receiving the average pension + one person receiving the minimum pension.

The author also conducts the analysis by urban/rural area, since this affects the households' income level, as well as their consumption basket.

At risk of poverty are single parent families with children, families where earners earn the minimum wage or the minimum pension. The risk of poverty increases with having more children or more dependants without an income or a reduced level of income (minimum wage/ minimum pension). The analysis presented shows the inefficiency of social transfers such as unemployment benefit and the guaranteed minimum income, since their level covers 37.7% (data for 2012) and respectively 20% (data for 2013) of the minimum cost of living for single parent + one child families. Single earner families, earning the minimum wage, with one dependent child are particularly at risk of poverty since the level of income covers only 43.3% of the minimum cost of living (data for 2013). If in 1989 two minimum wage earners with two children were able to support 98.9% of the minimum costs of living, in 2013 their income would cover only 47.4% of their costs in the urban area, and 58.9% of their costs in the rural area. One pensioner household earning a minimum pension (350 lei) from the urban area manages to cover only 45% of his costs of living, in the same situation are households of two elderly living off one average state pension which manage to cover only 43% of their cost of living.

By contrast, one pensioner in the rural area earning the average pension would cover only 44.9% of his costs of living, in 2012. Two elderly from the rural area, one earning the average pension and one the social minimum pension would cover only 50% of their costs of living, in 2012. The following household types are not at risk of poverty: two adults and two children household earning the average wage in the urban area in 2013 covered 140% of their costs of living, and two adults with one child household earning the average wage in the urban area. The book, therefore, offers an important contribution to the assessment of the various income sources and benefits and their adequacy to maintain a decent standard of living, and it identifies the household types at risk of poverty, based on a normative method of assessing the minimum consumption basket, an absolute measure of poverty.

Notes

¹ Fisher, G. (2008) Remembering Mollie Orshansky – The developer of the Poverty Thresholds. *Social Security Bulletin*, 68, 3.

² However, there are other indicators that look

at the degree of poverty, such as poverty severity, poverty gap, or the chronic aspect of it such as the length and frequency of poverty spells, transitions into our out-of poverty.

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