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## What is the Appropriate Level of Minimum Income?

*Micheál L Collins*

### Introduction

The question posed by the title of this paper is a difficult one; one (as we will see) with numerous answers many of which are conflicting. As such, the paper aims to add to and stimulate further debate on this issue rather than provide a definitive answer. It is a paper of questions, points for consideration and discussion rather than concrete answers. In considering this issue, the paper first reviews data on income in Ireland. In particular it assesses the income levels and socio-economic profiles of those at the bottom of the income distribution. Given that context, the paper continues to review some of the varying perspectives there are on minimum income levels before attempting to identify some consensus.

### Income in Ireland

#### *Data sources and concepts*

Data on income levels in Ireland can be accessed from three principal sources; two survey-based results from the Central Statistics Office (CSO) and one official source derived from administrative data. The latter uses records from the taxation and social insurance/social welfare systems (Revenue Commissioners and Department of Social and Family Affairs) and offers the potential for a comprehensive dataset. However, to date, these two administrative systems are technically incompatible and alone their partial information, while interesting, is

less than adequate for building a picture of the national income distribution.<sup>1</sup>

The other data sets derive from two national household surveys, namely the Household Budget Survey (HBS) and the EU Survey on Income and Living Conditions (EU-SILC). The HBS is currently conducted every five years (previously every seven years) by the Central Statistics Office (CSO) and is a random sample of over 7,000 urban and rural households throughout the country.<sup>2</sup> The purpose of the survey is primarily to determine in detail the current pattern of household expenditure in order to update the weighting basis of the Consumer Price Index, but other information, including household income is also collected. The first HBS was carried out in 1973, with subsequent surveys in 1980, 1987, 1994/95, 1999/2000 and 2005.<sup>3</sup>

Since mid-2003 the CSO has been a participant in EU-SILC, an EU wide survey established under European legislation (Council Regulation no. 1177/2003) to collect information on the income and living conditions of different types of households. The survey is carried out throughout the year with approximately 130 households surveyed each week, implying an annual sample of between 5,000 and 6,000 households. To date, this data has been collected and published annually for the calendar years 2003-2006. As the 2006 edition of this data (published in late 2007) serves as the most comprehensive and up-to-date available at the time of writing it is used throughout much of the analysis in this paper.<sup>4</sup>

Two income units are used in the EU-SILC survey: the household and the individual. The former is defined as “a single person or group of

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<sup>1</sup> A commitment in the 2007 Programme for Government indicated that these data systems will be integrated during the lifetime of the Government (2007:53).

<sup>2</sup> The prospect of running this survey on an annual basis is being considered.

<sup>3</sup> See Collins and Kavanagh (1998, 2006) for a review of this HBS data since 1973.

<sup>4</sup> To facilitate comparisons over time, Table 1 briefly reports the results of these surveys for each of its first four years.

people who regularly reside together in the same accommodation and who share the same catering arrangements” (CSO, 2002:173). Income is first collected on a household basis as households are taken to be the income receiving units (income flows into the household and within it the income is used to provide a certain standard of living for all the household members).<sup>5</sup> Subsequently, income levels for individuals are estimated using a set of equivalence scales which take account of variations in household size and composition and make it possible to establish the income each “equivalent adult” receives in a household.<sup>6</sup>

The EU-SILC survey distinguishes between three household income concepts. *Direct household income* is defined by the CSO as “all money receipts of a recurring nature which accrue to the households at annual or more frequent intervals, together with the value of any free goods regularly received by the household, and the retail value of own farm or garden produce produced by the household” (CSO, 2002: 176). Direct income is composed of earned income, employee’s wages and salaries, self-employed farming and non-farming income, property income, investment income, retirement pensions, own garden or farm produce, and “other” direct income, which includes income-in-kind, trade union sick or strike pay, and income from securities, trusts and covenants. *Gross income* is defined as direct income plus state transfer payments (that is, unemployment benefits, children’s allowances, old age pensions, etc.). *Disposable income* is defined as gross income less direct taxes (that is, income tax and employee share of social insurance contributions). This paper confines its analysis to direct and disposable income; primarily the latter. This is because direct income is analogous to the initial income allocation, and is determined by the returns in the market to the factors of production of national output. Disposable income corresponds to how much each household has to spend each week and as such, is probably the most important income concept.

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<sup>5</sup> This assumes an equal within-household distribution of income, something that may not be the case (see Atkinson, 1974:44 and Cantillon and Nolan, 2001).

<sup>6</sup> For an overview of the equivalence scale method used in Ireland see CSO (2007:49).

### ***Income distribution – overall trends***

Data for household disposable income from the first four years of the EU-SILC survey are outlined in table 1. The results are presented by decile – where these are established by ranking households from the lowest to the highest income and then splitting them into ten equal sized groups, starting with a group containing the 10 per cent of households with the lowest incomes (the bottom decile).

Over these four years the share of the bottom 50 per cent of households in the income distribution stagnated at approximately 23 per cent of the national total; a figure that is less than the share received by the top 10 per cent in all but one of the four years.<sup>7</sup> However, the data does reflect an increase over recent years in the share of the bottom two deciles – in 2003 these gained 4.85 per cent of all the income a figure which increased to 5.49 per cent by 2006. As we will see later (in table 4), these households are comprised of individuals who depend on social transfers for a large proportion of their income, households who benefited from successive budgetary policies over these years which provided generous welfare increases to pensioners, the unemployed and people with disabilities.<sup>8</sup>

Table 1 also presents the equivalised distribution of income for individuals; as before divided into deciles from the 10 per cent of individuals with the lowest disposable income upwards. Equivalised data provides a better indication of the command of resources and the living standards of individuals. The data reveals that in 2006 the top 10 per cent of individuals in Ireland received a disposable income more than 7 times that of the bottom decile.

Table 2 turns these percentage amounts into cash values – for households and individuals in Irish society in 2006. A household with a disposable income of less than €10,000 per year would be classified in the bottom decile. A household with an income of €40,000 would be classified in the sixth decile. However, if it contained three adults and two children the

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<sup>7</sup> In 2003 the top 10 percent had a share of 23.55% while the bottom 50 per cent had a share of 23.61%.

<sup>8</sup> For a further discussion see CORI Justice (2008: 52-55).

standard of living it experiences (proxied as cash income available per individual) would not be the same as a single person household with the same nominal income. Through equivalisation an income per person can be established for the multi-person household. This applies different weights for children and additional adults in excess of the first adult in the household, and its application provides an income per adult equivalent of €12,085 per annum.<sup>9</sup> This figure, representing the resources available to each person in the household, is recorded for all individuals in the household allocating these individuals to the third decile. The single person with a disposable income of €40,000 would then be in the ninth decile.<sup>10</sup>

**Table 1:** The distribution of household disposable income, 2003-2006 (%)

Decile	household				individual
	2003	2004	2005	2006	2006e*
<b>Bottom</b>	1.74	2.10	2.21	2.20	3.52
<b>2<sup>nd</sup></b>	3.11	3.04	3.24	3.29	4.82
<b>3<sup>rd</sup></b>	4.75	4.27	4.46	4.55	5.72
<b>4<sup>th</sup></b>	6.35	5.69	5.70	5.79	6.68
<b>5<sup>th</sup></b>	7.66	7.43	7.31	7.20	7.78
<b>6<sup>th</sup></b>	9.86	9.18	9.12	8.97	8.94
<b>7<sup>th</sup></b>	11.82	11.11	10.97	10.69	10.28
<b>8<sup>th</sup></b>	14.25	13.56	13.23	12.91	12.05
<b>9<sup>th</sup></b>	16.91	16.47	16.35	16.11	14.62
<b>Top</b>	23.55	27.15	27.42	28.30	25.58
<b>Total</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>

**Source:** Collins and Kavanagh (2006:156) and CSO (2006:18-19, 2007:24-27)

**Note:** \* equalised data using the national equivalence scale

In 2006 the average Irish person had a disposable income of almost €407 per week; just over €21,000 per annum. Reviewing the

<sup>9</sup> €40,000 divided by an equivalence weight of 3.31 (1 for the first adult, 0.66 for each additional adult and 0.33 for each child).

<sup>10</sup> €40,000 divided by an equivalence weight of 1.

equivalised individual data there is a noticeable step-down in income levels from the top to the ninth decile and from the ninth to the eight decile. At the other end of the income distribution, the lowest three deciles comprise individuals with incomes of less than €250 per week and it is to these we now turn.

**Table 2:** Average disposable income, by decile in 2006.

Decile	Household		Individual	
	Weekly actual disposable income	Annual actual disposable income	Weekly equivalised disposable income	Annual equivalised disposable income
<b>Bottom</b>	€184.28	€9,616	€143.11	€7,467
<b>2<sup>nd</sup></b>	€274.86	€14,342	€196.19	€10,237
<b>3<sup>rd</sup></b>	€380.42	€19,850	€232.86	€12,151
<b>4<sup>th</sup></b>	€484.02	€25,256	€271.86	€14,186
<b>5<sup>th</sup></b>	€602.47	€31,437	€316.73	€16,527
<b>6<sup>th</sup></b>	€750.06	€39,138	€363.73	€18,979
<b>7<sup>th</sup></b>	€893.95	€46,646	€418.46	€21,835
<b>8<sup>th</sup></b>	€1,080.38	€56,374	€490.22	€25,580
<b>9<sup>th</sup></b>	€1,347.46	€70,310	€594.90	€31,042
<b>Top</b>	€2,367.75	€123,549	€1,040.93	€54,316
<b>Average</b>	€836.44	€43,645	€406.84	€21,229

**Source:** CORI Justice (2008: 49) and CSO (2007: 24-27)

**Note:** Annual figures are rounded to the nearest € to ease interpretation.

### *Income distribution – profiling the bottom 30 per cent*

Redistribution policies, be they systems of social welfare transfers or systems such as basic income, are at their core concerned with the well being of those at the bottom of the income distribution. Precisely where the ‘bottom’ starts/ends is a debatable point, but for this assessment we focus on the bottom thirty per cent of the income distribution. These are individuals with an equivalised disposable income of less than €12,150 per annum. This section of the paper profiles this group and explores the composition of the income they receive. Knowing who low income

recipients are, and where they get their income from, is essential knowledge in the process of forming policy to address the problem of those living on inadequate income.

Table 3 decomposes each of the bottom three equivalised deciles using five socio-economic variables: age, household composition, tenure status, principal economic status and completed education level. A complete description and discussion of the table would take some time (and space). However, among the more notable aspects of its findings are:

- There is a noticeable difference in the age composition of the bottom decile and the other two deciles. The bottom decile mainly comprises people of working age.
- The most common status for an individual in the poorest 10 per cent of households is as a child aged less than 16 years.
- Large size households (adults and children) is the most common category of household in the bottom ten per cent of the income distribution
- Home ownership is at its lowest in the bottom decile; it increases at a notable rate between decile one and three.
- Completed education status has a more pronounced effect in deciles two and three than in the bottom decile.
- A large proportion of each of the three deciles comprises individuals outside the labour market – most notably people on home duties, students and the retired.

Complementing table 2, and extending the assessments of table 3, it is worthwhile examining the composition of individual's incomes in these bottom three deciles. Table 4 shows that direct income, analogous to labour market earnings, comprises a small element of the bottom two deciles but almost half of the third decile's income. The dependence of individuals in these deciles on social welfare payments is also underscored by the table's figures. More than 75 per cent of the income of the bottom two deciles comes from social welfare payments. The large flow of family/children's allowances into the bottom decile (large relative to the overall disposable income in that decile) combined with the age profiles in table 3 suggest a large number of young people with families comprise the lowest ten per cent of the income distribution.

**Table 3:** Composition of the bottom three equivalised deciles classified by age, household composition, tenure status, principal economic status and education level, 2006.

	<b>Bottom Decile</b>	<b>2<sup>nd</sup> Decile</b>	<b>3<sup>rd</sup> Decile</b>
<b>Age</b>			
0-14	25.8	18.8	17.6
15-64	67.8	52.2	55.0
65+	6.4	28.9	27.4
<b>Household Composition</b>			
1 adult, no children	9.8	22.8	9.5
2 adults, no children	14.1	22.2	28.7
3 adults, no children	20.1	12.7	20.0
1 adult with children	9.2	6.4	4.2
2 adults with 1-3 children	17.5	13.3	15.2
Other households with children	29.3	22.7	22.3
<b>Tenure</b>			
Owner	53.8	59.2	73.1
Renter (or rent free)	46.2	40.8	27.0
<b>Principal Economic Status</b>			
At work	12.4	15.0	22.7
Unemployed	8.8	6.0	4.5
Student	16.0	9.1	11.0
On home duties	20.3	24.9	20.1
Retired	4.7	14.6	15.0
Ill/disabled	7.2	8.9	5.2
Others	1.6	1.7	1.8
Children in education (>16yrs)	29.0	19.8	19.7
<b>Completed education level*</b>			
Primary or below	23.9	42.0	33.8
Lower secondary	20.3	16.1	16.1
Higher secondary	16.1	12.9	18.3
Others	10.7	9.3	12.1

**Source:** Calculated from CSO (2007: 28-29)

**Note:** \* Completed education groups plus those currently in education combine to represent 100% of the population of each decile.

**Table 4:** Composition of the income received by persons in the bottom three equalised deciles, 2006.

	<b>Bottom Decile</b>	<b>2<sup>nd</sup> Decile</b>	<b>3<sup>rd</sup> Decile</b>
<b>Total Direct Income (a)*</b>	<b>36.31</b>	<b>52.22</b>	<b>114.46</b>
<b>Social Transfers</b>			
Unemployment Benefit	23.13	17.08	14.07
Old-age benefits	9.65	59.25	62.04
Family/Children allowances	49.43	40.46	31.65
Housing allowances	3.47	7.46	8.24
Other social transfers	24.50	24.67	17.22
<b>Total Social Transfers (b)</b>	<b>110.17</b>	<b>148.92</b>	<b>133.22</b>
<b>Gross Income [(c) = (a+b)]</b>	<b>146.49</b>	<b>201.14</b>	<b>247.68</b>
<b>Total Tax &amp; PRSI (d)**</b>	<b>3.38</b>	<b>4.95</b>	<b>14.82</b>
<b>Total Disposable Income (c-d)</b>	<b>143.11</b>	<b>196.19</b>	<b>232.86</b>

**Source:** Calculated from CSO (2007: 26-27)

**Notes:** \* Income from the market mainly comprised of employee income, self-employment income.

\*\* Includes tax on income and social contributions, employers PRSI contributions and regular inter-household transfers paid.

### **Appropriate Minimum Income Levels: some perspectives**

In the context of the 2006 data in the earlier tables, we return to the question in this paper's title – what is the appropriate minimum level of income for a person? The answer to this question is implicitly variable. Costs of living, customs, social conventions and cultural norms change over time; as they do between countries and perhaps across regions. Whatever income benchmarks there are, they must be relative – it is hard to intuitively justify a static measure of poverty/living standards in a dynamic society.

In qualitative terms the Irish National Anti Poverty Strategy (NAPS, 1997:3) definition of poverty offers a good starting point for establishing an answer to the minimum income conundrum. It suggests that:

*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 that 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 that are considered the norm for other people in society.*

Therefore, it would seem that an adequate minimum income would allow an individual the possibility to avoid these exclusions and take part in society. However, moving from the qualitative to the quantitative is more challenging and controversial.

The figures in table 5 offer some insight into where the answer to this question might lie. It brings together four possible answers using values for Ireland in 2006. The table presents nominal income figures for two types of household, a single adult and a family of two adults and two children. In table 5 the latter is presented as cash income (i.e. not equivalised). The following are the details of each of the table's categories:

**Official Welfare Rate:** values derived from official welfare payments including unemployment payments to adults, dependent adults and child benefit. It can be argued that various free and subsidised public services are available to those in receipt of these welfare payments and that these implicitly increase their income towards the official poverty line levels.<sup>11</sup>

**Official Poverty Line:** calculated as 60 per cent of median equivalised disposable income, where the median income is the income of the

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<sup>11</sup> Menton (2007) examines this issue using EU-SILC data.

middle person in the income distribution. The Irish (national) equivalence scale is used to calculate the corresponding poverty line for a household with two adults and two children.

**Budget Standard 1 & 2:** calculated using the research report of the Vincentian Partnership for Social Justice which calculated minimum essential budget standards (expenditure levels) for various urban household types. Budget Standard 1 adjusts the budget calculated in the Vincentian report and assumes that the single adult is unemployed and that both adults in the other household are also unemployed. Budget Standard 2 assumed the single adult and one of the two adults in the other household are employed. The difference between each of these labour market scenarios is the requirement for transport expenditure – it is assumed that more is needed when a person is employed.

**Table 5:** Various Income Benchmarks, 2006 weekly values#

	<b>Official Welfare Rate</b>	<b>Official Poverty Line</b>	<b>Budget Standard -1</b>	<b>Budget Standard -2</b>
Single Adult	€165.80	€202.49	€231.84 <sup>a</sup>	€251.84 <sup>b</sup>
2 Adults and 2 Children	€344.85 <sup>c</sup>	€469.77 <sup>d</sup>	€470.82 <sup>e</sup>	€490.82 <sup>f</sup>

**Source:** Calculated from Department of Finance (Budget 2006); CSO (2007: 41); and Vincentian Partnership (2007).

**Notes:** # Annual values are presented in the appendix

- (a) Calculated for an unemployed male aged 25+ living in Dublin city, no car and housing costs.
- (b) Calculated for a working male aged 25+ living in Dublin city, no car and housing costs.
- (c) Person with qualified adult welfare rate plus weekly value of two child benefit payments.
- (d) Using national equivalence scale.
- (e) Budgets for two such households were calculated where the ages of children differed. The average is used in this table and both adults are considered unemployed.
- (f) Budgets for two such households were calculated where the ages of children differed. The average is used in this table and one of the two adults is employed.

Is there a consensus to be found from these figures? Implicitly, the lowest welfare rate is not regarded as minimum income benchmark given that free services and other welfare payments (family income supplement, back to school allowances, Christmas extra payments, fuel vouchers etc) are regularly provided to complement these income levels. Therefore, the rate should be higher than this.

At the other extreme, an individual or a family, can achieve a basic but acceptable lifestyle if they have a budget equalling the budget standard. The Vincentian report shows that this is a minimum rate; one based on strict assumptions and with minimal room for unexpected contingencies or occasional luxuries (2007: 5-13). Persistent exposure to an income at this level is likely to provide, at the very least, recurrent household budgetary management problems. It is worth noting that the Budget Standard 1 figure for the two adult and two children household (€470.82) when adjusted for household size and composition (equivalised) equals €202.94 per equivalent adult per week – a figure almost the same as the official poverty line.<sup>12</sup> However, for the single adult household the budget standard exceeds the poverty line by at least 15 per cent. Overall, this might suggest a minimum income figure in-and-around the area of the poverty line and the budget standard level. The precise location of that ideal income level deserves further research and discussion.

## Appendix

**Table A1:** Various Income Benchmarks, 2006 annual values

	<b>Official Welfare Rate</b>	<b>Official Poverty Line</b>	<b>Budget Standard -1</b>	<b>Budget Standard -2</b>
Single Adult	€8,645	€10,558	€12,088	€13,131
2 Adults and 2 Children	€17,980	€24,494	€24,549	€25,591

**Source:** See table 5 in chapter text.

**Notes:** See notes in table 5 in chapter text.

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<sup>12</sup> The equivalence weight is calculated as  $1 + 0.66 + 0.33 + 0.33 = 2.32$ .

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