

International Forum on the  
'Alternative Methods of  
Measuring the  
Minimum Cost of Living'

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# 최저생계비 계측방식 개선방안 모색을 위한 국제포럼

- 일시 2009년 7월 16일(목) 오후 2시 ~ 6시
  - 장소 그랜드힐튼 서울, 본관 2층 플라밍고홀
  - 주최 **KIHASA** 한국보건사회연구원  
Korea Institute for Health and Social Affairs
  - 후원  보건복지가족부
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## WORDS OF INVITATION 초대의 글

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한국의 대표적인 공공부조제도인 국민기초생활보장제도는 선정과 급여 기준으로 최저생계비를 사용하고 있습니다. 이에 최저생계비는 기초보장제도의 대상 포괄성과 급여 적절성을 가름하는 척도가 됩니다. 또한 최저생계비는 빈곤여부를 가르는 기준선으로도 사용되고 있습니다. 따라서 한국에서의 최저생계비는 다른 어떤 나라보다 중요한 정책적 의미를 지니고 있습니다.

우리나라의 공식적인 최저생계비는 3번(1999년, 2004년, 2007년)에 걸쳐 전물량 방식(마켓바스켓방식)으로 계측이 이루어졌습니다. 전물량방식은 여러 가지 장점에도 불구하고, 연구자의 가치와 자의성이 개입될 여지가 있다는 비판으로부터 자유롭지 못합니다. 이러한 이유로 학계, 중앙생활보장위원회, 전문위원회 등에서는 최저생계비 계측방식에 대한 합리적인 대안 개발이 필요하다는 주장이 제기되고 있습니다.

이에 한국보건사회연구원은 보건복지가족부의 후원으로 『최저생계비 계측방식 개선방안 모색』이라는 주제로 국제포럼을 개최하고자 합니다. 바쁘신 중에도 부디 참석하셔서 고견을 주시기 바랍니다. 감사합니다.

2009년 7월

한국보건사회연구원장 김 용 하



# P R O G R A M

등 록 13:30 ~ 14:00

**개회식** 14:00 ~ 14:20

개회사 **김용하** (한국보건사회연구원 원장)

축 사 **손건익** (보건복지가족부 사회복지정책 실장)

**세션 발표 및 토론** 14:20 ~ 16:00  
사 회 **문진영** (서강대학교 공공정책대학원 교수)

〈세션 1〉 **영국의 공공부조와 최저생계비** 14:20 ~ 15:00  
**Jonathan Bradshaw** (Professor, University of York)

〈세션 2〉 **일본의 공공부조와 최저생계비** 15:00 ~ 15:40  
**Rie Iwanaga** (Professor, Kanagawa University of Human Service)

〈휴 식〉 15:40 ~ 16:00

〈세션 3〉 **한국의 공공부조와 최저생계비** 16:00 ~ 16:40  
**김미곤** (한국보건사회연구원 기초보장연구실장)

〈종합토론〉 16:40 ~ 18:00

토론자 **김상균** (서울대학교 사회복지학과 교수)  
**김성진** (기획재정부 사회정책과 과장)  
**김용성** (한국개발연구원 재정성과평가실 연구위원)  
**엄기욱** (군산대학교 사회복지학과 교수)  
**이상은** (송실대학교 사회복지학과 교수)  
**정호원** (보건복지가족부 기초생활보장과 과장)

\* 이상 가나다 순

※ 종합토론이 끝난 후, 저녁 6시부터 만찬이 예정되어 있사오니, 함께 하셔서 자리를 빛내주시면 감사하겠습니다.



# P R O G R A M

Registration	13:30 ~ 14:00
<b>Opening ceremony</b>	14:00 ~ 14:20
Opening Address <b>Kim, Yong-ha</b> (President, Korea Institute for Health and Social Affairs)	
Congratulatory Speech <b>Sohn, Gunn-Yik</b> (Chief Director, Office for Social Welfare Policy, Ministry for Health, Welfare, and Family Affairs)	
<b>Session &amp; Discussion</b>	14:20 ~ 16:00
Moderator <b>Moon, Jin-young</b> (Professor, Graduate School of Public Policy, Sogang University)	
<Session 1> <b>Social Assistance and the Measurement of the Minimum Cost of Living in United Kingdom</b>	14:20 ~ 15:00
Jonathan Bradshaw (Professor, University of York)	
<Session 2> <b>Social Assistance Schemes and the Measurement of the Minimum Standard of Living in Japan</b>	15:00 ~ 15:40
Rie Iwanaga (Professor, Kanagawa University of Human Service)	
Coffee Break	15:40 ~ 16:00
<Session 3> <b>Social Assistance and the Minimum Cost of Living in Korea</b>	16:00 ~ 16:40
Kim, Mee-gon (Director, Basic Social Security Research Division, KIHASA)	
<Discussion>	16:40 ~ 18:00
Discussants <b>Kim, Sang-kyun</b> (Professor, Seoul National University, Department of Social Welfare)	
<b>Kim, Sung-jin</b> (Director, Socio-economic Policy Division, Ministry of Strategy and Finance)	
<b>Kim, Yong-sung</b> (Fellow, Programs Evaluation Division, Korea Development Institute)	
<b>Um, Gi-Wook</b> (Professor, Kunsan National University, Department of Social Welfare)	
<b>Lee, Sang-Eun</b> (Professor, Soongsil University, Department of Social Welfare)	
<b>Jung, Ho-Won</b> (Director, Basic Livelihood Security Division, Ministry for Health, Welfare, and Family Affairs)	
Reception	18:00~



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## Session 1

# **Social Assistance and the Measurement of Minimum Cost of the Living in the United Kingdom**

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Jonathan Bradshaw (Professor, University of York)



# Social Assistance and the Measurement of the Minimum Cost of Living in the United Kingdom

## Brief history of the development of social assistance in the United Kingdom

The social assistance scheme in the UK dates from the Beveridge Report 1942. The Beveridge plan was that, in return for flat rate insurance contributions throughout working life, people would receive flat rate benefits to cover interruptions of employment and retirement. This insurance system would be supported by a system of family allowances payable for each child, a National Health Service free at the point of use, full employment - and, as a safety net, there would be means-tested social assistance, paid for out of general taxation, providing a minimum income for those who fell through the insurance net.

This Minimum Income Scheme was called National Assistance and started in 1948. It was renamed Supplementary Benefit in 1966 and Income Support in 1988. Retirement pensioners' Income Support became Minimum Income Guarantee in 1999 and then Pension Credit in 2003. Income Support for unemployed people became income based Job Seeker's Allowance in 1996. The child and family related elements of Income Support have progressively been replaced by the phasing in of Child Tax Credit, although this is not yet complete for existing claimants. In October 2008, new claims for Income Support for those considered incapable of work ended, and were replaced by claims for 'Employment and Support Allowance'.

Despite all these changes in name, the main elements of the scheme for out-of work benefits have remained the same. However, means-tested benefits have also been extended to supplement in-work incomes. Some low-paid workers, and some of those with a low income

and an earner in the family, can claim Working Tax Credit and Housing Benefit and Council Tax Benefit, and families with children can also receive Child Tax Credit. These cash benefits and tax credits, together with the statutory minimum wage, in principle provide a minimum income guarantee for some groups.

Minimum incomes for both the in and out of work are guaranteed by a complex combination of benefits and other support. These benefits together provide a minimum income for claimants, which varies dependent on their different circumstances (such as their age, family, and whether they have a disability), and their resources (including earnings and savings). As such, households are treated as a benefit unit for the purposes of means-tested benefits.

## Essentials of the Program

Income Support (IS) is a benefit paid to support people on a low income who are not in full-time employment (working 16+ hours per week) and who do not have to be 'available for and actively seeking work' (CPAG, 2008, p.291), such as lone parents with young children.

Maximum IS rates differ for people in different circumstances (for instance, how old you are, whether you are part of a couple etc.); the eligible rate for a claimant is known as their 'applicable amount'. Above very low earnings limits (between £5 and £20 per week), IS tapers away at a rate of 100% of additional earnings. Income from other sources, and savings or other capital, may also reduce the amount of IS a claimant is entitled to.

### *Means-tested (Income Based) Job Seekers Allowance*

Means-tested Job Seekers Allowance (JSA) is similar to Income Support, also being a benefit to support working age people on a low income who are not in full-time employment. However, unlike IS, they must be available for, and actively seeking, full-time work (work of 16 hours per week or more, depending on category of claimant).

As with IS, maximum JSA rates depend on a claimant's applicable amount. Above very low earnings limits (between £5 and £20 per week), JSA tapers away at a rate of 100% of additional earnings. Income from other sources, and savings or other capital may also reduce the amount of means-tested JSA a claimant is entitled to.

### *Income based Employment and Support Allowance*

For new claims from October 2008, instead of applying for IS on account of illness or disability, working age claimants must apply for means-tested Employment and Support

Allowance (ESA) if they are unable to work due to being incapacitated (and do not have the National Insurance contributions record necessary to claim contribution based ESA and are not entitled to statutory sick pay). Income based ESA can also be claimed as a top-up to contribution based ESA.

As with IS, income based ESA rates depend on a claimant's applicable amount. After 13 weeks of receipt of income based ESA (known as the 'assessment phase'), the claimant's applicable amount will increase, since they will either receive the 'work related activity' component (if they are deemed to be capable of work related activities and comply with certain work related activity requirements) or the 'support' component (if they are deemed to be incapable of work related activity.)

In general you cannot work and be incapable of work at the same time (CPAG, 2008, p.662). However, recipients of ESA can do a certain amount of 'permitted work' without reductions in their ESA. For up to 52 weeks (or longer in some circumstances), ESA recipients can earn up to £92 per week from 'permitted work'. Income from other sources, and savings or other capital, may reduce the amount of income based ESA a claimant is entitled to.

People who have care needs as a result of a disability may be entitled to Disability Living Allowance (DLA) or Attendance Allowance (AA), which are both non-means-tested benefits to help with the additional costs of living with a disability. Those eligible for DLA may also be entitled to help with mobility needs. These benefits do not count as income for the purposes of means-tested benefits and actually in some situations increase the applicable amount.

#### *Pension Credit 'guarantee credit'*

Pension Credit 'guarantee credit' is a benefit for low-income people aged 60 and over. The 'guarantee credit' provides a minimum income guarantee which again depends on an individual's circumstances (such as whether you are single or part of a couple, and whether you have a disability, or caring responsibilities). The guarantee credit tops a claimant's income up to this minimum guarantee, meaning that there is effectively a 100% taper on any (non-disregarded) income. Savings and other capital may also reduce the amount of credit a claimant is entitled to. However, if a claimant is aged 65 or over, then they may be entitled to some 'savings credit' (to help those who have saved small amounts and otherwise might be excluded from the scheme) even if their income is too high to be eligible for the guarantee credit.

#### *Housing Benefit*

Housing Benefit (HB) is paid to low income people who rent, to help them with their housing costs (help with housing costs for people who own their home may be available through IS or means-tested JSA or means-tested ESA - notably, this means that you cannot get help with

mortgage costs if you are in work, despite being able to get HB whilst in work).

The maximum amount of HB a claimant is entitled to (the most they could receive prior to means testing) will depend on factors including the claimant's age, the size of their family, where they live - and the amount of rent that they actually pay, since HB will not be paid at a rate higher than the actual cost of your accommodation (or not more than £15 per week more than the cost of your accommodation if the new local housing allowance rules apply). People with larger families, in areas of the country with higher rental prices, will typically be eligible for a higher allowance to help with housing costs than smaller families in areas of the country with lower housing costs.

IS, means-tested JSA, income based ESA and Pension Credit (Guarantee Credit) automatically 'passport' claimants to full HB. If a claimant is not passported in this way then their HB is means tested. In these cases, for income above low earnings limits, HB tapers away at a rate of 65% gross.

Childcare costs are disregarded as earnings for the purposes of calculating a claimant's entitlement to both HB and CTB, meaning that for working recipients of HB and CTB these benefits may effectively help subsidise childcare costs.

#### *Council Tax Benefit*

Council Tax Benefit (CTB) is paid to low income people who are liable for council tax (local taxation), to help them with their Council Tax bill.

IS, means-tested JSA, income based ESA, and Pension Credit (guarantee credit) automatically 'passport' claimants to full CTB. If a claimant is not passported in this way then their CTB is means tested. In these cases, for income above low earnings limits, CTB tapers away at a rate of 20% gross.

#### *Tax Credits*

'Tax Credits' are comprised of two parts: Child Tax Credit (CTC) and Working Tax Credit (WTC). CTC is payable to households responsible for a child or qualifying young person, whether or not anyone in the household is in paid work. WTC is payable to households with somebody in work of 16+ or 30+ hours per week (depending on circumstances), whether or not they are responsible for a child. WTC also contains a childcare element which can provide help with up to 80% of childcare costs for up to £175 per week for one child or £300 for two or more children.

Both CTC and WTC are means-tested benefits. If you are eligible for both CTC and WTC,

the income threshold is currently £6420 per year. Tax Credits are tapered at a rate of 39%, for earnings above this income threshold.

However, for just the 'family element' of CTC (£545 per year, or £1,090 per year if the household has a baby), a considerably higher threshold (£50,000 per year) also applies, meaning that families entitled to CTC can earn up to about £50,000 per year and still receive their maximum entitlement of the CTC family element.

### *Child Benefit*

Child Benefit (CB) is a universal (neither contributory nor means-tested) benefit paid to people who are 'responsible for a child or qualifying young person' (CPAG, 2008, p. 56). As of January 2009, CB has been paid at a rate of £20 per week for the oldest child and £13.20 per week for each additional child.

### *Benefits in kind*

People receiving social assistance and maximum child tax credit are entitled to exemption from charges for pharmaceutical prescriptions, dental and optical treatment and free school meals. In the UK the National Health Service provides health care free at the point of demand for all. Those receiving social assistance can apply for a grant or more usually a loan to the Social Fund to meet exceptional needs.

### *Minimum Wage*

The national minimum wage is the lowest amount it is legal for an employer to pay an employee. - Standards and changes for choosing recipient and setting benefit level of the schemes

## Benefit Levels

How these benefits work together to comprise a claimant's 'minimum income' can be best seen through examples. As can be seen from the examples below, the minimum incomes of people vary significantly depending on their circumstances:

Table 1: Minimum income benefits for those out of work by claimant type and benefit<sup>1</sup>

Claimant type	£ per week after housing costs	Breakdown of benefits received (in addition, claimants receive full Housing Benefit and Council Tax Benefit). Claimants will also receive some 'passported' benefits in all cases
Single person aged 16-24 (entitled to income based JSA) <sup>2</sup>	£50.95	Income based JSA (single under 25 rate) - £50.95
Single person aged 25+	£64.30	Income Based JSA (single over 25 rate) - £64.30
Couple aged over 18	£100.95	Income Based JSA (couple over 18 rate) - £100.95
Couple aged under 18 (and both entitled to Income based JSA) <sup>3</sup>	£76.90	Income Based JSA (couple under 18 and both entitled to income based JSA rate) - £76.90
Single person, in receipt of ESA for more than 13 weeks (and capable of work related activity)	£89.80	Income Based ESA including work related activity component - £89.80
Lone parent aged 18 <sup>+</sup> +1child	£137.71	IS/Income Based JSA (LP 18 <sup>+</sup> rate) - £64.30 Child Tax Credit - £53.41 Child Benefit - £20
Lone parent aged 18 <sup>+</sup> +2 children	£193.82	IS/Income Based JSA (LP 18 <sup>+</sup> rate) - £64.30 Child Tax Credit - £96.32 Child Benefit - £33.20
Couple aged 18 <sup>+</sup> +1 child	£174.36	Income Based JSA (couple 18 <sup>+</sup> rate) - £100.95 Child Tax Credit - £53.41 Child Benefit - £20
Couple aged 18 <sup>+</sup> +2 children	£230.47	Income Based JSA (couple 18 <sup>+</sup> rate) - £100.95 Child Tax Credit - £96.32 Child Benefit - £33.20
Couple aged 18 <sup>+</sup> +3 children	£286.58	Income Based JSA (couple 18 <sup>+</sup> rate) - £100.95 Child Tax Credit - £139.23 Child Benefit - £46.40
Single person (aged 60+)	£130.00	Pension Credit (Guarantee) - £130
Couple (aged 60+)	£198.45	Pension Credit (Guarantee) - £198.45

1. Assumptions and notes:

- 1) Claimants are eligible to receive Housing Benefit and Council Tax Benefit (CTB). (Except that people under 18 cannot be liable for council tax (and therefore a single person aged under 18 or a couple both aged under 18 cannot receive CTB either).
  - 2) In some cases the table does not specify whether the claimant is entitled to IS or income based JSA; this is where this depends upon unspecified circumstances.
  - 3) Where claimants do not have children, it is assumed that they are not entitled to IS.
  - 4) Children are assumed to be over the age of 1 and under 16.
2. It should be noted that special rules for 16/17 year olds apply and entitlement to income based JSA is limited.
3. See previous footnote.

Table 2: Minimum Incomes for those in work, by claimant type and income source<sup>4</sup>

Claimant type	£ per week after housing costs (assuming £60/wk rent and £18 council tax)	Income breakdown
Single person aged 20, working 16 hours per week	£59.01	Income (after tax and NI) - £76.32 Housing Benefit - £46.76 Council Tax single occupancy reduction - £4.50 Council Tax Benefit - £9.43
Single Person aged 20, working 30 hours per week	£70.36	Income (after tax and NI) - £135.68 Housing Benefit - £8.18 Council Tax single occupancy reduction - £4.50 Council Tax Benefit - £0
Single person aged 25+ working 30 hours per week	£114.21	Income (after tax and NI) - £155.56 Housing Benefit - £0 Council Tax single occupancy reduction - £4.50 Council Tax Benefit - £0 Working Tax Credit - £32.15
Couple aged 25+ one working 30 hours per week	£145.41	Income (after tax and NI)- £155.56 Housing Benefit- £0 Council Tax Benefit- £0 Working Tax Credit - £67.85
Couple aged 25+ both working 30 hours per week	£233.93	Income (after tax and NI) - £311.12 Housing Benefit - £0 Council Tax Benefit - £0 Working Tax Credit - £0.81
Lone parent aged 22+ working 30 hours per week +1 child aged 2	£223.32 + passported health benefits	Income (after tax and NI) - £155.56 Housing Benefit - £0 Council Tax single occupancy reduction - £4.50 Council Tax Benefit - £0 Working Tax Credit - £67.85 Child Tax Credit - £53.41 Child Benefit - £20
Couple aged 22+ , one working 30 hours per week +1 child aged 2	£218.82 + passported health benefits	Income (after tax and NI) - £155.56 Housing Benefit - £0 Council Tax Benefit - £0 Working Tax Credit - £67.85 Child Tax Credit - £53.41 Child Benefit - £20
Couple aged 18+ , one working 30 hours per week +3 children aged 2 or more	£331.04 + passported health benefits	Income (after tax and NI) - £155.56 Housing Benefit - £0 Council Tax Benefit - £0 Working Tax Credit - £67.85 Child Tax Credit - £139.23 Child Benefit - £46.40

4. Assumptions

- 1) Claimants assumed to be eligible for HB and CTB with no rent restrictions for HB.
- 2) No childcare costs in any cases.
- 3) In all cases, earnings were the same in previous financial year (08/09) as in current financial year (09/10).
- 4) No claimants (or children) have any disabilities.
- 5) In some cases, claimants may receive partial health benefits under the low income scheme (only passported health benefits are noted in the table).

The social assistance scheme in the UK is a national scheme, and all the rules apply to every country in the UK. Administrative responsibilities differ between different benefits:

- The Department for Work and Pensions (DWP) has overall responsibility for the administration of benefits including IS, ESA and JSA, as well as Pension Credit and the Social Fund.
- Every area has a local Jobcentre Plus which is staffed by civil servants and responsible for the day to day administration of claims and payments of IS, ESA and JSA.
- Pension Credit is administered by the Pension Service- an executive agency of the DWP (CPAG, 2008, p.446)
- With regard to the discretionary Social Fund, fixed amounts are allocated by the Government to DWP districts and decisions are made by decision makers in local DWP offices (CPAG, 2008, p.485).
- Her Majesty's Revenue and Customs (HMRC) has responsibility for the administration of Tax Credits and Child Benefit.
- Housing Benefit and Council Tax Benefit are administered by local authorities (but DWP is responsible for policy).

There is an independent Social Security Advisory Committee which advises the Secretary of State on all benefit matters. It also has a Memorandum of Understanding with HMRC about Tax Credits. The House of Commons has a Work and Pensions Select Committee which establishes inquiries relating to the 'expenditure, administration and policy of the Department for Work and Pensions.'<sup>5</sup> There is also a Treasury Select Committee, whose responsibilities include the examination of the expenditure, administration and policy of HMRC.<sup>6</sup>

## Coverage

Beveridge intended that his social assistance scheme would be a residual safety net for those who fell through the national insurance system. However, it has been far from that. Income-related benefits were 34 per cent of all social security expenditure in 2007/8. This has increased from 13% of benefit expenditure in 1948/49.<sup>7</sup> Roughly 4.8 million people received all or part of their income from IS, income based JSA and Pension Credit in 2007/8 - approaching 10 per cent of the population.

Income based JSA is the main source of income for unemployed people – 616,000 received it

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5. [http://www.parliament.uk/parliamentary\\_committees/work\\_and\\_pensions\\_committee.cfm](http://www.parliament.uk/parliamentary_committees/work_and_pensions_committee.cfm).

6. [http://www.parliament.uk/parliamentary\\_committees/treasury\\_committee.cfm](http://www.parliament.uk/parliamentary_committees/treasury_committee.cfm).

7. (see table below).

in 2007/8 compared with only 128,000 receiving contributory JSA.<sup>8</sup>

Many sick and disabled people receive all or part of their income from IS, in August 2008 around 1,118,000 people received IS on account of disability/incapacity.<sup>9</sup> New claims from October 2008 which would have been for IS on account of illness or disability are now for Employment and Support Allowance (ESA).

It is currently the main source of income for lone parents not in employment. In August 2008 around 745,000 Lone Parents received IS.<sup>10</sup>

In August 2008, 2.13 million claimants were receiving the Pension Credit guarantee credit (890,000 received only the guarantee credit and 1.24 million received guarantee credit and some savings credit).<sup>11</sup>

This is partly due to failures in the Beveridge scheme; partly due to failures in the implementation of the Beveridge proposals; and partly due to changes in labour demand in the last 60 years. We shall deal with each of these in turn.

#### *Failures in the Beveridge scheme*

The Beveridge scheme had three major flaws.

The first flaw was that Beveridge flunked the problem of housing costs. His insurance scheme provided a national system of benefits to cover all requirements including housing costs. Housing costs vary from place to place and, although Beveridge discussed how he was going to deal with this problem in a national system, he did not come up with a solution. Social assistance paid rent including rates (local taxes). This meant that many receiving flat rate insurance benefits found themselves with lower incomes than social assistance plus rent. They were thus eligible for a top up. Thus today social assistance is not a safety net to social insurance but the prop supporting the residual national insurance scheme (at least for those of working age).

The second flaw was that divorce and relationship breakdown were not made an insurable risk. Beveridge discussed the possibility of making divorce an insurable risk but, although his scheme made provision for widows, it did not cover other types of lone parents. Divorce was very rare in the 1940s, but by the 1970s it had begun to increase sharply, and together with other social changes means that today about one in four families with children is a lone parent family. The UK has never been very successful at getting lone parents into the labour market and so, with no insurance benefit to turn to, lone parents claimed social assistance.

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8. [http://www.dwp.gov.uk/asd/asd4/medium\\_term.asp](http://www.dwp.gov.uk/asd/asd4/medium_term.asp).

9. [http://www.dwp.gov.uk/asd/asd1/stats\\_summary/Stats\\_Summary\\_Feb2009.pdf?x=1](http://www.dwp.gov.uk/asd/asd1/stats_summary/Stats_Summary_Feb2009.pdf?x=1).

10. [http://www.dwp.gov.uk/asd/asd1/stats\\_summary/Stats\\_Summary\\_Feb2009.pdf](http://www.dwp.gov.uk/asd/asd1/stats_summary/Stats_Summary_Feb2009.pdf).

11. [http://www.dwp.gov.uk/asd/asd1/stats\\_summary/Stats\\_Summary\\_Feb2009.pdf](http://www.dwp.gov.uk/asd/asd1/stats_summary/Stats_Summary_Feb2009.pdf).

The third flaw was that Beveridge did not recognise civilian disability. His scheme covered those injured in war or at work with higher benefits, but those congenitally disabled or injured by non-work accidents were not covered. And these people, together with others who had not earned benefits by contributions but were incapable of paid work, had no specific benefit. Neither did those who had to give up work to care. They all had to have recourse to social assistance. Although successive governments tried to fill this gap with a new set of non-contributory, non-means-tested benefits, many still have to supplement these benefits with means-tested housing benefits and/or social assistance, in part because the non-contributory benefits had rates that were deliberately set lower than contributory benefit levels.

The second flaw was the Beveridge proposals were not all fully implemented. Beveridge envisaged that entitlement to benefits for pensioners would be built up over a period of time. However, the post-war government decided that it had to pay pensions to existing pensioners from the start of the scheme. As a result, the benefit rates that were paid were at a lower level than Beveridge had proposed and thus, with the addition of housing costs, many recipients of social insurance benefits became eligible for social assistance as a top up to their insurance benefits.

Also, Beveridge had proposed that Family Allowances should be paid for all children, but they were introduced only for the second and subsequent child in 1946. This meant that out-of-work benefits had to be constrained to prevent the net incomes of low wage earners with children being lower than the amount they would receive if they claimed out-of-work benefits.

The third flaw was that Beveridge assumed that Keynesian macro-economics would ensure full employment in the post war period. But from the mid 1960s unemployment began to rise, and in the early 1980s and again in the early 1990s there were over three million unemployed. The unemployment insurance system effectively collapsed under the strain and social assistance (income based JSA) is now the main recourse for unemployed people - and the only recourse for those out of work for more than six months.

The result is that means-tested benefits have been taking an increasing proportion of social security spending. It can be seen that in Table 3 means-tested benefits constituted 13 per cent of the benefits budget in 1948/49, but that by 2007/8 they constituted 34 per cent (if Tax Credits are taken into account).

Table 3: British benefit expenditure 1948/9-2007/8

	Percentages							
	1948/9	1958/9	1968/9	1978/9	1988/9	1998/9	2003/4	2007/8
Contributory <sup>12</sup>	53	67	69	66	55	47	45	45
Noncontributory, non income related <sup>13</sup>	34	23	17	17	17	20	21	21
Means-tested benefits <sup>14</sup>	13	10	14	17	28	33	27	25
Tax Credits <sup>15</sup>							7	9
Total income related	13	10	14	17	28	33	34	34
All benefit spending	100	100	100	100	100	100	100	100
(£000s)	(471)	(1,287)	(3,172)	(15,837)	(47,315)	(95,557)	(124,511)	(150,580)

## Adequacy

There are four ways of approaching the issue of adequacy:

How have benefit rates changed over time?

For social assistance, we do not have a consistent time series since 1948. However, in Table 4 we show what has happened to unemployment benefit over time. It has increased in real value by 75 per cent between 1948 and 2007. But in comparison with average earnings, it has more or less halved in value. Also in real terms it has not maintained its value since the mid 1980s. The reason for looking at the value of unemployment benefit is that it has been very similar to the level of social assistance (income based JSA) over time, and is now an identical amount.

The next row of the table shows what has happened to IS for a single person over 25 since 1989. It has maintained its value in comparison with prices but fallen in value compared with average earnings.

12. Retirement pension, widows benefits, sickness benefit, unemployment benefit, Job Seekers Allowance (contribution based), maternity benefits.

13. Family Allowance, Child Benefit, disability benefits, death grant etc. Child Benefit spending was excluded from the DWP series from 2003/4 as responsibility was transferred to HMRC. HC Supply Estimates give totals for Child Benefit and Child Trust Fund.

14. National Assistance, Supplementary Benefit, Income Support, Family Income Support, Family Credit, Pension Credit, Housing Benefit, Rate Rebate, Council Tax Benefit, Job Seekers Allowance (income based). Some DWP means-tested benefits are replaced by Tax Credits after 2003.

15. Working Families Tax Credit, Child Tax Credit, Working Tax Credit. (GB est.)

In contrast, families with children and pensioners on social assistance have both had substantial improvements in their real incomes since 1988/9 and have also maintained their incomes in comparison with average earnings.

Table 4: Benefit rates over time

	Real value £pw April 2007 prices		Rate as a percentage of average earnings
Unemployment benefit/JSA July 1948	£33.72	Unemployment benefit/JSA September 1971	20.9
November 1985	£65.21		
April 1989	£62.36		
April 2007	£59.15	April 2007	10.8
Income Support (single person aged over 25) April 1989	£58.66	Income Support (single person aged over 25) April 1989	14.6
April 2001	£59.77		
April 2007	£59.15	April 2007	10.8
Minimum Income benefits for couple with two children aged under 11 April 1989	£142.53	Minimum Income benefits for couple with two children aged under 11 April 1989	35.4
April 2007	£204.13	April 2007	37.1
Pension Credit (and predecessors) for single person aged 60-74 April 1988	£77.99	Pension Credit (and predecessors) single person aged 60-74 April 1988	20.2
April 2007	£119.05	April 2007	21.7

These changes in the relative value of social assistance paid to different classes of claimant have occurred as a result of the uprating regime. Before the 1980s, there was a fairly ad hoc system for uprating benefits. From 1988, IS was uprated by movements in the Rossi price index (RPI less rent, local taxes and mortgage interest payments).

The current situation is that most means-tested benefits (including IS, HB and means-tested JSA) are uprated at the start of the financial year with the previous September's 12 month rate of the ROSSI index. However, some means-tested benefits, including the child element of CTC, and Pension Credit guarantee credit, are typically uprated in line with average earnings.<sup>16</sup>

A number of other contributory and non-means-tested benefits, including Incapacity Benefit,<sup>17</sup> Child Benefit and Disability Living Allowance are uprated in line with the previous September's 12 month rate of the Retail Price Index.<sup>18</sup>

16. Cracknell, R. (2009); '2009 benefit uprating' standard note 4901; House of Commons library.

17. Although ESA will be uprated in line with the ROSSI index.

18. Cracknell, R (2009); '2009 benefit uprating' standard note 4901; House of Commons library.

There has been a growing gap between the benefit rates paid to childless single people and couples on the one hand and families with children and pensioners on the other. As can be seen above, in 1989 a single pensioner received about £20 per week more than a person aged over 25 on IS. By 2007, that gap had grown to £60 per week more.<sup>19</sup>

The difference is even more apparent for those aged under 25. Not only do single claimants under 25 have a lower rate of JSA or IS than those over that age (£47.95 per week in April 2008 compared to £60.50, without premiums), but in addition they are not entitled to claim WTC (unless they have a child or a disability) (CPAG, 2008, pp.1209-1210), and in many cases their HB will be restricted by the 'Single Room Rent' to a considerably lower rate than they would be entitled to if over 25 (more on this below.) Under the age of 22, they are also entitled to a lower minimum wage rate (£4.77 per hour for 18-21 year olds compared to £5.73).

Differences in minimum incomes between groups at different ages raise two key issues with regard to minimum income scheme adequacy. Firstly, why does an unemployed 55 year old need around half the amount to live on as a 60 year old, and why does a 20 year old need considerably less than this? Secondly, given that benefit gaps for different groups have grown considerably, why is it that if policy makers took the view at one time that the relative needs of different types of claimant varied by £X per week, how can they at a different time be £Y per week? The answer to both these questions is that need is not the only determinant of minimum income schemes.

#### *How do benefit scales relate to need?*

One approach to answering this question is to employ budget or minimum income standards methodology to establish what income is enough to meet what Rowntree called physical necessities, and what modern budget standards refer to as a basic or minimum healthy lifestyle. Budget standards were re-established in Britain with the work of the Family Budget Unit (FBU).<sup>20</sup> Middleton and colleagues at the Centre for Research in Social Policy (CRSP) also developed a consensual approach to budget standards,<sup>21</sup> and Morris<sup>22</sup> developed Minimum

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19. <http://www.hmrc.gov.uk/nmw/>

20. Bradshaw, J. (ed.) (1993) *Budget Standards for the United Kingdom*, Studies in Cash & Care, Avebury: Aldershot; Parker, H. (ed) (1998) *Low Cost but Acceptable: A minimum income standard for the UK: Families with young children*, Bristol: The Policy Press; Parker, H. (ed) (2000) *Low Cost but Acceptable Incomes for Older People. A minimum income standard for households aged 65-74 years in the UK*, Bristol: The Policy Press.

21. Smith, N., Middleton, S., Ashton-Brooks, K., Cox, L. and Dobson, B. with Reith, L. (2004) 'Disabled People's Costs of Living: More than you would think', York: Joseph Rowntree Foundation. ISBN 185935 236 7. Middleton, S., Ashworth, K. and Braithwaite, I. (1997), 'Small Fortunes: Spending on Children, Childhood Poverty and Parental Sacrifice', York: Joseph Rowntree Foundation. Middleton, S., Maguire, S., Shropshire, S. and Kellard, K. (1998) 'Household Budgetary Requirements in Jersey', CRSP Working Paper 359, Loughborough: Centre for Research in Social Policy.

22 Morris, J. and Deeming, C. (2004) 'Minimum Incomes for Healthy Living (MIHL): next thrust in social policy?', *Policy and Politics*, 32, 4, 441-454. Morris, J. (chair), Dangour, A., Deeming, C., Fletcher, A. and Wilkinson, P. (2005) 'Minimum income for healthy living: older people', London: Age Concern Reports.

Income for Healthy Living (MIHL) Standards for older people and single people.

The most recent (and elaborate) work, however, has been the large Joseph Rowntree Foundation project which resulted in Minimum Income Standard for Britain.<sup>23</sup> This combined the consensual approach of the CRSP work with the more normative approach of the FBU. Minimum income standards (MIS) for a range of household types were established by an iterative process involving focus groups representing those household types and the assessment of experts. The aim was to achieve a standard defined as follows:

‘A minimum standard of living in Britain today includes, but is more than just, food, clothes and shelter. It is about having what you need in order to have the opportunities and choices necessary to participate in society.’

The food budget was assessed for nutritional adequacy and to ensure that it met the guidelines for healthy eating.<sup>24</sup> The fuel budget<sup>25</sup> was designed to enable the household to reach adequate levels of warmth, given the thermal efficiency of the dwelling. The costs of the dwelling for each household were established to meet adequate space, fitness and thermal standards. In general, the budgets covered the need to participate, including taking healthy exercise.

The MIS establishes a standard that can be compared with benefit levels and the income thresholds used to establish poverty rates.

Figure 1 compares the MIS for a variety of household types with the benefits that would be payable to those households on IS and Pension Credit. It can be seen that there is a shortfall between the MIS and the benefit levels for all the household types except single people and couples of pension age. For them, Pension Credit achieved the MIS. However, this was only achieved by the introduction of free travel on buses for pensioners in April 2008 – before then, the MIS was a little above Pension Credit. The biggest gap between the MIS and IS rates was for childless single people and couples. While families with children and pensioners have had increases in the real level of IS and Pension Credit in recent years, the IS paid to childless single people and couples has remained the same in real terms since the mid 1970s (see above).

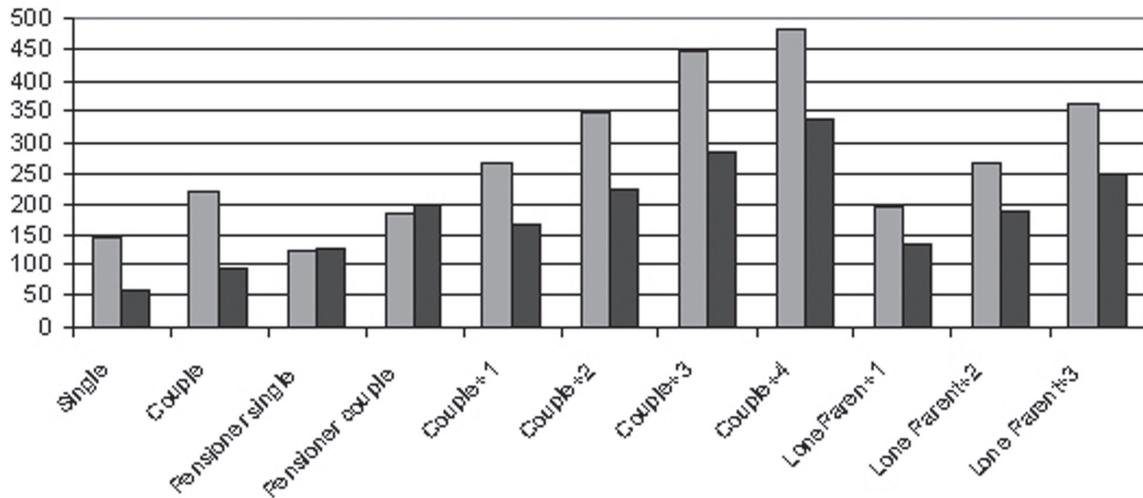
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23. Bradshaw, J., Middleton, S., Davis, A., Oldfield, N., Smith, N., Cusworth, L. and Williams, J. (2008) *A Minimum Income Standard for Britain: What people think*, York: Joseph Rowntree Foundation.

24. [http://www.minimumincomestandard.org/downloads/working\\_papers/MIS\\_thefoodbudgetstandard\\_workingpaper.pdf](http://www.minimumincomestandard.org/downloads/working_papers/MIS_thefoodbudgetstandard_workingpaper.pdf).

25. [http://www.minimumincomestandard.org/downloads/working\\_papers/MIS\\_Working%20paper%20on%20Fuel.pdf](http://www.minimumincomestandard.org/downloads/working_papers/MIS_Working%20paper%20on%20Fuel.pdf).

Figure 1: MIS compared with out of work benefits April 2008



In Table 5, we explore the relationship between the MIS and in-work incomes. The bottom line gives the wage rate for a standard working week that would be required in order to reach a net income equivalent to the MIS for that household type, given the in-work benefits and tax credits available - and assuming, for the couple family, that there is only one earner, and that the other adult has no income of their own. It shows that in all such cases the wage would have to be higher than the (then) minimum wage of £5.52 per hour. To achieve the MIS with a lower wage rate, the wage-earner would have to work for longer hours.

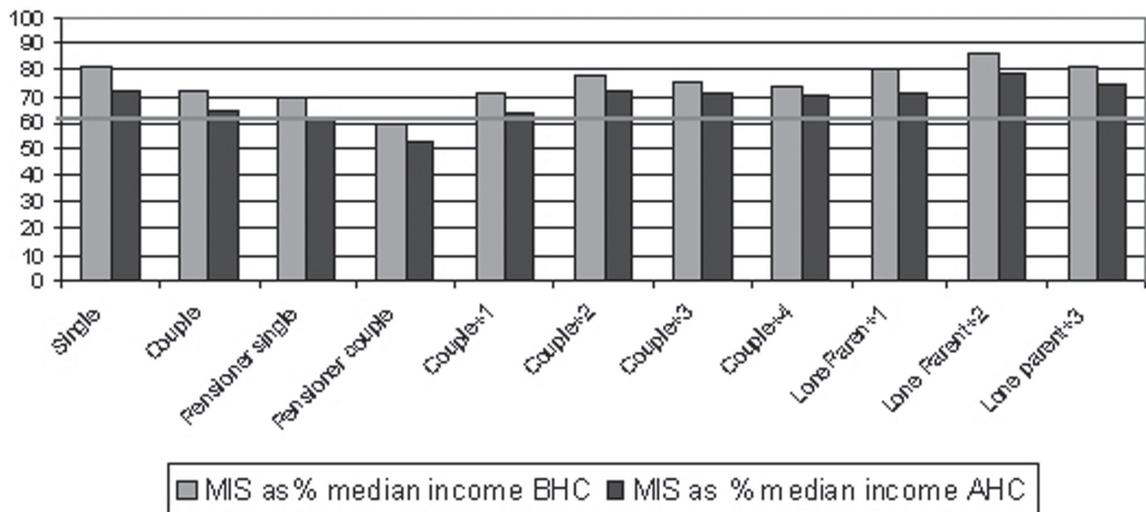
Table 5: Weekly earnings required to meet MIS, April 2008

	Single working age	Couple +2 no childcare	Lone parent +1
MIS (including rent and council tax)	210	439	301
Gross earnings required	258	516	230
Less income tax	-30.75	-82.35	-25.15
Less NI contributions	-16.83	-45.21	-13.75
Plus Child Benefit	0	31.35	18.80
Plus WTC	0	0	40.89
Plus CTC	0	19.78	50.44
Housing Benefit	0	0	0
Council Tax Benefit	0	0	0
Hourly wage rate for 37.5 hours per week	£6.88	£13.76	£6.13

In Figure 2, we compare MIS with median income. The line on the chart represents the 60 per cent of median income threshold that is used conventionally to estimate poverty rates in Britain. It shows that the MIS are higher than the poverty threshold for all household types, both before and after housing costs, except for single pensioners after housing costs and pensioner

couples before and after housing costs. This indicates that even if the social protection package were high enough to lift every household up to the poverty threshold (which clearly it is not), most households with children and childless single people and couples of working age would be below the MIS standard.

Figure 2: MIS as a % of median income April 2008

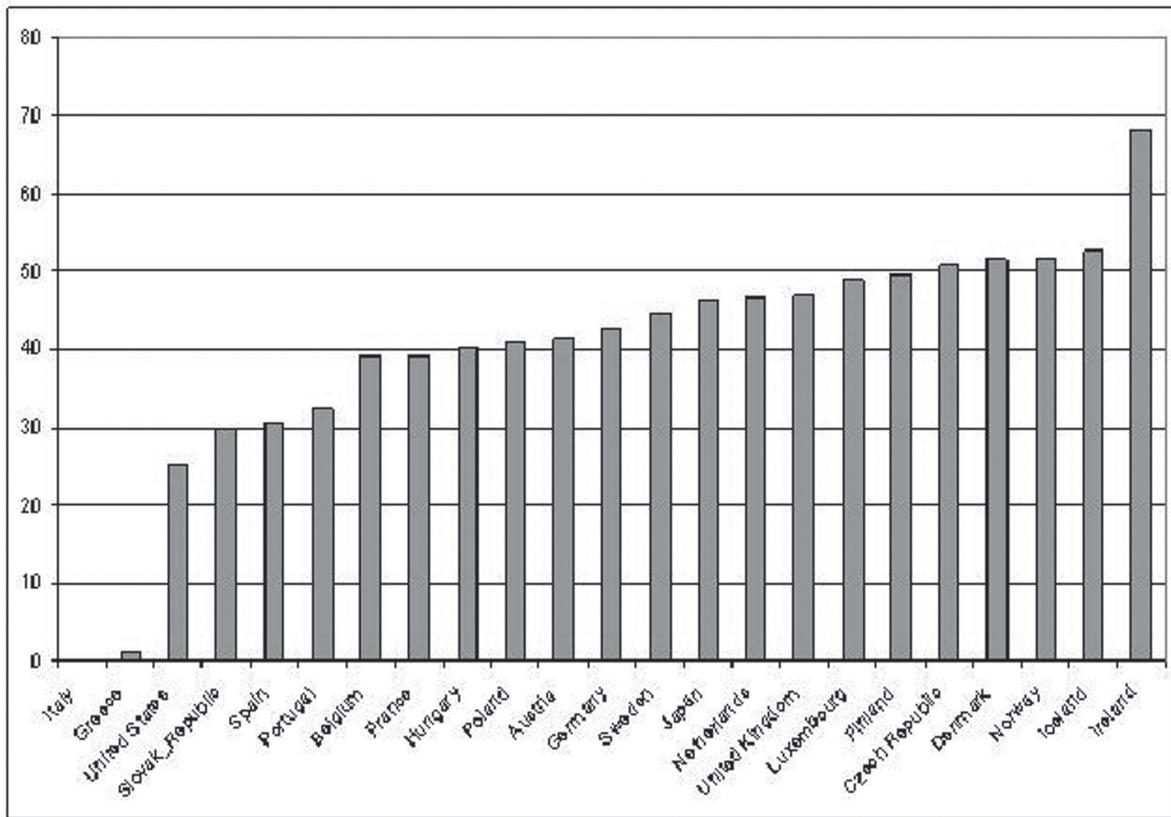


How do minimum incomes in Britain compare with those in other countries?

Here the data is not very good. Eurostat publishes Context Tables 9 and 10 as part of its Inclusion Indicators. Table 9 gives unemployment and inactivity traps, which may be related to social assistance levels. Table 10 gives the net income of social assistance recipients (single person, lone parent plus two children and couple plus two children) as a percentage of the at risk of poverty threshold. We have commented before that the data for the UK in this table must be wrong. This is because for the UK and some other countries it shows that social assistance is higher than the poverty threshold, which is certainly not correct for the UK.

The source for this series is given as ‘Joint EC-OECD project using OECD tax-benefit models’, and Eurostat. The OECD does collect data on social assistance payments for certain standard family types as part of its taxing wages series and Figure 3 shows that, at least for lone parents with two children, the UK minimum income as a percentage of the average wage is considerably lower than that in Ireland, but in the middle of the distribution of similar EU countries.

Figure 3: Net income of lone parents with two children on social assistance as a % of the average production wage. OECD 2007

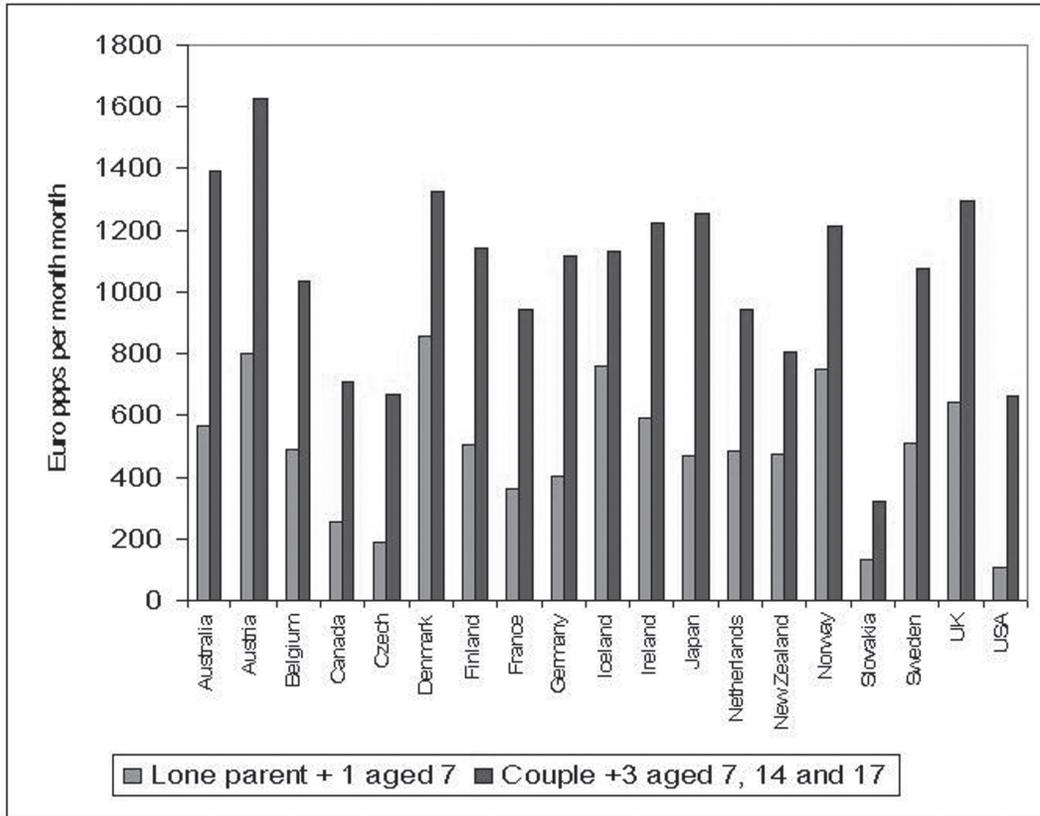


Perhaps the most recent thorough comparative analysis of social assistance was by Bradshaw and Finch.<sup>26</sup> This work was replicated and updated for 18 countries and Figure 4 shows the social assistance scales paid to a lone parent with one child and a couple with four children, as at January 2004.<sup>27</sup> The UK is not the most generous; but the level of benefits is towards the high end of the distribution.

26. Bradshaw, J. and Finch, N. (2002) A Comparison of Child Benefit Packages in 22 Countries, Department for Work and Pensions Research Report No.174, Leeds: Corporate Document Services.

27. Bradshaw, J. (2006) 'Child benefit packages in fifteen countries', in Lewis, J. (ed.), Children, Changing Families and Welfare States, Cheltenham: Edward Elgar.  
<http://www.york.ac.uk/inst/spru/research/nordic/childbenefit2004%2018%20countries.pdf>.

Figure 4: Social assistance payable to two family types

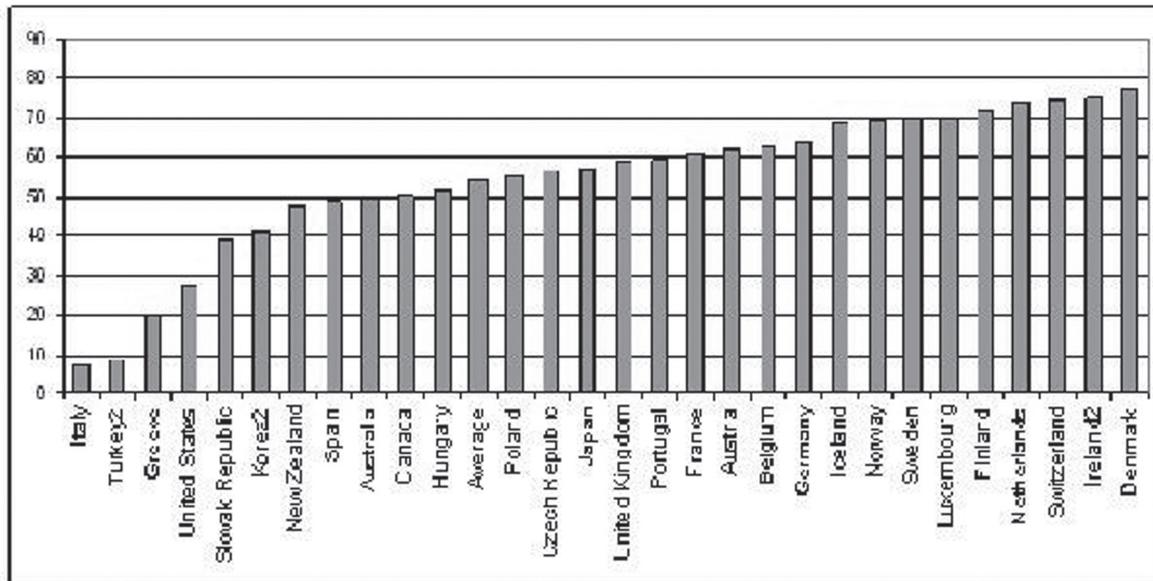


*Replacement rates*

There is no doubt that one of the constraints on the adequacy of social assistance rates is their relationship with net incomes in work. This is commonly estimated by the notional replacement rate.<sup>28</sup> The OECD (but not, we think, the EU) produces estimates of replacement rates and Figure 5 presents a comparative summary for 2006. The UK replacement rates are in the middle of the distribution.

28. Net income on social assistance as a proportion of net income in employment

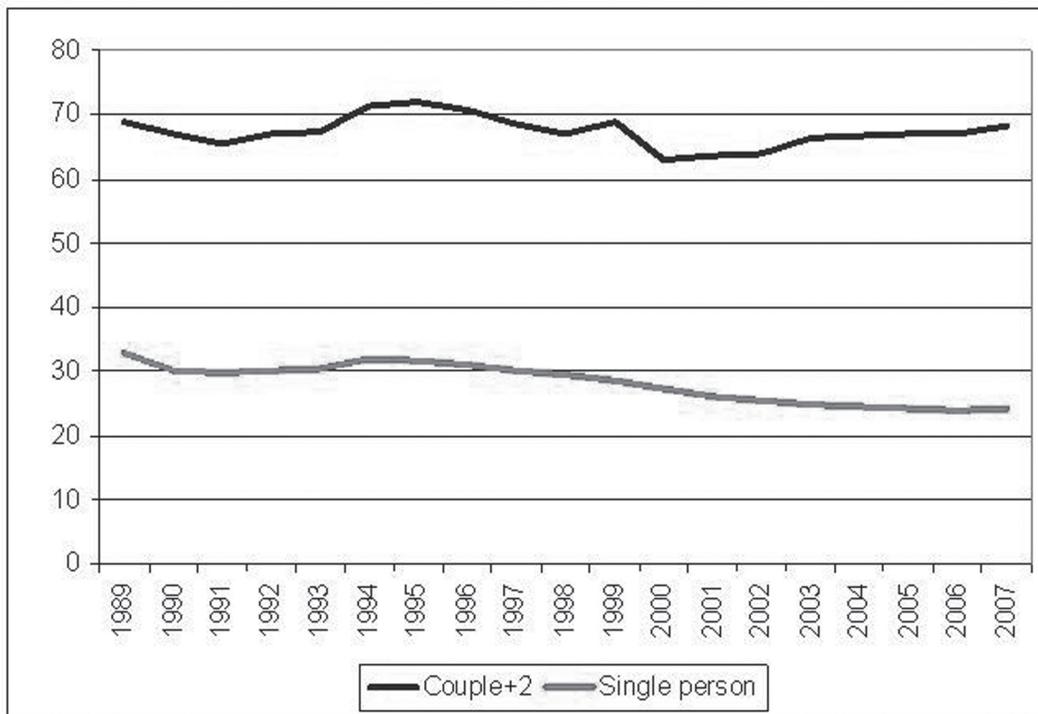
Figure 5: Average net replacement rate for four family types after five year unemployment on social assistance 2006



Source: <http://www.oecd.org/dataoecd/16/42/39720461.xls>.

It is also possible to estimate changes in replacement rates over time at national level. This is shown in Figure 6 for a couple with two children and a single person. It shows social assistance net income as a proportion of net income after housing costs for a one-earner family earning two-thirds average income (assuming no other income for the other adult in the couple). It is therefore a comparison between social assistance and the income available to a low-paid worker or a family with a low income and an earner. For the couple with children, replacement rates declined between 1989 and 2000, but there was then a hike in IS scales for children and replacement rates have risen to about the level they were in 1989. The replacement rate for the single childless person is much lower than for families with children, and has steadily declined since 1994. This is the result of in-work incomes rising faster than the Rossi Index.

Figure 6: Replacement rates of Income Support as a proportion of net income. One earner, two-thirds average earnings

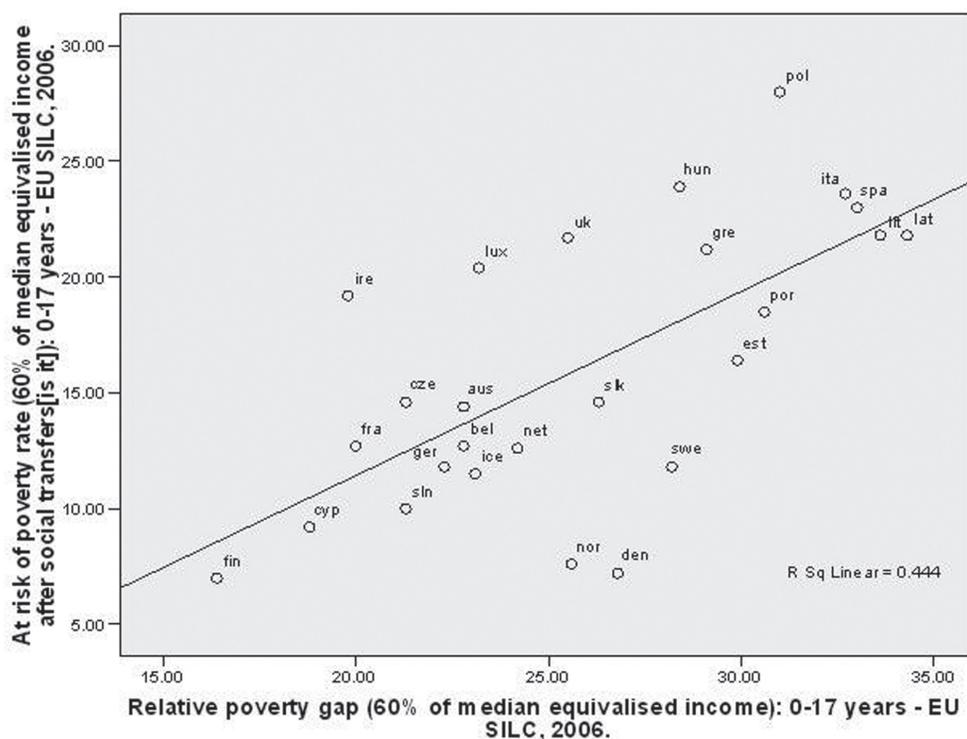


Source: DWP (2008) The abstract of statistics for benefits, national insurance contributions and indices of prices and earnings, 2007 edition.

## Evaluation

One claim that can be made for the UK minimum income scheme is that it is more or less comprehensive. If people claim their entitlement, and excepting certain cases - including sanctions, tax credit overpayments and rent restrictions (see below) - there is a minimum income below which they would not be expected to live. This may be one reason why, although the UK performs comparative badly on its poverty rate, it does much better on its poverty gaps. Figure 7 is an example of this in relation to child poverty – the UK poverty gaps are lower than you would expect given the poverty rates.

Figure 7: Child poverty rate by child poverty gaps. Own analysis of SILC 2006



Despite its comprehensiveness, the minimum income scheme is not very effective in lifting people dependent on it above the poverty threshold, however. This is certainly the case for the out-of-work benefit system, with the possible exception of pensioners receiving Pension Credit, as we have seen in Figure 2. For families with children, there is a gap between the ‘minimum income guarantee’ for full-time workers on the minimum wage (assuming one wage only) and the poverty threshold. In 2006/7, of all the children in poverty in the UK more than half (56%) had at least one parent in paid work.<sup>29</sup>

Another claim that could be made for the UK system is that it is predominantly rights based – there is very little scope for official discretion in the amounts received, or in the circumstances that determine the amounts received. Claimants have a right to appeal to an independent tribunal if they dispute the decisions made on their claims (although, as noted above, the rates of benefit payable whilst appealing to a tribunal may be lower than those which the appellant would otherwise be entitled to).

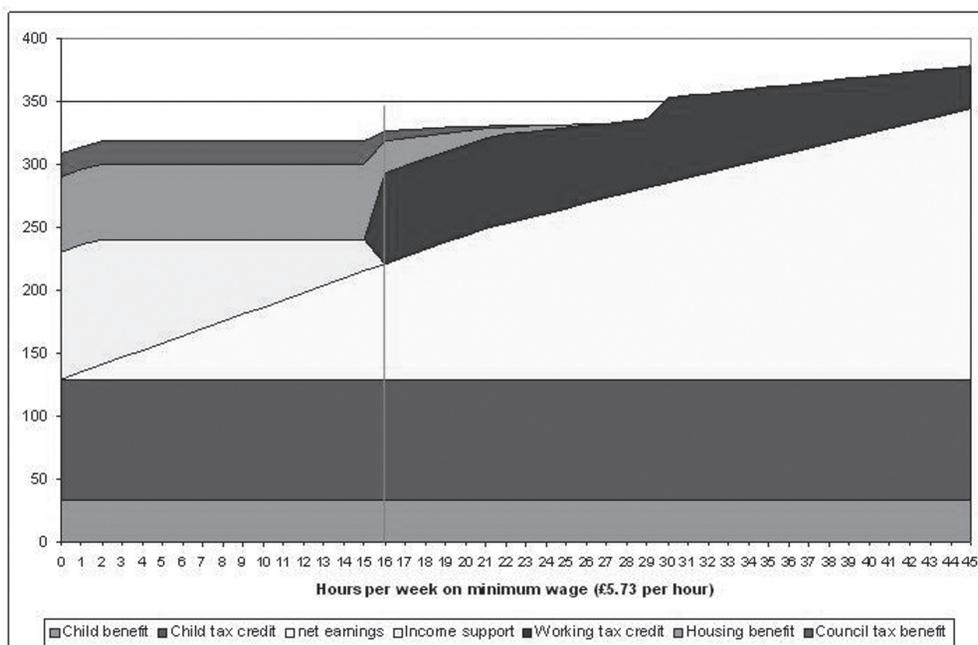
A possible disadvantage of this is that the scheme is short on flexible, individualised justice. There are no social workers with the capacity to vary rules to take account of exceptional circumstances and thus, in order to treat like cases alike and unlike cases unlike, the rules are quite complicated.

29. <http://www.poverty.org.uk/16/index.shtml>.

Against these possible advantages of comprehensiveness are a number of criticisms to be made of the UK scheme:

- A large means-tested element to a social security system is inevitably expensive to administer.<sup>30</sup>
- Both the out-of-work and in-work schemes have very high marginal tax rates on earnings. For several of the key means-tested benefits supporting those out of work, a marginal tax rate of 100% on earnings over the very low disregard limits is employed. The in-work scheme also has very high marginal tax rates arising from income tax and National Insurance contributions, and the loss of CTC, WTC, HB and CTB (though as a result very few of those in work are on HB in particular). The marginal tax rates are illustrated in Figure 8 for a couple with two children, with one earner earning the current minimum wage. The horizontal axis gives the hours worked and the vertical axis the net incomes. The marginal tax rate is at least 70% across the range of hours, and as high as 85% at certain parts of the range. At 16 hours' paid work per week, this family would receive £262.71 per week after housing costs,<sup>31</sup> and at 40 hours they would receive £292.12 – a difference of £30 for 24 more hours' work. These marginal tax rates may not only be having an impact on the hours supplied (if anyone is able to understand the system) but also deterring second earners.

Figure 8: Net disposable income for a couple plus two children before housing costs by hours supplied at the minimum wage from April 2009. Rent=£60 per week, Council Tax=£18.00 per week



30. The DWP appears to have stopped publishing the administrative costs of different benefits but some years ago the basic pension cost 1% of benefit expenditure to administer compared with 9% for Income Support.

31. Housing costs are rent plus council tax.

The UK scheme has always had a disjunction between in-work and out-of-work support. This means that moving from one system to another is never a seamless process. People moving into work have to give up IS and claim WTC, and their HB and CTB will be reduced (though in some cases people can receive ‘extended payments’ of HB and CTB which mean that they continue to get their out-of-work rates for four weeks after returning to work); their CTC entitlement is also likely to decrease eventually. Figure 8 shows this for one family type.

Table 6 gives the relativities for more standard family types. These are the net incomes that are delivered by the minimum income schemes in the UK in the out-of-work scheme and the in-work scheme. We have shown the amounts at 16 hours as well as 40 hours because 16 hours is the threshold for switching to in-work benefits/tax credits.

Table 6: Net income. Tax/benefit system April 2009<sup>32</sup>

	Before housing costs			After housing costs		
	Not working	One earner 16 hours on minimum wage	One earner 40 hours on the minimum wage	Not working	One earner 16 hours on minimum wage	One earner 40 hours on the minimum wage
Single	£137.80	£146.17	£204.90	£64.30	£72.66	£131.40
Couple	£178.96	£188.96	£240.60	£100.96	£110.96	£162.60
Lone parent + 1	£211.21	£261.70	£314.01	£137.71	£188.2	£240.51
Couple + 2	£308.47	£340.71	£370.12	£230.47	£262.71	£292.12

Rent = £60 per week and Council Tax = £18 per week (before single occupancy discount where applicable)

By far the most important criticism of the UK scheme concerns the issue of adequacy. This has been discussed already. The differentials between different rates of benefit, the result of the uprating formulae discussed above, are now very difficult to justify. Why should a single person aged 59 receive £64.30 per week in IS, while a year later, aged 60, they would be entitled to £130 per week?

No one has made a rational decision about this situation. It is not based on any evidence of need, nor any principled arguments of desert. It has occurred because from the 1980s one benefit has been uprated with prices and the other by earnings. The gap between the living standards of, for example, a single person unable to work because of, say, mental illness on the one hand and the incomes of families with children and pensioners and people earning on the other is unfair and unsustainable.

32 Assumptions and notes:

- 1) No rent restrictions apply in any cases.
- 2) Children are over the age of 1 and under 16.
- 3) No childcare costs apply.
- 4) All claimants are assumed to be over 25 and under 60.
- 5) In addition to incomes noted, some claimants may also be entitled to passported additional benefits.
- 6) Single occupancy discount on Council Tax is 25% (£4.50); discount is deducted before CTB is calculated.
- 7) Where in work, all claimants are assumed to have been in work and earning the same income in the previous financial year (08-09) as the current financial year (09-10)

## Questions raised

### Why was the Rossi index introduced?

Between 1975 and 1980 the government adopted a formula for uprating benefits in line with the better of prices or earnings. In the early 1980s unemployment increased very rapidly and the newly elected Thatcher Government was struggling to reduce public spending and taxation. They had already broken the link between some benefits and earnings but benefits were now being uprated by the Retail Price Index. The Minister of Social Security Sir Hugh Rossi in 1982 decided to adopt a new uprating formula for Supplementary Benefits (social assistance) and to uprate them by the RPI less housing costs. At the time housing costs were rising faster than general inflation and the policy was introduced to save money. The official rationale for it was that as rent was covered by housing benefit for people on social assistance there was no need to take account of housing costs inflation in the uprating. For most annual upratings since this has meant that social assistance benefits have been uprated by less than movements in the RPI and earnings. However in the uprating for April 2009 the Rossi index gave a higher uprating to these benefits because housing price increases had been lower than other prices.

### Previously how had benefit levels been determined?

The level of benefits that were introduced in the post WWII social security legislation were based on the Beveridge recommendations which in turn were based, rather loosely, on Seebohm Rowntree's budget standard for his second study of poverty in York in 1936. After they were introduced benefits were uprated in a fairly ad hoc way but they generally improved in comparison with prices and maintained their value in comparisons with earnings. In the 1960s a distinction began to be made between "short-term benefits" and "long-term benefits". Again, in an ad hoc manner, the former tended to be uprated by movements in prices and the latter in line with earnings. Then the government adopted the better of prices and earnings for long-term benefits but this was abandoned after 1979 by the Thatcher government. Now some benefits are uprated by the Rossi index, some by the RPI and some by an earnings index.

### How local authorities raise housing benefit level?

They do not. The Housing Benefit means-test is based on the Income Support means-test and is uprated along with the other benefits annually by central government decision. The only element that is local in Housing Benefit is the local rent limit which applies to private sector rents. Housing Benefit is only paid up to a rental limit set by the Rent Officer for a given area.

### Who makes the decision on the standard of the benefit level?

The decision about benefit rates is announced in the Pre Budget Report each Autumn by the Secretary of State for Work and Pensions after negotiations with HM Treasury. There is no

advisory committee, no reference to a budget standard and the process is entirely opaque. No doubt three factors are taken into account.

1. Political judgements about the respective needs of different types of claimant and these have tended to favour pensioners and children over working age single people and childless couples in recent years.
2. Political judgements about what can be afforded.
3. Judgements about the relativities between incomes in work and incomes out of work – the replacement rate. This issue probably used to be more important in the past than it is today. Improvements in in-work benefits have tended to open up the gap so that incentives should not be a serious concern.

**How is the standard of selecting recipients related to the setting benefit level?**

(If I understand this question). The level of benefit that is paid and how it is uprated depends on the type of benefit. The two most privileged groups are low income pensioners and low income families with children. Pension Credit for the former group and Child Tax Credit for the latter group have been increased in line with earnings in recent years. Next come pensioners on the basic retirement pension which has been uprated at least in line with prices. The class of beneficiary that receive the lowest benefits are working age single and childless on Income Support/ESA/JSA who have had increases only in line with the Rossi index. In the paper above I have illustrated the results of these differences.

## **IMPLICATIONS FOR KOREA**

As I understand it, Korea has a poverty threshold (Minimum Cost of Living), originally based on a budget standard or at least consumption data, which was revised every five years, now revised every three years. It is used to set the benefit level for the Social Assistance Programme and this is uprated annually by the Retail price Index. The criticisms are that the Minimum Cost of Living based on the Market Basket is flawed and subjective and that the Minimum Income Standard is losing contact with movements in earnings.

The UK experience may not be a good one to follow! However it is important to be clear about a number of things about the UK.

The UK does not have an official Minimum Cost of Living standard. In a series of independent research projects we have been publishing budget standards since the early 1990s and the latest Minimum Income Standard is the most elaborate.<sup>33</sup> The methods used in this project were

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33. [http://www.minimumincomestandard.org/downloads/Reports/launch/mis\\_for\\_britain.pdf](http://www.minimumincomestandard.org/downloads/Reports/launch/mis_for_britain.pdf)

designed to meet the criticisms that budget standards are flawed and arbitrary. This may have something to contribute to the Korean processes. But the UK MIS has no official authority. I shall say more in my presentation.

In the UK the official poverty threshold and the social assistance scales are completely independent. There was a time between the 1960s and the 1980s when the official poverty threshold was based on the social assistance scales plus a margin, usually 40 per cent (on the grounds that those on social assistance had incomes slightly above the social assistance levels). But this poverty standard was abandoned in the 1980s on the grounds that linking the poverty threshold and social assistance meant that when social assistance levels were increased the number in poverty increased. Since the 1980s the UK has used a relative measure of poverty – the % of households with equivalent net income less than 60 per cent of the contemporary median both before and after housing costs. This is also the standard used in the European Union. More recently the government has also adopted three targets for child poverty

- Reducing the proportion of children in relative low income (less than 60 per cent of the median) to 5-10 per cent by 2020;
- Reducing the proportion of children in material deprivation combined with low income (less than 70 per cent of the median) to a level approaching zero by 2020.
- Continuing progress on persistent poverty to ensure that no child experiences poverty for prolonged periods. (Child Poverty Unit 2009)

The headline poverty measures reported in the Households Below Average Income Series<sup>34</sup> are

1. % below 60 per cent of the median fixed at a point in time.
2. % below 60 per cent of the contemporary median.
3. % below 70 per cent of the contemporary median and scoring 25% or more (lacking) a prevalence weighted list of deprivation items.
4. Persistent poverty % below 60 per cent of contemporary income in three out of the last four years.

In contrast the social assistance scales are historically based and updated as I have described above.

In the MIS report we compared the MIS with the social assistance scales and with the 60 per cent of median poverty thresholds. We found that the ratios varied with different family types but MIS was higher than social assistance (see Figure 1 above) and higher than poverty thresholds (see Figure 2 above). The 60 per cent of median poverty thresholds are higher than social assistance (see Figure 8 above). So in the UK very few people receiving social assistance are lifted above the official poverty threshold.

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34 [http://research.dwp.gov.uk/asd/hbai/hbai2008/pdf\\_files/full\\_hbai09.pdf](http://research.dwp.gov.uk/asd/hbai/hbai2008/pdf_files/full_hbai09.pdf)

## Session 2

# **Social Assistance Schemes and the Measurement of the Minimum Standard of Living in Japan**

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Rie Iwanaga (Professor, Kanagawa University of Human Service)



# Social Assistance Schemes and the Measurement of the Minimum Standard of Living in Japan

## 1. Introduction to the Social Assistance System in Japan

### 1-1 Social Security system in Japan

At the start, I will briefly explain to you about the Social Security system in Japan. After the World War 2, Japan embarked on the formation of a Social Security system which included the four domains below.

- Social Insurance
- Social Assistance
- Public Health
- Social Welfare

Social Insurance is an insurance system which provides pensions and medical services and essentially covers all citizens. Social Assistance supplements the Social Insurance system. To see the historical process, the comprehensive Social Assistance system was formulated and then Social Insurances system was completed.

The comprehensive Social Assistance system is called social assistance based on the Daily Life Security Act. In Japan, the Social Assistance system is regarded as having the same meaning as the Daily Life Security system because the funds of the Social Assistance system rely on taxes and it requires a means test. In other words, in Japan, the Social Assistance system is the Daily Life Security system.

The Table 1 indicates the transition of Social Security allocation in the Japanese General Account Budget. According to Table 1, in 2008, Social Insurance accounts for approximately 80% of the total budget of Social Security. Although the budget for Daily Life Security had been declining in the 1980s, since the 2000s it has been increasing. Incidentally, there are other systems although they are small in scale, such as Child Allowance and Child Care Allowance.

**Table 1 The Transition of the Social Security allocation in the Japanese General Account Budget**

( hundred million · JPN Yen)

区分	1980		1990		2000		2005		2008	
Social Security-related Expenditure	82,124	(100.0)	116,154	(100.0)	167,666	(100.0)	203,808	(100.0)	217,824	(100.0)
social Assistance Expenditure	9,559	(11.6)	11,087	(9.5)	12,306	(7.3)	19,230	(9.4)	20,053	(9.2)
Social Welfare Expenditure	13,698	(16.7)	24,056	(20.7)	36,580	(21.8)	16,443	(8.1)	16,589	(7.6)
Social Insurance Expenditure	51,095	(62.2)	71,953	(61.9)	109,551	(65.3)	158,638	(77.8)	175,132	(80.4)
Expenditures for Health Services	3,981	(4.8)	5,587	(4.8)	5,434	(3.2)	4,832	(2.4)	4,094	(1.9)
Expenditures for Measures to deal with unemployment	3,791	(4.6)	3,471	(3.0)	3,795	(2.3)	4,664	(2.3)	1,956	(0.9)
Health, Labour and Welfare Ministry Budget	86,416	(7.5)	120,521	(6.4)	174,251	(3.9)	208,178	(3.1)	221,223	(3.0)
General expenditure	307,332	(10.3)	353,731	(3.8)	480,914	(2.6)	472,829	( $\Delta$ 0.7)	472,845	(0.7)

Source: Health, Labour and Welfare Ministry White Paper 2008  
Health, Labour and Welfare Ministry, Secretariat of the Minister, Accounts Division

▽ **Child Allowance on a monthly basis:**

A Child under 3 years old; JPN 10,000 Yen across the board

A Child over 3 years old; set at 5,000 JPN Yen for the first and second born and 10,000 JPN Yen for the third and later children

▽ **Child Care Allowance:**

If a total income of a household is under 2,048,000 JPN Yen, a household will receive full allowance, which is 42,370 JPN Yen.

Furthermore, to compare these systems with other nations, it is notable that there is no housing benefit in the Social Security system. However, because of recent unemployment issues and an increase in the number of people who have lost their home, the government has secured the budget from the national extra budget and established a policy of housing benefit as an urgent Daily Life Security programme. Under the urgent Daily Life Security programme, people can get housing benefit for up to 6 months. It is one of the most revolutionary policies in the

history of the Japanese Social Security system.

## 1-2 Outline of the Social Assistance System

The current Daily Life Security Act which was a thoroughly revised version of the 1946 Act, was enacted on May 4<sup>th</sup>, 1950. Since then, there have been no dramatic revisions which have changed the foundational principle of the act. According to ex-government bureaucrats, the policy statement of the act was written with careful consideration so that the act did not have to be revised and the government has been corresponding to the social issues well. On the other hand, many scholars have criticized that government operations were overrun.

Nevertheless, it is important to investigate the content of the administration in order to understand the essence of the Social Assistance system. This report intends to discuss the content of governmental operations and administration relating to a discussion how the standard for the Social Assistance system should be. Before moving to the further discussion, this chapter will explain the aim of the Act, entitle members who may receive social assistance, the content of social assistance system, the administrative system and the budget of the social assistance system. For further information, please refer to the statement of the social assistance act. Although the government translates it, it is unofficial.

- **The Aim of the Daily Life Security Act**

The purpose of the Act is written in Article 1. The Daily Life Security Act intends to fulfil Article 25 of the Constitution of Japan. The uniqueness of this Act is that it clarifies “Minimum Standard of Living”.

Article 1: The purpose of this Act is for the State to guarantee a minimum standard of living as well as to promote self-support for all citizens who are in living in poverty by providing the necessary social assistance according to the level of poverty, based on the principles prescribed in Article 25 of the Constitution of Japan.

The Act also identifies the minimum standard of living, referring to the Constitution.

Article 3 The minimum standard of living guaranteed by this Act shall be where a person is able to maintain a wholesome and cultured standard of living.

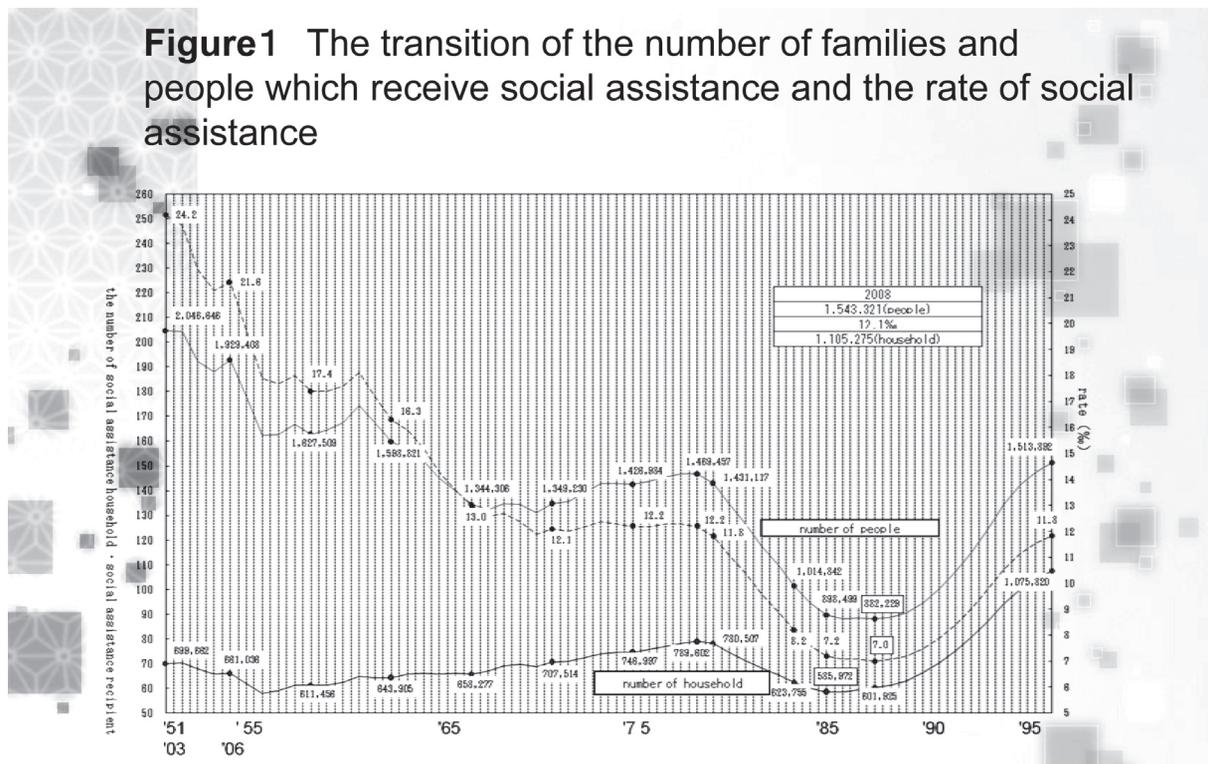
The wording of the Act is very subtle. That is, the Act does not have clear policy statement about the minimum standard of living.

- **Entitle members who may receive Social Assistance:**

Article 2: All citizens may receive social assistance under this Act (hereinafter referred to as "social assistance") in a non discriminatory and equal manner as long as they satisfy the requirements prescribed by this Act.

Entitled members who may receive social assistance are all citizens who are struggling with poverty. The Daily Life Security Act adopts the principle of general assistance. There is no category for elderly people, children and mothers.

With regards to the results of social assistance, Figure 1 shows “the transition of the number of households and people which receive social assistance and the rate of social assistance”. Although the number of households had been in decline since World War II, it has been increasing since 1993.



• The Content of Social Assistance

The content of social assistance consists of eight types of assistance which are listed below. In the Social Assistance System, the minimum standard of living is integral to those 8 types of assistance. That is, the Social Assistance system is a comprehensive system which accommodates every daily living situation.

- (i) Livelihood assistance
- (ii) Education assistance
- (iii) Housing assistance

- (iv) Medical assistance
- (v) Long-term care assistance
- (vi) Maternity assistance
- (vii) Occupational assistance
- (viii) Funeral assistance

In principle, under those 8 types of assistance, except for medical and long-term care assistance, citizens receive cash benefits. With regards to medical and long-term care assistance, the government provides benefits in kind.

The standards of the above 8 domains were determined by the Minister of the Ministry of Health, Labour and Welfare (MHLW). In essence, the Social Assistance Division, the Department of the Social Welfare and the War Victims' Relief Bureau of the MHLW has a responsibility for it. There is no system where the Division has to consult a committee when the standard of the social assistance is determined.

- **Administrative System**

The Minister of MHLW (the central government) administrates the Daily Life Security Act. The government entrusts administrative operations to implementing institutions.

The implementers are local counties' governors, mayors of cities or villages who manage social welfare offices prescribed in the Social Welfare Act. Such local authorities provide technical advice and recommendations, to administrative institutions.

Table 2 shows the number of social welfare offices in 2008.

**Table 2** The number of the social welfare offices (2008)

	Counties	Cities	Towns and villages	total
<b>Number of the social welfare offices</b>	<b>228</b>	<b>989</b>	<b>27</b>	<b>1244</b>

Social Welfare Officers support the administration of institutions. Social welfare officers are appointed by local authorities. Some Local Authorities employ social welfare officers as social welfare professionals.

In addition, welfare commissioners who are volunteers working as private volunteers before the pre-World War. Such welfare commissioners assist in the execution of the affairs of Local Authorities' mayors, directors of social welfare offices or social welfare officers.

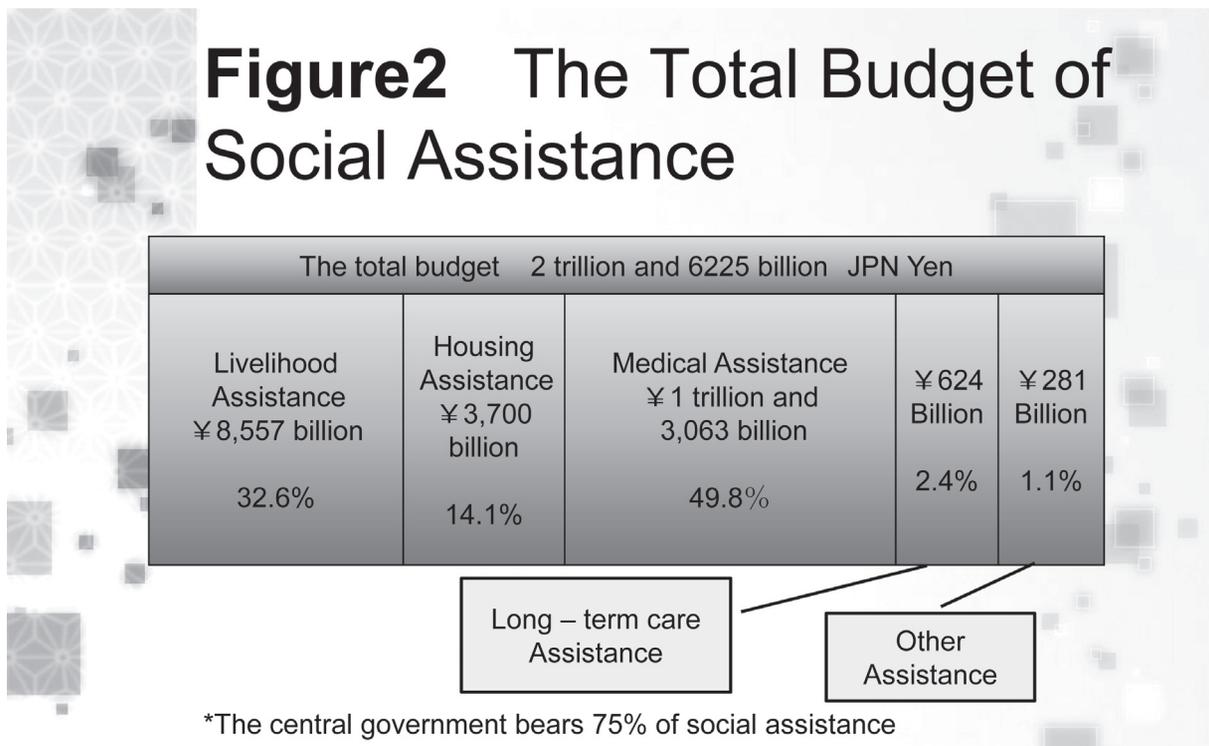
• **The budget of expenditure of the Daily Life Security system**

The central government bears 75% of social assistance expenditure, including the administration of institutions. Local authorities including counties, major cities, core cities and other cities or villages which manage social welfare offices bears 25% of the expenditure.

• **The total budget of social assistance**

Figure 2 shows the total budget of social assistance. The total budget which is based on the 2008 budget is JPN 2 trillion and 6,225 billion. The central government bears 75% of the budget. The budget of social assistance is just below 10% of the budget for Social Security.

Seeing each category of assistance, Livelihood Assistance is JPN 8,557 billion Yen, Housing Assistance is JPN 3,700 billion Yen, Medical assistance is JPN 1 trillion and 3,063 billion Yen, Long – term care assistance is JPN 624 billion Yen and other assistance programs are JPN 281 billion Yen. Indeed, Medical Assistance has the highest percentage of total social assistance.



Incidentally, social assistance has no upper limit for its budget. It could be said that this Japanese system is unique, compared to other nations. If the number of households that can receive social assistance happens to increase and the annual budget is not enough to cover the increase, supplemental budgets will have to be adopted.

## 2. Standard of benefits for the Social Assistance System

### 2-1 Example of calculation for minimum standard benefit of living

The Social Assistance system relates to the minimum standard of living. Thus, the amount of benefits secures citizens' minimum standard of living. In this context, the minimum standard of living is comprehensive and it adapts to diverse conditions of citizens with poverty. As a consequence, there are differences in the content and standard of social assistance among its recipients. In this paper, I employ the term 'the minimum standard of living'. The notion of the minimum standard of living is closed to the minimum income standard. In Japan, under the minimum standard of living, the government not only provides cash to citizens with poverty but also provides assistance in kind such as medical assistance.

Next, I would like to explain how to calculate the benefits as shown in Chart 1, which is a formula for calculating the minimum standard of living. The benefits are calculated by adding 1-7 domains, as each household's demand arises.

Firstly, with regards to the 1<sup>st</sup> and 2<sup>nd</sup> domains of social assistance standards; they are the standard expenditures for daily living. The 1<sup>st</sup> domain is about individual expenditures, based on dietary allowance referring to ages and under the standard citizens should be covered their food and clothing expenses. The 2<sup>nd</sup> domain relates to the living benefits of each member of the household. The benefits cover heating and electricity, furnishing and housekeeping items. Depending on household composition, the total benefit which adds the 1<sup>st</sup> and the 2<sup>nd</sup> domains is regarded as the social assistance benefit for each household. Incidentally, there are six local areas which have their own standard for each domain, referred to as local levels of consumption.

The 3<sup>rd</sup> domain is about standard benefits which are added depending on the special needs. Adding points system for people with disability could be a typical example. Traditionally, there are also adding points for elderly people and single parents and her/his child. Therefore, those had been called three adding points. However, recently, those point systems were abolished. For the information, the abolishment of the adding points system has been discussed at a court in order to repeal it. By July 16<sup>th</sup>, 2009, there has no victory of plaintiffs.

The 4<sup>th</sup> domain is about Housing Assistance. This is a scheme which allows the provision of the housing benefits to citizens up to the limited costs, depending on the local conditions of housing costs. For example, citizens who live in the Tokyo Metropolitan area may receive about JPN ¥54,000. If required, there is a specific standard which citizens may receive up to

₩70,200 (₩54,000x 1.3).

The 5<sup>th</sup> domain is about Education Assistance. Under the Daily Life Security Act, all children have the right to compulsory education and they are secured to obtain textbooks and other tools for schools, and transportation fees at no charge.

The 6<sup>th</sup> domain is about Long-term care assistance. Long-term Care Assistance is based on the Long-term Care Insurance system. In principle, public assistance recipients have to accede to Long-term Care Insurance.

The 7<sup>th</sup> domain is about the Medical Assistance. The calculation of Medical Assistance is based on National Health Insurance. However, Medical Assistance is different from Long-term Care Assistance because public assistance recipients cannot join National Health Insurance. Therefore, the Daily Life Security system covers the Medical Assistance benefits for citizens who are at the poverty level.

Having seen, these seven domains are about the benefits, which are added for minimum standard of living referring to households' conditions. When central and local governments decided whether entitlements members receive benefits, the differences between benefits for the minimum standard of living and their income are assessed.

## **2-2 The base amount of benefit for Livelihood Assistance as a model of minimum standard of living**

If minimum standard of living is assessed as discussed in the previous section, it is important to notice how the model of minimum standard of living is identified. Therefore, when the standard' model which determines the amount of social assistance is set up, the standard of Livelihood Assistance is usually used. The model of minimum standard of living which is utilised for comparison between pensions and wages refers to the standard of Livelihood Assistance.

Table 3 indicates the 2008 base amount of benefit, in the Standard for Livelihood Assistance, categorizing households. Table 3 shows four models of household standard in the capital area.

Please see the first line. A household which has 33 year old male, 29 year old female and a four years old child, is the average used for assessment for the Livelihood Assistance standard. I will speak to you about a standard household in Chapter 3.

**Table3** The 2008 base amount of benefit, in the Standards for Livelihood Assistance, categorizing household

JPN Yen

	Couple and child	Single Aged	Couple Aged	Sole parent, two children
1area—1	162,170	80,820	121,940	155,970
1area—2	154,870	77,190	116,460	148,950
2area—1	147,580	73,540	110,960	141,930
2area—2	140,270	69,910	105,480	134,910
3area—1	132,980	66,260	99,990	127,900
3area—2	125,680	62,640	94,500	120,870

### 2-3 A comparative example between the amount of benefits for Livelihood Assistance and Consumption expenditures of lower-paid family

Next, let's see the amount of benefits for Livelihood Assistance, with a comparison between the standard household and lower-paid family. Table 4 shows a comparison of the amount between the disposal expenditures and the standard of Livelihood Assistance in households which have couples and one child (with work incomes).

**Table4** A comparison of amount between disposal expenditure and the standard for Livelihood Assistance

	1st decile group	1st quintile group
Annual income minimum and maximum values	50,000 ~3,360,000	50,000 ~4,080,000
Annual income average monthly average	2,260,000 220,000	3,210,000 270,000
Total household	514	1,005
Consumption expenditure	215,646	222,808
Consumption expenditure corresponding livelihood assistance expenditure	148,781	153,607
Food	44,679	46,473
Housing	114	120
Fuel	14,558	14,929
Household goods	6,157	6,442
Clothing	8,911	8,764
Personal care	4,015	4,037
Fares	17,550	16,808
Education	742	758
Leisure goods and services	15,395	16,250
Others	36,660	39,028
Standard for Livelihood Assistance	150,408	150,840

Table 4 quotes references from the commission for the Livelihood Assistance Standard which was held in autumn, 2007. This commission was established based on a report on an expert commission for Social Assistance System, which was issued in December, 2004. The duty of the Commission for the Livelihood Assistance Standard was to explore the standard of Livelihood Assistance seeing the report of the inquiry about disposal expenditures of standard households against the national consumption. The inquiry is conducted every 5 years.

The table shows that each item of expenditures for the 1<sup>st</sup> decile group and 1<sup>st</sup> quintile group is based on the 2004 National Survey on Consumption. The annual income of the households which are regarded to be in the 1<sup>st</sup> decile group based on the survey is from JPN ¥50,000 to ¥3,360,000. The average annual income of the group is ¥2,660,000 and the average of monthly income is ¥220,000. The number of samples in this group is 514 households. The amount of consumption expenditures is ¥215,646 and social assistance is ¥148,741. In the case of the sample of the 1<sup>st</sup> decile group, the standard of social assistance is ¥150,408. The amount of the standard of social assistance is higher than the amount of the social assistance expenditures.

According to the 2004 survey, the annual incomes of households in the 1<sup>st</sup> quintile group are from JPN ¥50,000 to ¥4,080,000. The average annual income is ¥3,210,000 and the average monthly income is ¥270,000. The number of samples is 1,055 households. The amount of consumption expenditures is ¥222,808, and that of the social assistance is ¥153,607. The standard for social assistance of sample households in the 1<sup>st</sup> quintile group is ¥150,840. As introduced before, the benefit standard in the case of the 1<sup>st</sup> decile group is different from that of the 1<sup>st</sup> quintile group. The reason is because the differences in the number of households had an effect on the assessment of benefits standard. The benefit standard is lower than that of the social assistance in the 1<sup>st</sup> quintile group.

As explained in Chart 1, there are independently Housing assistance and Medical Assistance like the Livelihood Assistance in the Daily Life Secured system. Housing and Medical Assistances expenditures have a small amount.

As discussed before, the quoted reference in this paper is written in an inquiry report on the disposal expenditure. The central government intended to establish a commission in order to examine the standard for Livelihood Assistance.

All in all, the standard for Livelihood Assistance has not been scaled down so far. On the other hand, additional systems for elderly people and single mothers and their children were abolished and the level of benefits declined.

## 3. Benefit measurements for a minimum standard of living

### 3-1 Methods of measuring benefit levels

The Social Assistance System has a history of over 60 years. The history of the benefit measurements for a minimum standard of living is very complicated. Please see Figure A, which indicates changes in the annual benefits of the Livelihood Assistance, standard households which provide standard benefits, calculation methods and changes of area classification. For information, there are some abbreviations in the Figure A.

When we examine the history of the standard benefits measurement, we go back to the 1940s before the Daily Life Security Law was enacted. It is well known that the first standard benefits were formulated on March 13th, 1946. The standard benefits, which were formulated just after the World War 2, had been calculated by a standard living cost method. So, now I am explaining you about the history of methods of calculating benefits standard for Livelihood Assistance.

- **Standard Living cost Method**

This method of Standard Living Cost aims to calculate based on average cost of living for a household. When this method was introduced, the Economic Stabilization Board set the average cost of living standard to change in the price of commodities.

Based on the average cost of living, the government identified a type of household and its food cost is calculated referring to the Japanese basic nutritional requirement of National Nutrition Institute. Dietary staples such as rice or bread are calculated by authorized price based on a plan for material mobilization by Economic Stabilization Agency. If there are shortfalls, the average price for staples which is easy to obtain is calculated. Food is the large part of costs of living.

- **Market Basket Method**

This method has been used since the standard living cost method was revised on August 1<sup>st</sup>, 1948.

This is a method which calculates and adds each item of a minimum standard of living, such as costs for food, clothing, furniture and for taking a bath.

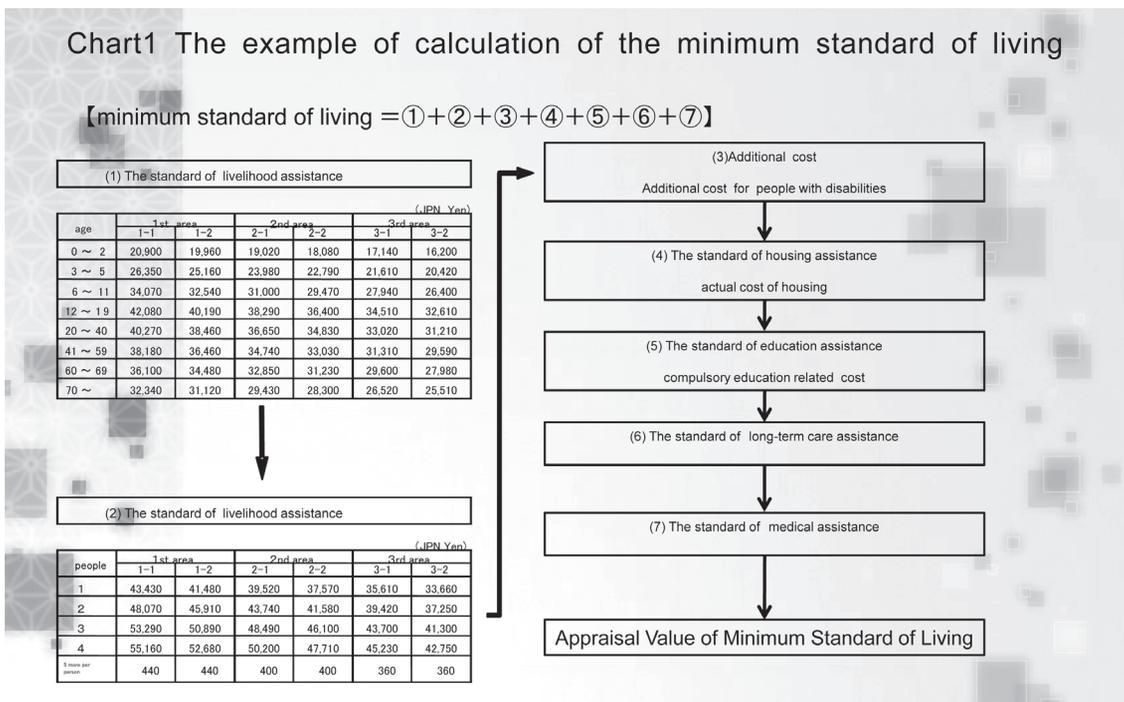
According to this method, the standard household has a 64 year old male, 35 year old female, 9 year old boy, 5 year old girl and a one year old boy. The main person of the household is a widow. When this method was introduced, a typical case is that a widow was looking after her

family.

Due to lack of time, I will not go over the process of how items are selected. There are two important aspects that I would like to point out about this method.

Firstly, this method calculates food costs based on the Japanese basic nutritional requirement set out by the National Nutrition Institute. Instead, it was difficult that it does not always reflect the real situation. The government aimed to make a plan to provide foods to citizens so that it did not allow that citizens bought foods from the black market. Another point is that this method included other important domains such as expenditures for housing, clothes, heating and lighting, and health and sanitation in the context of education guidance.

This method developed a calculation system which combines the standard of livelihood assistance for (1) individuals and (2) households as Chart 1 shows. The government aimed to secure the minimum standard of living under the Japanese constitution (issued on November 3<sup>rd</sup>, 1946, and enforced on May 3<sup>rd</sup>, 1947). That is, the government intended to calculate the minimum standard of living with the Market Basket Method.



• Engel Method

Introduced on the April 1<sup>st</sup>, 1961 when the standard was reviewed

This method has three important points;

- 1) It theoretically places each item of food expenditures that should fulfil the nutritional requirement standards assessing based on the report of the National Nutrition Institute.

- 2) It supports the theoretical value of the Engel's coefficient from food cost of households which obtain lower-paid family, referring to substantial reports.
- 3) It calculates the total living expenditures counting backwards from the Engel's coefficient.

There are two reasons why this method has been employed. First, this method identifies the loss of living cost which is not included in the Market Basket method whose characteristic is a theoretical method. Second, the Engel method easily adopts rapid social and economic change which may make recipients poorer.

The Engel method was introduced because social assistance should adapt to changes of general people's living

- **Reducing the gap method**

First used on April 1<sup>st</sup>, 1965 when the revision of standard.

This is a method which intends to increase benefits standard. Furthermore, it also intends to decrease gaps in consumption between general citizens and recipients.

This method regards growing rates of personal consumption expenditures which the Economic Planning Agency announces for the economic perspective as general consumption growing rate. Benefits of social assistance should be more than the general consumption expenditure. The government aims to decrease in a problem with such differences between general consumption standard and benefits standard. The reason for the introduction of this method was that during rapid economic growth, the government could not increase benefits standard.

- **Balanced Standards Method**

The revision of standards was employed on the 1<sup>st</sup> of April, 1984.

This method aims to adjust with consumption expenditures of general citizens in the previous year as well as to expect the trend of the citizens' consumption expenditures during the period.

Strictly speaking, this method does not employ standard calculation system. That is, this indicates the intention of the government to retain the previous standard levels. Furthermore, it could be properly said that the main purpose of the balanced standard method is to replace the previous method.

Figure A: Changes in the annual benefits of the Livelihood Assistance, standard households which provide standard benefits, calculation methods and changes of area classification

Year	Yen	Standard family	Calculation method	Regional difference
1946	199.8	Standard family of five	Standard living cost method	6
1946	252			
1947	912			
1949	5,200			
1959	9,346			
1960	9,621	Standard family of five men(64),women(35)	Market basket method	5
1961	10,344			
1964	16,147	Standard family of four men(35), women(30), men(9),women(4)	Reducing the gap method	4
1965	18,084			
1966	20,662			
1967	23,451			
1968	26,500			
1969	29,945			
1970	34,137			
1971	38,916			
1972	44,364			
1973	50,575			
1974	60,690			
1975	74,952			
1976	84,321			
1977	95,114			
1978	105,577			
1979	114,340			
1980	124,173			
1981	134,976			
1982	143,345	standard family of three men(33), women(29), child(4)	Equilibrium consumption expenditure level method	6
1983	148,649			
1984	152,960			
1985	157,396			
1986	126,977			
1987	129,136			
1988	130,944			
1989	136,444			
1990	140,674			
1991	145,457			
1992	149,966			
1993	153,265			
1994	155,717			
1995	157,274			
1996	158,375			
1997	161,859			
1998	163,316			
1999	163,806			
2000	163,970			
2001	163,970			
2002	163,970			
2003	162,490			
2004	162,170			
2005	162,170			
2006	162,170			
2007	162,170			
2008	162,170			

Figure A: Changes in the annual benefits of the Livelihood Assistance, standard households which provide standard benefits, calculation methods and changes of area classification

### 3-2 Livelihood assistance as a minimum standard of living

In the previous section, this report reviewed the history of the methods of calculation for minimum standard of living. I explain you how the government has been introducing new calculation methods instead of the previous method.

As I have pointed out, each method introduced by the government has never covered the problems of the previous method. The current method in place, the Balanced Standard method, the government determines the rate of revision by comparing citizens' consumption expenditures to the previous year. The current standard refers to the standard living cost method and the market basket method. Chart 1 shows the standard of ages and the number of households based on the market basket method. I believe that the historical backgrounds supports the current minimum standard of living.

On the other hand, in the past the government has made the subcommittee for the social assistance in the central social welfare council debate what the calculation method or the standard revision should be. This subcommittee is an agency which the MHLW professionally inquires about the social assistance. The government has gathered professionals of authority who are very familiar with the minimum standard of living and poverty studies. Minutes of the council are not available to the social. Today, I will use other relative resources which I have collected and attempt to discuss historical development of calculating method with you.

The notable points of the subcommittee's discussions should be there was a central opinion that the assessment methods which I mentioned before have theoretically been moved back although they have been revised. However, there are a few reasons why the subcommittee accepted revision of the assessment method.

First, it is hard to identify the politically persuasiveness reason that the standard should be regarded as the minimum standard of living. From the 1950s to the 1960s, the National Diet had had frequent debates on how the standard should be. In particular, the Diet members discussed how the standard should achieve the reasonable ones, as the standard determined depending on the national budget and administration matters. The good point of the current Balanced Standards method is that it can automatically determine the rate of revision compared to citizens' consumption expenditures of the previous year.

Second, as the market basket method which additionally calculate items revealed its difficulty as it is hard to raise the standard. Under the political operation, it was a big problem how each item of living should be added and how to show clear grounds of calculation. If the financial office or citizens criticises the standard, it was hard to give them a clear explanation. Thus, such a historical change of the standards was the result of avoiding criticism against the contents of items.

Third, the subcommittee could not suggest a new calculation method for determining the minimum standard of living. Subcommittee members discussed the necessity to establish a

new calculation method. Although the committee suggested using the revised Market Basket method, it was difficult for the government to utilize it as I said before. Furthermore, since the 1970s, poverty studies in Japan have not dramatically advanced so that it was difficult for researchers to suggest a new method.

## 4. The current trends

### 4-1 The recent discussion on the social assistance system

Now, I would like to explain where the discussion of the minimum standard of living in Japan goes. Exploring the recent debates on the social assistance system, there are some notable points.

As Figure 1 shows, the number of recipients has been increased and the trend is problematic. According to the news paper issued in July 2009, the number of households which receive social assistance is 1,192,745 and of people is 1,654,612. The most problematic matter is that while people can work, they receive social assistance.

Now, I will discuss the relation between income, minimum taxation and benefits standard. Because of the revisions to the Minimum Income Act, minimum wages should relate to social assistance (The Minimum Wages Act Article 9 Section 3). To set up the minimum wages, the benefits standard is employed.

Another point is that we need to have further discussions about what the relation between pension and benefits standard should be. This discussion just started as the standard of pensions has been matured.

In the context of social welfare, a discussion on the social security system has just started. Since the 2000s, the government has organized a subcommittee and encouraged its members to have further discussion. There are two points of discussion. The first point is how the government and local authorities should share financial responsibilities.

The government emphasizes that their financial responsibility should be 50% changed from the original 75% and local authorities should have more responsibilities. On the other hand, local authorities argue that political operation relating to benefits standard should be the government's responsibility and that the government should have more responsibility. The second point is appropriateness of benefits standard. During the current economic crisis the number of lower-paid families has increased. The real situation that the benefits standard is still high is criticized as discussed before in the section 2-3.

## 4-2 The trends of study on the minimum standard of living in Japan

Next, I would like to discuss trends in research on the minimum standard of living. Japanese studies on the minimum standard of living and poverty studies have unique history that although they have been conducted since pre-world war II and they have been on the decline from the rapid economic growth. Since the problem with homeless has been occurring since the late 1990s, studies on poverty and inequality in the society have been increasing. I deem that the Japanese study on poverty issues is very poor. Especially, studies on the minimum standard of living tend to be very poor.

So, I would like to introduce a study which we just started conducting. The name of the project is “theoretical and practical study on minimum standard of living under the floating society”. The leader of the project is Prof Masami Iwata from Japan Women’s University. Unfortunately, we have not reached the final conclusion yet. So, I explain you the aim and contents of the project.

We studied single household budgets and living conditions last year and this year. The study aims to identify how decreases and instability of income and changes in household’s trends have had an impact on the levels of needs and the order of priorities. In the study, we sample various types of households, such as single households, unemployed households, divorced households and elderly households. Last year (2008), we looked at young single households.

There are three reasons why we chose young single households. First, is that such households have been isolated from traditional investigations of households conducted by the Cabinet Office. As a result, we could not see the real situation. Thus, we believed that this study on young single households should be conducted because the lives of people living in such households seemed to be unstable. Even though we conducted a small number of surveys, we could reveal the real situation. Second, in order to draw the current society which single household had been increasing we believed that we could study on. Thus, we have decided to study single households because it would be more practical. Lastly, we believed that in the floating society, the life of each citizen should be independent and to do so minimum standard of living should be set up.

We need more time to analyze the data because the data on income and expenditures were scattered. Instead, we could get a real picture society and I would like to introduce some of them.

First, 34% of the sample survey (17 people of 50) had small loans. In other household’s investigation, people have a large amount of loan and the content of the loan could be for housing. Second, 35 of the 50 people in the survey received food from their parents or from their companies. That is, people intend to supplement their lower-income by foods provided by their parents or companies.

## 5. Implications and Suggestions

In order to discuss minimum standard of living, there could be two points when we overview the Japanese history and the circumstances. The first is that who decides the minimum standard of living. The second is why we need to assess the minimum standard of living. The decision of minimum standard of living is absolutely about the political matter.

I would like to explain you about those two points.

The first point, who decides the minimum standard of living, is about how we can achieve the appropriateness of minimum standard of living. When we overview the Japanese history, we can say that we cannot depend on the government.

In Japan, the government has determined the benefits standard. However, when the society faces the social and economic problems and the citizens require answers of what the minimum standard of living, the government has not been able to find a clear answer. In this context, we can say that the government has not been able to achieve the appropriateness of the minimum standard of living. We can also say that Japanese researchers have not been able to achieve the answer, neither. Furthermore, although members of the subcommittee for the social assistance could do that, they had not. Although members had some suggestions, it has been very difficult to put them into political exercise.

Therefore, in Japan the Minimum Income Standard study receives positive attention. To repeat, we have not had enough studies utilizing this examination method. However, our research project team would like to refer to the study as I have already explained before. To do so, we need more time to do enough research and to establish a system to achieve good political practices for the poverty.

I believe that we need to have further discussion why we assess the minimum standard of living. Because calculating the minimum standard of living should be under the philosophy which respectable lives should be secured for citizens in society. The assessment of a minimum standard of living is one of ways to achieve a respectable society where people's lives are secure.

In the process to determine the minimum standard of living, we need to ask ourselves why we need to assess the minimum standard of living although there could be hard decisions. When we see the Japanese case, it is most important to determine how the standard household should be. Why Japan has not been able to develop a minimum standard of living? According to Iwata (1998), Japan has not been able to find the standard households because in Japan people's lives have been widely changed over time. Thus, at the point, we believe that we need to target single households and to see how a person lives and what he/she needs to live alone.

With regards to the question, ‘why do we need to assess the minimum standard of living?’ in Japan there has been the traditional opinion that the minimum standard of living indicates how people live. And under such opinion, the minimum standard of living could be a model of lives. A good example of this, to revise the loaning system, the government employs the guidance for households’ expenditure. That is, through history, educational guidance came to be paid an attention because the poverty may need to be educated. For further information, in Japan there is a loaning system including welfare budget for lower-paid families. There is a hypothesis that although the society needs a minimum standard of living, for each citizen, there is a need to find a way to secure a minimum standard of living.

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## Session 3

# **Social Assistance and the Minimum Cost of Living in Korea**

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# Social Assistance and the Minimum Cost of Living in Korea

## I. Introduction

The 'National Basic Livelihood Security System' stands for the social assistance schemes in Korea, and the minimum cost of living at the National Basic Livelihood Security(basic security system, hereafter) is applied as a poverty threshold in selecting recipients. At the same time, it is given to the recipients as benefits. That is, the minimum cost of living works as a scale that evaluate the comprehensiveness of the system with respect to coverage and the adequate level of benefits. In addition, the minimum cost of living can be understood as the 'Minimum Income Protection Line' as the amount covers all the benefits applicable to the recipients. Moreover, it works as the poverty line distinguishing poverty. In this sense, the minimum cost of living plays a critical role in Korean social policy.

The official<sup>1</sup> minimum cost of living has been measured three times(1999, 2004, 2007) in Korea by employing Market basket method. Market basket method has been criticized as it inevitably involves arbitrariness and value of the researcher who takes part in. When the Experts Committee and the Central Commission on Livelihood Security examined the adequateness of benefits, the debates on the minimum cost of living heated up as members of the committee had different values.

The core of the dispute is 'how to view poverty'. Different views on poverty raise the controversy on measuring the minimum cost of living. The one with relative point of view on

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1. The term 'official' has been put in this paper as the minimum cost of living pass through discussions and votes of the committee, and also it is reflected in the national basic security system.

poverty asserts to apply the relative poverty line in measurement because the relative level of the minimum cost of living is constantly decreasing. The other side who insist absolute poverty line argues that declination of relative rate is unavoidable when the economy grows. As relative values have been lied on the disputes, unproductive arguments have been repeated in Korea. To solve the problem, the experts in academia and committees raise the voice to develop the alternatives.

This paper deals with the alternative measurement methods of the minimum cost of living. Chapter 2 includes a brief introduction of the social Assistance scheme in Korea and Chapter 3 explains the benefit level and the formula of setting it. In Chapter 4 and Chapter 5, disputes related to the minimum cost of living and alternative plans will be discussed.

## II. Social Assistance in Korea

### 1. History of the Social Assistance

Throughout the history, an effort to solve the problems on poverty has been existed and it has been the main subject of public policy. Basic security plans in Korea have longer history than the Poor Law (1601) or the poor relief based on the parish in former times of Britain. In Koguryo, an ancient Korean state (A.D. 194), 'Jindaebub' which rent the grains for the poor was brought in force. Also, archives have been remained that the relief was provided in the Three-Kingdom Period to relieve widows, widowers, orphans, and the elderly (Lee, Doo-ho · Chio, Il-sup et al., 1992:238).

However, the fundamental right on the livelihood in modern terms has been legislated as the constitutional law in 1948, and the Livelihood Protection Law embodied it in 1961. The Livelihood Protection Law<sup>2</sup> has remained to be residual and condescending by imputing the responsibility of poverty to individuals and families<sup>3</sup>, even though the law has been revised in some parts. For this reason, the system disclosed problems in terms of comprehensiveness of the recipients, adequateness of the benefit level, equity among the recipients, and efficiency and effectiveness of social assistance program. In the meantime, the economic crisis in 1997

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2. In the former years, 'Chosŏn relief law' was enacted and promulgated in March 1, 1944 and remained as the law for a transition period. It was abolished by the additional rules of Livelihood Protection Law(No. 913) in December 30, 1961.

3. In the Livelihood Protection Law, families could not receive cash supports (cost of living benefits) when they include the member with work ability as they are classified as self-support groups. On the bottom of the law, there were such belief that poverty is a problem of one's idleness and profits will be trickled down when the economy grows.

produced mass unemployment and the poor which cause various kinds of social pathologies such as divorces, abandonments of the child and the old, runaways, homelessness, suicides, and the increase in undernourished children. As a result, poverty becomes the main issue in the political arena and academics.

Under the recognition of the limitations of the Livelihood Protection Law and needs of the times, the National Basic Livelihood Security Law has been established in September 1999 and took effect in October 2000. The spirit of the law is i) to accomplish a role as the last social safety net, ii) to actualize an ideology of generative welfare by securing the minimum livelihood of the nation, and encouraging independence and self-support of the recipients. To realize this idea, the law adopted new concepts such as Estimated Household Income (which will be discussed in the next chapter), work incentives, work supports, equity, sufficiency, and productivity. Therefore, it can be highly valued in terms of the modernity of the spirit and scientific aspects of the law.

## 2. Essentials of the National Basic Livelihood Security System

### 2-1. Eligibility Requirement and Benefit Level

Current basic security system is in force based on the objectives of the law and the principles to reach those objectives. That is, based on certain principles: principle of securing the minimum livelihood, principle of prior obligation of family, and principle of means test, the system requires eligibility to satisfy the family support obligation rule and the Estimated Household Income standard<sup>4</sup> which is below the minimum cost of living.

For the benefits, the difference between the minimum cost of living and the Estimated Household Income is provided (principle of subsidiarity). Also, other legitimate sources such as medical insurance fee and local taxes are not included in the benefits (principle of prior application of other laws). The law stipulates that the sum of Estimated Household Income, amount supported from other legitimate sources, and social assistance benefits should be more than the minimum cost of living<sup>5</sup> (Article 3 and 7, National Basic Livelihood Security Law). The benefits of the basic security system includes both benefits in cash and benefits in kind. Specific formulas can be described as follow.

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4. Estimated Household Income = Assessed Income + Converted Assets into Income (Tariff Income)

5. Estimated Household Income + Amount supported from other legitimate sources + Benefits  $\geq$  Minimum Cost of Living

- Benefits = In-Cash Benefits + In-Kind Benefits
- In-Cash Benefits = In-Cash Benefits Threshold–Estimated Household Income
  - ※ In-Cash Benefits Threshold = Minimum Cost of Living–Subsidiary Amount from Other Legitimate Sources
  - ※ Estimated Household Income= Assessed Income + Converted Assets into Income(Tariff Income)
    - Assessed Income = Ordinary Income–Expenditures considering Households' Characteristic –Earnings Disregard
    - Converted Assets into Income (Tariff Income) = (Assets–Basic Disregarded Amount–Debt) × Conversion Rate of Assets
  - ※ In-Kind Benefits = Benefits provided for educational and needs

## 2-2. Coverage of the Basic Security System

In 2007, about 1.55 millions of the people receive the benefits, which covers 3.2% of the total population(Table 1). The population receiving the benefits of the basic security system has been increased continuously from last 2002. This is interpreted as a result of relaxation of the 'family support obligation rule'. When the National Basic Livelihood Security Law was put in force in 2000, the scope of the "family" with the support obligation was set in a lineal relation, a mate, and a kin within two degrees who shares a living with the recipient. However, after the second amendment in 2005, it has been cut down to a lineal relation within one degree and a mate (enforced from July 1, 2007). Therefore, the recipients who satisfy the 'family support obligation rule', that is, who do not have the families with support obligation naturally increased. Changes in the 'family support obligation rule' is summarized below.

### Reforms on the 'family support obligation rule'

#### 1. In the time of enactment (September 7, 1999)

- Law (Scope): "the one with a lineal relation or a mate, or a kin within two degrees who shares a living with the recipient"
- Enforcement Ordinance for judgement (Eligibility Criterion): "the income of the household carrying support obligation is higher than 120% of the sum of the minimum costs of living of two households"

#### 2. First reform of the law (March 5, 2004)

- Scope: "the one with a lineal relation within one degree or a mate, or a kin within two degrees who shares a living with the recipient" (enforced from July 1, 2005)

#### 3. Second reform of the law (December 23, 2005)

- Scope: "the one with a lineal relation within one degree or a mate" (enforced from January 1, 2007)

#### 4. Reforms on the enforcement ordinance (February 22, 2006)

- Eligibility Criterion: "the income of the household carrying support obligation is higher than 120% of the sum of the minimum costs of living of two households"

Table 1. Recipients in the ratio of total population

(unit: thousand, %)

	Population(A)	Recipients(B)	Ratio(=B/A×100)
2002	47,622	1,351	2.84
2003	47,859	1,374	2.87
2004	48,039	1,424	2.96
2005	48,138	1,513	3.14
2006	48,297	1,535	3.18
2007	48,456	1,550	3.20

Source: Calculated from Ministry of Health and welfare (2008), 『Current Conditions on the Recipients of the National Basic Livelihood Security System in 2007』.

Absolute poverty rate represents the ratio of population whose ordinary income is less than the official minimum cost of living. Absolute poverty rate of Korea is less than 10% of total population in 2003. Compare to other OECD countries, this rate would not be a degree to worry about. However, the rate will go beyond the level described in <Table 2> when the analysis includes single family or farm and fishery households which are excluded in this data. The ratio of recipients in comparison with poverty rate has reached 32.97% in 2007 from 28.72% in 2003.

Table 2. Poverty Rate and the Ratio of Recipients

(Unit: %)

Year	Poverty Rate(A)	Recipient Ratio(B)	Recipients Ratio in comparison with poverty rate (=B/A*100)
2003	10.0	2.87	28.72
2004	9.6	2.96	30.88
2005	10.5	3.14	29.94
2006	10.0	3.18	31.78
2007	9.7	3.20	32.97

Source : Calculated from Kim, Tae-wan et al.(2008), 2008 『Poverty Statistic Yearbook』, KIHASA.

### III. Benefit level of Social Assistance Scheme

#### 1. How to set and adjust benefits?

A procedure of setting benefit rates and its adjustment is same as the way to set and adjust the minimum cost of living. This is because the basic security system which represent Korea's social assistance scheme adopts the level of benefits based on the minimum cost of living. The official minimum cost of living had measured and announced three times (1999, 2004, 2007) and it will be done in the coming year. The Korea Institute for Health and Social Affairs (KIHASA), the government-funded organization, takes the charge of the measurement. The National Basic Livelihood Security Law stipulates the announcement of the minimum cost of living in September 1st of the year, as the Minister for Health and Welfare fix it when the Experts Committee and the Central Commission on Livelihood Security examined the minimum cost of living measured and discussed by the researchers.

In addition, the minimum cost of living of non-measurement years is being estimated with the consideration of circumstances such as inflation. As same as the measured value, an estimated value is also examined by the Experts Committee and the Central Commission on Livelihood Security and announced by the Minister for Health and Welfare.

#### 2. Benefits of the Social Assistance

<Table 3> shows the minimum cost of living in comparison with the other objective indicators. When we compare it to income, the minimum cost of living of household of four accounts for 40.7% of the average income and 45.5% of the median income of city wage earners in 1999. In 2004, it dropped to the 33.3% of average income and 38.0% of the median income. It continued to drop to 3.19% and 35.8% respectively in 2007. Likewise, the minimum cost of living of household of four accounts for 48.1% of the average expenditure and 57.8% of the median expenditure in 1999, but it dropped to 40.3% of the average expenditure and 46.8% of the median expenditure in 2004; also 39.0% of the average expenditure and 45.1% of the median expenditure in 2007. As we can see, the minimum cost of living as the Minimum Income Standard is constantly decreasing in compare with income and expenditure indexes.

Table 3. Comparisons between the Minimum Cost of Living of Household of four and the Income/ Expenditure of Worker's Household of four in City

(unit: won, %)

Year	Minimum Cost of Living		Average Regular Income			Median Regular Income			Average Household Expenditure			Median Household Expenditure		
	Amount	Increase Rate	Amount	Increase Rate	Ratio <sup>1</sup>	Amount	Increase Rate	Ratio <sup>1</sup>	Amount	Increase Rate	Ratio <sup>1</sup>	Amount	Increase Rate	Ratio <sup>1</sup>
99 (Measurement Year)	901,357		2,212,762		(40.7)	1,980,520		(45.5)	1,873,257		(48.1)	1,558,456		(57.8)
00	928,398	(3.0)	2,419,883	(9.4)	(38.4)	2,128,370	(7.5)	(43.6)	2,079,792	(11.0)	(44.6)	1,739,481	(11.6)	(53.4)
01	956,250	(3.0)	2,625,923	(8.5)	(36.4)	2,300,000	(8.1)	(41.6)	2,244,931	(7.9)	(42.6)	1,896,301	(9.0)	(50.4)
02	989,719	(3.5)	2,798,752	(6.6)	(35.4)	2,460,000	(7.0)	(40.2)	2,315,750	(3.2)	(42.7)	1,979,695	(4.4)	(50.0)
03	1,019,411	(3.0)	3,022,969	(8.0)	(33.7)	2,650,000	(7.7)	(38.5)	2,514,045	(8.6)	(40.5)	2,200,630	(11.2)	(46.3)
04	1,055,090	(3.5)	3,314,363	(9.6)	(31.8)	2,900,000	(9.4)	(36.4)	2,737,651	(8.9)	(38.5)	2,356,760	(7.1)	(44.8)
04 (Measurement Year)	1,103,235	(8.2)	3,314,363		(33.3)	2,900,000		(38.0)	2,737,651		(40.3)	2,356,760		(46.8)
05	1,136,332	(7.7)	3,407,009	(2.8)	(33.4)	3,050,000	(5.2)	(37.3)	2,827,652	(3.3)	(40.2)	2,441,491	(3.6)	(46.5)
06	1,170,422	(3.0)	3,592,207	(5.4)	(32.6)	3,232,350	(6.0)	(36.2)	3,010,331	(6.5)	(38.9)	2,584,440	(5.9)	(45.3)
07	1,205,535	(3.0)	3,864,935	(7.6)	(31.2)	3,445,830	(6.6)	(35.0)	3,160,038	(5.0)	(38.1)	2,731,890	(5.7)	(44.1)
07 (Measurement Year)	1,232,569	(5.3)	3,864,935		(31.9)	3,445,830		(35.8)	3,160,038		(39.0)	2,731,890		(45.1)

Note: 1) 'Ratio' indicates the comparative ratio of the minimum cost of living to income or expenditure.

## IV. Disputes on the Minimum Cost of Living

### 1. Disputes over the adequateness of the Minimum Cost of Living

#### 1.1. Seeking the philosopher's stone

A subject regarding adequateness of the minimum cost of living raise the following questions. Do the society satisfy the absolute needs of individuals? If so, what are the values underlying in that society defining poverty? That is, if a society lacks in capability to satisfy one's absolute needs, such level- satisfying the basic substance needs- can be the minimum protection level. However, as the majority of welfare states satisfy the absolute needs these days, the minimum cost of living as the minimum protection line is being set to satisfy the relative needs of individuals on the basis of social values.

In fact, defining poverty would be an attempt to seek the philosopher's stone<sup>6</sup> and discussing adequateness of poverty line would be even silly. It is because "poverty, like beauty, lies in the eyes of the beholder (Orshansky, 1969)", and "poverty is always defined and measured according to the conventions of the society in which it occurs (Hobsbawm, 1974)."

Nevertheless, adequateness of the minimum cost of living holds a critical meaning in reality. If

6. 'Philosopher's Stone' is a mysterious stone that the alchemists in the medieval times tried to seek. Also, it was the title of an opera that Mozart(1756-91) with five composers wrote.

the minimum cost of living is lower than the theory, recipients would not be able to maintain cultural, at least humanistic livings. On the other hand, if it is higher than the theory, it will bring antagonistic feelings of tax payers.

## 1.2. Comparing the Minimum Cost of Living with Various Kinds of Indexes

In this section, I would like to compare the minimum cost of living with inflation rates to explore adequateness of the minimum cost of living. However, these comparison would not give the answer to the adequateness of the minimum cost of living. It is because when we pose the absolute poverty prospective, the minimum cost of living will not be ascend proportionally with the living standard of average households while, it will be increased proportionally when we take the relative poverty perspective. Again, it is a value laden subject. Besides, the decision on the minimum cost of living is influenced by the dynamics between the theory and the general consensus of society.

When we consider the minimum cost of living in certain point of time as a baseline(for example, 1999<sup>7</sup>), the range of the adequate minimum cost of living would comes as follow. First, the minimum cost of living should be beyond the estimated value which has been uprated from the measurement value of 1999 considering the inflation rate of necessities under the absolute perspectives. That is because, the changes of the minimum cost of living should include not only the price changes, but also the changes in the quality of life. Second, it should be the level maintaining the ratio of the minimum cost of living and other indexes or below those level (less than the relative minimum cost of living estimated by maintaining the ratio (i. e. 68%) of consumption expenditure). Of course this assumption is applicable when the society does not experience economic shock.<sup>8</sup>

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7. The minimum cost of living in the past(1988, 1994) is not the one that pass the vote of the Central Commission on Livelihood Security, but the proposal given by the researchers. The minimum cost of living in 1999 is the first official measurement value which go through the examination and the vote.

8. For example, an increase amount of the minimum cost of living should be decreased when the other indexes shrink away in situations like economic crisis.

Table 4. Comparison of the Minimum Cost of Living with Inflation Rates

(Unit: Won, %)

Year	Minimum Cost of Living		Increase Rate of Consumer Prices			Increase Rate of Prices of necessities		
	Amount	Increase Rate	Index	Increase Rate	Estimated Living Cost <sup>1</sup>	Index	Increase Rate	Estimated Living Cost <sup>1</sup>
1999 <sup>2)</sup>	901,357							
2000	928,398	(3.0)	84.9	(2.3)	921,721	81.7	(3.7)	934,389
2001	956,250	(3.0)	88.3	(4.1)	959,202	85.9	(5.1)	982,033
2002	989,719	(3.5)	90.8	(2.8)	985,703	88.0	(2.5)	1,006,409
2003	1,019,411	(3.0)	93.9	(3.5)	1,020,338	91.6	(4.0)	1,047,044
2004	1,055,090	(3.5)	97.3	(3.6)	1,056,983	96.1	(4.9)	1,098,827
2004 <sup>2)</sup>	1,103,235	(8.2)						
2005	1,136,332	(7.7)	100.0	(2.8)	1,133,616	100.0	(4.1)	1,147,948
2006	1,170,422	(3.0)	102.2	(2.2)	1,158,555	103.1	(3.1)	1,183,534
2007	1,205,535	(3.0)	104.8	(2.5)	1,188,030	106.3	(3.1)	1,220,269
2007	1,232,569	(5.3)						

Note: 1) It is an estimated living cost which measured value of consumer prices or prices of necessities has been applied. For the accuracy, living costs have been calculated down to decimals, therefore, leaving differences with the value yield by inflation rates.

2) It is a value of the measurement year. On the rest of the years, values which the Minister of Health and Welfare announced are presented.

Sources: Korea National Statistical Office, 「Consumer Prices」, Monthly Review, Korea National Statistical Office, KOSIS Data.

Kim, Mee-gon et al.(1999), 「Study for the 1999 Minimum Cost of Living Measurement」, KIHASA.

Kim, Mee-gon et al.(2004), 「Study for the 2004 Minimum Cost of Living Measurement」, KIHASA.

Yeo, Eugene et al.(2007), 「Study for the 2007 Minimum Cost of Living Measurement」, KIHASA.

### 1.3. Comparison with the Minimum Income Protection Level

The term 'minimum income protection' is used to refer the total amount of public income packages that recipients of social assistance could receive<sup>9</sup>. According to Yeo, Eugene(2005), the level of minimum income protection in Korea accounts for 36% of the Average Production Worker Wage(APW). This percentage belongs to the lower levels in comparison with major OECD countries, even though it is higher than the one in the United States.

9. This includes the benefits administered separately from the social assistance scheme, such as housing benefits and family benefits (Child Allowance).

Table 5. 2002 Maximum In-Cash Benefits of Minimum Income Protection vis-a-vis APW

(Unit: %)

Social Assistance	Household of three (Couple+One Child)	Housing Benefit	Family Benefit (One Child aged 3 to 12)		Maximum Benefits /APW
			Universal	Means-tested	
Austria	37	Included in social assistance	6	-	43
Belgium	35-41	-	4 (household in unemployment )	-	45
Canada	32-33	Included in social assistance	-	3	36
Denmark	72	6	4	-	82
Finland	36-39	16	4	-	59
France	29	20	9	-	58
Germany	25-30	17	6	-	53
Iceland	56	10	6	6	78
Ireland	43	Included in social assistance	4	-	47
Italy	32-33	Shows regional disparity	-	5	38+
Japan	43-44	Included in social assistance	-	1	45
Luxembourg	57	Included in social assistance	8	-	65
Netherlands	43	10	3	-	56
Norway	53	10	4	-	67
Portugal	50	-	-	4	54
Spain	33	-	-	2	35
Sweden	34-39	11	5	-	55
Swiss	40	Included in social assistance	3	-	43
The United Kingdoms	32	20	4	-	56
The United States	13	-	-	3	16
Korea	35-36	Included in social assistance	-	-	36

Note: The maximum of other benefits can be different for recipients according to one's eligibility in each countries. However, maximum amounts have been accounted for the respective benefits, therefore leaving the possibility of difference to some degree with the real substitute rates.

Source: Yeo, Eugene(2005), 「An Exploratory Study on Adequateness of the Minimum Income Security」, Proceedings of the Autumn Academic Conference, The Korean Social Security Association.

## 2. Issues related to Measuring Methods of the Minimum Cost of Living

### 2.1. Absolute Method

#### 2.1.1. Market Basket Method

The Market basket method, which was used in 1899 by Rowntree to estimate poverty based on 11,560 households of non-skilled laborers in York city, England, denotes a method to arrive at a minimum cost of living by setting a minimum level for all items that are essential for human life and converting them in monetary value.<sup>10</sup>

This method has a virtue in that an expert can exclude luxurious goods and high-priced articles and include only basic necessities based on the objective criteria and statistical data, but it has a shortcoming in that in constituting the actual market basket there is a possibility of intervention by the arbitrariness of the expert. Despite this shortcoming, however, market basket can be regarded as a very useful method in calculating base amount of supplementary benefits in consideration of in-kind transfers such as medical service and education and in determining the selection criteria for target recipients of welfare service and the level of fringe benefits among households of the physically handicapped and the elderly.

When measuring the minimum cost of living according to market basket method, there is a room for arbitrariness in selecting basic necessities as shown above. For example, one can include newspaper, camera, car, and mobile phone as basic necessities depending on the values of the measurer. Therefore, there is a need to examine what the basic necessities are and how best to select them among the innumerable goods and services that human beings use.

Generally, the basic necessities can be defined as the 'agreed-upon items that are necessary to maintain the minimum standard of decency.' The minimum standard of decency refers to a 'state in which basic desires are sufficiently satisfied (Hagenaars & Vos, 1988)' or a 'state in which one does not feel deprived.' Therefore, basic necessities are much influenced by the welfare level and values of a given society. In the *Wealth of Nations*, Adam Smith understood "the basic necessities as goods that are absolutely necessary to maintain life but which also include goods that, without them, one can not maintain decency as a creditable man according to the custom of a country," taking as notable examples linen shirts and leather shoes (Townsend, P., 1979).

Measuring of the minimum cost of living through market basket method is carried in two stages. The first stage involves selection of basic necessities. The market basket should be constituted in such a way that it includes basic necessities that can be accepted by all contemporaries using diverse criteria such as nation, time, and nutrition. The second stage involves determination of price and use amount for the selected necessities. This means a determination on the level of price and use amount by season and age using the most objective

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10. The report was published in 1901. Market basket can be expressed in the following formula: Poverty line =  $\sum x_i \cdot p_i$ , (Here,  $x_i$  denotes the necessities and  $p_i$  denotes the price for those items.) Rowntree defined "a case in which the total income of a family is not sufficient to procure the minimum necessities that are necessary to maintain purely physical efficiency" as primary poverty.

available data.

Above all, what is required to select basic necessities through market basket method is to analyze the actual condition of consumption of the low income families and select items that appear most frequently among items that can satisfy the minimum concept of experts (ex: recommended amount of nutritions, minimum standard of housing). But there are difficulties in using such data as they are for estimation of the minimum cost of living. The reason is, first, which level of low income families should be selected as the target for minimum living and, secondly, even if proper level of low income families is selected, it is difficult to regard their consumption pattern as representing the minimum living. It is because, although essential to maintain the minimum livelihood, their consumption could include goods or services that are not purchased since they could not afford them. Thirdly, certain goods or services that are not of much help to the maintenance of minimum living such as overconsumption of liquor and tobacco can appear more frequently.

Accordingly, complementary methods that can solve these problems should be considered. There is a need to discover a rationale that can be used in determination which items that reveal certain level of frequency are basic necessities as a result of an investigation on actual condition. Most commonly used methods for the purpose is the one that uses income elasticity and the one that uses logistic analysis technique. First, income elasticity can be used as an auxiliary index to determine which items constitute basic necessities. The rationale is that, in the case of basic necessities, their consumption is carried out regardless of income change whereas, in the case of luxurious goods, their consumption responds very sensitively to income change. Necessities can be expressed in terms of income elasticity ( $E_y$ ) as follows:

$E_y = 0$	: Absolute necessities
$0 < E_y < 1$	: Basic necessities (Ex: $E_y < 0.5$ )
$E_y = 1$ or $> 1$	: Items that are widely used as living standards which improve the quality of living

Secondly, a logistic analysis technique using possession (or purchase) and income as a variable can be used as an auxiliary index to determine which items constitute basic necessities by estimating the probability to possess (or consume) in a given condition. That is to say, the probability to possess (or consume) a certain good when income is 0 or when income is at a certain level can be used as an auxiliary index.

If the necessities are selected, there is a need to determine the amount of purchase and price. Determination on the amount of purchase and price is carried out in consideration of the amount of purchase and price from the investigation data on the actual living condition of the low income families. As representative value, mode is often used rather than mean value since it can avoid bias of mean price that may be caused by the difference of purchase unit or recording error when the latter is used.

### 2.1.2. Engel/Orshansky Method

Orshansky method is the one that is presented by Orshansky of the U. S. Department of Agriculture in 1965 as a simplified version of the market basket method. It sets poverty line at the monetary value of the minimum food cost of low income families multiplied by '3'. Characteristically, this method is much simpler than a method that adds up all costs of necessities.

Similar to this, Engel method of poverty line estimation is based on food ratio vis-avis income. Based on a principle that the ratio of food cost declines vis-a-vis total income as income increases, this method sets Engel coefficient that corresponds to the minimum living standard and regards a point at which the ratio of food purchase amount divided by income matches it as poverty line.

This Engel/Orshansky method has been used up to now by economists. Especially, the U. S. Department of Health and Human services still obtains a poverty line using Orshansky method.

Major difficulty with this method is that number '3' that is used in multiplication of the food cost of low income families is ambiguous and that question of which families should be regarded as low income families can be determined arbitrarily.<sup>11</sup> The same holds true with the food-ratio vis-a-vis income method since there is a degree of arbitrariness involved in setting the level of minimum living when inducing Engel coefficient.

In the case of measuring the minimum cost of living by absolute method has virtues in that it is based on actual living condition of low income families, but it suffers from difficulties in that it is not free from arbitrariness on the part of experts.

## 2.2. Relative Methods

### 2.2.1. Deprivation Index Method

Whereas most of scholars placed their focus on the measurement of the absolute minimum cost of living, P. Townsend criticized the concept of poverty based on an absolute level and insisted that poverty can only be defined objectively through a concept of 'relative deprivation'. In an effort to approach the relativeness and complexity of poverty, he estimated the minimum cost of living by concretizing the concept of 'relative deprivation'. First, he divided 'relative deprivation' between objective deprivation and subjective deprivation. He then selected 21 index items that can be used to measure objective deprivation and 7 index items that can be used to measure subjective deprivation, and compared the pattern of possessing or enjoying those items by income level.

Generally, high income families would enjoy most of the items whereas low income families would enjoy only a portion of the items. If the number of index items being enjoyed declines

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11. Concerning multiple '3' in Orshansky method, the number changed from '3' to '7' as a result of an investigation conducted by National Academy of Sciences (NAS) in 1992, but this was not immune to a criticism that it also can change in time (Kim, Mee-gon et al., 2006).

rapidly at a certain level of income, that point can be regarded as the minimum cost of living.

As index items that can be used to measure objective deprivation, Townsend used housing, fuel, home appliances such as TV, and leisure and cultural life such as vacation or travel. As for index items that can be used to measure subjective deprivation, he used the income level of one's residential area spatially conceived, assuming that one's sense of subjective deprivation can vary depending on where he or she lives. Also, he used the feeling of deprivation or poverty one senses subjectively when the level of present living standard is compared to that of the past to consider the temporal aspect.

The shortcoming of the minimum cost of living estimation based on deprivation index is that, just like the minimum cost of living estimation by market basket method, it allows a room for intervention by arbitrary judgment of experts in selecting items to be included in deprivation index. Hence, there is a need to constitute index items based on objective data.

### 2.2.2. Relative Estimation Method using Income and Expenditure

A relative poverty line that is more generally used than Townsend method is determined by at what percent of mean or median family income or below a family's income level stands. Examples of using income as a means to derive the minimum cost of living or poverty line relatively include OECD, World Bank, and Fuchs. Different from this, Japan uses expenditure to arrive at a base amount in selecting the beneficiaries of livelihood protection. Deleeck also induces a relative poverty line to compare and analyze the poverty rate of European countries using the expenditure per adult prepared by EUROSTAT as the base.

A fatal weakness of the minimum cost of living (or a poverty line) as obtained by this kind of relative method lies in the arbitrariness of the concept itself. As the word 'relative' implies, the criteria to be used to determine the minimum cost of living (or a poverty line) can not but be determined 'relatively'. Eventually, whether income or expenditure is used, there is no commonly accepted idea or a theoretical foundation to determine what percent of mean or median income/expenditure should be considered as the minimum cost of living (or a poverty line).

There are a number of problems with relative estimation of the minimum cost of living. The first problem is whether to use income or expenditure in determining the minimum cost of living. The second problem is, even when the first problem is solved, which concept of income or expenditure should be used as the basis. In the case of income, there are differing concepts such as market income, ordinary income, disposable income or total income, or a distinction between wage earner and self-employed. The expenditure also can be subdivided into household expenditure, consumption expenditure, total expenditure or that of wage earner.<sup>12</sup> The third problems is at what percent of income or expenditure level the minimum cost of living should be determined. Since there are quite a difference in determining the minimum cost

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12. In the case of Japan, approximately 68% of consumption expenditure of a wage earner is used as the base for livelihood protection.

of living depending on scholars and institutions involved, there should be some kind of prior social agreements.

### 2.3. Subjective Methods

The concept of subjective poverty is based on subjective evaluation of individuals. As such, when measuring the minimum cost of living, objective methods of estimation can not be used. In subjective methods of measuring the minimum cost of living, there are two kinds: The method of measuring the minimum cost of living based on the subjective evaluation of the person himself or herself and the method of measuring the minimum cost of living based on the subjective evaluation of a third-party.

#### 2.3.1. Minimum cost of living based on the subjective evaluation of a third-party

Measuring the minimum cost of living based on the subjective evaluation of a third-party arrives at a minimum cost of living by asking questions from the perspective of a third party such as ‘What would be the minimum income (or expenditure) for a household of four to lead a comfortable and healthy life here for a week?’ or ‘What would be the minimum income (or expenditure) for a household of four to live a bare life here?’

This method became widely accepted when L. Rainwater obtained a very stable result in 1974 when he analyzed the Gallup opinion survey that had been conducted from 1946 to 1969. The response to those questions was within 46~58% range of mean household income for that year with 52% of the mean value, indicating that the level of living cost conceived by population at large was quite similar to the poverty objectively measured by the experts.<sup>13</sup> Also, income elasticity of the subjective minimum cost of living was 0.18, proving that popular conception of poverty was ‘relative but nearing the absolute meaning’ (Lee, Jun-koo, 2003).

#### 2.3.2. Minimum cost of living based on the subjective evaluation of the person involved

The most representative of the minimum cost of living based on the subjective evaluation of the person involved is Leyden method. This method was developed by scholars of Leyden University, Netherlands, which takes the form of asking questions to the household of each scholar and obtaining answers. ‘How much of an income (or expenditure) do you think is necessary for your family to live a bare life?’

This method of estimating the minimum cost of living can be further divided into two methods. One is to find a matching point between the income (or expenditure) derived from the answer and the actual income (or expenditure) of the person through a regression analysis (Leyden method) and the other, devised by H. Deleeck of Belgium, is to find households whose

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13. The result of Rainwater's analysis revealed that the amount deemed necessary to live a bare life was stabilized along approximately 94% of the amount estimated by the experts as the 'minimum necessity' (Lee Jun-koo, 2003).

actual incomes are the same as the minimum cost of living as provided by the scholar himself or herself and regard the mean so obtained as the minimum cost of living (Deleeck method) (Lee, Jung-woo, 1997).

In defining the minimum cost of living based on subjective evaluation, there are following problems: First, there is a problem of how to constitute a questionnaire to reflect the concept of minimum cost of living better. When Rainwater estimated the minimum cost of living with a question "What would be the minimum cost of living for a household of four to live a bare life here?" in the Gallup survey, R. Kilpatrick suggested that the actual minimum cost of living would be somewhat lower. Therefore, the first task of measuring a subjective minimum cost of living rationally is to constitute a questionnaire that can best reflect the concept of the minimum cost of living.

Secondly, the result of a response can vary depending on how the responder interprets the concept of the minimum cost of living. For example, certain respondents include in the concept of the minimum cost of living depreciation expense and others do not. Or if certain respondents interpret socio-cultural desire differently, it may show a considerable bias in the measurement of the minimum cost of living.

In final analysis, to measure the subjective minimum cost of living most rationally, it is necessary to define what the minimum cost of living is<sup>14</sup> and constitute a questionnaire that can best reflect the idea to reduce the error of interpretation as much as possible.

## V. Searching for an Alternative Measuring Method

### 1. Basic Position in Searching for an Alternative

#### 1.1. Theoretical Feasibility

All of the four measuring methods --market basket method, Engel/Orshansky method, relative method, and subjective method- have been developed based on their own theoretical foundations. To be sure, all of these methods have considerable virtues. If a method is superior theoretically, it would have superceded the others.

If one is to evaluate these methods on the basis of scientific foundation, the food-ratio method<sup>15</sup> and the subjective method may turn out to be superior. In the case of food-ratio method, it has a virtue in that it can bypass the problem of experts' bias that troubles

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14. The minimum cost of living is stipulated in Article 2, National Basic Livelihood Security Act, as the "minimum cost that is needed for the nation to maintain healthy cultural life".

15. For concrete models, refer to Kim, Mee-gon et al.(2005).

calculation of the minimum food cost in Engel/Orshansky method. It can also make an adjustment to the target Engel coefficient based on the result of past studies on the minimum cost of living. It can even solve the problem of falling Engel coefficient during a period of economic growth. In the case of subjective method, it defines poverty as a low state of welfare and estimates an income level (that is, a poverty line) which causes such a low state of welfare. Therefore, subjective method, by itself, is superior in a scientific feature.

Nevertheless, depending on the concept of welfare being pursued by a particular society, the theoretical feasibility of the above methods may oft for a different model. If a society places its weight on the solution of relative poverty, relative methods can be preferred. On the contrary, if a society places its weight on the elimination of absolute poverty, market basket method or Engel/Orshansky method can be a desirable alternative. In the end, one can say that, if purely theoretical aspects are considered, the food-ratio method and the subjective method are superior, but again, desirable models can change depending on the concept of welfare preferred by a particular society.

## 1.2. Compatibility of Measurement Level

If stability is affected by the change in a measuring method, those method and its result can not be applied on policy. As market basket method does not involve a change in measuring method, it is most desirable in terms of the compatibility of measurement level. In the case of Orshansky method, if the Engel coefficient of the last measurement year (i. e., 2007) is applied, compatibility of the measurement level can be maintained. In the case of food-ratio method as well, if the target Engel coefficient is obtained from the minimum cost of living for 2004 and is applied to the last year of measurement (i. e., 2007), compatibility of the measurement level can be maintained.

Of relative methods, relative deprivation index method is aimed at finding an inflection point on the basis of an examination of the actual condition. And as such, compatibility with the minimum cost of living that was measured through market basket method would be quite difficult. But in the case of 'relative ratio method', if a relative ratio is obtained from the minimum cost of living for the last year of measurement (i. e., 2007), and applied, compatibility of the measurement level can be maintained even though this method is one of the relative methods. In comparison, subjective methods aim at estimation of the minimum cost of living through a regression analysis based on an investigation of the actual condition. And as such, compatibility with the level of the minimum cost of living that was measured through market basket method would be quite inconceivable.

## 1.3. Arbitrariness of Measurement Data (Researcher)

Arbitrariness of a researcher distorts the result of a research and causes unnecessary disputes

during a review of the minimum cost of living. In this regard, a model that is less burdened with arbitrariness of a research may be regarded as a desirable model. Market basket method is the one that has the greatest room for an intervention by researchers since a market basket can not be constituted for all items on the basis of statistical data. Even if there exist such statistical data, there is a potential for arbitrariness of researchers to intervene in the process of interpretation of those statistical data. Therefore, in terms of arbitrariness of researchers, the market basket method is not a desirable model. Of Engel/Orshansky model, the latter also has room for an intervention by researchers. In contrast, the food-ratio method is virtually free from a possibility of intervention by researchers.

Of relative methods, the minimum cost of living can vary in the case of deprivation index method depending on the analysis model or question items of the questionnaire on deprivation index. In comparison, the possibility of an intervention by researchers is less prominent in the case of relative ratio method. In the case of subject methods, the subjective minimum cost of living of a third party perspective or the perspective of the person involved is determined through a regression analysis, leaving less room for an intervention by researchers.

#### 1.4. Number of Indexes Requiring Social Agreement

Measuring method of the minimum cost of living that has fewer indexes requiring social agreements is more desirable. Noteworthy in this regard, however, is the fact having less indexes requiring social agreements only means efficiency in the process of a review of the minimum cost of living. But this fact has little significance in terms of the exactness of the minimum cost of living itself. The reasons is, in the case of market basket method, it has more indexes requiring social agreements but each of these indexes has rather limited effect. In contrast, in the case of Engel/Orshansky method or relative methods, the number of indexes requiring social agreements is less but each of these indexes has bigger effect. In short, measuring methods of the minimum cost of living that have less indexes requiring social agreements are desirable, but they can not be decisive factors in searching alternative methods.

Since a market basket method can not be constituted with all items based on statistical data, it is reasonable to assume that a good portion thereof is based on social agreements. Also, even when there are statistical data, there is always a need for social agreements concerning their interpretation. Therefore, in terms of the number of indexes requiring social agreements, the market basket method is not desirable. Of Engel/Orshansky methods, especially in the case of the latter, there is a need to examine the Experts Committee on food cost market basket (with about 100 items), and there is also a need for social agreements on Engel coefficients. By the same token, the food-ratio method requires social agreements on Engel equations and Engel coefficients of the food cost.

In the case of relative methods, the minimum cost of living can vary depending on the analysis model or question items of the questionnaire on deprivation index. Therefore, there is a need

for certain degree of social agreements on this. In the case of ‘relative ratio method’, there is a need for social agreements on the proportion of relative ratio and which index (income or expenditure) is to be used as the basic index. Therefore, in terms of the number of indexes requiring social agreements, relative methods can be desirable.

In comparison, of subjective methods, the subjective minimum cost of living of a third party perspective and of the perspective of the person involved is determined through a regression analysis, there is a need for social agreements on the selection of a regression model and on question items of the questionnaire. Therefore, in terms of the number of indexes requiring social agreements, subjective methods also can be desirable.

### 1.5. Simplicity of Measurement

Simplicity of measurement is not an absolute standard in judging models. But the simpler the measurement is, persuasiveness increases that much more. In the case of market basket method, a market basket should be constituted for all items, making the measuring process very complex. Therefore, in terms of simplicity, the market basket method is not desirable. Of Engel/Orshansky method, the latter requires a market basket for food cost (with approximately 100 items). In comparison, food ratio method is relatively simple since it requires an estimation of Engel equation for food cost only.

Of relative methods, deprivation index method is relatively complex in the process of obtaining deprivation points. In comparison, in the case of ‘relative ratio method’, it belongs to a simple method since it only requires an estimation of income or expenditure level for measurement year and a multiplication of relative ratio. In the case of subjective methods, they belong to a relatively simple method since the minimum cost of living is determined through a regression analysis.

## 2. Overall Judgement on the Alternatives

### 2.1. Specific Alternatives by Measurement Methods

Measurement models of the minimum cost of living are first divided into market basket method, Engel/Orshansky method, relative method, and subjective method, but each method is further subdivided into specific methods. At this point, an attempt is made to compare desirable specific models in each method while maintaining the basic perspective for searching measurement alternatives. In the case of Engel/Orshansky method, the food ratio method is chosen for comparison since it was judged as the most desirable. In the case of relative methods, the ‘relative ratio method’ is desirable policywise, so this method is chosen in comparison. In the case of subjective methods, the subjective method from the perspective of

the person involved is chosen for comparison as it is most widely used in academic worlds.

## 2.2. Priority among Different Perspectives

Rational measurement models of the minimum cost of living can vary depending on dominant values. That is to say, the rational measurement models can vary depending on which value takes precedence over others among feasibility, arbitrariness, compatibility and simplicity. These values are at times conflicting against each other or intersecting with each other.

And as such, deciding on priority among values is very important. In my judgement, the theoretical feasibility, compatibility with the existing level of the minimum cost of living, and arbitrariness of researchers should become the most important values when the significance of the minimum cost of living is taken into account. Therefore, the number of indexes agreed upon and simplicity should be secondary standards.

## 2.3. Result of Overall Judgement

In my view, food ratio method of Engel/Orshansky method is deemed most desirable. Food ratio method is considered superior in all values, but other methods seem to deserve average or poor grading in a couple of values. Still, it should be kept in mind that these judgements are not absolute but remain in the sphere of relativity.

However, if the public policy weight on the elimination of relative poverty in that society, the relative ratio method should be selected.

Table 6. Evaluation Result on Measuring Methods by Values

Classification	Theoretical feasibility	Compatibility of level	Arbitrariness of researchers	Number of indexes agreed upon	Simplicity
Market basket method	Average <sup>1)</sup>	Good	Poor	Poor	Poor
Engel/Orshansky method (Food ratio method)	Good	Good	Good	Good	Good
Relative method (Relative ratio method)	Average	Good	Good	Good	Good
Subjective method (Evaluation by the person involved method)	Good	Poor	Good	Good	Good

Note: 1) Good: When favorable; Average: When in the middle; Poor: When inadequate

### 3. Calculation Method of the Minimum Cost of Living using Major Alternatives

#### 3.1 Measuring Scheme of the Minimum Cost of Living using Food-Ratio Method

Food ratio method was proposed by Watt (1965) and theoretically systematized by Deaton-Muellbauer (1980) and Van Praag (1982). In this method, a researcher sets an Engel coefficient corresponding to the level of minimum living using Engel's law that says the ratio of food cost declines the higher a person's income is, and based on that principle the minimum cost of living is estimated.<sup>16</sup> This method has a virtue in that it does not have to calculate a separate minimum food cost since it already exists based on past measurements. When trying to measure the minimum cost of living for 2010 using food ratio model, the procedure is as follows:

- ① An Engel equation for food cost is estimated from the national household survey of 2007.
- ② A target Engel coefficient (r1) and corresponding income ranking (rp) are estimated using the estimated coefficient as per ① and the measurement result of the minimum cost of living for 2007.
- ③ An Engel equation for food cost is estimated using national household survey data for the year to be measured (2010).
  - ※ When trying to use national household survey data of 2009, correction is required for 1 year's data.
- ④ The minimum cost of living is calculated for the year to be measured by applying target Engel coefficient (r2) to the estimation result as per ③.
  - ※ (r2) is calculated by substituting (rp) to the regression analysis estimation equation between Engel coefficient and ordinary income.

#### 3.2. Measuring Method of the Minimum Cost of Living using Relative (Ratio) Method

In my judgement, measuring in a following model seems desirable with a certain modification of the basic model of relative ratio method. The basic model is:

$PL_t = Y_{it} \times \alpha \pm \beta$  is added to the equation to enable a measure of adjustment in case there is a sudden change in the minimum cost of living.  $\pm\beta$  is to be determined by the Central Commission on Livelihood Security (CCLS) in consideration of inflation rate and the trend in the increase of expenditure or income.

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16. These aspects retain certain imports of the relative method. In this study, present method is included in the category of Engel/Orshansky method since food cost ratio is applied.

- $PL_t = Y_{it} \times \alpha \pm \beta$

$PL_t$  : The minimum cost of living for base year

$Y_{it}$  : An estimate of income (or expenditure) for base year by household size or record for the past 3 years

$\alpha$  : Relative ratio

$\beta$  : adjustment parts

The most important in relative ratio method is to decide how relative ratio ( $\alpha$ ) is to be determined. Since there is no social agreement in Korea on relative poverty line, the relative ratio should be determined by some kind of social agreement. As the base for social agreement, it seems appropriate to apply a range of ratios between the minimum cost of living for 2007 and various indexes. The reason is, the minimum cost of living for 2007 was measured using market basket method, but it was also determined on the basis of a social agreement.

Next to decide is how to select the base index. That is to say, in order to calculate the relative minimum cost of living a decision has to be made whether income or expenditure should serve as the base. In my judgement, it is desirable to use expenditure as the base for the following three reasons. First, the minimum cost of living is a total summation of the minimum expenditure by item. Second, in case income is used as the base, the level of saving of common households can affect the minimum cost of living. Third, generally, expenditure is more stable than income (Kim, Mee-gon, et al., 2006: 175).

Additionally, an agreement is needed to decide whether an estimate or a record should be used as the basic index. In the case of a measurement year of the minimum cost of living, actual measurement value can not be obtained. Therefore, when trying to use measurement year data, an estimate has to be used. In the case of an estimate, diverse values can be calculated depending on the method of estimation. Hence, it is more desirable to use a past record. Also, in order to prevent a sudden change in the minimum cost of living, it is desirable to use a mean value for the past 3 years. As for the representative value, either a mean value or a median value is applied to the minimum cost of living or poverty line. Since a mean value can be excessively affected by outliers, it is desirable to use a median value.

#### 4. Measurement Result of the Minimum Cost of Living for 2007 by Major Alternative<sup>17</sup>

Here, an attempt is made to compare the proposal of the Minimum Cost of Living 2007 Research Team and the decision of the Central Commission on Livelihood Security, and the result is compared with the minimum cost of living that was obtained using an alternative method. The minimum cost of living for a household of four in a medium to small-size city as presented by Minimum Cost of Living 2007 Research Team was 1,249,187 won, but it was adjusted to 1,232,569 won as a result of review by the Experts Committee and the Central Commission on Livelihood Security.

Table 7. Comparison between Proposal of the Minimum Cost of Living 2007 Research Team and Decision of the Central Commission on Livelihood Security(CCLS) (For a household of four in small & medium city)

(Unit: won, %)

Item	Proposal of Research Team		CCLS Decision	
	ItemAmount	Ratio	Amount	Ratio
Food cost	456,991	36.6	463,164	37.6
Housing cost	213,135	17.1	212,575	17.2
Running water, light & heat	80,220	6.4	82,350	6.7
Furniture & fixture	37,269	3.0	36,727	3.0
Clothes & shoes	48,773	3.9	48,773	4.0
Health & medical cost	53,894	4.3	53,894	4.4
Education	56,136	4.5	55,302	4.5
Culture & entertainment	30,031	2.4	24,062	2.0
Transportation & communication	141,559	11.3	129,275	10.5
Other consumption expenditure	77,292	6.2	75,260	6.1
Non-consumption expenditure	53,887	4.3	51,187	4.2
Total	1,249,187	100.0	1,232,569	100.0

Source: Yeo, Eugene, et al.(2007), 『Study for the 2007 Minimum Cost of Living Measurement』, KIHASA.

At the outset, it should be pointed out that, when the minimum cost of living for 2007 is measured using ‘relative ratio method’, it would be higher than the minimum cost of living that is measured using market basket method regardless of which base index is used. Although self-evident, this is because the rate of income or expenditure increase is higher than the rate of the minimum cost of living increase. As mentioned earlier, a base index for the measurement year of the minimum cost of living does not exist. Therefore, we should use either an estimate or a past record. If we use a mean record for the past 3 years (2004~2006), the base year for

17. When wanting to examine the feasibility of an alternative, calculate an estimate of the minimum cost of living for 2007 by alternative based on the minimum cost of living for 2004 and compare it with the minimum cost of living for 2007 that was estimated using market basket method.

calculating a relative ratio between the minimum cost of living for 2004 and the base index should be 2001~2003. Accordingly, an estimate for the relative minimum cost of living using a record for the past 3 years would be slightly higher than the estimate of the minimum cost of living for the year.

**Table 8. Minimum Cost of Living Estimate for 2007 using Relative Method (For a household of four in medium to small-size city)**

(Unit: %, won)

Base Index	Amount (A household of four) <sup>1)</sup> (C)	Relative ratio for 2004 (D)	Estimate of Minimum Cost of Living for 2007 (C*D)
Mean income for 2007	3,864,935	33.30%	1,287,023
Median income for 2007	3,445,830	38.00%	1,309,415
Mean household expenditure for 2007	3,160,038	40.30%	1,273,495
Median household expenditure for 2007	2,731,890	46.80%	1,278,525
Mean 3-year median income	3,060,783 <sup>2)</sup>	44.67% <sup>3)</sup>	1,367,111
Mean 3-year median household expenditure	2,460,897 <sup>2)</sup>	54.47% <sup>3)</sup>	1,340,356

Note: 1) Based on the Worker household, Korea National Statistical Office

2) Mean of median income/expenditure for 2004~2006

3) Ratio between the minimum cost of living for 2004 and mean of median income/ expenditure for 2001~2003

Source: Calculated based on Korea National Statistical Office(2007), 『National Household Survey』, KOSIS Data.

When measuring the minimum cost of living for 2007 using food ratio method, 1,257,795 won of estimated minimum cost of living is obtained. This is slightly higher than 1,249,187 won that is calculated using market basket method but is lower than the estimate obtained using relative ratio method. The reason why it was slightly higher than the one calculated using market basket method is that a fall in Engel coefficient caused by an income increase was reflected to the model.

**Table 9. Minimum Cost of Living Estimate for 2007 using Food Ratio Model (For a household of four in medium to small-size city)**

Division	Minimum Cost of Living (won)	2004			2006		
		r_2004	Ordinary income	Quantile	7.24 quantile ordinary income	r_2006	ln (r_2006)
Estimate for 2006	1,217,260	41.5%	1,102,758	7.24 quantile	1,217,500	37.6%	-0.978
Estimate for 2007	1,257,795						

Note: Minimum cost of living estimate for 2007 = Estimate for 2006 × Average rate of increase for 2006 estimate vis-a-vis minimum cost of living for 2004<sup>18)</sup> (3.33%).

Source: Korea National Statistical Office(2006), 『National Household Survey』, KOSIS Data.

18. This estimate was obtained by multiplying an average rate of increase to 2006 estimate, assuming that the estimate increases by the same rate during non-measurement years based on the minimum cost of living for 2004 and the amount of estimation for 2006. This is to reflect the changed portion containing changes in the quality of life on the estimate of a non-measurement year.

## V. Conclusion

In this paper, disputes over the minimum cost of living such as adequateness of benefits and validity of measurement methods regarding poverty threshold have been discussed. The matter 'how to measure the Minimum cost of Living and set the adequate level of benefits' is value laden, therefore, proposing adequate standards is alike to seeking the 'Philosopher's Stone'. Nevertheless, a range of the "adequate" minimum cost of living should be above the value that applies inflation rate on the measurement value (such as in 1999, 2004, 2007), but less than the estimated value by maintaining the ratio (i. e. 68%) of consumption expenditure.

In addition, based on the theoretical feasibility, compatibility of measurement level, subjectivity of measurement data (researcher), number of indexes requiring social agreement, and simplicity of measurement, 'Food-ratio Method' among Engel/Orshansky method is desirable; even though the measurement and its validity also tied to the value-laden issues. Nevertheless, relative ratio method should be applied when the social policy weight on the elimination of relative poverty in that society.

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