

ETUI Policy Brief

European Economic, Employment and Social Policy

N° 4/2019

The cost of living in the EU: how much do you need?

Brian Fabo and Martin Guzi

Brian Fabo is a Senior Researcher at the National Bank of Slovakia and a Lecturer at Comenius University in Bratislava. Martin Guzi is an Assistant Professor at Masaryk University in Brno, and a Research Fellow at the Central European Labour Studies Institute, the Global Labor Organization, and the Institute of Labor Economics (IZA).

Key points¹

- The EU should support the development of a minimum income standard that would allow for adequate social participation.
- The standard at-risk-of-poverty threshold does not reflect the actual living costs.
- Alternative indicators demonstrate that the disposable incomes of low-earning households are not sufficient to make ends meet in the southern and eastern EU countries.
- Economic policies that accelerate the real growth of low-earning households' income should be promoted.

The cost of a decent living in the EU

In a previously published policy brief, we made a case in support of Jean-Claude Juncker's notion that the social pillar of European integration must entail a minimum income standard for low-income workers in EU countries (Fabo 2018). Specifically, the eastern – and to some extent southern – EU member states simply fail to guarantee an adequate income for a full-time worker to secure a decent living standard, even when only basic needs are considered.

The argument we made then was that the living wage calculation provided by WageIndicator Foundation should encourage a discussion aimed at identifying what basic life needs are, even at the extreme low bound. However, when discussing the concept of a living wage, it is sensible to go beyond the mere minimum for survival and to focus on determining what income is needed for a decent living. To that end, the following points should be included. First, apart from considering simply wages, we need to go further by taking into account the burden of taxation and benefits received by households. In other words, we need to look at the net income, because transfers of money between the public sphere and households are generally substantial in the European context. Second, it is important to consider the needs for adequate social participation that go beyond expenses for shelter, meals,

and transportation (Goedemé *et al.* 2015). Finally, we need to shift our analysis to the level of the household, up from the individual, to better reflect the fact that caring for economically inactive household members is a reality for many Europeans. Similarly, the concept of a living wage emphasizes the focus on calculating family needs, as opposed to focusing on the needs of individuals (Guzi and Kahanec 2017).

This policy brief details the necessary amounts for dignified living according to official EU figures and the perceptions of Europeans, as well as the actual disposable income of families in the lower part of the income distribution across EU member states.

Indicators of income poverty

The Europe 2020 poverty reduction goals seek to lift 20 million people out of the risk of (income) poverty and social exclusion by 2020. The EU poverty indicator counts the number of people with disposable income below the national poverty threshold, defined

¹ All opinions presented here are those of the authors alone and do not necessarily represent the position of the National Bank of Slovakia. The research leading to these results has received funding from the European Union's Horizon 2020 research and innovation programme under grant agreement No 730998, InGRID-2 – Integrating Research Infrastructure for European expertise on Inclusive Growth from data to policy.

as 60% of the median equalized income. This poverty indicator also is not sufficient to identify people in poverty and has to be interpreted together with differences in the purchasing power across countries (Goedemé *et al.* 2017). In wealthy countries, it may be true that the population at risk of income poverty (i.e. with income below the national poverty threshold) is quite affluent in absolute terms, and the income of this population provides for adequate social participation. By contrast, in a number of poorer EU countries, an income above the poverty threshold may not be capable of covering the minimum costs of adequate baskets of goods and services. Thus, the relative income poverty indicators published by Eurostat in many countries fail to reliably measure the extent of poverty when contrasted with complementary indicators for poverty (Večerník and Mysíková 2016).

One solution to setting a reasonable minimum income threshold is based on a basket of goods and services that allows people to participate adequately in society, which is the aim of the European Platform on Reference Budgets (Goedemé *et al.* 2015). Development of a common methodology on reference budgets is currently in progress, but it will not be available in the near future. Therefore, in the meantime, it is helpful to explore other ways to define a decent living standard. We propose a subjective poverty line based on asking people what minimum income level is needed simply to make ends meet. Reports from a large pool of respondents regarding this minimum income question then define a subjective notion of poverty threshold.

The minimum income question is present in the annual EU statistics on income and living conditions (EU-SILC) survey. Its precise wording is: "Thinking of the household's basic needs, what is the very minimum amount of money the household needs each month to pay its usual expenses?", with the instruction: "Please answer in relation to the present circumstances of your household, and what you consider as usual expenses".² From the literature, we know that replies to such questions depend on many circumstances, such as respondent characteristics, household composition, geographic location, household fixed expenses, and recent income changes (de Vos and Garner 1991). Yet the subjective indicators may be preferable in order to assess the comprehensive policy and to distinguish people's needs from wants (Veenhoven 2002).

Additionally, we use data collected during the 2015–2018 period within the Cost-of-living price survey organized by WageIndicator Foundation.³ The survey is posted online at national WageIndicator websites in each EU country, and respondents report the minimum monthly living expenditure for a family of two adults and two children.

2 'The objective is that the respondent provides its own assessed indication of the lowest net monthly income (in national currency) the household would need to "make ends meet". The answer of the respondent to this question should refer to the household's total net monthly income.

The usual necessary expenses of the household should include housing related costs but exclude business and farm work costs.' (Eurostat (2017): Methodological Guidelines and Description of EU-SILC Target Variables. 2016 operation (Version May 2017), p. 199)

3 <https://costofliving.wageindicator.org>

The aim of our approach is to assess the needs of families with children, hence we opt to focus on low-income households with two adults and two children, which is a standard family model used for household income analysis in the European context.⁴ We need to emphasize that families made up of two adults and two children are however typically not represented among the poorest households.

Table 1 shows four income indicators for a low-earning household with two adults and two children. The low-income households are defined as households with below median equalized disposable income in each country. Column 1 shows the total household disposable income of low-earning households calculated from the 2017 EU-SILC, Column 2 shows the national income poverty threshold for a household with two children under 14 years provided by Eurostat, and Column 3 presents the subjectively-perceived minimum income to make ends meet, as reported by low-earning households in the 2017 EU-SILC. Column 4 presents the subjectively perceived minimum income in countries with at least 100 responses reported in the WageIndicator survey. All figures are expressed in monthly terms in EUR.

Findings

The figures presented in Table 1 support several important conclusions. First, we examine whether the poverty threshold as reported by Eurostat aligns with responses on the minimum income question obtained from EU-SILC. The differences between Column 2 and 3 in Table 1 reveal that in the high-income EU states, including Austria, Ireland, the Netherlands, Scandinavia, and the UK, the subjectively perceived minimum is at least EUR 300 below the at-risk-of-poverty threshold. In other words, low-earning households with two children in these countries consider their incomes adequate to meet their needs even though household members are counted as poor since their income falls below the poverty threshold. Interestingly, the situation is reversed in many eastern and southern EU countries. There, the subjectively-perceived minimum income is often above the at-risk-of-poverty threshold, with the difference exceeding EUR 900 in Greece and EUR 400 in Croatia, Estonia, Latvia, Lithuania and Slovenia. In several countries, such as Belgium, Czechia, Germany, Hungary, Luxembourg and Portugal, does the subjectively-perceived minimum income align closely with the poverty threshold.

Second, indicators based on the self-assessment of the income situation in Columns 3 and 4 could enhance the view on poverty and minimum income standards. We present the levels of subjectively-perceived income from two sources. These are comparable in less than half of countries however in most richer countries subjectively perceived minimum obtained from the EU-SILC survey are much larger than those obtained from the online questionnaires provided by WageIndicator. This is unexpected since respondents in the EU-SILC survey represent low-earning households with potentially lower minimum income requirements. Data from online price

4 There were 220 million households in the EU in 2017, of which almost a third had dependent children and among them almost half of all households with children had only one child, 40% had two children and 13% had three children and more.

Table 1: Minimum income levels of low-earning households with two adults and two children

Country	(1) Disposable income of low-earning households (EU-SILC)	(2) Poverty threshold (Eurostat)	(3) Subjectively perceived minimum (EU-SILC)	(4) Subjectively perceived minimum (WageIndicator)
Luxembourg	4264	3787	3708	
Denmark	3598	3085	2721	
Sweden	3366	2664	2240	
Finland	3338	2518	2194	2125
Netherlands	2986	2473	1953	1767
Austria	2842	2598	2039	
Ireland	2663	2402	2068	
France	2540	2318	2659	1945
Belgium	2425	2392	2471	1835
Germany	2293	2301	2237	1832
United Kingdom	2274	2204	1765	1182
Cyprus	1873	1522	1847	1469
Slovenia	1806	1334	1766	
Italy	1766	1736	1937	1497
Malta	1727	1524	1348	1405
Spain	1530	1491	1868	1501
Estonia	1021	985	1603	
Czech Republic	988	869	928	894
Slovakia	937	754	1085	815
Portugal	931	952	1033	1003
Greece	717	798	1717	1200
Croatia	704	652	1108	
Latvia	654	693	1239	
Lithuania	616	644	1075	
Hungary	554	523	516	728
Bulgaria	347	377	505	526
Romania	259	287	543	554

Source: Eurostat, WageIndicator, authors' calculation.

Note: Figures are expressed in monthly terms in EUR. At-risk-of-poverty income threshold is based on 60% of the median disposable income (Eurostat table ilc_li01). Household disposable income in Column 1 and the subjectively-perceived minimum income required to make ends meet in Column 3 are calculated by the authors, considering households with below median equivalized disposable income in the 2017 EU-SILC survey. Subjectively-perceived minimum income in Column 4 is reported by respondents in the Cost-of-living survey organized by WageIndicator Foundation (amounts are only available in 17 countries that have sufficient data).

surveys do not include the characteristics of respondents, and therefore differences between these two indicators should be viewed with caution.

We should also outline limitations of using and comparing indicators in Table 1. The relative income poverty indicators, such as the poverty threshold presented in Column 2, represent very different levels of purchasing power in different countries and it is not at all obvious that an income at the level of the threshold identifies households struggling to afford necessities of life. The subjectively perceived minimum income, meanwhile, reflects country specific factors and therefore is not directly comparable across national borders. For instance a large difference in subjective minimum reported by Belgian and Dutch households in Column 3 would be difficult to explain by differences in living standards, given a very similar level of economic development of these two countries. Without the necessary context, it is thus necessary to avoid reading too much into these numbers. The outlined problems further stress the urgent need for finer indicators, such as the comparable reference budgets in Europe, to be developed.

Implications for low-income households

The income decency of low-earning households can be assessed by comparing households' disposable income with the poverty threshold and the subjectively-perceived minimum income. Table 2 summarizes the results based on the indicators from Table 1 in Columns 1-3. The results imply that in the most core EU countries, Czechia, Cyprus, Hungary, Malta, and Slovenia, the disposable income of low-earning households does not fall behind the official poverty threshold or below the subjective poverty line based on the minimum income question. In Slovakia, the low-income households do not count as poor according to the national poverty threshold, but their income falls below the subjective poverty line. Meanwhile, in Bulgaria, Croatia, Estonia, Greece, Latvia, Lithuania, Romania and Spain, low income households struggle to make ends meet according to the subjectively perceived minimum income but their income is not identified low by the at-risk-of-poverty threshold. As we noted above households with two adults and two children are on average quite affluent in the group of low-earning households with below the median disposable income.

Conclusion

The concept of a minimum income standard and living wages has entered lively intellectual debates about the working poor in Europe and about unconditional basic income. Important policy debates, such as the social pillar of European integration, require the quantification of monetary amounts needed for a decent living for households across Europe. We bring attention to the subjectively-perceived minimum income reported by low-income households as an alternative to the at-risk-of-poverty threshold provided by Eurostat. Poverty thresholds based on relative income comparison do not necessarily reflect the actual living costs of families and therefore are not suited for the definition of minimum income standards. The households themselves know their living expenses and their knowledge can be helpful in the definition of adequate minimum income levels. The ongoing effort of the Reference Budgets and WageIndicator Living Wage projects to develop more sophisticated indicators of a minimum income standard are however crucial to define household income levels sufficient to make ends meet.

In addition to determining the cost of a decent life, policies to boost the income of low-earning households should be adopted. Policies tackling inequality and promoting societal cohesion, such as a move towards a more progressive tax system, are important for achieving this goal. Nonetheless, our analysis also shows, households not being able to fulfil their needs is not just a question of their relative income but at least in some countries reflects the general low level of wages. Consequentially, there is a need in particular for the Eastern European countries to move away from low wages as the main source of competitiveness.

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Table 2: Evaluation of the disposable income of low-earning households with two adults and two children

Disposable income to subjectively perceived minimum income	Disposable income to poverty threshold		
	above	equal	below
above	DK, FI, IE, LU, MT, NL, SE	AT, UK	
equal	CY, CZ, SI	BE, DE, FR, HU, IT, PT	
below	SK	BG, CR, EE, EL, ES, LT, LV, RO	

Source: Authors' calculation.

Note: The evaluation is based on the figures in Table 1, Columns 1-3. The equal category represents the situation in which the absolute difference of disposable household income from the poverty threshold or the reported minimum is below 10%.

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The editor responsible for this issue is Jan Drahokoupil, jdrahokoupil@etui.org

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The ETUI is financially supported by the European Union.

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