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ANALYSIS AND PROSPECTS

THE COST OF LIVING AND HOUSEHOLD STRATEGIES TO ADDRESS IT

S U M M A R Y



FUNDACIÓN FOESSA
FOMENTO DE ESTUDIOS SOCIALES
Y DE SOCIOLOGÍA APLICADA

The cost of living and household strategies to address it



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Summary

Conclusions and challenges

Just when it seemed that the world's economies were beginning to recover from the disastrous consequences of the COVID-19 pandemic, a new crisis – this time of an inflationary nature and mainly derived from the war in Ukraine – arrives, bringing with it, once again, precariousness for many families.

The whole of society is being affected by the increasing cost of living: bills are rising, and it is becoming ever more difficult to fill the fridge. In recent months, inflation has been growing to a 37-year high and in June it was already 10.2%. The European Commission estimates that we will close the year 2022 with a global inflation rate of 8.1%, and it seems that it is here to stay because, according to the OECD, this figure will remain at a record high in Spain until at least 2024.

Obviously, inflation affects society as a whole, but with ever more serious and profound consequences for the lowest-income and most vulnerable families. Public action must therefore be targeted at the most vulnerable sectors of society.

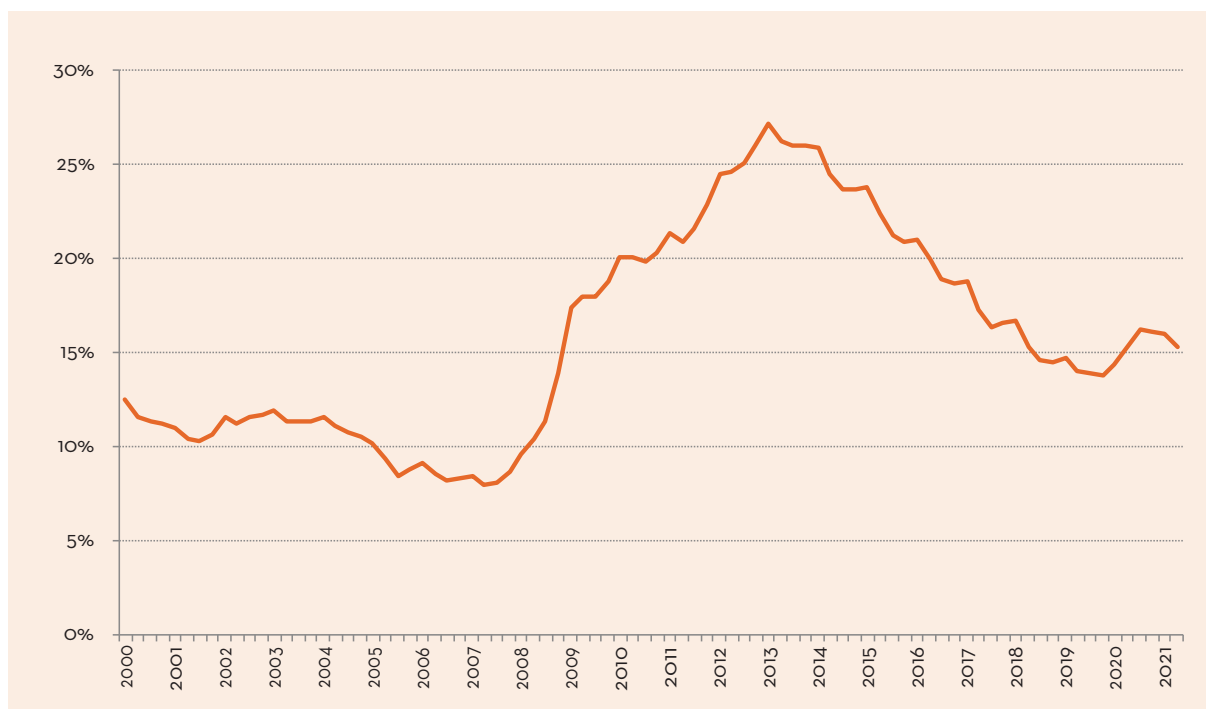
In addition to these urgent measures, we have a new opportunity to act on the structural causes that always generate more serious social consequences for the same households. Once again, from FOES-SA and Caritas we call for more social justice and working for the common good.

When recovery began...

After the shock of the pandemic, it was not until the second quarter of 2021 that a timid growth of the economy began, based on household spending, the reactivation of foreign tourism, and the relaxation of the measures against COVID-19.

Moreover, the intense job losses of the hard months of the pandemic also began to turn around as the restrictions were lifted. Thus, the last quarters of 2021 showed an increase in employment levels to above pre-pandemic levels (700,000 people added to the number of employed), while unemployment declined from 16.3% in the third quarter of 2020 to 13.3% at the end of 2021 (see Graph 1).

GRAPH 1 Evolution of the unemployment rate



Source: Labour force survey (INE - Spanish National Statistics Institute).

In this context of apparent recovery, the “Survey on Social Integration and Needs, EINSFOESSA 2021” published last January by the FOESSA Foundation showed the impact that this crisis had on the increase in inequality and vulnerability. In fact, at the beginning of 2022, there were 576,000 families with no income at all and another 600,000 households with no stable income that depended exclusively on a person working part-time or intermittently.

The uncertainty generated by the war in Ukraine, the evolution of energy costs, and the inflation figures observed in recent months increase the risk of entrenchment or chronification of these situations of social exclusion.

And inflation came

Inflation figures have been above what is considered “prudent” for months, in an escalation caused by the increase in energy prices (especially gas and electricity) and certain food and raw materials; it is an escalation that began at the end of 2021 and worsened with the outbreak of war in Ukraine in February 2022.

Some inflation is considered necessary for the system to work, and the optimal level to which the European Central Bank aspires is 2%. Above that level and up to 10%, it is usually referred to as moderate inflation. It becomes galloping inflation between 11 and 1,000%.

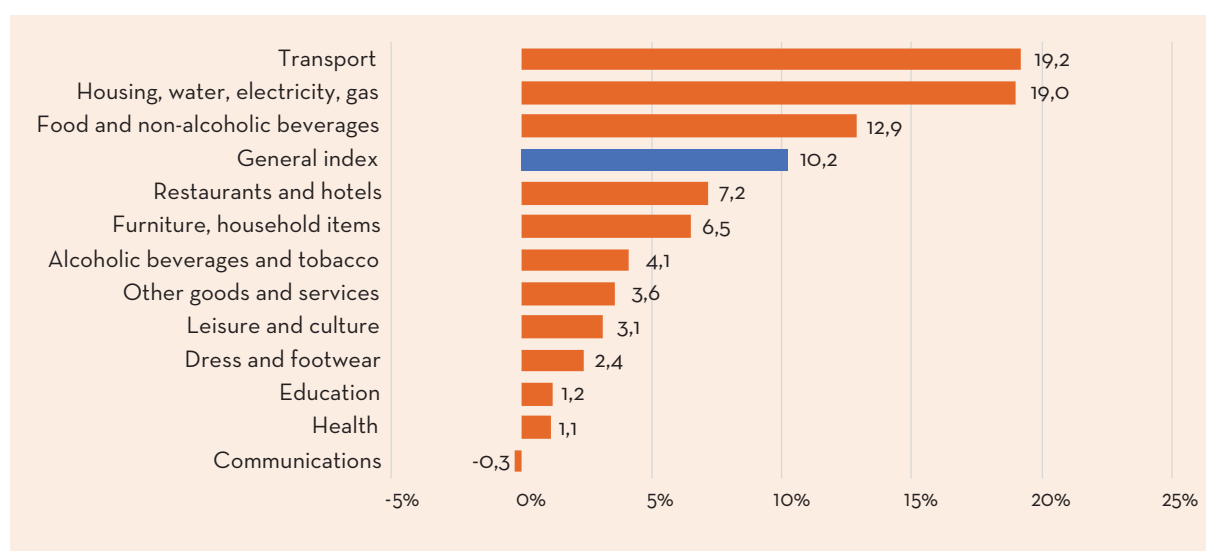
Inflation (or, in other words, the year-on-year rate of change of the CPI) in Spain in June was 10.2%, and core inflation (calculated excluding energy products, fuels and unprocessed food) was 5.5%. This last figure, despite having a lower change than the general index, indicates that the inflationary process is not only due to the price of “wheat” and “oil”, but that the rest of the products have also been dragged above the optimum level and the problem is quite deep.

We are facing a generalised increase in prices that has accumulated eighteen consecutive months of rising prices, and which is subjecting citizens to an increase in unavoidable expenditure in order to cover the essential human needs.

The most vulnerable, the ones that are hit the hardest

Although overall inflation in June was 10.2%, a breakdown shows that the biggest price rises were for essential products and services. Thus, inflation for housing and utilities (water, electricity, gas...) reached 19%, as did transport. For its part, the growth in food prices exceeded 13% (see Graph 2).

GRAPH 2 Annual change in the CPI by expenditure groups in June 2022



Source: Consumer price index (INE).

This means that families have to devote almost all their spending power to cover the most basic needs: housing, food, and transport. In fact, households with an income of less than 1,500 euros per month spend 61 euros out of every 100 euros they earn on these three items (which will be around 80 euros at the end of the year). Families with incomes of less than 1,000 euros will fare worse, as they are forced to spend almost 70% of this amount exclusively on housing and food.

Households and the reference budget for decent living conditions

This FOESSA Foundation document also presents an alternative system for measuring poverty. A system for measuring poverty and deprivation based on what in some countries is called the “basic basket” or “reference budget”, which consists of calculating the minimum budget that a family needs to achieve decent living conditions. To this end, we consider not only food products, but also other necessary goods such as housing, equipment, supplies such as energy or internet access, or rights such as education, leisure, health expenses, or care in situations of dependency.

Our Reference Budget Model for Decent Living Conditions



Terminology and model

- Reference Budget for Decent Living Conditions.
- Focusing especially on the deprivation faced by the most vulnerable families.



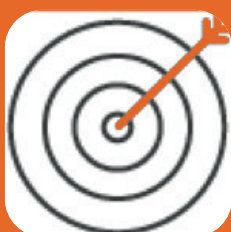
Mixed approach

- Quantification of expenditures based on the key dimensions identified and according to territorial differences.
- Contrast with experts from academia, the third sector and the Cáritas Española Confederation.



“Reference budgets” model

- Expenditure items necessary for any household to be able to live with dignity.
- Consideration is given to socio-demographic specificities that may imply a variation in this budget, such as the size of the household, the gender and age of the people, whether or not they have children, people in a situation of dependency, etc.



Objectives of the initiative

- To develop a measurement system based on people's living conditions that supplements other approaches to poverty measurement.
- To analyse the lifestyles of different types of households and the consequences for them of not reaching the corresponding living budget.
- To contribute to the design of social policies and the demand for a minimum income for a dignified life based on a measurement that is more in line with reality.

Firstly, it is worth reflecting on the usefulness of the Reference Budget for Decent Living Conditions (RBDLC) methodology for the measurement of poverty, the analysis of everyday reality, and the quality of life of society and the parts that constitute it. As discussed throughout the report, the purpose of this methodology is to study material deprivation by focusing on the needs of households. In defining an RBDLC, the intention is to adapt this budget to the specific characteristics of each type of household, so that poverty is not defined in an abstract way, based solely on income, but in a concrete way, in relation to the needs of households.

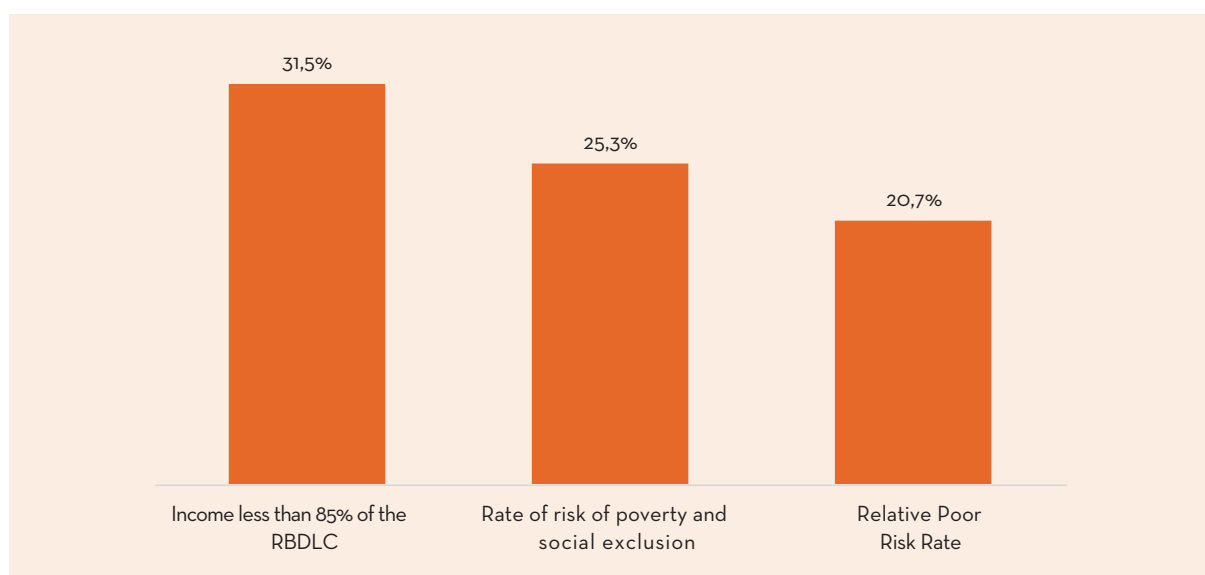
The end result is a classification that allows us to place society as a whole into three groups: households with sufficient income to cover their needs, those whose income is close to their budget and, finally, those whose income is far below what they would need to live with dignity.

Throughout this report, we focus our attention on the latter, which accumulates the greatest difficulties and for whom making ends meet becomes an ordeal; those households with incomes below 85% of their RBDLC. A higher proportion of these have also seen their financial situation worsen as a result of the COVID-19 pandemic, and it is easy to imagine that these are probably the same households that are suffering the worst consequences of the current inflationary context. Finally, these households are forced

to resort to three main groups of strategies to overcome their economic difficulties (asking for extra help or resources, resorting to their own savings, and renouncing or drastically reducing certain expenses and/or basic needs) much more frequently than other households.

In Spain, according to this measurement, almost 32% (31.5%) of households have serious difficulties in meeting their basic needs, i.e. nearly 6 million families have an income of less than 85% of their RBDLC; an income that is clearly insufficient to cover essential needs. This percentage of households is higher than the relative poverty rate (20.7%) and the AROPE rate (25.3%), calculated by the INE in 2019. There are at least two reasons for this: since this methodology addresses the needs of households, it should be considered supplementary when identifying situations of material deprivation; and the results allow for the identification of some elements and circumstances that tend to increase the likelihood of a household experiencing hardship.

GRAPH 3 Share of households with income below 85% of the RBDLC, AROPE rate and relative risk of poverty rate



Source: Prepared by the authors based on their own 2020 RBDLC survey and 2020 Living Conditions Survey of the INE.

Thus, the composition of the household (whether there are children and teenagers, students, or people with disabilities or dependency), the existence of debts, access to housing through renting, the absence of stable income, and unemployment of some or all of the active members of the household are configured as elements that worsen the situation of households, without forgetting the gender gap and the added difficulties endured by single-parent households, headed mostly by women.

Strategies for survival

If we want to understand the living conditions of the lowest income earners in Spain, we need to understand their coping strategies. They are an indicator of their material deprivation and of the sacrifices they have to make in order to try to live a dignified life. They also serve as a warning that in the face of poverty a household may be forced to give up education and health; to reduce essential expenses such as clothing, footwear, food and household supplies, and even to accept work in inadequate conditions.

Some people may be forced to forego education and health, to cut back on clothing and food, and to take jobs with poor conditions.

- For example, seven out of ten households with incomes below 85% of their RBDLC have reduced their spending on clothing and footwear, and almost half have cut their household food budget, to the extent that a quarter of them are unable to eat a special diet, and 17.7% of households with children have stopped using the school canteen.
- Electricity or gas are unavoidable expenses, especially if the household includes minors or dependent persons. Nevertheless, six out of ten households have reduced their consumption of electricity, water, or heating, and 22.4% have asked for help to pay for their utilities.
- And despite the obvious health risks, 33% of households with serious difficulties gave up a health care accessory they needed, and 14% stopped buying some medication.

It is unquestionable that these strategies are not harmless for the lives of the people and families who have to activate them. They are not decisions, but impositions marked by deprivation, survival strategies with direct negative consequences on the neglected items, but also indirectly on others that suffer repercussions. First, it is the system and the labour market itself that deprives families of a decent income. Secondly, it is the insufficiency of specific public protection policies for the most impoverished or excluded households that forces them to act on their own, but they do so at the expense of the enjoyment of their rights and those of their children and teenagers or other more vulnerable members.

Precariousness pushes households to cut back and give up, and although in all of them they have stepped forward to activate such strategies, they have not always been executed “voluntarily”, since on quite a few occasions the situation of need caused such intense pressure that such strategies have become the only possible response. Thus, they are not so much a result of the free choice of people. It is a wheel that accumulates deprivation, deepens situations of present hardship, and places them at high risk of future crises.

In fact, it would be very useful to be able to study almost in real time the kind of decisions that are currently being made in the face of the harsh inflation that has been hitting households in recent months. What the direct effects of this new economic crisis on the lives of households are, what steps have been taken to enable them to cope, and what different strategies have been put in place to face a situation of sustained hardship.

Challenges to ensuring the right to an adequate standard of living

All these ideas should serve to guide public policies in the fight against poverty and social exclusion. On the one hand, the origin of precariousness and material deprivation is associated with housing and utilities, which once again appear to be the bottomless pit that swallows up an increasingly large part of households' economic cushion. Households with a more unstable housing situation – either because they have to pay rent or because they depend on a third party to provide them with housing – are often in a worse situation in terms of difficulties and the number of strategies they have to adopt. Unemployment, intermittent employment, lack of income or instability of income, and the existence of debts are undoubtedly other factors that aggravate the situation of households. On the other hand, material deprivation forces households to put their economy in debt, reduce expenditure, and ask for assistance. As we have already pointed out, some of the expenses that are cut are, however, fundamental for a dignified life: health, education, and even social relations and care and help for others.

Public policies must therefore be geared to counteracting the causes of poverty and also to alleviating its effects by ensuring, first and foremost, that families are guaranteed a minimum income

through employment (or other means) and supplementing it when this is not sufficient. Thus, it seems clear that social policies must supplement household incomes when these are not sufficient, facilitate access to stable and quality jobs in order to avoid job insecurity, and promote access to decent and adequate housing through a public housing policy. Investment policies in health, education, and dependency care are also essential to ensure that households in a situation of deprivation do not find themselves in a poverty trap in which the strategies they are forced to implement in the short term limit their ability to escape poverty in the medium and long term.

As indicated in the introduction, the human right to an adequate standard of living implies ensuring accessibility, adaptability, acceptability, availability, adequacy, and quality in each of the domains. The “capability” approach (Sen, 1987 and 1993) stresses that poverty is not only a lack of income or resources, but fundamentally (or “absolutely”) an absence of capability: poor people are those who do not have this supposed freedom of choice and cannot carry out their life project.

In this sense, and from a human rights approach, it is fundamental to overcome the simplistic perspective of the hierarchy of needs (Maslow, 1943), and seek to associate the dimensions of coping strategies with elements and aspects of human development (Elizalde, 1986).

In other words, each strategy activated, each decision taken to renounce or reduce the enjoyment of a basic need, is directly eroding a capacity for human development and, therefore, constitutes violated rights.

Throughout this report, the failure to guarantee the basic components of the right to an adequate standard of living has been noted, and the coping strategies adopted by individuals and families represent an even greater setback. Not being able to pay for medicines, dropping out of non-compulsory education, having to accept jobs without a contract, or sharing housing with unrelated individuals, to give just a few examples of the situations analysed, reflect the extent to which this right is violated.

We highlight three observations in the light of the analysis carried out:

1. The coping strategies adopted are individual and household based or related to the social network to which they can turn. Therefore, they are reduced to the personal or family sphere, leaving out of the options the structural sphere, the protection and guarantee of rights by those who should guarantee them. Comparatively, families mention to a much lesser extent resorting to the public administrations, which should have policies and benefits designed to guarantee this minimum content, as a coping strategy. The limited scope of institutional support for the most impoverished households again highlights the weakness of our social protection system.
2. Households that were in the worst situation to begin with are the ones whose situation has worsened the most with the pandemic. Once again, the structural preconditions of poverty and inequality multiply the impact and the setback in the living conditions of those who were already in a precarious situation. And we are seeing this again with the effects of rising prices for essential goods and services. When the most intense strategies have already been activated, and a new crisis arrives, many of these families have little choice but to tighten some of the strategies previously used or to make decisions that can no longer be called strategies and should be recognised as “serious renunciations” or “forced abandonment”.
3. Freedom of choice both in life options – having to make decisions that threaten one’s own life (on issues such as health), family life (in relation to housing) or equal opportunities (abandoning education) – and the imposition of conditions on access to some rights is an absolute violation of the right to a full and dignified life and to one’s own development.

For all these reasons, we consider it necessary to move forward in the design of social policies from a human rights-based approach that implies:

- Moving from partial and conditional measures by public administrations to a guarantee of the right to an adequate standard of living/dignified life.
- Placing rights as an axis that crosses all social spheres, making everyone active agents in the pursuit of these rights.
- Making rights real, providing instruments, measures, and channels so that people can exercise and claim them.

This perspective leads us, on a general level, to:

- Guaranteeing that no right can only be covered by resorting to the market, which means that those who can pay for it have access to it and those who cannot are left out of the adequate standard of living.
- Considering the linkage and interdependence of all rights, so that the various areas analysed in the report are considered from an interrelated perspective.
- Deepening and consolidating policies beyond short-term situations – such as the social shield and other reactive measures to alleviate the effects of COVID-19 or the war in Ukraine – as it is essential to generate a solid and stable structural protection network, with sufficient scope and intensity of protection.
- Strengthening the community and informal ties as a support and prevention network. Advocating for a greater social policy must also generate a greater social community, without replacing public administrations, but rather supplementing them, given that these networks can help to achieve better emotional health and, therefore, better physical health, in addition to other exchanges that satisfy needs.

On a more specific level, in each of the areas, the need for the following becomes evident:

- A minimum income guarantee system based on the criteria of sufficiency to guarantee an adequate level so that food, clothing, and other basic elements have guaranteed coverage, in conditions of dignity and freedom of choice. This system must meet the minimum conditions of coverage, reaching the entire population living in extreme poverty without exceptions, both in terms of accessibility and non-conditionality.
- Guaranteeing a sufficient stock of social rental housing and emergency housing.
- Guaranteeing access to housing as part of basic needs and, therefore, as a condition for an adequate standard of living.
- Guaranteeing that compulsory education is actually free of charge in all its elements (materials, canteen, extracurricular activities, etc.) and that there are sufficient grants for non-compulsory education, so that no one is discriminated against due to insufficient income, including young migrants in an irregular situation.
- Considering the relevance of the right to water and energy and access to the Internet as an essential element for equal opportunities.
- Ensuring the necessary medical treatment, social and health care accessories, and essential care to guarantee the right to physical and mental health.
- Strengthening inspections to prevent the exploitation of people in the workplace, taking advantage of their precarious and vulnerable situation.
- Protecting individuals and families who, due to their migrant origin, their situation of dependency or disability, their family composition, their gender, or any other issue, are in a disadvantaged situation.

MAIN DATA

1. Socio-economic context after more than two years of the pandemic

- At the beginning of 2022, 576,000 households had no income whatsoever (3.3% of the total).
- Anchored poverty, using 2008 as a baseline, must have increased from 21.8% to 22.8%.
- In 2021, 7.3% of the population suffers from extreme material and social deprivation (0.3 points more than in 2020).
- 11.7% of the population has low labour intensity compared to 9.9% in 2020.
- In sum, 27.6% are in a situation of poverty and/or social exclusion (new definition 2021 - AROPE) compared to 26.4% in 2021.

2. Impact of inflation on living conditions

- The year-on-year rate of change of the CPI in June 2022 stood at 10.2% and that of core inflation at 5.5%.
- The essential expenditure items – housing, food, and transport – account for 61 out of every €100 spent by households and are precisely those that are bearing the brunt of the price increases.
- The annual change in housing and utilities costs rose by 19%, transport costs by just over 19%, and food costs by almost 13%.
- The poorest households, with incomes of less than €1,000 per month, spend almost €70 out of every €100 they earn on housing and food alone.

3. Households and their Reference Budget for Decent Living Conditions

- 31.5% of households have serious difficulties in meeting their basic needs: their income is less than 85% of their RBDLC.
- The households that most frequently report having difficulties in meeting their monthly expenses are the following: households with no income or only a precarious income (95.3%); households that have access to housing provided free of charge (93.5%); households with debts (93.7%); households in which all active members are unemployed (92.8%); single-parent households (91.5%), and households with a member in a situation of chronic illness, disability, or dependency (88.1%).
- The decisions most frequently taken by households with incomes below 85% of their RBDLC to cope with their financial shortfalls are those related to food, clothing, and footwear (75.9%), obtaining income and reducing savings (73.6%), and those related to housing utilities (73.5%).
- In terms of the intensity of decisions to cope with financial deprivation, the average for Spain is 12.1% of the strategies described. In the poorest households, this intensity almost doubles to 23.8%.

