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The Erosion of the Portuguese Minimum Income Protection Scheme

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Abstract

While minimum income protection (MIP) is central on a European level, as demonstrated by the European Pillar of Social Rights, national policies display huge variations, reflecting different domestic guidelines and political and socio-economic dynamics. The literature has shown that the adequacy of MIPs and their role in social protection systems varies significantly, not only between countries but also over time. However, as most studies adopt large-*N* comparative perspectives, it is not possible to identify whether policy changes affect the programs' generosity or how. This article bridges this gap by taking Portugal as a specific case study and examining the degree of generosity of its MIP—the Guaranteed Minimum Income (GMI), later renamed Social Insertion Income (SII). GMI/SII has outlasted other schemes and is unique within the Southern European welfare regime, partly because, since it started, it has undergone several transformations, which have impacted its ability to provide adequate coverage. The article applies a hypothetical simulation approach to assess the impact of policy change on the generosity of GMI/SII over time. The results demonstrate that alterations introduced over time have had negative effects on different aspects of the adequacy of GMI/SII—and to varying degrees.

Keywords

generosity; hypothetical simulations; minimum income protection; policy change; Portugal

1. Introduction

Minimum income protection (MIP) has been a key part of European social policy during the last three decades. While some countries had already adopted MIPs—i.e., France—the European Council Recommendation 92/441/EEC on common criteria concerning sufficient resources and social assistance was the first step in urging member states to recognize the "basic right of a person to have sufficient resources and social assistance to live in a manner compatible with human dignity" (European Council, 1992, pp. 46–48). Further, the Charter of Fundamental Rights of the European Union of 2000, which became legally binding and a part of EU law with the Lisbon Treaty, recognised the right to social and housing assistance as a form of ensuring a decent existence and introduced social inclusion into the European policy agenda (European Commission, 2010). This was reaffirmed by the EU2020 strategy, which included an ambitious EU poverty reduction target, and the European Semester, with a thematic focus on minimum income that emphasised the importance of adequate minimum income support (European Commission, 2010). More recently, the Interinstitutional Proclamation of the European Pillar of Social Rights (EPSR) explicitly recognised the right of individuals to have an adequate minimum income at all stages of life (European Council, 2017). The EPSR plays a key role in setting and funding the agenda for social rights, particularly in countries with limited budgetary capacity. However, the wording of the principles is often too broad and difficult to translate into action. Besides, as there is considerable variation between welfare states in Europe, MIPs face obstacles in the translation and implementation of the convergent objectives assumed at the supranational level (Greve, 2023; Hermans et al., 2023; Pereirinha & Pereira, 2023; Petmesidou et al., 2023).

These policy recommendations have contributed to the widespread adoption of MIPs across EU member states (Wang et al., 2018). MIP schemes constitute a last resort safety net that safeguards a minimum standard of living for households that have no market or social insurance income, essentially preventing their descent into extreme poverty. Yet, the adequacy of these programmes and their role in the overall social protection system were found to vary significantly between member states (Pereirinha et al., 2020; Vandenbroucke et al., 2013). The combination of EU guidelines with differing domestic realities has been the main contributor to the architectural diversity of MIP schemes. This is clearly illustrated by the distinct pathways of the four countries traditionally pooled together when considering the Southern European experience with minimum protection. While Portugal pioneered the implementation of a nationwide MIPS in 1996, Greece adopted one 20 years later. In Italy and Spain MIPS are managed at the subnational level and reveal varying levels of adequacy within the same country across different regions (Natili, 2019; Pereirinha, 2021).

This article focuses on the adequacy of the Portuguese MIP scheme. In particular, it addresses the question of how policy change affected the benefits of the Portuguese MIP scheme in the period 2010–2023. The Social Insertion Income (SII)—formerly known as the Guaranteed Minimum Income (GMI)—is the nationwide flagship MIP scheme. Since its genesis, Portugal has undergone various periods of crisis and recovery (e.g., the 2008 financial crisis, Covid-19, cost-of-living crisis). Portugal stands out from other Southern European countries in that it is the only country with a long-term national MIP, which has remained in force and been relevant as a protective measure during the multiple and diverse crises that the country has gone through. These crises, combined with political reconfigurations, have led to the introduction of numerous changes to the programme (Caleiras & Carmo, 2024; Cantante et al., 2020; Pereirinha, 2021; Rodrigues, 2012). In particular, it is necessary to assess whether the Portuguese MIP was successful in addressing the needs of its distinct beneficiaries (e.g., households with children, single households, couples, etc.) during these periods. This is achieved by comparing the evolution of the generosity of MIP in Portugal against various social minima, such as the poverty threshold, minimum wages, and reference budgets.

Whilst this study looks into a specific case, it provides insights into the wider debate on adequate social protection systems. Although previous studies on adequacy focus primarily on cross-national comparisons, attributing differences in generosity to design features of MIP schemes, they mostly fail to address the relation between policy change and the generosity of these schemes. This article contributes to the knowledge on the effects of social policy change and the generosity of MIPs by exploring how the former impacts the latter in the context of the evolution of the Portuguese MIP scheme.

2. MIPs Adequacy: An Overview

Principle 14 of the EPSR explicitly mentions that "everyone lacking sufficient resources has the right to receive adequate minimum income benefits ensuring they live with dignity at all stages of life, and effective access to enabling goods and services" (European Commission, 2018). Besides, EPSR identifies benchmarking as a key tool to support social policy and has developed a framework specifically directed at minimum income benefits for the working-age population. This framework agrees upon two indicators that can be used to measure the adequacy of minimum income benefits, namely: (a) the net income of a minimum income beneficiary as a share of the poverty threshold (smoothed over three years) and (b) the net income of a minimum income beneficiary as a share of the income of a low wage earner (a person earning 50% of the average wage). They provide a basic understanding of the poverty alleviation effects of MIP benefits and their relation to the average income of low-wage earners, thus contributing to our understanding of activation.

The at-risk-of-poverty threshold (AROP60) is defined by Eurostat as 60% of the median equivalised net disposable income (Eurostat, 2023). Since it uses an equivalence scale, this indicator is sensitive to household size and composition and the effects of economies of scale within households. The definition of poverty as a percentage of median income draws on the conceptualisation of poverty agreed upon by the European Council in 1975 (Eurostat, 2013):

People are said to be living in poverty if their income and resources are so inadequate as to preclude them from having a standard of living considered acceptable in the society in which they live. Because of their poverty, they may experience multiple disadvantages such as unemployment, low income, poor housing, inadequate health care, and barriers to lifelong learning, culture, sports, and recreation. They are often excluded and marginalised from participating in activities (economic, social, and cultural) that are the norm for other people and their access to fundamental rights may be restricted.

Essentially, the AROP60 is based on the concept of relative poverty, which describes circumstances in which people cannot afford to actively participate in society and benefit from the activities and experiences that most people take for granted. Although it provides some clear analytical advantages in terms of comparability across and within countries, this indicator has received many criticisms. Drawing on the poverty definition adopted by the European Council presented above, there is no evidence that an income above 60% of median equivalised wages is sufficient to live a life of human dignity considered acceptable by society (Goedemé et al., 2018). Additionally, since the relationship between wages and the prices of goods and services differs across and within countries, it should be expected that the threshold for living a life of human dignity should also vary. Further, since the AROP60 is a purely income-based indicator, it does not directly account for the actual cost of goods and services necessary for individuals to meet their basic needs and to fully participate in society. This is particularly relevant when the AROP60 is used to assess the adequacy of MIPs during highly inflationary periods, since low-income households face significantly higher effective inflation rates and are less equipped to deal with sharp increases in their cost of living (Charalampakis et al., 2022). Ultimately, these issues raise questions regarding the legitimacy of an arbitrarily defined poverty threshold and its usefulness in assessing the adequacy of minimum income (Borgeraas & Brusdal, 2008).

The budget standards literature offers an alternative approach to addressing some of these issues. Reference budgets are illustratively priced baskets of goods and services that reflect the minimum resources that people need to participate adequately in society (Penne et al., 2016). This approach to defining a minimum standard of living has clear advantages when compared with the AROPE60. Since RB methods are based on public and expert opinion, they often reproduce what is a socially accepted standard of living in a given society at the moment of inquiry. Additionally, reference budgets are easily updated to reflect the current price of living through the Consumer Price Index.

The potential of reference budgets to define a minimum standard of living is clearly recognised in the context of the Europe 2020 strategy. As part of the Social Investment Package of 2013, the European Commission proposed the use of reference budgets as an instrument to assist in the design and monitoring of adequate income support across member states (Storms et al., 2014). Projects such as ImPRovE (2012–2016) and, more recently, the Pilot Project for the Development of a Common Methodology on Reference Budgets in Europe (2014–15) greatly contributed to the effort of devising a common method to develop comparative reference budgets across member states that allow for a clearer contextualisation of poverty indicators and monitoring of social policy (Cussó-Parcerisas et al., 2018). In Portugal, work in this field has been led primarily by Pereirinha et al. (2020), with the most recent reference budget estimates being in 2014 (Pereirinha et al., 2017).

3. The Portuguese MIPs Timeline

The history of social minima in Portugal started as early as 1974, with the creation of the social pension aimed at the elderly who were economically vulnerable, as well as the implementation of a minimum wage. However, it was not until 1996 that the Portuguese MIP was created, during a Socialist government. The implementation of the GMI began with an experimental 1-year phase, but the programme was extended to the entire population and became a new entitlement the following year. The GMI was designed as a cash benefit targeting households facing economic deprivation, regardless of their contributory status, and aimed at satisfying basic needs. It included a formal agreement to participate in a social insertion programme. The benefit levels were calculated based on the household composition using an equivalence scale. Households were considered to be economically deprived when their cumulative income was less than: 100% of the social pension up to the 2nd adult; 70% of the social pension for each subsequent person aged 18 and over; and 50% of the social pension for each child aged under 18. Thus, the GMI was dependent on the level of the social pension, which in turn mirrored the minimum wage.

In 2002, the newly elected right-wing coalition—composed of the Social Democratic Party (PSD) and the Popular Party (CDS-PP)—renamed it and introduced major changes to the programme, especially to its "social insertion" component. First, the income considered to determine the benefit level was linked to the average income received during the previous 12 months. Second, if the beneficiary or any of the members of the household got a job, 50% of the income earned from work was deducted from the benefit. Additionally, to control abuse and fraud, the principle of a non-automatic renewal after one year was introduced. Essentially, this reform made the now-renamed SII more restrictive and reduced the level of generosity that had been experienced since 1997, which is clearly evidenced by the drop in the number of beneficiaries in the following years (Figure 1). There was also an attempt to narrow eligibility by increasing the age limit from 18 to 25 based on the premise that SII could act as a disincentive for young people to join the labour market, but this proposal was denounced by the Constitutional Court. In 2005, with the return of the Socialist Party (PS) to power, there was a reversal of some of these rules: The household income (previous month), and the automatic renewal of the benefit were reverted.

Later, in 2010, the PS government adopted a new law (DL no. 70/2010), aimed at harmonizing the formula used to determine means-testing across all social benefits and expanded the sources of income considered in the calculation. Two major changes were brought to the SII with this reform: (a) a more comprehensive definition of income was adopted, which included non-monetary income categories, and (b) the adoption of the OECD equivalence scale that reduced the weight of the second adult to 0.7.

In 2012, prompted by the pressure for fiscal consolidation from Troika (2011–2014) embraced by the PSD/CDS-PP government (2011–2015), a new decree (DL no. 133/2012) doubled down on the changes introduced in 2010. First, it reintroduced the principle of non-automatic renewal. Second, it established a threshold for immovable assets above which individuals were no longer entitled to receive SII. Finally, it introduced the OECD modified equivalence scale that reduced the weight of the second adult to 0.5 and the

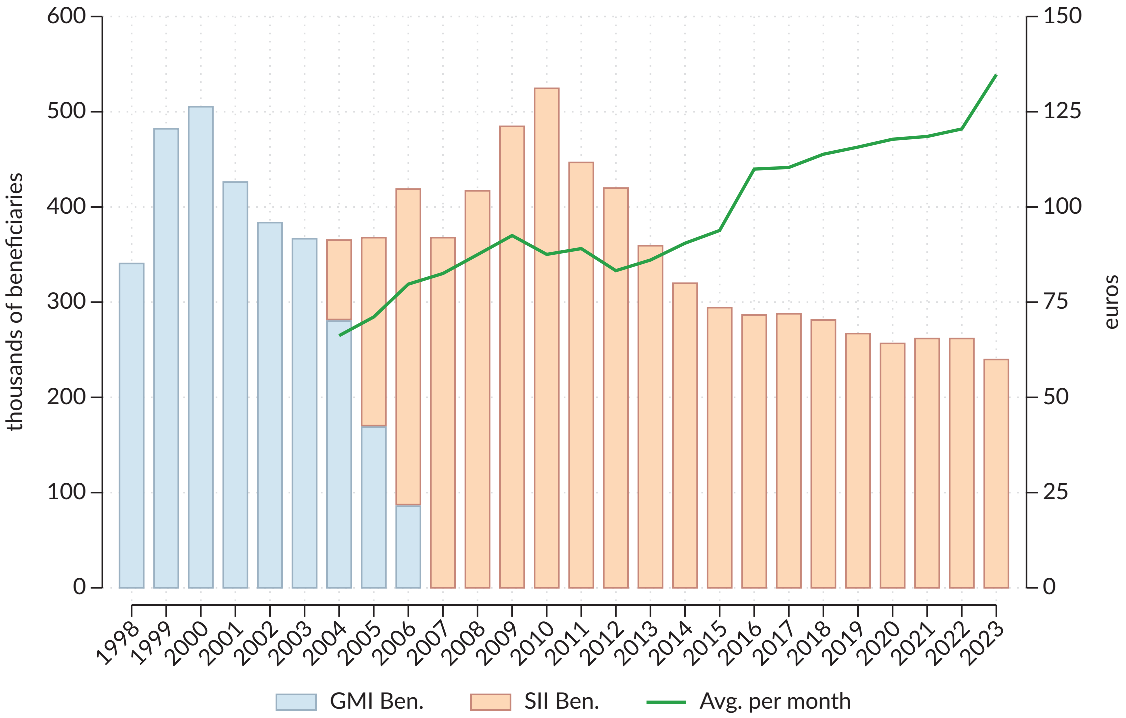

Figure 1. GMI/SII timeline: Number of beneficiaries and average monthly benefit amount. Source: Own production using data from II/MTSSS (n.d.).

weight of children to 0.3. One of the most important changes was the indexation of SII to 45.208% of the Social Support Index (SSI)—since 2007, instead of indexing social benefits to GMMR, the SSI was used as a reference. While the SII was frozen up to 2016, its indexation was downgraded to 43.173% of the SSI in 2013 (DL no. 13/2013). These alterations reinforced the transitory nature of the SII, making it even more restrictive.

At the end of 2015, following a motion of censure, the newly elected PSD government was replaced by an unprecedented governing solution led by PS with the support of the left—the Communist Party, Verdes, and Bloco de Esquerda. This platform had promised to revert the decisions made during the period of structural adjustment, particularly those that directly affected social policies. Consequently, the SII was revised again in 2016 (no. 1/2016), leading to a reversal of the equivalence scale back to the original OECD equivalence scale, which meant the weight of additional adults was set again at 0.7 and each child at 0.5. Further, the reform restored 25% of the cut applied in 2013 with the indexation of the SII to 43.173% of the SSI. In 2017 (Portaria n.° 5/2017), an extra 25% of the cut was reinstated to the value of the SII and the indexation was uprated to 43.634% of the SSI. In 2019 (Portaria n. ° 22/2019), the reference value of SII was downgraded to 43.525% of SSI.

During the pandemic, and later in response to high inflation, some ad-hoc measures were adopted, such as one-off cash payoffs. Although these measures were replicated a few times, they did not generate new entitlements or changes to the design of the SII. Thus, the last significant modifications to the structure of the benefit occurred in 2016. From that point forward, the value of the SII has essentially been fluctuating in line with the indexation rules and, therefore, the value of the SSI.

4. Data and Methodology

This study applies a hypothetical simulation approach to assess the adequacy of the SII in Portugal between 2010 and 2023. For this purpose, it uses the EUROMOD (Sutherland & Figari, 2013) tax-benefit microsimulation to calculate legal guaranteed incomes for five standard family units: a single adult (S), a couple (C), a single parent with one child (S1C), a couple with one child (C1C) and a couple with two children (C2C). The precise assumptions that justify the choice of family units can be found in Marchal et al. (2019). SII benefit amounts and disposable incomes are calculated for each family unit using the Hypothetical Household tool in EUROMOD (Hufkens et al., 2019). Since we are assessing the adequacy of the SII, all adults are considered to be inactive—out of the labour market and not entitled to unemployment benefits or unemployment assistance—thus ensuring all households are entitled to SII. However, it is important to note that, for eligible households—i.e., households with children—SII income can be complemented with income from other benefits, such as family allowance. This is important since it clearly shows the articulation between different benefits within the Portuguese Social Security System.

Our study uses three indicators to assess the evolution of the adequacy of the SII in Portugal during the period between 2010 and 2023:

1. Equivalised SII as a percentage of the at-risk-of-poverty threshold (AROPT60) to measure the capacity of the SII to reduce poverty. For this purpose, we used the annual at-risk-of-poverty threshold (60% of median equivalised income) published by EUROSTAT (2023, ilc_li01).

2. Equivalised SII as a percentage of equivalised DISPY of a household equivalent in terms of composition where all adults are wage earners earning the legal minimum wage (MiNWG) to measure the capacity to reduce inequalities between those in the labour market, at the bottom of the income distribution, and the beneficiaries of the SII.
3. Equivalised SII as a percentage of reference budgets to measure the capacity of the SII to ensure a life of dignity and social participation in society.

Each of these indicators measures a different aspect of adequacy and therefore should be used complementarily to provide a more granular assessment of the adequacy of the SII. This approach allows us to explore the advantages of each indicator and provides a more comprehensive assessment of the various dimensions of adequacy of the Portuguese MIPs. The reference budgets used in this article are "borrowed" from the research project by Pereirinha et al. (2017). This project uses a set of assumptions for the identification of hypothetical family units and their respective expenditure that should be taken into account, namely:

- Active-age females and males are 42 and 40 years old respectively.
- Underage females and males are two and 12 years old respectively.
- All individuals reside in Vila Franca de Xira, enjoy reasonably good health, and their extended family and friends live in the same region. They can use the public transportation network and are free of debt. They do not regularly produce or receive any goods for free.
- Active-age individuals work outside of their immediate area of residence.
- Children aged two years old attend nursery school, where parents pay a monthly fee that varies according to the level of household income.
- Children aged 12 years old attend state school.
- The family home is an apartment rented at market prices on the second floor of a 4-floor story building. The apartment has one living room, one kitchen, one bathroom, and a number of bedrooms adequate to the size of the family unit, such that there is no overcrowding, with access to electricity and water networks.

To ensure comparability between reference budgets and the incomes simulated, the same assumptions have been used for generating the hypothetical households in EUROMOD. Further, since reference budgets in Pereirinha et al. (2017) are estimated for 2014, this study uses the Consumer Price Index to update the various items in the baskets for the timeline considered in this article (2010–2023). The reference budgets used are shown in Figure 2 and described in the Supplementary File, Table 1.

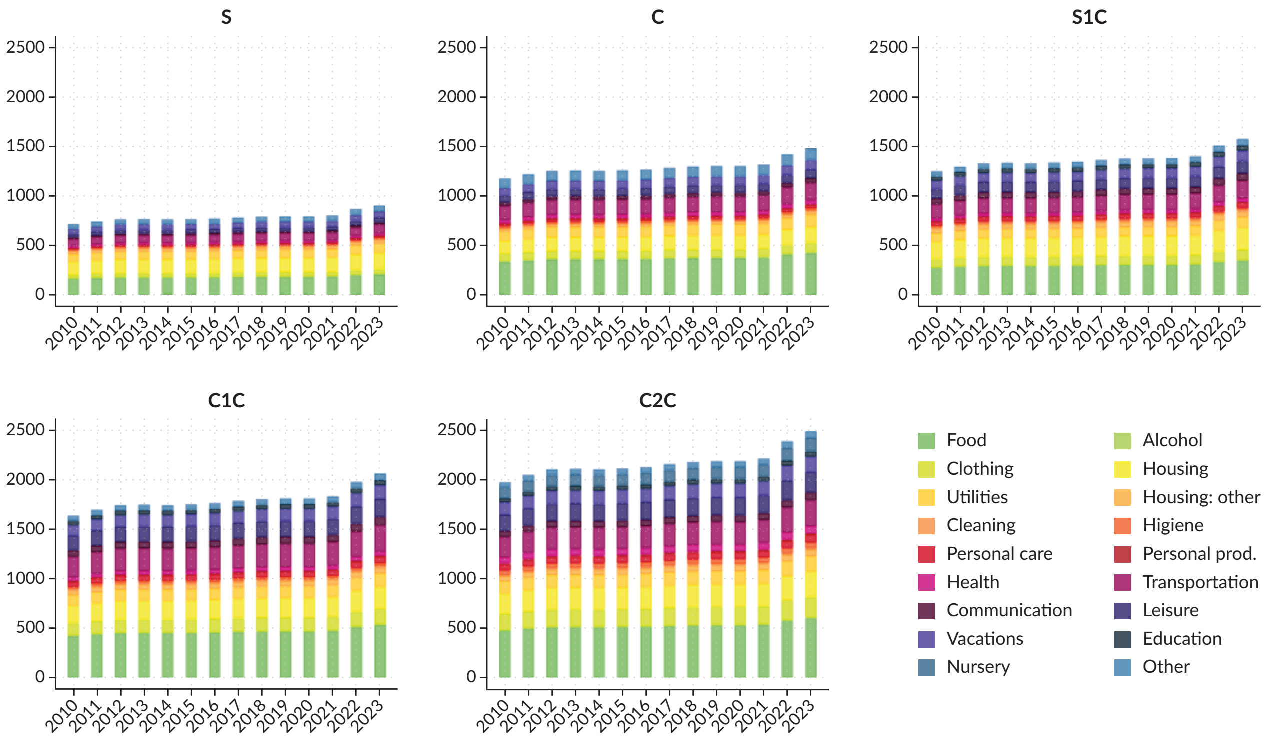

Figure 2. Reference budgets by type of expenditure per household type (2010–2023). Source: Own calculations using data from Pereirinha et al. (2017) and Portuguese National Statistics Institute (INE, 2024).

5. The Adequacy of the SII

In this section, we provide a comparative analysis of the adequacy of the SII in Portugal across different types of households, while accounting for different dimensions, such as relation to poverty, inequality, and social participation.

5.1. Poverty Reduction

Figure 3 presents a comparative analysis of the SII as a share of the AROP60 for different types of households between 2010 and 2023. The results reveal a deterioration of the SII in relation to the AROP60. During the period under assessment, the SII as a share of the AROP60 declined from 60%-80% in 2010 to approximately 40% in 2023. Although we find some heterogeneity, larger households appear to have a better relationship between SII and AROP60.

5.2. Inequality

Figure 4 presents the comparative analysis of the SII and equivalised DISPY as a share of MiNWG. Similarly to what was observed for the AROP60, there is a considerable deterioration of the SII in relation to the MiNWG. In the case of S1C households, the SII as a share of the MiNWG declined from over 90% to less than 40%, clearly illustrating a considerable decrease in the capacity of the SII to reduce inequalities.

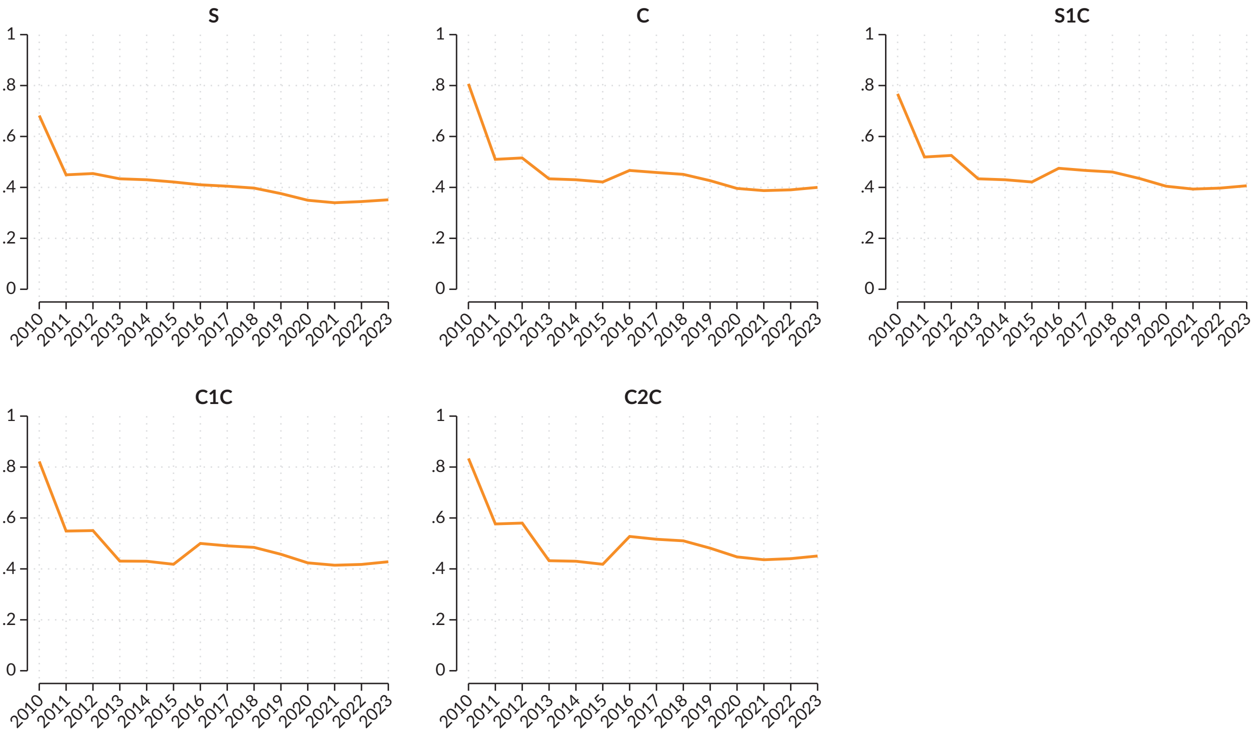

Figure 3. Equivalised SII as a percentage of the AROPT60.

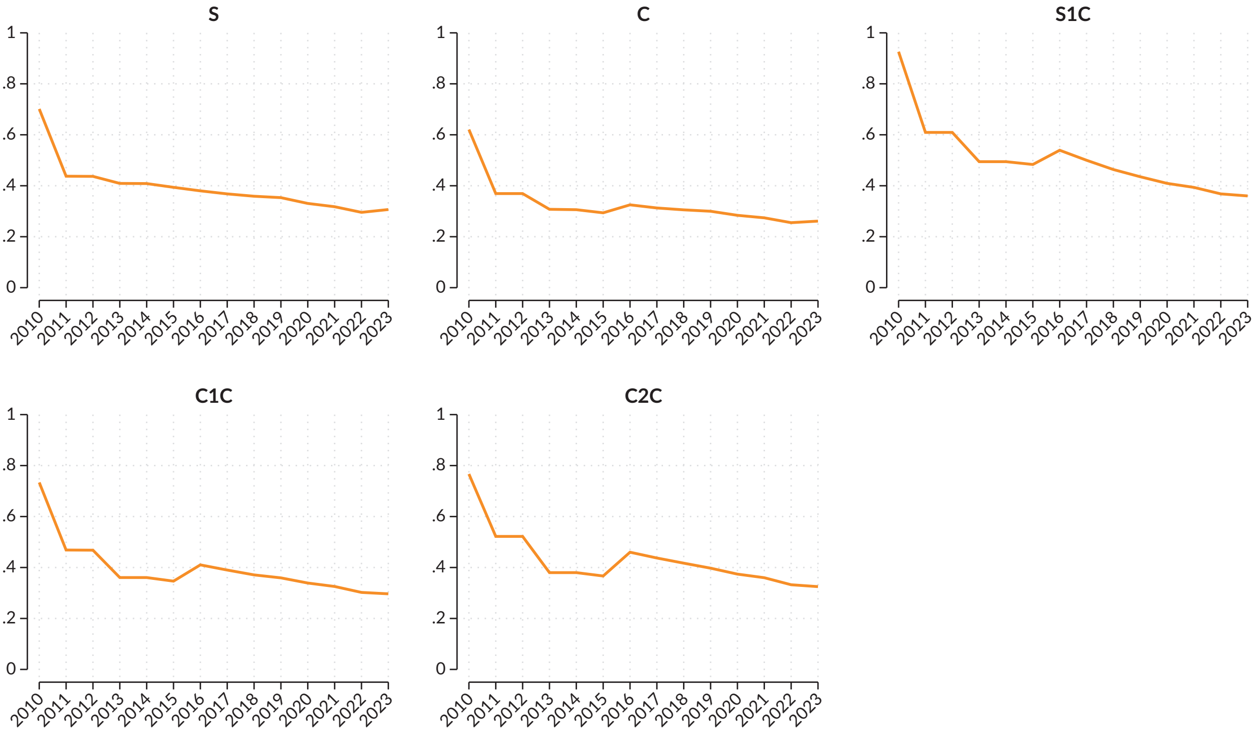

Figure 4. Equivalised SII as a percentage of the MiNWG.

5.3. Social Participation

Figure 5 presents the comparative analysis of the SII and equivalised DISPY as a share of household-specific reference budgets. In general, over time, SII has covered approximately 20% of reference budgets for nearly all households. Although there is some fluctuation, this is mainly due to design features changing over time. Overall, we do not identify an observable declining trend between SII and reference budgets. Comparing households, Single households seem to have a better relationship between SII amount and reference budget (i.e., expenditure).

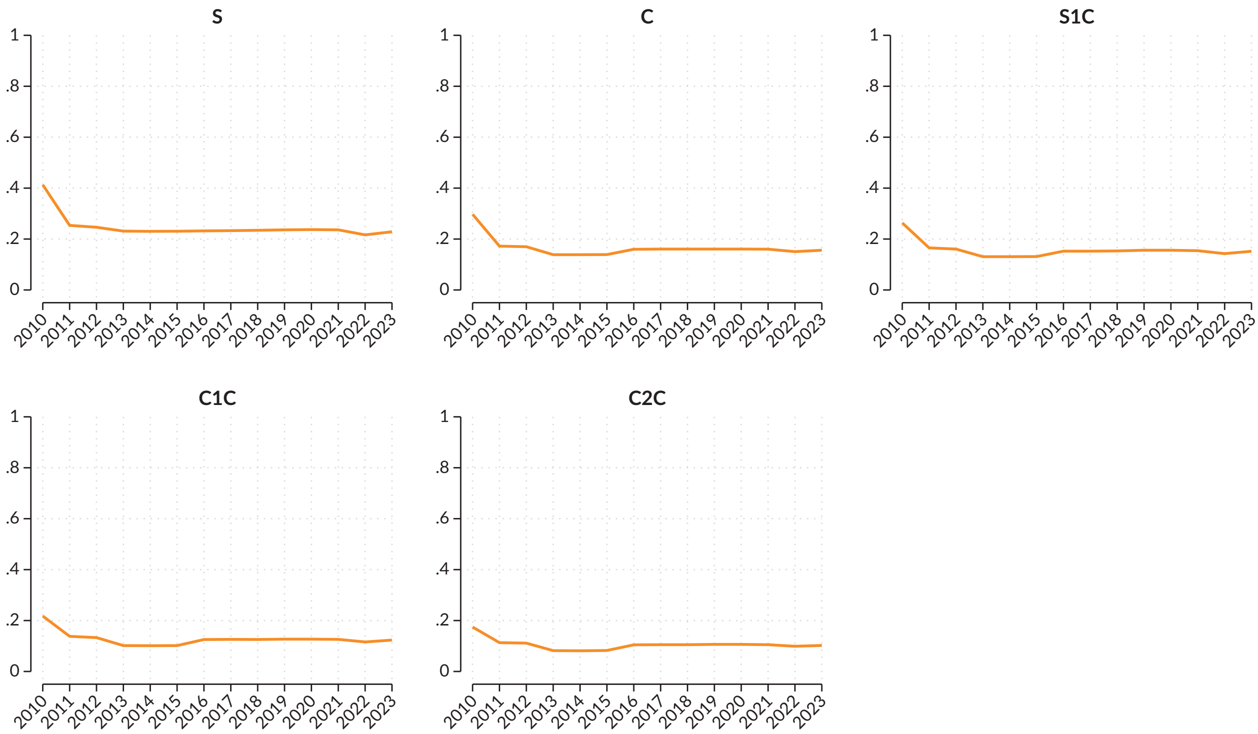

Figure 5. Equivalised SII as a percentage of the Reference Budgets.

6. Discussion

The articulated analysis of these three measures illustrates the impact and the limitations of the SII in its capacity to mitigate poverty, reduce inequality, and promote social participation among different types of households. Overall, we find a progressive erosion of the SII in relation to the poverty threshold and the minimum wage. This erosion reflects the inability of the SII to accompany the evolution of median income and minimum wages, which decreased its capacity to reduce poverty and inequality at the bottom of the income distribution during the period 2010–2023. Surprisingly, the SII seems to remain relatively constant overtime in relation to reference budgets. However, it is important to note that although a clear downward trend was not found, the SII provides a far smaller share of the respective household reference budget in most cases—approximately 20%.

When considering differences across households, the SII is more generous towards households with children. This is clearly illustrated in the comparison with the AROP60 indicator, where nearly all households, regardless of household composition have the same share—approximately 40%. However, it is important to note that, when comparing SII support with household-specific reference budgets, single households are better off. This occurs because reference budgets have their own equivalence scales that are derived according to the increase in expenditure of an additional household member that does not coincide with the equivalence scales used to calculate equivalised income. This seems to suggest that when considering expenditure, SII does not accurately reflect economies of scale within households, particularly affecting the social participation of households with more than one person and, in particular, with children.

As shown in Figure 6, in terms of the trajectory of the SII, there are two policies that had a marked impact on the adequacy of the benefit across all measures under analysis. First, the introduction of a more comprehensive definition of income that included non-monetary income in 2010 led to a considerable decline in the generosity of the SII and its capacity to address poverty and inequality. Second, the adoption of the OECD modified equivalence scale, which assigns a reduced weight to the second adult and children in the household, also clearly affected (although to a lesser degree), the generosity of the SII in the period 2013–2015. Although the equivalence scale was restored to its previous values, the broader definition of income became a permanent design feature of the scheme leading to an equally permanent loss of generosity.

In addition, the switch from minimum wage indexation as an uprating mechanism also had a clear impact on the adequacy of the SII. According to our argument, this contributes to an increase in inequality between the beneficiaries of last-resort social assistance and workers at the bottom of the income distribution. Moreover, according to the "glass ceiling" argument, the increase in the level of social assistance benefits is often conditioned by the minimum wage (Cantillon et al., 2020). For a considerable period, during the Troika

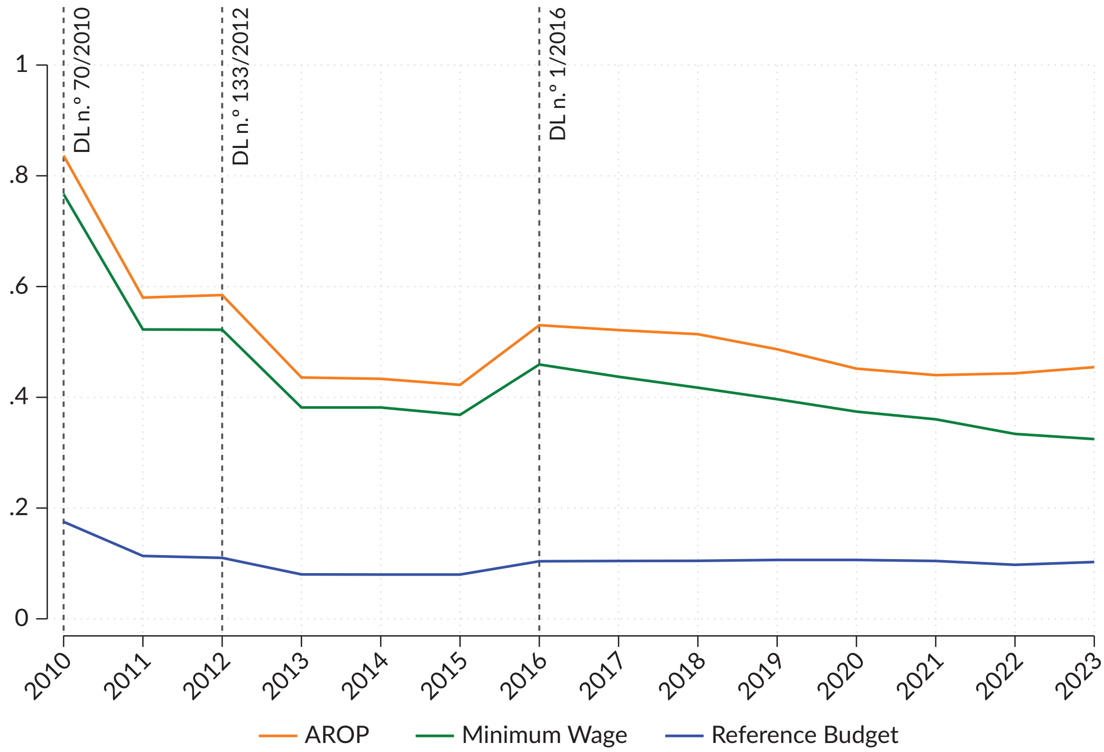

Figure 6. Evolution of indicators for C2C affected by law changes over time.

period, wage floors were kept artificially low, which in turn, affected the uprating of the SII. In the past five years, minimum wages have increased approximately 30%. Meanwhile, SII levels have not accompanied this rise. Essentially, this shows that the switch from a minimum wage indexed uprating mechanism to an SSI-based uprating mechanism has had a profound effect on the potential adequacy of the SII, particularly since the SSI has not increased at the same rate as the minimum wage in the last few years.

For the above-mentioned reasons, it is crucial that we stop and reverse the process of erosion of the SII. In particular, it would be desirable to halt the growing gap between the value of benefits and the minimum wage by changing the SII in order to ensure that it appropriately responds to the needs of families with different profiles.

7. Conclusion

The introduction of a nationwide GMI in 1997 marked the expansion of MIPs to a wider group of people. The transformation of the programme into SII, its indexation to the SSI, and the reforms it underwent during the structural adjustment period led to a reduction of its coverage and increasing inadequacy. As the article shows, the SII has changed in terms of its generosity and has been shaped by economic crises and political changes. During austerity, the programme benefits were cut and more restrictive eligibility criteria were introduced, reducing its adequacy and coverage. Since 2015, following the change in government, there has been a partial recovery of generosity through the reinstatement of previous criteria, unfreezing of measures, and a slight increase in the benefits. In the context of the Covid-19 pandemic, the SII was subject to emergency measures, including flexible access, automatic renewal, and again a slight increase in benefits. This increase continued during the inflationary crisis, although it was insufficient to cope with the rising cost of living and to overcome the structural challenges of the programme. During this period, the SII was also confronted with extraordinary measures, which were implemented in the meantime, but were ad hoc and one-off, an explicit political recognition of the programme's weaknesses in providing a sufficient and adequate response.

Indeed, our results show a significant decoupling between the SII and the social minima between 2010 and 2023, largely due to changes in social policy caused by exogenous factors. Overall, we see a declining relationship between the SII and various social minima in Portugal, which clearly indicates an eroding trend in the adequacy of MIP in Portugal. The effects of the reforms are visible over time. In particular, the change to a less generous equivalence scale used in the calculation of disposable income for the means test of the SII is observed in all the ratios calculated. The equivalence scale of the SII does not accurately reflect economies of scale within households. This can be seen from variations in SII ratios across households. For households with children, the articulation between the SII and child-related benefits and allowances ultimately provides a higher level of protection. However, in terms of equivalised amounts, this higher level of protection is still lower than for single households.

In sum, the analysis carried out highlights the shortcomings of the SII as a safety net of last resort and points to the need to calibrate the minimum income policy in order to make it more effective and in line with economic and social realities, particularly in the context of inflation, increases in the minimum wage and changes in household composition. The results obtained here call for future studies of greater scope and depth.

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Conflict of Interests

The author declares no conflict of interests. In this article, editorial decisions were undertaken by Ulf R. Hedetoft (University of Copenhagen, Denmark).

Data Availability

This article uses synthetic data produced using the Hypothetical Household Extension (HHoT) in EUROMOD. The HHoT project used to create the households can be shared upon request.

Supplementary Material

Supplementary material for this article is available online in the format provided by the author (unedited).

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