Great periods of the Hungarian minimum subsistence calculation in international comparison

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In addition to giving a short international outlook, the paper aims to provide a historical summary of the Hungarian minimum subsistence calculation. The theoretical and practical arguments for and against this practice are also introduced.

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Poverty calculation methods are usually divided into two major groups: absolute and relative approaches. Absolute approaches assume that the minimum needs of people (the minimum cost of living) and the amount of income covering these needs can be and should be determined for specific life stages and types of households under the socio-economic conditions of a given age. Identifying minimum requirements necessary to afford an acceptable minimum living standard gives concrete substance to poverty threshold (poverty line) and is usually based on a standard consumer basket. Since the diversity of individuals living in various types of households is taken into account, several dozens of poverty thresholds are determined in practice. There are cases where the recognized needs of people are determined for each type of households, while in other cases only one basket of necessities and consumer units is used for a wide variety of household types.

By its former method abolished in 2015, the HCSO (Hungarian Central Statistical Office) calculated minimum subsistence values based on one basket of necessities for eighteen household types, using normative food rates and consumer units.

In contrast to absolute approaches, relative methods basically define poverty as an inequality issue. The relative poverty threshold depends on the relation of the population’s income distribution and a person’s income. The threshold is most often some (by the EU standard, 60) percentage of the median income.

Of course, there is no purely absolute approach, as Adam Smith put it in his conceptual definition: poverty is about missing “not only the commodities which are indispensably necessary for the support of life, but whatever the custom of the country renders it indecent for creditable people, even of the lowest order, to be without.” (Smith [1776] Book V. Chapter II. Article IV. p. 4.)

The Nobel Prize-winning economist Amartya Sen continues the following quotation of Smith in his most frequently cited writing titled “Poor, Relatively Speaking” [1983]: “Custom […] has rendered leather shoes as necessary of life in England. The poorest creditable person of either sex to appear would be ashamed in public without them.” (Smith [1776] Book V. Chapter II. Article IV. p. 4.) Smith emphasizes: poverty hurts, not just because it can leave you feeling hungry, cold and sick, but because it can also leave you feeling ignored, excluded and ashamed.

Amartya Sen [1983] states that shame is an absolute category. But the fact that in an era, under the given social circumstances what replaces the leather shoes is relative. Sen, starting from this contradiction and quasi answering it, developed his concept of poverty and the relative absolute indicator of poverty measurement, the Sen index. “The temptation to think of poverty as being altogether a relative arises partly
from the fact that the absolute satisfaction of some of the needs might depend on a person’s relative position…” (Sen [1983] p. 159.)

Mollie Orshansky who developed the currently used US poverty measurement method wrote the following in one of her early articles: “For deciding who is poor, prayers are more relevant than calculation because poverty, like beauty, lies in the eye of the beholder.” (Orshansky [1969] p. 37.)

As to this quotation, it should be noted that every quantification process is based on a series of value judgments, and poverty measurement is no exception to this. The difference is that while every person has a more or less coherent notion about what poverty means, this is not necessarily the case for the economic performance of the given country and its special indicator, the GDP. This value-based approach is, of course, equally valid for the absolute and relative poverty measurement methods. The point is to make various approaches and underlying considerations public, which is clear and transparent in needs-based poverty measurement.

In the present article, needs-based, absolute poverty measurement methods are dealt with in detail, since current debates on the national minimum of subsistence make this topic particularly relevant. As to relative approaches, only their relationship with the absolute methods are examined, bearing in mind that their distinction is relative, and the border between the two is often blurred. I accept Sen's view that poverty, no matter how it is measured, is primarily an absolute phenomenon. At the end of his famous article “Poor, Relatively Speaking”, Sen concludes: “It is important to know whether the poor, relatively speaking, are in some deeper sense absolutely deprived. It makes a difference.” (Sen [1983] p. 168.)

1. Milestones in the Hungarian minimum subsistence calculation – a brief history of the last 100 years

Minimum subsistence calculation started more than hundred years ago in Hungary. The following four subchapters present its major periods.

1.1. Beginnings – “What is necessary for life?”

Initially, instead of determining the so-called “complete” (both goods and services secured) subsistence level, only food needs were assessed and priced. The Royal Hungarian National Statistical Office started to produce statistics on food supply in 1879, and the famous book of Károly Keleti titled “Statistics on the food
supply of the population in Hungary on a physiological basis” (where the needs-based approach already appeared) was published in 1887. It includes detailed tables on the food consumption habits of different social groups and on the huge differences related to the quantity and quality of foods they consume. Keleti, the first director of the office and a regular member of the Hungarian Academy of Sciences wrote the following in his work: “Up to now, everybody tried to answer the question (as far as it was possible): What does the population of a country consume in cereal, meat, etc.? […] After long consideration and several experiments, I reversed the usual question and did not research the average per capita consumption of certain foods and luxury items but asked: What is necessary for life? That is, I interpreted life in such a way that people should not only survive but children should also grow, and the working capacity of adults should be maintained.” (For the original Hungarian text, see Keleti [1887] p. III.)

Although data collection did not continue in the above form, statistical accounting of food needs remained important.

1.2. The first great era of minimum subsistence calculation (1913–1939)

Food expenditures constitute an indispensable and substantial part within family spending; therefore, they have always been an important quality of life indicator. In many countries, including Hungary, detailed food baskets representing food needs are used to determine minimum of subsistence. The weekly food expenditures of a five-member worker family were already published in 1913 (Szociálpolitikai Szemle [1913]), using the data of the contemporary newspaper, Népszava. Table 1 presents this 1913 calculation where the quantity of foodstuffs is based on protein, fat and carbohydrate intake deemed necessary by official science and prices represent the arithmetical averages of the highest and lowest prices recorded by the Market Hall.

Ede Bresztovszky revealed both in the journal Huszadik Század and in Népszava [1916] that 70-80% of weekly wage was spent by most worker households on food (assuming a five-member, one-earner worker family).

The executive committee of the Trade Union Council demanded the enactment of the minimum of subsistence already in 1923. They published their calculations under the title of “Weekly minimum of subsistence” in Szakszervezeti Értesítő (Bulletin of the Trade Union) whose subscription fees covered the operating costs of the council (Kozák [2009]). Their minimum subsistence data were published every month between 1923 and 1939 and were retrospectively calculated by the same methodology until 1914 (Fekete [1989], Salamin [1990]).
Table 1

Food needs of a five-member worker family, 4 January – 4 November 1913

| Quantity            | 4 January 1913 | 4 November 1913 |
|---------------------|---------------|-----------------|
|                     | Unit price (fillér) | Amount (fillér) | Unit price (fillér) | Amount (fillér) |
| 2 kg II. beef       | 202           | 404             | 202                 | 404             |
| 1 kg II. pork       | 200           | 200             | 184                 | 184             |
| 1 kg smoked sausages| 220           | 220             | 220                 | 220             |
| ½ kg smoked bacon   | 202           | 101             | 188                 | 94              |
| ½ kg lard           | 188           | 94              | 168                 | 84              |
| 18 kg brown bread   | 23            | 432             | 22                  | 392             |
| 10 kg potatoes      | 11.5          | 115             | 9                   | 90              |
| 2 kg sauerkraut     | 28            | 56              | 24                  | 48              |
| 2 kg beans (small white) | 44         | 88              | 44                  | 88              |
| 1 kg sugar          | 91            | 91              | 83                  | 83              |
| 3 eggs              | 10            | 30              | 11                  | 33              |
| 7 l milk            | 31            | 217             | 31                  | 217             |
| **Total (korona)**  | **20.48**     | **19.37**       |                     |                 |

Note. Korona and its subunit, fillér are no longer in circulation in Hungary.

Source: Szociálpolitikai Szemle [1913].

At this early stage, the purpose of determining minimum subsistence figures was to calculate the cost of living/subsistence index as well as to specify the amount of income indispensable to live on. The comparison of the total cost of minimum needs to wage conditions was an important trump card for the trade union movement while formulating its demands. The pricing of the minimum subsistence basket showed the real purchasing power of wages and its changes, that is, the so-called cost of living index calculated on the basis of minimum assets.

Thus, between the two world wars, the development of minimum subsistence calculation also meant that of price statistics. Later, however, this function faded as price statistics became independent. It is important to emphasize that the consumer price index is not the same as the cost of living index. While a Hungarian household with an average expenditure structure serves the basis of the former measure, the latter is relying on the consumer price index of a basket determined by the consumption structure taking the minimum needs into consideration.

Going beyond food needs, the first Hungarian complete minimum subsistence basket contained 13 kinds of food, 8 kinds of firing and household goods, 24 kinds of garments, 13 kinds of services and other articles and remained unchanged for decades.
The initial calculations and the method refined from 1923 were built on the German example. They focused on four main areas: 1. food, 2. clothing, 3. heating and lighting, 4. costs of rent. Needs of a family of four were determined using consumption units.\(^1\) An adult male represented 1 consumption unit, his wife 0.9 consumption unit, a 12-year-old boy 0.6 unit, and a 6-year-old girl 0.5 unit. Thus, a family of four with two children represented a total of three consumption units that created the basis for their total calorie needs. The calorie consumption of the head of the family was set at 3500 calories. Correspondingly, the values of other family members were 3150, 1800 and 1500 calories, respectively. The proper proportion of protein, fat and carbohydrate was also paid attention to. In addition to foods, clothing needs were determined item by item, and their data represented quantity, quality and costs. For heating demand and rent, the maintenance costs of a one-room flat with kitchen were considered.\(^2\)

For the Hungarian minimum subsistence calculation, the German model was the starting point, but as discussed in Chapter 2, not German but English experts were the first to calculate a needs-based, itemized minimum subsistence value.

### 1.3. Revival of minimum subsistence calculation (from the 1960s to the transition)

After the Second World War, from 1949 onwards, minimum subsistence calculation was ceased for a long time. In the socialist planned economy, the cost of living index and the underlying minimum subsistence calculation were declared unnecessary. According to Ervin Stuber [1953], “The measurement of the quality of life is an especially nice statistical task because it examines how people’s lives will be better and more beautiful year after year.” (p. 630.) “The recent measures of our party and government to improve the living standards of workers make the further improvement of the statistical indicators measuring the standard of living particularly timely.” (p. 638.) However, minimum subsistence calculation was the victim of this “improvement process”.

After several attempts (in 1954 and 1957), the preparation of the economic reform, the so-called New Economic Mechanism, that is, transition to a socialist market economy started with full force in 1963. During the Presidency of György Péter, the HCSO actively assisted in the development of this program, gearing its professional work and personnel policy. (In this period, a number of specialists, researchers

\(^1\) The office calculated with a four-member, while trade unions with a five-member family that made the comparison of results quite difficult.

\(^2\) For more information, see Baranyai [1991].
and scientists were employed by the office, who pursued later an illustrious domestic/international professional career.)

Rudolf Andorka, a sociologist, who worked in the HCSO for many decades and then became the rector of Corvinus University, commented on this period: “The following »experience« that I lived through in the mid-sixties during a ceremony of 7 November was very typical of György Péter, the former President of the Central Statistical Office… »Comrades, the worst thing is that everyone was weaned from thinking. Therefore, comrades, I urge you to start to think again«.”

In order to measure the effects of the market-type economy, full understanding of the actual situation was needed. This included the research of social stratification ordered by György Péter that went radically against the former schematically interpreted Marxist class theory. It would have also been supplemented by a poverty study, but the HCSO leadership found it “too much”.

In stratification research, there was no word about the poor, but in the 1968 nationwide income survey that was carried out by the HCSO every five years from 1959, households classified as poor in terms of income were already designated. As an integral part of this process, the office determined on an experimental basis the minimum of socially justified needs. Its Economics Department summed up the calculations structured from the consumer side in an empirical way as well as their methodological background in a publication titled “Socially justified needs” released in numbered copies for official use (KSH [2000]).

In 1968, the HCSO worked with two types of subsistence level (the minimum of socially justified needs and poverty threshold) for seven types of families and also made calculations retroactively until 1962 and further until 1970, based on average prices of the given year. Although these results were not available to the public, they enabled the party and government decision-makers to assess the living conditions of the population in an objective and realistic way (KSH [1970]). On 22 March 1971, the Economics Working Group of the Hungarian Socialist Workers’ Party and the Economics Committee of the Hungarian Academy of Sciences organized a debate on the subject, and “there was a general agreement that the minimum subsistence calculation was timely and appropriate” (KSH [1971b] p. 1.).

The “minimum of socially justified needs” reckons with such an amount of income that provides a modest but still acceptable consumption level corresponding to the given period and that is more or less in compliance with social expectations (KSH [1971a]). These needs were defined on the basis of a total of about half a thousand items (consumer goods and services) whose wearing time was considered, too. Age,

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3 The interview (No. 567) was conducted by István Javorniczky in 1993/94 for the Oral History Archive of the 1956 Institute (http://visszaemlekezesek.hu/andorka-rudolf). Its edited version was published in the first number of the journal Századvég (Andorka [1996]).
gender, economic activity, the number of wage earners and members of households as well as the type of settlements were taken into account. Then this approach was compared to the mathematical-model-based method used in the former Czechoslovakia (that gave a 20% higher minimum subsistence amount).

As already mentioned, poverty threshold was also defined. In the first step of its simple calculation method, the physiologically required amount of calories was determined taking nutrients (carbohydrates, fats, animal and vegetable proteins) as a starting point. Then, giving significantly more weight to cheap foods compared to the food structure of social minimum calculation, first the total cost of minimum food needs, then the level of income covering the this food expenditure were figured out. In 1968, the social minimum income was HUF 880 per capita, while the poverty threshold was two-thirds of that (HUF 660). In 1967, 3.26 million people lived below the social minimum and 1.38 million below poverty threshold (KSH [1971a]).

Although the 1968 results were not presented to the broad public, they were released in an internal material and discussed by a wide range of professionals.

In the early seventies, despite the need to update the former calculation techniques, the office started to use the above-mentioned Czech method. Thus from 1972, the HCSO did not itemize a whole range of normative needs but defined food needs by family type, item by item. They sought to determine the social minimum based on the relationship between food expenditures and total spending, using regression functions. The contradictory and presumably too high figures, however, were not made public.

In 1976, new attempts were made to calculate the minimum subsistence level. Because of the previous failure, the HCSO returned to the 1968 method and calculated the social subsistence level at 1976 prices, leaving unchanged the 1968 items.

The April 1981 conference of the Hungarian Sociological Association was the great breakthrough in the examination of social groups with multiple disadvantages. Poverty, despite its new alternative name, ceased to be a taboo (Ferge et al. [1980]). And the new designation also conveyed the idea that poverty is multi-dimensional, does not represent only the lack of income but also the multitude of disadvantages. In this period, a large number of social integration disorder and priority social policy researches were launched (establishing a general/standard conception of social policy), and thanks to these, a number of fundamental studies were published on poverty, social inequality, etc. With an abundance of data, the HCSO supported them, too.

In consequence of the above, the minimum subsistence calculation boomed again: in 1984, HCSO experts restarted the relevant work, then in 1988, their results received widespread publicity. (Figures were published dating back to 1982 in the statistical yearbooks from 1987 onwards.) Thus, starting from the 1984 calculation and (retrospectively) deflating its values by using the actual consumer price index, the HCSO obtained data on the social minimum for the period 1982–1989.
1.4. Minimum subsistence calculation from 1990

As in the 1968 reform period, accurate situation reports and surveys on the state of the Hungarian economy and society were essential during the transition, and this need was also reflected in the work of statisticians as well. In September 1990, a new committee was formed to review the minimum subsistence calculation method, which gathered not only the representatives of advocacy organizations but also delegates from research institutions, statistical experts, parliamentarians and civilians.

The methodology of the early 1990s was strongly based on the 1984 calculation method, here only their differences are highlighted. In the 1990s, not the real, unhealthy eating habits but the requirements of modern nutrition were the starting point to determine food needs. Much more, over 100 food products were included in the basket. The specialists of the National Institute for Food and Nutrition Science did not only determine nutritional norms but also prepared a varied diet for four weeks (spring, summer, autumn and winter) with breakfast, lunch and dinner. As in previous calculations, data of the actual household budget survey were used. Account was taken of those households whose income was below the national average and whose food expenses were close to (+20% of) the calculated norm. Housing costs were not itemized but calculated from household budget survey data for different types of households. Other costs were also determined by actual data, applying consumption unit scales. (It was important to distinguish between other expenditures related to children and those related to adults.)

A key function of minimum subsistence calculation is to compare the actual minimum subsistence value to the average income of a given period, the wage level of certain occupational groups as well as to the actual minimum wage. For example, the minimum of subsistence was 51, 53, and 54% as a percentage of the average income in 1968, 1984, and 1989, respectively (Keszthelyiné Rédei [n. d.]).

“At the beginning of the nineties, the minimum of subsistence was usually considered low compared to the actual minimum subsistence level (»Those who calculated it should make a living from this.«) and was thought to be high in the mid-nineties (»I wish I could have so much income.«). It shows the relativity of minimum subsistence calculation; the average real income – with the exception of the year of 1994 – continuously declined in the steadily impoverishing country, resulting in a change in the consumption structure and in the decrease of the standard compared to the level at the end of the eighties." (Keszthelyiné Rédei [n. d.] p. 25.)

Just at that time, when the impact of economic recession on the population could have been tracked in the increasing number of people living below the minimum subsistence level, the HCSO decided to revise its calculation method and introduced a new procedure (that was used until its abolishment in 2015). As one can find information on this subject in English (for the 2013 minimum of subsistence, see
HCSO [2014]), only the most important features of the new approach are introduced in the following.

By this method, minimum of subsistence is calculated taking normative food consumption as a starting point. Consumption data of those households participating in the household budget survey (today household budget and living conditions survey) are considered, whose spending on food is around the norm (having also regard to some additional features). Their average consumption data constitute the minimum subsistence value. At first, the value of a food basket corresponding to the minimum subsistence level is calculated, then the other costs of households consuming as per the food norm are added to the HUF amount of the food basket (see, for example, HCSO [2014]). In 2014, the value of the normative food basket of adults of active age was HUF 23,954. The minimum of subsistence for an adult male of active age living in a one-person household – that is, representing one consumption unit – was HUF 87,351 (KSH [2015]). The method follows the former practice where minimum of subsistence was calculated by type of households (but it can be converted indirectly to a per person value). The different minimum subsistence values of those living in various types of households are “hidden” in the amount received in this way, nonetheless, its comparison with the average income of the population provides guidance. In 2014, the minimum subsistence value was HUF 70.4 thousand/person/month, while the average per capita income was HUF 91,643/person/month. Thanks to the fact that this method has not been changed since its introduction, I could make comparative calculations retrospectively, until 1995. (See Table 2.)

After the transition, the first great wave of economic recession – in terms of household income – was in 1997. At that time, the minimum subsistence level was 87.5 percent of the average per capita income. Then continuous improvement could be experienced until 2005, when the global crisis exerted its impact in Hungary as well. There was a new peak later, in 2012, when the minimum of subsistence made up 83.7 percent of the average income. In 2014, the average per capita income noticeably improved along with growing internal imbalances, while the minimum subsistence level did not stagnate but somewhat decreased.

In 2015, the HCSO finished calculating minimum subsistence values. Nonetheless, at the initiative of Hungarian trade unions, participants of a workshop have made the traditional calculations for 2015 that resulted in HUF 71.9 thousand per capita amount, giving a 2.1 percent increase compared to 2014. The income data of the population, however, are not yet known.
Table 2

| Year | Minimum of subsistence per capita, HUF/month | Monthly average income per capita, HUF/month | Minimum of subsistence as a percentage of average income |
|------|---------------------------------------------|---------------------------------------------|--------------------------------------------------------|
| 1995 | 12 900                                      | 15 832                                      | 81.5                                                   |
| 1996 | 15 172                                      | 17 839                                      | 85.0                                                   |
| 1997 | 18 574                                      | 21 220                                      | 87.5                                                   |
| 1998 | 20 700                                      | 25 547                                      | 81.0                                                   |
| 1999 | 22 880                                      | 31 169                                      | 73.4                                                   |
| 2000 | 25 581                                      | 35 383                                      | 72.3                                                   |
| 2001 | 30 900                                      | 42 189                                      | 73.2                                                   |
| 2002 | 33 902                                      | 47 771                                      | 71.0                                                   |
| 2003 | 39 716                                      | 54 718                                      | 72.6                                                   |
| 2004 | 42 000                                      | 60 842                                      | 69.0                                                   |
| 2005 | 44 900                                      | 67 009                                      | 67.0                                                   |
| 2006 | 47 900                                      | 70 074                                      | 68.4                                                   |
| 2007 | 53 000                                      | 72 986                                      | 72.6                                                   |
| 2008 | 57 500                                      | 72 875                                      | 78.9                                                   |
| 2009 | 60 000                                      | 72 269                                      | 83.0                                                   |
| 2010 | 64 000                                      | 78 981                                      | 81.0                                                   |
| 2011 | 68 000                                      | 83 046                                      | 81.9                                                   |
| 2012 | 69 500                                      | 83 013                                      | 83.7                                                   |
| 2013 | 70 800                                      | 87 434                                      | 81.0                                                   |
| 2014 | 70 400                                      | 91 643                                      | 76.8                                                   |

Source: Own calculations based on HCSO data.

2. The Hungarian minimum subsistence calculation in international comparison – a brief outlook

As I already pointed out, this paper gives an overview only on those poverty-calculating practices that are, in some form, based on accounting of needs. These approaches assume that people have realistic, basic needs in the given social environment at the level of development of a certain period of time, and those who are unable to meet them due to a lack of necessary income are considered (income) poor. Determining the poverty threshold is done by “pricing” the recognized needs, then this measure is compared to the real income and consumption expenditures of peo-
ple. If the latter ones are lower than the threshold, the person is considered poor. In many countries, only certain (most often food) needs are determined item by item, and the rest is added to them by using a multiplier (from other sources) or other means (e.g. regression functions).

The so-called absolute poverty calculation method – that rests on the enumeration of recognized needs – is closely linked to Benjamin Seebohn Rowntree [1901], who presented his calculations in his book titled “Poverty: A Study of Town Life”. He conducted a survey on over 11,560 families (i.e. about 47 thousand people) of York. Thereafter, numerous prominent studies were prepared on the subject, foremost of which is the great work of Mollie Orshansky who developed the official measurement of poverty in the United States at the beginning of the 1960s. Keeping the needs-based approach, she assumed that other needs, as opposed to human food needs, cannot be determined by broad, professionally-based consensus. Consequently, only food needs must be calculated item by item, while the others should be determined by a multiplier and then added to the priced food basket. After examining the food budgets of US households, a multiplier of 3.33, then 3 was agreed upon. Ms Poverty (as Orshansky was called) died in 2006; her method, however, has survived her with minor changes, even the US official poverty line is determined on this basis.4

Many countries calculate needs-based poverty line. In some countries (Bulgaria, Italy, Sweden, Latvia, Serbia, Macedonia, etc.) it is the official threshold, while in other countries (such as Austria, Belgium, Denmark, Croatia, Ireland, Portugal, Romania, Slovakia, and Japan), it is only one of the minimum subsistence indicators. Some developed countries use the English technique based on the cost of living (European Commission [2011]). Nowadays, one of the most fruitful poverty measurement techniques is the MIS (minimum income standard)5 method that was developed between 2006 and 2008 for the United Kingdom; since then, annual updates of MIS have published, using data from the family budget survey. In every two years, the range of needs is also reviewed and, if necessary, adjusted to the changes of life. The method is becoming increasingly popular, for example, Japan has been using this framework since 2011.

“A minimum standard of living in the UK 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 participating in society.” (Bradshaw et al. [2008] p. 14.)

Using 2008 SILC (European statistics on income and living conditions) data (for the 2007 reference period), Figure 1 shows the poverty rates that different EU coun-

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4 For more information on the development of the Orshansky poverty thresholds, see the website of the United States Census Bureau (http://www.census.gov/hhes/www/poverty/about/history/index.html).
5 For MIS reports and the latest results, see the website of the Centre for Research in Social Policy, Loughborough University (http://www.lboro.ac.uk/research/crsp/mis/reports/).
tries would have had at purchasing power parity if the poverty threshold had been calculated on the basis of the UK minimum subsistence standard. For clarity, only a few states are selected from EU28, but Figure 1 includes those states (Romania, Slovakia), too, whose position is less favourable than that of Hungary. (For EU28 data, see European Commission [2011].)

Calculating with the UK MIS basket, 93.7% (!) of the Hungarian population would have been considered poor in 2007.

Figure 1. Percentage of the population under UK minimum income standard in selected EU countries, 2007

| Country       | Population under UK MIS value in PPP (%) |
|---------------|------------------------------------------|
| Austria       | 22.8                                     |
| Bulgaria      | 92.2                                     |
| Czech Republic| 76.5                                     |
| Denmark       | 93.7                                     |
| Hungary       | 5.7                                      |
| Italy         | 88.1                                     |
| Luxembourg    | 68.7                                     |
| Poland        | 85.3                                     |
| Portugal      | 37.9                                     |
| Romania       | 98.1                                     |
| Slovakia      | 95.9                                     |

Note. PPP: purchasing power parity.
Source: European Commission [2011] and own calculations.

Following the practice of the EU, the income-distribution-based relative poverty rate (the proportion of those in the total population who live below 60% of the median income calculated on the basis of household equivalent income) was 12.4% in Hungary and 18.7% in the United Kingdom for 2007. These data, instead of providing information on the quality of life, living circumstances and conditions of those living in poverty, illustrate (the changes in) income inequality and relative income exclusion within a country.

In addition to this measure demonstrating the rate of poverty, poverty threshold would also be a compulsory element “to take a poverty snapshot”. By the (most recent) 2014 EU data, the difference between the Hungarian and British poverty rates is smaller compared to the 2007 figure (the Hungarian poverty rate increased, while

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6 See Eurostat database on monetary poverty http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=ilc_li02&lang=en
the British decreased), but the UK poverty rate is still more unfavourable (16.8%). Accordingly, the proportion of the poor in the United Kingdom is significantly higher than in Hungary (15%). However, in euro terms, the UK poverty threshold forming the basis of the poverty rate is five times higher than that of Hungary! (Although the difference in purchasing power terms is smaller, it does not change the bottom line.) The poverty threshold per consumption unit is EUR 12 305 in the United Kingdom and EUR 2 707 in Hungary. (See Figure 2.)

Figure 2. Poverty rate of the total population and poverty threshold per consumption unit in European countries, 2014 (reference year = 2013).

Source: Eurostat database.

UK MIS can perfectly supplement the EU Laeken-indicators and their leading indicator, the relative at-risk-of-poverty rate as well as the material deprivation index. It is based on “what people think is required for an acceptable living standard, covering material needs and allowing participation in society”. MIS philosophy is to ensure “a dignified standard of living”. On the one hand, MIS serves as a tool for households to compare their income-subsistence position with others, and, on the other hand, it is a direction indicator in the enforcement of interests, during wage negotiations and for the eligibility criteria of social benefits; in other words, it is the key element of fact-based politics even if it is not considered the official poverty line.

7 See the homepage of the Joseph Rowntree Foundation (http://www.jrf.org.uk/topic/mis) and of the Centre for Research in Social Policy (http://www.lboro.ac.uk/research/crsp/mis/whatismis/).
In March 1995, the UN convened a World Summit on the future tasks of social development resulting in the Copenhagen Declaration on Social Development adopted in 1996 (UN [1996]). The second from the five chapters of the document – under the title “Poverty eradication” – stresses, among other things, the importance of improving the measurement of poverty: “Development of methods to measure all forms of poverty, especially absolute poverty” (Article 25.) “Elaborating, at the national level, the measurements, criteria and indicators for determining the extent and distribution of absolute poverty. Each country should develop a precise definition and assessment of absolute poverty, preferably by 1996, the International Year for the Eradication of Poverty.” (Article 26. d)

A number of documents relating to poverty measurement refer to the Copenhagen Declaration that was signed and several years later ratified by Hungary. Naturally, an absolute yardstick is essential for understanding extreme poverty in developing countries, but after decades of following relative poverty approaches, developed countries have also recognized again the importance of this measurement mode and the usefulness of its inherent information.

The decision of the Canadian Parliament gives one of the finest examples of the challenges of measuring poverty in the most developed countries: “Defining poverty, poverty lines, poverty level, sufficient incomes or minimum standards of living is a matter of ongoing global debate among policy-makers inside and outside government. In general, poverty is defined either in absolute terms – inability to obtain the necessities of life – or in relative terms – »being worse off than average«. [...] the conceptualization and measurement of poverty should... reflect the values of Canadian society, enhance our understanding of poverty in Canada and better inform policy-makers about the prevalence of poverty in Canada.” (Parliament of Canada [2008])

One of the Canadian poverty measurement methods, MBM (market basket measure) is similar in terms of approach to the minimum subsistence calculation (Hatfield–Pypers–Gustajits [2010]).

LICOs (low income cut-offs) reported by Statistics Canada since the 1960s combine relative and absolute elements. The measure is intended to represent an income threshold below which families will likely to devote on average at least 20 percentage points more of their income on food, clothing and housing maintenance than the average family (it is calculated by type of households).

There are many other examples of defining poverty by recognized needs in the current international practice. The US, Canadian and British examples provide sufficient evidence that minimum-subsistence-type approaches of poverty measurement have relevance even for countries with a high standard of living.

8 For the statement of H. E. Árpád Göncz, see http://www.un.org/documents/ga/conf166/gov/950312235149.htm
With the support of the European Commission, University of Antwerp (together with Applica and the Herman Deleeck Centre for Social Policy) has launched a pilot project (Goedemé–Storms–Van den Bosch [2015]) with the goal of formulating recommendations on a common, comparable basket of necessities (reference budget) applicable for EU member states. The project illustrates that the development of a consensus-based, methodologically stable minimum subsistence approach requires multi-annual preparatory work, and the calculations should be started with the clarification of the theoretical framework.

The role of OECD equivalent scales (by which one can compare the income and consumption of people living in households of different size and composition) should be also emphasized. If the fact that a part of household expenditures does not increase linearly with the household size is taken into account when measuring the cost of living of those belonging to various family types or comparing their standard of living/income, the income per consumption unit should be used instead of per capita income. A wide variety of equivalence scales is used, four major types of which can be distinguished: behavioural, parametric, subjective, and expert scales. Eurostat uses the last one (OECD2 consumption unit scale). For the Hungarian consumption pattern, however, the OECD2-scale is not quite adequate (Éltető–Havasi [2002]). I.e. the consumption structure of poor households differs significantly from that of wealthy or average households. Therefore, a consumption unit expressing the average is not necessarily to be used when minimum subsistence values are calculated.

Minimum subsistence calculation is often criticized. Many people make negative judgment on the needs-based methods, saying they are not sufficiently objective or scientific, too arbitrary and above all: convey value judgments. “Even for food, nutritional studies do not permit a precise estimate of what is needed... For other expenditures, and to some extent for food as well, needs as defined by experts will be based on social rather than scientific criteria.” (Fischer [2007])

Difficulty in the consensus-based determination of the standard basket of necessities is also among the objections, especially if the variability of the expenditure/spending practices of people/social groups as well as the existence of the rich mass of goods and services offered by the consumer society are taken into account.

Another thought-provoking argument is that the standard basket of necessities is adapted to the actual consumption pattern of people with low income, that is, the practice of spending is “redefined” as a standard basket of necessities.

Unfortunately, those who expect exemption from value judgment and some kind of objectivity from this calculation method do not acknowledge that there is no such thing. There is no such method in the world that would guarantee exemption from value judgments. Objectivity is guaranteed by accountability and transparency.

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9 OECD2 consumption unit scale: the first adult represents 1, each other 0.5, and children under 14 of age 0.3 consumption unit.
An approach can be verified by its transparency and interpretability for ordinary people. As it can be read in the quoted study of Fischer [2007], even the opponents of the needs-based approach have stated that this type of analysis is of value in making clear for everyone what standard of living, subsistence level and quality of life the poverty threshold can provide. In other words, it fills the indicator of poverty threshold with content and shows what it means to be poor.

At the same time, not only the members of the general public but also technical experts do not really know the real content of the income level delimited by 60% of the median, and an even more significant disadvantage is that it depends on the actual income distribution. In times of economic recession, if – let’s say – the income of the country’s population decreased proportionally in all income groups, the poverty rate would remain unchanged. The same is true for the proportional income growth of the population. Poverty measured in this way is a relative relationship: only income position of people compared to that of others defines who is poor and who is not. That is why the proportion of the poor seems bigger in the UK than in Hungary. Although this measure should be supplemented with other poverty indicators, its usefulness should not be questioned. (For example, in monitoring the residential impact of economic recession, a minimum-needs-based approach to poverty adopted as a standard is more useful and informative.)

After the revision of its minimum subsistence calculation method (that was unchanged for 20 years), the HCSO introduced two pilot methods at the end of 2015. A broad consensual solution, however, is still to come.

3. Closing remarks

At first in 1887, Károly Keleti, the then leader of the Royal Hungarian National Statistical Office asked the question: “What is necessary for life?” His calculations were followed by a long pause, then they continued in 1913. From 1923 to 1939, on the initiative of the Trade Union Council, weekly minimum subsistence values were reported and calculated back until 1914. After the Second World War, in the socialist period, the start of the 1968 economic reform (“socialist market economy”) marked the end of the dogmatic era, coinciding with the start of the minimum subsistence calculation (which measured, among others, the effects of the reform). The minimum of subsistence was calculated back until 1962, making the monitoring of the social impact of economic transformation possible. At that time, the “completely itemized method” was used, i.e. all needs were taken into account item by item. The survey of minimum subsistence needs continued with longer or shorter halts from time to time.
Between 1994 and 2014, recognized-needs-based minimum subsistence calculations were performed each year, practically with no significant methodological changes, and the results were published by the HCSO. In 2015, the office introduced two new, experimental approaches to calculate the minimum of subsistence, but no relevant publication has been released on 2015 data.

No one knows what the future holds. However, the history of the Hungarian minimum subsistence calculations gives us hope that sooner or later one of the best traditions of the HCSO will continue.

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