Minimum subsistence level in the social policy of the poor countries of Europe: the case of Ukraine

Abstract
The category of «minimum subsistence level» (SL), also referred to as «absolute poverty line», is one of the fundamental in the socio-economic policy of the modern country. The majority of social transfers depends on the size of the minimum subsistence level, i.e., the level of state support for vulnerable groups of the population; SL is the basis for setting a number of salaries in the budgetary sphere and, accordingly, the amount of tax revenues; the practice is common of reconciling the size of the minimum wage and the maximum level of income from which contributions to compulsory state social insurance are paid with SL. Thus, the SL forms a significant part of budget expenditures and at the same time revenues in the public finance system.

The article presents the results of systematization of the principles and methods of calculating SL adopted in different countries. In particular, the characteristics of normative, structural and normative, statistical, resource-based and subjective approaches are given. Considering the well-founded claims to the current methodology for determining SL in Ukraine, the urgent need for its transformation is emphasized and the author’s vision of innovations is highlighted.

The rationale is provided for introducing a structural and normative approach for the analysis, monitoring and forecasting of social development and welfare, differentiated by age groups, determined in accordance with participation in education and the labour market.

The necessity is emphasized of: developing the norms of food consumption exclusively by medical specialists; using different SL structures; transition to the calculations of SL of the households with a separate definition of the so-called semi-fixed costs (at the level of 20-30% of the food component of a person aged 20-64), which eliminates the use of disputable scales of equivalence.

For the purpose of social assistance and calculation of its amount, it is proposed to focus on 40% of the median official salary. The argument is that payouts from the budget depend on the revenues, i.e., taxes on legal wages, and, moreover, this is the threshold accepted in many European countries.

The article provides examples of SL calculations, in particular, with the definition of the impact of various methodological schemes on the level and depth of poverty in the country, on the structure of the poor. As the final result the proposals are given for the use of SL in public policy.

Keywords: Minimum Subsistence Level; Absolute Poverty Line; Salary; Wage; State Social Guarantees; Poverty; Norm of Consumption; Social Assistance; Poor Country

JEL Classification: E24; H50; H53; I30; I32; I38

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Анотація. Категорія «прожитковий мінімум» (ПМ) є однією з фундаментальних у соціально-економічній політиці сучасної країни. Саме від розміру ПМ залежить більшість соціальних трансфертів, тобто рівень державної підтримки вразливих верств населення; ПМ є базою для встановлення низки окладів у бюджетній сфері й відповідно суми податкових надходжень; поширеною є практика узгодження з ПМ розміру мінімальної заробітної плати й максимального рівня доходів, з яких сплачаються внески на загальнообов'язкове державне соціальне страхування. Таким чином ПМ формує значну частину бюджетних витрат і одночасно надходжень у системі публічних фінансів.

У статті наведено результати систематизації принципів і методів обчислення ПМ, прийнятих у різних країнах. Зокрема дано характеристику нормативного, структурно-нормативного, статистичного, ресурсного та суб’єктивного підходів. З огляду на цілком обґрунтовані претензії до чинної в Україні методики визначення ПМ підкреслено навіть необхідність її трансформувати й виписати авторське бачення новацій.

В статье приведены результаты систематизации принятых в разных странах подходов к расчету ПМ. В частности, дана характеристика нормативного, структурно-нормативного, статистического, ресурсного и субъективного подходов. Учитывая целиком обоснованные претензии к действующей в Украине методике определения ПМ, его необходимо максимально быстро трансформировать. В статье предложено авторское видение необходимых новаций.

З огляду на цілком обґрунтовані претензії до чинної в Україні методики визначення ПМ підкреслено необхідність її трансформувати й виписати авторське бачення новацій.

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Прожиточный минимум в социальной политике бедных стран Европы: пример Украины

Аннотация. Категория «прожиточный минимум» (ПМ) – одна из фундаментальных в социально-экономической политике современного государства. Именно от размера ПМ зависит большевина социальных трансфертов, и следовательно, уровень государственной поддержки уязвимых слоев населения. ПМ служит базой для установления ряда окладов в бюджетной сфере и, соответственно, суммы налоговых поступлений. Распространена практика согласования с ПМ размера минимальной заработной платы и максимального уровня доходов, с которых взимаются взносы на обязательное государственное социальное страхование. Таким образом, ПМ формирует значительную часть бюджетных расходов и одновременно поступлений в системе публичных финансов.

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Konечным результатом представлены предложения по использованию ПМ в государственной политике.

Ключевые слова: прожиточный минимум; зарплата; государственные социальные гарантии; бедность; норма потребления; социальная помощь; бедная страна.

1. Introduction
The state (public) social support of the population, which is carried out on a targeted basis, should be based on certain criteria of misery. They are the ones that determine the need for assistance, on the one hand, and the ability of the budget to finance such assistance, on the other. One way or another, the income of a person / family / household should be compared with a certain state guarantee of a minimum acceptable level of living. In most European countries, such a guarantee is the minimum subsistence level: the cost of a set of goods and services necessary to ensure the healthy performance of the human body (maintaining health and meeting basic needs). In determining its size, governments assume that every able-bodied person can (and should) provide for himself or herself a decent standard of living. Accordingly, the role of the minimum subsistence level as a state guarantee is performed by the minimum wage, the amount of which allows to meet family (including dependents) needs at a minimum acceptable level and not to feel social isolation. But a large part of the countries, especially with extensive micro-entrepreneurship, widespread self-employment and shady off-the-books employment, with large-scale untaxed incomes, etc., do not have real levers of influence on wages in these areas. Accordingly, the size of the minimum state guarantees, as well as the eligibility to receive them are associated with the minimum subsistence level and the ratio of its size to the income of the individual or household. The minimum subsistence level also determines a significant part of targeted and universal benefits, subsidies and transfers, including the amount of assistance to families with children, assistance to persons with disabilities, etc., and serves as a basis for determining the maximum income to pay a single social security tax, part of the salaries. Thus, it is the size of the subsistence minimum that plays the role of a regulator of a significant part of the revenues and expenditures of public finances.

2. Purpose
The purpose of the article is to highlight innovative approaches to the formation of the minimum subsistence level (absolute poverty line) as a fundamental component of the system of state social assistance to the population, justification of the expediency of using the proposed methodology and examples of its application in social policy.

Ukraine, which inherited an extensive but inefficient (from the standpoint of coverage of the needy, the amount of assistance and the burden on the budget) social assistance system, has not yet achieved the desired goal, despite all attempts to reform it. One of the obstacles is the current methodology for calculating the minimum subsistence level, which justifiably provokes numerous objections from experts, the general public, social assistance recipients and politicians, serves as a basis for the spread of populist speculation, and therefore needs urgent change. The development of a new methodology should take into account limited budget capacity, the spread of unregistered employment and unregistered income in Ukraine, a fairly high level of poverty and, if possible, adapt to Ukrainian conditions the world experience and best practices, especially Eastern European.

3. Brief Literature Review
The concept of establishing a state-guaranteed amount of income needed to ensure a minimum standard of living in the country is not unique for modern industrial and post-industrial societies, its roots go back to medieval thought. In modern academic research, the topic of the minimum subsistence level is covered by political scientists, health scientists Flint, geographers, social policy experts, economists from around the world.

In particular, the works of A. Werner, M. Lim (2016) are widely known, which study the relationship between minimum standards and guarantees and corporate social responsibility, business ethics. A number of publications by D. Hirsch (2014) cover issues related to determining the level of minimum needs of the population of the Great Britain. The works of the American scientists K. L. Reburn, F. E. Moyer, R. J. Knebel, M. C. Bowler (2018) deal with the problems of the relationship between the minimum wage and the minimum subsistence level; studies by C. Nadeau and Libanova, E. / Economic Annals-XXI, 182(3-4), 117-125
A. K. Glasmeier (2016) and other well-known scientists refer to the search for optimal methods for determining the actual level of needs of a person (family) and establishing a minimum subsistence level based on them.

Despite the large number of studies and the universality of approaches to determining the minimum means of subsistence, each country has a number of issues related to the need of taking into account national characteristics of socio-economic development, traditions of social support of indigent, and other aspects, which determined the relevance of the article.

4. Results

The minimum subsistence level consists of physiological and social components. If the first provides physiological survival, the second guarantees the minimum acceptable standard of living in accordance with the standards of consumption of a particular society in a particular period. Accordingly, many countries use several subsistence minimums for different purposes: analysis of the current situation, determining the amount of assistance and budget expenditures, and so on. For example, Poland uses 3 indicators: the social minimum to determine the poverty line, the minimum to determine the destitution line, the minimum to determine the eligibility for social assistance (the first two indicators are used for analysis and the last one to calculate budget expenditures). The lion’s share of the minimum subsistence level (80-85%) is the physiological component. However, with the economic and social development, the increase in the financial solvency of society, on the one hand, and the transformation of the vital needs and behavioural patterns of the population, on the other, the role of the social minimum increases.

Since the minimum subsistence level is developed and officially established (legally approved) to determine the needs for state social support and its size, the method of its calculation and the size itself should provide:

• maximum coverage of all those in need with social support;
• the minimum acceptable standard of living of each individual, i.e., taking into account all basic needs;
• preventing the spread of dependent mood in society through the demotivation of able-bodied people to earn a living for themselves and their dependents;
• considering rapid changes in the size and structure of consumption;
• opportunities for effective administration.

At the same time, performing the extremely important function of determining the amount of state support and a number of minimum state guarantees (in particular, the minimum wage and pension), the minimum subsistence level also serves as an important characteristic of living standards, poverty line, etc., i.e., it is used to analyze, monitor and forecast social development and well-being. In accordance with the ratio of these tasks, the current practice of social support and budget opportunities, the following approaches are used to calculate the minimum subsistence level:

• normative;
• structural and normative;
• statistical;
• resource-based;
• subjective.

The normative approach involves defining the so-called consumer basket with subsequent calculation of its value. The formation of the consumer basket is carried out according to the needs of either the individual (usually differentiated by age) or the household (differentiated by type or as the sum of the baskets of its members).

The structural and normative approach is also based on the consumer basket, but includes rationing and determining the value of only separate components (usually the food component) with the subsequent addition of the value of others by their share in the structure of the consumer basket.

The statistical approach assumes the establishment of a minimum subsistence level at the level of income of the poorest part of the population (usually 20-30%) or the relative poverty line (40-75% of median income or 40% of the average wage).

The resource-based approach is based solely on budgetary capacity to provide the necessary payouts. In practice, in countries with high social obligations of the state de jure and the lack of opportunities to finance them de facto, this leads to the emergence in the regulatory field of a specific indicator «the level of ensuring the minimum subsistence level».
The **subjective approach** is based on the population’s perception of the minimum income and is used to solve the analytical problems, of the compliance of state social support with public expectations, in particular.

Different countries use different approaches to calculate the minimum subsistence level, and several methods are often used.

Thus, the calculation of the minimum subsistence level in Bulgaria is carried out using a normative approach to calculate the separate components of the consumer basket (rational and minimum norms are determined) and a statistical approach to establish its structure (according to the median budget of the poorest strata). The regulated calculation algorithm involves the determination of the value of the food basket (physiological norms of daily food consumption are 2700 kcal per equivalent adult), based on 146 items. The minimum consumption, for example, for a man of working age is 60 kg of meat per year (67% of the rational norm), 234 litres of milk (96% of the rational volume). Non-food items of expenditure, including the cost of restoring clothing and footwear, household appliances, etc., are limited to a minimum with a significant duration of use. In the structure of the minimum subsistence level, food expenditures are 45-50% (median level 20-30% of the poorest households). When calculating the subsistence level for children, a higher standard is used than for adults, and nutrition is determined by rational norms (ILO, 2012).

In Slovakia, the minimum subsistence level is calculated by the statistical method (according to the data of sociological surveys) using the equivalence scale: 1.0: 0.7: 0.5, i.e., the needs of the first person are taken into account with a factor of 1.0, of all other adults - with a factor of 0.7, and of children - with a factor of 0.5. The minimum subsistence level is increased annually (July, 1) in line with the growth of net per capita income or expenditures of the poorest households, i.e., implicit indexation is provided considering both wage growth and inflation.

In Hungary, the minimum subsistence level is calculated by the structural and normative method: 33% is the cost of the food basket (100 foods balanced by calories, minerals and vitamins, differentiated by age groups), 67% is the cost of non-food goods and services. The last component includes payment for housing (28.8% of the subsistence level), transport and communication costs (15.0%), clothing (13.8%), hygiene products (9.4%). Equivalence scales are used, different for households with and without persons of working age. The scale for households with persons of working age and children under 14 is as follows - 1.00 (first person): 0.75 (every other adult): 0.65 (first child): 0.50 (second child): 0.40 (third and each subsequent child). The scale for households with persons of the retirement age only is as follows - 0.90 (first person): 0.65 (each other person) (Hungarian Central Statistical Office, 2020).

To ensure the correctness of international comparisons in a number of countries, the Wage Indicator Foundation calculates the so-called analytical value of the subsistence minimum per person and per family (Trading Economics, 2020). This indicator takes into account the cost of foods (50 species), the cost of housing and transport, unforeseen costs. Data on product prices are collected through online surveys. Thus, according to the fund’s calculations, the minimum subsistence level per person in Bulgaria is 346 euros, per family - 554 euros (576 is expected in 2021). In Croatia, 930 euros per person and 1,391 euros per family are needed to ensure a minimum level of consumption. In 2021, the monthly subsistence level in Croatia is expected to reach 957 euros per person and 1,467 euros per family, in 2022 - 1,005 and 1,503 euros, respectively. In Romania, the minimum subsistence level per family is expected at 474 euros by the end of 2020, in 2021 it is projected to increase to 498 euros per month, in 2022 - to 515 euros. A person in Romania must spend a minimum of 268 euros per month.

The current methodology for determining the minimum subsistence level in Ukraine is a combination of normative and resource-based approaches. It is constantly criticized and, indeed, has numerous shortcomings.

Many of them are related to the desire to ration all components of the consumer basket, including not only food but also non-food goods and services. Unfortunately, almost all rates except food are not properly substantiated and give rise to numerous complaints and political speculations.

Although many countries use different minimum subsistence level indicators for different purposes, the simultaneous use of 3 subsistence minimum indicators in the practice of public administration of Ukraine (legally established one; rated one, which is officially calculated by the central executive authority - the Ministry of Social Policy of Ukraine; the so-called level of ensuring the minimum subsistence level) is dubious.
The first indicator is the basis for determining a number of social standards, including payouts and fines. The scope of the second indicator is exclusively analytical and informational. The third indicator is used to determine assistance to the poor and persons with disabilities not related to mental disorders (childhood disabilities).

To eliminate at least some of the claims to the current methodology, it is necessary to ensure: firstly, transparency and clarity of approaches; secondly, the validity of each specific norm; thirdly, social justice for all segments of the population, and especially for socially vulnerable groups; fourthly, the economic capacity of the state to meet new obligations. Accordingly, it seems appropriate:

- to introduce a structural and normative approach to calculating the minimum subsistence level (food consumption rates are developed exclusively by medical professionals for different age groups (0-5 years of age; 6-19 years of age; 20-64 years of age; 65-74 years of age; 75+ years of age); groups are defined in accordance with participation in training and labour market);
- to move to the calculation of the minimum subsistence level of the household (a separate definition of the so-called semi-fixed costs (at the level of 20-30% of a certain reasonable component) eliminates the need to use disputable equivalence scales).

A very important role in the implementation of this approach belongs to the specific weight of the food component of the consumer basket: the higher it is, the lower its total value. Given the real structure of consumption and income of the poor in Ukraine, the following indicators can be recommended: for children under 5 years of age (preschool age) the food component is 42% of the consumer basket; for children and adolescents of 6-19 years of age (period of mass primary education) - 45%; for persons aged 20-64 (real working age) - 48%; for persons aged 65-74 (period of gradual curtailing of economic activity) - 35%; for persons aged 75 and older (period of almost complete economic inactivity) - 30%. The proposal for a significant increase (up to 48%) in the share of food in the consumer basket of people of working age compared to the current calculations of the Ministry of Social Policy (40%) is related to the desire to prevent demotivation of their economic activity. As for the oldest age group, it seems necessary to establish for them the lowest share of food (30%), given the spread of chronic diseases, and hence the high need for drugs and medical care in general (versus 48% accepted for calculations by the Ministry of Social Policy). It is necessary to add to the minimum subsistence level of the household another 20% of the value of the food component of the consumer basket of the able-bodied person - the so-called semi-fixed costs that do not depend on the size of the household. Example of calculating the minimum subsistence level in Ukraine according to the data of 2018 is presented in Table 1.

It is clear that different methods determine different minimum subsistence levels, and hence different scales, level and depth of poverty in the country (Table 2). Variation, even if you deviate from the officially established subsistence level of 62.6 dollars US per month, is very significant: the poverty rate ranges from 22.3% by the criterion of 40% of the median wage to 41.3% by the

### Table 1:
**Example of calculating the minimum subsistence level in Ukraine, USD, according to data of 2018**

| Household composition | The cost of the food component according to the calculations of the Ministry of Social Policy of Ukraine | Minimum subsistence level officially approved | Minimum subsistence level proposed | Algorithm for calculating the proposed minimum subsistence level |
|-----------------------|---------------------------------------------------------------------------------------------------|-------------------------------------------|-----------------------------------|-------------------------------------------------|
| **3 persons**         |                                                                                                   |                                           |                                   |                                                 |
| 2 persons (20-64 years of age) + 1 person (0-5 years of age) | 178.4=59.8*2+58.8 | 184.5 | 417.9 | (59.8/0.45)*2+58.8/0.42+59.8*0.2 |
| **4 persons**         |                                                                                                   |                                           |                                   |                                                 |
| 2 persons (20-64 years of age) + 1 person (0-5 years of age) + 1 person (6-19 years of age) | 357.7=59.8*2+58.8+79.3 | 253.2 | 594.1 | (59.8/0.45)*2+58.8/0.42+59.3/0.45+59.8*0.2 |
| **4 persons**         |                                                                                                   |                                           |                                   |                                                 |
| 2 persons (20-64 years of age) + 1 person (0-5 years of age) + 1 person (65-74 years of age) | 229.5=59.8*2+58.8+47.5 | 235.2 | 553.5 | (59.8/0.45)*2+58.8/0.42+47.5/0.35+59.8*0.2 |
| **4 persons**         |                                                                                                   |                                           |                                   |                                                 |
| 2 persons (20-64 years of age) + 1 person (6-19 years of age) + 1 person (75+ years of age) | 246.4=59.8*2+79.3+47.5 | 248.8 | 612.3 | (59.8/0.45)*2+79.3/0.45+47.5/0.3+59.8*0.2 |

Source: Calculated by the author according to data of State Statistics Service of Ukraine (2020) (as of 15.06.2020 when the information for 2018 was published)
criterion of subsistence level, calculated by the normative and structural method. The depth of poverty varies much less, which indicates approximately the same situation of the poor: minimum, 19.2%, meets the criterion of 40% of the median wage, maximum, 23.2%, the criterion of the subsistence level, calculated by the normative and structural method.

Given the important socio-political significance of the minimum subsistence level, the need to comply with the principles of transparency and clarity of the methodology of its calculation is extremely important. The least controversial should be the focus on 40% of wages, because it is:

\[ \cdot \] accepted threshold in many European countries;
\[ \cdot \] payouts from the budget depend on revenues, i.e., taxes on legal wages.

Since the median better represents the statistical population than the average (free of distribution distortions due to abnormally high and abnormally low values), it is more acceptable to use the minimum subsistence level calculated by the statistical method (40% of the median wage). This indicator should be used to determine the minimum wage, minimum pension, assistance to poor families.

5. Conclusion

Currently in Ukraine, the size of the minimum subsistence level determines more than 150 different types of payouts. Many of them have nothing to do with the minimum subsistence level as a criterion of poverty, such as salaries (salaries of judges of the Supreme Court are 55 subsistence minimums), license fees, administrative fees, state duties, court fees, fines and more. It is quite reasonable to apply the statutory subsistence level exclusively to determine state standards that protect against poverty, such as: minimum wage, minimum pension, assistance to poor families, the amount of benefits related to children (in connection with pregnancy and childbirth: at the birth of a child; single mothers; children under guardianship or care; a person caring for a sick child; children whose parents evade paying alimony; orphans and children deprived of parental care) and persons with disabilities (I and II groups) due to mental disorder; unemployment benefits; scholarships; tax benefits; the maximum base for the collection of a single social tax.

Assistance to persons with disabilities should be based on their specific needs, in particular, those related to the care of outsiders, medical care, transport, etc., and not on the average minimum subsistence level. As for other social transfers, given the low budget capacity, for a certain period of time it will be necessary to be limited only to its part. And, of course, it is unreasonable to focus on the minimum subsistence level when setting non-poverty standards.

For the purpose of establishing the eligibility for state social assistance and calculation of its amount, it is proposed to use the criterion of 40% of the median legal wage, on which the relevant taxes and mandatory contributions to the obligatory state social insurance are paid. The register of taxpayers will be the source of data.

To characterize the poor strata, the dynamics of the level and the depth of poverty, to estimate the effectiveness of support programs for the needy, it seems appropriate to rely on a more differentiated criterion - the minimum subsistence level calculated by the normative and structural method (by the differentiated part of the food component in the consumer basket of different age groups).

Table 2:
**Poverty parameters in Ukraine by various criteria, 2018**

| Poverty criterion                                                                 | Poverty line, USD per month | Poverty level, % | Poverty depth, % |
|----------------------------------------------------------------------------------|-----------------------------|-----------------|-----------------|
| Officially established minimum subsistence level                                 | 62.6                        | 1.3             | 13.9            |
| Minimum subsistence level, calculated by the normative and structural method     | 136.4                       | 41.3            | 23.2            |
| (according to the differentiated share of food component in the consumer basket   |                             |                 |                 |
| of different age groups)                                                        |                             |                 |                 |
| Minimum subsistence level calculated by the statistical method (40% of the median | 110.2                       | 22.3            | 19.2            |
| wage)                                                                            |                             |                 |                 |
| Minimum subsistence level calculated by the statistical method (40% of the average| 127.2                       | 34.8            | 21.7            |
| wage)                                                                            |                             |                 |                 |
| Minimum subsistence level calculated by the statistical method (75% of the median| 111.7                       | 23.0            | 19.7            |
| equivalent incomes)                                                              |                             |                 |                 |
| Minimum subsistence level calculated by the normative method (at actual prices)   | 116.1                       | 27.6            | 20.1            |

Source: Calculated by the author according to data of State Statistics Service of Ukraine (2020) (as of 15.06.2020 when the information for 2018 was published)
groups of the population). The data source will be the Household Living Conditions Survey, which is regularly conducted by the State Statistics Service of Ukraine.

It is clear that the Ukrainian budget will not be able to provide an immediate transition to the new minimum subsistence level; a certain transition period will be needed. It is likely that at this time it will be necessary to maintain the practice of paying certain social transfers addressed to those who can work, at the level of the part of the minimum subsistence level.

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