

# The Importance of Fixing the Poverty Threshold for the Formation of a Sustainable Economy

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## ABSTRACT

Implementing the concept of sustainable development in practice requires an adequate definition of the boundary (threshold) of poverty. Poverty is a twofold phenomenon, on the one hand, it is the result of the current wage system; on the other hand, it is the basis for the formation of the labour force and its goals in the labour market in the future, i.e. in fact, the possibilities of sustainable economic development. Based on this basis, the paper analyses the approaches to determining the poverty threshold used in foreign and domestic practice, assesses the possibility of their use for an actual assessment of the poverty threshold in Russia in modern conditions, considering the challenges facing our economy. The current economic situation in 2020-2021 in connection with the COVID-19 pandemic and the unfolding inflation has sharply exacerbated the problem of poverty and, in our opinion, confirm the incorrectness (within the framework of the goal of forming a sustainable economy) of using the median wage to fix the poverty threshold.

**Keywords:** *Poverty threshold, Relative poverty, Absolute poverty, Subjective poverty, Deprivation, Index of material deprivation.*

## 1. INTRODUCTION

The concept of sustainable development began to take shape in the 70-80s of the 20th century in connection with the manifestation of a threefold problem: the development of science and society while maintaining the ecological situation in conditions of limited natural resources. The idea of sustainable development, and consequently the formation of a sustainable economy, presupposes such a development of the economy and society in which a balance is found between activities and meeting the needs of the modern generation and future generations. For the first time, this idea was voiced in 1987 in the report of the UN Commission on Environment and Development "Our common future".

The concept of "sustainable development" (sustainable economy) at the beginning of the 21st century is represented by the idea of economic growth that contributes to solving social problems and at the same time does not harm the environment; i.e., it is a balance between economic, social and environmental development.

The development of this idea took place in the UN document "The Agenda for Sustainable Development", formed in 2015, containing 17 goals for transforming the world with their implementation by 2030. The first goal is the elimination of poverty. It is both the goal of development in general and economic development in particular and a condition for this development, on the part of the primary resource of the modern economy, human capital. As part of implementing this goal, it is essential to determine the poverty line adequately to the level and possibilities of economic development. This is especially relevant for the Russian economy since a new methodological approach for Russia to determine the value of the subsistence minimum, which fulfils the "poverty line" in the Russian economy, is currently beginning. Therefore, the subject of our study is a comparison of existing options for assessing the "poverty line", and the goal is to substantiate the option of determining the "poverty line", which will become the primary category and the primary value for the sustainable development of the Russian economy.

## 2. RESEARCH METHODOLOGY

Forming an approach to determining the poverty line in Russia requires an analysis of the approaches developed and used in the world [1, 2].

International organisations establish thresholds or boundaries of poverty, national authorities, non-governmental organisations, statistical bodies to:

- international comparisons - to monitor and evaluate the fulfilment by countries of obligations arising from international treaties and/or recommendations of international organisations, as well as to determine the needs of States for international assistance;

- substantiation of political and managerial decisions taken at the national level in the field of employment, wages, social protection of the population, investment and tax policy, etc., aimed at reducing poverty;

- conducting in-depth scientific research - to identify the causes and motives of poverty, identify the most vulnerable groups of the population, their needs/needs, assess the effectiveness of anti-poverty programs and substantiate relevant recommendations [3, 4].

The definition of the poverty threshold in most foreign countries is based on the following concepts:

- the concept of absolute poverty;
- the concept of relative poverty;
- the concept of subjective poverty. International studies present all possible approaches to determining the level of poverty.

The typology of approaches to determining poverty is presented in Figure 1.

The concepts use monetary and non-monetary methods for determining the poverty threshold.

Following the concepts, international and national indicators characterising the poverty threshold are developed and used.

Figure 2 shows international practices for measuring the level of poverty [5-9].

The general indicator AROPE is used by Eurostat [10] for a comparative analysis of the level of poverty and social exclusion in EU countries. It meets the objectives of poverty change formulated in the EU 2020 Strategy. The indicator is also used in non-EU European countries (Iceland, Norway, Switzerland).

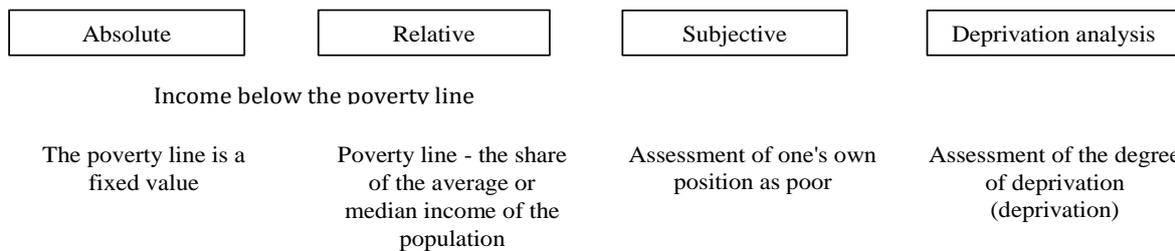
According to the EU-SILC 2014 pan-European survey, every fourth resident of European countries was affected by the risk of poverty or social exclusion (24.4% or 122 million people). In 2014, the highest level of poverty or social exclusion (more than a third of the population) was recorded in three EU countries: Romania (40.2%), Bulgaria (40.1%) and Greece (36%). Among the countries with the lowest indicators of the AROPE indicator are the Czech Republic (14.8%), Sweden (16.9%), the Netherlands (17.1%), Finland (17.3%) and Denmark (17.8%).

According to the AROPE indicator, persons with at least one of the three listed signs are considered poor:

1. The risk of relative monetary poverty is the proportion of the population living in households with disposable incomes below 60% of the median, considering equivalent scales.

2. The material deprivation index is the proportion of the population living in households that, due to lack of funds, cannot afford at least 4 items from the following list:

- unexpected costs;
- annual vacation during the week away from home;
- repayment of debt (mortgage, rent, housing and communal services, payments for purchases);
- eating meat, chicken, fish or the vegetarian equivalent once every two days;
- keeping the house warm;
- washing machine;
- colour TV;
- telephone;



**Figure 1** Typology of approaches to determining poverty.



**Figure 2** International practices of measuring poverty.

- personal car.

3. Exclusion from the labour market, expressed in a fragile intensity of employment (the proportion of people from 0 to 59 years old living in households where adults aged 18 to 59 years (excluding students) worked less than 20% of their labour potential during the past year).

The problem is that the criterion of European poverty is relative, and the poor in one part of the EU may be rich in another part of the EU. Indeed, poverty levels in different EU countries can vary significantly depending on the size of the average income in the country.

To better assess the risk of socio-economic exclusion, the statistical service of the European Union – Eurostat – developed in 2017 another poverty indicator, "poverty in monetary terms", which allows you to measure the degree of inequality in society. And "material and social deprivation" considers the proportion of residents who cannot cover the costs associated with at least five elements of daily life out of 13 deemed desirable and even necessary. The acceptance criteria are more than specific. According to this indicator, a person must cope with unforeseen expenses, afford vacation expenses, pay rent, utility bills, purchase clothes and shoes. The new criterion changes the estimates of the poverty level. Thus, material and social deprivation affect 12.7% of French and 15.7% of EU residents as a whole.

The problems of poverty and inequality are the focus of society's attention today, and in this regard, the issue

of allocating the poor population in need of social support from society is acute. The world experience has accumulated a relatively wide range of approaches to the definition and measurement of poverty. In place of the only in the past, the traditional generally accepted method of monetary (income) poverty, which, however, has its specifics in different countries (absolute and relative method), as an addition to it comes to the method of deprivation, subjective poverty and social isolation. Together, they are designed to identify those groups of the population and households that need the support of society. However, its development and accessibility for the poor depend on social policy, economic opportunities and priority areas of development. In addition to the system of social benefits, an essential element of social policy is to ensure the availability of social services (healthcare, education, social services for persons with loss of autonomy).

### 3. RESEARCH RESULTS

In the Russian Federation, from 2021, a comparative approach to determining the poverty line (minimum consumer basket) begins to be used, as 44.2% of the median wage, and the minimum wage (minimum wage) as 42% of the median salary (see: Table 1 with the median wage calculated by Rosstat according to the new methodology for 2019, 2020).

The uniqueness of the criterion is, in our opinion, controversial:

**Table 1.** Estimation of the poverty line and the minimum wage in two calculation bases

Indicator	Calculus base			
	Average monthly nominal accrued wage, RUB.		Medial wage, rub.	
	2019	2020	2019	2020
	47867	51344	30458	32422
Minimum consumer basket (poverty line), rub.	21157	22694	13462	14330
Minimum wage, rub.	20104	21564	12792	13617

[Calculated by us, 11]

- by base value (medial wage): its value is significantly lower than the average wage (see Table 1), and their comparison indirectly demonstrates a high differentiation of wage recipients (which is confirmed by the international statistical indicator "inequality in income distribution", the value of which, according to Rosstat in 2020, was 14.5 times), and this artificially lowers the poverty line;

- according to the ratio of the poverty line and the minimum wage: the implemented approach allows you to set wages below the subsistence minimum, which is not acceptable at all (see: Table 1).

Moreover, the Institute of Socio-Economic Problems of Population of the Russian Academy of Sciences has proposed a new approach to the formation of a consumer basket, called by its authors scientifically based (SB CB), which contains a clear list of non-food goods and services, which, in particular, include housing and communal services, transport, communications, education, medicine, legal, banking, insurance and household services. The scientifically based consumer basket justifies sufficient funds for education and spiritual development, medical products, and maintaining the health of low-income groups of the population. The calculation of the cost of scientifically

**Table 2.** Calculation of the cost of a scientifically based consumer basket on average per capita in 2018 prices, rubles per month.

Indicator	Scientifically based consumer basket (SB CB)
The cost of the consumer basket, total, out of it expenses for	31087
Meals, total	10881
including homemade	6699
vitamin complex	86
eating out	4081
Non-food products, total	5717
including medical products	853
Services, total	14489
including	6839
housing and utility services (22% in the cost of PCs)	
housing insurance against standard risks	214
banks (savings)	3110
(21.5% in the cost of services / 10.0% in the cost of CB), of which	
- savings to improve housing conditions (9.2% / 4.3%)	1332
- financial reserve (12.3% / 5.7%)	1778

based and valid consumer baskets on average per capita is presented in Table 2. [12, 13].

If the current consumer basket per month on average per capita in 2018 costs 9,590 rubles, then a scientifically based consumer basket costs 31,087 rubles. This is 3.24 times higher. For the first time in the practice of modelling consumer baskets, the scientifically-based consumer basket provides for the formation of a financial reserve in case of a difficult life situation. For example, in case of unemployment (an average of 8 months) and other unforeseen problems, the reserve will allow you to maintain the current level of current consumption. If this value (31,087 rubles) is adjusted for the accumulated price index for the period 2019 – September 2021, calculated according to official data of the Rosstat of the Russian Federation and amounting to 113.85%, then it will amount to 35,393 rubles in the current period.

On average, the following structure of expenditures per capita was obtained: 35% for food, 18% for non-food products and 46.6% for paid services. This consumption model allows satisfying the primary material and spiritual needs of low-income groups of the population.

A scientifically based consumer basket has a higher quality of life for low-income citizens. The question is whether there are economic opportunities to provide such a basket. GDP in Russia from 2000 to 2018 increased in current prices by 14.2 times. The revenue part of the consolidated state budget has increased 17.8 times in current prices. The consumer basket at current prices has grown only 8.5 times. From such a comparison, it is clear that the country's economy and budget can significantly increase the state's contribution to ensuring minimum labour and social guarantees.

The calculation of the scientifically-based consumer basket confirms, in our opinion, the underestimated level of the poverty line, which is now incorporated into the current methodology for assessing the value of the subsistence minimum in Russia.

In addition, in our opinion, it is undeserved to forget the idea of rational consumption, the justification and study of which would make it possible to more clearly and objectively assess the poverty line. Rational consumption can be considered in several aspects [14, p. 34]:

- firstly, as consumption that provides comprehensive and harmonious (optimal) personal development (in this sense, expressing socially beneficial needs);

- secondly, as scientifically based consumption (emphasis on the necessity of bringing actual consumption closer to consumption following rational norms). Consumer activity on a scientific basis implies that a person has a certain level of consumer culture and a formed "consumer qualification". Consumer qualification is a necessary element of social

qualification as a unique human resource and assumes an integral system of knowledge and skills that allow the use of correct (scientific) samples in the field of organising the process of consumer activity based on educational processes;

- thirdly, how is consumption when a set of preferred needs is met with minimal costs (emphasis on savings in consumption);

- fourth, how to meet basic needs without harming the environment (emphasis on environmental constraints).

- fifth, as consumption commensurate with labour income, organised in compliance with moral and legal norms (emphasis on the moral aspect of the consumption process) [15, p. 53].

#### **4. CONCLUSIONS**

Our analysis of approaches to defining the "poverty line" as one of the critical components of sustainable development (and, as a consequence, the formation of a sustainable economy) suggests that the rejection of the formation of a minimum consumer basket as a monetary assessment of a fixed set of consumer goods and services is undoubtedly a progressive step. Still, the methodology declared and implemented since the beginning of 2021 does not allow an objective assessment of this border (obviously understating its value, which will not allow using this value as an accurate threshold for assessing poverty in Russia). We propose to use as a "poverty line" the methodology for determining the scientifically based basket (SB CB), developed by specialists of the Institute of Socio-Economic Problems of Population of the Russian Academy of Sciences, with its annual recalculation and updating once every five years. Only such a "poverty line" will play a dual role in the economy: both to ensure adequate reproduction of the labour force concerning the economy's current state and provide a basis for its sustainable development.

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