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What Poverty Criteria Are Best for Ukraine?*

Is the question in the title of this article legitimate? Various criteria measure various aspects of poverty—can it be said that one aspect of poverty is more important than others? And if various criteria are equivalent, then are they consistent with each other? How many poor are there in Ukraine? Are their numbers increasing or decreasing? We will consider the most widely propagated criteria of poverty in order to answer these questions.

Drawing the poverty line is the end point of poverty analysis. People are considered poor when their standard of living is lower than a minimum allowable threshold, which is the poverty line. There is no doubt that a physiological minimum of goods and services exists. If consumption is less than this minimum it can threaten normal development and even the physical survival of the individual over time. Nevertheless, it is much less obvious what that minimum is for each person.

The measurement of poverty can generally be represented in the form of these stages:

1. Individuals or households are ranked on the basis of one or several welfare criteria.
2. The poverty threshold separating the poor from the nonpoor is defined.
3. Data at the individual or household level are aggregated into poverty indicators for the country as a whole and for principal territorial-economic and socio-demographic groupings; the characteristics of the most vulnerable groups are found and a poverty profile is constructed.

Absolute poverty

The principal element in constructing an absolute poverty line is to define the value of the set of goods and services essential to satisfying basic social needs specific to a given society. The problem lies in which requirements are considered basic. The absolute poverty line includes spending on food and nonfood goods, services, and mandatory payments. The point of departure when using an absolute poverty line is to define the value of the set of foods that meets the needs of the organism for nourishment and energy. Sociologists rarely try to define this value themselves, but use data calculated by the state statistical service. Many food

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combinations can provide some reserve of food energy selected as a standard. The ideal consumption of foods at the minimum cost and ideally balanced from the standpoint of nutrients can be selected using linear optimization models, but that diet will most likely be alien to national food traditions; it would thus be difficult to find people who want to adhere to it.

After determining the cost of the set of foods, the share and value of the consumption of nonfood goods and services is determined. The assessment of the nonfood component of the absolute poverty line has elicited numerous debates in connection with the absence of a standard basis for delineating those goods, as in the case of the foods. Moreover, the requirements for nonfood goods are more difficult to standardize because they depend more on the family's demographic makeup, natural and climatic conditions, and socioeconomic living conditions. Thus, regardless of the outward objectivity and broad utilization of an absolute poverty line, experience shows that poverty is more than just acquiring the absolute minimum necessary for survival. In the overwhelming majority of societies, the poverty line is thus a social rather than a physiological minimum.

Studies of absolute poverty in Ukraine were done for the first time at the request of the World Bank and using its techniques by the Kyiv International Institute of Sociology [KMIS] in 1995, and the KMIS repeated that research in 1996. The research was unfortunately not conducted in the next two years, but in 1999 the State Statistics Committee instituted regular household budget surveys. These data are used to calculate absolute poverty in Ukraine.

In 2007, the World Bank calculated that the level of absolute poverty in Ukraine has been dropping very quickly. Table 1 from the last World Bank report shows the progressive trend of the absolute poverty level in Ukraine.

We see that the highest level of poverty was in 2001. It has dropped substantially—by 24 percent!—over the five years.

Table 1
Absolute Poverty in Ukraine from 2001 to 2005

	2001	2002	2003	2004	2005
Absolute poverty (%)	31.7	25.5	19.5	14.0	7.9

Table 2
Relative Poverty in Ukraine from 2000 to 2006

	2000	2001	2002	2003	2004	2005	2006
Relative poverty (%)	26.4	27.2	27.2	26.6	27.3	27.1	28.1

Relative poverty

Many researchers assert that the exclusive study of absolute poverty significantly diminishes the acuity of the problem for people whose participation in civic life is markedly limited owing to the scarcity of material resources. According to such arguments, poverty should be defined more in relative than absolute terms—that is, not only by the correlation of living standards with some absolute standard or model of consumption but also considering the degree of social inequality. In this case, poverty is viewed as a lack of income and other

resources needed to sustain living standards that are considered normal and suitable within the bounds of a given culture. The study of relative poverty makes it possible to study population categories whose incomes and consumption are significantly lower than average. If attention is not paid to relative deprivation, then the gap in incomes between the poor and the rest of society can grow intolerably. Differences in living standards .an result in feelings of alienation and exclusion among the poor.

People with incomes much lower than the average (or median) are considered to be relatively poor. What "relatively poor" means is quite hypothetical, and can be calculated in different ways in different countries (e.g., a line could be set that is 30-40 percent lower than the average income). Relative poverty is defined as the number of such people (more precisely, their proportion of the population). The national poverty line in Ukraine has been set at 75 percent of the median income.² That is, the national strategy for alleviating poverty defines poverty as 75 percent of median aggregate expenditures per hypothetical adult. Table 2 shows that, according to this criterion, poverty has not only failed to decrease, but has even risen lightly—from 26.4 percent in 2000 to 28.1 percent in 2006.

The criteria are not correlated and give quite different results. The poverty level was only 8 percent according to the absolute criterion, but 27 percent according to the relative one; whereas poverty is declining according to the absolute criterion, it is rising according to the relative one.

Subjective poverty

This approach, which is attracting more and more attention, is based on estimates of material status made not by experts but by the individuals themselves. Perceptions of poverty arise in individuals or social groups not only in terms of the relationship between their standard of living and some absolute indicators, but also in terms of their comparing opportunities to satisfy their needs with the sufficiency and patterns of consumption of other people or with their own status in the past. The comparison of their own economic status with the status of referent groups is not always explicitly realized, but rather is expressed in the general tenor of social sentiments. Social notions of the fair distribution of goods and services play an important role in this process. If there are people who consider their standard of living to be unwarrantedly low, they feel and conduct themselves as those who are in a state of poverty, regardless of their absolute amounts of income and consumption. The perception of material status can thus be significantly affected not only by the actual state of affairs, but also by the claims, expectations, and even stereotypes that live in social consciousness.

One approach to defining the subjective poverty line is to define people's ideas regarding a minimal level of income based on questions such as "At what monthly income level per family member would this family have to be considered poor today?" Opinions of normal income are sometimes also elicited by questions such as, "What average monthly income per member of a family such as yours is required today so that the standard of living of the family can be considered normal?"

Another approach that KMIS has used for many years is self-assessment of the financial status of respondents. The question is phrased as follows: "Please look at this card and say which of the judgments best fits the financial status of your household." The respondents are to define their financial status themselves according to the following scale:

- We do not even have enough money to eat
- We have enough money to eat, but it is hard to buy clothing and shoes
- We have enough money for food and clothing and we can set something aside, but it is not enough to buy expensive items (such as a refrigerator or television)
- We can permit ourselves to buy some expensive items (such as a television or

refrigerator)

- We cannot permit ourselves everything we want
- Hard to say/do not know

The results of the study for fifteen years (1994-2008) are given in Appendix 1.

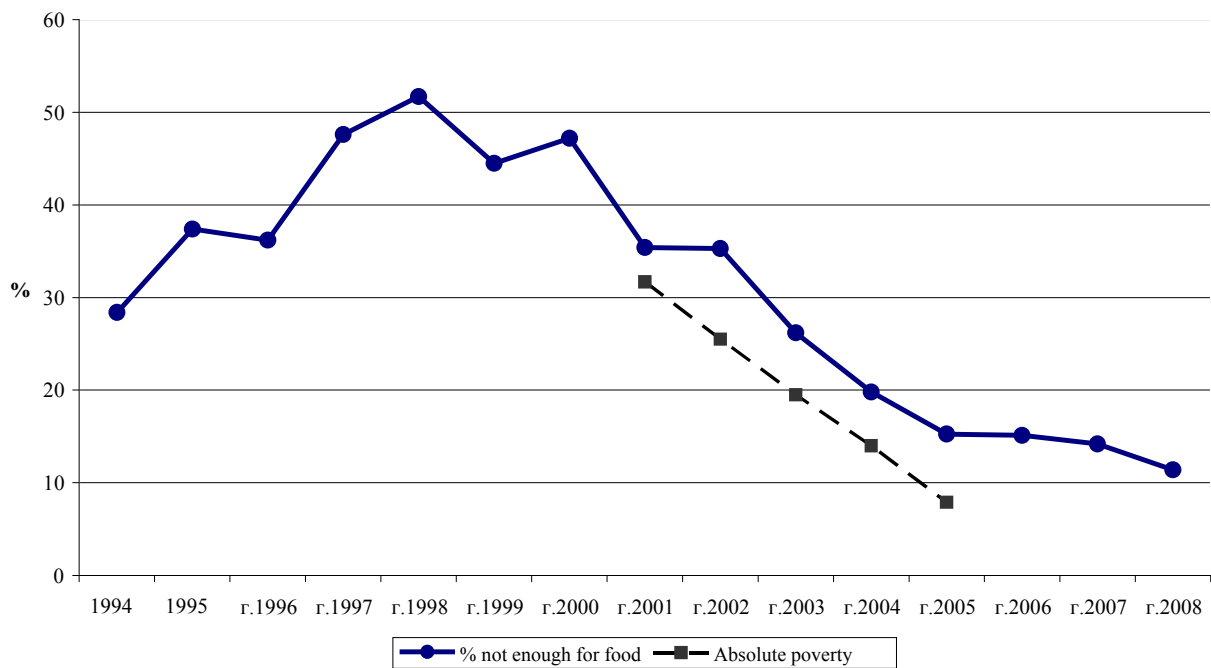
Table 3
Subjective Poverty in Ukraine from 2000 to 2008

	2000	2001	2002	2003	2004	2005	2006	2007	2008
Proportion with not enough to eat (%)	47.2	35.4	35.3	26.2	19.8	15.3	15.1	14.2	11.4

Table 3 shows the poverty trends in Ukraine (the proportion of those who do not have enough to eat) for 2000-2008, and Figure 1 shows the trend from 1994 to 2008.

We see that the peak of poverty in Ukraine occurs in 1997-98. The most threatening situation took shape in 1998—more than half of the Ukrainians polled at the time responded that they did not have enough money for food (52 percent). The financial state of the population has improved significantly in recent years—the proportion of those who did not have enough money for food in 2008 was just 12 percent. That is, the number of poor people in the country had declined by 40 percent compared with the "poorest" year (1998).

Figure 1. Trend in Subjective and Absolute Poverty



What are the advantages of this approach? The concept of poverty was introduced to estimate the number of people who are suffering material deprivation. A person who, from a theoretical point of view, has enough money to buy the minimally necessary basket does not buy food according to a balanced scheme developed by academics, but rather proceeding from his own habits, so while theoretically he has enough money for food, in reality he does

not, and feels himself to be hungry. This indicator thus takes into account more precisely the real behavior of the population and the social consequences of poverty. Under this approach, the poverty level comes out somewhat higher than under the absolute approach. But the trend of both indicators is very close (the correlation coefficient for 2001-5 is equal to 0.97), as is clearly shown in Figure 1. In contrast to relative poverty, which is not sensitive to rises or falls in the social welfare, but rather reacts only to the lack of homogeneity in the distribution of incomes, this indicator is sensitive.

Which poverty criterion is better for Ukraine?

There are criteria aside from those already considered above that are based on the concept of deprivation, social exclusion, and multifaceted criteria. In constructing the poverty line, we usually take the following into account. First, the poverty line should not contradict common sense. A poverty definition that differs considerably from the generally accepted intuitive understanding of poverty is unlikely to gain social and political support. Second, the poverty line should facilitate comparison of different regions, types of families, time intervals, and so on. And third, the poverty line should be functionally relevant, that is, formulated in a way that makes it possible to find empirical meaning in theoretical concepts.

From this standpoint, determination of the national poverty line as the chief indicator on the basis of a relative criterion is not optimal. It gives some idea of the inequality of income distribution (albeit worse than a Lorenz curve), but in no way reflects the rapid decline in the number of people who lack money for food. Various indicators, both objective and subjective, demonstrate marked improvements in social welfare, and this indicator is worsening (due to increased social differentiation). Can this indicator be the chief tool for developing a program to alleviate poverty? If society proves to be exceptionally effective in raising the welfare of the population and the income of all citizens rises several times over, the number of poor does not decrease according to that criterion. But if the government proves helpless in supporting the middle class and its status declines, it could reduce the median income level, and the number of relatively poor declines.

Is this a useful indicator for the government? Undoubtedly, but it should be far from the chief one under conditions where an eighth of the population suffers from hunger. Is it useful for explaining the poverty situation to the public? Also no, since it is a much worse reflection than are subjective criteria. As far as we know, the move to using a relative poverty line occurred in many countries only after absolute poverty declined to trivial levels, and we do not see why this approach should not be used in Ukraine. It is thus worthwhile to adhere to the following strategy in using poverty indicators:

1. Use absolute poverty as the main indicator for now and use other indicators (including relative) as supplemental ones.
2. After the indicator of absolute poverty declines to some small value (3-5 percent), use subjective poverty (the proportion of the population that is experiencing a lack of money for food) as the main indicator.
3. Only after that indicator declines to 3-5 percent, make the transition to relative poverty as the main indicator, and use the others as supplemental.

Notes

1. Data from the World Bank report "Poverty in Ukraine," June 20, 2007.
2. See United Nations. *Ukraine—Goals of Development of the Millennium 2000+7* (2008), p. 31.

Appendix 1

Ukrainian Population's Subjective Welfare Assessments, 1994-2008(%)

	We do not even have enough money to eat	We have enough money to eat, but it is hard to buy clothing and shoes	We do not have enough to buy things such as a refrigerator	We cannot permit ourselves everything we want	We can permit ourselves everything we want	Hard to say/ Do not know	Total
1994	28.4	56.1	11.5	2.5	0.5	1.0	100
1995	37.4	51.6	8.7	1.5	0.1	0.7	100
1996	36.2	51.9	8.6	2.7	0.3	0.3	100
1997	47.6	43.1	7.0	1.8	0.1	0.4	100
1998	51.7	40.1	5.8	1.9	0.1	0.4	100
1999	44.5	43.4	9.4	2.4	0.2	0.2	100
2000	47.2	40.4	9.0	1.9	0.1	0.8	100
2001	35.4	49.4	11.4	3.4	0.2	0.2	100
2002	35.3	46.9	13.5	3.0	0.2	1.2	100
2003	26.2	44.6	21.0	7.2	0.3	1.6	100
2004	19.8	48.2	24.2	5.4	0.3	1.4	100
2005	15.3	50.2	27.9	5.7	0.2	0.7	100
2006	15.1	40.9	32.8	9.2	0.7	1.2	100
2007	14.2	41.2	35.6	7.5	0.4	1.1	100
2008	11.4	41.7	36.7	8.2	0.9	1.1	100