A Decade of Transition

The MONEE Project
CEE/CIS/Baltics

This Chapter is extracted from Regional Monitoring Report 8 'A decade of Transition'. UNICEF Innocenti Research Centre

unicef

This Regional Monitoring Report is the eighth in a series produced by the MONEE project, which has formed part of the activities of the UNICEF Innocenti Research Centre since 1992. The project analyses social conditions and public policies affecting children and their families in Central and Eastern Europe and the Commonwealth of Independent States.

Earlier Regional Monitoring Reports are as follows:

1. *Public Policy and Social Conditions*, 1993
2. *Crisis in Mortality, Health and Nutrition*, 1994
3. *Poverty, Children and Policy: Responses for a Brighter Future*, 1995
4. *Children at Risk in Central and Eastern Europe: Perils and Promises*, 1997
5. *Education for All?*, 1998
6. *Women in Transition*, 1999
7. *Young People in Changing Societies*, 2000

Russian as well as English versions of the Reports are available.

Readers wishing to cite this Report are asked to use the following reference:

UNICEF (2001), "A Decade of Transition", *Regional Monitoring Report*, No. 8, Florence: UNICEF Innocenti Research Centre.

THE UNICEF INNOCENTI RESEARCH CENTRE

The UNICEF Innocenti Research Centre in Florence, Italy, was established in 1988 to strengthen the research capability of the United Nations Children's Fund (UNICEF) and to support its advocacy for children worldwide. The Centre (formally known as the International Child Development Centre) helps to identify and research current and future areas of UNICEF's work. Its prime objectives are to improve international understanding of issues relating to children's rights and to help facilitate the full implementation of the United Nations Convention on the Rights of the Child in both industrialized and developing countries.

The Centre's publications are contributions to a global debate on child rights issues and include a wide range of opinions. For this reason, the Centre may produce publications that do not necessarily reflect UNICEF policies or approaches on some topics. The views expressed are those of the authors and are published by the Centre in order to stimulate further dialogue on child rights.

The Centre collaborates with its host institution in Florence, the Istituto degli Innocenti, in selected areas of work. Core funding for the Centre is provided by the Government of Italy, while financial support for specific projects is also provided by other governments, international institutions and private sources, including UNICEF National Committees.

The opinions expressed are those of the authors and editors and do not necessarily reflect the policies or views of UNICEF. The designations employed in this publication and the presentation of the material do not imply on the part of UNICEF the expression of any opinion whatsoever concerning the legal status of any country or territory, or of its authorities, or the delimitation of its frontiers.

All correspondence should be addressed to:

UNICEF Innocenti Research Centre
Economic and Social Policy Research Programme
Piazza SS. Annunziata, 12
50122 Florence, Italy
Tel.: (+39) 055 203 30
Fax: (+39) 055 244 817
E-mail (general information): ciusco@unicef.org
　　　　　(publication orders):　florence.orders@unicef.org

Website: <**www.unicef-icdc.org**>

Foreword

A *Decade of Transition* reviews the momentous changes in the 27 countries of Central and Eastern Europe and the Commonwealth of Independent States since 1989, focusing on the well-being of ordinary people and their children. It builds on years of authoritative research carried out by UNICEF's Innocenti Research Centre, to produce an end-of-decade report on the human face of the transition.

This Report, the eighth from the Centre, is published at a time when the world's commitment to children's survival and development is under close scrutiny. In 1990, world leaders met at the World Summit for Children to pledge their support to a series of goals to improve child well-being by the year 2000. This year, the UN Secretary-General's review of the progress made reveals a mixture of success and failure. Thanks to a decade of strenuous efforts, child mortality rates have fallen in many countries. However, millions of children continue to suffer from poverty, ill health and marginalization.

This global picture certainly reflects the situation in the transition countries, but no other region has experienced such a root and branch transformation of its social structure, its societies, infrastructure and borders. Eight countries splintered into 27. Every one of them experienced some kind of economic crisis. In many, tensions that had been simmering for years erupted into open conflict.

The human impact has been immense. Fundamental freedoms have been recognized in most countries – the right to vote, to express an opinion, to use one's own initiative and enterprise, to travel and so on. But many people have been stranded by a tide of progress that has swept past them.

It is clear that the original goals of the transition – to raise the standard of living for everyone and to develop humane and democratic societies – now need to be re-affirmed. The economic goals of the transition should be seen as tools to achieve these greater human goals. In reality, the ultimate success of the transition will depend on improvements in social conditions and the promotion of human rights, as well as on economic strength.

We hope that *A Decade of Transition* will be a useful tool for decision-makers, economists, child rights campaigners and for children and young people wishing to make a difference. As a record of the progress and setbacks of the 1990s and the lessons learned, this Report acts as a signpost for the way forward.

Carol Bellamy
Executive Director, UNICEF

Acknowledgements

Contents

At the start of the 1990s little attention was paid to the effects that economic and social change might have on the inequality of household incomes or on the situation of households at the bottom of the income ladder. But as the changes in the region unfolded, it quickly became clear that transition has important implications for shares of the national cake, as well as the cake's overall size, and that the situation of those households with the smallest slices – the poor – is a matter of grave concern.

This chapter does three things. First, it summarizes changes that have taken place in inequality, as measured by the distribution of household incomes. Second, it documents the extent of poverty among the region's children in the late 1990s, again measured by household income or expenditure. Third, it discusses policies to combat child poverty.

The focus throughout is on a *monetary* definition of inequality and poverty – on differences in incomes and on low levels of income or expenditure. Of course, concern with both "inequality" and "poverty" goes much further than this. Other aspects of household and individual life in the region besides levels of income or expenditure may have – and often have – become more unequal. And there is universal acceptance that poverty includes a lack of many things other than money.

These other aspects of a wider definition of inequality and poverty are dealt with later in the Report, notably health in Chapter 3 and education in Chapter 4. But the analysis in this chapter of household incomes and expenditures should not be seen in isolation. Greater inequality in incomes is one of the driving forces for greater inequality in health, especially in a situation where access to health care is becoming more dependent on ability to pay. The same is true of education: children from poor households are less likely to advance up through an educational system or to obtain the full benefit from school. (For example, their parents may be unable to buy textbooks.) These and other implications of low income – including child abandonment, dealt with in Chapter 5 – are taken up later in the Report.

In part, income inequality and income poverty "matter" precisely *because of* their links with education and health – and hence the capacity to live a longer and more productive life. An additional concern, especially relevant to the transition process, is that greater inequality and poverty may not only harm individual lives, but may damage national prospects by reducing economic growth. They may also threaten support for economic and political reforms. More broadly, "social cohesion", vital to national development and a goal in itself, may be undermined. Chapter 1 notes opinion poll data for several Central and Eastern European countries that show the majority of people thinking that income differences are too large in their country (see Table 1.3).

Section 2.1 charts the changes in income inequality that took place during the 1990s. How big were they, and where do the transition countries now stand in relation to countries in Western Europe and elsewhere in terms of differences in household incomes? Particular emphasis is placed on the effect of changes in the labour market, including the growth in the numbers of those with low pay (as opposed to no pay).

Section 2.2 turns to child poverty and the link with overall income inequality. In the late 1990s a total of 18 million children are estimated to have been living in households with incomes below $2.15 per person per day. "Relative" poverty rates among children (poverty measured relative to a national norm) varied from 10 percent to 28 percent. The question is addressed of whether children suffer more poverty than do other groups in the population.

Section 2.3 deals with public and private responses to child poverty. How do poor households with children cope with the situation they find themselves in? What is the role of government policy in supporting family incomes? The need for a broad strategy to combat child poverty is emphasized, and the section finishes with a detailed look at one element in that strategy – the payment of cash benefits to families.

■

2.1 Inequality in Household Incomes

It is often assumed that differences in income between households in the communist period were small compared to those in market economies and, accordingly, that the move from a planned system to a market system must have resulted in large increases in these dif-

ferences. How true is this picture? This section starts with a broad summary of what happened to the distribution of income in the 1990s across the region before going on to try to account for the changes during the decade.

Rises across the region

Figure 2.1 gives values of one common summary measure of inequality in household incomes, the Gini coefficient, for 19 countries with available data from both the end of the 1990s and the late 1980s. If there were no differences in household incomes, the Gini coefficient would equal zero, and if all income were held by one person its value would equal "1". Hence higher values indicate more inequality. The vertical line at the value 0.31 provides a benchmark from advanced market economies – the average value for countries in the OECD area in the mid-1990s.

Viewed against the OECD benchmark, measured income inequality at the end of the communist period was indeed relatively low. Only Croatia, then still part of Yugoslavia, crossed the 0.31 line at that time. However, some differences across the region certainly did exist, with Central European countries in general having lower inequality. Incomes became more unequally distributed as one went further east and south, with the largest differences in income typically found in former Soviet republics.

It is likewise clear that transition has resulted in increases in measured inequality right across the region (with the apparent exception of Croatia, where income inequality was already relatively high in the late 1980s). But the extent of these differences has varied substantially, with much larger increases in the former Soviet republics. On average the Gini coefficient rose by well over half in the CIS countries, but by less than a quarter in Central and Eastern Europe (including the Baltic states). The average Gini coefficient in Central and Eastern Europe at the end of the 1990s was almost at the OECD value, with the Baltic countries somewhat above and several of the Central European countries still well below. By contrast, many of the CIS countries displayed values that were well above even the top of the OECD range (leaving aside Mexico and Turkey, the most unequal OECD country in the 1990s was the US, with a Gini coefficient of 0.41 in 1997). The level of measured income inequality at the end of the 1990s in Russia, Moldova, Armenia, Georgia and Tajikistan resembles more that found in several Latin American countries.

Another way of looking at income differences is to consider the ratio of the income of a rich person to that of a poor person. This gives a more intuitive feel for the extent of inequality in household incomes than does the Gini coefficient.[1] Table 2.1 shows the value of this ratio in 1989 and

Figure 2.1

OECD average = 0.31

Averages	1987-89	1997-99
CEE	0.25	0.30
CIS	0.26	0.43
All	0.26	0.36
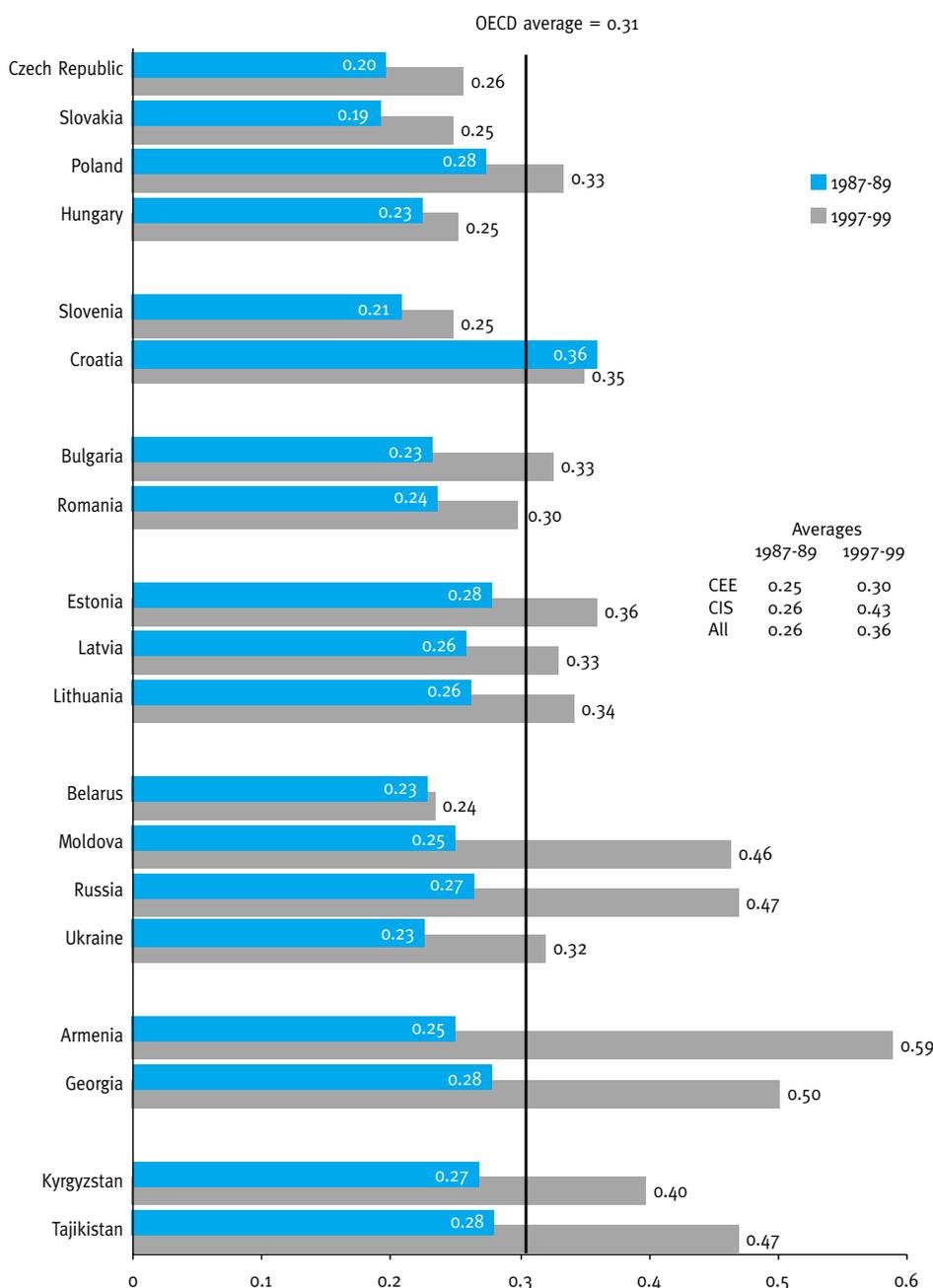
Income inequality, 1989 and 1999 (Gini coefficients)

Source: Statistical Annex, Table 10.11, including some figures in the table notes. Czech Republic: 1988 and 1996 (series B). Slovakia: first year is 1988 (microcensus). Slovenia: 1987 and 1998. Moldova: second year is 1997. Russia: second year is 1998 (series B). Croatia and Georgia: second year is 1998.

Note: The distribution in each case is that of individuals ranked by household per capita income. The OECD average (which also relates to per capita incomes) is based on results from survey microdata from the 1990s for 18 OECD members in the Luxembourg Income Study (LIS); see ‹*www.lis.ceps.lu*›. (The year is typically 1994 or 1995; the data for Ireland are from 1987.) The four Central European countries in the LIS that are now members of the OECD have not been included when calculating this average. (Mexico has also been excluded.)

1999 for a range of countries, defining a rich person as someone found 10 percent down from the top of the income distribution and a poor person as someone 10 percent up from the bottom. Measured in this way, a rich person in Russia, Georgia and Tajikistan had an income in 1999 that was about nine to ten times that of a poor person, compared to only three to four times in 1989. By contrast, the ratio in Poland and Estonia had risen to only about four and a half by the end of the 1990s.

Were the increases in the inequality of incomes sudden, occurring at the onset of transition, or has there been a steady change? Or have there been swings one way and then the other, with the result that the precise years taken for the comparison (including those from the 1980s) have a major impact on the results obtained? Is in fact income inequality now falling, having peaked in the mid-1990s?

The ability to answer these questions is limited by the availability of the data. Several countries, notably those in Central Europe, collected and published a lot of information on household incomes during the communist period

Table 2.1

Ratio of a rich person's income to a poor person's income, 1989 and 1999

	1989	1999
Poland	3.3	4.3
Hungary	2.5	3.0
Estonia	3.2	4.5
Russia	3.1	8.8
Georgia	3.5	10.2
Tajikistan	3.6	10.6

Source: See Figure 2.1.

Note: A rich person is defined as someone at the 90th percentile of the distribution of individuals by household per capita income and a poor person as someone at the 10th percentile. The figures in the table thus show a measure often called the "decile ratio". The later year for Russia and Georgia is 1998.

Box 2.1

Data on incomes in transition

The data on which Figure 2.1 is based provide *estimates* of income differences – not concrete facts. The quality of the data and hence of the estimates varies both from country to country and over time. And in some countries there are alternative sources that may give rather different figures – Table 10.11 in the Statistical Annex offers several examples.

The move towards a market economy and a more open society has important consequences for income data and for their interpretation. Private sector cash income, especially from informal self-employment, is harder to survey than state sector wages. Transition means more small firms – firms which are often excluded from employer earnings surveys. Unemployment has made household incomes more variable, with the result that annual income is more difficult to measure than before. The introduction of personal income tax may provide a disincentive to report incomes accurately to household surveys, and a change in the relationship between the citizen and the state may of itself change the willingness to cooperate with inquires by the state statistical office.

Income in kind from a household's own agricultural production has become very important in many countries and is hard to measure and value. Chronic cash shortages have resulted in payments in kind for wages and even for social benefits. (From Russia, there are reports of unemployment benefits being received in women's underwear in the Kubass region and of child benefits paid in bottles of vodka in the far east.)[2]

Rampant inflation, which has occurred in parts of the region, renders meaningless the data on annual incomes. Arrears in wage payments and social security benefits, common in the former Soviet republics, are an associated problem. Arrears represent a command over resources for the individual to whom they are owed, but inflation greatly reduces their value.

The importance of these problems varies from country to country, as the examples of inflation and wage arrears illustrate. The same is true of the ability of statistical offices to cope with the challenges. The CIS countries have been in a particularly difficult position,

transition exacerbating the problems stemming from a weak tradition of household surveying.

On the positive side, price liberalization has meant that data should now more accurately represent the distribution of economic well-being than they did in the past. There have also been many positive developments in sources, often as a result of technical assistance from international organizations. The World Bank has been instrumental in developing completely new surveys in several former Soviet republics, based on its Living Standard Measurement Study (LSMS) methodology. The Russia Longitudinal Monitoring Survey (RLMS), which started in 1992, has been a vital tool in the analysis of changing living standards in the largest transition country. The Baltic republics have all developed new official budget surveys, as have Belarus, Ukraine and Romania, among others.

The representativeness of household surveys has improved as a result of the extension of coverage to groups previously excluded (for example, the self-employed). But a fall in the willingness of households to participate in official surveys seems to have been characteristic of the transition, threatening survey representativeness. Response to the Czech microcensus fell from 96 percent in 1989 to 76 percent in 1997 (the income data used in Figure 2.1 refer to the year preceding the survey). In Hungary, response to the official budget survey fell from an average of 78 percent in 1983-87 to 61 percent in 1993-95 (and only 33 percent in the capital, Budapest). Response to the official budget survey in Russia has declined. Deficiencies in available sampling frames in the early 1990s were a major factor in the initial 30-percent non-response rate to the new Latvian budget survey.

The changing nature of the available data and of the interpretation that should be put on them makes it difficult to arrive at simple conclusions about the impact of transition on income inequality. As put by the World Bank's 1996 *World Development Report,* devoted to transition, "comparisons across countries and over time are very approximate".

Source: Flemming, J. and J. Micklewright (1999), "Economic Systems, Income Distribution and Transition", *Innocenti Occasional Papers,* No. EPS 70. -Republished in Atkinson, A. B. and F. Bourguignon (eds) (2000), *Handbook of Income Distribution,* Amsterdam: North-Holland.-

and continued to do so throughout the 1990s. But many others had little to build on, and what they had was of low or uncertain quality – something true of all the former Soviet republics. In these countries especially, the economic changes in the early 1990s often occurred much more quickly than did the establishment of appropriate household surveys for monitoring the consequences. Box 2.1 describes some of the problems and pitfalls in collecting and interpreting data on household incomes during the transition.

Figure 2.2 shows trends in income inequality for a selection of countries where series of data do exist: two each from Central and South-Eastern Europe and, in the bottom part of the diagram, Russia. (Estimates for other countries are given in Table 10.11 in the Statistical Annex.) The series for Central European countries extend back to the early 1980s, although in Hungary the data for these years come from a different survey (one considered a superior source at the time by Hungarian statisticians), which yields a significantly higher estimate of the Gini coefficient for the overlapping year, 1987. The modest rise in measured inequality in Hungary during the 1990s turns out to have been similar to that recorded in this other source during the last years of the communist period in the mid-1980s.

Hungary shows a fairly steady slow increase in the extent of income differences. Poland and Romania both have had jumps followed by periods of little change (the jump in Romania coincided with a major revision to the data source). The movements in Bulgaria are more erratic, with the large increase in inequality coming early on. The data for all four countries show income inequality to have stabilized at the end of the 1990s.

The graph for Russia draws on both the official budget survey and the Russia Longitudinal Monitoring Study, a new survey of notably higher quality that was first carried out in the summer of 1992, six months after Russia's price liberalization. (The results for Russia in Figure 2.1 are based on the budget survey for the late 1980s and the RLMS for the late 1990s.) It seems clear that most of the rise in income inequality in Russia came very soon after the break-up of the USSR at the end of 1991, although a big question mark must hang over all the estimates based on the official budget survey, including those for the late 1980s and the start of the 1990s.

Why has inequality increased?

Has income inequality changed most in the countries that have made the greatest progress towards a market system?

The answer to this question is a clear "no". The distribution of income has widened the least in the Central European countries – the same countries that Chapter 1 shows are the leaders in the transition from plan to market. This is illustrated in Figure 2.3, which plots the changes in income inequality given earlier in Figure 2.1 against values of the EBRD's "transition index", which summarizes progress in price liberalization, enterprise restructuring, privatization, competition policy and financial reform. With one or two prominent exceptions, inequality has risen most among the slow reformers, which are concentrated in the CIS.

Broadly speaking, the explanation for this pattern is that *lack* of economic reform has been accompa-

Figure 2.2

Income inequality trends, selected countries
(Gini coefficients)
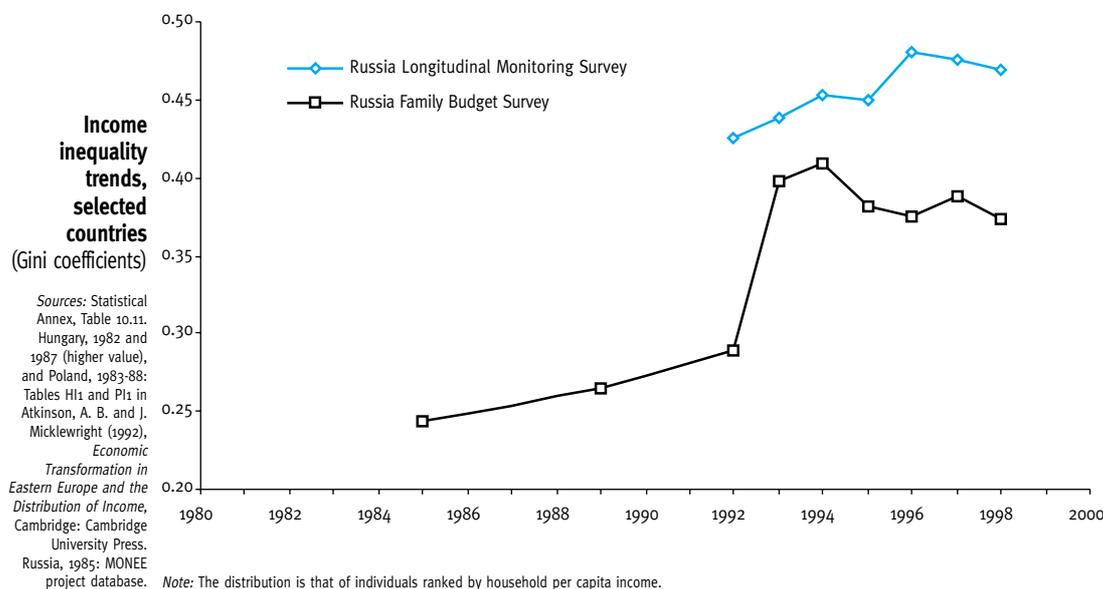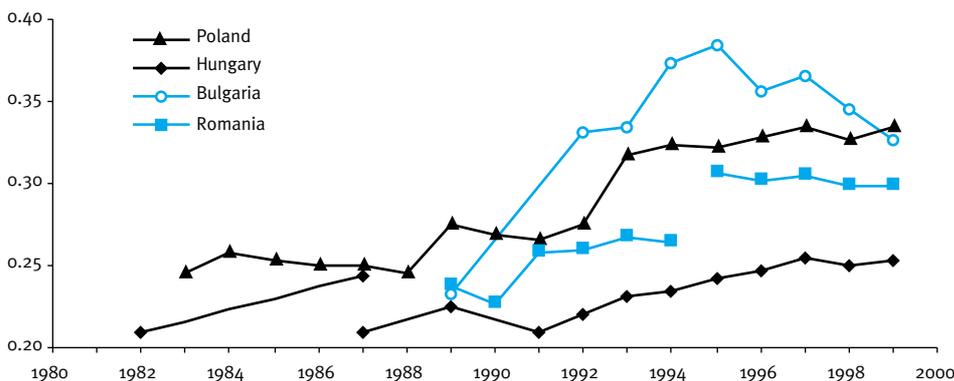
Sources: Statistical Annex, Table 10.11. Hungary, 1982 and 1987 (higher value), and Poland, 1983-88: Tables HI1 and PI1 in Atkinson, A. B. and J. Micklewright (1992), *Economic Transformation in Eastern Europe and the Distribution of Income,* Cambridge: Cambridge University Press. Russia, 1985: MONEE project database.

Note: The distribution is that of individuals ranked by household per capita income.

nied by a variety of factors – often related – that widen differences in incomes. The thumbnail sketch given here draws in part on a detailed analysis in the 2000 World Bank report on poverty in the transition countries, *Making Transition Work for Everyone:*

- *Labour markets in which earnings fail to reflect productivity.* Sharp rises in earnings differences may simply reflect the ability of some workers to exert their monopoly power. Non-manual workers in the state sector may see their wages drop hugely.
- *Shrinking formal labour markets and a large rise in informal self-employment.* Huge falls in the share of wages in total income. Failure to respect employment contracts, leading to wages paid in arrears, especially for the less well paid. Growing importance of informal incomes, which are distributed more unequally than wage incomes.
- *Retreat in the role of the state and in its efforts to redistribute income.* Large reductions in government expenditure due to an inability to collect (or an unwillingness to reform) sufficient taxes. This of itself reduces the state's ability to help lower income households, which is compounded by a failure to redistribute income towards the poor.
- *Capture of business and government, and outright corruption.* Failure to restructure or to privatize competitively allows "oligarchs" to take monopolistic control of enterprises and amass private wealth. Lack of reform and adequate market regulation encourages corrupt practices that favour the rich.
- *Failure to stabilize the macroeconomy, notably to control inflation.* High rates of inflation allow huge changes in relative wages without any nominal wage cuts and provide a situation in which minimum wages and cash benefits can massively lose their value.

These features are found in differing combinations in those countries that have seen the largest rises in inequality – not every feature is always present, and their importance may have changed over time. Some countries stand out on particular issues, for example the retreat of the state in the Caucasus and parts of Central Asia (levels of total government expenditure across the region are shown in Figure 1.11), but the explanation of what has occurred to income inequality invariably involves a mix of causes.

Government action in the leading reformers in Central and South-Eastern Europe and the Baltic states has held inequality in check through a variety of channels. In part, this has been through regulating the whole transition process and hence avoiding the worst problems, such as "insider" privatization.

Change in income inequality, 1989-99, and progress in economic transition

Sources: Figure 2.1; EBRD (2000), *Transition Report,* London: EBRD.
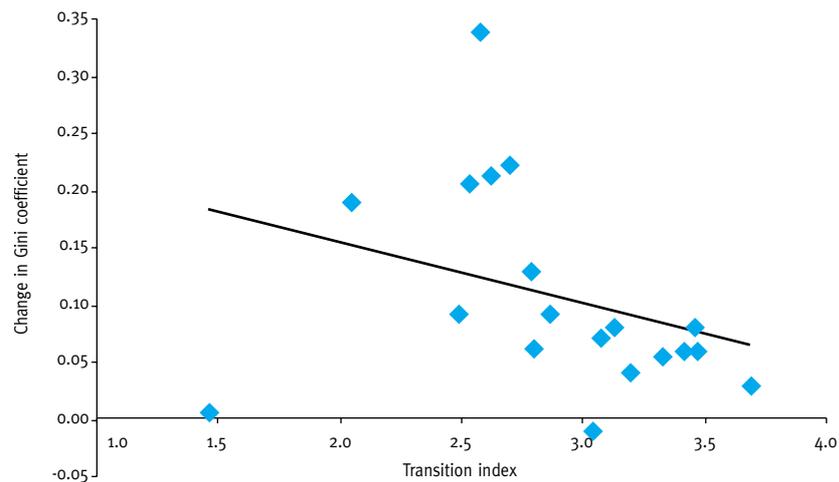
Note: The changes illustrated in the Gini coefficient are the differences in the values shown in Figure 2.1 and hence do not always refer to 1989 and 1999. (The value of the EBRD transition index has been calculated for the appropriate year, 1999 or earlier.) The transition index is an average of values for eight dimensions of reform.

But governments in this part of the region have also had direct impacts on income inequality through tax and benefit policy. In particular, Central European governments have very effectively redistributed income towards the poor, and this is the main reason why large rises in *earnings* inequality, described below, have not been translated into big differences in household incomes. The early 1990s, for example, saw very little measured change in income inequality in the Czech Republic and Slovakia, on account of tax and, especially, transfers offsetting the greater inequality of labour incomes.[3] By contrast, in Russia the overall impact of government tax and benefit policy for much of the 1990s was regressive, reinforcing the increased inequality in the labour market.[4]

Changes in labour incomes

The labour market is still the main source of differences in household incomes right across the region – as it is in other parts of the world. The 2000 World Bank poverty report, *Making Transition Work for Everyone,* estimates that wages and self-employment income taken together accounted for between 60 and 80 percent of all measured income inequality in the transition countries in the mid-to-late 1990s and concludes that changes in labour market income have been the most important driving force for higher overall income inequality.

Unemployment and falling participation in the labour market have been one obvious source of increased differences in labour incomes. Chapter 1 shows the falls in employment across the region (see Table 1.1), something that has not been evenly spread across households. But the changes among those who *do* still earn incomes have also been important. As noted above, in many countries and especially in those where income inequality has risen the most, the importance of formal earnings – wages paid to employees – has declined sharply. All three countries from the Caucasus, Armenia, Azerbaijan and Georgia, together

with Tajikistan, are extreme examples; here, there has been a massive switch to subsistence self-employment.

Table 2.2 shows the example of Russia. Over 1992-96 the share of formal earnings fell by 10 percentage points, with a large rise in the shares of income in kind from private agricultural plots or farms (that is, home-produced food) and other informal income. The situation in 2000 was little different, with the share of income from formal work still below 40 percent. The table also underlines the importance of home production and informal income for poor households; by 1996 these sources provided more income for poor households than did state transfers (and much more than did formal work), although by 2000 this was no longer true. In both 1996 and 2000, state transfers were only slightly more important for the poor, as a percentage of total income, than for the population in general.

There have also been sharp rises in earnings differences among those who do have formal jobs, something

that has occurred across the region. Statistical Annex, Table 10.10 shows changes in the Gini coefficient for earnings of employees, which have often been large, even in those countries where overall income inequality has risen modestly. (Hungary, for example, now has a very unequal earnings distribution by OECD standards.)

The distribution of earnings has widened at both ends of the distribution, but as far as the topic of the next section – child poverty – is concerned, it has been the changes at the lower end that matter more. Figure 2.4 focuses on the bottom end of the earnings distribution and shows the percentage of full-time employees classified as "low paid" according to the definition often used in comparisons of OECD countries – earnings below two-thirds of the national median.

The incidence of low pay measured in this way exceeds the OECD average of 14 percent in every one of the countries in the diagram. In eight countries, all once part of the former Soviet Union, it is double that level. In Russia, Ukraine and Azerbaijan as many as a third of employees are low paid. One consequence of the widespread occurrence of low pay is a high degree of poverty among working families. (It is notable that the average incidence of low pay across the region exceeds the OECD average even in 1989; contrary to what is commonly stated, earnings distributions under communism were often no more compressed than they are in market economies.)[5]

The more widespread occurrence of low pay has been associated with large falls in minimum wages in relation to average wages. Extreme examples are the reductions from 26 percent in Belarus and 23 percent in Russia in 1990 to 5 percent in both countries in 1999; the minimum wage in such cases provides no protection from poverty whatsoever.[6]

Table 2.2

Sources of household income in Russia
(percent of total income)

| | All households | | | Poorest fifth | |
	1992	1996	2000	1996	2000
Income from work	49	39	38	16	31
Home production and the informal sector	9	22	19	40	23
State transfers	31	27	34	29	36
Gifts and loans from friends and family	10	10	7	13	9
Other	1	2	2	2	1
Total	100	100	100	100	100

Source: Russia Longitudinal Monitoring Survey, Rounds 1, 7 and 9: Tables 2 and 3 in Mroz, T., L. Henderson and B. Popkin (2001), "Monitoring Economic Conditions in the Russian Federation", ‹*www.cpc.unc.edu/projects/rlms*›: University of North Carolina.

Note: The poorest fifth refers to the distribution of individuals ranked by household per capita income. Income from home production and the informal sector includes both cash and non-cash income.

Figure 2.4

Low pay: employees with monthly earnings below two-thirds of the median (percent)

Averages	1989	1999
CEE	15	22
CIS	20	31
All	17	26

Source: Data and interpolation methods as in Statistical Annex, Table 10.10. The OECD average is based on figures for 15 countries, mid-1990s, in Table 3.2 (full-time workers) in OECD (1996), *Employment Outlook*, Paris: OECD.

Note: Figures are for full-time workers. First year is 1988 for Hungary and 1990 for FYR Macedonia. Second year is 1997 for Slovakia and Hungary and 1998 for Poland, Estonia, Lithuania, Armenia and Azerbaijan.

2.2 Child Poverty

In much of the region during the communist period there was no official recognition of poverty: poverty was perceived to be a "disease of capitalism". However, calculations of subsistence or "socially acceptable" minimum income levels were made in several countries. In 1989, 40 million people, or 14 percent of the population, were estimated by the USSR statistical office to be below a subsistence minimum income level. In Central Europe in the mid-1980s, 6-7 percent of the population in former Czechoslovakia and 20 percent in Poland were living below a social minimum level. Thus, even before the turmoil of the early 1990s a significant proportion of the population of the region was surviving on a low income when judged against a national standard, including many children and their families.[7]

Since the collapse of communism the number of children in poor families has increased sharply as real incomes have fallen, and inequality has widened. At the end of the 1990s it is estimated that there were nearly 18 million children and young people in the region living on less than the equivalent of $2.15 a day – see Table 2.3. The majority of these poor children – 16 million – were in the CIS, but a further two million were in Central and Eastern Europe, including the countries of the former Yugoslavia.

The definition and measurement of poverty are the subjects of much debate. The level of poverty found at any one time in any one country is critically dependent upon three choices: the indicator of household welfare (whether to use income or expenditure – see Box 2.2), how to take into account differences in household sizes and compositions (the so-called "equivalence" question – see Box 2.3) and the appropriate poverty line to use – "absolute" or "relative" (and if absolute, an international standard or a national basket of goods). A very different picture of poverty may be obtained depending on the choices made.

The two concepts of absolute and relative poverty capture different, but equally important dimensions of the

Table 2.3

Estimated number of children aged 0-17 in absolute poverty, end of the 1990s
(1,000s)

	Living on under $2.15 a day	Living on under $4.30 a day
Central Europe	330	4,040
Former Yugoslavia	500	2,390
South-Eastern Europe	940	5,730
Baltic states	110	730
Western CIS	9,190	26,800
Caucasus	1,750	4,330
Central Asia	5,000	13,720
Total	17,820	57,730

Sources: Table 1.1 and Appendix D in World Bank (2000), *Making Transition Work for Everyone,* Washington, DC: World Bank; population data: TransMONEE 2000 database.

Note: Derived from figures on absolute poverty and child poverty rates relative to the average on a relative basis (50-percent median line, per capita adjustment). Households are classified as poor if their expenditure per capita is below the poverty line concerned. The poverty lines refer to purchasing power parity dollars. The numbers of poor children for Bosnia, FR Yugoslavia and Uzbekistan have been estimated using the poverty rates in neighbouring countries with similar UNDP Human Development Index scores, where available. The relative risk of poverty for children in Estonia and Slovakia has been inferred from the risk factors for neighbouring countries. The estimated number of all poor persons (adults and children) beneath the $2.15-a-day line is 50,470,000, and 163,860,000 beneath the $4.30-a-day line.

poverty problem. On the one hand, it is essential to identify how many children, and which children, are living in households that are unable to purchase or consume a fixed minimum amount of goods and services. These are the children in absolute poverty. On the other hand, it is also crucial to identify those children in households with resources that are so limited as to exclude them from enjoying a lifestyle that at least approaches that of the rest of society. These are the children in relative poverty, defined for practical purposes as children in households with income or expenditure less than a proportion – for example, one-half – of the average (or median).

Relative poverty lines make most sense in countries where absolute deprivation is not the social norm; in low-income countries, an income corresponding to half the median will not necessarily meet the basic needs of a

Box 2.2

Measuring poverty: income versus consumption (or expenditure)

Views differ as to whether low income, or consumption provides the better indicator of poverty. Interpreting poverty as a low *standard of living* leads naturally to a focus on consumption. The *right to a minimum level of resources* in order to participate within society leads, on the other hand, to income.[8]

The difficulties of measuring income (see Box 2.1) are often given as an argument for focusing on consumption, as proxied by household expenditure, and, for practical reasons, most of the analysis of poverty in this section is based on expenditure data drawn from household surveys used in the 2000 World

Bank report *Making Transition Work for Everyone*. It should, however, be noted that expenditure is far from a perfect proxy for consumption; for example, it does not include the services derived from durable goods. Nor are household expenditures easily measured – with problems of their own, as well as those in common with income (the valuation of households' consumption of income in kind from the home production of food is among the latter). As with the figures on income inequality in Section 2.1, the figures in this section on child poverty are *estimates* rather than hard facts.

household. However, even in countries where the majority of children are living in absolute poverty, relative poverty rates can still provide useful information concerning the characteristics of the poorest of the poor. It is also clear that the relative concept is pertinent to the assessment of social cohesion, which is important in low- and high-income transition countries alike. Hence in this section estimates are presented for both absolute and relative rates of child poverty.

All of the estimates classify children as poor or not according to the level of their households' expenditure or income, without taking account of the division of resources *within* the household – of whether children are put first, or not. This is a limitation that is shared by estimates of child poverty throughout the industrialized world.

This section next compares child poverty across the region, measured in a variety of ways. The controversial question of whether children are more likely than other members of society to be poor is then dealt with, before looking at which children are at greatest risk. Finally, the links between child poverty, inequality and economic growth are explored, and the impact is investigated of reducing income differences and improving average incomes.

Absolute poverty – using an international line

A commonly used international definition of absolute poverty involves reference to survival on less than $1 per person per day. This standard was developed by the World Bank in the 1980s and was based on the average of the poverty lines of 10 low-income countries, all of which were located wholly or in part within the tropics. In its 2000 report on poverty in Central and Eastern Europe and the CIS, the World Bank argues that a higher poverty line is needed in the region, given that the region's cooler climate necessitates additional expenditures on heat, winter clothing and food. A line of $2.15 a day per person was therefore taken as a low threshold.[9] A higher threshold of $4.30 was also used, recognizing that "subsistence needs" inevitably vary with the level of a country's development. Even the poorest households in the region will incur expenses on some basic services such as the post, childcare and health care and will need to cover the running costs of a minimum of consumer durables, such as a (black-and-white) television or a refrigerator.

In converting the dollar poverty lines into national currencies, account has to be taken of differences in the costs of goods. Exchanged into roubles at the market exchange rate in Moscow, $4 will buy more loaves of bread than will $4 exchanged into Czech crowns in Prague or the same money spent directly in New York. Estimates of these differences in purchasing power are taken into account using costings from 1996, and the international poverty lines therefore reflect "purchasing power parity" (PPP) dollars rather than actual dollars. However, it is difficult to estimate comparable prices when markets are only partially developed, as remains the case in some countries in the region, particularly in Central Asia and the Caucasus. The absolute poverty rates based on the PPP dollar lines should therefore be viewed as "broad-brush" figures only.

Table 2.4 gives estimates of the percentage of children living in absolute poverty in each country in the region in the late 1990s according to both the lines described above. (These estimates draw upon the data used in the 2000 World Bank study.) Children are classified as poor on the basis of their households' per capita expenditures.[10]

There are large variations in child poverty rates across the region, with the rates significantly higher in the CIS than they are elsewhere. The contrast between the figures based on the two poverty lines demonstrates the sensitivity of results to the location of the poverty line. Given the differences in the level of national income across the region, it is arguable that the $2.15 line may be more appropriate for the countries of the CIS, while the $4.30 line may be more relevant in Central and Eastern Europe. Using the

Table 2.4

Children aged 0-15 living in absolute poverty, late 1990s
(percent)

	Year	$2.15-a-day line	$4.30-a-day line
Central Europe			
Czech Republic	1996	0.0	1.9
Poland	1998	2.0	30.7
Hungary	1997	2.4	28.8
Former Yugoslavia			
Slovenia	1997/98	0.0	0.9
Croatia	1998	0.2	4.9
FYR Macedonia	1996	8.6	56.6
South-Eastern Europe			
Albania	1996	18.3	93.2
Bulgaria	1995	4.2	24.6
Romania	1998	11.6	75.7
Baltic states			
Latvia	1998	10.0	52.5
Lithuania	1999	4.8	34.7
Western CIS			
Belarus	1999	1.5	15.4
Moldova	1999	74.6	99.9
Russia	1998	22.0	58.9
Ukraine	1999	3.6	35.3
Caucasus			
Armenia	1999	51.3	99.9
Azerbaijan	1999	26.1	71.3
Georgia	1999	24.0	68.8
Central Asia			
Kazakhstan	1996	7.1	38.3
Kyrgyzstan	1998	55.0	94.2
Tajikistan	1999	73.1	99.9
Turkmenistan	1998	8.0	39.2
Average		18.6	51.2

Source: See Table 2.3.

Note: The poverty lines are in purchasing power parity dollars.

lower line as the threshold for absolute deprivation, three-quarters of all children living in Moldova and Tajikistan are poor, but virtually none are poor in the Czech Republic, Slovenia and Croatia.

When the higher poverty line of $4.30 is taken, nearly all children in the Central Asian republics of Tajikistan and Kyrgyzstan are defined as poor, along with all children in Moldova and Armenia. The figures underline just how low the living standards of children have become in these poorer parts of the region. The proportion of children who are "absolutely poor" remains low in the Czech Republic, Croatia and Slovenia, but elsewhere in Central and Eastern Europe the picture is very different. Nearly a third of the children in Poland, over half of the children in FYR Macedonia and over nine of ten Albanian children are poor by this standard. The countries appear broadly to fall into five groupings:

● The Czech Republic, Slovenia and Croatia – less than 5 percent.
● Hungary, Poland and Bulgaria – 25 to 30 percent.
● The Baltic states and western CIS – 30 to 50 percent.
● The Caucasus – around 70 percent.
● The Central Asian republics – over 75 percent.

However, there are clear exceptions to this pattern. Child poverty is considerably lower in Kazakhstan and Turkmenistan than it is elsewhere in the Central Asian region, while rates are much higher in Albania, Moldova and Armenia than in neighbouring countries.

Official poverty lines – an important benchmark

International poverty lines defined in US dollars allow easy comparison of child poverty across countries (perhaps too easy in view of the imprecision of the PPP estimates). But they tell us very little about the level of resources considered as representing subsistence needs in any particular country. Many countries in the region calculate their own national poverty line based on a minimum consumption basket that has been selected and priced specifically for their own circumstances.

These national poverty lines are a vital part of the fight against child poverty. An official poverty line provides a public benchmark for the level of living standards that are considered adequate in a country and thus constitutes a key device for monitoring progress during the transition, whether by government, or by other parts of civil society. If the number of children that are poor in a country according to an official national poverty line rises from one year to the next, then, whatever else may be happening in that country, one key aspect of national well-being has deteriorated.

Official poverty lines within the region have tended to be relatively generous, reflecting the high nutritional norms inherited from the socialist period and including relatively high proportions of expensive foods such as animal fats and meat. In some instances, new lines have been developed based on a revised minimum food basket reflecting the actual consumption pattern of the poor.[11] For example, in Georgia the official poverty line in 1997, based on a minimum subsistence basket, was 103.6 lari a month, while a new minimum food basket reflecting the actual consumption of the poor was valued at about half this level (51.3 lari).[12] However, these new poverty lines have often been developed by "outsiders", including international consultants for organizations such as the World Bank, and their derivation remains a contentious issue. In general, the official poverty lines reflect a desired socially acceptable minimum, while the new poverty lines (often sponsored by the international donor community) reflect a lower subsistence minimum. Some countries, such as Slovakia, have both.

Table 2.5 presents examples of estimates of child poverty calculated using country-specific official poverty lines. No direct comparisons between the figures are possible as each national study uses a different methodology. However, the table does provide a useful indication of the degree of child poverty as perceived within each country according to its own national norms.

In high-income countries, child poverty rates using national official poverty lines tend to be significantly higher than the absolute child poverty rates according to an international poverty standard, while the reverse holds for low-income countries. For example, 39 percent of dependent children under the age of 20 in Hungary in 1999 were poor according to the subsistence minimum calculated by the Hungarian Statistical Office, compared with estimates of 3 percent under the $2.15 line and 29 percent under the $4.30 line shown in Table 2.4. In all the countries in Table 2.5 – which are drawn from across the region – the child poverty rates are so high they should figure very prominently in public debate.

Table 2.5
Child poverty rates using official national poverty lines, late 1990s (percent)

Hungary	39
Romania	45
Estonia	40
Ukraine	43
Georgia	47
Kyrgyzstan	61

Sources: MONEE project country reports; Georgia: World Bank (1999), "Georgia Poverty and Income Distribution", Report No. 19348-GE, Washington, DC: World Bank.

Note: Georgia refers to 1997, Romania to 1998 and other countries to 1999.

Relative poverty – low resources relative to the average

An alternative approach is to define the poor as those persons living in households with income or expenditure below half of the average expenditures for the nation in which they live. (The average is often measured in practice by the median.) This is the definition of *relative* poverty adopted by the European Union, for example. It allows easy cross-national comparison of the numbers of persons who are poor relative to others in their own country and facilitates identification of those groups that are at greatest risk of falling behind.

Table 2.6 shows estimates of the percentage of children living below the relative poverty line in 22 countries at the end of the 1990s. The survey data are the same as in Table 2.4. In the first column the same adjustment is also made for household size as in the earlier table – the per capita adjustment. In this case, the change in the definition of poverty from an absolute to a relative one in effect merely shifts the poverty line up or down; in some countries the relative poverty line will be higher than the $4.30 line of Table 2.4, while in others it will be lower. (The relative poverty line will obviously be higher than the $2.15 line in even more countries.) The second column presents child poverty rates with an adjustment for household size that is different from the simple per capita one, so the results in this case are not comparable in a straightforward way with those in the earlier table. The adjustment used assumes that

there are some "economies of scale" within the household, meaning that, although a doubling of the number of persons in a household increases the household's needs, it does not increase them twofold (see Box 2.3).

The variation in child poverty rates across the region is far smaller with the relative definition than it is with the definitions based on the US dollar lines. In no country does the rate in the first column fall below 10 percent, and in no country does it exceed 30 percent. The *ranking* of countries in Table 2.6 remains broadly similar to that in Table 2.4, with higher child poverty rates in Central Asia and lower rates in Central Europe and the Balkans. But there are some notable exceptions to this pattern. Poland has the highest rate of relative child poverty of all countries when the per capita adjustment is used, 28 percent, but has one of the better records when the dollar-per-day lines are used. In contrast, the first column shows Tajikistan with one of the lowest rates of relative child poverty despite being at the bottom of a league table based on the absolute definition. Children in Tajikistan are very badly off in absolute terms, but so is the rest of the population of this country, and hence the position of children in relative terms is nowhere near so bad.

The results in the second column of Table 2.6 show that, with the assumption of moderate economies of scale in the household, the child poverty rate falls appreciably, by nearly a third on average. The poverty rate for children relative to the overall rate for all people also changes, as discussed later in this section.

Are children at a greater risk of poverty than other groups?

Childhood has long been identified as a risk factor in being poor. In a classic study of poverty in a town in the north of England at the beginning of the last century, Joseph Rowntree identified five alternating periods of "want" and "plenty" in the life of a labourer, with childhood classified among the former periods:

"During early childhood, unless his father is a skilled worker, he will probably be in poverty; this will last until he or some of his brothers or sisters begin to earn money and thus augment their father's wage sufficiently to raise the family above the poverty line. Then there follows a period during which he is earning money and living under his parents' roof . . . . this is his chance to save some money and pay for furnishing a cottage; this period of prosperity may continue after marriage until he has two or three children when poverty will overtake him . . . ."[13]

Today, even more so than in the early 20th century, it is not inevitable that childhood implies poverty. Welfare state spending and female labour force participation are much more important now than they were 100 years ago (although both suffered in the 1990s in the former communist countries). Nevertheless, childhood remains a major period of risk.

Table 2.6

Children aged 0-15 living in relative poverty, late 1990s: household expenditure below half the median
(percent)

	Adjustment for economies of scale within the household	
	None (A = 1.0)	Moderate (A = 0.75)
Central Europe		
Czech Republic	12.1	6.4
Poland	28.3	17.5
Hungary	14.8	10.1
Former Yugoslavia		
Slovenia	10.3	6.4
Croatia	11.8	5.4
FYR Macedonia	25.6	21.1
South-Eastern Europe		
Albania	11.0	7.0
Bulgaria	17.9	13.1
Romania	21.4	11.6
Baltic states		
Latvia	18.9	14.2
Lithuania	20.7	13.8
Western CIS		
Belarus	13.3	7.5
Moldova	17.7	15.3
Russia	25.6	20.0
Ukraine	16.0	11.2
Caucasus		
Armenia	15.8	11.1
Azerbaijan	16.6	13.8
Georgia	25.3	17.2
Central Asia		
Kazakhstan	22.6	17.3
Kyrgyzstan	22.3	18.6
Tajikistan	13.0	11.6
Turkmenistan	22.7	20.0
Average	18.4	13.2

Source: Appendix D, World Bank (2000), op. cit.: see Table 2.3.

Note: Years as in Table 2.4. Poverty rates have been calculated by ranking all individuals by equivalized household expenditure, with the poverty line taken as 50 percent of the median of this distribution.

Equivalence scales and the profile of poverty

In order to compare the living standards of different households, one must adjust their total expenditures according to differences in household sizes. Larger households have greater needs – for example, there are more mouths to feed. Adjustment may also be made for differences in the composition of the household, recognizing that the need for expenditure differs among children, working age adults and the elderly. The choice of "equivalence scale", the term given to the adjustment factor, may have major implications both for the overall level of measured poverty and for the groups in the population which are shown to suffer the most.[14]

The simplest approach is to ignore differences in composition and to divide total expenditure by the number of persons in the household. This is the *per capita* adjustment, which assumes that there are no "economies of scale" associated with household size. A household of four persons is assumed to have twice the needs of a household of two.

Economies of scale may arise for various reasons; for example, housing costs such as rent and heating are unlikely to double when household size doubles. One common way of taking these economies into account is to adjust total expenditure as follows:

Adjusted expenditure =
Total expenditure / [Household size^A]

where A is a number between 0 and 1. For example, with A equal to 0.5, a household of four persons is assumed to have needs that are twice those of a one-person household, whereas with the per capita adjustment (A = 1.0) their needs would be four times as high. Table 2.6 shows child poverty rates both with the per capita adjustment and with A equal to 0.75, which assumes that there are moderate economies of scale. In this case, the four-person household has needs that are 2.8 times those of the one-person household.

In many CIS countries, where housing costs currently constitute a relatively small share of total expenditures, there are likely to be relatively low economies of scale, implying that the per capita adjustment may be a reasonable one. Recent assessments of poverty by the World Bank in Kazakhstan, Azerbaijan and Armenia have all used the per capita adjustment to household expenditures.

Official poverty lines calculated by countries in the region typically make an adjustment for household composition, as well as size. For example, since 1992 the Russian government has calculated a subsistence minimum in line with the costs of a basic basket of goods, which varies according to age (and gender). In the first quarter of 2000, the calculations assumed that a pensioner's needs were 30 percent less than those of a working-age adult, but that a child's needs were only 5 percent less. The rights and wrongs of these assumptions can of course be debated, but the fact is that, compared to a line that makes no adjustment for household composition, the use of the official Russian subsistence minimum will lead to more children and fewer pensioners being found in poverty.

How long do children stay poor?

Children are particularly vulnerable to the effects of poverty, and the longer they stay poor, the more likely it is that there will be lasting consequences. Extended periods with low income will mean that it will be harder to sustain expenditures on food, heating, clothing – and on education and health care.

Standard calculations of child poverty tell us nothing about how long children stay poor. Using survey data that follow the same families over time, a recent study carried out by the UNICEF Innocenti Research Centre on a range of industrialized countries shows the proportion of children that are in the poorest fifth of all children over one, two and (in some cases) five consecutive years. The study included two transition countries, Hungary and Russia, and Table 2.7 compares results for these two with those for Britain and Germany.

In Britain, Germany and Hungary, around two out of three children found in the poorest fifth in one year are still there a year later. Around one child in four is still poor (on this definition) five years later. The persistence of low income year after year for these children gives great cause for concern.

There is greater mobility in Russia, reflecting the more turbulent nature of income changes in that country during the 1990s. Less than half of the Russian children in the poorest fifth in year "1" were still there a year later. Meanwhile, their places at the bottom of the income ladder had been taken by other children. Over a two-year period, 31 percent of all Russian children experienced low income.

The surveys reveal that in every country poverty touches more children during their childhood than is shown by data at any one point in time. Over a five-year period, more than 40 percent of Hungarian children enter the bottom fifth of the income distribution at least once.

	Table 2.7

Dynamics of child poverty
(percent)

	Children *always* in the poorest fifth of all children		
	In year "1"	In two consecutive years	In five consecutive years
Britain	20	14	5
Germany	20	13	7
Hungary	20	13	6
Russia	20	9	n.a.
	Children in the poorest fifth of all children *at least once*		
	In year "1"	Over two years	Over five years
Britain	20	27	41
Germany	20	27	36
Hungary	20	27	42
Russia	20	31	n.a.

Source: Table 4.4 in Bradbury, B., S. Jenkins and J. Micklewright (eds) (2001), *The Dynamics of Child Poverty in Industrialised Nations,* Cambridge: Cambridge University Press.

Note: Current net household income equivalized by the square root of household size (A = 0.5); n.a.: not available.

Do children in the transition countries face a *higher* risk of being in poor households than do other people? Figure 2.5 shows the poverty rates in Table 2.6 relative to the rates among the population as a whole in each country. A value of "1.0" means that children face the same risk of being poor as do other people. A value higher than "1.0" means that the risk for children is greater than average, implying that children are over-represented among the poor.
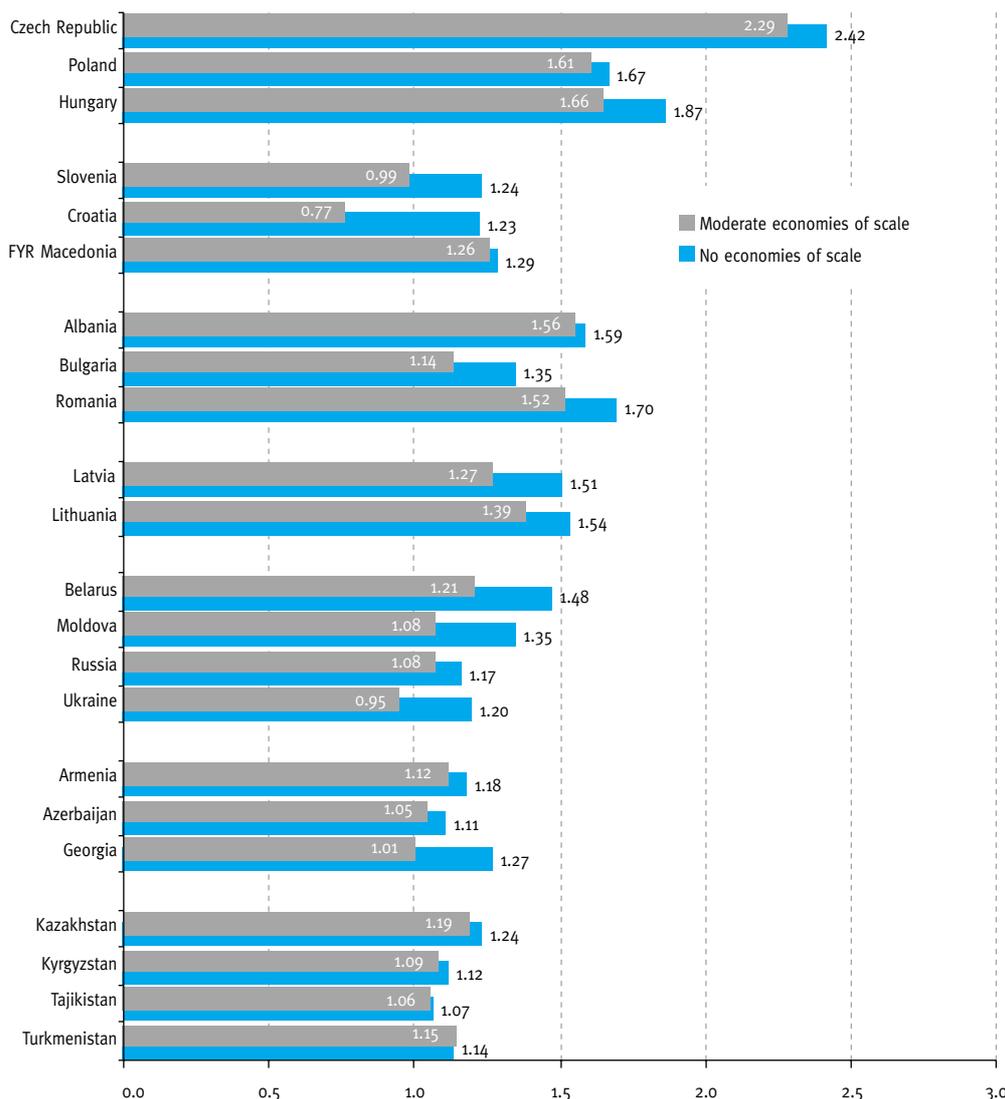
With the per capita adjustment, children have higher poverty rates than the population as a whole in all 22 countries in the graph. Children in Central Europe have a particularly high risk of poverty compared to the average, but the disproportionate burden borne by children (and, of course, others in their households) is also high in South-Eastern Europe and the Baltic states. Children in the Czech Republic are well over twice as likely to be poor as the population as a whole. In Hungary, Poland, Albania, Romania, Latvia, Lithuania and Belarus the rate for the children is one and a half times as high. Elsewhere the differential is not as great. (One reason for this is that in the "child-rich" Central Asian republics children make up a much larger share of the total population; so a comparison is being made with a rate that is more heavily influenced by the rate among children than it is elsewhere.)

How robust is this picture to changes in the assumption about economies of scale in the household? Figure 2.5 shows that, with an assumption of moderate economies of scale, the position of children does not look quite so bad. Averaging across the region, the poverty rate for children is 1.25 times higher than that for all persons, rather than 1.4 times higher. There are now five countries where the ratio is 1.05 or less.

The adjustment factor for economies of scale can be increased even more. For example, a four-person household could be assumed to have only twice the needs of a one-person household (the case with "A" equal to 0.5 – see Box 2.3). This assumption has become popular in analyses of poverty in Western Europe, where household sizes are generally small and where the share of goods other than food in total household expenditure is high (economies of scale in food expenditure are likely to be low). With this adjustment, the average ratio for the 22 countries in Figure 2.5 is only 1.05. Nine countries now have values below 1.0, indicating that children are under-represented among the poor.

However, even in this case (which is not shown in Figure 2.5), the Czech Republic, Hungary and Poland still have child poverty rates that are higher by a third or more than rates for the population as a whole.[15] In these three Central European countries, the conclusion that children are substantially over-represented among the poor is not overturned by the change in the method of calculation. Elsewhere the picture is mixed, but with the "middle-road" assumption of moderate economies of scale, the conclusion from Figure 2.5 is that significant over-representation of children among the ranks of the poor is the most common picture.

There has been considerable debate over whether children have fared better or worse during transition than elderly people (if

Figure 2.5

Poverty risk for children relative to the population as a whole

Source: See Table 2.6.

children are over-represented among the poor, then some other group in the population must be under-represented). Figure 2.6 shows for a sample of countries that the relative positions of young and old are sensitive to assumptions about how a household's needs change as its size increases. The elderly are much more likely to live in small households than are children. Other things being equal, assuming greater economies of scale in budgeting within the household will tend to push the elderly down the income (or expenditure) distribution at the same time as children are pulled up.
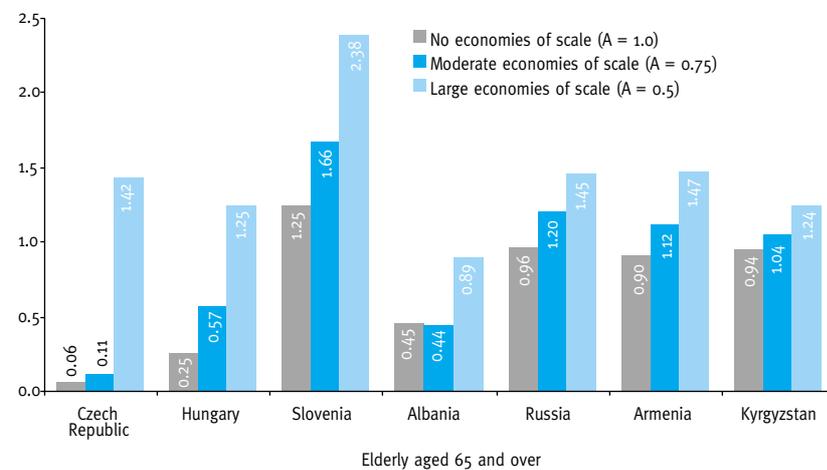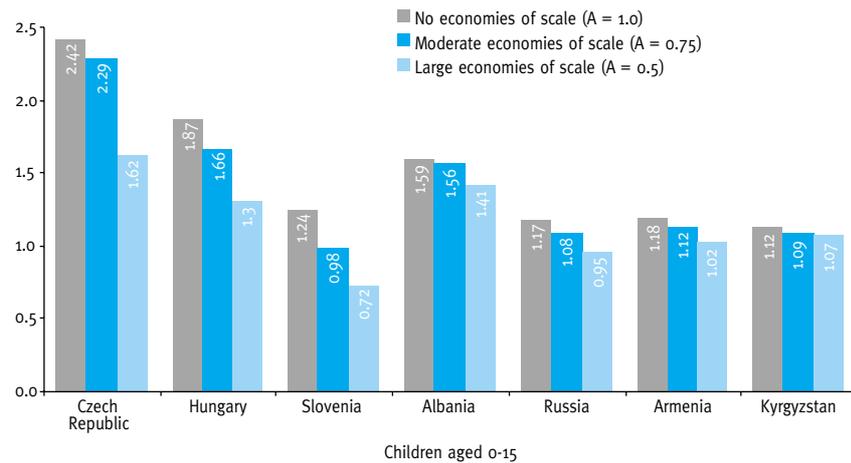
As more account is taken of economies of scale, the elderly go from a situation of being substantially under-represented among the poor to one of over-representation – at the same time as the over-representation of children declines. The positions of both the elderly and children change less in the CIS countries than elsewhere, and one reason for this is that the elderly in these countries are more likely to live with others.

Diagrams such as Figure 2.6 may be read as implying that families with children, on the one hand, and the elderly, on the other, are "competing" in an effort to avoid poverty – with the verdict on the winner depending in part on the methodology for the calculation of poverty. But it needs to be remembered that many families share income with other family members outside the household. Pensioners spend their income on many things, including their grandchildren, a subject returned to in the next section in the discussion of how poor families cope with poverty. The debate over which age groups are at more or less risk of poverty may, however, divert attention away from the real issue – that *both* vulnerable older people *and* children need protection.

Nevertheless, the case for special protection for children needs to be stated. Poverty among children is a particularly damaging form of poverty, both for the individual child and for the society in which a child lives. As noted at the start of the chapter, child poverty can substantially scar individuals' future lives and, as a result, the future path of countries.

Which children are most at risk?

Children with parents who have no work or very low pay are obviously at high risk of being poor. The 2000 World

Children aged 0-15

Elderly aged 65 and over

Choice of equivalence scales: impact on the relative risk of poverty among children and the elderly

Note: The graph shows the risk of poverty for children and adults relative to the average risk.

Source: See Table 2.6.

Bank report on poverty in the region found that the poverty risk for households with non-working heads was more than double the risk for the population as a whole in Hungary and Poland, triple in Slovenia, Estonia and Croatia and over six and a half times higher in the Czech Republic (this ignores households with retired heads). A working household head in the Central and Eastern European countries and the Baltic states greatly reduces, in general, the likelihood of poverty relative to the average.[16]

However, the picture in the CIS is different. In Russia the risk of poverty relative to the average was only 1.5 for households with the head not in work – and this was one of the higher figures in the CIS. In much of the CIS, households with a non-employed head are only a little more likely to be in poverty than the average household (a "relative risk" close to "1.0"). The main explanation is that being employed in this part of the region may entail very low earnings or even none at all due to wage arrears, as discussed in Section 2.1. Moreover, the importance of formal earnings has declined as subsistence self-employment has increased.

The risk of poverty also tends to increase with the number of children living in the household – see Figure 2.7.

Figure 2.7

Relative risk of poverty, by number of children
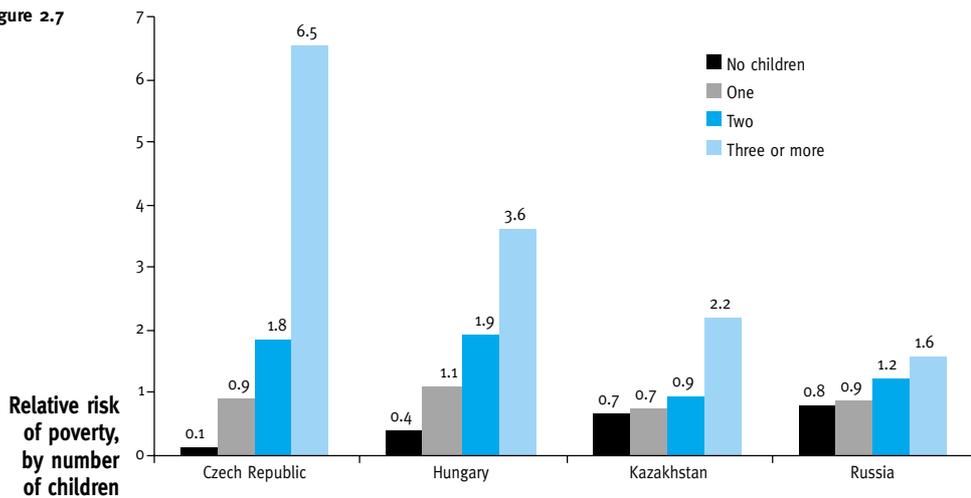
Note: The graph shows the risk of poverty by number of children relative to the average risk. Poverty is defined as expenditure less than half the median (per capita adjustment: A = 1.0).

Source: See Table 2.6.

- *Households with more children simply have more mouths to feed.* As household size increases, total income adjusted for needs falls.
- *More children reduces the probability of employment among women.* In Hungary, the participation rate of women aged 26-29 with no children was 82 percent. This fell to 52 percent among women with one child, 35 percent with two and only 11 percent among women with three or more children.[17]
- *Large family size is associated with other characteristics that result in low earnings.* Low education is one example; ethnic discrimination may be another.

Households with no children have a poverty risk of about half the average in Poland, while those with three or more children are over two and a half times as likely to be poor. This pattern is repeated in other countries, although the gradient varies.

Several factors explain why poverty increases with the number of children in the family:

The impact of higher incomes and less inequality

The next section considers specific policies to reduce child poverty. As a prelude, this section finishes by illustrating the possible impact of what those policies would entail: (a) increases in incomes, (b) redistribution of income from

Box 2.5

Poverty among rural children

In general, children living in rural areas face a higher risk of poverty than do urban children. The difference is particularly marked in Central and Eastern Europe, where rural households are around 50 percent more likely to be poor than the population as a whole (Figure 2.8). In the CIS the difference is less marked.

Rural children often face other disadvantages that may be exacerbated by poverty: they may have further to travel to school; they are more likely to have poorer access to heat and clean water and may be more likely to undertake (usually unpaid) work both during and

outside school hours, helping with chores around the house and on the land.

This is the description of daily life for one 12-year-old girl in Tajikistan:

"I get up at 5.30 a.m. and go with my mother to milk the goats. We come back and make breakfast for the younger children and my father. I then prepare lunch to take to school. We used to have a school canteen at school [where] we could get a hot meal, but now we usually take some bread and maybe in summer a piece of cucumber from the plot. At 7.30 a.m. I leave the house to walk to school, which is five kilometres away. I used to catch the bus, but now we cannot afford the fare – and in any case it often doesn't come. I get home from school mid-afternoon and help prepare the meal or do laundry. After tea I milk the goats again, clean the kitchen and go to bed. I want to be an engineer, but I'll probably leave school soon and help on the farm."[18]

In Romania only 13 percent of rural homes had piped water inside the dwelling, compared with 87 percent of urban homes. Often it is the child's job to fetch the water from the standpipe. Ninety-one percent of rural homes are heated by wood, coal and oil stoves, compared to just 18 percent of urban homes.[19] Wood stoves in particular are associated with poor domestic air quality and contribute to respiratory diseases among the young.

Figure 2.8

Risk of poverty relative to the average: rural areas
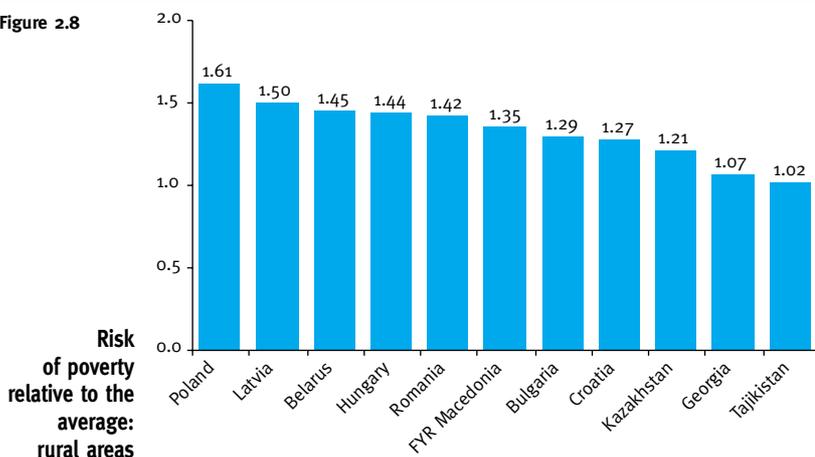
Note: The graph shows the risk of poverty (for all persons, adults and children) in rural areas relative to the average risk. Poverty is defined as expenditure less than half the median (per capita adjustment: A = 1.0).

Source: See Table 2.6.

richer to poorer households, or (c) both income growth and redistribution. The analysis uses the example of much the largest country in the region, Russia, where income inequality is very high, as shown in Section 2.1.

What could be the impact on child poverty if the income differences in Russia were to become less pronounced? And how does the impact of less inequality compare with that of an across-the-board increase in incomes, an increase experienced by all households – rich, poor, or middle income?

Table 2.8 shows the results of adjusting incomes of households in the Russia Longitudinal Monitoring Survey for 1998 in such a way as to reduce inequality or to reflect income growth. In the case of the adjustments to lessen inequality, this entails increasing the incomes of the households below the average income level and reducing the incomes of those above the average. Income growth, on the other hand, is simulated by a simple percentage increase in income for all households in the survey. This type of growth leaves the inequality of incomes unchanged.

The poverty line is fixed at half the median income actually recorded in the survey and does not vary in the simulations (it is fixed in nominal terms). On this basis, 30 percent of Russian children were poor in 1998. (The higher figure relative to that given in the first column of Table 2.6 is due to the use of income rather than expenditure as the measure of household resources.) If the level of income inequality, as measured by the Gini coefficient, were to fall by 20 percent, child poverty would be almost halved – to 16 percent. This would give Russia a level of income inequality towards the higher end of the OECD range (with a Gini coefficient of about 0.38, instead of the actual value of 0.47 shown in Figure 2.1). With a 30-percent fall in inequality – down to just above the OECD average – child poverty falls by almost two-thirds, to 11 percent.

What about the effect of income growth? Across-the-board growth of 30 percent reduces child poverty by nearly a third. A 10-percent increase in incomes reduces it by only 3 percentage points. By comparison, a 10-percent fall in inequality reduces child poverty by 7 percentage points.

The message of the table is *not* that "growth is less good for the poor than is redistribution". It is not surprising that the significant reductions in inequality simulated in the table have a larger apparent impact; they involve big increases in income for people at the bottom of the income distribution (and big falls for persons at the top), larger than those given by the across-the-board growth in incomes.[20] Nevertheless, the table does illustrate the fact that in a country like Russia, where income inequality is very high, a significant reduction in income disparities would have a big impact on poverty among children. Such a reduction could hardly happen overnight – and policy-makers would be very unwise to try to bring it about so abruptly. But moving to substantially lower inequality over a period of, say, 10 years should be a possible goal.

The best outcome of all, of course, is a big increase in incomes taking place at the same time as a significant reduction of inequality. Table 2.8 shows that a 30-percent increase in incomes across the board, coupled with a 30-percent reduction in inequality, almost eradicates child poverty. (The fixed nature of the poverty line should be borne in mind: rising average incomes would more reasonably lead to the poverty line being revised upwards.) Imagine a more modest ambition: a 20-percent growth in incomes and a 20-percent reduction of inequality taking place over, say, six years. (This implies income growth of little more than 3 percent per year.) Child poverty falls to 8 percent, a major achievement. Without the reduction in inequality, the six years of growth would only reduce child poverty to 23 percent.

In countries where disparities in incomes are large it will be difficult to increase substantially the incomes of poor families in the short-to-medium term without some reduction in those disparities. The same effect as across-the-board growth, coupled with redistribution, could in principle be obtained with *only* growth in incomes, provided lower income households experience much bigger rates of income growth than do higher income households. This would be growth that is "pro-poor".

■

Table 2.8

Child poverty rates in Russia: the effect of growth and of reducing inequality (percent)

| Reduction in inequality | None | Growth in incomes | | |
		10%	20%	30%
None	30	27	23	21
10%	23	17	14	12
20%	16	10	8	6
30%	11	4	3	1

Source: Simulation with Russia Longitudinal Monitoring Survey, Round 8 (1998) microdata.

Note: Per capita incomes (zero, negative and missing values excluded). The poverty line is fixed at 50 percent of the median of pre-simulation incomes. Growth is simulated by increasing each person's income by the amount concerned (10, 20, or 30 percent). Reductions in inequality are simulated by changing each person's income so that its new value is a weighted average of the recorded value and the average income (the mean is therefore left unchanged), the weight being chosen so as to result in a change in the Gini coefficient of 10, 20, or 30 percent. The table shows the resulting child poverty rates.

2.3 Public and Private Responses to Poverty

What responses does the problem of child poverty provoke? And what responses *should* it provoke?

Poor households in the transition countries receive support from various sources: central and local governments, community groups and other non-governmental organizations, and other households – relatives and friends. This section begins by discussing the last of these, together with families' other strategies for coping with their poverty.

It then discusses the key issue of the public response to child poverty: the response of governments.

Help from other families – and other "coping strategies"

Poor families cope with their predicament in various ways: spending less, trying to generate more income and

	All households	Poor households with children
Table 2.9		
Households in Russia adopting selected coping strategies in the last 12 months, 1998 (percent)		
Spent less		
Cut down on meals	62	65
Cut expenditure on clothes and shoes	70	74
Spent less on holidays	42	46
Generated more income		
Found supplementary employment	7	7
Cultivated more on agricultural plots	20	20
Rented out apartment	2	1
Sold assets		
Sold possessions	6	6
Sought help from others		
From relatives	21	31
From friends	9	13
From government	7	7

Source: Russia Longitudinal Monitoring Survey microdata, 1998.

Note: Poor households are defined as the poorest fifth of households when ranked by per capita household income. Households with children are those with at least one child aged under 16.

approaching others for help.

Table 2.9 uses the example of Russia in 1998 to show that all three are important. Three-quarters of poor families with children said that they had spent less money on clothing and shoes in the previous 12 months, and two-thirds reported cutting down on meals. (Interestingly, these numbers are very similar to those for all households.) These sorts of responses are also found elsewhere in the region. Data for Tajikistan for 1999 show over four-fifths of the poorest households with children reporting changes in their diets over the previous few months, switching to cheaper foods and eating smaller or fewer meals.[21]

These changes mean that the nutritional content of the diets of poor households is often markedly different from that of the average household and is typically unsatisfactory, despite food being the predominant item of expenditure for the poor. The poorest 10th of households in Belarus ate 63 percent less fruit than did the average household in 1999, 53 percent less meat and 42 percent less eggs and vegetables, but only 17 percent less potatoes and bread.[22] Even in Poland, one of the richer countries in the region, the consumption of many food products by poor households is below the nutritional norms in the national subsistence minimum basket of goods.[23]

There is considerable anecdotal evidence that parents often try to shield children when expenditure is reduced. But there are clearly limits to what can be achieved. One way poor families may "cope" is through not buying things that are important for the long-term development of their children, such as school textbooks or even, in the poorest countries, shoes in which to walk to school, neither of these being essential items for immediate survival. Children may even be taken out of school in order to

work. And in extreme cases, especially for single mothers, the coping strategy may be to abandon a child, a subject discussed in Chapter 5.

Efforts to generate additional income, often from the informal sector, are a natural response. Table 2.9 highlights once more the importance to poor Russian families of home-grown food, one type of income in kind (see also Table 2.2).

Almost one-third of poor Russian families with children turned to relatives for help, and one in eight to friends. Grandparents in particular play an important role in supporting many children. A respondent in the Buryat region in the east of the Russian Federation commented, "It is [now] better to have two live grandparents than to have two cows".[24] In an ILO survey on how Russian people are surviving without wages, one respondent answered, "Our parents help. My father gives us all his pension. My husband's mother helps with food. Grandpa and grandma completely support our child."[25] Pensioners throughout the region report economizing to save money to help pay for their grandchildren's schooling, and, where older people live with their children and grandchildren, they are much less likely to spend money on their own health care.[26] This underlines the dangers of engaging in the debate mentioned in the last section of whether elderly people or children are at greatest risk of poverty.

Coping strategies that are based on cutting back on consumption or selling assets are obviously unsustainable in the long term. The generosity of relatives and friends is a natural and positive feature of a cohesive society. But it can only go so far, not least since poor families are more likely to have poor relatives and friends than is the average family.[27] Strategies that harm children's long-term development are clearly not ones that should be favoured. What is needed are "regenerative" strategies that allow families' finances to be put on a secure basis.

More stable parental employment, often in full-time work in the formal sector, is one key solution. (Formal sector jobs bring social insurance coverage, as well as ensuring that personal income tax is paid to help fund the state provision of basic social services.) Achieving this may often require the help of governments, which, of course, have many other parts to play in the fight against child poverty.

The state's role in reducing child poverty

In a very obvious sense, poor households are obliged to cope with their poverty in one way or another: they have to adopt some method of dealing with their economic hardship. The same is not true of governments. There does not *have* to be a public response to child poverty; largely ignoring the problem is one policy choice that is always on offer.

The consequences of making that choice in terms of harm to both individual and national development are outlined in the introduction to this chapter. Recognizing and publicizing those problems should be part of the first element in a three-pronged attack by government on child

poverty, which in very general terms should be as follows:

● *Move child poverty centre-stage.* Ensure public support for action by promoting awareness of the scale and trends of child poverty and of its implications for the individual and society. Commit to monitoring publicly a limited range of indicators in order to assess progress.[28]
● *Combat long-term disadvantage.* Address the problems of educational disadvantage, poor health and teenage pregnancy so that child poverty is less likely to reproduce itself in the future and to be passed from generation to generation.
● *Sustain family incomes.* (a) Sound macroeconomic policy to encourage income growth in the national economy,

(b) microeconomic policy to foster parents' capacities to work and firms' capacities to offer work at reasonable wage rates, and (c) a tax and benefit system that provides adequate support to those families that need it.

The last of these three elements is vast, and the rest of this chapter makes no attempt to deal with all the economic and social policies that are entailed. Table 2.8 at the end of the last section demonstrates the possible impact on child poverty of strong economic growth. Where such growth is both labour intensive and pro-poor, the impact on child poverty will be greatest. The simulations in the table also highlight the impact of reducing income inequality. It is no coincidence that child poverty rates tend to be lower in

---

Box 2.6

The impact of taxes and transfers on child poverty

Government tax and transfer policies can have a major mitigating effect on child poverty. Figure 2.9 shows the extent to which state intervention can be said to reduce child poverty in the OECD nations for which data are available, including two recent members of the club, Hungary and Poland. The data for the two Central European countries are for the mid-1990s. (The data refer to incomes rather than expenditures, which are the focus of Section 2.2, and, in addition, the Hungarian data are drawn from a different survey.)

Actual child poverty rates are compared with the rate that would theoretically prevail in the absence of the tax and benefit system. The results are hypothetical in that people's behaviour would clearly not remain

constant in the total absence of all taxes and state-provided benefits; nonetheless, the differences in child poverty rates before and after taxes and transfers give an approximate measure of the extent to which different nations implement policies designed to protect poor children.

Countries are ranked according to the "pre-tax-and-transfer" child poverty rates. Hungary and Poland post the highest rates on this basis. But both countries succeeded in the years in question in reducing child poverty by almost 30 percentage points, more than the reduction in any other OECD country. (The records of Italy and the US in this respect, for example, stand in marked contrast to those of the Central European duo.)
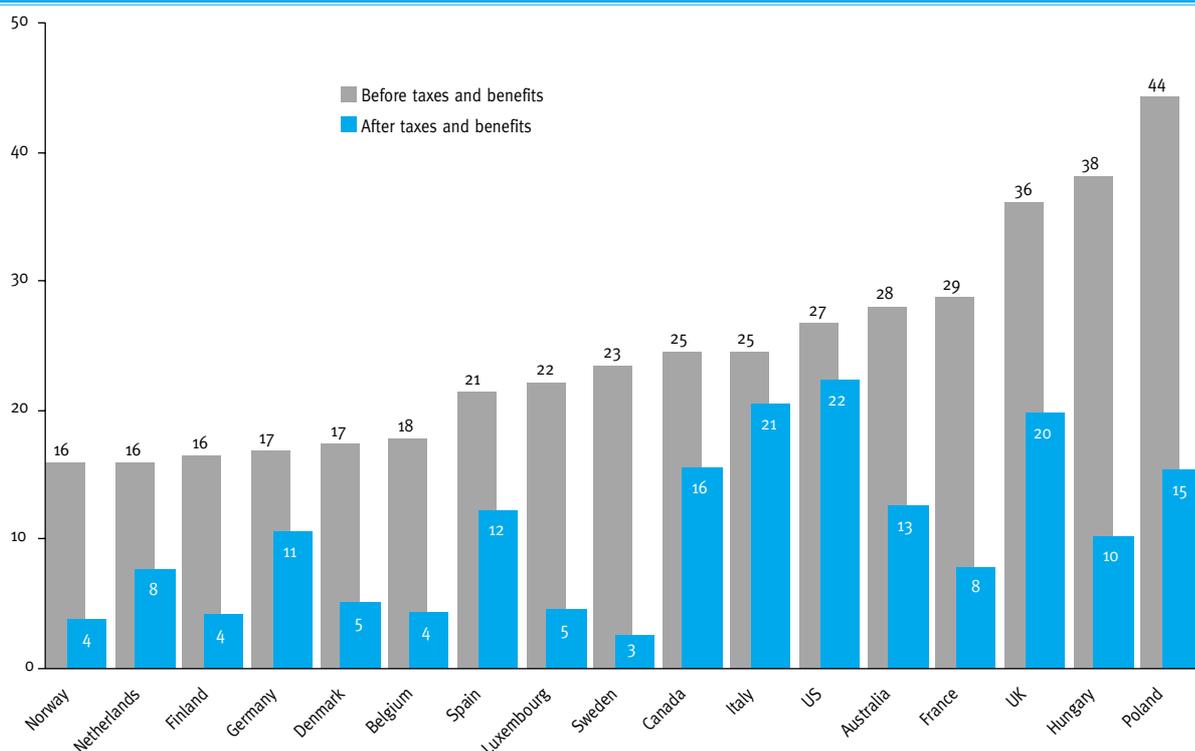
Figure 2.9

Child poverty rates in the OECD before and after taxes and benefits (percent)

Note: The taller bars show child poverty rates based on household incomes before taxes and transfers, while the lower bars show the rates after taxes and transfers. The poverty line in both cases is 50 percent of median post-tax-and-transfer income. The equivalence scale is the square root of household size (A = 0.5). The data for Hungary and Poland refer to 1994 and 1995, respectively, and those for other countries to various years in the 1990s.

those countries that have maintained significant redistributive taxes and social transfers. Box 2.6 shows how, in the mid-1990s, the tax and transfer system in two of the most advanced countries in the region, Hungary and Poland, reduced child poverty more there than the reduction in any other OECD country for which data are available.

What future for family allowances?

Family allowance is an element of tax and transfer systems of particular relevance to families with children, and one that traditionally has been important in many countries in the region. What happened to family allowances during the 1990s, and what role do they play in alleviating child poverty?

It should be stressed that governments may wish to support families with children for reasons other than poverty alleviation. Family allowances help smooth income over the life cycle in relation to people's needs. They provide partial security against income losses from unemployment or sickness. And, in particular, family allowances represent a recognition by society of the costs of raising children. This is something from which all of society derives benefit, since today's children are tomorrow's working adults on whom economic growth will depend. The future of family allowance should not therefore stand or fall according to its impact on child poverty alone.

In its simplest form "family allowance" is a benefit paid in respect of all children regardless of family income or any other family characteristic (such as parental employment), something often called a "universal" allowance. Rates of payment may vary with the birth order and age of the child. More complicated forms involve an income test and perhaps other conditions relating to family assets and parental employment.

The dividing line between family allowance and other benefits where there are additional payments in respect of children (for example, unemployment benefits and social assistance) is not always clear cut. The tax system may also be used to provide support to children, through allowances or credits. Trends in family allowance alone are therefore not the ideal indicator of the generosity of tax and benefit systems towards families with children. But conceptually, at least, family allowance is the main benefit for which the presence of children in the family is a necessary condition for receipt, and hence changes in expenditure on family allowance and in the coverage of family allowance schemes are of considerable interest.

Policies on social support for families with children, including family allowance, underwent many changes during the 1990s. Early in the decade most countries in the region moved away from an emphasis on employment-based family policies. Family allowances typically ceased to be linked to parental employment, and in most cases new benefits were "universal" in nature. Russia and most other CIS countries introduced universal cash family allowances for the first time, this form of family support not having

been a prominent feature of the benefit system of the former USSR (in contrast to Central Europe). As the price subsidies of the old planned system were removed, households were compensated by a flat-rate addition to family allowances, a clear pro-poor policy change. (Other benefits and services important to families, for example nursery facilities, were often reduced, however.)

By the mid-1990s, pressure on government expenditures had led many countries to reform their social protection systems away from universal benefits towards more targeted systems. In most Central and Eastern European countries this meant the introduction of an income test to determine eligibility for family allowances, although the level of the income cut-off might be set very high, denying benefit to relatively few households, as in the Czech Republic and Hungary. In other countries, predominantly in the CIS, support for poor families with children was subsumed into income-tested social assistance. Where family allowances remained, benefit levels were often allowed to decline substantially in real terms.

By the end of the 1990s, the practices in countries in the region had diverged considerably. In parts of the CIS the formal system of social security had all but collapsed. For example, in Georgia a means-tested benefit targeted at poor families that had been introduced in 1997 made payments for only half the year in 1998 and, by 1999, for only three months. This is in stark contrast to the situation in some of the richer countries in the region, where the onset of steady growth eased fiscal pressures. Family allowance was once more made universal in Hungary. Slovenia also loosened its targeting criteria for family benefits (and hence is an exception to the trend in Table 2.11).

Unfortunately, the data available for concrete analysis are far from complete (with much more information available for Central Europe than for elsewhere), but the pattern they reveal is fairly clear: the net result of the 1990s was a marked reduction in the generosity of family allowance, as measured by total expenditure relative to GDP (Figure 2.10), by benefit per child relative to average earnings (Figure 2.11), by the share of family allowance in total household income (Table 2.10) and by the percentage of children for whom allowances are paid (Table 2.11). The data are not comparable across countries due to differences in what is included in the definition of family allowance. This may also be a problem for some of the changes over time within each country, although in all cases the information has been provided by central statistical offices to the MONEE project as explicit "time series", rather than pieced together by the project from different sources.

The typical pattern in Central Europe has been for coverage to remain high, but for benefit rates to decline sharply relative to wages. Nevertheless, benefit rates (measured in this way) are still reasonable by OECD standards, and family allowances remain an important source of income for poor households. In the poorest 10th of all households (including those with no children), family

allowances in 1999 represented 7 percent of all income in the Czech Republic, 11 percent in Poland, 17 percent in Hungary and 18 percent in Slovakia.[29]

In these countries, family allowance has an important impact in alleviating child poverty. Using 1996 household survey data and a poverty line of half-median income, MONEE project calculations show that, if all family allowances were to have been removed in Hungary, child poverty in that year would have risen by more than half, from 14 percent to 22 percent.[30]

Elsewhere, family allowance is typically less generous and in some cases negligible, having more or less symbolic value only (for example, in Armenia). Russia is an intermediate case. Family allowances in 1998 represented about 1 percent of all household income, which is not a trivial amount. But they had almost no effect on child poverty, since the benefit was received by very few poor households with children.

Box 2.7 shows the effect of replacing the existing Russian system with one delivering to all households with children – regardless of their incomes – a benefit for each child equal to 7 percent of the average wage. This is a level of benefit similar to those shown in Figure 2.11 for Central Europe. About one in seven poor children would be removed from poverty at a fairly modest cost. The effect is not that large, but it should be remembered that all those households with children that remain poor will have had their incomes brought up closer to the poverty line: their "poverty gaps" will have been reduced, and hence their hardship partially alleviated.

A universal family allowance, such as the one simulated in Box 2.7, will inevitably have less impact on child poverty than a benefit with the same total expenditure that is targeted on low-income households through an income test. Income testing has clear attractions when resources are scarce, as in so many transition countries, but successful targeting in this way is often hard to achieve administratively, and administrative capacity is weak in poorer parts of the region.
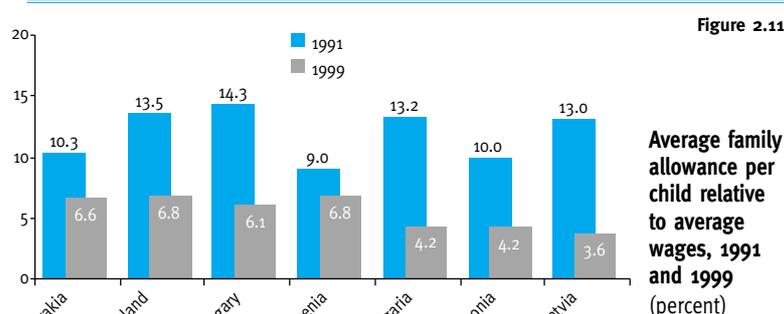
A severe income test also reduces the incentive of poor households to seek additional income from work, since the net result of earning more may be that total income rises by only a small amount once the loss of benefit income through the income test is taken into account. Box 2.8 reports on a study that has investigated this phenomenon in Hungary and that is relevant to all countries where the debate on income-targeting continues.

Inevitably, fighting child poverty requires some government expenditures to be firmly targeted on poor households. An income or assets test for a proportion of benefits will inevitably have a part to play. But targeting can be achieved in several ways and not only through an income or assets test. Varying the payment structure of the family allowance by birth order is another method. (Figure 2.7 illustrates how the risk of poverty varies with the number of children.)

Figure 2.10

Expenditure on family allowance as a percentage of GDP, 1991 and 1999
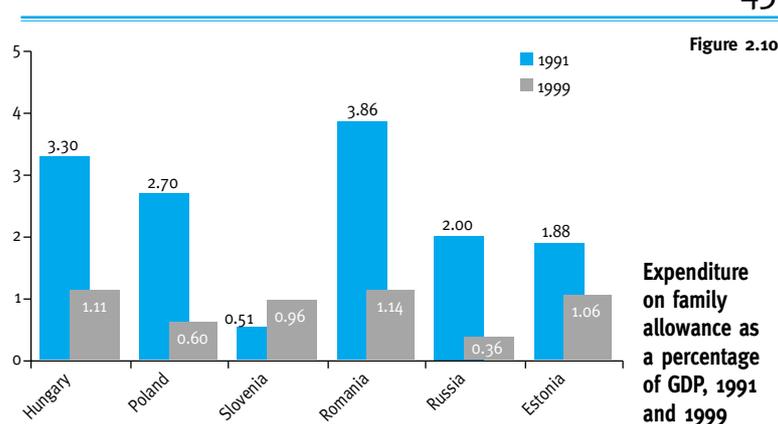
Note: The earlier year is 1990 for Romania and 1993 for Estonia. The later year is 1997 for Poland and 1998 for Russia. Data may contain family benefits other than the family allowance.

Source: MONEE project database.

Figure 2.11

Average family allowance per child relative to average wages, 1991 and 1999 (percent)

Source: MONEE project database.

Note: The earlier year is 1990 for Slovakia and 1992 for Estonia.

As the region's economies grow in the years ahead and policies that seem difficult to contemplate now become "affordable", governments should keep in mind the attractions of a universal family allowance paid at a reasonable level as one of the elements in a "child-friendly" benefit system.

Table 2.10

Family allowance as a percentage of total household income, 1991 and 1999

	1991	1999
Czech Republic	4.7	1.6
Slovakia	6.4	4.3
Poland	4.2	1.2
Hungary	8.1	3.8
Slovenia	0.6	1.4
FR Yugoslavia	0.5	0.3
Bulgaria	4.0	0.9
Romania	3.9	1.9
Belarus	0.6	0.8
Moldova	0.6	0.4
Russia	5.6	1.2
Armenia	4.2	0.1
Kyrgyzstan	0.9	0.5

Source: MONEE project database.

Note: The earlier year is 1990 for Czech Republic, Slovakia, FR Yugoslavia and Romania. The later year is 1998 for Slovenia and Russia. (The figure for Russia for 1998 has been obtained by multiplying the 1996 figure of 2.45 percent by the ratio of expenditure on family allowance as a percent of GDP in 1998 to that in 1996.) Data may contain family benefits other than family allowance.

Table 2.11

Children receiving family allowances as a percentage of population aged 0-17

	1991	1999
Czech Republic	94.5	95.0
Slovakia	94.3	79.5
Hungary	98.4	99.0
Slovenia	31.9	99.4
Croatia	32.6	35.8
FYR Macedonia	30.1	12.7
FR Yugoslavia	26.7	28.7
Estonia	93.2	101.0
Latvia	82.8	87.0
Belarus	56.4	37.1
Armenia	24.7	23.0
Azerbaijan	92.5	51.8
Kazakhstan	84.2	13.7

Source: MONEE project database.

Note: The earlier year is 1992 for Armenia and Kazakhstan and 1993 for Estonia, Belarus and Azerbaijan. The later year is 1998 for Croatia, FR Yugoslavia and Armenia. Data may contain family benefits other than family allowance.

The effect of improved family benefits on child poverty in Russia

When child poverty is measured using a national standard, Russia has one of the worst records in the region (see Table 2.6). What impact does – and could – family allowance have in this country?

The 1998 Russia Longitudinal Monitoring Survey (RLMS) shows only 18 percent of all children to be in households receiving family allowance, a figure falling to just 14 percent for children in poor households. (A poor household is defined as in Table 2.8: per capita income beneath half of the median.) Administrative delays in payment mean that many households do not receive the benefits they should have, while those households that do report the family allowance in the previous month often have quite large monthly payments, presumably due to payment of arrears.

Imagine sweeping this system away and instead guaranteeing to all households with children a universal family allowance equal, per child, to 7 percent of the average wage. MONEE project calculations with the 1998 RLMS data show that child poverty would fall from the rate of 30 percent shown in Table 2.8 to 26 percent: more than one in seven poor children would be removed from poverty.

And the cost? Total expenditure on family allowance would more than double compared to expenditure under the existing system (expenditure would be 2.5 times as great), which is a sizeable increase – but expenditure would still be well below the 1991 level and not much more than in 1996.

How could the cost be met? Policy-makers might decide to cover the additional expenditure by raising tax revenue from within the household sector. The MONEE project calculates that this could be achieved with an increase in the marginal rate of income tax of 4.25 percent levied on that part of household incomes that exceeds the average (and levied only on those households with above average per capita income).

Income testing and child poverty in Hungary

What would happen to family incomes if the Hungarian family benefit system were replaced by one involving much more income testing? A recent study addressed this question by simulating the impact of introducing the UK family benefit system in Hungary. The UK system has a much less generous universal family allowance as a proportion of average wage than that in Hungary, but it has both income-tested family benefits that are more developed and a large-scale national social assistance scheme.[31]

The effect would be substantial. The incomes of the poorest 10th of Hungarian households with children would rise substantially, by 16 percent. This would occur despite the overall cost of family benefits falling by a 10th. In short, with a UK-style system, state transfers would become much more firmly targeted on lower income families. On first sight, this would represent a significant alleviation of child poverty in Hungary.

But much higher "implicit" marginal rates of tax for the poor would be a drawback. These implicit rates measure the proportion of any additional earnings that a family would gain from more work and that would be lost in the form of income tax, social insurance contributions and lower means-tested benefits. The implicit marginal tax rate faced by working households with children in the bottom third of the income distribution would be about 70 percent, double that with the existing scheme. These sharply higher implicit tax rates could be expected to reduce incentives to work, deepening the so-called "poverty trap".

Source: Simulations using 1995 budget survey data uprated to 1996 values, in Redmond, G. (1999), "Incomes, Incentives and the Growth of Means-Testing in Hungary", *Fiscal Studies*, Vol. 20, No. 1, pages 77-99.

■

2.4 Conclusions

Income inequality and child poverty worsened across the region during the 1990s. There were some success stories, but, in general, life for families with children became harder. Combating child poverty requires a broad-based policy strategy, combining a wide range of long- and short-term policies and addressing issues of health and education, as well as incomes.

As far as the income dimension of poverty is concerned, the focus of this chapter, the main thrust of policy must be on providing children's parents with greater employment opportunities through labour-intensive economic growth. Pro-poor growth will reduce income inequality. But labour market policies focusing on employment opportunities need to be matched with adequate state benefits for poor families with children.

It seems likely that the countries of Central and Eastern Europe and the CIS will continue to diverge in their approach to family policy as their economic fortunes also diverge. The richer Central and Eastern European countries may be able to see their way forward as including an emphasis on universal entitlement to child benefits and a strong redistributive tax and transfer system. For the lower income countries of the eastern and southern CIS, the policy options now possible in richer countries are often some way off, with administrative capacity, as well as lower income levels, a barrier to progress. Nevertheless, the general principles of a broad commitment to fight child poverty are the same across the region, as is the need to ensure that children benefit from any additional government spending that economic growth will fund. ■

Notes and references

1. A "user-friendly" interpretation of the Gini coefficient can in fact also be given: twice the value of the Gini coefficient is equal to the expected absolute difference in incomes between any two persons drawn at random from the distribution, expressed relative to the mean.

2. Clarke, S. (1997), "Poverty in Russia", in S. Clarke (ed.), *Poverty in Transition: Report for DFID*, Coventry: Centre for Comparative Labour Studies, University of Warwick.

3. Garner, T. and K. Terrell (1998), "A Gini Decomposition Analysis of Inequality in the Czech and Slovak Republics during the Transition", *Economics of Transition*, Vol. 6, No. 1, pages 23-46.

4. Commander, S. and U. Lee (1998), "How does Public Policy Affect the Income Distribution?: Evidence from Russia 1992-1996", London: European Bank for Reconstruction and Development, Mimeo.

5. For more discussion of this point, see Atkinson, A. B. and J. Micklewright (1992), *Economic Transformation in Eastern Europe and the Distribution of Income*, Cambridge: Cambridge University Press; Flemming, J. and J. Micklewright (1999), "Economic Systems, Income Distribution and Transition", *Innocenti Occasional Papers*, No. EPS 70 (republished in Atkinson, A. B. and F. Bourguignon F. (eds) (2000), *Handbook of Income Distribution*, Amsterdam: North-Holland). Many authors confuse wage differentials between particular occupations (which often did differ sharply between market and planned economies) with the differences in the overall size distributions of earnings.

6. MONEE project country reports, Belarus and Russia. See also page 346 in World Bank (2000), *Making Transition Work for Everyone*, Washington, DC: World Bank. Despite being far too low to have any impact on poverty itself, the level of the minimum wage is nevertheless a critical policy variable in countries like Russia where all public sector wage rates are set as multiples of the minimum wage.

7. The figures in this paragraph are taken from Chapter 8 in Atkinson and Micklewright (1992), op. cit.

8. See Atkinson, A. B. (1987), "On the Measurement of Poverty", *Econometrica*, Vol. 55, pages 749-64.

9. World Bank (2000), op. cit.

10. These estimates have been derived from the absolute poverty rates for the population as a whole presented in Table 1.1, page 35, World Bank (2000), op. cit. These rates have been adjusted by the relative risk of relative poverty (RRRP) that children face as compared to adults of working age, taken from Appendix D in the same World Bank report. Implicit in these estimates is the assumption that RRRP can be used as a proxy for the relative risk of absolute poverty. In countries where absolute poverty rates are greater than relative poverty rates, the RRRP for children was generally low, and so a small adjustment has been applied to the overall absolute poverty rates, while, in countries where relative poverty was greater than absolute poverty, the reverse applies. Empirical investigations using data from Tajikistan and Kyrgyzstan show that the assumption is not an unreasonable one.

11. Popkin, B., A. Baturin, M. Mozhina and T. Mroz (1996), "The Russian Federation Subsistence Income Level: The Development of Regional Food Baskets and Other Methodological Improvements", *<www.cpc.unc.edu/projects/rlms>*: University of North Carolina.

12. World Bank (1999), "Georgia Poverty and Income Distribution", Report No. 19348-GE, Washington, DC: World Bank.

13. Rowntree, B. S. (1902), *Poverty: A Study of Town Life*, London: Nelson.

14. For a discussion on equivalence scales and their impact on the profile of poverty, see Lanjouw, P. and M. Ravallion (1995), "Poverty and Household Size", *Economic Journal*, No. 105, pages 1,415-34; Lanjouw, P., B. Milanovíc and S. Paternostro (1998), "Poverty in the Transition Economies: A Case of Children Pitted against the Elderly?", Washington, DC: Development Research Group, World Bank, Mimeo.

15. The values of the ratio in this case are 1.62 for the Czech Republic, 1.38 for Poland and 1.31 for Hungary (source as for Figure 2.5). If the Central European countries are excluded, the average relative risk for children in the region falls to 0.99 if "A" equals 0.5.

16. Figure 2.1 in World Bank (2000), op. cit., page 68.

17. Lakatos, J. (1998), "Women and the Transition in Hungary", Florence: UNICEF Innocenti Research Centre, Mimeo (June).

18. Kanji, N. and C. Gladwin (2000), "Gender and Livelihoods in Gorno-Badakshan", Dushanbe, Tajikistan: Mountain Societies Development and Support Programme.

19. MONEE project country report, Romania.

20. A substantial redistribution of income might also reduce average incomes – a possibility not allowed for here – via disincentives to work effort among both the rich (due to the taxes levied) and the poor (due to the extra income transferred to them).

21. Falkingham, J. (2000), "A Profile of Poverty in Tajikistan", *CASEpaper*, No. 39, London: Centre for the Analysis of Social Exclusion, London School of Economics. The poorest households with children were defined as those households falling in the bottom quintile when ranked by equivalent household expenditure, assuming moderate economies of scale.

22. MONEE project country report, Belarus.

23. MONEE project country report, Poland.

24. Page 465 in Humphrey, C. (1998), *Marx Went Away – But Karl Stayed Behind*, Ann Arbor, MI: University of Michigan Press.

25. Reported in Clarke (1997), op. cit.

26. Dudwick, N. (1995), "A Qualitative Assessment of the Living Standards of the Armenian Population", Working Paper No. 1 in *Armenian Poverty Assessment*, Report No. 15695-AM, Washington, DC: World Bank. Dudwick, N. (1999), "Georgia: A Qualitative Study of Impoverishment and Coping Strategies", Chapter 4 in World Bank, *Georgia: Poverty and Income Distribution*, Vol. II: *Technical Papers*, Report No. 19348-GE, Washington, DC: World Bank.

27. For more discussion of this point, see Coudouel, A., A. McAuley and J. Micklewright (1997), "Transfers and Exchange between Households in Uzbekistan", in J. Falkingham, J. Klugman, S. Marnie and J. Micklewright (eds), *Household Welfare in Central Asia*, Basingstoke, UK: Macmillan and New York: St. Martin's Press.

28. The discussion here draws on Box 11 in UNICEF (2000), "A League Table of Child Poverty in Rich Nations", *Innocenti Report Card*, No. 1.

29. Information on the composition of income by decile group of per capita household income in the MONEE project database. The figures for Poland and Hungary refer to the poorest 10th among persons rather than households.

30. This calculation has been made with microdata from the official budget survey and is based on annual income per capita.

31. The UK system that is considered is that prior to the introduction in 2001 of the Working Families Tax Credit, which has eased marginal tax rates on poor UK families.