

Child poverty and family transfers in the Czech Republic, Hungary and Poland

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Summary

Governments of the Czech Republic, Hungary and Poland implemented reforms of family benefits in the mid-1990s. What were the common features of those reforms and what were the possible effects on child poverty? Based on household micro data, trends in poverty among children, large families and single parents are presented for two data points: one before and one after the restrictive reforms in family policies. The focus of the analysis is on changes in the effectiveness of benefits on child poverty reduction. Child poverty increased during the observed period in all three countries, despite the efforts of governments to smooth the harmful effects of the economic downturn. Large differences in poverty levels and patterns between the three countries persisted. A relative worsening of the income position of children was accompanied by an increased level of targeting, reflected in general attempts to exclude higher-income groups from the benefit regimes. The results in the paper suggest that social transfers in general, and family benefits in particular, contributed to reduce significantly child poverty in the Czech Republic, Hungary and Poland. However, reduction rates decreased between the early and the later 1990s. Current and future reform considerations should therefore include the objective to reverse this trend.

Key words

Central and Eastern Europe, poverty, social transfers, transition economies

Résumé

Les gouvernements de la République Tchèque, de la Hongrie et de la Pologne ont mis en œuvre au milieu des années 90' des réformes restrictives des allocations familiales. Quels sont les tendances communes de ces réformes et quel a été leur possible impact sur la pauvreté des enfants? En nous basant sur des données au niveau micro sur les ménages, nous présentons les tendances pour les enfants, les familles nombreuses et les parents isolés en prenant comme point de référence des données préalables et postérieures aux réformes en matière de politique familiale. Le centre de notre analyse porte sur les changements dans l'effectivité des allocations pour réduire la pauvreté des enfants. La pauvreté des enfants a augmenté dans les trois pays durant la période considérée en dépit des efforts des gouvernements pour atténuer les effets du retournement de conjoncture économique. Des différences significatives dans les formes et niveaux de pauvreté perdurent entre les trois pays analysés. Une relative dégradation de la position des revenus des enfants a été accompagnée par un ciblage accentué, reflétant les tentatives plus générales d'exclure les mieux nantis des régimes d'allocations sociales. Les résultats de notre étude montrent que les transferts sociaux en général et les allocations sociales en particulier ont contribué à réduire de manière significative la pauvreté des enfants en République tchèque, en Hongrie et en Pologne. Cependant le rythme de réduction a décru entre le début et la fin des années 90'. L'objectif de renverser cette tendance devrait être au centre des réflexions concernant les réformes actuelles et à venir.

Introduction: questions and methods

In the course of economic transition in Central and Eastern Europe during the 1990s, governments developed and implemented a number of social policy reforms in order to respond to growing social risks of specific population groups. In this context, children have often been described as particularly vulnerable and attention has been paid to the effectiveness of family policy measures (see, for instance UNICEF, 1999). In the following paper, we present a comparative analysis of possible effects of family cash transfers on patterns of child poverty in the Czech Republic, Hungary and Poland. Special attention is devoted to changes in the extent and depth of poverty between the early and later 1990s. We compare those three countries which were the first transition economies to join the OECD and which were, together with Slovenia and the Slovak Republic, in the forefront of economic reforms through the transition.¹ All three countries enacted reforms in family benefit schemes in or around 1995.

The paper addresses the following four questions:

- Did the income position of children worsen and did child poverty increase during the 1990s?
- Has there been a trend to convergence of levels and patterns of child poverty across the three countries?
- Were there common features of the family benefit reforms in the three countries?
- What are the effects of family cash transfers on poverty patterns; in particular, did poverty reduction and targeting features change after benefits were reformed?

The paper is structured as follows: after a short description of the data and concepts used, we give an account of trends in overall income poverty and poverty among children and families with children at risk: single parents and large families. The third section

provides policy descriptions. Types of benefits are compared and described across the three countries and different reform attempts are highlighted. The fourth section analyses the effects of family cash benefits on the extent and depth of child poverty. It describes how the importance of family benefits and their components has changed for the income package over the years and includes a decomposition analysis of poverty reduction effects. The fifth section concludes the paper.

We analysed micro data from household surveys from the individual countries. For the Czech Republic, the data source is the Micro-census for the years 1992 (16,234 observations) and 1996 (28,148 observations). As for Hungary, two TÁRKI household surveys for the years 1991 and 1997 are analysed. Both of these are based on smaller samples, containing 5,744 and 5,196 observations, respectively. The source of the Polish data originates from the household budget surveys 1992 (6,602 observations) and 1995 (32,009 observations). While the analyses of the Polish micro data have been obtained via the micro data stored at the Luxembourg Income Study (LIS), the micro data from the Hungarian and Czech surveys have been analysed directly, at TÁRKI (Budapest) and The Institute for Sociology (Prague), respectively. The micro data have been standardized according to a common framework of demographic and income concepts. We compare two data points for all three countries. The first years may be characterized as those which reflect the deepest periods of the recession (1991 for Hungary, 1992 for the Czech Republic and Poland). The second data points from the later 1990s reflect a post-reform phase, since in 1994–5 there were important family policy reforms implemented in all three countries. Those institutional regulations and changes are described in the third section.

We use total household incomes and its various components for the assessment of poverty situations. The income definitions follow international conventions (see, for instance, Atkinson et al., 1995): total dispos-

able household income is the sum of market income (gross earnings, capital and self-employment income) plus public and private transfers less income taxes and social security contributions. We restricted our analysis to total disposable income (DPI) and different components of public cash transfers, specifically family transfers. This means that a separate assessment of the effects of direct taxation (including tax deductions) was not possible with the data at hand.²

Individual well-being can most meaningfully be assessed in the frame of a household, containing individual sharing of incomes and consumption. The results shown below refer, however, to individuals, i.e. each household received a weight equal to household size. To take into account economies of scale in households, equivalence scales are used for adjustments. For the analysis, an equivalence elasticity of $e = 0.5$ is used throughout the paper. With that we assume that consumption need equals total household income divided by the square root of household size. That is, the consumption need of a household of four persons is assumed to be twice that of a single person household. This makes international comparisons with other OECD countries possible. However, as most of the eligibility requirements in the three countries studied use a per capita account of household incomes, our results may show lower poverty figures for large families than the ones based on per capita incomes in administrative or other national statistics.

The poverty concept adopted is that of *relative* income poverty, i.e. the poverty threshold is drawn at 50 percent of the median adjusted disposable income.³ We carried out detailed tests for robustness of results with regard to alternative poverty thresholds (40 percent and 60 percent of the median) and six alternative equivalence scales (Förster and Tóth, 2000). The main conclusion from this sensitivity analysis is: the findings reported below are robust with regard to comparisons across countries, and, particularly, comparisons over the period studied, i.e. early to later 1990s.

However, results for *levels* of child poverty relative to other age groups are sensitive to the equivalence scale chosen.

Economic background and main trends in income poverty

Similarities and dissimilarities in the economic context

A very important similarity in the economic background for each of the three countries was the challenge of structural adjustment in the first half of the 1990s. Although within this ‘transformational recession’ (Kornai, 1994) the deepness – and to some extent the causes – of the recession were slightly different, each of the observed countries experienced a large decline in GDP and output at the beginning of the 1990s, and previously unknown inflation accompanied by falling wages and an increase of visible inequalities. Growth started again relatively quickly. Nevertheless, by the second data point of our analysis (1995/97), real GDP per capita still stood slightly below 1989 levels for all three countries (OECD, 1999). Real wages were at around 90 percent of their 1989 level in the Czech Republic, and around three-quarters of their 1989 level in the other two countries (UNICEF, 1997). Poland and Hungary experienced a fast increase of unemployment through 1990/91, while (at least for the observed period) unemployment remained very low in the Czech Republic. (Kux, 1996; OECD, 1995b, 1998; Soltys, 1996). However, non-employment increased significantly in all three countries, especially in Hungary until 1997.

There were also important dissimilarities in the initial conditions of the transition, owing to differences in demographic, institutional and historical settings. For example, the high share of agriculture in Poland was also reflected in the welfare system design: a large number of special provisions could be found for various occupational groups (PHARE,

1996c). Both Hungary and Poland had at least some private activities to build upon, while this was not the case in the Czech economy. Political rights were also more liberal in Hungary and Poland than in Czechoslovakia during the 1980s. To put it in an oversimplified way, when reforms started, Poland had chosen a 'shock therapy' approach while Hungary relied on a 'gradualist' approach and in the (then) Czechoslovakia, the strategy of 'delayed' adjustment was chosen.

Although all three countries experienced an expansion of their social expenditure shares in GDP in the first years of the 1990s, the relative importance of expenditure components differed. Expenditures on family transfers were higher in the Czech Republic and in Hungary than in Poland, despite the higher population share of children in the latter country (UNICEF, 1997). Before transition started, the level of family allowances relative to average wages was, on average, much higher for all three countries than in any Western European country (Jarvis and Micklewright, 1995), approximately a quarter in Hungary and a fifth in the Czech Republic and Poland.

Trends in income poverty of children and families

A number of comparative studies of Central and Eastern European countries suggest that, at the beginning of the 1990s, income inequalities and relative poverty were significantly higher in Hungary and Poland than in the Czech Republic (for instance, Andorka et al., 1997; Milanovic, 1998; Spéder and Habich, 1998; UNICEF, 1997; World Bank, 1996, for a more recent account on poverty in Central and Eastern Europe, see Hutton and Redmond, 2000). This difference concerned not only numbers of poor persons but also the depth of poverty (Förster and Tóth, 1998). Child poverty in the three countries was somewhat lower than overall poverty but large country differences remain: the UNICEF league table of child poverty positioned the

three Visegrad countries into three different brackets of the OECD ranking: Czech figures were in the range of the low poverty rate countries (together with the Nordic and Benelux countries), Poland in the highest third, while Hungarian child poverty was close to the average (UNICEF, 2000).

How has child poverty developed over the years? Below, we consider developments in low incomes during the period 1991/92 to 1995/97, for two different reference populations:

- *Children*: the focus here is on children per se, i.e. persons aged below 18 years living in the household. When speaking of 'children's incomes', this approach simply attaches the adjusted household income to each child of this household, and disregards adults from the analysis. This perspective permits the separate analysis of the financial well-being of children.
- *Families with children*: the focus here is related to family poverty, and the analysis includes all persons living in families with children. This additional perspective has been chosen because policy instruments such as family cash benefits are allocated to families rather than to children, and in general they are at the disposal of the parents and other adult household members. Two specific family types with children⁴ are analysed: large families (i.e. families with three or more children), and single parent families. In many countries, these two family types are considered to be particularly economically vulnerable, and some institutional regulations such as discretionary cash benefits take this into account.

Recent evidence for the 'traditional' OECD region⁵ suggests a worsening in the relative incomes of the younger generation with regard to the entire population in the 1980s to 1990s (Oxley et al., 1999). As can be seen from Table 1, the relative incomes of both children and the two family types also decreased in the

Table 1 Relative disposable mean incomes of children, large families and single parents, early and later 1990s

	<i>Children</i>		<i>Families with three or more children</i>		<i>Single parents</i>	
	<i>Mean income</i>	<i>Population share</i>	<i>Mean income</i>	<i>Population share</i>	<i>Mean income</i>	<i>Population share</i>
Czech Republic 1996	92.6	21.7	76.6	6.6	64.6	2.8
change 1992–6	-6.5	-2.3	-12.5	-1.0	-7.5	0.2
Hungary 1997	93.6	20.0	76.6	8.2	71.8	2.9
change 1991–7	-5.7	-5.7	-17.6	-2.8	5.0	-0.9
Poland 1995	91.5	28.4	77.3	18.4	77.9	2.9
change 1992–5	-5.1	-4.3	-5.7	-4.0	-18.0	0.1
OECD average mid-1990s	90.4	24.6				
change mid-1980s to mid-1990s	-0.4	-2.0				

Notes: Mean incomes for children and specific family types with children are expressed as percentages of the mean income of the entire population. Population shares are the proportions of children, and of persons living in the specific household types in the entire population. OECD average is an unweighted average of 15 OECD countries: Northern America, Australia and 12 European countries. Incomes refer to disposable household income, adjusted with elasticity $\epsilon = 0.5$.

Sources: Computations from Czech Microcensus (for Czech Republic), TÁRKI Household surveys (for Hungary), LIS (for Poland) and Förster and Pellizzari (2000) (for OECD average).

Czech Republic, Hungary and Poland during the 1990s. At the start of the period, the income levels of children were not significantly different from those of the entire population. However, within a few years, they decreased in all three countries by 5–6 percentage points. Although relative levels still seem to be higher – some 92–4 percent, as compared with some 90 percent in the traditional OECD region – relative losses in children's incomes occurred much faster in the three Visegrad countries than was the case in the traditional OECD region.

Trends for families at risk were, however, quite different across the three countries: relative income levels of large families decreased by far the most in Hungary and converged to a level of some three-quarters of the entire population across the three countries. Relative income levels of single parents, however, decreased most in Poland and stood at some two-thirds to three-quarters of the entire population in the mid-1990s.⁶

Has this deterioration in relative average incomes been translated into increases in poverty risks for children and families with children? For a number of traditional OECD countries, rises in child poverty – sometimes very significant ones – have been reported in recent studies: e.g. Harding and Szukalska (1999) for Australia; Smeeding et al. (1999) for the United States; Phipps (1999) for Canada; Gregg et al. (1999) for the United Kingdom; Solera (1998) for Italy; and Forssén (1998) for Germany. A dominant trend of increasing child poverty is also reported in recent extensive comparative studies including Central and Eastern European countries (Bradbury and Jäntti, 1999; Bradshaw, 2000; Vleminckx and Smeeding, 2001). Given that the relative decrease in average incomes of children and families with children in the Visegrad countries over some four to five years was much steeper than the decrease over one decade in the OECD countries quoted above, one may suspect

Table 2 Poverty indicators for children, large families and single parents, early and later 1990s

	<i>Entire population</i>	<i>Children</i>	<i>Families with 3+ children</i>	<i>Single parents</i>
Panel A				
<i>Poverty rates</i>				
Czech Republic 1996	4.5	5.6	9.6	24.6
change 1992–6	1.2	3.3	7.3	12.0
Hungary 1997	7.3	9.4	14.1	30.4
change 1991–7	0.6	3.4	1.1	15.6
Poland 1995	11.9	15.8	23.3	21.0
change 1992–5	3.8	6.9	9.8	13.4
OECD average mid-1980s	10.0	11.0		31.1
change 1980s to 1990s	0.5	0.6		0.1
Panel B				
<i>Poverty gaps</i>				
Czech Republic 1996	16.0	19.4	19.5	21.6
change 1992–6	-0.1	-3.1	-3.6	0.5
Hungary 1997	26.6	29.1	30.2	32.6
change 1991–7	3.3	-1.0	-6.3	10.6
Poland 1995	28.7	29.0	29.2	23.5
change 1992–5	6.5	5.6	4.2	-11.5

Notes: OECD average is an unweighted average of 15 OECD countries: Northern America, Australia and 12 European countries. Poverty rate defined as percentage of persons living in households below 50% of median disposable income. Poverty gap defined as $\Pi = (z - y)/z$, where y = average income of the poor and z = poverty line.

Sources: Computations from Czech Microcensus (for Czech Republic), TÁRKI Household surveys (for Hungary), LIS (for Poland), and Förster and Pellizzari (2000) (for OECD average).

increased levels of child poverty in this study, too.

As is shown in Table 2 (Panel A), the poverty rates for children and families with children continue to differ considerably across the three Visegrad countries and no convergence to a common level can be depicted: in 1995/97, the rate was around 5 percent in the Czech Republic, almost twice that level in Hungary and three times in Poland. In all three Visegrad countries, child poverty rates increased over the early to later 1990s by about 3 percentage points in the Czech Republic and Hungary, but by 7 percentage points in Poland. Overall relative poverty rates increased, too, but to a lesser degree: about 1 percentage point in the Czech Republic and Hungary, and 4 percentage

points in Poland. In the Czech Republic and in Hungary, the level of child poverty was below that of the entire population in 1991/92, but above that level in 1996/97. Poland's level of child poverty already slightly exceeded that of the entire population at the beginning of the 1990s. The increase in poverty rates was much steeper than the one recorded on average in the traditional OECD area where child poverty increased by 1 percentage point⁷ and overall poverty barely moved at all between the mid-1980s and mid-1990s.

Large families and, in particular, single parents face the highest poverty risks. In all three Visegrad countries, poverty rates for large families are twice those of the entire population. Higher increases over the period studied were, however, recorded in the Czech

Republic and Poland, although from a much lower level in the first of the two countries. In Hungary, the poverty rate for large families largely remained at its (high) level of the beginning of the 1990s. Poverty rates for single parents show the most dramatic development: they doubled in the Czech Republic and in Hungary, and almost tripled in Poland. In 1995/97 one-fifth of single parents are estimated to have been poor in Poland, a quarter in the Czech Republic and almost a third in Hungary; a level which comes close to the average across traditional OECD countries. It is noteworthy that in the Czech Republic – which in general shows the lowest poverty rates across the three countries overall and for most population groups – the rate for single parents exceeds that recorded in Poland.

The above findings refer to trends in the *incidence* of poverty, i.e. the number of poor persons. These estimates are, however, insensitive to trends in the *intensity* of poverty, i.e. whether average incomes of the poor have been increasing, or decreasing, with regard to the poverty threshold. Panel B of Table 2 shows poverty gaps, i.e. how far the poor are below the poverty threshold, in percent of that threshold. Overall gaps are lower in the Czech Republic (16 percent) than in Hungary and Poland where they even increased in the 1990s: by 1995/97, the average income of the poor was about a quarter below the poverty line in those two countries. Poverty gaps for children were slightly higher than for the entire population. To some extent, the development was more favourable for children than for the total population, as poverty intensity for children decreased in the Czech Republic and Hungary and increased by less than average in Poland. Similarly, poverty gaps for large families were slightly above the population average but decreased in the Czech Republic and Hungary and increased by less in Poland. The trend in Hungary is noteworthy, where poverty gaps for large families were reduced between 1991 and 1997 from 36 percent to 30 percent of the poverty line. Poverty gaps for single parents show quite

different paths across the three Visegrad countries: the average income of poor single parents in the Czech Republic was about a fifth below the poverty line in both years, and not very different from that of all poor families with children. In Hungary, however, the poverty gap for single parents was clearly below average in 1991 (22 percent) but increased substantially to 33 percent⁸ – an experience which contrasts to that of Poland, where the poverty gap for single parents was reduced from 35 percent to 23 percent in the early 1990s.

An account for policy changes

A growing literature on social policy systems and performances in Visegrad countries points out that welfare reform lagged somewhat behind economic reforms in each of the countries (see, for instance, Cichon, 1995; EBRD, 1996; Förster et al., 1998; OECD, 1995a; 1995b; PHARE, 1996a; 1996b; 1996c; World Bank, 1995; 1996). At the beginning of transition, universal rights to services and relatively generous relative benefit levels went hand in hand with inadequate allocation of benefits. Lack of eligibility cuts in a period of growing needs resulted in the erosion of benefits in many cases.

Family policies constituted a very important part of public policies in each of the observed countries in the first period of transition. Since the number of children was found to be an important proxy of family poverty, family policy measures were also – but by no means exclusively – intended to relieve poverty situations arising for larger families. In addition, since labour-force participation in these countries was exceptionally high, family policies were designed in a way to encourage female labour-force participation.

The most important developments in family policies in the 1990s were determined by social consequences of economic restructuring (increasing inequalities, decreasing real incomes and increased unemployment) and economic

Table 3 Summary of family policy reform changes in the Czech Republic, Hungary and Poland

<i>Type of benefit</i>	<i>Czech Republic</i>	<i>Hungary</i>	<i>Poland</i>
Maternity benefit	No change in eligibility, lowering the upper ceiling for earnings-related maternity benefit from 90% of net daily wage to 60% of gross daily wage	Earnings-related maternity benefits abolished, replaced by flat-rate amounts (linked to minimum pension), eligibility switched from insurance record to income test	No change in eligibility, benefit calculation based on average monthly wage for the last six months
Family allowance	Change of eligibility criteria from insurance and employment record to income test (families with income below three times the subsistence level became eligible). Three-phase benefit amounts introduced, depending on level of other incomes of household	Universal eligibility replaced by income test for those families with less than three children. Three-phase benefit amounts introduced, depending on level of other incomes of households	Introduction of income test (at the level of 50% of average wage in the economy), as a supplementary criterion to social insurance record

Source: Förster and Tóth (2000: Table 4).

constraints (increasing pressure on state budgets). In the first years of the transition, family support measures were used to smooth the negative impacts of the economic downturn. Under the circumstances of falling GDP, mounting inflation and stagnating real wages, family allowances played an increasing role in maintaining some income security for the most hard hit population groups (UNICEF, 1995). Interestingly, the three countries arrived at a substantial reform at almost the same period: in or around 1995. The general direction of reforms was a shift away from universalistic access to family policies, introducing an income test.

The institutional changes are summarized in Table 3 (full details can be found in Förster and Tóth, 2000). The broad picture which emerges from those changes in regulations is that of a move towards a more restrictive policy, but not radically restrictive by the standards of those Western countries which could be described as 'targeted systems'. Eligibility criteria for family allowances were shifted to

an income test in each of the countries. The Hungarian reform was the most radical since not only the universal family allowance was replaced by an income-tested benefit, but also the insurance-based and earnings-related first phase maternity benefit was amalgamated into a second phase flat-rate minimal benefit, while the eligibility of the new benefit was also based on an income test. However, the income-testing was originally set at relatively high levels. In fact, the introduction of an upper cap on benefits aimed to exclude the richest incomes rather than to focus on the poorest strata of the population (as would be the case in 'traditional' means testing). Some earlier papers on suggested reforms for the case of Hungary have warned that the introduction of strict means-testing may lead to an increase in child poverty (Jarvis and Redmond, 1997) and also to an increased risk of poverty traps via disincentive effects (Redmond, 1999; Sipos and Tóth, 1998). The following section describes what happened to child poverty in the years after those reforms.

Table 4 Family transfer shares in incomes of children, Visegrad countries, early and later 1990s

	<i>Total transfers</i> (1)	<i>Total family cash benefits</i> (2) = (3)+(4)	<i>Child allowances</i> (3)	<i>Maternity allowances</i> (4)
Czech Republic 1996	14.5	7.2	4.4	2.7
change 1992–6	-3.7	-1.4	-1.9	0.5
Hungary 1997	24.0	12.1	7.8	4.2
change 1991–7	0.3	-3.5	-4.3	0.8
Poland 1995	22.9	4.7	4.6	0.1
change 1992–5	7.0	-3.6	-3.6	-0.1

Notes: Incomes refer to disposable household income, adjusted with elasticity $\epsilon = 0.5$.

Sources: Computations from Czech Microcensus (for Czech Republic), TÁRKI Household surveys (for Hungary), LIS (for Poland).

Effects of family cash transfers on child poverty reduction

This section analyses changes in the effectiveness of public cash transfers in reducing child poverty that took place over the period between pre- and post-reform years. Total public cash transfers are examined, as well as two particular types of transfers important for cushioning financial risks for children: child allowances, and maternity allowances. Both benefits together form total family cash benefits. Other important means for protecting children from poverty risks, in particular in-kind benefits, are not examined and the analysis below refers to the sole effects of monetary transfers.

The changing importance of family transfers for children's incomes

To what extent do public transfers in general, and family benefits and their components in particular, constitute an important and increasing source of children's incomes in the Visegrad countries? Table 4 shows three quite different patterns and paths for the countries under review. Total public transfers constitute one-seventh of children's disposable income in the Czech Republic, but almost a quarter in

Hungary and Poland. In line with the development of the transfer share in incomes of the entire population (except for Hungary), children's transfer shares decreased in the Czech Republic, remained at the same level in Hungary, and increased considerably in Poland. Total family cash benefits constitute roughly half of all transfers in children's incomes in the Czech Republic and Hungary but less than a quarter in Poland. This means that, in turn, transfers which are primarily non-family-related also played an important role in children's transfer incomes. This remaining part stems from transfers to other household members that the child or children are living with: unemployment benefits, housing benefits, social assistance and pensions in the case of a multi-generational household.

The share of family cash benefits in total children's income decreased in all three countries, partly as a consequence of policy reforms in those countries, described above. Despite this general decrease, the proportion of family cash benefits still remains highest in Hungary by far. This is important when looking below at poverty withdrawal effects, as these have to be evaluated against the background of the absolute level of payments in the different countries. In all three countries the two components of family cash benefits moved in inverse directions: the share of child allowances in children's incomes decreased everywhere,

Table 5 Family transfer shares in incomes of poor children, large families and single parents, Visegrad countries, early and later 1990s

	<i>Poor children</i>			<i>Poor families with three or more children</i>			<i>Poor single parents</i>		
	<i>Total transfers</i>	<i>Child allow.</i>	<i>Maternity allow.</i>	<i>Total transfers</i>	<i>Child allow.</i>	<i>Maternity allow.</i>	<i>Total transfers</i>	<i>Child allow.</i>	<i>Maternity allow.</i>
Czech Republic 1996	59.3	14.5	13.5	70.0	19.9	15.2	57.4	14.9	12.0
change 1992–6	-3.5	-2.2	-0.5	-2.4	-12.5	6.1	-5.9	1.4	-2.9
Hungary 1997	64.8	18.0	12.3	65.3	20.0	27.2	61.0	21.4	6.2
change 1991–7	8.4	-11.2	6.7	7.4	-16.4	22.0	-2.5	-11.5	-4.0
Poland 1995	57.0	15.0	0.1	57.4	18.8	0.1	63.6	15.2	0.0
change 1992–5	11.2	-5.0	0.1	13.5	-5.1	0.1	0.1	-2.3	0.0

Notes: Incomes refer to disposable household income, adjusted with elasticity $e = 0.5$.

Sources: Computations from Czech Microcensus (for Czech Republic), TÁRKI Household surveys (for Hungary), LIS (for Poland).

while maternity allowance shares remained at the same level or slightly increased (Poland).

The results above referred to average incomes and transfer shares of *all* children. In order to shed some light on poverty-alleviating effects, Table 5 examines the importance of family transfers in the incomes of particular groups of poor people: poor children, poor large families and poor single parents. Total transfers constitute a much higher proportion of the incomes of those groups, roughly two to three times higher: between 57 percent and 70 percent in 1995/97. Among those transfers, family cash benefits (the second and third columns taken together in each panel) play an equally important role in the budget of poor children as non-family benefits, except in Poland where the former are lower. The share of child allowances in the budget of poor children, large families and single parents is roughly the same for the three countries in the post-reform years, between 15 percent and 21 percent, whereas the shares of maternity allowances greatly differ across the countries and family types.

Two country-specific trends for the income composition of poor children emerge: first, the share of both family benefits and non-family

benefits in poor children's incomes decreased in the Czech Republic. In Hungary, the shares of non-family benefits and of maternity allowances increased, more than offsetting a considerable fall in the share of child allowances. And in Poland, the share of family benefits decreased, while the share of non-family benefits increased. Second, the share of maternity benefits within family cash benefits became more important in the incomes of poor children in Hungary and the Czech Republic but remains negligible in Poland.

As for the two family types, poor large families tend to rely more on family benefits than poor single parents do. In all three countries, the share of child allowances in the incomes of poor large families increased after the period of reforms, while the share of maternity allowances increased, especially in Hungary. In contrast, the share of child allowances slightly increased for single parents and maternity allowances fell, by most in Hungary. The large effect described above for Hungary (increasing non-family benefits and maternity benefits offsetting a considerable fall in child allowances) therefore seems to have worked primarily in favour of families with three or more children.

Poverty withdrawal effects due to family transfers

What were the effects of total public transfers and, among them, family cash benefits on child poverty? To study this question, we compare poverty indices before and after taking account of those transfers. In other words, the final income situation as discussed above (under 'Trends in income poverty of children and families') is compared with a hypothetical situation in the absence of transfers. This method ignores any probable behavioural effects as well as policy effects on the pre-transfer distribution. Nevertheless, computing such 'withdrawal effects' provides a first indication of the strength of family and other transfers for poverty reduction.

Figure 1 presents composite indicators of poverty – Sen poverty indices – for children on the basis of pre- and post-transfer income. This overall poverty index comprises three elements of poverty: incidence, intensity, and inequality among the poor. It is defined as $S = P * \{\Pi + (1-\Pi) * G_q\}$, where P is the poverty rate, Π is the poverty gap and G_q is the Gini coefficient of the poor (Sen, 1976). Looking first at total public transfers (Panel A), it can be seen that child poverty would be considerably higher in the absence of those transfers: the values for the Sen index would range between 8 and 26, and vary considerably across countries and years. The indices for Hungary and Poland in 1995/97, for instance, were three times the value for the Czech Republic in 1992. Polish pre-transfer child poverty was much lower in 1992 than it was in Hungary at that time, but by 1995/97, both countries showed similar values. After taking account of total public transfers, values for the Sen poverty index are much lower – roughly between 1 and 6 – and there is less absolute difference between countries and years. This indicates a high effectiveness of the public transfer system towards children in all three countries; withdrawal rates were above 70 percent.

Poverty in the absence of family cash bene-

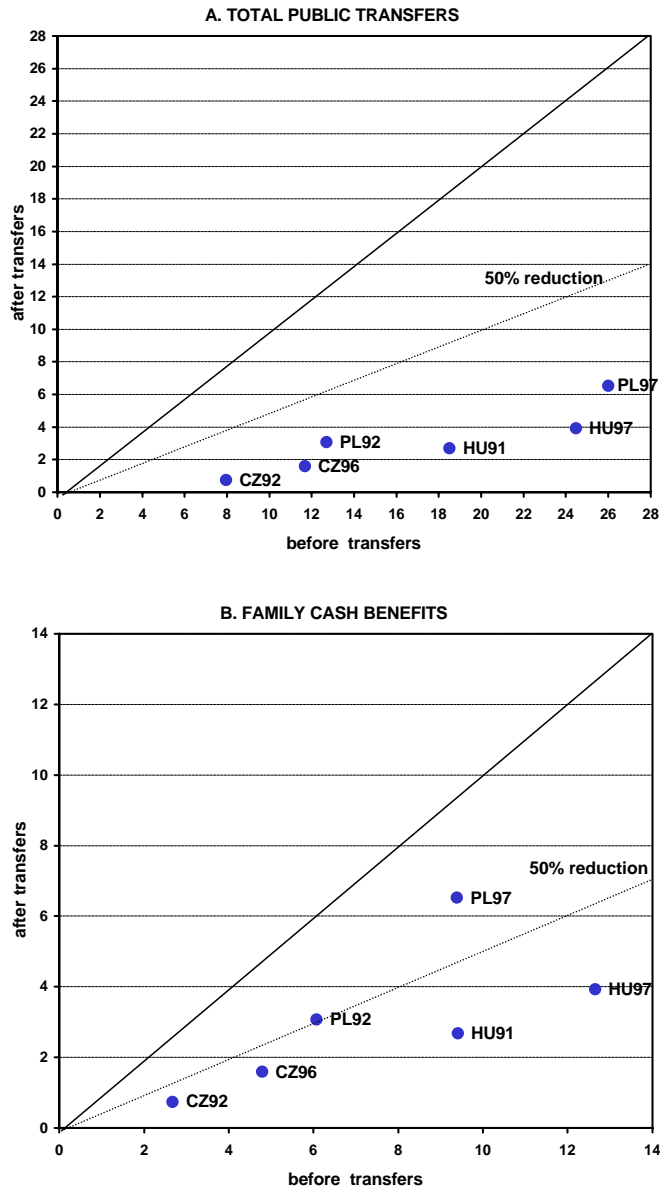
fits alone (Panel B) would be roughly half the level of Panel A. The effectiveness of poverty reduction differs between the three countries: the Czech Republic, which already had the lowest level of pre-family benefit poverty, succeeded in lowering this further. Hungary had in both years the highest levels of poverty before family cash benefits, and in both years the effectiveness of those benefits seemed to be particularly strong. The Polish system of family cash benefits reduced child poverty to a lesser degree than the other countries in both years, by 50 percent or less.

Table 6 shows poverty rates and poverty gaps in addition to the overall Sen index. As can be seen, all pre-transfer indicators for child poverty were increasing between the pre- and post-reform years. This is linked to the development of market incomes (growing unemployment and earnings differentials). Pre-transfer poverty rates and poverty gaps were increasing at the same pace in the Czech Republic and Hungary, whereas in Poland those indicators increased faster. By 1995/97, pre-transfer poverty rates were as high as 22 percent in the Czech Republic, and between 35 percent and 40 percent in Hungary and Poland; and the poverty gaps were between 40 percent and 55 percent. The results in the second panel refer to poverty in the absence of family benefits alone, and are less pronounced. They still indicate an increase in all poverty indicators for all three countries.

Columns 5–7 in Table 6 show reduced rates of child poverty due to total transfers (Panel 1) and family cash benefits (Panel 2). Overall the reduction rates due to total transfers are very high and amount to 75 percent in Poland and some 85 percent in the Czech Republic and Hungary for the latest year. They were higher for the overall Sen index than for poverty rates and gaps. Family cash benefits reduced poverty by less, between one-third (Poland) and two-thirds (Czech Republic and Hungary).

There were, however, important changes in the effectiveness of transfers and family cash benefits in reducing child poverty (a positive

Figure 1 Reduction in child poverty: Sen indices before and after total transfers and family cash benefits



Notes: Sen poverty index defined as $S = P * \{\Pi + (1 - \Pi) * G_p\}$, where P = poverty rate, Π = poverty gap and G_p = Gini coefficient of the poor. Poverty line set at 50% of median disposable income. Incomes adjusted with elasticity $e = 0.5$.

Sources: Computations from Czech Microcensus (for Czech Republic), TÁRKI Household surveys (for Hungary) and LIS (for Poland).

Table 6 Child poverty rates, poverty gaps and Sen indices before family transfers, and withdrawal rates: Visegrad countries, early and later 1990s

	<i>Before transfers</i>			<i>Withdrawal rates due to transfers</i>		
	<i>Poverty rate</i>	<i>Poverty gap</i>	<i>Sen index</i>	<i>Poverty rate</i>	<i>Poverty gap</i>	<i>Sen index</i>
Panel 1						
<i>Total public transfers</i>						
Czech Republic 1996	22.5	39.2	11.68	-75.1%	-50.0%	-86.4%
change 1992-6	5.0	5.2	3.72	11.7%	-16.7%	4.4%
Hungary 1997	34.7	53.8	24.48	-72.9%	-44.4%	-84.0%
change 1991-7	4.5	8.8	5.96	7.2%	-13.7%	1.5%
Poland 1995	39.4	54.8	26.01	-59.9%	-47.8%	-74.9%
change 1992-5	14.6	14.5	13.31	4.2%	-6.4%	0.9%
Panel 2						
<i>Family cash benefits</i>						
Czech Republic 1996	13.0	25.4	4.79	-56.9%	-22.8%	-66.9%
change 1992-6	5.1	2.5	2.11	14.0%	-22.1%	5.8%
Hungary 1997	22.4	41.2	12.65	-58.0%	-27.5%	-69.0%
change 1991-7	0.7	10.4	3.24	14.3%	-28.7%	2.5%
Poland 1995	21.0	31.9	9.39	-24.8%	-10.3%	-30.6%
change 1992-5	5.3	4.0	0.40	18.6%	5.1%	19.0%

Notes: Poverty rate defined as % of persons living in households below 50% of median disposable income. Poverty gap defined as $\Pi = (z - y)/z$, where y = average income of the poor and z = poverty line. Sen poverty index defined as $S = P * \{\Pi + (1 - \Pi) * G_q\}$, where P = poverty rate, Π = poverty gap and G_q = Gini coefficient of poor people.

Sources: Computations from Czech Microcensus (for Czech Republic), TÁRKI Household surveys (for Hungary) and LIS (for Poland).

sign in the second line for each country indicates reduced effectiveness). In all three countries, and for both transfer types, reduction rates of the Sen index in 1995/97 were lower than in 1991/92, although this decrease is nowhere significant yet, except in the case of family cash benefits in Poland. The reduced effectiveness is mainly due to a smaller effect on the poverty rate (numbers of poor people), whereas poverty gaps (intensity) could be reduced further in all countries, again with the exception of Polish family benefits. However, for further reform discussions of family and other cash benefits, this reduction in effectiveness should not be ignored.

A final question refers to the changes in contributions of the different elements of overall poverty: incidence (numbers of poor people), intensity (average depth of poverty), and inequality among poor people. An overall reduction in poverty is achieved by focusing

on one or other of these three elements. Past analysis (Förster, 1994) has shown that in Continental European countries the focus of poverty reduction through tax/transfer systems is on incidence rather than intensity or inequality (some 75-90 percent of overall poverty reduction was achieved through lowering the poverty rate). In Anglo-Saxon countries, there is more of a focus on the reduction of intensity and inequality among the poor. This is linked to higher targeting features and lower administrative poverty thresholds in the latter countries.

To explore the different contributions to reduction of child poverty, Table 7 presents a decomposition analysis of the Sen index, showing percentage contributions of the three elements. If, for instance, overall child poverty reduction is increasingly achieved through a lowering of intensity and inequality of poor people, at the cost of a decreased reduction in

Table 7 Percentage contributions of poverty elements to reduction in overall child poverty: Visegrad countries, early and later 1990s

	<i>Total public transfers</i>			<i>Family cash benefits</i>		
	<i>Poverty rate Incidence</i>	<i>Poverty gap Intensity</i>	<i>Gini (poor) Inequality</i>	<i>Poverty rate Incidence</i>	<i>Poverty gap Intensity</i>	<i>Gini (poor) Inequality</i>
Czech Republic 1996	77	16	7	81	11	8
change 1992–6	-17	11	5	-16	11	5
Hungary 1997	77	14	9	79	13	9
change 1991–7	-14	8	6	-23	13	10
Poland 1995	70	24	6	80	16	5
change 1992–5	-8	6	2	-6	4	3

Notes: Poverty rate defined as % of persons living in households below 50% of median disposable income. Poverty gap defined as $\Pi = (z - y)/z$, where y = average income of the poor and z = poverty line. In order to estimate the relative contributions of the elements to the overall reduction in poverty, a linear approximation of the Sen index has been applied (see Achdut and Kristal, 1993; Förster, 1994). *Sources:* Computations from Czech Microcensus (for Czech Republic) TÁRKI Household surveys (for Hungary) and LIS (for Poland).

incidence, this may be interpreted as an increased targeting to the lowest income segments of poor children. In fact, this trend seems to have happened in all three countries for both total public transfers and family cash benefits. This might then indicate that the family transfer systems of the Visegrad countries are moving from a Continental European to a more Anglo-Saxon pattern,⁹ although the absolute levels of the contributions above still underline the greater importance of reducing child poverty incidence.

Summary and conclusions

We described trends in child poverty and family cash transfers in three transition countries of Central and Eastern Europe: the Czech Republic, Hungary and Poland. Special attention was paid to developments in the light of institutional changes in family policies which occurred in all three countries around 1995. The core part of the paper dealt with the effects of family policies in alleviating child poverty, prior to the reforms and shortly after them.

Our first question – Has the income position and poverty among children deteriorated

during the 1990s? – has to be answered affirmatively. The relative position of children worsened through the years of the transition despite the fact that all governments, at least between 1990 and 1993, made serious attempts to keep family policy systems unchanged and to keep these instruments to smooth the effects of the economic downturn on children and families with children. As a result, the income position of children is now somewhat weaker than for the rest of the population in all three countries. Also, poverty rates and intensity of poverty are higher for children than for the rest of the population.

Among families with children, those with three or more children and in particular single parents face the highest poverty risks. In all three Visegrad countries, poverty rates for large families are twice those of the entire population and rates for single parents are two to five times as high. Nevertheless, poverty rates for single parents show the most dramatic development: they doubled in the Czech Republic and in Hungary, and almost tripled in Poland.

Our second question – concerning a possible convergence of poverty patterns across the three countries – was answered negatively. The levels of child poverty rates continue to differ considerably across the Visegrad

countries: in 1995/97, the rate was around 5 percent in the Czech Republic, almost twice that level in Hungary and three times that level in Poland. Children's poverty increased, by about 3 percentage points (Czech Republic, Hungary) to 7 percentage points (Poland) over the early to later 1990s. Overall relative poverty increased, too – but at a slower pace, by just 1 percentage point (Czech Republic, Hungary) to 4 percentage points (Poland). Differences across countries in poverty patterns for families at risk – large families and single parents – were also accentuated.

Our third question related to common features of the family benefit reforms enacted in all three countries around 1995. Clearly, these comprised a move towards more restrictive regulations but not as restrictive as sometimes claimed. In particular, the introduction of income testing served to exclude the highest-income earners from benefit receipt rather than to 'target' the lowest-income groups. Perhaps the more important effect was a psychological one (as described by Redmond, 1999): the introduction of the principle of means-testing itself, abandoning the objective of universal coverage.

Finally, we looked at the effects of family cash transfers – pre- and post-reform – on child poverty patterns. Child poverty would be considerably higher in the absence of public social transfers. In that, family benefits play an important, although not exclusive role. Other social cash transfers going to families and individuals in families such as unemployment benefits, housing benefits or social assistance are equally important for poverty alleviation. This underlines the importance of coherence between family and other social policies in achieving poverty reduction.

Nevertheless, the importance of family benefits – in particular their most important part, child allowances – decreased in the income package of poor children in all three Visegrad countries between the early and later 1990s. In addition, child poverty reduction due to

family benefits, but also public transfers in general, decreased in all three countries during the period before and after the reform measures. However, the levels of poverty reduction – between 75 percent (Poland) and 84 to 86 percent (Czech Republic and Hungary) for all cash transfers – remain fairly high by international standards.

When analysing poverty incidence, targeting of family benefits and withdrawal effects together, the following 'story' emerges. Incidence of child poverty increased, accompanied by increased targeting and decreasing withdrawal effects. One explanation for this trend is that, due to an increase in child poverty, recipients of family benefits in general became poorer, which incidentally resulted in 'better targeting'. This trend was reinforced by the exclusion of the higher income groups from coverage. Altogether these changes may have decreased the withdrawal effects for poverty rates, and hence the effectiveness of family benefits.

Family cash transfer systems of the Visegrad countries seem to be beginning to move from a Continental European to a more Anglo-Saxon pattern, since – with the introduction of income testing in the family allowance system – overall child poverty reduction was increasingly achieved through a lowering of the depth of poverty, at the expense of a smaller reduction in the numbers of poor people, and this could be interpreted as an increased targeting to the lowest income segments of poor children. However, this might prove to be only temporary, since after the observation period there have been attempts to relax income testing and restore at least some of the universalistic features of family policies. Most notably, in Hungary the newly elected government in 1998 announced the restoration of some of the universalistic features of the previous family policy measures. Whatever the current state of reforms will be, however, family policies do play an important role in poverty alleviation in each of the countries we observed.

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Notes

- 1 The Czech Republic, Hungary and Poland are often referred to as 'Visegrad' countries, named after an association founded in 1991. Together with Slovenia and the Slovak Republic, they form the Central European Free Trade Association (CEFTA).
- 2 Note that in all three countries studied, the family transfers analysed are not taxed.
- 3 Available estimates for *absolute* poverty suggest that over 80% of children in the Czech Republic, Hungary and Poland would be considered poor, if the official US poverty threshold translated into national currencies were to be applied (UNICEF, 2000). This simply reflects the difference in overall national wealth. We consider relative poverty a more meaningful concept to capture economic and social risks of particular population groups in industrialized countries.
- 4 The unit of analysis remains the person. Estimates therefore refer to persons living in families with children, including adults and children.
- 5 The 'traditional' OECD region includes the 24 OECD countries before 1996, i.e. before the Czech Republic, Hungary, Poland, the Slovak Republic, Mexico and Korea joined this organization.
- 6 Shifts in relative income levels are due to changes

in incomes as well as changes in the demography of the population. However, when we corrected trend estimates for demographic changes, the picture remained basically unchanged (Förster and Tóth, 2000).

- 7 The overall averages for 15 OECD countries naturally mask some considerable differences among those countries. Poverty risks for children were found to be higher than for the entire population in the Anglo-Saxon countries, but lower in the Nordic countries (Förster and Pellizzari, 2000).
- 8 This also partly explains why the poverty rate of single parents increased significantly despite the rise of relative mean incomes of this group in Hungary.
- 9 Similar findings were suggested by Jarvis and Redmond (1997), who compared Hungarian and UK family policy practices.

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