

INCOME OF HOUSEHOLDS WITH CHILDREN AND CHILD POVERTY

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Abstract. Preventing and alleviating child poverty constitute main concerns for the strategies and policies in the field of social protection and social inclusion in the European Union, and significantly reduce child poverty, as one of the core objectives of these strategies. Setting up policies of child poverty alleviation implies knowing the dimensions and characteristics of this phenomenon, the reasons behind it and conditions that favour it, firstly of those determining the low level of incomes at the disposal of many families with children. The paper comprises an analysis of the level, structure and dynamics of incomes in households with children and of the main parameters of child poverty in Romania. Comparisons with Member States of the European Union are provided also.

Keywords: poverty, child poverty, poverty rate, disposable income

JEL Classification: D 31, I 32

The child well-being, the living, rearing and education conditions of children depend to a large extent on the society in which they are born and live, on the economic development of the country, region, and residence area, as well as on the support policies for families with children. However, the well-being of each child depends, to the largest extent, on the demographic, social and economic characteristics of the family: the family size, particularly the number of children; the participation of both parents or only of one of the parents in family support; parents' employment status, type and intensity of their work; the type and level of

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the incomes earned by parents; the type of household the child family belongs to, that is, the presence within the household of one or more family nuclei, or the presence next to family of one or more persons (parents, brothers or other relatives/persons), and their occupational status. In other words, well-being of children depends on the overall living standard and on the position of the family/household the child belongs to in the welfare distribution, which in its turn is strongly related to its characteristics¹. And, obviously, the welfare of children depends on the way of intra-household distribution, that is on the priority given to satisfying the needs of children, particularly if the family is burdened by budgetary restrictions, as it is known in most families parents make great sacrifices for ensuring the best possible upbringing and education conditions for the children, just as there are situations in which the needs of the children are abusively neglected by parents.

1. Households with children. Typology

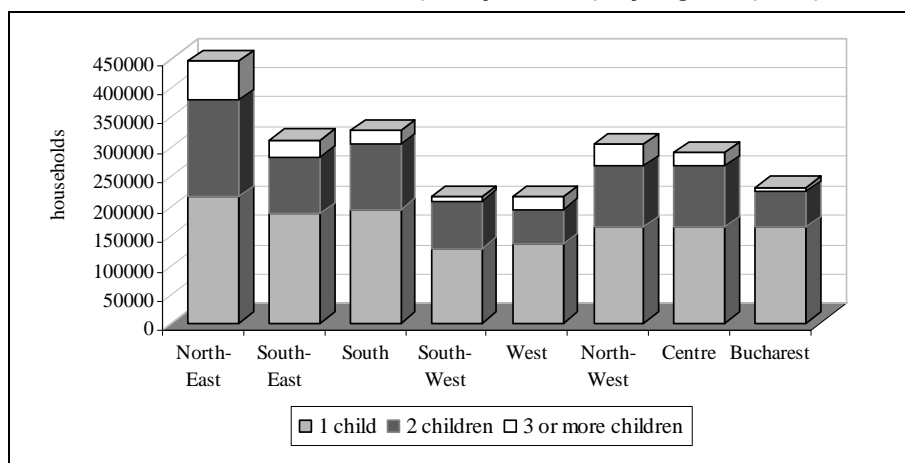
According to household budget survey, in 2007, the share of households that have in care children under the age of 18 was 31.5% (2.3 out of 7.4 millions of households), of which: households with one child – 18.1%, households with two, three, four or more children – 10.5%, 1.8% and 1.1%, respectively.

More than half of the households with children (59%) were in the urban area, yet in the rural area lived more than two-thirds of the families with three or more children (69%). These large households represented 5% of the overall number of households in the rural area and 2% of the urban households. Households with children are more frequent in the North-East region (36% of the region's households, of which 5% households with three and more children), where one fifth of all households with children and more than 30% of households with three or more children are living. Households with three or more children are fewer in the Bucharest, North-West and South-East regions (Graph 1).

¹ *The evaluation of incomes and consumption, as well as of other aspects of living standard (housing conditions, for instance) is based on information collected by household surveys, the household being the unit formed by a group of persons, in general a family who live and manage together having a common budget of incomes and expenditures. The statistics of incomes and consumption, produced by the Family Budgets Survey (FBS) and the Survey on Incomes and Living Conditions (EU-SILC), estimates the incomes and expenditures of each household included in the survey sample per household, per person or per adult-equivalent.*

Graph 1

Households with children (0-17 years old), by regions (2007)



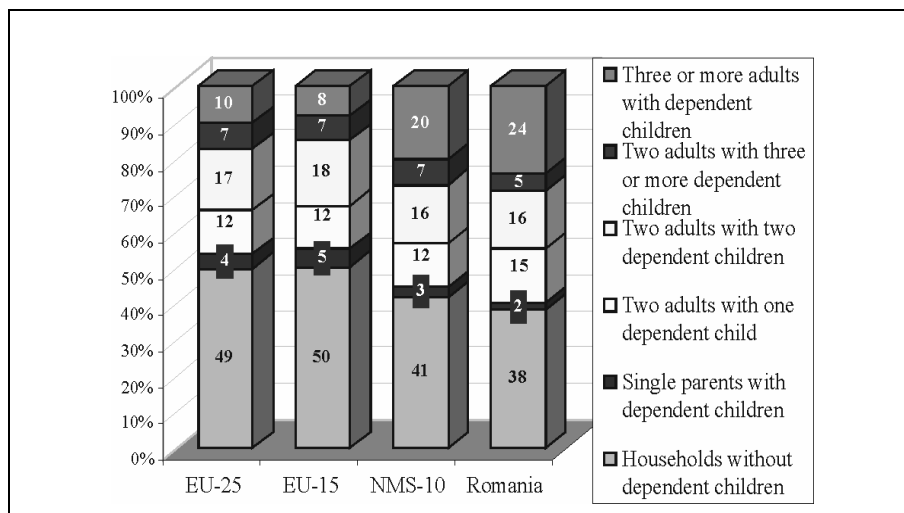
Source: Author's estimates based on NIS-HBS.

If in defining households with children, in accordance with the methodology of the Statistical Office of the European Communities (Eurostat), children under the age of 16 years (0 to 15 years) and youths between 16 and 24 years of age in the care of the family (pupils, students, etc.) are taken into account, then the number and share of households with dependent children is much higher: 3.3 million (44.4%), in 2007. A relatively small part of the households is formed by households of one adult with children, mainly single parents (2.3%), more than a quarter (28.7%) are households of two adults with one or more children and one out of seven is a household of three or more adults with children (13.6%). The relatively high frequency of this last type of household derives from maintaining, in particular in the rural areas, the traditional multigenerational family model. For many young families or for single parent families, as well as for the elderly the family solidarity (within the extended family) still is the main chance of overcoming the difficulties triggered by the absence of a house, by the low level of incomes or by the shortage of child or of elderly care services.

Population in households with dependent children represents almost two-thirds of Romania's population (61.5% in 2007), of which more than one third (35.7%) are persons in households of two adults with children and one quarter (23.9%) are persons in households of three or more adults with children.

Graph 2

Distribution of population, by household type (2007)



Source: Eurostat (a); Author's estimates based on NIS-HBS.

The share of households with dependent children in Romania is high compared with that of the European Union Member-States (62% against 50% and 51%, respectively, on the average at the EU-15 level and EU-25 level). In eight of the old 15 EU Member States, half of the population or less is part of a household with children, and their share exceeds 60% only in Ireland. In Romania, most of the youths (16 to 24 years old) are living in the households of their parents and only a few are living on their own. In the rich countries, in general, youths live alone after coming of age, and constitute single households even if they are still financially dependent on their parents. The abandon of the traditional multigenerational family model derives also from the possibility of young families, and of elderly as well, to live independently and to benefit by care services at home or in public/private institutions. Therefore, the share of the population in households with dependent children and, in particular, of the population in households with three or more adults and children is much lower in the Old Member States of the European Union as compared to Romania and with the other New Member States. Only in the Southern old states (Italy, Spain, Portugal and Greece), in Ireland and Austria the population in households of three or more adults with children equals or exceeds 10%. In turn, in the New Member States, the share of population in this category of households is one-fifth (20% in 2007), higher in Latvia, Poland and Slovakia.

The pattern of the household formed by a single parent with children, as well as that of the household consisting of two adults with two or with three and more children is much more frequent in developed countries, especially in those which have a strong policy of support for families with children. In 2007, the share of persons in single-parent households was 6 to 10% in Belgium, Denmark, Ireland, Sweden and the United Kingdom, and that of persons in households consisting of two adults with three or more children exceeded 10% in Belgium, Ireland, the Netherlands and Finland.

According to the 2007 household budget survey, children/ youths in the care of households represented a quarter of Romania's population and 40% of the total number of persons in households with children. Two-thirds of the total number of dependent children/young are living in households consisting of two adults with children, 5% are part of single-parent households and 29% of households of three or more adults with dependent children.

2. Income of households with children

*The main indicator of incomes, that can be used as an estimator of the level and distribution of welfare, is the **disposable/net income** of the households. It is estimated by:*

- *summing up the incomes earned in the primary distribution:*
 - ▶ *incomes from work of the household members (wages and earnings from self-employment in agriculture and in non-agricultural activities); and*
 - ▶ *property incomes (interest, dividends, rent);*
- *with the incomes received by households within the redistribution of incomes (social transfers/benefits mainly);*
- *and deduction of payments made by household within the redistribution (taxes and social contributions mainly).*

*The sum of incomes received by households from all sources (work, ownership, social protection and other sources) represents the **total incomes** called also total gross incomes.*

*Total incomes of the households comprise cash incomes and incomes in kind. **Cash incomes** comprise wages, incomes from farming (incomes from selling agricultural products and incomes as payment for agricultural works), incomes from self-employment in non-agricultural activities (in trade, service delivery, handicraft or liberal professions), property income, incomes from social protection (pensions, unemployment, family and social assistance benefits.) and other cash incomes (transfers from other households, for instance).*

***Incomes in kind** comprise the value of the consumption of agricultural food products from own resources (self-produced goods for own consumption, mainly) and the value of goods and services received free of charge or with lowered payments by the employees and beneficiaries of social protection (pensioners, unemployed, social assisted).*

Household incomes are that part of the new created value in society which is distributed to individuals and households can be used for covering consumption expenditures and fulfilling people's obligations as members of the society and community to which they belong, as well as for saving. Thus, the incomes can be considered as a proxy of well-being, more accurately of the potential living standard of households, of the resources they can use for ensuring a certain level of well-being.

2.1. Overall households' income

According to the household budget survey, in 2007, the mean **total incomes** of the households were of 1653 lei monthly per household. Incomes of employee households¹ are the highest (2326 lei), while the incomes of households headed by a self-employed in non-agricultural activities, a farmer or a pensioner are much lower (1199 lei, 1229 lei and 1259 lei, respectively), a little bit higher than the half of those gained by the employee households. Unemployed households have the lowest income level (1052 lei). It is obvious that, to the largest extent, the employee households dispose of the necessary resources for ensuring for their children a living standard sensibly higher than the one that can be ensured by farmer and unemployed households. The employment and occupational status of the parents is the main determinant of the economic situation of the families with children.

Disposable/net incomes, representing the part of total incomes that remains to households, after the payment of taxes, social contribution and other transfers and after deducting the expenditures made for the production of goods for own consumption, were estimated to 1294 lei month/household (443 lei/person), and the disposable cash ones – to 1084 lei/household (371 lei/person). The average disposable incomes per person in an employee household were 26% higher than the average per all households, and those of the unemployed and farmer households were 42% and 44%, respectively, below the average, so that the well-being of children growing in employee households was, on average, two times higher than the one ensured by unemployed and farmer households to children in their care.

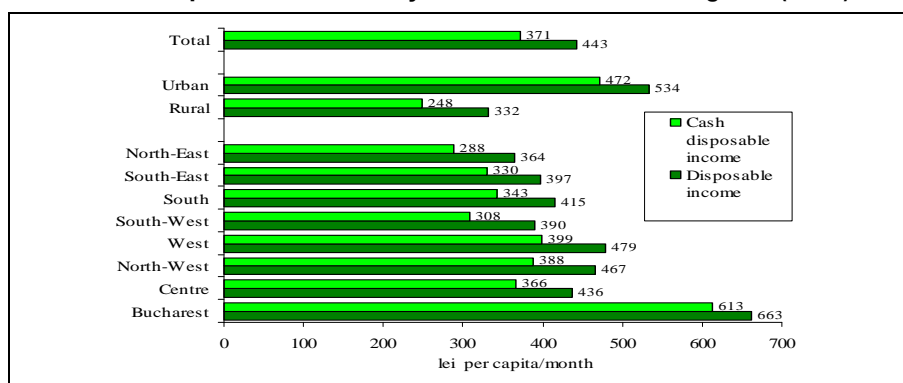
¹ *In the household budget survey, households are grouped by categories, by the employment status of their head, the person recognised as such by all household members. Thus, if the person assigned as the household head is an employee or a pensioner, the household is considered as employee or pensioner household. Yet, it is obvious that to the largest extent the households are mixed, consisting of persons with different employment status, which influences the size and structure of household incomes.*

The economic situation of households (implicitly of those with dependent children), estimated by per capita disposable income, is more difficult in rural areas than in urban areas: the ratio of the mean per capita disposable incomes of the two categories of households was of 0.6:1 (0.5:1 for disposable cash incomes).

One should also notice the relatively high differences between the mean disposable incomes of households in the Bucharest region and the other regions, the average level of disposable incomes in these regions reaching only 55 to 72% of the average level of the households' incomes in Bucharest (47 to 65% of disposable cash incomes). The lowest level of the incomes is recorded in the North-East Region, in which the largest number of families with children live.

Graph 3

Mean disposable income, by urban-rural area and regions (2007)



Source: Author's estimates based on NIS-HBS.

Household income increased significantly during the last period. On average, for all households, the **real disposable income** was 61% higher in 2007, as compared to 2001; the disposable cash income increased by 73%.

2.2. Income of households with dependent children

According to household budget survey, the **total income** of households with children is higher than that of households without dependent children. In 2007, the mean total incomes of households with children (aged 0 to 17 years) were 1898 lei month/household, by 15% higher than the average ones of all households and by 23% higher than the ones estimated in the case of

households without children (1540 lei month/household). The difference between the incomes of households with children and the households without children derives from the fact that while the majority of households with children are employee households (with relatively high levels of income), in the case of households without children most of them are pensioner households, with incomes smaller than the ones of employee households. Only one quarter of households without children (25%) are employee households.

There are also differences between the incomes of households with a dissimilar number of children. The highest incomes are those gained by households with one child (1999 lei month/household, 21% higher than the average ones). The incomes of the households with three and with four or more children were smaller than the average ones by 7% and 9%, respectively. The ratio of the incomes of households with two, three and four or more children to the incomes of households with one child was of 91%, 77% and 76%, respectively. The differences result from the occupational status of the parents, from the way in which the various sources of incomes are combined, as well as from inequality of income received from the same source by persons in these households.

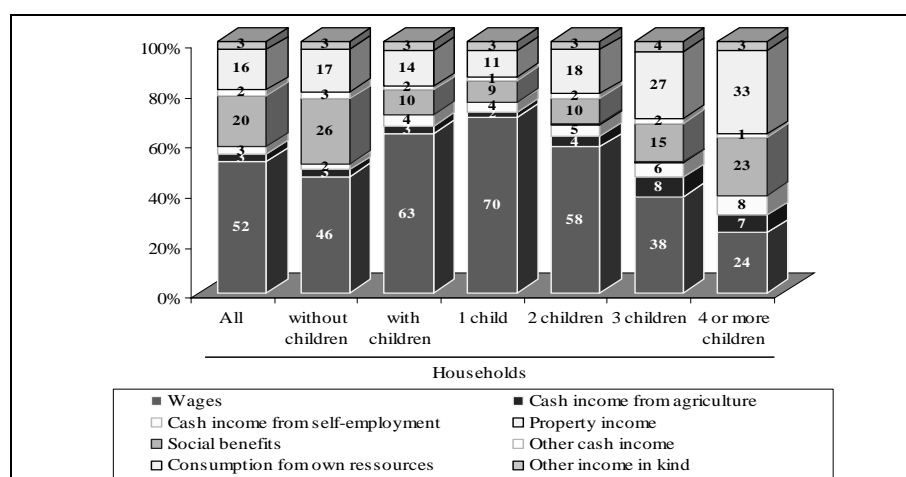
On average for all households with dependent children, wages are the most important **source** of incomes, their share in total incomes of these households being 63.3% (2007), much higher than in the case of households without children (46.2%). However, the share of wages is higher only in the case of households with one or two children (69.9% and 58.8%, respectively), while the wage earnings contribute to incomes of households with three and with four or more children only with a share of one third (38.2%) and one quarter (23.8%), respectively. The amount of incomes achieved from wages, estimated on average per household, was 1.3 times, 2.4 times and 3.9 times, respectively, smaller in households with two, three and four or more children, as compared with the ones achieved in households with one child. And that because households with one or two children are mainly employee households, while only a little more than one-third of the households with three and four or more children are employee households; most of them are farmer, self-employed and unemployed households.

As the contribution of wage earnings to the income of large households is low, the share of the other sources is higher. The value of goods produced for own consumption represents a quarter and one-third of the incomes of households with three and with four or more children (26.7% and 33.4%, respectively, as compared to 16.1% on average for all households), and the share of cash incomes from farming and from self-employment is two-three times higher than

the average one for all households. The last two components, as a rule, of low level compared to wages and much less frequent, have a low share in the incomes of the other households with children. However, the consumption from own production is an important component of incomes in the case of households with one or two children, also ensuring 10.8% and 17.6%, respectively, of their total incomes.

Graph 4

Main sources of household gross income, by number of children (0-17 years old) (2007)



Source: Estimates based on NIS-HBS.

Households with children receive social protection benefits that amount to one-tenth of their total income: 9.8%, in 2007, of which family benefits amount to 2.3%. As expected, the social benefits and family benefits have a higher share in the incomes of households with four or more children (23.2% and 10.9%). The amount of family benefits received by households with four or more children, estimated per household, is almost four times higher than that received by households with one child. Households with many children benefit also, in a higher extent, by income from social assistance (including income support by guaranteed minimum income scheme). The share of the overall amount of social benefits, other than pensions, that go to households with dependent children is higher than 60%.

Table 1

Household income, by number of children 0-17 years old (2007)

	All households	Households without children	Households with children				
			All	of which: households with			
				1 child	2 children	3 children	4 or more children
<i>Lei/month/households</i>							
Gross total income	1653	1540	1898	1999	1829	1545	1510
Cash gross income	1335	1230	1562	1716	1449	1071	952
Disposable income	1294	1210	1476	1556	1415	1208	1196
Cash disposable income	1084	1014	1236	1340	1159	902	849
Ratio to all households (%)							
Gross total income	100	93	115	121	111	93	91
Cash gross income	100	92	117	129	109	80	71
Disposable income	100	94	114	120	109	93	92
Cash disposable income	100	94	114	124	107	83	78
<i>Lei/month/person</i>							
Gross total income	566	624	487	588	437	294	210
Cash gross income	457	498	400	505	346	204	133
Disposable income	443	490	378	458	338	230	167
Cash disposable income	371	411	317	394	277	172	118
Ratio to all households (%)							
Gross total income	100	110	86	104	77	52	37
Cash gross income	100	109	88	110	76	45	29
Disposable income	100	111	85	103	76	52	38
Cash disposable income	100	111	85	106	75	46	32

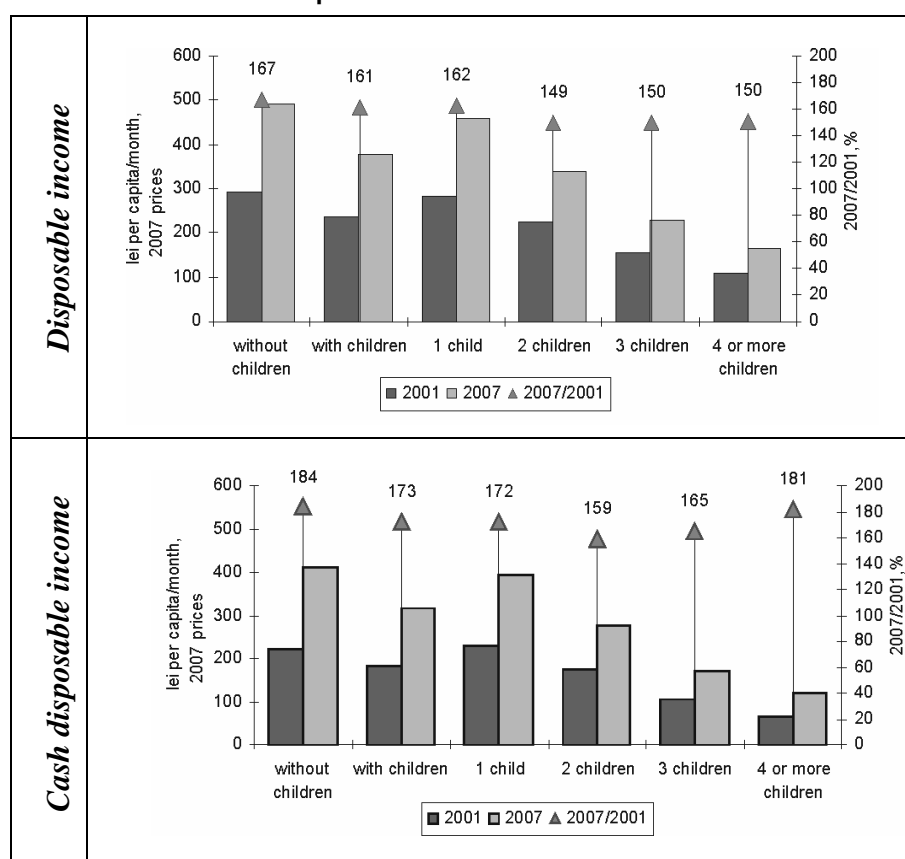
Source: Author's estimates based on NIS-HBS.

Disposable incomes of households with children, that is the resources available to them for covering the consumption needs and for savings, were estimated to 1476 lei per month per household, and 378l per month per capita (of which 317 lei – cash incomes) in 2007. Thus, to the disposal of households with children remained 78% of total incomes, 16% of total incomes were spent for taxes and social contributions, and 6% for the households agricultural production (provided for sale and mainly for households' own consumption).

Per capita disposable incomes of households with children were 15% and 23%, respectively, smaller than the average ones for all households and the average ones estimated for childless households.

Graph 5

Growth in mean disposable income of households with children



Source: Author's estimates based on NIS-HBS.

Per capita disposable incomes show high differences depending on the number of children in the household. The incomes of households with one child exceed the average by 3%, while the incomes of households with two, three, four or more children amount only to 76%, 52% and 38%, respectively, of the average level; the differences between the disposable cash incomes are much higher. The gap between per capita incomes in the households with a different number of children derives, mainly, from the size of the households, that is from the fact that the resources which remain to the household from total incomes earned by their members must be used for consumption by several persons in the case of households with children, especially of the ones with many children. Moreover, the earnings of households with many children are of relatively low level (farming income, income from commerce and handicraft, low wages) as it is known that the large number of children is frequently associated with the low level of educational attainment and qualification of the parents.

The real disposable incomes of households with children were 61% higher in 2007 than in 2001, and the real cash incomes increased in the same period by 73%. The data highlight the fact that the disposable incomes of the households with two, three and four or more children have increased less (Graph 5). In turn, the disposable cash incomes of households with four or more children have increased by 81%, an increase triggered by the increase of the minimum wage, of the family benefits and the setting up of the guaranteed minimum income, which generated sensibly higher incomes as compared with the extremely low level of the cash incomes received by households with many children in 2001.

The evaluation of the economic condition of families/households with dependent children may be refined if the disposable/net incomes estimated by **households types**¹ are used. The disposable incomes of the households were estimated in two variants: including and excluding the value of the income in kind (the value of consumption from own production).

According to the results of this estimate, in 2007 the disposable incomes of the households with dependent children were estimated at 1612 lei/month/household (including income in kind) and 1425 lei (without income in kind)², exceeding the

¹ Defined by the number of adult persons and the number of dependent children (children aged 0 to 15 years and youths aged 16 to 24 years in the care of the family).

² The average of incomes by household types was estimated on the basis of the data on the disposable incomes of households, used also in estimating the poverty indicators, in the national set of social inclusion indicators. The results of the estimate differ to a certain extent from the ones resulting from the usual processing of information collected by the of household budget surveys (NIS (2001, 2007)), due to some content differences of the income indicators, as well as because of the different way of defining the household with dependent children.

average for all households by 19% (Table 2). The highest incomes are those of households composed of three or more adults without children, 33% above the overall average. The incomes of households consisting of one adult with children (in general, a single parent with children) are the smallest, 25% under the average. The incomes of households without children are smaller than the ones of the households with children, by 29% (by 16% under the overall average).

If the level of per capita disposable incomes is considered, which estimates better the economic situation of households, their capacity to meet the needs of the household members (implicitly of the children), the position of households with dependent children is different. The mean disposable incomes of households with dependent children are smaller than the overall average (by 14% in 2007); the only type of household with children whose incomes are above average is that of the household consisting of two adults and one child. The most difficult situation is the one of households of two adults and three or more children, which incomes amount only to half of the average for all households.

Per capita mean income of households with children was, in 2007, only 71% of the level estimated for households without children and the incomes of households consisting of two adults and one child, two children, and three or more children were only 81%, 58% and 35%, respectively, of the level of incomes in households consisting of two young adults (both of them under the age of 65) without children. Also, the ratio between the average incomes of single parents with one or more children and those of a single person (younger than 65 years) was 55%, and that between the incomes of households consisting of three or more adults with children and without children was of 67%.

Table 2

Disposable income of households with dependent children* (2007)

	Disposable income (including income in kind)		Disposable income (excluding income in kind)	
	lei /month/ household	lei/month/ person	lei /month/ household	lei/month/ person
<i>Households with children</i>	1612	398	1425	352
- One adult with children	1016	397	908	355
- Two adults with one child	1621	540	1485	495
- Two adults with two children	1563	391	1381	345
- Two adults with three or more children	1317	235	1075	192
- Three or more adults with children	1799	350	1552	302
<i>Households without children</i>	1139	564	1003	497
Ratio to all households, %				
All households	100	100	100	100
<i>Households with children</i>	119	86	120	86
- One adult with children	75	86	76	87

- Two adults with one child	120	117	125	121
- Two adults with two children	116	85	116	85
- Two adults with three or more children	98	51	90	47
- Three or more adults with children	133	76	130	74
<i>Households without children</i>	84	122	84	122

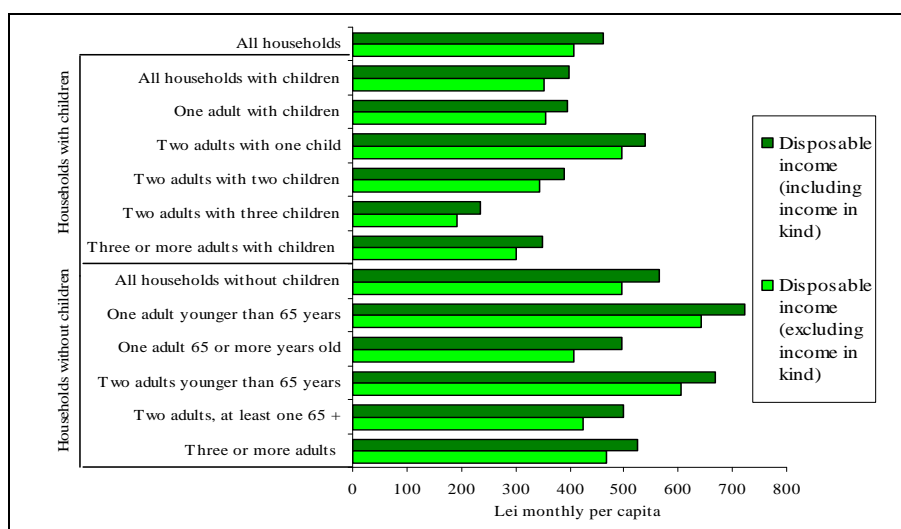
* Children 0-15 years old and dependent youth 16-24 years old.

Source: Author's estimates based on NIS-HBS.

As for disposable income (excluding consumption from own resources), the gaps between the same households (of one, two and three or more adults) with and without dependent children are wider. Due to the higher contribution to the income of households with children, this source has an equalising effect on households' well-being.

Graph 6

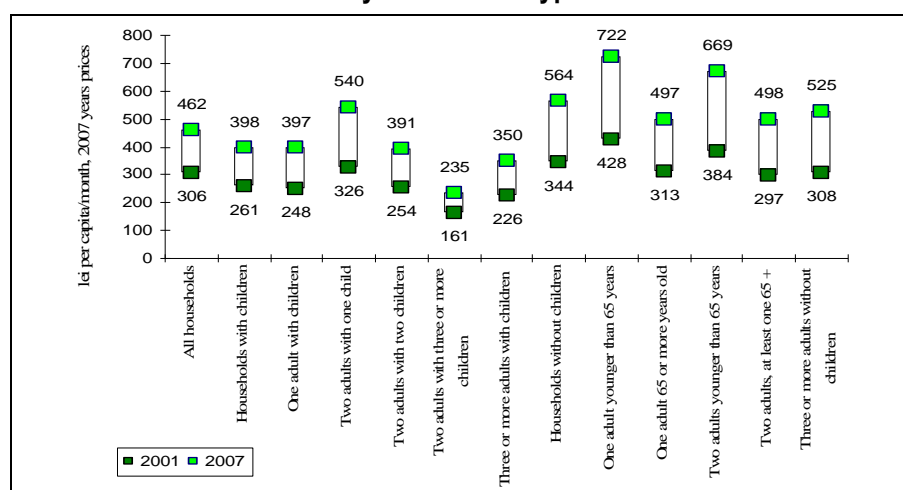
**Mean disposable income,
by household type (2007)**



Source: Author's estimates based on NIS-HBS.

Graph 7

Growth in real disposable income, by households type



Source: Author's estimates based on NIS-HBS.

As compared to the year 2001, the gap between the incomes of households with children and those of households without children increased. In 2001, the ratio of the incomes of households with children to those of households without children was of 76%, and the one of the incomes of households consisting of two adults with one, two or more adults to the incomes of households consisting of two adults was 85%, 66% and 42%, respectively. The real disposable incomes of households with dependent children increased less than the ones of households without children (Graph 7).

Estimating disposable incomes by household types, in accordance with the criteria used in the Eurostat estimates, allows for the **comparison of incomes in households with dependent children in Romania and the ones of the households in the other European Union Member States**. The equalised disposable incomes, estimated per adult equivalent¹, in purchasing power

¹ One adult equivalent is a conventional unit for measuring the household size. In determining it the differences between the needs of adult persons and the needs of children, as well as economies of scale in consumption of households, are considered. In evaluating the incomes and poverty, in accordance with the practice of the Statistical Office of the European Communities, the equivalence scale known under the name "modified OECD

standards (PPS), have been used in comparison. According to the results of the estimate, in 2006, the average disposable incomes of households with dependent children in Romania was 3590 PPS per year per adult equivalent, in the variant that includes the value of consumption from own production, and 3154 PPS in the variant without consumption from own production¹.

If the disposable incomes in Romania, estimated without the consumption from own production (as the incomes of the European Union Member States are estimated), are compared, it may be found that the purchasing power of disposable incomes of households with children in Romania is 4.6 times smaller than the one estimated on average for households with dependent children in the households of EU-25 Member States, five times smaller than the one in EU-15 and half of the average estimated for the New Member States (EU-10)². The average living standard ensured by the disposable incomes of the households with children in Romania is 3.5 times smaller as compared with Portugal, six times smaller than in Ireland, Austria and the United Kingdom, three and four times, respectively, lower than in the Czech Republic and Slovenia. The gap between income in Romania and the one in the EU Member States is higher in the case of households consisting of two adults with three or more children: the ratio between Romania and the EU-25 average was 1:7, and the ratio against the EU-15 average was 1:8.

It is worth mentioning that due to the relatively high increase in incomes during the period 2002-2006 the relative gap between the incomes of households with dependent children in Romania and in the European Union Member States diminished. The ratio of the average incomes of households with children in Romania to the average at EU-15 level decreased from 1:6.8 (in 2001) to 1:5.1 (in 2006). In the case of households composed of two adults with one, two, and three or more children, the differences decreased from 1:6.3, 1: 6.9 and 1:9.5, respectively (in 2001) to 1:4.7, 1:5.3 and 1:7.9 (in 2006).

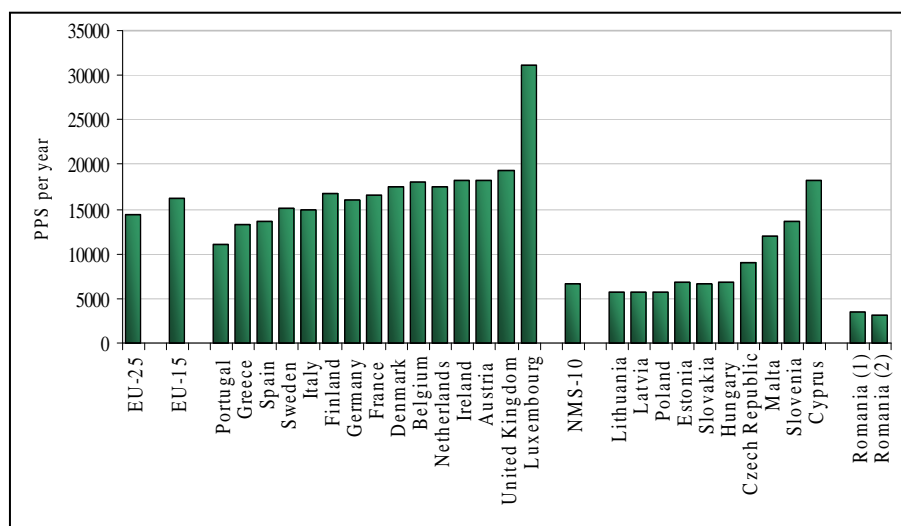
scale" is used to establish the number of "adult equivalent" units in each household. This scale assigns the coefficient 1 to the first adult in household, 0.5 to each subsequent adult and 0.3 to each child (0-14 years of age).

¹ *To estimate Romania's households incomes at the purchasing power parity the conversion rate RON//PPS corresponding to the households final consumption has been used: the rate estimated within the comparison at EU-25 level for the year 2006 and the rate estimated within the comparison at EU-15 level for the year 2001.*

² *While comparing household income in Romania to those in the EU Member States, it is important to keep in mind that information on household income has been provided by two different surveys (HBS and EU-SILC), so that data are not completely comparable, allowing however to have a proxy of the gaps between Romania and the EU Member States.*

Graph 8

**Mean equivalent net income of households with children
in member states of European Union (2006)**



(1) disposable income (including income in kind)

(2) disposable income (excluding income in kind)

Source: Eurostat (b); Author's estimates based on NIS-HBS.

3. Poverty

Because a relatively high share of households with children have low level incomes as compared with the general level of incomes, poverty affects households with children, and children to an extent that poses serious challenges to family policies, and to the social protection of children and family.

The evaluation of poverty among children and households with children is based on the information regarding the main poverty parameters, estimated by the relative method. It is a variant of the relative method that is used in evaluating poverty, in the set of social inclusion indicators. Eurostat estimates also poverty, more specifically the poverty risk, by this method, according to which the poverty situation is evaluated on the basis of the households disposable incomes, estimated per adult-equivalent, against to a threshold established at 60% of the median disposable incomes of the whole population.

3.1. Child poverty: incidence and depth

The results of the estimation, in the main variant (that is taking into account the value of the incomes in kind in calculating disposable incomes), show that in 2007 the **poverty rate** was 18.5%, which means that almost one of five inhabitants (four millions persons) had disposable incomes smaller than the poverty threshold. As regards disposable incomes, without the income in kind (the value of consumption from own production), a second variant of poverty evaluation, the poverty rate is higher (25.9%), that is almost a quarter of Romania's population is living in households with disposable cash incomes smaller than the threshold established at 60% of the median of disposable incomes without incomes in kind.

Poverty incidence was higher among children (0 to 15 years of age). One in four children (24.7%) is growing in a household in which disposable incomes (including income in kind) estimated per adult-equivalent do not exceed the poverty threshold, and one out of three (30.5%) is living in a household in which disposable incomes (excluding income in kind) are smaller than the threshold established on the basis of these incomes.

Table 3

Child poverty incidence and poverty gap of children (2007)

	Estimates based on:	
	disposable income (including income in kind)	disposable income (excluding income in kind)
Poverty rate, %		
Overall population	18.5	23.9
Children (0-15 years old)	24.7	30.5
Number of poor, millions		
Overall population	4.0	5.2
Children (0-15 years old)	0.9	1.1
Children as % of poor population	22.2	21.3
Relative median poverty gap, %		
Overall population	22.6	30.1
Children (0-15 years old)	24.4	32.1

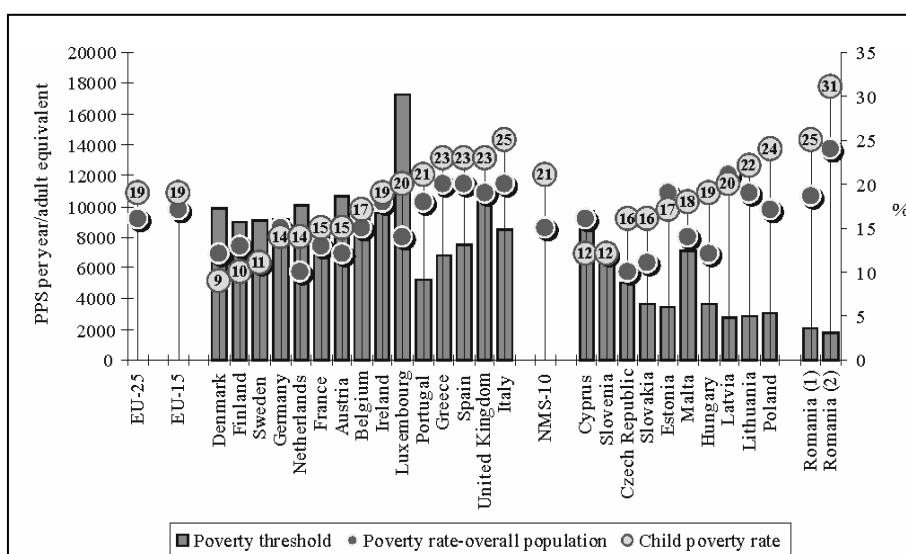
Source: NIS-HBS.

The incidence of child poverty is higher than the average one for the whole population, in most of the European Union Member States, excepting Finland, Denmark, Germany, Cyprus, Estonia and Latvia. The difference between the child poverty rate and the overall one is higher, in general, in the New Member States.

Romania stands out with one of the highest child poverty rates: two to three times higher in Romania as compared with that in Finland, Denmark, Sweden, Cyprus and Slovenia, and 10 to 11 percentage points above that in France, Germany, the Netherlands, and Austria. However, comparing poverty rates across European countries, we must take into consideration the high differences between national poverty thresholds, used to evaluate poverty in each country. These thresholds (estimated on the basis of the households' incomes in each country) reflect the general level and the distribution of incomes in each country, and are four to five times higher in most of Western-European countries than in Romania and two to three times higher in Poland, Hungary, Slovakia and the Czech Republic as compared with Romania.

Graph 9

Child poverty rates in European Union (2007)



(1) estimates based on disposable income (including income in kind)

(2) estimates based on disposable income (excluding income in kind)

Source: Eurostat (c); Author's estimates based on NIS-HBS and Eurostat (d).

When the poverty rate in Romania is compared with the one of the European Union Member States, especially with the one in East-European countries, the second variant, based on the disposable incomes without the consumption from own resources (25% on average for the entire population and 32% in the case of children), should be also taken into consideration because in the disposable incomes, used for evaluating poverty in the European Union Member States, the value of income in kind is not taken into account. It is a component of incomes and a source of households' welfare less important as volume in the rich countries, but significant in the less rich ones and in the poor ones.

The relative median poverty gap of overall population (22.6%), which measures the depth of poverty, indicates that the median income of poor amounted to a bit above three-quarters of the poverty threshold, which means that half of the poor were in households whose incomes were placed in an interval of 77% to 100% of the poverty threshold, and half of the poor households have incomes smaller than 77% of the threshold level. The poverty gap estimated in the case of children living in poor households is somewhat higher: the median of incomes corresponding to children in these households was 24.4% below the poverty threshold. The share of children living in households with a very low income is significantly high. In 2007, one out of 16 children (5.9%) were in the care of a household where the disposable incomes (including consumption from own production) were smaller than a threshold established at 40% cut-off point.

Also, regarding the depth of child poverty, Romania is placed among the countries with the highest levels of the poverty gap; only Italy, Greece, Portugal, Latvia and Lithuania exceed the level of 24% estimated for Romania, while, in 2007, the level of the indicator varied between 12% (Finland) and 30% (Greece) in EU-15, and between 15% (Cyprus), 19% (the Czech Republic and Hungary) and 30% (Latvia) in NMS-10.

3.2. Poverty and the economic growth

Estimated with reference to thresholds established on the basis of the distribution of disposable incomes of each year (thresholds that vary from one year to the other), the poverty rate and the poverty gap indicate **a slight increase in the incidence and no increase in depth of child poverty in 2007 as compared with 2001**: the poverty rate increased from 22.1% to 24.7 % and the relative median gap was 24.2% and 26.4%. This means that the situation of households with dependent children worsened in comparison with the incomes

of the overall population. The inequality of incomes grew to the detriment of households with children. Still, the comparison of the poverty indicators, estimated by using moving thresholds, referring to a central value of the income distribution of the year in question, does not allow for the evaluation of the changes in the poverty parameters under the impact of the growth of the overall level of incomes, that increased significantly in 2007 against 2001. If a constant threshold, that of the year 2001, is used, the child poverty rate decreased from 22.1% in 2001 to 13.9% in 2004 (from 17.0% to 9.6% for overall population), and the rate estimated by using the threshold of the year 2004 decreased from 24.7% in 2004 to 13.7% in 2006 (from 17.9% to 9.4% on average). It could be concluded that, according to an approximate calculation, at the threshold of the year 2001, and at the levels of the incomes in 2001 and 2007, the poverty incidence among children was almost three times lower in 2007 than in 2001.

The poverty rate and the relative gap, estimated on the basis of the disposable incomes (without consumption from own production) and the threshold of the year in question, indicates a decrease in the poverty incidence and depth among children in 2007 against 2001, as a result of diminishing the inequality of cash incomes, due to a faster growth in cash incomes of the households with dependent children at the bottom of the income distribution. The estimated child poverty rate decreased from 32.0% to 30.5%, and relative child poverty gap decreased from 41% to 32%. Yet, estimated at the threshold of the year 2001 the poverty rate decreased from 32.0%, in 2001, to 19.1%, in 2004, and the one estimated at the level of the 2004 threshold decreased from 31.5% in 2004 to 17.83% in 2007. Thus, estimated by a constant threshold and on the basis of the disposable incomes (without consumption from own production), the poverty incidence decreased until 2007 to one-third of the one recorded in 2001.

3.3. Poverty and social protection

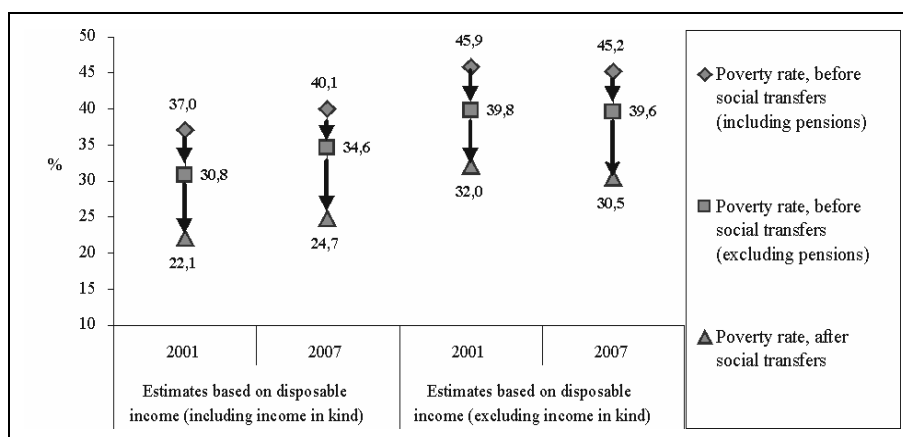
In accordance with an evaluation based on the differences between the poverty rate estimated on the basis of disposable incomes without social benefits (referred to as the poverty rate before social transfers) and the rate estimated using the disposable incomes with social benefits (the poverty rate after social transfers), the social benefits have an important contribution in protecting children and households with children against poverty. Hence, without social benefits, in the year 2007, the poverty rate among children would have been 40.1% (if all benefit categories are taken into account, including pensions) and

34.6% (if only all other social benefits are considered, without pensions)¹. This means that the existence of social benefits “saved” from poverty about 15.4% of the country’s children, completing the incomes gained from other sources by the households in which children are present, so that their incomes exceeded the poverty threshold: 5.5% of these children are living in households with incomes above the poverty threshold only due to the pensions of which elder or other members of the households with children benefit, and 9.9% due to the family and other social benefits.

The influence of social protection as a whole was the same in 2001, but the one of family benefits and other benefits (without pensions) increased slightly in 2007 against 2001; in 2001, the share of children kept out of poverty was of 14.9%, of which 6.2% due to pensions and 8.7% due to the family and other social benefits.

Graph 10

Child poverty rate, before and after social transfers



Source: NIS-HBS.

¹ Obviously, such a computation is based on the simplistic hypothesis that the absence of social protection would not induce another economic and demographic behaviour of households, meaning that it would increase the employment level of the household members and the contribution of incomes from activity and/or would limit the number of children. Even if a change in the economic and demographic behaviour is taken into account, it is clear that without social protection the poverty incidence would be higher than with social protection, for overall population, and also in the case of children; the impact of social transfers would be smaller.

The contribution of social benefits other than pensions to reducing child poverty is still low as compared with most of the European Union Member States. In 2007, in Romania, the child poverty rate, after social transfers, was 10 percentage points lower than the poverty rate before social transfers (other than pensions) and the number of poor children was 29% smaller than the one estimated in the hypothetical situation of the missing social benefits, others than pensions. On the average, in the EU-15 and NMS-10, the difference between the two rates was estimated to 14 and 13 percentage points, respectively, and the drop in the number of poor children due to social benefits (other than pension) was 42% and 38%, respectively. In Finland, Sweden, Ireland, France, Austria and Hungary the difference between the two rates exceeded 20 percentage points, and the share of children kept out of poverty due to family and other social benefits was 50% higher in Denmark, Ireland, France, Finland, Sweden, Slovenia, and Hungary. The child poverty reducing impact of social transfers has been lower in Spain, Italy, Portugal, Greece, Cyprus and Lithuania than in Romania.

3.4. Poverty incidence by household type

Because the per capita level of incomes available to households with dependent children is low compared with the one of households without children, the poverty incidence is higher in the case of households with children. In 2007, one of five persons (20.5%) in households with dependent children lived in a household where the equalised disposable incomes (including income in kind) were smaller than the poverty threshold, while in the case of households without children only 15.5% of all persons living in these households were in households whose incomes are lower than the threshold. 68% of the poor population (almost 2.7 million persons) lives in households with children.

Table 4

Poverty rate, by household type, %

	Estimates based on:			
	Disposable income (including income in kind)		Disposable income (excluding income in kind)	
	2001	2007	2001	2007
All households	17.0	18.5	25.7	23.9
Households with dependent children*	18.3	20.5	26.2	25.3
One adult with children	26.0	31.0	31.3	34.9
Two adults with one children	9.0	10.6	13.0	13.2
Two adults with two children	13.0	17.3	20.1	21.8

	Estimates based on:			
	Disposable income (including income in kind)		Disposable income (excluding income in kind)	
	2001	2007	2001	2007
Two adults with three or more children	35.0	40.0	45.1	47.4
Three or more adults with children	22.0	23.7	32.7	29.5
Households without dependent children	14.5	15.4	24.7	21.8
One adult younger than 65 years	17.3	20.4	24.8	26.2
One adult 65 or more years old	30.0	33.4	45.6	43.2
Two adults younger than 65 years	9.6	10.4	16.3	14.8
Two adults, at least one 65 or more years old	12.2	14.4	26.9	22.8
Three or more adults	12.9	14.1	21.3	19.7

* Children aged 0-15 years and youths aged 16-24 years in the care of the family.

Source: NIS-HBS.

The most dramatic is the situation of the households formed of two adults and three and more children: in 2007, four out of ten persons in this type of households earned income under the poverty threshold. The households consisting of two adults with one child are at the opposite pole: among them the poverty rate was of 10.6%, at a level close to the one recorded in the case of households consisting of two young adults under the age of 65 without children. The presence of a child in the households consisting of two adults does not increase the poverty risk. In turn, the presence of two children increases the poverty risk 1.5 times, and the presence of three or more children multiplies this risk four times. In 2007, 8.6%, 14.5% and 11.3%, respectively, of the poor were living in households composed of two adults and one, two and three or more children.

The poverty rate is high also among single parents with children (31.0%), as well as in the case of those consisting of three or more adults with children (23.7%), much higher than in the case of their peers without children. The poverty risk is relatively high among households consisting of three or more adults with children (23.7%). Almost one-third of the poor (30.5% in 2007) live in this type of households. There are many multi-generational households, formed in order to support members in need of the extended family (young families or single parents with children, supported by parents; the elderly with no or with low pensions, living with their sons/daughters and grandchildren, etc.), in which case some factors of poverty risk are cumulating.

The poverty rate among households with children in Romania is placed among the highest rates estimated for the European Union countries where it varies between 8% (Denmark) and 23% (Greece and Italy). In general, in the European Union Member States (in 13 out of 25), single parents with children are recording the highest poverty rates, with averages of 34% and 33%, respectively, in the Old and New Member States, and with a variation between 17% (Denmark) and 54% (Malta).

* * *

The analysis emphasises the fact that, in Romania, as in other European countries, children are one of the population categories most exposed to the poverty risk, and the child poverty depth among children in Romania is much higher if regarded also from the perspective of the enormous gap between the incomes of households with children in Romania and in the rich countries of the European Union. Poverty has a negative impact on children's life, affecting their development, their health and education. A child growing up in a poor family is in danger of failing to acquire the necessary skills for earning the required resources for decent living, and of remaining poor for the entire life, especially if his/her family lives in a disadvantaged environment, where poverty is at home. With children, poverty is transferred from one generation to another, and the disruption of this chain imposes the intervention of the society for ensuring to all children equal development opportunities.

Unfortunately, the financial crisis and the accompanying recession will affect households with children by many sides, increasing the risk of child poverty. Firstly, unemployment is growing, the direct consequence of which is a drop in the incomes in many households with children. The loss of the job and wage earnings can't be compensated by unemployment benefits and the potential of households' agricultural production for own consumption in dampening income shocks is limited mainly to rural households and to food consumption. Family benefits, of relatively low level also, can't keep out of poverty children in households with no or with very low income from work.

Secondly, the economic contraction causes a decline in public budgets resources, while the needs for social protection and for sustaining economic recovery grow. In such circumstances, it is difficult to strengthen or even to maintain the protection power of family benefits. Moreover, if increasing taxes, especially taxes on basic goods consumption (VAT), is one of the ways used to balance public budgets, households with children (and other households) will experience a fall in the purchasing power of their income, a fall which adds to

that caused by the accelerating inflation related to the worsening exchange rates of national currency.

Thirdly, financial difficulties will delay the rural and regional development, the main condition for poverty alleviation in rural and in depressed areas. So, the high risk of poverty among households living in these areas (including those with dependent children) remains, as well as for children and young living in these areas, the risk of not having the possibilities to attain a level of education higher than the gymnasium.

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