

Income poverty and material deprivation in the Czech Republic with focus on children

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Abstract

Poverty, income and material deprivation, an estimate of its level, and evaluation of the influence of social transfer payments on poverty, is at the center of attention of the European Union, and the object of many studies. The following article focuses on poverty and material deprivation in the Czech Republic, comparison with the situation in the EU countries, the influence of social transfers on the level of poverty of households in relation to the composition of these households, their age structure, the economic activity of their members, and other criteria. The authors base their study on the EU Survey on Income and Living Conditions (EU-SILC) 2006. The analysis shows remarkably higher at-risk-of poverty rate among children when compared to the total population, with concentrations of poverty especially in families with higher numbers of members, among incomplete families with children, and other specific groups of the population such as the unemployed, and economically inactive persons. Moreover, it is clear that material deprivation affects a larger circle of households than income deprivation, particularly households dependent on social benefits. With this type of household the effectiveness of social transfer payments compared to other groups of households is relatively low. This is a significant finding, especially considering the fact that the risk of poverty is passed down from generation to generation, and deprivation in childhood often leads to poverty in adulthood, and has a negative impact on life chances.

Introduction

Since the 1980s the problem of poverty, material deprivation, and social exclusion has been at the forefront of social policy and research both within and without the EU. The reasons are many: “new social risks” linked to dynamic but unstable development of the labor market, changes and destabilization of the institution of the family, growing migration, and curtailing of the social state; these led during the course of the 1980s and 90s to an increase in degree of

poverty and deprivation even in economically developed market democracies in Europe and outside it. Meanwhile, though opinions differ on the role of redistribution and the need to reduce inequality in society, and correspond to various models of the social state, reducing poverty is generally understood to be the fundamental and necessary goal of social policy, and an indicator of its effectiveness (see Ringen, 1987).

Moreover, it has been shown that as a result of the so-called “cycle of deprivation” poverty is passed down between generations, and that deprivation in childhood creates a strong basis for a life of poverty in adulthood, negatively affecting one’s life chances: through lower level of education and deficient cognitive skills, with a probable negative impact on the lower earnings and high vulnerability to unemployment risk (Bradbury, Jenkins, and Micklewright, 2001: 2, Esping-Andersen, Gallie, and Myles, 2002). This can be a very serious problem for an “open society”, for equality of opportunity is the prerequisite for the legitimacy of market competition, and in inequalities arising from it. Jeopardizing this equal “starting line”, on the other hand, weakens the legitimacy of the system, and threatens the foundations of democracy. Besides, although children are a country’s future, they cannot immediately take full responsibility, and are dependent on others in various ways (Bradbury, Jenkins, and Micklewright, 2001). Poverty among children has therefore come to the forefront of attention in recent years, and is recognized as a strong reason for intervention through social policy. In 2006 the Council of Europe resolved that member states should take necessary measures to rapidly and significantly reduce child poverty, giving all children equal opportunities regardless of their social background (Marlier, Atkinson, Cantillon, Nolan, 2007: 8). The year 2010 was proclaimed by the EC as the year of the fight against poverty in December 2007 and on June 17, 2008 the European Parliament has approved this proposal.¹

On the other hand, since the beginning of the century the so-called policy of activation, which aims to prevent and eliminate all forms of dependence on the welfare state, has gained in popularity. The result of these policies, however, has been to limit the generosity of and eligibility conditions for social benefits, and weaken the protective function of the system. If the policies of activation do not succeed in making people part of the labor market, then the degree of poverty and deprivation deepens. Moreover, in this context the report of the European Commission (2008) observes that in most EU countries, poverty among children is greater than poverty among the population overall, and its elimination

¹ In view of the persistent urgency of child poverty it can be expected that most of countries would put emphasis above all on this issue.

requires both effective policies for incorporating people into the labor market, as well as effective protection of incomes.

In this paper we will focus on an evaluation of the risk of poverty and material deprivation in the Czech Republic, with emphasis on the risk of poverty and deprivation among children. Relatively new information on the at-risk-of poverty rate and structure of poverty and child poverty in the CR has recently been published by various sources (CSÚ, 2007a; ČSÚ, 2007b; European Commission, 2007a; European Commission, 2008, and others.). The purpose of this report is to draw on these sources to fill out the picture of the problem from several perspectives. We will especially focus on risk of child poverty, and risk of poverty in households with children, while analyzing various indicators of material deprivation. We also devote attention to the effects of social transfers in the elimination of the risk of poverty. Here we base our study primary data on “Living Conditions 2006”, consisting of national modules prepared by the *European Union – Statistics on Income and Living Conditions (EU-SILC)*.²

The risk of income poverty

In this section we focus on the at-risk-of poverty rate in the population as a whole, and in selected categories of the population, and show the structure of poverty in the Czech Republic.³ Apparently the most important finding is the fact that the rate of poverty in the CR (10 %) is among the lowest in Europe (the average in the EU 25 is around 16 %), but is strongly concentrated within a specific category of the population, and differences in the at-risk-of poverty rate among these groups are very high, higher than commonly found in other European countries. Children in the CR are in much greater danger of risk of poverty than the rest of the population, basically twice as much (18 %). In greatest risk of poverty are children

² The regular conducting of these surveys is required in an amendment to EC Directive 1177/2003 and related accompanying regulations of the European Commission. In the Czech Republic in 2005 and 2006 the surveys were carried out as a random, two-stage selection (first chosen were electoral districts, and then households within them). The basic unit of study was the household, then the household and individuals living in these residences (the survey was filled out for the whole household, and for persons sixteen years and older). In 2005, a total of 4351 households were successfully examined, then 3852 different ones in 2006, while the households studied in 2005 were surveyed again a year later; of these households 3631 were successfully surveyed. As a result, for 2006 we have a much bigger sample. The response rate of the newly-surveyed households in 2006 was excellent (89 %), but among households surveyed for the second time only 65.5 %, which together made the overall response rate a satisfying 75.8 percent. A certain distortion of the information presented in this text (especially in the part devoted to the ability of households to make ends meet, and material deprivation) is basically due to the fact that in the majority of presented questions dealing with the entire household, only one person answered for that household (usually the head of the household). This approach is common in similar surveys.

³ Structure of poverty is given by the at-risk-of-poverty rate in individual types of household (persons), as well as by the number of members in various types of household (persons) in the population.

from 7 to 10 years old (at-risk-of poverty rate 21 %). On the other hand the lowest incidence of poverty is found among persons above 55 years of age (between 5-6 %). According to the employment activity of households the highest risk of poverty is found among persons in unemployed households⁴ and is growing (to 44 % in 2006), and among persons living in non-working – inactive households (around 15 %). This contrasts with the very low risk of poverty among persons living in working households where the breadwinner is employed, which is practically the lowest rate in the EU (3.5 %).⁵ Indicative in this context is the impact of low education – this plays a role in other aspects: it especially affects the level of income and risk of unemployment. Therefore the degree of poverty among persons in households with low education is nearly 27 %, while among persons in households with higher education it is only 2 %.

According to household type, the lowest at-risk-of poverty rate is among persons in two-member households (where at least one of the persons is above age 65), while the greatest incidence is found among persons from single-parent families (around 40 %)⁶, and among families with 3 or more children (29 %)⁷; it is average among couples with one or two children (8 and 10 %) – **see table no. 1**. Also interesting is the incidence of poverty risks among single persons – 17 % among persons up to 65 years, and 14 % among individuals over 65.

A more detailed analysis shows that the at-risk-of poverty rate among children up to 10 years of age in single-parent families ranges from 40 to 50 %, and in families with numerous members (over 3 children) it ranges from 22 – 31 %. In unemployed families child at-risk-of poverty rate is on the level of 43-68 % (depending on age of child). A high risk of poverty among children means that children make up about one-third of the poor in the Czech Republic, with almost one in five children living in poverty.

The poverty gap, or the relative drop in income of households at-risk-of poverty compared to poverty line, is fortunately not generally greater among poor children than in overall population at-risk-of poverty (18.9 % among poor children versus the average of 21.1 %), but among children up to 3 years old who are at-risk-of poverty, the poverty gap reaches 27.6 %.

⁴ Those in which there is no one who is employed, and at least one member of the household is unemployed – in such households we find about 5-6 % of Czech population.

⁵ The average is 7–8 %.

⁶ We find about 4 % of Czech population in such households.

⁷ There are about 5 % of Czech population living in these households.

Table no. 1: Risk of poverty and effectiveness of social transfers (SILC 2006, data from 2005)

	At-risk-of poverty rate	structure of poverty	index of poverty risk	at-risk-of poverty before transfers	effectiveness of transfers in eliminating poverty	at-risk-of poverty after pensions	effectiveness of transfers in eliminating poverty excl.pensions
total	9,8	100,0	1,00	38,5	74,5	20,9	53,1
by gender							
men	8,9	44,2	0,91	35,8	76,1	20,6	56,8
women	10,7	55,8	1,09	41,1	74,0	21,3	49,8
age							
0–3	17,9	5,6	1,82	38,7	53,7	36,8	51,3
4–6	15,1	4,4	1,54	31,1	51,4	30,1	49,8
7–10	20,8	6,7	2,12	32,3	35,6	31,1	33,1
11–15	17,1	10,6	1,74	32,7	47,7	30,1	43,2
0–15 (<16) total	17,8	29,5	1,82	33,8	47,3	31,9	44,2
16–25	11,5	16,4	1,17	24,0	52,1	20,9	45,0
26–34	9,0	14,2	0,92	23,9	62,3	20,7	56,5
35–44	9,2	15,2	0,94	24,8	62,9	20,8	55,8
45–54	7,0	11,7	0,71	22,2	65,5	19,5	64,1
55–64	5,1	7,0	0,52	53,2	90,4	17,6	71,0
>65	5,8	8,2	0,59	89,4	93,5	12,6	54,0
type of household according to labor market status							
working-employed	3,5	45,8	0,36	21,8	83,9	15,7	77,8
Non-working – unemployed	43,7	36,1	4,46	96,7	54,8	90,5	51,7
Non-working retired	6,7	12,7	0,68	99,3	93,2	19,9	66,3
Non-working – other non-active	14,5	5,4	1,48	84,6	82,9	84,6	82,9
Type of household – type EU							
Single, below 65	16,8	9,9	1,71	40,5	58,5	24,6	31,7
Single, 65 and over	14,4	6,3	1,47	98,9	85,4	15,3	5,9
Couples, both under 65	4,9	7,0	0,50	31,2	87,2	16,1	69,5
Couple, at least one of whom is 65 or older	2,5	2,4	0,26	90,4	97,2	13,6	81,6
Other households without children	2,7	4,2	0,28	29,1	90,7	12,0	77,5
Couples with 1 child (younger than 18)	7,8	9,4	0,76	19,5	60,0	17,9	56,4
Couples with 2 children	9,8	21,0	1,00	23,8	58,8	23,3	57,9
Couples with 3 or more children	28,7	13,9	2,93	49,9	48,4	49,2	41,7
Single-parent family with child/children	40,4	16,0	4,12	58,5	30,9	55,9	27,7
Other households with children	9,2	9,8	0,94	27,9	67,0	20,5	55,1
Type of household by education							
Low level of education - both basic education	26,5	19,2	2,70	85,3	68,9	50,2	47,2
Middle level (at least one)	7,8	76,4	0,80	39,1	72,3	21,7	64,0
High level (at least one)	2,0	2,4	0,20	17,1	88,3	5,7	64,9

Notes:

The threshold of at-risk-of (income) poverty is set at 60% of the national median income per consumption unit, and was calculated according to EU methodology, which uses the OECD modified scale of consumer units, which gives the first adult individual in a household a weight of 1, other adults (persons older than 13) a weight of 0.5, and children up to 13 a value of 0.3.

The index of at-risk-of-poverty is the average (multiple) share of poor households (persons) in particular groups compared to the share of poor households (persons) in the overall population.

Effectiveness of transfers excluding pensions is assessed against at-risk-of poverty rate after the impact of pensions - old age and widower(s) - has been taken into account.

Household according to labor market status: **working** – at least one member of the household is employed, **non-working - unemployed** – household without employed member, and at least one member is unemployed, **non-working retired** – household has no employed member, and no unemployed, while at least one member is non-working retiree, **non-working - other non-active** – household with no employed member, no member unemployed, and no retired persons.

Effectiveness of social transfers in eliminating poverty

The effectiveness of social payments on eliminating poverty among persons below the poverty line is relatively high. In 2005, before social transfers the at-risk-of poverty rate was at 39 %; after all social transfers it was only 10 %; the situation was similar in 2006. Thus the effect of social payments in reducing poverty is 75 %, meaning that after distribution of social payments there were 75 % fewer people below the poverty line. The situation differs with children under 16 years: in that age group the effectiveness of social payments is lower (48 % in 2006 but if we assess effectiveness after pensions it is 43 %); after social payments 18 % of children are at risk of poverty⁸ (see columns 1, 4, and 5 in table no. 1).

Retirement benefits also cause a significant drop in the numbers of people at-risk-of poverty. Their effectiveness in eliminating poverty is relatively high among persons in the age categories 55-64 years (93 %). The payments have a marked effect among retirees, and likewise among households where only one person is working; on the other hand their effectiveness is much lower among persons in households where there are unemployed members and no one is working (55 %). In view of the high numbers of unemployed below the poverty line before transfers, the lower effectiveness of transfers means an extraordinarily high concentration of poverty among unemployed persons even after transfers. When we follow the effect of social benefits on the at-risk- of poverty rate according to type of household in which they live, we see that this effect is visibly lower among families with children – the lowest among families with three or more children (around 48 % but effectiveness after pensions is 42 %), in single-parent families around 31 %. Finally, a relatively low effectiveness of transfers is also found with the age category 17 – 25 years

⁸ Methodologically this method is partially incorrect, however, because if there were no transfer payments, households would evidently behave somewhat differently. Even so it is commonly used, but only to show the effect of transfers on the income situation of the poor.

(includes adolescents and young people just starting out) at 52 % (without impacts of pensions it is 45 %).

Income and material deprivation

Now we will devote attention to indicators of income and material deprivation. It has been repeatedly shown that although the relative indicators of income poverty (such as comparison of income of households and individuals to the median income) are relatively good indicators of the economic situation of households, these must be accompanied by comparison of households' ability to get by on their incomes, and indicators of material deprivation (see for example Bradbury, Jenkins, and Micklewright, 2001; Rittakalio, Bradshaw, 2005; Atkinson, Marlier, Nolan, 2007; Guio, Museux, 2007). However, relative indicators of income poverty risk are sensitive to income distribution patterns in society⁹, or to the choice of various concepts for measuring. At the same time the duration of income poverty is also important, for deprivation deepens with the gradual exhaustion of resources other than current income. Moreover, income does not necessarily mean consumption; households may still be using resources like savings, help from relatives, etc. The use of income also depends upon fluctuations in prices or the overall importance of individual types of expenses (for example housing), which are basically inevitable, and the importance of which therefore significantly affects the possibilities for other consumption. Much can also depend on the ability of households to make ends meet (it is this so-called secondary poverty that is the result of poor ability of households to live within their means). The at-risk-of income poverty, therefore, does not necessarily fully correspond to income and material deprivation.

Here we will make use of several indicators of income and material deprivation: these are the indicators of income deprivation (overall ability to make ends meet on income, ability to cover unexpected financial expenses, and degree of burden of the cost of housing), indicators of deprivation in the area of housing, indicators of deprivation in basic needs (such as food and clothing), and finally indicators of deprivation in household furnishing (a total of 15 items). In selecting them we consider what kind of items are used in similar analyses, but also to what extent the given items reflect the differentiated material situation of households (we did not use indicators that do not significantly differentiate).

⁹ According to international comparison of SILC data, the CR ranked fifth in the EU 25 in 2004 with the lowest spread between the first and fifth income percentile (after northern countries such as Denmark or Finland) where the overall level of income, however, is much higher) (data European Commission 2007a, figure 8).

Data on income and material deprivation confirm some findings in the area of income poverty: single persons under 65 perceive their ability to get along on their income in many respects worse than the households of couples. Mainly, however, households with more children see their situation as worse than childless families and those with smaller numbers of children. People living in households of single parents with children perceive their situation as worst.

Clearly, indicators of the degree of income poverty are a good predictor of the ability of a household to get by on its income, but a role is also played by the other circumstances mentioned above. In households who are at-risk-of (income) poverty, 32.8 % of respondents say that they have great difficulty make ends meet on their income, and another 36.8 % make ends meet with difficulty. In households with incomes lower than the median (but greater than 60 percent of median) only 10.3 % of respondents see their ability to get by on their income as very poor; in households with income higher than the median only 3.4 %. The overall correlation between the two variables measured by the Spearman coefficient is 0.392 (sig. 000).

Table no. 2: Ability to make ends meet with income and meet basic needs (SILC 2006)

	Great difficulty in making ends meet	Costs for housing are a great burden	Cannot afford to sufficiently heat dwelling	Cannot afford to eat meat every other day	Cannot afford to buy new clothes	Cannot afford a week's vacation away from home	Cannot afford unexpected expenses of 6000 CZK
Other households with children	10.5%	26.9%	10.2%	17.5%	24.8%	39.9%	47.4%
Single, under 65	13.1%	24.1%	12.1%	19.4%	33.7%	37.4%	50.1%
Single, 65 and older	7.1%	22.7%	12.8%	23.9%	45.2%	59.6%	56.2%
Adult couple, both under 65	7.4%	18.5%	8.0%	12.9%	22.2%	26.4%	30.3%
Adult couple, one 65 or over	3.8%	17.4%	10.3%	17.7%	31.0%	43.9%	33.6%
Other households with no children	6.9%	22.6%	8.9%	13.0%	28.1%	37.9%	34.7%
Couple with 1 child	8.7%	18.6%	7.3%	13.2%	22.0%	28.3%	36.3%
Couple with 2 children	7.7%	22.3%	6.0%	14.1%	18.0%	28.4%	36.9%
Couple with 3+ children	19.3%	40.5%	10.6%	26.8%	40.4%	53.4%	62.0%
1 adult with 1+ children	24.9%	45.5%	15.4%	28.7%	37.1%	57.0%	69.8%
Employed	7.3%	20.7%	7.5%	12.8%	21.2%	30.2%	36.5%
Unemployed	38.9%	63.2%	20.9%	47.2%	59.1%	78.5%	78.1%
retiree	6.2%	20.5%	11.7%	21.8%	39.0%	50.4%	44.4%
Non-active	29.5%	50.7%	30.9%	25.7%	50.8%	67.4%	85.7%
Persons at risk of poverty	32.8%	54.8%	20.3%	41.4%	56.5%	73.8%	80.8%
Total	9.0%	23.3%	8.9%	16.2%	26.3%	36.3%	40.3%

It appears that despite the low at-risk-of poverty rate, a large proportion of people in the Czech Republic perceive a relatively higher degree of income deprivation and a number of

other areas of material deprivation¹⁰, even though only a small proportion (10%) say that they are actually making ends meet with really great difficulty. For example, 9 % of the population gets by on their income (make ends meet) with great difficulty, and the same percentage cannot afford to properly heat their dwelling, but 16 % cannot afford to eat meat (of fish or chicken) every other day, for 23 % the cost of housing presents a large burden, 26 % cannot afford to buy new clothes, 36 % cannot afford a vacation away from home, and 40 % cannot afford unexpected expenses of 6000 CZK. Furthermore, some 21 % live in a damp dwelling, and 23 % in one that is too small; 12 and 13 % cannot afford a computer or a car even if they want one (see table no. 3). Among persons below the poverty line, the proportion of deprived people is twice to three times as high – 33 percent of the income-poor population gets by on its income with great difficulty, and for 55 % the cost of housing is a great burden; 80 % cannot afford unexpected expenses of 6000 CZK, 41 % cannot afford to eat meat every other day, 37 % cannot afford to buy new clothes, 35 % a computer, 41 % a car, even though they would like to have these things (see table no. 2 and no. 3). And somewhat surprisingly higher are these indications of income and material deprivation among people living in unemployed households: 39 % of persons in unemployed households have a very difficult time making ends meet, and for 63 % housing expenses present a great burden; 78 % cannot afford unexpected expenses of 6000 CZK, 47 % cannot afford to eat meat every other day, 59 % cannot afford new clothes, 44 % a computer, 54 % an automobile; the situation among persons living in economically inactive households is quite similar, in some indicators more favorable, in others less.

It is similar in the case of income poverty risk; again the category of people living alone is somewhat more threatened, regardless of age (in the event of unfavorable events they have fewer people to turn to), but above all households with three and more children and households of single parents with children. From the standpoint of material deprivation children are a much more threatened category if they live in large or single-parent households. Thus for example 19 % and 25 % of persons living in large or single-parent households have great difficulty getting by on their income, for 40 % and 45 % the cost of housing represents a great burden, while persons living in these households often live in damp or cramped conditions (for example one third of large households with children live in cramped conditions), 27 % and 29 % respectively cannot afford to eat meat every other day, 37 % and

¹⁰ Which is surprising considering of the extent of income poverty risk, given that the subjective degree of poverty and degree of material deprivation are almost always (in all of the surveys) higher than the relative at-risk-of poverty rate.

40 % cannot afford to buy new clothes, 62 % and 69 % cannot afford unexpected expenses of 6000 CZK. Finally, 23 % and 24 % cannot afford a computer, and 28 % and 41 % a car.

Table no. 3: Household amenities (“cannot afford but would like”) and dwelling conditions of households (2006)

	dampness in flat	dark flat	cramped	washing machine	color TV	telephone	computer	car
Other households with children	23.5%	5.8%	17.8%	0.0%	0%	1.0%	13.1%	10.5%
Individual below 65	20.1%	6.2%	7.4%	3.1%	1.9%	4.6%	16.4%	24.4%
Individual, 65 or older	17.3%	4.5%	2.0%	2.2%	0.6%	3.1%	8.0%	13.5%
Adult couples both below 65	18.1%	3.6%	6.8%	0.1%	0.5%	2.0%	10.2%	11.7%
Adult couples, one 65+	17.2%	2.8%	2.4%	0.3%	0.2%	2.2%	8.5%	11.7%
Other households with no children	20.7%	2.8%	8.6%	0.5%	0.2%	1.2%	14.1%	10.7%
Couple with 1 child	21.3%	7.4%	17.7%	0%	0.2%	1.9%	11.2%	12.5%
Couple with 2 children	21.7%	4.6%	19.7%	0.6%	0.0%	0.7%	9.6%	8.4%
Couple with 3+ children	29.8%	6.0%	32.2%	1.7%	0.7%	5.9%	24.2%	27.5%
1 adult with 1+ children	29.4%	7.5%	18.5%	1.4%	1.1%	1.4%	22.7%	41.0%
Employed	20.2%	4.3%	14.3%	0.3%	0.1%	0.9%	10.4%	10.3%
Unemployed	43.3%	12.6%	28.0%	3.7%	3.4%	14.5%	43.9%	53.5%
Retiree	17.7%	4.0%	2.4%	1.1%	0.5%	220%	9.9%	13.6%
Non-active	43.4%	5.9%	27.9	4.2%	1.2%	0.0%	28.3%	44.7%
Persons at risk of poverty	41.1%	11.6%	26.8%	3.2%	2.3%	11.9%	35.3%	44.7%
Total	21.2%	4.7%	13.3%	0.6%	0.3%	1.8%	12.3%	13.4%

Of the above indicators of material deprivation, we regard the most important to be the household’s income situation (the worst situation is full dependence on social benefits besides retirement pensions) compared to expenses. The findings also correspond to some previous

surveys (for example a survey regularly conducted by the agency STEM¹¹, or a survey taken by CVVM last year). A key factor, which (besides age) influences the ability of a household to get by on its income, is the necessity of covering from one's income certain vital expenses such as rent, energy, and services, or partially necessary expenses such as example medicine, telephone, children's needs, basic food and clothing, so that the real disposable income of households is often low, and equally low is the possibility of forming some financial reserves.¹²

For many households the cost of housing is especially burdensome. In poor households the cost of housing is regarded as a serious burden by 55 % of respondents. Likewise there is also a link between unemployment and housing costs being a serious burden. The cost of housing also presents a great burden for people who live in dwellings with market rent: 40 % of persons living in rented dwellings with market-based rent see the cost of housing as a significant burden; among people subletting the proportion rises to 49.3 %. At the same time the problem of housing quality appears quite often – dampness of dwellings, and with larger families dwellings that are too small.

Factors which influence the risk of poverty and material deprivation

When we summarize the findings from analysis of SILC data from 2006 on income poverty risk, income and material deprivation, we see that the risk of income poverty on the one hand and income and material deprivation on the other hand overlap only partially. Income and material deprivation are in many aspects a more widespread phenomenon than the risk of income poverty – this is especially true in the area of housing and some basic necessities, such as food and clothing, not to mention such attributes of “mainstream” lifestyle such as a vacation, a car, or a computer. Both the risk of income poverty and material deprivation are strongly concentrated in specific categories of the population. Their identification enables us to identify factors that significantly affect the risk of income poverty and material deprivation. These are two main “social risks”, often in combination: these are unemployment, and instability/incompleteness of the family. Their overlap is most often seen among single people, among families with many children, and single-parent families with children.

¹¹ http://www.financninoviny.cz/os-finance/index_view.php?id=303468
<http://ekonomika.ihned.cz/c1-23487680-dve-tretiny-cechu-maji-problem-vyjit-se-svymi-prijmy>

¹² Factors that lead to the situation in which households fall ever deeper into debt, and the ability to create savings is very low, are not only inadequate available resources, but broader contexts as well, such as rising inflation rates or low interest rates on savings (in which saving does not pay).

Only 64 % of households of single people below 65 are working and 24 % of them are retirees (9 % of these single people are unemployed and 3 % are economically inactive). In households with three and more children, 81 % of households are employed (and 17 % are unemployed). In single-parent families with children 63 % are employed (21 % of households are unemployed and 12 % are non-active; 3 % are retirees). On the other hand, in other types of household unemployment is on a level of only 2-6 %, non-activity almost zero; and some 95 % of households are either working or retiree.

It must also be said that children have become another risk. Around 70 % of people in risk of income poverty in the CR live in families with children. Children mean in many cases on the one hand non-activity on the labor market (especially frequent among incomplete families), as well as the diffusion of income – whether wages or social benefits – among a larger number of family members, or the limitation of the number of working members in the family (especially frequent among families with many members)¹³.

Regression analysis (logistic regression) shows (see values of Exp(B)^{14} in table no. 4), that people in unemployed households are exposed about 37times as high risk of poverty than people in the employed households and people in non-active households to about 21times as high. The at-risk-of poverty is also greatly differing between the households with three and more children and incomplete families with children on the one hand and households of the partners without children on the other hand, in ratio about 2,6 to 0,16, this is 16times as high. Finally, the at-risk-of poverty rate with children and young people below 25 compared to people above 65 is in ratio about 1,2 to 0,28, this is about 4times as high. Summed up, the most important is the impact of labor market status of the household, and then (in a lesser degree) type of household, respectively the family situation - the number of children and completeness of the family.¹⁵

¹³ About 9 % of children in the Czech Republic are living in jobless households. In the Czech Republic the parental leave is provided for a longer period – up to 4 years of a child (but at relative low rate), after parental leave when women enter the labor market, they face two-four times higher risk of unemployment than men or women without children, depending on number of children age and completeness of a family (Kulhavý, Sirovátka 2006).

¹⁴ These coefficients show the ratio of the at-risk-of poverty rate in a given category compared to the reference category (value for the reference category is 1,00), when controlling the influence of the other variables included in the model. Therefore it is interesting to compare the values (ratios) of these values to the reference category as well as among the various categories.

¹⁵ The variables included in model explain nearly 40% of variance in data (see Nagelkerke R Square), they are statistically significant and standard errors of the estimates are pretty low.

Table no. 4: logistic regression – dependent: income below poverty threshold (60%) (SILC 2006)

	B	S.E.	Wald	Exp(B)
age				
0-3				Ref
4-6	,135	,009	230,665	1,145
7-10	,157	,008	372,298	1,170
11-15	,157	,007	470,982	1,170
16-25	,141	,007	390,421	1,151
26-34	-,045	,007	41,072	,956
35-44	-,032	,007	20,668	,969
45-54	-,049	,007	42,220	,953
55-64	-1,018	,009	13465,473	,361
65 a vice	-1,267	,012	10329,698	,282
Households				
Other with children				Ref.
Single < 65	,461	,006	5343,554	1,585
Single >65	,370	,013	860,265	1,447
Couple <65	-,842	,006	17587,708	,431
Couple >65	-1,727	,011	26394,448	,178
Other, no children	-1,826	,007	64891,020	,161
Couple, 1 ch.	-,072	,005	173,006	,931
Couple, 2 ch.	,210	,005	1951,953	1,234
Couple 3+ ch.	,992	,006	28579,153	2,697
Single + child(ren)	,960	,006	24472,611	2,613
Econ. Activity				
Employed				Ref.
Unemployed	3,602	,004	739621,332	36,679
Pensioners	1,354	,006	47223,630	3,875
Inactive	3,036	,010	87671,754	20,826
Education level				
Low				Ref.
Middle	-,919	,004	49942,693	,399
High	-2,862	,008	130302,141	,057
Constant	-1,638	,008	41982,573	,194

S.E. = standard error

Model Summary

Chi-square	Sig	-2 Log likelihood	Nagelkerke R Square
2089930,918	,000	4425607,503	,393

Just as poverty and deprivation are concentrated in certain social groups, they are also concentrated in certain locations. The most visible evidence of this concentration are the populations of Roma, although there are also concentrations of the long-term unemployed. We do not have completely reliable and representative data on the ethnic and territorial distribution of poverty and deprivation; however, a number of other findings signal the

importance of these aspects. Gabal (2006) for example identifies in the Czech Republic over 300 socially excluded Gypsy communities in various types of localities and of various sizes; almost half of these show indicators of territorial exclusion. In these localities unemployment is found on the level of 90-100%, most of it long-term, which plays a key role in the process of social exclusion; others include substandard housing conditions (in 80 % of the localities), insufficient access to education, and other negative characteristics of the environment, such as poor infrastructure and public services, and the existence of socio-pathological phenomena.

These coinciding factors in the formation of poverty and deprivation mean that as soon as a household becomes dependent predominantly on social benefits (besides pensions), it almost always falls below the poverty line. Although in public political debate there is a predominant conviction that social payments are generous in this country, comparison with the EU countries or the OECD shows that the level is somewhat below average (see European Commission, 2007b; OECD 2006, 2007). The subsistence level has been indexed, unlike pensions, pegged to the rise of employment income, and therefore the relative position of the poor in society has worsened. Due to this development, the Czech Republic does not achieve the level of social assistance today, which might be assessed as providing too high a level of protection of social rights but low work incentives. When we compare the average replacement rates of benefits to average wages in long-term unemployment for four types of families (a single person, a couple, a lone parent + two children, a couple + two children), in 22 OECD countries (OECD 2006 and own computations) and in the income group of 67 % of APW, then the replacement rate in the Czech Republic is 52.1 %, while the average in 22 OECD countries it is 54.8 % (based on 2004 data). It is lower only in Poland, Spain, Slovakia, Hungary, Greece and Italy. In 2005, we can see a further decrease in replacement rates for single-earner low-income families – these families lose the most in the long-term. In spite of the fact that economic incentives are not so bad and several changes to improve them have already been implemented, the issue of incentives has become to be most crucial issue in the policy debate.

Social benefits aimed at families have also declined relatively, as a result of the link between eligibility and their amount - which are income tested and determined depending on comparison of family incomes - to the subsistence level (which is declining compared to earnings and hence the entitlements for family benefits are declining as well). On the other

hand, there has been an increase in the cost of living in a number of areas, especially the cost of housing, which is evident in our data on indicators of material deprivation.¹⁶

International comparison

International comparison (European Commission, 2008) undertaken using data SILC-2005 (incomes from 2004), shows that the Czech Republic is the only country in the European Union to exhibit a large difference between a relatively low level of overall the risk of income poverty, and a markedly higher level of risk of poverty among children (in other countries these levels more closely correspond).¹⁷ Although on one hand the at-risk-of childhood poverty rate in the CR is just under the EU 25 average, we cannot regard this result as satisfactory, because it basically indicates that children are a significant risk for families from the standpoint of the risk of poverty material deprivation.

As the table shows, the level of child at-risk-of poverty rate in the European countries ranges from a low 9-10 % (Sweden, Denmark, Finland), Slovenia (12 %), Germany, France (14 %), to a high of 29 % in the extreme case of Poland, or 27 % (Latvia) and 22-24% (Ireland, Italy, Lithuania, Malta, Portugal, Spain). It can be said that the level of the risk of child poverty in the EU countries is quite varied; only a small number of countries are at the imaginary “average”. The values tend to be either low, or somewhat high. The level in Czech Republic remains on a relatively high level – 18 %, like in Belgium, and close to the level in Slovakia (19 %) and Hungary (20 %).

¹⁶ Since 2008 (though it is not yet apparent in the data) there has been a freeze in the subsistence level due to the discontinuing of regular indexing according to the increases in prices, while prices including the price of food have risen faster than in previous years; in addition, household expenses are rising in other areas such as health care, including care for children (co-financing). On the other hand according the new acts, since 2007 the costs of housing are covered with respect to the real expenses on housing which enables more sensitive reaction. However, data which would enable to assess how the material position of low income households has changed are not at disposal now.

¹⁷ The role of the social welfare system in the elimination of child poverty is actually slightly above average in the CR in comparison with the other EU countries. The CR ranks in 10th place in the effect of social transfers in eliminating the risk of child poverty, in the overall elimination of poverty fifth (see European Commission 2007, figure 9 and 10).

Table no. 5: At-risk-of poverty among children before transfers (except pensions) and after transfers % EU-25, SILC 2005

country	CY	EL	DK	NL	SI	ES	SK	MT	DE	LV	FI	EE	IT
Before transfers	21	23	25	28	28	29	30	30	31	31	32	32	31
After transfers excl. pensions	16	22	21	23	17	28	23	24	21	25	19	23	27
After family related benefits	13	20	10	15	12	24	19	22	14	22	10	21	24
Effect of all transfers excl.pensions %	36	9	60	42	57	14	37	27	53	29	66	32	23
Effect of family rel. benefits %	24	2	18	19	39	2	24	19	31	19	40	28	14
Country	PT	BE	CZ	LT	FR	LU	SE	AT	PL	IE	UK	HU	
Before transfers	31	34	34	35	34	36	35	37	39	40	42	45	
After transfers excl. pensions	27	26	24	30	25	24	21	190	35	31	34	29	
After family related benefits	24	18	18	27	14	19	9	15	29	23	21	20	
Effect of all transfers excl.pensions %	23	45	49	21	57	42	73	57	25	43	49	53	
Effect of family rel. benefits %	12	22	30	13	26	32	39	49	10	23	18	36	

Source: Commission staff working document JRSPSI SEC (2008) 91 (Proposal for the JRSPSI 2008 COM (2008) 43 final – Annex)

Meanwhile the level of the poverty risk in the CR even before social transfers¹⁸ is somewhat higher (34 %), similar to the levels in Belgium, France, Latvia, Sweden, or Luxembourg. Rates are higher in Hungary, Poland, Ireland, in Great Britain, and even in Austria. The overall effectiveness of social transfers including pensions in eliminating the risk of child poverty is somewhat above average – 49 % of at-risk-of child poverty rate is eliminated by transfers (excluding pensions), and 30 % by family related transfers. The

¹⁸ In this case after the impact of pensions.

overall effectiveness of all transfers excluding retirement pensions in lowering childhood poverty risk is higher in Austria, Sweden, and Hungary, and the same in Great Britain. The effectiveness of family related transfers is on the other hand slightly above average; it is higher in Austria, Hungary, Sweden, Luxembourg, Finland, Slovenia, and Germany.

Comparison of the selected indicators of material deprivation according to Guio and Museaux (2006) with our data again indicates that deprivation among Czech households can be in many respects more pronounced than suggested by indicators of income deprivation. For example, a significant proportion of the population (and even larger in case of the population of children) has a low capability of dealing with unexpected expenses, is unable to afford even a week's vacation, eat meat at least every other day, properly heat the apartment, etc. On these indicators the Czech Republic is among the "worse-off" countries compared to other countries (in this case the EU 15). On the other hand it is among the "better-off" countries in terms of the indicators of household ownership of durables (except for the large share of the population that cannot afford a car) and household amenities. Compared internationally (European Commission 2008: 51-52) the CR (along with some other East European and Mediterranean countries) ranks among the countries in which more than 40 percent of the population declares financial problems in two or more of the selected indicators of material deprivation. The authors of the study argue that the presence of children in the family can contribute to the worsening and accumulation of financial problems. At the same time we can say that in the case of children the CR is one of the countries where there are problems getting by on incomes/in making ends meet significantly higher than the relatively-measured degree of at-risk-of poverty in the given categories (ibid., figure 16).

Similarly, the findings by UNICEF (2007) based on a quite broad set of indicators of child well-being rank Czech Republic in the lowest third (on 18th position) out of 25 OECD countries, when some of the indicators of material deprivation and educational disadvantage seem to be disappointing. For example about 40 % of Czech children reported low family affluence (lacking car, own bedroom, holidays last year, a computer) while the mean was 20 %, and 28 % of Czech children reported less than six educational possessions (lacking a study desk, quiet for study, a computer, calculator, dictionary, text books) which corresponds to the mean. The negative impacts of poverty and material deprivation on educational disadvantage and transmission of poverty have been also indicated in a special survey of a sample of people in income disadvantage (these were recipients of social assistance benefits or subjectively considered themselves to be entitled for, although did not apply). Only about

half of these people reported that they have the choice for sending children to college/middle school (Sirovátka and Mareš 2008).

Conclusion

The Czech Republic is among the countries in the EU with a low level of the risk of income poverty (around 10 percent); however, the risk of income poverty among children is almost twice as high compared to the population as a whole, and is highly concentrated: among single-parent households it holds around the level of 43-50 %, in unemployed/non-working households from 43 % to 68 % depending on age category, and in households with three or more children from 23 to 31 %. The effectiveness of social transfers in eliminating poverty risk is lower by comparison in the case of children and the above-discussed specific categories. However, the problem of child poverty has not yet been seriously reflected upon or discussed by the public and political sphere or the relevant actors in that area.

Besides the risk of income poverty among children, material deprivation is also an important problem for them. Generally material deprivation in many areas is relatively significant, in many areas exceeding the level of the risk of income poverty, and only partially overlaps coincides with income poverty. Key factors that affect the ability of households to get by on their incomes are first the status of the household on the labor market, and family situation – like family instability and number of children, and in addition the taking up of a significant portion of income by unavoidable expenses (need to pay for housing, energy, and services) or by partly unavoidable expenses (for example the cost of medicine, telephone, children's needs, basic food and clothing). Especially burdensome for many households is the cost of housing.

Among the especially threatened categories in most of the areas of material deprivation are single persons regardless of age (in the event of unfavorable events they have fewer people to turn to), but even more often households with three and more children, and especially single-parent households with children. The situation is perceived very negatively by households without income from employment, especially when overlap with in the above categories, with indications of the negative impact on educational disadvantage of children.

Analysis has shown the concentration of the risk of poverty especially among children and other specific categories of the population, and the more general problem of material deprivation in the Czech Republic. To a greater extent these problems affect households in which the main income consists of social benefits. The effectiveness of social transfers in

eliminating the risk of poverty is relatively low in the case of children, and in the case of households where social transfers are the main source of income, compared to other groups of the population.

This happens particularly due to the gradual lagging of the subsistence level relative to the development of other incomes, especially wages and pensions. This weakens also the extent and level of eligibility for these family benefits (apart social assistance which is set at the level of subsistence minimum), which are tied to a multiple of the subsistence level. After the discontinuing of the automatic indexing of the subsistence level in January 2008, it can be expected that this trend will worsen. Therefore it will be important to continuously monitor and evaluate the impact of the changes in the subsistence level on child poverty, especially if higher levels of inflation persist. Likewise it will be important to evaluate the impact of the changes in the method of determining the subsistence level and other instruments in the area of material assistance that which were introduced in January 2007. The European Commission has repeatedly emphasized that in dealing with child poverty, equally important roles are played by integration into the labor market and support for adequate incomes for families with children – it is clear in case of the Czech Republic that improved access to the labor market for the vulnerable groups would probably bring improvement but it is also clear that in the case of households where employment is not accessible in the short time perspective due to their caring obligations, adequacy of the benefits plays more and more important role.

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Appendix: definition of selected indicators of income and material deprivation

Ability to get by on income

How well does your household make ends meet on your overall monthly income?

(with great difficulty, with difficulty, with some difficulty, rather well, well, very well)

Can your household afford to pay from its own resources in case of unexpected costs in the amount of 6 000 CZK?(Yes / No)

If you take into account the overall cost of housing and add interest on a loan (but not payment of the principle), would you say that these payments are for your household

(very difficult, somewhat difficult, not difficult at all).

Basic needs

Which of the following products and services can your household afford? (Yes / No)

1) to pay once a year for at least a one-week vacation away from home

2) to eat meat, chicken, or fish every other day (or their vegetarian substitutes)

- 3) to buy new clothes instead of second-hand
- 4) to sufficiently heat your dwelling