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Purchasing power of the low income population from Romania during the crisis

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Abstract

The analysis of the inequality in the Romanian population income (Gini coefficient dynamics, distribution of the different types of households over the deciles of income, the main structural and quantitative characteristics of the deciles of income, level of income inside the different branches of the national economy and other indicators), allows the identification of the different low income categories of households shares in the total population of the country. The purchasing power of these categories of low incomes households is assessed using the total level of income gotten by the different types of households (for example, the family with two children from urban/rural area or the family of pensioners from urban area) which is compared with the dynamics of the minimum basket of consumption value. The minimum basket of consumption used here is a methodological instrument realized by the normative method in the vision of Research Institute for Quality of Life from Bucharest.

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1. Introduction

The incomes of many types of customers from Romania, such as persons, families, households, are good indicators for measuring quality of life and poverty, especially when these are compared with the decent minimum

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consumption basket structured in the Research Institute for Quality of Life from Bucharest. This methodological instrument is conceived for different types of families from Romania, by the normative method, starting from the year 1990 until now.

2. Purchasing power of the low income population

2.1. Income inequality and low-income segments of the population.

When is between certain limits, income inequalities of the population from any country can generate positive competitive effects, getting additional motivation for growing productivity. Beyond those limits, however, income inequality has counterproductive or even social destabilization effects. Although estimates of income inequality in Romania by Gini indicator (Gini coefficient of zero indicates perfect income equality and a value of 1 indicates the concentration of all came from a single undertaking) is questionable because of insecurity quantification of households own products, but also because of the high income under representation in the considered income sample, the Gini coefficient is still often used in different countries.

Table 1 Gini coefficient - its dynamics in Romania, during 2005-2012

	2005	2006	2007	2008	2009	2010	2011	2012
UE.27	30,6	30,3	30,6	30,9	30,5	30,5	30,8	30,4
Romania	31,0	33,0	37,8	36,0	34,9	33,3	33,2	33,2

Source: *** Gini coefficient of equivalised disposable income (source: SILC), Eurostat, 2013

In the period 2005-2012, Romania has recorded above average Gini coefficient values, compared to UE.27 countries, indicating a higher degree of inequality income - despite the fact that some studies show the presence of more pronounced egalitarian mentality in Romanian society than in other European countries. In Romania, the highest level of income inequality was registered in 2007 to 37.8, at that moment Romania being the European country with the highest level of income inequality. Romania's entry into the EU and salary cuts in 2010 slowed this trend.

Various studies have revealed, generically, the disfavoured population groups on the labour market in Romania. But the focused social space of the low income may be precisely (by proportions) identified by analysing the dominant socio-occupational characteristics of the population in the first four income deciles.

The maximum average salary in Romania has been reached in the peak of economic growth in 2008 and it remained in 2009 too, although the GDP had decreased by 7.1%. In 2010, the average salary was adjusted by more than 10 %, which is more than the 8.4% economic decline of that year. So, the real wage has been restored to a value closer to the economic performance in 2011. After salary increase at the moment of Romania's joining the EU, it was "corrected", despite the appearances given by its evolution in lei, the average salary remaining below the value from 2008 (355 euros), even in 2012.

2.2. The decrease of total household income during the crisis.

Compared to 2005, in 2010, due to the reduction in wages and the lower employment rate on the background of the financial crisis, all the categories of *cash income* decreased for all categories of population, excluding the revenues from allowance. The share of income from social benefits increased between 2005 and 2010, from 25.7% to 30.6%.

Table 2 Structure of the cash income in 2005 and 2011 (%)

Category of income	2005	2010	2011
Gross wage and other employment rights	59.4	58.8	59.6
Incomes from agriculture	5.0	3.3	3.8
Incomes from independent non-agricultural activities	4.1	3.3	3.1
Incomes from social benefits	25.7	30.6	29.2
Other incomes	5.8	4.0	4.3

Sources: *** Anuarul Statistic al Romaniei 2010, I.N.S. 2011, *** Anuarul Statistic al Romaniei , 2011, I.N.S. 2012.

The incomes of the Romanian population felt the effects of the economic crisis starting with 2010, when the *total household income* declined compared to 2009. The decreases of the incomes, however, were differentiated by socio-occupational categories, with greater reductions in farmers' incomes, while the pensioners' and unemployed' incomes slightly increased.

2.3. Dominant socio-occupational characteristics of the income deciles.

The distribution of households and persons in households by income decile helps highlighting income inequality by different population groups.

Table 3 Distribution of the households and persons from Romania, by deciles, in 2011 (%)

Households (100 %)	Income decile by person (lei)								
	D.1 – up to 241 lei	D.2- 241- 360 lei	D.3- 360- 456 lei	D.4- 456- 556 lei	D.5- 555- 654 lei	D.6- 654- 763 lei	D.7- 763- 900 lei	D.8-900- 1082 lei	D.9-1082- 1434 lei
Total households (g)	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0
Total persons (p)	14.6	12.0	10.0	10.0	9.9	9.1	9.3	8.9	8.5
Employees (g)	1.7	4.8	6.2	7.8	8.6	9.4	11.9	13.9	15.9
Employees (p)	3.0	6.9	7.8	9.0	10.0	10.2	12.2	13.0	13.4
Agric. act. (g)	47.2	20.2	10.1	7.8	4.8	3.2	2.2	1.6	1.4
Agric. act (p)	54.4	19.6	8.1	6.5	3.9	2.5	1.6	1.3	1.1
Unemployed (g)	26.2	19.9	13.7	12.9	8.8	7.1	4.4	2.4	3.0
Unemployed (p)	30.2	21.7	13.0	12.5	8.3	6.5	3.2	1.3	2.1

g – households, p – persons

Source: *** Anuarul Statistic al Romaniei 2011, I.N.S. 2012.

Table 4 Dominant structural characteristics of the income deciles

Decile 1	Deciles 2, 3, 4	Deciles 5, 6	Deciles 7, 8	Deciles 9, 10
Includes: -The highest percentage of persons of that unit decile - 14.6% ; - A relatively high proportion of the <u>unemployed (persons) 30.2%</u> ; - The largest share of the <u>farmers (persons) 54.4 %</u> , <u>(households) 47.2%</u>	Includes: - The largest share of <u>unemployed (persons) 47.3%</u> ; - A relatively large proportion of <u>farmers (persons) 38.1%</u> ; - The largest share of the <u>pensioners (persons) 36.5 %</u> , <u>(households) 34.5 %</u>	Includes: - A relatively high proportion of <u>pensioners (persons) 23.6 %</u> ; - A relatively large proportion of <u>minimum wage workers (persons) 20.2 %</u> .	Includes: - A relatively large share of pensioners (persons) 28.5% ; - A relatively high share of employees (persons) 25.2%.	Includes: - The lowest percentages of individuals, including as unitary decile - 8.5 and 7.7% respectively; - The highest share of employees (households) 45.7 %, (persons) 27.9%.

Table 5 Total household income, divided by the number of persons from membership in 2011

An example of a column heading And an entry	Total households	Households with:					
		1 pers.	2 pers.	3 pers.	4 pers.	5 pers.	6 pers. or more
Total revenues (lei)	839.5	1111.4	1083.1	953.1	753.3	636.9	479.4
	percentage:						
Money income	81.7	81.2	82.8	86.0	81.0	75.1	73.2
Equivalent value of the income in kind obtained by the employees and by the recipients of social benefits	1.8	1.7	1.4	1.8	2.2	2.0	2.1
Equivalent value of the consumption of agricultural products from own resources	16.5	17.1	15.8	12.2	16.8	22.9	24.7

Source: *** Anuarul Statistic al Romaniei 2012, I.N.S. 2013.

Households with more members have the lowest total income / person and the lowest income / person in cash. They, however, do not receive, in all cases, as would be expected, the highest share of income from social benefits (households with five or six members).

The lowest share of the value of consumption from own resources is for the three members family (12.2%), but the correspondent share for the six members family is double (24.7%).

Table 6 Total household income deciles in 2011 (all households)

Category of incomes	Decile of the total income per person (lei)									
	D.1 – up to 241 lei	D.2- 241-360 lei	D.3- 360-456 lei	D.4- 456-556 lei	D.5- 555-654 lei	D.6- 654-763 lei	D.7- 763-900 lei	D.8- 900-1082 lei	D.9-1082-1434 lei	D.10- above 1434 lei
	Lei monthly per household									
Total revenue	1256	1618	1652	1931	2140	2168	2552	2780	3289	4785
	percentage									
Cash income	50.3	62.5	68.8	73.3	78.8	83.4	85.0	88.5	90.3	93.1
Goods in kind from wages or social benefits	1.8	1.4	1.5	1.7	1.8	1.8	2.1	2.3	2.1	1.6
Agricultural consumption from own resources	47.9	36.1	29.7	25.0	19.4	14.8	12.9	9.2	7.6	5.3

The income intervals are expressed in the prices of January 2011.

Source: *** *Anuarul Statistic al Romaniei* 2011, I.N.S. 2012

Table 7 Amount characteristics of income deciles in 2011

Decile 1	Deciles 2, 3, 4	Deciles 5, 6	Deciles 7, 8	Deciles 9, 10
Includes: - the lowest proportion of cash income – 50.3% ; - the highest proportion of the equivalent value of the consumption of agricultural products from own resources, compared to other deciles – 47.9%.	Include large proportions of the equivalent value of the consumption of agricultural products from own resources	Include large proportions of the equivalent value of income in kind obtained by employees or obtained from social benefits, 1.8%, compared to D. 2 - 4 – 1.4%, 1.5% and respectively 1.7%.	Include the highest proportions of the equivalent value of income in kind obtained by employees or obtained from social benefits D.8 – 2.3%.	Include: - the highest proportion of cash income – 93.1% for the highest household incomes 4785 lei D.10; - rather large proportions of the equivalent value of income in kind obtained by employees or obtained from social benefits D.9 – 2.1%, compared to D.1-6 (below 1.8%), D.10 – 1.6 %.

2.4. The minimum basket of consumption for a decent standard of living

Is calculated by Research Institute for Quality of Life from Bucharest since 1990. It shows the need of resources for the current consumption (food, clothing, footwear, housing, services), education and training, social status. These are needed for each member of the family development and social participation of the family. The similar

families with incomes below this minimum basket value live in poverty. The types of families presented in this paper include:

- urban: family of two employees with two children in care and family of two pensioners;
- rural: family of two active farmers with two children in care.

Table 8 The value of the minimum basket of consumption for a decent standard of living and different types of families, during October 1990 - July 2013

Year/Minimum basket in lei for:	1990	1991	1992	1993	1994	1995	1996	1997	
two employees with two children, urban	5,512	19,435	57,147	236,940	447,416	555,670	805,512	2,164,148	
two employees with two children, rural	4,895	17,221	50,802	210,829	398,467	494,099	716,443	1,927,233	
two pensioners - urban	2,373	8,305	24,418	101,335	190,509	236,603	341,393	917,221	
Year/Basket in lei for:	1998	1999	2000	2001	2002	2003	2004		
two employees with two children, urban	3,186,428	4,803,577	6,864,627	8,576,128	10,381,345	12,035,649	13,321,314		
two employees with two children, rural	2,833,032	4,277,879	6,117,367	7,648,482	9,249,459	10,723,396	11,868,883		
two pensioners - urban	1,350,491	2,075,412	2,965,900	3,985,425	4,824,332	5,593,109	6,190,574		
Year/Basket in lei for:	2005	2006	2007	2008	2009	2010	2011	2012	2013
- two employees with two children, urban	1,469	1,538	1,642	1761	1879	2064	2131	2240	2293
- two employees with two children, rural	1,270	1,331	1,424	1,519	1,621	1,662	1,721	1,806	1,270
- two pensioners - urban	702	736	787	843	901	1,281	1,326	1,392	...

A key indicator of the national economy wage level is minimum wage. The most affected by the relatively low level of wages in Romania are families with children in care. Even a net average salary in January 2013 could barely cover the needs for the decent standard of living of the 4 members family consumption: 100.7% in January 2013, and just 97.2% in 2010-2011.

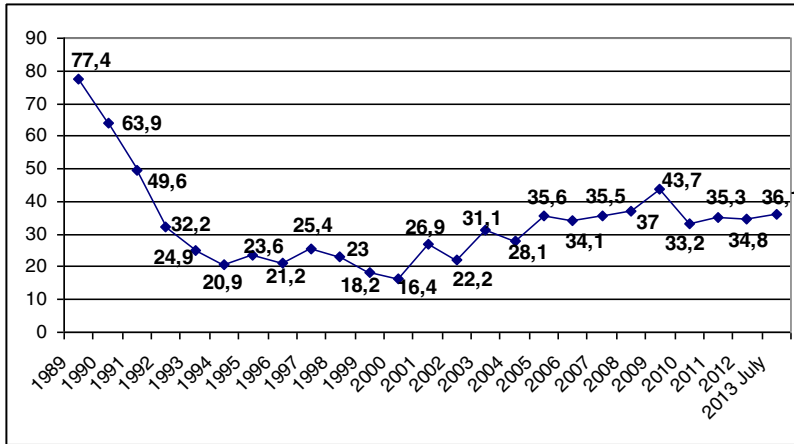


Fig.1 The dynamics of one minimal wage and two allocations for children related to the minimal basket of consumption for four members family, urban

A minimum wage could not meet the needs of the decent standard of living, for any kind of family, throughout the last 23 years. The decent standard of living remained a mere aspiration even in July 2013, when the coverage of the minimum basket of consumption was of 36.1%.

The agricultural employees had and have too, a rather difficult economic situation. In July 2013, a net minimum wage in agriculture covered the needs of rural families of two adults with two children in care at a rate of only 44.8% for a minimum decent standard of living.

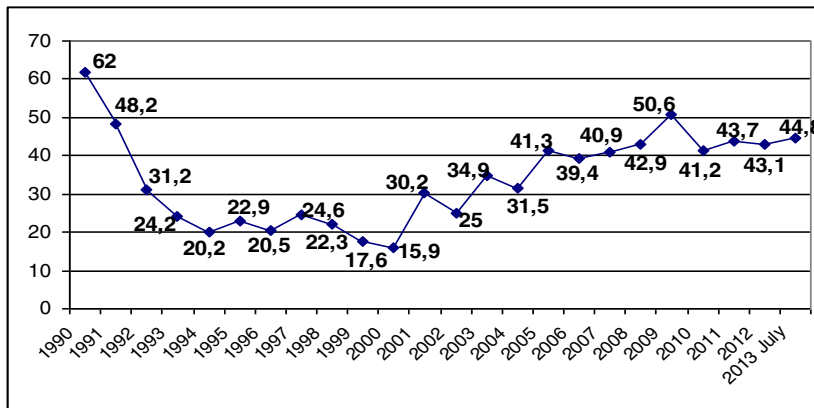


Fig. 2 The dynamics of one minimal wage and two allocations for children related to the minimal basket of consumption for four members family, rural

The amount of pension Pensioners with low and very low pensions (between 350 and 1,000 lei) have the highest weight within the average total number of pensioners. In the first quarter of 2012, their weight was above 70% (***) *Evoluția ... CNPV, 2012*. [5]

The purchasing power of pensions Even pensioners retired when they reached the age limit, with a pension under lei 740 - that is, 1,236,462 people - certainly need economic aid in order to live at a minimum decent standard of living.

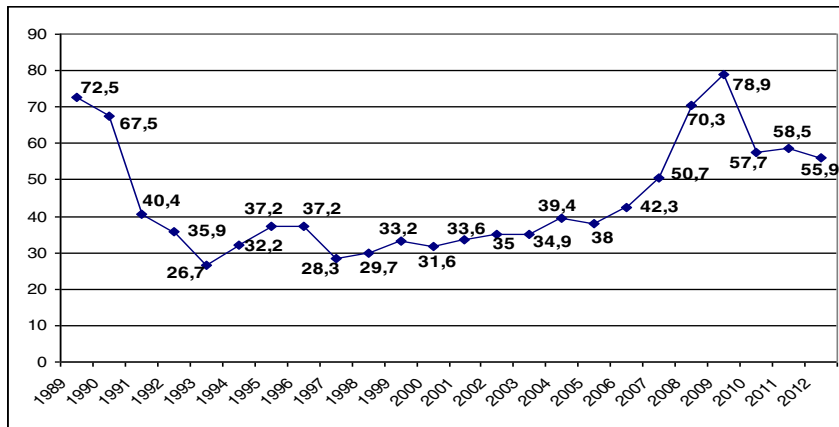


Fig.3 The dynamics of one social insurance average pension related to the decent minimal basket of consumption for two pensioners family, urban

For many low and very low-income pensioners, a long period of time, it was a major problem the coverage of the needs for survival. As for the cost of a decent life, they could afford it only as hope and aspiration. The situation became more diffuse around the years 2008-2009, but in 2010-2012, the crisis was felt in full. The very low amount of money received today by most of the pensioners explains why this category of people from Romania are forced to work after retirement, the largest proportion in comparison with the pensioners from other EU countries.

Conclusions

Active people in the labour market can go through difficult situations such as economic restructuring, wage cuts, illnesses periods, unemployment and others. Revenue assigned to such difficult periods are very low and puts the respective families in poverty, well below the minimum required for a decent life. But the important thing is that even regular active people, for example, minimum wage workers or people who worked all their working life for a salary, and now receive an average social insurance pension, still live in chronic poverty.

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