

The standard of living of salaried families in the face of current changes

Abstract

Household incomes are extremely sensitive to unfavorable developments in the economy, as well as to the dysfunctions of the national and world market. The gap between the incomes of Romanians and those of other Europeans is determined by the differences regarding the level and structure of employment but also by the salary policies adopted. The shock caused by the COVID-19 pandemic and the war in Ukraine have exposed the structural vulnerabilities of the economy, including persistent poverty and disparities in economic opportunities across regions and between urban and rural areas, structural rigidities in the labour market, weak fiscal policy and constraints significant institutional that affect the efficient use of resources. Poor and vulnerable households have been disproportionately affected by rising food and energy prices.

Keywords: standard of living, families of employees, income, expenses

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Introduction

Romania and European standards

European statistics provide a clear picture of Romania’s dynamics in relation to European standards. The data use very relevant indicators for the diagnosis of the standard of living of the Romanian population in relation to other European countries: GDP per person calculated at purchasing power (PPS) and reported (as %) (Table 1).

Table 1 GDP at current prices per person (PPS, EU-15 = 100)

	1990	2000	2000/1990	2015	2015/1990
Romania	30,9	21,9	70,9%	52,0	168,3%
Bulgaria	30,6	24,2	79,1%	43,7	142,8%
Hungary	43,8	46,1	105,2%	63,5	144,9%
Poland	34,3	40,5	118,1%	63,5	185,1%
Slovenia	67,5	68,2	101,0%	76,7	113,6%
Slovakia	35,3	42,5	120,4%	72,0	204,0%
Czech Republic	71,3	62,0	87,0%	79,6	111,6%

Source: Statistical annex of European economy, European commission. *Spring*. 2016;26–27.¹

The initial level of the transition process (1990), for the former socialist countries, showed that they were at considerable distances from the standards of advanced European countries. The biggest gap was registered by: Romania (30.9%), followed by Bulgaria (30.6%) and Poland (34.3%). The smallest gap was registered by the Czech Republic (71.3%) and Slovenia (67.5%).

The first 10 years of transition (2000) were extremely difficult for Romania (21.9%) and Bulgaria (24.2%), which represents a massive impoverishment of the population. The Czech Republic also faced problems as a result of the process of separation from Slovakia. Slovenia was the country that achieved the smallest gap (68.2%).

During the 25 years of transition and integration into the EU (1990-2015), all former socialist countries approached the standards of the 15 most developed European countries. The highest level of living standard, by GDP/inhabitant, is presented by the Czech Republic (79.6%), Slovenia (76.7%), followed closely by Slovakia (72%). With the exception of Slovakia, which is a special case, regarding the spectacular approach to European standards, Poland (from 34.3% to 63.5% of the level of developed European countries) and somewhat more modestly Hungary (from 43, 8% to 63.5%). And Romania, after

a dramatic decline in the 90s, later recorded an important increase, but still maintaining approximately half of the advanced European standard, from 30.9% to 52%.

If we take into account only the member countries of the European Union, we have the second lowest gross and net salary, only the Bulgarians having lower remunerations. However, at the European level, Romania ranks 30th out of 45 countries, both in terms of the average gross salary (1,151 Euros) and in terms of the average net salary (708 Euros). We are over the countries of Eastern and South-Eastern Europe - Montenegro, Bosnia and Herzegovina, Serbia, Macedonia, Albania, Kosovo, Belarus, Georgia, Armenia, Azerbaijan, Moldova and Ukraine. We are above the Russian Federation and above Bulgaria (the only EU country below us). At the same time, we are quite close to Central European countries such as Slovakia, Hungary, Latvia and Croatia.²

Romania ranks last in the EU for the median income of its citizens expressed in euros, according to data published by Eurostat, with an annual median income of 4,267 euros and a monthly median of 356 euros. Disposable adult-equivalent income is a household’s total income, after taxes and other deductions, that is available for spending or saving, divided by the number of household members converted to equalized adults; household members are equalized or age-weighted using an OECD equivalence scale. As seen in the table below, Romania has a median annual income about 4 times lower than the EU average/year and a median monthly income about 4 times lower than the EU average/month (Figure 1).

Stat	Venit median echivalent (euro)			
	Annual	Lunar	% din media UE	% Rom/alt stat
Media UE	17.325	1.443	100	25
Slovenia	14.774	1.231	85	29
Estonia	12.228	1.019	71	35
Cehia	9.995	833	58	43
Letonia	8.178	682	47	52
Slovenia	8.119	677	47	53
Croatia	7.892	658	46	54
Lituania	7.586	632	44	56
Polonia	7.124	594	41	60
Ungaria	6.478	540	37	66
Bulgaria	4.612	384	27	93
ROMANIA	4.267	356	25	100

Figure 1 Romania has a median annual income about 4 times lower than the EU average/year and a median monthly income about 4 times lower than the EU average/month.

Source: Romania, the last place in the EU in terms of the median income (in euros) of citizens (cursdeguvernare.ro).³

- 1) Since entering the EU, Romania's GDP/capita in current prices has risen from 6.1 euros to 10.4 GDP/capita. (in euros), according to the data communicated by Eurostat.
- 2) Paradoxically, however, the 70% increase was not enough to reduce the nominal gap with Germany, whose GDP/capita rose between 2007 and 2018 from 31.0 euros to 40.8 euros (increase of 31, 6%).
- 3) The European average of GDP/inhabitant increased by 18.4%, between 2007 and 2018, from 26.1 euros to 30.9 euros.
- 4) If we compare Romania to the European average, the GDP/capita gap between us and the EU average increased slightly, from 20.0 euros in 2007 to 20.5 euros in 2018, respectively by 2.5% (Figure 2).

Evoluția PIB-loc. (România, Germania și media UE în mil. euro, 2007 – 2018)												
Anul	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
DE	31,0	31,7	30,6	32,1	33,7	34,3	35,0	36,0	37,3	38,4	39,6	40,8
Dif.	24,9	24,6	24,5	25,9	27,2	27,7	27,8	28,4	29,2	29,8	30,0	30,4
RO	6,1	7,1	6,1	6,2	6,5	6,6	7,2	7,6	8,1	8,6	9,6	10,4
UE	26,1	26,1	24,5	25,5	26,2	26,6	26,8	27,7	29,1	29,3	30,0	30,9
Dif.	20,0	19,0	18,4	19,3	19,7	20,0	19,6	20,1	21,0	20,7	20,4	20,5

Figure 2 The GDP/capita gap between us and the EU average increased slightly, from 20.0 euros in 2007 to 20.5 euros in 2018.

Source: Romania, the last place in the EU in terms of the median income (in euros) of citizens (cursdeguvernare.ro).³

With an increase in GDP/capita (in euros) Romania had the most spectacular growth (+70%) since integration in 2007, until 2017; above the one achieved by Poland (+57%) and significantly above the results of the Czech Republic (+45%) and Hungary (+32%) (Figure 3).

Anul	2007	2018	Avans	2007	2017
	euro/locuitor			% din media UE pps	
România	6.100	10.400	+70%	44	63
Polonia	8.200	12.900	+57%	53	70
Cehia	13.400	19.400	+45%	82	89
Ungaria	10.200	13.500	+32%	60	68
Croația	10.200	11.900*	+17%	61	62

Figure 3 Romania had the most spectacular growth.

Source: Romania, the last place in the EU in terms of the median income (in euros) of citizens (cursdeguvernare.ro).³

Method and policies regarding the standard of living

The standard of living of wage earners' families

The shock caused by the COVID-19 pandemic and the war in Ukraine have exposed the structural vulnerabilities of the economy, including persistent poverty and disparities in economic opportunities across regions and between urban and rural areas, structural rigidities in the labor market, weak fiscal policy and constraints significant institutional that affect the efficient use of resources. Poor and vulnerable households have been disproportionately affected by rising food and energy prices, despite capping gas and electricity prices at reduced levels until March 2023 for households with lower average monthly consumption. The solid recovery of the economy contributed to the decrease of the share of Romanians living on less than 6.85 dollars a day at purchasing power parity (PPP) from 2017, to 11.7% in 2022, from 12.1% in 202.⁴

World Bank: The pandemic was a turning point after decades of poverty reduction

In 2020, an additional 71 million people worldwide lived in extreme poverty.

- 1) This means that 719 million people – or about 9.3% of the world's population – lived on just \$2.15 a day, and the current war and rising food and energy prices threaten to slow down efforts to reduce poverty.
- 2) The World Bank estimates that 574 million people, or about 7% of the world's population, will survive on just \$2.15 a day by 2030, especially in Africa.

The Europe 2020 strategy had an essential role in the review of child protection policies, through the proposed target of reducing by at least 20 million the number of people affected by poverty or social exclusion.

- 1) In 2012, approximately 125 million European citizens lived in poverty or social exclusion, and children represented more than a quarter of the total, being more affected than the adult population in most countries.
- 2) This Strategy proposes, in a complementary way, the decrease by 250,000 by 2020 of the number of children affected by relative poverty, the proposed target being no more than 1,106,000 poor children in 2020.⁵
- 3) In this context, Romania assumed the reduction in the period 2008-2020 by more than half a million (580,000) of the number of people affected by relative poverty, until reaching the target of 4,408 thousand people.

The draft of the National Strategy on social inclusion and poverty reduction (2014-2020) shows that:

- 1) One in five Romanians faces poverty caused by insufficient income, and a large part of the poverty caused by the low level of income is persistent;
- 2) Three quarters of poor people have been in this situation for at least three years.⁶
- 3) A third of the population cannot afford to purchase items considered desirable or even necessary for a decent living.
- 4) According to the same document, there are still children who have never gone to school, and the percentage of young people without adequate education is high.
- 5) The draft strategy 2014-2020 envisages the development of social housing provision programs, focusing on homeless people and other people who cannot afford housing, but also improving the quality of life in rural and small urban areas. The identification of poor villages and marginalized communities will direct public interventions and investments (including from EU funds) towards these communities with greater precision.

Poverty is more common among people living in households with dependent children (dependent children are considered people aged between 0-17 years), (in 2020 it reached 25.4%), than in the case of those living in households without children (20.8% in the last year)

In 2020, among households with dependent children, the most affected by poverty were:

- 1) Large households consisting of 2 adults with 3 or more dependent children (more than half);

- 2) Single-parent families, a single parent with at least one dependent child (almost three out of ten);
- 3) Of 3 or more adults with dependent children (a little over a quarter);
- 4) But also people from households consisting of 2 adults with 2 dependent children (almost a quarter).
- 5) In comparison with these, households consisting of 2 adults and 1 dependent child were affected by poverty to a lesser extent (11.0%).
- 6) Single people are more exposed to the risk of poverty, especially for women (40.8% compared to 25.6% for men).

Household incomes

The income indicator is decisive in sizing the quality of life of the population. But for some categories of the population, incomes have felt the effects of the current crises. *Larger reductions of this indicator were borne by farmers' households, part of pensioners' households, but also those of the unemployed. The shortages were felt much more acutely in the countryside.*

The total average monthly income of the Romanian population represented at the level of the III quarter of 2022⁷ the following values: per household: 6,668 lei, and per person: 2,662 lei.

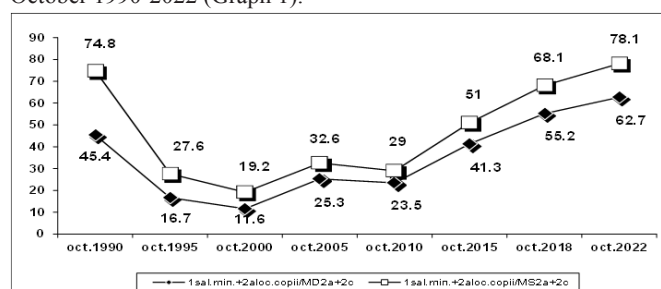
- 1) More than 90% of the total income of Romanian households is of a monetary nature.
- 2) Cash income predominates in households where the head of the household is: salaried, unemployed and pensioner.
- 3) Farming families have monetary income predominantly from agriculture (39%), but also from wages (15.7%), from independent non-agricultural activities (5.4%) and from social benefits (almost 9%).
- 4) For unemployed families, half of the cash income comes from other wage rights, followed by those from social benefits (19.5%).
- 5) In the case of pensioner families, 63% of the money comes from social benefits, followed by other salary rights (almost 25%) from this type of income, which explains the fact that Romanian pensioners choose to work beyond the legal age limit, for the reason dissatisfaction with the pension obtained at retirement.

The total expenses of the population were at the level of the third quarter of 2022, on average 5,816 lei per household and 2,322 lei per person, representing 87.2% of the total income level. What is the destination of these expenses we see in the following:

- 1) Approximately one third of household consumption is spent on the purchase of food products and non-alcoholic beverages;
- 2) Food and energy - have become more expensive than average, increasing the burden on the budgets of families in the country;
- 3) 15.8% are housing, water, electricity and gazelle expenses;
- 4) Investments represent a tiny percentage in the expenditure structure;

The objective of social protection is to support those in vulnerable situations, to guarantee them a minimum level of income and to provide them with social assistance benefits and social services, in exchange for them fulfilling their responsibilities, the main responsibility for adults of working age being to look for a job with the help of active employment measures.

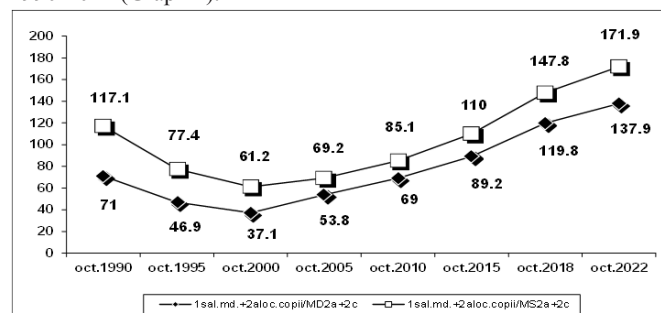
A minimum net salary and two child allowances relative to the decent and subsistence minimum⁸ in the urban environment for the family of two adults with two dependent children, in the time period October 1990-2022 (Graph 1).



Graph 1 One net minimum wage and two child benefits relative to the urban living and decent minimum for two-adult family with two dependent children, October 1990-2022.

Source: Calculations performed by the author.⁸

An average net economy wage and two child allowances relative to the urban living, decent and subsistence minimum for the family of two adults with two dependent children,⁸ in the time frame October 1990-2022 (Graph 2).



Graph 2 An average net wage per economy and two child allowances relative to the decent and subsistence minimum in the urban environment for the family of two adults with two dependent children, October 1990-2022.

Source: Calculations performed by the author.⁸

Conclusion

Household incomes are extremely sensitive to unfavorable developments in the economy, as well as to the dysfunctions of the national and world market. The gap between the incomes of Romanians and those of other Europeans is determined by the differences regarding the level and structure of employment but also by the salary policies adopted. The predominantly low level of the population's income did not allow the realization of savings in the years of economic growth before the crisis, which determined the marked degradation of living conditions during the crisis, degradation well below the minimum decent consumption threshold, related to all categories of households. In recent years, single-parent families with one or more dependent children in urban and rural areas are far from covering the minimum basket for a decent life. In order to enjoy a minimum of decent living, this family should supplement their income by more than 50%, if we are talking about a minimum wage on the economy and allowances for the two children. As of 2018, the family of two adults with two dependent children could cover the decent living minimum.

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Conflicts of interest

None.

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