

# The Population' Income, Expenses and Savings as Descriptive Aspects of the Standard of Living

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## Abstract

*At the level of any society, the income, expenses and savings have been playing and continue to play an important role from both macroeconomic perspective (as a key element in the development of a company) and microeconomic perspective (from the point of view of the household, as a mean of describing the standards of living of the population). Linked together, they represent key elements that play an important role in the entire national economy.*

*By the means of a short quantitative research, this article aims to present how the total of revenues, the registered expenditure and the amount of savings on a household level create a descriptive picture of the standards of living. At a household level, the existing incomes represent the main source of both expenses and savings. Thus, a strong correlation between these elements is created, which defines the importance that each one shows.*

**Key words:** income, expenses, savings, standard of living

**J.E.L. classification:** R21, O15

## 1. Introduction

The standard of living of a population describes the degree of satisfaction of the life necessities and the volume of goods and services that the population can afford, based on the existing income. Equally, the degree of savings and the size of expenses may be issues on which we can outline the standard of living of a population. In a developed economy it may be encountered a high level of savings, due to the higher income that the population register. Thus, the British economist John Maynard Keynes said that "the growth of income will cause a decrease in the consumption marginal propensity and, in the same time, an increase in the saving marginal propensity".

The concept of saving and, implicitly, economy, expresses the difference between the amount of the existing income and the amount of the available consumption expenses. Saving is an essential factor of development of a country. According to (Ignat et al, 2002, p.337) saving is a virtue and excessive consumption is a flaw. American economist Paul Samuelson said that "in affliction times, old virtues could represent modern sins."

A strict determination of how saving decision is formed and of the intensity of the influence the saving determinants is imposed. At an administrative level, the priority is to develop public policies favorable to stimulate saving behavior. These policies should aim at increasing the employment rate, thus decreasing unemployment, given the fact that the prerequisites for a higher saving rates arise when the amount of disposable income is higher than the amount available to the basic expenses. The savings process specific to the Romanian population is determined primarily by the economic context and the income level. One of the biggest present problems of this is to identify the reason why people are not saving more. The Government's policy needs to contribute to the increasing of the population savings process by relaxing the taxation system of the interest income. The monetary policy is also responsible for increase the degree of savings by adopting a more attractive way of perceiving the interest.

## 2. Analysis of revenues, expenses and savings

The level, the structure and the dynamics of expenses are the main axes in characterizing the living standards of a country. The expenses made for purchasing goods and services are called consumption expenses. Ensuring a decent standard of living, presumes a standard life compatible with human dignity, which is measured by the goods and services that the population own and use. (Varjan, 2004, p.1) The living standard in Romania is characterized differently, especially according to all existing incomes on a family level in relation to the size of each family and in close correlation with consumption expenses structured on food items, non-food items and services.

Because of the fact the highest percentage of expenses is intended for food, clothing, housing (thus for satisfying the physiological needs), the population allocates a relatively small amount of money for other types of expenses. This situation is explained by the fact that for most people, the income is comprised out of wages, which most often is allocated for basic expenses, which leads to the impossibility of emergence of the saving phenomenon.

The size of a household income is a key element in determining both the living standards of the population and the level of expenses and savings. Disposable personal income of a household is the indicator that measures the income of the population available to be used in order to meet different needs. (Anghelache et al, 2007, p.121).

This paper captures a brief analysis of the income structure, expenses structure, and, also, an analysis of the phenomenon of saving existing in a household. The results underlying analysis were obtained by interviewing a sample of 500 people, and the answers were obtained through the CAWI (Computer-assisted web interviewing) collection methodology, which is also known as online interviewing. It is a data collecting technique, characterized by the speed of data collection. Getting the answers implies that each respondent receives an invitation containing a unique link, and completes the questionnaire which opens as a web page. Ensuring sample representativeness is achieved by allocating a percentage of each demographic variable, so that, once that percentage is reached, the questionnaire cannot be filled by new respondents. It is called quota sampling method, and the condition of obtaining a good sample is maintaining the designated rates (the percentage determined for each variable). (Andrei, 2001, p.83).

The structure of the sample is composed out of respondents aged between 18 and 64. The demographic variables based upon was formed sample were chosen in order to reflect the population structure in Romania and are as follows: the sex of respondents (50% women and 50% men), out of which 60% live in urban areas, while 40% live in rural areas. In terms of distribution by age group, 12% of respondents are aged between 18 and 24, 23% are young people aged between 25 and 34, 25% are aged between 35 and 44, 20% are aged between 45 and 54, while 21% are aged over 55. Besides the demographic variables described above, the sample was representative chosen in terms of the existing development regions in Romania, and also depending on the education level of the population.

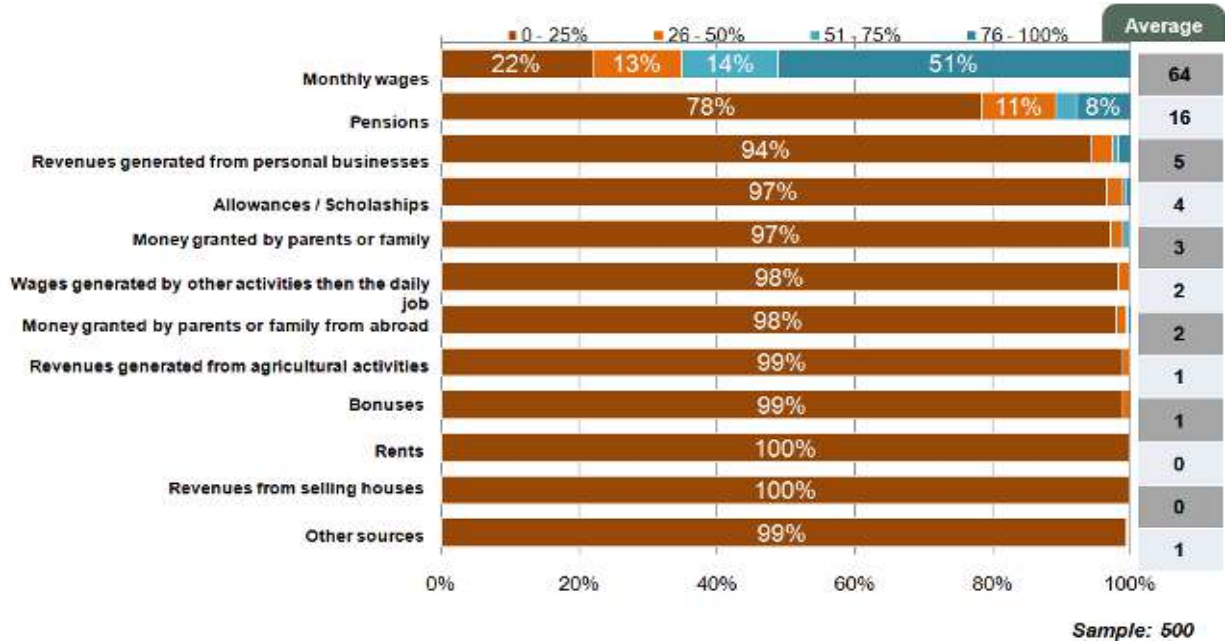
Thus, in terms of completed education level, the selected sample follows a national representative structure, as follows: 48% of individuals have graduated 8 classes, 10 classes and / or vocational school, 28% are high school and / or post-secondary school graduate, while 24% have a bachelor's degree / master /PhD certificate. When referring to the geographical region of the respondents, 9% are from the West region, 10% from the South-West region, 14% from the South region, 13% from the South-East region, 13% from the North West region, 17% from the North-East region, 12% from the Central region and 12% from Bucharest-Ilfov region.

After analyzing the results of the questionnaire it was revealed that the source that generates major monthly income is:

- Basic activities salary for 64% of the respondents,
- 16% of respondents have the main income from pension,
- Income from own business for 5% of respondents,
- Allowances / unemployment benefits / scholarships for 4% of respondents,
- The amount of money received as aid from parents / relatives in Romania for 3% of respondents,
- Salaries of additional activities outside work / jobs part time for 2% of respondents,
- Amounts received from relatives / acquaintances from abroad for 2% of respondents,

- Income from the provision of agricultural activities or lease for 1% of respondents,
- Bonuses (monthly or half-yearly / quarterly) for 1% of respondents,
- Other sources for 1% of respondents;

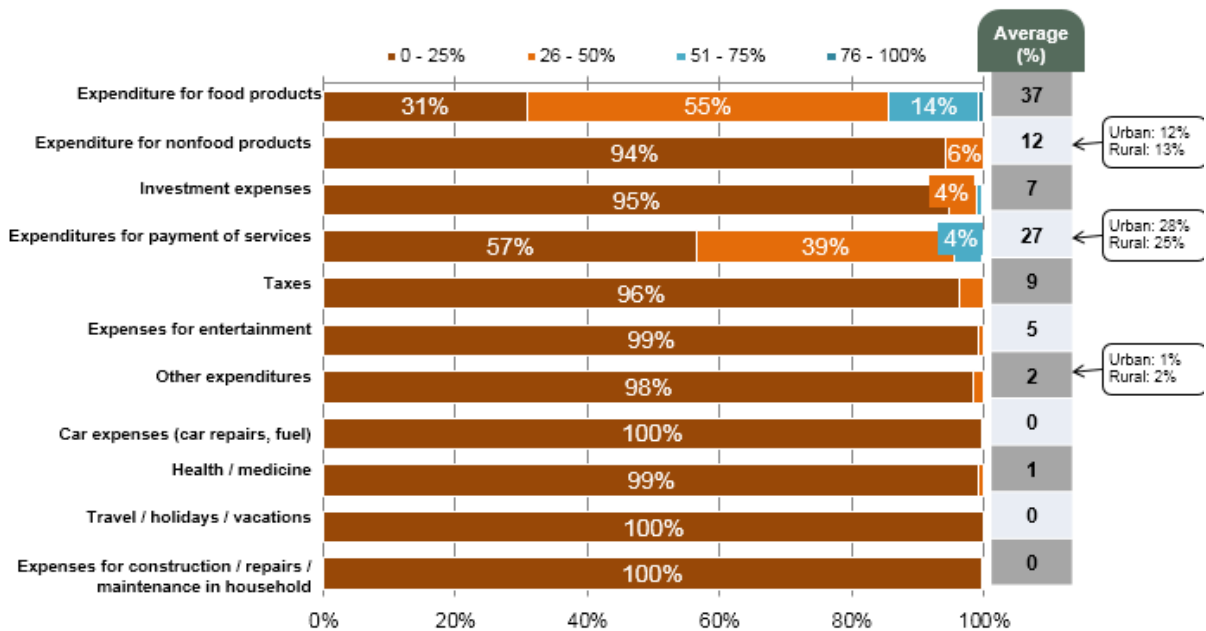
Figure no. 1. Sources of income



Source: Made by author

The results show that for recording higher revenues (which would allow the increase of both costs and savings), the population needs to attract additional sources of income (either through additional activities outside working hours, either through amounts received from relatives from both within Romania and abroad).

Figure no. 2. Expenses existing in the household

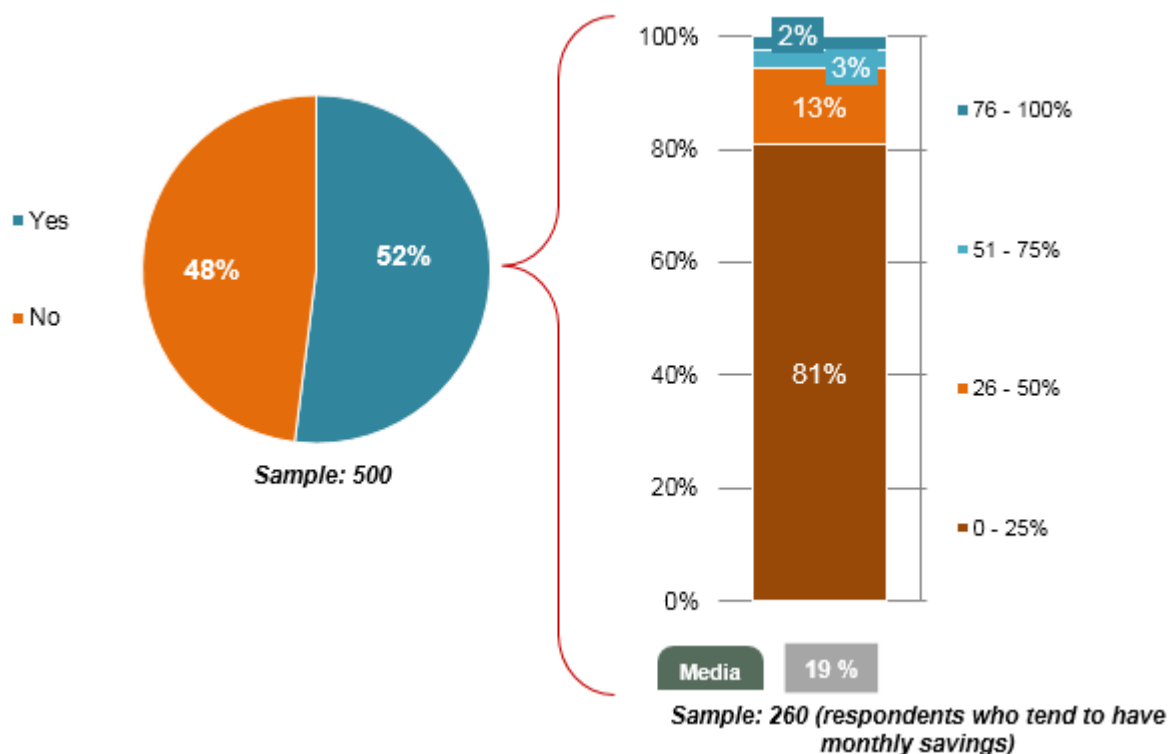


Source: Made by author

After analyzing the chart on existing expenses at a household level, it can be seen that the highest expenses are the food related ones (about 37%), followed by services expenses (27%). Other significant expenses are intended for nonfood products (12%), taxes (9%) and investment (7%). It is also noted that a very small percentage is allocated for entertainment expenses (5%), and an even lower percentage (1%) for health expenses. Most of the times, the expenses made for health examination or maintaining, as well as entertainment expenses (for culture, holidays or leisure activities) are the most important for outlining the standards of living. Given that the existing revenues reach the level of satisfying the basic needs, specifically the essential expenses (food, non-food products, and services expenses), the saving phenomenon hardly arises.

In order to perform an analysis of the saving phenomenon, the questionnaire based on which the responses were obtained, includes a section of questions which aims to identify the behavior of respondents in terms of saving. Thus, about 52% of respondents save a certain amount of money monthly, while 48 % do not save. Wanting to identify the percentage for monthly savings after all expenses are made, respondents were able to estimate this percentage by themselves. The results show that 81% of the respondent save up to 25% of total income, 13% of respondents save between 26-50% of total income, 3% save between 51-75% of total income, while 2% of respondents allocate savings between 75-100% of total income.

Figure no. 3. Monthly savings

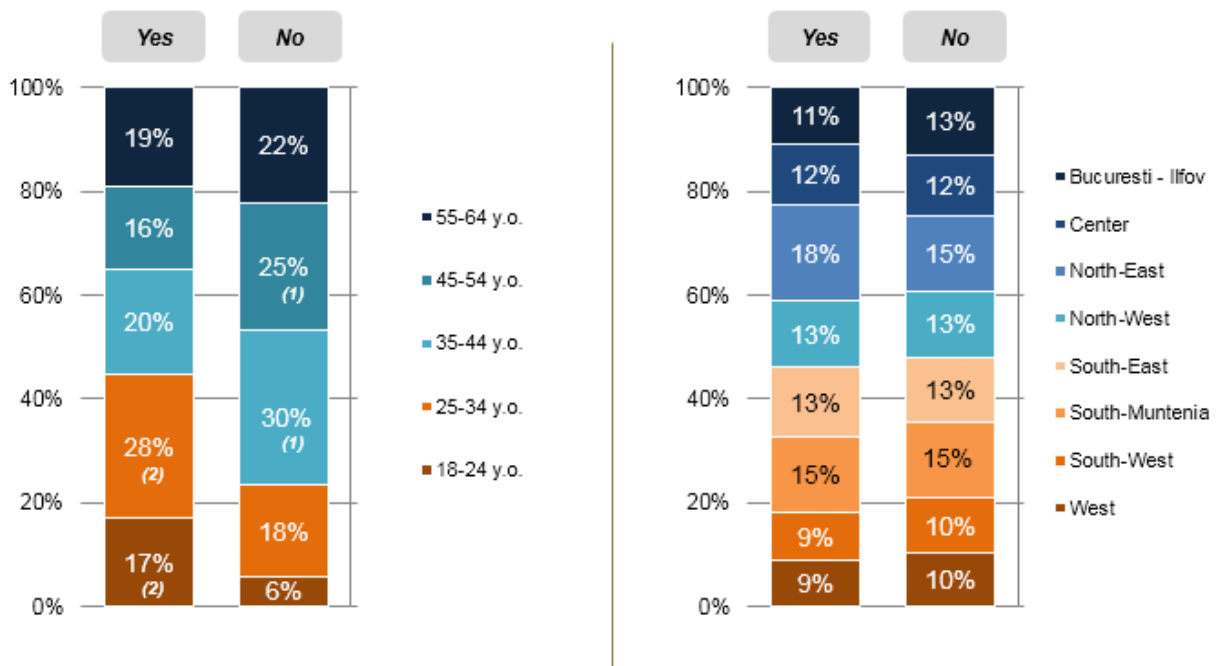


Source: Made by author

The savings that the population realize throughout the life, are aiming to create an additional revenue that might need to finance their consumption during the retirement period. (Popescu et al, 2008, p.500) The income is the main determinant of savings. The way both individuals and households save that can differ depending on the social structure from which the members of that household come. Depending on some specific characteristics, the individuals create their own saving behavior. Usually, the reasons underlying the saving process variables correlate with the population demographics (age, origin, education). Among them, the most important is the age. It is often assumed that young people have a greater propensity to save. Analyzing the respondents' answers it was found that, among respondents that use to save, there are people of all ages. The

people aged 25 to 34 register a saving behavior more pronounced. This can be explained by the fact that, usually at this age, most young people are focused on obtaining a stable financial situation and on ensuring a high standard of living in the following years. Thus the need for saving is felt, as a result of existing high income, which is related to the wish of having a high standard of living. From a region level, the saving phenomenon register higher values in the North-East and South-Muntenia regions and, in the same time, lower values in West and South-West regions. But comparing these percentages with the percentage of interviewed people in each region, the results are relatively identical. The final conclusion that can be drawn based on these findings is that, at a regional level, the saving process is similar, thus making it possible to eliminate the hypothesis that in some regions of the country, the savings are higher than in other.

Figure no. 4. Savings distribution by age and region



Sample: 500

Source: Made by author

### 3. Conclusion

Registering a high standard of living is closely related to the incomes, the expenses and consequently the savings. In the light of the importance reflected upon the fluctuation of both the expenses and savings, the income can be viewed both as a determinant factor and as an explanatory of the level of development of the entire society.

In a developed economy, a high level of income allows the existence of a higher volume of consumer expenses and, thus, a higher percentage of the designated amounts for savings. In Romania, there are many households that are unable to allocate money for other expenses than the basic ones. In these conditions, people are unable to save, being always oriented to ensure a standard of living that basic expenses occupy one of the primary concerns. This is felt mainly in rural areas, where income level is relatively low, the number of employed persons is also low, all this leading to a unfavorable description of the standards of living, given the fact that the rural population represents up to 40% of total population of Romania. In these circumstances, the expenses also register low values (because much of the population gathers food from their own resources).

Addressing policies designed to promote the importance of saving concept is required. Also, the awareness of this issue from an early age by introducing the system of education, financial education disciplines is of great importance. Thus, is promoted the importance of managing expenses and inclination towards saving. Last, but not least, the economic development in rural areas by increasing the number of employees can be a major way of action in order to increase the wellbeing throughout the whole economy.

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