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Theoretical Aspects Related to Income Indicators of the Romanian Population

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Abstract: *This study explores the different types of income and their significance in economic analysis. From a macroeconomic perspective, income serves as a key indicator for evaluating economic transformations. The classification of income includes primary income (derived from labour and property), redistributive income (social transfers), and additional income sources such as stock market earnings. The study further examines the methodologies used for income data collection, particularly household budget surveys and statistical wage studies. Lastly, it reviews key income indicators, including nominal and real wages, household disposable income, and per capita real income. Understanding these classifications and measurements is essential for assessing income distribution and economic well being in Romania.*

Keywords: *income classification; primary income; redistributive income; household disposable income; wage indicators; economic analysis; Romania; real salary; taxation policies.*

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1. Introduction

Income plays a crucial role in economic analysis, serving as a fundamental indicator of a country's economic well-being. From a macroeconomic perspective, income encompasses both financial and non-monetary resources that individuals utilise for their livelihood. The structure of income in a society depends on various factors, including labour earnings, social transfers, and capital investments.

Governments implement income policies to ensure fair distribution through taxation, social welfare programs, and support mechanisms. While primary income arises from direct economic participation, redistributive income stems from state interventions designed to enhance social equity. Additionally, personal income can be influenced by inter-family transfers, savings, and investments, making it a multifaceted economic component.

This study delves into the classification of income, methodologies for income data collection, and key economic indicators used to assess income distribution. It provides a comprehensive understanding of how different income types contribute to overall economic stability and examines the challenges associated with measuring income accurately.

2. Types of Income

From a macroeconomic perspective, (Finanţe publice, 2020) income is considered an aggregate indicator, analysed in relation to economic transformations. Social policies (Opariuc-Dan, 2009) play a crucial role in income research, determining action strategies, while for individuals, income represents a fundamental concern.

Typically, the term "income" refers to financial resources, but in a broader sense, it also includes non-monetary resources that individuals can utilise.

The total income collected by society originates from multiple sources, varies in structure and amount, and is classified as follows:

1. Primary income (labour and property income), including (Indicatori privind structura, nivelul și dinamica veniturilor publice, 2020):

- Wages from main employment, including bonuses and benefits
- Income from self-employment
- Income from occasional or additional activities
- Income from trade in agricultural and food products
- Value of goods consumed from personal production (self-consumption)
- Income from property, including dividends, interest, and rental income

2. Income from social transfers (redistributive income), including:

- Pensions
- Unemployment benefits and social support
- Child allowances
- Scholarships
- Other social assistance benefits

3. Primary income is that which family members obtain through their contribution to production and service activities, forming part of the national income. This type of income is divided into labour income and income from property and capital.

4. Income from property and capital is derived from investment agreements, such as:

- Business profits from self-employment or small enterprises
- Dividends from company shares
- Income from renting property and interest earnings from capital investments

5. Redistributive Income consists of transfers made by the state as part of national income redistribution, as well as transfers between families.

Social transfers are designed to ensure social protection, a well-defined goal of governments for improving living conditions (Cărbunaru-Băcescu, 2009). These transfers can be classified into:

- Family support benefits, including child allowances, maternity benefits, schooling grants, and scholarships
- Survivor benefits, such as pensions for dependents, death benefits, and allowances for military spouses
- Assistance for low-income families
- Compensation income, such as pensions for veterans, former political detainees, and deportees

From a social perspective, income redistribution can be vertical (from the wealthy to the poor, typically through taxation and social insurance) or horizontal (transfers within the same social group, such as charity or community assistance).

A complementary clarification is needed regarding salary packages, which are directly influenced by taxation policies and the extent to which the state supports employer-employee agreements. In a highly taxed economy, salary-based compensation can be beneficial for both employers and employees.

Vertical redistribution aims for precise and efficient allocation, including meal programs for the poor, school supplies, or clothing donations for low-income families.

Regarding inter-family redistribution, it is often non-monetary, consisting of food and non-food products given as gifts or support, as well as household services, including child and elderly care, domestic work, transportation assistance, or beauty services. These informal services have expanded due to social networks and often belong to the informal household economy.

Additional economic realities introduce distinct sources of income, such as:

- Stock market earnings, derived from the integration of capital and information
- Life and property insurance, which serve both as a savings method and as a redistribution mechanism

A major issue arises in measuring individual consumption from personal resources, including self-produced goods and inter-family transfers. One source of error is the self-reporting of goods produced and consumed within the household.

The organisation of society's income structure depends on residence type (urban or rural) and the economic status of the household head.

For example, in salaried households, wages constitute 68% of total income, while in rural households, self-consumption represents 51% of total income. Household classification into socioeconomic groups is based on the occupation of the household head. (Mnerie et al., 2012).

3. Income Data Collection

Defining national income presents various methodological challenges.

While certain income categories (salaries, pensions, social transfers) are accurately recorded through official statistics (such as the National Institute of Statistics and the Ministry of Labour), other income sources pose measurement difficulties.

The main source of income data is the Household Budget Survey, which provides insights into living standards and economic conditions.

This survey is conducted quarterly on a sample of 9,360 households, structured into monthly sub-samples of 3,120 households.

Data collection takes place in 780 research centres across all counties of Romania, including urban and rural areas. The inclusion of a household in a specific socioeconomic category is determined by the occupation of the household head. (Caragea & Alexandru, 2018)

The monthly statistical survey on wages provides essential data for calculating trends in average wages and employment levels across economic sectors. This survey analyses approximately 24,000 companies, focusing on businesses with four or more employees, covering 92.73% of total employees in this category.

Certain sectors, such as the military and national security services (Ministry of Defence, Ministry of Internal Affairs, and Intelligence Services), are excluded from the study.

The results of these surveys contribute to economic indicators such as labour cost indices and employment trends.

4. Income Indicators

Public income is distributed only to those who have generated it. Thus, individuals are first rewarded through the salaries they receive.

Owners are entitled to income from assets that generate indirect advantages. As for other groups of people, they are entitled to income derived from benefits, such as income from the ownership of patents, specifically copyright royalties. Additionally, gross income may originate from earnings generated by individuals living in properties owned by landlords, similar to the equivalent rent cost that would be paid if they did not own the respective property.

Common income indicators include:

- Nominal salary (gross and net)
- Real salary
- Real salary index
- Household disposable income
- Per capital real income
- Cash income of residents

Historically, salary has been defined in multiple ways:

- As payment for labour services
- As the cost of acquiring labour as a commodity
- As compensation for services rendered

For a long time, multiple interpretations have been given regarding the meaning of the word salary. Some scholars define it as payment for labour services or wages for work performed, others as the cost of acquiring labour as a commodity, while a third group of authors argues that it represents a sum paid to an individual who "rents out their services."

A salary represents a monetary sum received by an individual who performs productive collective work, acting as a production agent. It serves as compensation for employees, making it the most fundamental source of income for individuals.

Currently, the concept of earnings is used to define salary-based income, which includes wages and amounts paid from net profit and other sources. For simplicity, the term salary will be used interchangeably with earnings/wages.

Salary is a variable measure, constantly subject to differences between individuals. These differences arise primarily from job responsibilities, personal skills, and the nature of the work performed.

Changes in the labour force structure highlight both the level of wages and salary disparities. These differences must be carefully managed to maintain motivation for work and encourage professional development.

The real salary represents the total volume of goods and services that can be purchased at a given time using the nominal salary.

Of course, this real salary can vary from person to person and from one market to another.

$$SN = SB - R$$

Figure 1. Formula

Where: SB represents the gross salary, and R refers to deductions.

The real salary (SR) represents the monetary expression of the volume of goods and services that an employee can purchase with their net nominal salary.

Thus, the real salary reflects the purchasing power of the nominal salary, relative to a reference period (0).

The value of the real salary depends on two factors:

1. The amount of the net nominal salary (SN)
2. The consumer price index (inflation rate) ($IPC_{1/0}$)
   - For the reference period (0):

$$SR_0 = SN_0$$

Figure 2. Formula

   - For the reference period (1):

$$SR_1 = \frac{SN_1}{IPC_{1/0}},$$

Figure 3. Formula

Therefore: The real salary index (I_{SR}), which reveals adjustments in the purchasing power of the nominal salary, can be calculated in two ways:

$$I_{SR} = \frac{SR_1}{SR_0} * 100 \ (unde\ SR_0 = SN_0)$$

$$I_{SR} = \frac{I_{SN}}{IPC} * 100 \left(unde\ I_{SN} = \frac{SN_1}{SN_0} * 100\right)$$

Figure 4. Formula

At the level of the economic agent or industry sector, it is calculated as follows:

$$\overline{S_{Nl}} = \frac{FS_l}{\overline{N_l}},$$

Figure 5. Formula

$$\overline{S_{Nt}} = \frac{FS_{l1} + FS_{l2} + FS_{l3}}{\overline{N_t}}$$

Figure 6. Formula

$$\overline{S_{Na}} = \frac{FS_{l1} + FS_{l2} + \cdots + FS_{l12}}{\overline{N_a}}$$

Figure 7. Formula

In applied economics, average nominal and real wages are calculated monthly based on statistical surveys. Due to the increasing number of economic agents, a sampling method has been used since 1991 instead of a full census.

Personal household income consists of:

- Earnings from labour and property
- Social transfer income

Household disposable income is calculated after taxation and deductions, reflecting the amount available for consumption and savings.

Real per capita income is the total available income adjusted for the consumer price index.

These economic indicators are essential for evaluating income distribution, purchasing power, and economic well-being in Romania.

5. Conclusion

Income is a fundamental economic component, influencing individual well-being and national economic policies. The classification of income into primary, redistributive, and additional sources allows for a detailed understanding of how financial resources circulate within society. Measuring income accurately remains a challenge, requiring robust data collection methods such as household surveys and wage studies.

The assessment of key income indicators, including nominal and real wages, disposable income, and purchasing power, provides insight into economic disparities and financial stability. The findings highlight the importance of policy measures in ensuring fair income distribution and enhancing economic sustainability. As Romania continues to develop its economic infrastructure, a focus on effective taxation policies and social transfers will be essential in maintaining economic balance and improving overall quality of life.

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