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# Income and Material Deprivation - Important Factors On Poverty Reduction and Social Inclusion

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## ABSTRACT

*The paper will be focused on the state of art in the field of social inclusion in relation with the income and material deprivation, main components of material dimension of life quality.*

*A particular concern should be attributed to the prevention of poverty and social exclusion, more specific the measurement of the risk of falling into poverty or social exclusion. Moreover, this is also one of the main objectives of the Europe 2020 Strategy. Therefore, the paper will emphasize the situation for the Romanian society in respect of poverty and social inclusion including trends and characteristics.*

*The topic is of high actuality and the findings of the paper will show the main areas where the national policies and strategies should be tailored for an adequate implementation with the aim of reaching the proposed targets.*

**Keywords:** *income, material deprivation, risk of poverty, social inclusion*

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## INTRODUCTION

Between quality of life and social inclusion is a connection with double meaning, which depends mainly on the perspective you have when you want to act in the sense of decreasing or increasing one of them.

One could say that both concepts are faces of the same coin. Thus, social inclusion is seen as a process to ensure that persons below the poverty line receive the necessary resources to participate in economic and social life and enjoy a quality of life considered normal in the society in which they live (Commission of European Communities, Joint report of social inclusion, 2003). Identifying individuals who are at risk of poverty or social exclusion is achieved by evaluating the material dimension of quality of life. Social inclusion also ensures that groups and persons situated below the poverty threshold have greater participation in decision making which affects their lives and that they can access their basic rights. On the other side, social exclusion means the lack of certain resources, goods or services, as well as the incapacity of the people to take part into the normal relations and activities within the society, no

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matter if these belong to the economic, social, or cultural domain (Levitas et al, 2007). Exclusion affects both the people's quality of life and the whole society's equity and cohesion.

Quality of life is a multidimensional concept that captures the evolution of a group of people or an individual, his identity, the nature of life, his own experiences, lifestyles and his perceptions about himself. This is a concept of evaluation, reporting of living conditions and activities that make up life, needs, values, human aspirations. It refers both to the global assessment of life and to the evaluation of different conditions or spheres of life. The most important dimension of life quality is that which refers to material aspects. Material dimension capture all the economic conditions regarding people's material status, as for example: income, living condition and endowments with durable goods. It is reflected most clearly through economic aspects, in particular on income. Closely associated with material well-being are different aspects of the quality of living environment, quality housing, the endowment with durable goods and the quality of neighborhood.

This paper presents in the following the main aspects of material quality of life and social inclusion in Romania. The indicators presented below are used by Romanian Government for developing the National Action Plan on reducing poverty and social exclusion, main objectives of the Europe 2020 Strategy<sup>1</sup>.

## **INCOME AND MATERIAL DEPRIVATION**

Quality of life, even for its non-material dimensions, is limited in different ways by economic conditions that reflect the household's management over their resources and endowment with durable goods. Material resources are the only ones that could eventually be transformed into wealth, according to each individual's preferences and capabilities. Thus, economic conditions provide a framework to measure the potential of individuals and households to achieve and ensure their own quality of life.

### ***Income***

Income, gave the measure of a person's or a family's material situation and makes a direct liaison between the material quality of life of individuals and the risk of social exclusion through the poverty line. From the point of view of the individuals, the population's income is the current resource they have to daily needs. Thus, the well-being of society requires a certain type of income distribution, according to which people have an income that allows optimal access to goods, services and information needed in their development.

Income represents regular inputs in household account, a measure of the resources available to households for consumption and savings.

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1. The Romanian Government has undertaken to reduce the population at risk of poverty after social transfers (PERS.) with people, of 580.000 to 5,01 million in 2020 from 4.43 million in 2008

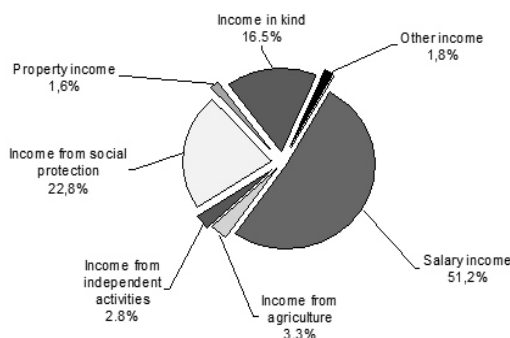
Population derives income in cash and in kind. Money income consists of income from work (wage income and income from self-employment in agriculture and non-agricultural) property income, income from social benefits (pensions, benefits, allowances and social benefits) and other income (transfers from other households for example). Income in kind includes the consumption of agricultural products from own resources (household production, in-kind transfers from other households, etc.) and value of the products and services they receive, free or reduced payment, employees and persons covered by systems social protection (Canberra Group, Handbook on household income statistics, 2011) .

According with Household Budget Survey results carried out by National Institute of Statistics, the main source of total household's income represented both in 2013 and last year, the monetary income (83.5%, up 1.1 percentage points compared to 2012).

The structure of income by sources shows that the higher proportion of income is from salaries (51.2%). However, their contribution to income is low compared to that which characterizes the developed market economies. This is related to the relatively small number of employees in the composition of households (0.8 persons/household). The structure of total household income in 2013 noted also a significant share of income in kind (16.5%, down 1.1 percentage points from the previous year). Income from social benefits represented 22.8%.

### The structure of household's total income by sources, in 2013

Figure 1



Source: Household Budget Survey, National Institute of Statistics 2013

Nevertheless, the general trend is the increasing percentage of salary income and the decreasing of income in kind. In opposition with the tendency of the proportion of salary income in total household income is the employment rate that decreased from 58.3% in 2001 to 51.1% in 2012 and 2013 (Labor Force Survey, NIS) In fact, the evolution of the total income structure presented in the table below (Table 1) shows that for income from social protection, income in kind and income from salary appear changes in time.

The income from social protection proportion in total household income increased from 19/5% in 2001 to 25.7% in 2010 when the highest proportion was achieved. This income is affected by government policy which in the last years was focused on offering income support for people at risk of poverty or social exclusion (family allowances, minimum guaranteed income, income support for heating etc.). In the Action Plan for the National Social Inclusion Strategy for the period 2014 – 2020, the government is changing the policy from increasing the benefits for social protection to creating new employment opportunities and to promote equal opportunities by three main measures for reducing poverty and social protection: (i) increasing the level of skills, education and experience on labor market of poor people and those coming from vulnerable groups; (ii) increasing the rate of employment of these individuals/groups; and (iii) the implementation of measures that would increase the wage rates of the target group (as well as measures aimed at reducing discrimination). However, these measures will only be effective if they are not partially accompanied by economic policies to influence demand through the creation of jobs (National Strategy on social inclusion and reducing poverty, 2014-2020).

### The structure of household's total income by sources (%)

Table 1

	2001	2010	2011	2012	2013
<b>Income from salary</b>	44.9	49.3	48.7	50.1	51.2
<b>Income from agriculture</b>	4.2	2.8	3.1	3.4	3.3
<b>Income from independent activities</b>	2.4	2.7	2.6	2.6	2.8
<b>Income from social protection</b>	19.5	25.7	23.8	23.1	22.8
<b>Income in kind</b>	24.7	14.2	16.5	15.7	16.5
<b>Other income</b>	4.3	5.3	5.3	5.1	3.4

Source: Author's computation based on Household Budget Survey results, National Institute of Statistics

Money income of households expresses the ability, strength and their ability to engage in market relations that are generally characterized by relatively low levels, even very low for some categories of households, with implications for the level and structure of consumption, saving capacity and national economic development.

In 2013, the ratio of money income achieved on average by a household in the first and last decile was 1: 7.3 and 1: 13.8 for money income average per person. Their share in total income was 52.6% in the bottom decile and 94.2% in the upper. The monthly average money income of households in decile D1 represented 31.4% of the money income of all households, while those in decile D10 were 2.3 times higher. All persons from the first decile are poor or at risk to be poor, their income representing only a third from all households income.

When analyzing the evolution of these ratios in the period 2007 – 2010, presented in Table 2, the main remark that could be underlined is that the ratio between

monetary income achieved by households from first decile and last decile decreased each year from 1:10 in 2010 to 1:7.3 in 2013. So, in other words, the differences in terms of monetary income gained by the households/persons in the top and bottom decile are diminished mostly because of the increasing of monetary income of household/persons from first decile (proportion of monetary income in total households income was 46.8% in 2007 as compared with 52.6% in 2013). The highest percentage was attained in 2010. These increases of monetary income owned by households in the first decile could be an effect of government social protection system.

**Ratios of monetary income gained by households from first and tenth decile (%)**

*Table 2*

	2007	2008	2009	2010	2011	2012	2013
<b>Monetary income per household D1/D10</b>	1:10	1:9	1:7.6	1:7.0	1:7.1	1:6.9	1:7.3
<b>Monetary income per person D1/D10</b>	1:16	1:14	1:13.3	1:13.1	1:13.4	1:12.9	1:13.8
<b>Proportion of monetary income achieved by household in D1 in total households income</b>	46.8	51.3	53.0	53.2	50.3	50.1	52.6
<b>Proportion of monetary income achieved by household in D10 in total households income</b>	93.0	93.8	93.7	94.6	93.1	94.0	94.2

*Source:* Author's computation based on Household Budget Survey results

Disposable income is the part of income that households remain available for cover consumption expenditure and saving. This is determined by subtracting the household income tax on income and social insurance contributions under their charge as well as expenses related to household production (cash and in kind).

Average disposable income per person differs from one population category to another, by the occupational status and educational level of the people who compose the household, household size and the number of children in household maintenance, to the area and the region in which the household (Table 3).

## Disposable income per category of household head occupational status, 2013

Table 3

	Total Households	Households of:				
		Employees	Selfemployed in nonagriculture activities	Farmers	Unemployed	Pensioners
<b>Disposable income, lei</b>						
- monthly average per household	1943,9	2548,7	1689,5	1130,2	1403,2	1688,5
- monthly average per person	680,5	831,6	473,4	327,6	414,4	703,0
Percentage in total income, %	76.0	74.5	85.8	53.9	83.0	81.5
<b>In % on total household</b>						
- monthly average per household	100.0	131.1	86.9	58.1	72.2	86.9
- monthly average per person	100.0	122.2	69.6	48.1	60.9	103.3

Source: Household Budget Survey, NIS 2013

Disposable income is an indicative of overall material living standards and its distribution determines who has access to the goods and services produced within the economy. As why, the median disposable income is used in the relative method for measuring poverty. People tend to compare their economic status and material living conditions with those who have approximately the same status (most of the time higher) and to adjust what they experience as their needs accordingly, in a relative manner.

The multiplicity of combinations of the various features of households and persons characteristics that are factors of income differentiation causes a relatively high degree of income inequality, as reflected by the estimated average disposable income decile of the distribution of income per person. The ratio of disposable monthly average income per household from extreme deciles of households represented 3.6: 1 and the monthly average per person ratio is situated around 6.8: 1. Thus, it can be estimated that in the last years the level of welfare that can be achieved on the basis of disposable income was around 7 times higher for households in the top decile, than in the case of the bottom decile, or in opposition the persons situated in the first decile are 7 times poorer in monetary terms compared with those in tenth decile.

### **Material deprivation**

Material deprivation measures the incapacity of people to ensure normal living conditions for the current stage of development of society.

The lack of material goods is mainly due to the lack of financial resources. However, it must be said that material deprivation may be induced by other non-monetary factors, which are the characteristics of individuals (sex, age, level of education, health, employment status, etc) or the socio-economic environment in which people live (area of residence, overall community development, employment, etc). For better

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defining the material living conditions Eurostat developed a system which includes three dimensions:

- Economic material deprivation refers to the economic situation of the household that does not allow the persons who compose it to:
  - Pay on time without drawbacks some utilities and other current liabilities;
  - Pay an annual holiday weeks;
  - Consume meat or fish at least once every two days;
  - Ensure adequate heating of the dwelling;
  - Ability to deal with unknown expenditure.
- Material deprivation in terms of endowment with durable goods is the lack of household equipment with durables considered basic for a living: washing machine; color TV; telephone (fixed or mobile); computer; personal car.
- Material deprivation in terms of poor quality housing conditions refers to some features of the house, which influence the quality of life in the household:
  - Household water leaking through the roof of the building, damp or floors damaged;
  - Dark dwelling with insufficient natural light;
  - House with bathroom / shower inside;
  - Bathroom house with its own indoor usage.

The situation of *economic deprivation* could be considered the most difficult to support because it affects several important aspects of life in the household. Lack of financial resources means that some people can not sustain the costs imposed by the consumption of basic food products, the proper maintenance of the dwelling, the payment of current obligations and payments, the provision of rest in holiday outside the household, and the coverage of unexpected financial needs.

In 2013, according with the EU Survey on income and living conditions rezults (EU-SILC), in the total population of Romania, people who suffered from lack of one or more items of economic deprivation had a high share, representing around 80%. Most frequently are the situations in which people say that they are affected by a single issue (22%), or that they are affected by two problems (24%).

In terms of incapacity to pay an annual holiday week or financial inability to face unexpected situations, 75% and over 50% of the population was in one in these two situations.

Compared to the previous year, can be mentioned a significant decrease in the number of people who cannot pay annually a week off with 3.5 percentage points and a decrease of one percentage point to those who put in an unpredictable situation, cannot cope with the expenses of their own resources.

Poor *endowment with durable goods* is another feature of material deprivation. Due to financial inability, the absence of one or more type of goods: washing machine, color TV, telephone, computer or car makes that the person cannot take full advantage of current technology materials, which can be considered a form of social exclusion.

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In 2013, EU-SILC results reveal that 24.9% of people suffer the lack of one of the five durable goods mentioned above and around 13,4% of people the lack of two goods. As compared with the year before the proportions decreased with one percentage point and respective 1,5 percentage point. People in a state of deprivation in terms of endowment, represented 46.9% of the total population, the proportion declining year by year but still very high compared with other EU member states.

*Housing conditions* may, in certain circumstances, cause serious deprivation if we consider that in the long run, it can even affect the health of the population. It is the case of the improper housing characteristics, such as the existence of damp walls, windows damaged, lack of proper lighting housing, lack of bath / shower or the toilet inside the house.

In Romania, in 2013, housing problems affect about 42% of people. Most acute deficiencies of the Romanian population on housing conditions are the lack of an inside home bath / shower or bathroom: 35% and 37%. Also of 15.0% of persons live in dwellings with walls or damaged floors.

Compared to previous years, the share of people who are experiencing the absence of adequate living conditions (already mentioned above) is declining.

## SOCIAL INCLUSION

The connection between material aspects of quality of life and social inclusion/exclusion was made by Eurostat creating a composite indicator - "At risk of poverty or social exclusion"(ARPE), that combine disposable income as poverty threshold, with elements of material deprivation and with intensity of households members work. The main purpose of this indicator was to monitor the progress the Strategy – Europe 2020 objective, namely to reduce the poverty and social exclusion by the year 2020.

Corresponding with Eurostat definition, a person is at risk of poverty or social exclusion if it is in at least one of the following:

- at risk of poverty, meaning below the poverty threshold (60% of median disposable income per equivalent person);
- in a situation of severe material deprivation;
- living in households with very low work intensity.

First category is in fact the poverty rate<sup>1</sup> which gave the measure of the poor people as compared with a relative threshold, established as 60% of the median disposable income per adult equivalent. The second category, severe material deprivation, is a kind of absolute component and refers to people who, due to lack of financial resources cannot afford at least four of the nine elements considered essential for a decent life. The third reflects the exclusion from labor market and represents the

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1. There are different poverty lines that can be compiled according to the different approaches to poverty: absolute, relative and subjective poverty lines. For this paper was chosen the relative method recommended by European Commission for comparability reasons between EU member states.



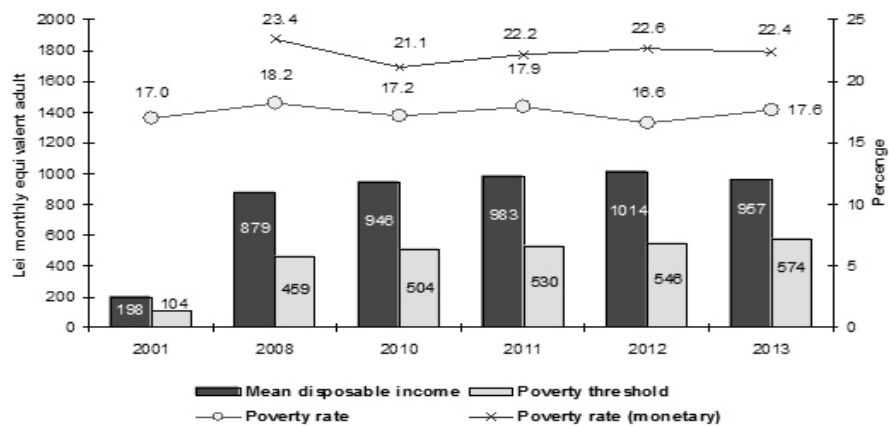
members of households in working age (adults aged up to 60 years) having worked less than 20% of their potential employment in the last year.

In Romania case, the poverty rate indicator is calculated by using two types of income: total disposable income (including self-consumption) and monetary disposable income (excluding self-consumption). This method is used because in Romania, the self-consumption still plays a very important part in the income source distribution.

During the period 2008 - 2012, poverty rate calculated based on monetary disposable income (excl. self-consumption) was around 22% and reach its highest point in 2008 (23.4%) and the lowest in 2010 (21.1%). Calculated using total disposable income, the rate is lower but the evolutionary trend, during these years, fluctuates in the same way as the rate calculated using monetary disposable income as threshold (Fig.2).

**Poverty rates, mean income and poverty threshold**

*Figure 2*



Source: Author's computation based on Household Budget Survey results

In the period 2008-2013, in Romania, the severe material deprivation rate had the lowest value (26.9%) in 2013 and the highest in 2009 (29.2%). Important to underline is that the severe material deprivation is reducing each year but the rate remain still high, mainly influenced the young persons aged 18 – 24 years old, who live in conditions of severe deprivation (Table 4)

### Severe material deprivation rate by age group (%)

Table 4

Age	2008	2009	2010	2011	2012	2013
<b>18-24 years</b>	31.8	32.3	31.1	32.3	31.6	30.7
<b>18-59 years</b>	29.1	29.2	28.5	27.1	27.8	26.8
<b>higher 18 years</b>	30.8	29.9	29	27.1	27.5	26.9

Source: EU Survey on income and living conditions (EU-SILC) carried out by National Institute of Statistics

It is undeniable that to have a job is critical to ensure proper living conditions. At the same time it is desirable that the activity would have, if possible, the character of continuity and make full use of the capacity to work, so that the benefits can be activity rebounds in the standard of living of the person. In particular, the composition and characteristics of households are extremely heterogeneous, influenced by the number and sex of members, age, education and occupation, as well as other factors \ demo-socio-economic.

Regarding the households where working-age adults have worked less than 20% of their employment potential, in 2013 in Romania, 893.9 thousand people were up to 60 years. When compared to 2009, the number of persons in households with very low work intensity, dropped by 261 thousand persons.

In general, one can say that AROPE indicator shows a situation much worse than that resulting from the analysis of actual poverty rate (40.4% compared to 22.4% in 2013). The evolution of the rate in the period 2008 – 2013 had a tendency of decreasing (44.2% in 2008 to 40.1% in 2013), with the 2012 exception when the rate had a pick. When analyzing the evolution of the rate by groups of age in the period 2008-2013, children aged less 18 years still are situated at risk of poverty or social exclusion (over 48%) compared with the elderly which seems to have a risk to be poor or social excluded. The main factors that led to this situation are the composition of the household in which they live and the situation on the labor market to parents.

### At risk of poverty or social exclusion rate (AROPE)

Table 5

Age		2008	2009	2010	2011	2012	2013
<b>TOTAL</b>	Thou. pers	9418	9111.8	8890.2	8629.6	8907.1	8600.8
	%	44.2	43.1	41.4	40.3	41.7	40.4
<b>18-64 years</b>	Thou. pers	5753	5673.5	5672.2	5547.7	5535.8	5592.9
	%	41.0	40.5	39.7	39	40.2	39.4
<b>higher 65 years</b>	Thou. pers	1556.6	1357	1280.2	1128.9	1287.1	1126.4
	%	49.2	43.1	39.9	35.3	35.7	35.0
<b>less 18 years</b>	Thou. pers	2108.3	2081.3	1937.8	1953	2084.2	1881.6
	%	51.2	52.0	48.7	49.1	52.2	48.5

Source: EU Survey on income and living conditions (EU-SILC) carried out by National Institute of Statistics

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## CONCLUSIONS

The aim of this paper was to present the situation existing in Romania related to the material aspects of life quality and the social inclusion. The descriptive analysis was made using the results of two important surveys carried out by National Institute of Statistics: Household Budget Survey and EU Survey on income and living conditions.

The main conclusions that could be raised from the analysis presented in the paper are that in Romania, general material aspects of life quality in terms of income and material deprivation are improving:

- The structure of income has slightly changed – monetary income grow (especially income from salary) and income from self-consumption decrease;
- The ratio between monetary income achieved by households from first decile and last decile decreased each year from 1:10 in 2010 to 1:7.3 in 2013;
- The proportion of monetary income achieved by household in D1 in total households income increase;
- The welfare that can be achieved on the basis of disposable income was around 7 times higher for households in the top decile, than in the case of the bottom decile;
- In 2013, people in a state of deprivation in terms of endowment, represented 46.9% of the total population, the proportion declining year by year, but still very high compared with other EU member states
- In 2013 as compared to previous years, the share of people who are experiencing the absence of adequate living conditions is declining;
- The evolution of the “At risk of poverty or social exclusion” in the period 2008 – 2013 had a tendency of decreasing.

Quality of life and social inclusion are the two main objectives of all recent socio-economic strategies, including the sustainable development. As quality of life is a multidimensional concept further analysis should be focused on finding out other dimensions which may have an important impact on social exclusion. Integrated indicators must be constructed to allow breakdown by gender and regional level, and to contain specific indicators measuring the quality of life that exists in the European Strategy 2020 platform, offering the possibility of monitoring them. Also integrative approach indicators by factor analysis will help identify and measure the impact of factors influencing quality of life and social inclusion.

Improved quality of life should be a goal of both social policy and economic policy.

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