

# SOME CONSUMPTION BOUNDARIES IN THE STANDARD FRAMEWORK DURING TRANSITION

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**A**bstract. Comparative to standard consumption based on the theory of permanent income within a functional, mature market economy, we have identified for the population's households consumption in Romania during transition some boundaries in this respect:

- Firstly, the existence of a completely imbalanced structure of expenditures having as dominant the food consumption;
- Consequently, an exaggerated ratio between two large expenditure segments which we have designated as compulsory expenditure/optional expenditure, to the detriment of the second segment;
- Finally, probably the most important feature was the high contribution on sub-periods (of incomes and monetary expenditures decreases) of self-consumption in satisfying the consumption needs which triggered for a good part of them the satisfaction outside market transactions, self-consumption building itself into a substitute of negative saving.

**Key words:** self-consumption, positive saving, negative saving, compulsory expenditure/optional expenditure

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Consumption, next to investments and net export, is an important building brick of aggregated outcomes/expenditures. Even in the context of the current international economic crisis and in spite of the consumerism drive at the origins of the crisis, there are opinions (less in Europe and more on the American continent) supporting the continued stimulation of consumption that would contribute to improving production and employment.

In the present approach we proceed to analysing consumption from micro-economic perspective, regarded through the prism of household's consumption function embedded in domestic household's budget.

Within this brief analysis we have identified two major characteristics by means of their potential to characterise the current stage of consumption in Romania.

Firstly, it deals with the high share of consumption satisfied outside market transactions based on agricultural food products consumption from own resources; the weight of self-consumption by deciles was almost uniform during the years of high contraction of monetary incomes and rather differentiated after a few years of economic turnaround.

Secondly, we highlight the high value of the compulsory expenditure/optional expenditure ratio of consumption which makes a high large part of the domestic household to represent just transitory income for the family budget, inhibiting even a minimum display of consumer's personality from the perspective of the consumption act.

## **1. Impact of macroeconomic development on main incomes of the population's households**

The inflationary pressure displayed not equally but rather strongly during the entire transition period was the one giving the lead for macroeconomic management. Yet, we believe that the macroeconomic development marked by strong contraction in certain years was not only subject to inflationary pressure, but lastly also circumscribed to the normal, cyclical evolution of the economy.

It is well-known that in Romania, as in other East-European countries, the macroeconomic body underwent in-depth structural changes that induced temporarily inevitable high contractions (as it can be noticed above from GDP development in the period 1997-2000). Consequently, under the impact of inflation and of the restrictive income policy, the main income categories for the population, the real average wage and the real average pension underwent strong erosion, the real average pension being maintained several consecutive

years at less than half of its level before 1990. This high erosion hindered the rehabilitation trend of the last years of integrally compensating the real terms loss, against the beginning level of the year 1990 for the largest part of the interval (only in 2007 for the real wage and in 20008, respectively, for the real pension it was possible to recover the gap with the initial level of 1990).

**Table 1. Yearly development of GDP, inflation rate and main incomes of households**

	GDP	Inflation rate <sup>1)</sup>	Real average wage earnings	Real average pension
1990	100.0	5.1	100.0	100.0
1991	87.1	170.2	81.5	74.3
1992	79.4	210.4	70.8	63.1
1993	80.6	256.1	58.9	56.3
1994	83.7	136.7	59.1	55.0
1995	89.6	32.3	66.5	61.4
1996	92.5	38.8	72.7	63.1
1997	88.0	154.8	56.2	50.3
1998	86.1	59.1	58.4	49.2
1999	85.8	45,8	57.0	47.2
2000	87.9	45.7	59.4	44.0
2001	92.9	34.5	62.4	46.6
2002	97.6	22.5	63.9	48.2
2003	102.7	15.3	70.8	51.6
2004	111.4	11.9	78.3	57.7
2005	116.1	9.0	89.5	62.3
2006	125.3	6.56	97.4	68.1
2007	133.2	4.84	111.8	83.6
2008	142.9	7.85	130.3	112.1
2009	133.5	5.59	128.3	125.7
2010	131.4	6.09	123.6	122.6

**Note:** <sup>1)</sup> Preceding year=100.

**Source:** calculations based on data from the Statistical Yearbook of Romania, NIS, various editions.

Focusing the present analysis on some important aspects for consumption incomes and expenditures of the population requires unavoidably a series of

theoretical references regarding the role of consumption. At inferior levels of complementary income, consumption can be fed by negative savings. Yet, as in Romania positive consumption lacked consistency as well, it becomes clear that negative consumption could not constitute a trustworthy and significant source for supporting consumption expenditures during transition, in particular during the high contraction periods of monetary incomes.

In a compensatory manner, the solution emerged almost by itself, from the initiative of the private household to satisfy an important part of consumption expenditures based on agricultural food products obtained in the own household (self-consumption).

The consumption of agricultural food products from own resources replaced largely the proper consumption expenditures during a large sub-period of transition (which allowed for constituting a series of comparable data regarding the incomes and expenditures of population households).

## **2. Self-consumption - a correction factor of consumption expenditures**

Highlighting the role of self-consumption in supporting consumption expenditures was revealed both by analysing the consumption expenditure structure and by the contribution of consumption from own resources to constituting the assembly of resources (total incomes) intended for the populations' consumption.

The incomes structure as a source of feeding consumption considers the ratio between total nominal income to the total monetary income, as well the one of total monetary income to the available monetary income.<sup>1</sup>

This last comparison between the total monetary income and available monetary income highlights the fact that during periods of production and income decline, softer taxation and more generous social protection make available income fluctuate less than gross income. This characteristic is verified in particular during the period 1997-2000 which is earmarked by consistent decline in monetary incomes.

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<sup>1</sup> The difference between total nominal income and total monetary income is given by the share of self-consumption. The available monetary income is obtained from the total monetary income by deducting the following expenditure categories: the amount of taxes and duties and expenditures for the household production.

**Table 2. Incomes indices in constant prices  
(monthly averages per capita in the average household)**

Years	Total nominal incomes	Self-consumption	Monetary incomes			Available monetary income
			Total	of which		
				Wages	Social protection	
1995	100.0	100.0	100.0	100.0	100.0	100.0
1996	107.19	116.92	102.56	102.07	105.34	102.65
1997	86.89	99.78	81.15	75.22	97.12	81.87
1998	83.44	89.74	81.12	75.38	98.25	83.46
1999	76.77	81.35	74.98	67.44	99.37	77.11
2000	75.45	84.61	71.22	62.57	95.76	77.51
2001	81.34	56.32	84.00	83.27	99.97	81.41
2002	84.00	53.82	88.81	88.85	103.55	85.66
2003	90.38	54.44	93.95	92.33	109.41	93.55
2004	104.73	53.56	110.13	106.54	127.03	109.34
2005	107.70	52.03	118.94	116.20	138.52	120.29
2006	115.95	50.14	129.81	130.55	145.10	130.40
2007	134.98	51.78	151.95	158.11	167.89	150.69
2008	158.49	54.57	182.67	188.35	215.44	180.60
2009	163.58	55.74	189.85	190.06	248.68	188.09
2010	153.84	54.48	179.02	173.17	248.69	178.29

**Source :** Aspects regarding the population's living standard in the year 1996, 1998, 2000; Coordinates of the living standard in Romania. Population's incomes and consumption in the year 2002, 2004, 2006, 2008, 2010, NIS.

The second comparison, between total nominal income and total monetary income is intended to underpin the role of self-consumption in sustaining population consumption. Similarly during the same period 1997-2000, characterised by high compression of monetary income, self-consumption contracts (in real terms) to a much lesser extent, attenuating the high fluctuation in total income. Yet, after 2001, together with the beginning of the economic turnaround and of income increase, self-consumption faces a fall to a higher share extent than the initial level of 1995, a trend maintained up to 2006, and thereafter it records a certain increase.

Consumption evolution in the analysed period as regards the self-consumption contribution to income formation or as part of total consumption expenditures does not represent but replicate the essence of the theoretical framework of

consumption based on the permanent income theory: any individual and any household display in time a somewhat inertial consumption behaviour, irrespective of the income adjustment trend, realising in a short time positive saving until the permanence of income increase turns into certainty, or resorting to negative saving until the irreversibility of its decrease becomes apparent.

Due to the low level of the assembly of monetary incomes of the population for the entire transition period, sustaining and flattening of the current consumption trend in Romania's average household were not realised under this standard form provided by the consumption theory, by means of savings, but by an original formula: the contribution of households to the monetary resources intended for consumption, with agricultural food products from own resources, which was intensified in particular during the period of monetary income decrease, thus absorbing the shock of real incomes.

We consider that this original contribution to satisfying consumption might be valorised also in the future by encouraging a decent, constant share of self-consumption within the total consumption expenditures that would allow, even under the conditions of modest monetary incomes on a predictable time horizon, for diversifying and qualitatively increasing consumption which otherwise under the given circumstances would be impossible.

This position should not be interpreted as encouraging a permanent ascending trend of this consumption fraction, satisfied outside market transactions that would move the consumption behaviour of the current household undesirably close to the one practiced during the first labour division.

The general consumption characterisation can be based only on the average household, but it would hide significant features for the complex evaluation of the promoted consumption model.

Thus, the high and constant rate for several consecutive years of self-consumption contribution to total income formation, which varied only between 31% and 29% in the period 1996-2000 at the level of the average household, is less differentiated by deciles even at the level of the decile extremes: the inferior deciles record a constant self-consumption rate of 40% - 41% for the entire period, and for the superior deciles a weight that registers a decrease from about 27% to 22%-21% (Table 3).

**Table 3. Contribution of self-consumption to income formation  
(weight of self-consumption in total incomes)**

	1997	1998	2003	2004	2005	2007	2008	2009	2010
<b>D<sub>1</sub></b>	40.8	41.5	68.5	60.0	54.3	51.7	46.8	45.3	45.1
<b>D<sub>2</sub></b>	36.3	36.1	51.6	46.7	41.6	40.1	33.8	31.8	31.0
<b>D<sub>3</sub></b>	34.3	33.9	44.7	40.1	33.2	32.5	27.2	26.0	27.3
<b>D<sub>4</sub></b>	33.1	32.4	36.6	35.1	26.4	25.1	21.7	20.7	20.8
<b>D<sub>5</sub></b>	31.8	30.7	28.1	26.4	21.1	20.9	17.0	16.4	17.1
<b>D<sub>6</sub></b>	31.7	30.4	22.1	21.5	17.8	15.9	13.8	13.0	13.8
<b>D<sub>7</sub></b>	31.2	28.8	17.7	17.3	13.5	11.6	10.4	10.0	10.6
<b>D<sub>8</sub></b>	31.5	28.8	13.8	13.2	10.4	9.0	7.7	8.0	8.4
<b>D<sub>9</sub></b>	31.3	27.6	10.9	11.7	8.4	6.6	6.2	5.7	6.0
<b>D<sub>10</sub></b>	27.4	21.2	6.2	6.8	5.3	4.3	3.5	3.9	3.6
<b>Total households</b>	31.7	29.1	23.3	21.8	17.3	15.8	13.8	1.7	14.2

**Note:** D<sub>1</sub>, D<sub>2</sub>, ..., D<sub>10</sub> Represent the income deciles of population's households.

**Source:** Coordinates of the living standard in Romania in the years 2003, 2004, 2005, 2007, 2008, 2009, 2010. "Aspects regarding the population's living standard in the years 1997, 1998".

Thus, for several consecutive years, precisely in the decline period of monetary incomes around a high weight of self-consumption (31%-29%) registered at the level of the average household and justified by the insufficient monetary incomes, the deviation was only 10% in both directions.

The years 2004 and 2005 represent a completely different situation. The weight of self-consumption at the level of the average household decreases to 21.8% (2004) and even 17.3% (2005); yet, the range of self-consumption weights corresponding to the deciles undergoes an extreme amplitude from 60% (D<sub>1</sub>) to 6.8% (D<sub>10</sub>) in 2004 and from 54.3% (D<sub>1</sub>) to 5.3% (D<sub>10</sub>) in 2005. Hence, if in the years 1997 and 1998 which are marked by the high contraction of monetary incomes, the inferior decile had a self-consumption share only two times higher than the superior decile, and 2004 and 2005 the same ratio was already 1 to 10 (Table 3).

The differentiation is maintained also for the next years, so that in 2008, 2009, 2010 if the weight of self-consumption of the average household continues the decreasing trend up to 14% (13.8%, 13.7% and 14.2% respectively), the one corresponding to the two-decile extremes indicate a higher share than 1 to 10 previously recorded.

In the following, we shall analyse the correction effect of self-consumption from the viewpoint of supporting total consumption expenditures.

This particular effect of self-consumption on total consumption expenditures is reflected in its high share in the period 1996-2000 and varies insignificantly between 35% and up to 37%; in 2001, the share decreases to less than a quarter of total consumption expenditure, only to increase in the following years somewhat above and thereafter by some percentages below 20% (Table 4).

**Table 4. Weight of self-consumption in total consumption expenditure by deciles**

	1997	1998	2004	2005	2007	2008	2009	2010
D <sub>1</sub>	38.1	37.9	41.3	39.5	36.2	31.6	32.4	31.3
D <sub>2</sub>	38.4	37.8	34.5	33.1	28.8	25.3	23.8	23.0
D <sub>3</sub>	37.7	38.1	28.6	26.2	24.7	20.8	20.2	21.1
D <sub>4</sub>	36.9	36.5	25.0	22.5	19.9	18.2	16.6	16.9
D <sub>5</sub>	36.9	35.6	20.9	18.5	16.8	15.1	14.6	14.9
D <sub>6</sub>	36.9	36.0	17.5	16.4	13.9	12.4	12.3	12.2
D <sub>7</sub>	37.8	34.8	14.7	13.7	11.7	10.5	10.5	10.4
D <sub>8</sub>	38.9	35.8	12.3	10.8	9.4	8.7	9.1	9.3
D <sub>9</sub>	39.4	35.5	10.3	9.5	7.8	7.4	7.4	7.8
D <sub>10</sub>	39.3	31.8	7.3	7.1	5.3	5.2	5.4	5.6
<b>Total households</b>	38.2	35.5	18.1	16.6	14.4	13.2	10.1	13.5

**Source:** Aspects regarding population's living standard in the years 1997, 1998; Coordinates of the living standard in Romania in the years 2004, 2005, 2007, 2008, 2009, 2010, NIS.

The selection of some years such as 1997 and 1998, marked by a significant decline in monetary incomes and expenditures, but also of some intermediary years and, as well as, recently, such as 2004, 2005, 2007 and also 2008, 2009, and 2010 after a certain recovery, both in the macroeconomic development but also in the private welfare, followed by the fingerprint of the economic crisis, reveals a total change in the profile of self-consumption share distribution by deciles.

In 1997 and 1998, a very high share of self-consumption in total consumption expenditures is almost uniform by deciles with minimum variations.

In turn, after 7 to 8 years of development, in 2004, 2005 and subsequently in 2007, 2008, 2009 and 2010, the share of self-consumption is strongly differentiated by deciles with cascading decreases by some percentages from the inferior deciles with maximum weight up to the superior deciles with minimum

share. Thus, the specific earmark of a new consumption model within society is different from the uniform one of the former years.

The influence of agricultural food products consumption from own resources was felt both under the qualitative aspect sufficiently illustrated up to now, and also under qualitative aspect; it supported the largest category of consumption expenditures constantly: food consumption.

Its influence was particularly beneficial, as against the drastic decrease in monetary incomes; food consumption would have been constrained to register a high fall, under the conditions in which this consumption, by and large, does not fluctuate a lot quantitatively.

The estimation of the possible food consumption decrease and the gap between the effective trend and the normality one must be done taking into account the following:

Firstly, it should be discussed as argument for the deviation from the normality condition the "invoked inheritance" for all coordinates of social development, including in the field of consumption, that is the drastic restriction placed on it during the years before 1989.

Secondly, the increasing effective trend related to the normality one, rigorously weighted scientifically in the food consumption must be done based on the consumption structure depending on nutritional principles and the number of calories.

An important coordinate between scientific food norms for the population is the share of animal origin proteins that should be per at least 50%.

In 2010, around the average on household, which represents a modest share (48.9%), the pensioners are placed (48.6%), while a higher share is registered in employed households (50.9%). These two social-professional categories held in 1997-1998 a share of only 40%-45% of animal protein, slightly above the average on household which was very low as level, of only 39%.

Current smaller shares are recorded in farmer and unemployed households (44.7% and 45.9% respectively) which held in the years considered as reference for a low consumption level (1997-1998) an entirely deficient share of animal origin proteins (36%-37%).

The gap from a qualitative aspect – the animal protein share – is not also felt from a quantitative aspect – the total protein quantity which in 1997-1998 was mostly satisfied by the vegetal protein.

The analysis by the main destination of expenditures (“food products and non-alcoholic beverages, housing, water, electricity, gas and other fuels, transports, communications, etc.) is of a nature generating even more concerns. Practically, three quarters of the expenditures and if we add also the expenditures with clothing which also largely can be considered as compulsory for any family, then 80% of the expenditures are compulsory and thus, practically, cut the family budget and only the difference of 20% is influenced by consumer options. This extremely low share of expenditures which are deliberately accepted inhibit the display of own personality, including consumption options.

The still unsatisfying stage of consumption in the last years (as level and structure as well) does nothing but reconfirm the role played by self-consumption: as a correction of consumption expenditures, during the period of monetary incomes compression.

### **3. Consumption structure – reliable mirror of the consumption compulsory expenditure/optional expenditure ratio**

The analysis of the compulsory expenditure – optional expenditure ratio reveals a series of defining characteristics of the current consumption model in Romania.

On the other hand, the income structure, both at the level of the average household, but also at the level of the decile extremes and of those placed at the mid-interval of income distribution in development for some significant years is not lacking relevance at all.

This association between the evolution of the population incomes structure and expenditure destination in the significant years for their development is subordinated to revealing a complete compatibility between the income structure (mainly monetary – self-consumption) and the characterisation of the present consumption model (within which an important part of needs, in particular food consumption ones, are satisfied outside market transactions).

Establishing a relation between the total nominal income, monetary income and wage income we attempted to pursue the influence of self-consumption and of the main complementary income on the wage income up to the total monetary income, the social protection income, and to diminishing the disparity between incomes in the distribution profile (Table 2).

In 1997, despite the exaggerated high share of self-consumption, because of its uniformity, it cannot diminish the differential between the distribution extremes at

the level of the total nominal income, but supports strongly the consumption monetary expenditure.

Yet, only after a few years, in 2001 the differentiation begins also through deciles exercises its buffer role in attenuating the differential within the distribution, at the level of total nominal income (the ratio of the income of the fifth deciles to of the inferior deciles was, at the level of the total nominal income, only 1.47 times while for the monetary income the same ratio was 3.61 times).

After another few years of somewhat favourable development of monetary income and decrease in the share of self-consumption in income formation, its contribution to diminishing the disparities of incomes between deciles decreases to a certain extent, but continues to be important (by virtue of differentiated share of self-consumption in total incomes): hence, the ratio of the income of the fifth deciles to the inferior deciles was at the level of the total nominal income by 1.7 times (in 2005 and 2007), while for the monetary income the same ratio was 2.9 times in 2009 and 2.8 times in 2007, respectively.

Disaggregation by more homogenous consumption expenditure categories reveals the following:

- food consumption and that of non-alcoholic beverages beneficial to the human body is distinctly analysed for the expenditures on tobacco and alcoholic beverages which, to the extent they presuppose an increased volume within the assembly of expenditures, are addressed, practically, to a vice;
- family expenditures on housing and its endowment were separated from the ones meant to cover the cost of utilities to the extent the latter have a higher volume increasing as a share in the family budget;

The share of food consumption in the assembly of consumption expenditures represents an important mark of its development stage that cannot be dissociated from the economic development as a whole, a hypothesis verified even only at the level of the last years of the current stage.

In 1997, when the economy was in full restructuring and did not gain as yet the functional attribute intended to generate the specific differentiation between incomes and consumption, the share of food consumption in the assembly of consumption expenditures was excessively high (58.8%), characterising a restrictive budget and an underdeveloped consumption and presenting an astonishing homogeneity by social-professional categories, out of which only the employers with a somewhat lower share of food consumption and unemployed with a respectively somewhat higher share are detached.

After a few years of restructuring and contraction of the economy, followed by a few years of turnaround and growth begins, the change already taking place from this aspect in 2002 is considerable: the share of food consumption of the average household lost about 9% (from 58.8% to 49.9%), and the differentiation from around the average for the various social-professional categories, absolutely visible, is in total contrast to the situation existing only five years before (against the previously astonishing homogeneity, now all professional categories oscillate sufficiently around the average, and the ones that were just detached previously, employers and unemployed, now present a more marked amplitude of the variation – against the average of 49.9%, the employers have a share of only 35%, and unemployed of 56.2%; an exaggerated high share of food consumption is found for the farmer category and is explainable by the high share of self-consumption of agricultural food products and the low monetary incomes that might feed complementary expenditures almost equal to the consumption assembly of expenditures).

In 2005, the profile of distribution around the average is maintained almost unchanged with the difference that for all social-professional categories, including the average household, the share of food consumption loses some percentages, to a beneficial trend of consumption structure, a situation characterising also the years 2007, 2008, 2009, and 2010.

In practice, constantly, food consumption loses in cascade some percentage from one year to the other bringing closer the consumption structure to a more balanced one – in the time interval 2002-2010 it loses 9% (Annex 1).

The comparison at a wider European level reveals important differences in the consumption expenditure structure.

First of all, at the European Union level, the consumption expenditure structure is much more balanced: no category of expenditures has such an overwhelming share in consumption expenditures like the “food and non-alcoholic beverages expenditures” category within the Romanian households’ budget.

Next, in the top expenditures (according to their share) the order of various expenditure categories at European level is different from the one indicated by the households’ budget in Romania (Annex 2).

Thus, if in Romania food expenditures already have by far the largest share and weigh heavily on households’ expenditures, at EU-27 level, the first place in the top of expenditures (after their share) are placed the expenditures on housing and covering utilities costs which hold 28.1% from total consumption expenditures. Expenditures on food and non-alcoholic beverages at the level of

the European average take the second position in total consumption expenditures but in a share (14.6%) twice as low than the expenditures on housing and, together with transport expenditures, are placed in the third position (12.5%), they hold a bit more than a quarter in total consumption expenditures of the households.

In developed countries, such as Germany, and the United Kingdom the expenditure category which is placed by far in the first place are the ones generated by housing and covering the utilities costs (29.6%), followed by transport costs (about 13%). Also, in these countries, the expenditures on leisure and culture hold about the same share (11%-12%) which corresponds to the one on food consumption (10%-11%).

Among the countries in the region, Poland has consumption structure characteristics close to the ones of developed countries; a very high share of expenditures on housing (31.3%), a lower share of food consumption (25.3%) and, also, a higher share of expenditures on leisure and culture (6.2%).

By contrast, Romania registers an undesirable high share of food consumption (44.2%), which is even higher than the share recorded in Bulgaria for this category of expenditures (31.5%). In the top of consumption expenditures (by share) in Romania the expenditures on housing (15.6%), transport expenditures (6.5%), follow while the leisure and culture expenditures are adjusted in a much lower share (4.2%) from the consumption expenditures, in total contrast with the existing situation in the above mentioned developed countries.

The analysis of the data suggested us to pursue the relation between two larger segments of expenditures that we called "compulsory expenditure" and "optional expenditure", segments which drew our attention by the proportion they occur; we suggest this ratio as an important concern in the future as regards the policy for promoting better consumption models.

The overwhelming compulsory expenditure does not provide opportunities to the consumer for consumption option and satisfaction, and the income supporting it represents just a transitory income within the family budget.

Excluding from all expenditure positions such as clothing and footwear, furniture, endowment and house maintenance, hotels, coffee shops and restaurants, and various other expenditures, the rest of the expenditures, which are absolutely compulsory, totalised no less than 75.9% in 2005, 72.9% in 2007, 72.5% in 2008 and 73% in 2009, at the level of the average household.

If we add to this share also the expenditures on clothing and footwear, which mostly can also be regarded as a compulsory expenditure (the extent and scenario in which it might provide for consumer's option and satisfaction opportunity will be presented below) the share reaches 82.1% in 2005, 79.7% in 2007, 79.2% in 2008 and 79.0% in 2009.

Less surprising was a very weak oscillation around the share registered for the average household at the level of the year 2005: 78.3% for farmers, 76.5% for the unemployed and, lastly, 68.9% for employers if we deduct this expenditure segment according to the first calculation procedure.

Thereafter, in 2007, the oscillation feature around the average for this share is maintained, as it is more compressed, naturally, in the case of the employer category (76.3% for farmers, 74.8% for unemployed, and 61.5% for employers).

Consumer dissatisfaction with the consumption is fed by the following aspects:

- first of all, the relatively small size of optional expenditures indicate the peripheral position of destinations intended to provide for consumer satisfaction by unrestricted display of personality, implying the full choice freedom within the consumption hierarchy;
- the deficient feeding of optional expenditures is triggered, secondly, by the fact that it is adjusted from a smaller share of a restrictive budget.

The issue of the average household in the underwent stage, which is still unfolding, is that of the long-lasting restrictive budget. The relaxation of the family budget was felt still modestly together with the macroeconomic performance (outcomes on increase, attenuated inflation, macroeconomic stability) but only in the last years of this transitory economic stage.

In the attempt to identify the ratio of compulsory expenditure to optional expenditure we have excluded all expenditure positions that could be reciprocally excluding, including the "second hand" segment or the "outlet price" segment of consumption that cannot be regarded as optional expenditure. This means that, practically, we should add something else to the compulsory expenditure.

It is necessary to go deeper in methodologically understanding the belonging to one of the two expenditure segments, compulsory/optional of some expenditure positions, such as "clothing and footwear" and even "food consumption", either qualitatively or quantitatively satisfied.

Selling and buying of clothing and footwear articles at outlet price, as the purchase of “second hand” clothing, based on methodological considerations, should be included by the same criteria that statistically govern the formation of the minimum consumption basket within the compulsory expenditures.

Yet, the purchase of these products at the normal market price could be regarded without any restraints as optional expenditure, the only one able to bring satisfaction in consumption, and which is not only a real issue of daily living, but also a significant theoretical issue.

To distinguish between compulsory/optional expenditures, which is correct from the analyst’s viewpoint, when making considerations regarding the largest category of expenditures within our family budget, food consumption imposes a nuance similar to the one described above.

By similitude, the two different ways of displaying consumption in the case of the “clothing and footwear” category (at “outlet price”/market price = satisfying the necessity/unrestricted option) in the case of food consumption, its satisfaction, from a predominantly qualitative aspect, is already an actual source of fulfilled satisfaction by freedom of choice.

## **Conclusions**

The structure of consumption expenditures in Romania is imbalanced: as compared to the EU-27 average, Romania has a high consumption in relative size for the following categories of expenditures: “food products and non-alcoholic beverages” and, “alcoholic beverages, tobacco” respectively. This shows that the household budget in Romania is a restrictive one, with modest incomes, allotted largely to satisfying stringent needs of food consumption.

Still, together with the economic turnaround, and after several years of favourable evolution, both at macroeconomic level and at the private welfare level, food consumption loses in cascade some percentages and brings closer the structure of consumption to a more balanced one, mutation registered both by the average household, but also by various social-professional categories.

The data analysis suggested us to check the ratio between the two larger segments of expenditures that we called “compulsory expenditure” and “optional expenditure” that drew our attention by the proportion in which they are found, completely unfavourable to the “optional expenditure” segment, offering the

consumers a poor opportunity of choice within the consumption. Therefore, we consider that a long-term concern issue for the consumption policy should be how frequently this satisfaction by choice freedom is displayed among individuals, because the latter is not absent even in the current consumption model, but limited to restricted population segments.

We regard the prevalently qualitatively satisfied consumption that ensures satisfaction by optional freedom as the main vector of access to the consumption model characteristic to a developed society with a high living standard.

The most important conclusion drawn from data analysis refers to the role of self-consumption in satisfying consumption needs.

The role of self-consumption in the current consumption model was considered from two viewpoints: both on the income side, and on the expenditure side. We found, naturally, that during the marked decline in monetary incomes and expenditures to a high contribution of self-consumption to total income formation ("high share of self-consumption in total incomes") corresponds a higher fraction of consumption satisfied outside market transactions (high share of self-consumption in total consumption expenditures).

Precisely in the monetary income and expenditures decline period, the exaggerated high share of self-consumption was uniform by deciles. After a few years of beneficial development both at macroeconomic level and at the private welfare level, self-consumption began to differentiate strongly by deciles, imposing a new consumption model within society, that is detached from the uniform one of the preceding years.

Under the conditions of modest monetary incomes for a predictable timehorizon, we consider that a decent and constant contribution of self-consumption to satisfying consumption needs would be beneficial, because it would allow for diversifying and qualitative increase of consumption needs that otherwise, in this context, would be impossible.

We consider that such a reasonable future share of self-consumption could be the one recorded in the last years under analysis, 2007, 2008, 2009 and 2010 for the average household, about 13%-15%, because it represents the natural outcome of voluntary activities of the household which is free consumption constraints of the period 1996-2000, when the share of self-consumption varied just a bit at high levels between 31% and 29%.

The development of consumption for the analysed period as regards self-consumption contribution to income formation or as part of total consumption

expenditures does nothing but replicate the essence of the theoretical framework of consumption based on the theory of permanent incomes: any individual and any household displays in time a somewhat inertial consumption behaviour, irrespective of the income adjustment trend, realising on short term positive savings up to the moment when gaining confidence in permanent increase in incomes or resorting to negative savings up to the moment when their decrease irreversibility turns into certainty.

Due to the low level of the assembly of monetary incomes of the population for the entire transition period, supporting and levelling the current consumption trend in the average household in Romania was not achieved under this standard form provided by the consumption theory by means of savings, but in a innovative formula: the households' contribution to the monetary resources intended for consumption, with agricultural food products obtained in the own household, known as self-consumption or agricultural food products consumption from own resources, which intensified in particular during the period of monetary incomes decrease, attenuating the shock of real incomes.

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**Annex 1. Level and structure on destinations for total consumption expenditures in Romania (total households)**

	2002	2003	2004	2005	2006	2007	2008	2009	2010
<b>Total consumption expenditures, monthly averages on households, lei of which, in %:</b>	474.5	566.9	752.0	863.9	962.5	1104.7	1365.4	1468.60	1486.43
<b>Agricultural food products and non-alcoholic beverages</b>	49.9	48.6	46.4	44.2	42.3	41.7	40.9	40.9	41.0
<b>Alcoholic beverages, tobacco</b>	5.9	6.3	5.9	5.8	6.0	6.5	6.5	7.1	7.7
<b>Clothing and footwear</b>	6.1	6.1	6.3	6.25	6.2	6.7	6.7	6.0	5.4
<b>Housing, water, electricity, gas and other fuels</b>	14.6	14.8	14.7	15.6	16.4	15.5	15.6	15.8	16.6
<b>Furniture, endowment and house maintenance</b>	3.2	3.5	3.8	3.8	4.0	4.6	4.8	4.6	4.0
<b>Health</b>	2.8	3.0	3.6	3.8	4.1	3.8	4.1	4.5	4.5
<b>Transport</b>	5.6	5.4	6.1	6.5	6.6	5.9	6.1	5.8	6.0
<b>Communications</b>	4.0	4.0	4.5	4.9	4.9	5.1	5.0	5.1	5.0
<b>Leisure and culture</b>	3.8	3.8	3.9	4.2	4.4	4.6	4.5	4.4	4.0
<b>Education</b>	0.7	0.8	0.9	0.8	0.8	0.8	0.8	0.9	0.7
<b>Hotels, coffee shops and restaurants</b>	1.0	1.1	1.1	1.1	1.1	1.2	1.4	1.3	1.3
<b>Various products and services</b>	2.4	2.6	2.8	3.0	3.1	3.4	3.6	3.6	3.8

**Source:** Coordinates of the living standard in Romania, Population Incomes and Consumption in the years 2002, 2003, 2004, 2005, 2006, 2007, 2008, 2010, NIS.

## Annex 2. Average consumption expenditures of households, 2005 (standard purchasing power)

	COICOP code (1)											
	01	02	03	04	05	06	07	08	09	10	11	12
EU-27	3 594	560	1 412	6 936	1 416	796	3 078	738	2 187	238	1 417	2 291
Euro area (2)	4 027	602	1 679	7 869	1 588	1 016	3 531	804	2 309	248	1 585	2 845
Belgium	4 043	669	1 425	7 610	1 687	1 400	3 863	878	2 868	136	1 894	3 576
Bulgaria	2 238	269	218	2 461	213	305	355	325	204	34	255	220
Czech Republic	2 503	347	679	2 444	815	239	1 351	555	1 289	66	619	1 234
Denmark	2 872	785	1 168	7 194	1 459	639	3 331	583	2 738	100	960	2 233
Germany	3 185	489	1 355	8 445	1 543	1 024	3 790	828	3 168	236	1 212	3 226
Estonia	2 440	300	601	3 240	568	282	1 087	596	691	145	339	559
Ireland	4 491	2 032	1 851	8 520	2 613	904	4 203	1 255	3 670	687	2 190	3 956
Greece	4 801	1 045	2 154	7 442	1 929	1 824	3 222	1 174	1 285	738	2 661	2 701
Spain	4 685	586	1 786	7 874	1 211	577	2 743	701	1 659	292	2 414	1 499
France	3 733	650	1 853	7 339	1 693	1 167	3 777	914	1 926	165	1 277	3 392
Italy	5 359	506	2 013	8 512	1 670	1 132	3 420	621	1 680	202	1 428	2 242
Cyprus	5 158	646	2 649	7 381	2 008	1 624	4 980	1 164	2 044	1 354	2 830	2 370
Latvia	3 091	329	778	1 810	546	394	1 155	610	667	145	557	508
Lithuania	3 166	332	743	1 776	392	445	762	435	402	102	429	393
Luxembourg	4 851	865	3 343	15 611	3 702	1 351	8 403	1 139	3 869	223	4 098	4 478
Hungary	2 413	380	537	2 073	498	440	1 511	696	909	90	343	803
Malta	6 082	786	2 387	2 596	3 070	869	4 758	837	2 879	352	2 030	1 960
Netherlands	3 089	625	1 694	7 513	1 888	371	3 196	903	3 193	306	1 647	4 945
Austria	3 933	847	1 682	6 732	1 868	946	4 863	793	3 809	242	1 660	2 792
Poland	2 704	262	489	3 341	478	485	862	512	662	138	180	571
Portugal	3 243	477	861	5 560	994	1 264	2 693	616	1 182	356	2 263	1 359
Romania	2 355	307	333	832	201	205	344	259	224	45	58	162
Slovenia	3 966	575	1 678	5 483	1 389	356	3 717	950	2 234	202	1 035	2 220
Slovakia	2 910	333	661	2 517	494	330	986	506	712	92	520	713
Finland	3 086	588	934	6 614	1 238	852	3 818	693	2 731	51	1 021	2 733
Sweden	2 913	531	1 270	8 250	1 640	638	3 623	791	3 398	8	981	1 569
United Kingdom	3 159	753	1 585	9 458	2 092	383	4 305	852	3 943	457	2 558	2 415
Croatia	4 564	548	1 059	4 983	697	315	1 484	729	853	105	465	1 039
Norway	3 402	898	1 618	7 633	1 892	872	5 270	770	3 593	95	1 111	1 951

(1) COICOP codes - 01: food and non-alcoholic beverages; 02: alcoholic beverages and tobacco; 03: clothing and footwear; 04: housing, water, electricity, gas and other fuels; 05: furnishings, household equipment and routine maintenance of the house; 06: health; 07: transport; 08: communications; 09: recreation and culture; 10: education; 11: restaurants and hotels; 12: miscellaneous goods and services.

(2) EA-13 instead of EA-15.

Source: Eurostat (hbs\_exp\_t121)