

# The Influence of Employment Rate and Unemployment Benefits on Household Expenses

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## Abstract

This paper aims to analyze the relationship between the employment rate of people aged 15-19, unemployment benefit (unemployed without work experience) and the expenses level of Romanian population. It also seeks to identify the sources that sustain population expenses. For the analysis it was taken in consideration the period 2001-2013. The data used in this work are those of National Institute of Statistics. We calculated correlations between these parameters, resulting in a weak correlation between them, which would lead to the conclusion that an increase in spending does not take place due to increasing employment and it is not always supported by the increasing of unemployment benefits. It is demonstrated by this what Michel Didier said, "consumers do not seem to be prepared to give up their habits" and they fulfill these "habits" by using their savings or with a help from their families.

**Keywords:** Unemployment Benefits, Spending, Consumption, Consumer, Employment Rate

## Introduction

We know that people are first of all consumers and the basic function of the household is to consume. Therefore, there is a need to analyse the household expenditure evolution, taking into account the employment rate changing of the population aged 15 to 19 years and of the unemployment benefits (unemployed without work experience).

As consumers aim the satisfaction of their needs, also manufacturers have the specific objective to maximize the profit. To achieve this goal they have to satisfy consumers needs, although "we do not expect to get food for dinner through the benevolence of the butcher, the brewer, or the baker, but because they follow their own interests" (Smith, 2011). As the consumers needs are growing, the manufacturer may need a greater number of employees to produce more. In order to achieve expectations, the manufacturer employs workforce, which can lead to an increased employment rate. Employment means "to secure jobs for people of working age who have appropriate professional qualifications" (Dictionary of Economics, 1999). This can lead to an increase in the income of employees and therefore an increase in spending. According to the fundamental psychological law, "on average and usually people tend to increase their consumption as their income increases, but not by the same amount of the income increase" (Keynes, 2009). From this point of view, Michel Didier

in "Economics: The rules of the game", says "we work to ensure our existence." He also states that "consumers do not seem to be prepared to give up their habits, now solid rooted, as it would be self-understood that, every year, they should live better than the previous one" (Didier, 1998). "Meeting the basic needs of a person and his family is usually a stronger motivation than the motivation to accumulate, which wins a certain importance only when a certain comfort is achieved" (Keynes, 2009). This is possible either by increasing employment rate, thereby income is higher than unemployment benefits, or by increasing the income (change of job, a second job). "The amount that the society spends on consumption obviously depends: partially on his income, partially on other concurrent objective circumstances and partially on subjective needs and psychological propensity of individuals, on people skills and on principles by which the income is divided between them" (Keynes, 2009). As the income received by an individual can be allocated both to consumption and savings, we will see whether the change in employment rate for the age group 15-19 years and unemployment benefits for people without work experience will lead to a change in spending in Romania in the period 2001-2013.

### Methodology

Since 2001, in Romania, the employment rate for the age group 15-19 years has decreased, a situation which may be explained either by the inclusion of young people in some form of higher education, or by an attractive level of employment benefit. It will be analyzed the links between these indicators and the expenses level incurred by a person in the period 2001-2013. The data used are those of the National Institute of Statistics. It will be calculated the consumption changes and compared with the employment rate and unemployment benefits. We will draw graphs to reflect changes in these indicators, and the correlation between them.

Table 1.

*Occupation rate, age group 15-19 years (%)*

Years	Total	Male	Female
2001	17,6	19,6	15,4
2002	14,6	16,8	12,3
2003	11,8	15,0	8,6
2004	13,3	16,5	10,0
2005	11,3	14,0	8,6
2006	10,8	13,4	8,0
2007	10,0	13,0	6,8
2008	9,2	12,0	6,3
2009	9,1	11,2	6,9
2010	8,4	10,2	6,5
2011	8,0	8,9	7,2
2012	7,9	8,9	6,8
2013	7,7	8,9	6,4

Source: National Institute of Statistics

Table 2.

*Unemployment Benefits Evolution – Monthly Average - Percent Of The Gross Minimum Wage In The Economy*

Years	Unemployment benefits (unemployed without work experience)
2001	40,6
2002	42,1
2003	43,0
2004	46,2
2005	51,6
2006	49,1
2007	46,2
2008	46,7
2009	48,5
2010	44,7
2011	36,6
2012	32,9
2013	29,7

Source: National Institute of Statistics

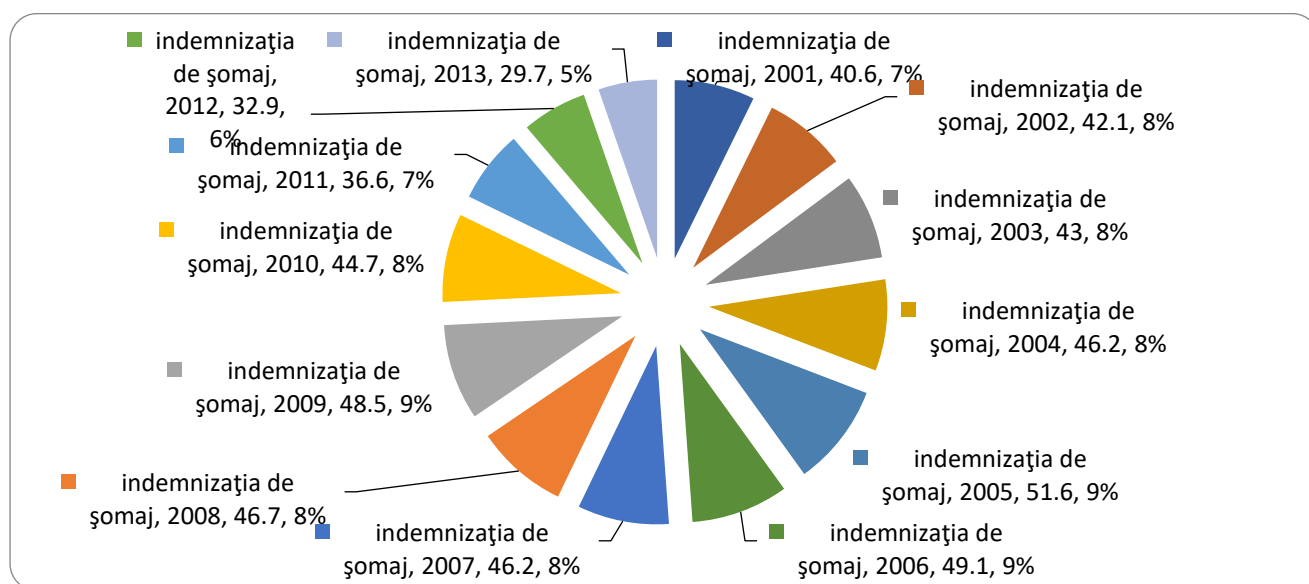


Figure 1. Unemployment benefit - percentage of the gross minimum wage in the economy

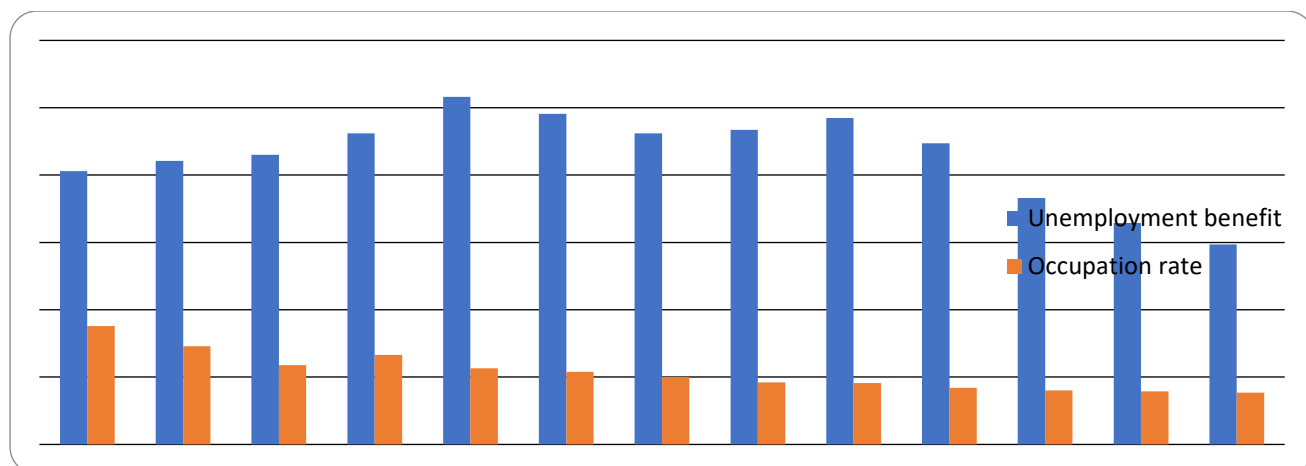


Figure 2. Evolution of unemployment benefit and the employment rate for the age group 15-19 years

Table 3.

*Monthly average expenditure per person (lei)*

Years	Total average monthly expenses per person
2001	179,02
2002	226,39
2003	279,03
2004	355,87
2005	391,16
2006	445,42
2007	528,12
2008	657,24
2009	704,77
2010	712,02
2011	758,43
2012	780,92
2013	811,26

Source: National Institute of Statistics

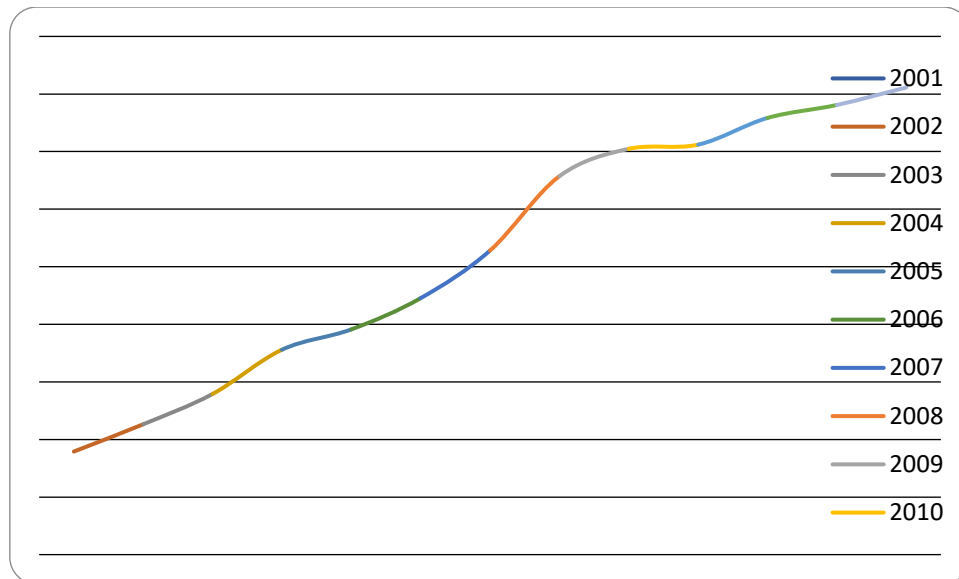


Figure 3. Evolution of average monthly expenditure per person

### Results

The data show that each of the analyzed indicators went through changes in the period 2001-2013. There are variations both in terms of employment rate for the age group 15-19 years and the share of unemployment benefit in the gross minimum wage of the economy. It is found a decrease in the employment rate every year except 2004, when it was a growth by 13.3%. The changes in the indicator "share of unemployment benefit in the gross minimum wage of the economy" are both positive and negative. This indicator has increased until 2005, when it reached the 51.6% value, then began to decline by the end of the interval. There were also changes of the indicator "monthly average expenditure per person", which has an increasing trend. This increased in 2013 by 4.53 times compared to 2001, reaching a value of RON 811.26.

Table 4.

The changing of total average monthly expenditure per person (%) share of unemployment benefit in gross minimum wage of the economy and employment rate

Years	Change in total average monthly expenses per person *	Unemployment benefits (unemployed without work experience)	Employment rate, 15-19 age group
2001	-	40,6	17,6
2002	26,46	42,1	14,6
2003	23,25	43,0	11,8
2004	27,53	46,2	13,3
2005	9,91	51,6	11,3
2006	13,87	49,1	10,8
2007	18,56	46,2	10,0
2008	24,44	46,7	9,2
2009	7,23	48,5	9,1
2010	1,02	44,7	8,4
2011	6,51	36,6	8,0
2012	2,96	32,9	7,9
2013	3,88	29,7	7,7

\*calculations based on data provided by the National Institute of Statistics

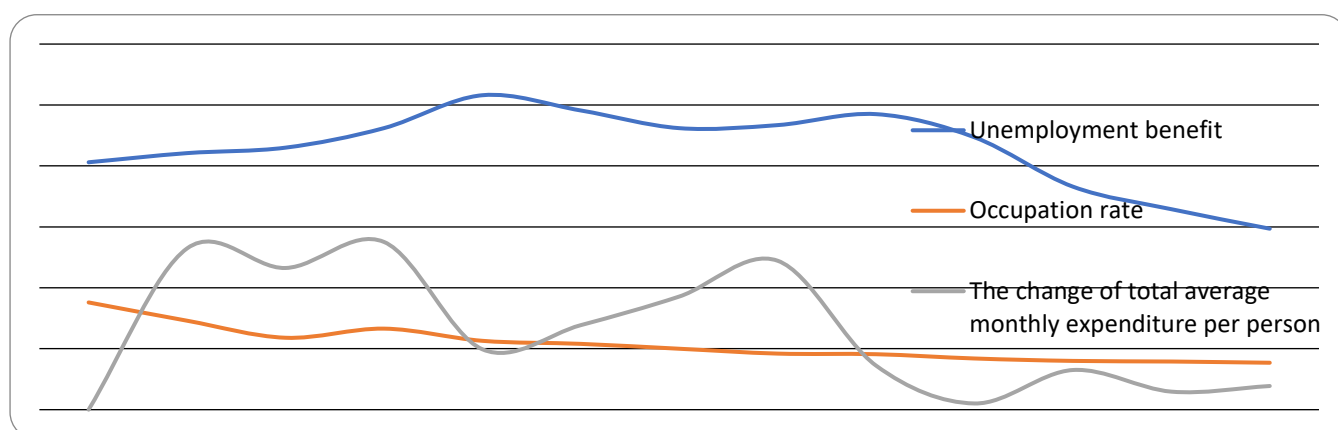


Figure 4. Evolution of average monthly change of total expenditure per capita, the share of unemployment benefit in gross minimum wage of the economy and employment rate

Table 5.

*The change of total average monthly expenditure per person, the change of the share of unemployment benefit in gross minimum wage of the economy and the change of employment rate\* (%)*

Years	The change in total average monthly expenditure per person	The change in unemployment benefits (unemployed without work experience)	The change of employment rate, age group 15-19 years
2002	26,46	3,69	- 17,04
2003	23,25	2,13	- 19,17
2004	27,53	7,44	12,71
2005	9,91	11,68	- 15,03
2006	13,87	- 4,84	- 4,42
2007	18,56	- 5,90	- 7,40
2008	24,44	1,08	- 8
2009	7,23	3,85	- 1,08
2010	1,02	- 7,83	- 7,69
2011	6,51	- 18,12	- 4,76
2012	2,96	- 10,10	- 1,25
2013	3,88	- 9,72	- 2,53

\*calculations based on data provided by the National Institute of Statistics

Table 6.

*The correlation between average monthly change of total expenditure per capita, employment rate and unemployment benefits*

Period	The correlation between changes of total expenditure per person and average monthly occupancy rate change	The correlation between average monthly change of total expenditure per person and changing of unemployment benefit	The correlation between the employment rate and the unemployment benefit
2001-2013	0,393708	0,558972	0,255365

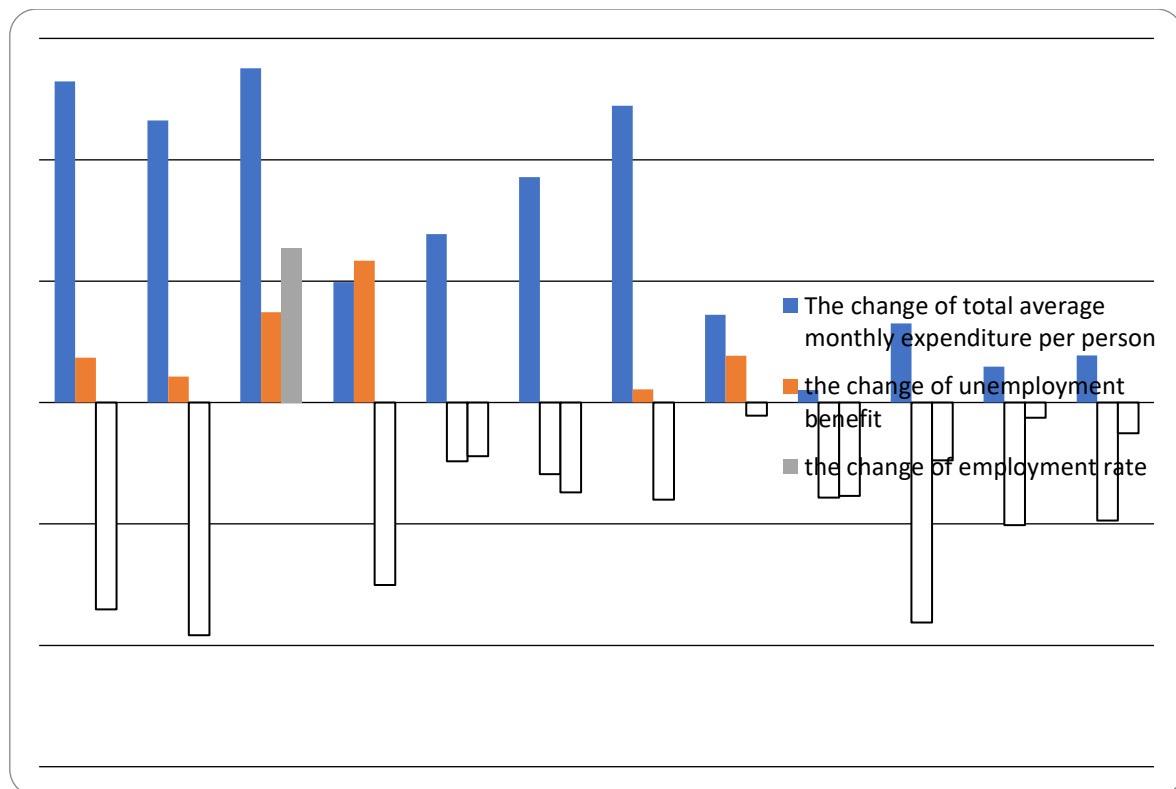


Figure 5. The change of total average monthly expenditure per person, the change in the share of unemployment benefit of gross minimum wage in the economy and the change of employment rate

### Conclusions

Analyzing the results obtained by calculating the correlation coefficients between the change of the employment rate and the unemployment benefit and also between the change of total average monthly expenditure per person and unemployment benefit, we observe a weak correlation between these indicators during the period analyzed (values close to zero). For the period 2002-2005 we observe a direct relationship between expenditure change and unemployment benefit change, which would lead to the conclusion that an increase in spending occurs due to increased unemployment benefits and not also due to increased occupancy rate (inverse relationship). A direct relationship between these indicators also exists for the years 2008 and 2009. Though changes in unemployment benefit and of employment rate are negative, there is however an increase in spending. This is possible either by supporting these expenditures from savings made previously or from family money. It is true also in Romania, for the period under review, what Michel Didier says, "consumers do not seem to be prepared to give up their habits".

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