CAN SOCIAL PROTECTION REALLY MAKE A SIGNIFICANT CONTRIBUTION TO POVERTY REDUCTION? THE CASE OF ROMANIA

Mihaela Ifrim*

Abstract: *Most Romanians believe that the state should assume more responsibility for the welfare of everyone. Social protection must actually be understood in the broader framework of gradual and more alert transfer of the responsibility from the individual to the state level. If in the case of a minimal state the individuals would be forced to save to cope with unforeseen situations like job loss, disability or illness, in the case of a welfare state, which guarantees minimum incomes, these reasons fade. Individuals have increasing expectations from the authorities, and largely decline their capabilities of helping others through charity or philanthropy. In the light of the lack of confidence in the strength of private actions to support those in need, public solutions are expected to eliminate poverty through social protection programs. The purpose of this paper is to analyze the ability of social protection programs in Romania to help improve well-being among the most disadvantaged citizens of Romania and the costs associated with such objective.*

Keywords: social protection; minimum guaranteed income; poverty; Romania.
JEL Classification: E64; I32.

INTRODUCTION

Social protection policies are seen as tools for poverty reduction. Although each of us has a projection about what poverty means, capturing it in a definition is difficult. References to poverty are most often made in relative and absolute terms or by using indices that measure the degree of individuals' deprivation. In relative terms, the poor would be those who live in worse conditions than others. This comparative approach has a high degree of subjectivity, but an attempt to tackle poverty in an objective key does not dilute too much the difficulty of such undertake. If a poor person is one who can afford food below what could ensure a normal health, can afford a home below the human dignity and has insufficient income to their own needs, setting such objectives goals does not change too much the subjective character of relating on poverty. Relating to an average income or to a threshold tries to solve these difficulties. Thus, in Europe, the poor are defined as those whose incomes are less than 60% of the average national income. Thus, each country has their own poor and their own measures to support them, reducing poverty.

Poverty is a problem as old as mankind itself. Poverty reduction policies in Europe have evolved from the practices of selling grain to the poor at fixed below market prices in the Roman Empire, to the organization of workhouses by Poor Law Act in England and to state paternalism of

* Alexandru Ioan Cuza University of Iasi, Romania; e-mail: mihaela.ifrim@uaic.ro.

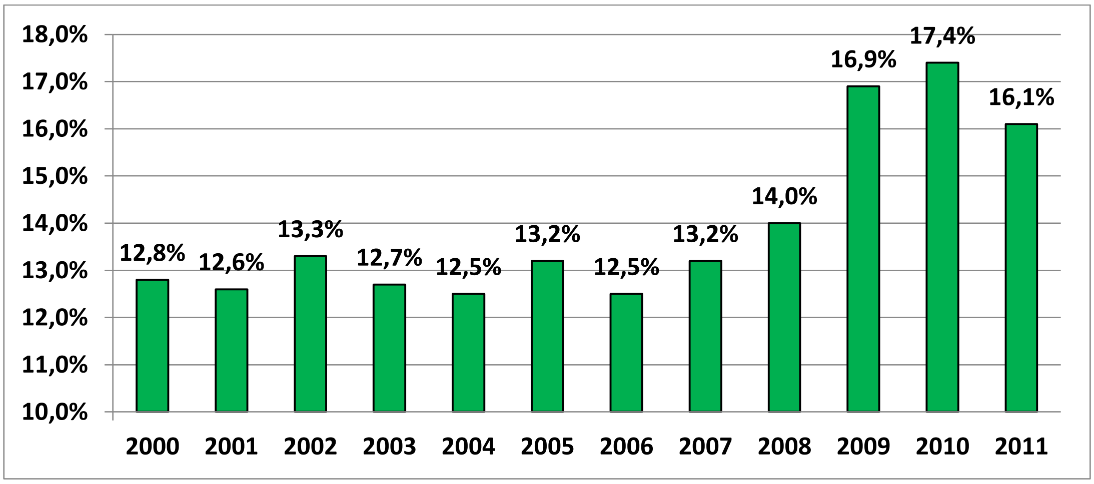
Germany's Otto von Bismarck. The increasing popularity of welfare state model led to widespread security and social welfare systems in Europe, through the introduction of health insurance, the pension system for the elderly, widows and orphans, the assistance for unemployed and "free" medical care. Last century is a temporal stage for gradual expansion of social protection in developed countries, in unison with the expansion of the state apparatus and government spending. The welfare “supply" consisted of numerous insurance and support programs for broad categories of citizens: from protection systems of the foreseeable (old age, death), to protection systems of the unforeseeable (disease, poverty, living conditions below the "standard" and so on). In fact, social protection measures included new and new programs; the number of beneficiaries has expanded, while increasing the tax burden. Each employee must give up a growing percentage of its revenue on behalf of their compulsory insurance and to supporting others. In this framework, the welfare state seems to have become a threat, as argued Wilhelm Ropke in “Humane Economy”. Contemporary welfare state is far from the model imagined by John Locke, whose action is limited to defending the freedom and property of individuals. The state of the last century was one of the promises to escape from the constraint of limited resources in return for giving up freedom. People were promised prosperity without to do significant efforts in this regard. In fact, individuals declined the duty of following their own interests by transferring it to the state that promised it could follow them better. Faced with uncertainty, people ask today for guarantees. If, in the case of a minimal state, individuals would have to save in order to face some unforeseen situations like job loss, disability, illness, in the case of a welfare state that guarantees minimum incomes, this reasons fade.

1. SOCIAL PROTECTION EXPENDITURES IN ROMANIA

Social protection in Romania is problematic from several angles. Undoubtedly, Romania is one of the poorest European countries, with a significant proportion of the poor. Roma and rural population are mostly affected by poverty, the long years of transition from communism leaving a deep mark in the structure of Romanian society. Inefficient government policies, corruption, bureaucracy, fiscal pressure, the lack of jobs in the context of industrial restructuring and the lack of competitiveness of Romanian companies have resulted in high rates of unemployment and emphasize the phenomena of migration. Loss of identity and family values have led to an alarming number of cases of abuse and family break, school abandonment and minors or elderly left to the mercy of the state. Lack of education, poor qualifications and lack of means of subsistence have increased poverty and the reliance on state policies regarding assistance.

Romania has some of the lowest levels of expenditure on social protection in the European Union. At purchasing power parity, the Romanian government spending stands at one fifth of the EU average, being 8 times smaller than social protection expenditure in Luxembourg. Spending on social protection has increased in the period 2000-2010, as can be seen in the figure below. A significant jump occurred in the years 2008-2009, in the context of economic crisis and the increasing number of individuals at high risk of poverty. However, Romania is at a significant distance from the expenditures average of 30% of the European Union.

Figure 1 – Social benefits expenditures % of GDP

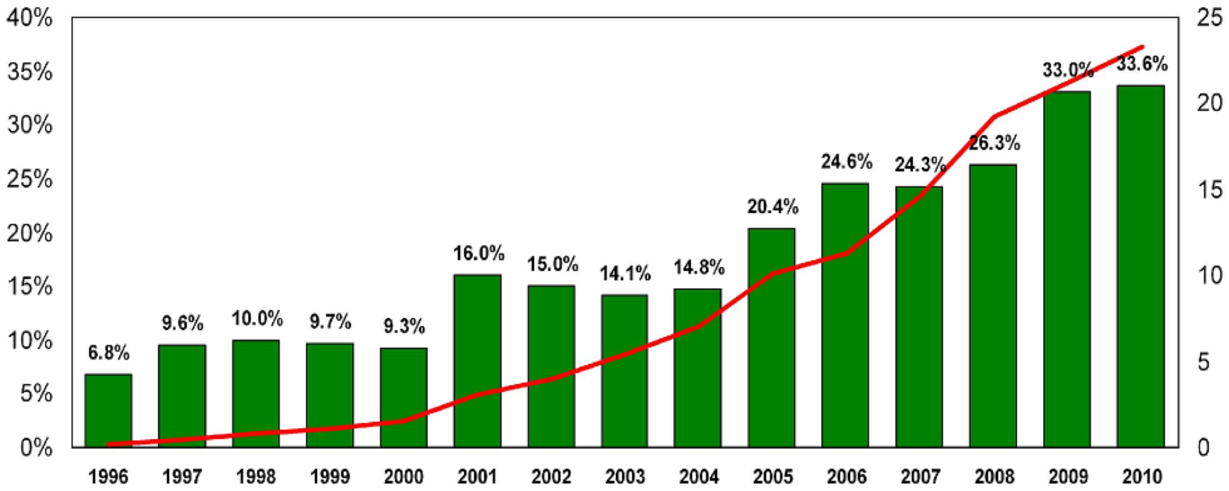


Source: author's representation based on INSSE data

In 2013, the social protection expenditure were intended for old age and survivors, in a proportion of 50.7%, for sickness, health care and disability - 34.7%, for family and children - 9.6% , for unemployment - 3.2% and for housing and social exclusion - 1.7%.

Although the proponents of extending social programs indicate the relatively low level of social protection expenditure in Romania, we should not overlook that they are still high relative to government revenues.

Figure 2 – Social benefits expenditures % of state budget revenues, vs Total Social benefits expenditure (central and local administrations budgets, billions lei, on the right scale)



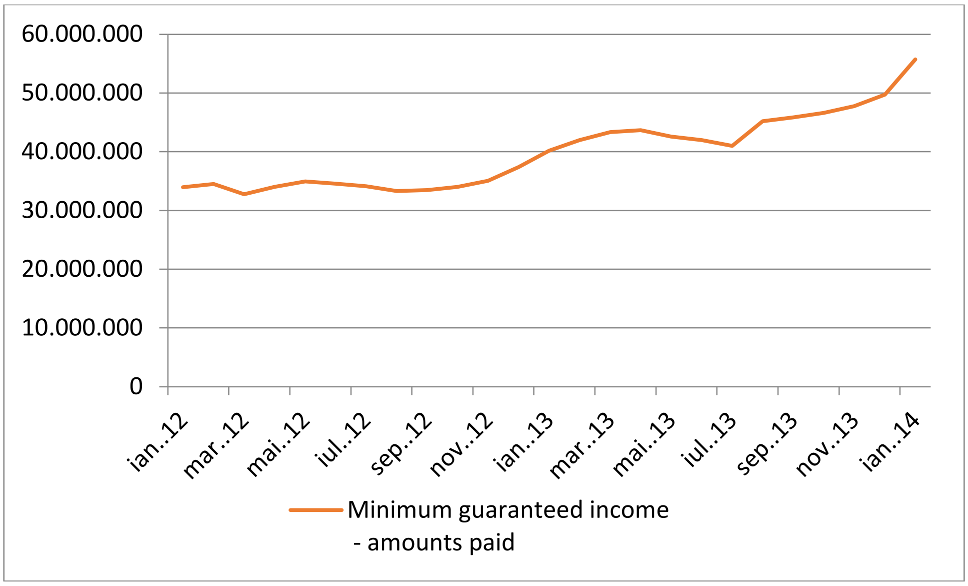
Source: BusinessDay, 2010

Most of the revenues for social protection (53.3%) comes from the Romanian government contributions, 32.1% from the employer's social contribution, 13.8% from social contributions paid by protected persons and 0.9% from other sources (European Social Statistics, 2013). Interestingly, the European average of government contribution is 39.8%. Romania is exceeded only by Denmark, Ireland and Bulgaria in this perspective. This number, however, is not surprising, given the position of most Romanian citizens regarding the social responsibility of the state. It appears to be the easiest solution for most Romanians. More than a third of Romanians believe that retirement pensions should be given to those who really need them, regardless of their contribution to the system, respectively that these should be offered equally to every citizen, regardless of their contribution (România şi statul social, 2013).

2. DEPENDENTS ON SOCIAL PROTECTION

In January 2014, the social assistance recipients were included in these four categories, as follows: state allocation for children – 3.769.856 beneficiaries, family support allowance – 259.341 beneficiaries, child allowance – 170.913 beneficiaries, and social assistance (minimum income) – 241. 185 beneficiaries. The social support (minimum guaranteed income) was received by 1.3% of the Romanians, the allocated amount being 55.713.172 lei. According to the Report on Social Support (guaranteed minimum income) issued by the National Agency for Payments and Social Inspection, the evolution of the amounts allocated to social assistance is shown in the following figure.

Figure 3 – Minimum guaranteed income, amounts paid

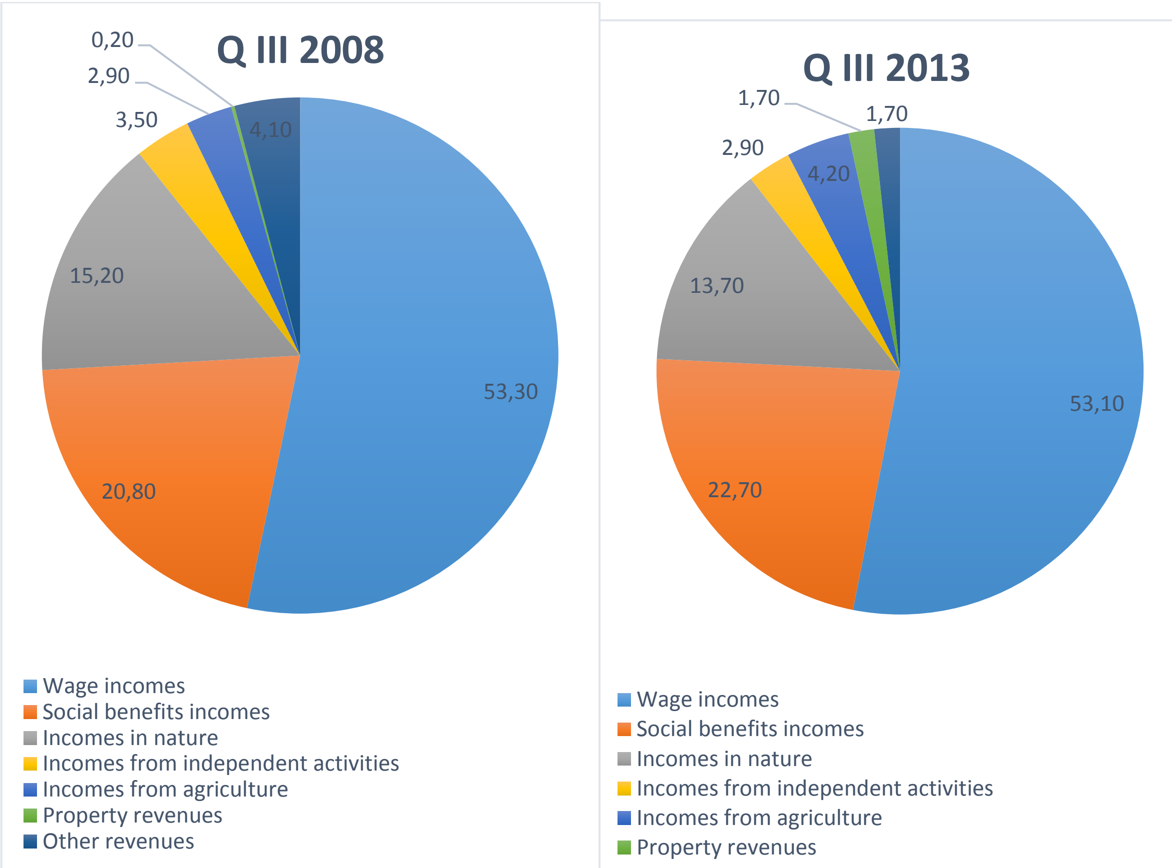


Source: author's representation based on data provided by Agentia Nationala pentru Plati si Inspectie Sociala, 2014

The amount of social assistance is determined as the difference between monthly levels of minimum income and net monthly income of the family or single person, resulting from the calculation sheet done by people in the public social service which completes sheet calculation of social support based on the data from application and statement, from the documents submitted by the applicant and of the results of social survey. The Social Reference Indicator (SRI) value was set at 500 lei in 2008. Thus, the guaranteed minimum income for 2014 is calculated as 0,283 x SRI for one person; 0,510 x SRI for families of 2 persons and 0,714 x SRI for families of 3 persons.

Increasing social protection expenditure in Romania reflects an increase in the weight of this form of income in the total household revenues. Thus, if the wages proportion remained relatively unchanged in total revenues, incomes from agriculture and from various social benefits experienced an increase in the interval 2008-2013, as can be seen in the following figure.

Figure 3 - Household total income structure



Source: author's representation based on INSSE data

Despite the increasing dependence of amounts allocated through various channels of social protection, Romania cannot be considered a welfare state because (Benezic and Grosu, 2011):

1. The percentage of social benefits in GDP is among the lowest in Europe;

2. The amounts granted for assisted persons are small, and in some cases even derisory, reported both to the values in other EU countries and to the purchasing power in Romania.

3. The so called social programs are inconsistent, random, do not pursue long-term goals and are not obtaining adequate effects.

In the view of the same authors, Romania is, rather, a populist state, because:

1. Though it has among the lowest percentage of GDP allocated to social benefits, Romania has one of the largest allocations of money it actually receives.

2. No less than 65% of Romanian benefits in some form or another of social assistance. Basically, the state gives us the impression that we are a country of assisted persons, when, in reality, we are a country of self-assisted, through the state. The many forms of social assistance are financed by a large number of taxes. Most of the amounts allocated for social protection come from government revenues.

3. Romanian state grants no less than 202 types of social support, in fact, a long series of electoral measures that have been accumulated from year to year and from election to election. The support is really multiple compared with other countries, and also, by comparison, derisory.

4. In many cases, assistance is given fraudulently, the tracking and allocation laws being not respected.

Although the amounts allocated to different forms of social protection are higher every year, Romania remains among the European countries with the lowest performance in terms of poverty reduction and the risk of social exclusion, as seen in the European Commission report, "Trends in poverty and social exclusion between 2012 and 2013". Romania has a risk of poverty or social exclusion of 41.7% compared to the European average of 24.7%, up 1.4 percentage points. Severe material deprivation reaches 29.9% of the Romania population.

Figure 4 – Development in main social indicators (2008-2012)

	Risk of poverty or social exclusion		At risk of poverty rate		Poverty threshold change (2011-12) (%)	Severe material deprivation		Jobless households		Anchored poverty rate (2008)		Nowcasted at risk of poverty rate		Poverty threshold change (2011*-13*) (%)
	2012, %	2011-12 change (pp)	2012, %	2011-12 change (pp)		2012, %	2011-12 change (pp)	2012, %	2011-12 change (pp)	2012, %	2011-12 change (pp)	2013*, %	2011*-13* change (pp)	
EU27	**24.7**	**0.4**	**16.9**	**0.0**		**9.9**	**1.1**	**10.3**	**-0.1**	**18.2**	**1.7**			
EU28	**24.8**	**0.5**	**16.9**	**0.0**		**9.9**	**1.0**	**10.3**	**-0.1**					
EL	34.6	3.6	23.1	1.7	-14.3	19.5	4.3	14.2	2.2	35.8	15.7	23.7	1.8	-19.7
CY	27.1	2.5	14.7	-0.1	-3.4	15.0	3.3	6.5	1.6	17.6	1.7			
IE**	29.4	2.1	15.2	0.0	-4.9	7.8	2.1	24.2	1.3	21.7	6.2			
IT	29.9	1.7	19.4	-0.2	-2.8	14.5	3.3	10.3	-0.1	22.7	4.0	18.2	-0.2	2.3
AT	18.5	1.6				4.0	0.1	7.7	-0.4			11.8	-0.6	2.5
LU	18.4	1.6	15.1	1.5	-2.1	1.3	0.1	6.1	0.3	17.5	4.1			
RO	41.7	1.4	22.6	0.4	-2.7	29.9	0.5	7.4	0.7	19.9	-3.5	21.2	1.1	3.7
UK	24.1	1.4	16.2	0.0	0.8	7.8	2.7	13.0	1.5	21.3	2.6			
HU	32.4	1.4	14.0	0.2	0.6	25.7	2.6	12.8	0.6	14.0	1.6			
MT	23.1	1.0	15.1	-0.5	2.1	9.2	2.6	9.0	0.1	13.8	-1.5			
PT	25.3	0.9	17.9	-0.1	-3.7	8.6	0.3	10.1	1.8	19.4	0.9	17.3	-0.8	-4.7
BE	21.6	0.6	14.8	-0.5	-2.4	6.5	0.8	14.1	0.3	14.3	-0.4			
ES	28.2	0.5	22.2	0.0	-3.6	5.8	1.3	14.3	0.9	28.1	7.3	20.9	-0.2	-2.0
SI	19.6	0.3	13.5	-0.1	-1.7	6.6	0.5	7.5	-0.1	13.5	1.2			
EE	23.4	0.3	17.5	0.0	2.6	9.4	0.7	9.1	-0.9	24.2	4.7	17.7	0.7	13.4
BG	49.3	0.2	21.2	-1.0	-4.2	44.1	0.5	12.5	1.5	18.6	-2.8			
DK	19.0	0.1	13.1	0.1	-1.6	2.8	0.2	11.3	-0.4	13.0	1.2			
CZ	15.4	0.1	9.6	-0.2	-1.8	6.6	0.5	6.8	0.2	8.7	-0.3			
HR	32.3	0.0	20.5	-0.8	-4.6	15.4	0.6	16.2	0.8					
SK	20.5	-0.1	13.2	0.2	5.9	10.5	-0.1	7.2	-0.5	6.0	-4.9			
FR	19.1	-0.2	14.1	0.1	0.8	5.3	0.1	8.4	-1.0	13.8	1.3	13.9	-0.8	-0.3
DE	19.6	-0.3	16.1	0.3	0.7	4.9	-0.4	9.9	-1.3	16.0	0.8	15.5	-0.2	3.0
PL	26.7	-0.5	17.1	-0.6	0.2	13.5	0.5	6.9	0.0	11.8	-5.1	17.8	0.2	5.0
SE	15.6	-0.5	14.1	0.1	3.0	1.3	0.1	5.7	-1.2	10.8	-1.4			
LT	32.5	-0.6	18.6	-0.6	9.0	19.8	0.8	11.4	-1.3	27.4	7.4	21.4	0.0	9.9
NL	15.0	-0.7	10.1	-0.9	-1.5	2.3	-0.2	8.9	0.0	10.7	0.2			
FI	17.2	-0.7	13.2	-0.5	0.8	2.9	-0.3	9.3	-0.7	11.6	-2.0	12.1	-0.3	4.6
LV	35.1	-5.0	19.4	0.4	3.7	24.0	-7.0	10.0	-2.6	35.0	9.1	21.4	0.9	9.4

Source: EU Employment and Social Situation, 2014

If it is considered not being yet demonstrated that it would be possible to obtain a low level of poverty without substantial public expenditure (Cantillon, 2006), the same is true in reverse. It is not demonstrated that an increase in government spending is the condition for poverty reduction. In such logic, we can say that the solution to eliminate poverty stands in the hands of the authorities that could allocate all their spending in this regard. As, otherwise, the same is true in terms of inflationary measures to provide everyone additional amounts of money, as if that would be the real solution against poverty. We live in a world of scarce resources and of competition for access them. The only solution to provide more for many is no other than increasing production and competitiveness. Only through economic growth can be offered more and better paid jobs. A first step to stimulate industrial production would be the reduction of fiscal pressures. In this way, those without jobs could hope to achieve real and sustainable support from the same individuals, as entrepreneurs of this time, and not just taxpayers. Moreover, we cannot know, based on certain calculations, if social services could not be produced with much lower costs by the free market (Păun, 2011). Given the not to be neglected number of private charitable association that seems to significantly support the reintegration into society of abandoned children and persons with disabilities or sustain helpless elderly, the "competition" in social protection could make them win the case. It should not be overlooked that many social assisted persons turn to private mercy (begging) because that they can get so much more than the gains offered by the state.

CONCLUSIONS

The question that remains is whether the state can provide social protection to all those without jobs and ensure guaranteed minimum income without jeopardizing, through increased fiscal pressure and inflationary policies, the urge to work of the others. What often gets overlooked by the officials concerned with the standard of living of their voters is that their support is maintaining in a vicious circle. On the one hand, they propose measures to support the more disadvantaged social categories, which imply an additional fiscal effort. The tax increases, in addition to their unpopularity, will involve a decrease in earnings, consumption and living standards for the individuals with the lowest income. As a result, many people will need social protection. If the budget deficit will be covered by monetary expansion, so by inflation, the number of those adversely affected will certainly be significant. It is known that any monetary growth produces, through Cantillon effect, a transfer of wealth from the last recipients of monetary growth to the first (government administration, banks, and beneficiaries of public works). As a result of price increases, in leaps and uneven, many individuals will be able to buy less, which means a reduction in their standard of living and, why not, a growing number of those who will be included in the category of people threatened by poverty. In this vicious circle, where state measure to poverty reduction complements other interventions, of the same state, which has reduced the livelihoods of individuals, should be included the minimum wage. Although it is designed to be a measure of protection for the employees with the lowest income, the imposition of such a price threshold discourages, actually, the employers. Setting the free market price of labor will make certainly that the number of jobs offered and those willing to work for wages below the minimum threshold to be higher. As a result, many social assisted would become responsible for obtaining their own incomes, reducing their relationship of dependency to paternalist state.

As very correctly Thomas Malthus noticed in the end of the XVIIIth century, "poor laws" tend to increase population without increasing the amount of food (resources) to support it. Families assisted by the state tend to become more numerous, without worrying too much of their livelihood except those offered by authorities. In practice, often, social protection policies create moral hazard and the widespread sentiment that there will always be someone who will give a piece of bread and a roof to those that sometimes make too little for that. In the words of Malthus, these policies "create the poor which they maintain."

It is important to know the causes of poverty, not to disguise its consequences. The support of those in need does not have to mean the creation of a kind of dependence on the generosity of others. This, more as the "generosity" is not manifested through private charity, but through government transfers, through redistributive income measures in society, creating high risk for the manifestation of adversity of "assistants" to those "assisted.

The reduction of amounts for social protection programs is not certainly an appropriate solution. The correct direction is to reduce the number of state support dependent. For this, a measure having good results would be the conditional aid offered to those able to work by the provision of certain community activities. But the most fruitful way to reduce the number of social assisted people remains cultivating family values, mutual responsibility between its members, awareness of the inherent uncertainties about the future, prudent behavior, savings and non-dependence.

REFERENCES

Agentia Nationala pentru Plati si Inspectie Sociala (2014) *Raport privind ajutorul social, venit minim garantat (Report on social assistance (minimum guaranteed income)*, accessed on April 2014 on http://www.prestatiisociale.ro/index.php/welcome/page/beneficii-asistenta/34/

Benezic D., Grosu C. (2011) *De ce România NU e stat asistenţial. De ce România e stat populist. Comparaţia cu Europa social (Why Romania is not a welfare state. Why Romania is a populist state. Comparison with social European*) CursdeGuvernare.ro, accessed on April 2014 on http://cursdeguvernare.ro/de-ce-romania-nu-e-stat-asistential-de-ce-romania-e-stat-populist-comparatia-cu-europa.html

BusinessDay.ro, (2010) *Cheltuielile cu asistenta sociala – de la 0,75 mld. euro in 2000, la 5 miliarde euro in 2008 si 2009 (Spending on social assistance - from 0.75 billion in 2000, to 5 billion in 2008 and 2009)* accessed on April 2014 on http://businessday.ro/09/2010/cheltuielile-cu-asistenta-sociala-de-la-075-mld-euro-in-2000-la-5-miliarde-in-2008-si-2009/

Cantillon, B. (2006) *The poverty effects of social protection in Europe: EU enlargement and its lessons for developing countries*, Centrum voor Sociaal Beleid Herman Deleeck.

Cantillon, B. (2011) The paradox of the social investment state: growth, employment and poverty in the Lisbon era, *Journal of European Social Policy*, accessed on April 2014 on www.dps.aau.dk/.../Cantillon-B_-2011_-The-pa...

European Comision (2014) *EU Employment and Social Situation*, Quarterly Review, Special Supplement on Trends in poverty and social exclusion between 2012 and 2013, accessed on April 2014 on http://ec.europa.eu/social/main.jsp?catId=737&langId=en&pubId=7699

Eurostat (2013) *European Social statistics*, Publications Office of the European Union, accessed on April 2014 on http://epp.eurostat.ec.europa.eu/cache/ITY_OFFPUB/KS-FP-13-001/EN/KS-FP-13-001-EN.PDF

Institutul Român pentru evaluare şi strategie (2013) *România şi statul social (Romania and the social state)*, accessed on April 2014 on http://www.ires.com.ro/uploads/articole/ires-romania_si_statul_social.pdf

Malthus, T. (1798) *An Essay on the Principle of Population*, London.

Ministerul Muncii, Familiei şi Protecţiei Sociale (2012) *Indicatori privind sărăcia şi inegalitatea, în funcţie de caracteristici ale persoanelor şi gospodăriilor (Indicators of poverty and inequality, according to the characteristics of individuals and households), 2003-2011*, accessed on April 2014 on http://www.mmuncii.ro/j33/images/Documente/Familie/DGAS/Anexa_3__tabele__saracie_2011.pdf

Ministerul Muncii, Familiei şi Protecţiei Sociale (2012) *Indicatori statistici privind sistemul de protecţie socială în România corespunzători anului 2011 (Indicators on the social protection system in Romania in 2011)*, accessed on April 2014 on http://www.mmuncii.ro/j33/images/Documente/Familie/DGAS/Anexa%204%20ADEPT%20.pdf

Păun, C. (2011) *Iluzii deşarte: statul social, statul bunastarii sau statul asistential (Vain illusions: the social state, the welfare state and the assistant state)*, Contributors.ro, accessed on April

2014 on http://www.contributors.ro/dezbatere/iluzii-de%C8%99arte-statul-social-statul-bunastarii-sau-statul-asistential/

Ropke W. (1960) *A Humane Economy*, Henry Regnery Company, Chicago