

## **Social Protection Policies in Romania and their Electoral Aspects**

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**Abstract:** In this paper, I have analyzed the theme through the historical paradigm of social exclusion perspective, attempting to evaluate how far the electoral context has influenced the formulation of social protection policies. Next I have defined the key concepts, poverty, social exclusion and social protection policies. Further, I have presented the social policies in Romania after 1990 in their electoral context. Lastly, I have put forward the main conclusions of the study.

**Keywords:** *social policies, electoral years, Romania*

### **Introduction**

The study of social protection policies is important because it aims to reduce poverty and social exclusion, negative phenomena that increased considerably in all modern states; as a result, the governments gave special attention to research programs that are focused on these social issues.

Balsa, Barreto and Caeiro (1999) conducted a meta-study that classifies dynamic approach to poverty and exclusion in three categories: historical, structural / institutional and socio-anthropological. The first approach identified as causes the different contexts - social, economic, political – where an individual can be positioned, the second one, structural characteristics of the population or the social system, and the third, important events in the life of the individual.

In the first model, the causes of poverty and exclusion are not particularly the individual actions, but this is explained by the inability of the community to improve the socio-economic living; the poverty is the result of a structural contexts defined by economic, social and political factors (for example, migration, urban development, labor market, social policy, education) and poverty is seen as a reproductive process. Two of the most important reasons in the reproduction of poverty are the economic development of community and the parenting skills. In the subsequent part, I am presenting the main concepts of the study.

## **1. Theoretical framework – poverty, social exclusion and social policies**

Preoteasa (2009) asserts that in the literature there are two main categories of definitions that explain the concept of social policies, either through their political orientation or through their social character. Social policies have certain goals and propose solutions to social problems and protect social rights that have been politically established; they also have as a general aim the society development. We classify social policy based on two criteria: their function in providing welfare and practical ways to achieve its distribution.

The main sources of individual and collective welfare are: the labor market - employment income; private/individual income - their savings, revenues from property; volunteering - social networking / fundamental social institutions, NGOs; the state - through social policies. The study of social policy involves: setting limits that define the necessity of state intervention in the economy; establishing the extent to which should be involved; selecting specific social objectives; knowledge of specific tools to redistribute wealth to achieve these objectives; analysis of actors involved in implementing social programs to achieve these objectives; analysis of effectiveness, efficiency and feasibility in financial, legal, political and administrative terms. Forms of state intervention in social policies include: benefits and social transfers, social services, gratuities, subsidies and exemptions from taxes (Pop, 2005).

Since the 1990s appears the concept of evidence-based policy, hence increasing the role of public policy research, by conducting empirical analysis. The envisaged measures are such as: policy must take account of goals rather than existing structures, policies should be inclusive, avoid unnecessary burden, involve others in policy decisions, improving risk management, developing an approach toward the future and learning from experience.

Zamfir (2000) sets out the principles that should underpin poverty reduction policies: the principle of universal right to support people in need, the principle of complementarity of responsibilities - responsibility to the community members must be designed to be complementary to the responsibility of the person receiving community support, the principle of prevention and combating poverty, the principle of complementarity between general programs and customized programs, programs aimed primarily not at ensuring the survival but the development, the principle of social benefits

contribution to the collective welfare, the principle higher contributions involve greater benefits, the principle of partnership, the principle of differentiation on levels of social support, nationally and locally, the principle of support for the local community self-development.

The concept of social exclusion, unlike poverty, is comprehensive and has a dynamic character. The author treats poverty as a static concept, which is the result of a dynamic process, that of impoverishment; deprivation is also a static concept, being the result of social exclusion. (Berghman, in Room 1995).

Social exclusion is defined as the failure of one or more of four systems: legal and democratic system that promotes civic integration; labor market, promoting economic integration; welfare state system that promotes social inclusion and community and family system that promotes interpersonal integration. (Commins, 1993; Bruto da Costa, nd, cited Berghman, 1997).

Important support given to the concept study comes from EU institutions. "The terms poverty and social exclusion refers to a situation where people are prevented from participating fully in the economic, social and civic life, when their access to income and other resources (personal, family, social and cultural) is so inadequate that it excludes them from the benefit to a standard of living and quality of life that is acceptable to the society in which they live. In such situations people often are unable to fully access their fundamental rights." National action plans contained in the joint report includes several key challenges: developing an inclusive labor market and promoting employment as a right and as an opportunity for all, guaranteeing an adequate income and resources to live in dignity, preserving family solidarity and protecting children's rights, providing better housing conditions for all (European Council, 2001).

The social benefits system can be structured by their eligibility criteria and by their objective: contributory/noncontributory benefits and active/passive benefits. Contributory benefits are granted to persons who have contributed financially to the system, have a specific need and the benefit is proportional to the contribution to the system. Noncontributory benefits are offered to people in need, even if they have not contributed to the system and the size of the benefit is proportional to that need. Passive benefits are those transfers of resources from the community to the person in need to satisfy their needs. Active benefits do not necessarily provide consumer sources, but

capacity to support self-sustaining; these benefits are of two types: creating capabilities and furthering opportunities (Zamfir, 2000).

## **2. Social policies in Romania – general description**

The social protection system can be conceived as consisting of social security, social assistance and universal benefits, the first being contributory - awarded to those who have contributed to the social system, and the last ones being noncontributory. The first category includes, for example, retirement pensions, unemployment benefits, unemployment benefits, health insurance. The second category includes people who are considered poor, receiving benefits as guaranteed minimum income / social assistance, complementary family allowance and support allowance for single parents, help for home heating. The last category is formed from people who are in a specific social situation, regardless of other considerations, which have benefits such as child allowance, allowance for newborn children, child allowance, financial aid for newlyweds, and trousseau for newborns.

Romanian social protection system is reduced in financial size, social spending being only 12 to 13% of GDP - half of the average EU-27; only in recent years (2009-2010) has increased, but the percentage is *relatively* higher not only due to increased allocations, but also due to GDP decline during the economic crisis. However, it is developed in terms of the types of social programs; a large number of households received at least one form of social protection - that is 6049 thousand households, representing 81.7% of all households nationally (MLFSP, Report 2010).

Regarding the structure of social spending, Romania is similar to European countries, most of the benefits being addressed to the elderly, with the prevalence of contributory benefits; pensions and health insurance represent 78% of total social spending, because of their universalistic character. Spending for the elderly and health are financed mainly by employers and employees; because of their small number, the share of social contributions is one of the highest in Europe (Preda, 2009).

On the other hand, Romania differs significantly from the European countries by the increased share of expenditure on family and health, and a lower one with unemployment, housing and social exclusion. Family expenses

are represented mainly by children allowance, because of its universalistic character and therefore the high number of beneficiaries, and child allowance. Social assistance programs have a large number of beneficiaries, but reduced total cost of only 0.7% of GDP in 2006. The number of households where at least one person has received social assistance benefits was 3,702 thousand including 13,549 thousand people (MLFSP, Report 2010).

In Romania, the coverage of social protection is high - over 83% of individuals are covered by at least one monetary benefit, directly or indirectly (as members of the household by sharing income). Regarding the type of transfer, it appears that almost half of the individuals in the household have at least one source of income from contributory social protection benefits, of which the most common is seniority pensions, those for loss of employment capacity and the farmer pensions. In the case of non-contributory benefits, child benefit has the largest coverage, followed by the guaranteed minimum income and the special aid for people with disabilities (Grigoraş, 2009).

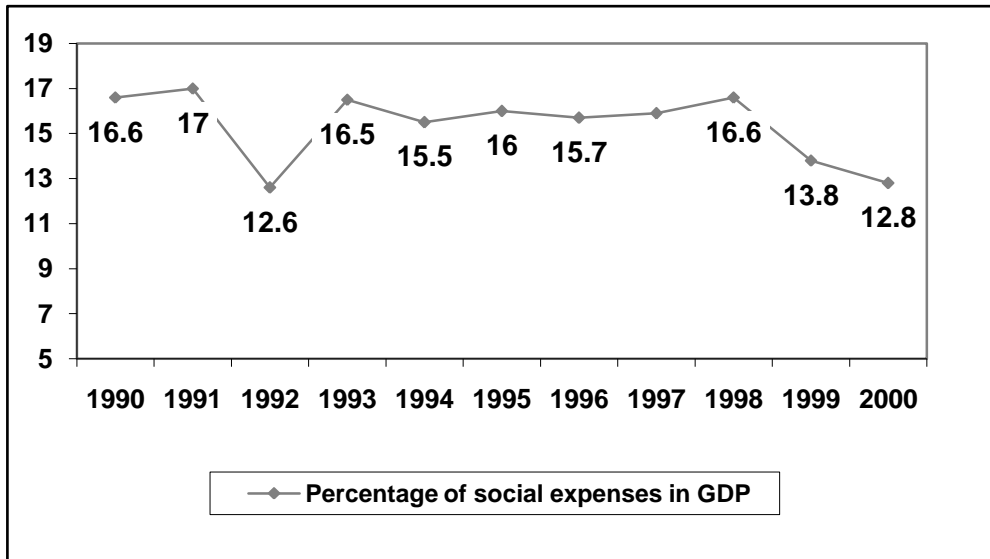
### **3. The social policies and their electoral facets**

In 1992, social protection expenditure did not increase as expected, but rather decreased, as it can be seen from the first graph. A possible explanation is that the post-communist period did not have serious social problems, so they did not receive special attention.

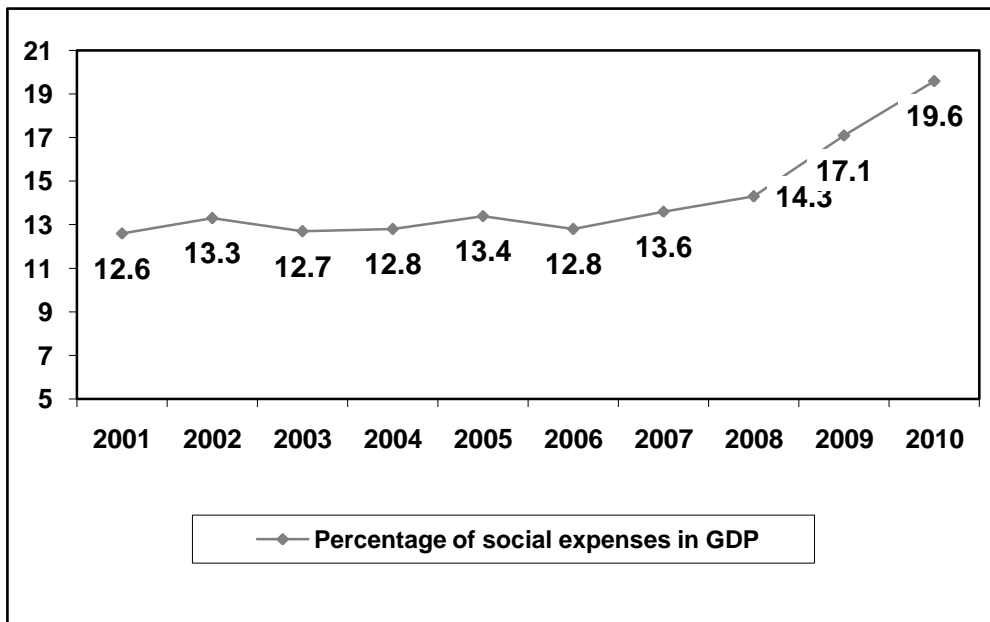
However, we can see a massive increase in post-election social spending, so we can assume that this is due to the election year promises. In election year *1996*, no major changes can be observed by comparing with the pre-election year as well as with the post-election, and this may be one of the reasons that the government lost the elections, and this is repeated in the election year *2000*, accentuated by the decline in the share of social spending in GDP, and also in the election year *2004*.

In *2008* is an increase in social security spending compared with 2007, while the government retains power, moreover, in post electoral year social spending increase again in a significant proportion.

**Figure 1: Percentage of social protection expenses in GDP (Romania 1990-2000)**



**Figure 2: Percentage of social protection expenses in GDP (Romania 2001-2010)**



Source: Institute of National Statistics, Presidential Administration 2009

### ***The pension system***

The pension system is controlled politically, the National House of Pensions and Other Social Insurance Rights (CNPAS) has no real independence in managing the fund, being controlled by the relevant ministry. Successive early retirements artificially increased the number of beneficiaries, taking over many of those who were to be sent in unemployment. The inclusion for a long period of agricultural pensioners, who have not paid pension contributions and other categories of beneficiaries, reduced the level of pension benefits.

The number of pensioners in social security system is on a parity level with the number of employees, so the dependency ratio is very high. Its main source is the retirement increase between 1990 and 2002 (partly influenced by lowering retirement age and the full contribution period, provided for in *Decree 60/1990*) with approximately 70%, and especially with 430% for disability ones, which questions the correctness of these retirements. The dynamics of number of employees was negative between 1990 and 2007 decreasing by approximately 40%. Early retirements and disability retirements led to a real retirement age of around 52-53 years in 2001-2003.

From *January 1<sup>st</sup>, 1999*, the amounts for average monthly pension calculation include, in addition to rights of retirement decisions, the ones for supplementary pension (*Government Emergency Ordinance 31/1998*) and for health insurance contribution (*Law 145/1997*, supplemented by *Government Emergency Ordinance 30/1998*).

From *July 1<sup>st</sup> 2000*, the amounts for calculating the average monthly pension include the value of tax for exceeding the ceiling set by law (*Government Emergency Ordinance 87/2000*). Since *January 1, 2003*, the amounts representing pensions do not include social health insurance contribution (*Government Emergency Ordinance 47/2002*).

The pension level evolved increasingly during the economic growth and after the *law 19/2000* on public pension system and other social insurance rights. The index of real average pension of state social insurance pensioners has increased significantly, reaching 180% in 2007 compared to 2000, but the replacement rate relative to net average earnings fell from 43% in 2002 to 38% in 2007 (meaning that the wages has increased more than the pensions). Following increases in 2008 and the introduction of social pensions in 2009, the replacement rate returned to 43% of average salary income.

In Romania, pension expenditures are greater than revenues collected, and there is a deficit of the state social insurance budget. Contribution collection rate was only 80% several years ago because of political favors made to the indebted state companies whose debt have been cancelled. Although successive privatizations reduced debt levels, these still remained high. (Preda, 2009)

Introduction of privately managed pensions became operational only in 2008 but for 20 years they will take some contributions without providing benefits. Optional pensions are insignificant regarding the population coverage. Mărginean (2007) recommends that in a society to function several pension systems well organized and efficient, in relation to their objective, forming a multi level structure of public and private systems.

An unpopular law was introduced in a year with no elections. Since 2011, the public pension system is governed by the *law 263/2010* and its main reform areas are: increasing the standard retirement age for women and some categories of civil servants, pension systems integration, regulation establishing a procedure for point value pension recalculation of pensions established by special laws, increasing the number of contributors to the public pension system unit with some categories of taxpayers, discouraging the number of partial early retirements, implementation of more stringent criteria for access to disability pension and discouraging abusive disability retirements.

### ***Social assistance***

*Supplementary allowance and support allowance for single-parent families* are the largest programs selected for financial support for families with children, targeting families with precarious financial situation, introduced by *Government Emergency Ordinance 105/2003* with effect from 1 January 2004. However, taking into account economic growth and a low income limit, the number of beneficiaries was decreasing. From the complementary family allowance was benefiting families of husband, wife and children up to age 18, dependent on them, who live together and generate net income per family member up to the minimum net wage economy. Single-person families with children up to 18 years dependent and living with them, receive support allowance for single parent families, if their net monthly income per family member is up to the minimum net wage per economy. (MLFSP, 2012).



*Family support allowance*, according to the *law 277/2010* has as potential beneficiaries, families whose members are Romanian citizens living in Romania and families and single persons not having Romanian citizenship, but belonging to certain categories of people. Allowance is granted based on income and number of children in the family. Maximum income to be granted the allowance was 370 lei / person.

*State allowance* and *child allowance* is allocated since 1990 under Decree 410/1985. State allowance for children has as beneficiaries all children up to the age of 18 years (*Law no. 61/1993*). The allowance is transferred into personal accounts opened for them by legal representatives.

*Social care of older people*, according to *law 17/2000*, addressed to people who have reached the statutory retirement age and are granted based on social surveys. According to the law, social services are established provided for older people at home, in residential institutions, day care centers, senior clubs, apartments and social housing.

*Support for house heating*, introduced by Government Emergency Ordinance 5/2003 and updated according to *Government Ordinance 1286/2008*, sets the support to families and single people on low incomes, increasing it according to net average monthly income per family member.

*Means-tested social assistance* was introduced in 1995, but was paid intermittently or not at all, because there seemed to be no pressure group or political will to seek its proper functioning (Zamfir, 1999). Subsequently was transformed into the *guaranteed minimum income* (regulated by *Law 416/2001*), which supports individuals who have very low income. Conditions required for it, such as community service, a part of the population having income growth and the low level of benefits, led to a small number of recipients. (Pescaru-Urse, 2009)

### ***The unemployment***

*Unemployment help*, *support allowance* and *professional integration allowance* represented the amounts that were granted at the request of persons entitled by *law no. 1/1991*, republished in 1994 and amended by *Ordinance nr.47/1997*, for a period not exceeding 270 days. Unemployment help was dependent on previous earnings and the length of contribution to unemployment fund being given monthly for a period of 270 days, representing between 50% and 60% of final salary. Support allowance is the amount granted to persons who have

received unemployment benefits or employability allowance and that could not be employed and represent 60% of the minimum wage. Support allowance is granted for a maximum period of 18 months (according to *Law no. 1/1991* and amended by *Ordinance no. 47/1997*). Professional integration allowance granted to graduates of high school or university, was introduced in 1994, and represent up to 70% of the minimum wage, given on a period of 270 days (Zamfir, 1995).

**Table 1: Indicators related to unemployment**

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Unemployment rate	3	8,2	10,4	10,9	9,5	6,6	8,9	10,4	11,8	10,5
Monthly average unemployment help as % from minimum wage	63,6	64,8	71,3	102,7	97,4	112,9	135,8	103,8	119,9	96,6
Monthly average support allowance as % from minimum wage	-	43,8	41,1	41,2	60	60	53,2	47,1	53,3	40
Monthly average professional integration allowance as % from minimum wage	-	-	-	70,7	65	65	65	57,5	66,4	54,2
% from expenses with active measures from total unemployment expenses	2,8	1,5	1,1	1,4	0,8	1	0,7	1,2	1,1	1,3

Source: Statistical Yearbook of Romania - National Institute of Statistics.

From the table it can be seen an increase in unemployment spending in 1996 compared to 1995 - though these were low and a decrease of them in 2000, compared with 1999.

*Unemployment benefits* (according to *Law no. 76/2002* regarding the unemployment insurance system and employment stimulation) is a partial compensation income granted to unemployed persons due to loss of job or graduates of educational institutions and soldiers who have completed their military service and who did not gain employment and income. This benefit was not related to previous earnings, representing 75% of the minimum wage, the granting period being up to 12 months, depending on length of contribution to the unemployment fund.

Training expenses represents expenses incurred for training, retraining, improvement and specialization of people looking for a job. The payment of the graduates represents the payment to employers who have hired, for an indefinite

period, graduates of educational institutions. Monthly amount payment is equivalent to the national minimum wage for a period of 12 months, according to law 76/2002.

Compensation payments made under restructuring programs, privatization and liquidation represented the amounts which have been given to persons whose contracts of employment have been terminated as a result of actual layoffs - *Government Ordinance 7/1998* and *G.O. 98/1999*.

Although the unemployment rate in Romania is lower than in other developed European countries, poverty indicators reveal a substantial segment of the unemployed that are poor, in 2007 about 38% of the unemployed were under the relative poverty line. In most European countries the amount of unemployment benefits is dependent on previous income unemployed.

In Romania, the unemployment insurance system was tightened over time, giving shorter periods and lower benefits. Along with *Law 76/2002* is introduced the benefit with a single amount. These changes were short term benefits for low-income unemployed but in the long run have been disadvantaged by diminishing the granting period. Subsequent legislative changes, despite the changes, have maintained a low amount of these benefits.

Coverage of unemployment benefits decreased substantially between 1995 and 2004. Although the unemployment rate was similar, 61% of families with an unemployed receiving unemployment benefits in 1995, while in 2004 only 25% of them still received these benefits (Pescaru-Urse, 2009).

## **Conclusions**

Two general conclusions have emerged from the analyzed data. Firstly, according to the social policy legislation on pensions, social assistance and unemployment, it can be concluded that, generally, election years influenced the legislative framework because the unpopular measures were taken in nonelectoral years, thus trying to avoid political sanctions at elections. Secondly, the levels of social spending in the electoral years have influenced the outcome of elections; if it decreased or if it was stagnant it was more likely that the political power would have lost the elections.

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