Designing Anti-Cyclical Social Policies in Times of Economic Crisis

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Abstract

In the study author used data from the period of epidemiological crisis. The subject of the study is analysis of economic indicators specific to social assistance and the labour market. The study sought to identify how the effect of a crisis propagates in the evolution of gross domestic product, unemployment and social assistance.

Author used statistical analyses in the study that looked at indicators specific to different markets (monetary, goods and services, labour). Regression analysis highlighted the higher volatility of the labour market compared to social assistance. This was explained by the fact that inclusion in the class of welfare recipients initially follows a process of self-labelling and the influence of subjective elements (cognitive dissonance phenomenon, the rack effect).

The study also reveals the existence of a residual value of the number of poverty benefit recipients independent of the number of unemployed.

Key words: social assistance, economic growth, economic crisis, macroeconomics
J.E.L. classification: I18, H53, F62

1. Introduction

The ability to design anti-cyclical employment and social assistance measures is an important objective. Versatility and integration of programmes into social protection systems is also a must. Changes in the structure of the Romanian economy, pandemic crises, migration, require changes to ensure permanent adaptation policies. These, like other public policies, can only be found by assessing the impact of certain parameters.

Stimulating economic growth in times of crisis goes hand in hand with increasing social needs. The process of capitalising the economy is necessary in conjunction with the development of services (social and employment services), otherwise income inequality may affect social security. I will refer to the sources that can lead to new strategies in social assistance in this article. If there is an opportunity, I used the evolution of some economic / social data from the pandemic period to see what could be changed in strategies and especially why.

The epidemiological crisis that started in the second quarter of 2020 has affected the market for goods and services, the labour market, social assistance and the exchange rate. Analysis of the evolution of indicators such as the Gross Domestic Product, the number of unemployed, the number of social assistance recipients and the leu/dollar exchange rate can provide an insight into the extent of the crisis, in the context of equilibrium trends, existing within the markets.

2. Liteerature review

The specificity of a country makes it difficult to extend general research. Quantitative methods such have also used in research papers by (Alkire, 2014), (Blank & co, 1986), (Ravaliion, 2016), (Ayala & co, 2017).

Studies and analyses on the relationship between the parameters were necessary to implement the minimum inclusion income. In designing the strategy to combat social exclusion, such studies have also been carried out. The article follows the results of the analysis of poverty dynamics presented in the book The Great Escape written by (Deaton, 2013), (Anghelache & co, 2006) and

(Gibescu,2013) have addressed this issue for Romania. Various World Bank analyses have also addressed this topic.

3. Research methodology

In this first study by the author I tried to use a small number of relevant indicators. In the next stages of the research I will include other variables in order to define a suitable macromodel.

I have chosen to use a time series analysis of some indicators to provide an adequate picture. I have thus followed the evolution of the indicators in the period before the crisis, during the crisis and post Covid.

• For the goods and services market indicator, quarterly gross domestic product was used. The data for this indicator have been extracted from the website of the National Institute of Statistics (CON106A - Quarterly gross domestic product - CAEN Rev.2 gross series, current prices). The indicator is a national accounts macroeconomic aggregate and represents the final output of the production activity of resident productive units over a period, i.e. a quarter.

• The data on the number of unemployed were extracted from the website of the National Institute of Statistics (indicator SOM101A - Unemployed registered at the end of the month). As the SOM101A indicator has monthly values, in order to integrate the data with the previous indicator, an indicator aggregating the quarterly average was calculated.

• Data on the number of social assistance persons were extracted monthly, from January 2012 to March 2020, from the ANPIS balance sheet. Similarly, in order to be integrated into the model, the extracted monthly data was averaged per quarter.

• The average exchange rate USD / RON was extracted from the website of the National Bank of Romania and in this case a quarterly average of the monthly data was performed.

• The following derived indicators were included in the database:

- GDP USD - which was defined by the author as GDP value in lei / average exchange rate;

- Dynamics of GDP lei - which was defined by the author as the value of GDP in lei in period n compared to period n-1;

- Dynamics of GDP in USD - which was defined by the author as the value of GDP in USD in period n relative to period n-1;

- Unemployment dynamics - which was defined by the author as the value of the number of unemployed in period n relative to the value in period n-1;

- Dynamics of GVA growth - which was defined by the author as the value of the average number of welfare recipients in period n relative to the value in period n-1;

- Exchange rate dynamics - which was defined by the author as the value of the LEU/USD exchange rate in period n relative to the value in period n-1;

- Unemployment/assisted ratio - which was defined by the author as the ratio of the value of the number of unemployed at a given time / the value of the number of social assistance recipients;

- GDP dynamics compared to the similar quarter of the previous year - which was defined by the author as the value of the GDP indicator in quarter n (n = 1,2, 3, 4,) of the current year compared to the value of the indicator in the same quarter of the previous year;

- Unemployment dynamics relative to the same quarter last year - which was defined by the author as the value of the indicator number of unemployed in quarter n (n = 1,2, 3, 4,) of the current year relative to the value of the indicator in the same quarter last year;

- Dynamics of VMG recipients compared to the similar quarter last year - which was defined by the author as the value of the indicator number of unemployed in quarter n (n = 1,2, 3, 4,) of the current year compared to the value of the indicator in the same quarter last year;

- Dynamics of the unemployment/assisted ratio compared to the similar quarter of the previous year - which was defined by the author as the value of the unemployment/assisted ratio indicator in quarter n (n = 1,2, 3, 4,) / current year compared to the value of the indicator in the same quarter of the previous year.

The author merged the data related to the indicators and calculated the average for each quarter of each year. The data in the tables were subject to a time series specific analysis .

The period analysed was from Q1 2012 to Q4 2020. The figure below shows the dynamics of some indicators considering the notation Q1 2012 = 1 until Q4 2020 = 20

In the table and figure below I present the time series analysis described above.

*Figure no.1 Analysed data and graphical representation*
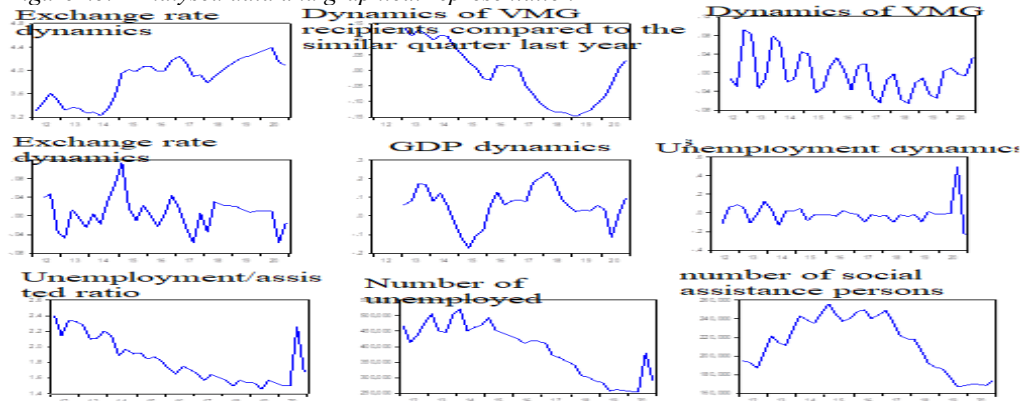
Source: Self projection af author

Economic growth up to 2020 has resulted in a downward trend in the number of unemployed and welfare recipients. The graphical analysis above shows the seasonality of GDP growth, but also of the number of unemployed or social assistance recipients.

In order to eliminate the effects of seasonality we have analysed below the indicators GDP, number of unemployed and number of social assistance recipients, compared to the corresponding periods of the previous year.

Figure no 2 Evolution of indicators compared to the same period of the previous year
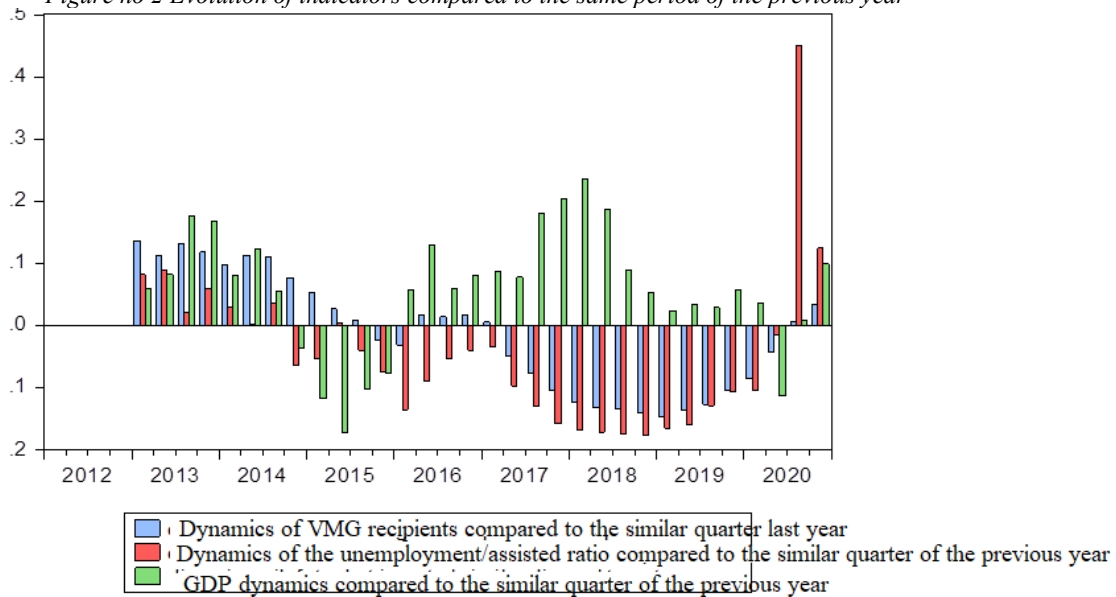
Source: Self projection af author

4. Findings

The evolution of the ratio of the number of social and unemployment benefit recipients in the current year/previous year is moving in the same direction with few exceptions. Between 2013 and 2016 the evolution of the GDP dynamics followed the same trend as the evolution of the dynamics

of the number of unemployed and even of social assistance recipients.

From 2016 onwards, it can be seen that the trend has been reversed between the GDP dynamics compared to the previous year and the dynamics of the number of unemployed compared to the previous year. Thus, if GDP increased, the number of unemployed decreased, a phenomenon explained by Okun's law. The crisis generated by COVID 19 brings to mind the trend of 2013 - 2016 where, as in the case of economic growth, the number of unemployed/social assistance recipients was increasing. Initially, the reaction of the labour market to the freezing of economic processes led to very high unemployment figures, which was boosted by the health measures related to the COVID period. The fall in GDP during the pandemic led to a very high short-term unemployment rate.

The return of economic growth in the fourth quarter of 2020, however, did not bring an immediate fall in the unemployment rate. A lag effect was observed between the two indicators.

The evolution of the number of social assistance recipients also shows largely the same trend as the number of unemployed (there is also a lag in this case). The figure below shows the evolution of some poverty indicators during the epidemiological crisis.

Figure no 3 Relationship between unemployment and social assistance
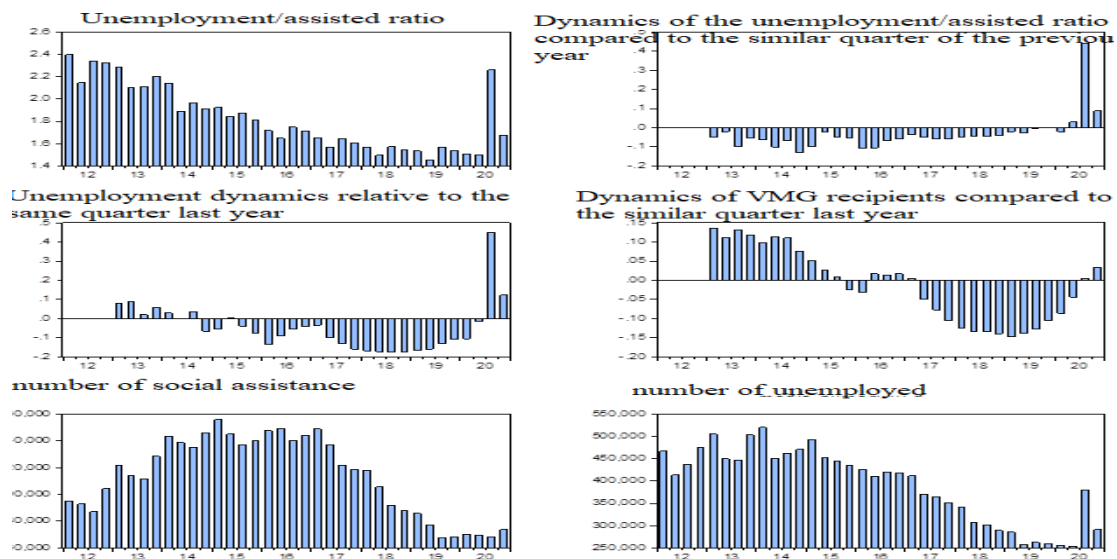
Source: Self projection af author

The epidemiological crisis has not led to a massive drop in the number of people receiving care, but rather to a moderation of the decline in numbers.

The number of social assistance recipients remained at around 180,000, in line with the previous year's dynamic.

The ratio between the number of unemployed and the number of assisted that was decreasing on the trend before the crisis has slightly increased due to the massive increase in the number of unemployed (which had a massive increase in the second quarter of 2020). On the other hand there is an older process of stabilization of the number of welfare recipients. This residual value has also been revealed by other researchers.

"Does this figure for the number of recipients represent a minimum threshold?"

This phenomenon of capping at a lower threshold would represent (a residual value in poverty benefits) would mean that there is a number of beneficiaries that even at a hypothetical unemployment rate of 0.

In the graph below I present a regression analysis represented horizontally by the number of unemployed and vertically by the number of welfare recipients.

Figure no 4 Ratio of number of unemployed, number of social assistance persons
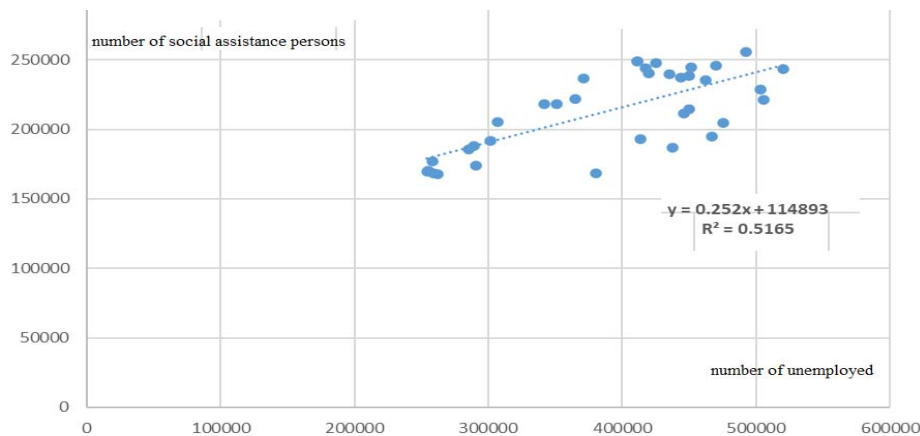
Source: Self projection af author

It can be seen from the graph above, an empirical relationship such as: the average number of beneficiaries is equal to 114,893 + 0.252 x number of unemployed.

Although there is a relatively large degree of error in this model, it can be stated, subject to the degree of practical error, that even at zero unemployment there will be a residual number of social assistance recipients of around 115,000 people.

The model indicates that no matter how much the unemployment rate falls, the share of welfare recipients will not fall below a certain value. The conclusion of this preliminary study is that on the one hand there is a gap between economic growth and the evolution of unemployment and on the other hand another gap between the evolution of the unemployment rate and the number of welfare recipients. This, together with the lag effect noted above (on the one hand, the unemployment rate in relation to economic growth and, on the other hand, the number of social benefit recipients in relation to the unemployment rate), may form the basis for proposals for anti-cyclical measures.

Currently, social benefits in Romania are granted on demand. To enter the assistance class, a person makes an application. By applying, he or she practically includes himself or herself in the assistance class. This process of self-inclusion in the class has, of course, objective economic premises, but also premises that relate to the subjective side of the person. First of all, the person applying for such a benefit has in mind his or her self-esteem in relation to other members of the community. He also cannot conceive that things will get worse, and this is the phenomenon of cognitive dissonance.

On the other hand, any state support measure is important if it is granted in time to facilitate, on the one hand, the exit from social exclusion. If it is important to make investments in the design of anti-cyclical policies, I will now consider the possibility of anti-cyclical measures relating to social assistance.

As Angus Deaton mentioned, there are only some who can escape the social exclusion class and the unemployment class. Some will be irredeemably left behind. For these (which in principle will be a minimum of 115,000 people for Romania) solutions had to be found by funding social services. A first measure would be to create a system for financing private social services that can be funded by social assistance vouchers. The changing demographic structure and the Romanian economy also require changes in the specific mechanisms for providing social assistance. In order to make social transfers more efficient in a competitive environment, there may be a number of measures/actions based on stimulating competition and financing private social services through vouchers.

At present, a large part of social need intervention is provided by public providers. DGASPCs are large organisations with limited efficiency. Private social services are underfunded and lack extensive intervention capacity. The intergenerational transfer of poverty, inheritance tax, and rising inequality trends lead to continued trends towards social exclusion, even in the context of

economic growth. The provision of vouchers must go hand in hand with the development of private services related to areas of major social exclusion. They could be designed only for one purpose (intervention), approved by the social worker at licensed private entities.

In this sense, the return to the country of some elderly Romanian families in need of social services, and who, on the other hand, have experience in social business investment, could be an opportunity. Boosting the employment of older people who can work in a social service (in the context of an actively ageing population) is another way in which private social services can provide effective social intervention.

The need to capitalise the economy and develop Romanian capital are important priorities. The capital used in social assistance can be used with a multiplier effect, both by private funds (CSR), but also thanks to other springs briefly presented above. It is not possible to speak of a failure of private social services markets that would justify a major public intervention in the context in which they assert and seek social intervention.

Anti-cyclical intervention would require strengthening safety nets at the primary level in terms of correct identification of social need and increasing opportunities for in-kind intervention, especially through the funding of private services through vouchers among the laggards, as well as rapid intervention to mitigate the subjective issues raised above.

These types of measures can increase the role of free markets and reduce direct state intervention. However, the role of the State will remain one of control in the regulatory system, and only in certain cases (of market failure) in direct intervention.

A second measure would be to increase the speed of reaction, not only to under-inclusion (error, fraud, corruption) but also to over-inclusion. Thus, the provision of vouchers only for the use of essential services to combat social exclusion is a measure that reduces the psychological effects of applying for support.

But it must be complemented by an active communication system that will bring people out of exclusion, not keep them, as Angus Deaton said, "in the class of the left behind". Thus vouchers could also be used to facilitate exit from exclusion, including in private social employment services.

5. Conclusions

The study analyses in parallel the dynamics of economic growth, labour market and social assistance during the pandemic period with the intention of identifying appropriate measures for any intervention. The study reveals that although the number of people in poverty correlates with the increase in the number of unemployed, the pandemic period did not lead to a significant increase in the number of short-term welfare recipients. The effectiveness of measures to combat crisis phenomena depends on the measures that states can take to encourage anti-cyclical behaviour that counteracts subjective trends. The design of social assistance systems must take into account a residual level of the number of people receiving assistance, which the study estimates to be around 115 000 in Romania. The study is limited by the degree of error in the quantitative analysis and the interposition of several economic phenomena. The resulting concrete measures concern the financing of social services based on vouchers, after an appropriate endorsement at local level by the social worker. The use of the voucher system could be considered not only as a payment for private services to combat major exclusion but also as a tool to be used to get out of this situation.

The possible results of the study highlight the use of mechanisms to realign the differences in dynamics between the labour market and social assistance, both to combat the under-inclusion error and to reduce the over-inclusion error (unjustified retention in the social assistance class).

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