

Analyzing the Social Protection and Assistance Expenditure in the Welfare State in Romania

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Abstract

This paper highlights the complex relation between the social protection and assistance expenditure and the gross domestic product (GDP) in Romania, for the period 2007-2022, to show how far the objectives of the welfare state in Romania have been achieved. It promotes the responsibility of the state in ensuring a minimum level of well-being for its citizens through public policies and social programs. The economic changes have directly influenced the allocation of resources for social protection and assistance, while these expenses have affected, in turn, the economic dynamics, reflected by the increase in GDP. The correlation between the social protection and assistance expenditure and the GDP in Romania shows that, in general, the economic growth has allowed the increase of social expenses, and in periods of economic crisis, these expenses have become more necessary to support the well-being of the population.

Key words: correlation, GDP, social assistance expenditure, social protection expenditure, welfare state

J.E.L. classification: E58, E60

1. Introduction

The post-revolutionary Romanian state assumed the duty of ensuring the quality of life for all citizens and concentrated differently over time on social investment, on resource redistribution throughout life and between generations, or on compensating those disadvantaged and disfavored.

The Romanian specialized literature showed that the general efforts made to ensure a decent standard of living for the citizens had an upward trend; the people's needs also recorded a much faster upward trend. Since a large part of the respective studies concerned the period of transition to the market economy, the objective of this paper is to analyze correlation between the social protection and assistance expenditure and the GDP, in the period 2007-2022. The mentioned period was chosen considering that, after Romania's adherence to the European Union, the economy of our country became stable and registered an important growth, compared to other European countries. The increase in the incomes of all social categories is reflected in the significant improvement of the population's standard of living.

This paper includes a review of the specialized literature on the notions of social welfare and the welfare state, as well as an analysis of the evolution of the social protection and assistance expenditures and of the GDP.

The result of this study reveals that, in the period 2007-2022, the increase in social assistance expenditure kept pace with the GDP increase. The social protection expenditure financed from the state social security budget is more strongly correlated with the GDP, compared to the social assistance expenditure financed from the central and local government.

2. Theoretical background

Ensuring the well-being of citizens is a fundamental objective of all modern states. This aspect causes them to be frequently called welfare states. Traditionally, the social welfare activities have focused on income redistribution, establishing criteria for granting additional or replacement incomes to those initially obtained. However, the socio-economic and political fluctuations from the post-war period led to a gradual convergence of income redistribution policies with those regarding initial distribution, with mutual borrowing of criteria regarding the distribution of resources and incomes. As a result, the criteria of economic efficiency, which previously governed the stage of initial distribution, began to be integrated more and more explicitly in the policies related to social equity, which were predominant in the stage of redistribution, and vice versa.

The literature in this field extensively analyzes the concept of social welfare and, in close connection with it, that of the welfare state. As noted by Olsson (1993), the concept of social well-being covers multiple aspects, of political (well-being is part of the manifestation of a political community), social (well-being is perceived as a manifestation of social solidarity) and economic nature (well-being aims to reduce poverty and even eradicate it). According to Cace (2004), various institutions contribute to social welfare in all communities: the family, the civil society, the market and the state. Typologies of welfare distribution and welfare states have been developed over time, focusing mainly on the type and purpose of the responsibility that the state assumes in the field of welfare. Andersen (2012) drew attention to the differences between the residual welfare state, which aims to limit employment only to marginal groups, and the redistributive-institutional state, which addresses the entire population and is universal in terms of state obligations. Korpi, Walter & Joakim Palme (2003) have debated the issue of the achievement-industrial performance model, an intermediate type of welfare state, where welfare needs can be met based on merit, work performance and productivity.

The governments' ideological option in certain periods and the design on this basis of what was defined as a fair distribution of resources in society made the ways in which the objectives of the welfare states were to be put into practice different. One of the most influential works addressing these concepts is "The Three Worlds of Welfare Capitalism" written by Esping-Andersen (1990), in which he introduces the concept of "welfare state regimes". Esping-Andersen identifies three main orientations: liberalism, Christian-democracy and social-democracy, classifying the welfare regimes into: liberal, corporatist and social-democratic (Esping-Andersen, 1990, 1999).

The challenge of maintaining a balance between significant public spending in welfare states, financed by hefty taxes on the one hand, and the competitiveness of attractive investment markets on the other, is a major concern for economists. Many scholars argue that the goal of government policies is to maximize the welfare of the low-skilled at a level that does not attract or confer an excessive advantage over the high-skilled (Hines, 2006; Finseraas, 2009; Rehm et al. 2012; Lunau et al., 2014).

Various points of view have been expressed over time regarding the situation in Romania. Given the transition to the market economy, Zamfir and Zamfir (1995) suggested that our country had to choose between a policy of welfare and one of social survival, that is, between building a society of welfare, focused on the concordance between the community and the individual by investing in human capital, and a social policy approach focused on reducing poverty to build a survival society. Lazăr (2000) argued that the welfare state in Romania was seriously affected by the social, economic and political challenges it faced and pleaded for creating a welfare state specific to the particularities of the Romanian state. Redistribution through public spending is not enough in the process of reducing inequalities. Fiscal policy plays a crucial role in ensuring a fair income distribution of income, in economic stabilization and recovery. A study from 2006 (Deme) revealed that the welfare state in Romania developed with difficulty, responding late to the needs of the population. Schipor and Frecea (2018) and Rat et al. (2019) highlighted the special form of the welfare state in Romania that exists in institutional terms but is not perceived as such by precarious citizens and with limited market capacity, since the real economic progress has not been fully reflected in the level of welfare.

The current challenges of the welfare state in Romania are determined by the risk of poverty and social exclusion (especially among children and people from rural areas), insufficient funding and the low efficiency of spending on social protection and assistance (funding of the social insurance

system is strongly affected by the loss of labor generated by migration), significant differences in terms of access to services and the quality of life between the developed and the less developed rural regions and the problem of population aging which puts huge pressure on the pension system and social assistance for elderly (Government of Romania, 2022).

3. Research methodology

This study uses a mix of research methods and techniques to reach the established objectives and draw some final conclusions. The statistical analysis method and computer tools such as Microsoft Excel spreadsheet and SPSS software were applied to centralize, process and analyze the primary data collected from the reports of the Ministry of Finance. We obtained statistical series on social protection expenditure financed from the state social security budget, on the one hand and on social assistance expenditure financed from the central government budget and local government budget, on the other hand and the gross domestic product, for the period 2007-2022. The social protection expenditure includes the redistributive transfers, based on intergenerational solidarity and the principle of contribution (pensions, unemployment allowances, compensation for work accidents, etc.), and the social assistance expenditure includes the redistributive financial benefits for vulnerable individuals or groups, such as social assistance, allowances, allowances for disabled people, support for families and children, etc.

The practical application includes a descriptive statistical analysis, testing the homogeneity and normality of distribution and testing the correlations obtained by calculating the correlation coefficient. The Pearson coefficient is a directional coefficient and can have values between -1 and +1. Values close to +1 indicate the existence of a direct (positive) association between the two variables, while values close to -1 indicate the existence of an inverse (negative) association. The closer the values are to 1 (regardless of sign), the stronger the association, the more "linked" the variables are to each other.

4. Findings

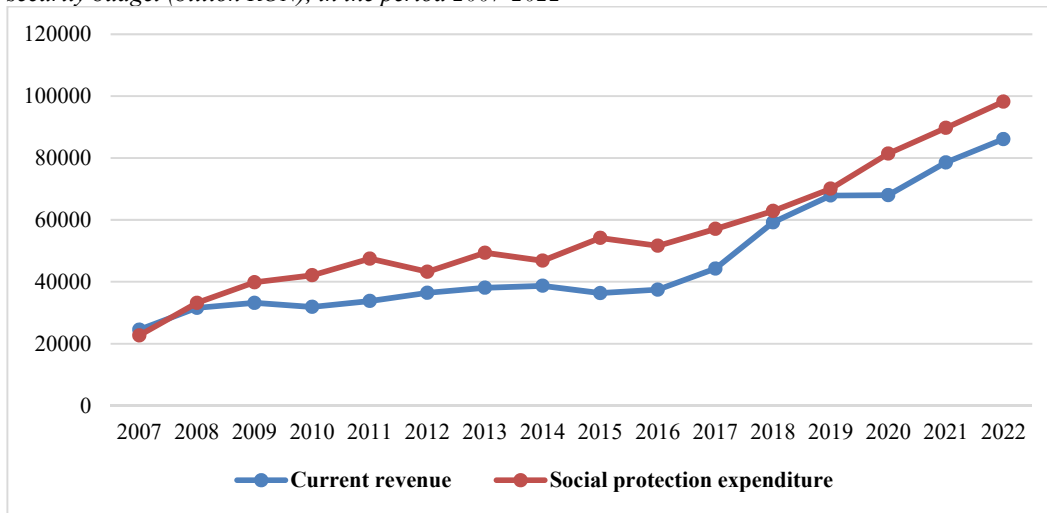
The evolution of social protection and assistance expenditure in Romania was influenced by numerous demographic, economic and political factors.

The social protection expenditure in Romania has generally registered an increasing trend over the last decades, given the increase in the number of pensioners and the implementation of policies to increase pensions. In the 2000s, some significant social security reforms were implemented, including the introduction of Pillar II pensions (privately administered pensions). The global economic crisis of 2008 hit Romania hard, with a major impact on the social security budget, as the pressure on the social protection system increased, with more people relying on social support.

Starting from 2009, the deficit of the social insurance budget, including the special/service pensions, has increased considerably, reaching 20.7 billion RON in 2022 (Figure no. 1). In 2018, it registered a significant decrease, going down to 11.6 billion RON, mainly due to the fiscal measures adopted to reconfigure the taxation system of income from salaries, pensions, self-employment and royalties by transferring contributions from the employer to employed.

Although the total contribution rates decreased, the transfer of contributions from the employer to the employee generated an important increase in the gross salary, causing an increase in the level of taxation through insurance contributions by approximately 13.9%. In addition to the increase in the labor taxation through social insurance contributions, the deficit reduction 2018 was also due to the decrease in the share of contributions to Pillar II of pensions (from 5.1% in 2017 to 3.75% in 2018). In 2019, the social security budget deficit continued its downward trend, reaching 9.7 billion RON, due to the increase in the number of employees in the economy. However, in 2020, the social insurance budget deficit registered an important increase generated by both the increase in pensions and the decline in income, following the recession caused by the pandemic, a trend that continued until 2022.

Figure no. 1. The evolution of the current revenue and the social protection expenditure - state social security budget (billion RON), in the period 2007-2022

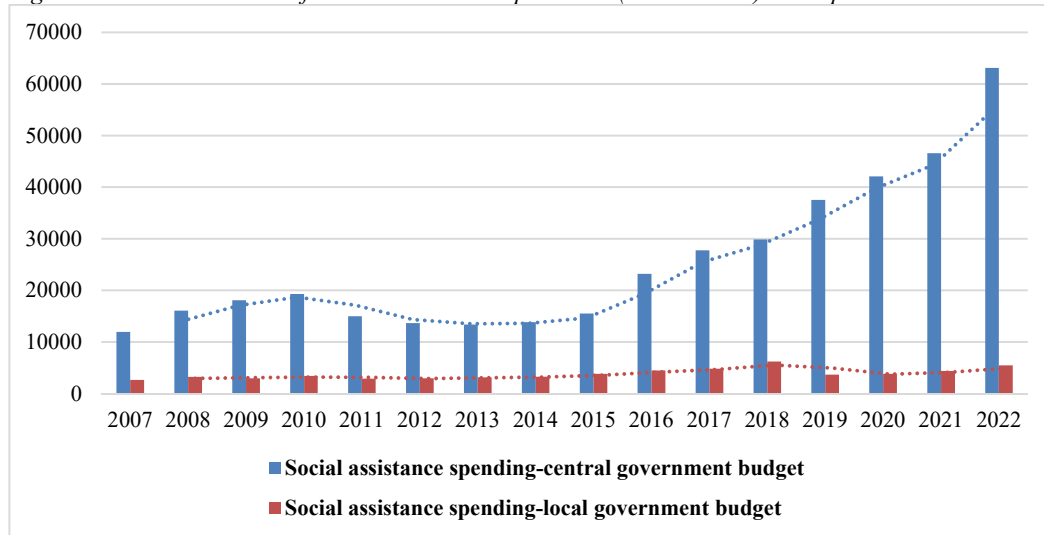


Source: own design based on the data provided by the National Institute of Statistics

The evolution of social assistance expenditures recorded an upward trend in recent years, both in terms of state budget and local budgets (Figure 2). Most of the social assistance expenses are financed from the state budget. The public social assistance services at the local level have a reduced capacity to identify situations of difficulty and/or social vulnerability due to the limited specialized personnel and an insufficient budget allocation.

In the 2000s, Romania implemented a series of reforms to modernize the social assistance system, according to the European Union's requirements for integration, measures to direct support more effectively to the most vulnerable social categories, including the support programs for the children from the disadvantaged families, people with disabilities and the elderly with low incomes. The global economic crisis of 2008 put enormous pressure on the welfare system as more and more people needed support due to unemployment and economic problems. In 2010, the Government implemented some austerity measures, which included the reduction of some social benefits or their restructuring in order to limit budget expenditures. On the other hand, the recovery of the national economy and the trend of economic growth after the global economic crisis reduced the pressure on the social assistance system in Romania. Along with Romania's economic recovery, the social assistance expenditure began to increase again, being directed towards supporting vulnerable categories, such as children from disadvantaged backgrounds, single-parent families, people with disabilities and the elderly. The solid economic growth recorded after 2015 allowed for a sustained increase in social assistance expenses, which were directed towards supporting vulnerable categories, such as children from disadvantaged backgrounds, single-parent families, people with disabilities and the elderly. The COVID-19 pandemic has brought a massive increase in the social assistance expenditure, given the health and economic crisis, by introducing support programs for technical unemployment, aid for economically affected families and support packages for vulnerable people, including the elderly, isolated people or with high social risk.

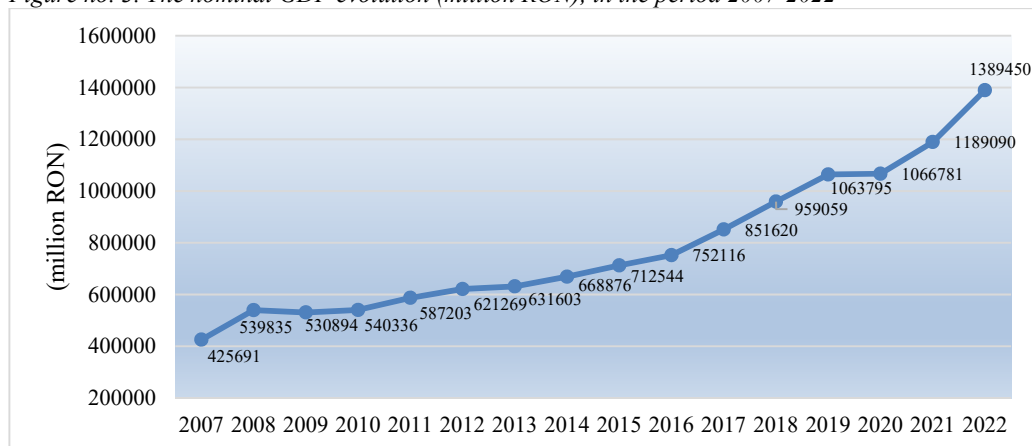
Figure no. 2. The evolution of social assistance expenditure (million RON) in the period 2007-2022



Source: own design based on the data provided by the National Institute of Statistics

Romania's GDP evolution after joining the European Union reflects the economic transformations the country went through, but also the impact of the economic crises of the last two decades. Romania's adherence to the European Union boosted the economic growth through access to the European market, investments and structural funds. The GDP recorded annual growth rates of 6-8% in the period before the global economic crisis of 2008 (Figure 3). The global economic crisis strongly affected Romania's economy, causing a significant drop in the GDP in 2009. The economic recovery began in 2011, but the GDP growth was slow compared to the pre-crisis period. In the period 2015-2019, Romania's GDP increased significantly, recording one of the highest growth rates in the European Union, thanks to the stimulation of domestic consumption and tax reductions. In 2020, the COVID-19 pandemic led to a strong economic contraction, with the GDP falling by more than -3%, due to restrictions. In the following period, the losses were recovered, the GDP growth being stimulated by the reopening of the economy and the governmental support measures.

Figure no. 3. The nominal GDP evolution (million RON), in the period 2007-2022

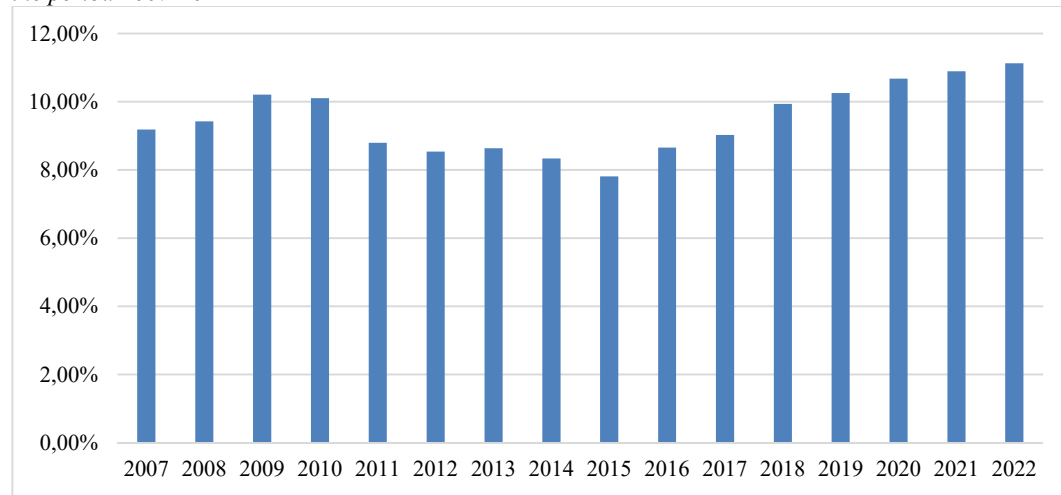


Source: own design based on the data provided by the National Institute of Statistics

The social protection and assistance expenditure in Romania had a significant share in GDP, in the analyzed period, between 8% and 11% of the GDP, depending on the economic and political context (Figure 3). In periods of economic growth, the share of social protection and assistance expenditure in the GDP decreased slightly because the expenses increased less than the economy as

a whole. Conversely, in times of recession, this share tends to increase as the GDP falls and social needs increase.

Figure no. 4. The evolution of the shares of social protection and assistance expenditures in the GDP, in the period 2007-2022



Source: own design and calculations, based on the data provided by the National Institute of Statistics

Table no. 1 shows the specific indicators for the descriptive statistical analysis. For all analyzed variables, the statistical rule is that the average must be well above the standard deviation.

Table no. 1. Descriptive statistics of the data used in the analysis

Indicators	Average	Standard deviation	No
Social protection expenditure -state social security budget	46,621	4,726	16
Social assistance expenditure -central government budget and local government budget	29,249	3,882	16
Gross Domestic Product	783,135	69,022	16

Source: own calculations

The results of the regression analysis are presented in Table no. 2.

Table no. 2. The results of the correlation between the variables included in the analysis

Indicators		Social protection expenditure	Social assistance expenditure	Gross Domestic Product
Pearson correlation	Social protection expenditure-state social security budget	1,000	0,956	0,982
	Social assistance expenditure -central government budget and local government budget	0,956	1,000	0,961
	Gross Domestic Product	0,982	0,961	1,000
Sig. (1-tailed)	Social protection expenditure -state social security budget	0,0	0,227	0,004
	Social assistance expenditure -central government budget and local government budget	0,227	0,0	0,003
	Gross Domestic Product	0,004	0,003	0,0

Source: own calculations

The analysis of the data in the above table reflects a direct, significant correlation between the social assistance expenditure and the GDP. The correlation coefficient reaches 0.982 for the expenditures financed from the state social security budget and 0.961 for the expenditures financed from the central government budget and local government budget, with a sig level below 0.05.

5. Conclusions

From the perspective of ensuring the level of well-being, the priorities of the Romanian state are the fight against poverty and social exclusion. The evolution of social protection expenditure reflects the complexity and challenges of Romania's economy and the need for constant adjustment to maintain a balance between financial sustainability and social needs. Population aging and government policies are major factors that have influenced social protection expenditure in Romania. The evolution of social assistance expenditure was strongly influenced by the economic and political context of the country and reflected the need to protect the most vulnerable groups.

After joining the European Union, Romania has achieved important progress in its economic development, recording an average annual increase in real GDP of over 3%, higher than the EU average, in the last two decades. During periods of sustained economic growth, the Government increased spending on protection and social assistance, having more financial funds available. Social policies and spending increases for protection and social assistance were often used to stimulate domestic consumption, with a positive effect on the GDP growth, given the large share of consumption in Romania's economy.

During the periods of economic recession determined by the global financial crisis of 2008 and the COVID-19 pandemic, Romania registered a decrease in the GDP, accompanied by an increasing demand for protection and social assistance.

In the future, greater attention should be paid to the tendency of excessive growth of expenses for social protection and insurance, because without a sustainable economic growth this tendency can aggravate the budget deficit, with implications on the increase of the public debt and the need to increase the fiscal pressure. At the same time, the way of directing these expenses must be analyzed, because they may not have a significant impact on poverty reduction or lead to the inefficient use of resources, so that the mission of the welfare state in Romania will not achieve its goals.

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