

THE EUROPEAN WELFARE MODEL. IS ROMANIA A WELFARE STATE?!

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Abstract: *The paper presents the various interpretations of the social model and welfare regime concepts. In order to observe Romania's position within the European welfare regimes, the paper presents a short analysis of the main characteristics of the welfare regimes identified in Europe – i.e. the corporatist welfare regime, the liberal welfare regime and the social democratic/Scandinavian welfare system. We analyze the dynamics of several indicators relevant for establishing the performance of the Romanian welfare regime. Using the results of this study, the current research might offer a new approach on proving that Romania's case is a particular one among the CEE countries and its sustainability could become a model for other countries.*

Key words: *welfare regime, growth rate, tax burden, social cohesion.*

1. The conceptualization of Social Model and Welfare State Model

The literature on this topic is consistently and rather controversial. Academic analyses have theorised and compared these concepts beginning with 1950's when Titmuss distinguishes tax-funded welfare based on citizens social rights based on the social insurance contributions of the employees.

As Marshall T.H. pointed out that the 18th century was when civil rights became established as the legitimate goal of social reform, the 19th century has legitimated the political rights and the 20th century recognized the social rights. Nowadays, Standing G. (2001) appreciates and predicts that the 21st century will consolidate the economic rights in order to

sustain long-term development of an economy [8].

The relatively close connection between economic development and the level of social security have imposed the usage of the both two concepts: "social state" and "welfare state". Even if the terms are generally synonymous, Heise A. and Lierse H. (2011) identify several asymmetries. Therefore, they propose to use the term "welfare state" only when state intervention involves not just a social adjustment or social protection but broader social and economic policy change in order to increase societal welfare. Respectively, the "social state" is reserved for the states that adopt and apply social protection against the five basic life risks – old age, illness, unemployment, accident and poverty. In

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consequence, by contrast, the welfare state concept is more comprehensive and requires more instruments than the ones of social policy – i.e. economic policy, social cohesion and environmental protection which defines the “magic triangle” of a sustainable welfare development that has been subscribed to the European social strategy (Lisbon, Stockholm and Nice) [3].

Complementary, Tulai C. & Serbu S. (2005), Bunescu L.M. & Verez J.C. (2011), Dobrota G. (2011), Heise A. & Liese H. (2011), Sirovatka T., Greve B, Hora O. (2011) and Bernaciak M. (2012) address that the welfare regime is being defined by three interconnected dimensions, in order to promote a sustainable development of the states: economic dimension, social dimension and fiscal dimension [1], [2], [5], [10].

Concerning the welfare systems of the Central and Eastern European countries, there exist some common characteristics among the countries. Sengoku M. (2004, 2009) identifies that one of the initial common characteristics of welfare reform in the CEE countries was the neglect of social policy. The main common characteristics of these reforms at this time can be summarized as follows [7]:

a) Withdrawal of the state of the (public) welfare sector: various kinds of subsidies on many goods and services have been abolished or suspended; some privatization and marketization of health and social-care services are introduced; and activities of the “third sector” such as the voluntary sector and nongovernmental organizations are encouraged.

b) Introduction of an institutionally pluralized welfare system: social security funds are separated from the state budget; pension funds are separated from health care insurance; social security is

implemented by a number of independent institutions; and the power and responsibilities of the regional and local governments have been enlarged.

In addition, Whiteside N. (2010) sustains that the growth of the global economy has had a series of impacts on welfare developments worldwide, which are partly based on ideological shifts; partly they are the consequences of changes in institutional structures and responsibilities as countries have opened up their trade, economies and political institutions to new and powerful forces. And as a consequence, the welfare states have changed their assumptions about the role of the state towards the well-being of its citizens (and towards those who are not citizens but inward migrants or looking for asylum).

Whiteside N. (2010) explains that welfare states have expanded and became consolidated after the Second World War being promoted by several treaties that have started define the EU common social policy, namely [12]:

a. The Treaty of Rome (1957) had no stipulations concerning European welfare. Yet it has been left under the powers of member states in order to converge to a single market which has required the creation of equal or equivalent labor market conditions to secure fair competition.

b. Maastricht Treaty and the Treaty of Amsterdam have set strictly conditions and direct concerns with social policy in order to assure the labor right, promoting equality for all the EU citizens and to use the social dialogue to create equivalent labor market conditions for all.

c. Post-Maastricht commitment to European Monetary Union (EMU) strengthened the need to regulate state social protection.

d. Lisbon 2000 Act. The restructuring

of welfare has fostered a major reappraisal of social dependency, reinforcing the promotion of National Action Plans for employment at Lisbon, Amsterdam and Nice (1998-2000) and the creation of the EU's social agenda (i.e. European Employment Strategy (abr. EES)).

Today, the EU social agenda is maintained towards ECOFIN – the main committee sustaining the Council of Ministers of Finance, having attributions on following the Growth and Stability Pact which constrains the objectives and the strategy of EU member states in social policy terms. As a consequence, over the social policy the Commission now sets the main paths of development in terms of public expenditure. For example, 'good' expenditure, on education, health and retraining, is viewed positively; contrarily, 'bad' expenditure, on welfare benefits that sustain social dependency (notably pensions and unemployment benefits), is sanctioned and pressure put on member states to reform their systems accordingly. Also, much attention has been paid to the promotion of more 'flexible' labor markets, to make European economies more responsive to the labor requirements of enterprise in the post-industrial age.

2. The European Welfare Model

The academic literature presents several models of the European welfare regimes beginning with the Espring-Andersen in 1990. According to Espring approach on welfare systems conceptualization, the European welfare states can be classified and analyzed in terms of their regime characteristics. Therefore, Espring-Andersen established a triple typology of welfare state regimes in Europe.

The three world of welfare is covered by the the Nordic welfare model, the Continental or Conservative model and the Liberal (Anglo-Saxon) welfare model [7].

Other studies have identified distinctive models for Greek welfare system – Symeonidou, 1997; Italian welfare system – Trifiletti, 1998; Spain and welfare system – Guillen, 1997; Flaquer, 2000; Guillen & Alvarez, 2001, all defining the Mediterranean welfare model.

As a result of the fall of the communist block and the process of its integration, a new type of welfare model was born, i.e. the case of the states in Central and Eastern Europe. Focusing particularly on the case of Central and Eastern Countries, authors like Ferge Z. (2001), Stiropoulous D.A., Neamtu I. & Stoyanova M.(2003), Sengoku M. (2004), Standing G. (2004), Fenger H.J.M. (2007), Cook J.L.(2010), Tache I. & Neesham C.(2011), Adascalitei D. (2012), Tache I. & Dumitrache V.(2012) and others, have identified the importance of welfare development in the post-communist states in order to change the welfare state status.

Recent papers alike Tache & Neesham's (2011) brings key data available on the socio-economic performance of Romania and Bulgaria, with a view to acquiring an integrated understanding of the impact of diverse economic and political factors on the state of welfare provision in these countries [9].

In order to obtain an insight into the distinctive characteristics of the European Union groups, Heinisch Reinhard, Professor of Political Science at University of Pittsburg from Johnstown, distinguishes the following main characteristics of the welfare regimes (Table 1.):

Main characteristics of the welfare regimes in Europe

Table 1

<i>Model</i>	<i>Definitory aspects</i>	<i>Advantages</i>	<i>Disadvantages</i>
<i>Corporatist Welfare State, conservative type</i>	<ul style="list-style-type: none"> • conservative, strong states • weak, liberal tradition • status conscious, middle and artisan class • strong presence of the Catholic Church • the case of <i>Austria, Belgium, Germany, Greece, Italy, Malta, Cyprus, Turkey, the Netherlands, Spain and Portugal</i> 	<ul style="list-style-type: none"> • enjoys high level of public support • allows benefit recipients to maintain their level of income • allows for private service system without rationing (e.g., in health care) • benefits increase as contributions increase • intermediate tax burden 	<ul style="list-style-type: none"> • maintains and reenforces social cleavages • sensitive to employment conditions and demographics • drives up labor cost (payroll taxes) and low wage unemployment (in/out groups) • tends to penalize those in unstable, non-traditional or part-time job situations • often provides few benefits for those outside the insurance model (new poverty)
<i>Liberal Welfare Regime, Anglo-Saxon type</i>	<ul style="list-style-type: none"> • politically powerful middle/commercial class • liberal/anti-state political tradition • dominant position of the market • immigrant society or society with high potential to advance socially • weak state • Protestant tradition • The case of <i>Switzerland, the United Kingdom and Ireland</i> 	<ul style="list-style-type: none"> • least sensitive to demographic changes in the population • low taxes • differentiated services • stimulates job growth, especially in low-skills sector 	<ul style="list-style-type: none"> • high inequality, great social cleavages (two class society) • low level services for poor people • welfare state is politically unpopular and not sustainable • negative stigma attached to benefit recipient
<i>Scandinavian Welfare Regime, Social-democratic type, Nordic Model</i>	<ul style="list-style-type: none"> • Protestant, liberal tradition with great regard for individualism and equality • cooperation between working and peasant class • dominant role of leftist parties in politics • the case of <i>Denmark, Norway, Iceland, Finland and Sweden</i> 	<ul style="list-style-type: none"> • universality encourages support of population • high benefits, differentiated services • employment effects (services) • reduces social cleavages 	<ul style="list-style-type: none"> • very complex to administer • expensive and bureaucratic • high tax burden • strong government orientation • pressure on budget because of high cost

Source: Heinisch R., 2007, (available online at <http://www.pitt.edu/~heinisch/concept.html>)

3. Is Romania a welfare model?

To analyze the position of Romania in Espring-Andersen's typology of welfare states, we choose to present the most appropriate indicators that allow grouping countries with similar characteristics (i.e. the Eastern welfare model countries).

The most striking differences stem from a more relaxed economic development over the last few years. This is reflected in the levels of economic growth [9]. Correspondingly, Hiese A. & Lierse H. (2011) asses that with an average growth rate of 6.7% Romania seemed to develop a regional model for growth and prosperity (Figure 1). They explain that Romania's role model status came under strain with the onset of the global economic crisis (domestic demand fell by 13.7%, exports by 10.1% and capital inflows fell by 20%, as a result of which unemployment rose to 7.8% at the end of 2009. Therefore, the revenue reduction and the increasing

spending have deepened the budget deficit well over the Stability and Growth Pact criterion. In order to prevent insolvency, the granted loan from IMF (May 2009) has imposed an extensive package of measures to rein in fiscal policy and external imbalances. As a result, the government austerity plan was based mainly on social cuts (wage cuts of 25% for the public sector, cuts in all social transfers of 15% and increasing VAT from 19 to 24 per cent in July 2010), which have been cutting back the welfare in Romania [5].

On the other hand, we might consider that the withdrawal of the Romanian state from social policy responsibilities with social cuts in the social state have been a radical solution in order to increase other taxes and incentives that would have retreated the private investments and demand and respectively to cut the country's welfare.

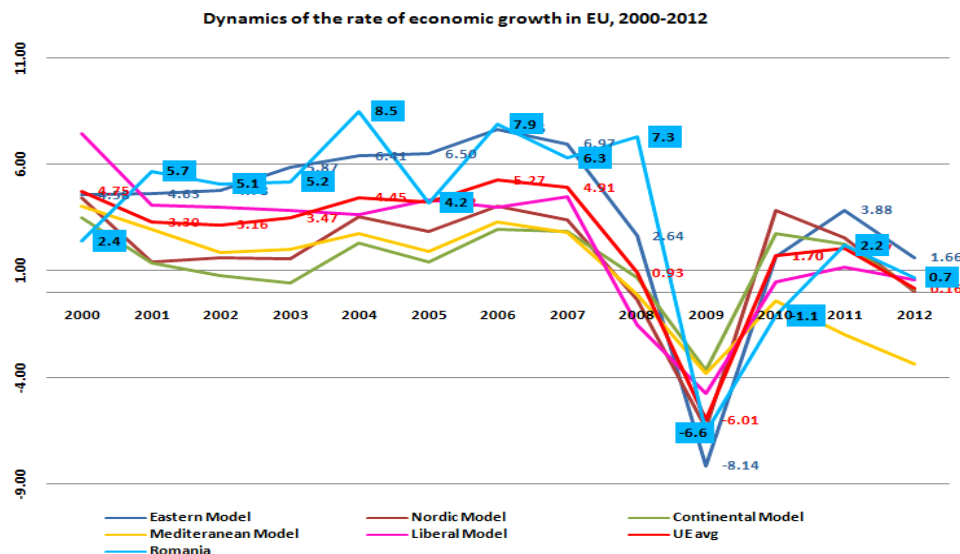


Fig. 1. Romania's position among European Welfare Models by economic growth rate, 2000-2012

Source: Pop-Radu I. & Ulici-Ciupac M.L. (2014)

The comparison of Eastern Model with the EU average of the economic growth rate provides the following evidence on Romanian welfare model:

a) Romania's case is particularly within the Eastern Model since the growth rate in Romania is above the EU average during most of the time, except year 2005, 2009 and 2010, being slightly above countries like Poland, Estonia, Lithuania, Latvia and Hungary [6]. Although the development plan in Romania was hampered by the 1990's transformations, Romania experienced an enormous upturn of 12% per year between 2004 and 2007. Moreover, its accession into the EU in 2007 appeared to boost the economy despite the economic crisis.

b) In contrast to other EU member states, the fiscal pressure in Romania is among the lowest [4], only Lithuania, Latvia and Bulgaria are even below the average rate of the Eastern model fiscal pressure [10]. Even if the fiscal pressure is low, these countries experience a tax burden proper to undeveloped or still emerging economies.

c) Romania stands out from the Eastern Welfare states since the unemployment rate closely follows the Continental Welfare model, both evidencing lower rates than the average of the EU unemployment rate.

d) In terms of public debt and budget deficit dynamics during 2000-2012, Romania is evidencing that has complied the convergence and economic stability EU regulatory.

All in all, we might observe that Romania's economic and social policy is slightly oriented towards Western welfare states [6] which provide for freedom of employment, minimum wages, paid holidays and unemployment benefit, as well as health care and pensions. But in the reality, in order to correspond to modern welfare state conditions, the situation is different. As a fact, EU statistics confirm

these findings, Romania's situation experiencing a different real situation where the social security spending is comparatively low and the income inequalities are extremely high.

In addition, there are other facts that affect the Romania's welfare status and which become new challenges in order to sustain the economy's development:

- the income distribution is unequal accentuated toward the European context and does not tend to the reduction despite the economic growth. Even in the years of strong economic growth, which the Romanian economy experienced before the outbreak of the crisis, income inequality did not change. Therefore, this income inequality affects the social cohesion. For example, Romania stands among the European countries with the lowest minimum wage in the EU, way below the European average. For example, in 2011, the minimum wages in Romania were amounted at 157,2 EUR/month, being ten times smaller than the one in Luxemburg, at 1/7 than the minimum wage in France, at 1/5 from Greece's or Spain's average or 1/2 of the Hungary's data. Only Bulgaria presents a lower rate than Romania, with 122, 71 EUR/month [2].

- the poverty still has high values despite the economic growth, being highly elastic to the GDP changes. The poverty risk is highly registered in several social groups alike: rural residents, peasants, unemployed people, roman people and persons without education or low education. The disparities among rural and urban medium are still large.

- education becomes a key issue in order to assure a sustainable economy, since a highly educated human capital is developing the culture and the quality of life.

- the ageing process is accelerated by a decreasing demography (defined by a decreased rate of fertility and a high rate of elderly people in the total population and the population migration) – all with negative

consequences for the population reduction. As a fact, Romania has become a source country for the European immigrants.

- the population migration arises other issues derived from the scale of gap in labor costs and incomes, combined with the flexible labor market regimes. As a consequence, this situation leads to social dumping spreading which spurs a wave of company relocations from west to east. First, we can expect that this might serve as a magnet for foreign direct investments, but this sustains the current wage standard (i.e. lower than the European minimum wage). Secondly, in the context of EU enlargement, the influx of migrant workers from the poorer accession states may vary substantially from east to western countries for new benefits. In addition, political and social actors in the “old” EU member states feared that the influx of Eastern Europeans might have a negative impact on their welfare systems. Bernaciak M. (2012) argues that an excess of inflow in the Western population would represent a heavy financial burden and could the domestic population’s access to social services [1]. Moreover, the Easterners started to be considered the ones that have introduced “unfair competition and social dumping to old EU member states labor markets”.

Today, a core issue in Romania and in almost of the CESEE countries is the allegation of social dumping. In this matter, the labor cost is lower in other EU Member States, fact that raises two questions: Are Romanians better competitors on the labor market (in terms of being better alternatives for the same productivity?) and Why Romanian economy supports the lowest wages in Europe? The last question arises as a hypothetical appeal for understanding the social dumping issue, since lately there are several theories that address the importance of such countries e.g. Romania that export cheap labor force to support the development of others.

4. Final remark

Ironies on globalization and the integration of Romania in the EU, all have led to strengthening the economic and social area in Europe. As a fact, we might address that Romania has found a path to prosperity and growing in order to develop into a regional model.

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